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BILL ANALYSIS

Senate Fiscal Agency

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Senate Bill 788 (as enrolled)(Public Act 274 of 1988)

Sponsor: Senator Nick Smith

Senate Committee: Appropriations

House Committee: Economic Development and Energy

Date Completed: 9-1-88

SUMMARY OF SENATE BILL 788 (as enrolled):

The bill would amend the Michigan Superconducting Super Collider Act to:

- Require the Superconducting Super Collider (SSC) Commission to purchase real property and underground stratified fee rights, and options on property and rights, necessary for the SSC.
- Create a farmland equity adjustment program to compensate property owners for agricultural land displaced by the SSC.
- Require the appointment of an ombudsman to reconcile grievances between the State and property owners.
- Require the State to reimburse local units of government for taxes lost due to the removal of property from tax rolls.
- Eliminate the Act's July 1, 1989, repeal date and provide, instead, that the Commission's powers and duties would have to be transferred to and performed by the Department of Commerce, and the Commission would be dissolved, effective July 1, 1991.

Purchase of Real Property

The bill would include in the Superconducting Super Collider Commission's responsibilities the requirement to provide that adequate and appropriate compensation was made to businesses or individuals whose property was acquired or who were relocated as a result of the SSC, for measurable business losses or agricultural production losses as a result of the acquisition of land under the Act.

The Commission would be required to purchase all real property necessary for the construction and operation of the SSC at the fair market value of the property. If the acquisition of a portion of a particular parcel in "fee simple" (absolute ownership without limitation) would destroy the practical value or utility of the remainder of the parcel, or reduce the fair market value of the entire parcel by more than 50%, the Commission would have to acquire the entire parcel.

The Commission also would have to offer to enter into option agreements and pay property owners option payments on all parcels to be acquired in fee simple for the SSC, at a price of 5% of fair market value but not less than \$500, if the option agreement were signed by the property owner within 60 days of the offer. If Michigan were chosen as the final site of the SSC, the Commission would have to offer option payments by April 1, 1990, to property owners for property to be acquired. The option payment could not be applied against the purchase price of the property, if the option were exercised. The terms of an option would have to provide that the option would

extend for one year after the date the option agreement was signed by the property owner. The option agreement also would have to provide that the option would terminate immediately upon the official announcement that this State had not been chosen by the Federal government for the SSC site. Within 90 days after an option was terminated, the State would have to clear title to the property as it related to the option.

The Commission would have to pay all reasonable relocation costs incurred as a result of the SSC pursuant to the Federal Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (42 USC 4601 et al.).

The Commission would be required to purchase underground stratified fee rights necessary for the construction or operation of the SSC at a minimum price of \$5 per 70,000 cubic feet, or at a higher appraised value determined by the Commission. The Commission would have to offer to enter into option agreements and pay property owners option payments on underground stratified fee rights at a price of \$1 per 70,000 cubic feet, if the option agreement were signed by the property owner within 60 days of the offer. If an option were exercised, the option price could not be applied against the purchase price of the rights acquired. The terms of an option would have to include the same provisions for termination as required for options on land. If Michigan were chosen as the site of the SSC, the Commission would have to offer option payments by April 1, 1990, to property owners for underground stratified fee rights.

Farmland Equity Adjustment Program

The farmland equity adjustment program would be created "to compensate property owners for the purpose of encouraging the continuation of agriculture and reestablishing agricultural lands displaced by the superconducting super collider". The Department of Commerce would be required to make a farmland equity adjustment payment to the owner of more than five acres that were acquired for the SSC before October 1, 1990. The payment would have to equal 50% of the fair market value of the property minus "the fair market value of any homestead, improvements related to the homestead, appurtenances, and acreage related to or associated with the use of the homestead improvements related to the homestead, or appurtenances". Payment would have to be made at the time of closing unless the property were sold pursuant to a deferred payment agreement.

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Deferred Installment Payments

At the seller's option, the Commission would have to purchase property on and make farmland equity adjustment payments a deferred installment payment schedule that could not exceed 10 years after the date of purchase. The Commission would have to receive title to the property, however, at the time the payment agreement was entered into. If property were purchased under this provision, the Commission would have to pay interest at the same rate as the State's rate of return on its investments in the Common Cash Fund. Upon request, the seller could receive at any time full payment of the outstanding principal plus accrued interest. The State could grant such a request in the event of financial hardship or other reasonable cause, and would have to grant the request in the event of the seller's death. A deferred payment agreement would be assignable.

Payments to Local Units

In order to reimburse local units of government for property taxes lost due to the removal of property from the property tax rolls for the SSC, the Department of Treasury would have to make payments in lieu of taxes to those local units that levy property taxes. (The bill also would include under the definition of "local government" local and intermediate school districts, community college districts, and "any special taxing district"; the definition now includes cities, villages, townships, and counties.) The payments would have to be calculated by multiplying the local unit's current ad valorem millage rate by the smaller of the following amounts:

- For property removed from the tax rolls for the establishment of the SSC, the State equalized value (SEV) of the property in the year before the removal.
- The amount obtained by subtracting the then current SEV of the local government from its adjusted SEV. The adjusted SEV for the year in which the property was removed would be calculated by multiplying the local unit's prior year's SEV by the inflation rate for the current year. The adjusted SEV for subsequent years would be calculated by multiplying that year's inflation rate by the prior year's adjusted SEV of the local unit.

The bill specifies that local governments would not be responsible for the cost of water systems, sewers, waste disposal systems, or preparing new property tax descriptions associated with the construction and operation of the super collider.

Ombudsman

The Director of Commerce would have to appoint and be responsible for one or more individuals to serve as the SSC ombudsman. The ombudsman could act on behalf of the State in attempting to reconcile grievances between the State and any person aggrieved by the planning, construction, or operation of the SSC. Any such person could submit a request to the ombudsman to review the grievance, and the ombudsman would have to respond within seven days.

Other Provisions

The bill would require the State to pay, through legislative appropriation of funds provided under the State trunkline highway system Act, after consulting with the boards of county road commissioners in affected counties, the cost of initial county or secondary road construction or improvement needed for the construction or operation of the super collider.

The Commission would be required to provide information and assist individuals in areas affected by the construction

and operation of the SSC in obtaining job training for work associated with the super collider.

A property owner whose property was acquired for the super collider could retain improvements for removal from the site at salvage value. A salvage value would be prepared by the Commission at the request of the owner.

The Department of Commerce would be required to promulgate emergency rules to implement the bill.

MCL 3.813 et al.

Legislative Analyst: S. Margules

FISCAL IMPACT

The bill contains several provisions that would have a fiscal impact on State government. The exact extent is indeterminate at this time; however, estimates on several of these provisions are as follows:

- 1) Reimburse local units of government for taxes lost due to the removal of property from the tax rolls—the exact State equalized valuation of the property that would be removed from the rolls will not be known until the land surveys, title searches, etc. are complete. Using half of the estimated fair market value of the real property that would be purchased by the State as an estimate of the SEV (approximately \$20.0 million), the approximate tax base loss would be \$100,000 FY 1988-89, \$575,000 FY 1989-90, and \$625,000 for each subsequent fiscal year continuing until the SEV of the real property exceeded the SEV prior to the loss of tax base. The total cost of this provision would be approximately \$3,175,000.

This estimate is based on the following assumptions:

- a) As the properties are transferred to the Federal Department of Energy (DOE)—one quarter of the land in each of four separate installments—each quarter of the land transferred is worth one quarter of the SEV (ex: total SEV of \$20.0 million means \$5.0 million is transferred in each of four quarters).
- b) The properties are removed from the tax rolls an average of one and one-half months prior to the transfer to the DOE.
- c) One quarter of the properties is transferred to the DOE on the first day of each of the following months: June 1989, September 1989, December 1989, and March 1990 (although the Federal DOE moved back the land transfer time table by eight to nine months, the SSC Commission is committed to the earlier dates listed here.)
- d) The requirement would end as of September 30, 1994.
- 2) Issue purchase options for all real property at 5% of the property's fair market value or \$500 minimum—the exact fair market value of the property will not be known until the land surveys, title searches, etc. are complete. The Department of Commerce (DOC) estimates this provision's fiscal impact would be approximately \$1.0 million, which is 5% of the estimated fair market value (\$20.0 million). This estimate assumes the \$500 minimum provision would have little or no impact on the \$1.0 million estimate.
- 3) Pay sellers all reasonable relocation costs—the DOC estimates that 160 homeowners would be relocated at a cost of \$15,000 per family which is the Department of Transportation (DOT) maximum relocation allowance. The DOT maximum of \$15,000 per family does not cover all of the expenses the State would pay as provided by this bill; however, it is a reasonable

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estimate as applied to the provisions of this bill. Using \$15,000 per family, the relocation costs would be approximately \$2,400,000.

- 4) Purchase underground stratified fee rights as well as options to purchase those rights at \$5/70,000 cubic feet for the rights and \$1/70,000 cubic feet for the options—underground rights would need to be purchased only for approximately 26.5 miles of the tunnel's 53 miles, according to the DOC, and also for the "wings" off the sides of the main campus area. This would cost approximately \$1 million (70,000 cubic feet = 1 linear foot x 1,000 feet wide x 70 feet high—5280 linear ft./mile x 26.5 miles x \$6/linear foot for options and underground rights + additional for the "wings").
- 5) Pay cost of initial county or secondary road construction for improvements required—according to the DOT, applying its current average cost/mile experience to an estimated 90 miles of local road upgrades that would be required generates a cost of \$10,700,000 in current dollars for local road upgrades. Since most of these roads would not be improved until after the heavy construction trucks were no longer traveling on them (approximately 1992), according to the DOT, inflation factors could increase the current costs by as much as 25%.
An additional \$4 million would be required to relocate M52 and M106 to loop around the west side of Stockbridge to divert traffic from downtown Stockbridge. This would bring the total estimate of road construction/improvement for the project to \$14,700,000, before inflation.
- 6) Purchase all real property necessary for the construction and operation of the SSC at the fair market value of the property—the exact fair market value of the real property necessary to be purchased is not known at this time. The DOC estimates the fair market value of the real property to be purchased for the SSC at approximately \$20 million, as follows:

7540 acres @ \$1,000/acre	=	\$ 7,540,000
163 homes @ \$70,000/home	=	11,410,000
53 mobile homes @ \$15,000/home	=	795,000
TOTAL		\$19,745,000

- 7) Provide a farmland equity adjustment payment to a property owner of real property greater than five acres equal to 50% of the fair market value of the real property less the homestead improvements—the average fair market value of the real property is \$1,000/acre. The Commission estimates that 7,540 acres would be acquired in fee simple. At 50% of the fair market value, the farmland equity adjustment payment would be \$500/acre. This provision would cost the State \$3,770,000 (7,540 acres x \$500/acre).
- 8) Offer to purchase an entire parcel of property if the acquisition of a portion of the parcel would destroy the practical value or utility of the parcel or reduce the fair market value of the entire parcel by more than 50%—the engineers for the land acquisition contract, Gilbert/Commonwealth, could not provide an estimate of the amount of additional real property the State would possibly be required to purchase under this provision. The cost could theoretically be in the millions of dollars.
- 9) Provide information and assist individuals in areas affected by the construction and operation of the super collider in obtaining job training for work associated with the super collider—this provision does not indicate that the super collider Commission would have to pay for the training but would only provide information and

assistance; therefore, this provision would have a minimal indeterminate fiscal impact.

- 10) Purchase property on a deferred payment schedule, at the seller's option, and pay interest on the balance—this provision would have no fiscal impact on the State because the interest paid is at the same rate of return as the State's common cash fund.
- 11) Allow a property owner whose property was acquired for the SCC to retain improvements for removal from the site at salvage value—this provision would have little, if any, fiscal impact on the State. The exact fiscal impact is indeterminate.
- 12) Provide an ombudsman to reconcile grievances between the State and any person aggrieved by the planning, construction, or operation of the SSC—Ms. Michelyn Pasteur, Director of Local Development Services was appointed as ombudsman for the SSC. If Michigan is selected as the SSC site, local Development Services would have to add staff to handle grievances. The Bureau would probably add 1.0 FTE at a cost of approximately \$50,000 annually to the State. Assuming this FTE would be required for five years, the total fiscal impact of this provision would be \$250,000.

The total fiscal impact on the State of the preceding provisions would be \$46,295,000 not including the additional cost of purchasing an entire parcel of land if only a portion were needed, and the minimal training costs. These estimates may change as the timing of the project changes, or inflation becomes a factor, and as more information is known.

The fiscal impact of this bill on local government is indeterminate. The local governments would benefit by the State payments to make up their tax base loss. That amount they otherwise would lose is estimated to be \$3,175,000.

Fiscal Analyst: J. Schultz

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.