



**House
Legislative
Analysis
Section**

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MICH. FOREST FINANCE AUTHORITY

**House Bill 4688 as enrolled
Second Analysis (12-18-90)**

**Sponsor: Rep. Thomas L. Hickner
House Committee: Forestry & Minerals
Senate Committee: Natural Resources &
Environmental Affairs**

THE APPARENT PROBLEM:

Each year foresters of the Department of Natural Resources inventory one-tenth of the state's forest acreage and suggest improvements for better management of the forests. Recommendations are reviewed and agreements are reached concerning management practices to be implemented within the next ten years for the forests inventoried, but many of the recommendations are not implemented because there are not enough funds. Currently, a large share of the state's forest management practices are financed from timber sales receipts occurring in the same year. However, because forest management practices have not been funded at great levels, current receipts are not adequate to cover the management practices that are needed to ensure continued improvement of the state's forests. Therefore, a cycle has resulted in which recommendations of forest management practices are made but not implemented because there is not enough funding, forests continue to be negatively affected, and timber sales receipts continue to remain inadequate to fund recommendations. In order to break this cycle, legislation has been proposed to create a stable financing mechanism in addition to current mechanisms to better implement existing forest management policy.

THE CONTENT OF THE BILL:

The bill would create the Michigan Forest Finance Authority as a corporate body within the Department of Natural Resources to provide for the acquisition of standing timber and timber cutting rights in standing timber on certain state lands and to provide for certain forest management operations and practices. The authority would be governed by a board of directors consisting of the director of the Department of Natural Resources (DNR), the state treasurer, and three residents of the state appointed by the governor with the advice and consent of the Senate. The board would be subject to the provisions of the Open Meetings Act (Public Act 267 of 1976). The state forester would serve as the executive director of the authority. The authority could employ experts and other permanent or temporary employees paid from its funds. Under the bill, the board would be required to do all things necessary to carry out its purposes including acquiring standing timber, timber cutting rights, and the state's interest in contracts granting cutting rights, on certain state lands.

The bill would require the DNR to annually submit a list of activities and practices allocated from the funds generated under the bill for the board's review and determination of consistency with the purposes of the bill. The authority would finance only forest management operations and practices that followed the guidelines, rules, and objectives prescribed and approved by the DNR. In addition, funds managed by the authority would be applied in a manner consistent with the land management planning policies of the DNR on lands identified for forest

management practices. In the absence of an approved state forest management plan covering a candidate area, an interim procedure, as adopted by the Natural Resources Commission, would be used to assure that all forest values had been considered in selecting sites for investment with funds of the authority. The authority would issue contracts for the cutting and sale of timber only upon approval by an authorized representative of the DNR. The DNR would act as the agent for the authority in contracting for the cutting and sale of timber or other forest management operations and practices undertaken by the authority. Contracts for the cutting and sale of timber would be consistent with the guidelines, rules, and objectives prescribed by the DNR. Upon the expiration of 180 days after the effective date of the bill, the state's interest in all existing contracts granting timber cutting rights on state tax reverted lands would be conveyed to the authority to be used for any of the purposes of the bill.

The board's activities would be financed through gifts, grants, loans, and other aid from any person, or the federal, state, or local government or any agency of the federal, state or local government. In addition, the bill would provide for the issuance of bonds or notes by the authority in amounts it considered necessary to provide funds for any purpose, including the following:

- payment, funding or refunding or the principal of, interest on, or redemption premiums on bonds or notes issued by the authority;
- establishment or increase of reserves to secure or to pay authority bonds or notes or interest on those bonds or notes;
- payment of interest on bonds or notes; and
- payment of all other costs or expenses of the authority incident to and necessary to carry out its corporate purposes and powers.

The bonds or notes of the authority would be authorized by resolution of the authority and would comply with provisions in the bill. The bill would prohibit the authority from mortgaging or granting a security interest in or otherwise pledging its ownership rights in standing timber. However, it would not prohibit the authority from pledging any revenues derived from the sale of timber or any contracts for the cutting of timber. Bonds or notes of the authority would be payable solely from the revenues of the authority, and would not be a liability of the state or constitute a pledge of the faith and credit of the state. Authority bonds would not be subject to the Municipal Finance Act, would not require the approval of the state treasurer, would not be required to be registered, and would not be required to be filed under the Uniform Securities Act.

The bill would repeal the Forest Management Fund Act. The act requires money or proceeds received by the DNR from the sale of forest products from state tax reverted lands to be credited to a special forest management fund to be expended by the department for reforestation, forest protection and timber stand improvement projects.

FISCAL IMPLICATIONS:

According to the Department of Natural Resources, the bill is expected to generate an additional \$600,000 to \$700,000 in timber sale revenue within the first ten years after implementation of the bill and \$12 million within the following ten years. (12-18-90)

ARGUMENTS:

For:

Current funding for the implementation of forest management practices is inadequate to ensure the growth and development of the state's forest resources. The bill will allow the authority to borrow and reinvest money through the issuance of bonds to implement management practices designed to increase and improve forest growth. It will substantially improve resource management of the state's forests and ensure prompt reforestation of harvested areas. In addition, the bill will allow the state forest system's share of Michigan's total timber supply to be grown on fewer acres than would be needed with less effective management. Further, the bill is part of the governor's target industry program policy for economic development and is expected to relieve pressure on the state forest system's recreational and natural areas.