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BILL ANALYSIS

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Senate Bill 1558 (Substitute S-1) *(as enrolled)*
Sponsor: Senator Tom George, M.D.
Committee: Appropriations

Date Completed: 11-8-10

CONTENT

The bill would authorize the State Administrative Board to convey three parcels of property, consisting of approximately 85 acres, located in the City of Flint, Genesee County. The property includes the School for the Deaf, Brown Hall, and Happy Hollow. The property includes several buildings, some of which date back to the early 1900s and are in varying states of disrepair.

The bill would require the property to be first offered to Lurvey White Ventures 1, LLC (Lurvey) for consideration of not less than $1.3 million. The sale would be contingent upon Lurvey's entering into Lease No. 11530 with the State of Michigan. The lease provides for Lurvey to construct a new School for the Deaf and lease back to the State the new school building, along with other existing facilities with an initial annual base rent not to exceed $2,060,000 for the purpose of providing school facilities for educating the deaf. Leased premises would consist of 120,000 usable square feet of space on 25 acres. The sale to Lurvey would have to require the following:

-- The property would continue to be used exclusively for education or education related purposes.
-- The purchaser would reimburse the State for costs necessary to prepare the property for conveyance.
-- The property would be developed according to proposed and approved specifications of the School for the Deaf.
-- Lurvey would provide proof of financial ability to complete the project.
-- Proposed project construction and occupancy would be completed within three years.

The sale also would have to allow the State to reenter and repossess the property in the event of an activity inconsistent with the above requirements.

If the property were conveyed to Lurvey and Lurvey intended to convey the property within seven years after the conveyance from the State, the State would retain the right to first purchase the property at the original sales price. If the State waived its first refusal right, Lurvey would have to pay the State 40% of the difference between the sale price from the State and the sale price of the subsequent sale.

If the property were not sold to Lurvey within 180 days after the offer, the Department of Technology, Management, and Budget would be required to take necessary steps to convey the property through competitive bidding, a public auction, use of real estate brokerage services, a value-for-value conveyance, offering the property for sale for fair market value (or less than fair market value) to a local unit or units of government, or transferring the property to the land bank fast track authority.

If the property were conveyed to a local unit of government for less than fair market value, the property would have to be used exclusively for public purposes. Any fees, terms, waivers, or conditions for the use of the property would have to be applied uniformly to all members of the public. In the event of an activity inconsistent with the above requirements, the State could reenter and repossess the property, terminating the grantee's or any successor's interest in the property. If the State reentered and repossessed the property, the State would not be liable to reimburse any party for any improvements made on the property. The local unit of government would have to reimburse the State for all costs necessary to prepare the property for conveyance. If the local unit of government intended to convey the property within seven years after the conveyance from the State, the State would retain a right to first purchase the property at the original sale price, plus the value of any improvements made to the property. In the event that the State waived its first refusal right, the local unit of government would have to pay to the State 40% of the difference between the sale price of the conveyance from the State and the sale price of the local unit's subsequent sale or sales to a third party.

All rights in aboriginal antiquities, including mounds, earthworks, forts, burial and village sites, mines, and other relics, on, within, or under the property, would be reserved by the State. The State would not reserve the mineral rights to the property conveyed; however, if the purchaser or any grantee developed any oil, gas, or minerals found on, within, or under the conveyed property, the State would receive one-half of the gross revenue generated from the development of the oil, gas, or minerals.

FISCAL IMPACT

There is no property tax assessment or current appraisal of the property. The bill provides for a sale price of $1.3 million. Net revenue from the sale of the property would have to be used first to retire outstanding debt financed by the State Building Authority for the residential facility on the property. Any funds remaining would then be used to reimburse any money that has been financed by the State Building Authority for special projects on the property. Any balance remaining would be credited to the State General Fund.

After the new school is completed, annual lease costs to the State ($2,060,000) will be similar to current operating and maintenance costs for the School for the Deaf. The lease is for a 20-year initial term of possession with one, 10-year renewal option. The State may purchase the property after seven years of possession. The lease payment is $2,060,000, with 6.0% increases every five years. The lease cost includes property taxes, utility costs, building and exterior grounds maintenance, security, pest control, trash removal, insurance, furniture, and furnishing allowance.

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