



# Fire finances

## Background

Oregonians across the state have spent the last eight years dealing with increasingly long, severe, and complex fire seasons. At the Department of Forestry, this has contributed greatly to two related financial challenges facing our wildfire response system. The first is a funding problem, where the department must shoulder the full cost of fighting fires and then bill the General Fund, state and federal agencies, and others for their portions. The second is an increase in financial and administrative workload leading to delays in collecting wildfire accounts receivables from other parties, primarily the federal government.

Oregon's large fire funding structure was designed for the average fire season of a decade ago. Under the current structure, the Department of Forestry starts the fire season with \$10 million in cash on hand for suppression of large fires. These funds come from landowner fees paid into the Oregon Forestland Protection Fund (OFLPF). This approach worked fine when our average gross cost for fighting large fires was \$10 million or less, as was the case prior to 2013. Since 2013, the average gross fire season cost has exceeded \$60 million creating a cash flow issue until the other large fire revenue sources (General Fund, other agency billings, FEMA, catastrophic insurance, and responsible party recoveries) can be collected. The primary method to float these reimbursable costs has been the department's main cash account. Given that these large fire seasons have been occurring back to back, the department has sustained shortfalls in its cash account to cover these costs. The department has been addressing these annual shortfalls through interfund borrowing (loans and lines of credit) from the Oregon State Treasury. These temporary borrowings provide the needed cash to maintain day-to-day operations throughout the agency while it works towards reimbursements from the other revenue sources described above.

As fires increased so has the volume of transactions that ODF staff are processing. This increase occurs on top of other financial and administrative duties of the Fire Protection Business Unit and district offices. The 2016 Secretary of State audit found that, on average, the number of transactions for personal services, services and supplies, and capital outlays increased from about 40,000 to over 100,000 at the height of the 2013-2015 fire seasons. In addition to increasing the number of transactions, the financial and administrative aspects of large fires are also more complex to process. For example, fires can occur between multiple fire districts and/or jurisdictions, and involve multiple levels of government. This workload has impacted the ability to timely process wildfire accounts receivables from other parties.

In 2018, ODF had \$100 million in gross large-fire suppression costs. Although the federal government will reimburse much of these costs, these gross costs occurred in the last year of the biennium when available cash was at its lowest and required the department to secure a second line of credit with the Oregon State Treasury. This situation coupled with delays in collecting \$60 million in reimbursements from 2018 as well as carrying the costs of previous fire seasons, the department did not have the cash available to pay off one of the lines of credit.

## **Actions taken by ODF**

The department has been actively working to address its financial issues—both funding and process related—internally and externally. ODF has been working closely with partners at all levels—including the Governor’s Office, Legislative Fiscal Office, Oregon State Treasury, and DAS CFO—and they understand our capacity issues and recognize the need for a long-term funding solution that makes sense for Oregon’s more severe and costlier fire seasons.

In 2013, ODF coordinated with FEMA to adjust business practices to allow for partial payments to ODF to expedite the department’s cash recoveries. Then in 2017, ODF started a foundational reconfiguring of its fire finance business processes related to BLM and USFS recoveries with the goal of significantly decreasing the time between our expenditure of funds and when we receive federal reimbursements.

USFS and BLM reflect our largest share of other agency billings. We have been working closely with both agencies’ regional processing centers to prioritize their processing of the highest dollar value reimbursements to us. However BLM and USFS also face limited capacity and higher workloads due to the increased complexity of fire seasons nationally. FEMA has also supported ODF’s new business recovery process for adjudicating costs with federal partners, resulting in quicker FEMA recoveries.

We currently have seven additional people—including limited duration and temporary employees, regular employees on job rotations, and a contractor—working to bring our invoicing current. They are working on both the backlog of work from 2015 through 2017 (for which processing was initiated under old, less efficient business processes) and work from the 2018 and 2019 seasons that is following our improved cost recovery business processes.

## **Forestry Financial Oversight Team**

Governor Brown recently established the Forestry Financial Oversight Team, comprised of key leadership from the Governor’s Office, the Department of Administrative Services, ODF/Board of Forestry, and the Governor’s Council on Wildfire Response. The work of the Forestry Financial Oversight Team and the independent contractor provide an opportunity for the department to continue to improve and align its business processes with industry best practices for more efficient and effective fire finance operations.

The team will be:

- Working with an independent contractor to address the backlog of fire-related receivables and provide recommendations for structural changes to expedite and standardize the processing of financial transactions associated with wildfire costs.
- Evaluating options for a financial structure for managing seasonal borrowing costs to support wildfire response.

By addressing the current financial problems and creating a new structure and processes that reflect the reality of increasingly large and costly wildfires, the team’s work will enable ODF to refocus its resources and efforts to the core, vital work of fighting fires to protect Oregonians and the state’s natural resources into the future. There is particular attention being paid to aligning the recommendations of the Governor’s Council on Wildfire Response, the team’s recommendations, and the evaluation of ODF’s resource and funding needs. The team will also be working to ensure the department has the structure in place to successfully implement these recommendations.