

March 19, 2025

Senator Ann Rest, Chair
Minnesota Senate Tax Committee
328 Capitol
St. Paul, MN 55155-1606

Subject: Joint Opposition to S.F. No. 2374 - Reducing Sustainable Forest Incentive Act (SFIA) Payments

Dear Minnesota Senate Tax Committee Chair Rest,

We, the undersigned, representing a diverse group of forest landowners and organizations involved in sustainable forest management in Minnesota, are writing to express our strong opposition to the portion of S.F. No. 2374 that proposes a 30% annual reduction in Sustainable Forest Incentive Act (SFIA) payments from Fiscal Year 2026 to 2029. The proposed change violates Minnesota Statutes 290C.07(b), contravenes the contracts that program enrollees signed with the State, runs counter to the Walz Administration's climate action agenda, and jeopardizes the purpose of the program.

Background

In 2001 the Legislature created the SFIA program (Minnesota Chapter 290C) to encourage sustainable forest management practices on private forest land, replacing the Tree Growth Tax Law of 1957. Over 40 percent of the 17 million forested acres in Minnesota are privately owned. The SFIA is administered primarily by the Department of Revenue with limited involvement from the Department of Natural Resources. The program pays private forest landowners to make long-term commitments to sustainable forest management. Enrollees must have a minimum of 20 contiguous acres of forest land. In addition, landowners must:

- have and follow a sustainable forest management plan prepared within the previous ten years by an approved plan writer;
- follow the state's timber harvesting and forest management guidelines when conducting forest management activities;
- record a covenant on the land, which restricts development and is binding for 8, 20, or 50 years; and
- allow public access if they have enrolled more than 1,920 acres.

The landowner must record a covenant on the land. The covenant, which can only be released by the Department of Revenue, prohibits the landowner, and all subsequent owners, from subdividing or developing the land. The landowner receives higher annual payments for longer covenants. Currently 706,080 acres are under the 8-year covenant, 118,015 acres are under the 20-year covenant, and 404,421 acres are under the 50-year covenant.

SFIA includes an open appropriation from the General Fund to make the incentive payments, which are taxable income for the enrollee. The total amount distributed in 2024 was \$15,377,949.75, covering 1,132,071 acres.

Issues

- **Contract Compliance:** Landowners sign a contract with the State of Minnesota that is binding for up to 50 years. Violating the contract has very onerous penalties for the landowner, including paying back all payments plus interest, and potentially a penalty of 25% of the estimated market value added by any unallowed improvements made on the property.

In return, landowners are promised an annual payment from the State of Minnesota. The formula for that payment includes land value, term of covenant, etc. It is NOT dependent upon the State's ability to pay. Minnesota Statutes 290C.07(b) states, "The calculated payment must not increase or decrease by more than ten percent relative to the payment received for the previous year. In no case may the payment be less than the amount paid to the claimant for the land enrolled in the program in 2017."

We find it startling that S.F. No. 2374 changes both of these elements, and then simultaneously reduces the payment by 30% and allows payments to go down to 70% of the 2017 level. That language was inserted in the original SFIA bill to give landowners assurances that the payment they receive for their long-term commitment will not radically change due to budget shortfalls.

This proposed reduction is very detrimental to public perception of the state's long-term goals of conserving natural working lands in Minnesota. People voluntarily enroll their lands in conservation easements or other long-term agreements like SFIA with the belief that the State or other easement holder will uphold their end of the bargain. But if the State gets a reputation of renegeing on their commitments, far fewer people will consider these management options.

- **Climate implications:** The Walz Administration and state legislature have made many commitments to addressing climate change. They have explored decarbonizing the transportation sector, the energy sector, buildings, and agriculture. The forestry sector is the only area that is net carbon negative. Forests absorb and store more carbon than they emit including carbon stored in harvested wood products. In fact, forests annually absorb 15% of the carbon that is emitted by ALL sectors. The Minnesota Climate Action Framework recognizes forest benefits and has several Initiatives and Sub-initiatives that demonstrate the role forests play in carbon reduction. The Climate Action Framework, Minnesota DNR, and Minnesota Forest Resources Council all encourage maintaining and actively managing forests.

Key provisions of a strategy to manage our forests so that they absorb and store even more atmospheric carbon include:

- Keeping forestland forested
- Planting trees
- Managing forests
- Supporting forest product markets
- Using wood-based products instead of high carbon-emitting alternatives, and
- Sustaining balanced forest values

Many of these actions are part of a landowner's required sustainable forest management plan under SFIA. The program funding reduction proposed in S.F. No. 2374 would have a significant potential negative impact on working towards climate and carbon emission reduction goals.

- **Loss of program benefits:** As designed, the SFIA program prevents land parcelization, limits development, encourages sustainable forest management, and provides for public recreation on hundreds of thousands of acres, primarily in northern Minnesota. In 2010 the state imposed a cap on payments due to budget concerns. As a result, the six landowners with over 542,000 acres enrolled in the program stood to lose millions of dollars. Three of them filed suit, and two of them unenrolled in the program. One had over 130,000 acres. This episode clearly showed the impact of funding reductions on public access. The 2013 Legislature removed the cap and allowed those landowners to re-enroll in SFIA.

The 2013 Legislature also added a provision to SFIA allowing participants to request to leave the program immediately if changes to the payment formula result in a payment reduction (Laws of Minnesota 2013, chapter 143, art. 2, secs. 4 and 5). S.F. No. 2374 would trigger this clause, potentially leading to thousands of landowners unenrolling in SFIA. Some may resort to selling or developing their land to generate income to offset the loss of SFIA funds.

The forestlands of northern Minnesota are highly interspersed, with federal, state, county, tribal and private lands intermingled across the landscape. Together they provide many economic, ecological and societal benefits to the people of Minnesota. Unbroken forests have high value for wildlife habitat and biodiversity preservation. There are forest management efficiencies in having large blocks of contiguous forest. And the public has largely unfettered access for recreation. Many, many miles of recreational trails traverse the land, crossing ownerships with little indication of doing so.

S.F. No. 2374 puts all of the benefits that the State has purchased over the past 24 years in jeopardy. Mass unenrollment could lead to unsustainable forestry practices, land parcelization, and development (with increased demand for county services like police and fire protections, road improvements, etc.). It could also result in decreased agency access for forestry activities, and rerouting recreational trail systems as land is sold, leased, or simply closed to public access.

In summary, the Sustainable Forestry Incentives Act (SFIA) has been an excellent vehicle for good forestry and land management in Minnesota. It is critical for promoting responsible land stewardship and encouraging long-term forest management. It incentivizes landowners to encumber their landownership rights for 50 years or more.

We are unified in urging the Senate Tax Committee to remove the SFIA Program payment reduction from S.F. No. 2374. We believe it is important to uphold the commitments made to landowners under the SFIA program.

Thank you for your consideration.

Audubon Upper Mississippi River

Rajala Mill Company

The Conservation Fund

The Nature Conservancy

Minnesota Association of Consulting Foresters

Minnesota Environmental Partnership

Minnesota Forest Industries

Minnesota Forestry Association

Minnesota Timber Producers Association

Minnesota Tree Farm Committee

Molpus Woodlands Group

UPM Blandin

CC:

Vice Chair Senator Matt Klein
Ranking Minority Member Senator Bill Weber
Senator D. Scott Dibble
Senator Steve Drazkowski
Senator Grant Hauschild
Senator Jeremy Miller
Senator Carla Nelson
Senator Aric Putnam
DNR Commissioner Sarah Strommen
Anna Johnson, Governor Walz Policy Advisor

Acres Enrolled in Sustainable Forestry Initiative Act (SFIA) by County, 2024

