



Legislative Fiscal Bureau

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February 19, 2014

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 732 and Senate Bill 575: County Forest and Managed Forest Law Payments

Assembly Bill 732 was introduced on February 5, 2014, and Senate Bill 575 was introduced on February 7, 2014. Both bills were referred to the Joint Committee on Finance.

BACKGROUND

Article 8 §10 (3) of the Wisconsin Constitution authorizes a state forestry tax of up to 0.2 mills (or 20¢ per \$1,000 of property value) for the purpose of acquiring, preserving, and developing the forests of the state. Between 1937 and 2004 (collected in 2005) §70.58 of the statutes set the mill tax at 20¢ per \$1,000, however, 2005 Act 25 limited the annual growth in the tax to 2.6% for each of the next three years. The forestry mill tax is 16.97¢ per \$1,000 of value for tax years 2007(08) and thereafter. For 2012 (tax year 2013) the median forestry mill tax was just under \$26 for a \$151,100 home, or less than 0.9% of the median \$2,943 tax bill.

The forestry mill tax generated \$80 million, or approximately 80% of the \$99.9 million in revenues to the forestry account for fiscal year 2012-13. The remaining \$19.9 million in revenues include: (a) the sale of timber on state forest lands; (b) the sale of stock from the state's tree nurseries; (c) camping and entrance fees at state forests; (d) severance and withdrawal payments from timber harvests on cooperatively-managed county forests and on privately-owned land entered under the forest crop law (FCL) and managed forest law (MFL) programs; and (e) a portion of the revenue from the sale of the conservation patron licenses, to reflect the fact that license holders are granted admission to state forests at no additional charge as part of the license.

Forestry account revenues are used to support approximately 658 full time equivalent staff positions to fund a variety of activities. This includes approximately 643 Department of Natural Resources (DNR) staff and the following programs: (a) the operations of 23 state forests; (b) three tree nurseries; (c) prevention, detection and suppression of forest fires; (d) forest health and

productivity including administration of the MFL program and assistance to county forest administrators; (e) grants, loans and payments to certain towns, counties and private forest owners; (f) repayment of a portion of stewardship program debt; and (g) a portion of DNR administrative costs. In addition, the forestry account supports approximately 15 staff and certain costs of various other state agencies including gypsy moth control by the Department of Agriculture Trade and Consumer Protection, the Kickapoo Reserve Management Board and the Lower Wisconsin State Riverway Board. Expenditures from the forestry account totaled \$99.4 million in 2012-13.

The following table shows the estimated condition of the forestry account under current law. Primarily due to a significant level of vacancies, the forestry account is expected to have an available balance of almost \$10 million on June 30, 2015, as shown in the table. The Department has recently filled a number of vacancies (improving from a vacancy rate of over 16% in April, 2013, to a current rate of approximately 10%). However, the Department indicates that the current level of vacancies (approximately 10%) is expected to be maintained through the remainder of the 2013-15 biennium. As a result, although lower than in the recent past, reduced expenditures (lapses) are anticipated to continue for the 2013-15 biennium due to these vacancies.

TABLE 1
Forestry Account Condition Under Current Law

	2012-13 <u>Actual</u>	2013-14 <u>Budgeted</u>	2014-15 <u>Budgeted</u>
Opening Balance	\$26,970,900	\$27,470,000	\$21,722,000
Revenue:			
Mill Tax	\$80,037,400	\$79,338,000	\$81,774,000
Timber Sales	6,371,200	6,500,000	6,500,000
Nurseries	1,635,000	1,500,000	1,500,000
Forest Tax Law	5,773,300	7,850,000	8,600,000
Admission and Camping Fees	4,761,400	4,775,000	4,775,000
All Other Revenue	<u>1,275,300</u>	<u>1,150,000</u>	<u>1,150,000</u>
Total Revenue	\$99,853,600	\$101,113,000	\$104,299,000
Total Available	\$126,824,500	\$128,583,000	\$126,021,000
Authorized Expenditures	\$107,226,200	\$108,961,000	\$106,537,000
Reserves and Lapses	<u>-7,871,700</u>	<u>-2,100,000</u>	<u>-600,000</u>
Total Expenditures	\$99,354,500	\$106,861,000	\$105,937,000
Cash Balance	\$27,470,000	\$21,722,000	\$20,084,000
Encumbrances/Continuing Balance*	<u>10,131,500</u>	<u>10,100,000</u>	<u>10,100,000</u>
Available Balance	\$17,338,500	\$11,622,000	\$9,984,000

*Includes amounts encumbered (committed, but not yet paid) as well as continuing balances from certain appropriations (such as forestry development, nursery surcharge revenues, recording fees, and forest management plans) that are not available for general appropriation.

CURRENT LAW

Under current law, annually, the Department of Natural Resources (DNR) pays each town treasurer 30 cents for each acre of land that is designated as county forest land in the town. The Department also pays towns and villages 20 cents for each acre enrolled in the forest crop law (FCL) and managed forest law (MFL) programs, of which the municipality keeps 80% and sends 20% to the county.

The FCL and MFL programs are designed to encourage landowners to manage private forest lands for the production of future forest crops for commercial use through sound forestry practices. (On January 1, 1986, new entries into FCL were eliminated, although existing FCL orders will remain in effect until their expiration. The last FCL order expires in 2035.) Land enrolled under these programs is subject to preferential property tax treatment. Instead of traditional property taxes, landowners make acreage share payments to municipalities (which in turn pay a portion to the counties) in amounts determined by the date the land is entered into these programs. Current FCL acreage share rates are 10¢ per acre for land entered before 1972 and \$2.52 per acre for land entered beginning in 1972. Current MFL acreage share rates were recalculated in 2012, and were effective January 1, 2013, for payments for the 2013 tax year due January 31, 2014. The current rate is 79¢ per acre for lands entered through 2004 and \$2.14 for lands entered after 2004. Revenues from these payments are divided between local units of government (80%) and counties (20%).

Under the MFL program, a landowner has the option of closing a maximum of 160 acres per municipality to public access if an additional fee (in addition to the acreage share) is paid for each acre closed to public access. For each acre of land closed to the public (for land entered after 2004) the additional payment is equal to 20% of the average statewide property tax per acre of property assessed as productive forest land (based on the 2011-12 average of \$42.70 per acre). The fee currently is \$1.08 per acre for lands entered into the program between 1987 and 2004, and \$8.54 per acre for lands entered after 2004 (for a total annual per acre rate of \$10.68). The rates were adjusted in 2012 (using 2011 equalized property values for taxes payable in 2012) effective January 1, 2013, (for payments due in 2014) and will be adjusted every fifth year thereafter, using a formula that accounts for changes in the average statewide property tax for undeveloped lands. Revenues from closed-acreage payments are deposited as general revenues to the forestry account. Closed acreage fees are expected to generate \$7.85 million in revenue to the forestry account in fiscal year 2013-14.

SUMMARY OF BILL

Assembly Bill 732 and Senate Bill 575, hereafter "the bill", are identical and would increase the amount DNR is required to pay each town treasurer for each acre of land designated as county forest land from 30¢ per acre to 55¢ per acre beginning with payments made in fiscal year 2013-14 for land designated as county forest land as of June 30, 2013. In addition, under the bill, in fiscal year 2013-14 only, 75% of the revenues from closed acreage payments would be deposited as general revenues to the forestry account, 20% would be retained by the municipal treasurer, with 5% sent to the county treasurer.

SENATE AMENDMENT 1

Senate Amendment 1 to SB 575 was introduced on February 13, 2014, and would address a timing issue regarding closed acreage fee revenues which are collected by the municipalities and sent to the counties by February 20 of each year (before this bill, if enacted, would likely become effective in 2014). SA 1 would maintain the intended percentage of closed acreage fee revenues municipalities, counties, and the Department would receive in fiscal year 2013-14 under the bill. The amendment would specify that in fiscal year 2013-14 only, counties would send 75% of the revenues from closed acreage fees to the Department and refund 20% to the municipalities, with the counties retaining 5% of the total closed acreage fee revenues.

FISCAL EFFECT

On February 14, 2014, DNR submitted a fiscal note to the bill identifying a reduction of more than \$3.1 million to the forestry account balance in the 2013-15 biennium.

In fiscal year 2012-13, DNR paid \$711,600 in aids to counties for approximately 2,372,100 acres of county forest land. The bill would increase the per acre rate of the payments from 30¢ to 55¢ per acre, which would be expected to increase expenditures from the forestry account for county forest aids by approximately \$593,000 annually. In addition, in fiscal year 2013-14, 75% of the revenues from closed acreage fees, rather than 100% of those revenues, would be deposited in the forestry account of the conservation fund. The remaining 25% would be split between the local municipalities (20% of total revenues) and the counties (5% of total revenues). Based on estimated fiscal year 2013-14 closed acreage fee revenues of approximately \$7.85 million, the bill would result in a one-time reduction of approximately \$1,963,000 in revenue to the forestry account in fiscal year 2013-14 compared to current law. The bill would be expected to result in a corresponding one-time revenue increase to local municipalities and counties with land enrolled in the MFL program in fiscal year 2013-14 (\$1,570,000 to local municipalities and \$393,000 to counties). In total, the bill would reduce the expected June 30, 2015, forestry account balance by over \$3.1 million (to \$6.8 million) as shown in Table 2.

TABLE 2

Fiscal Effect of the Bill on Forestry Account Balance

	<u>2013-14</u>	<u>2014-15</u>	<u>Biennial Total</u>
Closed Acreage Revenue	-\$1,963,000	\$0	-\$1,963,000
County Forest Expenditures	<u>-593,000</u>	<u>-593,000</u>	<u>-1,186,000</u>
Total Effect	-\$2,556,000	-\$593,000	-\$3,149,000

While the forestry account would continue to retain a substantial June 30, 2015, balance, it should be noted that authorized expenditures exceed anticipated revenues in fiscal year 2014-15, which would require monitoring in future biennia. Table 3 shows the forestry account structural imbalance under current law and under the bill. Note that these figures do not take into account

any potential adjustments to the base year revenue and expenditures that may occur in future biennia.

TABLE 3

**Forestry Account Structural Imbalance Under Current Law
and Under the Bill (\$ in millions)**

	<u>Forestry Account</u>
Revenue	\$104.3
Authorized Expenditures (Current)	<u>-106.5</u>
Structural Imbalance (Current)	-\$2.2
Expenditure Increase (Bill)	<u>-0.6</u>
Structural Imbalance (Bill)	-\$2.8

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