

## **MODIFY EXCEPTION FOR FILING APPLICATION FOR NEIGHBORHOOD ENTERPRISE ZONE CERTIFICATE**

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**Senate Bill 723 as passed by the Senate**

**Sponsor: Sen. Kenneth Horn**

**House Committee: Local Government and Municipal Finance**

**Senate Committee: Economic and Small Business Development [Discharged]**

**Complete to 11-30-21**

### **SUMMARY:**

Senate Bill 723 would amend the Neighborhood Enterprise Zone Act to change conditions that qualify a residential building project for a specific exception that allows an application for a neighborhood enterprise zone (NEZ) certificate to be filed after a building permit has been issued for the project. Among other changes, under the bill the exception would apply only to new facilities, rather than to new or rehabilitated facilities.

#### **Background**

The Neighborhood Enterprise Zone Act<sup>1</sup> provides for property tax abatements to encourage the development and rehabilitation of residential housing facilities in areas designated by eligible cities, villages, and townships. Generally speaking, after receiving an NEZ certificate and meeting other requirements concerning the construction or rehabilitation of the housing, a property owner is exempt from ad valorem property taxes and instead is subject to a specific tax known as the neighborhood enterprise zone tax. This abatement applies to structures and not to land. For new structures, the NEZ tax rate is half of the statewide average rate of taxation for the applicable type of property. For rehabilitated structures, the NEZ tax is the property tax that would be paid using the structure's pre-rehabilitation taxable value. The abatements are available for 6 to 15 years, although historic buildings can maintain abatements for 11 to 17 years.

The act generally requires an application for an NEZ certificate to be filed before a building permit is issued, but several exceptions to this requirement have been added since the statute was enacted in 1992. Many of these exceptions apply in cases where procedural errors have been made in the application or permitting process.

#### **Current exception**

The act currently contains an exception allowing an application to be filed after a building permit was issued for the construction of a *new or rehabilitated* facility if the area where the facility is located was designated as an NEZ zone by the governing body of the local governmental unit in *January 2016* and if the building permit for that facility was issued in *August 2016 or August 2019*.

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<sup>1</sup> See <https://www.miplace.org/4a657a/globalassets/documents/fact-sheets/neighborhood-enterprise-zone-pa-147.pdf>

This exception was added by 2021 PA 70 and was understood to apply to a multi-unit residential rehabilitation project in the Brush Park neighborhood of Detroit whose NEZ certificate expired before project completion. According to committee testimony, the exception would allow the developers to reapply for NEZ certification in completing the remaining housing units even though building permits had been issued.

**New exception**

Senate Bill 723 would modify the exception described above. Under the bill, an application could be filed after a building permit was issued for the construction of a *new* facility if the area where the facility is located was designated as an NEZ zone by the governing body of the local governmental unit in *July 1996* and if the building permit for that facility was issued in *October 2017*.

MCL 207.774

**FISCAL IMPACT:**

The bill could reduce state and local property tax revenue by an indeterminate amount for those local units of government affected by the bill. The bill would reduce state and local property tax revenues relative to current law if it were determined that the rehabilitation of the property would have occurred even if no NEZ 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. Since school operating mills would be 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.

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