



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 912 (Substitute S-2 as reported)
Senate Bill 913 (Substitute S-2 as reported)
Senate Bill 914 (as reported without amendment)
Sponsor: Senator Gerald Van Woerkom (S.B. 912)
Senator Tony Stamas (S.B. 913)
Senator Jason E. Allen (S.B. 914)
Committee: Agriculture, Forestry and Tourism

CONTENT

Senate Bill 912 (S-2) would amend the General Property Tax Act to do the following:

- Exempt qualified forest property from taxes levied by local school districts, with some exceptions.
- Require the amount exempted each year under the bill to be paid to the School Aid Fund from the General Fund.
- Exempt the transfer of qualified forest property, under certain conditions, from a provision requiring the taxable value of property to be adjusted upon transfer.

The bill also would repeal Part 513 (Private Forestry) of the Natural Resources and Environmental Protection Act on September 1, 2007. Part 513 provides a tax exemption for private forest reservations.

Senate Bill 913 (S-2) would create the "Qualified Forest Property Recapture Tax Act", effective January 1, 2007, to provide for the recapture of taxes owed on qualified forest property that was converted by a change in use after December 31, 2006, and no longer qualified for a tax exemption. The recapture tax would be doubled if no harvests of forest products had been conducted on the land consistent with the approved forest management plan. The State Treasurer would have to collect the tax and deposit the proceeds in the State's General Fund.

Senate Bill 914 would amend the Revised School Code to exempt qualified forest property from mills levied by local school districts.

The bills would define "qualified forest property" as a parcel of real property that met all of the following conditions, as determined by the Department of Natural Resources:

- Was not less than 20 contiguous acres in size, of which at least 80% was productive forest capable of producing wood products.
- Was stocked with forest products.
- Had no buildings or structures on the real property.
- Was subject to an approved forest management plan.

"Productive forest" would mean real property capable of producing at least 20 cubic feet of wood per acre per year. "Forest products" would include timber and pulpwood-related products.

The three bills are tie-barred to each other.

MCL 211.27a et al. (S.B. 912)
380.1211 (S.B. 914)

Legislative Analyst: Curtis Walker

FISCAL IMPACT

It is estimated that these bills would reduce the revenue generated by the 18-mill local school tax about \$30 million. When first implemented, the impact of the bills would probably be less than this because it would take some time for forest owners to establish a management program and qualify their land for this tax exemption.

This loss in revenue would affect the General Fund under provisions contained in Senate Bill 912 (S-2). The reduction in local school property tax revenue, which this bill would cause, would directly reduce the tax revenue going to local school districts; however, due to the State's guaranteed foundation allowance, this loss in local school revenue would be made up dollar-for-dollar through increased payments from the School Aid Fund (SAF). This bill would hold the SAF harmless, however, by requiring that the General Fund reimburse the SAF for the increase in expenditures.

The recapture tax proposed in Senate Bill 913 (S-2), would probably generate very little if any revenue initially, but gradually would generate as much \$4 million to \$6 million annually in 10 years or so. This revenue also would go to the General Fund, so it would help offset the General Fund cost of reimbursing the School Aid Fund for its increased expenditures to local schools due to their loss of 18-mill local school tax revenue.

A provision in Senate Bill 912 (S-2) would preclude qualified forest land from being counted as a property transfer when it changes ownership. Therefore, the new owner of qualified forest land would not experience an upward adjustment in the property's taxable value. This change would have a negative impact on all property taxes, and the magnitude of the impact would depend on the amount of qualified forest land that changes ownership in a given year and the difference between these properties' taxable values and State equalized values (50% of market value). It is estimated that on an average basis, this change would reduce the State education tax and non-school local taxes by a very small amount in the initial years.

This bill also would repeal a tax reduction program called the Private Forest Reservation Program. This program was first established in 1917 and was intended to help preserve forest land on farms. Under this program, the owner of land with not more than 160 acres with at least half of the land devoted to agricultural uses may designate up to one-fourth of the land as a private forest reservation. The land in this forest reservation is not taxed on the value that is in excess of \$1 per acre. This is entirely a local government program, so there are no up-to-date statewide aggregate data available on the amount of land that is in this program or how much of a tax reduction this land is receiving. What little data there are suggest that this is a very small program on a statewide basis; however, individual land owners participating in this program could be receiving a substantial tax reduction.

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Fiscal Analyst: Jay Wortley

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