



Legislative Fiscal Bureau

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April 21, 2009

Joint Committee on Finance

Paper #572

Forestry Operations (DNR -- Forestry and Parks)

[LFB 2009-11 Budget Summary: Page 470, #3]

CURRENT LAW

DNR operates state forests under two separate administrative structures. Northern state forest properties are operated by DNR's forestry staff in a manner that generally focuses on the enhancement of their timber resources but also emphasizes recreational use. Southern state forest properties are operated by state parks personnel and managed in a manner that gives priority to their recreational value.

Current law requires DNR to practice "sustainable forestry" and use it to assure state forests are managed to provide a full range of benefits, including soil protection, public hunting, protection of water quality, production of recurring forest products, outdoor recreation, native biological diversity, aquatic and terrestrial wildlife, and aesthetics. In 2008-09, \$50,780,000 was appropriated for (northern) state forestry operations to support approximately 460 permanent staff positions. Operating costs for state forests include division facility costs including maintenance, heat, and utilities as well as staff costs such as personal vehicle mileage costs. Funding is also utilized for costs associated with fire prevention, detection, and suppression including lookout towers, ranger stations, fire suppression and communications equipment and for fire law education and enforcement. In addition, the Department operates three tree nurseries, the Wilson State Nursery in Boscobel, Hayward Nursery, and the Griffith State Nursery in Wisconsin Rapids, which produce and distribute seedlings (trees and wildlife shrubs) used for reforestation and conservation purposes.

In 2003, the Governor directed DNR to explore forestry certification in response to a growing demand for certified wood from purchasers of Wisconsin timber products. Wood products originating from certified forests can be marketed as having been grown and harvested in a "sustainable" manner, which provides biological, social, and economic benefits. Currently, approximately 517,700 acres of northern and southern state forests have been dual-certified by

the Sustainable Forest Initiative (SFI) and the Forest Stewardship Council (FSC) and 2.4 million acres of county forests have been certified by the FSC. Additionally, two million acres of private forestland enrolled under the Managed Forest Law program have been certified under American Tree Farm standards.

GOVERNOR

Provide \$908,600 SEG annually from the forestry account with 0.39 forest technician positions to support state forestry operations including the following:

| | <u>Annual</u> |
|--------------------------------|---------------|
| Facilities Heat | \$86,000 |
| Mileage | 63,600 |
| Radio Repeater Master Lease | 300,000 |
| Radio Replacement Master Lease | 275,000 |
| Seasonal Nursery Staff | 19,800 |
| Nursery Operations | 104,200 |
| Forest Certification | <u>60,000</u> |
| Total | \$908,600 |

DISCUSSION POINTS

A. Facility Heating Costs

1. The bill would provide \$28,000 annually to support increased heating costs at existing forestry facilities, and \$58,000 annually to support increased heating costs at new forestry facilities. The Department indicates that facility heating costs have increased significantly since 2005 as a result of increased fuel costs (natural gas, propane, and heating oil). According to the Department, actual facility heating costs have exceeded allocated expenditures since 2005. In addition, beginning in 2006, the Department has built new ranger stations or added additional storage facilities at 19 ranger stations.

2. DNR and the administration utilized U.S. Department of Energy (DOE) statistics regarding average heating fuel prices in the Midwest to calculate the increased cost of natural gas, propane, and heating oil from 2005 to 2009. However, recent DOE projections for the average price of natural gas, propane, and heating oil in calendar year 2009 are lower than when DNR made their estimates. Table 1 shows the DOE actual average prices of natural gas, propane, and heating oil in 2005, the DOE projected prices for 2009 utilized by DNR, and the current DOE 2009 and 2010 projections. As shown in the table, the current DOE projected average price of natural gas is lower in 2009 than in 2005 and remains relatively stable in 2010. DOE projects that the average price of propane in 2009 will be more than in 2005, but then decrease again in 2010 to a price below 2005. The average price for heating oil in 2009 is projected to be less than 2005, but then increase in 2010.

Utilizing the updated DOE statistics, the estimated increased cost of heating the 53 facilities that existed in 2005 would be approximately \$3,700 annually. Based on the size of the facilities constructed since 2005 at 19 ranger stations, and the U.S. Department of Energy's current projection for the average prices of natural gas, propane, and heating oil in calendar year 2010, the cost of heating these facilities could be estimated at \$47,500 annually (rather than the \$58,000 provided under the bill). An alternative could be to provide \$51,200 annually for increased fuel costs at new and existing facilities based on these updated estimates (a reduction to the bill of \$34,800 each year).

U.S. Department of Energy Average Heating Fuel Prices by Calendar Year

| | <u>Calendar Year</u> | <u>Natural Gas</u> | <u>Propane</u> | <u>Heating Oil</u> |
|----------------------------------|----------------------|--------------------|----------------|--------------------|
| Earlier estimate used by DNR/DOA | 2005 | \$11.76 | \$1.43 | \$2.00 |
| | 2009 | \$12.71 | \$2.13 | \$3.08 |
| Current DOE estimates | 2009 | \$10.42 | \$1.59 | \$1.93 |
| | 2010 | \$10.43 | \$1.37 | \$2.22 |

Note: For natural gas, the price shown is per thousand cubic feet, for heating oil and propane the price is per gallon.

B. Personal Mileage Expenses

3. Forestry staff currently utilize personal vehicles for many types of tasks including meeting forest landowners at work sites, management activities on state forest lands, and fire preparedness work. The Department reimburses these staff members based on the mileage driven. The personal mileage reimbursement rate was 32.5¢ in fiscal year 2005 and remained at that rate until December, 2007, when it was increased to 46.5¢ per mile. Most recently, the rate was increased to 48.5¢ per mile beginning in fiscal year 2008-09. Based on the 32.5¢ per mile rate in 2005 and the Department's 2005 mileage costs, the Department estimates that the current cost of personal mileage reimbursement is approximately \$63,600 (the amount provided annually under the bill) more than the cost in 2005. The Department indicates that if funding is not provided for mileage reimbursement, many of the tasks that require forestry staff to travel will be reduced resulting in a decrease in forestry management activities and staff interaction with landowners.

C. Radio Repeater Master Lease

4. The bill would provide \$300,000 each year in one-time funding for the last two years of a master lease supporting the purchase of base station radio-tower repeaters. The base stations comprise the Department's public safety communications network and include a system of towers and equipment that receives and amplifies radio signals to improve reception over long distances. The base station repeater network is used primarily for forest fire detection and control. The past two biennial budgets authorized funding of \$1,093,800 for the first four years of the master lease. However, the Department of Administration indicates that fiscal year 2009-10 will be the final year of the master lease repayments. DOA estimates that DNR will pay approximately

\$230,000 in fiscal year 2009-10 to complete the master lease. As the master lease is not expected to continue into 2010-11, one-time funding of \$230,000 in 2009-10 could be provided. This funding level would be \$370,000 less than what is provided in AB 75.

D. Radio Replacement Master Lease

5. The bill would provide \$275,000 each year in one-time funding for the first two payments of an expected six-year master lease that would support the replacement of 232 mobile (vehicle-mounted) radios, 209 portable (hand-held) radios and 11 aviation specific radios. Forestry division staff use radios for wildfire response and public safety activities. In addition, the radios are used for forest management, private forestry, and other routine forestry communications. For example, when foresters are marking trees for a timber sale, marking harvest boundaries, preparing maps, or inspecting active harvests, they use the radios to keep in contact with each other. This is especially important in areas where cell phone coverage is inconsistent. The Federal Communications Commission has mandated that all Very High Frequency (VHF) government radio communications move to narrow band effective January 1, 2013. Narrowband radios use 12.5 kHz channel spacing rather than 25 kHz channel spacing meaning they have double the number of channels/frequencies available for use in the same amount of electromagnetic spectrum. All 452 radios purchased would be narrowband radios. In addition, the radios are compatible with both analog and digital transmissions. Further, the U.S. Forest Service has indicated that narrowband radios must be installed in all fire aircraft by January 1, 2010. DNR's fire detection aircraft will be required to be in compliance with this directive.

6. While DOA generally advises agencies to use an interest rate of 6% when calculating expected master lease payments, DNR used 7% to calculate the expected total cost of this lease agreement. At an average interest rate of 6%, the current master lease agreement could be expected to total approximately \$1,584,000 over six years, rather than the original DNR estimate of \$1,631,000. Therefore, an alternative could be to provide \$265,000 in one-time funding in 2009-10 and 2010-11 for the first two years of the six-year master lease payment based on the revised estimate.

E. Seasonal Nursery Staff

7. Currently, five seasonal forestry technicians work within the nursery system; four 0.67 FTE at the Griffith Nursery in Wisconsin Rapids, and one 0.68 FTE at the Wilson Nursery in Boscobel. Changing production needs such as an increase in graded nursery stock orders, orders which must be counted and graded for size as compared to bulk orders, which are not necessarily counted, has increased nursery workload. The 0.39 forestry technician position provided in the bill would bring each of the current positions to 0.75.

F. Nursery Operations Expenses

8. Nursery revenues have declined over the last several fiscal years from approximately \$2.8 million in fiscal year 2005-06 to approximately \$1.8 million in fiscal year 2008-09. However,

the Department indicates that federal climate change initiatives may increase the demand for Wisconsin seedlings significantly during the 2009-11 biennium. Historically, the DNR nursery program has been allocated approximately \$2.4 million annually in general program operations expenditure authority. In the past, federal "green" programs (such as the conservation reserve program in the 1990s) significantly increased Wisconsin nursery sales. If demand were to increase as a result of federal policies, DNR would need additional expenditure authority to increase production to meet this demand. The bill would provide \$104,200 annually in additional operations expenditure authority for nursery supplies including peat, fertilizer, seeds and fumigation costs and for increased LTE assistance. In addition, \$7,000 of the amount provided would be used to cover cost increases associated with a contract for forest tree genetics with the University of Wisconsin-Madison.

G. Forest Certification Expenses

9. Currently, approximately 517,700 acres of northern and southern Wisconsin state forests have been dual certified by the Sustainable Forest Initiative (SFI) and the Forest Stewardship Council (FSC). In addition, 2.4 million acres of county forests have been certified by the FSC program. Further, approximately two million acres of private forestland enrolled under the Wisconsin Managed Forest Law program have been certified under American Tree Farm standards. In order to maintain these certifications, the Department is subject to surveillance audits, annual FSC accreditation fees, and tree farm certification fees. Currently, FSC, SFI and American Tree Farm standards require a full-field audit every five years by external auditors. Full-field audits are more intense and generally involve three to four auditors, whereas annual audits generally involve two auditors and are less involved (and less costly). DNR completed a full-field audit of state and county forests in fiscal year 2008-09 (for the FSC and SFI certifications), and would not be required to conduct another until fiscal year 2013-14. The FSC conducted an audit of MFL lands in 2008 and would require another in fiscal year 2012-13. A full-field American Tree Farm audit of MFL lands is scheduled for fiscal year 2009-10.

10. However, DNR indicates that the MFL audit scheduled for 2009-10 may cost more than originally anticipated due to the recent recognition of SFI and American Tree Farm certifications by the Program for the Endorsement of Forest Certification (PEFC), a European umbrella organization for forest certification. PEFC recognition would allow manufacturers in European countries to import wood products from Wisconsin certified under SFI and American Tree Farm standards and market them under European certifications that are recognized by PEFC. DNR indicates that the PEFC requires more stringent audit standards than the American Tree Farm standards. As a result, DNR estimates the fiscal year 2009-10 audit of MFL lands may cost approximately \$20,000 more than originally anticipated. In addition, the PEFC may require a three-year full-field audit cycle rather than the five-year cycle currently required by American Tree Farm Standards. The bill would provide \$60,000 annually for forest certification costs. Instead, \$80,000 in 2009-10 could be provided to recognize anticipated costs. DNR indicates that in any year where the certification costs were less than the amount provided, excess funds would be applied to related expenses such as biotic inventories, biomass evaluations, coarse woody debris inventories, and resource monitoring that is necessary to maintain the certifications.

ALTERNATIVES

A. Facility Heating Costs

1. Adopt the Governor's recommendation to provide \$86,000 annually for heating costs for existing and new facilities.
2. Provide \$51,200 annually for facility heating costs.

| | |
|---------------|-----------------------|
| ALT A2 | Change to Bill |
| | Funding |
| SEG | - \$69,600 |

3. Delete provision.

| | |
|---------------|-----------------------|
| ALT A3 | Change to Bill |
| | Funding |
| SEG | - \$172,000 |

B. Personal Mileage Costs

1. Adopt the Governor's recommendation to provide \$63,600 annually for forestry mileage costs.
2. Delete provision.

| | |
|---------------|-----------------------|
| ALT B2 | Change to Bill |
| | Funding |
| SEG | - \$127,200 |

C. Radio Repeater Master Lease

1. Adopt the Governor's recommendation to provide \$300,000 each year in one-time funding for a master lease supporting the purchase of base station radio-tower repeaters.
2. Provide \$230,000 in one-time funding in 2009-10 for the final payment of the radio-tower repeater master lease.

| | |
|---------------|-----------------------|
| ALT C2 | Change to Bill |
| | Funding |
| SEG | - \$370,000 |

3. Delete provision.

| | |
|---------------|-----------------------|
| ALT C3 | Change to Bill |
| | Funding |
| SEG | - \$600,000 |

D. Radio Replacement Master Lease

1. Adopt the Governor's recommendation to provide \$275,000 each year in one-time funding for the first two payments of an expected six-year master lease to purchase 452 forestry radios.

2. Provide \$265,000 in one-time funding each year for the master lease.

| | |
|---------------|-----------------------|
| ALT D2 | Change to Bill |
| | Funding |
| SEG | - \$20,000 |

3. Delete provision.

| | |
|---------------|-----------------------|
| ALT D3 | Change to Bill |
| | Funding |
| SEG | - \$550,000 |

E. Seasonal Nursery Staff

1. Adopt the Governor's recommendation to provide \$19,800 annually and 0.39 forestry technician position.

2. Delete provision.

| | |
|---------------|-----------------------|
| ALT E2 | Change to Bill |
| | Funding Positions |
| SEG | - \$39,600 - 0.39 |

F. Nursery Operations

1. Adopt the Governor's recommendation to provide \$104,200 annually for nursery operations.

2. Delete provision.

| | |
|---------------|-----------------------|
| ALT F2 | Change to Bill |
| | Funding |
| SEG | - \$208,400 |

G. Forest Certification

1. Adopt the Governor's recommendation to provide \$60,000 annually for costs associated with forest certification.

2. Provide \$80,000 in 2009-10 and \$60,000 beginning in 2010-11 for forest certification expenses.

| | |
|---------------|-----------------------|
| ALT G2 | Change to Bill |
| | Funding |
| SEG | \$20,000 |

3. Delete provision.

| | |
|---------------|-----------------------|
| ALT G3 | Change to Bill |
| | Funding |
| SEG | - \$120,000 |

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