

Analysis

Item 50: Department of Forestry

2020 Fire Season Operations

Analyst: Matt Stayner

Request: Increase the Other Funds expenditure limitation for the Oregon Department of Forestry by \$55,000,000 for 2020 fire season costs and operations.

Analysis: In anticipation of significant 2020 fire season costs, the Oregon Department of Forestry (ODF) requested, and the Oregon State Treasurer provided, a short-term borrowing facility for ODF to draw upon in the event that their available funds were not sufficient to support continued operations. Although ODF has made diligent progress in resolving its outstanding accounts receivables and improving its cash-flow, the sudden acceleration of costs due to the 2020 fire season has made it apparent that the agency will have to draw upon the borrowing facility to ensure that it has the cash on hand to cover financial obligations in the short term.

The severity of fire activity since the time of the request has not allowed the agency the time to fully estimate the costs of the fire season to date. As of September 12th, prior to the wind-driven fire event, the gross cost of fires on ODF protected lands was estimated to be \$30.7 million with an estimated net cost of \$24.5 million after anticipated federal recoveries and FEMA reimbursements. Although total gross fire costs for the season are anticipated to be very high based upon the size and severity of the fires, those costs are also dependent upon the duration of the fires remaining on the landscape, the availability of firefighting resources, terrain, and so forth. The net costs and the required ODF cash flow are dependent on a number of factors including FEMA fire management grant eligibility, local resource contracting, paying agent status, and federal disaster declarations.

Following discussions with ODF subsequent to the submittal of this request and examination of cash on hand at ODF, an additional \$20 million in Other Funds expenditure limitation need was also identified to allow ODF to process payments from the Oregon Forest Land Protection Fund and to ensure that the agency had sufficient expenditure authority capacity to meet anticipated fire season expenditures over the next 60 to 90 days with available revenues. It is anticipated that additional Other Funds expenditure limitation will be required, but the magnitude of that need has yet to be determined. The Legislative Fiscal Office expects the agency to request additional budgetary adjustments at the December meeting of the Emergency Board.

Legislative Fiscal Office Recommendation: The Legislative Fiscal Office recommends that the Emergency Board increase the Other Funds expenditure limitation for the Oregon Department of Forestry by \$75,000,000 for the processing of payments related to the 2020 fire season and for operational expenses.

Request: Increase Other Funds expenditure limitation by \$55,000,000 to enable the use of an Oregon State Treasury loan for 2020 fire season operations and other department financial obligations.

Recommendation: Approve the request, with the following modification: increase Other Funds expenditure limitation by an additional \$20,000,000 for a total Other Funds expenditure limitation increase of \$75,000,000.

Discussion:

Fire Funding Background

Currently, the Department begins a fire season with \$10 million in cash from the Oregon Forestland Protection Fund (OFLPF). Prior to 2013, this amount of funding was sufficient to cover the costs of an average fire season. Now annual fire costs have increased to an average of \$70 million per fire season. On large fires, the Department must often make payments upfront, even when expenditures are the responsibility of a third-party. The Department has made progress on streamlining the reimbursement request process and clearing outstanding receivables from past years, but even with the current focus on requesting timely reimbursement, it can take months or years to receive funding. In addition to this delay, the Department also has to request General Fund reimbursement after the fire season has concluded and estimates are available for the state's liability for fires. This means the Department is left to carry gross fire costs until reimbursements can be received.

In past years, the Department has utilized an Oregon State Treasury line of credit to ensure adequate funding for operations, while waiting reimbursement. For the 2020 fire season, the Oregon State Treasurer's Office determined a traditional loan would be more appropriate. The Treasurer's Office has authorized a \$55,000,000 loan to the Department based on the number of receivables the Department expects to collect in the next two years. The loan will need to be drawn in full and will incur a two percent interest charge until repayment is made.

Other Funds Limitation Increase

As of the submittal date of the Department's request letter, the Oregon State Treasury loan had not been drawn upon. With the increase in fire activity across the state, the Department will likely need to access the funds before the end of the October. After the Department submitted the request for additional expenditure limitation for the loan, the Department determined it needed additional Other Funds expenditure limitation. This Other Funds expenditure limitation is needed to allow the Department to use cash available for expected upcoming payments. Based on this information, in addition to the expenditure limitation needed for the loan, the request has been modified to \$75,000,000 to ensure adequate expenditure limitation for fire and operational costs of the Department.

Legal Reference:

Increase the Other Funds expenditure limitation established by chapter 664, section 2(2), Oregon Laws 2019, for the Oregon Department of Forestry, Fire Protection Division, by \$75,000,000 for the 2019-2021 biennium.



Oregon

Kate Brown, Governor

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September 4, 2020

The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Tina Kotek, Co-Chair
State Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

RE: Oregon Department of Forestry - Other Funds Limitation Increase Request

Dear Co-Chairpersons:

Nature of the Request

The Oregon Department of Forestry respectfully requests an increase of \$55,000,000 in Other Funds Limitation to pay for fire suppression operations and other department financial obligations.

Agency Action

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 then, the department has seen a significant change in the intensity of wildfires in recent years, and more extreme fire behavior has increased suppression costs substantially.

Since 2013, the average gross fire season cost has risen to \$70 million. The primary method to cover vendor payments and other essential expenses until reimbursable third-party costs are collected has been the department's main cash account. This account combines multiple funds, in particular the State Forests Division's Forest Development Fund, and serves as an operating reserve against above average spikes in large fire costs. However, this approach of continually carrying fire season debts depletes the cash available to the department to cover other key operating expenses. This depletion continues until we receive reimbursements from the General Fund, other agencies, Federal Emergency Management Agency (FEMA), catastrophic insurance, and responsible party recoveries.

While the department has made enormous strides in its collection efforts for previous fire season debts, its ability to manage its financial obligations continue to be severely strained as we continue to carry some long-term debt while also accruing new debt for the costs of this fire season. In order to mitigate these impacts and ensure the department can maintain financial viability, as well as pay for

fire season 2020, ODF secured a \$55,000,000 loan from the Oregon State Treasury at the start of fire season. This loan option has not yet been exercised, but it is an important backstop to ensure the department has the resources necessary to continue fulfilling its public safety mission and conducting its other core business.

The department typically requests Other Funds limitation for the second fire season of the biennium from the Emergency Board to ensure continuity in suppression efforts and the subsequent payment of vendors; however, those requests are typically based on the estimated costs of the ongoing fire season as of the date of the request. This request is different in that it would allow the department to quickly access the full amount of the State Treasury loan as soon as it is needed. Funding for this limitation increase will come from the State Treasury via the loan.

Summary

Since 2015, ODF has processed approximately \$303 million in fire costs. As of August 20, 2020, 14% of those costs (\$44 million) are outstanding receivables (currently invoiced or outstanding to invoice). A majority of these outstanding receivables are FEMA-eligible costs that take significant time, effort, and the involvement of numerous partners to complete the billing process. During this time, the department must cover these costs with its own internal resources, which significantly reduces the cash reserves available to cover normal business operations, including fire suppression. In order to ensure that the department can cover all of its financial obligations, a loan was secured through the State Treasury. Approval of this request would allow the department to fully utilize that loan when it is needed.

Action Requested

The department respectfully requests approval of \$55,000,000 in Other Funds Limitation to pay for fire suppression and core business operations.

Legislation Affected

HB 5019, Chapter 664, section 2(2), Oregon Laws 2019

Thank you for considering this request.

Sincerely,



Bill Herber

Deputy Director for Administration

- c. Jason Miner, Governor's Office
Board of Forestry
Matt Stayner, Legislative Fiscal Office
Renee Klein, Chief Financial Office
Peter Daugherty, Oregon State Forester