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BILL ANALYSIS

Senate Fiscal Agency

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Senate Bill 750 (Substitute S-2 as passed by the Senate)

Sponsor: Senator Connie Binsfeld

Committee: Local Government and Veterans

Date Completed: 5-21-90

RATIONALE

Under the Federal "payment in lieu of taxes" (PILT) law, local units of government receive money from the U.S. government in lieu of property taxes on Federal land in the local units, since Federal land is not taxable by state or local government. Payments under the PILT law must be reduced, however, by the amount a local unit received in the previous year under a Federal "payment law". Two such payment laws that affect Michigan counties are the following:

- 1) The Bankhead-Jones Farm Tenant Act (BJFTA), which provides for the return to counties of 25% of the net revenue received from land acquired by the U.S. Department of Agriculture for land conservation and utilization purposes, and requires these payments to be used for school and/or road purposes.
- 2) "The Act of May 23, 1908", which applies to National Forest Reserve (NFR) land (forest land reserved from the public domain) and requires the payment to counties of 25% of revenue received from such land, "to be expended as the State...legislature may prescribe for the benefit of the public schools and public roads of the county or counties in which such national forest is situated".

Payments under a "payment law" must be deducted from PILT amounts, however, only if the payments are actually received by the local unit of government, according to a decision by the Comptroller General of the United States and interpretations of the U.S. Department of the Interior. Thus, Federal revenues distributed directly to a financially independent governmental unit (e.g., a school district) without being received or acted upon by a local

unit of government are not deducted from PILT payments to that local unit. Nevertheless, although payments to Michigan counties under the BJFTA and the National Forest Reserve law are allocated to schools and road commissions, PILT payments are reduced for the following reasons:

- Michigan does not have a law directing the distribution of BJFTA payments, so the entire amount of these payments is deducted.
- Although there is a State law requiring counties that receive NFR payments to spend the money for public schools and roads, road commissions apparently are not considered independent units of government, so the amount of NFR payments allocated to county road commissions is deducted.

Thus, in order for Michigan counties to receive the full amount of PILT payments, without reductions for BJFTA and National Forest Reserve payments, it has been suggested that State law should allocate all BJFTA and NFR payments to school districts.

CONTENT

The bill would create a new act to do the following:

- Require a county that receives a payment under the Bankhead-Jones Farm Tenant Act to redistribute that payment to local school districts in that county for school purposes. The county board of commissioners would have to determine the ratio of the distribution by resolution or as part of the county's

annual budget.

- Require that all money received from the Federal government for National Forest Reserve land be spent for local school districts in the counties in which national forests are situated. The money would have to be distributed to those counties in the same proportion as the national forest acreage in each county is to the total national forest acreage in the State. The treasurer of a county receiving this money would have to distribute it to local school districts in that county in the same proportion as the national forest acreage in each district is to the total such acreage in the county.
- Repeal Public Act 37 of 1933, which requires that 75% of National Forest Reserve payments be spent for public schools and 25% for roads in the counties in which national forests are situated.

FISCAL IMPACT

The bill would have no fiscal impact on the State, but could increase Federal payments to

counties by \$495,174, which is the amount that school districts would receive under the Bankhead-Jones Farm Tenant Act (\$160,444) and the National Forest Reserve Act (\$334,730). (Currently, the \$160,444 BJFTA payment is divided between schools (\$120,333) and county road commissions (\$40,111). Total NFR payments of \$1,338,920 also are divided between schools (\$1,004,190) and county road commissions (\$334,730).) At present, the entire \$160,444 is deducted from Federal payments in lieu of taxes (PILT) because Michigan law does not provide for the allocation of this money as required by Federal law. According to the U.S. Bureau of Land Management, the designation must be for an "independent agency or school district". The \$334,730 is deducted from PILT because that amount is currently allocated to county road commissions from payments from the National Forest Reserve pursuant to Public Act 37 of 1933. The deduction is made for payments to road commissions and not local school districts because the Federal government has determined that county road commissions are not "independent" from counties. The county road commissions, the counties and local school districts would be affected as follows:

| | <u>Current</u> | <u>S.B. 750 (S-2)</u> |
|-------------------------|--------------------|-----------------------|
| County Road Commissions | \$ 374,841 | \$ 0 |
| Counties | 0 | 495,174 |
| Local School Districts | <u>1,124,523</u> | <u>1,499,364</u> |
| TOTAL | \$1,499,364 | \$1,994,538 |

ARGUMENTS

Supporting Argument

By requiring in statute that all BJFTA and National Forest Reserve payments to counties be distributed to school districts, the bill would ensure that the full amount of Federal payments in lieu taxes was paid to Michigan counties without being reduced by the amount of BJFTA and NFR payments. While the 15 counties that receive these payments obviously would benefit from the additional PILT funds, school districts in the counties also would benefit by the additional revenue that is now being directed to road commissions.

Opposing Argument

Although the bill would help counties and

schools, county road commissions would lose approximately \$375,000 that they now receive in BJFTA and NFR payments.

Response: Counties could allocate additional funds to road commissions to make up for lost Federal payments.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.