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BILL ANALYSIS

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Senate Bill 432 (as introduced 5-11-21)
Sponsor: Senator Wayne A. Schmidt
Committee: Economic and Small Business Development

Date Completed: 5-20-21

CONTENT

The bill would amend the State Housing Development Authority Act to do the following:

-- **Exempt a housing project that was being developed for workforce housing that was located in a municipality and was subject to the municipality's approval of the tax exemption from all ad valorem property taxes imposed by the State or by any political subdivision, public body, or taxing district in which the project was located.**
-- **Specify that the exemption from taxation for a housing project developed for workforce housing would remain in effect as determined by the governing body of the municipality.**
-- **Require the owner of a housing project exempt from taxation as described above to meet requirements prescribed by the Act, including paying to the municipality in which the project was located an annual service charge in lieu of taxes.**

Under the Act, except as otherwise provided, if a housing project owned by a nonprofit housing corporation, consumer housing cooperative, limited dividend housing corporation, mobile home park corporation, or mobile home park association is financed with a Federally-aided or Michigan State Housing Development Authority-aided mortgage or advance or grant from the Authority, then the housing project is exempt from all ad valorem property taxes imposed by the State or by any political subdivision, public body, or taxing district in which the project is located.

Under the bill, this exemption also would apply to a housing project that was being developed for workforce housing that was located in a municipality and was subject to a municipal ordinance that was duly adopted by the governing body of that municipality to approve a housing project for tax exemption. The approval or denial of a tax exemption would have to be in accordance with an ordinance or resolution concerning the selection of workforce housing projects that were duly passed by the governing body. The bill would require the proposed exemption from taxation for a housing project to remain in effect as determined by the governing body of the municipality.

("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 150% of the area median income adjusted for family size and published by the United States Department of Housing and Urban Development. "Area median income" would mean that term as defined in Section 59: the median income for the area as determined under Federal law.)

The Act requires the owner of a housing project exempt from taxation to pay to the municipality in which the project is located an annual service charge for public service in lieu of taxes. The municipality may establish or change by ordinance by any amount it chooses the service charge paid in lieu of taxes by all or any class of housing projects exempt from taxation under the Act; however, the service charge may not exceed the amount in taxes that an owner would have otherwise paid but for the Act. Subject to provisions described below, the owner must pay an annual service charge in accordance with the following:

-- For a new construction project, an amount that is the greater of the tax on the property on which the project is located for the tax year preceding the date on which construction is commenced or 10% of the annual shelter rents obtained from the project.
-- For a rehabilitation project, an amount that is the lesser of the of the tax on the property on which the project is located for the tax year preceding the date on which rehabilitation is commenced or 10% of the annual shelter rents obtained from the project.

Under the Act, notwithstanding the requirement that the owner of a tax-exempt housing project pay an annual service charge for public service in lieu of taxes, a service charge paid each year for that part of the housing project that is tax exempt as provided by the Act and is occupied by other than low income persons or families must 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. The owner of the housing project must allocate the benefits of any tax exemption granted under the Act to low income persons of families in the form of reduced housing charges.

Instead, under the bill, notwithstanding the service charge in lieu of taxes requirement, a service charge for that part of a workforce housing project that would be tax exempt and was used for purposes other than 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 exempt. The owner of the housing project would have to allocate the benefits of any tax exemption granted under the bill to benefit workforce housing or to maintain and preserve the housing project as a safe, decent, and affordable housing.

MCL 125.1415a Legislative Analyst: Tyler VanHuyse

FISCAL IMPACT

The bill would have a negative fiscal impact on the State and an indeterminate fiscal impact on local governments. Exempting workforce housing projects from property taxes would reduce revenue to local governments as well as reduce revenue and increase costs to the School Aid Fund (SAF). The exemption would reduce revenue for the State Education Tax and, since school operating mills also would be reduced, costs to the SAF would increase if the foundation allowance were maintained. Exempted property would be required to pay to the city, village, or township in which it was located a service charge in lieu of taxes for public services. The specific fiscal impact on a local community largely would be determined by the amount of the service charge and the specific services funded by the charge, both of which would depend on choices made by the local unit of government. Since any exemption would need to be approved by the local government, any fiscal impact would depend on decisions made by those units of government, as well as the specific characteristics of the exempted facilities.

Fiscal Analyst: Ryan Bergan