



Senate Fiscal Agency  
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## BILL ANALYSIS



Telephone: (517) 373-5383  
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Senate Bill 651 (Substitute S-1 as reported)  
Senate Bill 652 (Substitute S-1 as reported)  
Senate Bill 653 (Substitute S-1 as reported)  
Sponsor: Senator Darwin L. Booher (S.B. 651 & 652)  
          Senator Tom Casperson (S.B. 653)  
Committee: Natural Resources

**CONTENT**

Senate Bill 651 (S-1) would create the "Transitional Qualified Forest Property Specific Tax Act" to establish procedures under which commercial forest property (which is exempt from ad valorem property taxes and taxed at \$1.25 per acre) could be determined to be "transitional qualified forest property", which would be exempt from ad valorem property taxes but taxed over a five-year phase-in period as qualified forest property (which is exempt from local school operating taxes and subject to a two-mill annual fee). Specifically, the bill would do the following:

- Allow the owner of property classified as commercial forestland on or before June 1, 2016, to apply to the Michigan Department of Agriculture and Rural Development (MDARD) to have the forestland determined to be transitional qualified forest property.
- Create a five-year exemption from ad valorem property taxes for transitional qualified forest property, i.e., land that was previously classified as commercial forestland and meets the criteria for qualified forest property; and instead impose on that property a specific tax calculated as prescribed in the bill.
- Require the specific tax revenue to be disbursed in the same proportions as required for the disbursement of property taxes.
- Limit to 160 acres the amount of land for which each owner could claim a transitional qualified forest property exemption.
- Impose an annual fee on each parcel of transitional qualified forest property for deposit in the Private Forestland Enhancement Fund.
- Exempt property from local school operating taxes and from the penalty for withdrawing the land from the Commercial Forest Program under Part 511 (Commercial Forests) of the Natural Resources and Environmental Protection Act (NREPA), if the property were subject to the specific tax for five years and still eligible for a tax exemption as qualified forest property.
- If transitional qualified forest property were converted by a change in use, require rescission of the property tax exemption and payment of the application fee and penalty that would have been assessed to withdraw the property from the Commercial Forest Program; and require the revenue to be deposited in the Fund.
- Require the owner of transitional qualified forest property to report to the MDARD when a forest practice or timber harvest occurred on the property, and authorize the Department to collect a fine of \$500 from an owner who did not report as required.
- Require MDARD to report annually to the Legislature on transitional forest property.
- Require the owner of transitional qualified forest property to retain the current forest management plan and other records and make them available to MDARD upon request.

- Require MDARD to maintain a database listing all transitional qualified forest property and notify the property owner and conservation district when forest practices or harvests were to occur.
- If an owner did not accomplish harvests and forest practices within three years after the time specified in the forest management plan, provide that the property would no longer be transitional qualified forest property; and require the placement of the property on the tax roll and collection of a recapture tax.

Senate Bill 652 (S-1) would amend the General Property Tax Act to do the following:

- Exempt transitional qualified forest property from the collection of ad valorem property taxes for up to five years.
- Exempt transitional qualified forest property from the collection of local school operating taxes if it were subject to the transitional qualified forest property specific tax for five years and remained eligible for exemption.
- Provide that transitional qualified forest property could not be credited against the statewide acreage limit on exempt qualified forest property.

Senate Bill 653 (S-1) would amend Part 511 (Commercial Forests) of NREPA to do the following:

- Until September 1, 2018, allow the owner of forestland classified as commercial forest by June 1, 2016, to withdraw a maximum of 160 acres of the land without a withdrawal penalty if the land were classified as transitional qualified forest property.
- Within 30 days after the bill took effect, require the Department of Natural Resources and MDARD to establish a written basis of interdepartmental cooperation when a forestland owner sought to withdraw commercial forestland land without penalty as allowed under the bill.

All of the bills are tie-barred.

Senate Bill 651 (S-1) would define "transitional qualified forest property" as forestland that meets all of the following conditions:

- The forestland was classified as commercial forest under Part 511 of NREPA.
- The forestland meets the definition of qualified forest property under Section 7jj of the General Property Tax Act.
- The owner of the forestland has applied to and the application has been approved by MDARD.

(Under Part 511 of NREPA, at least 40 contiguous acres or a survey unit consisting of  $\frac{1}{4}$  of  $\frac{1}{4}$  of a section of forestland may be classified as a commercial forest. To be eligible for the classification, the land must be capable of producing all of the following:

- At least 20 cubic feet per acre per year of forest growth upon maturity.
- Tree species that have economic or commercial value.
- A commercial stand of timber within a reasonable period of time.

Land in the Commercial Forest Program is subject to specific limitations on use and must remain open to the general public for hunting and fishing.

Under Section 7jj of the General Property Tax Act, "qualified forest property" means a parcel of real property that is at least 20 contiguous acres in size and is subject to an approved forest management plan, as determined by MDARD. For parcels less than 40 acres, at least 80% must be stocked with productive forest capable of producing forest products. For parcels of at least 40 acres, at least 50% must be stocked with productive forest capable of producing

forest products. Parcels that contain both productive forest and agricultural use property also may be designated as qualified forest property under certain conditions.)

MCL 211.7jj[1] et al. (S.B. 652)  
324.51108 (S.B. 653)

Legislative Analyst: Julie Cassidy

## **FISCAL IMPACT**

### **Senate Bills 651 (S-1) and 652 (S-1)**

The bills would have a minimal impact on State and local government revenue. The bills would decrease State costs to the General Fund, initially reduce and then increase School Aid Fund revenue, and increase local revenue over time, assuming the proposed transitional specific tax worked as an incentive for property owners to change property from the commercial forest (CF) program to the qualified forest (QF) program and that property already in the QF program was not eligible for transitional tax treatment. Assuming that 1.0% of land in the CF program transferred to QF via the transitional tax, the fiscal impacts would be relatively small, although they could be significant to an individual local unit. The amount and timing of the revenue changes would depend on the taxable value of the property that transferred from the CF specific tax to the proposed transitional qualified forest property specific tax, growth in taxable value, the number of acres transferred, and local millage rates.

Under current law, owners of forest property who meet statutory requirements can apply for favorable tax status in the CF or QF program. Participants in both of these programs are required to manage the land according to an approved forest management plan. Public access to CF property is required to allow for hunting and fishing, which is not required for QF property.

Property in the CF program, currently more than 2.2 million acres, is exempt from ad valorem property taxation. Instead, owners pay a specific tax currently set at \$1.25 per acre. For property in the CF program, local governments also receive another \$1.25 per acre from the State as a payment in lieu of taxes (PILT); PILT payments are appropriated annually in the budget for the Department of Treasury. The total of the CF payments from landowners and the State is distributed to local governments in the same proportions as ad valorem property taxes, with a noteworthy exception for local and intermediate school district (ISD) operating millage. For local school districts and those ISDs that are considered "in-formula", a portion of the CF specific tax revenue is returned to the School Aid Fund. In FY 2014-15, the State paid approximately \$2.8 million in General Fund/General Purpose (GF/GP) revenue in CF payments under PILT and received back an estimated \$3.4 million to the School Aid Fund.

For tax year 2015, 217,223 acres received tax benefits under the QF program. Property in the QF program is exempt from local school operating millage, but is still subject to other property taxes, including the State Education Tax which is deposited in the School Aid Fund. Property enrolled in the QF program also is subject to an additional fee of two mills annually. The revenue from that fee is deposited into the Private Forestland Enhancement Fund, which the Michigan Department of Agriculture and Rural Development uses to operate the program and provide education and technical services related to management of forestlands. In 2015, approximately \$146,400 was deposited in the Fund from the two-mill fee. Over the last three years, approximately 18,600 acres moved from CF to QF.

The proposed Transitional Qualified Forest Property Specific Tax Act would phase in the shift from a payment of flat fee per acre under the Commercial Forest program, to payment of local property taxes (excluding school operating millage) and the State Education Tax over five years. Owners of parcels subject to the specific tax also would be required to pay a fee of two mills levied on the taxable value of the property, the same fee currently assessed under the QF program, which is deposited in the Private Forestland Enhancement Fund. The bill also can be read as permitting owners of property that was previously in the CF program and is

currently taxed under the QF program, to apply for the specific tax. Under this scenario, there would be an incentive to transfer existing QF property to the transitional qualified forest property specific tax in order to achieve a 90% tax reduction in the first year, which would decline during the phase-in period.

For each parcel that transferred from CF to QF via the transitional tax, the State would save \$1.25 per acre in PILT. The State also would lose CF revenue to the School Aid Fund that on average is about \$1.54 per acre in the CF program. The revenue loss would be offset by the additional revenue that the State would receive from the State Education Tax under the transitional tax, and later under the QF program. Assuming that 22,000 acres transferred from CF to QF pursuant to the bills, the State would save \$27,500 GF/GP in PILT payments each year. The new revenue to the School Aid Fund from the transition tax and then the QF tax would depend on the taxable value of the parcels that transferred. While the taxable value of property that would be affected by the bill is unknown, the Michigan Department of Agriculture and Rural Development has indicated that the current average taxable value of all property in the QF program is \$600 per acre. Table 1 below illustrates the impact on the General Fund and timing and direction of School Aid Fund revenue changes assuming the taxable value of transferred property is \$600 per acre. The General Fund savings are a straightforward \$1.25 per acre transferred. The table shows that the School Aid Fund impact would vary over time. At taxable value of \$600 per acre, revenue reductions would decline in the initial years, and then increase as the percentage of taxes paid under the transition tax increased. There also would be an increase in revenue to the Private Forestland Enhancement Fund under the bills. At taxable value of \$600 per acre, this would be \$26,400 per year.

The net impact on local government revenue also would depend on the assumption of the taxable value of property that moved to the specific tax. Again, assuming that about 1.0% or approximately 22,000 acres of current CF property would be moved to QF, and that the property has an average taxable value of \$600 per acre, it is estimated that local revenue would increase each year under the transaction tax.

**Table 1**  
**Estimated Changes in State and Local Revenue under Senate Bill 651 (S-1)**  
**Assume Taxable Value of \$600 per Acre,**  
**Transfer of 22,000 Acres, and Average Non-School Millage of 9 Mills**

<b>Year</b>	<b>GF/GP Savings</b>	<b>School Aid Fund Revenue</b>	<b>Private Forestland Enhancement Fund</b>	<b>Local</b>
1	\$27,500	(\$17,900)	\$26,400	\$2,500
2	27,500	(2,100)	26,400	26,300
3	27,500	13,700	26,400	50,100
4	27,500	29,600	26,400	73,800
5	27,500	45,400	26,400	97,600

In addition, Senate Bill 651 (S-1) would have a minimal fiscal impact on MDARD. The Department would be required to provide administrative support for proposed activities concerning "transitional qualified forest property", including reviewing applications, maintaining a database, and reporting annually to the Legislature. The Department estimates that the administrative costs of the bill could be assumed within existing resources already dedicated for the current qualified forest program, which includes a staff of 3.5 FTEs and an annual staff/administrative budget of \$500,000 GF/GP. Also, through a proposed annual fee on each parcel of transitional qualified forest property, the bill would generate funds that would be deposited in the Private Forestland Enhancement Fund. The Fund, originally created under the qualified forest program, is to be used to support MDARD administrative efforts for qualified forest programs. During the past two calendar years, approximately \$210,000 in fees has been collected under the program, and the similar proposed fee is estimated to

generate increased fee revenue which also would depend on the taxable value of the transitional property. The existing fee collections with the added fees under the bill would be used to supplant existing GF/GP funding for MDARD administration. The Department also could receive fine revenue from landowners who failed to file required annual reports. The fine revenue presumably would be deposited in the General Fund.

### **Senate Bill 653 (S-1)**

The bill would have an indeterminate fiscal impact on the State and local units of government. Under the bill, a property owner wishing to remove property from the commercial forest program would be exempt from the withdrawal penalty for doing so if the property were either entered into the qualified forest program or made subject to the Transitional Qualified Forest Property Specific Tax Act, proposed by Senate Bill 651 (S-1). To the extent that this would create an incentive for property owners to remove property from the commercial forest program, local property tax revenue would increase, as would revenue to the State School Aid Fund.

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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.