

ILLINOIS FORESTRY DEVELOPMENT FUND TRANSFERS AND IMPACTS TO FOREST LANDOWNER INCENTIVES (4% TIMBER HARVEST FEE)

A Position Statement by the Illinois Forestry Association
Revised: May 15, 2007

Position

The Illinois Forestry Association (IFA) believes that the taking of the 4% Harvest Fee for uses not authorized by the Illinois Forestry Development Act of 1983 (the Act) is illegal and has dealt a severe blow to the forest resources of Illinois. We strongly urge full and immediate restoration of the funds taken from the Forestry Development Fund, and a cease and desist order be executed to prevent any future taking or use of these funds other than the uses contained in the Act. We believe a public statement from the administration is necessary to forest landowners that affirm future use of these funds will be as described in the Act.

Issue

In state Fiscal Years 2004, 2005 and 2006 the expenditure of funds from the Illinois Forestry Development Fund (Fund) was completely changed from the dedicated use of the Cost Share Reimbursement Program to forest landowners for expenditures made to improve their forests under their Illinois Department of Natural Resources (IDNR) approved Forest Management Plans and mandated by the Illinois Forestry Development Act of 1983 (Act).

Since 2004, nearly \$3.0 million of Timber Harvest Fee revenues have either been taken or authorized to be taken from the Illinois Forestry Development Fund by administrative charges and transfers (sweeps). These actions have paralyzed the Forest Management Plan improvement program in the state, plus other Cost Share practices authorized by the Act.

Many forest landowners have postponed implementation of their Plans until Cost Share Reimbursement commitments made by IDNR are ensured. In a recent survey by the IDNR, over 1,000 additional forest landowners have expressed a desire to develop forest management plans. Inadequate funding for Forestry personnel and the Cost Share Reimbursement Program has prevented these needs from being met. Approved forest management plans are also required in order for landowners to receive tax relief for holding and managing their forest land.

Over the last five fiscal years, Timber Harvest Fees paid by Illinois forest landowners and collected by the Illinois licensed timber buyers have generated over \$4.6 million in revenues. Last year was the highest in the history of the program. In fiscal year 2006 the General Assembly appropriated \$1,441,681 in Cost Share Reimbursement Program funds to the IDNR and U. S. Forest Service monies deposited for forestry programs administered by IDNR. Yet no new Cost Share funds were allocated to District Foresters to obligate to forest landowners who develop and implement forestry practices. The Cost Share Reimbursement Program was put on hold. In fiscal year 2007, the General Assembly appropriated \$1,825,447 from the Timber Growers Fund and to date IDNR has only allocated \$350,000 to be used for the Cost Share Program

The functional attrition of Illinois forest programs, brought on by the presumptive reallocation of Funds countermanding the clearly stated intent of the Act, is crippling the vitality and sustainability of Illinois woodlands. A growing and disillusioned constituency has lost trust in the execution of state commitments to forest landowners as these funds are consistently under funded or diverted from their intended use altogether.

Background

The 4% Timber Harvest Fee (Fee) was created by enactment of the Illinois Forestry Development Act of 1983. The Act also created the Illinois Forestry Development Fund in which to deposit revenues from the Fee. The Fee is derived from the dollar value paid to Illinois forest landowners for the sale of timber on their properties. Illinois licensed timber buyers collect 4% of the value paid to Illinois forest landowners for the sale of their timber. These funds are submitted to the IDNR for deposit into the Fund.

The Act provides that the dedicated uses of the Fund are to be expended as cost share payments to forest landowners who have implemented practices recommended in an IDNR approved forest management plan and for the operational expenses of the Illinois Forestry Development Council. Until 2004, IDNR deposited Fee money received in one fiscal year into the Fund and it was appropriated for use during the next year. This allowed for planning and implementation of forestry programs that met the needs of the Illinois Forestry Development Council (IFDC) and the cost share program for forest landowners.

In 2004, the Administration began a practice of transferring balances from the Fund to the state's General Revenue Fund for use in non-forestry related governmental programs. Fund transfers have been made through "administrative charges" issued against the Fund or, as reported by the State Comptroller, and by "Statutory Transfers" (sweeps). In its June 14, 2006 edition, *The State Journal-Register* stated, "The administration argues it is only taking surplus funds from the accounts that are not needed to sustain programs. However, organizations that pay fees to support the funds argue (that it) is unconstitutional to take fees assessed for one purpose and use the money to pay general state expenses."

As shown in the following table, transfers totaling over \$1.677 million in the past three years, created negative balances in 2005 and projected deficits in 2006 including the taking of operational expenses dedicated to the Illinois Forestry Development Council, monies deposited from the U. S. Forest Service, and the commitments made to qualifying Cost Share Reimbursement Program landowners. The FY'07 Budget Bill authorizes continuation of all sweeps that were not completed in FY'06.

	2004	2005	2006 *	2007	Total
Revenues					
Timber Harvest Tax Fees	\$898,300	\$978,816	\$1,072,885	\$820,853	\$3,770,854
Expenditures					
Cost Share Payments	\$504,627	\$779,800	\$241,234	\$136,942	\$1,662,603
IFDC	\$115,700	\$118,500	\$90,200	\$54,529	\$378,929
Authorized Admin. Charges /Transfers (Sweeps)	\$202,200	\$1,357,606	\$1,389,000	\$0	(\$2,948,806)
Actual Admin. Charges /Transfers (Sweeps)	\$202,200	\$1,357,606	\$117,686	\$3,387	(\$1,680,879)
Net Balance After Transfers	\$75,773	(\$1,277,090)	\$623,765	\$625,995	\$48,443

* Balances do not reflect unpaid commitments to cost share program or obligations for IDNR program delivery

In part these sweeps are based on a mistaken perception that there is a surplus in the Fund at the end of the fiscal year because funds that IDNR has obligated to forest landowners should be spent within the same fiscal year. Actually, final expenditure of these funds may be made in a following fiscal year.

According to State policy, funds are considered obligated only if the amount exceeds \$10,000 and the obligation has been filed with the State Comptroller. Unfortunately, most reimbursements to forest landowners for a Cost-Share practice are less than \$10,000 and therefore are not filed with the State Comptroller's Office. At the end of each fiscal year, the Forestry Development Fund *appears* to contain a surplus of unobligated money.

In fact, these monies have been committed by the IDNR to forest landowners for reimbursement under the Cost-Share Program. Because the accumulated requests of less than \$10,000 have not been filed with the State Comptroller, the Administration considers them a surplus and has transferred all or part of them to the General Revenue Fund to be used for other purposes. The money that should have been available for Cost-Share programs last year and again the next year was used to cover the Administration “sweeps” and IDNR expenses in each of the past two fiscal years.

The fact remains that individual forest landowners are directly affected through delayed payments or no payment at all. The end result has been frustration for forest landowners who have paid the 4% timber harvest fee but are unable to implement necessary follow-up forestry practices due to the lack of funding. This does and will negatively impact forest landowners’ willingness to comply with paying the required harvest fees and in making future investments in their forests. The greatest long term impact will be on Illinois’ forest resources. The future of a viable and sustainable forest resource and the associated benefits enjoyed by our society is a direct function of our forest landowners’ willingness and ability to continue to establish and manage their forests.

Recommendations

The Illinois Forestry Association will work with a broad spectrum of other organizations, groups, institutions, and individuals to encourage the Governor and the Illinois General Assembly to restore funds and carry out the Act. IFA sets the following recommendations and actions as essential to achieve the position stated above:

- Immediately restore the funds swept from the Fund. At this time, HB3669 has been introduced that would accomplish this.
- By Executive Order, prohibit any and all future administrative or statutory sweeps of the Fund.
- In each future fiscal year, preserve and protect all Fund monies exclusively for the intended purposes as defined by the Act.
- If actions taken by the Administration and the General Assembly fail to resolve this situation, IFA will work with other concerned organizations, groups, and individuals to resolve the matter through legal means.
- The IDNR, in collaboration with the State Comptrollers office, should develop a protocol to account for funding “commitments” made to landowners for amounts less than \$10,000 to more accurately reflect the obligations against the Fund.
- In addition, IDNR needs to provide adequate field staff in order to ensure these funds can be committed and expended in an appropriate amount of time.

(See the Illinois Forestry Association’s Position Statement: Urgent Need for Additional Professional, Technical and Support Staff for the Division of Forest Resources in the Illinois Department of Natural Resources)