
1. Agency Summary



**Oregon Department of Forestry
2011-13 Ways and Means Presentation
April 2011**

Agency Summary

A. Key Budget Drivers and Major Issues

Oregon's Forests

Forests cover 30 million acres, or 48 percent of Oregon's land area. They are integral to the state's identity, its economy and its quality of life. Forests produce clean water – cleaner than water flowing from land in other uses – as well as wildlife habitat, timber products, jobs, recreation, scenic beauty, revenue for public services, and other benefits. They have a role to play in addressing key issues facing the state, including the vitality of rural communities, school funding, growth, and renewable energy.

Oregon's forests provide a critical economic engine; the forest products industry remains a mainstay of the state's economy, especially in rural communities. Wood products and forestry services (firefighting, reforestation) contribute substantially to the state's economy. Oregon's private forests harvest 80 percent of the state's 3-4 billion board feet per year. The forest products industry remains a significant source of jobs (3.5 percent of total jobs) and contributes even more to total payroll (3.8 percent). Forestry products and services employ over 47,000 people directly, generating an annual wage income of \$2.1 billion. The primary forest products sector pays an average annual wage of \$43,952, 8 percent higher than the state's average wage of \$40,742. Oregon is the nation's number one producer of lumber and plywood.

While many states have experienced substantial loss of forestland to development, agriculture and other uses, Oregon's land use policies have largely been successful in maintaining the forestland base in recent decades. However, given the state's population growth, rising real estate values and other factors, fragmentation and loss of working forestland are growing concerns.

In addition to the 30 million forested acres, Oregon's forest resource includes urban forests – trees in neighborhoods and other developed landscapes – which have tangible benefits in property value, retention of storm runoff and other values.

Owners of forestland in Oregon include families and individuals, Indian tribes, industrial landowners, and federal, state and local governments. Ownerships vary from a few acres to hundreds of thousands. Forest owners have widely differing management goals and face differing circumstances – factors such as the location, health and productivity of the land, and funds available to invest in forest management. The primary ownership groups include:

- **Private forestlands**, which are divided between industrial holdings managed primarily for environmentally sustainable timber production, and family forestlands whose owners have widely varying desires and goals for their lands.
- **State, tribal and local public lands**, which are managed for a variety of purposes. Oregon's State Forests account for about 3 percent of Oregon's forestland, and are managed to produce a range of economic, environmental and social benefits for Oregonians.
- **The federal government is the largest forestland owner**, primarily through the Forest Service and Bureau of Land Management. Large proportions of these lands currently are managed with a "reserve" approach intended to conserve or restore the characteristics of older forests. Many of these lands, particularly in drier regions, face serious forest health problems, including increased vulnerability to insect and disease activity and to unusually hot, destructive wildfires that may also affect neighboring lands or communities.

OREGON FORESTLAND BY OWNER (AS PERCENTAGES)



Agency Summary

A. Key Budget Drivers and Major Issues (Cont.)

The vision – sustainable forest management

Sustainable forest management means that forest resources across the landscape are used, developed and protected in ways that enable us to meet current environmental, economic and social needs, while ensuring that future generations can meet their needs.

The state's forest policy, as expressed in the Oregon Board of Forestry's *Forestry Program for Oregon*, holds that keeping forests sustainable means recognizing the relationship among economic, social and environmental values. Although these values are often viewed as being in conflict, they are in fact interdependent. Maintaining environmental values protects the forest's health and productivity – the basis of its ability to provide all benefits. Economic benefits are necessary to retain forest use in the face of growing pressure to convert to other uses, and to pay to protect and enhance forest resources. Social values include recreation, revenue for public services, and stability of rural communities; these help sustain public support for forest management.

The state's forest policy recognizes that every acre of forest is not managed in the same way. It is a mosaic of responsible management approaches that produces a healthy, resilient and sustainable forest landscape.

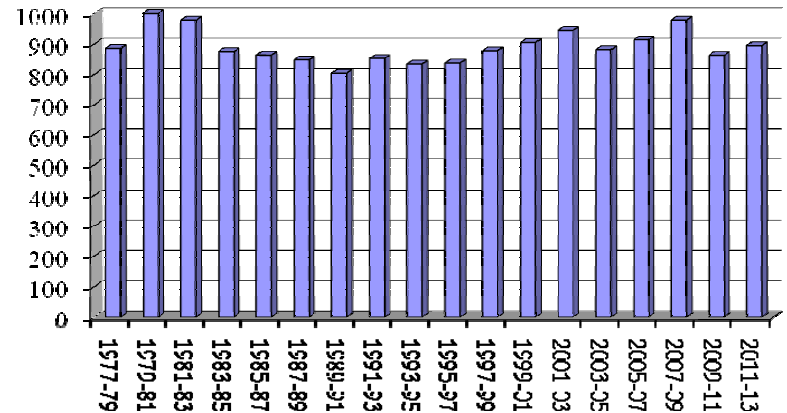
Issues and drivers

The Department's three key businesses are protecting 16 million acres of forest from fire (making ODF the state's largest fire department and an important part of Oregon's public safety infrastructure); providing resource protection and landowner consultation on private land; and managing state-owned forests for a range of public benefits.

A number of key issues impact Oregon's forests today. These directly or indirectly drive the Oregon Department of Forestry's (ODF) budget considerations, some for the near term in 2011-13, and some for the longer term. Some of these drivers are policy-related. Others relate to adequate capacity to provide services or address issues. Service needs and budget reductions since 2001 have eroded the capacity to protect, manage and promote healthy, sustainable forests.

Budget goals for 2011-13 include rebuilding basic services in the Private Forests Program and enforcement of the Forest Practices Act, managing healthy and resilient forests across all ownerships including State Forests, maintaining shared public-private investments in the protection of Oregon's forests from fire, and addressing inefficiencies created by outmoded business systems.

**FULL TIME EQUIVALENTS (FTE)
1977-2009 LEGISLATIVELY APPROVED FTE
AND 2011-13 GOVERNOR'S BALANCED BUDGET
FTE OF 894.64**



Agency Summary

A. Key Budget Drivers and Major Issues (Cont.)

Issues and drivers (Cont.)

The Department's working capacity has been essentially stable over the past 30 years. The number of full-time equivalent positions today is actually less than it was in 1977. However, much has changed during that time, including implementation of the Oregon Forest Practices Act and the Oregon Plan for Salmon and Watersheds, increased forest management and public use activities on state forests, increased fire severity, development pressures on the forestland base, more Oregonians choosing to live in the wildland-urban interface, and the complexity of maintaining healthy, working forests in a changing, urbanizing landscape.

In addition, many external factors and influences have changed the requirements and approaches for administrative functions such as human resources, governmental accounting and budgeting, accountability and auditing, and reliance on information technology for day-to-day business operations. Similar to other organizations across the country, the Department is also working through the generational change-over of the retiring "baby boomers" and the succession management challenges that phenomenon represents.

Like other state agencies, ODF experienced staffing losses beginning in 2001, when the economic downturn crimped income tax collections. The current economic downturn has compounded the problem even further, with additional losses of staff in the 2009-11 biennium. In addition, many support services traditionally provided by the state Department of Administrative Services have shifted to agencies across government. This shift, combined with staff losses, has impaired the Department's ability to provide procurement, human resources and other mandatory services.

At a time when forestry needs and issues are growing more complex, ODF struggles to meet its basic responsibilities, including the enforcement of the Forest Practices Act, and potential forest benefits for Oregonians go unrealized. Specific issues include:

- 1. Keeping forests intact, healthy and working** — Broad ecological and environmental trends, including fuel buildup and declining forest health in some areas, have increased fire danger and severity, stretching resources for the Department and the other land management agencies with which it collaborates. In addition, population expansion into rural areas has increased the risk of human-caused fires in the forest. It has also placed more lives and property in the potential path of fires from forestlands. Today, more than a quarter-million homes in Oregon are at high risk from wildfire.

Recent budget reductions also have compromised the Department's capacity to enforce the Forest Practices Act, a cornerstone of resource protection on private land that requires post-harvest reforestation, protection of streams and wildlife habitat, and other measures. The Act is important in ensuring the sustainability of forest resources, in providing public assurance that resources are managed soundly, and in providing a stable regulatory environment for forest businesses. Given current funding constraints, a creative, thorough review of the methods of providing Forest Practices Act services is necessary.

In addition to these risks, concerns persist regarding forest insect and disease problems such as Sudden Oak Death and Swiss Needle Cast, and the broader concern of non-native, invasive plant and animal species. The Board of Forestry periodically reviews its priorities, and as a result has added plans to address the growing effects of non-native invasive species in Oregon's forests.

Federal economic stimulus funds have assisted with forest health issues and in allowing the Department to retain capacity as state General Fund has been reduced. However, these funds are of limited duration, raising significant capacity issues.

Agency Summary

A. Key Budget Drivers and Major Issues (Cont.)

Issues and drivers (Cont.)

2. **Forest and community viability in a changing landscape** — Population growth, rising real estate values and other factors are changing the dynamic of forest ownership and management in Oregon. Increasing amounts of forestland in areas designated for development are being cleared in preparation for their new use, sometimes amid ambiguities about which regulations or jurisdictions govern this final harvest. Elsewhere, large blocks of working forestland are being divided into tracts of 10, 50, 100 acres or more, often to meet a rising demand for homes in rural or forested landscapes.

This is not just an urban or rural problem. While Oregon is geographically primarily a rural state, recent population estimates show that 68 percent of all Oregonians live in cities, and 79 percent live in urban areas. This issue affects Oregon's largest cities and smallest communities, and some of our most prized forested landscapes.

An estimated 1 million acres of Oregon's forests – about 10 percent of the state's non-federal forestland – lie inside urban growth boundaries or other development zones, or in the “wildland-urban interface,” where development and forest uses intermingle. The number of owners of 10-100-acre forest parcels in Oregon has tripled – to about 60,000 – in the last 30 years.

In general, as the density of homes in forestland increases:

- Forest management activity focused on timber production, forest health and other forest values decreases.
- The risk of wildfires increases, along with the cost and complexity of fighting those fires.
- Problems such as invasive species and home construction in areas vulnerable to landslides increase.
- Conflicts develop when commercial forest operators conduct activities such as logging and controlled burning that homeowners may find objectionable.

Ultimately, such trends may affect Oregon's long-term success in maintaining a viable, working forestland base that provides a broad range of economic, environmental and social benefits. In fact, unless we recognize these trends and respond with thoughtful, community-based tools, policy and incentives, these forces stand to change our environmental, social and economic quality of life. Consequences include:

- The presence of development in forested areas changes everything about wildfire—placing homes at risk, making firefighting more complicated, and increasing firefighting costs.
- Fragmentation and parcelization of forests, combined with the development of roads and residences, can degrade the “green infrastructure” of a forested watershed, including clean water, the diversity of fish and wildlife species, and their habitat.
- Conversion from forest to development dramatically changes the way the surrounding landscape is managed, limiting the range of traditional forestry practices. In many areas, the notion of producing a timber value from the lands—even in the context of sustainable forestry practices—is no longer acceptable to neighborhood residents.
- When formerly productive timberlands are converted to development, surrounding economies and supporting industries are affected as forest products-related jobs and infrastructure are no longer viable. Harvest-related taxes are no longer available to support local government services and education. With no workable return for their investment in forest management, some landowners sell the land for development or other non-forest land use, perpetuating the problem.

Agency Summary

A. Key Budget Drivers and Major Issues (Cont.)

Issues and drivers (Cont.)

About 34 percent of Oregon's forests are privately owned and are managed for a variety of uses. Private forest landowners range from companies with thousands of acres to families with small tracts. Many family woodlands are close to urban areas — the highly visible “forests in our back yards.” Because harvesting on federal lands has declined significantly in recent years, more than 80 percent of the timber harvested in Oregon comes from private forestlands. The state's principal law governing environmental protection on forestland, the Oregon Forest Practices Act, emphasizes the continuous growing and harvesting of trees as the main use of private forestland. It provides for environmentally sound timber harvest, and requires reforestation and other measures essential for sustainable forestry. Accordingly, the Department places considerable emphasis on administering the Act and providing expertise to large industrial landowners and family forestland owners.

With its current staff and structure, the Department struggles to meet its responsibilities on industrial and family forestlands while also addressing the issues that arise in developed and developing areas. These issues include:

- How can homes and roads best be arranged to protect against wildfire?
- What elements of the forest can be equitably retained to protect salmon, to enhance property value and desirability, or to provide shade, erosion control and other benefits?
- What conflicts might arise if commercial forestry continues on some of these lands, and how can they be mitigated?
- What combination of city, county or state regulations apply to harvest and development?

Addressing these issues with today's approach is highly labor-intensive, often requiring close collaboration and facilitation of discussion among landowners, developers, cities, counties, neighborhood groups, non-profit tree conservation groups and others.

3. **Federal Forestry Issues** —These include issues related to the management of federal lands in the state, federal forest policy decisions, actions taken by federal regulatory agencies regarding natural resources, and federal budget and funding decisions.

Federal forestlands comprise 60 percent of Oregon's forests – about one-quarter of Oregon's total land base – and are critical to Oregon's economy, social fabric, and environmental health. Many of these forests face significant health issues, and are at high risk of catastrophic fire, which in turn increases risks on adjacent lands protected by ODF. In addition, significant but unrealized potential exists for federal lands to provide timber and biomass, revitalizing rural economies and supporting industry infrastructure that private landowners also need in order to continue to manage their lands as forests.

The Board of Forestry has taken a lead role in this area, adopting recommendations from its broad-based Federal Forestlands Advisory Committee intended to address forest health, economic and other issues on federal lands, with an emphasis on work through local collaboratives. A diverse group is working to implement these recommendations.

In addition to these on-the-ground issues, federal funding is declining for a wide range of purposes including payments to counties with large proportions of federal lands, urban forestry, resource conservation on private lands, and forest health protection. The long-term federal budget and funding outlook is uncertain. The prospective loss of federal funding at the state and local level is real and significant, in some cases presenting major challenges to state budget resources to meet emergency needs in fire and forest health.

Agency Summary

A. Key Budget Drivers and Major Issues (Cont.)

Issues and drivers (Cont.)

4. **Managing Oregon's State-Owned Forest Resources** — State-owned forests provide many benefits to Oregonians – timber revenue, wildlife and fish habitat, clean water, jobs and places for recreation, relaxation and renewal. All this is accomplished by recognizing that these diverse economic, environmental and social values are connected and interdependent. State law requires the Board of Forestry to produce a broad range of benefits for Oregonians from state-owned lands. The Board uses an adaptive management approach, under which management plans can be changed as necessary in response to new scientific information and changing public needs.

A number of drivers and issues currently influence budget considerations for managing state forest resources. These include:

- **Revenue uncertainty:** The State Forest program is self-funded through a portion of timber sale revenues, with most of these revenues going to the counties where timber harvest occurs. Due to the national economic situation, the forecast is for a flat timber market over the 2011-13 biennium, both here in Oregon and nationally. Global demand is on the rise, but domestic demand is still very much depressed, particularly in the homebuilding sector. This will continue to depress revenues to the counties and local taxing districts, revenues to the Common School Fund, and curtail the investments by the Department in management of state forests. A recovery in timber values would have a positive effect on revenue generation to beneficiaries and would allow the Department to enhance investment in state forests, but the timing is still uncertain. Cost-effective management of state forests is essential to ensure a maximum benefit level can be produced from available revenue at the lowest cost.
 - **Capacity:** State-owned forests were generally acquired when the stands were young and immature. Complexity of management has increased dramatically as these forests have aged and as public demand for a broad range of forest benefits has grown. Capacity is inadequate to meet needs including forest inventory and planning, recreation management, and research and monitoring.
 - **Forest Health:** Swiss Needle Cast, a foliage disease of Douglas-fir, continues to significantly affect a portion of state forestlands on the Tillamook State Forest. Symptoms of this disease are also evident in the Elliott State Forest. Root disease problems and other endemic pest problems can cause significant economic and environmental losses to state forests.
 - **Threatened and Endangered Species:** Federally listed species, including northern spotted owls and marbled murrelets, have significantly increased management complexity on state forestlands over the last decade. Listings for fish species also affect the ability of resource management to achieve program goals on Board of Forestry and Common School Fund Lands.
 - **Information Management:** A significant amount of biological, technical, and financial data is available to the program and needs to be analyzed and integrated in order to support policy and land management decision making. Information from research and monitoring must be organized, synthesized, analyzed and applied. These are highly labor-intensive activities.
5. **Inefficient and Obsolete Business Systems** — Aging business processes and systems lead to inefficiency, redundancy, unnecessary complexity, and unrealized potential for serving Oregonians. Many of the Department's current business processes and systems were developed in a "piecemeal" or "siloed" fashion 20 to 30 years ago, and are now obsolete, inefficient or at high risk of failure. Examples include:
- The system used to account for timber sale revenues that are passed on to counties and the Common School Fund is 30 years old, and uses a programming language that is no longer current. Failure of this system would severely compromise the agency's ability to accurately account for and transfer these funds.

Agency Summary

A. Key Budget Drivers and Major Issues (Cont.)

Issues and drivers (Cont.)

- The system that tracks notifications of planned harvests and other activities on private forestland, and that tracks the activities of the agency's field foresters, is obsolete. Critical data is stored on individual computers in field offices across the state. Consequences include gaps in important information, such as the compliance rate with Oregon's post-harvest reforestation requirements.
- The Department has no automated record or document management system, relying only on paper documents and unstructured email. This is inefficient, and places the Department at high risk for information loss or failure to comply with federal or state records management requirements.
- Financial systems are independent and not electronically linked, requiring manual "work-arounds" to manage financial resources and process a variety of fiscal actions. Payments to vendors during high-transaction activities such as large fires are very slow and cumbersome.

In addition to these major system inefficiencies, budget constraints over time have prevented necessary maintenance and updates of existing information technology applications and software. Some application versions are no longer supported by vendors or manufacturers. The results include increased downtime, reduced productivity, and potential inability to meet data reporting requirements or other mandates. Inadequate technology supports a range of key business systems, including those involving budgeting, accounts payable and timber appraisal.

Following an initial scoping and assessment effort in the 2003-05 and 2005-07 biennia, the Department sought and received much needed funding for business system improvements in the current biennium, and has made very good progress in a number of areas. This work will continue in 2011-13 as we carry forward the remaining funding to the next biennium.

Agency Summary

B. 2011-13 Governor's Balanced Budget



Oregon Department of Forestry 2011-13 Governor's Balanced Budget

	2009-11 Legislatively Adopted Budget	2011-13 Governor's Balanced Budget
General Fund	\$40,474,980	\$46,101,909
Lottery Fund (Debt Service)	1,507,601	3,060,100
Other Funds	199,755,346	198,776,816
Federal Funds	46,558,712	47,864,641
Other Funds (non-limited)	15,000,000	15,000,000
Federal Funds (non-limited)	-0-	-0-
Total Funds	\$303,296,639	\$310,803,466
Full-Time Equivalent (FTE)	864.07	894.64

2011-13 Significant Changes

Basic Fire Protection Funding Split Change

The budget proposes a departure from the current 50-50 split, between landowners and the state General Fund, in the cost of basic fire protection. The new ratio would increase the landowners' share to 55 percent. The General Fund savings would be shifted to the Private Forests program to backfill reductions as well as add resources for administration of the Forest Practices Act. However, the Governor has expressed his desire to offer a supplemental budget request in the near future that would restore the 50-50 balance.

Fiscal Impact: Increases landowners' costs by \$2.6 million and reduces General Fund by that amount.

Only Partial Funding for Fire Severity Resources and Insurance Costs

The Governor's Balanced Budget does not include the establishment of a Special Purpose Appropriation in the Emergency Board Fund to pay for one Fiscal Year fire insurance premium and severity resources (air tankers and helicopters) as in previous biennia. However, the agency budget includes \$2.1 million General Fund to pay for these resources for one fire season. This is still \$2.6 million General Fund less than the funding provided for fire insurance premium cost and severity resources in 2009-11.

Fiscal Impact: -\$2.6 million General Fund (based on funding at the 2009-11 biennium level without adjustment for inflation)

Agency Summary

B. 2011-13 Governor's Balanced Budget (Cont.)

2011-13 Significant Changes
<p>Increased Resources for Implementation of the Forest Practices Act</p> <p>The budget adds \$1.2 million in General Funds, above the current service level, for implementation of the Forest Practices Act. Together with matching Forest Products Harvest Tax, this would allow for important restorations in field capacity to ensure resource protection.</p> <p><u>Fiscal Impact:</u> \$1.2 million General Fund, \$0.8 million Other Funds</p>
<p>Funding for Administrative Costing Realignment</p> <p>The budget adds General Fund to re-align the agency's administration costs among the agency's operating programs based on the latest administrative pro-rate study as directed by the Secretary of State's audit.</p> <p><u>Fiscal Impact:</u> \$0.6 million General Fund</p>
<p>Funding for Forest Health Issues</p> <p>The budget provides Lottery Funds to provide pass-through dollars for non-governmental entities to work on early detection and response to forest health threats.</p> <p><u>Fiscal Impact:</u> \$0.7 million Lottery Funds</p>
<p>Compensation Package and Inflation Reductions</p> <p>The budget includes a 5.5 percent reduction in staff salaries and benefits from the Current Service Level budget, applied statewide. This reduction is not specific to any account or reduction strategy, and was needed to balance the budget. Final decisions will be determined by policy decisions and future labor negotiations.</p> <p>The budget also includes an across-the-board elimination of standard inflation funding from the Current Service Level budget.</p> <p><u>Fiscal Impact:</u> \$1.4 million General Fund, \$7.7 million Other Funds, \$1.4 million Federal Funds</p>