

### Fiscal Estimate - 2007 Session

Original
  Updated
  Corrected
  Supplemental

<b>LRB Number 07-3826/1</b>		<b>Introduction Number SB-438</b>	
<b>Description</b> Petitions and management plans for the designation of managed forest land, transferrals of ownership of managed forest land, establishing stumpage values and estimating withdrawal taxes under the managed forest land program, signatures and authentication requirements for orders under the forest croplands program, granting rule-making authority, and making an appropriation			
<b>Fiscal Effect</b>			
<b>State:</b>			
<input type="checkbox"/> No State Fiscal Effect <input checked="" type="checkbox"/> Indeterminate			
<input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations	<input type="checkbox"/> Increase Existing Revenues <input type="checkbox"/> Decrease Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Decrease Costs	
<b>Local:</b>			
<input checked="" type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate			
1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts	
<b>Fund Sources Affected</b>		<b>Affected Ch. 20 Appropriations</b>	
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS			
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
DOR/ Daniel Huegel (608) 266-5705		Paul Ziegler (608) 266-5773	2/15/2008

## Fiscal Estimate Narratives

DOR 2/15/2008

LRB Number	<b>07-3826/1</b>	Introduction Number	<b>SB-438</b>	Estimate Type	<b>Original</b>
<b>Description</b> Petitions and management plans for the designation of managed forest land, transferrals of ownership of managed forest land, establishing stumpage values and estimating withdrawal taxes under the managed forest land program, signatures and authentication requirements for orders under the forest croplands program, granting rule-making authority, and making an appropriation					

### Assumptions Used in Arriving at Fiscal Estimate

#### FOREST CROP LAW

Under the Forest Crop Law (FCL), an owner of a complete quarter-quarter section (typically 40 acres) in a town or village could petition the Department of Natural Resources (DNR) to enroll that land in the program. If the DNR determined that forestry was the best use for the land and that a stand of merchantable timber would be produced within a reasonable period of time, the land was entered under the program. Enrollment contracts were for 25 or 50 years, at the landowner's option. The landowner must also open the land to public access for hunting and recreation.

FCL land is exempt from property taxes. In lieu of taxes, owners must make an annual "acreage share" payment to the municipality of \$0.10 per acre (for land enrolled before 1972), \$1.66 per acre (for land enrolled after 1972), or \$0.20 per acre (for certain land enrolled from 1949 to 1963). The "acreage share" is billed and collected as part of the property tax settlement process. The municipality keeps 80% and remits 20% to the county. These "acreage share" rates are recalculated every 10 years. The next recalculation will be in 2012.

A "withdrawal tax" can be imposed if land is withdrawn from the FCL program at the owner's option or by DNR order. This tax equals the sum, for the time the contract was in effect, of the differences between the real estate taxes that would have been levied on the land and the acreage shares payments (plus severances taxes of 10% of the value of harvested timber) actually paid. Each year's difference is subject to simple interest at 12% per year (5% for contracts entered on or before December 31, 1977) for each year the real estate tax has been deferred. DNR retains a portion of this payment, and remits the remainder to the municipality, which keeps 80% and shares 20% with the county.

The program was closed to new entries beginning in 1986. Assuming no withdrawals, the last contracts will therefore expire in 2035.

#### MANAGED FOREST LAND

An owner of a parcel of land containing 10 or more contiguous acres may apply to enter the land under the Managed Forest Land (MFL) program. If the Department of Natural Resources (DNR) determines that at least 80% of the parcel is producing or is capable of producing at least 20 cubic feet of merchantable timber per acre per year, and that land is not developed in a way incompatible with the practice of forestry, the DNR issues an order entering the land under the program. Upon entry into the program, the landowner signs a 25 or 50 year contract under which the landowner promises to follow a forest management plan for the parcel. The landowner must also open the land to public access for hunting and recreation, but closing some of the acreage to public access is permitted.

Land entered under the MFL program is exempt from general property taxes. In lieu of property taxes, land owners pay an annual "acreage share" currently (fees payable in 2008) set at \$0.83 per acre (for MFL entries that took effect before April 28, 2004), or \$1.46 per acre. The "acreage share" is billed and collected as part of the property tax settlement process. Municipalities retain 80% of the fee and remit 20% to the county. On land closed to public access, land owners pay an additional fee, known as the "closure fee", currently (fees payable in 2008) set at \$1.12 per acre (for MFL entries that took effect before April 28, 2004), or \$5.82 per acre. This fee is also billed and collected as part of the property tax settlement, but collections are remitted in full to the DNR. The per acre rates are recalculated every 5 years. The last recalculation was in 2007; the new rates will go into effect for payments in 2009.

A "withdrawal tax" is imposed when land is withdrawn from the MFL program either by request of the landowner or by DNR order. For land that has been enrolled only under the MFL program, this tax equals the greater of (a) the product of the net assessed value tax rate in the year prior to withdrawal times the assessed value of the land in the year prior to withdrawal times the number of years the land was under an MFL order minus the acreage share and yield taxes paid on that parcel; or (b) 5% of the stumpage value of the merchantable timber on the land. The tax is paid to the DNR, which remits 100% of any withdrawal taxes to the municipality where the land is located. The municipality keeps 80% of the payment and shares 20% with the county.

For land that was switched (converted) from the FCL program into the MFL program, the calculation of the "withdrawal tax" is more complicated. For any withdrawal during the first 10 years after conversion, the withdrawal penalty for the years the land was in both programs is calculated, and the higher of the two is imposed. After 10 years, only the MFL withdrawal tax is calculated.

#### PROPOSED LAW CHANGES

The Department of Revenue (DOR) plays a limited role in the administration of the FCL and MFL programs. For purposes of these programs, the main role is the recalculation of the "acreage share" and "closure fee" rates. The other major role is to assist the DNR in the calculation of the "withdrawal tax" for those parcels that are taken out of either program.

This fiscal estimate is limited to the provisions of the bill with a direct impact on the DOR.

Under the bill, an owner of land enrolled under the MFL can file a request with the DOR to prepare an estimate of the withdrawal tax that could become payable if the land were withdrawn from the MFL program. The request must be accompanied by a nonrefundable fee equal to the greater of either \$100 or \$5 for each whole and partial acre. If a landowner who has requested this estimate proceeds to withdraw from the MFL program, he or she will remain liable to DNR for the withdrawal application fee and withdrawal penalty provided for under current law.

The DOR currently calculates the withdrawal tax only when a parcel is actually withdrawn from the FCL or MFL programs. In recent years, a withdrawal penalty is calculated for about 300 to 400 withdrawals every year. DOR does not have data on how many landowners have contemplated withdrawing from the MFL program. However, since the withdrawal penalty can be quite large, it is possible that a large number of requests for estimating the penalty could be filed. It is therefore expected that DOR would incur additional administrative costs of about \$5,900 per year under the bill. The revenues from the fee created under the bill are expected to be about equal to the cost increase DOR would incur under the bill.

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

## Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>07-3826/1</b>		<b>Introduction Number</b> <b>SB-438</b>	
<b>Description</b> Petitions and management plans for the designation of managed forest land, transferrals of ownership of managed forest land, establishing stumpage values and estimating withdrawal taxes under the managed forest land program, signatures and authentication requirements for orders under the forest croplands program, granting rule-making authority, and making an appropriation			
<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	\$5,900	\$
	(FTE Position Changes)	(0.3 FTE)	
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	<b>TOTAL State Costs by Category</b>	<b>\$5,900</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
	GPR	5,900	
	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		
	<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		State	Local
	NET CHANGE IN COSTS	\$5,900	\$
	NET CHANGE IN REVENUE	\$	\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
DOR/ Daniel Huegel (608) 266-5705		Paul Ziegler (608) 266-5773	2/15/2008