



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

January 25, 2006

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Natural Resources: Section 13.10 Request for Funding for the Wisconsin Forest Landowner Grant Program – Agenda Item III

REQUEST

The Department of Natural Resources (DNR) requests an increase of \$400,000 SEG annually from the forestry account of the conservation fund to increase funding for the Wisconsin Forest Landowner Grant Program (WFLGP).

BACKGROUND

The Wisconsin Forest Land Owner Grant Program, funded with \$1.25 million each year in a biennial appropriation from the forestry account of the conservation fund, provides financial assistance to private forest landowners to implement practices that protect, maintain, and enhance forestry resources including wetlands, threatened and endangered resources, and wildlife habitat. Private, non-industrial forest landowners of at least 10 acres but no more than 500 forested acres who have an approved forestry management plan (or who are applying for a management plan) may apply for grants totaling 50% to 65% of the approved cost of eligible projects. Grants are awarded on a first come, first served basis. Highest priority projects include land management plan development, reforestation or afforestation (the practice of converting or restoring one cover type to another, such as restoring grassland to a native forestry cover type), and timber stand improvements. Typically, these projects receive the full 80% of available funding allowed annually by administrative rule. Remaining funds support lower priority practices, which may include soil and water protection, wetland protection, wildlife or fisheries practices, or practices that support threatened or endangered species protection. Grant applicants who do not receive funding in a given

fiscal year generally remain on a waiting list until additional funding becomes available or until the grant request is withdrawn. Currently, there are approximately 350 grant requests awaiting funding.

The Department may designate up to 20% of available annual funds to address any statewide forestry emergency (as determined by the chief state forester). By rule, a statewide forestry emergency may include, but is not limited to, natural and man-made events that cause large areas of forest mortality due to wind, ice, hail, flooding, forest fires, forest insects, or disease.

Under 2005 Act 25 (the 2005-07 biennial budget bill), certain changes were made to the Managed Forest Law (MFL) program. As part of an initiative to reduce the backlog of incomplete timber harvest and forest inventory work on state-owned land, the requirement that DNR prepare forest management plans for individuals enrolling under MFL was removed. Rather, individuals may be required to contract for plans with independent plan writers. In instances where landowners are not able to contract for the service, DNR has the option of preparing the plan and charging a fee comparable to the current commercial market rate for these services.

While this change is expected to reduce some of the workload typically required of DNR foresters (allowing more time to address timber harvest and inventory issues in the field), it is also expected to increase the costs incurred by non-industrial private landowners associated with enrolling their land under MFL. Previously, individuals who submitted an application for enrollment under the program but who did not have an appropriate forestry management plan were charged an additional \$280 by DNR. The Department was authorized to use the revenue generated by this fee to offset a portion of the costs associated with contracting with independent plan writers to complete some of the required forestry management plans. Under current law, landowners will be required to contract directly with independent plan writers, at an average estimated rate of approximately \$770 per plan (though costs may vary considerably by size, location and condition of the timber stand).

In an effort to address this anticipated increase in costs to landowners wishing to enroll in MFL, the budget bill also included a provision that would have allocated a portion of expected annual timber sale revenues to WFLGP (up to \$400,000 annually as a first priority for funding). The additional funding was intended to address an anticipated increase in demand for cost sharing grants to defray the expense of contracting for management plans with independent plan writers. However, the additional funding for these grants was deleted as part of a larger item veto by the Governor. While the Governor item-vetoed this allocation, as part of his veto message he requested that DNR pursue additional expenditure authority for this program (as well as other forestry programs for which he vetoes funding) through the process under section 13.10 of the statutes or the 2007-09 biennial budget as additional forestry revenues became available.

ANALYSIS

The Department's request would increase funding for WFLGP by \$400,000 annually, for a total of \$1.65 million from the forestry account of the conservation fund. Historically, the emphasis of the grant program has been on afforestation, reforestation, and timber stand improvement projects, which received an average of 87% of the available funding awarded annually over the last two fiscal years. While land management plans are considered a first-priority project, only 2% of the grants awarded in each year have supported these efforts. The Department indicates that the comparatively low cost of allowing a DNR forester (rather than an independent plan writer) to prepare forestry management plans for individuals enrolling in the MFL program have minimized the number of landowners pursuing grants for this purpose to secure outside services. However, this is expected to change as more landowners are required to contract for private services, and as landowners receiving plans from the Department are charged market rates.

Enrollment applications for the MFL program (most of which require the preparation of a management plan) have increased steadily for four of the last five years, as shown in the following table.

Enrollment Applications for MFL (Non-Industrial Landowners)

<u>Year</u>	<u>Number of Applicants</u>
2001	3,189
2002	3,205
2003	3,962
2004	4,253
2005	3,752

Assuming that future enrollment in the MFL program remains relatively constant, and given that the estimated average cost of a management plan prepared by an independent plan writer is approximately \$770 (up to 65% of which may be reimbursed to successful grant applicants by WFLGP), it may be anticipated that the changes included under Act 25 could have a significant impact on the demand for funding from WFLGP. Using 2005 as an example, if each of the MFL applicants had also applied for a grant from WFLGP to defray 65% of the cost of preparing a management plan, the demand for funding could have totaled almost \$1.9 million.

In response to the changes made under 2005 Act 25, DNR is currently considering administrative rule modifications to the WFLGP grant program. The proposal, which is scheduled to be reviewed by the DNR Board at its January 25 meeting, would cap the amount of funding awarded for grants to cost share management plans at 50% of available funding. Further, 40% would be allocated for other first-priority practices (including reforestation or afforestation projects and timber stand improvements, which previously have received 87% of available funding). The

remaining 10% of available funding would be allocated for second priority projects, including soil and water protection, wetland protection, wildlife or fisheries practices, or practices that support threatened or endangered species protection. The administrative rule, as currently proposed, would also specify that grant requests related to plan preparation would be funded at 50% (rather than between 50% and 65% currently).

If the administrative rule changes were implemented, \$625,000 would be available each year for grants to cost share management plans under current law (\$825,000 if the Department's request were approved, as 50% of available funding could be allocated for management plan grants). With grant awards set at 50% of eligible costs, and an average plan price of \$770, it may be anticipated that current law funding could support approximately 1,623 MFL plan grants. If the additional funding requested by the Department were provided, an estimated 2,143 grant awards may be made. This would be expected to support grants for over one-half of MFL applicants each year.

To date, demand for forest management plan grants has made up a relatively modest portion of first-priority practice grant requests. Department staff indicate that there is some concern that the change in requirements for obtaining a management plan included in Act 25 (and the anticipated increase in costs to landowners associated with that change) will significantly increase demand for grants for this purpose under WFLGP, depleting funds traditionally used to encourage other high-priority forest management practices. The changes proposed under the administrative rule modifications would allow for a significant increase in the percentage of WFLGP funding allocated for forestry management plans over what is currently awarded. However, it could fall short of the increased demand on the program as a result of the changes implemented under Act 25. From this perspective, if fully funding the anticipated demand for forest management plan grants was a priority, direction could be provided to the Department during the review of any proposed administrative rule modifications requested for the program. Alternatively, additional funding could be provided. For example, providing \$600,000 annually (rather than the \$400,000 requested by DNR) could increase the number of grant requests for plans that could be funded by approximately another 250 per year, while ensuring that adequate funds were still available for other first priority practices under WFLGP. It is anticipated that there would be sufficient funds within the forestry account to support additional expenditures. The forestry account is expected to have a June 30, 2007, uncommitted balance of approximately \$7 million.

Alternatively, since the impact of 2005 Act 25 on the number of grant applications is still speculative, the Committee could choose to decrease the amount provided, or to deny the request. DNR could then monitor changes in demand for WFLGP grant funding. Additional funding could be requested if necessary at a later s. 13.10 meeting, or in conjunction with the Department's 2007-09 biennial budget request, when more information on the change in demand for funding would be available.

ALTERNATIVES

1. Approve the Department's request to provide \$400,000 SEG annually from the forestry account of the conservation fund to DNR appropriation 20.370(5)(av) to increase resources available for grants under the Wisconsin Forest Landowner Grant Program.
2. Provide \$200,000 SEG annually from the forestry account of the conservation fund to increase WFLGP grant funding.
3. Provide \$600,000 SEG annually from the forestry account of the conservation fund to increase WFLGP grant funding.
4. Deny the request. (The Department could fund grant requests from the existing biennial appropriation until it became clear whether the change in demand for WFLGP grant funding from MFL landowners will exceed currently available funds.)

Prepared by: Rebecca Hotynski