SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 899 (Substitute S-2 as passed)
Senate Bill 902 (Substitute S-1 as passed)
Senate Bill 903 (as passed)
Senate Bill 904 (as passed)
Senate Bill 906 (as passed)
Senate Bill 907 (Substitute S-1 as passed)
Senate Bill 908 (as reported without amendment)
Senate Bill 987 (Substitute S-3 as passed)
Sponsors: Senator Doug Cruce (S.B. 899)
Senator Fred Dillingham (S.B. 902, 903, & 906)
Senator John Engler (S.B. 904)
Senator Harmon Cropsey (S.B. 907)
Senator Robert Geake (S.B. 908)
Senator Nick Smith (S.B. 987)
First Committee: Human Resources and Senior Citizens
Second Committee: Finance (S.B. 899, 903, 904, & 987)

Date Completed: 11-29-88

RATIONALE

It is generally acknowledged that the availability of decent, safe, affordable housing directly affects the stability of families, the growth and development of neighborhoods, and the economic vitality of communities throughout the State. It is also generally acknowledged that decent, safe, affordable housing is quickly becoming unavailable to larger and larger segments of the population. Various reasons have been given for the current shortage of acceptable housing, including: the reduced Federal role in housing policy and concurrent reductions in funding for housing projects; passage of Federal legislation that has removed many incentives to real estate developers to construct residential multifamily housing projects, particularly those designed for low-income tenants; increased land prices; increased construction costs; high interest rates; deteriorating public housing projects; and urban renewal programs gone awry.

To determine the nature and scope of the housing problems in Michigan, the Senate Human Resources and Senior Citizens Committee conducted a series of public hearings and meetings, and issued its findings in a report published in May 1988. A special ad hoc committee in the House of Representatives also studied the problem of housing in Michigan and in its report printed in 1987 documented some of the same findings made by the Senate Committee.

Both reports note that the responsibility for administering programs and policies which affect housing is spread among 11 State departments and a myriad of agencies, and that this dispersion of responsibility makes it difficult to identify and address problems, or ensure that the needs of all client groups are being met, and that programs and policies complement, rather than conflict with, each other. Both reports stress the need for a central entity that would be charged with the responsibility of developing and coordinating the implementation of a long-term State housing plan.

Both reports also recommend that greater assistance be given to nonprofit housing organizations, which rehabilitate "problem" properties for occupancy by low-income families, the elderly, the handicapped, and the homeless. Although some of the organizations have been able to obtain loans from local lending institutions, their work reportedly is hampered by a lack of direct assistance for development grants, working capital loans, and long-term low-cost capital to facilitate nonprofit sponsored development of housing.

To ensure that quality housing stock continues to be available, it was also suggested that efforts be made to ensure that real estate developers and homeowners in distressed areas have sufficient incentive and assistance to construct and maintain quality housing.

As one report states, however, "an adequate supply of affordable housing alone will not eliminate the problem of the homeless because homelessness often results from social or psychological disorders. Many are homeless because of domestic abuse, mental illness, child abuse or neglect, and substance abuse and will continue to need temporary shelter while the social and psychological problems leading to homelessness are being addressed". It has been suggested, therefore, that efforts should be made to ensure that adequate temporary housing is available to the State's homeless. Also, it is recommended that attempts be made to reduce the incidence of homelessness and one way to accomplish this, according to some, is to ensure that those who reside in projects with expiring Federally subsidized mortgages are given ample notification if the project is to be sold or converted to private condominiums so that the residents may find suitable alternative housing.

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Finally, it was noted that even if housing stock were more than sufficient in quantity and quality to meet the housing demand in Michigan, many would still be homeless or living in inadequate housing because they could not generate the sizable down payments generally necessary to purchase a home...reportedly the biggest obstacle to home ownership. Additional financial mechanisms are needed, some claim, if home ownership is to increase.

In summary, many feel that if the findings and recommendations of the committee reports are implemented, i.e., the State takes a coordinated approach to addressing the housing problems and efforts are made to increase home ownership, improve existing housing and shelters, and promote the construction of new affordable housing, the rapid deterioration of many neighborhoods could be stopped and communities could be revitalized.

CONTENT

Senate Bill 906 would create the Office of Housing and the Housing Commission to coordinate all State activities related to housing, and to review and make recommendations on the State's housing policy.

Senate Bill 904 would allow taxpayers to claim a single business tax credit for contributions to nonprofit community housing corporations.

Senate Bill 902 (S-1) would create a Homeless Shelter and Housing Rehabilitation Fund for rehabilitation grants to homeless shelter providers and nonprofit community housing corporations and for rehabilitation loans to owners of housing in eligible distressed areas.

Senate Bill 903 would allow taxpayers to designate $5 of their income tax refund for the Homeless Shelter and Housing Rehabilitation Fund.

Senate Bill 908 would extend the expiration date for the issuance of commercial housing facilities tax exemption certificates.

Senate Bill 907 (S-1) would expand the class of persons protected against termination of tenancy in condominium conversion projects.

Senate Bill 899 (S-2) would establish a Home Equity Fund for loans to first-time home buyers to finance the down payment on the purchase of a home.

Senate Bill 987 (S-3) would provide for the establishment of home purchase accounts for the first-time purchase of a home, and allow a tax deduction for money deposited in such an account.

Coordinated State Housing Plan

Senate Bill 906

The bill would create the Housing Commission Act to establish the Office of Housing within the Department of Commerce and a Housing Commission within the Executive Office of the Governor to coordinate all State activities related to housing and to review and make recommendations on the State's housing policies.

Office of Housing

The Office of Housing, created within the Department of Commerce, would exercise its powers and functions, including budgeting, procurement and management-related functions, as an autonomous entity, independent of the Director of the Department. The Office would be required to do all of the following:

- Be primarily responsible for coordinating all State activities related to housing.
- Cooperate with State and Federal agencies and receive funds for any housing-related purpose.
- Serve as a clearinghouse for the collection and distribution of information on housing.
- Make necessary contracts incidental to the performance of its duties and execution of its policies.
- Evaluate the effect of State and Federal statutes on housing and recommend to the Governor and the Legislature appropriate changes.
- Make recommendations to the Governor and the Legislature on budget and grant requests for housing programs.
- Establish an appeals procedure, subject to approval by the Commission, which would not be limited to denials of funding.
- Provide technical assistance to State and local agencies in planning, program development, administration and evaluation, and encourage, promote, and aid in the creation of safe, affordable quality housing.
- Evaluate, in cooperation with appropriate State departments and agencies, the effectiveness of public and private policies which affect housing in Michigan and are funded by Federal, State, local and private resources.
- Establish an educational and public information program to foster public understanding of housing problems; provide information on housing programs available to assist persons in this State; and encourage the development of private and public community programs to improve the quality of housing in Michigan.
- Establish demonstration housing programs in selected communities in the State. The programs would be established to demonstrate and test the effectiveness of the programs, stimulate continued support for the programs, and create new housing services using Federal, State, local or private funds and resources.
- Develop a comprehensive annual State housing plan with yearly updates regarding the housing priority needs of Michigan as well as recommendations for future action, and serve as the single State agency responsible for supervising and administering the plan. The Office would be required to submit an annual report to the Governor and the Legislature by January 31, detailing the progress of the Office and the Commission in implementing the plan.
- Pursue and receive on behalf of the State any grant or gift made for the purpose of improving housing in Michigan, and accept any grant or gift so that title would pass to the State. All grants and gifts would be deposited with the State Treasurer and used for the purposes set forth in the grant or the gift if those purposes were within the powers that would be conferred on the Office and the use were approved by the Legislature. If the use were not approved, the grant or gift would revert to the donor or the donor's administrator or "assigns".

The Office, in consultation with the Housing Commission, could promulgate rules to implement the bill according to the Administrative Procedures Act.

The Governor, with the advice and consent of the Senate, would appoint a director of the Office who would serve as a special assistant to the Governor on the problems of housing in the State. The Director would be exempt from the State classified civil service and would receive compensation as provided by the Legislature. The Director or his or her designee would serve as Office liaison to the Housing Commission.

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Housing Commission: Powers and Responsibilities

The Housing Commission would be required to do all of the following:

- Advise the Governor, the Legislature and the Office of Housing concerning the coordination and administration of State housing programs.
- Make recommendations to the Governor and the Legislature regarding changes in Federal and State housing programs, statutes, and policies.
- Participate in preparing, approving and reviewing the State housing plan.
- Review and approve grants to be made from State, Federal, or other funds administered by the Office.
- Review and advise the Governor and the Legislature on the State's policies concerning housing.
- Participate in the development of and approve the statements and reports required in connection with the development of the annual State housing plan.
- Convene public meetings or hearings to identify and discuss issues or concerns relating to housing.
- Establish additional specialized advisory committees as needed.
- Establish policies pertaining to implementation of Federal and State statutes involving funds administered by the Office.
- Provide adequate and effective opportunities for interested persons and advocates to express their views on housing policy development and housing program implementation.

The Commission could make and enter into contracts and agreements necessary or incidental to the performance of its duties and the execution of its powers, subject to the following limitations:

- A Commission member could not participate in the selection, award, administration, or approval of a contract or grant if, to his or her knowledge, any of the following persons or organizations had a financial interest in the contract: a Commission member or the member's partner, a member of the Commission member's immediate family, an organization in which any of the persons previously mentioned was an officer, director or employee; or a person or organization with whom any of the persons previously mentioned was negotiating or had any arrangement concerning prospective employment.
- Commission members would be required to make known a potential conflict of interest before a vote regarding a contract or approval of a grant by the Office of Housing.
- A Commission member would be required to abstain from discussing a relevant motion, making a recommendation, or voting in regard to a contract, grant or policy if his or her personal or business interest were involved.

Commission Membership

The seven members of the Housing Commission would be appointed by the Governor with the advice and consent of the Senate. Three of the members would have to be appointed from a list of candidates provided by the Senate Majority Leader and two members would have to be appointed from a list provided by the Speaker of the House of Representatives. Members of the Commission would serve staggered three-year terms and any vacancy on the Commission would be filled in the same manner as the original appointment. A chairperson would be elected annually from among the membership. Members of the Commission could be removed from office by the Governor in accordance with Section 10 of Article V of the State Constitution, which provides for the removal or suspension of public officers. Commissioners would be entitled to per diem compensation as established annually by the Legislature and to actual and necessary traveling and other expenses incurred in the performance of official duties in accordance with the standard travel regulations of the Department of Management and Budget.

The Commission would be required to hold regularly scheduled meetings. Special meetings could be held at the call of the chairperson or four members of the Commission. Written notice of special meetings would have to be mailed to each Commissioner at least 10 days before the date of the special meeting. Four members of the Commission would constitute a quorum for the transaction of business.

The Commission would be subject to the Open Meetings Act and the Freedom of Information Act.

NonProfit Housing/Homeless Shelter Fund

Senate Bill 904

The bill would amend the Single Business Tax Act to allow taxpayers to claim as a single business tax credit 50% of the amount they contributed during the tax year to nonprofit community housing corporations, up to $5,000 or 5% of their total tax liability for the year, whichever was less. The credit provided by the bill would not be refundable and the State Treasurer could not pay a taxpayer any amount by which the credit exceeded his or her tax liability, either before or after other credits were subtracted from the liability.

The term "nonprofit community housing corporation" would apply to an organization incorporated under the Nonprofit Corporation Act that provided in its articles of incorporation all of the following:

- That the corporation was organized exclusively to provide housing facilities for individuals whose income did not exceed the limits established by the Michigan State Housing Development Authority (MSHDA).
- That all of the corporation's income and earnings would be used exclusively for corporate purposes and no part of the net income or net earnings of the corporation would inure to the benefit or profit of a private individual, firm, corporation, partner or association.
- That the corporation was not controlled by, under the direction of, or acting in the substantial interests of a private individual, firm, partnership, or association seeking to derive profit or gain from the corporation or to eliminate or minimize losses in any dealing or transaction with the corporation.

Proposed MCL 208.38c

Senate Bill 902 (S-1)

The bill would amend the State Housing Development Authority Act to create a Homeless Shelter and Housing Rehabilitation Fund within the Department of Treasury and require the Department to credit the Fund with deposits of proceeds from the State income tax designations taxpayers could make under the provisions of Senate Bill 903. The Fund would be a revolving fund and any deposits made by the State Treasurer to the Fund, interest earned by the Fund, appropriations, repayments from loan recipients, and other money available to MSHDA for the purpose of the Fund would be available for rehabilitation grants to homeless shelter providers and nonprofit community

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housing corporations and for rehabilitation loans to owners of housing units located in eligible distressed areas. The bill is tie-barred to Senate Bill 903.

Definitions

The term "homeless shelter provider" would apply to a nonprofit entity that at a minimum furnished without charge, daytime or overnight lodging on a temporary basis for homeless persons. A "homeless person" would be an individual with one or more of the following: no fixed mailing address, no fixed and regular day or nighttime residence, or a temporary accommodation in the residence of another or in a place not designed or ordinarily used as a regular sleeping accommodation for humans. An "owner" would be an individual who owned or was purchasing a homestead under a mortgage or land contract; owned or was purchasing a dwelling situated on the leased lands of another; and/or was a tenant-stockholder of a cooperative housing corporation. The term "rehabilitation" would refer to all or part of those repairs and improvements necessary to make real property safe, sanitary, and in compliance with applicable building and safety codes. A "nonprofit community housing corporation" would mean an organization incorporated under the Nonprofit Corporation Act that provided for all of the following in its articles of incorporation:

- The corporation was organized exclusively to provide housing facilities to individuals whose incomes did not exceed the limits established by the bill.
- All income and earnings of the corporation would be used exclusively for corporate purposes.
- The corporation was not controlled by or acting in the interests of anyone seeking to profit from the corporation or eliminate or minimize losses in any transactions with the corporation.

(Note: The term "eligible distressed area" is not defined in the bill but is defined in the Act. MCL 125.1411)

Eligibility Criteria

A homeless shelter provider or an entity desiring to operate as a homeless shelter opertor would be eligible for a grant if all of the following requirements were met:

- The provider demonstrated either that the shelter needed rehabilitation and the proposed rehabilitation would meet applicable building and safety code standards or that it could provide additional beds if awarded an operating grant.
- The provider or entity agreed to operate and maintain itself as a homeless shelter provider for not less than three years if the grant were for less than $20,000 or for not less than five years if the grant were for $20,000 or more.
- The provider met any other requirements MSHDA considered proper.

A homeless shelter provider could not receive grants totaling more than $100,000 during a fiscal year of MSHDA.

A nonprofit community housing corporation would be eligible for a grant if it demonstrated to the satisfaction of MSHDA that the purpose of the grant was consistent with the purpose of the corporation.

An owner of a housing unit would be eligible for a loan if the unit were located in an eligible distressed area, in need of rehabilitation, and the principal residence of the owner, and the owner met any other requirements that MSHDA considered proper. A loan to an owner could not exceed 70% of the State equalized value of the housing unit or $20,000, whichever was less.

The total amount of the loans awarded to owners of housing units could not exceed 40% of the amount in the Fund available for loans and grants as determined by MSHDA on December 31 of the year for which the tax designations were made. The total amount of the grants awarded to homeless shelter providers and entities wishing to operate as providers could not exceed 25% of the amount available for grants and loans. Grants made to homeless shelter providers and entities wishing to operate as providers would be specifically for the rehabilitation or operation of the provider or entity. All grants would be awarded on a first come-first served basis no earlier than January 1 after the year for which the income tax designations for the Fund were made.

Loan Provisions

Loans would bear an interest rate of 3%. MSHDA would have to retain a second lien on the property rehabilitated by the owner; however, the second lien would not impair the rights of the first mortgage lender. The principal amount of, and the accrued interest on, the loan would be due and payable seven years from the date the loan was made. If the loan were not paid in full at this time, the interest rate would increase to 8%.

MSHDA would be required to execute a loan document with the owner that included all of the following:

- A legal description and street address of the property being rehabilitated by the owner.
- Provisions for repayment of the loan as agreed upon by MSHDA and the owner. MSHDA and the owner could agree that the owner would make minimum payments of principal, if any, and the payment of interest at regular intervals and make the final payment of interest and principal seven years from the date the loan was made.
- Other provisions MSHDA considered necessary.

Application Process

Individuals or other legal entities requesting grants or loans from the Fund would have to file an application with MSHDA and pay any application fees established by rules promulgated by MSHDA. Owners of housing units would have to include on their application the names of all members of the owner's household and the amount of income received by each household member, the legal description and street address of the housing unit being rehabilitated, proof and certification that the owner met all eligibility requirements for the loan, and any other information considered necessary. MSHDA would have to furnish homeless shelter providers, entities wishing to operate as providers, and nonprofit community housing corporations with a form requesting information MSHDA considered relevant to eligibility for a grant, and would have to develop guidelines for evaluating grant applications.

Reports/Rules

MSHDA would be required to submit an annual report to the Department including those items required by the Department, and the Department would have to submit an annual report to the Legislature on the use of the Fund. The Department's report would have to include at least a list and description of the approved grants and loans, other accomplishments of the Fund, and the Department's

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recommendations on the continuation or cessation of, and changes for, the Fund.

MSHDA would be empowered to promulgate rules to implement administration of Fund.

Proposed MCL 125.1424f-125.1424o

Senate Bill 903

Senate Bill 903 would amend the Income Tax Act to allow a person to designate $5 of his or her income tax refund for the Homeless Shelter and Rehabilitation Fund that Senate Bill 902 would establish within the Department of Treasury. If a joint return were filed, each spouse could designate that $5 of the spouse's refund be paid to the Fund. The designation would have to be clearly and unambiguously printed on the first page of the State individual income tax return.

In spite of any other allocations and disbursements required under the Income Tax Act, an amount equal to the cumulative designations made under the bill minus the amount appropriated to the Department to implement the provisions of the bill, would have to be deposited in the Fund.

Proposed MCL 206.438

Commercial Housing: Tax Exemptions

Senate Bill 908

The bill would amend Public Act 438 of 1976, which provides for the issuance of commercial housing facilities tax exemption certificates, to extend the expiration date for the issuance of the certificates. Currently, a commercial housing facility is eligible for an exemption certificate if construction of the facility began no later than January 1, 1987. The bill would allow facilities whose construction began or would begin before December 31, 1997, to qualify for the certificate. (Under the Act, a city, village, or township may issue tax exemption certificates for new multifamily housing facilities that have at least five units and will be constructed in the municipality's downtown development district. A certificate exempts the structure from local property taxes, but its owner must pay an annual commercial housing facilities tax.)

MCL 207.607

Condominium Conversions

Senate Bill 907 (S-1)

The bill would amend the Condominium Act to extend the class of persons protected against termination of tenancy in condominium conversion projects.

Currently, the Condominium Act requires developers of condominium conversion projects to notify tenants of a proposal to convert their residential units into condominium projects. Generally, the tenants then have the right to remain in their residence for 120 days after receiving notice of the planned conversion or until their lease expires, whichever is longer. Senior citizens, however, as well as paraplegics, quadriplegics, hemiplegics, and blind persons are protected from having their tenancy terminated without cause for one year after they receive notice of the proposed conversion. The bill would extend this one-year protection provision to include deaf persons and persons whose gross household income is less than 80% of the median income for a family in Michigan as determined by MSHDA.

MCL 559.204a

First-Time Home Buyers

Senate Bill 899 (S-2)

Senate Bill 899 (S-2) would amend the State Housing Development Authority Act to establish a Home Equity Fund in the Department of Treasury for the purpose of providing loans to first-time home buyers to finance the down payment on the purchase of a home, and provides that the Fund would be financed in part with the proceeds of an income tax imposed on State Lottery winnings. The bill would repeal Section 34 of Public Act 239 of 1972, which specifies that no State or local taxes may be imposed on the proceeds from a prize awarded by the State lottery.

Specifically, the bill would create a Home Equity Fund within the Department of Treasury and to require the State Treasurer to credit the Fund with deposits of proceeds from the tax imposed by the Income Tax Act on prize money awarded under the Lottery Act. The Fund would be a revolving fund and any deposits made by the State Treasurer, repayments to the Fund, interest earned by the Fund, and other money available to MSHDA for the purpose of the Fund, including negotiable bonds and notes issued by MSHDA, would be available for future loans to first-time home buyers to finance the down payment on the purchase of a home. The term "first time home buyer" would mean either an individual who for the first time was purchasing a home as his or her principal residence or, if there were more than one purchaser, at least one of the purchasers who for the first time was purchasing a home as a principal residence.

The disbursement of money from the Fund would have to be made at the time of the closing of the financing to the first-time buyer; the disbursement, however, could not include closing costs on the purchase of a home.

The total amount of a loan from the Fund that a first-time home buyer could receive could not exceed 10% of the purchase price of the home or 10% of its appraised value, whichever was less.

Eligibility

A first-time home buyer would be eligible to receive a loan if the buyer were not or would not be receiving assistance from any other State, local or Federal government financing program relating to the purchase of the home, other than the Michigan Mortgage certificate program; the purchase price of the home did not exceed 120% of the median purchase price of a home within the nonmetropolitan county or metropolitan statistical area in which the home was located as determined by the U.S. Department of Treasury; and the buyer met any other requirements MSHDA provided for in promulgated rules. MSHDA could not give special consideration to a buyer based on the type of financing obtained by the buyer or the type of home, age of the home, or location of the home being purchased.

Application

A first-time buyer requesting a loan from the Home Equity Fund would have to file an application with MSHDA and pay any application fees established in rules promulgated by MSHDA. Loan applications would have to include the names of all members of the buyer's household and the amount of income received by each household member, a legal description and street address of the property being purchased, proof and certification that the buyer met the eligibility requirements for a loan, and any other

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information MSHDA considered necessary. MSHDA would have to develop guidelines for evaluating loan applications.

Loan Provisions

Home Equity Fund loans would bear an interest rate of 4%. MSHDA would have to retain a second lien on the property purchased by the first-time home buyer; however, this second lien would not impair the rights of the first mortgage lender. The principal amount of, and the accrued interest on, the loan would be due and payable five years from the date of closing. If the loan were not paid in full at this time, the interest rate would increase to 10%.

MSHDA would be required to execute a loan document with the buyer that included all of the following:

- A legal description and street address of the property being purchased.
- Provisions for repayment of the loan as agreed upon by MSHDA and the buyer. MSHDA and the buyer could agree that the buyer would make minimum payments of principal, if any, and the payment of interest at regular intervals and make the final payment of interest and principal five years from the date of closing.
- Other provisions MSHDA considered necessary.

A first mortgage lender could not discriminate against a first-time home buyer obtaining a loan from the Fund in providing financial assistance to the buyer for the purchase of a home.

Reports/Rules

MSHDA would be required to submit to the Department an annual report that would include those items required by the Department. The Department would have to submit to the Legislature an annual report on the use of the Fund which, at the least, would have to include a list and description of approved loans, other accomplishments of the Fund, and the Department's recommendations on the continuation or cessation of the Fund and for changes in the Fund.

MSHDA would be empowered to promulgate rules to implement the Home Equity Fund.

MCL 125.1425 et al.

Senate Bill 987 (S-3)

The bill would amend the Income Tax Act to provide for the establishment of home purchase accounts and allow taxpayers a tax deduction for money deposited in such an account. The account would be a nontaxable source of funds which an "account holder" could use for the first-time purchase of a home, i.e., a house, condominium, or unit in a cooperative housing corporation. The term "account holder" would apply to an individual, or to spouses if they filed a joint State income tax return, who had not previously owned a home and for whose benefit a home purchase account was created. The bill also would delete a provision allowing tax deductions for unemployment compensation benefits that was effective only for the 1980 tax year.

Specifically, the bill would allow a taxpayer who was an account holder to deposit up to $5,000 plus interest in a home purchase account (or up to $10,000 plus interest if he or she filed a joint income tax return) and deduct that amount from his or her State income tax. If the account holder applied the money in the account to the first-time purchase of a home, neither the principal nor the interest in the account would be considered taxable income. At the time the money was withdrawn, the holder would be required to submit to the Commissioner of Revenue in the Department of Treasury satisfactory proof that the money would be used for the purchase of a home. If the holder failed to apply all the money to the purchase of a home within one year after the first withdrawal from the account, submit the requisite proof to the Commissioner, and use the home as his or her primary residence for at least two years, the total amount accumulated in the account minus any amount that qualified for an exemption under the bill would be considered income to the holder. If the holder complied with the "requisite proof" and "primary residence" requirements but did not apply all of the money toward the purchase of a home, the amount of money actually used to purchase the home would not be income and would not be subject to tax, interest or penalty. If home purchase account money were required to be considered income, the taxpayer would have to pay interest on the tax on the income from the date of the initial deposit in the account until the tax was paid. The taxpayer would also have to pay a penalty equal to 10% of the amount of the income. The Commissioner, however, could waive the penalty if the taxpayer showed that the penalty would cause hardship or was unequitable.

The Commissioner and the Financial Institutions Bureau would be required to cooperate in the creation, supervision, and regulation of home purchase accounts. Further, the Commissioner would be responsible for promulgating rules to implement the bill.

A "home purchase account" would be an account created for the exclusive benefit of an account holder and that complied with the requirement that money in the account not be invested in life insurance contracts or commingled with any other money of the account holder.

FISCAL IMPACT

Senate Bill 906

The bill would have an indeterminate fiscal impact on State and local government. By making some assumptions, an estimate of the fiscal impact on the State can be developed. To summarize, the range of average annual costs to the State, based on the assumptions discussed below, would be approximately $742,524-$1,950,732, and one-time start-up costs would be an additional $150,000-$400,000.

The bill would establish a seven-member Housing Commission. Assuming the seven members of the Housing Commission were paid on a per diem basis consistent with Department of Licensing and Regulation board per diem payments ($50/day + $80/day average travel and miscellaneous expenses), and assuming the Commission met once a month, the cost to the State of the seven-member Commission is estimated at $10,920.

(7 members x $50 per diem x 12 days)	=$ 4,200
plus (7 members x $80/day travel and miscellaneous x 12 days)	= 6,720
	$10,920

The bill also would establish an Office of Housing within the Department of Commerce to perform several functions described under "CONTENT", above. The bill would establish the position of Director for the Office of Housing. Assuming the Director would be paid the same salary as the Director of MSHDA, the annual cost to the State would be $85,000 ($65,000 salary and $20,000 benefits).

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It cannot be determined at this time whether any additional staff would be required for the Office of Housing or whether any staff would instead be transferred from existing programs. Assuming a staffing level of 10-30 additional FTEs for the Office of Housing, detailed as follows, the fiscal impact to the State would be $402,736-$1,208,208.

10 Additional FTEs	Annual Salary		Annual Benefits @ 30% of Salary	
Executive Secretary VI	$ 27,374		$ 8,212	
2x General Clerk IV	49,235		14,771	
3x Departmental Technician IVB	78,300		23,490	
Executive Office Rep. VIII	39,401		11,820	
2x Property Specialist VII	72,036		21,611	
Departmental Administrator IX	43,451		13,035	
	$309,797	+	$92,939	= $402,736

30 Additional FTEs
$402,736 cost for 10 FTEs x 3 = $1,208,208.

If supplies, printing, mailing, data processing, and accounting expenses are estimated at 50% of the salaries and benefits costs of the Office of Housing staff, the total cost of these office functions would be an additional $243,868-$646,604 annually.

One-time start-up costs to the State, estimated at 20% of the total annual Office of Housing costs, would be an additional $150,000-$400,000.

Senate Bill 904

Senate Bill 904 would lead to an indeterminate reduction in General Fund/General Purpose revenues. It is not possible at this time to estimate the number of Michigan firms that would contribute to a nonprofit community housing corporation.

Senate Bill 902 (S-1) & 903

Senate Bills 902 and 903 would have no impact on State income tax revenues but would increase (less administration fees) money available for the Homeless Shelter and Rehabilitation Fund. It is not possible to precisely estimate the number of taxpayers that would designate a portion of their refund to the Fund. In 1987, however, 100,000 taxpayers contributed through the current income tax checkoffs. Assuming a similar number of contributions to the new Homeless Fund would lead to an estimate of Fund revenues of $500,000 per year.

Senate Bill 908

Senate Bill 908 would lead to an indeterminate decrease in local property tax revenue and an increase in State expenditures for in-formula school districts. The State and local fiscal cost is indeterminate since the number of new certificates which would be granted between now and 1997 is not known. Currently, only the cities of Detroit and Port Huron have granted commercial housing facilities certificates.

Senate Bill 907 (S-1)

The bill would have no fiscal impact on State or local government.

Senate Bill 899 (S-2)

The bill would repeal the current exemption of lottery winnings from the State income tax. Assuming that all lottery winnings would be subject to the State income tax leads to an increase in revenue for the Home Equity Fund of $20 to $25 million per year. Restricting the tax to large lottery prizes (i.e., over $600) would generate approximately $5 million per year.

Senate Bill 987 (S-3)

Senate Bill 987 (S-3) would lead to an indeterminate reduction in General Fund revenues. For each home purchase account established with the $5,000 maximum, the initial direct income tax revenue loss to the State would equal $230. Using U.S. census data and SFA assumptions, in 1985 there were an estimated 70,000 first-time home buyers in Michigan. Assuming half of these home buyers set up a home purchase account with the maximum $5,000, leads to an estimated GF/GP revenue reduction of $5-$10 million the first year. Assuming that households added to their account each year at the same time that new accounts were established, the annual revenue loss would increase in future years.

ARGUMENTS

Supporting Argument

The problem of homelessness and the lack of safe, affordable housing are reaching the crisis-level in Michigan just when the Federal government is abdicating most of the responsibility for providing decent housing to the states. The solutions to the housing dilemma proposed by the eight-bill package attempt to use a minimum amount of scarce public funds to generate a maximum amount of private investment in the revitalization and expansion of the State's housing stock.

Response: The housing problem is reaching a critical stage and that is precisely why attempts to alleviate the situation cannot depend on such unreliable funding sources as tax credits for contributions; income tax refund contributions; the proceeds of a State lottery tax that not only does not exist, but has been tapped to fund other programs; tax-free savings accounts; and tax exemption certificates. Further, whenever tax relief is provided to the rich to meet the needs of the poor, the relief is financed by a restructuring of State budget priorities to the detriment of the poor. Arguably, State and local revenue sources cannot and should not fill the gap left by the reduction of Federal funds for housing programs. If the State is serious about addressing the housing problem, however, it cannot rely solely on tax incentives and private contributions to finance the solutions.

Senate Bill 906

Supporting Argument

Senate Bill 906 would address the need to develop a long-term State housing plan with identifiable goals and measurable objectives for meeting the housing needs of low and moderate income persons. The Housing Commission and Office of Housing would help carry out much needed research and development on innovative housing initiatives and strengthen the capacity of local agencies to deliver housing resources. A coordinated approach to the State's housing situation would clarify the responsibilities of the various agencies for delivering services, ensure that all client groups were adequately served, facilitate the resolution of housing problems, and eliminate the possibility of conflicting housing policies.

Opposing Argument

Senate Bill 906 would require only that the seven members of the Housing Commission be appointed by the Governor and that five of the members be chosen from lists compiled served, facilitate the resolution of housing problems, and eliminate the possibility of conflicting housing policies.

Opposing Argument

Senate Bill 906 would require only that the seven members of the Housing Commission be appointed by the Governor and that five of the members be chosen from lists compiled by the Senate Majority Leader and the Speaker of the House of Representatives: it does not specify any educational or experience criteria for the members. To ensure that those who would be evaluating, restructuring, and overseeing the State's housing plan had the necessary background and expertise, and that all relevant interests were represented on the Commission, the bill should include some additional qualifications for Commission members.

<u>Senate Bills 902 (S-1), 903 and 904</u>

Supporting Argument

Senate Bills 902 (S-1), 903, and 904 would help deflect the thrusts of a two-edged sword: the deplorable lack of adequate housing facilities for the homeless and those with low incomes and the deporable abundance of unsafe and unsanitary housing stock. Vacant, vandalized homes and neglected, dilapidated housing projects provide havens for crime and drug use and dangerous playgrounds for neighborhood children. Deteriorating neighborhoods drive down property values, drive out businesses and industry, and perpetuate the physical and economic decay of the community.

Senate Bill 902 (S-1), which would establish the Homeless Shelter and Housing Rehabilitation Fund, would create a mechanism for providing rehabilitation grants and loans to nonprofit housing organizations, homeless shelters and owners of housing units in distressed areas. The bill specifically targets nonprofit housing organizations because they concentrate on turning problem properties into valuable resources through rehabilitation. They are most active in communities not adequately served by for-profit developers and are better able than for-profit developers to secure donations of land and deteriorated buildings from local governments; to "leverage" other sources of financing, property and materials; and to obtain the involvement of low-income persons in construction and rehabilitation efforts. Generally, these organizations survive only on private donations from foundations, churches, and other local organizations and Community Development Block Grant funding and, therefore, their work has been restricted to only a small number of rehabilitation projects. Senate Bill 902 (S-1) and Senate Bill 904, which provides a single business tax credit for contributions to nonprofit housing corporations, would provide another source of revenue so the corporations could not only continue but expand their rehabilitation efforts.

Further, to help decrease the number of properties that are in need of rehabilitation, stop the decay of neighborhoods and communities, and most importantly, protect the health and welfare of the citizens, especially those with low incomes, Senate Bill 902 (S-1) also targets funding for property owners in distressed areas. Reportedly, a substantial percentage of existing housing stock presents serious health and safety risks to the occupants. Every year there are newspaper articles about children and senior citizens who freeze to death in homes without heat or are asphyxiated because of faulty heating equipment, and people who lose their lives in fires caused by faulty wiring, improperly maintained furnaces, and makeshift heaters. By providing for loans to owners to repair and maintain their properties, Senate Bill 902 (S-1) would help ensure the safety of the residents and the integrity of the neighborhood and community.

Rehabilitation of existing housing stock, however, will not alone solve the growing problem of homelessness in Michigan and the persistent need for shelter for the homeless. According to various reports, there are an estimated 33,000 to 90,000 homeless people in Michigan and the number of homeless people has increased by as much as 38% annually during the 1980s. The U.S. Conference of Mayors reported a 25% increase in shelter demand in most cities from 1985-86 but many believe that estimates on shelter demand document only part of the problem since the homeless often find temporary shelter with friends and relatives. To help alleviate the plight of the homeless, Senate Bill 902 (S-1) and Senate Bill 903, which would allow taxpayers to pledge part of their income tax refunds to the Homeless Shelter Fund, would provide for rehabilitation grants to homeless shelter providers <u>and</u> entities wishing to operate as homeless shelter providers. The grants not only would help existing shelter providers make the repairs and renovations necessary to ensure that the shelters were safe, sanitary, and comfortable, but would encourage the rehabilitation of other buildings for use as shelters for the increasing numbers of families, children, elderly, mentally impaired, and others who need a place to stay at least temporarily. Most programs for the homeless now are provided at the local level with partial funding from dwindling Federal and State sources and shelters for families, youth, and single adult women frequently are lacking.

<u>Senate Bill 908</u>

Supporting Argument

By extending the expiration date on the commercial housing tax exemption program, Senate Bill 908 would provide a much needed incentive to developers to continue to construct low-income housing. Without such incentives and with limited State resources and little hope of Federal assistance, the already limited supply of adequate low-income housing will rapidly disappear.

<u>Senate Bill 907 (S-1)</u>

Supporting Argument

Senate Bill 907 (S-1) would require developers to give residents ample notification if their rental units were to sold or converted to condominiums, thus enabling the residents to make other housing arrangements and reducing the chance that the residents would be left homeless and in need of temporary shelter. Many of these residents currently are being displaced because the government subsidized mortgages on these rental housing units are expiring and the owners or developers are choosing to sell the properties.

<u>Senate Bills 899 (S-2) and 987 (S-3)</u>

Supporting Argument

According to information supplied by the Michigan State Housing Development Authority, the rate of home ownership in Michigan is at its lowest level in a decade.

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underwriting criteria, and higher rents which make it difficult for families to save enough for the required down payment and closing costs for purchasing a home. In fact, a study in 1986 by the National Association of Realtors, Home Ownership: Key to the American Dream, found that the inability to make a down payment is the single biggest deterrent to home ownership. Ironically, some claim, the monthly costs of owning a home often are not much more than monthly costs of renting comparable quarters, if only people could afford the initial investment in a house.

Senate Bills 899 (S-2) and 987 (S-3) would provide two much needed mechanisms for first-time home buyers to obtain sufficient funds to finance down payments for homes. The Home Equity Fund that would be created by Senate Bill 899 (S-2) would afford potential home buyers ready access to available capital to purchase homes now while the home purchase accounts that could be established under Senate Bill 987 (S-3) enabled young couples and families to accumulate funds in a tax-free savings account that they could use in the future for a down payment on their first home. By providing a means by which more people could afford to purchase their own homes, these bills would help alleviate the problem of homelessness and the demand for temporary shelters, rehabilitated housing, and low-income rental housing and give persons the incentive to care for and maintain their residences.

Response: Because Senate Bill 899 (S-2) specifies that in order to be eligible for a loan, first-time home buyers could not receive government assistance in purchasing a home (except the Michigan Mortgage Certificate program), the bill effectively would exclude the very people who would benefit most from the loan program, i.e., the low-income residents or working poor who can manage a monthly house payment or qualify for a housing assistance program, but cannot afford the initial down payment. Receipt of additional financing should not be a barrier to those who are almost self-sufficient or have marginal financial security.

Further, since the bill does not include any maximum income limits for eligibility for the loans and specifies a high maximum purchase price limit, the program could end up serving only those with higher incomes and promoting the construction of new housing rather than preserving existing housing and making it available to those with low incomes.

Legislative Analyst: L. Burghardt
Fiscal Analyst: N. Khouri
(S.B. 899, 902-904, 908 & 987)
J. Schultz (S.B. 906 & 907)

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