



Senate Fiscal Agency
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**BILL ANALYSIS**

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Senate Bill 65 (as enrolled)
Sponsor: Senator Ron Jelinek
Senate Committee: Finance
House Committee: Tax Policy

PUBLIC ACT 612 of 2006

Date Completed: 1-8-07

RATIONALE

There are a number of charitable community organizations working to increase home ownership in Michigan by providing homes to families that otherwise could not afford to buy one, usually for the cost of building or restoring the homes. Sometimes these groups hold the property for months or years while the homes are being built or refurbished and suitable owners are found. During this time, the charitable housing organizations are responsible for paying taxes on the property. Nonprofit housing organizations do not have large budgets, usually relying heavily on donated labor and materials, and the expense of paying property taxes is often significant for them. Some people believe that local governing bodies should be allowed to exempt property held by certain nonprofit housing organizations from the property tax for a limited period of time.

CONTENT

The bill amended the General Property Tax Act to allow a local governing body to exempt certain nonprofit-owned single family dwellings or duplexes from the property tax for a maximum of two years.

Specifically, the governing body of a local tax collecting unit may adopt a resolution to exempt eligible nonprofit housing property from the tax collected under the Act. The clerk of the local tax collecting unit must give written notice to the tax assessor of that unit and the legislative body of each taxing unit that levies ad valorem property taxes in that unit. Before acting on the

resolution, the governing body must give the assessor and a representative of the affected taxing units an opportunity for a hearing. A copy of the resolution must be filed with the State Tax Commission.

The exemption will take effect on the December 31 immediately after the adoption of the resolution or the issuance of a building permit for the eligible nonprofit housing property, whichever is later. The exemption will remain in effect for two years, until the property is occupied by a low-income person under a lease agreement, or until ownership of the property is transferred, whichever comes first.

The bill defines "eligible nonprofit housing property" as a single family dwelling or duplex owned by a charitable nonprofit housing organization, which the organization intends to transfer to a low-income person after construction or renovation of the dwelling or duplex is completed to be used as that person's principal residence. "Charitable nonprofit housing organization" means a charitable nonprofit organization whose primary purpose is the construction or renovation of residential housing for conveyance to a low-income person.

The bill defines "low-income person" as a person with a family income of not more than 80% of the statewide median gross income, who is eligible to participate in the charitable nonprofit housing organization's program based on criteria established by that organization.

The bill took effect on January 3, 2007.

MCL 211.7kk

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

Charitable housing organizations provide low-cost housing to Michigan residents who otherwise would be unable to afford to purchase their own home. In most cases, the organizations eventually pass the cost of paying the taxes on to the purchaser of a home by increasing the sales price. Under the bill, residential property may be taken off the property tax roll for up to two years while a nonprofit housing organization owns it. By making it more affordable for nonprofit housing organizations to hold property and for individuals to buy it, the bill should increase home ownership among low-income residents. Eventually, the bill also may lead to increased property tax revenue when the new owners begin paying taxes on the improved home. Since most of the property that is donated to housing organizations for improvement is either dilapidated or abandoned, there is little tax revenue generated from the property before it is improved.

Opposing Argument

While the impact of the lost property tax revenue from one home will not be considerable for a community, some small Michigan cities have several charitable nonprofit housing organizations. If each has several houses receiving the property tax exemption during a year, the lost revenue might be significant, especially in communities already having financial difficulties.

Response: Granting the exemption is within the discretion of a local unit.

Opposing Argument

If a city, village, or township votes to offer the property tax exemption to nonprofit housing organizations, the county containing that local unit also will lose its portion of the revenue. A county should be allowed to opt in or out of the exemption. Additionally, since it is unlikely that all of the local tax collecting units in a county will offer the exemption, county residents who live

outside of the communities offering the exemption will end up subsidizing it.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill will reduce State and local property tax revenue, and increase School Aid Fund expenditures, by an unknown and likely negligible amount. It is unknown how many properties will be affected by the bill, the value of those properties, the applicable millage rates, the average duration of the exemption, the location of the properties, or whether a local unit will approve the necessary resolution. The reduction in State property tax revenue will lower School Aid Fund revenue. Expenditures from the School Aid Fund will increase to offset any reduction in local school operating revenue in order to maintain per-pupil funding guarantees.

Fiscal Analyst: David Zin

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