

State of Wisconsin

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Joint Committee on Finance

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative John Nygren

Date: January 22, 2016

Re: 14-Day Passive Review Approval – DNR

Pursuant to Section 9132(4v) of 2015 Wisconsin Act 55, attached is a 14-day passive review request from the Department of Natural Resources, received on January 22, 2016.

Please review the material and notify **Senator Darling** or **Representative Nygren** no later than **Wednesday, February 10, 2016**, if you have any concerns about the request or if you would like the Committee to meet formally to consider it.

Also, please contact us if you need further information.

Attachments

AD:JN:jm

State of Wisconsin
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Scott Walker, Governor
Cathy Stepp, Secretary
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December 28, 2015

Honorable Alberta Darling, Senate Chair
Joint Committee on Finance
Room 317 East
State Capitol
PO Box 7882
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Honorable John Nygren, Assembly Chair
Joint Committee on Finance
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RECEIVED
JAN 22 2016

BY: J. Financ. C.

Attn: Committee Clerk, Joe Malkasian
Room 305 East, State Capitol
Madison, WI 53702

RE: 2015 WI Act 55 Required Report on FY 2016 Federal/State Forestry Good Neighbor Agreement (GNA) Activities and the Release of GNA Funding for FY 2017

Dear Senator Darling and Representative Nygren:

Governor Walker has been a strong advocate for increasing timber sales from the Chequamegon-Nicolet National Forest (CNNF). The 2004 CNNF Land Management Plan authorizes annual timber sales of up to 131 MMBF; however, the forest has averaged less than 60% of that figure over the last decade. Lawsuits tied up a significant number of sales for several years, however, those suits have all been resolved in favor of the USFS. Today there is an estimated 350 MMBF of timber, about five years' worth of sales, that has cleared NEPA review and has cleared administrative and legal challenges.

The USFS expressed they do not have the resources to offer for sale more than 85 MMBF per year under their best case scenario. GNA offers Wisconsin the opportunity to use state resources to increase the level of harvest on the national forest to help address the backlog of timber sales and local fiber supply for Wisconsin's economy. The focus of GNA is to take timber "off the shelf" and establish, sell and administer the timber sales, bringing more wood to market at a time in which mills are struggling to wood their yards.

As authorized in the 2015-2017 Biennial Budget (2015 Act 55) s. 2815, the Department of Natural Resources may conduct forest management activities on federal land under a cooperative agreement the GNA. The budget appropriated \$395,000 forestry SEG funds to the Department in fiscal year 2015-2016 and \$355,000 forestry SEG funds in fiscal year 2016-2017 to be released by the Joint Committee on Finance pending its review of required Department GNA 2015-16 initial expenditures and 2016-17 proposed program efforts.

The budget (Section 9132 (4v)) requires the Department to submit a report to the Joint Committee on Finance with a description of:

- 1) the activities conducted since the beginning of the fiscal year that were supported with the initial funds;
- 2) a plan for use of the money allocated in fiscal year 2016-2017; and
- 3) a request to supplement the appropriation for 2016-2017 fiscal year for the purpose of paying the initial costs of administering and implementing the cooperative agreement and any contract entered into under the program.

The department aggressively moved to implement GNA with the CNNF and the following report describes the accomplishments to date, how the funds will be used, and formally requests the FY 2017 funding authorization of the department's general forestry operations appropriation [s. 20.370(1)(mv)].

GNA provides an opportunity for the state *and others* in the forestry community to work with the CNNF to help them increase the level of accomplishments on the national forest and see the benefits of increased forest management. When the CNNF land management plan is not being fully implemented, it directly affects desired outcomes by forestry stakeholders and the public such as the development/maintenance of wildlife habitat and the amount of timber reaching the market.

A valuable aspect of the GNA agreement is that revenue from timber sales are used to cover program costs. However, before the timber revenue is generated, the state needs to fund this work to establish and administer timber sales. State funding for this work is a short term issue. In a few years, when timber revenue is being generated, it will be used to pay for the expenses associated with the work performed by the state and its sub-contractors. The scope of GNA Program *effort* outlined in this report exceeds the *funds* provided in the 2015-2017 state budget for the first two years. In order to maximize timber revenue generation, it is critical that resources sufficiently fund upfront timber sale establishment the first several years of the agreement. Therefore, the Department has been treating this effort as a high priority and will use several strategies, described below, to *reallocate funds internally* to accomplish the work. However, a statutory language change is needed to allow the Department to eventually retain an amount greater than the \$750,000 maximum reimbursement s associated with this upfront investment of state Forestry Account funding until such time as sufficient timber revenue will cover the costs. In the absence of this change, upfront expenses in excess of the \$750,000 will be funded by state Forestry Account funds rather than being reimbursed by Federal timber sale revenues deposited into the GNA account, as originally intended.

1) ACCOMPLISHMENTS (July 1 – December 1, 2015)

The Department signed two cooperative agreements with the CNNF; the Master Good Neighbor Agreement, signed August 4, 2015, provides the framework and documents the cooperative efforts between the two parties, while the Good Neighbor Agreement Supplemental Project Agreement, signed September 14, 2015, describes the detailed scope of work that will be completed and the operational aspects of the agreements. Wisconsin is the first state in the nation to develop and implement a GNA agreement that incorporates the establishment and administration of timber sales called for in a forest plan. Department forestry staff worked with CNNF staff to develop the ten-year agreements, contracts, and procedures. The agreements will be revised each year with an updated description of work for the year. For FY16, the scope of work entails 5,792 acres of timber sales (roughly 25 MMBF) on the CNNF facilitated by the department. The goal is to establish and sell the sales within the fiscal year. In addition, the Department will likely begin to administer some of these sales as contractors choose to begin harvesting timber.

The Department is utilizing multiple resources to accomplish this work. Department staff, county staff and private forestry consultants, via contracts, will work on GNA projects. The Department has approved voluntary overtime for staff to work on GNA projects in order to achieve current work priorities. The department has also hired limited term employees to backfill behind full time staff who are working on GNA. Due to the *initial* workload associated with developing agreements, policies and procedures of a new partnership, the Department anticipates that *department staff time will decrease* after the first few years.

In order to establish and sell timber sales under this agreement, foresters must write and CNNF must approve silvicultural prescriptions. Twelve department staff members attended a three day training, conducted by the CNNF, to learn the federal requirements for writing prescriptions. As the prescriptions are approved, staff has begun the field work to establish the sales and prepare them for bids. Counties and consultants will assist in this work. As of December 1, 2015, 47% of the projects had silvicultural prescriptions written and submitted and 27%

of the projects have timber sales established and will be ready to be bid in mid-January. After additional sales are established, a second timber sale bid opening will be held in early summer.

The Department is sub-awarding work to interested counties that have county forestry programs and to private forestry consultants. The Department developed a memorandum of agreement (MOA) for use with interested counties as well as a contract template. The MOA and contract were finalized and ready to be used the first week in November. Currently, two counties have signed MOA's and one has a contract and is working on projects; a total of over 400 acres and up to 2,000 hours of assistance. A template contract will be developed for consultants in December and the department anticipates soliciting bids from consultants beginning in early January, 2016. The department estimates there will be over 1,200 acres of work to contract with consultants. The cost to contract with counties and consultants is estimated at \$221,100.

The GNA agreements stipulate the Department will establish and sell 5,792 acres of timber sales. Between July 1 and October 31, 2015, the Department has expended \$184,200 on developing the GNA agreements, establishing program policies and procedures, training, writing silvicultural prescriptions and setting up timber sales. We anticipate the remaining project acres will cost \$781,300 to accomplish, *including* contracts with counties and private sector consultants.

Since timber is not harvested immediately after bids are awarded, the Department does not anticipate timber sale revenue being generated in FY 2016; however, it is possible that some timber harvests could begin and some revenue generated.

The Department's estimate for the total cost of implementing the first year's agreement is \$965,500, which includes DNR staff time, supplies, travel, and indirect costs as well as contracts with counties and private sector consultants. It is anticipated the amount contracted with counties and forestry consultants may increase by the end of the year and the amount of time by department staff time and resources *should decrease correspondingly*, depending on partner interest in contracting. It was expected that the \$395,000 provided in the budget would not cover the total cost for conducting the GNA projects this fiscal year. The department estimates a shortfall of \$570,500.

In order to cover costs this year, the Department will make decisions on how to internally reallocate funds to accomplish GNA goals as stated in the agreements with the CNNF. The division will use the following strategies to fund and achieve this work. First, the Division of Forestry had many vacancies early in this fiscal year and the unused salary line from those vacancies will offset the cost of the GNA work. Also, the division will reallocate existing staff to work on GNA instead of other work that was planned for the year. Work that may be reduced or not done varies across the state but includes:

- tax law workshops with enrolled landowners,
- invasive species management,
- state land recon,
- work with unengaged landowners and field visits with new landowners,
- assistance to school forests, and
- ground-truthing of MFL mandatory practices and checking mandatory practices out of compliance.

Accomplishments: July 1 – December 1, 2015		
Silvicultural prescriptions written and submitted	2,412 acres	48% of total project acres
Timber sales established (includes the field work required before bidding out the sale)	1,556 acres	27% of total project acres

Estimated & Actual Costs - FY'16		
	Actual costs from July 1 - October 31, 2015*	Estimated total project cost for FY16
Department staff time (standard hours, overtime, fringe (FTE & LTE))	\$146,900	\$458,200
Department staff expenses (travel, equipment, supplies, indirect/overhead)	\$37,300	\$286,200
Total department direct costs:	\$184,200	\$744,400
County partner staff time & expenses	\$0	\$88,400
Forestry consultants	\$0	\$132,700
Total estimated FY16 cost of project		\$965,500
Funds provided by legislature FY16		\$395,000
Estimate of additional funds needed to cover FY16 costs		\$570,500
(*Due to limitations with the time reporting system, we are only able to show staff time from July through October.)		

2) PLAN FOR USE OF \$355,000 IN FY 2017

The Department will work with the CNNF in late winter to develop a scope of work for FY17. The Department will be administering the timber sales that were established in FY16. The Department is planning on roughly 6,000 acres of projects from the CNNF. Department staff, along with counties and consultants will conduct the work. Some counties expressed that they wanted to see how GNA was implemented before getting involved; therefore, the Department expects more counties may be interested in working on GNA in FY17.

As the Department and others become more familiar with GNA work, implementing the GNA should become more streamlined and efficient. However, there are current challenges; one challenge is the different tracking systems that the DNR and CNNF use to manage timber stand information. Sharing this information requires each entity to convert it in different formats and pull it from different sources, which results in increased administrative time. Part of the funding will be used to pay for that work, which would require hiring a LTE that will work in both systems to find possible technological solutions. Estimated cost is \$20,000.

The department expects that at the end of FY17, revenue from roughly 50% of FY16 timber sales will be realized. Most likely this revenue will be received over the second half of the fiscal year and then can be used for future years' work.

Anticipated Costs FY17: July 1, 2016 - June 30, 2017	
Work by DNR, counties & consultants:	Anticipated total project cost for FY17 (includes time, travel, supply, contracting)
Program administration & silvicultural prescription writing	\$110,000
Timber sale establishment	\$687,500
Timber sale administration	\$220,000
Overhead/indirect costs	\$160,600
Total anticipated FY17 costs:	\$1,178,100
Funds provided by legislature FY17	\$355,000
Estimate of additional funds needed to cover FY17 costs	\$823,100
Estimate of timber revenue (10% of revenue deposited to s. 20.370 (1)(cz)] <i>(note that 10% of the revenue lapses to balance of the Forestry Account, up to a maximum of \$750,000)</i>	\$1,072,800

3) REQUEST TO SUPPLEMENT FY 2017 APPROPRIATION

The Department formally requests the \$355,000 allocated for FY 2017 funding to be transferred to the its general forestry operations appropriation [s. 20.370(1)(mv)]. The Department estimates that it will need \$823,100 more than the \$355,000 allocated to implement GNA in FY17. If the Department does not receive additional funding, and does not receive projected timber sale revenue in a timely manner, it will reallocate funds internally and investigate what work to forgo in order sufficiently fund the time and effort needed to accomplish the GNA projects. In FY17, the Department anticipates that approximately \$1,070,000 in timber revenue will be generated. The legislation stipulates that at the end of each fiscal year, 10% of the revenues will repay the initial funds provided. We anticipate that the majority of timber sale revenue will be earned during the second half of the fiscal year; however, depending on when revenues are realized, the Department will determine if it needs additional funds beyond the \$355,000 allocated to cover the costs of the work before the revenue is earned.

SUMMARY

The Department, the US Forest Service (USFS), and other forestry partners are excited to implement GNA in Wisconsin. Implementation of GNA at a significant scale will help the USFS to more fully implement the CNNF Forest Plan, provide forest products to the local economy, foster collaboration between federal, state, county, and private foresters, and improve the health and resiliency of forestlands and watersheds within Wisconsin.

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