



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bills 651, 652, and 653 (as enacted)
Sponsor: Senator Darwin L. Boohar (S.B. 651 & 652)
 Senator Tom Casperson (S.B. 653)
Senate Committee: Natural Resources
House Committee: Tax Policy

PUBLIC ACTS 260-262 of 2016

Date Completed: 3-29-17

RATIONALE

Michigan's Commercial Forest Program (CFP) was created in the 1920s to encourage the management of private forests to support the State's forest products industry. Under the Program, land owners receive a property tax abatement in exchange for actively managing their forestland according to a forest management plan. Property owners pay a tax for each acre of CFP land, which is currently \$1.30 per acre, and the State pays an equal amount to local governments as a payment in lieu of taxes. The CFP requires commercial forest owners to keep their land open to the general public for hunting and fishing. A land owner may withdraw land from the Program, but must pay a penalty for each acre withdrawn.

In 2006, legislation was enacted to create another tax incentive program, called the Qualified Forest Program (QFP), to encourage private forestland owners to manage their forests for timber harvest. Under this program, land owners are excused from payment of local school operating taxes and instead pay a two-mill annual fee. Unlike the CFP, the QFP does not require that enrolled land be open to the public. Both programs prescribe eligibility criteria related to the size of the property and its potential for timber production.

Among the forestland owners who enrolled in the Commercial Forest Program before the QFP was created, some prefer not to allow public access. To accommodate these property owners, legislation enacted several years ago allowed them to transfer their land to the QFP without having to pay the penalty for withdrawing from the CFP. Evidently, when this amnesty period ended in September 2015, not all commercial forest property owners who might have wanted to transfer to the QFP had done so. Therefore, it was suggested that the State should create another program to offer a reduced tax abatement to owners of commercial forestland while allowing them to restrict access to the property.

CONTENT

Senate Bill 651 enacted the "Transitional Qualified Forest Property Specific Tax Act" to establish procedures under which commercial forest property may be determined to be "transitional qualified forest property", which will be subject to an annual fee, exempt from ad valorem property taxes and subject to a specific tax for five years, and then exempt from local school operating taxes. Specifically, the bill does the following:

- Allows the owner of commercial forestland to apply to the Michigan Department of Agriculture and Rural Development (MDARD) to have the forestland determined to be transitional qualified forest property.
- Creates 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 imposes a specific tax on that property.

- Requires the specific tax to be in an amount calculated under the bill, or the amount imposed on commercial forestland, whichever is greater.
- Requires the specific tax revenue to be disbursed in the same proportions as required for the disbursement of property taxes.
- Exempts property from local school operating taxes and from the penalty for withdrawing the land from the Commercial Forest Program, if the property is subject to the specific tax for five years and still eligible for a tax exemption as qualified forest property.
- Imposes an annual fee on each parcel of transitional qualified forest property for deposit in the Private Forestland Enhancement Fund.
- Requires 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, if transitional qualified forest property is converted by a change in use; and requires the revenue to be deposited in the Fund.
- Limits the amount of land for which each owner may claim a transitional qualified forest property exemption to 160 acres per township.
- Requires the owner of transitional qualified forest property to report to MDARD when a forest practice or timber harvest occurs on the property; and authorizes the Department to collect a fine of \$500 from an owner who does not report as required.
- Requires MDARD to report annually to the Legislature on transitional forest property.
- Requires the owner of transitional qualified forest property to retain the forest management plan and other records and make them available to MDARD upon request.
- Requires MDARD to maintain a database listing all transitional qualified forest property and to notify the property owner and conservation district when forest practices or harvests are to occur.
- Provides that the property will no longer be transitional qualified forest property if an owner does not accomplish harvests and forest practices within three years after the time specified in the forest management plan; and requires the property to be placed on the tax roll and a recapture tax to be collected.

Senate Bill 652 amended 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 is subject to the transitional qualified forest property specific tax for five years and remains eligible for the exemption.
- Provide that transitional qualified forest property may not be credited against the statewide acreage limit on exempt qualified forest property.

Senate Bill 653 amended Part 511 (Commercial Forests) of the Natural Resources and Environmental Protection Act (NREPA) to allow, until September 1, 2021, allow the owner of forestland classified as commercial forest by September 1, 2016, to withdraw a maximum of 160 acres of the land without a withdrawal penalty if the land is classified as transitional qualified forest property.

Each of the bills took effect on June 28, 2016.

Senate Bill 651

General Property Tax Exemption

For taxes levied after December 31, 2015, the Transitional Qualified Forest Property Specific Tax Act exempts transitional qualified forest property from ad valorem property taxes collected under the General Property Tax Act for a period of up to five years. "Transitional qualified forest property" means forestland that meets all of the following conditions:

- The forestland is 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.

(The description of Senate Bill 653, below, includes the criteria for classification of forestland as commercial forest under Part 511 of NREPA.

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 40 acres or more, 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.)

An owner of forestland that withdraws commercial forestland under Section 51108(5) of NREPA (a section amended by Senate Bill 653) may apply to MDARD to have the forestland determined to be transitional qualified forest property. The application process must include an application from the owner on a form created by the Department, a forest management plan, and a fee of \$50. ("Forest management plan" means that term as defined in Section 7jj of the General Property Tax Act, i.e., a written plan prepared and signed by a qualified forester that prescribes measures to optimize production, use, and regeneration of forest resources. The plan must include a schedule and timetables, which must be a maximum of 20 years, for the various silvicultural practices used on forestland.) The applicant must file the application by September 1 before the tax year in which transitional qualified forest property will be taxed under the Transitional QFP Specific Tax Act.

The Department must review the application and management plan and determine whether the forestland is transitional qualified forest property, and review the management plan to determine if it includes the elements required by the General Property Tax Act. Within 90 days after receiving the application materials, MDARD must review them and, if the application and supporting documents are not in compliance, deny the application and notify the property owner. If the application and supporting documents are in compliance, MDARD must approve the application and prepare a transitional qualified forest property affidavit, in recordable form, indicating all of the following:

- The property owner's name.
- The tax parcel identification number of the property.
- The legal description of the property.
- The year the application was submitted for the exemption.
- A statement that the owner is attesting that the property is transitional qualified forest property and will be managed according to the approved forest management plan.

The Department must send an affidavit and a commercial forest withdrawal certificate to the property owner. The owner must execute the affidavit and the certificate and return both to MDARD.

If the application is denied, the property owner will have 30 days from the date of notification by MDARD to initiate an appeal. An appeal must be by certified letter to the MDARD Director.

An owner may claim an exemption for not more than 160 acres of transitional qualified forest property per township. If an exemption is granted for less than 160 acres in a township, the owner subsequently may claim an exemption for additional property that otherwise meets requirements of the Transitional QFP Specific Tax Act until the 160-acre maximum in that township is reached.

Upon receiving a copy of the recorded affidavit and commercial forest withdrawal certificate, an assessor must exempt the property from the collection of the general property tax until December 31 of the year in which the property is no longer transitional qualified forest property.

The assessor of each local tax collecting unit in which there is transitional qualified forest property must determine annually as of December 31 the value and taxable value of each parcel of that type of property located in that local unit.

Transitional Qualified Forest Property Specific Tax

The Act levies upon the owner of each parcel of transitional qualified forest property the transitional qualified forest property specific tax. The amount of the tax in each year must be the greater of 1) an amount equal to the specific tax calculated under Section 51106 of NREPA (the \$1.30-per-acre tax imposed on commercial forestland), or 2) an amount determined as follows:

- Multiply the number of mills that would be assessed in the local tax collecting unit if the property were subject to the collection of ad valorem property taxes and, if the property was exempt as provided under Section 7jj of the General Property Tax Act (described below), by the transitional qualified forest property's taxable value.
- Multiply the result of the above calculation by a factor prescribed in the bill, beginning with 0.2 for the first year the property is subject to the Transitional QFP Specific Tax Act and increasing by 0.2 each year to a maximum of 1.0 for the fifth year the property is subject to the Act.
- If a new millage is approved in the local tax collecting unit after the Act's effective date, multiply the number of mills that were approved and that would be assessed if the property were subject to ad valorem property taxes by the property's taxable value (repeating this calculation for each individual new millage approved after the Act's effective date).
- Add the results of the previous two calculations.

("New millage" does not include the renewal of some or all of a millage in existence on the Act's effective date.

Under Section 7jj of the General Property Tax Act, qualified forest property is exempt from the tax levied by a local school district for school operating purposes to the extent provided in the Revised School Code.)

The transitional qualified forest property specific tax is an annual tax, payable at the same time, in the same installments, and to the same collecting officer or officers as taxes collected under the General Property Tax Act.

The collecting officers must disburse the specific tax to and among the State and cities, townships, villages, school districts, counties, or other taxing units, at the same times and in the same proportions as required by law for the disbursement of taxes collected under the General Property Tax Act. The officers must send a copy of the amount of disbursement made to each taxing unit to the Department of Treasury on a form provided by the Department.

Beginning in the year that transitional qualified property is subject to the specific tax under the Transitional QFP Specific Tax Act and each following year, a fee will be imposed on each parcel of transitional qualified forest property. The fee must be calculated and disbursed in the same manner as the fee provided for under Section 7jj(9) of the General Property Tax Act. (Under that section, the local tax collecting unit must collect a fee on each parcel of exempt qualified forest property located in that unit. The fee must be determined by multiplying two mills by the property's taxable value. Each local taxing unit must disburse the fee to the Department of Treasury for deposit in the Private Forestland Enhancement Fund.)

Within 90 days after all or a portion of the exempted property is no longer transitional qualified forest property, the owner must rescind the exemption for the applicable portion of the property by filing with the register of deeds a rescission on a form prescribed by MDARD. A copy of the form must be given to the assessor. An owner who fails to file a rescission form as required will be subject to a penalty of \$5 per day for each separate failure beginning after the 90 days have elapsed, up to a maximum of \$1,000. The penalty must be collected under Public Act 122 of 1941 (which governs the Revenue Division of the Department of Treasury), and be deposited in the Private Forestland Enhancement Fund.

Unpaid specific taxes will be subject to forfeiture, foreclosure, and sale in the same manner and at the same time as taxes returned as delinquent under the General Property Tax Act.

If the forestland is subject to the specific tax for a period of five years as determined by MDARD and the Department determines that the property is still eligible for the exemption as qualified forest property, both of the following will apply:

- The forestland will be exempt from the tax levied by a local school district for school operating purposes as qualified forest property, upon completion of procedures under the General Property Tax Act (added by Senate Bill 652)
- The owner will not be responsible for the penalty for withdrawal of land from the operation of Part 511 of NREPA.

Placement of Property on Tax Roll

If forestland that was subject to the specific tax is not transitional qualified forest property as determined by MDARD, the Department must notify the local tax collecting unit and the property immediately must be placed on the tax roll by the local tax collecting unit or by the county treasurer, as applicable, as though the exemption had not been granted. The local tax collecting unit or the county treasurer must issue a corrected tax bill for each tax year being adjusted.

If all or a portion of transitional qualified forest property is converted by a change in use and is no longer transitional qualified forest property, the owner immediately must notify the local tax collecting unit, the assessor, and MDARD on a form created by the Department. A copy must be filed with the county register of deeds. Upon notice that the property is no longer transitional qualified forest property, the local tax collecting unit and assessor immediately must rescind the exemption and place the property on the tax roll as though the exemption had not been granted for the following tax year and the Department of Treasury immediately must begin collection of any applicable tax and penalty under the General Property Tax Act. The Department also must begin collecting an amount equal to the application fee and penalty that would have been assessed under Part 511 of NREPA to withdraw the property from the operation of Part 511 in the year in which the property is converted, calculated as if the property had not been withdrawn from the operation of Part 511. The State Treasurer must credit these proceeds to the Private Forestland Enhancement Fund.

("Converted by a change in use" means that term as defined in Section 7jj of the General Property Tax Act. Under that section, the term means both of the following:

- That due to a change in use, the property is no longer eligible for an exemption as qualified forest property.
- 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.)

Reporting Requirements

An owner of transitional qualified forest property must report to MDARD when a forest practice or timber harvest has occurred on the property during a calendar year. The report must indicate the forest practice completed and the volume and value of timber harvested. One copy must be forwarded to the conservation district, and MDARD must retain one copy for seven years. If MDARD determines that a forest practice or harvest has occurred and no report was filed, the Department may collect a fine of \$500.

("Forest practice" and "harvest" mean those terms as they are defined in Section 7jj of the General Property Tax Act. Under that section, "forest practice" means any action intended to improve forestland or forest resources. "Harvest" means the point at which timber that has been cut, severed, or removed for purposes of sale or use is first measured in the ordinary course of business as determined by reference to common practice in the timber industry.)

Each year, MDARD must 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:

- The number of acres of transitional qualified forest property in each county.
- The amount of timber produced on transitional 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.

Forest Practices & Harvests; Database

The owner of transitional qualified forest property must retain the current management plan, most recent harvest records, recorded copy of a receipt of the tax exemption, and a map that shows the location and size of any buildings and structures on the property, and make the documents available to MDARD upon request. The Department must maintain a database listing all transitional qualified forest property, including the dates indicated for forest practices and harvests in the forest management plan, and notify the property owner and the conservation district in any year that forest practices or harvests are to occur. Information in the database specific to an individual property owner's forest management plan is exempt from disclosure under the Freedom of Information Act, but information in the aggregate, including the amount of timber expected to be on the market each year as a result of enrollees, is not exempt.

If an owner does not accomplish forest practices and harvests within three years after the time specified in the management plan, and the plan has not been amended to extend the date of the forest practices and harvests, the property will no longer be transitional qualified forest property and MDARD will have to notify the local tax collecting unit. The property must be placed on the tax roll as though the exemption had not been granted, and will be subject to repayment as indicated in the Qualified Forest Property Recapture Tax Act.

(Under that Act, a recapture tax is imposed on qualified forest property that is converted by a change in use. If there has not been at least one harvest of forest products on the property consistent with the approved forest management plan, the recapture tax is calculated according to a formula set forth in the Act.)

Senate Bill 652

Transitional Qualified Forest Property Exemption

Under the General Property Tax Act, except as otherwise limited, qualified forest property is exempt from the tax levied by a local school district for school operating purposes to the extent provided in the Revised School Code. Under the bill, notwithstanding other provisions to the contrary, property will qualify for this exemption if all of the following conditions are met:

- The property was subject to the transitional qualified forest property specific tax for a period of five years as determined by MDARD under the Transitional Qualified Forest Property Specific Tax Act.
- Pursuant to that Act, MDARD has determined that the property is still eligible for the qualified forest property exemption.
- The property owner, with MDARD's assistance, executes a recordable qualified forest school tax affidavit, has it recorded by the county register of deeds, and gives copies of it to other interested parties as required by the Department.

The bill specifies that transitional qualified forest property is exempt from the collection of taxes under the General Property Tax Act for a period of up to five years, and is subject to the specific tax levied under the Transitional Qualified Forest Property Specific Tax Act.

Under the General Property Tax Act, the amount of qualified forest property in Michigan that is eligible for the exemption from school operating taxes is 1.2 million acres. Real property eligible for exemption as qualified forest property as a result of its withdrawal from the operation of Part 511 of NREPA may not be credited against the 1.2 million-acre limit. Under the bill, real property eligible for exemption as a result of its eligibility for exempt status under the Transitional Qualified Forest Property Specific Tax Act also does not count against the cap.

Under the General Property Tax Act, if property for which a qualified forest property exemption has been granted is not qualified forest property, it must be placed immediately on the tax roll by the local tax collecting unit or county treasurer, as applicable, as though the exemption had not been granted. Additionally, if an owner of qualified forest property does not accomplish forest practices and harvests within three years after the time specified in the current forest management plan, the property is no longer eligible for the qualified forest property exemption. In that case, the property must be placed on the tax roll as though the exemption had not been granted and is subject to repayment as indicated in the Qualified Forest Property Recapture Tax Act. Under either of these circumstances, the bill requires MDARD to notify the local tax collecting unit that the property is not eligible for the qualified forest property exemption.

Senate Bill 653

Under Part 511 of NREPA, the owner of at least 40 contiguous acres or a survey unit consisting of $\frac{1}{4}$ of $\frac{1}{4}$ of a section of forestland may apply to the Department of Natural Resources (DNR) to have that forestland classified as a commercial forest. To be eligible for this 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.

Commercial forests are not subject to the ad valorem general property tax. Instead, they are subject to an annual specific tax, which is currently \$1.30 per acre. (The per-acre tax rate originally was \$1.20 and then rose to \$1.25 on January 1, 2012. The Act requires the rate to be increased by five cents per acre every five years on January 1.)

A commercial forest owner may withdraw his or her forestland from the classification as commercial forest upon application to the DNR and payment of a withdrawal application fee of \$1 per acre, with a minimum fee of \$200 and a maximum fee of \$1,000 per application. Additionally, the owner must pay the township treasurer a penalty according to a formula prescribed in Part 511. If a withdrawal application is granted, the DNR immediately must notify the applicant, the township assessor, and the county register of deeds. (Previously, the Act referred to the township supervisor, rather than the assessor.)

Under the bill, until September 1, 2021, the owner of forestland that is located within a township and was classified as commercial forest by September 1, 2016, may withdraw up to 160 acres of the land without a withdrawal penalty if 1) the owner of the former commercial forestland has continuously owned that land since September 1, 2016, or before; and 2) the former commercial forestland is made subject to the Transitional Qualified Forest Property Specific Tax Act as a result of all of the following:

- The owner withdraws his or her forestland from the classification as commercial forest as provided in Part 511.
- The former commercial forestland is exempt from the collection of general ad valorem property taxes as transitional qualified forest property.
- The owner submits and obtains approval of an application for a determination that the forestland is transitional qualified forest property under the Transitional QFP Specific Tax Act.

The owner must submit to the DNR a copy of the executed transitional qualified forest property affidavit by November 1 of the year in which the land is withdrawn from Part 511.

Any of the owner's remaining forestland within that township that previously qualified as commercial forest must continue to qualify as commercial forest, or must be withdrawn subject to the penalty for withdrawal.

Within 30 days after the bill took effect, the DNR and MDARD were required to establish in writing a basis of interdepartmental cooperation when an owner of forestland seeks to withdraw the property from the classification as commercial forest without penalty.

MCL 211.1091-211.1101 (S.B. 651)
211.7jj[1] et al. (S.B. 652)
324.51108 (S.B. 653)

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

Evidently, a number of landowners participating in the commercial forest program enrolled in it before the qualified forest program was created, or were unaware of the option to enroll in the QFP. While they wish to continue managing their forestland for timber production in exchange for a tax break, they are or were dissatisfied with the CFP requirement to provide access to their land for hunting and fishing by the general public. This package of bills gives these property owners the chance to switch to the QFP without penalty, so they will be encouraged to continue providing support for the State's forest products industry without having to keep their land open to unwanted activity. As the relevant parcels typically are fairly small, this should not result in a significant decrease in acreage open to the public for outdoor recreation. The legislation also alleviates the burden on the State of enforcing the CFP's public access requirement on these small parcels. Evidently, on some parcels of less than 100 acres, the owners have not allowed public access as required in exchange for the property tax benefit. By permitting these owners to make a transition to the QFP, the legislation enables the Department of Natural Resources to enhance its enforcement efforts with regard to the larger parcels remaining in the CFP. Also, local governments and the State will receive increased tax revenue in the long term due to the transfer of commercial forestland to the QFP, as the tax abatement under that program is smaller than the CFP exemption.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Senate Bills 651 and 652

The bills will have a minimal impact on State and local government revenue. The bills will decrease State costs to the General Fund and increase School Aid Fund revenue and local revenue over time, assuming the new transitional specific tax works as an incentive for property owners to change property from the commercial forest (CF) program to the qualified forest (QF) program. Assuming that 1.0% of land in the CF program transfers to QF via the transitional tax, the fiscal impacts will be relatively small, although they may be significant to an individual local unit. The amount and timing of the revenue changes will depend on the taxable value of the property that transfers from the CF specific tax to the transitional qualified forest property specific tax, growth in taxable value, the number of acres transferred, and local millage rates.

Under the 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 that increased from \$1.25 to \$1.30 per acre on January 1, 2017. For property in the CF program, local governments also receive another \$1.30

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 Transitional Qualified Forest Property Specific Tax Act phases in the shift from a payment of a 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. The transitional qualified forest specific tax will be the larger of \$1.30 per acre or the amount calculated under the phase-in of local property taxes. Owners of parcels subject to the specific tax also are required to pay a fee of two mills levied on the taxable value of the property, the same fee assessed under the QF program, which is deposited in the Private Forestland Enhancement Fund.

For each parcel that transfers from CF to QF via the transitional tax, the State will save \$1.30 per acre in PILT. The State also will lose CF revenue to the School Aid Fund that on average is about \$1.60 per acre in the CF program. The revenue loss will be offset by the additional revenue that the State will receive from the State Education Tax under the transitional tax, and later under the QF program. Assuming that 22,000 acres are transferred from CF to QF pursuant to the bills, the State will save \$28,600 GF/GP in PILT payments each year. The new revenue to the School Aid Fund from the transition tax and then the QF tax will depend on the taxable value of the parcels that are transferred. While the taxable value of property that will be affected by the bills 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 about \$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 \$1.30 per acre transferred. The table shows that the School Aid Fund impact will vary over time. At taxable value of \$600 per acre, revenue to the School Aid Fund will decline by a minimal amount in the initial years, and then increase as the percentage of taxes paid under the transition tax increases. There also will be an increase in revenue to the Private Forestland Enhancement Fund under the bills. At a taxable value of \$600 per acre, this will be \$26,400 per year.

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

Table 1

**Estimated Changes in State and Local Revenue under Public Act 260 of 2016
Assume Taxable Value of \$600 per Acre,
Transfer of 22,000 Acres, and Average Non-School Millage of 9 Mills**

Year	GF/GP Savings	School Aid Fund Revenue	Private Forestland Enhancement Fund	Local
1	\$28,600	(\$18,000)	\$26,400	\$1,700
2	28,600	(2,200)	26,400	25,400
3	28,600	13,600	26,400	49,200
4	28,600	29,500	26,400	73,000
5	28,600	45,300	26,400	96,700

In addition, Senate Bill 651 will have a minimal fiscal impact on MDARD. The Department is required to provide administrative support for new 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 can be assumed within existing resources already dedicated for the 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 new annual fee on each parcel of transitional qualified forest property, the bill will generate funds that will 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 2014 and 2015, approximately \$210,000 in fees was collected under the program, and the similar new fee is estimated to generate increased fee revenue which also will depend on the taxable value of the transitional property. The existing fee collections with the added fees under the bill will be used to supplant existing GF/GP funding for MDARD administration. The Department also may receive fine revenue from landowners who fail to file required annual reports. The fine revenue presumably will be deposited in the General Fund.

Senate Bill 653

The bill will 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 is exempt from the withdrawal penalty for doing so if the property is either entered into the qualified forest program or made subject to the Transitional Qualified Forest Property Specific Tax Act, enacted by Senate Bill 651. To the extent that this creates an incentive for property owners to remove property from the commercial forest program, local property tax revenue will increase, as will 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.