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Senate Bill 1245 (Substitute S-2 as reported by the Committee of the Whole)  
Sponsor: Senator Joanne G. Emmons  
Committee: Farming, Agribusiness and Food Systems

## **CONTENT**

The bill would amend the General Property Tax Act to provide for the assessment of agricultural property based upon agricultural use; prescribe the determination of "agricultural use value"; eliminate developmental property as a classification of property for tax purposes; and exempt greenhouses from the property tax.

Beginning December 31, 2000, property that was "qualified agricultural property" would have to be assessed at 50% of its "agricultural use value" under Article 9, Section 3 of the State Constitution (which would be amended by Senate Joint Resolution M). "Agricultural use value" would mean that value calculated using the method determined by the State Tax Commission, after consultation with the Department of Agriculture. The method would have to include the consideration of factors identified in the bill. For purposes of determining agricultural use value, "qualified agricultural property" would mean property exempt from the tax levied by a local school district for school operating purposes.

Under the Act, "qualified agricultural property" means unoccupied property and related buildings classified as agricultural, or other unoccupied property and related buildings located on that property devoted primarily to "agricultural use" as defined in the Natural Resources and Environmental Protection Act. The bill would place that Act's definition in the General Property Tax Act; provide that agricultural use also would include property enrolled in a Federal acreage set-aside or Federal conservation program; and specify that agricultural use would not include commercial storage, processing, distribution, marketing, or shipping operations.

The bill is tie-barred to Senate Bill 1246 and to Senate Bill 1247, and could not take effect unless Senate Joint Resolution M was approved by a vote of the electors and became a part of the State Constitution. (Senate Joint Resolution M proposes a constitutional amendment to provide for the assessment of agricultural property based on the lesser of its market value or agricultural use value, without regard to the property's highest and best use.)

MCL 211.7dd et al.

Legislative Analyst: G. Towne

## **FISCAL IMPACT**

The changes to the General Property Tax Act proposed in this bill that would have a fiscal impact include 1) exempting greenhouses from the property tax, 2) eliminating the "pop-up" in the property tax base when qualified agricultural property changed ownership, and 3) basing the value of agricultural real property on its current use. In total, it is estimated preliminarily that these changes would reduce various property taxes by \$90.4 million in 2001. The preliminary estimated fiscal impact of each of these changes is summarized below.

Greenhouses - This bill proposes to exempt greenhouses from property taxes. This exemption would be limited to greenhouses only and not the land on which they are located. It is estimated that this exemption would reduce total property tax revenue by \$4 million in 2001. This loss in revenue would affect the various types of property taxes as follows in 2001: Local government property taxes would decline \$1.1 million, local school taxes would decline \$1.8 million, intermediate school district (ISD) tax revenue would decline \$0.4 million, community college property tax revenue would decrease \$0.1 million, and the State education property tax revenue would decrease \$0.6 million.

Assessment Cap and Ownership Changes - Under this bill, when qualified agricultural property changed

ownership, but continued to be qualified agricultural property under the new owner, the cap on the assessed value would not be removed; as a result, the new owner's property taxes would be lower than they otherwise would be if the assessment cap came off, as it would under current law. This proposed change would reduce total property taxes an estimated \$2.6 million in 2002, and by 2005 the loss in property tax revenue would increase to an estimated \$4.1 million. This loss in revenue would affect the various types of property taxes as follows in 2002: Local government property taxes would decline \$1.0 million, local school taxes would decline \$0.2 million, ISD tax revenue would decline \$0.4 million, community college property taxes would decrease \$0.1 million, and the State education property tax revenue would decrease \$0.6 million.

Valuation Based on Use - The preliminary estimate is that assessing qualified agricultural real property based on its current use and not its highest and best use, would reduce property taxes at least \$86 million in 2002, assuming that all qualified farmers chose to have their real property assessed using this new method. Based on this estimate of the reduction in property taxes, this loss in revenue would affect the various types of property taxes as follows in 2002: Local government property taxes would decline \$41 million, ISD tax revenue would decrease \$18 million, community college property taxes would decline \$4 million, and the State education property tax revenue would decrease \$23 million. It is also estimated that the current farmland and open space property tax credit claimed by farmers would decline under a use valuation system and, as a result, General Fund/General Purpose revenue would increase an estimated \$10 million to \$15 million in FY 2002-03.

Date Completed: 5-31-00

Fiscal Analyst: J. Wortley

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