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House Bill 5454 (Substitute S-1 as reported)
House Bill 5455 (Substitute S-1 as reported)
Sponsor: Representative Kevin Elsenheimer (H.B. 5454)
Representative Bill Huizenga (H.B. 5455)
House Committee: Conservation, Forestry, and Outdoor Recreation
Senate Committee: Agriculture, Forestry and Tourism

CONTENT

The bills would amend Part 511 (Commercial Forests) of the Natural Resources and Environmental Protection Act to do the following:

- Increase the specific tax rate on commercial forestland from \$1.10 per acre to \$1.20 per acre on January 1, 2007, until December 31, 2011, and by five cents per acre on January 1, 2012, and every five years after that date.
- Increase the State's payment in lieu of taxes on commercial forestland (currently \$1.20 per acre) by five cents per acre on January 1, 2012, and every five years after that date.
- Repeal Section 51107 of the Act, which requires the tax rate for commercial forestland to be adjusted in 2006 and every 10th year after that.
- Revise the current application fee of \$1 per acre for a commercial forest classification to include a minimum fee of \$200.
- Establish a minimum size of 40 contiguous acres, or a survey unit consisting of 1/4 of 1/4 of a section of forestland, for land to be classified as commercial forest.
- Specify that the privilege of hunting and fishing could not be denied for any portion of commercial forestland, even if portions of it were contiguous only at one point.
- Require the Department of Natural Resources to notify each county and township and all owners of commercial forestland of the amendments to Part 511 made by the bills.
- Require the DNR to spend money in the Commercial Forest Fund for the administration and enforcement of Part 511 (as currently required) and proposed Part 512 (Sustainable Forestry Conservation Easement Tax Incentives).

House Bill 5454 (S-1) also would require the penalty for the withdrawal of acreage from commercial forestland designation to be calculated by multiplying the total number of acres withdrawn by the average value per acre of certain comparable property; multiplying that product by the total millage rate levied by all taxing units in the local tax collecting unit where the property was located; and multiplying the resulting product by the number of years, up to seven, during which the withdrawn property had been designated as commercial forestland. For one year after its effective date, the bill would provide an exemption from the penalty under certain conditions.

The two bills are tie-barred to each other and to Senate Bill 917 (which would add Part 512 to establish an annual specific tax for commercial forestland subject to a sustainable forest conservation easement). House Bill 5454 (S-1) also is tie-barred to Senate Bill 912 (which would amend the General Property Tax Act to exempt qualified forest property from taxes levied by local school districts, and exempt the transfer of qualified forest property from a requirement that the taxable value of property to be adjusted upon transfer).

FISCAL IMPACT

House Bill 5455 (S-1) would set a minimum of \$200 for the commercial forest classification application fee, which would increase revenue to the Commercial Forest Fund by an undetermined amount. Applications regarding forestland of 199 acres or less would have to be accompanied by a minimum fee of \$200 instead of using the rate of \$1 per acre to calculate the fee. The Commercial Forest Fund receives annual revenue of approximately \$35,000 and statute designates its use for enforcement, administration, and monitoring of compliance with Part 511 (Commercial Forests) of the Natural Resources and Environmental Protection Act.

House Bill 5454 (S-1) would revise the withdrawal penalty paid to local units of government by commercial forest owners. The revised formula could result in more or less revenue depending on how long the forestland had been in the program and the number of timber cutover acres that would be applied to the calculation under the current formula.

The bill would postpone implementation of these proposed changes to the withdrawal penalties until one year after the bill took effect. During that year, current owners of commercial forests would be allowed to withdraw from a commercial forest designation without paying the penalty if they met certain criteria. The suspension of the withdrawal penalty could encourage commercial forest owners to withdraw, resulting in an indeterminate loss of revenue to local units of governments and the Commercial Forest Fund.

The bills would revise the scheduled increase in payments in lieu of taxes for commercial forestlands. In FY 2005-06, there were 2,209,700 acres of commercial forestland, for which the Department of Natural Resources paid \$1.20 per acre for a total of \$2,651,600 and commercial foresters paid \$1.10 per acre for a total of \$2,430,670. All of this revenue went to local units of government. Under current Section 51107, these amounts would increase by about 300% in FY 2006-07. The bills propose a different formula to increase the payments. Through December 31, 2011, payments made by commercial foresters would increase by 10 cents to \$1.20. The total payment would increase by about \$220,970 annually with the revenue going to local units of government.

Beginning on January 1, 2012, the payments made by both the State and commercial foresters would increase by 5 cents every year. In 2012, local units of government would collect \$2.50 per acre of commercial forestland, which would be \$1.25 each from the two paying parties. The annual increase would be approximately \$110,485 each from the State and commercial foresters. The total annual increase in revenue of \$220,970 would go to local units of government. Under the bills, the payments in lieu of taxes on commercial forestland paid by the State and commercial foresters would increase, but at a slower rate than is currently established in statute.

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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.