

Property Conveyance - Michigan State Fairgrounds

House Bill 4803 (H-3) - As Reported by House Appropriations Committee With Amendments

Sponsor: Representative Womack

Analysis Completed: February 8, 2012

SUMMARY OF THE BILL:

House Bill 4803 (H-3) would authorize the State Administrative Board to convey a 6-acre parcel of state-owned property located in Wayne County, or transfer the property to the state Land Bank Fast Track Authority (LBFTA). The property is located in the City of Detroit, is currently under the jurisdiction of the Department of Technology, Management, and Budget (DTMB), and is commonly known as the Michigan State Fairgrounds. The approximate total acreage of the fairgrounds property is 163 acres. The other 157 acres would be authorized for conveyance or transfer in a companion Senate bill, SB 515, to which HB 4803 is tie-barred.

An approximate legal description of the property is set forth in the bill and the property would include all surplus, salvage, and scrap property or equipment remaining on the property as of the date of the conveyance. DTMB would be required to attempt to dispose of fixtures and equipment on the property by donating or selling them to county or other local fairs.

If DTMB conveys the property, the bill would require DTMB to convey it by any one of the following means: competitive bidding, public auction, real estate brokerage services, value for value conveyance (considering the fair market value or the total value based on any positive economic impact to the state likely to be generated by the proposed use of the property), offering the property for sale for fair market value to a local unit or units of government, or offering the property for sale for less than fair market value to a local unit or units of government.

If the property is conveyed for less than fair market value to a local unit or units of government, the property would be required to be used exclusively for public purposes. The state would be authorized to reenter and repossess the property if this condition was not met.

If the property is conveyed to a local unit or units of government, and the local unit or units intend to convey the property within 10 years after purchasing the property, they would be required to notify DTMB and DTMB would retain a right to first purchase the property at the original sale price within 90 days of the notice. If DTMB waived the right, the local unit or units would be required to pay the state 40% of the difference between the sale price of the conveyance from the state and the sale price of the subsequent sale by the local unit or units to a third party.

If DTMB transfers the property to the LBFTA, the property would be prohibited from being used for a horse racing track, auto racing track, casino, railroad freight yard, jail, or prison. The state would be authorized to reenter and repossess the property if this condition was not met.

In either case, where conditions were not met for specified uses/misuses of the property, and the state had to reenter and reposess the property, the state would not be liable for reimbursement to any party for improvements made on the property, and the purchaser or grantee would be required to reimburse the state for all costs necessary to prepare the property for conveyance.

If the property is transferred to the LBFTA, the bill would create the State Fairgrounds Sale Advisory Committee within DTMB. The committee would not have the power to authorize or prohibit an action by the LBFTA and would serve in an advisory capacity only, providing input and making recommendations to the LBFTA on the sale and use of the property. The committee would consist of five representatives, one each from five neighborhood organizations from the vicinity of the fairgrounds, and members would be appointed by the Governor. Members would serve without compensation and their business would be required to be conducted at public meetings. The committee would be dissolved 60 days after all property is conveyed by the LBFTA.

If the property is transferred to the LBFTA and they subsequently convey the property to a third party, the bill would require the LBFTA to establish performance requirements and penalty provisions within the purchase agreement or other agreements related to the subsequent conveyance. The bill would require the LBFTA to submit a report to the Legislature, within 30 days after conveying the property, which described the terms of conveyance and provided a full accounting of all revenue from and costs associated with the conveyance. The bill would prohibit the LBFTA from conveying the property to a county authority or local authority.

The property would be conveyed by a quitclaim deed or transferred by a transfer document approved by the Attorney General. The state would not reserve oil, gas, or mineral rights to the conveyed property, but the purchaser or any grantee would be required to pay the state one-half of any gross revenue generated from the development of oil, gas, or minerals. The state would reserve all rights in aboriginal antiquities, including the right to explore, excavate, and take them. Aboriginal antiquities include mounds, earthworks, forts, burial and village sites, mines, and other relics.

Net revenue received under the bill would be credited to the General Fund. Net revenue to the state is defined in the bill as being the proceeds from the conveyance less reimbursement for any costs associated with the maintenance, preparation for sale, or sale of property, including administrative costs, such as employee wages, salaries, benefits, costs of reports, studies, and other materials necessary to the preparation of the sale, environmental remediation, legal fees, any litigation expenses related to the conveyance of the property, and costs to the LBFTA for providing staff for the advisory committee.

BACKGROUND:

The property described in the bill was transferred from the Michigan State Agricultural Society to the State of Michigan in 1921. The property contains approximately 163 acres, located at Eight Mile and Woodward in the City of Detroit. This includes 70 acres of unimproved land on the East side of the property and more than 20 buildings. The majority of the property is zoned for general business.

There is no current estimate of property value. An independent opinion of value is currently underway. The most recent appraisals were done in 2009 and 2007. The 2009 estimate found the

property to have negligible value considering demolition and remediation costs, encumbrances, and the real estate market. The 2007 estimate was \$13 million, but did not take into consideration costs of demolition and remediation, or encumbrances.

Demolition and environmental remediation costs are estimated at \$5.1 million (demolition at \$3.7 million and remediation at \$1.4 million). There are underground storage tank, asbestos, and lead-paint issues with the property. A 2006 DTMB estimate for renovation of the property was \$14.6 million, with about half of that being attributable to buildings and the balance to infrastructure.

The grounds have generally been closed since funding for the state fair was eliminated in the FY 2010 budget. There are no long-term obligations on the property other than continued maintenance and security. For FY 2012, expenses are estimated at \$1.14 million and revenue at \$256,000, equating to net expenses of \$884,000 annually. Expenses are for security, utilities, maintenance, snow removal, lawn maintenance, etc. Revenue comes in from the Dumars' Fieldhouse lease (rent and utilities) and an agreement with Vascor, a company that parks unsold Chrysler vehicles on the property and pays monthly to hold the agreement.

With regard to the Dumars' Fieldhouse lease, the leased property includes two buildings with approximately 30,000 sq. ft. of land, where a basketball camp for youth in the area is operated. Annual rent is \$50,000 and utilities are about \$48,000. The lease allows for the termination of the lease by the state, but for a substantial financial penalty. Currently, to terminate the lease, the state would have to pay \$3.1 million; that amount decreases by \$100,000 per year for 20 years. The state is in the seventh year of the buyout schedule. According to DTMB and the LBFTA, the plan is to sell the property to a buyer who will assume the state's position in the lease as the new owner.

FISCAL IMPACT:

Net revenue to the state would be the proceeds from the sale less reimbursement for administrative costs, employee wages, salaries, benefits, costs of reports, studies, and other materials necessary to the preparation of the sale, environmental remediation, legal fees, litigation expenses related to the conveyance of the property, and costs for staff associated with the advisory committee.

There would be penalty costs to the state for termination of the Dumars' Fieldhouse lease if the property is not sold to a buyer who assumes the state's position in the lease.

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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.