RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF AGRICULTURE
AND RURAL DEVELOPMENT

JAMIE CLOVER ADAMS
DIRECTOR

DATE: April 8, 2013

TO: Dick Posthumus

FROM: Jamie Clover Adams

SUBJECT: Private Forest Lands Study

Attached is a report commissioned by the Michigan Department of Agriculture and Rural Development (MDARD) to examine the economic impacts of increased forest harvests from non-industrial private forest land (NIPF). The intent was to examine the impact of enrollment under the Qualified Forest Affidavit program (QFP). This program is currently housed in the Michigan Department of Natural Resources. Several bills pending before the Michigan legislature would transfer the program to MDARD as well as make changes to the manner in which the program is administered.

Given the potential loss of money from the School Aid Fund, the Administration has asked that MDARD provide a review of the costs and benefits of QFP to the State. To that end, the Department requested that MIG, Inc., a firm particularly well suited for this type of analysis, review the costs and benefits of QFP. The MIG, Inc firm consists of economists that developed the IMPLAN economic analysis tool. The firm contains both economists and foresters suitable for this task.

The report provides information based on two scenarios. The first scenario assumes that the land enrolled into the QFP is harvested at half the rate of growth. The second scenario assumes that the land enrolled in QFP is harvested at the rate of growth (full harvest). For each scenario MIG, Inc calculated the State and local taxes that would be paid as a result of the increased harvests and compared those numbers with the loss to the School Aid Fund provided by the Michigan Department of Treasury. The report also examined the number of jobs that would be created under both scenarios, the potential business revenue, and the contribution to the GDP by the projected harvests.

The report indicates that under the full harvest scenario, the state and local taxes paid would be just shy of offsetting the program costs to the state. Although the taxes generated falls just short of the costs to the state, we believe the jobs created in rural areas are important to the Department's mission of rural development. QFP has the potential to increase timber harvests on NIPF and to tap an underutilized resource in the State and is good public policy.

Background

The QFP was originally established in 2006 with the intent of increasing forest harvests from NIPF properties. Forests on NIFP lands were and are still being harvested at well below the rate of growth of the timber. As a result, potential marketable timber is being lost to the market because timber is exceeding the useful life expectancy of that timber.

The QFP program was established to create an incentive for NIPF landowners to make their timber available for harvest. In exchange for a property tax reduction, the property owner obtains a forest management plan for their land and signs an affidavit indicating they will continue to use the property for forest production. Land participating in this program becomes exempt for up to 18 mills of school operation millage. When the land is removed from the program, the landowner is required to repay a portion of the forgiven school operation millage. The amount repaid is increased if a timber harvest has not been made.

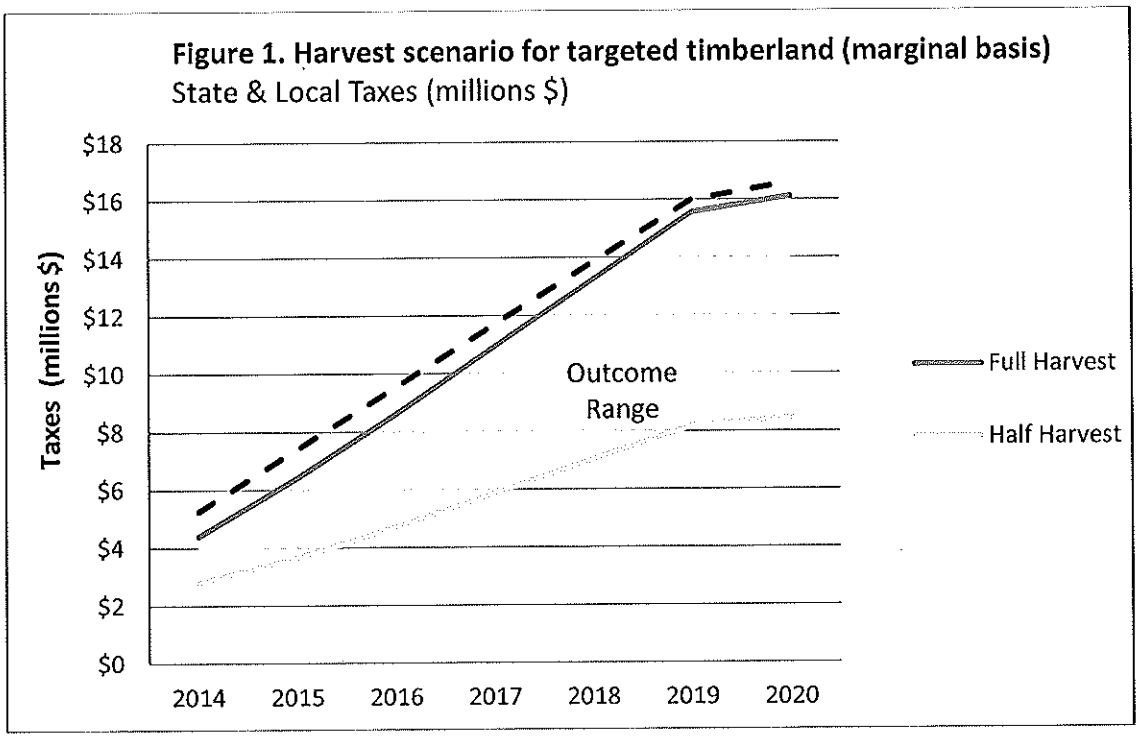
At the time the law was passed in 2006 a cap of 1.2 million acres was established for the number of acres that could be included in the program. According to the legislation, the cap was to be reached by December 31, 2011. However, since the program was established in 2006, only about 70,000 acres have been enrolled. The limited enrollment can be attributed to, 1) excessive tax recapture penalties under the program, and 2) absence of adequate funding to administer the program. Both of the issues would be corrected under the proposed legislation.

Summary of Results

Results provided in this study trace the sale of stumpage from property enrolled in the Private Forest Lands Initiative (QFP) to wood processors in the state of Michigan. We estimate the impacts this stumpage has on the Michigan economy once wood processors transform it to end use products that are sold in consumer markets. Results presented in the report are totals that represent the direct, indirect and induced effects these sales have on the Michigan economy.[1] For example, revenue totals represent the direct, indirect and induced revenue generated because of the sale of end use products that are made from QFP stumpage. Likewise, state and local taxes are an estimate of all taxes generated from direct, indirect, and induced production associated with the sale of end use products made from QFP stumpage. This includes an aggregation of income tax, sales tax, property tax, and other taxes generated at each step in the value chain of end use wood products.

State and local taxes generated from the Private Forests Lands Initiative depend greatly on the percentage of enrolled property that is harvested each year. For example, in 2014 tax revenues could range from $2.8 million if only half the enrolled acreage is harvested to $4.4 million if all enrolled acreage is harvested. As additional acreage is enrolled in future years, tax revenues would increase. For instance, by 2020 tax revenues could range from $8.5 to $16.1 million depending on the percent of enrolled property that is harvested. According to the assumptions and analysis presented in this report, even if virtually all enrolled property was harvested each year, tax revenues would be just shy of offsetting the program's cost to the state.

Figure 1. Harvest scenario for targeted timberland (marginal basis)



[1] Direct effects refer to the spending that occurs as consumers purchase end use wood products. Indirect effects refer to the spending that occurs as wood processors purchase inputs (such as stumpage) to meet the demand generated by consumers. Induced effects refer to the spending that occurs as workers/households spend the wages they earn from the sale of end use wood products.

Table 1. Harvest scenario for targeted timberland (marginal basis)

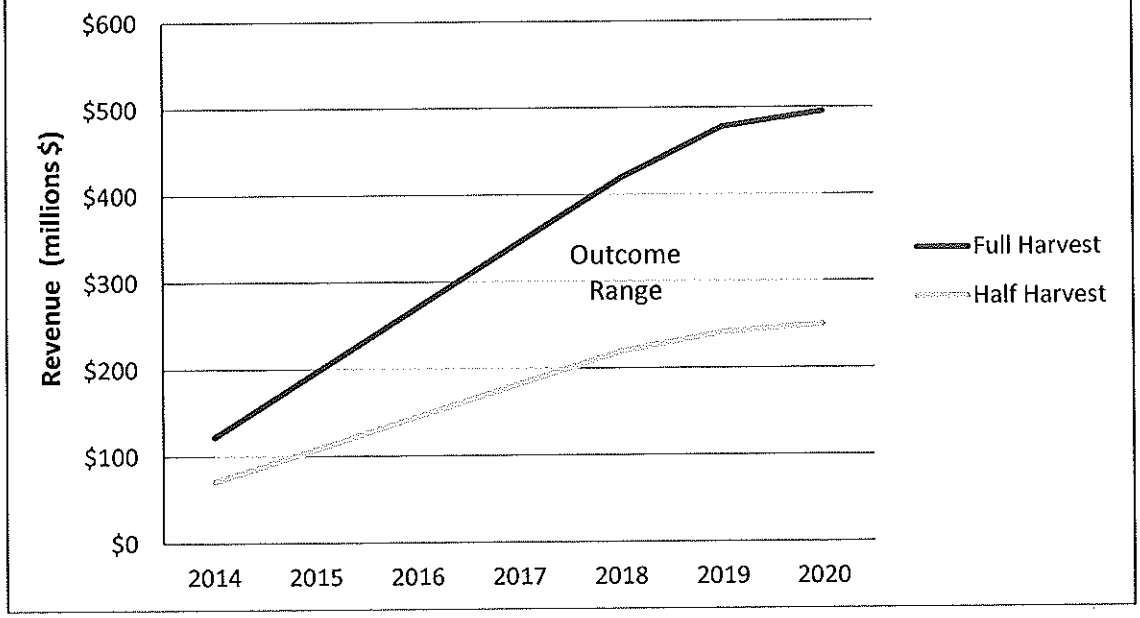
State & Local Taxes (millions $) | Estimates from IMPLAN

Year	Full Harvest	Half Harvest	SAF Cost
2014	$4.40	$2.80	$5.27
2015	$6.42	$3.66	$7.42
2016	$8.63	$4.71	$9.56
2017	$10.94	$5.87	$11.71
2018	$13.26	$7.03	$13.85
2019	$15.57	$8.18	$16.00
2020	$16.12	$8.46	$16.59

A similar pattern is also projected for other outcomes such as business revenues, contribution to state GDP, and employment. For example, in 2014 business revenues generated by the Private Forests Lands Initiative could range from $70.9 to $122.4 million depending on the percentage of enrolled property harvested. By 2020 this number could range from $249.9 to $495.6 million depending on the percent of property harvested.

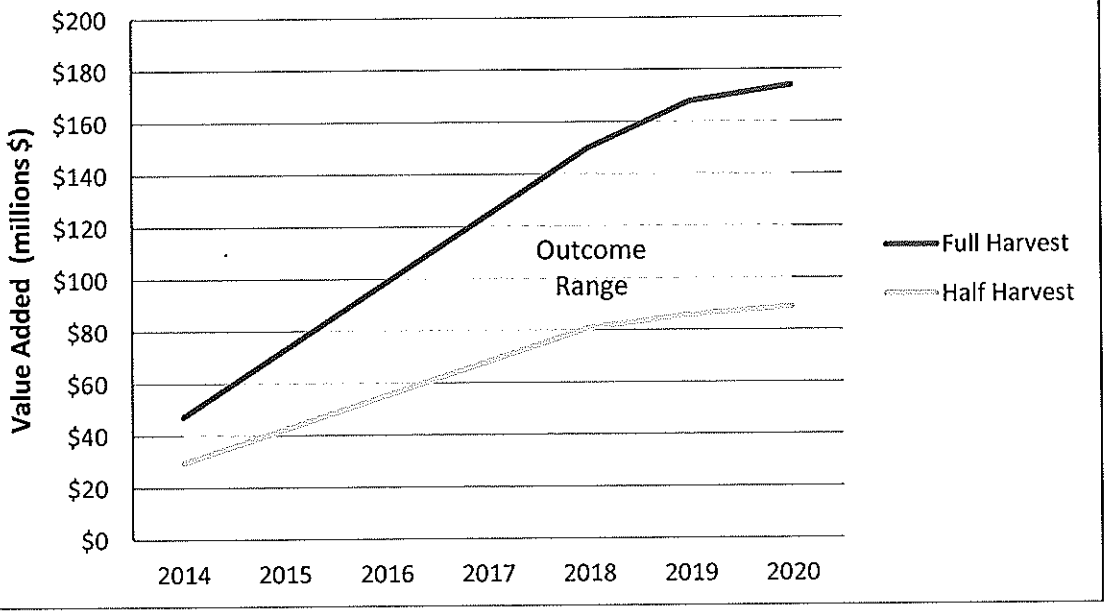
Figure 2. Harvest scenario for targeted timberland (marginal basis)

Business Revenue (millions $)



Similarly, in 2014 the contribution to state GDP attributable to the Private Forests Lands Initiative could range from $29.5 to $47.4 million depending on the percentage of enrolled property harvested. By 2020 this number could range from $88.8 to $174.1 million depending on the percent of property harvested.

Figure 3. Harvest scenario for targeted timberland (marginal basis)
Contribution to state GDP (millions $)



Likewise, in 2014 the number of jobs supported by the Private Forests Lands Initiative could range from 392 to 617 depending on the percentage of enrolled property harvested. By 2020 this number could range from 1,128 to 2,204 depending on the percent of property harvested.

Figure 4. Harvest scenario for targeted timberland (marginal basis)
Employment

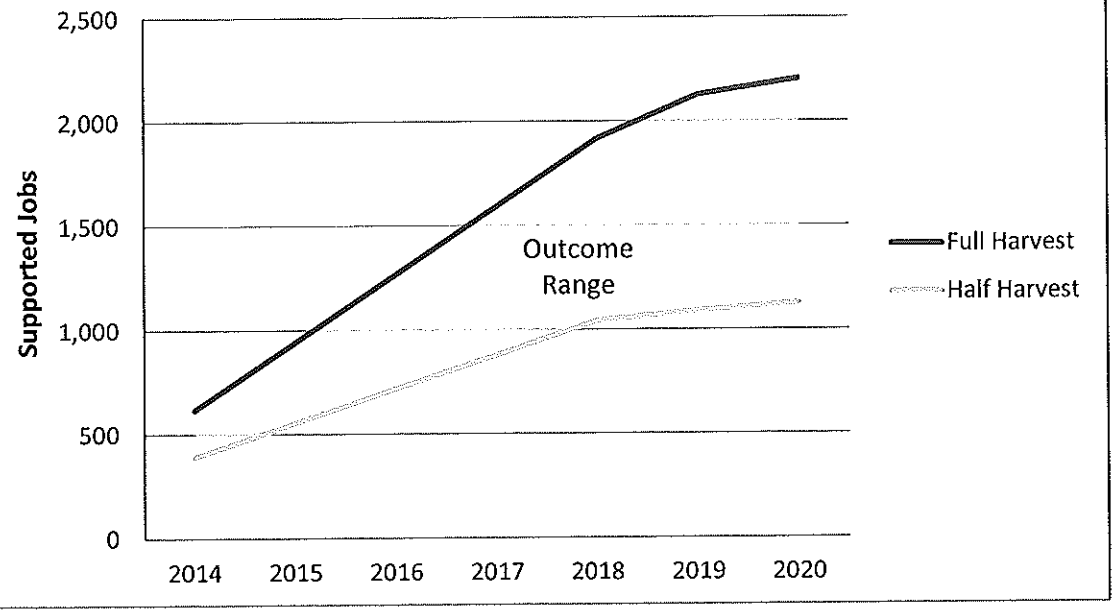


Table 2. Harvest scenario for targeted timberland (marginal basis)

Business Revenue (mil $), Contribution to State GDP (mil $) and Employment | Estimates from IMPLAN

	Business Revenue		Contribution to State GDP		Employment	
Year	Full Harvest	Half Harvest	Full Harvest	Half Harvest	Full Harvest	Half Harvest
2014	$122.43	$70.93	$47.38	$29.52	617	392
2015	$196.57	$108.01	$73.08	$42.38	942	554
2016	$270.72	$145.08	$98.79	$55.23	1,267	717
2017	$344.87	$182.16	$124.50	$68.09	1,593	880
2018	$419.02	$219.23	$150.21	$80.94	1,918	1,042
2019	$477.93	$241.06	$167.93	$85.81	2,127	1,089
2020	$495.64	$249.92	$174.07	$88.88	2,204	1,128

It is also important to note that the Private Forest Lands Initiative has benefits outside those considered in this report, such as:

1. rural development as a result of additional spending and jobs,
2. improved wildlife habitat as a result of improved forest management,
3. increased consumer surplus because of the allowance of construction.

Although difficult to quantify, these benefits should also be considered during the approval process.