

Private Forestland Management Study and Recommendations



Submitted by the Minnesota Forest Resources Council



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Private Forestland Management: Study and Recommendations

The Minnesota Forest Resources Council was charged by the 2012 legislature with completing a study regarding private forestlands in Minnesota and providing recommendations which ensure sustainability of private forest resources going forward. The specific statutory language is directly below.

MN Statutes 2012, Chapter 272 – section 92

Sec. 92. FOREST RESOURCES COUNCIL STUDY.

By January 15, 2013, the Forest Resources Council shall submit a report to the environment and natural resources policy and finance committees and the tax committees of the house of representatives and senate on the status of private forest land management and the policy of the state to promote healthy and robust forests. The study shall evaluate existing and potential financial incentives for private forest land management and include recommendations for state policies that will ensure that private forest lands are sustainable and continue to contribute to Minnesota's economic vitality as well as provide access to the public to hunting and fishing resources.

Executive Summary

Forty-four percent of Minnesota's forestland is in private ownership, totaling approximately seven and a half million acres. This private ownership includes industrial, corporate, tribal and non-industrial forestlands, the later often referred to as family forest lands. These lands provide a multitude of economic, ecological and social benefits to the State of Minnesota, including jobs, timber, outdoor recreational opportunities, clean water, and wildlife habitat, among others. There is a host of agencies, laws, statutes and programs at the federal and state level intended to assist private landowners in maintaining or increasing the flow of these benefits from their forestlands. This shifting landscape of laws and programs is a bit daunting, confusing and changes, sometimes abruptly, over time. This framework to encourage private forest management is also complimented by private consulting foresters who also strive to maintain this stream of benefits. There are a number of specific policy tools used by

governments and other groups including financial incentives, especially tax programs, technical assistance to landowners, and conservation easements.

Despite this considerable policy infrastructure, much of the private forestland in Minnesota is subject to loss, a conversion in land use, or declining forest health conditions. Many have noted that this landscape of agencies, laws, and programs is confusing and inconsistent. Recent studies have found that lack of awareness was one of the most significant reasons forest landowners were not participating in specific programs (Kilgore et al. 2007 and Butler et. al 2011). Furthermore fluctuations in existing funding or a lack of funding altogether are negatively impacting our ability to provide consistent and effective programs meant to encourage the flow of benefits from private forestland.

This report describes the landscape of programs, policies, infrastructure, and issues affecting Minnesota's private forestland. Based on all these factors, the Minnesota Forest Resources Council recommends six areas that should be addressed:

1. Improve and stabilize reliable tax programs affecting private forestland
2. Increase efforts to reach landowners by improving outreach, technical assistance, and continuing research regarding the most effective ways to communicate with landowners
3. Maintain financial incentives to landowners, but improve effectiveness and efficiency
4. Support the continued use of conservation easements, including consistent tax treatment of land with an easement
5. Increase the service delivery capacity to private woodland owners
6. Support landscape scale management programs

More detailed actions regarding these recommendations follow.

1. Improve and stabilize reliable tax programs affecting private forestland recognizing the many benefits provided by large and small forest landowners.

- a. Enhance and modify the Sustainable Forestry Incentives Act (SFIA) by:
 - Removing the cap from the SFIA program, encouraging those with larger holdings to maintain large contiguous blocks of forest land
 - Allowing recently removed acres to re-enroll in SFIA
 - More clearly defining rules for transfer of ownership within SFIA
 - Increasing penalties for early removal of lands from the SFIA program
 - Consider changing the administrative responsibilities to outside of the Department of Revenue
- b. Enhance and modify the 2C property tax classification by:
 - Making the 2C class rate comparable to the class rate for agricultural lands
 - Removing the acreage cap
- c. Make tax programs more effective and efficient by:
 - Targeting outreach to those areas where the payments or tax savings will discourage loss of forestland and associated benefits , and recognize the different needs of large versus small landowners
 - Educating assessors regarding the benefits of preferential property tax programs
- d. Consider a modified preferential property tax program using a two-tiered approach, such as the Wisconsin approach, allowing for a greater tax deduction for the allowance of public access and requiring and enforcing stewardship activities
- e. Integrate tax policy with local planning by making preferential property tax treatment of forest lands under SFIA and other programs at least partially dependent (could use tiered approach) on the local adoption of exclusive forest use zoning or a comparable program (see MFRC 2011)

2. Increase efforts to reach landowners by improving outreach, technical assistance, and continuing research regarding the most effective ways to communicate with landowners

- a. Actively market programs to encourage active and sustainable forest management
- b. Improve content and provide consistent delivery of education programs
- c. Develop communication materials that are easy to comprehend
- d. Foster opportunities for more peer-to-peer networking and engagement
- e. Create new tools for educating the next generation of landowners about forests and the environment

3. Maintain financial incentives to landowners, but improve effectiveness and efficiency

- a. Require a written management plan for any financial assistance

- b. Link financial incentives directly to stewardship activities
- c. Offer estate planning guidance to landowners for estate planning
- d. Increase market opportunities for traditional forest products, renewable energy, and ecosystem services
- e. Increase aid to landowners in combating invasive species

4. Support the continued use of conservation easements, including consistent tax treatment of land with an easement

- a. Encourage consistent tax treatment across the state for lands with conservation easements
- b. Address the need to properly value various benefits, such as open access, ecosystems, or services
- c. Encourage a state income tax credit for the donation of conservation land and easements
- d. Encourage the continued use of LSOHC funds for forest easements, as well as new funding for private forest management in critical areas

5. Increase the service delivery capacity to private woodland owners

- a. Maintain DNR-Forestry PFM program as the primary coordinating agency for private forest management
- b. Increase the funding and availability of one-on-one technical assistance
- c. Engage private forest consultants at the policy level.

6. Support landscape scale management programs

- a. Overall, encourage integrated service delivery between the broad range of agencies and organizations that serve private woodland owners to make delivery of their programs better coordinated, simpler and less costly in processing and less time consuming
- b. Enter into a new memorandum of understanding between the MFRC , MN DNR and other agencies to promote and implement landscape stewardship (i.e. NRCS, USFS, MN DNR, MFRC, BWSR, MASWCD, MACF, UMN Extension, MFA)
- c. Encourage the expanded involvement of BWSR and NRCS in landscape management
- d. Support increasing RC&D capacity to serve as grant writers, grant administrators and fiscal agents on forestry projects being developed by the regional MFRC committees
- e. Create a Working Landscape Team for the forested regions of the state supporting the implementation of sustainable forestry projects at a local level
- f. Support the continued investment of Clean Water Funds through the DNR Forestry - Private Forest Management Program to support the development and implementation

of water quality/forestry projects through the partnerships supported by the MFRC regional committees.

BACKGROUND

Ownership of Minnesota's Forests.

There are 17.4 million acres of forestland in Minnesota. Relative to most other parts of the country, the ownership pattern of Minnesota's forestland is quite diverse, with 56 percent of forestland owned by the public and 44 percent held privately. The public land is owned and administered by the federal government (17 percent of total forestland), the state of Minnesota (21 percent of total forestland), and counties and municipalities (18 percent of total forestland) (see Fig 1.). Private ownership is split between private, industry and corporate forestlands. The category labeled private includes families, individuals, tribal entities, trusts, estates, and other unincorporated groups (Miles et al. 2011).

Figure 1. Minnesota's forest ownership

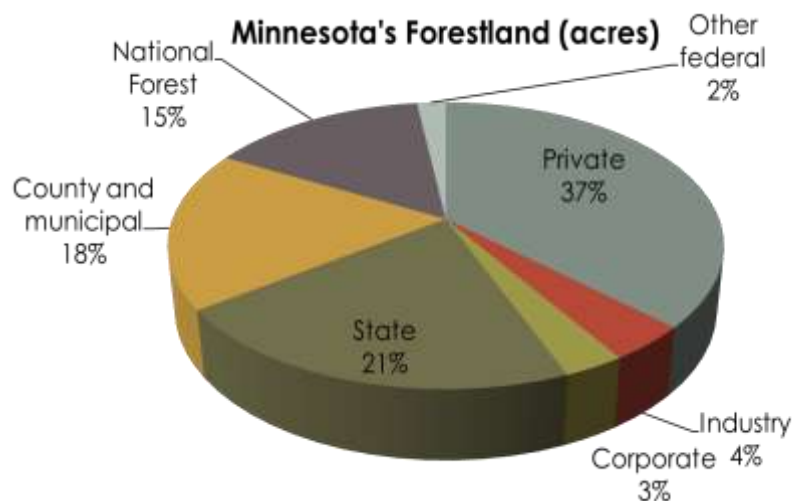


Figure 1 shows seven percent of forestland in Minnesota is owned by industry or corporations (compared to 10 percent in Wisconsin and 15 percent in Michigan). More than 75 percent of the corporate and industrial owned forestland in Minnesota is located in just four counties (Itasca, Koochiching, Lake and St Louis). Although this ownership seems fairly concentrated, the industrial ownership in these counties is only 13 percent of their total land base, as these are large counties with vast public holdings as well (Miles et al. 2011).

Management of these forestlands varies immensely between ownership types and especially specific owners. Most of the public forestland is managed for multiple benefits for the public good. The balance of these often disparate benefits varies across agencies and changes over time. Private lands are managed for various forms of recreation, wildlife habitat, or timber production, or are not managed at all. According to the USDA Forest Service's Forest Inventory and Analysis unit (FIA 2012-Evalidator model results), there have been reductions in the amount of industry owned forestland (from 723,000 acres to 613,000 acres) as well as corporate owned forestland (from 514,000 acres to 482,000 acres) in Minnesota over the past decade. Conversely, there have been significant increases in the other private forest land categories from 5.82 million acres to 6.65 million acres from 2003 to 2011. From 2006 to 2011, approximately 1.1 million acres of nonforest land reverted to forestland, 700,000 were in private ownership. Half of that increase occurred in the Central and Western part of the state and may be at least partially due to encroachment of forests on riparian areas and exclusions of grazing and fire activities on the landscape (FIA 2012 – personal communication January 11, 2013).

How, and if, these lands are managed depends on a host of factors, and these factors in turn influence the characteristics of these forest lands. Various circumstances and existing policy guidance affect the amount of forest growth, removals and mortality on a particular parcel. The average annual growth rate as a percent of volume varies among ownership types and is highest on private forestlands at 3.2 percent and lowest on national forest land at 1.0 percent. Removal rates, also measured as a percent of volume, are highest on state and county lands (2.2 percent), followed by private land (1.5 percent) and lowest on national forestland (0.7 percent). The mortality of live trees, also measured as a percent of volume, varies by ownership class with the highest rate on national forest lands at 3.2 percent and lowest on private lands at 1.7 percent. Measured as an average from 2003 to 2008, the growth to removals ratio is 1.5 for the entire forested part of the state, indicating that we are gaining tree volume on the landscape. The highest ratio was on federal lands (2.2). The ratio for private lands was 2.0 and the lowest is on state lands (0.8) (FIA 2012 -Evalidator model results).

Private forests

Industrial and Corporate forestlands

Much has changed regarding the landscape of industrial and corporate ownership of forestland across the United States and in Minnesota over the past twenty-five years. Much of the industrial land has undergone what some have referred to as the “financialization” of forestland. This ‘financialization’ was a cross-sector movement where many corporate decisions were made for the purpose of maximizing shareholder value. This was part of a larger economic transformation, coupled with a broader shift in the US economy from manufacturing and production to a greater focus on finance and services.

At the same time, and as a result to some of the above factors, Timber Investment Management Organizations (TIMOs) and Real Estate Investment Trusts (REITs) were created to shield company returns from being taxed twice, both at the corporate and shareholder level. These events, among others, facilitated the sale of much of the industrially owned forestland in the United States, essentially dismantling what had been a fairly vertically integrated industry. By 2005, mostly institutional investors had obtained control of well over half of the industrially owned forest lands in the United States. Institutional investors were seen as a good fit since they would be more likely to ensure supply to the mills compared to other potential owners. Many of the TIMOs have supply agreements with processing facilities nearby.

In Minnesota, there has been a diverse reaction to these events as they have taken place around the country. Boise Cascade sold approximately 300,000 acres in Minnesota in 2005 to Forest Capital Partners, a TIMO that recently sold most of the same lands to another TIMO, Molpus Woodlands Group. Potlatch, with substantial holdings in Minnesota, has converted to a REIT and maintains an active real estate program in the state. UPM-Kymmene held on to its lands, a decision significantly influenced by the completion of an expansive conservation easement of over 187,000 acres, allowing for continued active timber management. A number of other mills operate with no timber base such as Sappi NorthAmerica, New Page, Louisiana-

Pacific, and Norbord, among others. Note, that due to the recent recession and other national and global conditions this list of mills is much shorter than it used to be, even a few years ago.

Non-industrial forestlands

In comparison to corporate and industrial forest holdings, the other private forests, mostly family forestland, are much more prevalent in Minnesota. As noted earlier, these private forestlands are owned by families, individuals, trusts, estates, tribal entities and other unincorporated groups. Tribal forestland includes forest remnants and river bottom forests located on many of the southern Dakota communities, and substantial tribal forestland in the northern part of the state on the seven Anishinaabe Reservations of White Earth, Grand Portage, Bois Forte, Red Lake, Leech Lake, Fond du Lac and Mille Lacs. These forestlands total over half a million acres, with many of those acres under some sort of active management.

The non-industrial family forestlands have been fairly well studied in Minnesota. Depending on how family forestland ownership is defined, there are close to 200,000 family forest owners in Minnesota. Close to 100,000 of these owners own between one and nine acres of forestland. Owners of larger tracts dominate the total acreage; for instance two-thirds of all the non-industrial forestland, approximately 4.3 million acres, is in parcels between 20 and 199 acres (Butler 2008).

Significant research has been conducted, both nationally and at the state level, regarding non-industrial forestlands and their owners. In Minnesota, six surveys over the past 25 years have found that the main reasons people own forestland is for hunting (most prevalent response), wildlife habitat, residence, aesthetics and solitude. While the results of only one of the six surveys identified timber production as a main reason for owning land, much of the non-industrial forestland has been harvested over time (Carpenter et al. 1986, Baughman 1988, Rathke 1993, Baughman 2002, Donnay 2005, Kilgore et al. 2005). More recent surveys found seven percent of forestland owners cited timber production as a primary objective. Only five percent of owners had a management plan, but since larger landowners are more likely to have

a plan, 17 percent of the total family forestland is covered by a management plan. Typically, these owners do not live on the land. They have owned it for an average of 23 years and 34 percent of the owners are over 65. Major concerns among non-industrial and family forestland include keeping the land in the family, trespassing, and high property taxes.

Benefits from Private Forestlands

Private forestlands provide multiple benefits. Many of these benefits are not exclusive to private forestlands, since public forestlands provide many of the same benefits, but they are often integral in specific geographies and parts of the landscape where private forestland is especially prevalent.

Economic benefits from private forestlands are derived from timber and non-timber forest products, tourism, and recreation. Between 1989 and 2009, the supply of timber products has varied in volume, source, and species. The portion of timber products coming from private lands is substantial, ranging from 31 percent of the harvest by volume in 1989 to 64 percent of total harvest in 1999. This is especially notable as the total harvest had also increased over the same time period from 2.7 to 3.8 million cords (MN DNR 2012) (see figure 3 on page 25).

This large proportion of the timber supply that comes from private forestlands is a major economic contributor to the state. Timber products from private forestlands make a substantial contribution to the \$9.7 billion forest products sector which employs over 40,000 people with a corresponding payroll of \$1.8 billion. Private forest landowners receive a large portion of the annual \$80 million in gross stumpage revenue and contribute \$631 million to state and local tax revenue.

Private forestlands also provide social benefits such as recreation and other cultural values. Forest-based recreation on private forestlands is both a social and economic benefit to the state. A substantial portion of the \$10.5 billion in sales from tourism and recreation are attributed to private forestlands, resorts and campgrounds. Nationally, 75 percent of hunting

occurs on private forestlands (US-DOI et al. 2006). Many other recreational activities also occur on private forestlands including fishing, wildlife observation, cross-country skiing, snowmobiling and hiking. With urban expansion and new owners restricting recreational access, there is speculation about the need for more recreation on private lands, as public opportunities become congested (Wright and Fesenmier 1988, Teasley et al. 1999). According to the USDA Forest Service, approximately 15 percent of forestland owners allowed public access on their lands. Landowners cite numerous reasons for not allowing recreational access including liability and undesirable visitor behavior (Snyder and Butler 2012, Becker et al. 2010). A number of states include provisions for encouraging public recreation within their preferential tax and fiscal incentive programs, including Minnesota.

Private forestland provides numerous ecological benefits, such as water quality maintenance, wildlife habitat, soil conservation and a wide range of other ecosystem services. Studies have concluded that up to sixty percent of at-risk species are associated with private forest land in the United States (Stein et al. 2010). Watersheds that have more forest cover, including private forestland, have shown higher groundwater recharge, with higher retention of storm water runoff, and lower amounts of nutrients and sediment in streams than watersheds which are dominated by urban or agricultural uses. The USDA Forest Service estimates that more than 25 percent of fresh water flows from, and is filtered by, private forestland (Stein et al. 2005).

LAWS AND PROGRAMS THAT IMPACT PRIVATE FORESTLANDS

Federal laws and programs.

There are numerous federal laws, and resulting programs, that influence, or are meant to influence, private forestland management. Some of these laws are directed at certain issues and activities, such as fire protection, insect and disease outbreaks, and soil and water conservation. Some are strictly laws which govern activities on private forestlands within certain federal jurisdictions, such as private forestland in federally designated wilderness areas, trails, and national park lands. Some are only tangentially related to private forestlands, while others, such as the Cooperative Forest Assistance Act, are almost entirely devoted to private

forestland management. Many of these programs are not currently funded but do remain on the books. A listing of these laws follows, which illustrates the complexity of navigating these federal laws as a private landowner. Federal laws include the:

- Weeks Act
- Forest and Rangeland Resources Planning Act
- Healthy Forests Restoration Act
- Preservation of Historic and Archaeological Data Act
- Wild and Scenic Rivers Act
- National Trail System Act
- Sustainable Yield – Forest Management Act
- Wilderness Act
- Food, Agriculture Conservation and Trade Act
- Renewable Resources Extension Act
- Cooperative Forestry Assistance Act
- Granger Thye Act
- Forest and Rangeland Renewable Resources Research Act
- Soil and Water Conservation Act
- Disaster Mitigation Act
- Damage to Private Property and Search and Rescue Act

Many programs stem from these federal laws that are pertinent to private forest management. A brief overview of the more relevant programs regarding private forest management, most of which are conducted in concert with state governments, follows.

The Forest Stewardship Program (FSP) is meant to provide long-range conservation planning for private landowners. Funds first began to flow to the state from this program in 1990. In order to be eligible, a landowner must own 20 acres with at least 50 percent of that forested and willing to proscribe 10 years of management actions. This program is intended to encourage the development of ‘stewardship plans’. FSP, in conjunction with additional programs, has continued to support the development of forest management plans. In 2011, 1.7 million acres of private forestland in Minnesota had a stewardship plan (DNR-personal communication with Gary Michael). A primary goal of the forestry community, articulated a number of years ago, was to gain another one million acres of forestland with stewardship plans by 2015. Working towards this goal, 77,000 acres of land with a new stewardship plan were completed in 2008

and 157,889 acres in 2009. Note that the stewardship program and related issues are larger than just the federal forest stewardship program and will be visited in more detail later in this report in the section on state activities.

The Environmental Quality Incentives Program (EQIP) is an active program administered by the Natural Resource Conservation Service (NRCS), providing landowners with technical and financial assistance. Nationally five percent of the funds allocated to EQIP go to forestry projects. There is wide variation in this percentage across states. Recently in Minnesota, the NRCS has increased the forestry component of its funding to \$1 million per year, a substantial increase in funding forestry projects. Nationwide, this program provides approximately \$1.2 billion per year to eligible states and projects. Many of the funded forestry activities include forest stand improvement, tree/shrub establishment, forest site prep, windbreaks, fire breaks, forest harvest trails and landings, plantings and riparian buffers.

Somewhat similar is the Wildlife Habitat Incentives Program (WHIP) which funds similar activities, but under the auspices of wildlife habitat improvement, through a seventy-five percent cost share. Approximately 25 percent of WHIP spending is on forest related projects. Another program, the Conservation Stewardship Program, encourages landowners to increase stewardship on their lands. The NRCS also manages three easement programs which all have at least some relation to forestry. These programs are the Healthy Forest Preserve (HFP) program, the Wetland Reserve Program (WRP) and the Farm and Ranch Lands Protection Program (FRLPP). The HFP is intended to restore and enhance forest ecosystems through 30-year easements and cost-share agreements. This program has been focused on the recovery of threatened and endangered species. WRP's purpose is to restore and protect wetlands, many of which are located on private forestlands, especially flood plain forests.

The Forest Land Enhancement Program (FLEP) is another of these federal incentive programs. It was adopted as part of the 2002 farm bill. This program replaced the former Stewardship

Incentive Program and the Forestry Incentive Program. This program has not received funding since 2007.

The Forestry Legacy Program (FLP), managed by the USDA Forest Service, has been used in the past in Minnesota in providing key funding for conservation easement purchases. Other programs of note include the Conservation Reserve Program (CRP), which is mainly agricultural in nature and the Forest Landowner Incentive Program (FLIP) which has not received funding for a number of years. Many of these programs are in limbo at the moment without reauthorization from a new farm bill.

Federal Agencies

Most of the federal programs listed above are overseen by the NRCS or the USDA Forest Service. It is part of NRCS's mission to provide forestry-related assistance to private landowners and tribal entities, which include planning and implementation through their various programs. The State and Private Forestry branch of the USDA Forest Service provides technical and financial incentives to landowners across ownerships.

State statutes

There are many statutes and programs at the state level which affect private forestland. There are a number of statutes pertaining to the taxation of private forestlands. These include the Sustainable Forestry Incentive Act (SFIA), various property tax classes, especially the 2C classification, the rural preserve tax program, and stipulations regarding conservation easement valuation for tax purposes. Other statutorily created programs include Forests for the Future and Reinvest in Minnesota, both conservation easement programs. Additional statutes encourage landowners in replanting and pest control on private lands.

State Programs

Financial assistance and tax relief programs are used to influence landowner behavior both nationally as well as in Minnesota. There are programs in all 50 states. Understanding the

inherent long-term risks in growing timber and the value of ecosystem services, states find it in the public interest to employ preferential tax treatment of forestlands. These policies and programs have been in place for many years and new programs are created every year. They are created for many reasons, but most are meant to encourage specific landowner behavior and to accomplish public goals of protecting water quality, wildlife habitat, sustaining the flow of raw materials to the primary forest products industry and encouraging the retention of large blocks of forestland. States also use the estate and income tax to encourage landowner behavior. For instance some states, building on federal income tax law, use income tax code to incentivize land management, encourage tree planting and promote conservation easements, and encourage the establishment of riparian buffers. Below are some of the most pertinent tax relief and financial incentive programs in regards to forestlands in Minnesota.

Sustainable Forestry Incentive Act

The SFIA is one of the more popular programs for private forestlands in Minnesota. It was established in 2001 and functions as an incentive payment rather than a tax rebate or credit. Upon meeting the eligibility criteria, the landowner pays full property taxes and in turn gets a subsequent payment from the state. This leaves the local units of government harmless in terms of tax revenues and potential shifts. Just as with some of the federal technical and financial incentive programs, SFIA eligibility requires a minimum of 20 contiguous acres of forest. Owners must adhere to a covenant, with a mandated minimum of eight years commitment. Non-motorized public access is compulsory for landowners who enroll more than 1,920 acres.

At the outset in 2001, the original SFIA annual payment to enrollees was \$3.19 per acre which ballooned to \$15.67 per acre in 2009, based on a funding formula. Recently, the payment was codified in statute at \$7.00 per acre. The first year of the program 320 landowners enrolled with a corresponding acreage of 531,508 acres. The enrollment peaked in 2010 with 2,048 landowners having enrolled 917,586 acres. In 2009, the governor placed a total payment cap on the SFIA payments at \$100,000 per landowner effective in 2010. This was done through a

gubernatorial unallotment process, and was in turn made permanent by the 2011 legislature. This action had severe economic implications for some of the state's largest owners of forestland. In addition to the cap, the modified statute also allowed an enrollee to withdraw from the program with no penalty by December 31, 2011. After withdrawal of a number of large parcels of forestland, the total acreage enrolled dropped from 917,586 acre to 777,805 acres. In addition to the cap, the SFIA has had other challenges. Recently a national survey found low awareness of tax programs inhibits the effectiveness of encouraging desired actions (Butler et al. 2011). Following suit, a recent study in Minnesota found that less than twenty-five percent of private forest owners were even aware of the program. The same study demonstrated that it would take up to \$24 per acre to attract fifty percent of eligible landowners, and that many potential enrollees were averse to committing to a covenant on their property (Kilgore et. al 2007).

In regards to public access and the SFIA, there has been a long tradition of public recreation on larger private holdings. Prior to the SFIA payment cap, there were nine participants who were required by the SFIA to allow public access on 560,000 acres of forestland. With the removal of substantial acreage of forestland due to the cap on SFIA payments, one large forest owner recently installed new gates and prepared to disallow public access on much of their lands. Other states have been more successful in using preferential tax programs to create opportunities and encourage public recreational access on private forestland. For instance, unlike in Minnesota, Wisconsin pays landowners a premium for allowing public access on their lands and has 1.1 million private forest acres open to public recreation. In regards to the smaller family forest owners in Minnesota, University of Minnesota researchers found that over seventy percent of landowners already post restrictions on their land to prevent public access; however, 57 percent of respondents did note that they would consider allowing public access on their forestlands. The study also showed that 20 percent of forestland owners would consider allowing public access for a \$5 acre payment and that over half of forest owners would allow access for a \$30 per acre payment (Kilgore et al. 2008).

The SFIA generally provides a significant offset to property taxes around the state. As a percentage of taxes paid, in certain areas with more development and recreational pressure, such as in Southeast Minnesota, the SFIA payment is quite low in relation to actual paid property taxes. In other areas, the SFIA payment is much closer to the actual levied property tax.

All of the states across the country provide varying amounts of tax relief for forestland owners to encourage the flow of important benefits. Most of the programs nationwide are based on a current use valuation of forestlands. The majority of states have eligibility requirements including a management plan, specified enrollment period and withdrawal penalties. For example, Wisconsin, which has an average statewide tax for productive timberlands of \$42.70 per acre, provides a ninety percent reduction in property taxes if the landowner allows public access. The average net tax under the program is \$2.14 per acre if enrolled after 2004, and \$0.79 if enrolled between 1987 and 2004. If the landowner forgoes allowing public access, the tax amount is 20 percent of the total taxable value at \$10.68 per acre for lands enrolled after 2004 and \$1.87 per acre for lands enrolled earlier. The program does require a minimum 25 year commitment to the program. However, making comparisons between state forest tax policies can be difficult. For instance, Wisconsin also has a yield/severance tax on timber harvests which is collected at time of harvest, and much higher property taxes overall than in Minnesota.

In another example, Maryland has an average woodland tax of approximately \$50 per acre. If enrolled in Maryland's Forest Conservation and Management Program, the property tax is reduced on average to \$2.42 per acre. But Maryland also has an application fee and a reoccurring inspection fee. In Ohio's preferential property tax program, the tax is reduced 50 percent, but the state also charges an application fee and an inspection fee.

2C

The 2C tax classification, managed forest land, is a standard property tax rate deduction, unlike the SFIA program. The 2C classification lowers the class rate of eligible properties from 1.00 percent to 0.65 percent. Similar to the SFIA program, eligibility requirements for 2C classification include a minimum of 20 acres as well as a written management plan. There is no stipulation for public access and the classification has a maximum enrollment cap of 1,920 acres per landowner. The first year 2C was in effect, 2008, 47,162 acres were enrolled. By 2012, the number of acres enrolled grew to 226,713.

Rural Preserve Program

The Rural Preserve Program was created to accommodate some of the changes made to the Green Acres tax program in 2008. The Rural Preserve Program was recently developed and rolled out in 2011. The program requires a minimum of 10 acres of rural vacant land, which may or may not be forestland. The program does not require a conservation plan or public access. The land is taxed at the current use value, not the estimated market value.

Minnesota DNR Private Forest Management program

The Private Forest Management (PFM) program, which works in conjunction with the federal Forest Stewardship Program, is administered by the MN DNR Division of Forestry. It provides a broad range of services to private woodland owners each year for the planning and implementation of forest management activities.

Budget cuts over the past ten years and especially in the last biennium have seriously eroded the program's capacity. In FY 2010 and 2011, the PFM Program was funded through the state general fund with \$2 million per year and with USDA-Forest Service grants between \$300,000 and \$400,000, as well as by various additional grants used to pay consultants and additional cost share opportunities. Since FY 2011, the state general fund funding has decreased 75 percent, or \$1,500,000 per fiscal year, and the federal supporting grants have decreased almost 50 percent to around \$200,000 per year. These cuts have severely reduced the capacity within

the DNR's private forest management program to carry out its mission. Inconsistent funding flows over the past 10 to 15 years have also complicated effective service delivery to landowners and coordination by service providers. In response, the MN DNR has proactively sought out collaborative opportunities with partners both within and outside the state including the US Forest Service, which has determined that significantly different approaches to private forest management are needed if meaningful progress is to be made on addressing the threats facing privately-owned forestlands across the nation.

Landscape Stewardship Approach

The DNR - Division of Forestry in partnership with the MFRC and its regional landscape committees has been working for over five years to create and shape processes for implementing landscape stewardship approaches into its service delivery. Some recent accomplishments in private forest management include: participation and leadership on a national USDA Forest Service committee charged with program guidance for landscape stewardship programming; increased awareness by federal agencies to the unique Minnesota experience in landscape stewardship planning; increased collaboration on funding development; being awarded five federal grants for planning and coordination; and initiating an increase in EQIP funding for forestry by the NRCS.

As noted earlier in the report, private woodland is the largest category of forest land ownership in the state, exceeding federal, state, county, tribal and industry/corporate. But it is owned by over 200,000 different households. With hundreds if not thousands of service providers from a vast array of agencies, organizations and businesses, private forest management is the most complicated arena in the forestry portfolio and not surprisingly it is the least well-funded. The move to landscape stewardship reflects the changing circumstances including declining budgets, but a consistent base level of general fund support for the program is still essential.

The combined efforts by DNR and MFRC staff in collaboration with landscape partners over the last five years has been fortunate for the state but there are multiple funding concerns in the

near future. The twelve landscape stewardship projects already undertaken by the MFRC's regional landscape committees have demonstrated numerous ways to enhance service delivery to forest landowners that result in more cost effective and increased levels of service. These pilots can provide an excellent foundation for significantly enhancing the effectiveness of service delivery of the multitude of public investments in private woodland management – from property tax relief programs, cost share funding, estate and wealth transfer, timber harvest, wildlife management, and landowner education.

State Agencies and Organizations

At the state level, part of the Minnesota Department of Natural Resources mission is to provide a long-term, sustainable yield of forest resources from state lands; improve the health and productivity of other public and private forest lands and community forest lands; and protect life, property, and natural resources from wildfire and other threats. The DNR also promotes the conservation, enjoyment, and use of Minnesota's forests.

Another state agency, the Board of Water and Soil Resources (BWSR), works with the Soil and Water Conservation Districts (SWCDs) to aid private landowners in sustainably managing the forest resource. BWSR's mission is to work with private landowners to improve and protect Minnesota's water and soil resources statewide.

In addition to state agencies, it is worth mentioning that there are a number of other business organizations, non-governmental organizations, and quasi-governmental entities that influence private forest management, including:

- Association of Contract Loggers and Truckers - Logging trade association organization;
- Minnesota Association of Consulting Foresters – Trade association;
- Minnesota Forestry Association – Association of family forest owners;
- Minnesota Forest Industries – Association of major primary forest products companies in Minnesota;
- Minnesota Forest Resources Council – State Council established to promote long-term sustainable management of Minnesota's forests;
- Minnesota Forest Resources Partnership – Self funded partnership of forest landowners, managers and professional loggers;

- Minnesota Logger Education Program – Private, non-profit educational program for loggers and logging businesses;
- Minnesota Timber Producers Association – Trade association of loggers;
- Sustainable Forest Education Cooperative – Non-profit educational organization geared toward natural resource professionals; and
- Wood Fiber Employees Joint Legislative Council – Trade association for primary forest products workers.

ADDITIONAL APPROACHES AND CAPACITY

Private forest consultants

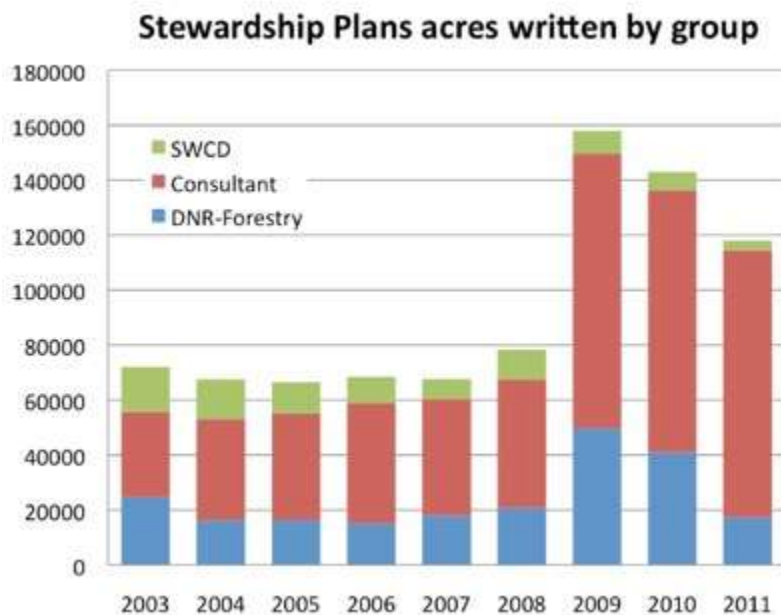
To supplement this report, the MFRC commissioned a study of private forestry consultants and their ability to provide services to private landowners, aimed at enhancing the many benefits provided by forestland. Comparing the results to a similar survey from 2006, the Council was able to observe several trends. First, the number of consultants has increased 20 percent despite the economic downturn. The most recent survey shows that 94 percent of surveyed consultants work on family forest lands, representing 79 percent of their workload. This is higher than it was in 2006. The average acreage treated per consultant business is 3,010 acres per year. Most of the consultants wrote stewardship plans in the last year, with an average of 14 plans completed per year and a cumulative total of 500 stewardship plans written annually. Eighty percent of consultants administered at least one timber sale in the past year, with an average size of 52 acres. Cumulatively, this amounts to 13,100 acres harvested annually managed by consultants. If we estimate those sales provided 250,000 cords to the market, they would account for roughly ten percent of the current statewide timber harvest. Forty-four percent of surveyed consultants supervised tree planting projects in the last year, as well as numerous other activities including timber stand improvements, invasive species control, trail design and building, road building, damage appraisals and tree inspections.

The survey was also designed to gather information regarding the use of incentive and tax programs for private landowners. Most of the consultants noted that preferential tax programs have helped to increase service to family forest owners. Ninety percent of landowners who commissioned a stewardship plan also applied for preferential tax treatment. Two-thirds of the consultants felt that reductions in funding for the DNR PFM program have helped increase

private sector activity. One third of the consultants indicated that current cost-share programs have helped increase or improve the services they provide to private landowners. It is notable that two-thirds of the consultants did not indicate that the cost share programs benefit their business. Many consultants saw opportunities for growth in conducting wildlife habitat improvement projects, restoration projects, harvests focused on saw timber, and biomass markets. Fewer respondents anticipate growth in urban forestry, planning projects, damage appraisal, invasive species control or inventory on public lands.

Figure 2 below demonstrates the increased workload realized by the private consultants and a level or declining effort by the DNR, as a result of a decline in funding.

Figure 2 (MN Extension).



Conservation easements

Conservation easements are a frequently used tool to restrict land use and preserve or protect specific conservation features. These easements have rapidly increased as a popular conservation tool for private forest land over the past 20 years. The easements are voluntary and can be tailored to meet the needs of each situation. A 2009 study found an estimated

12,000 conservation easements in Minnesota, protecting 524,000 acres (Prohaska 2010). More than ninety-five percent of these easements are held by public agencies. Federal and state governments hold most of the easements, with the State of Minnesota holding the greatest number of acres under easement. Large recently drafted easements, such as the one with UPM-Kymmene for over 187,000 acres, have helped to protect large contiguous tracks of forestland in perpetuity.

Conservation Easements and Taxes

There are a number of key issues regarding the use of conservation easements. Monitoring of the resource and enforcement of the terms of an easement are essential to ensure the desired outcome. While terms are made clear in the easement document itself, most often there is no funding dedicated to maintain these activities over time. To ensure the effectiveness of a conservation easement, language must be included which guarantees funding for monitoring and enforcement over the life of the easement.

As conservation easements involve the sale or donation of a subset of property rights, which in turn affects the taxable value of the property, it is often difficult and controversial to assess a landowner's tax obligations. A 1990 study by the University of Minnesota and follow-up study in 2004 confirmed that there was little consistency regarding tax assessment of lands with conservation easements. In 2007, the Minnesota Department of Revenue concluded there is a significant lack of data available and that state law provides inadequate guidance in assessing taxation of land under conservation easement. Some counties do not adjust the taxable value of land with conservation easements, while others do so rarely, and yet others may grant up to a 50 percent decrease in the taxable value of land under easement. A number of county assessors expressed the following frustrations with this issue: (1) assessors are sometimes not aware that a property has a conservation easement associated with it; (2) there are very few comparable sales; (3) each easement is different; (4) foregone rights are difficult to value; and (5) transactions do not take place in a competitive market.

Regarding the impact of conservation easements on the valuation of land for property tax purposes, half of the states across the country have enacted no specific provision regarding how properties with a conservation easement should be taxed. Twelve states note in statute that landowners are entitled to a property tax valuation that reflects the existence of an easement. A handful of states use more nebulous language, such as that the properties are eligible for or may be reduced in taxable value (as Minnesota's statutory language states). A few other states take different approaches. Maine and Virginia allow for certain properties with conservation easements to be eligible for a preferential property tax program. Illinois allows for a 75% reduction in land value for property tax purposes if an easement meets certain criteria. Maryland gives property tax credits to those with a conservation easement. New York offers an income tax credit, keeping the local levels of government unharmed from reductions in property taxes. Oregon allows landowners to prospectively determine reductions in valuation prior to the execution of a conservation easement. Idaho is the only state to explicitly state that a conservation easement will not affect the property tax valuation.

FACTORS IMPACTING PRIVATE FORESTLAND MANAGEMENT

There are a number of trends and issues that affect the management of private forestlands and the goods, services, and benefits that flow from them. Some of the most important issues, and their impacts, are summarized below.

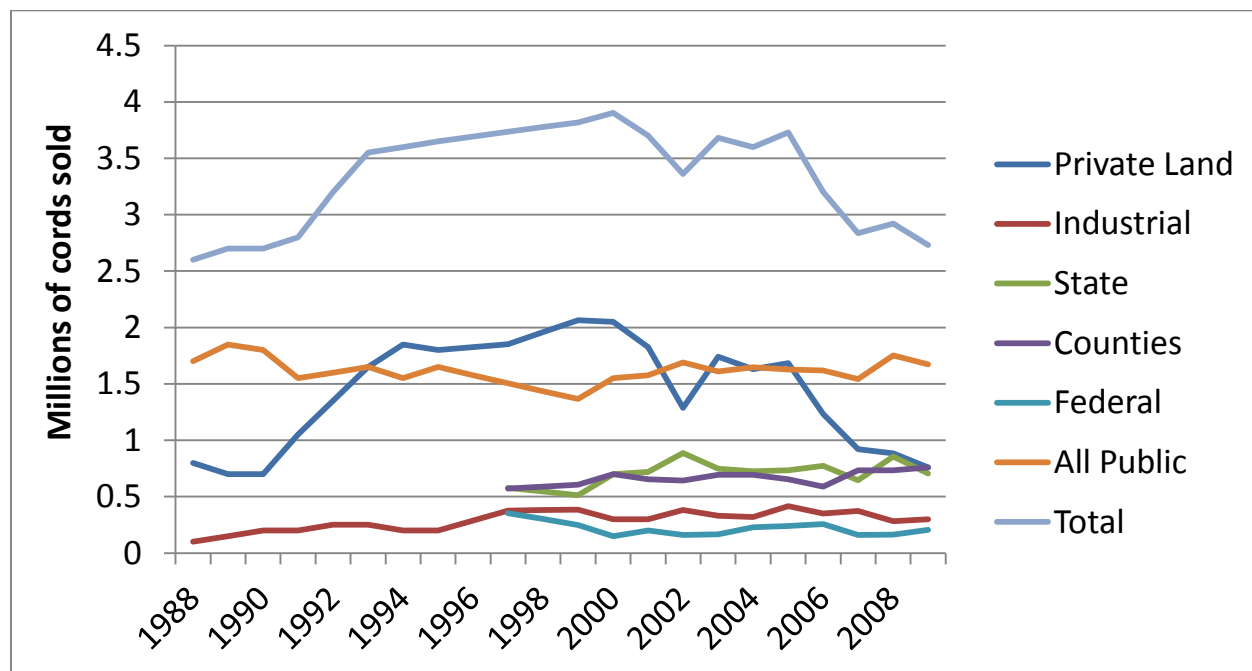
The Local, National and Global Economy

The changing economy over the past decade has had a great impact on economic benefits from forestland, as well as social and ecological benefits. The recent economic downturn and recession, followed by a slow recovery, has lowered the demand for forest products, especially wood products for construction purposes. The conversion from local, regional, or even national markets to an international market has changed the competitiveness of wood products from Minnesota. Being close to Canada, international competition is not new to the forest products industry in Minnesota. However, stiffer competition with the Southeastern states and with markets as far away as China, Indonesia, Brazil and others has been felt in Minnesota. In

reaction to the economic climate and increased competition, Minnesota has lost much of its processing capacity and related markets.

Timber supply from private lands in Minnesota is significant and is illustrated in Figure 2. If comparing only the beginning and ending points of the total wood supply, measured in cords of timber sold, things look like they have not changed much over the past dozen years – 2.6 million cords sold in 1988 and 2.7 million cords sold in 2009. However, it is important to note that in the late 1980s new technologies became available which enabled utilization of a larger portion of the forest resource. In addition, in 2009, there were several different circumstances, with the United States in the depths of the worst economic downturn since the 1930s. This drop in the economy was especially and quickly devastating to the construction industry, greatly affecting the forest products industry.

Figure 3. Timber supply (cords of timber sold) by ownership in Minnesota.



The timber supply peaked in Minnesota in 2001 at 3.9 million cords sold. The private supply peaked in the years 1999-2000 with over two million cords sold. Beginning in 2007 there were

drastic decreases in timber sold from private lands, with the volume currently standing at well under 1 million cords sold annually. On the public side, since 1998 the state's contribution to the timber supply has increased with a slight peak in 2008. From 1998-2010, the state and county increases were almost identical. Federal and industry lands provided a fairly constant supply of timber of the markets during this more recent period after 1998. Over the entire time period, 1988-2010 industrial contributions have increased and federal forest service levels have dropped.

Changing Land Ownership and Use

Parcelization, fragmentation and land use change in regards to private forestlands is a major concern. This has been identified by the MFRC and many others as one of the top concerns related to private forestland in the state. With the shrinking size of forestland parcels and a projected loss of forestland, coupled with the fact that populations in many forested counties are growing faster than the state average, it is estimated that up to 180,000 acres of forest will be lost in northern forested counties by 2030 in Minnesota (state demographer). Due to previous policy decisions, increasing global competition, growth in forestland values and changing demographics, there are many concerns about the impacts of parcelization and subsequent fragmentation of forestlands on the benefits from private forests. From an economic standpoint, these factors have been linked to decreasing timber returns, decreasing probability of harvesting, increasing harvesting costs, and increases in the amount of public services required (i.e. ambulance, fire, school bus, etc.). Parcelization has been tied to decreases in wildlife populations, decreases in biodiversity, increases in pathways for invasive species, decreases in water quality, and increases in storm water runoff. (Drzyzga and Brown 1999, Brooks 2003, Gobster and Rickenbach 2004, Amacher et al. 2003, Olsen 2007)

Forest Health

Forest health and especially issues concerning invasive plants, pests and pathogens is another significant issue with potentially very negative economic, ecological, and social impacts on private forestlands in Minnesota. Minnesota's mix of forests and prairies as well as the public

and private patchwork of ownership increase the state's susceptibility to invasives (prevention and control measures are difficult to implement) and complicates the design of public policy to best manage these pests, plants, and pathogens. Coupled with increasing development pressures, wildlife habitat fragmentation, domestic and international trade and other factors, terrestrial invasive species management becomes a very complex problem to address, increasing the need for a strategic and integrated response.

Many pests, pathogens and plants are newly arrived or are rapidly approaching Minnesota's borders and threaten native tree species. Most people are well acquainted with some such as Dutch Elm Disease and Oak Wilt, but many are less familiar with other invasive species and their hosts, including:

- Emerald Ash Borer (Ash)
- Gypsy Moth (Aspen and Oak)
- Sudden Oak Death and Goldspotted Oak Borer (Oak)
- Thousand Cankers Disease (Walnut)
- Asian Long-Horned Beetle (Maple)
- Mountain Pine Beetle (Jack Pine)

The prevalence of these pests is projected to worsen, and on average two new exotic forest pests are introduced in the United States each year. Across the country governments, private entities, and individuals have spent hundreds of millions of dollars in treating outbreaks of the invading species listed above, as well as others, and are expected to spend much more in the future.

Forest Certification

Another factor regarding private forestlands is certification of forest management practices. Certification of Minnesota's forestland is done through third-party auditors that identify lands that are sustainably managed to a given standard. There are almost 8.5 million certified acres in Minnesota (see Figure 4). Close to ninety percent of those acres are public lands certified through the Forest Stewardship Council (FSC) or the Sustainable Forestry Initiative (SFI). Three-quarters of the certified public forestland are certified through both of the above mentioned

certification entities. Even though public forest lands make up the bulk of the certified acres, there are almost a million acres of private certified forestland in Minnesota. There are substantial amounts of private land certified by FSC, SFI, and Minnesota Tree Farmers. Some of the larger private entities that are certified under these schemes are list in Table 3.

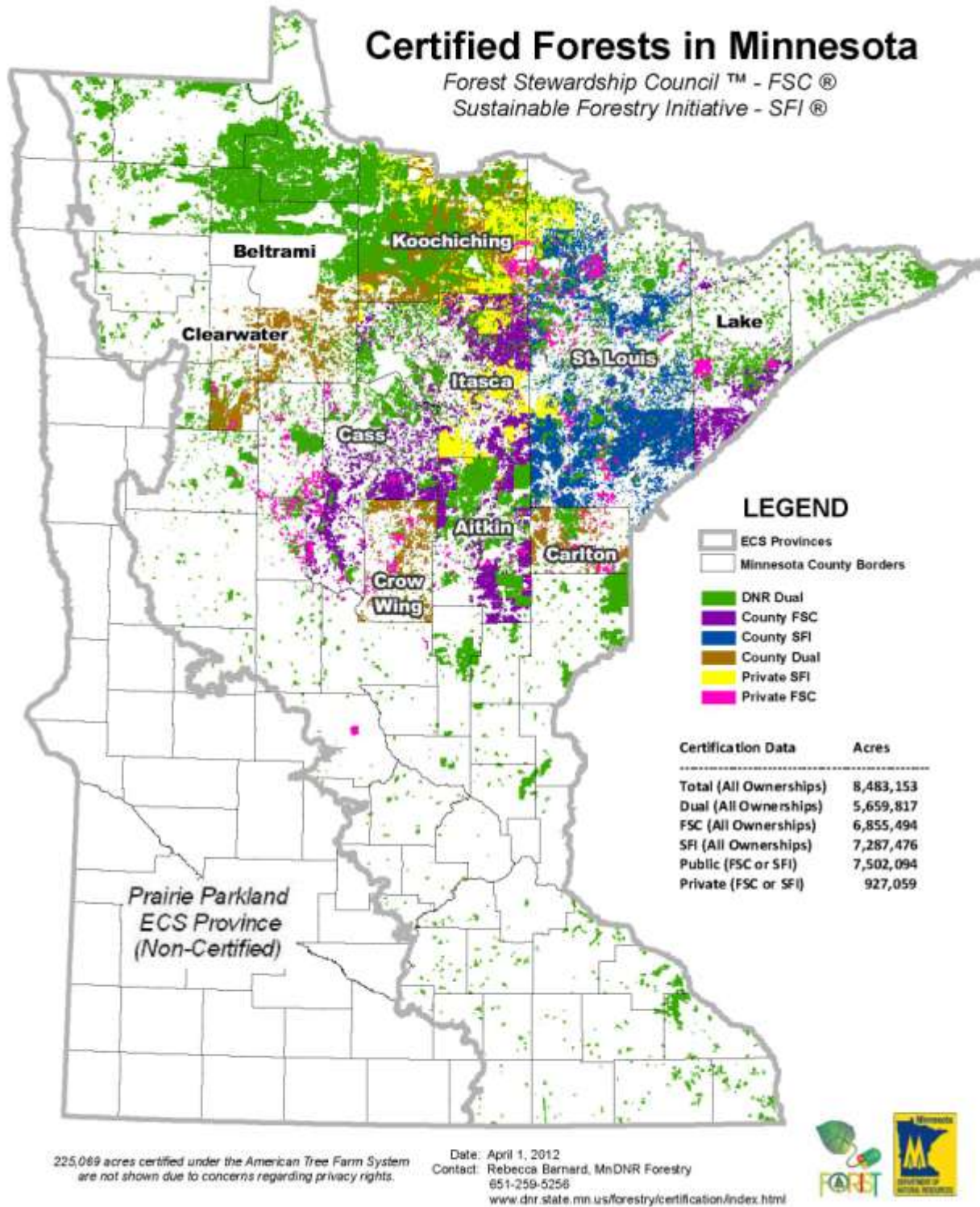
Table 1. Minnesota's Certificate Holders

Minnesota's Private Certified Forestlands	Acres of certified forestlands
Molpus Woodlands Group (formerly owned by Forest Capital Partners)	298,955
Potlatch Forest Holdings	252,217
MN Tree Farmers (through American Tree Farm System)	225,069
UPM-Kymmene	189,385
The Nature Conservancy	8,860
Aitkin County Soil and Water Conservation District	2,689
Cloquet Forestry Resource Center (UMN)	2,400
St. John's Abbey	1,484

*DNR 2011

The cost of certification has become an issue for public and private forestlands alike. These include costs for auditing, undertaking any needed corrective actions, and costs associated with adjusting management systems to respond to changes in the certification standards. The State of Wisconsin recently calculated the costs of certification for different landowners ranging from \$.027 to \$.120 per acre, with the smaller family forest owners realizing the lowest cost. This will most likely continue to be an issue for private forest owners. With certification standard revisions, competition between certification entities, and increased global competitiveness this issue can be expected to evolve over time.

Figure 4. Minnesota's Certified Forests (DNR 2012)



IMPLICATIONS AND RECOMMENDATIONS

Privately owned forestland is a significant part of the landscape in Minnesota and provides significant economic, ecological, and social benefits to the state. Numerous agencies, laws, and programs exist in part or in whole to support and protect private forestlands, but many of the programs have been changed or weakened, threatening the benefits provided by private forestlands to the state. In addition, newly emerging issues (globalization, ownership patterns, and invasive species) will likely exacerbate the threat.

To counteract these trends and maintain or even enhance the range of benefits provided to Minnesota by private forest lands, the MFRC recommends six areas that should be addressed:

1. Improve and stabilize reliable tax programs affecting private forestland
2. Increase efforts to reach landowners by improving outreach, technical assistance, and continuing research regarding the most effective ways to communicate with landowners
3. Maintain financial incentives to landowners, but improve effectiveness and efficiency
4. Support the continued use of conservation easements, including consistent tax treatment of land with an easement
5. Increase the service delivery capacity to private woodland owners
6. Support landscape scale management programs

More details for each of these recommendations are shown below.

1. Improve and stabilize reliable tax programs affecting private forestland recognizing the many benefits provided by large and small forest landowners.

- a. Enhance and modify the Sustainable Forestry Incentives Act (SFIA) by:
 - Removing the cap from the SFIA program, encouraging those with larger holdings to maintain large contiguous blocks of forest land
 - Allowing recently removed acres to re-enroll in SFIA
 - More clearly defining rules for transfer of ownership within SFIA
 - Increasing penalties for early removal of lands from the SFIA program
 - Consider changing the administrative responsibilities to outside of the Department of Revenue

- b. Enhance and modify the 2C property tax classification by:
 - Making the 2C class rate comparable to the class rate for agricultural lands
 - Removing the acreage cap
- c. Make tax programs more effective and efficient by:
 - Targeting outreach to those areas where the payments or tax savings will discourage loss of forestland and associated benefits , and recognize the different needs of large versus small landowners
 - Educating assessors regarding the benefits of preferential property tax programs
- d. Consider a modified preferential property tax program using a two-tiered approach, such as the Wisconsin approach, allowing for a greater tax deduction for the allowance of public access and requiring and enforcing stewardship activities
- e. Integrate tax policy with local planning by making preferential property tax treatment of forest lands under SFIA and other programs at least partially dependent (could use tiered approach) on the local adoption of exclusive forest use zoning or a comparable program (see MFRC 2011)

2. Increase efforts to reach landowners by improving outreach, technical assistance, and continuing research regarding the most effective ways to communicate with landowners

- a. Actively market programs to encourage active and sustainable forest management
- b. Improve content and provide consistent delivery of education programs
- c. Develop communication materials that are easy to comprehend
- d. Foster opportunities for more peer-to-peer networking and engagement
- e. Create new tools for educating the next generation of landowners about forests and the environment

3. Maintain financial incentives to landowners, but improve effectiveness and efficiency

- a. Require a written management plan for any financial assistance
- b. Link financial incentives directly to stewardship activities
- c. Offer estate planning guidance to landowners for estate planning
- d. Increase market opportunities for traditional forest products, renewable energy, and ecosystem services
- e. Increase aid to landowners in combating invasive species

4. Support the continued use of conservation easements, including consistent tax treatment of land with an easement

- a. Encourage consistent tax treatment across the state for lands with conservation easements

- b. Address the need to properly value various benefits, such as open access, ecosystems, or services
- c. Encourage a state income tax credit for the donation of conservation land and easements
- d. Encourage the continued use of LSOHC funds for forest easements, as well as new funding for private forest management in critical areas

5. Increase the service delivery capacity to private woodland owners

- a. Maintain DNR-Forestry PFM program as the primary coordinating agency for private forest management
- b. Increase the funding and availability of one-on-one technical assistance
- c. Engage private forest consultants at the policy level.

6. Support landscape scale management programs

- a. Overall, encourage integrated service delivery between the broad range of agencies and organizations that serve private woodland owners to make delivery of their programs better coordinated, simpler and less costly in processing and less time consuming
- b. Enter into a new memorandum of understanding between the MFRC , MN DNR and other agencies to promote and implement landscape stewardship (i.e. NRCS, USFS, MN DNR, MFRC, BWSR, MASCD, MACF, UMN Extension, MFA)
- c. Encourage the expanded involvement of BWSR and NRCS in landscape management
- d. Support increasing RC&D capacity to serve as grant writers, grant administrators and fiscal agents on forestry projects being developed by the regional MFRC committees
- e. Create a Working Landscape Team for the forested regions of the state supporting the implementation of sustainable forestry projects at a local level
- f. Support the continued investment of Clean Water Funds through the DNR Forestry - Private Forest Management Program to support the development and implementation of water quality/forestry projects through the partnerships supported by the MFRC regional committees.

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