

2009 Regular Legislative Session
FISCAL ANALYSIS OF PROPOSED LEGISLATION
Prepared by the Oregon Legislative Fiscal Office

MEASURE NUMBER: HB 2214 **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, Paul Siebert
DATE: June 19, 2009

	<u>2009-2011</u>	<u>2011-2013</u>
EXPENDITURES: See Comments		

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

EFFECTIVE DATE: January 1, 2010

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 2010 and 2011. 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 2007-09 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 2010 and 2011, maintains the tax rate for funding the Forest Research Laboratory and Forest at \$0.92; and maintains the rate of tax for administration of Oregon Forest Practices Act from at \$1.1456. All rates are per thousand board feet of merchantable forest products harvested.

The bill will provide an additional \$5.6 million of tax revenue to the Forest Research Laboratory and the Oregon Forest Research Institute in the 2009-11 biennium. The 2009-11 biennial budget provides \$2,170,367 expenditure limitation for the Forest Research Laboratory.

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. The proposed rate for 2009-11 reflects the decline in General Fund budget levels by establishing a \$.77 rate to maintain the 60% general public share to a 40% private land owner share and adds \$.37/1,000bf to provide an additional \$1.4 million to restore reductions in the administration of the Forest Practices Act that would otherwise have occurred. This additional harvest tax amount maintains the current rate for private land owners.

The approved budget financed by the Harvest Tax for Forest Practices is \$7 million. At the \$1.1456 rate, harvest taxes will yield \$7 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 \$2.95 million.

The harvest level forecast for the 2009-11 biennium is projected to be approximately 30% less than the 2007-09 level or 6.081 billion board feet and takes into consideration the current national housing market situation.