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BILL ANALYSIS

Senate Fiscal Agency

Lansing, Michigan 48909

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**Senate Bill 788 (Substitute S-1)**

Sponsor: Senator Nick Smith

Committee: Appropriations

Date Completed: 4-18-88

**SUMMARY OF SENATE BILL 788****(Substitute S-1):**

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

- Require the super collider Commission to purchase real property and subterranean rights, and options on property and rights, necessary for the super collider.
- Require the State to reimburse local units of government for taxes lost due to the removal of property from tax rolls.
- Provide for mediation of disputes over individual loss or injury due to an action of the Commission.
- Appropriate to the Commission for the fiscal year ending September 30, 1988, the sum of \$750,000 for the purchase of options on real property and rights-of-way necessary for the construction and operation of the super collider.
- Require an appropriation to cover payments in lieu of taxes.
- 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 effective July 1, 1991.

**Purchase of Real Property**

The bill would require the super conducting supercollider Commission to purchase all real property necessary for the construction and operation of the super collider at an equity value price greater than the current market value of each parcel or part of a parcel of land. If the Commission needed only part of a parcel, it would have to offer to purchase the remainder for its current market value. If the property owner and the Commission agreed, however, the Commission could purchase only the needed portion.

The Commission also would have to purchase options on all parcels of land necessary for the super collider at 100 of the State equalized valuation (SEV) of the property. The option price could not be applied against the purchase price of the property if the option were exercised. The terms of the option would have to provide that the option would extend for one year after the Federal government committed to funding the super collider in this State but could not exceed two years after the date the option was entered. The option agreement also would have to provide that the option would terminate immediately if the State is not chosen as the site for the super collider. After an option was terminated, the State would have to clear the title to the property as it related to the option.

If the Commission purchased a parcel, it would have to pay the seller all of his or her relocation costs, including transportation, temporary housing, business interruption allowances, and agricultural production losses.

"Equity value" would mean the highest value of the property as determined by one of the following methods of valuation:

- A value established by the Commission.
- The highest one-year average value of similar real property in the vicinity of the property in any calendar year since January 1, 1978.
- A value determined by mediation as proposed in the bill.
- A value determined by a court of law if the value were contested.

At the seller's option, the Commission would have to purchase property on 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. A deferred payment agreement would be assignable.

The Commission would be required to purchase stratified fee, underground, or subterranean rights necessary for the construction or operation of the super collider at a price of \$5 per linear foot or \$5 per 1,000 square feet, or at a higher price based on a formula developed by the Commission. The Commission also would have to purchase options on such rights for \$1 per linear foot or \$1 per 1,000 square feet. 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.

**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 super collider, 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 made in lieu of taxes would have to continue for five years after the bill took effect or until the SEV of the real property within the local unit exceeded the SEV of

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the real property that existed within the local unit on the bill's effective date, whichever was later.

The bill would require an appropriation from the General Fund of a sum sufficient to meet the expenditures necessary to carry out these requirements.

### Mediation

If a person alleged that he or she had suffered or would suffer a loss or injury due to an action or proposed action of the Commission, the person could make a written request to the Department of Commerce that the action be submitted to a mediation panel for resolution. The panel would consist of one individual selected by the person, one selected by the Commission, and one selected jointly by the person and the Commission. The Department would have to maintain and make available upon request a list of individuals who had experience and expertise in dispute resolution and who would be appropriate to sit on a mediation panel.

The panel would have to set a date, time, and place for a mediation conference, which would have to take place within 30 days after the request had been received by the Department. The parties or their representatives would have to attend the conference and submit their position orally or in writing. The panel would have to discuss the differences with the parties or their representatives and assist in settling the differences. After the conference, the panel would have to determine a fair and equitable resolution to the dispute. A mediation determination could be appealed to a court of law.

All costs of mediation would have to be borne equally by the person requesting mediation and the Commission.

### Other Provisions

The bill would require the State to pay, through legislative appropriation, 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 super collider in obtaining job training for work associated with the super collider.

MCL 3.813 et al.

Legislative Analyst: S. Margules

## **FISCAL IMPACT**

The bill contains several provisions which 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 governments 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 portion of the \$30 million capital outlay budget which would be used to purchase the real property (approximately \$23.4 million) as an estimate of the SEV, the approximate tax base loss would be \$125,000 FY 1988-89, \$675,000 FY 1989-90, and \$725,000 for each subsequent fiscal year continuing for a total of five years or until the SEV of the real property

has exceeded the SEV prior to the loss of tax base. The total cost of this provision would be approximately \$3,700,000.

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 \$23.4 million means \$5.85 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.
- 2) Issue purchase options for all real property at 10% of the property's State equalized valuation—the exact SEV 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 \$1.17 million, which is 10% of half of the portion of the \$30 million capital outlay budget, which would be used to purchase the real property (\$23.4 million) as an estimated SEV. This bill would appropriate \$750,000 for the purchase of options on real property and rights-of-way.
  - 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 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 stratified fee, underground, or subterranean rights as well as options to purchase those rights—underground rights would only need to be purchased 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 (5280 ft./mile x 26.5 miles + \$6/linear foot for options and underground rights + additional for the "wings").
  - 5) Pay cost of the 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.
  - 6) Purchase all real property necessary for the construction and operation of the super collider at an "equity value" price that is greater than the current market value—the

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average equity value price for an acre has not yet been established; however, according to the DOC, preliminary estimates of equity value have been \$1100/acre compared to a market value of approximately \$700/acre. This would increase the State's cost to purchase approximately 8,000 acres of land on a fee sample basis by \$3,200,000 (8,000 acres x \$400/acre). Adding the \$3.2 million to DOC's estimate of real property market value of \$23.4 million, this provision would cost the State \$26.6 million.

One of the proposed definitions of "equity value" states that it is "the highest one year average value of similar real property in the vicinity of the real property in any calendar year since January 1, 1978". The land acquisition contract provides for an appraisal of property at its current market value. If the contract firm were required to appraise property for each of the 10 years and offer the highest value, the appraisal costs would increase from approximately \$810,000 to up to 10 times that amount. If the property owner, not the contract firm, were required to research this history, however, it would have minimal or no fiscal impact.

- 7) Offer to purchase an entire parcel of property if only a portion is needed (or purchase only the needed portion if the owner and Commission agree)—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.
- 8) 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 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.
- 9) Cost of mediation to be shared equally by the State and the party requesting the mediation—according to the DOT, between 20% and 40% of the property it tries to purchase for roadways is condemned because the owners do not agree with the price on the State's purchase offer. Assuming 40% of the approximately 800 property owners involved in the super collider project did not agree with the State's price, mediation would be requested by 320 property owners. Fees paid for mediation are usually \$75/case/party. The 320 cases at \$75 cost to the State would total \$24,000.
- 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.

The total fiscal impact on the State of the preceding provisions would be \$49,594,000 not including the additional cost of purchasing an entire parcel of land if only a portion were needed, the additional appraisal costs if it were necessary for the land acquisition contract firm to appraise properties for the last 10 years to determine the highest value in that time frame, 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 \$3,700,000.

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.