

Legislative Analysis



HOUSING AND COMMUNITY DEVELOPMENT FUND

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House Bill 4657 (Substitute H-1)

House Bill 4658 (Substitute H-3)

Sponsor: Rep. Steve Tobocman

Committee: New Economy and Quality of Life

Complete to 4-16-08

A SUMMARY OF HOUSE BILL 4657 (H-1) AND HOUSE BILL 4658 (H-3)

House Bill 4658 (H-3) would amend the State Housing and Community Development Authority Act of 1966 (MCL 125.1422 et al.) to expand ways to use the Housing and Community Development Fund, including funding for projects in downtown areas and adjacent neighborhoods, foreclosure prevention and assistance, assistance with individual development accounts, activities related to combating homelessness, technical assistance to certain entities, and predatory lending prevention and relief. The bill would also create an advisory committee and make other general amendments related to the Housing and Community Development Fund. House Bill 4657 (H-1) would repeal the Michigan Housing and Community Development Fund Act (MCL 125.2821 to 125.2829). Following is a description of House Bill 4658.

Uses of the Fund

The act currently provides that the fund shall be used to make grants, mortgage loans, or other loans to eligible applicants to finance any of the following types of activities, for projects for housing or home ownership for low-income, very low income, or extremely low income households. Loans may be made by MSHDA at no interest or below-market interest rates. A portion of the funds is to be expended for "special needs populations," such as homeless people, people with physical or mental disabilities, and people living in rural or distressed areas. Funding for these activities is allowed:

1. Acquisition of land and buildings.
2. Rehabilitation.
3. New construction.
4. Development and predevelopment costs.
5. Preservation of existing housing.
6. Infrastructure improvements, development projects, or community facilities that support housing development.
7. Insurance.
8. Operating and replacement reserves.
9. Down payment assistance.
10. Security deposit assistance.
11. Supportive services.

The bill adds that the fund shall be used for projects located in a downtown area or an adjacent neighborhood. The bill defines "**downtown area**" to mean an area where at least 20 contiguous properties have been planned, zoned, or used for commercial purposes for at least 50 years and where a majority of the buildings are adjacent to each other and abut to the public right-of-way. Further, a downtown area must include "a significant number" of multi-level, mixed-used buildings, and property in the area must be owned by at least three private owners. The bill defines "**adjacent neighborhood**" as a residential area as determined by MSHDA immediately adjoining or near a downtown area within the same municipality.

With respect to projects located in a downtown area or an adjacent neighborhood, the authority must expend its money for a) the acquisition of land and buildings; b) rehabilitation; c) new construction; d) development and pre-development costs; e) preservation of existing housing; f) *community development projects, including but not limited to infrastructure improvements, economic development projects, blight elimination, or community facilities*; g) insurance; h) operating and replacement reserves; i) down payment assistance; j) security deposit assistance; k) *foreclosure prevention and assistance*; l) *individual development accounts established under the Individual or Family Development Account Program Act*; m) *activities related to ending homelessness*; n) *technical assistance to non-profit organizations, municipalities, and land banks*; and o) *predatory lending prevention or relief*. [The proposed changes are italicized.]

Eligible Applicants

Under the act, eligible applicants for funding include nonprofit corporations, for-profit corporations, and partnerships approved by MSHDA and organized for the purpose of developing and supporting affordable housing projects. The bill would add that eligible applicants include municipalities, land bank authorities, and partnerships organized for the purpose of developing projects in downtown areas or adjacent neighborhoods.

Allocation Plan

The act requires MSHDA to annually develop a plan of how money in the fund is to be allocated. The bill would require the plan to be developed on a biennial basis, and require the authority to hold public hearings in at least three separate locations in the state concerning the plan's content. Currently under the law, the plan must:

1. Include a formula distributing money based on the number of people experiencing and housing distress in various regions of the state.

The bill adds *economic distress* as a factor in the distribution formula.

2. Identify eligible applicants, preference for special population groups, and preference for geographic areas, including neighborhood preservation areas, renaissance zones, core communities, and federally designated enterprise community or homeownership zones.

The bill deletes the provision requiring MSHDA to identify eligible applicants and preference for certain geographic areas.

3. Allocate at least 25 percent of the fund for rental housing projects that do not qualify for a preference stated above.
4. Allocate at least 30 percent for projects that target extremely low income households that include (1) housing for the homeless, transitional housing, and permanent housing; and (2) providing security deposits, supportive services, and technical assistance.

The bill eliminates these two subsections, specifying instead, *at a minimum, developing housing for the homeless, supportive housing, transitional housing, and permanent housing.*

5. Provide affordable rental housing to households earning no more than 60 percent of the median income.

The bill would require rental housing projects utilizing the fund to set aside at least 20 percent of the units for households earning no more than 60 percent of the area median income.

6. Provide affordable housing for households earning no more than 60 percent of the median income.

The bill would require home ownership projects to set aside at least 20 percent of the units for households earning no more than 60 percent of the area median income.

Advisory Committee

The bill would create a nine-member advisory committee comprising representatives of the following groups: housing lenders; developers; housing construction; local government; local housing organizations; non-profit organizations; local economic development corporations, or downtown development authorities, corridor improvement authorities, or principal shopping districts; and local neighborhood associations or neighborhood improvement authorities. Membership terms would generally be three years, although initial members would serve staggered terms of one to three years. Committee members would serve without compensation, except that they would be reimbursed for necessary and reasonable expenses related to their duties.

The committee is to make recommendations concerning the biennial allocation plan and monitor the granting of awards, ensuring the funds (1) are fairly and equitably distributed, (2) meet the economic development needs of the committee of the local community, and (3) and meet the housing needs of the local community. Although

MSHDA would have the final say in awarding grants from the fund, it would be required to "weigh heavily" the recommendations of the advisory committee.

FISCAL IMPACT:

The bills would have no material impact on the potential revenue for the Housing and Community Development Fund. The Fund could receive appropriations and other money, including contributions and investment earnings. The Michigan State Housing Development Authority would incur additional administrative costs relative to the investment of money in the Housing and Community Development Fund under Section 22 of the act. These costs are not likely to be significant. The authority would also incur additional costs to reimburse advisory committee members for the necessary and reasonable costs in carrying out their duties as committee members, although such costs are not likely to be significant.

House Bill 4658 would also alter the distribution of money available from the Housing and Community Development Fund. From the standpoint of local government, the bill makes funding available from the Fund to cities, villages, and townships for community development projects in downtown areas and adjacent neighborhoods, and also makes funds available to land bank authorities, which could use funds for a variety of activities, including blight elimination. Funding would also be available to the State Land Bank Authority.

To date, the legislature has provided two appropriations totaling \$4.2 million to the Housing and Community Development Fund. In FY 2004-05, the Human Services budget included an appropriation of \$2.0 million in federal TANF funds, which were later eliminated with Executive Order 2005-3. The FY 2007-08 DLEG budget (2007 PA 118) appropriated \$2.2 million GF/GP to the Fund. (These funds have not yet been expended pending the promulgation of rules by the department.) The FY 2008-09 Executive Recommendation and House-passed version of the DLEG budget bill (HB 5809) continue this \$2.1 million GF/GP appropriation to the Fund.

In addition to the legislative appropriations, two recent tax law changes have the potential to increase revenue in the Fund. Beginning in the 2008 tax year, personal income taxpayers are provided a check-off allowing for contributions of at least \$5 to the Fund. (This was added with the enactment of 2007 PA 133, SB 257). Additionally, Michigan Business Tax taxpayers are permitted a credit against their MBT liability equal to half of any contribution to the Fund (combined with contributions to public libraries, public broadcast stations, colleges, and universities) equal to five percent of tax liability or \$5,000, whichever is less.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.