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SFA**BILL ANALYSIS**

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Senate Bill 344 (Substitute S-1)
Senate Bill 345 (Substitute S-1)
Senate Bill 346 (Substitute S-1)
Senate Bill 347 (as introduced 2-23-99)
Sponsor: Senator Ken Sikkema (S.B. 344)
Senator Bill Schuette (S.B. 345)
Senator Virgil C. Smith, Jr. (S.B. 346)
Senator Bob Emerson (S.B. 347)

Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 3-16-99

CONTENT

Senate Bill 344 (S-1) would create the "Urban Homesteading in Single-Family Public Housing Act", and **Senate Bill 345 (S-1)** would create the "Urban Homesteading in Multifamily Public Housing Act", to permit local governmental units to authorize a housing commission or a nonprofit community organization to operate an urban homestead program that would make public housing available to qualified buyers and resident organizations. After five years, a qualified buyer or a resident organization could be eligible to acquire the property for \$1 or the amount of Federal bonded indebtedness on the property. The Michigan State Housing Development Authority could make loans to qualified buyers and resident organizations.

Senate Bill 346 (S-1) would create the "Urban Homesteading on Vacant Land Act", to authorize a local unit of government to operate an urban homesteading program that would make vacant land available to qualified individuals. After leasing the property for one year, a qualified individual could be eligible to acquire the property for \$1.

Senate Bill 347 would amend Public Act 18 of the Extra Session of 1933 (which authorizes cities, villages, townships, and counties to purchase, construct, operate, and maintain housing facilities) to provide that a housing commission created under the Act would have to adopt rules establishing the operation of homesteading programs under the Acts proposed by Senate Bills 344 and 345.

A more detailed description of Senate Bills 344 (S-1), 345 (S-1), and 346 (S-1) follows.

Senate Bill 344 (S-1)

A local governmental unit, by resolution and subject to Federal and State law, could authorize a housing commission within that local unit or a nonprofit community organization appointed by the commission to operate an urban homestead program in single-family public housing to administer a homesteading program that made single-family public housing properties available to eligible buyers to purchase under the proposed Act. In the resolution, the local governmental unit would have to designate whether the housing commission or the nonprofit community organization would be the administrator under the proposed Act. In the resolution, 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 under contract with a local governmental unit to administer the program. "Housing commission" would mean a housing commission or housing authority as defined under the Housing Cooperation Law, which defines "housing commission" as any housing commission created under Public Act 18 of the Extra Session of 1933. "Housing authority" means any housing authority organized as a corporate and political body that is created by any State law. "Nonprofit community organization" would mean an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code with experience in housing issues and that contracted with a housing commission to administer an urban homesteading program for single-family public housing under the proposed Act. "Single-family housing" would mean "housing accommodations designed as a residence for not more than 1 family".)

An applicant who met all of the following criteria would be eligible to enter into a homestead agreement:

- 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 single-family public housing property attended school regularly, as determined by the administrator.
- The applicant and his or her spouse had income below the median for Michigan as determined by the U.S. Department of Housing and Urban Development (HUD), 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 had met all other criteria as determined by the housing commission.

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 homestead 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 acquire the single-family public housing property. If the application were approved, the qualified buyer and the administrator would have to enter into a homestead agreement for the property. The administrator would have to determine the terms and conditions to 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 homestead agreement, then the homestead agreement would be automatically terminated 60 days after the conviction.

The administrator would have to transfer legal ownership of that single-family public housing property to the qualified buyer for \$1 if he or she were in substantial compliance with the agreement for at least five years, or had resided in the single-family public housing property before the

administrator adopted the urban homesteading program, resided there for at least five years, met the criteria in the agreement, continued to meet the criteria for a qualified buyer, and had otherwise substantially met his or her financial obligations with the commission. If the commission, however, received Federal funds for which bonds or notes were issued and those bonds or notes were outstanding for that housing project, the commission would have to transfer legal ownership to the qualified buyer only upon his or her payment of the pro rata share of the bonded debt on that specific property. The commission would have to obtain the appropriate releases from the holders of the bonds or notes.

The Michigan State Housing Development Authority (MSHDA) could provide loans to qualified buyers who were required to pay the pro rata share of the bonded debt on the single-family public housing. The rate of interest on these loans could not exceed the qualified rate (the adjusted prime rate determined under the revenue Act minus one percentage point, as determined by the Department of Treasury). The Authority would have to determine the terms and conditions of the loan agreement. Loans made by MSHDA could be prepaid or paid off at any time without penalty.

If a waiver of Federal law, rule, or policy were needed to implement the bill, the housing commission and MSHDA would be required to work together to obtain the appropriate waivers from the appropriate Federal authorities.

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

Senate Bill 345 (S-1)

Under the bill, a local governmental unit, by resolution and subject to Federal and State law, could authorize a housing commission within that local unit to operate an urban homestead program in multifamily public housing to administer a homesteading program that would make multifamily public housing properties available to resident organizations and qualified buyers to purchase. In the resolution, the local governmental unit also would have to provide an appeals process to applicants and qualified buyers who were adversely affected by a decision of the housing commission or resident organization. ("Housing commission" would mean a housing commission or housing authority as defined under the Housing Cooperation Law. "Resident organization" would mean a group of residents made up of at least 50% of total residents of a specific

housing project who contracted with a housing commission to manage that housing project for at least five years with the intent to acquire legal ownership of the project. "Housing project" would mean that term as defined under the Housing Cooperation Law, that was not specifically designed for the elderly or handicapped or more than 50% occupied by the elderly or handicapped. (The Housing Cooperation Law defines "housing project" as any work or undertaking of a city or incorporated village or housing commission pursuant to Public Act 18 of the Extra Session of 1933, or any similar work or undertaking of a housing authority or of the Federal government.) "Multifamily housing" would mean housing accommodations designed as a residence for more than one family.)

A resident organization in a housing project that contracted with a housing commission to manage the housing project would acquire the housing project after not less than five years, if the organization successfully managed the project, and each member of the organization met the criteria for a qualified buyer. The commission would have to pay all management fees and operation subsidies that it received for the project to the resident organization to manage the property. The organization could apply to MSHDA for grant funds for management training and counseling, which could be provided by nonprofit community organizations and similar organizations.

If the resident organization had successfully managed the housing project, and all members of the organization met the qualified buyer criteria, the housing commission would have to transfer legal ownership to the organization for \$1. If the housing commission, however, received Federal funds for which bonds or notes were issued and those bonds or notes were outstanding for that housing project, the commission could transfer legal ownership to the resident organization only upon its payment of the bonded debt. The commission would have to obtain the appropriate releases from the holders of the bonds or notes. The organization would have to hold legal ownership of the project in the form of a cooperative housing corporation or a condominium association.

The Michigan State Housing Development Authority could make a mortgage loan to the resident organization of up to 95% of the bonded indebtedness of the housing project. The organization would have to provide the remaining portion of the bonded indebtedness from any legal source.

An applicant who met all of the following criteria would be eligible to enter into a homestead agreement to acquire public housing 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 resident organization.
- 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 resident organization.
- All school-age children of the applicant or his or her spouse who would reside in the multifamily public housing property attended school regularly, as determined by the resident organization.
- The applicant and his or her spouse had income below the median for Michigan as determined by HUD, for families with the same number of family members.
- The applicant and his or her spouse were drug-free, as determined by the resident organization.
- The applicant and his or her spouse met all other criteria as determined by the housing commission.

The housing commission could require substance abuse testing of an applicant and his or her spouse as a condition of entering into a homestead 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 housing commission. The continuing substance abuse treatment and successful completion would have to be part of the homestead agreement. The housing commission 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 resident organization or successor entity to acquire the public housing unit in which the qualified buyer resided. If the application were approved, the qualified buyer and the organization would have to enter into a homestead agreement for the property. The organization would be required to 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 homestead agreement, then the homestead agreement would be automatically terminated 60 days after the conviction.

The resident organization would have to transfer legal ownership to the public housing unit occupied by the qualified buyer to him or her for \$1, if the buyer were in substantial compliance with the agreement and had lived in the property for at least

five years, or had resided in the multifamily public housing property before the organization took ownership, resided in the property for at least five years, met the criteria in the agreement, continued to meet the criteria for a qualified buyer, and had otherwise substantially met its financial obligations with the organization. If the housing commission, however, received Federal funds for which bonds or notes were issued and those bonds or notes were paid off by the resident organization when it acquired legal ownership, the organization could transfer legal ownership to the qualified buyer only upon his or her payment of the pro rata share of the bonded debt on that specific property.

The Michigan State Housing Development Authority could provide mortgage loans to qualified buyers who were required to pay for their unit in the multifamily public housing. The interest rate could not exceed the qualified rate, and the loan agreement would contain terms and conditions as determined by MSHDA. Loans made by MSHDA could be prepaid or paid off at any time without penalty.

For five years after a qualified buyer took ownership of a unit, the resident organization would have a right of first refusal if the buyer wanted to sell his or her unit. During this period, the organization could repurchase the property at fair market price if the buyer sold the unit, but the qualified buyer could not rent out or lease his or her unit or allow any nonfamily member to reside in it.

Housing project residents who resided in the project before the resident organization took legal ownership could continue to reside in the premises under the same terms and conditions as when the property was owned by the housing commission. The Michigan State Housing Development Authority would have to request the Federal government to provide housing vouchers for residents who did not become owners.

If a waiver of Federal law, rule, or policy were needed to implement the bill, the housing commission, MSHDA, and the resident organization would have to work together to obtain the appropriate waivers from the appropriate Federal authorities.

Every two years, the housing commission would have to hire an independent auditor to audit the books and accounts of a resident organization under a management contract to a housing commission. Every two years, a resident organization that had taken legal ownership of a housing project or property that previously was a housing project, would have to hire an independent auditor to audit the books and accounts of the resident organization. Upon completion, the audit reports would have to be made available to the public.

Senate Bill 346 (S-1)

A local governmental unit (a city, village, township, or county) could, by resolution, operate an urban homesteading program for vacant land that would make parcels of vacant property available to individuals to rent and purchase under the proposed Act. In the resolution, the local governmental unit would have to provide an appeals process to applicants, purchasers, and lessees who were adversely affected by a decision of the local unit. ("Vacant property" would mean surplus vacant residential property owned by the local unit.)

An individual who met all of the following criteria would be eligible to rent and purchase vacant property:

- The individual intended to occupy the vacant property by constructing a home on the premises.
- 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 local unit.
- 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 local unit.
- 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 local unit.
- The applicant and his or her spouse had income below the median for Michigan as determined by HUD, 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 local unit.
- The individual met all other criteria as determined by the local unit.

The local unit 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 local unit. The continuing substance abuse treatment and successful completion would have to be part of the lease agreement. The local unit could contract with and seek assistance from the State, the Department of Community Health, or any other entity to implement this provision.

An individual who met the criteria could apply to the local unit to rent a parcel of vacant property in that local unit. If the application were approved, the individual and local unit would have to enter into a lease agreement for the property. The local unit

would have to determine the terms and conditions of the agreement.

The lease agreement would have to provide that if the individual who was renting the vacant property or his or her spouse were convicted of a felony during the term of the lease agreement, then the lease agreement would be automatically terminated 60 days after the conviction.

The local unit would have to charge fair market value as rental for the property. The individual renting the property would be responsible for all utilities and costs of construction and improvements to the property.

The local unit would have to deed the property to the individual for \$1 if he or she were in substantial compliance with the terms of the lease, continued to meet the criteria for a qualified individual, constructed a home, and occupied it for at least one year.

Before placing vacant property into the program, the local unit first would have to offer the property to owners of adjacent and contiguous property who occupied the property. If adjoining landowners did not purchase the property, the local unit could sell it to neighborhood resident organizations or other community groups as determined by the local unit. The local unit would be required to determine the sale price for any sale under this provision.

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

MCL 125.694b (S.B. 347)

Legislative Analyst: N. Nagata

FISCAL IMPACT

Senate Bill 344 (S-1)

Local units that participated in an urban homesteading program would incur administrative costs and would receive rent.

Senate Bill 345 (S-1)

This bill would require MSHDA to request housing vouchers from the Federal government for residents who did not become owners. This could result in the administration of a separate voucher system for individuals residing in these units.

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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.

Local units that participated in an urban homesteading program would incur administrative costs and would receive rent.

Senate Bill 346 (S-1)

Local units that participated in an urban homesteading program for vacant land would incur administrative costs and would receive rent.

Senate Bill 347

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

Fiscal Analyst: M. Tyszkiewicz
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