

# Legislative Analysis

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## HEALTHY FOREST INITIATIVE

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**Senate Bill 1023 as passed by the Senate**  
**Sponsor: Sen. Michael Prusi**

**Senate Bill 1024 as passed by the Senate**  
**Sponsor: Sen. Michelle McManus**

**House Committee: Agriculture and Resource Management**  
**Senate Committee: Agriculture, Forestry, and Tourism**  
**First Analysis (5-12-04)**

**BRIEF SUMMARY:** The Senate bills form two-thirds of a healthy forest initiative to establish sustainable forestry rules, including third-party certification (House Bill 5554); alter the membership on the Michigan Forest Finance Authority and expand the permitted uses of money in the Forest Development Fund (Senate Bill 1024); and establish pilot project areas for sustainable forest management in the state (Senate Bill 1023). The two bills are tie-barred to each other and House Bill 5554. House Bill 5554 passed the House of Representatives in March and passed the Senate with an S-3 substitute on May 6, 2004. Senate Bills 1023 and 1024 are similar to House Bills 5553 and 5552, both of which passed the House in March.

**FISCAL IMPACT:** The bills would have no fiscal implications.

### **THE APPARENT PROBLEM:**

Predominantly covering the northern two-thirds of the state, Michigan's forestland provides the state and its citizens with economic, environmental, and recreational benefits. The diversity and sheer abundance of the state's forestland provides plant and animal wildlife with a healthy and viable habitat, filtration for air and water quality, and protection against soil erosion. In addition, the state's forestland provides the serene backdrop for the 'crown jewel' of the state's tourism industry. Visitors and residents are provided with the opportunity to enjoy myriad recreational activities, including camping, hiking, cross country skiing, mountain biking, horseback riding, and canoeing, in addition to fishing and hunting. Such forest-based tourism and recreation provides for 50,000 jobs and injects over \$3 billion into the state's economy. In addition, forest-related manufacturing industries – lumber, paper, and furniture companies - provide 150,000 jobs and contribute more than \$9 billion to the state's economy.

A 1993 statewide inventory conducted by the United States Department of Agriculture-Forest Service (USDA-FS), the fifth such study since 1935, determined that approximately 19.3 million acres (53 percent) of the state's 36.4 million acres was forestland. Timberland (commercial forestland) accounted for 18.6 million acres of the forestland – the fifth largest state acreage in the U.S. These figures represent an increase

of 933,000 acres (five percent) and 1.1 million acres (seven percent), respectively, from a previous inventory conducted in 1980. The state currently owns about four million acres of forestland, making it the largest state forest system in the country.

Timed in conjunction with the 100<sup>th</sup> Anniversary of the state forest system, the Republican legislative leaders announced in August 2003 the commencement of a series of legislative hearings on the stewardship and management of the state forest system. The hearings, conducted throughout the state in the fall of 2003, focused on (1) ways to promote and encourage the use of state forests for forest products, tourism, and outdoor recreation; (2) the needs of the forest products industry; (3) the needs of local communities, outdoor recreation interests, and the tourism industry; (4) assuring proper landscape management planning for state forests, incorporating biodiversity conservation goals, indicators, and measures; (5) establishing statutory standards for sustainable forestry, including potential third-party certification requirements; and (6) identifying environmentally sensitive areas needing additional protection. Legislation has been introduced in response to the legislative hearings

## ***THE CONTENT OF THE BILL:***

### ***Senate Bill 1023 - Pilot Projects***

The bill would amend Part 525 (Disposal of Timber from State Lands) of the Natural Resources and Environmental Protection Act to require the Department of Natural Resources to establish four forest pilot project areas no later than December 31, 2004 based on certain scientific silvicultural specifications. The project areas would be designed to demonstrate cost savings and efficient forest management techniques while improving overall forest health.

Each project area would have to be between 200 and 640 acres, evenly divided between the upper and lower peninsulas, with at least one composed primarily of hardwoods, and at least one composed primarily of softwoods.

After the project areas are established, the DNR would solicit bids for the management of each area. The DNR would enter into a five-year contract for the management of the project area, with the contract including provisions related to the marking of timber, the harvesting of timber, and the reforestation of timber cutover areas. In addition, the contract would have to include performance measures and would have to require the contractor to report to the DNR the cost savings and forest management techniques employed and the success of those techniques. Activities in the project areas would have to comply with Part 525. The bill would have a sunset of five years.

*Note: The bill is similar to House Bill 5553, which passed the House of Representatives in March. House Bill 5553 would require three-year contracts, instead of the five-year contracts allowed under SB 1023. The above provisions in SB 1023 relating to the use of cost saving and efficient forest management techniques, the establishment of performance measures, the report to the DNR, and the five-year sunset are not contained in HB 5553.*

### ***Senate Bill 1024 - Michigan Forest Finance Authority***

The bill would amend Part 505 (Michigan Forest Finance Authority) of the Natural Resources and Environmental Protection Act. Part 505 establishes the Michigan Forest Finance Authority, which is authorized to acquire standing timber, timber cutting rights, and the state's interest in contracts granting cutting rights on state tax revered lands and on other state forestland. The authority is governed by the director of the Department of Natural Resources, the state treasurer, and three residents appointed by the governor with the advice and consent of the Senate. The bill would add the director of the Department of Labor and Economic Growth and three more state residents to the finance authority. The bill specifies that of the six residents appointed to the board, one would represent the forest products industry in the state, one would be a commercial logging contractor, one would be an owner of nonindustrial private forestland, one would be from the wood products manufacturing industry, one would represent recreation interests, and one would be from a college or university with expertise in forest management. The bill would increase from three to five the number of members constituting a quorum of the board and the number concurring that is necessary in order to take an action. The bill also specifies that the state treasurer would serve as chairperson of the board.

Part 505 established the Forest Development Fund to provide debt service on any bonds or notes issued by the board and for reforestation, forest protection, and timber stand improvement. The bill would add that money in the fund would be used for the maintenance of sustainable forestry certification. The bill would also require the auditor general to audit the expenditures for the fund at least once every three years. Revenue for the fund is derived from the cutting and sale of timber on tax reverted land. The bill would permit the fund to receive money from any other source.

*Note: The bill is similar to House Bill 5552, which passed the House of Representatives in March. The differences between the bills are in the make-up of the finance authority and the allowable uses for the forest development fund. House Bill 5552 would add two more state residents to the authority. The representation on the board is similar to the proposed representation under Senate Bill 1023, except that Senate Bill 1023 would also add an individual from a college or university. In addition, House Bill 5552 would allow money from the Forest Development Fund to be used for swamp tax payments and payments in lieu of taxes under Part 21 of NREPA. House Bill 5552 does not require an audit of the fund's expenditures.*

### ***HOUSE COMMITTEE ACTION:***

The House Committee on Agriculture and Resource Management reported the bills out as they passed the Senate.

## ***BACKGROUND INFORMATION:***

On February 11, 2004, Governor Granholm announced her administration's plan for the stewardship of state forests while attending the 2004 Governors' Forest Summit in Minnesota hosted by the Great Lakes Forest Alliance. The governor proposed that the Department of Natural Resources move forward with an effort to seek certification under three standards - the International Organization for Standardization (ISO) standard 14001, the Sustainable Forestry Initiative (SFI), and the Forest Stewardship Council (FSC). Apparently, the governor also plans to reestablish the Forest Advisory Council, which was eliminated in 1991.

## ***ARGUMENTS:***

### ***For:***

The main purpose of the package is to promote and encourage the use of state forests for forest products, tourism, outdoor recreation, and habitat protection, and to establish sustainable forestry practices (including third-party certification). During committee hearings, much was said about the fragile (and declining) state of the forest products industry in the state. The forest products industry supports more than 150,000 jobs and \$9 billion in economic activity. However, the industry continues to struggle, in large part because of a lack of supply and the increasing desire by consumers (generally, large retailers) to use wood from "sustainably managed" forests. According to committee testimony on the House version of these bills, Michigan harvests less than 40 percent of its annual growth, thereby creating a substantial timber surplus. This underutilization of state timber harms an industry that, like other manufacturers, must compete nationally and internationally. According to information provided by the Pulp and Paperworkers Resource Council, the state has lost more than 35 pulp and paper mills from Detroit to Watersmeet in the last decade. The fortunes of the industry can turn around with the development of sustainable forestry management practices that take into consideration all of the appropriate uses, including timber production, for state forestland. While the move toward certification will not, in and of itself, lead to increased timber production, it is likely that the state's forest products industry (timber producers) will lose market share, estimated at \$80 million per decade, without such certification.

Senate Bill 1024 amends provisions in NREPA related to the Michigan Forest Finance Authority. The MFFA was established with the enactment of Public Act 280 of 1990 to provide financial support to the forest management activities of the Department of Natural Resources. At the time, it was reportedly argued that a large share of the DNR's forest-related activities, though funded by receipts from timber sales, were not adequately supported, thereby resulting in situations where forest management practices, though very much necessary to provide for the growth and development of the state forest system, went largely unfunded and not acted upon. The financing authority was established to provide for a stable funding mechanism for these forest management practices. The board of the finance authority consists of three residents appointed by the governor with the advice and consent of the Senate, as well as other state officers. However, there are no

assurances that the residents appointed to the board will have any experience or expertise in forestry management practices. In addition to adding three more residents to the board, the bill requires that resident-members of the board be members of the forest industry - more specifically, persons with backgrounds in the forest products industry, commercial logging, and the wood products manufacturing industry; an owner of nonindustrial, private forestland; natural resource-based recreation; and college or university forest programs.

In addition, the bill expands the allowable uses of money from the Forest Development Fund, the maintenance of sustainable forestry certification. House Bill 5554 requires the DNR seek and maintain third-party certification that the state forestland meets the standards of sustainable forest management, and it is appropriate that the DNR has sufficient resources to meet this legislative mandate.

Senate Bill 1023 establishes four pilot projects for contracts for marking timber, harvesting timber, and replanting timber cutover areas in state forestland. These projects can help determine appropriate forest management practices for state forestland.

***Against:***

The package of bills addresses the use management of state forestland. This is land that is held by the public for public use and control. However, Senate Bill 1023 establishes pilot projects with the management of certain portions of state forestland being conducted by private entities. These are entities that may not fully consider the numerous and varied uses of state forestland such as plant and wildlife habitat, soil and water quality, or recreational uses.

***POSITIONS:***

The Michigan Association of Timbermen supports the bills. (5-11-04)

The Michigan-Wisconsin Timber Producers Association supports the bills. (5-11-04)

The Lake States Timber Association supports the bills. (5-11-04)

The Michigan Farm Bureau supports the concept of the bills. (5-11-04)

The Department of Natural Resources is neutral on the bills. (5-11-04)

The Sierra Club opposes the bills. (5-11-04)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.