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BILL



ANALYSIS

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House Bill 4045 (Substitute S-1 as reported)
Sponsor: Representative Bettie Scott
House Committee: Urban Policy
Senate Committee: Commerce and Tourism

Date Completed: 3-27-09

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 to that requirement. It has been suggested that a particular development in the City of Detroit, for which a NEZ application was not processed before a building permit was issued, should 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 certificate entitles the owner or developer to reduced taxes on the structure. 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.

Under the bill, 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 on July 1, 2005, and the building permit for that facility had been issued after April 5, 2006, and before May 1, 2007.

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 Detroit already has used the NEZ program to revitalize some areas with new and rehabilitated housing. According to testimony before the Senate Commerce and Tourism Committee by a developer and three new home owners, the area where a housing development project is located was

designated as a NEZ by the Detroit City Council in 2005 and the project proceeded. For unknown reasons, however, the application for a NEZ certificate for the project was not processed. Now, many individual homes have been completed but the new owners are not benefiting as anticipated from the tax break offered by the Act.

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 residential developers and new home owners. For instance, Public Act 4 of 2008 amended the NEZ Act to provide an exception for developments in Wyandotte; Public Act 349 of 2006 provided an exception for a development in Ecorse; Public Act 339 of 2005 provided an exception for a "homestead facility"; and Public Act 60 of 2004 enacted an exception for a particular condominium development in Detroit.

The bill would address the current situation in Detroit by making an additional exception to the requirement that a NEZ certificate application be filed before a building permit is issued. Granting the exception, which is specific to the Detroit housing development in question, should help Detroit to attract new home buyers to this development, which would have a positive effect on the area's economy and, ultimately, the city's property tax revenue.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce State and local property tax revenue by an unknown amount, depending upon the specific characteristics of property affected by the bill. Because the bill would affect only a specific, localized area, the reduction in State property taxes would likely be minimal when compared with total State Education Tax revenue. School Aid Fund expenditures would increase by an unknown amount in order to maintain per-pupil funding guarantees, although expenditures would be affected only by the nonhomestead property within the zone. Because most property affected by the Act is homestead property, any increase in School Aid Fund expenditures would likely be negligible.

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.