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SFA**BILL ANALYSIS**

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Senate Bill 1331 (Substitute S-1)

Sponsor: Senator Bill Schuette

Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 12-2-98

CONTENT

The bill would create the "Urban Homestead Act" to provide that a local governmental unit could operate an urban homestead program that would make certain property available to eligible buyers to rent at fair market rental value. If a qualified buyer complied with a lease agreement for at least five years, the local unit could deed the property to the buyer without additional consideration. Rental receipts would have to be used to make loans to qualified buyers for improvement of the property.

Specifically, a local unit, by resolution, could operate an urban homestead program or appoint a nonprofit community organization or the Michigan State Housing Development Authority (MSHDA) to administer the program. ("Local governmental unit" would mean a city, village, township, or county.)

An applicant that met all of the following criteria would be eligible to rent or purchase certain property as a qualified buyer:

- The applicant or his or her spouse was employed and had been employed for the immediately preceding year.
- The applicant or his or her spouse had not been convicted of a drug-related felony within the immediately preceding three-year period, as determined by the administrator (the local unit, nonprofit community organization, or MSHDA).
- All school-age children of the applicant or his or her spouse who would reside in the property attended school regularly, as determined by the administrator.
- The applicant and his or her spouse had income below the median for the State as determined by the U.S. Department of Housing and Urban Development, for families with the same number of members as the applicant and his or her spouse.
- The applicant and his or her spouse were drug-free, as determined by the administrator.

A qualified buyer could apply to the administrator to rent certain property in the local governmental unit. If the application were approved, the qualified buyer and the administrator would have to enter into a lease agreement for the premises. The administrator could add terms and conditions to the agreement.

The administrator would have to charge the fair market value for the premises, as determined by an independent appraiser, who would have to be paid by the administrator. The qualified buyer would be responsible for all utilities and costs of improvements to the premises.

If the qualified buyer complied with the lease for at least five years and continued to meet the criteria for a qualified buyer, and the premises substantially complied with all building and housing codes, the administrator would have to deed that property to the qualified buyer without additional

consideration.

If the local governmental unit acted as the administrator under the bill, the rental receipts would have to be deposited in a separate fund within the local unit's general fund. If the local unit contracted with a nonprofit community organization to act as the administrator, the rental receipts would have to be deposited in a segregated escrow account in a financial institution located in Michigan. If the local unit contracted with MSHDA to act as the administrator, the rental receipts would have to be deposited in a restricted account in the State General Fund.

Rental receipts would have to be used to make loans to qualified buyers in that local governmental unit for the improvement, repair, or rehabilitation of property in the urban homestead program. Loans would have to be made for a term not to exceed 10 years and at a rate of interest not to exceed the qualified loan rate (the interest rate charged for home improvement loans by the Federal Housing Administration). The loan agreement could contain additional terms and conditions as determined by the administrator.

The administrator could solicit funds from any and all sources, public and private, for deposit into the accounts and funds described above.

Every two years, the administrator would have to hire an independent auditor to audit the books and accounts of the urban homestead program operated by the administrator. Upon completion, the audit report would have to be made available to the public.

Legislative Analyst: S. Lowe

FISCAL IMPACT

This bill would allow a local unit of government to contract with the Michigan State Housing Development Authority (MSHDA) to administer the urban homestead program. Although this would increase the administrative responsibilities of the authority including possibly drug testing, the revenue generated from the interest on any loans and through the rent payment restricted funding would most likely offset any fiscal impact this program would have.

Fiscal Analyst: M. Tyszkiewicz