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Senate Bill 343 (Substitute S-1)
Sponsor: Senator Bill Schuette
Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 3-16-99

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 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 for \$1. 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 contract with a nonprofit community organization or the Michigan State Housing Development Authority (MSHDA) to operate and administer the program. In the resolution, the local unit would have to designate whether the local unit, nonprofit community organization, or MSHDA would be the administrator under the proposed Act. The local unit also would have to provide an appeals process to applicants and qualified buyers who were adversely affected by a decision of the administrator. ("Administrator" would mean a local governmental unit, or a nonprofit community organization or MSHDA under contract with a local governmental unit. "Local governmental unit" would mean a city, village, township, or county.)

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

- The applicant or his or her spouse was employed and had been employed for the immediately preceding one-year period or was otherwise able to meet the financial commitments under the proposed Act as determined by the administrator.
- The applicant or his or her spouse had not been convicted of a felony within the immediately preceding one-year period, as determined by the administrator.
- 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.
- The applicant and his or her spouse met all other criteria as determined by the administrator.

The administrator could require substance abuse testing of an applicant and his or her spouse as a condition of entering into a lease agreement. If the applicant or his or her spouse tested positive for substance abuse, then that individual would have to enter into a substance abuse treatment program, as determined by the administrator. The continuing substance abuse treatment and successful completion would have to be part of the lease agreement. The administrator could contract with and seek assistance from the local unit, the State, the Department of Community Health, or any other entity to implement this provision.

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 determine the terms and conditions of the agreement.

The lease agreement would have to provide that if the qualified buyer or his or her spouse were convicted of a felony during the term of the agreement, then the agreement would be automatically terminated 60 days after the conviction.

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 were in substantial compliance 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 for \$1.

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 adjusted prime rate determined in the revenue Act minus one percentage point). The administrator could determine the terms and conditions of the loan agreement.

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: N. Nagata

FISCAL IMPACT

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

Fiscal Analyst: M. Tyszkiewicz
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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.