



**House
Legislative
Analysis
Section**

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**NEIGHBORHOOD ENTERPRISE
ZONES: ELIGIBLE COMMUNITIES**

**House Bill 4621 (Substitute H-2)
First Analysis (5-2-01)**

**Sponsor: Rep. Randy Richardville
Committee: Commerce**

THE APPARENT PROBLEM:

The Neighborhood Enterprise Zone Act was enacted in 1992 as an effort to improve the housing stock in certain “distressed” urban communities. The act offers reduced property taxes to residential property owners in certain zones designated by local units. Generally speaking, owners of new construction pay taxes at the rate of one-half of the statewide average property tax rate and owners of rehabilitated housing pay taxes based on the value of the property prior to rehabilitation. The abatement applies to structures and not to land. Property owners who obtain a neighborhood enterprise zone certificate are exempt from property taxes and pay a specific tax instead. This is similar to the tax abatement program available for manufacturing facilities under Public Act 198 of 1974. Approval of the local unit and the State Tax Commission is required to obtain a certificate, which is good for 12 years. A new facility must be owner-occupied housing of one or two units, and can include an individual condominium unit. Apartments don’t qualify. A rehabilitated facility can consist of up to eight units and must meet certain specified rehabilitation expenditure requirements. Nine cities have established zones under this program, including Detroit. (There are 30 communities eligible to participate.)

Two principal problems have been identified by supporters of this approach to promoting new and rehabilitated housing. One, the act effectively sunsets as of December 31, 2002. As of that date, no new certificates can be issued. A second problem is with the number of eligible communities. No new communities were permitted to be included on the list of eligible communities after December 31, 1994. But even if the act had allowed that, no new communities would likely have qualified because the criteria are outdated. They are based on economic factors (such as high unemployment and pre-Proposal A property tax rates) that characterized the places most in need of housing assistance a decade ago.

Recent amendments to various statutes aimed at promoting economic development in urban centers, known generally as “brownfield” laws, have emphasized the concept of “core communities”. Some 88 communities, including six townships and one village, have been identified as core communities eligible to participate in a number of economic development initiatives, including tax abatement programs and tax capture programs. Legislation has been introduced that would allow those same communities to also serve as the eligible communities for an extended and expanded neighborhood enterprise zone program.

THE CONTENT OF THE BILL:

The bill would amend the Neighborhood Enterprise Zone Act to revise the definition of “local governmental unit”, which determines which communities are eligible to participate. The bill would eliminate the existing criteria for participating local units and instead adopt the eligibility criteria currently found in the Obsolete Property Rehabilitation Act, Public Act 146 of 2000 (See below for the definition). The bill also would eliminate the provision that does not allow a new certificate to be issued under the act after December 31, 2002.

The bill would make several other changes in the act. (1) It would allow “a portion” of a new structure or of an existing structure being rehabilitated to qualify for an abatement. Currently, the act refers only to a “new structure” or “existing structure”. (2) The act requires an existing structure to have a current true cash value of \$60,000 or less per unit. The bill would increase that to \$80,000 or less. (3) The minimum investment required now is set at improvements that if carried out by a licensed contractor would cost more than \$5,000 per owner-occupied unit or more than \$7,500 per non-owner-occupied unit, or 50 percent of the true cash value, whichever is less. The bill would set an alternative minimum for when

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the improvements were to be carried out by the owner and not a licensed contractor. In that case the cost of materials would have to be more than \$3,000 per owner-occupied unit or \$4,500 per non-owner-occupied unit. (4) The bill would remove provisions about the maximum acreage of a zone and would specify instead that a zone could not exceed 15 percent of the local unit's total acreage. (5) Currently, the owners of new housing must submit an affidavit each year saying the housing is occupied by the owner as a principal residence, and the certificate is to be revoked if the affidavit is not filed. Instead, a certificate would be revoked automatically if the new housing was longer a homestead for purposes of an exemption from local school operating taxes. (This homestead category was created in 1994, after the original neighborhood enterprise zone legislation.) (6) The bill would add a provision specifying that if a local unit of government determined that new or rehabilitated housing was not in compliance with any local construction, building, or safety codes and notified the State Tax Commission by certified mail of the non-compliance, then the commission would have to revoke the exemption certificate.

New Definition. Under the definition found in the Obsolete Property Rehabilitation Act, which is used in various statutes relating to "brownfields", a qualified local governmental unit includes a city with a median family income of 150 percent or less of the statewide median family income as of the 1990 federal decennial census that meets one or more of the following conditions: 1) is contiguous to a city with a population of 500,000 or more; 2) has a population of 10,000 or more and was located outside an urbanized area; 3) has a population of 100,000 or more within a county of 2 million or more as of the 1990 census; 4) contains an eligible distressed area under the Michigan State Housing Development Authority Act; or 5) is the central city of a metropolitan area designated by the federal census bureau. The definition also includes a township with a median family income of 150 percent or less of the statewide median family income that is either 1) contiguous to a city with a population of 500,000 or 2) that has a population of more than 10,000 and contains an eligible distressed area. It also includes a city with a population of more than 20,000 or less than 5,000 located in a county with a population of 2 million or more that as of January 1, 2000, had an overall increase in state equalized valuation of real and personal property of less than 65 percent of the statewide average increase since 1972; and a village with a population of 500 or more as the 1990 census located in an area designated as a rural enterprise community.

MCL 207.772 and 207.779

BACKGROUND INFORMATION:

Eligible Communities. The following cities are said to qualify under the definition contained in House Bill 4621: Adrian, Albion, Alma, Alpena, Ann Arbor, Bangor, Battle Creek, Bay City, Benton Harbor, Big Rapids, Bronson, Burton, Cadillac, Carson City, Caspian, Cheboygan, Coleman, Dearborn, Dearborn Heights, Detroit, Dowagiac, East Lansing, Eastpointe, Ecorse, Escanaba, Ferndale, Flint, Gibraltar, Gladstone, Grand Haven, Grand Rapids, Grayling, Hamtramck, Harbor Beach, Harper Woods, Hazel Park, Highland Park, Holland, Inkster, Ionia, Iron River, Ironwood, Ishpeming, Jackson, Kalamazoo, Lansing, Lincoln Park, Livonia, Ludington, Manistee, Manistique, Marquette, Melvindale, Midland, Monroe, Mt. Morris, Mt. Pleasant, Muskegon, Muskegon Heights, Oak Park, Onaway, Owosso, Pinconning, Pontiac, Port Huron, River Rouge, Saginaw, Saint Louis, Sault Ste. Marie, Southfield, Stambaugh, Sturgis, Taylor, Trenton, Traverse City, Vassar, Wakefield, Warren, Wayne, Wyandotte, and Ypsilanti. The following townships are included: Benton Charter Township, Buena Vista Charter Township, Genesee Township, Mt. Morris Charter Township, Redford Charter Township, and Royal Oak Charter Township. Also Baldwin Village is included.

Original Definition. The Neighborhood Enterprise Zone Act's existing definition of "local governmental unit" requires that a city have: 1) a population of 10,000 or more; 2) an average unemployment rate of eight percent or more in the most recent calendar year for which information is available or a total millage rate of 84 or more mills levied in the most recent ad valorem property tax levy; 3) a total millage rate of 63.3 mills or more levied in the most recent levy or a city income tax; 4) a housing stock of which 60 percent or more of the units were build before 1960; 5) a percentage increase in state equalized valuation between 1970 and 1990 below 140 percent; and 6) a decline in population of more than 5 percent between 1970 and 1990. A city that had the largest population of the cities within a metropolitan statistical area would have to meet three of the criteria; other cities would have to meet all of the criteria. For a village or township the mandatory criteria would be: 1) a population of 5,000 or more; 2) an average unemployment rate of 17 percent or more during the most recent calendar year; 3) a total millage rate of 65 mills levied in the most recent tax levy; and 4) a decline in population of more than 20 percent between 1970 and 1990.

Original Eligible Communities. When enacted, the definition was said to apply to Albion, Alpena, Battle Creek, Bay City, Benton Harbor, Detroit, Ecorse, Ferndale, Flint, Grand Rapids, Hamtramck, Hazel Park, Highland Park, Inkster, Jackson, Kalamazoo, Lansing, Lincoln Park, Melvindale, Muskegon, Muskegon Heights, Oak Park, Pontiac, Port Huron, River Rouge, Royal Oak Township, Saginaw, Wayne, Wyandotte, and Ypsilanti. Under the 1992 act, the Michigan Enterprise Zone Authority was to publish a list of the local units that met the criteria within 30 days after the act's effective date and add any additional local units meeting the criteria one year later, but no new determinations were to be made after December 31, 1993.

Participating Communities. The communities that have established neighborhood enterprise zones are Battle Creek, Detroit, Inkster, Lansing, Muskegon, Pontiac, River Rouge, Saginaw, and Wyandotte.

FISCAL IMPLICATIONS:

The Department of Treasury estimated in testimony before the House Commerce Committee that the bill would reduce state and local revenue by \$225,000 in 2003 and by \$2.25 million in 2007, assuming the current levels of participation. The revenue would mostly be lost to local units of government. The loss in state revenue would be about \$30,000 in 2003 and \$300,000 in 2007. (5-1-01)

ARGUMENTS:

For:

The bill would extend and expand the neighborhood enterprise zone program. It would allow 88 "core communities" to participate, triple the current number eligible to designate tax abatement zones for new and rehabilitated housing. (And this is nearly ten times the number actually involved in the program at present.) The program is scheduled to end in 2002, and no community meets the outdated eligibility criteria placed in the act in 1992. The bill would make the program a viable option for communities hoping to stimulate the development of housing in urban areas.

The intent of the original program, say supporters, was to attract and retain residents in urban areas and stabilize neighborhoods by improving the housing stock of older communities. A representative from Wyandotte, for example, has testified that the city has issued 74 exemption certificates to date for new homes built in areas in need of revitalization. This

effort has been accompanied by the elimination of "eyesore" homes, aggressive code enforcement, and improvements to city parks and streets. The tax exemption, along with the other measures, provided an incentive for people to build and purchase homes of a value far greater than the typical home in the area. A representative from Battle Creek has said its program has concentrated thus far on the rehabilitation of some of the oldest homes in city core neighborhoods, where about 250 certificates have been issued in nine different zones. A tenth zone was later created to focus on new housing. In Lansing, the program has involved the rehabilitation of homes by a nonprofit housing corporation, as well as the construction of new condominiums in one of the oldest parts of the city, now enjoying somewhat of a revival. To the extent that the program produces housing developments and rehabilitated housing that otherwise would not have been built, and to the extent it increases the desirability and property values of surrounding areas, it can actually increase tax revenues.

Response:

The proliferation of tax abatements, both residential and commercial, leads over time to numerous situations where relatively similar properties side by side have significantly different tax burdens. While such tax abatement programs undoubtedly have benefits, they lead to unequal treatment of taxpayers.

Against:

Why limit the ability to create special residential tax abatement zones to just these communities? What is the justification for this particular list? Why shouldn't all local units of government be given the tools to promote housing in areas with sufficient existing infrastructure to support it, and why shouldn't they be allowed to make their own decisions about the abatement of taxes? For example, simply because a town or city has a high average income doesn't mean there are no problem areas or no areas that would benefit from housing incentives. Sometimes, it might make sense to stabilize communities before they decline. Moreover, some communities have reportedly abated taxes for quite expensive new homes. Perhaps, all communities should be allowed to participate but be subject to a limit on the cost of the new housing.

Response:

The definition of "qualified local governmental unit" to be incorporated into the Neighborhood Enterprise Zone Act is the same as the one adopted last year for the Obsolete Property Rehabilitation Act and other related "brownfield" acts. The aim is to concentrate certain economic development activities in "core

communities” in order to revitalize the state’s urban centers and help them compete with “greenfield” spaces out of urban areas. The bill will make 88 communities eligible for neighborhood enterprise zones; this is could not be described as overly restrictive.

POSITIONS:

The Michigan Economic Development Corporation (MEDC) supports the bill. (5-1-01)

The Michigan Municipal League supports the bill. (5-1-01)

Representatives from the cities of Monroe, Lansing, Battle Creek, and Wyandotte testified in support of the bill at meetings of the House Commerce Committee on 4-24-01 and 5-1-01.

SEMCOG (Southeast Michigan Council of Governments) has indicated support of the bill. (5-1-01)

Analyst: C. Couch

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