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BILL ANALYSIS

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House Bill 5101 (as reported without amendment)  
Sponsor: Representative Barbara Farrah  
House Committee: Commerce  
Senate Committee: Commerce and Tourism

Date Completed: 12-17-07

### **RATIONALE**

The Neighborhood Enterprise Zone (NEZ) Act allows eligible local governmental units to designate neighborhood enterprise zones within which the owner or developer of property may receive a NEZ certificate. A certificate entitles the owner or developer to reduced taxes on the structure. Generally, the Act requires an application for a certificate to be filed before a building permit is issued for the new construction or rehabilitation of the facility, but it also makes several exceptions under which an application may be filed after a building permit has been issued. It has been suggested that particular developments in the City of Wyandotte, for which a NEZ application was filed after a building permit was issued, be included among those exceptions.

### **CONTENT**

The bill would amend the Neighborhood Enterprise Zone Act to allow an application for a NEZ certificate to be filed after a building permit was issued in a specific circumstance.

Under the Act, the owner of a homestead facility, the owner or developer of a proposed new facility, or an owner or developer wishing to rehabilitate property located in a NEZ may file an application for a NEZ certificate with the clerk of the local unit. A NEZ certificate exempts new or rehabilitated housing (but not the land on which it is located) from the property tax and subjects it, instead, to a specific neighborhood enterprise zone tax. In general, for new construction, the rate of the specific tax is half the statewide property

tax rate; for rehabilitated housing, the specific tax rate is based on the value of the property before rehabilitation.

Unless the property is a homestead facility, the Act requires an application for a certificate to be filed before a building permit is issued for the new construction or rehabilitation of the facility, but the Act also describes circumstances under which an application may be filed after a building permit has been issued. The bill would add to those circumstances.

Specifically, an application could be filed after a building permit was issued for the construction of a facility if the area in which the facility was located had been designated as a NEZ by the governing body of the local governmental unit in June 2007 and the building permit for that facility had been issued after November 30, 2004, and before November 1, 2006.

MCL 207.774

### **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

#### **Supporting Argument**

The NEZ Act was enacted in 1992 as an effort to improve the housing stock in urban areas where little or no new construction was taking place and a great deal of the housing needed to be rehabilitated. The Act offers reduced property taxes to residential property owners in zones designated by local units of government, with the approval

of the State Tax Commission. The City of Wyandotte already has used the NEZ program to revitalize some of its neighborhoods with new and rehabilitated housing. Now, the city has some new residential developments whose marketability apparently has been hindered by the slowdown in the housing market. Reportedly, out of 29 new houses and condominiums located in four different developments, only one has been occupied in the last year. Building permits for the projects evidently were issued between November 2004 and November 2006. In June 2007, the Wyandotte City Council adopted a resolution designating the areas where these properties are located as new neighborhood enterprise zones. The city may not issue NEZ certificates to new buyers, however, unless an amendment to the Act allows the designation of a zone after the issuance of building permits for the housing projects.

In the past, legislation has created exceptions to the requirement that the application for a NEZ certificate be filed before the building permit is issued, in order to accommodate developers of similar projects. For instance, Public Act 349 of 2006 amended the NEZ Act to provide an exception for a development in Ecorse, the city just north of Wyandotte; Public Act 339 of 2005 provided an exception for a "homestead facility"; Public Act 396 of 2004 provided exceptions for a rehabilitated facility in a historic building and a new facility that is a model home; and Public Act 60 of 2004 enacted an exception for a particular condominium development in Detroit.

The bill would address the situation in Wyandotte by making an additional exception to the requirement that a NEZ designation occur before a building permit is issued. The language in the exception is specific to the Wyandotte housing developments in question, and the city reportedly is aware of how the NEZ designation would affect its collection of property tax revenue. Granting the exception should help Wyandotte to attract new home buyers to the city, which would have a positive effect on the local economy and, in turn, the city's property tax revenue.

### **Opposing Argument**

Perhaps legislation should be enacted to eliminate the requirement that a NEZ certificate application be filed before a

building permit, or to establish an administrative procedure for the granting of an exception, so that the Legislature would not have to address this situation each time a similar set of circumstances arose. The Act already contains 12 exceptions to the requirement.

**Response:** Requiring a statutory amendment to create an exception to the filing requirement provides an incentive for developers and local officials to comply with the Act, and ensures that situations are addressed on a case-by-case basis when special circumstances occur.

Legislative Analyst: Patrick Affholter

### **FISCAL IMPACT**

The bill would reduce State and local property tax revenue and increase State School Aid Fund expenditures by an unknown amount. The actual amount of the reduction would depend upon the specific characteristics of the property affected by the bill. Any reduction in local unit revenue from levies attributable to school operating purposes would increase School Aid Fund expenditures in order to maintain guaranteed per-pupil funding amounts.

Reportedly, the bill would affect property located in the City of Wyandotte with a total taxable value of approximately \$6.3 million. Presumably, the property does not meet the definition of homestead facility under the Act, thus requiring the proposed changes. If the property does not qualify as a homestead facility under the Act, the bill would reduce the property tax levy to 50% of the statewide average levy on property that qualifies as a principal residence. The statewide levy on principal residence property is approximately 32.6 mills, compared with an average homestead levy in Wyandotte of approximately 48.3 mills. As a result, the bill would reduce property tax revenue from the affected property by approximately \$202,000, of which approximately \$12,500 would be State education tax revenue and \$56,700 would be revenue for local school operating purposes.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.