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

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

BILL ANALYSIS

Senate Bills 1021 and 1022 **PUBLIC ACTS 603 & 604 of 2012**
Sponsor: Senator Tom Casperson (S.B. 1021)
Senator Darwin L. Booher (S.B. 1022)
Senate Committee: Natural Resources, Environment and Great Lakes
House Committee: Natural Resources, Tourism, and Outdoor Recreation

Date Completed: 1-28-13

CONTENT

Senate Bill 1021 amended Part 21 (General Real Estate Powers) of the Natural Resources and Environmental Protection Act (NREPA) to do the following:

-- **Require an annual increase in the tax paid by the State to each county in which the State owns certain land, and require the State to make payment in full.**
-- **Revise the formula for assessing a parcel's value for the purpose of State payments in lieu of taxes (PILT) to local assessing districts.**

Senate Bill 1022 amended Parts 21 and 511 (Commercial Forests) of NREPA to do the following:

-- **Reduce PILT to a local assessing district by 5% for each month it is late in submitting to the respective county the district's statement of the assessment of property for which PILT are claimed.**
-- **Require the State to make full PILT to local assessing districts, and to counties for commercial forestland.**
-- **If the State does not make full payment to all local assessing districts, subject the delinquent amount to the penalty and interest for delinquent taxes under the General Property Tax Act.**

The bills took effect on January 9, 2013.

Senate Bill 1021

Tax on State-Owned Land

On December 1 of each year, the Department of Treasury must pay a tax to each county that contains tax reverted, recreation, forest, or other land under the control and supervision of the Department of Natural Resources (DNR) (commonly referred to as swamp and tax-reverted land). The tax is in lieu of all other taxes levied against the land under any existing law. The tax does not apply to land purchased after January 1, 1933, for natural resource purposes or State land on which PILT are made (as described below).

The amount of the tax is $2 per acre or major portion of an acre on all land that belongs to the State on that December 1.

Under the bill, after December 31, 2013, and before January 1, 2015, the tax will be $3 per acre. After December 31, 2014, the tax will be $4 per acre, and will have to be adjusted annually by the lesser of 5% or the inflation rate. ("Inflation rate" means that term as defined in Section 34d of the General Property Tax Act.)

Part 21 requires the Department of Treasury to make a detailed statement of account between the State and each applicable county, and submit the statement to the county treasurer. The Department must cause a warrant to be drawn payable to the county for the amount indicated on the statement. The tax must be paid from the General Fund. The bill requires the State to make payment in full for the amount indicated in the statement.

PILT: Purchased Land

Part 21 requires the DNR to give the State Tax Commission a list of all real property owned by the State and controlled by the DNR that was or is acquired by purchase on or after January 1, 1933. The Commission must determine the valuation of this property annually, and report to the assessing districts in which the property is located. Upon receiving the valuation, the assessing officer must enter upon the assessment rolls of each municipality or assessing district, and assess the property at the same rate as other real property in the district. The assessing officer may adjust the valuation determined by the Commission, upon certification to the DNR of certain information. Previously, an adjustment could not include assessments for special improvements, or any millage in excess of the millage rate levied in 2004. The bill deleted those exclusions.

Previously, property valuations were established as follows:

-- For valuations established in 2004, the 2004 valuation was the valuation of the property in 2004 through 2008.
-- In 2009 and each year after that, the valuation could not increase each year by more than the increase in the immediately preceding year in the general price level or 5%, whichever was less.
-- If property was acquired after 2004, the initial valuation was the valuation for each subsequent year until the next adjustment occurred.

Under the bill, that formula applied before 2012. Beginning in 2013, property valuations will be the greater of the value of the property calculated as described above, or the taxable value of the property calculated under Section 27a of the General Property Tax Act.

(Under that section, the taxable value is the lesser of the following:

-- The property's taxable value in the immediately preceding year minus any losses, multiplied by the lesser of 1.05 or the inflation rate, plus all additions.
-- The property's current State equalized valuation (SEV).

Upon a transfer of ownership, the property's taxable value for the calendar year following the year of the transfer is the property's SEV for the calendar year following the transfer.)

Senate Bill 1022

Payment in Lieu of Taxes

Under Part 21, the treasurer or other officer charged with the collection of taxes for an assessing district annually must forward a single statement of the assessment of all property for which PILT are claimed to the respective county by December 1. The statement must include an itemization of the valuation and assessment for each individual parcel for which payments are claimed. The county must forward the statements to the Lansing DNR office by December 15. The Lansing office must review each one and, if the assessment has been determined properly, authorize the State Treasurer to pay the amount of the assessment. The State Treasurer annually must forward a separate payment to each affected assessing district in the county by February 14.

Under the bill, beginning in 2014, if an assessing district does not submit a statement by January 1, the amount payable to that district will be reduced by 5% for each month or portion of a month after January 1 that the statement is late.

For payments made to assessing districts before 2012, Part 21 requires the aggregate amount for all payments to all assessing districts to be charged as follows:

-- The portion that represents an assessment by a local school district, intermediate school district (ISD), or community college district must be charged against the School Aid Fund.
-- Of the remaining balance, up to 50% must be charged from DNR restricted revenue sources, and the rest must be charged from the General Fund.

For payments made after 2011, the same formula applies if the property was not purchased with funds from Natural Resources Trust Fund (NRTF). If the property was purchased with NRTF funds, the payment must be charged against the Trust Fund.

Previously, if the amount available for payment to all local assessing districts from the General Fund or any restricted fund was less than the amount required for payment, the amount available for payment to each district had to be distributed in the same proportion from the respective fund that the payment was to the total of all required payments from that fund. Under the bill, this requirement applied before 2012. Beginning in 2013, the State must make payment in full to all local assessing districts. Beginning in 2014, if the State does not make payment in full, the delinquent amount that the State fails to pay is subject to penalty and interest as for delinquent taxes under the General Property Tax Act.

<u>Commercial Forestland</u>

Under Part 511, the DNR annually must certify to the State Treasurer the number of acres that are commercial forestland in each county, and the State Treasurer must transmit to each county treasurer a warrant for an amount equal to $1.25 per acre, which the county treasurer must distribute among townships as prescribed in Part 511. (This amount must be increased by five cents per acre every five years.)

The bill requires the State to make payment in full to each county for commercial forestland.

MCL 324.2150 & 324.2153 (S.B. 1021)
324.2154 & 324.51106 (S.B. 1022)

Legislative Analyst: Julie Cassidy

<u>FISCAL IMPACT</u>

The new PILT calculation will increase the eligibility amounts for local governments in the Purchased Lands and Swamp and Tax Reverted Property programs. Payments, however, will remain subject to appropriation. In the absence of increased appropriations, the higher amounts calculated pursuant to the bills will not be made. The budgets for the Department of Treasury and School Aid include PILT appropriations. Year-to-date appropriations for PILT total about $18.9 million in FY 2012-13.

The provisions in the bills will be phased in over several years. Beginning in FY 2012-13, the bills prohibit proration of the three PILT programs: Commercial Forest Reserve, Purchased Lands, and Swamp and Tax Reverted Lands. After the supplemental funding recently enacted in Public Act 465 of 2012 (a School Aid supplemental) and Public Act 518 of 2012 (for the Department of Treasury), it is estimated that PILT programs are funded fully in FY 2012-13; thus, this requirement will not have any additional fiscal impact in the current year.

If the funding is appropriated in accordance the legislation, the bills will increase the payments for land in the Swamp and Tax Reverted Property Program from the current $2 per acre to $3 per acre for payments in FY 2014-15 and $4 per acre in FY 2015-16. In subsequent years, the payment rate will increase by the rate of inflation or 5.0%, whichever is less. When compared with the rate currently in effect, these changes will increase payments by an estimated $3.5 million GF/GP in FY 2014-15, and by an estimated $7.1 million in FY 2015-16, and with the possibility of increases up to about $700,000 GF/GP in FY 2015-16 and beyond due to the inflationary adjustment. Estimated payments for PILT for Swamp and Tax Reverted Property are summarized in the table below.

Payments in Lieu of Taxes for
Swamp and Tax Reverted Property
Estimated Appropriations under
Enacted Senate Bills 1021 and 1022

	Rate Per Acre	Estimated Appropriations
FY 2011-12 YTD	$2.00	$6,730,600
FY 2012-13 YTD	2.00	7,429,100
FY 2013-14	2.00	7,429,100
FY 2014-15	3.00	10,622,200
FY 2015-16	4.00	14,162,900

Allowing the taxable value to increase to current-year taxable value will increase payments by approximately $1.5 million beginning in FY 2013-14; this amount consists of an estimated $361,200 GF/GP, $572,800 School Aid Fund, and $566,000 in State Restricted funds. Applying PILT to special assessments will increase State costs for Purchased Lands by an unknown amount. Statewide, special assessments are about 1.0% of total property tax revenue, which suggests that this will not be a significant increase in cost. The State cost of making PILT on Purchased Lands based on current millage rates (as opposed to the millage rates in effect in 2004) is unknown. These estimates depend on a number of assumptions, in particular those related to taxable value growth, and all amounts will be subject to appropriation. In addition, parcels covered by the PILT programs vary from year to year with acquisitions and sales.

The bills provide for the State to pay penalties to eligible local governments if the Purchased Lands payments are not paid in full; however, these penalties also will be subject to appropriation. The penalty on local governments that submit tax bills after the deadline will possibly decrease payments to local governments, if they submit tax bills late in spite of the penalty. Both of the penalties will first apply in FY 2013-14.

Fiscal Analyst: Elizabeth Pratt