

Legislative Analysis



RESIDENTIAL NEIGHBORHOOD ENTERPRISE ZONES

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 6032 (Substitute H-1)

Sponsor: Rep. Barb Byrum

Committee: Intergovernmental, Urban, and Regional Affairs

First Analysis (9-10-08)

BRIEF SUMMARY: The bill would transfer the authority to approve "homestead facilities" located within residential neighborhood enterprise zones from the State Tax Commission to the assessors of the local governmental units within which the homestead facilities are located.

FISCAL IMPACT: House Bill 6032 would result in an estimated savings of \$150,000 to the State of Michigan and could increase the costs of qualifying local units of government by an indeterminate amount. For additional information, see [Fiscal Information](#).

THE APPARENT PROBLEM:

The Neighborhood Enterprise Zone Act was enacted in 1992 as an effort to improve the housing stock in urban areas where little or no new construction was taking place, and a great deal of the housing needed to be rehabilitated.

The act offers reduced property taxes to residential property owners in zones designated by eligible local units of government (known as "core communities"), with the approval of the State Tax Commission. Owners of eligible residences pay a neighborhood enterprise zone tax in lieu of normal property taxes.

There are three kinds of "facilities" eligible for the NEZ program, all residential structures: new facilities (new owner-occupied construction, including condominiums), rehabilitated facilities (subject to limits on market value and to minimum rehabilitation expenditures), and homestead facilities. This last category was added by legislation enacted in 2005 (and amended in 2008). It refers, with some exceptions, to existing structures purchased in 1997 or after, and located within a subdivision platted before January 1, 1968.

If granted a certificate by the State Tax Commission, owners of new construction generally pay taxes at the rate of one-half the statewide average property tax rate, while owners of rehabilitated housing pay taxes based on the value of residential property prior to rehabilitation. Owners of homestead facilities receive an abatement of one-half of property taxes that otherwise would be paid to the local unit of government and the county. The abatement applies to structures and not to land. The abatements are available from 6 to 15 years.

According to the State Tax Commission, in 2007 there were 815 new applications for Neighborhood Enterprise Zones (NEZ) and 3,807 NEZ homestead applications. During committee testimony, the Department of Treasury noted that the residential homestead program currently operates in two communities—Detroit and River Rouge.

Currently applications for homestead certificates are first approved by local government officials, and then forwarded to the Department of Treasury for its approval, before being sent to the State Tax Commission for review. The Department of Treasury has proposed eliminating this second step in the approval process, *for homestead certificates only*, estimating that it would save the department \$150,000 each year.

THE CONTENT OF THE BILL:

The bill would amend the Neighborhood Enterprise Zone Act (MCL 207.775 et al.) to transfer the authority to approve "homestead facilities" located within residential neighborhood enterprise zones from the State Tax Commission to the assessors of the local governmental units within which the homestead facilities are located.

The bill would do this by specifying that the authority to approve residential enterprise zones belong to "a qualified assessing authority," and then defining a "qualified assessing authority" to mean one of the following: (1) for a facility other than a homestead facility, the State Tax Commission; (2) for a homestead facility, the assessor of the local governmental unit in which the homestead facility is located.

In addition, the bill would repeal Section 15 of the act, which has required, since 1993, the Michigan Enterprise Zone Authority and the Department of Treasury to biennially prepare and submit to the legislature's taxation and housing committees an in-depth analysis of the costs and benefits of this act, and its impact on neighborhood revitalization in the local governmental units where it has been used.

Currently under the law, the State Tax Commission has the authority to approve the applications for exemption certificates within neighborhood enterprise zones, which are submitted to the commission by the governing bodies of local governmental units. Within a specified time period (which varies depending on the time of year the application is submitted), the commission determines, based on a recommendation by Department of Treasury staff, whether a homestead facility, new facility, or rehabilitated facility complies with the requirements of the act. If so, the commission issues a neighborhood enterprise zone certificate, and sends a certified copy of that certificate to the assessor of the local governmental unit, and to each affected taxing unit. The State Tax Commission also has the authority, under certain circumstances, to revoke the certificates, rescind their revocation, transfer the certificates, and extend their duration. And, the commission can promulgate rules it necessary to administer the act.

House Bill 6032 would modify these provisions, giving the authority to revoke, rescind, extend, and transfer *certificates for a homestead facility (only)* to the assessors of the

local governmental units within which the homestead facilities are located, rather than the State Tax Commission.

Further, the bill would require that not later than June 15 of each year, the assessor of each local government unit who issues a certificate for a homestead facility file a report with the State Tax Commission containing all of the following information for the immediately preceding calendar year:

- The number of certificates issued.
- The date of issuance of each certificate.
- The name and address of the holder of each certificate.
- The legal description of the real property of the homestead facility for which each certificate was issued.
- The taxable value for each homestead facility for which a certificate was issued.
- For each transferred certificate, the transfer date and the names and addresses of the former and current holders of the certificates.
- For each revoked certificate, the reason and date of the revocation and the name and address of the certificate's holder.
- The impact on neighborhood revitalization in the local governmental unit, including the estimated tax savings for all new and current certificate holders.

The bill would require that this report be prepared by the local assessor on a form provided by the State Tax Commission and that the commission could require that the report be filed electronically.

FISCAL INFORMATION:

House Bill 6032 would result in an estimated savings of \$150,000 to the State of Michigan and could increase the costs of qualifying local units of government by an indeterminate amount.

The State Tax Commission, composed of three members appointed by the Governor, supervises the administration of Michigan property tax laws. Because House Bill 6032 transfers the responsibility to approve homestead facility applications for Neighborhood Enterprise Zones from the State Tax Commission to the assessors of local units of government, the State Tax Commission is estimated to realize a cost savings of approximately \$150,000. Qualifying local governmental units may experience increased administrative costs stemming from the bill's requirement that local assessors approve homestead applications, oversee existing certificates and any modifications, and produce a yearly report on Neighborhood Enterprise Zone activities to the State Tax Commission. According to the State Tax Commission, in 2007 there were 815 new applications for Neighborhood Enterprise Zones (NEZ) and 3,807 NEZ homestead applications.

ARGUMENTS:

For:

Currently, applications to obtain homestead tax reduction certificates for older homes located in Neighborhood Enterprise Zones of core cities are filed with both the local assessor and the Department of the Treasury. The applications must be approved by both local and state officials, before being sent to the State Tax Commission where a certificate can be issued, after yet another review. This bill would eliminate the review by the state for homestead facilities in NEZs, saving state government an estimated \$150,000 annually.

POSITIONS:

The Department of Treasury supports the bill. (9-10-08)

The Michigan Municipal League supports the bill. (9-10-08)

The Michigan Assessors' Association is neutral on the bill. (9-10-08)

Legislative Analyst: J. Hunault
Fiscal Analyst: Viola Bay Wild

■ 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.