



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL



ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 217 (as enrolled)
Sponsor: Senator Darwin L. Boohar
Senate Committee: Natural Resources
House Committee: Natural Resources

Date Completed: 6-30-15

RATIONALE

Reportedly, approximately 11.0 million acres of Michigan's forests are located on private, nonindustrial land. In order to leverage the economic productivity of this land, the State's Qualified Forest Program provides a tax exemption to property owners who actively manage their forests and harvest timber. The amount of land eligible for the qualified forest property exemption statewide is limited to 1.2 million acres. A number of revisions aimed at encouraging Program enrollment were enacted in 2013, including an amendment to address parcels of property that comprise both agricultural use (which also is eligible for a tax exemption) and productive forest.

Evidently, the statutory language has resulted in some difficulties for people seeking a qualified agricultural property exemption for a parcel that contains both agricultural use and forest acreage that is eligible for the qualified forest property exemption. In practice, in order to exempt the combined acreage, the owner must legally split the land into separate agricultural and forest parcels, acquire a deed for each one, and obtain separate exemptions based on the parcels' respective uses. In order to streamline the process, it has been suggested that the total qualifying acreage of a combined use parcel should be eligible for an exemption as qualified forest property.

CONTENT

The bill would amend the General Property Tax Act to do the following:

- **Specify that a parcel of property that contained a combination of agricultural use property and productive forest would be considered qualified forest property (rather than qualified agricultural property), with regard to eligibility for an exemption from school operating taxes.**
- **Encourage a property owner to consult with the local conservation district regarding the owner's obligations under the Qualified Forest Program before submitting an application for a qualified forest property exemption.**

Under the Act, qualified agricultural property and qualified forest property are both exempt from the tax levied by a local school district for school operating purposes to the extent provided in the Revised School Code. To claim a qualified forest property exemption, the property owner must obtain a forest management plan from a qualified forester and submit a digital copy, an application for the exemption, and a \$50 fee to the Michigan Department of Agriculture and Rural Development (MDARD). The bill provides that the property owner would be encouraged to consult with the local conservation district before submitting the application to review the obligations of the Qualified Forest Program and the obligations of the owner's forest management plan.

"Qualified agricultural property" means unoccupied property and related buildings classified as agricultural, or other unoccupied property and related buildings located on the property devoted primarily to agricultural use. A parcel of property is considered to be devoted primarily to

agricultural use only if more than 50% of its acreage is devoted to such use, or is devoted to a combination of agricultural use and is exempt as qualified forest property. The bill would eliminate the reference to a combination of agricultural use and exempt qualified forest property.

"Qualified forest property" means a parcel of real property that meets all of the following conditions as determined by MDARD:

- Is at least 20 contiguous acres in size.
- For parcels of less than 40 acres, at least 80% is stocked with productive forest capable of producing forest products.
- For parcels of 40 acres or more, at least 50% is stocked with productive forest capable of producing forest products.
- Is subject to an approved forest management plan.
- For a parcel exempt as qualified agricultural property, the qualified forest portion of the parcel is at least 20 contiguous acres and meets the applicable threshold for productive forest stock.

The bill would eliminate the criterion related to a parcel exempt as qualified agricultural property. Instead, if a parcel contained both productive forest and agricultural use property, an owner could apply for a designation as qualified forest property if the combined acreage of the parcel met the contiguous acreage and applicable productive forest stock requirements; and the acreage of the agricultural use property were determined by the assessor in the local tax collecting unit in which the parcel was located. The property owner would have to request the determination. The assessor would have to report that acreage to MDARD in a form prescribed by the State Tax Commission within 30 days after the request for the determination. An owner who disagreed with the assessor's determination could appeal it to the board of review as provided in the Act. If the property owner converted all or part of the agricultural use property to forest property by planting trees or other means, the owner would have to notify MDARD and the assessor and the forest management plan would have to be modified to reflect the change in use.

"Productive forest" would mean real property capable of growing at least 20 cubic feet of wood per acre per year. If property were considered productive forest, however, an act of God that negatively affected the property could not result in its not being considered productive forest.

The Act requires MDARD to give an annual report to the standing committees of the Senate and House of Representatives with primary jurisdiction over forestry issues. The report must include all of the following information:

- The number of acres of qualified forest property in each county.
- The amount of timber produced on qualified forest property each year.
- The number of forest management plans completed by conservation districts and the total number of plans submitted for approval each year.

Under the bill, the report also would have to include the number of acres of agricultural use property that was combined with productive forest.

If all or a portion of property for which an exemption has been granted is converted by a change in use and is no longer qualified forest property, the owner immediately must notify the local tax collecting unit, the assessor, MDARD, and the Department of Treasury, and a copy of the notification must be filed with the register of deeds. The local tax collecting unit and the assessor immediately must rescind the exemption and place the property on the tax roll as through the exemption had not been granted for the next tax year. Additionally, the Department of Treasury immediately must begin collection of any applicable tax and penalty under the General Property Tax Act or the Qualified Forest Property Recapture Tax Act.

"Converted by a change in use" means that term as defined in the Qualified Forest Property Recapture Tax Act; i.e., that due to a change in use, the property is no longer eligible for an exemption as qualified forest property. Under the bill, the term also would mean that due to a

change in use of either productive forest property or agricultural use property, the property is no longer eligible for exemption as qualified forest property.

MCL 211.7dd & 211.7jj

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

A significant portion of the State's timber supply is located on private, nonindustrial land; however, most of this land is not actively managed for forest health and productivity. Enrollment in the Qualified Forest Program facilitates effective management, which is associated with a number of benefits related to the environment, outdoor recreation, and the economy. Since the Program revisions enacted in 2013 took effect, enrollment has increased from about 95,000 acres to approximately 225,000 acres, and is expected to continue growing. The current statutory language regarding parcels that are used for both agriculture and forestry, however, can result in a cumbersome administrative process that presents a barrier to participation. The bill would rectify this inefficiency by specifying that the total acreage of a combined use parcel would be considered qualified forest property for purposes of the tax exemption. This change would attract more property owners to land management, promote habitat creation and improved soil and water quality, and enhance the connection between the State's agriculture and forest industries.

Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill would lower local school revenue, and likely increase School Aid Fund expenditures, by an unknown and likely minimal amount. Under current law, the total number of acres that can be categorized as qualified forest property is capped at 1.2 million. Presently, approximately 225,000 acres are enrolled as qualified forest property. It is unknown how many owners of property would choose to seek qualified forest property status under the bill or the number and size of properties that would be affected. Assuming an average property tax rate of 33 mills and average taxable value of \$1,000 per acre, if the bill allowed the qualification of an additional 25,000 acres that would not have otherwise qualified because of the current definitions of eligible property, the bill would reduce local school revenue by approximately \$450,000.

If per-pupil funding guarantees were to be maintained, School Aid Fund expenditures would need to rise by the amount of any local school revenue loss.

Fiscal Analyst: David Zin

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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.