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Joint Committee on Finance

Paper #466

Forestry Account Condition and Ongoing Expenditures (Natural Resources -- Forestry, Parks, and Recreation)

[LFB 2017-19 Budget Summary: Page 325, #2 and Page 326, #5]

FORESTRY ACCOUNT CONDITION

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.

Article 8 §10 (3) of the Wisconsin Constitution authorizes a state forestry tax of up to 0.2 mill, equal to 20¢ per \$1,000 of property value, for the purpose of acquiring, preserving, and developing the forests of the state. The forestry mill tax is currently 16.97¢ per \$1,000 of value for tax years 2007(08) and thereafter. The tax generated approximately \$83 million in fiscal year 2015-16 and provides the majority of revenue to the forestry account. The Governor's budget bill would sunset the forestry mill tax, or "forestation state tax," effective with the January 1, 2017, property tax assessments. (The provision is discussed in a separate budget issue paper.) Instead, the bill would create a sum-sufficient GPR appropriation and specify that an amount of GPR equal to the amount that would have been provided under the forestry mill tax be transferred to the conservation fund annually.

GOVERNOR

Provide \$295,700 forestry SEG annually including: (a) \$261,700 annually as ongoing funding for the purchase of forestry radios, dispatch equipment, and maintenance and replacement of forestry radio tower repeater sites; and (b) \$34,000 annually for supplemental aerial forest fire detection efforts.

DISCUSSION POINTS

1. Under the bill, forestry account revenues would support approximately 617 full-time staff. This includes approximately 602 DNR staff and the following programs: (a) the operations of 23 state forests; (b) tree nursery operations; (c) prevention, detection, and suppression of forest fires; (d) forest health and productivity, including administration of the managed forest law (MFL) program and assistance to county forest administrators; (e) grants, loans, and payments to certain towns 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 approximately 15 staff and certain costs of various other state agencies, including forest pest control by the Department of Agriculture, Trade and Consumer Protection and land management operations of the Kickapoo Reserve Management Board and the Lower Wisconsin State Riverway Board. Expenditures from the forestry account totaled \$103.8 million in 2015-16, as shown in the following table.

Forestry Account Condition

	Actual <u>2015-16</u>	Current Law <u>2016-17</u>	Governor's Bill <u>2017-18</u>	Governor's Bill <u>2018-19</u>	2018-19 <u>Staff</u>
Opening Balance	\$30,815,500	\$38,270,200	\$33,807,600	\$35,482,200	
Revenue:					
Mill Tax	\$83,306,000	\$85,722,700	\$88,759,300	\$91,695,600	
Timber Sales	7,465,700	7,500,000	7,500,000	7,500,000	
Forest Tax Law	11,436,500	9,800,000	10,500,000	10,500,000	
Admission and Camping Fees	7,121,100	6,775,000	6,775,000	6,775,000	
Nurseries	921,100	925,000	925,000	925,000	
All Other Revenue	<u>982,400</u>	<u>975,000</u>	<u>975,000</u>	<u>975,000</u>	
Total Revenue	\$111,232,800	\$111,697,700	\$115,434,300	\$118,370,600	
 Total Available	 \$142,048,300	 \$149,967,900	 \$149,241,900	 \$153,852,800	
Expenditures:					
State Forestry Operations	\$47,804,700	\$51,910,900	\$51,069,800	\$51,069,800	449.08
Southern Forest Operations	4,726,400	5,489,200	5,462,100	5,462,100	41.45
Stewardship Debt Service	13,500,000	13,500,000	13,500,000	13,500,000	0.00
Grant and Aid Programs	8,013,400	7,914,500	7,914,500	7,914,500	0.00
Park, Forest, Riverway Roads	59,000	2,000,000	2,000,000	2,000,000	0.00
Other Forestry Program Appropriations	1,521,300	840,900	840,900	840,900	0.00
Act 55/Act 358 One-time Expenditures	1,782,500	10,056,400	6,000,000	7,000,000*	
Administration and Technology	7,724,500	7,910,400	8,837,300	8,867,600	52.99
Customer Assistance and Licensing	2,867,100	2,867,100	2,588,800	2,588,800	21.72
Division Management and Bureau Operations	4,045,000	4,572,200	3,882,500	3,882,500	37.03
Debt Service, Maintenance and Development	2,870,300	2,908,300	3,057,500	3,057,500	0.00
Aids in Lieu of Taxes and Assessments	6,102,100	7,134,900**	7,044,900	7,134,900	0.00
Other State Agencies	<u>2,761,800</u>	<u>2,555,500</u>	<u>2,561,400</u>	<u>2,563,100</u>	15.00
Authorized Expenditures (Subtotal)	\$103,778,100	\$119,660,300	\$114,759,700	\$115,881,700	
Lapses (Reductions due to Vacancies)		-\$3,500,000	-\$2,000,000	-\$1,000,000	
2017-19 General Wage Adjustment			<u>1,000,000</u>	<u>2,000,000</u>	
Total Expenditures	\$103,778,100	\$116,160,300	\$113,759,700	\$116,881,700	617.27
 Cash Balance	 \$38,270,200	 \$33,807,600	 \$35,482,200	 \$36,971,100	
Encumbrances/Continuing Balance**	<u>11,500,000</u>	<u>11,500,000</u>	<u>11,500,000</u>	<u>11,500,000</u>	
Available Balance	\$26,770,200	\$22,307,600	\$23,982,200	\$25,471,100	

*Reflects the required amount under 2015 Act 358. The budget bill only provides \$6 million. A modification is needed to correct this error.

**As reestimated.

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

2. 2015 Act 358 makes various changes to the forest crop law (FCL) and MFL programs and requires the Department to make certain payments from the forestry account to local governments through fiscal year 2018-19. The primary payment relates to land enrolled in the MFL program based on the number of acres of MFL land designated as closed within each municipality,

and municipalities would provide 20% of those payments to counties. The required payments are: (a) \$6 million in fiscal year 2016-17, including a \$1.4 million one-time payment to local governments related to the yield/severance tax for harvested timber, which is eliminated under the act; (b) \$6 million in 2017-18; and (c) \$7 million in 2018-19. However, the budget bill would provide \$6 million in funding for these payments in fiscal year 2018-19. In its errata report submitted to the Committee, the administration states that this was an error and a modification to the budget bill would be needed to align the bill with current statutory provisions (Alternative 1). The preceding table shows the full \$7 million in expenditure authority in 2018-19 required under 2015 Act 358 and included in the DOA errata report.

3. Although forestry mill tax revenues modestly declined with statewide property values from fiscal year 2009-10 through 2013-14, revenues increased in fiscal year 2014-15 and 2015-16 and are expected to continue to increase in 2016-17 and in the 2017-19 biennium. While in the past, DNR had maintained substantial vacancies in the forestry account in order to maintain the account balance. The current forestry vacancy rate is approximately 15% and the Department's goal is to reduce forestry vacancies to 5% or less. Under the bill, as modified to include the additional \$1 million for MFL payments to local governments, the forestry account could be expected to have an available balance of approximately \$25 million on June 30, 2019. It should be noted that while anticipated revenues (\$118.4 million) are expected to exceed authorized ongoing expenditures (\$110.9 million) by \$7.5 million in fiscal year 2018-19, a reduction in revenues or an increase in ongoing expenditures beyond that amount could create a structural imbalance in the account, by which authorized ongoing expenditures exceed annual revenues, going into the 2019-21 biennium.

4. The bill includes two ongoing expenditure items from the forestry account totaling \$295,700, including \$261,700 forestry SEG annually as ongoing funding for the purchase of forestry radios, dispatch equipment, and maintenance and replacement of forestry radio tower repeater sites. In the past, forestry radios and related equipment replacements were done through a master lease process. Most of this equipment was last purchased in 2009 through a six-year master lease. If the Department were to purchase the equipment through a master lease rather than purchasing a portion of equipment outright each year, the Department estimates the annual cost would total approximately \$641,000 in principal and interest payments each year for six years and would include a total of approximately \$656,500 in interest over the life of the master lease. These estimates are based on an interest rate of 6%. However, even based on a lower interest rate of 4%, payments would still be expected to total approximately \$604,000 per year and total approximately \$430,000 in interest over six years.

5. As noted, the bill would provide the funding as ongoing funding. The \$261,700 in annual funding would include \$75,000 annually for tower maintenance and Federal Communications Commission (FCC) licensing of tower sites and base stations. The base stations constitute 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.

6. DNR expects ongoing funding would allow the Division of Forestry to more actively manage the equipment in its inventory and avoid large simultaneous failures, as the equipment

would be replaced at regular intervals. DNR indicates the remaining \$186,700 annually would be enough to support annual replacement of 20 portable (hand-held) radios, 12 mobile (vehicle-mounted) radios, two aviation radios, five base station repeaters and one dispatch radio console. However, the combination of equipment replaced may vary per year. For example, in one year, the Department may replace all mobile radios and then all aviation radios in the following year. Department staff indicate the goal is to limit variation in the radio models in use. Because each model generally requires a unique radio program to be utilized, it becomes challenging to maintain several versions of radio programs for different models in use at the same time. Ideally, the Department would replace all of the equipment at the same time on the same cycle, and the Department's 2017-19 budget request was intended to accomplish this.

7. While the agency request of \$434,200 would have provided funding to replace approximately 100 pieces of equipment per year on a seven-year replacement cycle, the administration indicates that the amount of ongoing funding recommended under the bill was based on the amount of ongoing funding provided for the purchase of law enforcement computers under 2015 Act 55 (\$261,700 annually). As the law enforcement computer item was for the purchase of unrelated equipment, the amount of funding provided under the bill could be seen as arbitrary. Further, DNR argues that replacing more of the equipment on a regular basis is important to forester and public safety. Given that the account is expected to have a significant available balance at the close of the biennium, and that revenues are expected to exceed ongoing expenditure authority by over \$7 million going into the 2019-21 biennium, the Committee could consider providing the fully requested amount of \$434,200 annually, including the \$75,000 annually for tower maintenance and FCC compliance (Alternative 2a2). This alternative would increase funding by \$172,500 annually as compared to the Governor's recommendation. If no funding were provided for the equipment replacement (Alternative 2a3), DNR indicates it would continue to solely replace models of radios that failed each year, typically 10 to 15 radios.

8. The bill also includes \$34,000 annually to supplement aerial forest fire detection efforts. In 2016, the Division of Forestry decommissioned its forest fire lookout towers due to concerns regarding their structural integrity. As a result, the Department expects to increase forest fire aerial detection. Funding under the bill would cover 200 hours of aerial detection, in addition to 300 hours of aerial detection planned using funds previously dedicated to lookout towers. The Department requested \$119,000 in funding to cover an additional 700 hours, as DNR estimated the total additional flight hours needed would be 1,000 hours. Again, given the status of the account and the public safety concern associated with forest fire detection, the Committee could consider providing the full \$119,000 in ongoing funding for aerial forest fire detection (Alternative 2b2). On the other hand, the Department indicates that if additional expenditure authority were not provided for the additional hours (Alternative 2b3), the Department would fund the hours from existing resources. Forestry staff indicate that they would attempt to reduce hours of areas or times of lower fire danger by adopting a strategy of passive detection with the aircraft whereby they are available for dispatch, but not flying an active detection route. The Department estimates this could potentially reduce active detection by about 150 hours.

9. For the past several years, actual forestry account expenditures have been significantly lower than authorized levels. Therefore, it could be argued that the Department does not need

additional expenditure authority for the items included in the bill and the items should be deleted (Alternatives 2a3 and 2b3). However, this was due primarily to the Department's decision to maintain vacancies in the account in order to avoid depleting the account balance; and as noted previously, the Department intends to reduce the vacancies until they reach the desired vacancy rate of 5% annually. In that case, funding these items from existing resources could displace other forestry activities.

ALTERNATIVES

1. Make a modification to provide an additional \$1,000,000 forestry SEG in fiscal year 2018-19 in the appropriation for payments to local governments related to managed forest law (MFL) closed acres to conform with the current law requirement that \$7 million be paid from this appropriation as specified under 2015 Act 358.

ALT 1	Change to	
	Base	Bill
SEG	\$1,000,000	\$1,000,000

2. In addition to Alternative 1, increase ongoing funding for the purchase of forestry radios, dispatch equipment, maintenance and replacement of forestry radio tower repeater sites and supplemental aerial forest fire detection efforts in one of the following amounts annually under each of a. and b..

a. Radio Equipment

(1) Approve the Governor's recommendation to provide \$261,700 annually for forestry radio equipment.

ALT 2a1	Change to	
	Base	Bill
SEG	\$523,400	\$0

(2) Modify the Governor's recommendation to instead provide increases of \$434,200 annually for forestry radio equipment.

ALT 2a2	Change to	
	Base	Bill
SEG	\$868,400	\$345,000

(3) Delete the Governor's recommendation.

ALT 2a3	Change to Base	Bill
SEG	\$0	- \$523,400

b. Forest Fire Aerial Detection Hours

(1) Approve the Governor's recommendation to provide increased funding of \$34,000 annually for forest fire aerial detection.

ALT 2b1	Change to Base	Bill
SEG	\$68,000	\$0

(2) Modify the Governor's recommendation to instead provide increased funding of \$119,000 annually for forest fire aerial detection.

ALT 2b2	Change to Base	Bill
SEG	\$238,000	\$170,000

(3) Delete the Governor's recommendation.

ALT 2b2	Change to Base	Bill
SEG	\$0	- \$68,000

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