



## Legislative Fiscal Bureau

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Joint Committee on Finance

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### Forestry Account Overview (DNR -- Forestry and Parks)

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#### CURRENT LAW

The conservation fund is a segregated (SEG) trust fund used to finance many of the state's resource management programs administered by the Department of Natural Resources (DNR). The conservation fund is divided into nine accounts, including the forestry account.

#### OVERVIEW OF THE FORESTRY ACCOUNT

Article 8, Section 10 (3) of the Wisconsin Constitution authorizes a state forestry tax of up to 0.2 mills (or 20¢ per \$1,000 of property value) for the purpose of acquiring, preserving, and developing the forests of the state. Between 1937 and 2004 (collected in 2005) s.70.58 of the statutes set the mill tax at 20¢ per \$1,000 of value; however, 2005 Act 25 limited the annual growth in the tax to 2.6% for each of the next three years. The act also specified that the mill rate determined by the Department of Revenue for the property tax assessment as of January 1, 2007 (mill tax revenue received in the forestry account in 2007-08), would be the rate of the tax imposed for all subsequent years. The rate is now 0.1697 mills (16.97¢ per \$1,000 of property value).

The forestry mill tax generated \$84.5 million, or approximately 81% of the \$104 million in revenues to the forestry account for fiscal year 2007-08. The remaining \$19.5 million in revenues to the forestry account included: (a) the sale of timber on state forest lands; (b) the sale of stock from the state's tree nurseries; (c) camping and entrance fees at state forests; (d) severance and withdrawal payments from timber harvests on cooperatively-managed county forests and on privately-owned land entered under the forest crop land and managed forest land programs; and (e) a portion of the revenue from the sale of conservation patron licenses, to reflect the fact that license holders are granted admission to state forests at no additional charge as part of the license.

Forestry account revenues are used to support approximately 662 authorized permanent staff positions in the Department of Natural Resources and to fund a variety of activities, including the following: (a) the operations of 23 state forests; (b) three tree nurseries; (c) prevention, detection and

suppression of forest fires; (d) forest health and productivity; (e) grants, loans and payments to certain towns, counties and private forest owners; (f) repayment of a portion of stewardship program debt; and (g) a portion of DNR administrative costs. In addition, the forestry account supports certain costs of other state agencies including gypsy moth control by the Department of Agriculture Trade and Consumer Protection, the Kickapoo Reserve Management Board and the Lower Wisconsin State Riverway Board. Expenditures from the forestry account totaled \$100 million in 2007-08.

Primarily, due to the state hiring freeze and DNR decisions to maintain a higher forestry account balance, the Department indicates approximately 60 positions are currently vacant. This 9% vacancy rate is expected to significantly reduce 2008-09 expenditures and to limit salary related costs through most of the 2009-11 biennium (it is unclear when, or if, the hiring freeze would be lifted by the administration during the next biennium).

The forestry mill tax is the largest source of revenue to the forestry account. Due to declining property values, forestry mill tax revenues are expected to decrease from 2008-09 to 2009-10. Revenues are expected to remain below 2008-09 levels in 2010-11. On the other hand, timber harvest revenues, which make up the second largest source of revenue to the forestry account, are expected to increase over the 2009-11 biennium. 2005 Act 166 required DNR to set annual allowable timber harvest goals for all forested state properties, and to report biennially (by January 1 of each odd-numbered year) on its progress in meeting the goals. According to the 2009 report, in 2007-08 DNR harvested or scheduled harvests on 78% of the allowable timber harvest goal. However, DNR focused heavily on forest inventory work in 2007-08, and the report indicates that timber harvest revenues are expected to increase over the next several years as DNR conducts timber harvests on the recently inventoried forest acres.

The forestry account would be projected to have an available balance of approximately \$3.2 million on June 30, 2011, under the budget bill as shown in the following table. However, projected expenditures under the bill exceed anticipated revenues over the 2009-11 biennium, creating a structural imbalance in the account. The available balance is expected to decline by \$6 million over the 2009-11 biennium, from over \$9 million on June 30, 2009 to just over \$3 million on June 30, 2011.

DNR officials argue a significant June 30, 2011, balance should be maintained as a hedge against potentially more severe property value losses (decreasing mill tax revenue) and volatile timber markets.

## Estimated Forestry Account Condition Under AB 75

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Opening Balance	\$22,068,500	\$23,334,900	\$20,424,600
<b>Revenue</b>			
Mill Tax	\$87,295,700	\$86,573,000	\$86,750,000
Timber Sales	6,500,000	6,800,000	7,100,000
Admission and Camping Fees	4,400,000	4,500,000	4,500,000
All Other Revenue	<u>8,700,000</u>	<u>9,875,000</u>	<u>10,050,000</u>
Total Revenue	\$106,895,700	\$107,748,000	\$108,400,000
 Total Available	 \$128,964,200	 \$131,082,900	 \$128,824,600
 Estimated Expenditures	 \$105,629,300	 \$110,658,300	 \$111,572,200
 Cash Balance	 \$23,334,900	 \$20,424,600	 \$17,252,400
Encumbrances/Continuing Balance*	<u>14,076,000</u>	<u>14,076,000</u>	<u>14,076,000</u>
Available Balance	\$9,258,900	\$6,348,600	\$3,176,400

\*Includes amounts encumbered (committed, but not yet paid) as well as continuing balances from certain appropriations (such as for forestry development, nursery surcharge revenues, recording fees, and forest management plans) that are not available for general appropriation.

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