

**63rd Interim Legislative Assembly
Taxation Committee
Senator Dwight Cook, Chair**

**Recommendations for
Forestry Stewardship Tax Study – SB 2279**

1:30 p.m., Tuesday, March 25, 2014

Submitted by:

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North Dakota's Forests

North Dakota's forests encompass 772,400 acres or 1.73 percent of the total land area. The majority of forest lands, 68 percent, are privately owned. Increasingly, privately owned forests are being lost through conversion to non-forest uses, as owners convert the land in an effort to generate income from the land. In recent years owners of forest lands have experienced substantial increases in property taxes, primarily due to assessments based on soil classifications. These rising property taxes on forested land are creating an additional incentive to remove privately owned native and planted forests in our state. For example, forest lands along the Goose River in Steele County were valued at \$217 per acre in 2010 and the landowner paid taxes averaging \$2.92 per acre. In 2012, the value rose to \$794 per acre resulting in an average tax rate of \$9.41 per acre. Clearing of trees for farming, grazing or other development has occurred to generate income to pay the tax increases. The loss of such forests has negative implications for wildlife habitat, water quality, sportspersons and outdoor recreation use for future generations.

Over maturity and limited natural regeneration, conversion to non-forest uses, wildfire and limited wood utilization opportunities threaten forests in the Turtle Mountains, Pembina Gorge, Devils Lake hills, Killdeer Mountains, Badlands, and the Missouri, Mouse, Sheyenne and Red Rivers. Conversion of upland deciduous aspen forests to non-forest uses has been prominent in the Turtle Mountains. The acreage of aspen has declined by approximately 25 percent since 1980. Likewise, elm and ash riparian forests have been converted to other uses, particularly along the rivers of eastern North Dakota. The loss of American elm to Dutch elm disease has also significantly altered the composition toward green ash, boxelder and other species. The cottonwood forest within the Missouri River flood plain are in poor condition resulting from progressive mortality of mature trees and the absence of natural regeneration to replace those that have died. The cottonwood riparian forests are also threatened by conversion to non-forest. The acreage of cottonwood has decreased approximately 20 percent since 1980.

Forestry Stewardship Tax Study Recommendations

The State Forester supports the intent of Senate Bill 2279 to provide for a legislative management study of the benefits and implications on tax policy of the forestry stewardship tax. The original intent of SB 2279 was to make the Forestry Stewardship Tax program available statewide. However, there were questions about how amendments to sections 57-57-02 and 57-57-06 of the North Dakota Century Code would have impacted real estate taxes paid by the 658 landowners already enrolled in the program in eight counties. Three recommendations were developed by the North Dakota Association of Counties, North Dakota Game and Fish Department and the North Dakota Forest Service to address property tax issues impacting private landowners and their forest resources. The recommendations will conserve forest lands by increasing county and private forest landowner voluntary participation in the Forest Stewardship Tax Law (Chapter 57-57, N.D.C.C.).

Recommendation #1 – Increase enrollment of private forest lands in the Forest Stewardship Tax Law to 62,862 acres by 2017. Expanding the enrolled acreage by 53% would help reverse the trend of forest removal. Enacted in 1991, the law provides a property tax reduction to private landowners who voluntarily agree to manage, conserve and protect forests. Expanding county and landowner participation in the Forest Stewardship Tax Law would enhance the management and conservation of North Dakota’s limited forest resources. Forest resources provide important public benefits, including clean air and water, soil protection, additional food and cover for wildlife and enhanced outdoor recreation experiences. North Dakota’s long term investments in planting trees and protecting forests recognize these resources improve our environment by absorbing pollutants from the air and water, stabilizing river banks, preventing soil erosion and sedimentation, reducing home energy costs and enhancing natural beauty. These forest resources are critical for the present and future needs of residents that live within the rural landscape.

Recommendation #2 – Amend Section 57-57-06 to change the “fifty cents per acre” language to “thirty percent of the county average agricultural value per acre for non-cropland.” When this amended rate language is applied to typical enrollments in participating counties, the calculations indicate the taxes paid by these enrolled landowners would increase by 18-44% per acre. The current 50 cents per acre tax is in the range of 24-27% of the noncropland value. The 30 percent would be a reasonable increase and provide a long-term mechanism to ensure the rate follows adjustments in the county’s noncropland average agriculture value.

Recommendation #3 – Establish a long-term state funding source for the State Forester to reimburse counties for tax revenue when forest lands are enrolled under the forest stewardship tax. Reimburse the counties for the difference in revenue using the estimate noncropland average agricultural value. For example, in Pembina County the current taxation formulas would require a county revenue reimbursement of \$1.88 per acre for enrolled woodlands. The State Forester estimates \$178,706 would be necessary to reimburse participating counties for the 62,862 acres enrolled in the program during the 2015-2017 biennium,. The State Forester would use these funds to reimburse participating counties for the difference in tax revenue normally derived from forestlands and the taxes paid by enrolled landowners. Landowners in the participating counties would pay \$76,588 in taxes for the 62,862 acres enrolled in the program.

Increasing Enrollments in the Forest Stewardship Tax Law

The State Forester would solicit additional county and landowner participation in the North Dakota Forest Stewardship Tax Law particularly from North Dakota's high priority forest areas in the Turtle Mountains, Pembina Gorge, Sheyenne River, Missouri River and Killdeer Mountains regions. Outreach would be conducted to encourage County Commission approval and promote voluntary participation by qualifying forest landowners. Upon approval of the law by the County Commission, forest landowners having any tract of contiguous natural or planted forestlands at least 10 acres or larger in size would be eligible to file an application with the County Commission. Applications would be reviewed, inspected and approved (or denied) by the State Forester. The application of the landowner and the acceptance of the application by the County Commission constitute a contract, running with the land for a period of five-years.

Additional financial incentives to encourage county and landowner participation in the Forest Stewardship Tax Law would be beneficial. The State Forester would establish a process to reimburse participating counties for the difference in tax revenue using estimated noncropland average agricultural values published by the Office of the State Tax Commissioner and the taxes paid by enrolled landowners. An annual payment will be made to each county based upon the number of forestland acres actively enrolled in that county. A reimbursement formula would be implemented by the State Forester with concurrence of the County Commission.

The reimbursement formula's assessed value for enrolled forestlands would be based on the county's estimated noncropland average agricultural value. The assessed value and the county's average mil rate would be used to calculate the tax due per acre on enrolled forest lands. Participating landowners would pay 30% of the county's noncropland average agricultural value to the county treasurer at the same time their other property taxes are due and the State Forester would pay the difference in the tax due to the county. For example, if a landowner enrolled forest lands in Pembina County, the assessed value would be the noncropland average value of \$173.64 per acre and the tax due at the county's average 275 mil rate would be \$2.39 per acre. The landowner's tax share would be \$0.72 per acre (30%) and the State Forester would reimburse the county \$1.67 per acre (70%).

Participating County Reimbursements

The County Commissioners in Benson, Cavalier, Grand Forks, Nelson, Pembina, Ramsey, Walsh and Wells Counties have approved by resolution the application of the Forest Stewardship Tax Law to all qualifying forestlands within their northeastern counties. In the 2013 tax year, 658 landowners enrolled 40,979 acres in the program. These enrollments would require an estimated \$123,379 in county reimbursements during the 2015-2016 tax years (Table 1).

Potential New County Reimbursements

The County Commissioners and landowners in several forested regions of North Dakota have expressed interest or requested information about the North Dakota Forest Stewardship Tax Law. Potential new enrollments in Billings, Bottineau, Dunn, McHenry, McKenzie, Morton, Ransom, Richland and Rolette Counties are estimated at 21,883 acres with \$55,327 in reimbursements

during for the 2015-2016 tax years (Table 2). Although North Dakota's most forested counties will be targeted, the State Forester will also work with all County Commissions who may be interested in implementing the Forest Stewardship Tax Law.

NORTH DAKOTA FOREST SERVICE								
Forest Stewardship Tax Law								
Table 1 - Enrolled County Estimated Reimbursement - 2015-2016 Tax Years								
County /1	Forested Acreage	2013 Enrolled Acreage /2	Noncropland Value Per Acre	Tax Due Per Acre @ 275 mils	Landowner's Share of Tax Due Per Acre	Difference Per Acre to be Paid by State	Total Enrolled County Annual Reimbursement /3	Total County Reimbursement 2015-2016 /4
Benson	26,578	192.1	\$147.95	\$2.03	\$0.61	\$1.42	\$274	\$547
Cavalier	42,800	20,819.4	\$145.20	\$2.00	\$0.60	\$1.40	\$29,096	\$58,192
Grand Forks	17,518	4,540.1	\$166.78	\$2.29	\$0.69	\$1.61	\$7,288	\$14,576
Nelson	5,096	145.2	\$144.95	\$1.99	\$0.60	\$1.40	\$203	\$405
Pembina	32,300	11,337.7	\$173.64	\$2.39	\$0.72	\$1.67	\$18,949	\$37,897
Ramsey	6,190	84.6	\$149.04	\$2.05	\$0.61	\$1.43	\$121	\$243
Walsh	19,537	3,740.5	\$155.38	\$2.14	\$0.64	\$1.50	\$5,594	\$11,188
Wells	13,129	119.5	\$143.56	\$1.97	\$0.59	\$1.38	\$165	\$330
Totals	163,148	40,979.1					\$61,689	\$123,379

/1 North Dakota's forested counties currently enrolled in the Forest Stewardship Tax Law.
 /2 Enrolled acreage based on 2013 Forest Stewardship Tax Law Report.
 /3 Total Enrolled County Annual Reimbursement is computed by multiplying the noncropland value per acre x 50% for assessed value x 10% for ag lands x 275 mils = Tax due per acre. Tax due per acre minus 30% paid by landowner = difference per acre paid by State. Potential enrolled acreage x difference per acre = Total County Reimbursement.
 /4 Total County Reimbursement for two-year program covering the 2015-2016 tax years.

NORTH DAKOTA FOREST SERVICE								
Forest Stewardship Tax Law								
Table 2 - Potential County Reimbursement - 2015-2016 Tax Years								
County	Forested Acreage /1	Potential Enrolled Acreage /2	Noncropland Value Per Acre	Tax Due Per Acre @ 275 mils	Landowner's Share of Tax Due Per Acre	Difference Per Acre to be Paid by State	Total Potential County Annual Reimbursement /3	Total County Reimbursement 2015-2016 /4
Billings	60,987	3,049	\$112.60	\$1.55	\$0.46	\$1.08	\$3,305	\$6,610
Bottineau	29,535	1,477	\$143.18	\$1.97	\$0.59	\$1.38	\$2,035	\$4,070
Dunn	79,446	3,972	\$119.98	\$1.65	\$0.49	\$1.15	\$4,587	\$9,174
McHenry	31,215	1,561	\$142.23	\$1.96	\$0.59	\$1.37	\$2,137	\$4,273
McKenzie	91,342	4,567	\$120.48	\$1.66	\$0.50	\$1.16	\$5,296	\$10,592
Morton	25,795	1,290	\$120.21	\$1.65	\$0.50	\$1.16	\$1,492	\$2,985
Ransom	26,287	1,314	\$164.19	\$2.26	\$0.68	\$1.58	\$2,077	\$4,154
Richland	21,951	1,098	\$168.70	\$2.32	\$0.70	\$1.62	\$1,782	\$3,564
Rolette	71,108	3,555	\$144.71	\$1.99	\$0.60	\$1.39	\$4,952	\$9,904
Totals	437,666	21,883					\$27,663	\$55,327

/1 North Dakota's most forested counties currently not enrolled in the Forest Stewardship Tax Law.
 /2 Potential enrolled acreage is based on 5% of forested acreage in the county.
 /3 Total County Reimbursement is computed by multiplying the noncropland value per acre x 50% for assessed value x 10% for ag lands x 275 mils = Tax due per acre. Tax due per acre minus 30% paid by landowner = difference per acre paid by State. Potential enrolled acreage x difference per acre = Total County Reimbursement.
 /4 Total County Reimbursement for two-year program covering the 2015-2016 tax years.

Assessed Value for Enrolled Forestlands

The State Forester recommends amending Section 57-57-06 to change the “fifty cents per acre” language to “thirty percent of the county average agricultural value per acre for non-cropland.” The 30 percent rate would be a reasonable taxation rate increase and provide a long-term mechanism to ensure the rate follows adjustments in the county’s noncropland average agriculture value. When this amended rate language is applied to typical enrollments in participating counties, the calculations indicate the taxes paid by these enrolled landowners would increase by 9 to 22 cents per acre. The current 50 cents per acre tax is in the range of 24-27% of the noncropland value. For example in Pembina County, the landowner’s taxes due would rise from \$0.50 to \$0.72 per acre or 44%. In Wells County, the rate would rise from \$0.50 to \$0.59 or 18%.

Long-Term Forest Stewardship Tax Law Funding Needs

The Forest Stewardship Tax Law provides valuable county and private landowner incentives for managing and conserving North Dakota’s limited forest resources. The State Forester recommends establishing a long-term funding source to reimburse participating counties for the difference in tax revenue using estimated noncropland average agricultural values published by the Office of the State Tax Commissioner and the taxes paid by enrolled landowners. An annual payment will be made to each county based upon the number of forestland acres enrolled in that county.

The total cost of the Forest Stewardship Tax Law incentives during the 2015-2017 biennium is \$178,706. Approximately \$123,379 is needed for 2015-2017 reimbursements to counties already enrolled in the Forest Stewardship Tax Law, including Benson, Cavalier, Grand Forks, Nelson, Pembina, Ramsey, Walsh and Wells. In the 2013 tax year, 658 landowners in these counties enrolled 40,979 acres in the program. Approximately \$55,327 is needed for 2015-2017 reimbursements to Billings, Bottineau, Dunn, McHenry, McKenzie, Morton, Ransom, Richland and Rolette Counties who may be interested in the Forest Stewardship Initiative and may potentially approve the application of the Forest Stewardship Tax Law to qualifying lands within their counties. Potential enrollments are estimated to be 62,862 by 2017.

The project’s six-year goal is to increase Forest Stewardship Tax Law enrollments by 139% to an estimated 98,267 acres with total estimated program costs reaching \$675,140 for county reimbursements (Table 3). These enrollments would ensure North Dakota’s privately owned forest lands are protected from conversion to non-forest use and would maintain important public benefits including clean air and water, soil protection, additional food and cover for wildlife, biodiversity, and enhanced outdoor recreation experiences.

North Dakota Forest Service
 North Dakota Forest Stewardship Tax Law
 Table 3 – Long-Term Funding Needs 2015-2021

Budget Category	Budget 2015-2017	Budget 2017-2019	Budget 2019-2021	Total Program Costs
Enrolled County Reimbursements ^{/1}	\$123,379	\$139,722	\$163,068	\$426,169
Potential County Reimbursements ^{/2}	\$ 55,327	\$ 82,990	\$110,654	\$248,971
Total County Reimbursements	\$178,706	\$222,712	\$273,722	\$675,140

Footnotes

/1 Enrolled County Reimbursements to Benson, Cavalier, Grand Forks, Nelson, Pembina, Ramsey, Walsh and Wells Counties who are currently participating in the Forest Stewardship Tax Law. Estimated enrollments are 54,500 acres. County reimbursements would be \$426,169 during the six year time frame extending from 2015-2021.

/2 Potential County Reimbursements to Billings, Bottineau, Dunn, McHenry, McKenzie, Morton, Ransom, Richland and Rolette Counties who may approve the application of the Forest Stewardship Tax Law. Estimated enrollments are 43,767 acres. County reimbursements would be \$248,971 during the six year timeframe extending from 2015-2021.

High Priority Forest Stewardship Regions

The Forest Stewardship Tax Law targets priority regions of upland and riparian forests in the Turtle Mountains, Pembina Gorge, Devils Lake Hills, Sheyenne River, Missouri River and Killdeer Mountains. Regional GIS maps illustrating high priority upland and riparian forests indicate significant forest stewardship potential in the Turtle Mountains, Pembina Gorge and Sheyenne River and Killdeer Mountains regions (Figures 1-4). The Forest Stewardship Tax Law enrollments would maintain important public benefits, including clean air and water, soil protection, additional food and cover for wildlife, biodiversity, and enhanced outdoor recreation experiences. Enrollments of forest lands into the law would create important linkages with existing and stable habitat within state-owned wildlife management areas, state forests and state parks. North Dakota’s forests provide numerous recreational opportunities, including hunting, hiking, camping, bird watching, cross country skiing and snowmobiling.



Figure 1 - Turtle Mountains Region
High Priority Forest Areas

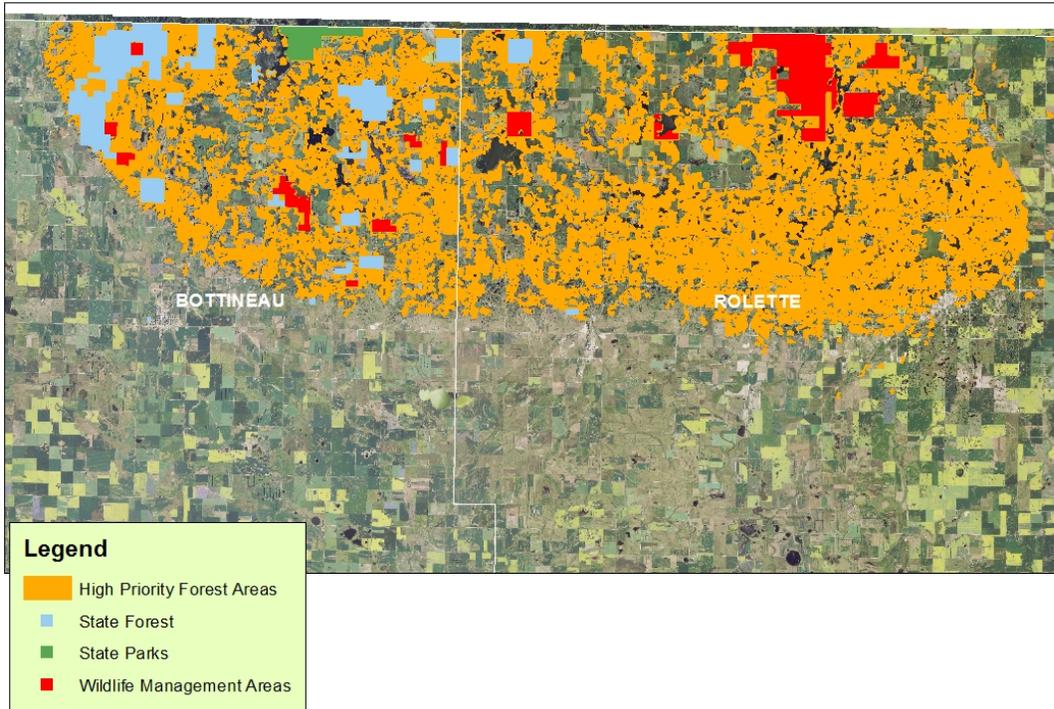


Figure 2 - Pembina Gorge Region
High Priority Forest Areas

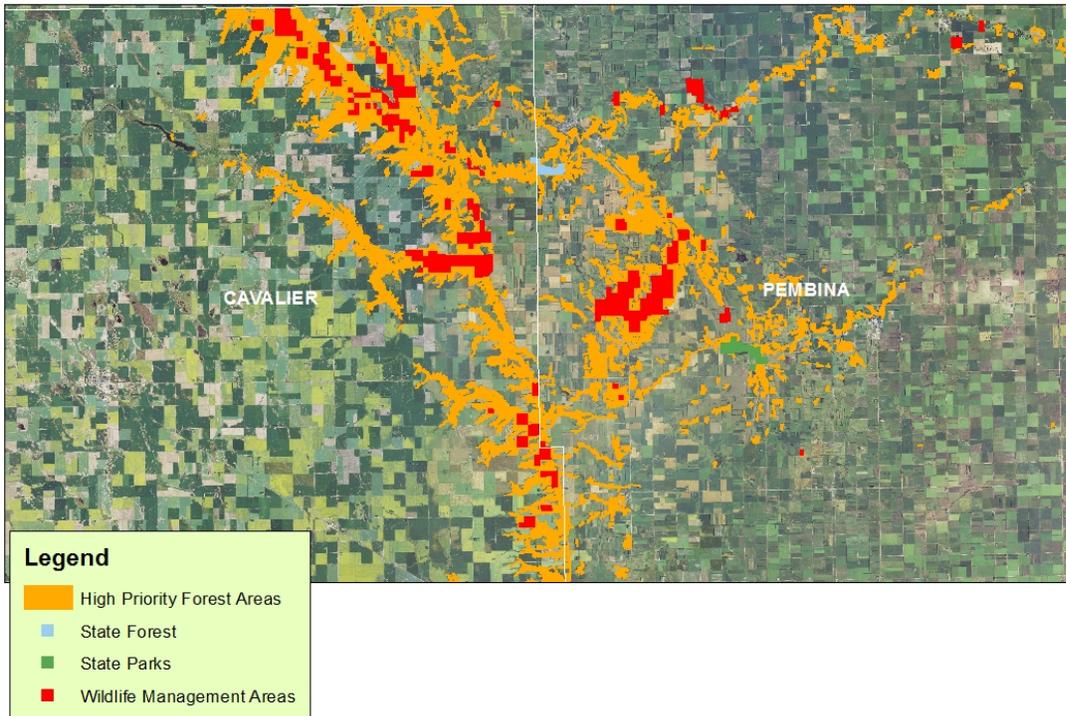


Figure 3 - Lower Sheyenne River Region
High Priority Forest Areas

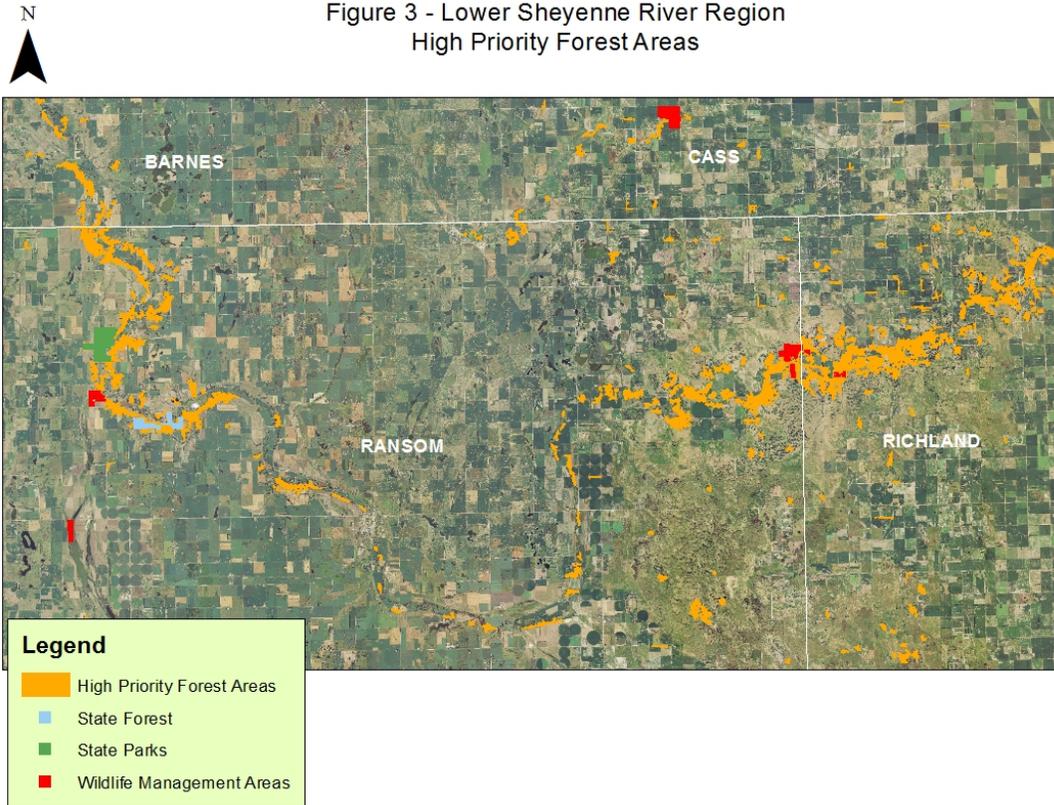


Figure 4 - Killdeer Mountains Region
High Priority Forest Areas

