

AN EVALUATION

Forestry Account

Department of Natural Resources

02-2

February 2002

2001-2002 Joint Legislative Audit Committee Members

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February 12, 2002

Senator Gary R. George and
Representative Joseph K. Leibham, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator George and Representative Leibham:

As requested by the Joint Legislative Audit Committee, we have completed an evaluation of the Forestry Account, which supports forestry and other activities in the Department of Natural Resources (DNR) and eight other state agencies. In fiscal year (FY) 2000-01, revenues deposited to this account totaled \$69.0 million. Over 80 percent of these revenues were generated by a statewide forestry mill tax of \$0.20 per \$1,000 of property value, which is imposed on all owners of taxable property. The forestry mill tax is the only property tax levied by the State.

Revenues from the Forestry Account support a variety of activities designed to protect and enhance the 16.0 million acres of private and public forestland in Wisconsin. Most Forestry Account expenditures are for forestry activities such as forest fire prevention and control and assisting with management of county forests. However, a substantial amount of Forestry Account expenditures also fund DNR administrative costs. In FY 2000-01, \$18.7 million was spent for administration, representing 27.8 percent of DNR's Forestry Account expenditures. This total included \$6.5 million in administrative costs for forestry activities, which was charged directly to the Forestry Account, and \$12.2 million in department-wide administration and support services costs. DNR expenditures from the Forestry Account supported a total of 644.1 full-time equivalent DNR employees, of which 449.7 worked directly in support of forestry activities. We note \$4.5 million in Forestry Account expenditures by DNR and other state agencies supported programs that had no direct relationship to forestry.

The Managed Forest Law program provides property tax relief to owners of forestland in exchange for commitments to implement sound forestry practices on their land. The program has grown rapidly: applications increased from 1,831 in 1997 to 3,251 in 2001, or by 77.6 percent. As a result of Managed Forest Law program growth, DNR staff have not been able to address their ongoing management responsibilities and, as of August 2, 2001, over 12,000 practices related to sound forest management on 187,165 acres had not been completed in the years specified by the forestry management plans. The increasing number of program participants has also increased DNR's workload. In 2001, the Legislature authorized 23.0 additional full-time equivalent positions to address ongoing workload concerns.

We appreciate the courtesy and cooperation extended to us by the Department of Natural Resources. The Department's response is Appendix 4.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller
State Auditor

JM/PS/ss

The Forestry Account, which is part of the State's Conservation Fund, supports forestry activities of the Department of Natural Resources (DNR) and eight other state agencies on 16.0 million acres of private and publicly owned forestland that represents 45.9 percent of Wisconsin's total land area. It is funded primarily by the forestry mill tax of \$0.20 per \$1,000 of all assessed property value, which is the only property tax levied by the State. All owners of taxable property pay this tax, which is authorized by the Wisconsin Constitution "for the purpose of acquiring, preserving, and developing forests of the state."

Concerns have been raised about the extent to which Forestry Account funds have been used for expenditures that are not directly related to forestry, as well as whether current staffing levels are adequate to meet DNR's forestry-related responsibilities. In addition, a veto to Wisconsin's 2001-03 biennial budget that eliminated a proposed Department of Forestry also eliminated DNR's authority to spend Forestry Account revenue after July 1, 2002. Therefore, the Legislature will have to determine how Forestry Account funds will be allocated for fiscal year (FY) 2002-03.

The majority of staff engaged in forestry efforts are located within DNR's Division of Forestry, which was created by the Legislature in 1999 based on concerns that forestry issues were receiving inadequate attention. The Division is responsible for a number of varied activities, including forest fire prevention and control, forest health and pest control, urban forestry, forest recreation activities, assisting with the management of county forest resources and administering loans for county forest land acquisition and development, and providing assistance to private forestland owners.

Forestry Account expenditures increased from \$63.0 million in FY 1997-98 to \$72.3 million in FY 2000-01, or by 14.8 percent. Of the 644.1 full-time equivalent (FTE) staff funded by the Forestry Account in FY 2000-01, 449.7 (69.8 percent) were assigned to work directly in support of forestry activities. The remaining 194.4 FTE positions (30.2 percent) were mainly administrative positions.

To further analyze forestry costs, we reviewed FY 2000-01 program expenditures by funding source and expenditure type. Forestry Account expenditures totaled \$72.3 million in FY 2000-01, and of this total:

- \$52.2 million (72.2 percent) was spent for forestry activities;
- \$12.2 million (16.9 percent) was spent for department-wide administration and support services;
- \$4.5 million (6.2 percent) supported activities that were not directly related to forestry efforts; and
- \$3.4 million (4.7 percent) was spent for debt service, primarily for the Stewardship Program.

Of \$5.1 million in Forestry Account funds spent by other state agencies, \$1.9 million was for forestry activities, while \$3.2 million was not.

In FY 2000-01, administrative costs funded from the Forestry Account included both department-wide administration and support services costs (\$12.2 million) and administrative costs for forestry activities that were charged directly to the Forestry Account (\$6.5 million). A total of \$18.7 million was spent for administration, representing 27.8 percent of DNR's Forestry Account expenditures. Examples of administrative costs that the Forestry Account funded in FY 2000-01 include:

- 17.6 percent of all costs for the Division of Administration and Technology, which provides information systems and other administrative support to DNR programs;
- 15.0 percent of costs associated with DNR's customer assistance functions, including licensing and grants administration; and
- 9.0 percent of costs associated with DNR's integrated science services, or research, functions.

We question the extent to which these allocated costs reflect the benefit to forestry-related activities. For example, although the Forestry Account funded 15.0 percent of costs associated with DNR's customer service and licensing functions in FY 2000-01, we estimate that less than 3.5 percent of the revenue generated from the sale of licenses was deposited in the Forestry Account. In addition, while the number of DNR administrative and support positions funded by the Forestry Account increased from 148.7 FTE positions in FY 1996-97 to 176.7 FTE positions

in FY 2000-01, or by 18.8 percent, the number of Forestry Account-funded DNR staff working directly on forestry-related activities declined 2.7 percent, from 462.3 FTE positions to 449.7 FTE positions over this same period.

Because the amount of general purpose revenue (GPR) available to support administrative costs has historically been inadequate to fund the share of these costs that is related to GPR-supported activities, other funds available to DNR have had to make up the difference. Nevertheless, some administrative costs grew substantially. For example, from FY 1997-98 through FY 2000-01, expenditures associated with personnel administration grew by 301.7 percent, from \$127,505 to \$512,136, which DNR officials attribute to the expansion of recruitment, hiring, and mentoring efforts within the forestry program.

Some expenditures made by DNR from the Forestry Account are not directly related to forestry. Expenditures for DNR activities in this category increased 83.5 percent over three years, from \$687,624 in FY 1997-98 to \$1.3 million in FY 2000-01. Some of the FY 2000-01 charges to the Forestry Account that were not directly related to forestry include:

- \$154,994 for grants to conservation organizations related to land acquisition and wildlife habitat conservation;
- \$27,164 to register deer, bear, and turkeys; and
- \$16,156 to conduct wildlife surveys.

DNR officials acknowledge that some forestry staff time is spent on non-forestry efforts but contend non-forestry staff also contribute a portion of their time to directly support forestry activities. However, we found that since at least FY 1997-98, forestry staff reported spending more hours supporting the efforts of non-forestry activities than non-forestry staff reported spending in support of forestry activities. This has resulted in a net reduction in the amount of staff time spent on forestry, representing the equivalent of 3.4 forestry staff in FY 2000-01.

In addition to those Forestry Account expenditures made by DNR, we identified expenditures made by two agencies that appear to provide limited or no direct benefit to state forestry efforts. First, in FY 2000-01, the Wisconsin Historical Society spent \$33,700 from the Forestry Account to fund an interpretive programming position at the Northern Great Lakes Visitor Center that is primarily responsible for responding to visitor inquiries about regional tourism opportunities, heritage issues, and state forests and parks but also acts as a liaison between the Wisconsin Historical Society and DNR. This 1.0 FTE position was shifted from DNR

to the Wisconsin Historical Society and funded from the Forestry Account under 1997 Wisconsin Act 27. Second, and more significantly, we estimate of the \$3.4 million in Forestry Account funds the Wisconsin Conservation Corps spent in FY 2000-01, only \$230,000 was directly related to forestry, while \$3.2 million was not.

Appropriations from the Forestry Account also help to fund debt service for the Warren Knowles-Gaylord Nelson Stewardship Program. Under the Stewardship Program, DNR uses proceeds from general obligation bonds to purchase and develop natural areas and to award grants to local governments and nonprofit organizations for the purchase and development of natural areas. Since the Stewardship Program began the Forestry Account has funded \$23.4 million (27.9 percent) of all Stewardship debt service costs, but through FY 2000-01 only 8.5 percent of all Stewardship expenditures were for state forests. However, a 2001 acquisition that will form the new Peshtigo River State Forest represents the largest purchase of state forests made through the Stewardship Program and increased from 9,738 acres to 18,977 acres the amount of total state forestland purchased through the program.

Some have questioned whether all regions benefit equitably from the State's forestry mill tax. We found that there does not appear to be a strong relationship between the areas generating forestry mill tax revenue and forestry expenditures. For example, although property tax payers in DNR's Southeast Region—which includes Kenosha, Milwaukee, Ozaukee, Racine, Sheboygan, Walworth, Washington, and Waukesha counties—contributed 39.1 percent of FY 2000-01 forestry mill tax revenues, only 16.3 percent of direct expenditures attributable to a specific region were made in this region.

1999 Wisconsin Act 9, the 1999-2001 Biennial Budget Act, created a Division of Forestry within DNR. Some have raised concerns about whether the intent of the Legislature in creating this Division has been fully realized. The Legislature intended to address concerns raised by the forest industry and interest groups that believed forestry issues were receiving an inadequate level of attention. However, the Administrator of the Division of Forestry, the Chief State Forester, does not have direct line authority over forestry staff statewide, and supervisors who are responsible for overseeing staff from a variety of fields, such as forestry, wildlife management, and fisheries management, may not have the scientific expertise to quickly make decisions that involve technical issues. The extent to which organizational changes announced by DNR officials in December 2001 will address these concerns remains to be seen.

Since 1927, owners of forestland in Wisconsin have received property tax relief from several voluntary programs created by the Legislature to encourage the use of sound forestry practices on private lands. The Managed Forest Law program, the current program available to taxpayers to provide reductions in property taxes, was created in 1985 and requires

landowners to agree to perform practices intended to promote sustainable forestry, such as harvesting mature trees and thinning trees to improve growing conditions. In lieu of assessed property taxes, enrolled landowners pay their local government an annual property tax of \$0.74 per acre, plus an additional \$1.00 to the State for each acre up to an 80-acre maximum per municipality that the landowner chooses to close to public access. The program also levies a 5.0 percent tax on all timber harvested on enrolled forestland, part of which is used to help offset foregone local tax revenues. As a condition of participation, enrollees are required to submit and follow management plans intended to result in sound forestry practices.

The Managed Forest Law program is available to industrial forestland owners—defined as companies that own forestland and individuals who own more than 1,000 acres—and to non-industrial private forestland owners. The number of Managed Forest Law applications has increased significantly, from a total of 1,831 in 1997 to 3,251 in 2001, or by 77.6 percent.

Program fees and taxes on timber harvested on enrolled land generate some revenue for the State, counties, and municipalities. However, revenue generated from property taxes on forestland that is enrolled in the Managed Forest Law program is less than what would have been generated by property taxes if the land had not been enrolled in the program.

Although the ability to close all or a portion of the land an owner enrolls is a program benefit intended by the Legislature, some private forestland owners and DNR staff with whom we spoke believe that a significant number of participants are dividing their forestland into smaller parcels with different legal ownership in order to close more acreage to public access. In 2001, there were 19,981 Managed Forest Law entries under 80 acres in size. Of these entries, 16,147, or 80.8 percent, were closed to public access. This effect may not have been anticipated by the Legislature when it created the program. In addition, DNR forestry personnel indicate that the division of forestland into smaller parcels increases their workload and makes it more difficult to manage the land effectively.

The documentation available did not permit us to determine the number of instances in which ownership of forestland had been divided, either in an attempt to limit public access or for other reasons. However, we found that the number of acres enrolled by non-industrial landowners and closed to public access has increased in each year. If the Legislature is concerned about this trend, we have provided options that could be considered to address the closing of enrolled forestland.

Growing participation has also increased DNR's workload associated with ensuring that required management practices are completed. DNR officials indicate that every eligible landowner who applied for program participation was enrolled in a timely manner; however, these efforts have limited staff time available for other responsibilities. Since FY 1997-98, application processing has represented an increasing percentage of the time DNR staff report spending on the Managed Forest Law program. In FY 2000-01, it accounted for 90.1 percent of all hours staff reported spending on the program. In addition, staff-reported effort for the program has grown from 41.0 FTE staff in FY 1996-97 to 50.5 FTE staff in 2000-01, or by 23.2 percent.

As a result of the increasing percentage of time devoted to processing applications, a backlog in completing mandatory forestland practices has developed. Data maintained by DNR indicate that a total of 12,404 practices, covering 187,165 acres, have not been completed in the years specified by their respective management plans. Of the 12,404 practices recorded as overdue, 655 (5.3 percent) have been overdue for 10 or more years.

Based on the intent of the Managed Forest Law program—to promote sustainable forestry and maintain production of forest products—existence of a backlog in mandatory practices may mean that some forestland is not being adequately managed and that all objectives are not being met. In addition, the backlog of mandatory practices is also of financial concern to the State, counties, and municipalities. Uncompleted timber harvests account for 37.9 percent of the existing backlog, and the State, counties, and municipalities earn revenue from completed timber harvests. We estimate that the current value deferred from tree harvests and thinnings totals approximately \$2.4 million: \$1.2 million for municipalities and counties in which the backlogged practices exist, and \$1.2 million for the State. We have recommended DNR report to the Legislature by January 1, 2003, on the extent to which it has been successful in reducing the number of overdue forest management practices.

Introduction

The Forestry Account supports forestry activities on private and public land.

The Forestry Account, which is part of the State's Conservation Fund, supports forestry activities of the Department of Natural Resources (DNR) and eight other state agencies on 16.0 million acres of private and publicly owned forestland that represents 45.9 percent of Wisconsin's total land area. Forestry activities include forest fire prevention and control, forest health and pest control, urban forestry, forest recreation activities, assisting with management of county forests, administering loans to fund county forest land acquisition and development, and assisting private owners of forested land in protecting and ensuring the sustainability of forest resources.

A state property tax funds the Forestry Account.

The Forestry Account is funded primarily by the forestry mill tax, which is the only property tax levied by the State. All owners of taxable property pay this tax, which is authorized by the Wisconsin Constitution "for the purpose of acquiring, preserving, and developing the forests of the state." The tax rate of 0.2 mill (\$0.20 per \$1,000 of all assessed property value in Wisconsin) has not been changed since the forestry mill tax was established in 1937. Other sources of Forestry Account funding include revenue from the sale of timber and other forest products, camping and entrance fees at state forests, fees that owners of forested land pay to participate in state programs that provide property tax relief, and federal grants.

DNR is responsible for most Forestry Account spending.

In fiscal year (FY) 2000-01, DNR and other state agencies spent \$72.3 million in state and federal funds from the Forestry Account for staff salaries and fringe benefits, supplies and services, local aid, capital purchases, and debt service. The majority of these funds were spent by DNR's Division of Forestry and its Bureau of Parks, which is part of the Division of Land.

Concerns have been raised about the extent to which Forestry Account funds have been used for expenditures that are not directly related to forestry, as well as whether current staffing levels are adequate to meet DNR's forestry-related responsibilities. Therefore, at the direction of the Joint Legislative Audit Committee, we:

- reviewed trends in revenues, expenditures, and staffing levels;
- analyzed program expenditures to determine the extent to which program funds are used for purposes related to forestry;
- analyzed changes in forestry activities that may have affected staffing needs over the past several years, especially those related to the Managed Forest Law program, a voluntary program that provides tax and other benefits to participants who practice sound forestry practices on private lands; and
- reviewed the administration of the Managed Forest Law program.

In conducting this evaluation, we analyzed data on program expenditures and staffing levels in DNR and other agencies; interviewed DNR officials, program administrators, and field staff responsible for implementing forestry activities throughout the state; and discussed DNR's forestry activities with groups representing private and public forestry interests. In addition, we attended meetings of and discussed forestry issues with members of the Governor's Council on Forestry, a non-statutory committee created by Executive Order in 1981 to advise the Governor on issues pertaining to Wisconsin's forests and to provide policy direction for forestry efforts. The Council's membership currently includes legislators and representatives of DNR; higher education; urban forestry and conservation interests; the public; and the logging, lumber, nursery, and paper industries.

Wisconsin Forestland

68.1 percent of Wisconsin's forestland is privately owned.

Private and publicly owned forests in Wisconsin provide recreational opportunities for residents and visitors, represent an important component of the economy through the production and sale of timber, and provide habitat for numerous species of wildlife. The amount of forestland in Wisconsin has increased since 1968, largely as the result of efforts to convert marginal agricultural land. As shown in Table 1, 68.1 percent of the current total of 16.0 million acres is privately owned, primarily by individuals. In contrast, the State owns approximately 800,000 acres, or 5.0 percent of the total. Ownership of forestland in each county is shown in Appendix 1. These data are based on a 1996 analysis by the United States Forest Service and are the most recent data available.

Table 1

Wisconsin Forestland Ownership 1996

<u>Ownership</u>	<u>Number of Acres (in millions)</u>	<u>Percentage of Total</u>
Private		
Individuals	9.1	56.8%
Corporate	<u>1.8</u>	<u>11.3</u>
Subtotal	10.9	68.1
Government		
County and municipal	2.3	14.4
Federal	1.6	10.0
State	<u>0.8</u>	<u>5.0</u>
Subtotal	4.7	29.4
Tribes		
	<u>0.4</u>	<u>2.5</u>
Total	16.0	100.0%

Source: 1996 United States Department of Agriculture Forest Service Forestry Inventory Analysis.

State-owned forestland includes state forests and other properties.

The State owns forestland in state forests, as well as for tree nurseries, research, the construction of structures to detect and suppress forest fires, and to provide access to state forest properties. It acquires this land by direct purchase, including purchases made through the Warren Knowles-Gaylord Nelson Stewardship Program, and by donations.

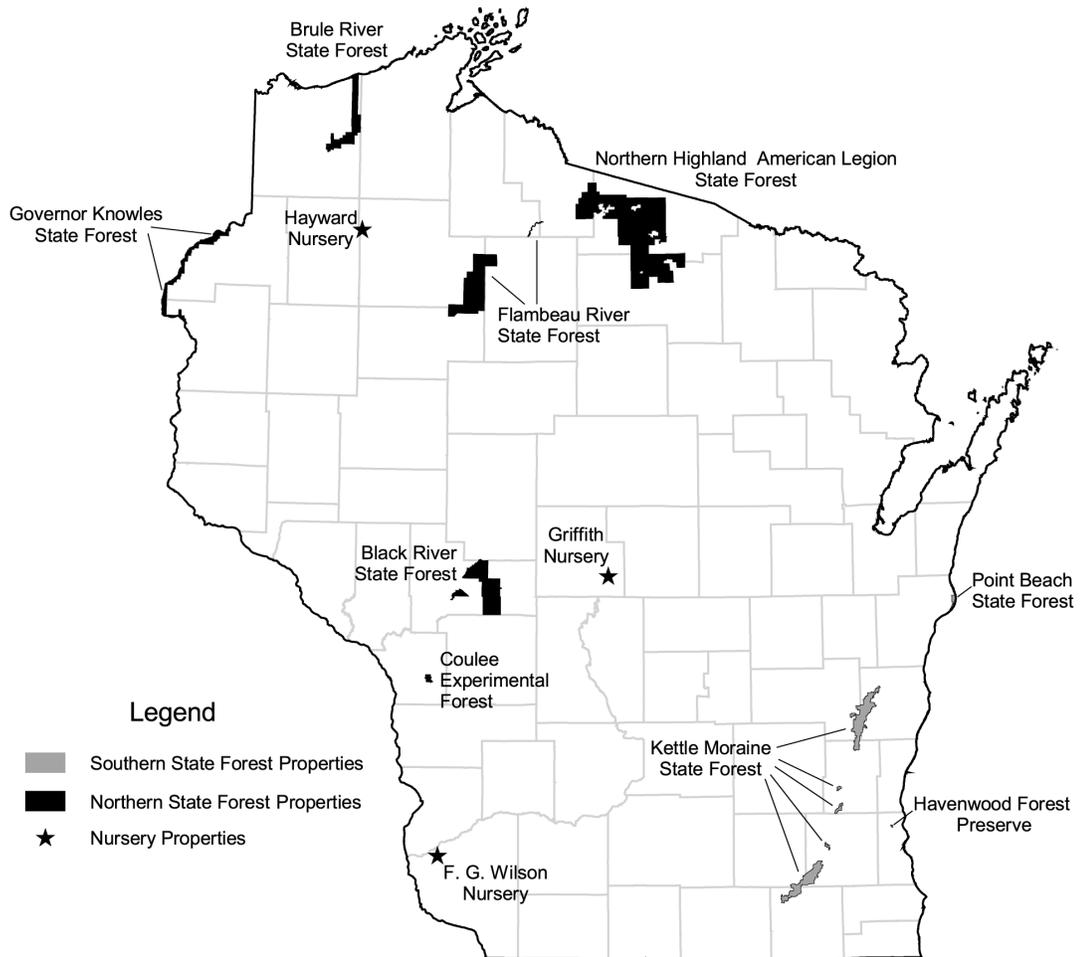
DNR administers state-owned forestland under two separate administrative structures:

- Northern state forest property—including six northern state forests—is managed by DNR’s Division of Forestry, which employs the majority of state staff engaged in public and private forestry management.
- Southern state forest property—including two state forests and a forest preserve—is managed by DNR’s Bureau of Parks.

Figure 1 shows state-owned forestland in parcels larger than 200 acres. Most is northern state forests, which total over 445,000 acres. In contrast, the southern state forests total approximately 56,000 acres. DNR also operates three tree nurseries—located in Boscobel, Hayward, and Wisconsin Rapids—that produce and distribute seedlings for reforestation and conservation. Approximately 300,000 acres of state-owned forestland in parcels smaller than 200 acres is not shown in Figure 1. This land includes property in northern state forests and southern state forests, as well as forested property with another designation, such as a fish hatchery or a state park.

Figure 1

**State Forestland Over 200 Acres
2001**



Program Funding

In FY 2000-01, 82.9 percent of Forestry Account revenue was generated by the forestry mill tax.

As shown in Table 2, the forestry mill tax generated 82.9 percent of all Forestry Account revenue in FY 2000-01. The goods, services, and timber sold generated 10.7 percent of Forestry Account revenue in FY 2000-01 and included seeds and seedlings from the State's three nurseries, timber from public and privately held forestlands, and camping firewood and Christmas trees from state forests.

Table 2

Forestry Account Revenue FY 2000-01

<u>Revenue Source</u>	<u>Amount of Revenue</u>	<u>Percentage of Total Revenue</u>
Forestry mill tax	\$57,226,371	82.9%
Sale of goods, services, and timber	7,386,241	10.7
Licenses, permits, and fees	2,011,070	2.9
Program fees and loan repayments	1,422,174	2.1
Other revenue sources	<u>950,688</u>	<u>1.4</u>
Total	\$68,996,544	100.0%

Licenses, permits, and fees include state forest use permits, seasonal and daily trail user fees, and vehicle admission stickers required on motor vehicles that stop at designated sites within a state forest. Revenue from these sources was 2.9 percent of FY 2000-01 Forestry Account revenue. The 2.1 percent of revenue attributable to program fees and loan repayments includes fees paid by participants in the Managed Forest Law program, which offers tax relief to private property owners in exchange for a commitment to sound forestry management, as well as counties' repayments of state loans to purchase and manage forestland. Other revenue sources include federal grants, the sale of state land and easements, and payments received for damages to state properties.

Budget Issues

The Legislature will have to determine how Forestry Account funds will be allocated for FY 2002-03.

A veto to the 2001-03 biennial budget that eliminated a proposed Department of Forestry also eliminated DNR's authority to spend Forestry Account revenue after July 1, 2002. Therefore, the Legislature will have to determine how Forestry Account funds will be allocated for FY 2002-03.

Creation of a new Department of Forestry was proposed as part of the Conference Committee's amendments to 2001 Senate Bill 55, the 2001-03 Biennial Budget Bill. Under the proposal, which would have removed many forestry functions from DNR, the Department of Forestry would have:

- managed and operated the six northern state forests, as well as several other smaller state-owned forest properties;
- operated the three tree nurseries;
- provided local government and private forestry assistance, including administration of the Managed Forest Law program;
- conducted forest fire management; and
- conducted urban forestry, which maintains trees within urban communities.

Responsibility for the State's southern forests, which are managed by the Bureau of Parks within DNR's Division of Land, would not have been transferred to the new department under the proposal. However, the proposal would have removed the Forestry Account from the Conservation Fund and assigned it to the new department as the "Forestry Fund." The Forestry Fund was to include revenues from the forestry mill tax, state forest admissions stickers, forest camping fees, seedling sales, and other miscellaneous sources of forestry revenue.

**DNR's spending
authority for the Forestry
Account will expire on
June 30, 2002.**

When 2001 Wisconsin Act 16, the 2001-03 Biennial Budget Act, was signed into law, the Governor vetoed creation of the Department of Forestry. Because the Forestry Account and associated budget authority had been assigned to the proposed Department of Forestry, the veto also eliminated DNR's authorization to spend Forestry Account revenue in FY 2002-03. Forestry Account support for a number of programs in other agencies was also eliminated.

Forestry Spending

To address concerns about the uses of Forestry Account funds, we analyzed trends in Forestry Account expenditures, then categorized expenditures according to the activities they support in order to analyze them by type and purpose. We also examined Forestry Account revenues and expenditures by geographic region. Finally, we reviewed DNR's proposal for an agency reorganization based, in part, on the concerns of forestry staff.

Trends in Program Expenditures

From FY 1997-98 through FY 2000-01, Forestry Account expenditures increased by 14.8 percent.

As shown in Table 3, Forestry Account expenditures increased from \$63.0 million in FY 1997-98 to \$72.3 million in FY 2000-01, which is an increase of 14.8 percent over four years. Since FY 1997-98, there has been no clear trend in the rate of growth in Forestry Account expenditures. The largest single-year increase was 8.3 percent, which occurred between FY 1999-2000 and FY 2000-01 and was primarily the result of increases in salary and fringe benefit costs for DNR staff.

Table 3

Forestry Account Expenditures

<u>Fiscal Year</u>	<u>Total Expenditures</u>	<u>Percentage Change</u>
1997-98	\$63,003,227	—
1998-99	66,321,157	5.3%
1999-2000	66,731,929	0.6
2000-01	72,271,142	8.3

As expenditures have increased, the unencumbered balance in the Forestry Account at year-end declined from \$16.3 million in FY 1997-98, to \$6.5 million in FY 2000-01, as shown in Table 4. The balance has declined because expenditures have exceeded revenue generated by the Forestry Account.

Table 4

Unencumbered Forestry Account Balance

<u>Fiscal Year</u>	<u>Ending Balance</u>	<u>Percentage Change</u>
1997-98	\$16,287,146	—
1998-99	9,623,900	-40.9%
1999-2000	9,357,829	-2.8
2000-01	6,462,562	-30.9

Source: DNR Condition Statements

Expenditures Categorized by Funding Source and Type

In FY 2000-01, Forestry Account expenditures totaled \$72.3 million.

To further analyze forestry costs, we reviewed FY 2000-01 program expenditures by funding source and expenditure type. Forestry Account expenditures totaled \$72.3 million in FY 2000-01 and were primarily supported by the forestry mill tax. Other revenue that supported forestry expenditures included general purpose revenue (GPR) funding forest acquisition and development, federal revenue funding fire suppression and other activities, and program revenue used to help fund warehouse operations associated with storage of forest fire suppression equipment.

As shown in Table 5, FY 2000-01 forestry expenditures included \$734,829 in GPR, which funded the maintenance and development of forest roads and hiking trails in state forests, water systems for campgrounds, and shelter buildings along trails. Segregated revenue, rather than GPR, could have funded these forestry costs. The Legislature could consider using the Forestry Account for such costs in the future, thereby making additional GPR available to fund costs that cannot be covered by the Forestry Account.

As shown in Table 6, 60.1 percent of Forestry Account expenditures were for salaries and fringe benefits. Concerns have been raised about the extent to which the Forestry Account funds positions directly related to forestry activities. Therefore, we analyzed the 644.1 full-time equivalent (FTE) DNR positions funded by the Forestry Account in FY 2000-01.

Table 5

Total Forestry Expenditures by Funding Source
FY 2000-01

	<u>Forestry Account</u>	<u>Other Accounts</u>	<u>Total</u>	<u>Percentage of Total</u>
Segregated revenue*	\$69,412,387	\$ 0	\$69,412,387	94.5%
Federal revenue	1,962,222	0	1,962,222	2.7
Program revenue	896,533	448,645	1,345,178	1.8
GPR	<u>0</u>	<u>734,829</u>	<u>734,829</u>	<u>1.0</u>
Total	\$72,271,142	\$1,183,474	\$73,454,616	100.0%

* Generated primarily by the forestry mill tax.

Table 6

Forestry Account Expenditures, by Type
FY 2000-01

<u>Expenditure Type</u>	<u>Total</u>	<u>Percentage of Total</u>
Salaries and fringe benefits	\$43,472,387	60.1%
Supplies and services	15,962,866	22.1
Local aids and capital purchases	9,449,555	13.1
Debt service	<u>3,386,334</u>	<u>4.7</u>
Total	\$72,271,142	100.0%

In FY 2000-01, 69.8 percent of positions supported by the Forestry Account were forestry positions.

As shown in Table 7, 449.7 FTE positions, or 69.8 percent, were forestry positions assigned to either the Division of Forestry or the Bureau of Parks. Of the remaining 194.4 FTE positions funded by the Forestry Account:

- 78.4 FTE positions (12.2 percent) were administration and technology positions;
- 70.6 FTE positions (10.9 percent) were land management positions;
- 35.7 FTE positions (5.6 percent) were customer assistance and external relations positions; and
- 9.7 FTE positions were research positions (1.5 percent).

The Legislature directly determines the number of forestry and wildlife management positions funded by the Forestry Account through the biennial budget process. For example, based on DNR's original budget request, the 1999-2001 Biennial Budget Act designated that 8.0 FTE wildlife management positions that had been funded by the Fish and Wildlife Account instead be funded by the Forestry Account. An additional 6.0 FTE forestry positions were authorized by the Legislature during budget deliberations, in part to address an increased workload in the Managed Forest Law program.

28.9 percent of DNR positions funded by the Forestry Account were funded through cost allocation.

Based on an allocation plan submitted to the Legislature's Joint Finance Committee, DNR officials determine the number of administrative and overhead positions to be funded from the Forestry Account. Because the amount of GPR available to support administrative and overhead costs has historically been inadequate to fund the share of administrative costs related to GPR-supported activities, other available funds make up the difference. In FY 2000-01, the costs of 186.4 (28.9 percent) of the 644.1 FTE positions funded by the Forestry Account were allocated to that account based on a methodology that DNR has developed to support department-wide costs such as personnel, budgeting, and information systems. Costs for the remaining 457.7 FTE positions—representing 449.7 FTE forestry positions and 8.0 FTE wildlife management positions—were charged directly to the Forestry Account rather than allocated to it.

Table 7

DNR Positions Funded by the Forestry Account
FY 2000-01

	<u>Number of FTEs</u>	<u>Percentage of Total</u>
Forestry		
Foresters, forest specialists, and forestry technicians	295.6	45.9%
Administrative and support staff	40.3	6.2
Managers and supervisors	35.2	5.5
Equipment and facilities staff	28.6	4.4
Forest rangers	22.9	3.6
Other	<u>27.1</u>	<u>4.2</u>
Subtotal	449.7	69.8
Administration and Technology		
Finance	19.6	3.0
Information technology	18.7	2.9
Field services	16.8	2.6
Human resources	12.7	2.0
Management and budget	3.9	0.6
General administration	3.7	0.6
Legal services	<u>3.0</u>	<u>0.5</u>
Subtotal	78.4	12.2
Land Management		
Lands program management	31.4	4.9
Facilities management	31.2	4.8
Wildlife management	<u>8.0</u>	<u>1.2</u>
Subtotal	70.6	10.9
Customer Assistance and External Relations		
Customer service and licensing	19.9	3.1
Community financial assistance	6.6	1.0
Communication and education	5.6	0.9
Customer assistance program management	<u>3.6</u>	<u>0.6</u>
Subtotal	35.7	5.6
Research		
	<u>9.7</u>	<u>1.5</u>
Total	644.1	100.0%

Expenditures Categorized by Purpose

In FY 2000-01, forestry activities accounted for 72.2 percent of all Forestry Account expenditures.

All Forestry Account expenditures can also be categorized according to the activities they support. In Table 8, we identify the main activity types and expenditures for FY 2000-01:

- \$52.2 million (72.2 percent) was spent for forestry activities, of which \$50.3 million was spent by DNR, and \$1.9 million was spent by other state agencies;
- \$12.2 million (16.9 percent) was spent for department-wide administration and support services;
- \$4.5 million (6.2 percent) supported activities that were not directly related to forestry efforts; and
- \$3.4 million (4.7 percent) was spent for debt service, primarily for the Stewardship Program.

Of the \$5.1 million in Forestry Account funds spent by state agencies other than DNR, \$1.9 million was for activities directly related to forestry, while \$3.2 million was not. A more detailed summary of forestry activities and all other Forestry Account expenditures by activity is provided in Appendix 2.

Table 8

Forestry Account Expenditures by Activity
FY 2000-01

	<u>Expenditures</u>	<u>Percentage of Total</u>
Forestry Activities		
Forestland management	\$ 7,720,251	10.7%
Fire control	7,441,262	10.3
Grants and aid	7,368,484	10.2
Forestry administration	6,460,468	8.9
Facilities and equipment management	6,317,905	8.7
Forest recreation	4,536,764	6.3
Tree cultivation, forest health, and ecology	2,963,738	4.1
Management of forest law programs	2,543,315	3.5
Forestry activities performed by other state agencies	1,932,447	2.7
Nursery operations	1,828,647	2.5
Public outreach and education	1,654,678	2.3
Research	795,578	1.1
Urban forestry	443,151	0.6
Forestry planning teams	108,850	0.2
Analysis and conservation activities	<u>85,253</u>	<u>0.1</u>
Subtotal	52,200,791	72.2
Department-wide Administration and Support Services	12,220,078	16.9
Activities Not Directly Related to Forestry		
Activities performed by other agencies*	3,202,000	4.4
Activities performed by DNR	<u>1,261,939</u>	<u>1.8</u>
Subtotal	4,463,939	6.2
Debt Service	<u>3,386,334</u>	<u>4.7</u>
Total	\$72,271,142	100.0%

* Estimated.

DNR Administrative Expenditures

In FY 2000-01, DNR charged the Forestry Account \$18.7 million in administrative costs.

As shown in Table 9, DNR's administrative costs funded by the Forestry Account are substantial; they totaled \$18.7 million in FY 2000-01 and represented 27.8 percent of all Forestry Account expenditures made by DNR. These costs included \$12.2 million in department-wide administration and support services primarily allocated through DNR's formula, and \$6.5 million in administrative costs for forestry activities charged directly to the Forestry Account.

Table 9

All DNR Administration Expenditures Funded by the Forestry Account

	<u>FY 2000-01</u>	<u>Percentage of Total</u>
Department-wide Administration and Support Services		
Allocation for administration and technology	\$ 7,081,156	37.9%
Allocation for land program management	2,670,884	14.3
Allocation for customer assistance and licensing	2,151,727	11.5
Direct charges for administration and support services	305,599	1.6
Direct charges for land program management	<u>10,712</u>	<u>0.1</u>
Subtotal	12,220,078	65.4
Forestry Administration		
General forestry administration	4,805,313	25.7
Budget and policy development	893,790	4.8
Personnel administration	512,136	2.8
Nursery administration	<u>249,229</u>	<u>1.3</u>
Subtotal	<u>6,460,468</u>	<u>34.6</u>
Total	\$18,680,546	100.0%
Total Forestry Account Expenditures Made by DNR	\$67,136,695	
Percentage of DNR's Forestry Account Expenditures Made for Administration	27.8%	

The percentage of allocated administrative costs funded by the Forestry Account increased from 58.7 percent in FY 1997-98 to 63.7 percent in FY 2000-01. Examples of administrative costs that the Forestry Account funded in FY 2000-01 include:

- 17.6 percent of all costs for the Division of Administration and Technology, which provides information systems and other administrative support to DNR programs;
- 15.0 percent of costs associated with DNR's customer assistance functions, including licensing and grants administration; and
- 9.0 percent of costs associated with DNR's integrated science services, or research, functions.

Since FY 1996-97, the number of administration and support positions has increased, while the number of forestry positions has decreased.

We question the extent to which these allocated costs reflect benefits to forestry-related activities and programs. For example, although the Forestry Account funded 15.0 percent of costs associated with DNR's customer service and licensing functions in FY 2000-01, we estimate that less than 3.5 percent of the revenue generated from the sale of licenses was deposited in the Forestry Account. In addition, while the number of DNR administrative and support positions funded by the Forestry Account increased from 148.7 to 176.7 FTE positions, or by 18.8 percent, the number of Forestry Account-funded DNR staff working directly on forestry-related activities declined 2.7 percent, from 462.3 FTE positions in FY 1996-97 to 449.7 FTE positions in FY 2000-01.

From FY 1997-98 to FY 2000-01, expenditures for personnel administration grew by 301.7 percent.

As noted, because the amount of GPR available to support administrative costs has historically been inadequate to fund the share of these costs that is related to GPR-supported activities, other funds available to DNR have had to make up the difference. Nevertheless, the level of administrative costs funded by the Forestry Account appears high, and some administrative costs grew substantially. For example, from FY 1997-98 to FY 2000-01:

- the largest area of growth was in administration and technology, for which costs allocated to the Forestry Account increased from \$5.9 million to \$7.1 million (20.3 percent);
- expenditures associated with personnel administration grew by 301.7 percent, from \$127,505 to \$512,136, which DNR officials attribute to the expansion of recruitment, hiring, and mentoring efforts related to forestry; and

- expenditures for budget and policy development grew by 95.2 percent, from \$457,861 to \$893,790, which DNR officials attribute to more precise recording of staff time, noting that in the past some of this time had been recorded in a general work category.

DNR Activities Not Directly Related to Forestry

DNR expenditures not primarily benefiting forestry increased to \$1.3 million in FY 2000-01.

Some expenditures made by DNR from the Forestry Account are not directly related to forestry. As shown in Table 10, such expenditures increased 83.5 percent over three years, from \$687,624 in FY 1997-98 to \$1.3 million in FY 2000-01. Of the \$574,315 overall increase in expenditures that do not directly relate to forestry, \$455,400 (79.3 percent) was for costs associated with the 8.0 existing FTE wildlife management positions that DNR requested be funded by the Forestry Account rather than the Fish and Wildlife Account. The Legislature approved this request. For FY 2001-02, the number of wildlife management positions funded by the Forestry Account was reduced from 8.0 to 2.5 FTE positions in 2001 Wisconsin Act 16.

Table 10

DNR Activities Not Directly Related to Forestry

<u>Category of Activity</u>	<u>FY 1997-98 Forestry Account Expenditures</u>	<u>FY 2000-01 Forestry Account Expenditures</u>	<u>Percentage Change</u>
Wildlife	\$505,675	\$ 855,827*	69.2%
Grants	0	154,994	—
Endangered resources	70,303	116,680	66.0
State parks	70,441	106,712	51.5
Fisheries	8,216	19,696	139.7
Water resources	14,814	5,971	-59.7
Air and waste management	<u>18,175</u>	<u>2,059</u>	-88.7
Total	\$687,624	\$1,261,939	83.5

* Includes \$455,400 for 8.0 existing FTE wildlife management positions authorized to be funded by the Forestry Account, rather than the Fish and Wildlife Account. For FY 2001-02, the number of wildlife management positions funded by the Forestry Account was reduced from 8.0 to 2.5 FTE positions.

Examples of charges to the Forestry Account in FY 2000-01 that were not directly related to forestry include:

- \$154,994 for grants to conservation organizations related to land acquisition and wildlife habitat conservation;
- \$27,164 to register deer, bear, and turkeys;
- \$16,156 to conduct wildlife surveys;
- \$13,276 for construction and maintenance of flood barriers; and
- \$1,461 for hazardous spills program development.

In addition, concerns have been raised about a number of activities included in 2001 Wisconsin Act 16, the 2001-03 Biennial Budget Act, that are designated to be funded by the Forestry Account but that do not appear to be directly or substantially related to forestry. In FY 2001-02, these include:

- \$39,422 for a public safety radio system;
- \$12,855 for an upgrade of DNR's payroll system; and
- \$7,786 for support staff to administer grant management programs, including the Warren Knowles-Gaylord Nelson Stewardship Program and a lakes and rivers grant program.

DNR officials acknowledge that some forestry staff time is spent on non-forestry programs but contend that non-forestry staff also contribute a portion of their time to directly support forestry activities. To analyze the extent to which this was occurring, we reviewed DNR's time-reporting records. Every two weeks, DNR staff report their hours worked on specific activities and the program area that received the primary benefit of each activity. We found that since FY 1997-98, forestry staff reported spending more than 96 percent of their time performing activities directly related to forestry, and less than 4 percent performing activities that primarily benefited programs such as wildlife management and endangered resources.

Forestry staff reported more hours for non-forestry activities than non-forestry staff reported for forestry.

However, we also found that since at least FY 1997-98, forestry staff reported spending more hours supporting the efforts of non-forestry activities than non-forestry staff reported spending in support of forestry. This has resulted in a net reduction in the amount of staff time spent on forestry. As shown in Table 11, the net loss to forestry-related activities has ranged from a low of 1.6 FTE positions in FY 1997-98 to a high of 4.3 FTE positions in FY 1999-2000. In FY 2000-01, there was a net loss of 7,137 hours to forestry, representing the equivalent of 3.4 FTE forestry staff spending time on work that was not directly related to forestry.

Table 11

Loss of DNR Staff Time from Forestry Activities

<u>Fiscal Year</u>	<u>Forestry Hours Reported by Non-Forestry Staff</u>	<u>Hours Not Directly Related to Forestry Reported by Forestry Staff</u>	<u>Hours Lost from Forestry</u>	<u>Net Loss to Forestry (FTEs)</u>
1997-98	30,349	33,718	-3,369	-1.6
1998-99	31,329	39,400	-8,071	-3.9
1999-2000	31,491	40,410	-8,919	-4.3
2000-01	30,800	37,937	-7,137	-3.4

Forestry Account Expenditures Made by Other State Agencies

Although DNR accounts for the majority of Forestry Account expenditures, the Forestry Account also funds activities in eight other state agencies. Some of the expenditures made by other agencies provide direct benefits to the State's forestry efforts, while others do not.

The Wisconsin Conservation Corps spent approximately two-thirds of the Forestry Account funds spent outside DNR.

Expenditures made from the Forestry Account by agencies other than DNR increased from \$4.1 million in FY 1997-98 to \$5.1 million in FY 2000-01, or by 24.4 percent. As a percentage of total Forestry Account expenditures, other agencies' expenditures increased from 6.5 percent in FY 1997-98 to 7.1 percent in FY 2000-01. As shown in Table 12, the Wisconsin Conservation Corps, which provides employment for young adults, accounted for approximately two-thirds of the Forestry Account funds spent outside DNR in both FY 1997-98 and FY 2000-01. An average of approximately 25 percent of Forestry Account expenditures not made by DNR were made by the Department of Agriculture, Trade and Consumer Protection to control gypsy moths, an invasive species that can defoliate large areas of forest. In total, the remaining six agencies that spent Forestry Account funds accounted for approximately 11 percent of all expenditures made outside of DNR in FY 2000-01.

Table 12

Forestry Account Expenditures by State Agencies Other than DNR

<u>Agency</u>	<u>Activity</u>	<u>FY 1997-98</u>	<u>FY 2000-01</u>
Wisconsin Conservation Corps	Statewide Conservation Projects	\$2,791,078	\$3,398,065
Department of Agriculture, Trade and Consumer Protection	Gypsy Moth and Insect Pest Control	1,075,154	1,178,140
Department of Tourism	Kickapoo Management Board Operations	194,163	209,702
Wisconsin Environmental Education Board	Forestry Education Grant	10,822	151,458
Department of Commerce	Forestry Education Grant	0	79,989
University of Wisconsin Extension	Assistance to Forestry Cooperatives	0	51,421
Wisconsin Historical Society	Interpretive Programming	5,330	33,700
Lower Wisconsin State Riverway Board	Board Operations	<u>0</u>	<u>31,972</u>
Total		\$4,076,547	\$5,134,447

In FY 2000-01, seven other agencies spent \$1.9 million for activities that directly benefited forestry.

We reviewed the activities funded by the Forestry Account in each of these agencies and found that most agencies' expenditures appear to have provided some direct benefit to the State's forestry efforts. Seven agencies' expenditures for activities that directly benefited forestry totaled \$1.9 million in FY 2000-01, accounting for 2.7 percent of all Forestry Account expenditures.

In FY 2000-01, the largest expenditure directly benefiting forestry was the Department of Agriculture, Trade and Consumer Protection's \$1.2 million to control gypsy moths and other insect pests. Forestry Account funds are used to conduct surveys of gypsy moth populations, contract for aerial spraying to slow their spread, and inspect nurseries and other tree growers for the presence of insect pests. Although Forestry Account funding for gypsy moth control has been provided since the early 1990s, funding for nursery and grower inspections was first authorized by 1999 Wisconsin Act 9.

The forestry education grants for which the Department of Commerce and the Wisconsin Environmental Education Board expended a total of \$231,447 in FY 2000-01 are intended to integrate forestry education into school curricula and to encourage schoolchildren to develop an understanding of forestry, thereby enhancing future opportunities for preservation and development of forests in the state. They were authorized by 1997 Wisconsin Act 27, which also authorized the expenditure of Forestry Account funds to support the Lower Wisconsin State Riverway Board and the Kickapoo Valley Reserve Management Board. In FY 2000-01, the Forestry Account supported 25 percent of operational costs for the Lower Wisconsin Riverway Board, which regulates land use and issues timber harvest and other permits for approximately 80,000 acres of public and private land surrounding 92 miles of the lower Wisconsin River in Crawford, Dane, Grant, Iowa, Richland, and Sauk Counties. In addition, the Forestry Account supported 46.9 percent of the FY 2000-01 operational costs for the Kickapoo Valley Reserve Management Board, which manages recreational opportunities and land resources, including timber harvests and other timber-related activities, in approximately 8,600 state-owned acres in Vernon County, of which 75 percent is forested.

Finally, 1999 Wisconsin Act 9 authorized the expenditure of Forestry Account funds to support a University of Wisconsin Extension program to offer technical assistance to forestry cooperatives, which consist primarily of private owners of forested land who join together for purposes such as marketing, wood processing, and equipment ownership. Forestry Account funds are used to contract with a nonprofit organization for assistance in business plan development, drafting of cooperative bylaws, and administrative support.

\$3.2 million that the Conservation Corps spent in FY 2000-01 does not appear to be directly related to forestry.

In contrast to these agencies' expenditures that provided direct benefits to the State's forestry efforts, we identified expenditures made by other state agencies that appear to provide limited or no direct benefit to forestry. First, in FY 2000-01, the Wisconsin Historical Society spent \$33,700 from the Forestry Account to fund an interpretive programming position at the Northern Great Lakes Visitor Center that is primarily responsible for responding to visitor inquiries about regional tourism opportunities, heritage issues, and state forests and parks, but also acts as a liaison between the Wisconsin Historical Society and DNR. This 1.0 FTE position was shifted from DNR to the Wisconsin Historical Society and funded from the Forestry Account under 1997 Wisconsin Act 27. Second, and more significantly, we estimate of the \$3.4 million in Forestry Account funds the Wisconsin Conservation Corps spent in FY 2000-01, only \$230,000 was directly related to forestry, while \$3.2 million was not.

As shown in Table 13, \$3.4 million in Forestry Account funding covered 60.3 percent of the Conservation Corps' FY 2000-01 expenditures. In that year, the Conservation Corps operated approximately 50 work crews consisting of five to seven persons.

Table 13

**Wisconsin Conservation Corps' Expenditures, by Source
FY 2000-01**

<u>Source</u>	<u>Expenditures</u>	<u>Percentage of Expenditures</u>
Forestry Account	\$3,398,065	60.3%
GPR	1,580,876	28.1
Program revenue	406,268	7.2
Other segregated funds and accounts	222,846	4.0
Federal revenue	<u>22,000</u>	<u>0.4</u>
Total	\$5,630,055	100.0%

The Conservation Corps was established by 1983 Wisconsin Act 27, and in the 1983-85 biennium its entire operating budget was funded by the Forestry Account. Since that time it has relied on a number of funding sources, but the Forestry Account is currently the largest. However, we estimate that only 6.8 percent of all crew activities performed from January through October 2001, the only period for which information on crew activities has been tracked, were directly related to forestry, such as planting and mulching trees, collecting seeds, and assisting in state tree nursery operations. Other crew activities that were not directly related to forestry include:

- stabilizing dams and constructing bird houses for Florence County;
- developing trails, installing a fishing pier, and constructing a salt storage shed for the City of Ashland;
- renovating campsites and constructing picnic tables for Sheboygan County; and
- completing weatherization projects, constructing porches, and performing electrical work in low-income housing for the Transcenter for Youth, Inc., a nonprofit organization based in Milwaukee.

Forestry Account support for the Conservation Corps totals \$3.1 million in FY 2001-02, and the Legislature had appropriated \$2.8 million from the Forestry Account to help fund the Conservation Corps in FY 2002-03. However, the Governor's veto of a separate Department of Forestry eliminated Forestry Account funding for the Conservation Corps. Consequently, the Legislature will need to address the level of FY 2002-03 funding to be provided to the Conservation Corps from the Forestry Account.

Stewardship Debt Service

Appropriations from the Forestry Account fund debt service for facilities housing forestry staff, as well as a portion of debt service payments for the Warren Knowles-Gaylord Nelson Stewardship Program. The Stewardship Program was created by 1989 Wisconsin Act 31 and was extended through FY 2009-10 by 1999 Wisconsin Act 9. Under the Stewardship Program, DNR uses proceeds from general obligation bonds to purchase and develop natural areas and to award grants to local governments and nonprofit organizations for the purchase and development of natural areas. Of the almost \$3.4 million in Forestry Account funds spent on debt service in FY 2000-01, \$3.0 million (88.2 percent) was related to the Stewardship Program.

The Forestry Account has funded \$23.4 million in Stewardship debt service costs.

Before FY 1997-98, all debt service costs for the Stewardship Program were funded with GPR. Since FY 1997-98, funding for Stewardship debt service costs has shifted to a combination of GPR, the Forestry Account, and the Water Resources Account of the Conservation Fund. Since the Stewardship Program began, the Forestry Account has funded \$23.4 million (27.9 percent) of its debt service costs, as shown in Table 14.

Table 14

Source of Revenue for Stewardship Debt Service Costs

<u>Fiscal Year</u>	<u>GPR</u>	<u>Forestry Account</u>	<u>Water Resources Account</u>	<u>Total</u>
Before FY 1997-98	\$27,338,136	\$ 0	\$ 0	\$27,338,136
1997-98	3,897,474	8,700,000	225,000	12,822,474
1998-99	3,384,628	8,700,000	225,000	12,309,628
1999-00	11,221,839	3,000,000	0	14,221,839
2000-01	<u>14,259,938</u>	<u>3,000,000</u>	<u>0</u>	<u>17,259,938</u>
Total	\$60,102,015	\$23,400,000	\$450,000	\$83,952,015
Percentage of Total	71.6%	27.9%	0.5%	100.0%

The Legislature will need to address Forestry Account funding for the Stewardship Program.

1997 Wisconsin Act 27, the 1997-99 Biennial Budget Act, appropriated \$8.7 million in Forestry Account revenue in each year of that biennium to fund Stewardship debt service costs, increasing by \$700,000 annually the amount of Forestry Account revenue the Governor had proposed to be dedicated for this purpose. Under 1999 Wisconsin Act 9, the Legislature shifted \$3.0 million in funding for Stewardship debt service costs from GPR to the Forestry Account for each year of the 1999-2001 biennium. For the 2001-03 biennium, Forestry Account funding for Stewardship debt service costs is budgeted at \$8.0 million in FY 2001-02 and had been budgeted at \$4.0 million for FY 2002-03 before the Governor's veto of a separate Department of Forestry. Consequently, the Legislature will also need to address the level of FY 2002-03 Forestry Account funding for the Stewardship program before the beginning of the next fiscal year.

In December 2001, the Legislature authorized spending \$25.0 million in Stewardship Program funds to establish the Peshtigo River State Forest.

In December 2001, the Joint Committee on Finance approved a Stewardship Program purchase of \$25.0 million for 9,239 acres of forestland in Marinette and Oconto Counties. The acquisition, which will form the new Peshtigo River State Forest, represents the largest purchase of state forests made through the Stewardship Program and increased from 9,738 acres to 18,977 acres, or by 94.9 percent, the amount of total state forestland purchased through the program. In addition to the new Peshtigo River State Forest, other state forest properties purchased through the Stewardship Program have included:

- \$3.6 million for a 1,907 acre addition to the Kettle Moraine State Forest;
- \$2.1 million for a 2,222 acre addition to the Northern Highland American Legion State Forest; and
- \$1.0 million for a 987 acre addition to the Black River State Forest.

Although s. 20.370(7)(au), Wis. Stats., requires that debt service appropriations from the Forestry Account be reserved for the principal and interest costs associated with state forest acquisition and development, until recently the Forestry Account had funded Stewardship debt service in excess of these costs. Through FY 2000-01, the Forestry Account had funded 27.9 percent of all Stewardship Program debt service costs, although only 8.5 percent of all Stewardship expenditures were for state forests. The purchase of the Peshtigo River State Forest substantially reduces the extent to which the Forestry Account funds Stewardship Program debt service costs in excess of state forest acquisition and development costs made through the program.

Revenue and Expenditures by Geographic Region

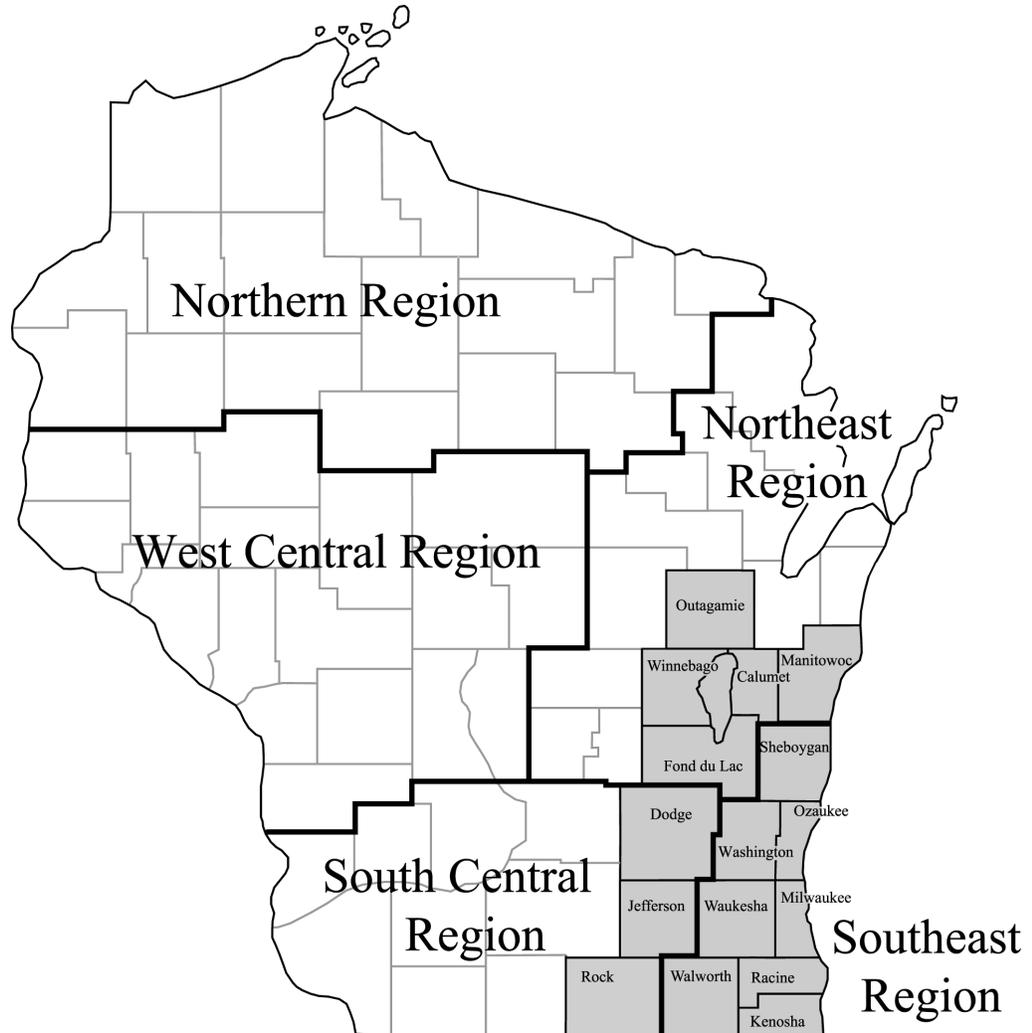
Questions have been raised about the relationship between where revenue is generated and where it is spent.

Some have questioned whether all regions of the State benefit equitably from the forestry mill tax. Statutes require that 12 percent of all forestry mill tax revenue be used to acquire and develop forests in a 16-county region of southeastern Wisconsin that consists of Calumet, Dodge, Fond du Lac, Jefferson, Kenosha, Manitowoc, Milwaukee, Outagamie, Ozaukee, Racine, Rock, Sheboygan, Walworth, Washington, Waukesha, and Winnebago counties. However, DNR does not track expenditures by county and does not have a formal process to ensure that at least 12 percent of forestry mill tax revenue is spent within the 16-county area. Forestry mill tax revenues generated by each county can be estimated, but expenditures cannot be isolated by county.

As shown in Figure 2, the 16-county region defined in statutes overlaps with 3 of the 5 geographic regions into which DNR has divided the state for administrative purposes.

Figure 2

Counties Required to Receive a Proportion of Forestry Mill Tax Expenditures



In the absence of county-specific information, we focused our analysis on a comparison of the direct expenditures made for DNR’s five regions. Total expenditures are substantially lower than revenues because we included only those direct expenditures made for the benefit of a specific DNR region. Of the \$47.6 million in FY 2000-01 Forestry Account expenditures not allocated by a formula, only \$27.6 million was associated with a specific DNR region.

At 39.1 percent, we estimate that taxpayers living in DNR’s Southeast region generated the largest share of forestry mill tax revenue.

Among the five regions, we estimate the Southeast Region—which includes Kenosha, Milwaukee, Ozaukee, Racine, Sheboygan, Walworth, Washington, and Waukesha counties—contributed the most revenue. As shown in Table 15, its \$22.4 million represented 39.1 percent of the forestry mill tax revenue collected statewide, but only 16.3 percent of expenditures associated with a specific DNR region. In contrast, we estimate the Northern Region contributed only 9.1 percent of all forestry mill tax revenue but accounted for 43.1 percent of expenditures. Some suggest that this relationship is to be expected because Forestry Account funds should be spent in areas having the greatest amount of forestland, which is in northern Wisconsin. Furthermore, although much of the revenue used to support forestry is generated by residents of southeastern Wisconsin, many of these residents also make use of the recreational opportunities provided by northern state forests.

Table 15

Comparison of Revenues and Expenditures by DNR Region
 FY 2000-01
 (in millions)

<u>DNR Region</u>	<u>Estimated Mill Tax Revenue Contributed</u>	<u>Percentage of Mill Tax Revenue</u>	<u>Expenditures*</u>	<u>Percentage of Expenditures</u>
Southeast Region	\$22.4	39.1%	\$ 4.5	16.3%
Northeast Region	10.9	19.1	3.6	13.0
South Central Region	10.8	19.0	2.0	7.3
West Central Region	7.9	13.7	5.6	20.3
Northern Region	<u>5.2</u>	<u>9.1</u>	<u>11.9</u>	<u>43.1</u>
Total	\$57.2	100.0%	\$27.6	100.0%

* Does not include \$20.0 million in central office expenditures and expenditures for which the benefit could not be associated with a specific DNR region.

Assuming that the \$20.0 million in direct Forestry Account expenditures for DNR's central office and other costs that we did not allocate among DNR regions benefited each of its regions in a relatively proportional manner, it appears likely that DNR is spending more than the minimum of 12 percent of forestry mill tax revenues for the benefit of the 16-county area in southeastern Wisconsin, as required by statutes. We note, also, that urban areas also benefit from Forestry Account expenditures. For example, in FY 2000-01, DNR:

- spent \$4.5 million on its southern forest properties, including the Kettle Moraine State Forest and the Bong-Big Foot recreational area, which provide recreational opportunities such as hunting, fishing, hiking, biking, snowmobiling, horseback riding, and camping; and
- provided \$75,000 to the Urban Open Space Foundation, a conservation organization located in Madison that promotes urban forest protection in the Madison and Milwaukee areas.

In addition, the 2001-03 Biennial Budget Act appropriated \$400,000 from the Forestry Account for preliminary planning to develop the Forestry Demonstration and Education Center in Milwaukee County. The Center is intended to demonstrate proper forestry practices and to educate the public on forestry issues. Overall project costs are estimated to be between \$15 and \$30 million over a period of four or more years for the provision of demonstration areas, buildings, and infrastructure associated with a proposed 110-acre state forest property.

Finally, we note that DNR officials believe the perception that most of the forest-related jobs are located in the areas of the state having the most forestland is inaccurate. For example, a 1997 economic benefit study cited by DNR found that 16 counties in southeast Wisconsin are home to approximately 47 percent of jobs in the forest product sector.

Organizational Issues

1999 Wisconsin Act 9 created a Division of Forestry within DNR.

DNR's Division of Forestry was created by 1999 Wisconsin Act 9, the 1999-2001 Biennial Budget Act. In establishing the Division of Forestry, the Legislature intended to address concerns raised by the forest industry and interest groups that believed forestry issues were receiving inadequate attention. However, concerns have been raised about the extent to which the full intent behind the creation of a Division of Forestry has been realized. For example, some have suggested that:

- supervisors who are responsible for overseeing staff from a variety of fields, such as forestry, wildlife management, fisheries management, and endangered resources, may not have the scientific expertise to quickly make decisions that involve technical issues; and
- the Chief State Forester, who heads the Division of Forestry, does not have direct line authority over all forestry staff located around the state.

In December 2001, DNR officials announced plans for another reorganization.

In December 2001, DNR officials undertook a series of initiatives that elevated the status of organizational units related to forestry. For example, three sections within the Bureau of Forestry were elevated to Bureaus within the Division of Forestry. In addition, DNR officials announced plans to again reorganize the agency and released two possible models for restructuring. The decision to reorganize was based, in part, on the concerns of forestry staff and staff in other disciplines about the effects of the 1995 reorganization, which organized staff according to new geographic boundaries called geographic management units.

Care is needed to ensure any DNR reorganization does not unnecessarily increase administrative costs.

The effects of any reorganization on the Division of Forestry's operations are unknown at this time. Under one of the proposals, forestry field staff would report to a program team leader with technical competencies in forestry, rather than to a team leader whose expertise may be in areas other than forestry. Another proposal would create separate regional leader positions, a regional land leader and a regional forestry leader, which some suggest would provide for a stronger connection between the regional forestry leader, the regional director, and the Chief State Forester. DNR anticipates advancing its proposal for reorganization to the Department of Administration in early 2002. In considering it or other options for reorganizing DNR, the effect on administrative costs will need to be considered.

Managed Forest Law Program

Tax programs encourage the growth of future commercial forest crops through sound forestry practices.

The Managed Forest Law program is the third of three voluntary programs created by the Legislature to encourage growth of future commercial forest crops through sound forestry practices on private lands owned by individuals and companies. Enrolled landowners agree to perform practices that are intended to promote sustainable forestry, such as harvesting mature trees and thinning trees to improve growing conditions, in exchange for significant property tax relief. Program applications increased significantly in both 2000 and 2001, and more than 2.0 million acres were enrolled in the program as of 2001. However, some have questioned whether the program is accomplishing its public policy and environmental objectives because an increasing amount of enrolled land is closed to public access, and the additional time needed to process the growing number of applications has contributed to a backlog of unperformed forestland management practices.

Establishment of Forest Tax Law Programs

The last Forest Crop Law contract will expire in 2035.

The first of the three forest tax law programs, the Forest Crop Law program, was enacted by ch. 454, Laws of 1927. At the close of FY 2000-01, 448,589 acres remained enrolled in the program, which allows owners of 40 or more acres of forestland to enroll their land for a period of 25 or 50 years. The program was closed to new entrants in 1985, and its last contract will expire in 2035. Since 1972, Forest Crop Law program participants have paid an annual fee of \$0.83 per acre in lieu of paying assessed property taxes to their local governments. In addition, 10.0 percent of the value of any timber harvest is distributed among the State, the municipality, and the county. In exchange for the property tax reduction, landowners agree to keep their forestland open to the public for hunting and fishing and to perform required forestland management activities according to schedules developed by DNR.

The last Woodland Tax Law contract expired in 2000.

The Woodland Tax Law program, which was established by ch. 384, Laws of 1953, was closed to new entrants in 1985, and its last contract expired in 2000. This program allowed landowners with a minimum of 10 acres of forestland to enroll for a fixed period of 15 years. In lieu of assessed property taxes, participants paid their local governments \$1.67 for each acre enrolled, and no taxes were assessed on timber harvests. As a condition of enrollment, landowners agreed to follow a plan of activities developed by a DNR forester, but they were not required to open their land to public access.

The Managed Forest Law program was established in 1985.

The current program, which remains open to new applicants, is the Managed Forest Law program. This program was established in 1985 Wisconsin Act 29 and is intended to expand the previous forest tax law programs by:

- broadening program appeal to landowners;
- opening more private forestland to public access;
- increasing natural resource management by implementing more stringent forestland management plans; and
- simplifying program administration.

Rather than assessed property taxes, enrolled landowners in the Managed Forest Law program pay an annual tax of \$0.74 per acre.

In lieu of assessed property taxes, landowners enrolled in the Managed Forest Law program pay their local governments an annual property tax of \$0.74 per acre. They pay an additional \$1.00 for each acre, up to an 80-acre maximum per municipality, that they choose to close to public access. These revenues are deposited in the Forestry Account. A 5.0 percent tax is levied by the State on all timber harvested on enrolled forestland, which is used to help offset lost tax revenues. As a condition of participation, enrollees are required to submit and follow management plans intended to result in sound forestry practices.

Appendix 3 provides comparative data on the three forest tax law programs.

Program Enrollment

The Managed Forest Law program is available to industrial forestland owners—defined as companies that own forestland and individuals who own more than 1,000 acres—and to non-industrial private forestland owners. The program requires that at least 80 percent of any enrolled parcel be capable of producing forest products. In addition, forestland owners must own a minimum of ten contiguous forested acres in order to qualify for enrollment. Developing forestland for primary residences, commercial purposes, or recreational purposes that inhibit forestry is not permitted under the program.

Applications to the program are due by January 31 of each year. By November 20 of each year, DNR is required to notify municipal tax clerks of the forestlands that qualify for enrollment and thus are eligible for tax benefits beginning the following year. Therefore, a landowner applying in January 2002 would begin to accrue benefits in January 2003, which would be reflected on the owner's 2003 property tax bill. DNR is responsible for collecting application and transfer fees, which are currently \$20 per application or transfer; for processing applications and transfers; and for ensuring municipal, county, and state officials are informed of the forestlands enrolled in the program. The revenue generated from the fees DNR collects is used to fund the costs that county registers of deeds incur to record changes related to enrolled forestland.

Between 1997 and 2001, the number of program applications increased by 77.6 percent.

As shown in Table 16, the number of Managed Forest Law applications increased from 1,831 in 1997 to 3,251 in 2001, which is an increase of 77.6 percent. The number of applications by private, non-industrial forestland owners increased by 87.7 percent. Despite the significant increase in enrollments, there is currently no backlog in processing Managed Forest Law program applications. DNR officials indicate that every eligible landowner who applied for program participation was enrolled in a timely manner.

Table 16

Managed Forest Law Applications

<u>Year</u>	<u>Number of Industrial Applications</u>	<u>Number of Non-Industrial Applications</u>	<u>Total</u>	<u>Percentage Change in Number of Applications</u>
1997	132	1,699	1,831	—
1998	44	1,821	1,865	1.9 %
1999	32	1,637	1,669	(10.5)
2000	15	2,707	2,722	63.1
2001	62	3,189	3,251	19.4

The primary interest in program enrollment is to obtain property tax relief.

DNR officials believe property tax relief is the main reason for the increase in Managed Forest Law program enrollment. This is not surprising, given that the Department of Revenue estimated in 1990 that landowners receive, on average, an 81.0 percent reduction in property taxes for forestland enrolled in the Managed Forest Law, Forest Crop Law, or Woodland Tax Law programs. Moreover, interest in property tax relief has been enhanced with the implementation of use-value assessment on agricultural land, which values farmland by its use rather than by its potential market value for development. As a result, farmland property taxes decreased, which required taxes on other land to increase in order to offset the loss of local property tax revenue from farmland. In 1999, the Legislative Fiscal Bureau estimated that taxes on forestland would increase by 9.0 percent with full implementation of use-value assessment in January 2000.

The following hypothetical example illustrates the monetary value to a landowner of participating in the Managed Forest Law program. In Oneida County, in which the largest number of forestland acres are enrolled, the owner of a 50-acre parcel in the Town of Lynne would have paid \$257.00 in 2000 local property taxes if the land had not been enrolled in the Managed Forest Law program. However, if the entire parcel had been enrolled in the program, the owner would have paid only \$37.00 in local property taxes, plus \$1.00 for each acre the owner chose to close to public access. The owner of a 50-acre parcel could have chosen to close the entire parcel to public access. Had he or she done so, as many owners do, the owner's 2000 property taxes would have totaled \$87.00, or 66.1 percent less than what the owner would have paid without enrolling in the program.

In 2001, 19.1 percent of all privately owned forestland was enrolled in the program.

As shown in Table 17, over 2.0 million acres of forestland were enrolled in the Managed Forest Law program in 2001. This land represents 19.1 percent of all privately owned forestland in Wisconsin. The 1.3 million non-industrial acres enrolled are owned by 24,231 non-industrial landowners. DNR officials indicate that the typical non-industrial participant enrolls 50 acres of land on which he or she does not reside, but instead uses primarily for recreational purposes. In general, each industrial participant enrolls a much larger number of acres in the program: while the 48 industrial owners represent only 0.2 percent of all participants, they hold 39.6 percent of all enrolled acres.

Table 17

**Ownership of Managed Forest Law Land
2001**

<u>Classification</u>	<u>Number of Participants</u>	<u>Number of Acres Enrolled</u>	<u>Percentage of Acres Enrolled</u>
Non-industrial private owners	24,231	1,255,680	60.4 %
Industrial owners	<u>48</u>	<u>824,519</u>	<u>39.6</u>
Total	24,279	2,080,199	100.0%

Effects of the Program on State and Local Revenues

Fewer property taxes are generated by land enrolled in the Managed Forest Law program.

The revenue generated by forestland enrolled in the Managed Forest Law program is less than what would have been generated by property taxes had the land not been enrolled in the program. The municipality in which the property owner's forestland is located retains 80.0 percent of the standard \$0.74 per acre fee levied on each acre of enrolled land and passes the remaining 20.0 percent on to the county. The State, through the Forestry Account, receives no revenue from the standard per acre fee but retains the entire \$1.00 per acre fee for closing land to public access. All entities involved receive a portion of revenue generated by the 5.0 percent tax on timber harvested on enrolled lands. The Forestry Account retains 50.0 percent of the total harvest tax revenue collected; the municipality receives 40.0 percent of the total and passes the remaining 10.0 percent on to the county. For example, in a case in which a forestland owner enrolled 50 acres (at \$0.74 per acre), closed all of these acres to public access (at \$1.00 per acre), and harvested timber with a value equal to the average timber sale for a non-industrial owner in 2001 (5.0 percent harvest tax totaling \$340.50), a total of \$427.50 in program costs would be paid by the owner. Of this amount:

- the State would receive \$220.25 (51.5 percent);
- the municipality would receive \$165.80 (38.8 percent);
and
- the county would receive \$41.45 (9.7 percent).

In addition to these revenues, counties, municipalities, and the State also receive revenue from withdrawal taxes and delinquent payments. A participant that withdraws enrolled land before the term of the contract expires is assessed a withdrawal tax equal to the greater of either: 1) the regular property taxes in the year before withdrawal, times the number of years enrolled, less any harvest taxes and other fees assessed; or 2) 5.0 percent of the value of the merchantable timber withdrawn. Fifty percent of the withdrawal tax amount is deposited into the Forestry Account, 40.0 percent is provided to the municipality, and 10.0 percent is provided to the county. If a landowner is delinquent in payment of harvest taxes, a 12.0 percent interest rate is charged, with all revenue deposited into the Forestry Account.

Municipalities and counties also receive state aids intended to replace some of the property tax revenue that is not generated by land enrolled in the program. The Forestry Account provides \$0.20 per acre enrolled in the program to each municipality, which then shares 20.0 percent of this value with the county. Based on the number of acres enrolled, another \$1.25 million of Forestry Account funding is distributed annually among counties with over 40,000 acres enrolled in the Managed Forest Law program, the Forest Crop Law program, or a combination of both. In FY 2000-01, 18 counties received this funding. Although enrolled forestland is also exempt from property taxes levied by school districts and technical colleges, there is no provision to compensate educational institutions for the property tax revenue foregone from land enrolled in the program.

Effects of Program Policies

The ability to close forestland to public access while still receiving a property tax reduction is another incentive for program participation. As noted, for an additional fee of \$1.00 per acre, participants are allowed to close to public access up to 80 acres of enrolled forestland per municipality. The remaining forestland must stay open to the public for multiple recreational purposes, including hunting, fishing, and cross-country skiing.

Participants may be dividing their land into smaller parcels to limit public access.

In 2001, a total of 1.2 million acres of forestland was open to public access that may not have been open absent the participation of landowners in the Managed Forest Law program. However, although the ability to close all or a portion of the land an owner enrolls is a program benefit intended by the Legislature, some private forestland owners and DNR staff with whom we spoke believe that a significant

number of participants are dividing their forestland into smaller parcels with different legal ownership in order to close more acreage to public access. In 2001, there were 19,981 Managed Forest Law entries under 80 acres in size. Of these entries, 16,147, or 80.8 percent, were closed to public access. This effect may not have been anticipated by the Legislature when it created the program. In addition, DNR forestry personnel have indicated that the division of forestland into smaller parcels increases their workload and makes it more difficult to manage the land effectively.

The number of acres in the program that are closed to public access has increased each year since 1997.

The documentation available did not permit us to determine the number of instances in which ownership of forestland had been divided, either in an attempt to limit public access or for other reasons. However, as shown in Table 18, while the percentage of industrial acreage that was closed to public access has generally declined since 1997, the percentage of non-industrial acres closed to public access has increased each year.

Table 18

Land Enrolled in the Managed Forest Law Program and Closed to Public Access

	<u>Calendar Year</u>	<u>Open Acres</u>	<u>Closed Acres</u>	<u>Total Acres</u>	<u>Percentage Closed</u>
Industrial	1997	171,004.9	2,235.4	173,240.2	1.3 %
	1998	297,845.7	2,802.0	300,647.7	0.9
	1999	840,029.8	4,256.7	844,286.5	0.5
	2000	834,550.6	4,339.4	838,890.0	0.5
	2001	819,664.0	4,854.8	824,518.8	0.6
Non-Industrial	1997	310,284.7	592,364.7	902,649.4	65.6
	1998	305,053.1	658,288.2	963,341.3	68.3
	1999	326,936.8	731,419.5	1,058,356.3	69.1
	2000	342,976.1	791,415.2	1,134,391.3	69.8
	2001	348,261.6	907,418.7	1,255,680.3	72.3

Managing Enrolled Forestland

As a condition of participating in the Managed Forest Law program, each industrial participant must submit a management commitment to DNR describing how the forestland will be managed and granting DNR access to any existing management plans of greater detail. These commitments are designed to provide industrial participants with flexibility in executing sound forestry practices in consideration of market variables, such as timber demand and price. Two DNR field specialists located in Tomahawk are expected to ensure that industrial participants adhere to their commitments and that sound forestry practices are performed; in addition, they monitor harvests and timber sales and educate industrial participants about the program.

All management commitments include a description of the landowner's management plan, including a summary of the forestry methods to be employed on each timber type, and a description of the landowner's management objectives, which must include production of future forest crops for commercial purposes using sound forestry practices, as well as watershed protection. Optional objectives include maintenance of the forestland for multiple uses, including recreation and conservation. The commitment must also outline how forestland management procedures and objectives will be updated and amended and must affirm that the landowner has consistent access to knowledgeable forestry personnel, as provided by internal company staff or private consultants.

Most of DNR's Managed Forest Law work relates to the development of management plans.

DNR staff's work relates primarily to the development and execution of management plans for non-industrial participants, who are required to manage their enrolled acreage through more formal, specific management plans. Although these plans indicate that landowners are responsible for ensuring management practices are completed on their enrolled land, most landowners request DNR staff to assist in arranging for completion of management practices, such as harvests and thinning timber stands, scheduled for their land. DNR staff provide this assistance as a service to program enrollees at no charge. DNR foresters did not record their time in a manner that enabled us to determine the number of staff who performed work exclusively associated with management practices for non-industrial participants.

During the application process for non-industrial participants, DNR foresters collect data in order to produce a plan. Participants have the option of developing their own management plans, writing a plan with assistance from DNR, or hiring a private forester to assist with plan development. Of the 3,251 applications in 2001, 199 were withdrawn during the process and did not have management plans completed. Of the 3,052 remaining applications requiring management plans for entry into the program in 2002, 2,983 had plans completed with assistance from DNR staff or private foresters under contract with DNR, and 69 had plans written by private foresters hired by the landowners.

Management plans identify mandatory forestry practices.

The management plans developed for non-industrial participants are intended to be specific to each parcel of forestland. However, each plan contains the same basic elements, including a statement of the overall management objectives of the landowner and a list of mandatory management practices the landowner agrees to complete. Section NR 46.18(2), Wis. Adm. Code, identifies five mandatory practices:

- harvesting timber, which is required to regenerate a stand of timber and can involve selective cutting or clear-cutting;
- thinning, which is performed to stimulate growth on higher-value trees by eliminating poorer trees;
- preparing a site for planting or to encourage natural regeneration, by activities such as removing brush and preparing the soil;
- improving a timber stand in order to allow one variety of tree to flourish rather than compete with others; and
- planting trees to increase the number of trees on a parcel of land.

In addition to the identified mandatory practices, other practices may be included as recommended practices in order to address a participant's individual priorities. For example, to maintain the productivity of forestland, a timber harvest may be identified as a mandatory practice, while maintenance of a particular stand of larger trees that are important to the participant may be identified as a recommended practice to address the participant's interest in fostering wildlife.

Increasing Workload

The workload associated with plan development has increased substantially.

DNR officials estimate that an average of 20 hours of a forester's time is needed to complete each management plan. Because of the increasing number of applications, and the resulting increase in the number of management plans to be written, DNR contracts with private foresters for assistance. In addition, the increase in applications has led DNR to request additional funding for the contracting of management plans in both 2000 and 2001. Of the 2,983 management plans completed by DNR in 2001 for entry into the program in 2002, 611 were completed under contract with private foresters, 171 of which were funded through a s. 13.10 emergency funding request that was approved in April 2001. In FY 2000-01, DNR spent \$440,677 to contract with private foresters. As shown in Table 19, the number of plans completed has increased substantially.

Table 19

Managed Forest Law Management Plans

<u>Calendar Year</u>	<u>Plans Completed by DNR Staff</u>	<u>Plans Completed by Contractors</u>	<u>Total Plans Completed by DNR</u>	<u>Percentage Change</u>
1997	1,849	94	1,943	—
1998	2,166	130	2,296	18.2%
1999	1,567	228	1,795	-21.8
2000	2,336	392	2,728	52.0
2001	2,372	611	2,983*	9.3

* An additional 69 management plans were written by private foresters hired by landowners, for a total of 3,052 in 2001.

An increasing percentage of staff time is reported for processing applications, which includes the completion of management plans.

The increase in the number of program participants has also increased DNR’s workload associated with ensuring that management practices required for enrolled forestland are actually completed. DNR officials indicate that every eligible landowner who applied for program participation was enrolled in time to receive tax benefits in the year for which application had been made; however, these efforts have limited the staff time available to address ongoing management responsibilities. As shown in Table 20, since FY 1997-98, application processing has represented an increasing percentage of the time DNR staff report spending on the Managed Forest Law program, which in FY 2000-01 accounted for 90.1 percent of all hours staff reported spending on the program. In addition, staff-reported effort for the program has grown from 41.0 FTE staff in FY 1996-97 to 50.5 FTE staff in 2000-01, or by 23.2 percent.

Table 20

Time Reported to Process Managed Forest Law Applications

<u>Fiscal Year</u>	<u>Hours Reported to Process Applications (FTE)</u>	<u>Total Program Hours Reported (FTE)</u>	<u>Percentage of Total Hours Reported to Process Applications</u>
1996-97	35.8	41.0	87.3%
1997-98	33.5	39.8	84.2
1998-99	34.6	40.7	85.0
1999-00	33.8	38.6	87.6
2000-01	45.5	50.5	90.1

As a result of the increasing percentage of time devoted to processing applications, a backlog in completing mandatory forestland practices has developed. Some of the overdue practices under the Managed Forest Law date back to when the first practices were due following the program’s inception. As shown in Table 21, data maintained by DNR indicate that a total of 12,404 practices, covering 187,165 acres, have not been completed in the years specified by their respective management plans.

Table 21

Number of Managed Forest Law Practices Overdue and Acreage Affected*

<u>Year</u>	<u>Number of Overdue Practices</u>	<u>Acreage Associated with Overdue Practices</u>
1987	23	286
1988	114	1,793
1989	142	2,121
1990	177	3,060
1991	199	2,937
1992	324	5,529
1993	507	7,248
1994	676	10,004
1995	1,132	16,288
1996	1,195	17,264
1997	1,436	20,504
1998	1,912	28,708
1999	1,460	22,059
2000	<u>3,107</u>	<u>49,364</u>
Total	12,404	187,165

* As of August 2, 2001.

It should be noted that some DNR foresters question the accuracy of the database that is used to track mandatory forestry practices. They have indicated the database may not be up-to-date. The database used to track plan information was implemented in 1997 and further refined and reintroduced to DNR foresters in March 2000. Some foresters told us they have not received the training needed to use the database adequately because that training has not been a priority.

Because of the large number of practices overdue and because specific information on overdue practices, such as which overdue practice pertains to which acre of enrolled land, is not centrally maintained by DNR, we were not readily able to test the accuracy of the information maintained in the database. However, at our request, DNR staff reviewed the 23 most overdue practices, those that have been overdue since 1987. Of these, ten practices (43.5 percent) had apparently still not been completed. Because the vast majority of practices have been overdue for a far shorter period of time, it is likely that the majority of practices that have been identified as overdue have not been completed.

5.3 percent of forestry management practices have been overdue for more than 10 years.

As shown in Table 22, of the 12,404 practices recorded as overdue, 655 (5.3 percent) have been overdue for 10 or more years. Moreover, over 50 percent of both the number of practices and the total acres associated with these practices have been overdue since at least 1998.

Table 22

Percentage of Managed Forest Law Practices Overdue By Year of Due Date*

<u>Calendar Years</u>	<u>Number of Overdue Practices</u>	<u>Percentage of Total Overdue Practices</u>	<u>Acreage with Overdue Practices</u>	<u>Percentage of Total Overdue Acres</u>
1987–1991	655	5.3%	10,197	5.5%
1992–1993	831	6.7	12,777	6.8
1994–1995	1,808	14.6	26,292	14.0
1996–1997	2,631	21.2	37,768	20.2
1998–1999	3,372	27.2	50,767	27.1
2000	<u>3,107</u>	<u>25.0</u>	<u>49,364</u>	<u>26.4</u>
Total	12,404	100.0%	187,165	100.0%

* As of August 2, 2001.

Approximately \$2.4 million in state and local revenue is being deferred as a result of overdue timber harvests.

Based on the intent of the Managed Forest Law program—to promote sustainable forestry and maintain production of forest products—existence of a backlog in mandatory practices may mean that some forestland is not being adequately managed and that all objectives of the program are not being met. In addition, the backlog of mandatory practices is of financial concern to the State and to local governments. As shown in Table 23, 37.9 percent of the existing backlog consists of uncompleted timber harvests, from which the State, counties, and municipalities receive a portion of revenues generated. Based on the acreage of backlogged harvest practices, the average volume per acre, and the average price per acre, and applying a 5.0 percent harvest tax, it is estimated that the current value deferred from tree harvests and thinnings totals approximately \$2.4 million: \$1.2 million for municipalities and counties in which the backlogged practices exist, and \$1.2 million for the State.

Table 23

Percentage of Managed Forest Law Overdue Practices by Practice Type*
Required through 2000

<u>Practice</u>	<u>Overdue Practices</u>	<u>Percentage</u>
Thinning	4,855	39.1%
Harvesting	4,704	37.9
Planting	1,210	9.8
Site preparation	966	7.8
Timber stand improvement	<u>669</u>	<u>5.4</u>
Total	12,404	100.0%

* As of August 2, 2001.

Because DNR does not track the number of practices completed, there is no way to determine the pace at which the backlog is being addressed. Furthermore, the data do not permit us to estimate the amount of effort required by DNR to complete the overdue practices, because the amount of work effort required is not consistent among practices or among acres affected by those practices.

In 2001, the Legislature authorized 23.0 additional FTE positions to help address ongoing workload concerns.

The 2001-03 Biennial Budget Act authorized 23.0 additional FTE forestry positions to be associated with the Managed Forest Law program and to provide assistance to private forestland owners. The state hiring freeze initiated in November 2001 has delayed filling these positions: DNR requested permission to do so but has not yet received a response from the Department of Administration. Consequently, it remains unclear when any of these positions will be filled. To ensure the Legislature has adequate information on the extent to which DNR has been successful in addressing the backlog, *we recommend that by January 1, 2003, the Department of Natural Resources report to the Joint Legislative Audit Committee and the Joint Committee on Finance on the extent to which it has been successful in reducing the number of overdue forest management practices, including information on the number and types of practices that remain overdue, as well as the number of acres of forestland associated with each type of practice.*

The Legislature may wish to address other concerns.

The Legislature also may wish to consider a number of options in addressing some of the concerns raised about the program:

- First, because landowner interest in closing enrolled forestland to public access has reduced the percentage of non-industrial forestland accessible for public recreational purposes, the Legislature may wish to make program modifications to encourage landowners to allow more land to remain open to public access. For example, some question whether the current fee of \$1.00 per acre creates an adequate incentive for participants to keep their enrolled forestland open to public access. The Legislature could consider increasing the per acre fee applied to closed lands.
- Another option the Legislature could consider is to amend statutes to change the manner in which forestland is closed to public access. For example, rather than permitting participants to close up to 80 acres of forestland, the Legislature could limit the amount closed by any participant to a specified percentage of the land enrolled. Although either of these options would likely increase the percentage of enrolled land open to public access, both are likely to be strongly opposed by landowners and may also serve to discourage some from participating in the program.
- Finally, the Legislature may wish to consider further changes to the program. For example, the State could generate additional revenues to cover program costs by increasing program application and transfer fees, increasing the percentage of revenue from timber harvests that program enrollees are expected to contribute, and increasing local aids with any revenue that may be generated from future fee increases.

Appendix 1

Ownership of Wisconsin Forestland, in Acres
1996

<u>County</u>	<u>Federal</u>	<u>State</u>	<u>County and Municipal</u>	<u>Corporate</u>	<u>Tribes</u>	<u>Private Individual</u>	<u>Total</u>
Adams	4,910	5,202	3,100	58,982	0	181,220	253,414
Ashland	195,367	14,980	51,500	63,100	29,400	184,566	538,913
Barron	0	4,100	11,900	4,300	0	133,673	153,973
Bayfield	265,173	16,800	164,726	91,980	0	256,249	794,928
Brown	0	990	4,100	2,100	2,200	37,524	46,914
Buffalo	4,288	5,775	0	7,300	0	172,022	189,385
Burnett	14,006	32,463	78,936	1,800	1,900	191,722	320,827
Calumet	0	834	0	2,400	0	14,384	17,618
Chippewa	0	6,190	26,623	0	0	199,772	232,585
Clark	0	0	128,542	16,340	0	176,225	321,107
Columbia	0	7,036	0	9,200	0	81,669	97,905
Crawford	7,800	5,000	3,800	0	0	167,641	184,241
Dane	0	2,720	2,600	4,740	0	71,818	81,878
Dodge	0	50	0	5,600	0	34,063	39,713
Door	0	12,197	0	12,474	0	89,201	113,872
Douglas	1,524	39,900	221,330	126,625	0	260,042	649,421
Dunn	0	17,400	0	0	0	167,878	185,278
Eau Claire	0	0	53,598	0	0	109,007	162,605
Florence	78,971	0	32,215	76,609	0	85,733	273,528
Fond du Lac	0	5,470	2,457	10,206	0	15,061	33,194
Forest	332,103	10,000	0	123,132	5,300	121,993	592,528
Grant	2,444	11,080	2,500	0	0	179,488	195,512
Green	0	420	3,425	0	0	36,512	40,357
Green Lake	0	316	0	1,403	0	28,683	30,402
Iowa	283	4,948	0	8,900	0	125,602	139,733
Iron	0	41,660	175,828	104,429	9,100	110,431	441,448
Jackson	0	52,577	94,976	35,682	0	183,477	366,712
Jefferson	0	6,941	0	0	0	40,394	47,335
Juneau	38,307	7,260	22,771	18,800	0	184,826	271,964
Kenosha	0	0	1,800	7,705	0	14,329	23,834
Kewaunee	3,400	0	0	8,900	0	32,946	45,246
La Crosse	5,200	11,137	2,600	2,600	0	114,940	136,477
Lafayette	0	5,700	0	1,698	0	31,392	38,790
Langlade	29,100	20,494	130,225	49,655	0	179,873	409,347
Lincoln	0	3,500	87,858	65,147	0	240,503	397,008
Manitowoc	0	4,400	700	0	0	62,561	67,661

<u>County</u>	<u>Federal</u>	<u>State</u>	<u>County and Municipal</u>	<u>Corporate</u>	<u>Tribes</u>	<u>Private Individual</u>	<u>Total</u>
Marathon	0	12,699	37,939	35,047	0	290,096	375,781
Marinette	0	6,800	275,759	64,713	0	313,089	660,361
Marquette	0	3,900	0	513	0	91,386	95,799
Menominee	0	0	0	1,300	214,598	0	215,898
Milwaukee	0	0	4,028	4,072	0	0	8,100
Monroe	58,278	0	9,451	10,500	0	194,677	272,906
Oconto	135,033	0	30,008	16,170	0	201,375	382,586
Oneida	10,904	58,331	74,145	232,363	0	197,600	573,343
Outagamie	0	3,440	1,544	7,400	0	54,900	67,284
Ozaukee	0	3,000	0	2,500	0	16,305	21,805
Pepin	0	4,700	211	3,100	0	53,079	61,090
Pierce	0	2,000	0	5,278	0	90,680	97,958
Polk	7,195	7,000	34,568	14,457	0	194,221	257,441
Portage	0	11,600	2,300	14,685	0	145,191	173,776
Price	132,492	22,261	73,465	87,612	0	285,152	600,982
Racine	0	4,000	0	0	0	14,786	18,786
Richland	0	6,600	0	0	0	160,235	166,835
Rock	0	0	1,002	2,300	0	32,252	35,554
Rusk	0	9,900	92,357	70,739	0	212,423	385,419
Sauk	527	11,500	456	7,089	0	59,461	79,033
Sawyer	2,400	28,277	2,400	14,196	0	148,105	195,378
Shawano	133,707	50,417	108,078	113,414	49,800	222,216	677,632
Sheboygan	0	7,072	0	17,300	6,500	242,261	273,133
St. Croix	0	16,901	3,391	0	0	41,881	62,173
Taylor	110,520	3,600	16,000	15,215	0	222,699	368,034
Trempealeau	0	4,350	0	8,200	0	160,704	173,254
Vernon	14,600	9,353	0	6,800	0	194,420	225,173
Vilas	49,300	126,596	38,019	34,690	38,071	179,646	466,322
Walworth	0	7,500	0	5,579	0	26,021	39,100
Washburn	3,600	6,586	136,362	28,557	0	192,700	367,805
Washington	0	2,629	0	0	0	49,258	51,887
Waukesha	0	9,494	1,600	3,292	0	25,860	40,246
Waupaca	0	8,903	0	14,000	0	160,566	183,469
Waushara	0	9,664	1,858	5,506	0	110,596	127,624
Winnebago	0	0	0	0	0	20,053	20,053
Wood	<u>1,422</u>	<u>6,731</u>	<u>47,309</u>	<u>31,978</u>	<u>0</u>	<u>127,916</u>	<u>215,356</u>
State Total	1,642,854	823,344	2,300,360	1,800,372	356,869	9,049,230	15,973,029

Source: 1996 United States Department of Agriculture Forest Service Forest Inventory Analysis.

Appendix 2

Forestry Account Expenditures by Activity Type
FY 2000-01

<u>Activity</u>	<u>Description</u>	<u>Expenditures</u>
<u>Forestry Activities</u>		
Forestland management	Forestland planning	\$ 3,319,121
	Provide sustained yield of forest products	1,902,945
	Timber sale management	618,713
	Training	499,098
	Management of cost-sharing for federal programs	415,238
	Reforestation	282,563
	Northern forest productivity projects	182,370
	Land control and acquisition	109,810
	Forest water quality improvement	108,618
	Radio maintenance	85,149
	Improve timber quality and growth	72,389
	Forest productivity projects—other	36,192
	County forest GIS projects	34,489
	Forest ecosystem management	29,521
Cooperative consulting forester program	24,035	
Subtotal		7,720,251
Fire control	Presuppression activities, such as recruiting and equipping emergency fire wardens	1,919,856
	Fire management training for DNR staff	1,121,004
	Fire suppression	1,108,630
	Firefighting assistance to other states	1,033,297
	Research and development of fire equipment	928,572
	Fire prevention improvement	340,030
	Aerial fire suppression	273,344
	Forest fire detection	210,508
	Assistance to rural fire departments	147,754
	Maintenance of the Uniform Fire Weather and Fire Reporting systems	101,443
	Prescribed burning	95,202
	Purchase and maintenance of firefighting equipment, Tomahawk warehouse	43,564
	Education and training delivery by DNR staff	27,748
	Incident Command System (ICS) implementation	26,368
	Firefighter safety	20,771
	Administration of the statewide Cooperative Fire Program	18,825
	Information management	17,429
Other	6,917	
Subtotal		7,441,262

<u>Activity</u>	<u>Description</u>	<u>Expenditures</u>
Grants and aid	Forest Crop Law/Managed Forest Law aids to counties	\$ 1,258,865
	Private forest landowner grant program	1,250,178
	County forest project loans	1,226,980
	County forest law aids to towns	708,807
	County forest variable acreage loans	621,949
	Forest Crop Law/Managed Forest Law aids to towns	504,490
	Allocation for aids in lieu of taxes	478,806
	Urban forestry grants	428,791
	Forest fire protection grants	343,593
	Allocation to the Bureau of Community Financial Assistance	333,450
	Federal grant administration	101,865
	Grant to Urban Open Space Foundation	75,000
	Wisconsin Landowner Grant Program	19,895
	Kickapoo Watershed Project	15,783
	Other aids	32
Subtotal		7,368,484
Forestry administration	Forestry administration (including southern forests)	4,805,313
	Budget and policy development	893,790
	Personnel administration	512,136
	General nursery administration	249,229
Subtotal		6,460,468
Facilities and equipment management	Allocation to the Bureau of Facilities and Lands	2,170,376
	Facilities operations	1,612,875
	Direct charges for facilities and lands	1,247,907
	Information technology	330,531
	Capital development projects	316,494
	Maintenance of pool equipment	260,866
	Copying, office supplies, and postage charges	149,161
	Allocations for administrative and management facilities development	122,016
	Maintenance of non-fire equipment	79,496
	Fiscal management	28,183
Subtotal		6,317,905
Forest recreation	Visitor services	1,296,737
	Law enforcement	1,252,048
	Provision of camping, picnicking, and swimming opportunities	799,953
	Development and maintenance of trails	589,622
	Training	389,169
	Parks activities related to southern forests	133,750
	Provision of fishing, boating, and hunting opportunities	63,708
	Other	11,777
Subtotal		4,536,764

<u>Activity</u>	<u>Description</u>	<u>Expenditures</u>
Tree cultivation, forest health, and ecology	Forest inventory and analyses	\$ 1,142,460
	Other pest control	323,442
	GIS Development—Northern Highland/American Legion State Forest	289,733
	Gypsy moth eradication	249,055
	Aerial photography project	228,713
	Training	193,549
	Resource utilization analyses	141,404
	Habitat classification	127,745
	Product marketing activities	116,409
	Forest health monitoring	89,680
	Silviculture and forest ecology	56,202
American Chestnut research	5,346	
Subtotal		2,963,738
Management of forest law programs	Administer private forest tax law	1,338,375
	Administer county forest law	967,571
	Administer forest protection law	165,607
	Forestry tax recording fees	58,868
	Enforcement of program requirements	12,894
Subtotal		2,543,315
Forestry Activities Performed by Other State Agencies:		
Department of Agriculture, Trade and Consumer Protection	Gypsy moth eradication and plant protection	1,178,140
Department of Workforce Development	Wisconsin Conservation Corps activities	229,765
Department of Tourism	Kickapoo Reserve Management Board operations	209,702
Wisconsin Environmental Education Board	Grants related to forestry education	151,458
Department of Commerce	Forestry education grant program	79,989
University of Wisconsin Extension	Assistance to forestry cooperatives	51,421
Lower Wisconsin State Riverway Board	General program operations	31,972
Subtotal		1,932,447
Nursery operations	Distribution of stock	446,517
	Care for growing stock	424,006
	Facilities and equipment	363,476
	Seed and seeding	317,856
	Operations and management	168,660
	Grading stock	77,567
	Training	19,017
	Cooperation with other programs or agencies	11,548
Subtotal		1,828,647

<u>Activity</u>	<u>Description</u>	<u>Expenditures</u>
Public outreach and education	Education and public awareness	\$ 960,177
	Allocation for communication and education	431,630
	Partnerships, friends, and volunteer groups	101,426
	Public relations and marketing	87,073
	Direct charges for external relations	55,112
	Forestry Web site maintenance	<u>19,260</u>
Subtotal		1,654,678
Research	Allocation to the Bureau of Integrated Science Services	663,475
	Direct charges for integrated science services	116,639
	Lake State Wood Utilization Program	<u>15,464</u>
Subtotal		795,578
Urban forestry	Program administration	203,978
	Information and education	144,383
	Technical assistance	44,465
	Tree City USA program	21,066
	Urban Forestry Council	15,139
	Administration of federal cost-sharing programs	<u>14,120</u>
Subtotal		443,151
Forestry planning teams	Public land management	28,223
	Silviculture	23,734
	Law enforcement	23,328
	Equipment and safety	17,997
	Private land management	10,860
	Forest resource education	<u>4,708</u>
Subtotal		108,850
Analysis and conservation activities	Lumberjack area resource conservation and development project	78,619
	Other conservation and development projects	<u>6,634</u>
Subtotal		85,253

<u>Activity</u>	<u>Description</u>	<u>Expenditures</u>
<u>Department-Wide Administration and Support Services</u>		
	Allocation for land program management	\$ 2,670,884
	Allocation to the Bureau of Customer Service and Licensing	1,754,318
	Allocation to the Bureau of Finance	1,600,355
	Allocation to the Bureau of Administrative and Field Services	1,404,228
	Allocation to the Bureau of Enterprise Information Technology and Applications	1,281,995
	Allocation for facility rental	842,476
	Allocation to the Bureau of Human Resources	823,277
	Allocation for administration	516,581
	Allocation for CAER program management	397,409
	Allocation for legal services	346,893
	Direct charges for administrative and support services	305,599
	Allocation for management and budget	265,351
	Direct charges for land program management	10,712
Subtotal		<u>12,220,078</u>
<u>Activities Not Directly Related to Forestry</u>		
Activities performed by other agencies	Wisconsin Conservation Corps	3,168,300
	Wisconsin Historical Society (Northern Great Lakes Center)	33,700
Subtotal		<u>3,202,000</u>
Activities performed by DNR	Wildlife management	855,827
	State parks operations	106,712
	Endangered resources management	116,680
	Grant to Ice Age Park and Trail Foundation	75,000
	Grant to Gathering Waters, Inc.	51,060
	Grant to Natural Resources Foundation	28,934
	Fisheries management	19,696
	Water resources management	5,971
	Air and waste management	2,059
Subtotal		<u>1,261,939</u>
<u>Debt Service</u>		
	Stewardship debt service	3,000,000
	Administrative facility debt service	386,334
Subtotal		<u>3,386,334</u>
Total		\$ 72,271,142

Appendix 3

Wisconsin Forest Tax Law Program Characteristics

	<u>Forest Crop Law</u>	<u>Woodland Tax Law</u>	<u>Managed Forest Law</u>
STATUTORY AUTHORITY	Enacted by ch. 454, Laws of 1927. Repealed in 1985, last contract expires in 2035.	Enacted by ch. 384, Laws of 1953. Repealed in 1985, last contract expired in 2000.	Enacted by 1985 Wisconsin Act 29. Program remains open to new applicants.
2001 ACREAGE	448,589	0.0	2,080,199
CONTRACT LENGTH	25 or 50 years	15 years	25 or 50 years
QUALIFICATIONS FOR ENROLLMENT	Minimum of 40 contiguous acres	Minimum of 10 acres	Minimum of 10 contiguous acres; 80% must be capable of producing merchantable timber
PUBLIC ACCESS REQUIREMENTS	All land must be open for public hunting and fishing.	Public access not required.	An owner may close up to 80 acres per municipality to public access. The rest must remain open for outdoor activities.
MANAGEMENT REQUIREMENTS	Owners agree to use sound forestry practices.	Owners agree to follow a signed management plan.	Industrial participants submit a management commitment. Non-industrial participants submit a management plan. All participants agree to use sound forestry practices.
ANNUAL TAX SHARE	\$0.10/acre/year for pre-1972 entries and \$0.83/acre/year for post-1972 entries. Rates will be readjusted in 2003 and every tenth year thereafter.	\$1.67/acre/year	\$0.74/acre/year to be recalculated every five years with the next recalculation due in 2002. An additional \$1.00/acre/year is levied on land closed to the public.
TIMBER HARVEST TAX	10% of harvest value as determined by DNR. State retains amount equal to \$0.20/acre state aid payment and gives the balance to the town, which gives 20% to the county.	None	5% of harvest value as determined by DNR. 50% goes to the Forestry Account and 50% goes to the town, which must give 20% to the county.
WITHDRAWAL PENALTY	Difference between the regular property tax and acreage payments for each year enrolled, with credit for annual acreage payments plus interest, less any harvest tax paid plus interest. State retains amount equal to \$0.20/acre state aid payment and distributes the rest to the town. Town must give 20% to the county.	1% of average forest property value in the county in the year prior to withdrawal, multiplied by the number of acres and the number of years enrolled. Town keeps 100% of all fees.	The higher of regular property taxes in the year prior to withdrawal, multiplied by the number of years under the program or 5% tax on the value of standing timber, less acreage payments and harvest tax payments. The Forestry Account receives 50%; the other 50% goes to the town, which must give 20% to the county.
STATE AID *	\$0.20/acre/year to municipalities.	None	\$0.20/acre/year to municipalities.

* An additional \$1.25 million is distributed to counties with over 40,000 acres enrolled in the Managed Forest Law and Forest Crop Law programs.



State of Wisconsin \ DEPARTMENT OF NATURAL RESOURCES

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February 6, 2002

Janice Mueller, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Subject: Department of Natural Resources Response to the Evaluation of the Forestry Account

Dear Ms. Mueller:

Thank you for the opportunity to review the draft of the Legislative Audit Bureau evaluation of the Department of Natural Resources (DNR) administration of the Forestry Account. The report provides an extensive amount of information and data about state agency expenditures that further the state's forestry program and related administrative expenditures in support of the program. It also devotes considerable attention to the Managed Forest Law program that promotes forest stewardship by private landowners in the state and to the challenges faced by recent program growth.

I am particularly pleased to see that the report illustrates the fact that more than 98% of the expenditures by the DNR in FY 2000-01 were made to implement and support our forestry program, including a reasonable 14.1% for administrative expenses which is below the 16% statutory administrative cost cap established by the Legislature for the Fish and Wildlife Account in the Conservation Fund.

My comments here will center on a range of topics presented in the report and discussed at our exit conference last week.

FORESTRY ACCOUNT EXPENDITURES

A significant portion of the report is devoted to the description and grouping of forestry-related expenditures. There are several concerns that we have voiced during the audit report exit process as to expenditure groupings that overstate the burden of administrative costs shouldered by the Forestry Account. If grouped consistent with the statutory Fish and Wildlife Account cap, the administrative expenditures described comprise 14.1% of the expenditures from the Forestry Account (rather than the 27.8% noted in Table 9 of the report).

Forestry Administration Not a DNR Administrative Expenditure

In the draft transmittal memo to the Joint Committee and in Table 9 of the report ("All DNR Administrative Expenditures Funded by the Forestry Account"), it is calculated that 27.8% of account expenditures are for administration. The calculation includes the expenditure activity "forestry administration" within which the four forestry administration categories are specified: general forestry administration; budget and policy development; personnel administration; and nursery administration. These expenditures are carried out by Forestry program staff and are appropriate direct costs for our

forestry operations. To characterize these expenditures in this way greatly overstates—by almost \$6.5 million or 9% of the Forestry Account—the level of forestry account expenditures on agency administration.

To illustrate my point, a quick analysis of some activities attributed in the report to forestry administration appear to show a clear direct forestry program expenditure:

- The general forestry administration category includes supplies costs spent at the forestry center in Tomahawk for stocking and distributing fire control equipment to our partner fire departments and our internal fire control functions. We estimate these supplies costs alone to be in excess of \$340,000 in FY 2000-01.
- The general forestry administration category also includes expenditures for capital equipment purchases to outfit our forestry staff. Expenditures include vehicle upgrades, computer software, and other capital items. We estimate these costs to be in excess of \$87,000 in FY 2000-01.
- The budget development category includes a forestry resource planning activity for staff time invested to analyze the Forest Inventory Assessment and develop a comprehensive forest resource plan to guide the investment and expenditures of forestry program resources. We estimate these costs to be in excess of \$81,000 in FY 2000-01.

Furthermore, categorizing these expenditures as “administrative” appears inconsistent with how the Legislative Audit Bureau categorized the similar combination of bureau administration and basic program services in the 1998 report on fish and wildlife account. In that report, these activities were listed as benefiting resource users and the vast majority of those costs were direct program expenditures--and not in the “Bureau Administration” administrative grouping. It is unclear why a new and different categorization is used in the forestry report.

Consistent Definition of Administration

The report does not use a definition of “administrative costs” that is consistent with the one enacted in 1999 Wisconsin Act 9 related to the fish and wildlife account in the Conservation Fund. We have been using this definition in our transactions with the Joint Committee on Finance since that time. Like the Fish and Wildlife Account, the Forestry Account is part of the Conservation Fund. It is only logical that the administrative cost definitions for the Conservation Fund be applied consistently by the Legislature and its service agencies (which includes the Legislative Audit Bureau and Legislative Fiscal Bureau). If the Act 9 Fish and Wildlife Account cap were applied to this report, administrative costs would represent about 14.1% of Forestry Account expenditures, rather than the 27.8% figure used in the report.

There are other examples of the varying use of terms in the report that seem not to be used consistently:

- Use of “directly in support of forestry activities” (69.8% of FTE) and “forestry operations” (72.2% of Expenditures) when describing FTE and expenditure categorizations, respectively.
- In Table 8, “department-wide administration and support” is specified as 16.9%, but in both Table 9 and the cover letter, administration is specified as 27.8%
- “allocated” is used in relation to FTE as yet another technique to define something “administrative” or non-forestry related and used as the basis to create another (28.9%) “non-forestry” percent.
- The report makes a distinction between FTE “not directly connected to forestry” in one report section and expenditures “not directly related to forestry” in another section.

I simply request that the Legislature define an administrative cost threshold to which the Department of Natural Resources should be accountable and then administer it consistently.

Trends in FTE Positions and Expenditures Dedicated to Forestry

The report notes that “administrative and support” positions funded by the Forestry Account increased from 148.7 to 176.7 FTE positions from FY 1996-97 to FY 2000-01 or about 18%. This finding should not be surprising since the majority of positions were assigned to “Lands Program Management” as the agency implemented its reorganization to a multi-disciplinary structure. The 1997-99 budget was the first budget where the appropriations structure and FTE complements could be aligned with the new organizational structure. We can argue that expenditures from Lands Program Management are not administrative/support expenditures because they include the direct field manager/supervisor costs for regional leaders, team leaders and sub-team leaders who manage forestry program operations. If this is taken into account, there is a net decrease in administrative staffing over the period.

Furthermore, on page 6 below, I will relate additional details on the decisions made recently to refine our organizational structure and restore a more traditional field structure in our conservation programs, particularly in forestry. For the 2003-05 biennial budget, it would be reasonable to assume that up to 30.0 FTE from “Lands Program Management” will be shifted to a forestry-specific management expenditure category from the “administration and support” category used in the report—an FTE reduction of nearly 17%. We expect to realize the programmatic benefits of this further reorganization as soon as it can be implemented during coming year. It will be formally implemented in the 2003-05 biennial budget.

The report also includes an example of expenditure growth for forestry personnel administration (in excess of 300%), but abbreviated our staff’s explanation for the expenditure growth. First, the expenditure growth reflects a deliberate management initiative by the forestry program to devote more staff time and resources (a) to ensure the recruitment, hiring and retention of high-quality technical and professional staff and (b) to train and mentor those staff with the assistance of and close association with our veteran technical and professional staff. Second, to track closely the staff time and expenditures actually spent on this effort as a performance measure, a distinct activity code was created in the forestry time reporting and cost accounting system. We are not surprised that there was growth in this expenditure area—it reflects a deliberate and positive management decision. The importance of this investment cannot be overemphasized as a high number of technical and professional staff will retire during the coming decade, and we must train the next generation of DNR foresters and forestry technicians. The Governor and Legislature further recognized this value in the 2001-03 budget with an increase of \$184,000 annually for this purpose.

Stewardship Program Debt Service

The assessment of expending funds from the Forestry Account for debt service associated with the Stewardship Program does not address a fundamental issue: The original Stewardship Program was enacted in 1989 and reauthorized in 1999 as a GPR-supported borrowing program. The use of Forestry SEG funding to pay part of the debt service is certainly within the purview of the Legislature. However, appropriation of funds from the Forestry Account for debt service limits the availability of Forestry Account to address the significant unmet needs for forestry assistance in Wisconsin. The precedent of developing, debating and establishing a program financed with one source of revenue and then switching funding sources for a portion of it during implementation is disconcerting. The DNR believes the public has strongly supported the use of GPR for the Stewardship Program. The opportunity costs associated

with the funding change should be carefully considered and decisions about program funding should be clearly outlined when programs such as this are proposed, not after they are being implemented.

Activities Not Directly Related to Forestry

Wildlife Management FTE. The report provides a summary of expenditures described as not directly related to Forestry, including 8.0 Forestry Account-funded FTE that were approved by the Legislature for wildlife management activities on forest lands. The report notes that the Legislature and Governor approved the DNR request in the 2001-03 budget to shift 5.5 FTE of this position complement back to Fish and Wildlife Account funding. However, the cost figures in the report do not reflect the resulting reduction in Forestry Account spending of \$324,100 in each year of the current biennium. Furthermore, it is also our intention to request that the Legislature shift the remaining 2.5 FTE and \$153,400 in the 2003-05 biennial budget. When these transfers are complete, they will have reduced this total category of net expenditures by almost \$477,000 (or 37.6%) to \$784,400.

Other Expenditures. There is a range of expenditures for Parks, Endangered Resources, miscellaneous grants and a small percentage (less than \$28,000) to our water and air/waste programs. One could argue that, given the broad statutory definition of the department's responsibilities to manage the state's forest communities, these other costs are appropriately funded by the Forestry Account. This is discussed in greater detail in the next section. That being said, I will continue to review our spending practices in this area and will enhance level of agency review to ensure that we abide by our statutory commitment for expenditures from the Forestry Account.

STATUTORY DEFINITION OF FORESTRY

I have concerns that the report omits key information that we have provided to your staff with respect to the statutory description of state forests and their purpose. For example, the final report still defines the Northern State Forests as having a timber priority--they do not. Sustainable forestry--together with its full suite of ecological, economic and social benefits--guides management on all of the state forests. I've included the actual statutory language from s. 28.04 (2) to make the point:

PURPOSES AND BENEFITS OF STATE FORESTS.

(a) The department shall manage the state forests to benefit the present and future generations of residents of this state, recognizing that the state forests contribute to local and statewide economies and to a healthy natural environment. The department shall assure the practice of sustainable forestry and use it to assure that state forests can provide a full range of benefits for present and future generations. The department shall also assure that the management of state forests is consistent with the ecological capability of the state forest land and with the long-term maintenance of sustainable forest communities and ecosystems. These benefits include soil protection, public hunting, protection of water quality, production of recurring forest products, outdoor recreation, native biological diversity, aquatic and terrestrial wildlife, and aesthetics. The range of benefits provided by the department in each state forest shall reflect its unique character and position in the regional landscape.

Although the statutory definition is specific to designated state forests, this concept describes the our emphasis to promote sustainable forestry on all forest lands in Wisconsin whether state-owned or not. As a result, it should also be used to assess the applicability of items the report included in the DNR's "non-forestry related expenditures."

On a related issue, the Department's forestry responsibilities extend beyond those listed in the report. The report lists our responsibilities related to forest fire management, forest health and pest control, urban forestry, forest recreation, county forest management and administration and private forestry activities including implementation of the forest tax programs. But our responsibilities also extend to state forest management, management of forest resources on other state lands, forest nursery management and tree improvement, forestry education and awareness, forest hydrology, forest utilization, forest ecology and enforcement of forestry laws and regulations and in general the management of forests for their full suite of ecological, economic and social benefits.

MANAGED FOREST LAW PROGRAM

The report contains an extensive discussion about the forest tax program. We appreciate the Audit Bureau's attention to this important program. However, several critical aspects of the program were not fully addressed by the audit, and one of its key conclusions is contrary to an assessment done by the Department of Revenue.

Local Government Impacts

The report's analysis runs counter to the Wisconsin Department of Revenue's (DOR) assessment of the fiscal impact of the forest tax law program. This seems to stem from the fact that the LAB report does not acknowledge the impact of the State's compensation to local units of government.

The tax law program does not take revenue out of local coffers. The state provides compensation to local units of government for land enrolled in Managed Forest Law (MFL) through yield and termination tax receipts and state aids both from the Forestry Account and other sources. The DOR report "Public Lands and Property Taxes" (DOR, 2000), specifically addresses the issue and states:

"Because of these payments, public land and land enrolled in a forestry tax program has little effect on property tax levies."

In fact, the hypothetical example used in the DOR report showed that the assessment rate in a Marquette County town would decline slightly based on the enrollment of a 100-acre parcel in the tax law. Although this would vary statewide, the overall conclusion reached by DOR--that the tax law has little impact on tax levies--is not included in the LAB report. This conclusion would have been a useful addition to the Forestry Account report.

Program Benefits to Wisconsin

The report could have placed greater emphasis on the significant value of the Forest Tax Laws to the Wisconsin citizens. Wisconsin's forest tax program has the most stringent requirements of any tax program in the Midwest--requirements that are designed to ensure the forest lands are managed sustainably to produce for society a full range of ecological, social and economic benefits. The fact that Wisconsin compensates local governments with aids and shared revenue makes Wisconsin's program the envy of other states. Through our program, all Wisconsinites benefit and program costs are not borne just at the local level. Further, all Wisconsinites benefit from the state's investment in forestry assistance in that water quality is better protected, recreational opportunities are fostered, ecological values are sustained and an important economic sector is supported.

Finally, it is important to note that many potential benefits remain unrealized because nearly 4 out of 5 private forest landowners in Wisconsin still do not get professional assistance when harvesting timber from their lands. The potential benefits that could be derived from expanded use of incentive programs such as the forest tax law program are significant. We recently evaluated the private forestry program and are in the process of reorienting our priorities so that, working with private consulting foresters, we can collectively reach more landowners.

Open Versus Closed Lands

The report accurately points out the increasing percentage of land in the program that is closed to public use. The report neglected to point out, however, that because of the increasing participation in the program, there are over 112,000 additional acres of land open for public use than there were when the first MFL contracts were established 15 years ago.

The ability to close land to public use makes the program more attractive to many landowners. The trade-off of increasing the amount of forest land that is managed sustainably versus the amount of land open to public use is a critical one. The public values of open recreation land and sustainably managed forest lands are both significant. To the extent the forest tax law program accomplishes both, the cumulative benefits are realized. The Legislature's 1985 decision to allow landowners to keep up to 80 acres closed to public access reflected their intent to try and balance these issues. The Department welcomes continuing dialogue regarding how the forest tax program can maximize the public benefits it generates.

Audit Report Recommendation

The audit report recommends that by January 1, 2003 the Department report to the Joint Legislative Audit Committee and Joint Committee on Finance on the extent to which we have been successful in reducing the number of overdue forest management practices is appropriate. We will comply with the recommendation.

REVENUES AND EXPENDITURES BY GEOGRAPHIC REGION

The Legislative Audit Bureau evaluated the amount of Forestry Mill Tax generated in Southeast Wisconsin and the amount estimated to have been spent there. The audit report points out that the Department is meeting its statutory obligation with respect to spending at least 12% from the Forestry Account in the 16 counties in Southeast Wisconsin. However, I would like to identify the full range of values that accrue to the people of Southeast Wisconsin from the Forestry program.

The report includes a statement about the high percentage of jobs associated with the forest products industry in Southeast Wisconsin, but let me emphasize the positive economic impacts that accrue to this

area of the state:

- the 16 counties in Southeast Wisconsin are home to 47% of the state's forest products sector jobs.
- these same counties account for 52% of the payroll associated with those jobs statewide
- this represents more than 74,000 jobs and a \$3 billion payroll in this region of the state.

The long-held perception that most of the forest-related jobs in the state are located in its most heavily-forested areas is incorrect. The economic impact, both direct and indirect, of these jobs in the region is significant. The funds spent in the more heavily forested parts of the state generate benefits that are directly received by those in the southeastern part of the state. These figures are summarized in Table A.

Table A: Forest products industry in the Southeast Area of Wisconsin, 1997

	Southeast Area	Percent of State's Total Forest Products Industry
Employment	74,000	47%
Employee Compensation	\$3.0 billion	52%
Value of Shipments	\$10.8 billion	48%

Furthermore, the people of Southeastern Wisconsin obtain a range of additional benefits--direct and indirect--due to the protection and sustainable management of Wisconsin's forests. The audit report points out that many citizens in this part of the state make use of recreational opportunities in the forests of the state. However, citizens statewide also benefit from the full range of benefits associated with sustainably managed forests--including water quality, wildlife habitat, biological diversity, recreational opportunities, soil protection, air quality and a stronger state economy.

FORESTRY PROGRAM ORGANIZATION CHANGES

The audit report points out that concern exists regarding the organization of the Forestry Division within the DNR. I have been working to address the organizational issues within Forestry since becoming Secretary one year ago. In an effort to recognize Forestry's Division status and the responsibilities that are associated with that designation, I received approval last fall from the Department of Administration (DOA) to create three bureaus and an office within the central office portion of the Division. Implementation of this change is on hold pending a DOA decision of an exemption to the current hiring freeze.

The report points out that concerns also exist with respect to the manner in which our field organization is structured and the relationship that exists between the field and the Chief State Forester (Forestry Division Administrator). The Chief State Forester has clear authority over all forestry personnel, budget and policy. We are currently discussing with DOA the current proposal to reorganize the field structure in the Forestry and Land Divisions. My proposal creates a structure that has field foresters reporting to forestry supervisors at the team, area and regional levels. The newly created Regional Forestry Leaders will be responsible for all aspects of forestry program implementation and will serve on the Chief State Forester's management team as well as on their Regional Director's management team. This structure, when combined with management systems changes I will also be implementing, will ensure that the Chief State Forester's authority is closely aligned with the implementation of program policy, thereby creating clear lines of responsibility and accountability. Furthermore, these changes will improve both the efficient use of forestry personnel and improve the effectiveness of program implementation.

BENEFITS OF THE FORESTRY PROGRAM

As part of this audit, the benefits of the DNR’s forestry program to the citizens of Wisconsin was not assessed or described. Ultimately, I believe the program should be evaluated on the extent to which the benefits it produces for the citizens outweighs the costs. It is very difficult to quantify many of the benefits associated with the practice of sustainable forestry (such as clean air, clean water, enhancement of biological diversity, aesthetics, and so on) and the protection of our forest resources and the lives and property therein from forest fires.

The economic importance of our forests is also often overlooked. Wisconsin leads the nation in the value of shipments in the forest products sector and is second only to California (which has twice the number of forested acres) in number of employees in the forest products sector and the annual payroll for those jobs. Table B compares Wisconsin to Michigan and Minnesota, the two states in the region with similar forest resources. This does not account for the large forest-based recreation and tourism industry, which also generates thousands of jobs and billions of dollars in payroll. A strong forestry program is certainly one factor that contributes to the strength of these important economic sectors in Wisconsin.

Table B: Comparisons with Neighboring States

Forest Product Industries in the Lake States, 1998			
	Wisconsin	Minnesota	Michigan
<i>Employment</i>			
State total	92,885	56,117	44,880
Percent of Wisconsin Total		60%	48%
<i>Annual Payroll Income (billion)</i>			
State total	\$3.2	\$2.4	\$1.4
Percent of Wisconsin Total		75%	44%
<i>Value of Industry Shipments (billion)</i>			
State total	\$16.4	\$6.5	\$6.9
Percent of Wisconsin Total		40%	42%

Source: American Forest and Paper Association – <http://www.afandpa.org>

An additional measurable benefit realized by the citizens of Wisconsin is that, in spite of the fact that Wisconsin has only 8.5% of the non-industrial private forest (NIPF) acres in the Northeast 20 states, according to USDA Forest Service statistics, we have nearly 17% of the accomplishments, surpassing all other states in the region. A greater percentage of Wisconsin’s private forest lands are under our forest tax incentive program than any other of the other states in the region, with the exception of Iowa. This in spite of the fact that Wisconsin’s program, as mentioned above in the forest tax comments, has the most stringent requirements--requirements that are designed to ensure the forest lands are managed sustainably to produce for society the full range of ecological, social and economic benefits. This requires extra work on the part of Department’s foresters, but the resulting benefits to landowners and the public are substantial. A recent USDA Forest Service survey shows that landowners using the services of a professional forester receive approximately twice the gross revenue from timber sales compared to those who do not utilize a forester. The survey showed that landowners using foresters also have better wildlife habitat and are more satisfied with harvests than those who do not.

As I pointed out above, in spite of our significant accomplishments, more work is still needed to accomplish the goal of protecting and sustainably managing Wisconsin's forests. The DNR is working with private consulting foresters to reach more landowners. The payoff in doing so is that greater ecological, economic and social benefits will be derived by landowners, the public and future generations of Wisconsin citizens. These yet unrealized benefits should be the basis for assessing the need for additional resources in forestry.

CONCLUSION

The audit report identifies a number of important issues that need to be addressed by the DNR, the Legislature and others. I plan to work hard to engage the Legislature to address the issues identified within and to advance the cause of sustainable forestry. Thank you again for giving us the opportunity to review the report in advance of its release. Your staff are to be complimented on the courtesy and professionalism exhibited during the course of their work on this project.

Sincerely,

A handwritten signature in cursive script that reads "Darrell".

Darrell Bazzell
Secretary