



**House
Legislative
Analysis
Section**

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NEIGHBORHOOD REVITALIZATION ACT

**House Bill 5569 (Substitute H-1)
First Analysis (6-5-90)**

**Sponsor: Rep. Bob Emerson
Committee: Taxation**

THE APPARENT PROBLEM:

Many of Michigan's older cities are said to be faced with severe housing problems and deteriorating residential neighborhoods, exemplified by the loss of owner-occupied residences and the increase in rental properties controlled by absentee landlords. In many cities, there is a loss of housing stock and a complete absence of new housing construction, particularly of owner-occupied homes and single-family homes. Property values have grown slowly or even declined. The cycle is all too familiar: as people and businesses move from the city to the suburbs, conditions worsen (yet taxes increase) and encourage more "flight." Not only is this disastrous for the urban centers, but it is wasteful, in that the infrastructure of the city must be built over again in outlying areas. Some people have proposed using tax incentives like those used to influence location decisions by business and industry in order to encourage more housing construction and home ownership in the cities.

THE CONTENT OF THE BILL:

The bill would create the Neighborhood Revitalization Act, under which property owners in designated areas in certain cities could receive reduced property taxes for building new housing or rehabilitating existing housing. To qualify, a residential facility would have to be (or include) the principal residence of the owner. Generally, the tax reduction would be achieved for new housing by reducing the tax rate to one-half of the statewide average and for rehabilitated housing by using the property's assessed value prior to its improvement. An owner or developer would need the approval of the local unit of government and the State Tax Commission (based on certain specified criteria, including the amount invested in upgrading a residence) to obtain a neighborhood revitalization exemption certificate that would be good for 12 years. A certificate could not be granted after December 31, 2000.

Eligible Cities. Cities eligible to grant tax reductions under the bill would be those who either: a) had a population of 14,000 or more with 65 percent or more of owner-occupied housing having a true cash value of less than \$20,000; or b) had a population of 39,000 or more with 21 percent of owner-occupied housing having a true cash value of less than \$20,000. (The criteria would have to be met using figures from the most recent decennial census.) No later than 30 days after the bill's effective date, the Michigan State Housing Development Authority (MSHDA) would have to publish a list of cities meeting the criteria, and would do so again 30 days after receiving the data from subsequent decennial censuses. (Tax specialists say the bill applies to: Battle Creek, Bay City, Benton Harbor, Detroit, Flint, Hamtramck, Jackson, Muskegon, Muskegon Heights, Pontiac, and Saginaw.) The governing body of an eligible city could by resolution designate one or more neighborhood revitalization districts within the city.

Eligible Residential Facilities. To qualify for an exemption certificate, a new facility would have to be a primarily residential structure of one or two units, with one of the units occupied by the owner as his or her principal residence. It could also be a new individual condominium unit, in a structure of one or more condominium units, that was or would be occupied by the owner as his or her principal residence. Apartments would not be eligible as new facilities. An eligible rehabilitated facility would be one consisting of one to eight units, one of which would be the principal residence of the owner, with a current true cash value of \$60,000 or less per unit. The owner would have to be proposing improvements that would cost, if performed by a licensed contractor, over \$15,000 or 50 percent of the true cash value, whichever was less, and that would bring the structure into conformance with minimum local building code standards for occupancy or would improve the livability of the units while meeting minimum local building code standards. A condominium unit could also qualify as a rehabilitated facility if it met the same criteria.

Neighborhood Revitalization Tax. A residential facility that is issued an exemption certificate would be subject to a specific tax (rather than the usual property tax) called the neighborhood revitalization tax. The tax would be on the facility only and not on the land, which would continue to be subject to the regular property tax. For new housing, the tax would be determined by multiplying the structure's state equalized valuation (SEV) by one-half of the statewide average millage rate. (The average millage rate in 1989 was said to be 57 mills.) For rehabilitated housing, the tax would be determined by multiplying the SEV of the structure for the tax year immediately preceding the effective date of the exemption certificate by the total mills levied by all taxing units within the city.

Exemption Certificate Process. The application for a neighborhood revitalization exemption certificate would be filed with the clerk of the local governmental unit by the owner or developer involved. The clerk would notify the assessor and the local legislative body of each affected taxing unit of the application and provide relevant information about the property, including its true cash value. A hearing on the application would be held if requested within 15 days of the clerk's notice by the applicant, assessor, or representative of a taxing unit. The hearing would be held as soon as possible but no later than 45 days after the filing of the application. The local legislative body would have 60 days after receipt of the application to approve or disapprove the application by resolution. A resolution of disapproval would have to contain the reasons for disapproval. An application that was approved would be sent to the State Tax Commission, which would have 30 days (for a new structure) or 60 days (for a rehabilitated structure) to determine if the property complied with all requirements. If it did, the commission would issue the exemption certificate to the applicant and

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send a certified copy to the assessor and to each taxing unit.

Duration of Certificate. The exemption certificate would take effect the first day of the tax year following the year in which the new housing or rehabilitated housing was substantially completed and occupied by the owner as a principal residence. The owner would have to file with the assessor a certificate of occupancy or certificate that improvements met local building code standards, evidence that repairs met the cost requirements, and an affidavit that the housing was occupied by the owner as a principal residence. A certificate would expire (having never been in effect) if the documentation was not filed within two years after being issued. A one-year extension could be granted if the owner had proceeded in good faith and the delay in completion or occupancy was beyond his or her control. The "principal residence" affidavit would have to be filed by November 1 of each year the certificate was in force. The certificate would be in effect for 12 years from the effective date unless revoked. If the property was sold, the certificate would continue if the new owner filed the principal residence affidavit. (However, if the property was sold for delinquent property taxes due on the land, the certificate would be automatically revoked upon the expiration of the redemption period.)

Assessor's Report. The local assessor would be required annually to determine the amount of property taxes that would have been paid on properties with exemptions had the certificates not been in force and report the amount to the affected local taxing units and the certificate holder.

Report by MSHDA and Treasury. Beginning October 1, 1992, MSHDA and the treasury department would have to jointly prepare and submit to the House and Senate committees responsible for taxation and housing an in-depth analysis of the costs and benefits of the new act and its impact on neighborhood revitalization. The report would have to be submitted every two years.

Aggrieved Parties. Anyone aggrieved by the issuance, refusal to issue, revocation, or modification of an exemption certificate could appeal the finding to the State Tax Commission under the Administrative Procedures Act.

FISCAL IMPLICATIONS:

The Department of Treasury described the cost of the bill in its current form as "minimal" in testimony before the House Taxation Committee. (5-30-90)

ARGUMENTS:

For:

Reportedly, the cities that would be included in this bill have 18 percent of the state's population and yet account for perhaps three-tenths of one percent of all new building permits issued. The bill aims at providing an incentive for people to stay in the city or move to the city, to build new homes or rehabilitate existing homes. It is an effort to generate more home ownership in the city by temporarily reducing property taxes in distressed neighborhoods and communities. Tax incentives have long been in use to influence decisions by businesses and industry; the bill would use the same tool to provide incentives for people to build and occupy homes in the state's most distressed cities. The bill is carefully targeted to make sure that it benefits those in greatest need. It is important that private investment not be subsidized where it would occur anyway.

If the bill was not targeted, it would prove too costly. Under the bill, tax abatements would only be available to owner-occupied dwellings, only to rehabilitated housing if sufficient investment was being made, only in areas designated by local units of government, and only in those local units that have the greatest housing needs. Further, the bill calls for a review of the effectiveness of the approach by the Department of Treasury and the Michigan State Housing Development Authority.

Against:

Some people believe that while this bill is a good idea, it does not go far enough. They say that other communities could benefit from the use of housing tax incentives, cities such as Kalamazoo, Grand Rapids, Lansing, and Highland Park. Adding such communities would still leave the bill targeted to communities with distressed neighborhoods and prevent the expansion of the program to areas where homeowners would receive windfall tax relief. Others say even smaller cities, such as Albion, suffer from urban problems similar to larger communities and could benefit from this kind of program. The argument is also made that it makes sense to use this approach not just in the most distressed areas but in places where decline is just beginning, where people are just beginning to disinvest, and where the trend can be halted before the stage of "distress" is reached. Other people believe that wherever low-income people are living in substandard homes, including outside of cities, the state should provide help of this sort.

Against:

Since much of the lost revenue from the tax abatements in this bill will be made up to the school districts involved by the state (through school aid calculations), the abatements should be seen as being granted not by the local units but by all the in-formula school districts whose school aid will be reduced as a result. Further, there seems to be a widespread feeling that all existing tax abatements and tax expenditures need to be examined and no new abatement programs initiated. Yet this bill runs counter to that sentiment. Some people argue that while tax rates may be high in many cities, that is only one component of the tax bill, and the other component, low assessments, acts to counteract the high rates.

POSITIONS:

The Department of Treasury testified before the House Taxation Committee that it supports the bill in its current limited form but would not support an expansion of the bill. (5-30-90)

The Michigan State Housing Development Authority (MSHDA) supports the bill. (5-30-90)

The Michigan Municipal League supports the concept provided it is targeted to distressed neighborhoods and communities. (6-4-90)

The ANR Pipeline Co. supports the bill. (5-30-90)

The National Bank of Detroit supports the bill. (5-30-90)

Michigan Association of Counties opposes the bill because counties would lose control over a position of their tax base. (6-5-90)