



Promoting and practicing sustainable forestry

BUDGET BACKGROUNDER



The 2008-2011 Revenue Outlook

An Overview

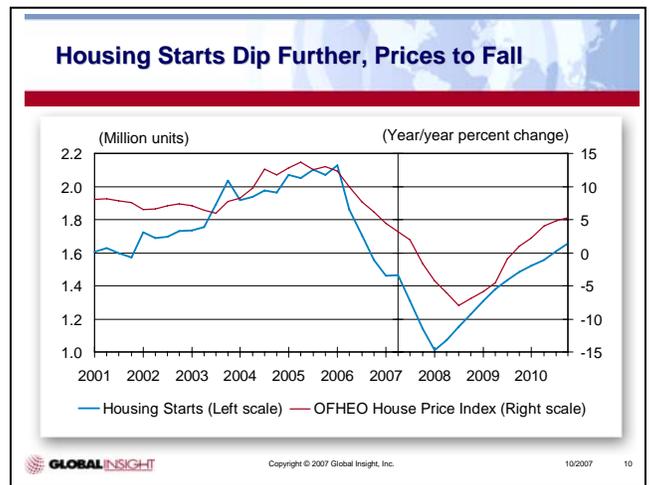
A convergence of economic problems points to possible downturns in most of the Oregon Department of Forestry's (ODF) major revenue sources. Overall, department revenues may decline 12-20 percent over the next two to three years. The results could include service reductions, organizational changes, and difficulty in meeting the agency's operating cash needs. In many respects, the situation resembles the broad-based impacts of the recession of the early 1980s.

The department continues to assess the situation, closely review all expenditures, and implement contingency plans.

What's happening nationally

General economic conditions are expected to remain weak at least through 2008 and the first half of 2009, due in large part to the collapse in subprime and other inadequately secured home mortgages. Some key trends:

- Worsening general conditions in credit and lending, with mortgage foreclosure rates reaching record highs.
- Poor housing market conditions, including oversupply and low housing starts, affecting timber and other industries in Oregon and elsewhere.



Federal budgeting priorities also continue to constrain discretionary spending – including in U.S. Forest Service and other natural resources programs that provide revenue to ODF.

The President's fiscal 2009 budget proposes large reductions in Forest Service programs important to ODF, including Forest Health Cooperative Lands (down 78 percent), Forest Stewardship (down 83 percent), National Fire Plan (down 16 percent), and Urban & Community Forestry (down 82 percent). Although congressional action will likely modify the President's proposal, funding in these and other federal programs is expected to continue its declining trend.

What's happening in Oregon

Current funding challenges in state government:

- An uncertain but downward-trending outlook for **state General Funds**, which come primarily from income taxes, and therefore are prone to broad swings in response to economic trends.
- Uncertainty about the future of **federal support to counties** in lieu of timber sale revenue, with potential increased pressure on state General Funds as a possible source of replacement revenue.
- Uncertainty about the outcome of several **measures on Oregon's November 2008 ballot** that have significant General Fund impact.



September 17, 2008

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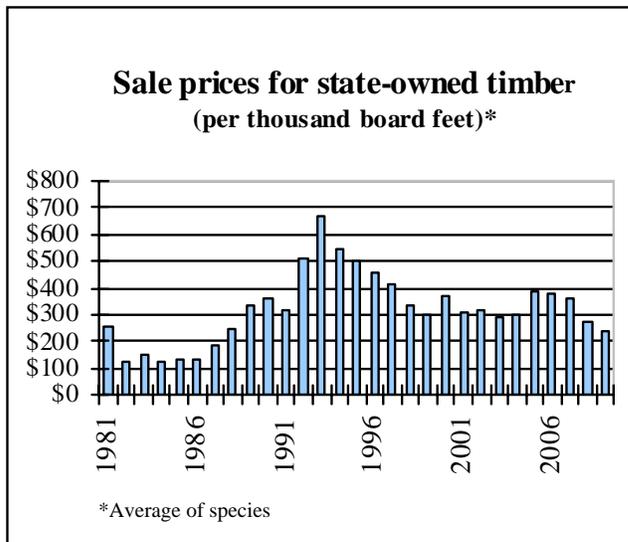
What's happening in Oregon (Cont.)

- The September 2008 revenue forecast showed that the state would collect less General Fund for the 2007-09 and 2009-11 biennia than had been predicted when the current biennial budget was created. **The 2009-11 biennium is now particularly worrisome**, as costs are projected to rise significantly in the human services and public safety program areas, outpacing projected revenues needed just to maintain current service levels.
- Agencies have been asked to absorb part of the expenses related to collective bargaining agreements reached with state employees, and supplements to help align state managers' salaries with comparable private-sector rates.

What it means for ODF

Virtually all major funding sources are being affected:

- The housing downturn means less timber harvest, and less revenue from the **Forest Products Harvest Tax**, which supports fire suppression and, in combination with General Fund, administration of the Oregon Forest Practices Act. Revenues to date are already down about 13 percent from the original biennial forecast.
- Less timber demand means **lower timber sale revenue from state lands** (*Chart at right*).



- The current fiscal year's average bid price per thousand board-feet has dropped 30 percent compared to the previous year. These funds provide revenue to counties, and pay the department's state forest management and protection costs.
- **Reductions in state General Funds** would affect operations throughout the department, particularly in Fire Protection and Private Forests.
- **Reduced federal funds** affect many programs, including urban forestry (currently 100 percent dependent on federal funds), assistance to landowners, wildfire prevention and suppression, and forest health (insect and disease management).

ODF's response

Current and planned measures include:

- **Contingency plans for spending reductions** and restructuring of portions of the agency budget, including adjustments to the fiscal-year 2009 State Forests and Fire Protection budgets.
- **A systematic review of accounts** throughout the agency budget.
- **An agency-wide review of spending** in all major categories.
- **A survey of major timber purchasers** to help gauge trends in timber sale revenue.
- **Arranging for a line of credit from the State Treasurer** if needed to bridge cash-flow shortfalls.

To learn more

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