Forestry Impact on Illinois Economy

General Economic Picture
The forests of Illinois are real property that contributes significantly to the social, economic and environmental well being of the state. The economic contribution of forests includes employment opportunities, wealth creation, and the production of commodity and non-commodity values for the benefits of the State's total population. However, the greatest economic impact of forested areas may be local, in rural areas and small towns. Timber products, forest-based recreation, tourism (including hunting, hiking, and etc), water quality, and clean air are the primary elements in the overall forest-based economy of Illinois.

Forest economic issues are very complex, involving both urban and rural landowners, timber buyers, saw mills, wood-using industry, the general consumer, and the recreation enthusiast. The objective of developing Illinois' forest resource is to provide an optimum return on both tangible and intangible values to investors, to consumers and to the public. For some forestland owners, the return may come some 60 or more years after the investment. In industry, the rate of return on investment may be based on the availability of forest resources and the ability of the small mills to compete in a global economy. The return on wildlife and other intangible benefits can be immediate. Other initiatives such as selling carbon credits, hunting rights, forestland tax assessment standardization, etc. can have an economic impact on rural Illinois over time as well.

Illinois ranks 5th in the nation in annual consumption of wood products but the state ranks only 32nd in annual removals (FS General Technical Report NC-228, May 2002). Forest-related industries in Illinois (with 20 employees or more reporting) employ approximately 32,026 people in manufacturing, with an annual average payroll of more than $1.1 billion (2002 Economic Census - Manufactory). Of this total, approximately 9,000 employees were directly involved in wood product manufacturing during 2002, with a payroll of $269,058,000. These figures are misleading as Illinois has a number of mills that have less than 20 employees, and the figures do not account for the number of timber buyers and loggers that are independent businesses or self employed. As an example of this, there are over 1100 timber buyers and Authorized Agents purchasing standing timber for mills in and outside of the State. In Illinois, according to the IL Department of Commence and Economic Opportunity (DCEO), wood products are Illinois' 24th largest export sector, totaling $37,472,737 in 2004. This export figure does not include those Illinois grown logs or sawn materials that are shipped from other states to foreign markets.

Forest management is gradually being recognized by private landowners as a means to improve economic return and to increase benefits from the forest. The increase in forest management activities and the demand for technical assistance emphasize this new interest in enhancing and protecting the forest resource. Presently, forest landowners receive **over $25 million annually** for timber harvested in Illinois. As more land is properly managed, this will improve the forest with a resultant increase in stumpage price and in the volume being harvested. Wildlife and all types of recreation values will also benefit as the forests are better managed.

There is new economic opportunity emerging for forestland owners, entitled Illinois Conservation and Climate Initiative (ICCI). This is a currently joint project of the State of Illinois and the Delta Institute. This initiative allows landowners to earn greenhouse gas emissions credits when they use conservation tillage practices, plant grasses or trees or capture methane with manure digesters. The ICCI provides an additional financial incentive to landowners to use conservation practices that also benefit the environment by creating wildlife habitat and limiting soil and nutrient run-off to streams and lakes. Currently under the program only trees that have been planted after January 1990 are eligible. All credits are traded on the Chicago Climate Exchange (CCX). CCX allows greenhouse gas benefits from conservation practices to be quantified, credited and sold. The price per metric ton of carbon varies depending on the market. CCX experienced record volumes and prices in early part of 2006. Shares sold for as high as $5/metric ton, up more than 100 percent form just a few months. For current market prices see www.chicagoclimatex.com. The funds from the sale of carbon credits are returned to the landowner less trading and aggregation fees on annual bases.

Most of the sawmills in Illinois are small and undercapitalized, making it difficult for them to keep pace with market needs and technological developments. These sawmills must be able to define their markets, partner with their consumers and have diversity in products. In addition, many mills are not producing the highest quality products possible. The more successful mills have diversified to produce products that can be used by the homebuilder consumer. In 1983 there were 184 primary wood-using mills known to be operating in Illinois. An SIU Survey revealed that the number of mills has decreased to 89 Primary wood using mills. (See Table below) In addition, the overall number of one-man type mills has increased over the years. The production of one man saw mills is less than 1 million board feet per year and they are characterized as doing only basic custom sawing for individuals. The number and production output of these mills varies from month to month.

Illinois Wood-Using Industry (Sawmills)

Year	Mills	Sources
1909	1216	USFS/ U of I
1947	1115 (401 mills – backbone of Industry)	U of I Ag Exp Station
1961	314 8 pulp mills	USFS
1983	184 0 pulp mills	USFS
1996	106 1 veneer mill	USFS
2004	89 0 veneer mill	SIU/IDNR

State Forestry Assistance Programs – Four Percent Harvest Fee

Since 1984, the Department of Natural Resources has collected a 4% Harvest Fee that is used to support a forest practices cost share program and the Illinois Forestry Development Council. Table 1 shows the funds collected and their distribution over the past 10 years. Also provided is the number of Illinois Timber Buyers Licenses issued. Each license can have multiple buyers.

Table 1: Timbers Byers and 4% Harvest Fee and uses.

Year	Timber Buyers	4% funds Dollars	Cost Share Made Available	Council Expenses
1995	484	810.7	$675.5	$80.9
1996	472	721.8	808.6	113.6
1997	483	740.7	755.0	92.9
1998	504	752.5	611.0	100.3
1999	508	792.3	652.3	92.4
2000	476	756.4	737.6	99.7
2001	443	747.7	553.9	97.9
2002	441	719.0	575.0	100.7
2003	446	866.6	625.0	110.1
2004	465	898.3	641.2	115.7
2005	459	974.3	700.0	104.1
2006	+426	1,048.0	0.0	±107.0

(Dollars are thousands) Illinois Timber Buyer figures include in and out–of-state buyers

Workers Compensation Insurance and Tax Issues

Rates in the logging sector are very high, due to the dangerous nature of the work. The rates vary significantly across the states. This is in part because states have different requirements and offer varying levels of Workers Compensation benefits. But the small size of the logging sector must also play a role in this area. Based on the advisory rate, Illinois is at a disadvantage compared to WI, IN and IA. Advisory rates are not available for MO or KY, but it appears that Illinois might have an advantage over those states. However, this work pool is small so the numbers might be misleading. *Source: IDCEO.*

According to 2004 data from the U.S. Bureau of Labor Statistics, the workers most likely to be killed at work are the ones that provide basic needs in the United States. The top five most dangerous in the nation are:

Logging Workers – 92.4 fatalities per 100,000 employed with median pay: $29,730.
Aircraft Pilots and Flight Engineers – 92.4 fatalities per 100,000 employed with median pay: $129,250.
Fishers and related Workers – 86.4 Fatalities per 100,000 employed with a median pay: $24,100.
Structural Iron and Steel Workers – 47 fatalities per 100,000 employed with median pay: $ 42,430.
Refuse/Recyclable Material Collectors – 43.2 Fatalities per 100,000 employed with median pay: $25,760.
Note: The fatality rate for all occupations is 4.1 per 100,000 employed.

As indicated above, improvements in occupational safety records in the forestry sector are important to document as on–the-ground forestry operations (logging) have historically been viewed as dangerous, thus high injury rates. “Injury rates per 100 workers in the wood products sector in Illinois went from 12 in 1998 to 17 in 1999 and then declined to about 8 in 2001.” (IFDC Report on Sustainable Forest)

Illinois wood-using industry faces two perceived barriers to success or comparative disadvantages with competitors in neighboring states. These issues, Workers Compensation Insurance Advisory Rates (Table 2) and Taxes (Table 3) are shown in comparison with Illinois’ neighboring states.

Table 2: Workers Compensation Insurance Advisory Rates

State	Advisory Loss Costs	Advisory Rates	Assigned Risk
IL	23.50%	36.80%	47.84%
WI	-	26.75%	-
IA	-	22.01%	26.41%
MO	32.00%	-	62.41%
KY	72.24%	-	-
IN	15.07%	20.48	20.48%

Note: All rates are shown as a percentage of payrolls. Advisory Loss Costs refers to the claims paid out. Advisory rates are analogous to the “suggested retail price” of the coverage for the Logging or Lumber & Drivers Sectors. Not all rates are available for each state, so a definitive comparison is not possible. *Source: IDCEO*

Table 3 shows a comparison of the tax rates that affect businesses and residents living in respective states.

Table 3: Taxes

State	Maximum State & Local Sales Tax Rates						Max State Corp Income Tax 1/12004		State & Local Tax Burden 1/1/2004	
	Rank	Total	Rank	Local	Rank	Statewide	Rank	Percent	Rank	Percent
IL	8	9.25	10	3.00	7	6.25	44	4.80%	30	9.70%
IN	32	6.00	35	0.00	9	6.00	14	8.50%	16	10.10%
IA	24	7.00	21	2.00	26	5.00	1	12.0%	26	9.80%
KY	32	6.00	35	0.00	9	6.00	17	8.25%	18	10.00%
MO	13	8.35	9	4.13	38	4.23	36	6.25%	38	9.30%
WI	32	6.00	29	1.00	26	5.00	19	7.90%	6	11.10%

There are other issues that affect the wood-using industry and in some cases, affect the forest landowner. Real estates taxes have a bearing on the willingness to grow a forest (tree) crop or convert the land to other use. Illinois Legislature is currently reviewing the way forestland is being assessed in the State. Comparatively high utility rates, high truck license fees and transportation costs (includes higher fuel taxes) and others all affect the competitiveness of the forestry industry in the market place.

Illinois forest industry still has the ability to compete. The small mills in Illinois need to continue to look at ways to convert low-value products to value-added products. With Illinois' fine hardwoods, industry has the opportunity to re-establish lines of communication with Illinois Foreign Offices and to increase the export of wood products. Since most mills are small this type would take a cooperative approach to marketing both within the United States and international.

Tourism and recreation directly contribute to the economy of rural Illinois. (An example is the Pike County hunt lease program). The forest habitat serves as a setting for a variety of recreational uses including hunting, hiking and nature walks, picnicking, camping, off-road bicycling, ATV riding, and horseback riding. In 2005, the Illinois Department of Natural Resources issued 275 permits to Outfitters who acted as hunting guides and/or acted to enhance the outdoor experience of visitors. The local economic activity associated with non-resident recreational pursuits significantly helps area businesses (lodging, food, and other local businesses) overcome off-season doldrums. The agri-tourism business in Illinois brings an estimated $100 –500 million annually in income to the state.

Opportunities

Illinois' forests are the state's unofficial wildlife refuge system (ILSCORP, IDNR, 04/04). Four of five Illinois mammals and amphibians and three of five birds need forested land for at least part of their lifecycle. Forest recreation provides an economic impact that benefits the landowner and the local community. According to the 2001 National Survey of Fishing, Hunting, and Wildlife Associated Recreation, while these activities are down in numbers, they still provide a significant contribution to the state's economy. The following table shows the economic impact of hunting and wildlife watching. This table includes all activities and not just those in forest condition.

Table 4: Economic Impact of Hunting and Wildlife-Watching

Dollars are in Millions	Hunting	Wildlife-Watching
Retail Sales	$ 451.4	$ 753.0
Economic Output	$ 949.4	$ 1,690.0
Earnings	$ 243.4	$ 501.5
Taxes	$ 72.2	$ 110.4
Jobs	$ 8,438.0	$ 20,716.0
Activity Days	$4,521,757.0	$9,416,000.0

Source: IDNR Illinois State Comprehensive Outdoor Recreation Plan 2003-2008, page 7

Summary

A sound forest industry, recreation and agri-tourism economy will result in greater incentive for good forestland management. This will in turn provide high quality material as well as improved soil and water protection, clean air, wildlife habitat enhancement, recreation opportunity, and an increased economic return to the forest landowner and add to the over all state economy. This will not only improve biodiversity in the forest, but also ensure a diverse environment for outdoor recreation. Benefits to rural areas will also provide a direct benefit to urbanized areas.