

Senate Fiscal Agency
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SFA**BILL ANALYSIS**

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House Bill 4851 (Substitute S-2 as reported)
House Bills 4852 and 4853 (Substitutes S-1 as reported)
Sponsor: Representative Kwame Kilpatrick (House Bill 4851)
Representative Gene DeRossett (House Bill 4852)
Representative Andrew Richner (House Bill 4853)
House Committee: Land Use and Environment
Senate Committee: Economic Development, International Trade and Regulatory Affairs

CONTENT

House Bill 4851 (S-2) would amend the General Property Tax Act to exempt from the tax property owned by a land bank under the "Michigan Land Bank and Community Development Authority Act" (proposed by House Bill 5450). The bill also would create a five-year tax exemption for property sold or otherwise conveyed by a land bank. The five-year exemption would not apply to property included in a brownfield plan under the Brownfield Redevelopment Financing Act, under certain circumstances. Property exempt from property taxes under the bill would be subject to the specific tax levied under House Bill 4852.

House Bill 4852 (S-1) would create the "Tax Reverted Property Clean Title Act" to impose a specific tax (equal to the property tax) on property sold or otherwise conveyed by a land bank; and dedicate 50% of the proceeds of the specific tax to the land bank that sold or conveyed the property and 50% to and among the State, cities, school districts, counties, other taxing units, and authorities in the same proportions as are required for the disbursement of property taxes. A land bank could use specific tax revenue only to repay a loan made under Public Act 105 of 1855 (pursuant to House Bill 4853), or for the purposes authorized by House Bill 5450. Eligible tax reverted property located in a renaissance zone generally would be exempt from the specific tax to the extent and for the duration provided by the Michigan Renaissance Zone Act.

House Bill 4853 (S-1) would amend Public Act 105 of 1855 (which governs the disposition of surplus State funds) to allow the State Treasurer to invest surplus funds in loans to land banks at the market rate of interest, as determined by the Treasurer, for the purpose of clearing or quieting title to tax reverted property held by or under the control of a land bank. A loan to a land bank could not be for a period of more than 10 years. The State Treasurer would have to prescribe all other terms of the loan, including required security, if any.

The bill specifies that loans made under the Act would not be subject to the Revised Municipal Finance Act, but would be subject to the proposed Agency Financing Reporting Act.

The bills are tie-barred to each other and to House Bills 5450, 5451, and 6137.

Proposed MCL 211.7gg (H.B. 4851)
MCL 21.144 et al. (H.B. 4853)

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bills, together with House Bills 5450 (S-2), 5451 (S-2), and 6137 (S-1), would have an unknown, but minimally positive, impact on both State and local revenues. The magnitude of the fiscal impact depends upon the success that the proposed land banks would have in both clearing title and making affected properties more marketable, as well as the degree to which affected properties actually would be sold. Many of these properties are difficult to sell due to

their physical location and/or characteristics. As such, neither a State nor a local land bank likely would be able to sell a significant number of these properties and the captured revenue likely would be minimal.

While the bills would authorize the land banks to engage in a variety of activities related to real and personal property, the main focus is on tax-reverted properties. Neither the State nor local units generally receive any revenue from the tax-reverted properties that would be affected by the bills. To the extent that these properties could be sold by a land bank and the land would not otherwise be sold, or sold for as much, under the current processes for handling tax-reverted property, the bills would increase State and local tax revenue.

Tax-reverted properties generally are not sold or, equivalently, are not purchased, for one of two reasons: 1) their location or other physical characteristics make them undesirable, even for speculators, and/or 2) the title history and other legal circumstances, such as those related to the tax-reversion process, make the properties undesirable and/or uninsurable. The expenses involved in addressing the second issue can be significant and potentially difficult to recover through the current process for handling tax-reverted properties. The assumption behind the bills is that the property tax provisions would improve the ability both to pay for and to recover these expenses. Consequently, under this assumption, the bills would likely result in the sale of more tax-reverted properties, perhaps for higher prices, and would increase State and local property tax revenues. However, if the land bank incurred expenses making the property more marketable and either an insufficient number of properties were sold or the properties were sold for too little, the land bank could lose money. Some individuals who work with these properties indicated concerns that, under the new procedures adopted to handle tax-reverted properties, given the low desirability of these properties, there is a significant chance that the land bank would not be able to cover its administrative expenses.

The bills would not address the first reason deterring purchases of tax-reverted property nor would the bills affect properties that are not sold because the State or local unit does not wish to sell them. The State or a local unit might not sell tax-reverted properties for a variety of reasons, most often because the governmental unit believes the property can be used for a public purpose at some point or for economic development reasons. Even when the properties are sold, the low desirability affects the purchase price. On average the State has sold 3,000 properties per year for an average of approximately \$6.0 million, or about \$2,000 per property. While many of these properties also suffer problems under the second issue, such as title difficulties, there is a significant chance that the sale prices would remain very low under the bills.

The bills would transfer to the State land bank, and permit it to sell, transfer, or otherwise dispose of certain State-owned properties in and around Detroit, including a portion of the property near the State Fairgrounds in Wayne County. The other State-owned properties in the bill vary significantly, many parcels are not contiguous, and the types of property include vacant land as well as industrial, commercial, and residential properties. The value of all of these properties is unknown. An appraisal of the property near the State Fairgrounds in Wayne County placed the value of that property at approximately \$6.1 million. If the property were to be sold and the specific tax subsequently levied at that price, the captured revenue would be slightly more than \$200,000 per year.

The bills also would allow the State land bank to dissolve itself once its purposes, which are not defined in the bills, were completed. The State land bank could transfer any land it held to a local land bank and any funds held by the State land bank when it dissolved would revert to the State General Fund.

Date Completed: 6-24-02

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.