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SFA**BILL ANALYSIS**

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Senate Bill 48 (Substitute S-1)
Sponsor: Senator Leon Stille
Committee: Finance

Date Completed: 11-2-99

CONTENT

The bill would amend the General Property Tax Act to provide that beginning December 31, 1999, property that was classified as "agricultural real property" or that was in "agricultural use" would have to be assessed at the lesser of the property's value determined under the income approach to valuation or the market approach to valuation. The bill is tie-barred to Senate Joint Resolution M, which would propose an amendment to Article 9, Section 3 of the State Constitution to require agricultural real property used in agricultural operations to be assessed based on the property's use in agricultural operations, without regard to its highest and best use. In addition, the bill would replace the term "cash value" with the term "true cash value" in the Act's definitions.

(Article 9, Section 3 of the State Constitution requires the Legislature to provide for the determination of true cash value of real and personal property. The Act provides that in determining the true cash value of property, assessors must use the official assessors manual approved by the State Tax Commission. The assessors manual prescribes three methods of determining the value of property, including the income approach and the market approach. As provided in the assessors manual, the income approach is used in the valuation of investment property; a projection of expected gross income is prepared, the items of operating expenses are estimated, and the difference between gross income and expenses indicates the expected net income. The market approach (called the direct sales comparison approach, in the manual) estimates the value of a given property by comparing it with similar property that has recently been sold or offered for sale in the open market.)

The bill would refer to "agricultural real property" under section 34c of the Act. Section 34c provides that "agricultural real property" includes parcels used partially or wholly for agricultural operations, with or without buildings, and parcels assessed to the Department of Natural Resources and valued by the State Tax Commission. "Agricultural operations" means farming in all its branches, including cultivating soil; growing and harvesting any agricultural, horticultural, or floricultural commodity; dairying; raising livestock, bees, fish, fur-bearing animals, or poultry; turf and tree farming; and performing any practices on a farm incident to, or in conjunction with, farming operations. A commercial storage, processing, distribution, marketing, or shipping operation is not part of agricultural operations.

The bill provides that "agricultural use" would mean that term as defined in the Natural Resources and Environmental Protection Act. The Act provides that "agricultural use" means substantially undeveloped land devoted to the production of plants and animals useful to humans, including forages and sod crops; grains, feed crops, and field crops; dairy and dairy products; poultry and poultry products; livestock, including breeding and grazing of cattle, swine, captive cervidae, and similar animals; berries; herbs; flowers; seeds; grasses; nursery stock; fruits; vegetables; Christmas trees; and other similar uses and activities. The management and harvesting of a woodlot is not an agricultural use under the Act.

MCL 211.27

Legislative Analyst: G. Towne

FISCAL IMPACT

Based on literature and data from other states, this bill would reduce property taxes by approximately \$90 million in calendar year 2000. Local government property tax revenue would decline by \$33.8 million and school property taxes would decline by \$33.8 million. The State fiscal impact would be a reduction of the State education tax revenue by \$22.5 million and an increase of \$3.8 million to reimburse schools for lost property tax revenue. It is important to note that implementation of the existing use value for agricultural property, as indicated in this bill, could change the estimated fiscal impact.

Fiscal Analyst: R. Ross

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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.