

# Legislative Analysis



## PAYMENT IN LIEU OF TAXES

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**House Bill 5814 (Substitute H-2)**

**Sponsor: Rep. Darwin Booher**

**Committee: Local Government and Urban Policy**

**Complete to 4-20-06**

## A SUMMARY OF HOUSE BILL 5814 AS REPORTED FROM COMMITTEE

The state makes payments in lieu of taxes (PILT payments) for "purchased lands" under Subpart 14 of Part 21 of the Natural Resources and Environmental Protection Act. Generally, the bill would do the following:

- Require, beginning in 2007, local approval before the state may purchase property for which it would make PILT payments.
- Increase the valuation of PILT property in 2009.
- Require local officials to send a summer property tax statement, in addition to the winter statement currently required under the act.
- Require, beginning in 2007, that PILT payments be made from the fund used to purchase the property.
- Allow for the imposition of interest and penalties if the state does not make its PILT payments in a timely manner.
- Specify that PILT payments would be considered a "tax."

### Local Approval

The bill would require the Department of Natural Resources to notify the appropriate governing bodies of the local tax collecting unit and the county of its intent to purchase real property at least 60 days before the date on which it intends to purchase real property. The bill would also prohibit the DNR from purchasing property that would be subject to PILT payments if the local tax collecting unit or the county disapproves of the purchase. These provisions would apply beginning January 1, 2007.

### Property Valuation

Under the act, the State Tax Commission is required to annually determine the valuation of PILT land, although the valuation for tax years through 2008 is frozen at the 2004 level. Beginning in 2009, year-to-year increases in the valuation of the property are capped at the rate of inflation or five percent, whichever is less.

The bill would provide that in 2009, the property's valuation would "pop-up" to the value it would have had if the value in prior years had not been frozen at the 2004 level, subject to an annual assessment cap of the rate of inflation or five percent, whichever is less. Beginning in 2010, year-to-year increases in the valuation would be capped at the rate of inflation of five percent, whichever is less.

## **Property Tax Statements**

Under the act, each assessing district must send a single annual statement for PILT payments at the same time it sends the winter tax statement under the General Property Tax Act to the Department of Natural Resources. The bill would require, beginning October 1, 2007, each assessing district to also send to the DNR a statement at the same time it sends the summer tax statements under the General Property Tax Act.

## **Sources of Payment**

Under the act, in FY 2006 and each year thereafter, taxes imposed by the local school district, intermediate school district, or community college district are to be charged to the state School Aid Fund. Of the balance, not more than half shall be paid from restricted funds, with the remaining balance being paid from the General Fund.

The bill provides that the above payment provision would be in effect for FY 2006 only. For FY 2007 and each year thereafter, payments would be charged to the fund used to purchase property for which PILT payments are made.

## **Interest and Penalties**

The act provides that if an insufficient amount is appropriated to make full payments, the payments made to local units shall be prorated. The bill would not amend this provision, but would add that if the total amount of the payment is not made within the time required under the General Property Tax Act for the payment of property taxes, the local assessing district could impose interest and penalties in the same manner provided for delinquent property taxes under the General Property Tax Act, although penalties and interest would not be imposed in the first summer taxes were collected.

## **FISCAL IMPACT:**

This bill would have a fiscal impact on the state and on local governmental units. Local units could receive as much as \$3,800,000 more in 2008, and \$900,300 more in purchased lands payments in 2009. Since the local treasurer could bill the state for both the summer and winter tax levies, the state could be required to pay \$1,675,000 for education related payments and \$2,125,000 from the DNR appropriation. Given the fund source provision in the bill, \$1,540,000 would be paid from the General Fund, and \$3,265,000 would be paid from restricted funds.

Current law freezes assessments at 2004 levels until 2008, The bill would establish the assessed value at the level it would have been if it had not been frozen in 2004. If this were to occur, the payment in lieu of taxes on purchased lands would increase by \$621,300 to \$900,300 (depending on the assumed multiplier used: 2.3% or 3.3%).

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