

City of Bay City

**Neighborhood Enterprise Zone Program
Policies and Procedures**

August 3, 2020

Approved by the Bay City Commission: August 3, 2020

Introduction

This booklet is designed to summarize the policies and procedures adopted by the City of Bay City, Bay City, Michigan, effective August 3, 2020, regarding the Neighborhood Enterprise Zone Act (P.A. 147 of 1992).

BACKGROUND

There are three types of Neighborhood Enterprise Zones allowed by P.A. 147 of 1992: NEZ Homestead, NEZ New Construction, and NEZ Rehabilitated. The prior policy approved by the City Commission of the city of Bay City on February 20, 2006 was restricted to NEZ New Construction. This policy addresses expansion of the policy to include NEZ Rehabilitated, but does not allow for NEZ Homestead. For NEZ New Construction and NEZ Rehabilitated, this policy provides a 6 to 15-year tax incentive for rehabilitation and new construction of residential structures (excluding land value) in designated areas approved by the Bay City City Commission.

DEFINITIONS

NEZ Homestead is an exemption for an existing structure, purchased by or transferred to an owner after December 31, 1997, the primary purpose of which is residential housing occupied by the owner as his/her principal residence and is located within a subdivision platted pursuant to state law before January 1, 1968. *This policy does not allow for NEZ Homestead.*

NEZ New Construction is an exemption for a new structure or portion of a new structure, the primary purpose of which is residential housing which will be occupied by its owner as his/her principal residence, except for 3- and 4-unit apartments that are mixed-use, available for rent/lease, and located in a qualified downtown district.

NEZ Rehabilitated is an exemption for an existing structure or a portion of an existing structure, the primary purpose is residential housing which can be owner or non-owner occupied depending on local unit policy, meeting specific requirements for improvement investment and true cash value.

CITY'S GOALS

The City's goals in designating areas as a Neighborhood Enterprise Zone are to:

1. Promote the creation of new residential areas.
2. Promote new housing construction.
3. Promote rehabilitation of existing housing.
4. Encourage investment within target areas.
5. Advance City strategies for homeownership.
6. Utilize vacant and underutilized properties.

7. Increase the value of real property.
8. Implement actions suggested by the 2016 Housing Study to provide owner upgrade incentives and to diversify the housing stocks in terms of type, size, and composition.

ELIGIBLE PROPERTIES

For New Construction, NEZ Certificates are available for only those 1-unit and 2-unit properties that are the primary residence of the owner, including condominiums.

Apartments up to 4 units are only eligible for new construction if the building is mixed-use and located in a qualified downtown district. A qualified downtown district includes areas denoted as downtown districts, principal shopping districts, business improvement districts, and other areas of the city that have been zoned and primarily used for business.

For Rehabilitation, NEZ Certificates are available for owner-occupied 1- and 2-unit and up to 4-unit rental properties.

SUMMARY OF REQUIREMENTS AND TAX ABATEMENTS

The effective date of the NEZ certificate is the first day of the tax year following the year in which the new residential structure is substantially completed and occupied by the owner as a principal residence.

NEZ Tax Calculation

Abatement Type	Ownership	Improvement Type	Minimum Investment	Tax Abatement*
New 1 Unit	Owner Occupied	New construction	\$100,000	Taxed at the State issued NEZ rate
New 2 Unit	Owner Occupied	New construction	\$100,000	Taxed at the State issued NEZ rate
New ≤4 units	Rent/Lease	New Construction *(see note)	\$100,000	Taxed at the State issued NEZ rate
Rehab ≤2 Unit	Owner Occupied	Rehabilitated	\$50,000	Taxed at value of facility in year preceding rehabilitation
Rehab ≤4 units	Rent/Lease	Rehabilitated	\$100,000	Taxed at value of facility in year preceding rehabilitation

* Must be in a mixed-use building and located in a qualified downtown district.

RESPONSIBILITIES OF THE BAY CITY CITY COMMISSION

1. To establish Neighborhood Enterprise Zones by resolution.
2. To act by resolution to either approve or deny the request for Neighborhood Enterprise Zone Certificates.

INSTRUCTIONS FOR FILING AN APPLICATION

IMPORTANT: Before applying for any permits and prior to beginning any construction activities, the property owner must submit a completed NEZ application to the City Clerk. Otherwise, the applicant will be ineligible to pursue NEZ benefits.

IF THE PROPERTY IS LOCATED IN A DESIGNATED HISTORIC DISTRICT, PLEASE CONTACT THE PLANNING & ZONING DEPARTMENT FOR GUIDANCE THROUGH THE HISTORIC DISTRICT COMMISSION APPROVAL PROCESS FOR NEW CONSTRUCTION AND REHABILITATION. THE PLANNING & ZONING DEPARTMENT CAN BE CONTACTED AT THE FOLLOWING OFFICE:

Planning & Zoning Department

(989) 894-8177

An application may be obtained at City Hall, 301 Washington Avenue, Bay City, Michigan 48708, at the following office:

Economic Development Department

(989) 894-8227 or

(989) 894-8159

Or online at: **www.baycitymi.org**

The City shall charge a non-refundable application fee, which shall be paid with the filing of the application. Please contact the Economic Development Department to obtain the current fee amount.

The applicant must file one original and two copies of the Application for Neighborhood Enterprise Zone Certificate (**Attachment A**), including the legal description and parcel code number of the property. Along with the application, a check made payable to the Bay City Treasurer must be submitted to cover the processing fee. Both the application and the check are to be sent or hand delivered to the City Clerk's office in City Hall.

APPROVAL PROCESS:

1. The City Clerk will record the filing date and start the approval process. The City has 60 days from the receipt of the application to act and forward to the Michigan State Tax Commission in Lansing.
2. The Bay City City Commission will determine the length of the NEZ Certificate based on investment.

3. The Michigan State Tax Commission will determine within 30 days (or if an approved application is received after October 31 not later than 45 days) whether the application complies with the requirements of Public Act 147.
4. Itemized list and proof of payment for qualifying costs must be provided to the City before the certificate will be sent to the Michigan State Tax Commission for final approval and issuance of the Neighborhood Enterprise Zone Certificate.

BASIC REQUIREMENTS:

1. The property must be located in a designated Neighborhood Enterprise Zone. If applicant is uncertain as to whether his/her property is located within an NEZ, he/she may contact the City Assessor's office at (989) 894-8123 or visit City Hall at 301 N. Washington Avenue, Bay City, MI between 8:00 a.m. and 5:00 p.m., Monday to Friday for verification.
2. The rules and conditions must be met, as described in the Public Act 147 of 1992, as amended.
3. Applicant must be in good standing with the City of Bay City, including any contractual relationships and must not be in default to the City of Bay City on any obligations.
4. The property and proposed use must be consistent with local zoning and land use guidelines.
5. Multi-unit facilities are limited to a maximum of 4 units.
6. The applicant must have a legal interest in the property for which an abatement is being sought or must provide documentation evidencing its ability to acquire the property (i.e. binding purchase agreement).
7. Property purchased from a Land Bank Authority (Bay County Land Bank Authority or the State of Michigan Land Bank Fast Track Authority) is not eligible for NEZ for a period of 5 tax years following purchase without a certificate of waiver of the Land Bank statutory 5/50 tax capture. Proof of the issued waiver must be provided at time of application.

NEW CONSTRUCTION NEZ

1. NEZ certificates are available for new owner-occupied single unit or 2-unit properties, or for up to 4-unit properties that are for lease or condominium within NEZ districts. Units greater than 2 are required to be in a multi-use building and located in a qualified downtown district.
2. The owner or developer or prospective owner or developer shall file a NEZ application prior to construction and before applying for any permits. Once the new construction has been completed and a Certificate of Occupancy has been obtained

from the City's Building and Code Enforcement Office, the new owner becomes eligible for the property tax abatement. They must file an additional application and provide proof of ownership to the City Assessor to complete the certification process.

3. The owner must maintain a primary homestead property within the NEZ unit throughout the duration of the certificate for 1 or 2-unit construction. For >2 units, the owner must maintain a primary homestead property within the city of Bay City.

REHABILITATED NEZ

1. A rehabilitated facility shall not include a facility rehabilitated with the proceeds of an insurance policy for property or casualty loss.
2. The owner or developer or prospective owner or developer shall file a NEZ application prior to construction and before applying for any permits. Once the rehabilitation has been completed and a Certificate of Occupancy has been obtained from the City's Building and Code Enforcement Office, the new owner becomes eligible for the property tax abatement. They must file an additional application and provide proof of ownership to the City Assessor to complete the certification process.
3. The owner must maintain a primary homestead property within the NEZ unit throughout the duration of the certificate for 1 or 2-unit construction. For >2 units, the owner must maintain a primary homestead property within the city of Bay City.

TAX INCENTIVE – NEW CONSTRUCTION NEZ

The holder of a New Construction Certificate does not pay the real property taxes collected under the general property tax act. Instead, the property owner pays the "Neighborhood Enterprise Zone Tax", which is equal to one half of the State's average rate of taxation. In previous years, the NEZ tax rate was approximately 16 mills. **Land value and special assessments are not included in the tax abatement and remain on the regular ad valorem tax rolls.**

The continuance of a New Construction NEZ Certificate is conditional upon being current on payment of all taxes and any other debts owed to the City on an annual basis and meeting the residency requirements as described in this policy.

TAX INCENTIVE – REHABILITATED NEZ

The holder of a Rehabilitated NEZ Certificate pays real property taxes using the total millage rate applied to the taxable value of the rehabilitated facility in the year prior to commencement of rehabilitation. **Land value and special assessments are not included in the tax abatement and remain on the regular ad valorem tax rolls.**

The continuance of a Rehabilitated NEZ Certificate is conditional upon being current on payment of all taxes and any other debts owed to the City on an annual basis and meeting the residency requirements as described in this policy.

EFFECTIVE DATE OF CERTIFICATE

The effective date of the NEZ certificate is December 31 in the year in which the new residential structure is substantially completed and occupied by an owner as a principal residence as evidenced by the owner filing with the City Assessor:

1. A certificate of occupancy.
2. An affidavit executed by an owner affirming that the new facility is occupied by an owner as a principal residence.

CERTIFICATE HOLDERS' REQUIREMENTS

The City Assessor is required by this law to file certain information annually with the Michigan State Tax Commission. This includes maintaining a current market value of the property. The owner may be contacted periodically to arrange for inspections to keep the City's records up to date.

CERTIFICATE TIMELINE

The NEZ Certificate is in effect for a period of 6 to 15 years as determined by the Bay City City Commission based on the following criteria:

Dollars of Investment (excluding land)	Years of Abatement
\$50,000 – \$75,000	6
\$75,001 – \$100,000	7
\$100,001 – \$125,000	8
\$125,001 – \$150,000	9
\$150,001 – \$175,000	10
\$175,001 – \$200,000	11
\$200,001+	15

TRANSFER OF PROPERTY

A NEZ Certificate can be transferred to subsequent property owners within the effective 6 to 15-year period provided that all NEZ state and local requirements for the program have been met by the new owner and an Application for Neighborhood Enterprise Zone Certificate has been processed. The transfer must be requested by the subsequent property owner. Before the closing of the sale of a new residential structure for which a neighborhood enterprise zone certificate is in effect, an inspection by the City shall be requested and made to determine compliance with the construction or safety codes of the City. No sale of any residential structure for which a neighborhood enterprise zone certificate is in effect may be finalized until there is compliance with the construction or safety codes of the City and a Certificate of Compliance attesting to the fact is issued by the Code Official Coordinator or his or her designee. If the new residential structure is sold or transferred to another owner without a Certificate of Compliance, the certificate shall be revoked.

REVOCACTION

A certificate may be revoked for the following reasons:

1. Upon receipt of a request by certified mail to the Michigan State Tax Commission by the holder of a Neighborhood Enterprise Zone Certificate requesting revocation of the certificate, the Michigan State Tax Commission by order shall revoke the certificate. The address is: Michigan State Tax Commission, P.O. Box 30471, Lansing, MI 48909-7971.
2. The certificate for a residential structure under a NEZ New Construction certificate is revoked if the residential structure is no longer a homestead as that term is defined in section 7a of the General Property Tax Act, 1893 P.A. 206, MCL 211.7a. However, if the owner or any subsequent owner submits a certificate before the revocation is effective, the State Tax Commission upon application by the owner shall rescind the order of revocation. If the certificate is submitted after the revocation of the certificate, the State Tax Commission, upon application of the owner, shall reinstate the certificate for the remaining period of time for which the original certificate would have been in effect.
3. If the owner of the residential structure fails to make the annual payment of the Neighborhood Enterprise Zone tax and the ad valorem property tax on the land, the State Tax Commission by order shall revoke the certificate. However, if payment of these taxes is made before the revocation is effective, the State Tax Commission, upon application of the owner, shall rescind the order of revocation. If payment of these taxes and any subsequent ad valorem property tax due on the new residential structure is made after revocation of the certificate, the State Tax Commission, upon application of the owner, shall reinstate the certificate for the remaining period of time for which the original certificate would have been in effect.
4. If a residential structure ceases to have as its primary purpose residential housing, the State Tax Commission by order shall revoke the certificate for that structure. A residential structure does not cease to be used for its primary purpose if it is temporarily damaged or destroyed in whole or in part.
5. If the Bay City City Commission determines that a residential structure is not in compliance with any local construction, building, or safety codes and notifies the State Tax Commission by certified mail of the noncompliance, the State Tax Commission by order shall revoke the certificate.
6. The revocation shall be effective beginning the December 31 following the date of the order or, if the certificate is revoked under subsection (3) of P.A. 147 of 1992, the December 31 following the revocation. The State Tax Commission shall send by certified mail copies of the order of revocation to the holder of the certificate, to the City of Bay City, to the City Assessor, and to the legislative body of each taxing unit that levies taxes upon property in Bay City.

7. The certificate for a residential structure is revoked if the property owner does not maintain the homestead requirements described in this policy.

DISAPPROVAL/APPEALS

The Bay City City Commission, not more than sixty (60) days after a completed application is received by the City Clerk, shall by resolution either approve or disapprove the application for a Neighborhood Enterprise Zone Certificate and the other provisions of this Act. If disapproved, the City Clerk shall return the application to the applicant via certified mail. There is no appeal process on the length of the certificate granted by the City to the State Tax Commission.

To obtain information on NEZ Applications for New Construction or Rehabilitated or Request of a Transfer of an Existing Certificate, please contact:

Economic Development Department
301 Washington Avenue
Bay City, MI 48708
Phone: (989) 894-8227 or (989) 894-8159
Email: sthurston@baycitymi.org or sdimitroff@baycitymi.org

Neighborhood Enterprise Zone Act Public Act 147 of 1992, as amended "New Facility" NEZ Tax Rates

The NEZ Act authorizes a specific tax to be levied on real property (excluding land) with a valid NEZ certificate in lieu of the ad valorem tax. The NEZ tax rate for "New Facility" certificates, based on the issuance date of the certificate and the property owner's Principal Residence Exemption (PRE) status, is equal to one-half of the preceding year's Non-PRE state average tax rate or PRE state average tax rate.

Current Tax Year	Non-PRE State Avg Tax Rate From Preceding Year	NEZ Non-PRE Tax Rate	PRE State Avg Tax Rate From Preceding Year	NEZ PRE Tax Rate
2000	50.43	25.220	32.43	16.220
2001	50.82	25.410	33.82	16.410
2002	51.41	25.710	33.41	16.710
2003	52.04	26.020	34.04	17.020
2004	50.92	25.460	32.92	16.460
2005	51.68	25.840	33.68	16.840
2006	51.71	25.860	33.71	16.860
2007	51.89	25.950	33.89	16.950
2008	51.85	25.930	33.85	16.930
2009	48.39	24.190	33.14	16.570
2010*	48.37	24.185	31.33	15.665
2011	50.40	25.199	33.13	16.567
2012	50.67	25.335	33.10	16.550
2013	51.24	25.620	33.47	16.735
2014	51.47	25.735	33.53	16.765
2015	51.77	25.885	33.92	16.960
2016	52.33	26.165	34.21	17.105
2017	52.95	26.475	34.55	17.275
2018	52.96	26.480	34.56	17.280
2019	53.23	26.615	34.96	17.480
2020	53.38	26.690	35.04	17.520

* Beginning in 2010, NEZ tax rates will be calculated to the third decimal place.

The state average tax rates above are determined annually by the Michigan Department of Treasury, Property Services Division. Any questions regarding the calculation of the NEZ specific tax should be addressed to the Michigan Department of Treasury, Community Services Division (517) 335-7460. The current millage rates are replaced by ½ the State-Wide Average Homestead Rate as determined by the Assessment & Certification Division on an annual basis. Current tax rate is based on the previous year's data for what was levied. A tax-exempt property will be calculated as if the property had not been tax exempt, per requirements of the State Tax Commission.