



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 515 (Substitute S-6)
Sponsor: Senator Virgil Smith
Committee: Appropriations

Date Completed: 2-7-12

CONTENT

The bill would create a new statute to do the following:

- **Authorize the State Administrative Board to convey or transfer approximately 157 acres of the Michigan State fairgrounds by sale conducted by the Department of Technology, Management, and Budget (DTMB) pursuant to conditions in the bill, or by transfer to the Land Bank Fast Track Authority.**
- **Require the net revenue received by the State or the Land Bank Fast Track Authority from conveyance of the property to be deposited in the General Fund.**
- **Provide that if the State fairgrounds were transferred to the State Land Bank Fast Track Authority, the State Fairgrounds Sale Advisory Committee would be created within the DTMB to offer advisory input.**
- **Require the Land Bank Fast Track Authority to report to the Legislature within 30 days of conveying the property to a third party on the revenue, costs, and terms of conveyance.**
- **Prohibit use of the conveyed property for a horse racing track, auto racing track, casino, railroad freight yard, jail, or prison, and prohibit conveyance of the property by the State Land Bank Fast Track Authority to a county or local land bank.**

The bill is tie-barred to House Bill 4803, which would provide for transfer of the remainder of the State fairgrounds property.

Conveyance of the State Fairgrounds

The bill would authorize the State Administrative Board to convey all or portions of approximately 157 acres of State-owned property under the jurisdiction of the Department of Technology, Management, and Budget, commonly referred to as the Michigan State fairgrounds. The State fairgrounds consist of approximately 162 acres located in the City of Detroit, south of Eight Mile Road. The State Fair was held at this location from 1905 through 2009. The DTMB would be authorized to sell the property subject to conditions described in the bill, or to transfer the State fairgrounds to the Land Bank Fast Track Authority.

The DTMB could prepare to convey the property by competitive bidding, public auction, or real estate brokerage services providing that these transactions were designed to realize the best value to the State, as determined by the DTMB. The DTMB also would be permitted to

prepare to use a negotiated sale process to realize consideration for the property that was at least a fair exchange of value for value. In making that determination, the DTMB could consider the fair market value of the property based on an independent appraisal or the value of the sale to the State, including economic impact such as job creation, investment, environmental remediation, and avoidance of State costs of property maintenance and ownership. The property could be conveyed to a local governmental unit for fair market value. The property also could be conveyed to a local unit of government for less than fair market value providing the property was used exclusively for a public purpose. If the local government subsequently conveyed the property within 10 years to a third party, the State would have the opportunity to repurchase the property within 90 days at the original purchase price or receive 40% of the difference between the price of the original conveyance and the price of the subsequent conveyance. Also, at the request of the State, the local government receiving the property for less than fair market value would be required to reimburse the State for the costs necessary to prepare the property for conveyance.

In addition, the DTMB would be authorized to prepare to transfer the State fairgrounds to the State Land Bank Fast Track Authority. If the property were transferred to the Land Bank Authority, the State Fairgrounds Sale Advisory Committee would be created to provide input and make recommendations to the State Land Bank Fast Track Authority on the sale and use of the property. The Advisory Committee would be staffed by the State Land Bank Fast Track Authority. The Advisory Committee could not prohibit or authorize any action by the Land Bank Authority. The Advisory Committee would have five members appointed by the Governor representing neighborhood associations in the vicinity of the State fairgrounds. The neighborhoods represented on the Advisory Committee would consist of Sherwood Forest, University District, Detroit Golf Club, Palmer Woods, and Greenacres. Advisory Committee members would serve three-year terms (although initial members would have staggered terms) without compensation. The Advisory Committee would be appointed within 60 days after transfer of the property to the Land Bank Authority, and would be dissolved 60 days after the Authority conveyed the property.

For any conveyance of the State fairgrounds by the State Land Bank Fast Track Authority to a third party, the Authority would be required to establish performance requirements and penalty provisions within any purchase agreement. Within 30 days after conveying the property, the Authority would be required to report to the Legislature describing the terms of the conveyance and accounting for the revenue and costs associated with the conveyance. The bill would prohibit the transfer of the property by the State Land Bank Fast Track Authority to any county or local land bank authority.

(The State Land Bank Fast Track Authority is an independent agency housed within the Michigan Strategic Fund (MSF), which itself is an independent agency within the Department of Treasury. The Land Bank Authority has broad statutory authority to convey, demolish, or rehabilitate property. The Authority can convey property by sale, transfer, exchange, lease, or other method to any public or private person for a value determined by the Authority. The Authority is governed by a seven-member board consisting of four State residents appointed by the Governor and several department directors or their designees: the Director of the Department of Licensing and Regulatory Affairs, the chief executive officer of the Michigan Economic Development Corporation (MEDC), and the Executive Director of the Michigan State Housing Development Authority, another independent agency within the MSF. The MEDC provides staff for the MSF and the Land Bank Fast Track Authority.)

Proceeds of Sale

The net revenue from the sale of property by either the State Administrative Board or the Land Bank Authority would be deposited in the General Fund. "Net revenue" would mean

the proceeds from the conveyance less reimbursement for costs incurred by the DTMB or the Land Bank Authority or other department or agency, for maintenance of the site, site preparation, environmental remediation, legal fees, administrative costs including wages and benefits, and the costs of staffing the Advisory Committee.

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 oil, gas, or 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.

Prohibited Uses of the Property

The bill would prohibit use of the property under either conveyance by sale or transfer to the Land Bank Authority for a horse racing track, auto racing track, casino, railroad freight yard, jail, or prison. If the property were used for a prohibited activity, the State would be able to reenter and repossess the property and the State would not be liable to reimburse any party for any improvements made on the property.

FISCAL IMPACT

The conveyance or transfer of the State fairgrounds would generate an indeterminate amount of revenue for the General Fund. The State Administrative Board would have broad authority to sell the property or to transfer the property to the Land Bank Fast Track Authority, which could then convey the property to a third party. The net revenue from any sale would be deposited into the General Fund. Any State department or agency, or the State Land Bank Fast Track Authority would be reimbursed from the proceeds of the sale for any expenses related to the conveyance before the net proceeds were deposited into the General Fund. The amount of any deposit to the General Fund would depend on the terms of the sale or transfer and the expenses incurred in preparing the property for sale and other transaction costs.

An April 2007 independent appraisal of the fairgrounds estimated the highest and best use value of the property at \$13.0 million; however, this did not take into consideration the cost of environmental remediation at the site. The DTMB states that environmental remediation at the property would be needed due to lead paint and asbestos. The DTMB estimates the cost of remediation, including building demolition, at approximately \$5.1 million. According to the Michigan Economic Development Corporation (MEDC), a subsequent October 2009 independent appraisal contracted for by the DTMB, found the property to have a negligible value given the state of the real estate market and the condition of the property at that time.

There is a current lease of one building and parking on a portion of the State fairground property to Fieldhouse, LLC. If the lease were terminated by the State, the State could incur costs related to a buy-out provision. Based on the cancellation provision of the existing lease, the termination fee would range from \$3.5 million declining to \$900,000 depending on the year of the lease termination. It should be noted, however, that the property could be conveyed or transferred subject to the lease and the Michigan Economic Development Corporation has stated that if the property is transferred to the Land Bank Authority, the Authority intends to transfer the property subject to the lease and not exercise the cancellation clause.

Revenue from leases and rentals on the property totaled \$245,500 in FY 2010-11. State expenses for maintenance of the fairgrounds totaled \$1,140,000 in that year resulting in net expenses for the property of \$894,500.

Staff from the MEDC have indicated that, if the property were transferred to the Land Bank Fast Track Authority, the MEDC would have the potential to package the property for redevelopment by including other available incentives to encourage redevelopment and reuse of the property.

The bill would have an indeterminate impact on local units of government, depending on the type of entity that took possession of the property, how it was developed, and possible existence of tax abatements or the provision of additional local services.

Fiscal Analyst: Bill Bowerman
Elizabeth Pratt

SAS\S1112\515sc

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.