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**Testimony in Support of HB 2124**  
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**Oregon Forest Research Laboratory**  
**Oregon State University**

Co-chairs Barnhart and Berger, and members of the Committee, I am Steve Tesch, Associate Director of the Oregon Forest Research Laboratory (FRL) and Executive Associate Dean of the College of Forestry at Oregon State University. Thank you for this opportunity to testify in support of HB 2124.

I will briefly describe the programs of the FRL and how we use revenues from the harvest tax to support our work on behalf of Oregonians. In an appendix to this testimony, I provide more detail on sources of support for the FRL and the distribution of expenditures in 2010.

The FRL is Oregon's primary source for conducting and distributing scientific, technological, social, and economic analyses of Oregon's forest resource issues. Our researchers work on nearly every aspect of forestry and related renewable materials, including tree genetics, forest soils, tree growth, forest watersheds, water quality, forest wildlife, forests and climate, forest management, forest recreation, timber harvesting and transportation, wood products manufacturing, wood products engineering, high-tech wood-based composites, uses for wood products in green building and green economy, bio-based renewable energy, forest policy and economics, and the human dimensions of forest resources.

All of these fields are fundamental to the mission of the FRL and the College of Forestry at Oregon State University. The FRL is Oregon's research and development arm focused on forest resources. It is tightly integrated with the College's teaching and outreach missions. Those three missions – teaching, research, and outreach – are how the College and the FRL meet our Land-Grant responsibilities to serve all Oregonians, both urban and rural.

**Harvest Tax Rates have been Stable, but Harvest Levels and Revenues have Declined in the Current Biennium**

The current harvest tax rate for FRL programs for FY 2009-2011 is \$0.92 per thousand board feet (MBF) of timber harvested in the state. The rate was last increased by \$0.25 per MBF in the 2007 legislative session, from \$0.67 per MBF, with a goal to increase harvest tax revenue to the FRL and match a corresponding increase in state General Fund appropriations to the FRL. The historical practice is for the General Fund and harvest tax to be about a one-to-one match in supporting the FRL.

At harvest levels forecast for FY 2011, the current rate will yield about \$2.8 million to fund faculty and staff salaries and other support services involved with FRL's research program. Despite the increased harvest tax rate in effect since 2007, the number of board feet harvested declined by approximately 1 billion board feet during this recession. As a result, harvest tax revenues did not increase as expected and annual revenues have remained at or below pre-2007 levels throughout the current biennium.

## **Overview of Research Funded by the Harvest Tax**

The FRL relies on multiple sources of funding, including grants and contracts for which the faculty compete, revenues from the harvest tax, the FRL appropriation from the state's General Fund contained in the budget for the Statewide Public Service Programs in the Oregon University System (OUS) budget, federal McIntire-Stennis formula funds, earnings from endowments, indirect cost returns from OSU to the College and FRL, and small amounts of revenue from OSU College of Forestry properties.

All of these revenues are combined to cover salaries, benefits and services for all faculty and staff engaged in all aspects of the research work conducted at the FRL. Except for grant and contract funds that are awarded for specific projects, funds are pooled and allocated to faculty and staff regardless of discipline or the focus of their research, based on the portion of their appointment dedicated to research. The exception is a portion of the harvest tax – \$0.10/MBF – that is dedicated to research on fish and wildlife habitats in managed forests. This targeted program generates about \$300,000 per year at current harvest levels for internal competitive grants for faculty and graduate students. McIntire-Stennis funds are also allocated to faculty salaries for research that implements that federal program's strategic plan.

As shown in the attached Appendix 1, the main sources of funding for the FRL in 2010 were grants and contracts (\$12.67 million), the General Fund appropriation for FRL (\$3.15 million), harvest tax revenue (\$2.54 million), earnings from endowments (\$1.51 million), and federal funds (\$920,000).

In FY 2010 the harvest tax provided about 11% of annual research funding for the FRL, compared to about 15% from the General Fund appropriation contained in the OUS budget. The variance from the traditional one-to-one match in General Fund to harvest tax is a result of the current economic recession and the decreased demand in lumber for housing.

Grants and contracts have been the largest revenue source for FRL research over the past three decades. In FY 2010 grants and contracts provided nearly 60% of total research funding. These are predominantly federal competitive grants, research cooperatives and cooperative agreements that bring money and jobs to OSU and Oregon. Expenditures from endowments and gifts, federal formula funds, indirect cost returns from OSU to the College and FRL, and College Forest revenue made up 15% of FRL funding in FY 2010.

The total FRL research enterprise results from leveraging each \$1 of combined FRL General Fund appropriation and Harvest tax revenue with nearly \$3 in additional non-state funding. Our research is delivering vital knowledge and information about the effectiveness of contemporary forest practices to protect water quality and native fish, the development of non-toxic, bio-based adhesives for interior wood panels to improve indoor air quality, roles of forests in climate change, fire risk reduction strategies for federal forests, better uses of wood products in green building, and use of wood wastes in renewable energy production.

As Associate Director of the FRL, I support HB 2124 and welcome the opportunity to work with the Legislative Assembly as the revenue and budget processes move forward. But given current uncertainty in other revenue streams to the FRL, I am not ready at this time to recommend a specific Harvest tax rate for the coming biennium to the Committee.

I will be pleased to answer any questions.

# Appendix 1: Distribution of FRL Expenditures in 2010 by Funding Source

