<div align="center">

2007 Regular Legislative Session
FISCAL ANALYSIS OF PROPOSED LEGISLATION
Prepared by the Oregon Legislative Fiscal Office

</div>

MEASURE NUMBER: HB 2115   **STATUS:** A-Engrossed
SUBJECT: Extend and sets forest products harvest tax
GOVERNMENT UNIT AFFECTED: Department of Forestry, Department of Higher Education, and Department of Revenue
PREPARED BY: Susie Jordan
REVIEWED BY: Susie Jordan, Steve Bender, Dallas Weyand
DATE: June 19, 2007

	2007-2009	**2009-2011**
EXPENDITURES:		
See Comments		

REVENUES:
   Refer to the Revenue Impact Statement issued by the Legislative Revenue Office.

EFFECTIVE DATE: January 1, 2008

GOVERNOR'S BUDGET: This bill is anticipated by the Governor's recommended budget.

LOCAL GOVERNMENT MANDATE: This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

COMMENTS: The bill extends the period for which forest products harvest taxes are imposed and establishes rates for the extended period. The period is extended to forest products harvested in calendar years 2008 and 2009. The bill sets the tax rate for support of forest research and experimentation at the Forest Research Laboratory at Oregon State University, and the rate of tax for administration of the Oregon Forest Practices Act. The Harvest Tax is collected by the Oregon Department of Revenue, and actual tax receipts are transferred to the Department of Forestry and to the Department of Higher Education on a quarterly basis.

During the 2005-2007 biennium, the forest products harvest tax funded 40% of the Department of Forestry's Forest Practices program, approximately 50% of the Department of Forestry's Service Forestry program, and provided revenue for the Forest Research Laboratory at Oregon State University. Harvest tax revenues are also used to support the Departments of Forestry's fire protection program. The harvest tax rates are set at a level to coordinate with the agency approved budgets and projected harvest levels.

The measure extends the temporary forest products harvest tax to forest products harvested in calendar years 2008 and 2009, increases the tax rate for funding the Forest Research Laboratory from $0.67 to $0.92; and increases the rate of tax for administration of Oregon Forest Practices Act from $0.55 to $1.1456. All rates are per thousand board feet of merchantable forest products harvested.

The bill will provide an additional $4,360,000 of tax revenue, for a total of $6,546,000 of tax revenue, to the Forest Research Laboratory in the 2007-09 biennium. This represents a 16% increase over the $5.64 million received in the 2007-09 biennium. SB 5515, the budget bill for the Department of Higher

Education, authorizes expenditures that are approximately $626,000 less than the revenues available to the Forest Research Laboratory under this bill.

Since 2001, two of the calculation factors for administration of Oregon Forest Practices Act have combined to create a growing fund balance – 1) actual harvest levels in the state were higher than forecast, and 2) lower expenditures of harvest tax funds in the Forest Practices Program due to General Fund budget reductions in 2001-03 and in 2003-05. This larger balance was used to lower the harvest tax rates in 2003-05 to $0.79/MBF (from $0.91 in 2001-03) and then further reduced in 2005-07 to $0.55/MBF. With these two biennia of reduced rates, the balance is now down to a "contingency reserve" level to protect against large swings in the quarterly revenue if harvest levels or markets take a significant downturn, and the proposed rate for 2007-09 reflects this balance decline.

The approved budget financed by the Harvest Tax for Forest Practices is $8.9 million. At the $1.1456 rate, harvest taxes will yield $5.62 million revenue. The balance of the revenue requirement will come from the beginning balance and 3 quarters of revenue at the prior rate estimated at a total of $3.28 million.

The harvest level forecast for the 2007-09 biennium is projected to be generally stable compared to 2005-07 at 8.0116 billion board feet, and takes into consideration the current national housing market situation.