Legislative Analysis

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HOUSING AND COMMUNITY DEVELOPMENT FUND

House Bill 4658 (Substitute H-2)
Sponsor: Rep. Steve Tobocman
Committee: New Economy and Quality of Life

Complete to 4-9-08

A SUMMARY OF HOUSE BILL 4658 (PROPOSED SUBSTITUTE H-2)

The bill would amend Chapter 3A (Housing and Community Development Fund) of the State Housing Development Authority Act of 1966 (1966 PA 346) to expand the allowable uses of funding from the Housing and Community Development Fund to include 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. It is anticipated an H-3 Substitute, making technical changes to the H-2 Substitute, will be offered.

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 are to be expended for "special needs populations," such as homeless persons, persons with physical or mental disabilities, and persons living in rural or distressed areas.

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 <u>bill</u> 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.

Additionally, the bill strikes the provision above permitting the funding to be used for infrastructure improvements, development projects, or community facilities that support housing development. Instead, it provides that funds could be used for community development projects, which would include including improvements, economic development projects, blight elimination, or community facilities.

In addition to the activities listed above, the bill adds that the fund could be used for the following activities (as they relate to housing or home ownership projects for low-income, very low income, or extremely low income, or for projects located in a downtown area or adjacent neighborhood):

1. Individual Development Accounts.
2. Activities related to ending homelessness.
3. Technical assistance to nonprofit organizations, municipalities (cities, villages, and townships), and land banks.
4. Predatory lending prevention or relief.

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. The plan must include the following:

1. A formula distributing money based on the number of persons experiencing and housing distress in various regions of the state.

   <u>The bill</u> adds economic distress as a factor in the distribution formula.

2. Identifying 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. Allocating at least 25 percent of the fund for rental housing projects that do not qualify for a preference stated above.

4. Allocating 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 adds a requirement that funds be used for supportive housing, and deletes the reference to supportive services.

5. Rental housing utilizing the fund must provide affordable 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. Home ownership projects assisted by the fund must 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 9-member advisory committee consisting of representatives of housing lenders, developers, construction, local government, local housing organizations, and nonprofit organizations. 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, including 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 "weigh heavily" the recommendations of the advisory committee.

FISCAL IMPACT:

The bill 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.

The bill 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 was 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.[1] 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 5% of tax liability or $5,000, whichever is less.[2]

Fiscal Analyst: Mark Wolf

[1] This was added with the enactment of 2007 PA 133 (SB 257). See section 435 of the Income Tax Act, MCL 206.435.

[2] See Section 421 of the Michigan Business Tax Act, 2007 PA 36 (SB 94), MCL 208.1421. A similar credit against the Single Business Tax specifically for contributions to the Housing and Community Development Fund was not available.