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BILL



ANALYSIS

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House Bill 4913 (Substitute H-1 as passed by the House)

Sponsor: Representative Frank Foster

House Committee: Natural Resources, Tourism, and Outdoor Recreation

Senate Committee: Natural Resources, Environment and Great Lakes

Date Completed: 5-16-12

### **CONTENT**

**The bill would amend Part 511 (Commercial Forests) of the Natural Resources and Environmental Protection Act to allow a forest owner to withdraw his or her land from the State's commercial forest program without paying the required withdrawal fee and penalty, if the land otherwise would be tax exempt and other conditions were met.**

Part 511 requires the Department of Natural Resources (DNR) to establish and maintain commercial forests. A person who owns property meeting certain size requirements and other conditions may apply to the DNR to have that forestland determined to be a commercial forest. Among other things, an application must include a statement certifying that a forest management plan covering the land has been prepared and is in effect. Commercial forests approved by the Department are not subject to the ad valorem general property tax. Instead, they are subject to an annual specific tax of \$1.25 per acre. (The amount of the tax was increased from \$1.20 to \$1.25 on January 1, 2012, and must be increased by five cents per acre every five years after that date.)

A commercial forest owner may withdraw his or her land from the operation of Part 511 upon application to the DNR and payment of a withdrawal application fee and penalty. The withdrawal application fee is \$1 per acre, with a minimum fee of \$200 and a maximum of \$1,000 per application. The fee must be forwarded to the Department. The penalty is payable to the treasurer of the township in which the commercial forestland is located, and is calculated according to a formula prescribed in Part 511.

Under the bill, an application to withdraw commercial forestland would have to be granted without payment of the fee or penalty if all of the following requirements were met:

- Evidence was submitted to the DNR that the land met the legal requirements to be exempt from ad valorem property tax on tax day for the tax year in which the list application was submitted and approved, and that the land would have met the requirements for exemption for each year that it was subject to the operation of Part 511, if the land had not been subject to the operation of Part 511.
- The application to withdraw was submitted to the DNR by the same landowner who owned the land on tax day for the tax year in which the list application was submitted, and who submitted the application for commercial forest determination.
- The landowner made reimbursement to the State Treasurer for the specific tax that was paid by the State Treasurer to the county treasurer, as provided in Section 51106(1), for each tax year the land was commercial forestland.

(Under Section 51106(1), on December 1 of each year, the DNR must certify to the State Treasurer the number of acres that are commercial forestland in each county, and transmit to each county treasurer in which the forests are located a warrant for an amount equal to \$1.25 per acre. (This amount must be increased by five cents per acre every five years.) From these payments, the county treasurer must distribute 25 cents for each acre of commercial forest in the county in the same proportions between the various funds as the ad valorem general property tax is distributed by the township treasurers in each township. The county treasurer must distribute the remainder of the funds in the same manner and in the same proportion as ad valorem taxes collected under the ad valorem general property tax.)

MCL 324.51108

Legislative Analyst: Julie Cassidy

### **FISCAL IMPACT**

The bill would have an indeterminate fiscal impact on the Department of Natural Resources and a likely small but negative fiscal impact on local units of government.

Currently, an owner of commercial forestland who wishes to withdraw from the program must pay an application fee or penalty to do so. These fees and penalties are deposited in the Commercial Forest Fund, and generated \$31,100 in FY 2010-11, and are projected to generate \$28,100 in FY 2011-12. The bill would allow owners to withdraw from the program with no fees or penalties in certain circumstances, so an unknown amount of that revenue would be lost. This lost revenue would be offset to an extent by the repayment of PILT for withdrawn property as provided for in the bill.

Municipalities receive no annual property taxes for property that is in the Commercial Forest (CF) program. Instead, the State Treasurer makes a flat \$1.25 per acre payment in lieu of taxes (PILT) to the counties in which the property is located. In FY 2010-11, approximately \$2.3 million in PILT was paid to counties for property in the CF program. Under the bill, assuming property owners took advantage of the potential for reduced withdrawal penalties, the State would not have as much PILT to make, reducing its PILT liability. Since these exemptions from withdrawal penalties would apply only to property that is exempt from ad valorem property taxes, municipalities would stand to lose the \$1.25 per acre PILT for each property released from the CF program under the bill. This lost PILT revenue would not be replaced with normal ad valorem property taxes.

Fiscal Analyst: Josh Sefton

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