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BILL ANALYSIS

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Senate Bill 1105 (Substitute S-3)
Sponsor: Senator Shirley Johnson
Committee: Appropriations

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CONTENT

The bill would amend the Natural Resources Environmental Protection Act to create a new formula for calculation of payments in lieu of taxes to local units of government for land owned by the Department of Natural Resources and to combine the payments with the February payments for statutory revenue sharing.

Currently, ad valorem payments in lieu of taxes (PILT) on purchased land are supported with revenue from the General Fund, the Michigan Natural Resources Trust Fund, the Michigan State Waterways Fund, and the Game and Fish Protection Fund. Generally, the same funding source used to purchase the property is used to make the PILT reimbursement and the State restricted fund sources are used for PILT on land purchased with those funds. The General Fund is used for PILT on land purchased with other fund sources, such as recreation bond revenue, Federal funds, or the Land Exchange Facilitation Fund. In FY 2003-04, the appropriation from all fund sources for purchased land PILT will total $11,522,800, with $5,262,900 from the General Fund and $6,259,900 from State restricted funds. It will provide reimbursement for properties located in an estimated 867 cities, villages, and townships.

The bill would change the calculation of payments in lieu of taxes on land purchased by the Department of Natural Resources. Under current law, PILT reimburses local units for liabilities from all tax levies other than special assessments. Senate Bill 1105 (S-3) would eliminate reimbursements for the State education tax and any liability corresponding to any mills above the level applied in 2003. The bill also would allow local taxing units to adopt a resolution permanently exempting the State from any tax levied by that local taxing unit.

Currently, the taxable value of the property is reassessed each year. Under the bill, the taxable value of DNR-purchased land would be frozen at the 2003 level. Additional property purchased by the DNR would have its value fixed at the value in the year when purchased. In 2013 and every 10 years thereafter, the valuation of property would be adjusted by the average annual increase or decrease in the Detroit consumer price index of the preceding 10-year period. (For the last 10 years, the average annual change in the Detroit consumer price index was 2.7%.)

The bill would require the treasurer or other officer collecting taxes to submit a single, annual statement for all of the property for which a payment is claimed. This statement would be submitted at the same time as the winter property taxes levies are mailed. It would itemize the parcels and include an assessment and valuation for each. If the total annual payment by the State to a municipality were greater than $500, the State would add the amount to the statutory revenue sharing payment disbursed in February of each year.

Under the bill, any shortfall in the amount of funding available for PILT reimbursements would be prorated to account for any differences between the funding required and the available money. The proration would occur for each fund from which there were insufficient appropriations to make all payments in full. In addition, the bill would limit expenditures from State restricted funds to not more than 50% of the aggregate payments for FY 2004-05. Beginning in FY 2005-06, the portion of the payments that represent an assessment by a local school district, intermediate school district, or community college district would be charged against the State School Aid Fund. The balance of the payment would be subject to the provision that not more than 50% be paid using State restricted funds.

MCL 324.2153 and 324.2154

FISCAL IMPACT

The proposal would generate savings for the State over many years. The magnitude of the savings would depend upon a variety of factors, including the taxable value of property, the purchase of additional property by the State, millage rates, and exemptions made by local taxing units. Currently, the obligations for purchased land PILT are adjusted annually to reflect increases in the taxable value of the property and changes in mills.

Approximately $7.8 million would be needed to fund PILT reimbursements in FY 2004-05, of which $3.9 million would be from the General Fund. This amount is about $2.8 million less than the estimated requirement for FY 2003-04 due to the provision exempting the State from paying the State education tax on land owned by the DNR ($2.4 million) and the exclusion of late fees incurred in FY 2003-04 ($400,000). The amount required to pay all obligations fully will change over the next 10 years as the State's land holdings change. The decennial adjustment to property valuations proposed by the bill would be a small fraction of the increase if they were adjusted annually.

Senate Bill 1105 (S-3) also provides that no PILT reimbursement would be made unless the total of a local unit's reimbursement requests for all PILT property in the unit exceeded $500. This provision would eliminate PILT reimbursements to 188 cities, villages, and townships, and reduce PILT reimbursements by approximately $45,000.

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