

Legislative Analysis



LOCAL GOVERNMENTAL UNITS ELIGIBLE UNDER NEIGHBORHOOD ENTERPRISE ZONE ACT

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<http://www.house.mi.gov/hfa>

House Bill 4646 as introduced
Sponsor: Rep. Kyra Harris Bolden
Committee: Local Government and Municipal Finance
Complete to 6-1-21

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

SUMMARY:

House Bill 4646 would amend the Neighborhood Enterprise Zone Act to allow any city, village, or township to designate a neighborhood enterprise zone (NEZ) under the act. Currently, only county seats and certain distressed communities can do so. Also, beginning October 1, 2021, a local unit of government could designate a neighborhood enterprise zone only upon determining that the designation encourages compact development and that the zone is adjacent to existing development and can use existing infrastructure.

The Neighborhood Enterprise Zone Act¹ provides for property tax abatements to encourage the development and rehabilitation of residential housing in areas designated by *local governmental units* (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.

Local governmental units

Currently under the act, *local governmental unit* means a county seat or a city, village or township that meets criteria specified in the Obsolete Property Rehabilitation Act.² These criteria differ for cities, villages, and townships and include such measures as population, family income, unemployment, and property values.³ As of October 2020, there were 148 cities, villages, and townships that met these criteria.⁴ Those cities, villages, and townships, along with county seats, are by definition the *local governmental units* that currently can designate a neighborhood enterprise zone under the Neighborhood Enterprise Zone Act.

The bill would instead define *local governmental unit* as a city, village, or township, which would allow any city, village, or township to designate a neighborhood enterprise zone under the act.

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

² <https://www.miplace.org/4abbfc/globalassets/documents/fact-sheets/obsolete-property-rehabilitation-pa-146.pdf>

³ The Obsolete Property Rehabilitation Act provides tax incentives for the redevelopment of contaminated, blighted, and functionally obsolete buildings. The relevant criteria are in the act's definition of *qualified local governmental unit*, section 2(k): <http://legislature.mi.gov/doc.aspx?mcl-125-2782> These provisions also reference section 11(u) of the State Housing Development Authority Act, available here: <http://legislature.mi.gov/doc.aspx?mcl-125-1411>

⁴ See https://www.miplace.org/4abfc3/globalassets/documents/fact-sheets/core_communities.pdf

Determination regarding NEZ designation

The bill also would provide that a local governmental unit may designate a neighborhood enterprise zone only if the local governmental unit determines that the designation encourages compact development and is adjacent to existing development and can utilize existing infrastructure. This requirement would be in addition to all other requirements under the act and would apply beginning October 1, 2021.

MCL 207.772 and 207.773

FISCAL IMPACT:

The bill could reduce state and local property tax revenue by an indeterminate amount for those local units of government that would be newly eligible to authorize neighborhood enterprise zones. Any fiscal impact under the bill would depend on whether the rehabilitation of the facility would have occurred without the NEZ property tax incentive. The bill would reduce 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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■ 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.