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BILL ANALYSIS

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Senate Bill 1268 (Substitute S-1 as reported)
Sponsor: Senator Tom George
Committee: Finance

Date Completed: 5-23-06

RATIONALE

Reportedly, Michigan organizations such as the Boy and Girl Scouts, Camp Fire Girls, and other groups that own camps in the State have been consolidating their chapters so they may be managed more efficiently. The Girl Scouts, for example, currently have 13 councils in Michigan, but the organization evidently is in the process of a reorganization that will reduce the number of councils to three. Apparently, most of the councils own property that is exempt from the property tax and the consolidation will result in some councils' owning more than 400 acres of property. Under the General Property Tax Act, up to 400 acres owned by a Boy or Girl Scout or Camp Fire Girls organization, a 4-H club or foundation, or a YMCA or a YWCA is exempt from the tax. Some people believe that these associations and organizations should be allowed to own more than 400 acres of property without it being subject to the property tax.

CONTENT

The bill would amend the General Property Tax Act to delete the 400-acre limit on tax-exempt property owned by certain associations and organizations, and allow the exemption only for property used for the purposes for which an entity was organized.

Under the Act, up to 400 acres of land in the State owned by a Boy or Girl Scout or Camp Fire Girls organization, a 4-H club or foundation, or a Young Men's Christian Association or Young Women's Christian Association is exempt from the property tax if at least 50% of its members are Michigan residents. Upon petition of the association or organization, the county board of commissioners may waive the residence requirement while the property is occupied by the association or organization solely for the purposes for which it was incorporated or established.

The bill would remove the 400-acre limit and allow the exemption only for an organization or association exempt under Section 501(c) of the Internal Revenue Code and property occupied solely for the purposes for which organization or association was organized.

MCL 211.7q

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Faced with ever-increasing expenses and the financial constraints of being nonprofit organizations, groups such as the Girl Scouts are being forced to consolidate their operations in Michigan so that they can be run with fewer offices and staff. Consolidation sometimes results in an organization's owning more than 400 acres of property in Michigan, which means that it must pay the property tax on the property over 400 acres, even if the property's use has not changed. The bill would allow Girl Scouts, Boy Scouts, and other organizations to enjoy the economies of scale that come from consolidating their operations without having to worry about finding money to pay for a new property tax obligation.

Under Section 7o of the General Property Tax Act, real or personal property that is owned and occupied by a nonprofit charitable institution solely for the purposes for which it was incorporated is exempt from the tax. Certain organizations, however, fall under Section 7q of the Act, and only 400 acres or less of their property is exempt. It is unfair that a Boy or Girl Scout or Camp Fire Girls organization, a 4-H club or foundation, or a YMCA or YWCA that owns more than 400 acres of property is subject to the property tax on the excess when other nonprofit charitable institutions that own more than 400 acres of land are not.

Opposing Argument

The bill could allow groups such as the Boy and Girl Scouts to engage in property speculation by purchasing property and holding it, property tax-free, while it increases in value and then selling the property for a profit. Currently, those organizations are limited in the amount of property they purchase by the 400-acre limit. The State should not be providing property tax breaks to organizations that are holding real estate as an investment.

Response: Under the bill, property would be exempt from the property tax only when it was being used for the purposes for which the tax-exempt organization that owned the property was organized. Investment property that was not being used by an organization would be subject to the property tax.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would increase School Aid Fund expenditures and reduce State and local revenue by an unknown amount, depending upon the acreage owned by organizations affected by the bill, the value of that property, and the mills applied to the property. Furthermore, by expanding the exemption, the bill could encourage affected organizations to increase their property holdings by an unknown amount. The exemption provided for under current law is per organization but involves property held anywhere in Michigan. Any reduction in local school district property tax revenue would be offset by increased expenditures from the School Aid Fund in order to maintain per-pupil funding guarantees.

Existing property held by an affected organization currently would be treated as non-homestead property which, statewide, faces an average millage rate of 51 mills. Both the value of property per acre and the applicable mills can vary significantly. There are approximately 36.4 million acres of land in Michigan, and the total taxable value of real property is $293.1 billion, for an average taxable value of slightly more than $8,000 per acre. If the bill resulted in exempting 10,000 acres of land that matched these averages, it would reduce property taxes by approximately $4.1 million.

The effect on individual local units would vary significantly depending on the local unit. Affected taxes within a large metropolitan area would likely comprise an insignificant portion of the local unit's revenue, while a large campground/natural area in a small rural township could represent a meaningful portion of the unit's tax base.

Fiscal Analyst: David Zin

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