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Senate Bill 319 (Substitute S-1 as reported)  
Sponsor: Senator Jeremy Moss  
Committee: Economic and Small Business Development

Date Completed: 7-1-19

## **RATIONALE**

The Neighborhood Enterprise Zone Act allows eligible local units of government to designate neighborhood enterprise zones, in which a homestead facility, new facility, or rehabilitated facility is subject to a specific neighborhood enterprise zone tax instead of ad valorem property taxes. Except as otherwise provided, the amount of the neighborhood enterprise zone tax on a rehabilitated facility is determined each year by multiplying the taxable value of the facility, not including the land, for the tax year immediately before the effective date of the neighborhood enterprise zone certificate by the total mills collected under the General Property Tax Act for the current year by all taxing units within which the rehabilitated facility is located.

Under the Neighborhood Enterprise Zone Act, to be considered a rehabilitated facility, the property must be an existing structure or a portion of an existing structure with a current true cash value of \$80,000 or less per unit that has or will have as its primary purpose residential housing, consisting of one to eight units, that the owner of which proposes to improve by investing specified dollar amounts. The true cash value and specified investment amounts listed in the term have not been modified since 2001 (see **BACKGROUND**). Some consider these dollar amounts to be outdated, as they disqualify many properties that otherwise would be eligible to participate in neighborhood enterprise zones had the dollar amounts kept up with inflation or been changed to reflect Michigan's current economy and housing market. Accordingly, it has been suggested that these dollar amounts be increased to account for inflation.

## **CONTENT**

**The bill would amend the Neighborhood Enterprise Zone Act to modify the definition of "rehabilitated facility" and require the State Treasurer to adjust the amounts prescribed in the definition annually, beginning in 2020.**

Currently, "rehabilitated facility" means an existing structure or a portion of an existing structure with a current true cash value of \$80,000 or less per unit that has or will have as its primary purpose residential housing, consisting of one to eight units, the owner of which proposes improvements that if done by a licensed contractor would cost in excess of \$5,000 per owner-occupied unit or 50% of the true cash value, whichever is less, or \$7,500 per nonowner-occupied unit or 50% of the true cash value, whichever is less, or the owner proposes improvements that would be done by the owner and not a licensed contractor and the cost of the materials would be in excess of \$3,000 per owner-occupied unit or \$4,500 per nonowner-occupied unit and will bring the structure into conformance with minimum local building code standards for occupancy or improve the livability of the units while meeting minimum local building code standards.

Under the bill, instead, "rehabilitated facility" would mean, except as otherwise provided, an existing structure or a portion of an existing structure with a current true cash value of \$120,000 or less per unit that has or will have as its primary purpose residential housing, consisting of one to eight units, the owner of which proposes improvements that if done by a licensed contractor would cost in excess of \$10,000 per owner-occupied unit or 50% of the true cash value, whichever is less, or \$15,000 per nonowner-occupied unit or 50% of the true cash value, whichever is less,

or the owner proposes improvements that would be done by the owner and not a licensed contractor and the cost of the materials would be in excess of \$3,000 per owner-occupied unit or \$4,500 per nonowner-occupied unit and will bring the structure into conformance with minimum local building code standards for occupancy or improve the livability of the units while meeting minimum local building code standards. As used above, the term "current true cash value" would mean the most recent determination of true cash value as determined under Section 27 of the General Property Tax Act. (Section 27 defines "true cash value" and specifies what may be included in determining true cash value, as well as what an assessor must consider when determining true cash value.)

Beginning in 2020, and each year thereafter, the State Treasurer would have to adjust the dollar amounts described in the above definition by the inflation rate as defined in Section 34d of the General Property Tax Act for that year. (Under Section 34d, "inflation rate" means the ratio of the general price level for the State fiscal year ending in the calendar year immediately preceding the current year divided by the general price level for the State fiscal year ending in the calendar year before the year immediately preceding the current year.)

MCL 207.772 et al.

## **BACKGROUND**

The Neighborhood Enterprise Zone Act was created in 1992 (Public Act 147 of 1992). At that time, "rehabilitated facility" meant an existing structure with a current true cash value of \$60,000 or less per unit that has or will have as its primary purpose residential housing consisting of one to eight units, the owner of which proposes improvements that if done by a licensed contractor would cost in excess of \$5,000 per owner-occupied unit or 50% of the true cash value, whichever is less, or \$7,500 per nonowner-occupied unit or 50% of the true cash value, whichever is less, and will bring the structure into conformance with minimum local building code standards for occupancy or improve the livability of the units while meeting minimum local building code standards.

Public Act 217 of 2001 modified the definition of "rehabilitated facility"; that definition remains unchanged.

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

Creating a neighborhood enterprise zone is a useful way for a community to encourage the improvement of properties that are generally distressed. According to testimony provided before the Senate Committee on Economic and Small Business Development, 148 cities, townships, and villages qualify to create these zones. The Michigan Department of Treasury's "2018 NEZ (New-Rehab) Activity Report" lists approximately 330 separate records for "new"/"rehabilitation" activity in 2018. Furthermore, according to the Department, there was over \$57.0 million invested in properties in 2018 because of neighborhood enterprise zones.

Several dollar amounts listed in the Neighborhood Enterprise Zone Act's definition of "rehabilitated facility" have not been modified since 2001. Since then, the Michigan economy and the housing market have improved, reducing the number of properties that could be considered a rehabilitated facility. By increasing the dollar amounts listed in the definition, the bill would increase the number of properties that could be considered a rehabilitated facility and would ensure that this economic tool remains useful for local governments as a way to improve communities and promote homeownership.

Legislative Analyst: Drew Krogulecki

## **FISCAL IMPACT**

The bill would have no fiscal impact on the Department of Treasury. Annual adjustments to the qualifications for rehabilitation facilities could be updated within current appropriations.

Fiscal Analyst: Cory Savino

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.