



*Legislative Council Special Committee to the Review the Managed Forest Land Program  
9 September 2010 Testimony*

## **Wisconsin Landowners and the Managed Forest Law**

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Thank you for the opportunity to provide testimony to this Special Committee. Over the last 10 years or so, my research and extension activities have provided a front-row seat to the Managed Forest Law (MFL)—through research on and discussions with landowners, resources professionals, policymakers, and others. My testimony today reflects several applied research projects—both completed and on-going—that attempt to understand private forestry in Wisconsin. Representative Clark asked that I be concise and to curb my enthusiasm, so I will restrict my testimony, per his request, to two areas:

1. Comparing landowners enrolled in the MFL with those not enrolled, and
2. Property tax benefits and costs.

In the interest of full disclosure, the research I will present today has been funded primarily from four sources: the USDA National Institute of Food and Agriculture, Wisconsin Focus on Energy, the Renewable Resources Extension Act, and Wisconsin Department of Natural Resources. I provide endnotes in the text of my remarks to attribute studies to specific sources.

### **Comparing MFL and non-MFL Landowners**

Numerous studies, since the 1970s, have quantified and described Wisconsin landowners. These studies consistently demonstrate that landowners are a diverse group who own land primarily for recreation and aesthetic reasons, but are also likely to harvest timber on occasion—particularly when prices are good. Trends indicate that average landholding sizes are decreasing and, further suggest a downward pressure on timber supply and the provisioning of other goods and benefits such as habitat, water quality, and biodiversity. Indeed, the current average private landholding size is smaller than the average timber sale size reported by loggers<sup>i</sup> in a 2004 study: ~30 acres versus ~ 50 acres. At the same time, there are benefits. More individuals and families are able to experience the benefits of woodland ownership. In addition, new people offer the potential for new ideas and energy in places that have, in some cases, seen their populations decrease.

In Wisconsin, we tend to think about woodland owners in one of two ways: in the MFL and not. So, how do landowners from these two groups compare? In sheer numbers and land area, MFL participants are the *exception*, not the norm. All MFL enrollments, including the large accounts, total just over 3 million acres, while all private forestland area totals nearly 12 million. The DNR estimates that around 30,000 landowners are enrolled in the MFL and that there are about 362,000 landowners overall—nearly half owning less than 10 acres<sup>ii</sup>. That said, Data from two studies<sup>iii</sup> suggest that there are some differences, but that MFL status is not likely the key driving issue—parcel size<sup>iv</sup> is likely more important (Slide 2).

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#### **Forest and Wildlife Ecology**

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- Landowners have similar reasons for landownership (Slide 3), but those enrolled in the MFL place greater importance on timber income and family legacy. However, when we account for landholding size, the differences are less evident (Slide 4).
- In terms of landowner characteristics, they are also similar. However, non-MFL landowners are more likely to live on their land than MFL participants (Slide 5). Notably, size is less important. MFL participants in the small landholding class appear to be similar to all non-MFL landowners (Slide 6).
- However, on key behaviors associated with the MFL—management plans and timber harvesting, differences are significant. 100% percent of MFL participants have a management plan, while only 4% of non-MFL participants have one (Slide 7). Timber harvest experience is also quite different (69% vs 40%). Plans and harvest experience increase by landholding size for non-MFL participants (Slide 8). This is consistent with past research: Those who own more land are more likely to manage it.

On the typical measures that researchers use to predict behavior, those not enrolled in the MFL are not substantially different from those who choose to enroll—except in terms of landholding size. Those with larger holdings are more likely to see the MFL as attractive. In terms of driving MFL enrollment, landowners need to answer two questions.

1. How much are my property taxes (and can I afford to pay them)?
2. If they are “too much,” do I sell or is it worth enrolling my land in the MFL?

I don’t think timber harvesting, per se, is a barrier to participation except for a small group. Our survey of non-MFL participants suggests no strong opposition to timber harvesting among these landowners.

### **Property Tax Benefits and Costs**

Enrolling land in the MFL can provide a substantial tax break to landowners. However, compliance can be a burden and there are significant penalties for withdrawal. Landowners are making a very long-term commitment. Compliance can be particularly difficult with those who see the MFL solely as a property tax program as opposed to a property tax and forest management program.

The MFL is defined as a “deferred property tax program” because of the yield tax, but it can still result in a significant reduction in property taxes over the enrollment period. A few years ago, I put together a spreadsheet to put some numbers on that benefit. I spent last week updating that spreadsheet. The spreadsheet calculates what someone might pay in terms of taxes with and without MFL enrollment. It makes assumptions about property tax and timber inflation that the truly curious can ask me about. It assumes that the individual would harvest timber either way. I’ll share two sample runs.

#### *Example 1: June and Lloyd*

June and Lloyd are planning to enroll 160 acres into the program, all closed. Their current property tax is just over the statewide average, \$35 per acre. Their plan would cost \$1,500 and they expect to harvest timber in 2018 and 2028, with stumpage value totaling \$30K and \$45K, respectively, in today’s dollars. They expect that compliance and timing issues will reduce those sale receipts by 10%. The net present value (NPV) of not enrolling their land in the MFL is **-\$308** per acre, while enrollment would yield a net present benefit of \$146 per acre. (Slide 9)

#### *Example 2: Tammie and Brian*

Tammie and Brian, siblings, inherit 40 acres from their grandfather and are considering the MFL. Since they live in the city, they would likely enroll all the land as open. Their current property tax is \$100 per acre. Their plan would cost \$1,000 and they expect to harvest timber in 2023, with a stumpage value of

\$20K in today's dollars. They expect that compliance and timing issues will reduce those sale receipts by 15%. The net present value (NPV) of not enrolling their land is **-\$1,616** per acre, while MFL enrollment would yield a benefit of \$198 per acre. (Slide 10)

I would like to stress that my numbers and calculations need to be reviewed and checked, but I believe that I am in the right ballpark. As such, the MFL, even with the yield tax, provides a significant savings to landowners. At the same time, landowners agree to both known and unknown conditions through a long-term arrangement with the government.

These examples also indicate that owning forests as a "timber business" is a losing proposition given prevailing property tax rates. Those who created the Forest Crop Law, the Woodland Tax Law, and the MFL understood this. And, it is an important reminder for all of us.

### *Who Pays*

So, who pays? Historically, MFL had little or no impact on the municipalities, school districts, and counties that depend most on property taxes. The state's dynamic revenue sharing formulas made up the difference. That changed in 2004, when shared revenues were capped at 2003 levels. In a study estimating the impacts of hypothetical shifts in MFL enrollment<sup>v</sup>, we found that increasing 2006-07 MFL enrollments resulted in an increase in town-purpose property tax mil rates. However, for most towns the change was small: between 0 and 0.1 mils for a 20% increase in MFL acres. The effects were not evenly distributed. Towns with greater areas of land in the Agricultural Forest Classification ("Ag-Forest") and with lower tax base per capita tended to see a greater impact.

Two observations from that study are worth repeating.

1. Unlike "Ag-Forest" that reduces property taxes by 50%, the MFL reduces property taxes to fixed statewide amounts. This likely ensures high MFL enrollments in places where property taxes are high. On the positive side, this provides a hedge against forest parcelization and the myriad detrimental ecological consequences that can follow it. The benefits, though, are disproportional and may not be linked to the economic or ecological outcomes important to the local community.
2. Dynamic revenue sharing<sup>vi</sup>, even under capped and declining appropriations, would at least reflect local land use. For example, if MFL land entered in the program in 2000 is withdrawn, local units of government collect property tax on those lands and continue to receive the latent benefits of capped shared revenues.

### **Concluding Remarks**

I'd like to finish with five observations based on the research presented here and other studies that relate to the committee's task.

1. Wisconsin's MFL has one of the highest participation rates for a voluntary program in the country, despite significant upfront costs, a long-term commitment, and rigorous compliance standards. This reflects the significant carrot it offers: substantial reductions in property tax. I believe there is a limit to people's interest in such programs. For the MFL, I could well imagine that we're approaching that limit, but I really can't say how quickly.
2. Landowners are a diverse group, but I would hypothesize that MFL enrollment decisions are driven first by property taxes and then by program requirements and constraints. This may create frustration later on, but people are in. Tampering with the mix of benefits and expectations will shift landowners' calculations. Should the benefits be scaled back, people will leave the program

(if they can afford to). However, those who remain may be better aligned with the program goals and philosophy: Less may be better.

3. Is 10 acres too low as a minimum acreage requirement—at least as individual entries into the program? Our research (still be analyzed) suggests that those owning fewer than 20 acres are different than other in the program, not just in the metrics presented here, but also in how they view upcoming practices. Moreover, preliminary analysis by Dr. Tom Steele<sup>vii</sup> as part of our MFL study suggests that smaller parcels are more intensively managed given their overall smaller total volume. Greater intensity on small ownerships is at odds with the social science data we've collected. Perhaps the bigger issue on smaller landholdings is keeping forests in forests, which might entail less timber or some degree of aggregation.
4. It is easy to quantify the tax benefits the program provides landowners. It is also relatively easy (although trickier) to quantify any loss of town- and county-purpose property tax revenues associated specifically with MFL enrollment. More difficult, though, is how MFL contributes fiber supply to markets that provide jobs and tax revenues, as well as scenic rural qualities that drive local tourism and real estate. The ecological and environmental benefits present an even greater challenge. We all know this, but it makes them no less difficult to value and weigh given our current fiscal environment.
5. Lastly, I think the MFL needs to build in greater responsiveness to local units of government. I noted two modest ideas previously, but I am sure better ones exist. At the same time, though, I think local communities that depend on the forest resource need to recognize its importance. For me, local units of government would need to commit to the program and the social, ecological, and economic benefits it and other forestlands provide local communities. Revisiting the concept of “enterprise zones” from the Working Land Initiative might provide a model for us to explore.

In conclusion, I hope these research findings and perspectives help the efforts of the committee. Thank you the opportunity to share them. If there are questions or comments, I will do my best to respond.

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<sup>i</sup> Rickenbach, M., T.W. Steele, and M. Schira. 2005. Status of the Logging Sector in Wisconsin and Michigan's Upper Peninsula--2003. Madison, WI: University of Wisconsin-Extension Cooperative Extension Service. 39 pp.

<sup>ii</sup> See Wisconsin's Managed Forest Law: A Program Primer, distributed by DNR at last committee meeting.

<sup>iii</sup> The USDA National Institute for Food and Agriculture (NIFA), through its Agriculture and Food Research Initiative [#2006-55618-17022], funded the survey of over 1,100 MFL landowner study. Focus on Energy's Environmental & Economic Research Program funded a survey of roughly 800 non-MFL landowners. Additional support was provided through the Renewable Resources Extension Act (RREA).

<sup>iv</sup> For this testimony, landholding size classes are as follows: small (10-20 ac), medium (21-80 ac), and large (81-640 ac).

<sup>v</sup> The Department of Natural Resources, the USDA NIFA, through the McIntire-Stennis Act, and the RREA provided funding for the MFL local impact study. See Rickenbach & Saunders. 2009. The Managed Forest Law and Property Tax Revenues for Townships: A Study of Enrollment Shifts and Local Impacts. Madison, WI: UWEX Cooperative Extension Service. (UWEX GWQ52 & DNR PUB-FR-432 2009)

<sup>vi</sup> I should note that state aids changed for 2010. DOR noted that they reduced by 3.5% and, “The reductions were based on a two-step calculation which took in to account equalized property values and population” (Cover sheet of “2010 Estimated Shared Revenue and Expenditure Restraint Payments” DOR).

<sup>vii</sup> Co-investigator on NIFA MFL study (see i), Dr. Steele is based at UW-Madison Kemp Natural Resource Station.