Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4759 (as reported by the Committee of the Whole)
Sponsor: Representative Andy Schor
House Committee: Government Operations
Senate Committee: Committee of the Whole

Date Completed: 6-26-17

RATIONALE

The Farnum Building is an 11-story office building located in Lansing, Michigan, diagonally across the street from the State Capitol Building. Construction of the building finished in 1959, and it was purchased by the Michigan Senate in 1978. The building was used for Senators' offices and meeting rooms but, in recent years, concerns arose regarding its condition and security. At the end of 2016, the Senate moved into a newer building approximately one block away. Since the Farnum Building is now vacant, it has been suggested that the State should sell the property.

CONTENT

The bill would authorize the Department of Technology, Management, and Budget (DTMB), on behalf of the State, to convey by quitclaim deed all or a portion of real property in Lansing, consisting of two parcels described in the bill (where the Farnum Building is located).

The DTMB could take the necessary steps to convey the property using any publicly disclosed competitive method of sale, selected to realize the fair market value to the State, as determined by the Department, or by a value-for-value conveyance negotiated by the DTMB to realize the best value to the State. In determining whether a value-for-value conveyance would represent the best value, the DTMB could consider the fair market value or the total value based on a property exchange, or any positive economic impact to the State likely to be generated by the proposed use of the property.

The fair market value would have to be determined by an independent fee appraisal prepared for the DTMB, or by an appraiser who was an employee or contractor of the State. "Fair market value" would mean the highest estimated price that the real property will bring if offered for sale on the open market, allowing a reasonable time to find a purchaser who would buy with knowledge of the property's possible uses.

The DTMB could not convey the property unless the conveyance and its terms had been approved by the State Administrative Board or the Department Director.

The State agency or branch of State government with jurisdiction over property conveyed or transferred under the bill would be responsible for all expenses of maintaining the property until the time of conveyance or transfer.

Revenue from the sale of the property would have to be used to reimburse the DTMB as required by Section 896 of Article VIII of Public Act 252 of 2014 (described below), and to reimburse the Department for costs incurred related to the sale of the property, related expenses, and other ongoing costs, including administrative costs, costs of appraisals, reports, and studies, and other materials necessary to the preparation of sale; environmental remediation; legal fees; and any litigation related to the conveyance of the property. Any remaining revenue would have to be deposited in the General Fund.

Real property conveyed or transferred under the bill would include all surplus, salvage, and personal property or equipment remaining on the property on the date of conveyance or transfer.

The State would not reserve oil, gas, or mineral rights to property conveyed. However, the conveyance would have to provide that, if the grantee or any successor grantee developed any oil, gas, or minerals found on, within, or under the property, the grantee or successor would have to pay the State half of the gross revenue generated from the development. The payment would have to be deposited in the General Fund.

A conveyance under the bill would have to reserve to the State all aboriginal antiquities lying on, within, or under the property, with power to the State and all others acting under its authority to enter the property for any purpose related to exploring, excavating, and taking away the antiquities.

If property conveyed under the bill were used in a manner that violated any of these restrictions, the State could reenter and take the property, terminating the grantee's or any successor's estate in the property. An action to regain possession could be brought and maintained by the Attorney General. If the State reentered and repossessed the property, it would not be liable to reimburse any person for any improvements made on the property or to compensate any person for any part of an unfulfilled contract or license issued to provide goods or services on or for the property.

The DTMB could require a grantee to record the sale with the appropriate register of deeds and provide the Department with a recorded copy of the instrument.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Selling the Farnum Building would be in the interest of Michigan's taxpayers. Since the Senate moved out, the property has been vacant. The building is outdated and the costs to renovate it have been estimated between $11.5 million and $20.0 million. Allowing the building to continue to deteriorate would increase the burden on the taxpayers and reduce the property's value. Selling it, on the other hand, could return the property to the tax rolls and help to revitalize the City of Lansing. The sale would generate proceeds that would reimburse the DTMB for its moving and administrative expenses, with any additional revenue benefiting the State's General Fund. The process would have to be transparent and realize the best value to the State.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Revenue to the State would depend on the actual selling price of the Farnum Building. The impact on local government would depend on whether the property would be subject to local property taxes. The State purchased the Farnum Building in 1978 for $3.0 million. In 2014, the building was appraised at $5.4 million, and the parking lot at $225,000. Revenue from the sale would have to be used to reimburse the DTMB for expenses incurred by the Senate, as described in Section 896 of Article VIII of Public Act 252 of 2014 (the General Government portion of the FY 2014-15 omnibus appropriation). Any remaining revenue would be deposited in the State General Fund.

Article VIII, Section 896 of Public Act 252 of 2014 provided:

> Sec. 896. (1) From the appropriations in part 1, up to $7,000,000.00 shall be made available to the senate for future lease, purchase, and transition costs related to relocation from the Farnum building. Funds shall be disbursed to the senate upon

executing a contract, lease, letter of intent, or other binding agreement issued by the senate following a competitive bid process conducted by the senate. Funds will be released upon submittal of a purchase order or other documentation of expenses for transition costs.

(2) Proceeds from the sale of the Farnum building shall be subsequently appropriated to the department [of Technology, Management, and Budget] in accordance with any legislation enacted that authorizes the sale of that property and an amount equal to that which was disbursed to the senate pursuant to subsection (1) shall also be appropriated to the department.

Fiscal Analyst: Bill Bowerman

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