

Department of Forestry

| | 2017-19 Actual | 2019-21 Legislatively Adopted | 2019-21 Legislatively Approved * | 2021-23 Current Service Level | 2021-23 Governor's Budget |
|--------------------|--------------------|-------------------------------------|--|-------------------------------------|------------------------------|
| General Fund | 135,624,513 | 90,604,264 | 162,806,525 | 93,794,837 | 113,902,322 |
| Lottery Funds | 2,600,999 | 2,543,451 | 2,543,451 | 2,564,210 | 2,564,210 |
| Other Funds | 326,602,365 | 260,068,337 | 380,462,047 | 281,749,690 | 284,531,617 |
| Federal Funds | 15,136,881 | 35,483,276 | 37,766,957 | 37,632,564 | 37,493,713 |
| Total Funds | 479,964,758 | 388,699,328 | 583,578,980 | 415,741,301 | 438,491,862 |
| Positions | 1,163 | 1,153 | 1,194 | 1,149 | 1,195 |
| FTE | 853.33 | 848.99 | 862.62 | 847.71 | 895.18 |

* Includes Emergency Board and administrative actions through January 2021.

Program Description

The Oregon Department of Forestry (ODF) was established in 1911. ODF is directed by the State Forester who is appointed by the State Board of Forestry. The Board's seven members are nominated by the Governor and confirmed by the Senate. ODF has four operating programs: Fire Protection, Federal Forest Restoration, State Forests, and Private Forests. These programs are supplemented and supported by centralized business services divisions including Agency Administration, Equipment Pool, and Facilities Management.

The Fire Protection Division protects roughly 16 million acres of private and public forestland with a coordinated system of 12 fire districts comprised of 9 ODF operated districts and three private forest protection associations along with other associated federal, state, and local agencies.

State Forests operations include forest development and the management of Board of Forestry and Common School Trust lands. State Forests manage over 800,000 acres of state forestland for a variety of public purposes including timber sales that provide revenue for the counties in which a sale takes place, the Common School Fund, and to fund the operation of the program.

The Federal Forest Restoration program was previously housed in the Agency Administration program but is recognized in the budget now as a stand-alone operating program. The FFR program was established to increase the pace, scale, and quality of work performed by the state on federal forestland. This program houses the Department of Forestry's work with the federal agencies through the Good Neighbor Authority and support for forest collaboratives.

The Private Forests program is the primary administrator of the Oregon Forest Practices Act providing education, inspection, and enforcement of the lawful management of Oregon forestlands along with collaborative activities including monitoring and improving forest health, urban forestry, and family forestland assistance. The Private Forests program also oversees the operation of the tree-seed orchard.

CSL Summary and Issues

The 2021-23 current service level budget for the Department of Forestry increases by \$27.0 million, or 6.96%, from the legislatively adopted budget for the 2019-21 biennium. A comparison to the legislatively approved budget for the 2019-21 biennium is not useful due to the inclusion of budgetary adjustments for emergency fire costs for the 2019 and 2020 fire seasons.

The current service level includes adjustments in excess of the standard inflationary factors. These adjustments include increased expenditures in each of the operating programs to accommodate the allocation of agency administrative costs that are budgeted by ODF as a special payment to the Agency Administration program rather than a simple transfer of revenue. Additionally, the adjustment provides funding for personal services expenditures for returning seasonal employees that retain rate steps in excess of the budgeted steps due to systematic issues with the position information control system automatically budgeting vacant positions (including seasonal positions that are unfilled at the time of the budget snapshot) at the second step.

The budget for the Federal Forest Restoration program may not recognize all revenues and expenditures that are related to the program. It appears that there may be funding and expenditures recognized in other operating programs, including State Forests and Fire Protection, for Federal Forest Restoration project work that is accomplished by staff in those programs, although they are not explicitly budgeted this way.

Two items that were funded in the prior biennium as one-time-only are not carried forward into the current service level budget. The first of these is \$200,000 General Fund appropriation that was provided in HB 5050 (2019) for the purchase of a parcel of forestland adjacent to the Santiam State Forest. ODF was unable to complete the purchase as of the start of the current legislative session. Procedural issues for the acquisition of lands by the Department of Forestry remain unresolved. The most significant of these is the need for the current landowner to have the local county commission acknowledge and approve the transfer. A \$1.7 million General Fund appropriation that was included as one-time funding in HB 5050 (2019) to supplement the agency's base budget funding of \$1.2 million for Sudden Oak Death containment and prevention work was not carried-forward in the current service level.

There is a technical adjustment package to consolidate the expenditures for the Department of Administrative Services risk management from the other operating divisions to the Agency Administration program, but the program inadvertently eliminated the General Fund expenditures from the other operating divisions rather than reallocating those expenditures to the payment of the administrative pro-rate. An increase of \$477,102 General Fund will need to be included in the agency's budget to correct the error.

Policy Issues

The Governor's budget proposal for the Department of Forestry includes packages related to implementing policies that have not been adopted formally by the Legislature. These relate to recommendations by the Governor's Council on Wildfire Response and the Governor's Greenhouse Gas Reduction initiatives.

The State Forests program remains entangled in a legal challenge from certain county governments over revenues generated on state forestlands. Following the negative outcome of the lawsuit in Linn County Court, the Department of Forestry is pursuing to overturn the outcome in the Court of Appeals. The judgement ordered by Linn County Court continues to accrue interest pending appeal.

Other Significant Issues and Background

Monthly Financial Reporting

A letter was sent to the State Forester in June, 2019 by the Co-Chairs of Joint Committee on Ways and Means directing the State Forester to produce a monthly report, beginning on August 1, 2019 and continuing until directed otherwise, detailing the financial condition of the agency and certifying that the State Forester had reviewed all aspects of the financial condition of the agency and taken all necessary actions to ensure the ability of the agency to meet its financial obligations. This was done in response to the near default on State Treasury line of credit loans. The reports have been received as required.

MGO Fire Program Study

A General Fund appropriation was made to the Department of Forestry for the cost of contracted consulting services. The consultant was hired to review operational issues related to the processing and collection of accounts receivable at ODF, assist the agency in its processing and collection of accounts receivables, and to make recommendations for changes to the agency and its processes to ensure the agency can adequately and efficiently account for, and collect receivables, and provide accurate cash-flow estimates. The COVID-19 pandemic provided challenges to the consultant, but accelerated the collections of accounts receivable significantly. The consultant was able to develop draft recommendations, as detailed above, but as of the beginning of current legislative session, those recommendations were being reviewed by the agency and agency responses to the recommendations are being produced. It is anticipated that MGO will have a completed report and be able to present their recommendations to the Natural Resources subcommittee during session.

Board of Forestry Appointments

The Board of Forestry still has three vacant positions. The Board is responsible for policy development and agency oversight. Without these positions filled, the ability of the Board to function as expected is greatly diminished.

Budget Structural Changes

There were three minor budgeting structure changes to the ODF budget for 2021-23. The most prominent of these is the move of the Federal Forest Restoration sub-program to the program level. In prior biennia, the FFR sub-program was housed in the Agency Administration program. This move will allow for the explicit budgeting of the program activities using a separate appropriation section in the agency's budget and will provide easier tracking of allocated resources and expenditures. ODF has also created individual budget subdivisions to track fire insurance payments and payments to private fire protection associations. These subdivisions still roll-up within the Fire Protection program, but allow for additional budgetary transparency.

Governor's Budget

The Governor's budget eliminates standard inflation on unprotected Services and Supplies expenditure accounts, increases vacancy savings to 5% in all divisions, makes adjustments for statewide Department of Administration service charges, makes reductions to budgeted expenditures for Attorney General to reflect a 5.91% reduction in Attorney General rates included in the Governor's budget, and removes expenditures in the operating divisions for Microsoft 365 licenses due to a consolidation of licensure and allocation of the costs to statewide government service charges in the agency's base budget.

A \$2.5 million dollar increase in Other Funds Capital Construction expenditure limitation provides the expenditure capacity for the department of Forestry to use insurance proceeds to begin rebuilding the Santiam District Office. The building was destroyed during the 2020 wildfire season.

The budget accounts for a change in the percentage of costs for the administration of the Forest Practices Act paid for from the Harvest Tax from 40% to 50%. This reduces General Fund by \$3.7 million in the Private Forests program. A second adjustment allocates Agency Administration prorata assessments to private landowners at the same proportion as public landowners instead of these costs being subsidized by the General Fund. This produces a \$6.08 million General Fund savings in the Fire Protection program.

The budget proposes to make permanent, the addition of 28 positions in the Fire Protection program that were authorized as limited-duration positions at the January 2021 meeting of the Emergency Board. The total cost of this proposal is \$6.75 million. Only 15 of the positions described in the package are the same as the positions that were presented in the materials provided for the Emergency Board. The exact positions are not necessarily significant since the personal services costs of this package are within 5% of the costs presented to the Emergency Board.

This staffing change represents a 7% increase in total FTE for the Fire Protection program from the current service level. The package includes the establishment of three high level management positions which seems excessive for the management of the remaining 24 positions, but materials provided for the Emergency Board seem to indicate a broader need. One of these management positions would serve as a second deputy division chief, one would serve as an assistant district forester, and one would be managing incident finance. There

are also four fiscal analyst positions established for the fire finance function within the Fire Protection program. The establishment of the incident finance manager and the four fiscal analyst positions is in conflict with the recommendations made by MGO consulting that positions with primarily finance or accounting responsibilities be assigned to the Agency Administration program.

The agency proposes to fund this increased staffing almost entirely with General Fund, this conflicts with the statutory framework for the division of program cost between landowners and the General Fund. Reallocating the costs along that statutory framework would reduce the General Fund exposure by roughly \$2.5 million.

This Governor proposes to establish a base-protection level \$20.0 million program for centralized firefighting assets primarily focused on initial attack and aviation activities. The budget documents break the funding down into:

- \$2.5 million - Private fire suppression contracts
- \$500k - Contracted type 3 helicopter and 8 seasonal staff
- \$2.0 million - Four single engine air tankers
- \$8.0 million - One next generation air tanker and lead plane
- \$3.0 million - Wildfire response training
- \$2.0 million - Co-ops
- \$2.0 million - Type 2 private contract 20-person initial attack crews

This is in addition to the existing budgetary set-aside of up to \$5.0 million per year for augmenting the base budget with initial-attack, primarily aviation resources. The Oregon Forest Land Protection Fund provides three-fifths of this funding, up to \$3.0 million. The agency proposes to fund this proposal entirely with General Fund, this conflicts with the statutory framework for the division of program costs between landowners and the General Fund. In years where the total costs have been less than \$5.0 million for severity resources, the OFLPF match has been less than \$3.0 million, allowing the funding to be used for other purposes, including fire insurance premiums. The additional General Fund would ensure that the \$3.0 million match would always be expended.

This would be a very significant increase in funding and change in policy. To provide some perspective on the change, the average annual net cost to the state for emergency wildfires on ODF protected lands for the past nine years is \$29.0 million. If one includes the costs claimed against the state's insurance policy, current level of severity resource funding, insurance premiums, district deductibles, and interest expense, the annual cost to the state is \$44.25 million. Both of these amounts include private and state public funds. Assuming that the \$20.0 million is evenly divided in the biennium, the additional funding in the package represents 34.5% increase in annual net emergency fire costs and a 22.6% increase in total annual state emergency firefighting costs. The current service level General Fund budget for the Fire Protection program is \$55.17 million. This increase in funding at the base level represents a 36.2% increase.

The Governor seeks to establish a new Forestry Carbon Offset program at the Department of Forestry in conjunction with the Governor's greenhouse gas initiative. The initial staffing for the program would include 10 positions (10.00 FTE):

- 2 Principal Executive/Managers
- 1 Administrative Specialist
- 5 Operations and Policy Analysts
- 2 Natural Resource Specialists

Work projects for the program would include federal forest policy related to climate mitigation, bio-mass regulation and utilization, statewide development of policy and rules dealing with greenhouse gas and carbon offsets, development and support for forestry carbon offset market, and community afforestation.

The budget dedicates funding for ongoing evaluation and management for communications site infrastructure, implementation of a new vehicle location system, and adds capacity to the facilities maintenance sub-program to address workload issues.

There are two bond-funded proposals in the Governor's budget. Both of these use the proceeds from the issuance of article XI-Q bonds. The first of these provides net proceeds of \$4,820,771 to address deferred maintenance issues on ODF owned facilities. The second provides net proceeds of \$1,632,842 to fund additional work on the Toledo unit office facility. The project has existing funding of \$3,832,965 that was provided in the 2017 session. The additional funding represents escalating costs over the intervening four years and the changes required due to the withdraw of ODOT participation in a joint facility.

A package is included in the Governor's budget to affect one of the draft recommendations made by MGO consulting following the review of financial operations of the Fire Protection division. The package transfers nine positions (8.50 FTE) performing accounting and financial functions in the Fire Protection division to Agency Administration. The move of these positions and the addition of four additional positions, three regional financial managers and one additional accounts receivable specialist for finance activities, will ensure enhanced financial oversight for the Fire Protection program and the agency overall.

Key Performance Measures

A copy of the ODF Annual Performance Progress Report can be found on the LFO website https://www.oregonlegislature.gov/lfo/APPR/APPR_ODF_2020-09-28.pdf