

LOCAL GOVERNMENTAL UNITS ELIGIBLE UNDER NEIGHBORHOOD ENTERPRISE ZONE ACT

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Senate Bill 364 (proposed substitute H-2)

Sponsor: Sen. Jeremy Moss

House Committee: Local Government and Municipal Finance

Senate Committee: Economic and Small Business Development

Complete to 4-26-22

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

SUMMARY:

Senate Bill 364 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. Beginning January 1, 2023, a local unit of government that became eligible to designate a neighborhood enterprise zone under the bill could do so only if the zone was adjacent to existing development and able to use existing infrastructure, had access to municipal water and sewer services, and contained five or more residential units per acre. The bill would make other changes to the act as described below.

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.

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

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

NEZ designations by certain local governmental units

Beginning January 1, 2023, in addition to all other requirements under the act, a city, village, or township that was *not a local governmental unit* under the act before the bill amended the definition of that term as described above would be subject to both of the following conditions:

- The local governmental unit may designate a neighborhood enterprise zone only if it determines that the designation encourages compact development and that the zone meets all of the following:
 - It has five or more existing residential units per acre at the time of the designation.
 - It is adjacent to existing development.
 - It can use existing infrastructure.
 - It has access to municipal water and sewer services on at least one frontage.
- For that part of a housing facility that in the prior year was occupied by an individual, couple, family, or group of unrelated individuals with a combined *adjusted household income* in excess of 120% of the countywide area median income (as posted on the Michigan State Housing Development Authority website), the specific tax paid in lieu of taxes for the year must be equal to the full amount of the taxes that would be paid on that portion of the facility if the facility were not tax exempt under the act.

Adjusted household income would mean the gross annual income from all sources and before taxes or withholding of all individuals of a household living in a residential dwelling unit or housing unit after deducting all of the following:

- Unusual or temporary income of any member of the household.
- \$650 for each member of the household.
- Earnings of a member of the household who is less than 18 years old or is physically or mentally handicapped.
- 50% of the income of a second adult wage earner jointly occupying the residential dwelling unit or housing unit whose individual income is less than that of the wage earner with the highest income.
- \$1,000 or 10% of the gross annual income, whichever is less.

Other amendments

Currently under the act, the qualified assessing authority must determine whether a *new facility* (a newly built residential housing structure) is in compliance with the act within 30 days after receiving an approved application or, for an application received after October 31, within 45 days after receiving it.

The bill would amend the above to apply the 45-day time frame to approved applications that are received after June 15 (instead of after October 31).

Finally, the bill would except new facilities that under the act are not required to be occupied by an owner from a provision that applies only to facilities required to be owner-occupied.

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 assumed 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.