Legislative Analysis

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NONPROFIT HOUSING PROPERTY TAX EXEMPTION

House Bill 5333 (without amendment)
Sponsor: Rep. Dale W. Zorn
Committee: Tax Policy

Complete to 4-23-11

A SUMMARY OF HOUSE BILL 5333 AS REPORTED FROM COMMITTEE

Currently residential property owned by a charitable nonprofit housing organization can be exempt from property taxes for up to two years at the option of a local unit of government, if the property is intended for ultimate occupancy by low-income persons. Under House Bill 5333, as of December 31, 2012, local approval would not be needed and the exemption could last up to five years.

The bill also would amend the definition of "eligible nonprofit housing property" so that it would include a residential building lot (an empty lot), in addition to a single family dwelling or duplex. The lot would not be transferred to a low-income person, however, but, as now, only when a single family dwelling or duplex was constructed or renovated on the lot.

The bill is an amendment to the General Property Tax Act. Public Act 612 of 2006 amended that act to allow local tax collecting units to exempt certain nonprofit-owned residential property from taxation. Specifically, this exemption applies to single family dwellings or duplexes owned by charitable nonprofit housing organizations ultimately intended to be transferred to persons with a family income of not more than 80% of the statewide median gross income and who meet other qualifying criteria of the charitable organization. The exemption remains in effect for two years, until the property is occupied, or until a transfer of ownership, whichever occurs first.

The exemption under the bill would be effective on the December 31 of the year the bill took effect or on December 31 in the year in which the housing organization acquires the eligible housing property. The duration of an exemption under the bill would be reduced by the number of years the property had been exempt under current law.

MCL 211.7kk

FISCAL IMPACT:

The bill would reduce property tax revenue at both the state and local level by an unknown amount. Because the number of properties that would qualify, the corresponding taxable values, and the appropriate local millage rates are not known, a fiscal estimate is not possible. The bill would reduce revenue to the School Aid Fund as well as local school funding. Because local funding for schools would decline, expenditures from the School Aid Fund would have to increase to maintain the foundation allowance.

BACKGROUND AND DISCUSSION:

Current law allows local units of government to exempt residential property owned by a charitable nonprofit housing organization from property taxes if the property is intended for ultimate occupancy by low-income persons. The exemption lasts for two years or until the property is occupied, or until a transfer of ownership, whichever occurs first. The bill would make three significant changes: (1) it provides an automatic exemption for such property with no local unit approval needed; (2) it extends the duration of the exemption so it could last as long as five years; and (3) it provides the exemption to empty lots on which construction is yet to take place.

The principal advocate for the bill is Habitat for Humanity, which describes itself as a nonprofit, ecumenical Christian housing ministry. According to its website,

> *Through volunteer labor and donations of money and materials, Habitat builds and rehabilitates simple, decent houses alongside our homeowner partner families. In addition to a down payment and monthly mortgage payments, homeowners invest hundreds of hours of their own labor into building their Habitat house and the houses of others. Habitat houses are sold to partner families at no profit and financed with affordable loans. The homeowners' monthly mortgage payments are used to build still more Habitat houses.*

In a recent case in Monroe County, a Habitat for Humanity affiliate acquired 20 empty lots that had been foreclosed upon in a development where 14 non-Habitat homes were already built and occupied. The empty lots were taxed by the township (Frenchtown Township). The current exemption, strictly speaking, applies to single-family dwellings and duplexes, and the act does not refer to building lots. The result was that the organization has to pay about $710 per year per lot to the township out of donated money while it builds homes. (The Monroe County affiliate testified it had paid $36,000 in taxes since 2009.) This expenditure has slowed the development of the property. The bill addresses this by allowing empty lots to receive the exemption. It also makes the exemption automatic, elimination the ability of the local unit to deny an exemption. As the organization points out, once new housing is built on the lots and occupied, the property will go back onto the tax rolls, and pay taxes as occupied residential property. This is likely to occur more quickly if money does not have to be spent on taxes for the empty lots.

Moreover, the large number of lots to be developed in this instance means the organization needs more time to complete home building than the law currently anticipates. The bill addresses this by providing the exemption for up to five years, rather than two years.

Opposition to the bill stems from its removal of local control over this exemption for nonprofit housing. Critics say that because of one instance in one township in the state, all local units will be prevented from determining whether they will grant this property tax exemption or not. When the law was enacted in 2006, it provided local control over the exemption, and required that a local unit hold a hearing so that other affected units could provide input. Generally, the Legislature ought to avoid taking away the revenue of local units of governments (counties, cities, townships, schools, libraries, etc.) without the consent, or at least the advice, of the affected units.

POSITIONS:

Habitat for Humanity of Michigan supports the bill. (4-18-12)

Habitat for Humanity of Monroe County supports the bill. (3-28-12)

The Michigan Catholic Conference indicated support for the bill. (4-18-12)

The Michigan Department of Treasury is opposed to the bill. (4-18-12)

The Michigan Assessors Association is opposed to the bill. (4-18-12)

The Michigan Municipal League indicated opposition to the bill. (3-28-12)

The Michigan Association of Counties has concerns about the bill. (4-18-12)

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