MAJOR CHALLENGES AND DECISION POINTS

Department of Forestry

Analyst: Gilbert

3. Fire protection funding is a perennial legislative policy choice. What is the appropriate level of state subsidy for the timber industry – both in-state and out of state landowners? The Department of Forestry, with industry stakeholders, has developed a revised industry cost-share model. The new formula splits the expense of high cost fires dollar-for-dollar with the industry, rather than the industry covering the first $10 million and the state covering the next $15 million. The plan also increases up-front General Fund to get ahead of more fires before they grow large and expensive. That cost is $1.6M General Fund per biennium.

Background

Forest wildfire protection in Oregon is provided through a coordinated effort of local, state, and federal resources. The Oregon Department of Forestry (ODF) fire program protects 15.9 million acres of public and private forestland, about half of the state's total forest acreage.

History of Fire cost funding

Until 1965, landowners paid the entire cost of fire protection. Then the Legislature established a cost-share model by capping grazing landowner costs statewide and timberland owner costs on the east side of the state. The state was responsible for costs above the caps. In 1973, the Legislature established the "pro-rata" share per acre concept. Landowners are assessed for fire protection based on the number of acres they own within a specific fire district. In 1989, the law provided for a 50/50 landowner/General Fund split for base protection. For a few years in the mid 1990's, the General Fund share dropped to 45%. Since 1999 the ratio has been nearly 50/50 for base protection, "nearly" because landowners pay no agency administrative overhead allocated to the program. The General Fund pays 100% of the overhead. The reasoning is that landowners provide in-kind resources such as dozers, water trucks, etc., as an offset to administrative overhead.

Current fire cost funding

The state provides protection from fire in three layers. Base protection costs to ensure readiness and initial attack response at the local district level have been shared equally by private landowners and the state since 1991. During severe fire danger, ODF draws on a special appropriation of state funds to provide retardant-dropping air tankers, water-dropping helicopters, and other resources that can be placed where the immediate or projected threat is highest. Firefighting costs for large fires are covered through a mix of state and landowner funds plus an insurance policy.

1. **Base Protection** – ODF's base protection program is delivered through local Forest Protection districts. Revenue to support the district budgets comes from a combination of General Fund and forest patrol assessments on local private forest landowners. The obligation is established in statute as 50% General Fund, 50% landowner assessment. Forest patrol assessments charged against subject landowners on a per-acre basis vary by district, as each local budget is developed independently. Public landowners, such as federal agencies, receive no General Fund match and pay the full cost of their fire protection.
2. **Severity Resources** – These resources – primarily aviation - are critical in preventing small fires from growing into large, costly fires. General Fund alone supports this protection level to provide

two large air tankers, three helicopters, and short-term capacity for additional equipment and crews as needed. Tankers typically cost over $600,000 each per season; helicopters range from $322,000 to $392,000 per season. The Department typically requests around $5 million for two years, which also covers the state's share of the insurance premium discussed below. Private landowners do not participate in this funding.

3. **Large Fire Protection –** Large fire protection pays for emergency suppression costs. Enabling legislation is based on the policy of equalizing emergency fire suppression costs on forest lands protected by the state; no single district is required to pay the full amount of firefighting expenses. Funding for emergency costs is provided by General Fund and by the Oregon Forest Land Protection Fund (OFLPF), which is administered by a non-state landowner committee. Landowner assessments and taxes provide revenues to support the OFLPF.[1]

   The OFLPF annual reimbursements are capped at $10 million. Expenditures from the fund are triggered by a district meeting a deductible based on acreage and $25,000 for any one fire or on any one day. If large fire costs exceed $9.5 million statewide for a year (fire season), state General Fund pays the next expenses up to $15.5 million for a combined total of $25 million.

   If expenses exceed $25 million, statutorily required insurance provides up to $25 million more. The annual premium is around $1 million, shared equally between the state General Fund and the OFLPF.

   Since 1973, the state and OFLPF have purchased insurance in all but two years. The coverage varied from $1 million to $43 million. The costliest season was in 2002-03 at $30 million. Over the 38 years of insurance coverage through 2011, claims were made and paid 13 times. Premiums have cumulatively totaled $53.5 million, about $1.5 million more than cumulative payouts.

Proposed changes to Fire cost funding

ODF and industry partners have developed a revised cost share funding model to address three issues:

- Reducing catastrophic fire costs
- Reducing assessment rates for fire protection on lower productivity lands
- Redistributing who pays when on the top two protection levels

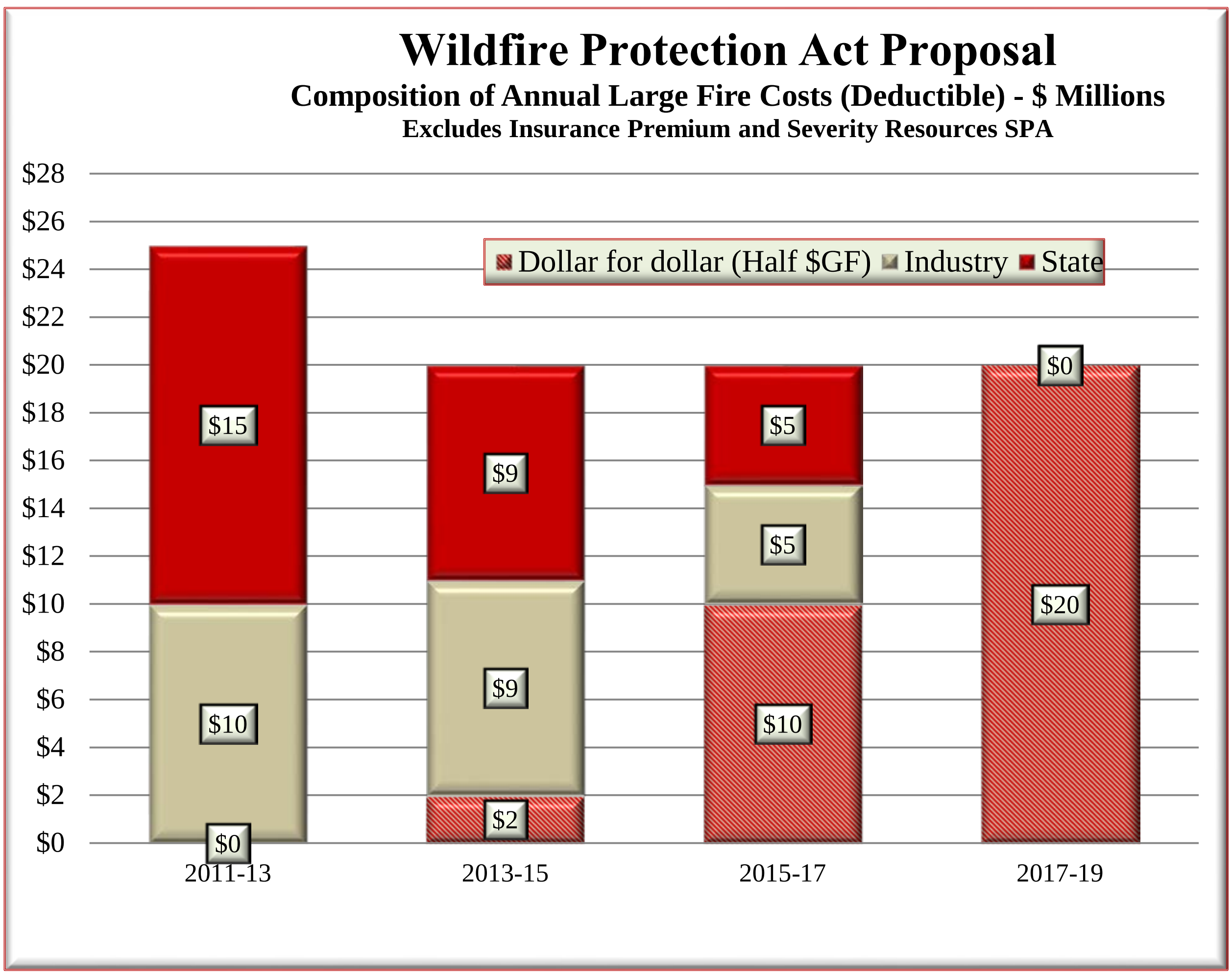
1. **Catastrophic fire costs -** The new formula addresses large fire costs by increasing severity resources. The concept is that additional fast-attack resources during periods of multiple fire starts and heightened fire danger will reduce the number of fires that grow large. Landowners would provide $3 million per season to these resources; they currently do not contribute to this resource. The state match would be $2 million General Fund per season. In the current plan, the state spends $2.2 million General Fund.

2. **Assessment rates -** In addition, $1 million General Fund per season would be committed to subsidize assessments for fire protection on lower productivity lands (central and eastern Oregon). These are lands that are more likely to have large fires and are paying higher per-acre assessments than lands less likely to have large fires. The higher assessments are more difficult to afford due to the land's lower productivity. The cumulative biennial impact is an additional $1.6 million General Fund.

[1] Harvest tax of $0.625 per thousand board feet (mbf) on all merchantable forest products (HB 3044, 2007); acreage assessment on all protected forest land ($0.05 per acre for Westside timber acres, $0.075 per acre for Eastside timber acres, and $0.075 per acre for all grazing acres); assessment of $3.75 per lot (out of $18.75 minimum assessed for forest patrol); surcharge of $47.50 for each improved tax lot; and interest from the State Treasurer's investments of the fund.

3. **Funding redistribution** - Base funding is currently divided 50/50 between General Fund and private landowners. Under this plan severity funding would also be 50/50 with the landowner ante of $3 million per season. Finally, large fire costs would be shared on a dollar-for-dollar basis with the industry, rather than the industry covering the first $10 million and the state covering the next $15 million. The dollar-for-dollar funding split phases in over three biennia. In the first biennium, 2013-15, the state and industry share the first $2 million per year dollar-for-dollar. The industry pays the next $9 million and the state the next $9 million after that for a total of $20 million. In the 2015-17 biennium, the first $10 million is shared dollar-for-dollar, with the industry paying the next $5 million and the state the next $5 million after that. In 2017-19, all costs up to $20 million are shared dollar-for-dollar. The General Fund impact depends on the fire season. Assuming an average $8 million season, all of which the OFLPF would cover under the current plan, there will be an added impact to the state. The display shows the maximum annual effect on General Fund for costs above severity and base.

Insurance will still be required, at a total of $20 million after the state's $20 million deductible. The assumption is that more severity resources up front will reduce the number of fires that grow large and thus expensive. Therefore a lower deductible and insurance coverage would be adequate.



Options All options assume $8 million fire seasons	**Biennial General Fund impact**	**Total General Fund per biennium**
No change. Likely cost continues at current level above base for severity, including insurance, and large fires.	$5.4 million	$5.4 million
Implement severity changes, reducing from $2.2 million to $2 million, with savings to General Fund.	Subtracts ($0.4) million	$5.0 million
Implement severity changes including the assessment subsidy for lower value lands.	Adds $1.6 million	$7.0 million
Implement severity funding change, assessment subsidy, $2 million dollar-for-dollar sharing in 2013-15.	Adds $2 million	$9.0 million
Implement severity funding change, assessment subsidy, and dollar-for-dollar sharing through 2017-19.	Adds $6 million each biennium	$15.0 million