Legislative Analysis

ADJUST ELIGIBILITY REQUIREMENTS FOR NEIGHBORHOOD ENTERPRISE ZONES

House Bill 6294 as introduced
Sponsor: Rep. Beau Matthew LaFave
Committee: Commerce and Trade
Complete to 11-27-18

SUMMARY:

House Bill 6294 would amend the Neighborhood Enterprise Zone (NEZ) Act to adjust the eligibility requirements to qualify as a "rehabilitated facility."

Under the Act, a local government may submit a proposal to designate an area in need of revitalization as the site for one of three types of projects that could receive NEZ benefits. One type is a ***rehabilitated facility***, which the act defines as an existing structure (or portion thereof) with a current true cash value of $80,000 or less per unit with the primary purpose of residential housing, consisting of 1 to 8 units. The owner must propose improvements with costs in excess of one of the following:

- $5,000 per owner-occupied unit or 50% of the true cash value (whichever is less).
- $7,500 per nonowner-occupied unit or 50% of the true cash value.
- $3,000 and $4,500 per owner- or nonowner-occupied unit, respectively, or 50% of the true cash value if the improvements would be done by the owner instead of a licensed contractor.

The bill would increase the maximum true cash value of the property in question from $80,000 to $250,000. The minimum costs of the improvements in question would increase to one of the following:

- $10,000 per owner-occupied unit or 50% of the true cash value.
- $15,000 per nonowner-occupied unit or 50% of the true cash value.
- $6,000 and $9,000 per owner- or nonowner-occupied unit, respectively, if the improvements are made by the owner instead of a licensed contractor.

Beginning in 2019, the bill would also require the state treasurer to annually adjust the dollar amounts described according to percentage changes in the consumer price index.

In addition, the bill would expand the reach of the Act by removing the population requirements in order to qualify as a "homestead facility" and the low-income requirements in order to qualify as a "local government unit."

MCL 207.772 and 207.778

BACKGROUND INFORMATION:

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 eligible local units of government (known as core communities). Generally speaking, owners of new construction pay taxes at the rate of one-half the statewide average property tax rate and owners of rehabilitated housing pay taxes based on the value of residential 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 standard property taxes and instead pay a specific tax known as the neighborhood enterprise zone tax. The abatements are available from 6 to 15 years, although historic buildings can maintain abatements for 11 to 17 years.

FISCAL IMPACT:

The bill would reduce local property tax revenue by an indeterminate amount by granting neighborhood enterprise zone eligibility to additional properties, both through an expansion of qualified local units from eligible distressed units to all cities, villages, and townships and through increased true cash value caps on rehabilitated facilities. Additional homestead facilities would be eligible for neighborhood enterprise "homestead" zone qualification, which would also reduce local property tax revenues. The magnitude of the reduction in tax revenues would be directly related to the quantity and value of newly eligible properties.

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