

LAO Recommendations for Funding Fire Protection and Timber Harvest Plan Review and Enforcement

LEGISLATIVE ANALYST'S OFFICE

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On Resources

Hon. Fran Pavley, Chair





Funding Fire Protection

- The California Department of Forestry and Fire Protection (CDFFP) is responsible for fire protection activities on private forestlands, watersheds, and rangelands—referred to as state responsibility areas (SRAs).
- There are approximately 31 million acres of SRA.
- Fire protection is the largest General Fund expenditure in the Resources Agency. The 2003-04 Governor's budget proposes about \$340 million for this activity.
- Direct beneficiaries of the state's fire protection services ought to share costs because these services benefit the general public and private landowners. We recommend that the costs be shared evenly between the general public and the property owners that directly benefit from the state services.



Various Fire Protection Fee Mechanisms

There are various potential fee mechanisms for a fire protection fee. Elements of some of the fee mechanisms could be combined into a single fee structure. These fee mechanisms include:

- A fee based on wildland fire risk**
 - Parcels in high risk areas would pay more than those in low risk areas because parcels in high risk areas are more likely to receive greater benefit from CDFFP services.
- A fee based on the type of land**
 - Fee rates would differ depending on the type of land, which impacts the fire suppression costs when there is a fire.
- Per-acre fee based on actual regional costs**
 - CDFFP would determine a per-acre assessment based on actual past-year expenditures for fire protection in a particular region.
- A fee on parcels with residences**
 - Fees would reflect the fact that the presence of structures in SRAs can increase the costs of wildland fire protection.
- Timber operator yield fee**
 - Timber operators would pay a fee based on the value of timber that is harvested.



Preferred Approach for Fire Protection Fee In Budget Year

- Enact Legislation to Establish an Interim Fee Structure
 - The preferred interim fee structure would be a per-acre fee because we think size is a reasonable proxy for landowner benefit and because the existing property tax collection system can be used.
 - Fee rate would be set at a level sufficient to fund one-half of proposed General Fund budget for fire protection.
 - Create a special fund for deposit of fee revenues.
- Enact Legislation to Develop a Permanent Fee Structure
 - The legislation should direct the department to develop a permanent fee structure based upon further analysis of various fee options. The analysis should take into account the following:
 - The relationship between the amount of the fee assessed and the benefit a particular landowner receives.
 - Any fire protection services already purchased by landowners.
 - Structuring the fee to promote landowner efforts that reduce the risk of wildland fire.
- Reduce department's General Fund appropriation by \$170 million and increase new special fund item by a like amount.



Funding for Timber Harvest Plan Review and Enforcement

- The Forest Practice Act prohibits timber harvesting unless harvest operations comply with a timber harvesting plan (THP) prepared by a registered professional forester and approved by the Director of CDFFP.
- THPs are required to cover such matters as harvest volume, cutting method, erosion control measures, and special provisions for unique areas or wildlife that would be affected by harvesting operations.
- The CDFFP acts as the principal agency responsible for approving THPs. The Departments of Fish and Game, and Conservation, and the State Water Resources Control Board act as advisors to CDFFP in the review process
- The CDFFP conducts the following activities for nearly 100 percent of THPs. Other departments selectively review THPs.
 - Initial plan review.
 - Pre-harvest inspection.
 - Active harvest inspection.
 - Post-harvest inspection.



Funding for Timber Harvest Plan Review and Enforcement

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- Characteristics of timberland and timber owners:
 - 8 million acres of private timberland in California.
 - 4 million acres are in industrial land holdings (10-20 land owners; 50,000 acres or more).
 - 4 million acres in land holdings of less than 2500 acres.
 - Average sized THP is 230 acres.

- The *2003-04 Governor's Budget* proposes a total of \$23.5 million for the review, inspection, enforcement, and monitoring of THPs by all departments, including CDFFP. Of that total, \$22.1 million is from the General Fund.

Timber Harvest Plan Review Expenditures			
<i>2003-04 (In Millions)</i>			
Department	General Fund	Other	Total
Forestry and Fire Protection	\$13.2	\$0.6 ^a	\$13.8
Fish and Game	4.9	0.8 ^b	5.7
State Water Resources Control Board	2.8	—	2.8
Conservation	1.2	—	1.2
Totals	\$22.1	\$1.4	\$23.5

^a Public Resources Account, Timber Tax Fund, and reimbursements.
^b Environmental License Plate Fund and reimbursements.



THP Review and Enforcement Costs Should Be Covered by Fees

Fees Should Fully Cover Program Costs

- There is a direct link between the program and those who directly benefit from it through the harvesting of timber. Without the state review and approval of THP, businesses would not be able to harvest timber.

Various Fee Mechanisms Could Be Established

These include:

- A per-acre fee.
- A flat fee per THP.
- A fee for service basis.
- A timber yield fee.



Timber Harvest Fee Options

Option 1: A Per-Acre Fee

- Timber operators would pay a fee based on the number of acres proposed to be harvested in the submitted THP. THPs above a certain size could be charged at a lower per-acre rate.
- Based on the total acres approved in THPs in 2002, the fee per acre would be about \$130.
- Advantages of per-acre fee:
 - Owners of smaller landholdings pay less than owners of larger landholdings.
- Disadvantages of per-acre fee:
 - New administrative process would have to be developed to collect and process fees.
 - Does not take into account the complexity of plan and the necessary reviews and inspections due to variations in terrain, type of habitat, or Endangered Species Act compliance.
 - Does not consider harvesting methods (clear cutting, selective, etc.), harvest volume, or impact on the environment.
 - Large THPs could be assessed fees which exceed actual costs of department.
 - Could create incentive for more aggressive harvesting of acreage (to maximize profit from one plan).



Timber Harvest Fee Options

(Continued)

Option 2: A Flat Fee Per THP

- Timber operators would pay a flat fee for each THP submitted to CDFFP, without regard to the value of the timber proposed to be harvested.
- Based on the number of THPs received in 2002 (685), the fee would be approximately \$37,000 per THP.
- Advantages of flat fee per THP:
 - Everyone pays the same fee, therefore the fee is easy to calculate.
- Disadvantages of flat fee per THP:
 - New administrative process would have to be developed to collect and process fees
 - Not equitable: big and small owners pay same regardless of workload to CDFFP to review plan.
 - Does not take into account the complexity of plan and the necessary reviews and inspections due to variations in terrain, type of habitat, or Endangered Species Act compliance.
 - Does not consider harvesting methods (clear cutting, selective, etc.), harvest volume, or impact on the environment.
 - Smaller timber owners may be charged fees that render it not profitable to harvest.
 - Could create incentive for more aggressive harvesting of acreage (to maximize profit from one plan).



Timber Harvest Fee Options

(Continued)

Option 3: A Fee for Service Basis

- A fee would be assessed based on the costs of state agencies related to reviewing and enforcing a particular THP. Under this option, THPs requiring more state agency review and enforcement time would be assessed a higher fee.
- Cost per THP would vary according to review activities.
- Advantage of fee for service:
 - Greatest relationship between service and fee.
 - Takes into account the complexity of plan and the necessary reviews and inspections due to variations in terrain, type of habitat, or Endangered Species Act compliance.
- Disadvantage of fee for service:
 - Difficult to track and bill for services because services occur over time and across multiple departments.
 - New administrative process would have to be developed to collect and process fees.



Timber Harvest Fee Options

(Continued)

Option 4: A Fee Based on the Value of Harvest

- Timber operators would pay a fee based on the value of timber that is harvested. Such a fee could be collected using the existing timber tax collection system in which timber owners are required to report each quarter the value of timber harvested to the state Board of Equalization (BOE) for payment of timber yield taxes based on the value of the harvested timber.
- Based on actual harvest values from 2001, the surcharge rate would have to be an additional 5.3 percent.
- Most of the revenue from the fee would come from the largest timber operators.
- Advantages of a fee based on the value of harvest:
 - Yield fee would be directly proportional to the monetary gain from the harvest.
 - An existing administrative process (BOE's timber tax program) could be used to save some of the administrative costs of establishing a new fee.
- Disadvantages of a fee based on the value of harvest:
 - The timber yield surcharge required to fund the program would vary according to value of timber. In low value years, the surcharge rate on a given yield would have to be higher in order to raise the necessary revenues.



LAO Recommendation for Preferred Timber Harvest Fee Structure

- Enact legislation to impose a fee based on the value of harvested timber.
- Create a special fund for the deposit of fee revenues.
- Shift funding for timber harvest review and enforcement to newly created special fund.
- General Fund savings of about \$22 million for 2003-04.