

# Legislative Analysis



## MODIFY DEFINITION OF REHABILITATED FACILITY IN NEIGHBORHOOD ENTERPRISE ZONE ACT

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<http://www.house.mi.gov/hfa>

**Senate Bill 319 (H-1) as referred to second House committee**  
**Sponsor: Sen. Jeremy Moss**

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

**House Bill 4091 (H-1) as referred to second committee**  
**Sponsor: Rep. Beau Matthew LaFave**

**1st House Committee: Commerce and Tourism**  
**2nd House Committee: Ways and Means**  
**Senate Committee (for SB 319): Economic and Small Business Development**  
**Complete to 12-4-19**

**BRIEF SUMMARY:** Taken together, Senate Bill 319 and House Bill 4091 would amend the Neighborhood Enterprise Zone Act to increase the dollar amounts used to define a *rehabilitated facility* under the act and to require the state treasurer to annually adjust these values for inflation.

**FISCAL IMPACT:** The bills could reduce local property tax revenue by an indeterminate amount by granting neighborhood enterprise zone eligibility to additional properties through increased true cash value caps on rehabilitated facilities in Neighborhood Enterprise Zones (NEZs). Any fiscal impact under the bills would depend on whether the rehabilitation of the facility would have occurred without the NEZ property tax abatement. The bills would reduce revenues relative to current law if it was determined that the rehabilitation of the property would have occurred even if no NEZ property tax abatement existed. The magnitude of the reduction in tax revenues would be directly related to the quantity and value of newly eligible properties.

### **THE APPARENT PROBLEM:**

The cash values used to determine whether a residential structure qualifies for tax exemption as a rehabilitated facility were set back in 1992 with the passage of the original act. These values have not been adjusted since then to reflect inflation or fluctuations in the housing market. Given this, fewer structures now qualify for NEZ designation, thus reducing the utility of the act. Legislation has been proposed to increase the threshold dollar amounts and to provide that they be adjusted for inflation.

### **THE CONTENT OF THE BILLS:**

Under the Neighborhood Enterprise Zone Act, *rehabilitated facility* means a residential structure that qualifies for NEZ tax exemptions under the condition that the owner has a plan approved by the Department of Treasury to renovate it and bring it back up to code. Currently, this may apply to an existing structure with the following characteristics:

- Has a current true cash value of \$80,000 or less.
- Is primarily a residential housing structure.
- Consists of one to eight units.

To qualify for the NEZ exemptions, the property must be owned by someone who proposes improvements to the property that, if done through a licensed contractor, would cost:

- More than \$5,000 per owner-occupied unit or 50% of the current true cash value, whichever is less.
- More than \$7,500 per non-owner-occupied unit or 50% of the current true cash value, whichever is less.

**Senate Bill 319** would amend the standards to apply to properties with a current true cash value of \$120,000 or less whose proposed improvements would cost more than \$10,000 or \$15,000 for owner-occupied and non-owner-occupied units, respectively.

In addition, beginning in 2021 and each year thereafter, the state treasurer would have to adjust the dollar amounts described above by the inflation rate for that year as it is defined in the General Property Tax Act.

Currently, an NEZ certificate expires if, two years after it is issued, the owner has failed to file with the local tax assessor certain specified evidence that the facility is substantially completed and, if applicable, occupied as a principal residence.

Under the bill, this time frame would apply to certificates issued before January 1, 2017. Certificates issued on or after that date would expire three years from their date of issuance if the owner has failed to file as described above.

Currently, if an owner has proceeded in good faith with the construction or rehabilitation and a delay in its completion is due to circumstances beyond the certificate holder's control, the certificate holder can request an automatic one-year extension of the deadline described above.

The bill would allow the written request for a one-year extension to be filed at any time before the certificate expires and up to one year after it has expired.

MCL 207.772 et seq.

**House Bill 4091** would amend section 8 of the act, which currently requires that an NEZ certificate must include a legal description of the relevant property or facility and a statement that the certificate shall remain in effect for its stated term unless revoked. The bill would clarify that both the description and the statement must be included.

MCL 207.778

### ***BRIEF DISCUSSION:***

Supporters of the bills argue that after nearly thirty years of inflation and changes in the housing market, there are few homes in America that would be valued at \$80,000 or less, let alone in Michigan. They argue that it is past time that the maximum cash value of applicable homes and renovations be raised so that municipalities may continue to use NEZs to restore and redevelop their poorest communities.

***POSITIONS:***

A representative of the City of Southfield testified in support of Senate Bill 319. (10-10-19)

The following organizations indicated support for Senate Bill 319 (10-10-19):

Michigan Assessors Association  
Michigan Municipal League  
Michigan Townships Association

Michigan Realtors indicated support for House Bill 4091. (10-24-19)

The Department of Treasury testified with a neutral position on Senate Bill 319. (10-10-19)

The Michigan Association of School Boards indicated opposition to House Bill 4091. (10-24-19)

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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.