



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #535

State Forest Certification (DNR -- Forestry and Parks)

[LFB 2005-07 Budget Summary: Page 367, #9]

CURRENT LAW

In 2003, Governor Doyle directed DNR to explore forestry certification in response to a growing demand for certified wood from purchasers of Wisconsin timber products. In April, 2004, the Natural Resources Board approved committing the state forest program to dual certification by the two primary forest certification organizations, the Forest Stewardship Council (FSC) and the Sustainable Forest Initiative (SFI).

Forest certification is a process in which a forest landowner undergoes an audit of their practices by a third party organization. If the forest practices of the landowner meet the standards of long-term sustainability identified by the third party organization, then that organization will "certify" that the forest is "well managed". Wood products originating from that forest can be marketed as having been grown and harvested in a way that will assure long-term sustainability for biological, social, and economic benefits. Currently, global purchasers of forest products (such as Time-Warner, Home Depot, and Staples) are increasingly requesting that suppliers provide certified products.

GOVERNOR

Provide \$358,100 SEG in 2005-06 and \$383,100 SEG in 2006-07 from the forestry account to acquire and maintain sustainable forest certification for state forests, county forests, and private forest land enrolled under the managed forest law program.

DISCUSSION POINTS

1. The Department is currently pursuing forest certification for state lands. In addition,

DNR anticipates assisting counties that may wish to participate in enrolling and certifying county forest land. Currently, 27 of the 29 counties with county forest land have indicated an interest in becoming certified by one or both of the forest product certification organizations. The Department is also currently investigating the feasibility of offering a central management structure to facilitate including private forest landowners enrolled under the managed forest law (MFL) program in the statewide certification program.

2. Of the amount provided under the bill, \$83,100 SEG annually would be used to maintain certification registration for state forest lands (\$27,600), county forests (\$31,900), and private forestry programs (\$23,600). Funds would be used for annual registration costs and the regular contracting services from required third-party auditors. The audits include contracting with consultants to audit and review the business systems for the Department regarding required management planning, record keeping systems, and verification processes. In addition, \$275,000 SEG in 2005-06 and \$300,000 SEG in 2006-07 would be available to develop and maintain a continuous monitoring process of state-owned forest properties to provide the information required to maintain certification. Under certification agreements, indicators of sustainable forest management (such as timber harvest rates, forest health surveys, timber growth rates, and completed or backlogged management practices) would be monitored on an ongoing basis. The process is expected to provide the scientifically supportable, accurate, detailed, and up to date information necessary to maintain the certification of sustainability. The Department anticipates contracting for services to evaluate the criteria and variables identified in the forestry assessments and in state forest planning processes, and using this information to develop field protocols and a corresponding data management system to better track management efforts and inventory. Inventory and monitoring efforts on state forest land would be part of this effort.

3. While most state forest land is largely in compliance with the standards evaluated by certification auditors, the auditors did note several areas where potential concerns could arise. In general, the reviewers noted concerns about the Department's pace in addressing previously recommended corrective actions, such as improvement on soliciting stakeholder input for annual work plans, clearing up a backlog in forest reconnaissance, developing better road inventories, and streamlining the master planning process. The Department has designated a Public Forest Certification working group to coordinate efforts to address these concerns.

4. Currently, DNR holds the certification for participating members of the county forest system, which are considered willing members of that certification group. The state received certification for the 27 county forests that elected to take part in the process on March 18, 2005. A similar arrangement is being finalized for private landowners under the managed forest law (MFL) program who wish to participate. The Department provides the central management structure for these two groups, providing technical assistance, hiring auditors, and paying for expenses associated with the certification process.

5. The county forest system underwent an initial assessment to determine whether there were any outstanding concerns that would need to be addressed prior to undertaking the certification process in 2003. Auditors determined that while some non-conformances were found, in general the

program was ready for a full certification audit. A full certification audit of eight county forests (which were considered representational of the county forest system as a whole) was conducted in September, 2004, with final certification reports released in February, 2005. The participating county forests received full certification in March, 2005.

6. Auditors conducted a full certification assessment of the MFL program beginning in spring of 2005. As a result of the favorable assessment, DNR has begun to incorporate interested private landowners in the certification program. The Department's efforts to certify private forest landowners under the managed forest law program will differ from the management of the county forest program in that MFL landowners will automatically be included in the certification, unless they choose to opt out. The Department indicates that individual landowners remaining in the certification process should not incur any additional costs as a result, as DNR would pay applicable certification fees and assessment costs, and required practices on private land would remain the same as those included in the landowner's existing forestry management plan that they agreed to as part of enrolling in the MFL program. A direct mailing was sent to all MFL landowners with information on the certification program, including a form that can be returned to the Department if landowners do not wish to be included in the certification program. Participating members of the MFL certification group are expected to receive final certification in June, 2005. The certification would be provided by the American Tree Farm System, which has a memorandum of understanding with SFI that allows it to certify collective groups of individual landowners (SFI does not provide certification to individual landowners, but recognizes those certified as sustainable by the American Tree Farm System as meeting its standards).

7. The certification process does entail a variety of costs. During 2003-04, DNR reallocated \$127,000 from existing forestry operations funding to provide the initial assessments of state, county, and MFL lands in order to determine whether a full certification audit was feasible. Funding provided under the bill would support the annual and periodic audits required as part of the certification process, as well as record keeping costs and license fees. However, other costs are anticipated as a requirement of meeting certification standards.

8. As part of its initial request for funding to participate in the certification process, DNR staff in the Division of Forestry noted that the continuous maintenance of forestry roads used by contractors (and recreational users) would be key to sustaining DNR's certification. Forestry staff initially requested \$100,000 annually to maintain roads and logging trails within state forests and state forested land that did not already qualify for existing road aids due to being periodically gated against public access. These funds were not provided under the bill, meaning that the forestry division would be required to reallocate existing funds in order to address this issue.

9. In addition to the maintenance of forestry roads, other costs may be incurred in association with certification audits. High vacancy rates as a result of shortfalls in overtime funding allotments and competing demands from other forestry priorities (such as the MFL program and forest fire management efforts) have lead to a decrease in staff hours available to perform routine work on state forest land, including the completion of planned timber harvests and the management of invasive species populations. Under the bill, additional forestry field staff would be eliminated,

compounding the difficulty of maintaining forest health on state land. It seems likely that these issues would be relevant to the certification process, and may be expected to be reviewed in future audits. In its current position, it appears that the Division of Forestry may have difficulty meeting any increased management requirements requested by auditors. From this perspective, it may be argued that funds devoted to the certification process could be better spent funding field staff to address auditor's concerns in DNR's forestry management efforts.

10. The Department argues that large purchasers of Wisconsin timber products are seeking certified materials and have set procurement goals. If state timber providers are unable to meet this demand, purchasers may seek other suppliers. Funding under the bill (approximately \$325,000 in 2006-07) for certification of state-owned forest lands would represent approximately 7% of the average DNR timber harvest revenues of \$4.8 million over the past four years. It is unlikely that certification would increase timber values sufficiently to recoup this cost. Indeed, certification experts indicate that the value of certification primarily lies not in increased prices for individual timber sales, but rather entry into specialty markets for certified products. However, given that the demand for timber is currently quite high, it appears that accessing niche markets is unlikely to provide a sufficient advantage at this time.

11. On the other hand, while state land provides only a small portion of timber to the market annually, DNR argues that the Department should set an example for private forest landowners and the state's timber industry to follow. Participating in the process would also increase DNR staff's familiarity with certification issues, increasing their ability to assist others with the certification process. The forest certification process provides incentives to manage land in a sustainable manner by creating financial incentives for participants through access to a growing timber market "niche" that may command better prices, or at least represent a specialized market share for which there is reduced competition for providers of timber products. From the perspective that promoting forest certification encourages responsible land stewardship through education and positive reinforcement, it would seem to be compatible with the Department's mission.

ALTERNATIVES

1. Adopt the Governor's recommendation to provide \$358,100 SEG in 2005-06 and \$383,100 SEG in 2006-07 from the forestry account to acquire and maintain sustainable forest certification for state-owned forests, County forests, and private forest land enrolled under the managed forest law program.

2. Adopt the Governor's recommendation. Further, provide an additional \$100,000 SEG annually from the forestry account for the maintenance of roads and trails within state forests.

<u>Alternative 2</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	\$200,000

3. Maintain current law.

<u>Alternative 3</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	- \$741,200

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