



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 1057 (Substitute S-2 as reported by the Committee of the Whole)
Senate Bill 1058 (Substitute S-1 as reported)
Senate Bill 1059 (Substitute S-2 as reported by the Committee of the Whole)
Senate Bill 1060 (as reported without amendment)
Senate Bill 1061 (Substitute S-1 as reported)
Senate Bill 1062 (Substitute S-1 as reported)
Sponsor: Senator Darwin L. Booher (S.B. 1057, 1059, & 1060)
 Senator Arlan Meekhof (S.B. 1058)
 Senator John Moolenaar (S.B. 1061)
 Senator Mike Green (S.B. 1062)
Committee: Natural Resources, Environment and Great Lakes

CONTENT

Senate Bill 1057 (S-2) would amend Parts 93 (Soil Conservation Districts) and 513 (Private Forestry) of the Natural Resources and Environmental Protection Act (NREPA) to do the following:

- Require the Michigan Department of Agriculture and Rural Development (MDARD) to review soil conservation district budgets and financial information.
- Prescribe criteria that a soil conservation district would have to meet to be eligible for a grant of at least \$50,000 from MDARD.
- Authorize MDARD to promulgate rules to implement the grant provisions, and provide that the rules would remain in effect for only three years after the bill's effective date.
- Prohibit a professional forester employed under an MDARD grant from competing with a private sector business or developing a client base for forestry consultation outside of his or her employment with the conservation district.
- Include references to forestland in provisions prescribing a conservation district's powers regarding farmland and natural resources.
- Include in the powers of a conservation district evaluating nonindustrial private forestland and providing forestry assistance to landowners.
- Prohibit a conservation district from developing a management plan for nonindustrial private forestland, unless the landowner were unable to identify a private forester willing to develop a plan.
- Allow a conservation district to cooperate with a local unit of government or other subdivision of State government to implement forestland management projects.
- Authorize MDARD to enter into cooperative agreements with Federal agencies to assist landowners in management of their nonindustrial private forestland.
- Create the "Private Forestland Enhancement Fund" to support private forestland management assistance.
- Require MDARD to prepare and maintain a list of qualified foresters in Michigan and publish it on the Department's website.

The bill also would repeal sections of Part 501 (Forest Improvements) that define terms used in provisions regarding forest restoration pilot projects, prescribe specific requirements for the Western Upper Peninsula Forest Improvement District, and require State agencies to cooperate with a forest improvement district board.

Senate Bill 1058 (S-1) would amend Part 87 (Groundwater and Freshwater Protection) of NREPA to provide for the assessment of managing areas of land not used for traditional or production agriculture purposes, for environmental, ecological, and economic benefits. The bill would do the following:

- Include this assessment in requirements for the voluntary evaluation of farms under the Michigan Agriculture Environmental Assurance Program (MAEAP).
- Require the Environmental Assurance Advisory Council to include representatives of a private consulting forester, the forest products industry, and the logging profession.
- Require the Council to recommend to the MDARD Director a tool for the assessment described above, within one year after the bill's effective date.
- Expand the responsibilities of environmental assurance teams.

Part 87 requires the MDARD Director, in conjunction with Michigan State University, the Department of Environmental Quality, and other appropriate people, to develop protocols for voluntary on-site evaluations. Under the bill, the evaluations would have to enable landowners to assess voluntarily the value of managing areas of the land that were not used for traditional or production agriculture practices for environmental, ecological, and economic benefits.

Part 87 also requires the MDARD Director to establish regional environmental assurance teams composed of departmental, educational, and technical assistance personnel, and other necessary people for implementation of Part 87 programs. The teams are responsible for implementation of the programs, including providing access to technical assistance related to any of the following:

- On-site evaluation of practices that might have an impact on natural resources.
- The development and implementation of conservation plans and activity plans for people making conservation practice changes.

Under the bill, the teams' responsibilities also would include providing access to technical assistance related to on-site evaluation of potential environmental, ecological, and economic benefits that could be realized by managing areas of the land that were not used for traditional or production agriculture practices.

Senate Bill 1059 (S-2) would amend the General Property Tax Act to do the following regarding qualified forest property:

- Exempt qualified forest property from collection of ad valorem taxes under the Act, rather than school operating taxes.
- Provide that buildings or structures on the property would not be eligible for the exemption.
- Allow a property owner interested in obtaining a property tax exemption for qualified forest property to contact the local conservation district or MDARD for advice on the exemption process.
- Require the conservation district or MDARD to provide a list of qualified foresters to prepare a forest management plan upon a property owner's request.
- Require MDARD to maintain a list of qualified foresters and make it available to conservation districts and landowners.
- Increase the number of acres eligible for the exemption statewide from 1.2 million to 2.4 million.
- Require a property owner to submit a forest management plan to MDARD before claiming an exemption for qualified forest property.
- Require MDARD to forward a copy of an application to the local conservation district for review and the local tax collecting unit for notification.

- Require a conservation district to review an application to determine whether the property met the requirements for enrollment in the qualified forest program, and provide that property would be considered eligible if the district did not respond within 45 days after receiving the application.
- Require MDARD to review the application, comments from the conservation district, and the forest management plan to determine if the plan included required elements.
- Require MDARD to approve an application that was in compliance within 90 days after receiving it, and prepare a qualified forest school tax affidavit.
- Require the property owner to execute the affidavit and have it recorded by the county register of deeds.
- Require a forest management plan to be developed by a qualified forester and approved by MDARD.
- Require a property owner to pay a \$200 fee upon claiming an exemption.
- Transfer responsibilities from the Department of Natural Resources (DNR) to MDARD.
- Increase the maximum acreage for which an owner may claim an exemption in each local tax collecting unit from 320 to 640 acres.
- Reduce the minimum size of qualified forest property from 20 to 10 contiguous acres.
- Require at least 50%, rather than 80%, of the property to be productive forest if a parcel were qualified agricultural property.
- Require the penalty imposed for failing to file a required rescission of exemption to be deposited in the proposed Private Forestland Enhancement Fund, rather than the General Fund.
- From January 1, 2013, through September 30, 2013, allow an exempt property owner to execute a new affidavit; and eliminate the rescission penalty for an owner who chose not to execute a new affidavit, and provide that the property would not be subject to the recapture tax.
- Delete provisions requiring an assessor to determine if property is exempt.
- Require the collection of taxes under the Act or under the Qualified Forest Property Recapture Tax Act when property was no longer exempt.
- Require the owner of qualified forest property to report when a forest practice or timber harvest occurred; and allow MDARD to collect a fine of \$500 from a property owner if a required report were not filed.
- Require the owner to retain certain documents while the property was exempt.
- Require MDARD to maintain a database of qualified forest properties and notify the owner and the conservation district in the year the harvest was to occur according to the management plan.
- Provide that the property would not be eligible for exemption and would have to be placed on the tax roll and subject to repayment if an owner did not accomplish forest practices and harvests within one year of the forest management plan.
- Require MDARD to review and approve or disapprove an owner's application within 90 days of submission, and prescribe elements upon which the Department would have to base an approval or denial.
- Provide that a plan submitted to MDARD for approval would have to be for a minimum of 30 years.

The bill also would revise the requirements for a transferee to file an affidavit upon the transfer of qualified forest property, in order to avoid an adjustment in the property's taxable value.

The bill would take effect January 1, 2013.

Senate Bill 1060 would amend the Qualified Forest Property Recapture Tax Act to revise the calculation of the recapture tax that is imposed on qualified forest property that is converted by a change in use.

Currently, if there have been any harvests of forest products, the tax is calculated as follows:

- The property's State equalized valuation (SEV) at the time of the change in use is multiplied by the total millage rate levied by all taxing units in the local tax collecting unit where the property is located.
- The product of the first calculation is multiplied by seven.

If there have been no harvests of forest products, the tax is determined in the same manner, with the product of the second calculation multiplied by two.

Under the bill, if there had been any harvests of forest products, the tax would be calculated as follows:

- The property's taxable value at the time of the change in use would be multiplied by the number of operating mills levied by the local school district in which the property was located.
- The product of the first calculation would be multiplied by the number of years the property had been exempt as qualified forest property before the change in use, not to exceed the seven years immediately before the year in which the property was converted by a change in use.

As currently provided, if there had been no harvests of forest products, the tax would be doubled.

Senate Bill 1061 (S-1) would amend Part 503 (State Forest Products Industry Development Council) of NREPA to require the DNR to carry out a number of tasks related to the development and promotion of the State's forest products industry jointly with MDARD.

In regard to the tasks currently assigned to the DNR, the bill would refer to expansion, rather than development, of the forest products industry; include the retention of existing forest products companies; and eliminate the promotion and encouragement of Michigan forest product use by other states and for export. Instead, the bill would include the promotion and encouragement of the use of the State's value-added products in Michigan, other states, and internationally.

Senate Bill 1062 (S-1) would amend the definition of "qualified agricultural property" in the General Property Tax Act to provide that a parcel would be devoted primarily to agricultural use if more than 50% of its acreage were devoted to a combination of agricultural use and use and were exempt under the Act as qualified forest property.

All of the bills except Senate Bill 1060 are tie-barred to each other and to House Bills 4302, 4969, and 4970 (which pertain to commercial and qualified forest property).

MCL 324.9301 et al. (S.B. 1057)
324.8703 et al. (S.B. 1058)
211.7jj & 211.27a (S.B. 1059)
211.1034 (S.B. 1060)
324.50301 & 324.50302 (S.B. 1061)
211.7dd (S.B. 1062)

Legislative Analyst: Julie Cassidy

FISCAL IMPACT

Senate Bill 1057 (S-2) would require MDARD to assume a greater role in providing for the availability of evaluation, potential management, and use of nonindustrial forestland in the State. The Department would incur additional administrative costs, in an amount that

cannot be determined at this time. The bill also would create the Private Forestland Evaluation Fund and would require MDARD to administer and spend money from the Fund for various purposes. The contents of the Fund cannot be determined at this time.

Senate Bill 1058 (S-1) would have no fiscal impact on State or local government. The additional responsibilities required under the bill could be accomplished with existing resources.

Senate Bills 1059 (S-2) would reduce revenue to local units of government, have an indeterminate impact on School Aid Fund expenditures, reduce General Fund revenue, and direct revenue to the Private Forestland Enhancement Fund.

While the bill is tie-barred to several bills, it is not tie-barred to Senate Bill 1288, which appears to complement the changes proposed in this bill. Currently, approximately 70,000 to 80,000 acres are enrolled in programs that treat the property as qualified forest property. It is unknown how many owners of property would choose to seek qualified forest property status under the bill, but given current acreage the bill would reduce revenue to local units of government by between \$1.9 million and \$2.2 million per year, assuming an average property tax rate of 33 mills and average taxable value of \$1,000 per acre. The reduction in revenue would affect intermediate school districts, revenue from school debt mills, and sinking fund mills, as well as units such as cities, counties, townships, and villages.

To the extent that acreage ceased to be qualified forest property as a result of the bill, the bill would decrease School Aid Fund expenditures because the property would become subject to the 18-mill school operating levy and less expenditure would be needed in order to meet per-pupil funding guarantees. Similarly, to the extent that the number of acres of qualified forest property increased as a result of the bill, any local revenue loss would be increased and School Aid Fund expenditures would need to be increased if per-pupil funding guarantees were to be met.

The bill also would decrease General Fund revenue by an unknown amount, and increase revenue to the Private Forestland Enhancement Fund by an identical amount, by redirecting penalty revenue from the General Fund to the Private Forestland Enhancement Fund. It is not known how many properties would be subject to any penalties, or the specific characteristics that would affect their liability.

Senate Bills 1060, and 1062 (S-1) would affect local school district revenue and School Aid Fund expenditures by an unknown amount, although the amount would likely be less than \$15.0 million per year. The bills would potentially increase the number of properties that receive an exemption from locally levied mills for school operating purposes as a result of being qualified forest property. When the legislation was first adopted in 2006, the exemption was limited to 1.2 million acres of qualified forest property (beginning in FY 2010-11) and the exemption was estimated to total \$16.2 million per year. Approximately 70,000 acres of property are currently affected by the legislation.

The bills would expand the number of properties potentially eligible for the exemption, and the local school district of any property that became qualified forest property would experience of a loss equal to 18 mills times the taxable value of the property. To the extent that per-pupil funding guarantees were not reduced as a result of the bills, the bills would require increased expenditures of an equal magnitude to affected school districts from the School Aid Fund.

The bills also would shift application fee revenue from the Department of Natural Resources to the Department of Agriculture and Rural Development. To the extent that the bills increased the number of acres categorized as qualified forest property, application fee revenue would increase by an unknown, and likely minimal, amount. The bills also would

result in additional administration for the Department of Treasury. The magnitude of these additional costs is unknown but likely minimal.

In addition, the bills would reduce General Fund revenue by an unknown and likely minimal amount by reducing the recapture tax levied when property ceases to be treated as qualified forest property. However, to the extent that additional properties were classified as qualified forest property, this decline in revenue per property could be offset by revenue from the additional properties.

Senate Bill 1061 (S-1) would have no fiscal impact on State or local government.

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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.