

WORKFORCE HOUSING PROJECTS

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Senate Bill 432 (proposed substitute H-1)

Sponsor: Sen. Wayne Schmidt

House Committee: Local Government and Municipal Finance

Senate Committee: Economic and Small Business Development

Complete to 4-26-22

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

Senate Bill 432 would amend the State Housing Development Authority Act to exempt from ad valorem property taxes a workforce housing project that has been approved for exemption by the city, village, or township where it is located. The owner would have to pay an annual service charge for public services in lieu of taxes to that city, village, or township, which would distribute it to applicable taxing units. A county board of commissioners could require payment of an additional amount to the county. The bill also would change conditions that now apply to a similar exemption and payment in lieu of taxes for certain housing projects for low-income individuals or families.

Workforce housing tax exemption

Under the bill, a *housing project* being developed or rehabilitated for *workforce housing* would be exempt from all ad valorem property taxes imposed by the state or any applicable political subdivision, public body, or taxing district if the project were subject to an ordinance approving it for tax exemption that was adopted by the governing body of the city, village, or township where the project is located. The approval or denial of the exemption would have to be in accordance with an ordinance or resolution adopted by the governing body concerning the selection of workforce housing projects.

Housing project means any of the following:

- Residential real property developed, to be developed, or receiving benefits under the act.
- A specific work or improvement either for rental or for subsequent sale to an individual purchaser undertaken by a nonprofit housing corporation, consumer housing cooperative, limited dividend housing corporation, mobile home park corporation, or mobile home park association pursuant to or receiving benefits under the act to provide dwelling accommodations, including the acquisition, construction, or rehabilitation of lands, buildings, and improvements.
- Social, recreational, commercial, and communal facilities that the Michigan State Housing Development Authority (MSHDA) finds necessary to serve and improve a residential area in which housing described above is located or is planned to be located, and that thus enhances the viability of the housing.

Workforce housing would mean rental units or other housing options that are reasonably affordable to, and occupied by, a household whose total household income is not greater than 120% of the area median income as determined under 42 USC 1437f and published by the United States Department of Housing and Urban Development. Area median income would have to be adjusted for family size.

The owner of a housing project eligible for an exemption would have to complete and submit to MSHDA an affidavit form provided by MSHDA for certification by MSHDA that the project is eligible for the exemption. By November 1 of the year before the tax year in which the exemption begins, the owner would have to file with the local assessing officer the certified affidavit to serve as notification of the exemption. Not later than five business days after receiving the certified exemption notification, the local assessing officer would have to provide a copy of it to the treasurer of the county where the housing project is located.

Payments in lieu of taxes

The owner of a housing project exempt from taxation as described above would have to pay to the city, village, or township where it is located an annual service charge for public services in lieu of all taxes. The service charge would be equal to the greater (for new construction projects) or the lesser (for rehabilitation projects) of the following amounts:

- The tax on the property on which the project is located for the tax year before the date construction or rehabilitation of the project began.
- Ten percent of the annual shelter rents obtained from the project.

A city, village, or township could by ordinance establish or change the service charge paid by all or any class of housing projects exempt from taxation under the act, as long as it did not charge more than what the owner would have paid in taxes if the project were not tax-exempt.

The service charge for that part of a housing project that is tax-exempt and not used for workforce housing would have to be equal to the full amount of the taxes that would be paid on that portion of the project if the project were not tax-exempt.

A city, village, or township receiving payments in lieu of taxes would have to distribute them to the various units levying the general property tax in the same proportion as in the previous calendar year. The distribution would have to be made as if the number of mills levied for local school district operating purposes were equal to the number of mills levied for those purposes in 1993 minus the number of mills levied under the State Education Tax Act for the year for which the distribution is calculated. The amount of payments in lieu of taxes to be distributed to a local school district for operating purposes would not be distributed to the district but would instead have to be credited to the School Aid Fund.

Additional amount for the county

The service charge described above would have to be increased by the *additional amount* if, within 45 days after the county treasurer receives the certified notification of exemption, the county board of commissioners passes a resolution by majority vote providing that the additional amount must be paid. The approval of this resolution would have to be in accordance with an ordinance or resolution adopted by the county board of commissioners concerning the factors to be considered in requiring the additional amount to be paid.

Additional amount would mean an amount equal to the difference between the following:

- The millage rate levied for operating purposes by the county where the housing project is located, multiplied by the current taxable value of the project (as calculated under section 27a of the General Property Tax Act).

- The amount of the annual service charge paid by the housing project as described above that is distributed to the county.

This additional amount would have to be distributed to the county.

Other provisions concerning workforce housing

The owner would have to allocate the benefits of any tax exemption exclusively to workforce housing or to the maintenance and preservation of the housing project as safe, decent, and sanitary workforce housing.

The exemption from taxation would have to remain in effect for up to 15 years if the housing project remains subject to a covenant running with the land restricting its use to workforce housing.

Housing for low-income individuals or families

The section of the act included in the bill currently provides a similar property tax exemption, and requires a similar payment in lieu of taxes, for a housing project for ***low-income persons or families*** that is owned by a nonprofit housing corporation, consumer housing cooperative, limited dividend housing corporation, mobile home park corporation, or mobile home park association and is financed with a grant from MSHDA or with a federally-aided or MSHDA-aided mortgage or advance.¹ The service charge for that part of a housing project that is tax-exempt and not occupied by low-income persons or families must equal to the full amount of the taxes that would be paid on that portion of the project if the project were not tax-exempt.

The term ***low-income persons or families*** is now defined to mean persons and families eligible to move into a housing project described above, and the act allows MSHDA to issue rules to redefine “low-income persons or families” to reflect local conditions in a particular city, village, or township. The bill would do all of the following:

- Change the defined term to ***low-income individuals or families***.
- Provide that eligibility to move into a housing project described above is as defined by MSHDA by rule or by a city, village, or township by ordinance.
- Additionally allow a city, village, or township to redefine “low-income individuals or families” by ordinance to reflect local conditions.

In addition, the owner of such a housing project now must allocate the benefits of the tax exemption exclusively to low-income persons or families in the form of reduced housing charges. The bill instead would require the owner to allocate the benefits of the tax exemption exclusively to low-income individuals or families or to the maintenance and preservation of the housing project as safe, decent, and sanitary affordable housing.

MCL 125.1415a

¹ See section 11 of the act (<https://www.legislature.mi.gov/documents/mcl/pdf/mcl-125-1411.pdf>) for definitions of the terms “nonprofit housing corporation,” “consumer housing cooperative,” “limited dividend housing corporation,” “mobile home,” “mobile home park corporation,” “mobile home park association,” “federally-aided mortgage,” and “authority-aided mortgage.”

FISCAL IMPACT:

The bill could reduce state and local property tax revenue by an indeterminate amount for those local units of government that authorize a housing project for workforce housing under the bill. Any fiscal impact would depend on whether the workforce housing would have occurred without the property tax incentive. The bill would reduce revenues relative to current law if it was assumed that the workforce housing would have occurred even if no property tax incentive existed. The magnitude of the reduction in tax revenues would be directly related to the quantity and value of newly eligible properties. Where school operating mills are reduced on eligible properties, costs for the School Aid Fund would increase assuming the foundation allowance were maintained. State property taxes would be reduced via the state education tax. In the alternative, if the workforce housing would not have been undertaken but for the incentive then it could be argued that the incentive would increase state and local property tax revenues by an unknown amount.

Instead of the normal ad valorem property taxes, newly eligible properties would be subject to a service charge for public services and a potential additional amount for the county in lieu of all taxes described in more detail in the analysis above. The service charge may be adjusted, but must never exceed what the owner would have paid in taxes if the project were not tax-exempt. Therefore, the fiscal impact would be specific to the local unit authorizing the workforce housing project and depend on the service charge set by the local unit.

The bill likely would increase certain administrative costs for local units of government that elected to authorize residential housing districts. These administrative costs could include assessment activities, notification costs, and other oversight and regulatory costs.

The bill would increase certain costs for MSHDA by an unknown amount. Costs would include those for administration, oversight, and regulation.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.