

Fiscal Estimate Narratives

DNR 10/13/2005

LRB Number	05-3589/1	Introduction Number	AB-679	Estimate Type	Original
Subject					
Managed forest lands; retroactive date, yield tax exemption, calculation of withdrawal tax					

Assumptions Used in Arriving at Fiscal Estimate

BILL SUMMARY

The State of Wisconsin's Managed Forest Law (MFL) allows landowners to reduce their property taxes in return for a long term forest management commitment. This bill seeks to modify three recent changes to the Managed Forest Law in 2003 Wis. Act 228 and 2005 Wis. Act 25 in order to close loopholes created and treat similar applications and entries the same.

FISCAL ESTIMATE

THE NET FISCAL IMPACT EXPECTED FOR THE STATE IS A \$137,000 INCREASE in revenues.
THE NET FISCAL IMPACT FOR MUNICIPALITIES AND COUNTIES IS A \$9,000 INCREASE in revenue from additional yield taxes and an undetermined increase from withdrawal taxes on expanded orders.

The following is an explanation of the changes and their fiscal impacts.

1. Delay the effective date of certain changes made to the MFL in 2005 Wis. Act 25 from June 1, 2005 to July 2, 2005. Changes affected include: a) Reduce the application fee from \$300 to \$20 (\$280 of the \$300 is currently deposited in an appropriation for contracting management plan preparation s. 20.370 (1) (cx), Wis. Stats.). b) Allow the Department to decline to prepare a management plan for an MFL entry, and c) Require that the landowner pay the cost to prepare a plan for any plan the Department agrees to prepare. \$280 of each plan preparation fee collected by the Department for each plan the DNR prepares would be deposited in the appropriation mentioned above. The balance of the fee would be deposited in the conservation fund for forestry purposes. Delaying these changes would affect approximately 1,000 applications received from June 1, 2005 through July 1, 2005. Under this bill these applications would be handled the same as applications received prior to June 1, 2005.

Estimated INCREASE IN STATE REVENUE of \$137,800.

-The Department will receive \$280 for each of the 1,000 applications received between June 1 and July 2, 2005 ($\$280 \times 1,000 = \$280,000$). The entire revenue is deposited in the contracting appropriation (s. 20.270 (1) (cx) Wis. Stats.).

- The Department would not receive a plan preparation fee for plans prepared by the Department. The Department estimates that it would have agreed to prepare plans for approximately 200 of the 1,000 applications received from June 1, 2005 through July 1, 2005 (plans the Independent Certified Plan writers would not have done). The plan preparation fee for each plan is estimated to be \$711 based on the average plan size of 60 acres and a plan preparation fee of \$375/plan plus \$5.60/acre.

$(\$375 + (60 \times \$5.60/\text{acre})) = \$711$. These costs are the average costs for the Department to contract with private consultant foresters in 2005. The total plan preparation fee collected would have been \$142,200 (200 plans \times \$711/plan). \$56,000 would have been deposited in the contracting fund and the remaining \$86,200 to the general forestry account.

Net State Fiscal Change: \$280,000 increase - \$142,200 decrease = \$137,800 net increase in revenues

NO FISCAL IMPACT FOR MUNICIPALITIES AND COUNTIES

2. Modify the withdrawal tax calculation for land entered under an expanded order (applied for under s. 77.82 (4g) (b), Wis. Stats.) If land under the expanded order is withdrawn before the original order would have expired, the withdrawal tax is calculated differently than the regular method used. The tax is the sum of the withdrawal tax under the original order, less any yield taxes and acreage share payments made, and the

withdrawal tax that would have applied to the original acreage as of the date the expanded order goes into effect, less any yield taxes and acreage share payments made. This maintains an appropriate amount of withdrawal tax for expanded orders all of which is returned to the municipalities and counties.

NO FISCAL IMPACT TO STATE REVENUE. The Department does not retain any withdrawal tax collected when managed forest land is withdrawn.

Although it is agreed that the **MUNICIPALITIES AND COUNTIES WILL SEE AN INCREASE IN REVENUES** because they would receive 100% of the withdrawal tax it is unknown how many acres would be withdrawn under the expanded order provision because it was just created in 2004 and there are very few expanded entries at this time.

3. Add managed forest land that is entered as expanded orders under s. 77.82 (4g) (b), Wis. Stats., and managed forest land that was previously forest cropland under a forest cropland designation that has expired to the types of entries that do not qualify for the yield tax exemption during the first 5 years of entry. Currently only land that is converted from forest cropland to managed forest land under s. 77.82 (7) (d), Wis. Stats., before the forest cropland designation expires and renewals of managed forest land orders under s. 77.82 (12), Wis. Stats., do not qualify for the exemption from yield taxes. This treats entries that are similar in nature (e.g., going directly from one contract/order into another) the same. They are all subject to yield taxes during the first 5 years.

NO FISCAL IMPACT TO STATE REVENUE. The Department does not retain any yield tax collected when timber is harvested from managed forest land.

Estimated **INCREASE IN MUNICIPAL AND COUNTY REVENUES** of \$8,700 annually. An estimated 15,000 acres may be entered under these two types of orders each year with an average yield tax of \$.58/acre/year based on past yield tax data. The municipalities and counties would receive all of the estimated \$8,700 increase in yield tax collected (80% to the municipality and 20% to the county).

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
An estimated one-time cost of \$11,250 is required to update the computer programs.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S		280,000	-142,200
TOTAL State Revenues		\$280,000	\$-142,200
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$137,800	\$8,700
Agency/Prepared By		Authorized Signature	
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		Date	
		10/12/2005	