



# AFTERNOON SESSION 1

## Funding Strategy

### Purpose

In January 2019, Governor Kate Brown tasked the Council on Wildfire Response to review Oregon's current model for wildfire prevention, preparedness and response, analyzing whether or not the current model is sustainable given our increasing wildfire risks.

### Comprehensive Costs of Wildfire

#### Types of Loss

1. Short-term expenses including suppression (readily quantified)
2. Long-term damage including broader economic impacts, infrastructure loss, landscape rehabilitation (less quantifiable)
3. Other human loss including human safety, health, cultural resources (difficult to quantify)

#### Method 1: Multiple of Suppression Costs

- Estimates range broadly, from 2-50x suppression costs. Average 11x per Headwaters report
- Approximately half of comprehensive costs borne by local communities
- Human costs (e.g., loss of life, smoke and health) not fully considered
- Historic studies do not consider power outages and implications for families, current business, and retaining / attracting employers
- If Oregon averages \$300 mm /yr of suppression costs over the next decade, comprehensive costs could exceed \$3 billion / yr (assuming 11x average)
  - Before impacts of power outages
  - Actual costs 2018 \$533 mm
- If wildfire risk spreads to populous western part of state, multiples will increase significantly

#### Method 2: Avoided Costs

- Flagstaff commissioned study suggesting one-time \$10 million fuel reductions investment (municipal bond, proceeds used on federal forests) insures against potential \$1 billion loss
- Primary avoided costs: wildfire damage, flood damage
- Treated forests located upstream from high-value public, private assets
- Assumes 100% effectiveness of fuel treatments

### Funding Uses

- Community Adaptation
  - Total costs unknown
  - Utilities risk management (pass-through to ratepayer)
  - Defensible space treatments (esp. low income)
  - Hardening homes (same)
  - Health / smoke (same)
- Fuel Treatment

- \$4 billion over 20 years direct
- Agency resources
- Suppression
  - \$145 mm 2019-21 biennium budget (\$51 mm general fund; \$18 mm federal; \$76 mm other)
- Enabling Systems & Strategies
  - Public Engagement
  - Workforce Development
  - OSU Fire Center
- Total Costs
  - Under development

## Funding Sources

**Current funding sources are wide-ranging:** Most Community Adaptation costs related to Land Use (zoning, defensible space, building codes) are borne by private landowners, whereas costs related to Utilities mitigation plans will ultimately be borne by rate payers. Community Adaptation costs related to Health are borne by private individuals, health insurers, business, and local and state governments. Fuel treatment costs are borne mainly by federal agencies, accompanied by lesser State investment since 2013. Timber receipts through Stewardship Contracts and Good Neighbor Authority contracts fund portions of fuel treatment projects. Suppression costs are borne by federal, state and local governments, as well as private landowners. Enabling systems and strategies, including OSU research and public engagement and funded through multiple federal, state, local and private resources.

**Earlier work informs our options for additional funding:** In 2013, SB357 required the Oregon Department of Forestry to conduct a study of how to increase the pace and scale of federal forest management. That [report](#) established important foundational thinking with regard to the nature and source of funds available to carry-out that work. New issues – those related to public health, education, equity, and community resilience – can and should be added to our thinking. SB 357 and the associated report were designed to identify what leadership actions Oregon can take at the state-level that met two criteria:

- Relatively within its ability to control, and
- Will have long-term, pragmatic effects in advancing the pace and scale of federal forest management.

A wide range of funding options were identified, including:

- State Bonding Authority – limited to creating one-time revenue out of a committed stream of cash flows.
- Municipal Bonds for Fuel Reduction projects – local bond options notoriously challenging to pass and fail to address broader responsibility to address needs.
- Residential Property or Water bill Assessment – potential within the WUI to assess residential property, but fairness and implementation issues for both methods.

- Fire-Related Insurance Assessment – Significant alignment between insurance market and the risk of forest fire statewide. Moderate assessment could raise significant recurring revenue.
- Retail tax on outdoor gear or other products – New tax collection infrastructure required for tenuous connection to risk mitigation and suppression in Oregon.
- Philanthropic investments – Likely challenging to find enough investments to reduce a broad-based risk into the future.
- Capture/Share savings in fire suppression costs – Helpful approach for burden-sharing with partners, but existing authorities are already short on funds.
- Using stewardship authority to create ‘revolving loan’ from state funds – Need dedicated state funding, changes to federal legislation
- Increasing value of small diameter wood (e.g., wood waste) – Requires market-altering incentives, and therefore, additional expense.

**Precedents:** We can also look to other examples from western states struggling with similar challenges.

- [California](#) connected carbon auction funding (\$1 billion over 5 years), doubling the funds dedicated to wildfire.
- [Denver](#) created a “Forests to Faucets” program, a watershed management partnership that generates \$6 million per year -- roughly 2/3 state and city funds; 1/3 federal dollars
- [Rio Grande Water Fund](#), an 83-member partnership that generates \$3.6 million private funds and \$30 million public dollars to protect its watershed.
- [Flagstaff Municipal Bond](#) provides \$10 million to protect its watershed through forest management.
- [Ashland Water assessment](#) generates \$300k per year to assess its water condition and relationship to forest management.
- Washington 2019 property insurance surcharge, increase from 2% to 2.52% (\$62.5 million/yr) - FAILED

**Other Concepts:** Oregon has additional funding sources outside the general fund.

- Ending fund balance
- Oregon State Lottery funds
- Income Tax “Kicker” revenues
- Cap and Invest revenues from carbon fees

**Partnership on federal funding is critical:** Over ninety percent of wildfires in Oregon occur on federal forests -- nearly sixty percent of Oregon’s 30 million forested acres held by the federal government. Overall federal funding has been in decline, and remainder has been increasingly devoted to suppression. The FY2018 Omnibus Spending Package, which received significant leadership from the Oregon delegation, provides a new funding structure from FY 2020 through FY2027, to enable non-suppression work from going forward without having funds diverted to cover rising suppression costs. While current federal funding is inadequate to address long term forest health, new partnerships like

the [Shared Stewardship Agreement](#) create opportunities to partner with the federal government to finance forest management and fire response.

### Questions We Need to Answer

- How much revenue is needed?
  - Goal is to align the needs of forest fire resilience with potential sources.
  - Notionally, over time the requirement will decrease, but in the next 10-20 years a significant investment will be required.
  - Estimates of \$4bn would indicate a need of \$200m to \$400m per year.
- What attributes for funding?
  - Related to the increased risk of forest fire
  - Connected to those who benefit from mitigation and fire fighting
  - Avoid reducing funds from existing commitments to forest health and (public benefit)
  - As broad-based as possible, given the benefits of forests to all
- What are the range of options / recommendations?
  - The nature of the need reasonably indicates need for diverse funding sources
    - Suppression: Ongoing funds are necessary for suppression and safety of firefighting crews/personnel, and the cost of supporting fire resilient communities.
    - Mitigation: Fuels reduction work is expensive and long-term, requiring significant dedicated funding over time.
    - Majority of mitigation and suppression need is on Federal land.

### Potential Opportunities

- Two one-time state sources could catalyze investment.
  - 2017-19 Income Tax “Kicker” (\$1.6 billion total funds)
  - 2017-19 ending fund balance (estimated \$200mm post-kicker)
- Two sustainable state sources match nicely with the nature of the need.
  - **Suppression:** State Fire Marshal’s fund program expansion to include a broad-based commitment on the part of Oregon property owners to share a portion of the burden of fighting forest fires, especially for firefighter safety and equipment. Historical research shows strong support on the part of Oregon property owners to contribute to forest fire reduction through an assessed value fee on their insurance as long as the contribution is in the range of \$50 per property per year. The SB357 work indicated a 6.6% assessment would raise \$50mm.  
*Estimated potential contribution: \$50mm/year.*
  - **Mitigation:** Should the legislature pass Cap-and-Invest legislation, Oregon could pursue a similar policy as in California, where a portion of emissions auction funds are used for fuel treatments.  
*Estimated potential contribution: \$40-50 mm/year.*
- Two non-state sources offer opportunities to leverage state funds on a sustainable basis.

- **Federal:** A policy change that reflects a commitment to leverage state and local contributions would extend the regional capacity significantly. Historically, federal funds for fuel treatments have greatly exceeded state funds (10:1 ratio).  
*Estimated potential contribution of \$150 mm/year (1:1 match); potentially greater*
- **Timber:** Commercial thinning can generate revenues to be reinvested in fuel treatments. While this is currently done at a small scale, several meaningful barriers exist to generating revenues meaningful to the overall funding need. These include fair compensation to counties, lengthy and costly permitting and approval processes, achieving pace and scale while retaining social license, and profitability of individual fuel treatment projects.  
*Estimated potential contribution: unknown*
- A successful funding strategy would include substantial one-time funds to catalyze investment, coupled with a sustainable funding package combining elements of state, federal and private funding including private property assessments and timber and non-timber resources.

### Next Steps

- A working group should be formed to work with the Governor's office and the Legislative Fiscal Office to explore wildfire funding strategies within the context of Oregon's overall public finance strategy.