



## Fiscal Estimate Narratives

DOR 11/10/2009

LRB Number	<b>09-1842/1</b>	Introduction Number	<b>AB-0530</b>	Estimate Type	<b>Original</b>
<b>Description</b> Managed forest land being converted to agricultural land					

### Assumptions Used in Arriving at Fiscal Estimate

#### CURRENT LAW

Under the Managed Forest Law (MFL), an owner of ten or more contiguous acres of forest land can petition the Department of Natural Resources (DNR) to enter the land under the program. If the DNR determines that at least 80% of the parcel can produce at least 20 cubic feet of sellable timber per acre per year and that the land is not developed in a way incompatible with practicing forestry, the DNR issues an order to enroll the land. The owner can choose to enroll the land for a 25 or 50 year period. The owner also agrees to follow a forest management plan and, with limited exceptions, to open the land to public access.

Land enrolled under the MFL is exempt from property taxes. In lieu of property taxes, landowners are required to make certain payment on their MFL lands. Among these payments are an annual "acreage share" payment and, when timber is harvested, a yield tax of 5% of the value of harvested timber. There are also two payments related to withdrawing land from the MFL program, as described below.

A withdrawal fee of \$300 is imposed on the MFL landowner for all withdrawals from the MFL program that occur before the expiration of the MFL order. All fee payments are retained by the DNR and deposited in the Conservation Fund.

A withdrawal tax is also imposed on the MFL landowner for most withdrawals from the MFL program. On an initial order (for land not impacted by a renewed MFL order), the withdrawal tax equals the greater of (a) a property tax equivalent payment, equal to the product of the net assessed value tax rate in the year before withdrawal times the assessed value of the land in that year times the number of years the land was under an MFL, minus any acreage share and yield taxes paid, and (b) a yield tax equivalent payment, equal to 5% of the value of the merchantable timber on the land. On a renewed order, the withdrawal tax is based on a similar calculation except that the calculation under (a) only applies to the period of the renewed order. The DNR remits 100% of any withdrawal taxes to the municipality where the land is located. The municipality keeps 80% of the payment and remits 20% to the county.

There are two situations for which the withdrawal fee and withdrawal tax are not imposed: (1) The sale of MFL land for a public road, railroad, or utility right-of-way. (2) The sale of MFL land to the federal government, the state, or a local governmental unit for a park, recreational trail, wildlife or fish habitat area, or a public forest.

#### PROPOSED LAW

The proposal adds a third exemption from the withdrawal fee and withdrawal tax. Specifically, if a tract of land has been enrolled under the MFL program for more than 5 years, the landowner could convert the land to an agricultural use that qualifies to be assessed for property tax purposes under the agricultural use value law (including, in general, growing annual crops and pasturing or raising of animals), and no withdrawal fee or withdrawal tax would be imposed. However, for the period from the date of the MFL withdrawal to the date on which the MFL agreement would have expired, the landowner must maintain public access to the land as if it remained under the MFL program and continue using the land so that it qualifies for agricultural use value assessment. If the landowner fails to do either of these things, the landowner would be required to pay the withdrawal fee and withdrawal tax that would have been imposed at the time the land was withdrawn from the MFL program.

The MFL program is administered by the DNR, which bills landowners for the withdrawal fee and withdrawal tax when land is withdrawn from the program. The role of the Department of Revenue (DOR) with regard to MFL withdrawals is to assist the DNR in the calculation of the property tax equivalent part of the withdrawal tax.

Based on data from the DNR for 2008, about 13,626 acres were withdrawn from the MFL program during the year, and about \$3.018 million in MFL withdrawal taxes were paid to municipalities, indicating that the average withdrawal tax was about \$222 per acre. Thus, for conversions of MFL land into a qualifying agricultural use, a reduction in withdrawal fees of \$300 per withdrawal and a reduction in withdrawal taxes of \$222 per withdrawn acre may appear reasonable. However, the actual per acre reduction in withdrawal taxes will depend on the assessed value of the land, the tax rate in the municipality where the land is located, the number of years it has been enrolled under the MFL program, and the value of the timber on the affected land. The actual per acre reduction in the withdrawal tax could therefore be far higher or lower than the average.

The DOR does not have information to reasonably estimate the number of MFL acres that might be converted to an agricultural use, or the number of such conversions that could occur. As a result, it is not possible for DOR to reasonably estimate the amount by which withdrawal fees paid into the conservation fund or withdrawal taxes paid to local governments will decrease as a result of the bill.

DOR administrative costs can be absorbed within existing budgetary authority.

### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

LRB Number <b>09-1842/1</b>		Introduction Number <b>AB-0530</b>	
<b>Description</b> Managed forest land being converted to agricultural land			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes	\$		\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
<b>TOTAL State Costs by Category</b>	<b>\$</b>		<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
	Increased Rev		Decreased Rev
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S (Conservation)			
<b>TOTAL State Revenues</b>	<b>\$</b>		<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
	State		Local
NET CHANGE IN COSTS	\$		\$
NET CHANGE IN REVENUE	\$see text		\$see text
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
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