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SFA BILL ANALYSIS

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Senate Bill 692 (as introduced 10-4-01)
Sponsor: Senator Bev Hammerstrom
Committee: Farming, Agribusiness and Food Systems

Date Completed: 11-7-01

CONTENT

The bill would amend Part 361 (Farmland and Open Space Preservation) and Part 362 (Agricultural Preservation Fund) of the Natural Resources and Environmental Protection Act to do the following:

- **Provide for the automatic termination of a farmland development rights agreement (FDRA) when the farmland became subject to a development rights easement.**
- **Provide that farmland would not be subject to a lien for tax credits received by the owner if, upon expiration of an FDRA, the farmland became subject to an agricultural conservation easement or purchase of development rights agreement or if the FDRA were automatically terminated when the farmland became subject to a development rights easement.**
- **Extend the income tax and single business tax credits (currently available for land subject to an FDRA) to property subject to an agricultural conservation easement or purchase of development rights.**

Under Part 361, the owner of farmland may enroll in a farmland development rights agreement, which entitles the owner to a tax credit in exchange for keeping the land in agricultural production for the term of the agreement. The agreement must be for an initial term of at least 10 years and, upon expiration, may be renewed in increments of at least seven years. The FDRA is relinquished by the State when its term expires, unless renewed. If the farmer lets the agreement expire, the tax credits received during the last seven years of the agreement must be repaid. If the amount is not paid within 30 days, the State must record a lien against the property for the amount due. Lien payments are deposited in the Agricultural Preservation Fund.

Part 361 also permits the State to purchase development rights of unique or critical land or farmland that does not necessitate the purchase of the land itself. In addition, under Part 362, eligible local units of government may purchase agricultural conservation easements, under which land owners permanently relinquish their development rights. These purchases may be made with money from the Agricultural Preservation Fund.

Under the bill, a farmland development rights agreement would be automatically relinquished when the farmland became subject to a development rights easement under Part 361 or 362. The bill also provides that farmland would not be subject to a lien for seven years of tax credits if, upon expiration of the term of an FDRA, the farmland became subject to an agricultural conservation easement or purchase of development rights under Part 361 or 362, of if an FDRA were automatically relinquished as provided in the bill.

The Act permits the owner of land covered by an FDRA to claim a credit against the State income tax or single business tax for the amount by which the property taxes on the land and structures exceed 3.5% of the owner's household income or adjusted business income, as applicable. Under the bill, the tax credit also would be available to the owner of land subject to a purchase of development rights or an agricultural conservation easement under Part 361 or 362.

MCL 324.36105 et al. Legislative Analyst: S. Lowe

FISCAL IMPACT

The bill would decrease State revenue by extending the tax credits currently available only to land owners enrolled in an FDRA to land owners who are enrolled in a purchase of development rights or an agricultural conservation easement.

The bill would increase the cost of the farmland preservation tax credit, and therefore reduce net income tax revenue by expanding the tax credit to land owners who transfer from an FDRA to a purchase of development rights or an agricultural conservation easement. According to Department of Treasury data, the average tax credit under the FDRA program in 2000 was $2,479. This figure is expected to increase in 2001 as a result of Public Act (PA) 421 of 2000, which decreased, from 7% to 3.5%, the income threshold for a land owner to participate in an FDRA . This increase in the tax credit due to PA 421 will result from two factors: 1) Taxpayers currently receiving a credit, will experience an increase in the amount of their credit, and 2) some taxpayers who currently do not qualify for the credit will become eligible under the lower household income threshold. Factoring in the estimated impacts of the changes from PA 421, the average tax credit would increase to $4,000.

The Department of Agriculture received over 300 applications for the next round of purchase of development rights and anticipates that 12 to 14 will be selected for funding in 2001. A total of $5 million is available. Using these figures and the estimated 2001 average tax credit of $4,000, the bill would result in a total loss of revenue of $48,000 to $56,000 for the next round of purchase of development rights. The actual impact would be based on the household income and property taxes of the land owners selected for purchase of development rights. Future impacts would be contingent on the number of purchase of development rights selected for funding and the associated household income and property tax levels. It is estimated that almost all of this loss in revenue would affect General Fund/General Purpose revenue.

In addition to the General Fund/General Purpose revenue impact, the bill would decrease deposits to the Agricultural Preservation Fund by exempting land owners from the repayment requirements when they transfer their property from an FDRA to a purchase of development rights. Assuming that 12 to 14 purchase of development rights are selected in 2001, the impact on the Agricultural Preservation Fund would be a loss of revenue of nearly $200,000, excluding any interest payments for early termination of an FDRA. Again, the future impact would be contingent on the number of purchase of development rights selected for funding and the associated household income and property tax levels. This revenue would not be available for future purchase of development rights.

Fiscal Analyst: C. Thiel