

- 6) Adds foraging as a reasonable use of DSFs, strikes the use of mining in DSFs, and declares, among other things, the policy of the state to respect California Native American tribal sovereignty and to seek opportunities for comanagement and integration of local indigenous traditional ecological knowledge in forest management. Makes a number of other conforming changes and modifications to codified findings and declarations to reflect the revised management framework for DSFs.

FISCAL EFFECT:

Ongoing state costs and cost pressures of an unknown but potentially significant amount, possibly in the low millions of dollars annually, as a result of the proposed funding shift in the bill (TRFRF, other special fund, General Fund). The Legislative Analyst's Office recently warned of General Fund structural deficits of around \$35 billion per year in the 2027-28 FY and ongoing.

As discussed in more detail in the background below, with some recent exceptions, DSFs have been largely self-sustaining with funding from timber operations on DSFs (deposited in the FRIF). On the other hand, TRFRF funds multiple state agencies primarily for forest practice regulation, as well as conservation-oriented and forest improvement grant programs. By limiting the scope of timber harvesting on DSFs (in accordance with the revised definition of "management") – thereby potentially generating less revenue – and by shifting the funding source for DSF operation and management from FRIF to TRFRF (where support for DSFs would be in a lower tier of the statutorily required prioritization schedule), this bill creates a fair amount of uncertainty about whether TRFRF will be able to sustain the DSF program in the future, whether the state will need to backfill funding for DSFs with a different fund source (like the General Fund), and whether CAL FIRE will need to limit the scope and breadth of the DSF program.

CAL FIRE also anticipates costs associated with importing road rock for road maintenance from offsite quarry locations due to the bill's elimination of mining from DSFs. While Jackson Demonstration State Forest (JDSF) is relatively close to a quarry, other DSFs, like Mountain Home DSF, are farther away from the nearest quarry and would incur considerable material and transportation costs to support routine road maintenance.

COMMENTS:

- 1) **Purpose.** According to the author:

Our [DSF] system contains precious old growth redwoods, madrones and oaks, and allows for innovative research around wildfire resiliency and watershed restoration. Under current state law, the [CAL FIRE] is responsible for the [DSF] system, and their first priority is to achieve maximum sustained production of high-quality timber products. These management principles are outdated and do not reflect the state's current climate resiliency goals.

This bill prioritizes the environment, recreation, scientific research and addressing climate change as the main focuses for these public lands...This bill also moves the state away from relying on

commercial timber harvesting by providing an alternative funding method for the Demonstration State Forest system, while also moving communities away from harmful extractive economies.

- 2) **Background. *Management Principles for DSFs.*** California has 14 DSFs totaling 85,000 acres – less than 1% of the state’s 31 million acres of forested land. The forests provide research and demonstration opportunities for natural resource management, while providing public recreation opportunities, fish and wildlife habitat, and watershed protection.

Timber harvesting has long been a primary activity in DSFs. Collectively, DSFs grow approximately 75 million board feet (MBF) of timber annually and harvest an average of 20 MBF each year, enough to build 12,500 single-family homes. JDSF in Mendocino County is the largest of CAL FIRE’s DSFs. Bill supporters, including the Mendocino County Board of Supervisors, contends the management principles for DSFs have not been modified in decades: “This bill ensures that the protection of ecological conditions within [DSF] lands are prioritized by declaration that these lands be used primarily for research, recreation, and demonstration purposes.” The county argues this bill is critical to support rural economies in “transitioning away from dwindling extractive economies and instead enhancing ecotourism in these communities.”

The state is required to develop forest management plans (FMPs) for DSFs and update them every 10 years. CAL FIRE is currently working on updating the JDSF management plan. CAL FIRE expects to respond to public comments and approve a plan this year. A change to the statute governing DSF management will interrupt CAL FIRE’s current administrative process to update the JDSF FMP, likely creating both delays and costs to CAL FIRE. The author may wish to consider working with CAL FIRE to align the timing of this bill to the greatest extent possible with the ongoing effort to update JDSF’s FMP.

FRIF. The FRIF is a special fund to support operation and management of DSFs. Revenue comes primarily from timber operations with a minor amount, less than 1%, coming from recreational activities such as camping, mushroom foraging permits, firewood permits, and special use events like mountain bike races. Money in the fund in excess of the amount needed to support DSF operations must be deposited in the General Fund.

According to CAL FIRE, the department appropriated \$10.7 million from the FRIF in FY 2025-26 and proposes to allocate \$11.4 million in FY 2026-27. Jackson, Boggs Mountain, Soquel, LaTour, and Mountain House DSFs have the greatest personnel and operational expenses. The remaining DSFs do not have assigned staff and are overseen by resource management personnel from the closest local CAL FIRE administrative unit.

According to CAL FIRE, from timber sales between calendar years 2017 and 2024, JSDF (Mendocino County) generated \$42 million, LaTour (Shasta County) generated \$2.5 million, Mountain Home (Tulare County) generated \$812,000, and Sequel (Santa Cruz County) generated \$2.7 million. Timber revenues do not always cover the entirety of DSFs’ operating, personnel, or research costs. For example, JSDF timber sales generated \$1.1 million in 2023, but its annual operating expenses were three times that amount (\$4.5 million).

Timber Tax and TRFRF. State law requires a 1% tax on lumber and engineered wood products sold at the retail level (deposited into the TRFRF) to pay for agency staffing,

permits, oversight, and environmental protection of California's forested ecosystems. In FY 2024-25, the TRFRF had \$237.5 million in available resources, of which approximately \$46.0 million came from annual forest product sales assessment revenues. This revenue supports nearly 206 agency staff at numerous state agencies. At the end of FY 2024-25, the TRFRF showed an ending balance of \$77.8 million.

Given the fund balance in the TRFRF, the Budget Act of 2024 appropriated \$120 million in TRFRF funds to CAL FIRE for local assistance in the form of Forest Health and Wildfire Prevention Grants. The funding offset a reduction of \$120 million in Greenhouse Gas Reduction Fund monies for CAL FIRE as part of the FY 2024-25 budget.

To supplant the downshift in timber harvest revenues supporting DSFs, this bill shifts DSF budgeting from the FRIF to the TRFRF. Because DSFs have greater operating and personnel expenses than timber revenues they generate, even without reduced timber production, shifting to the TRFRF will create a drawdown on that fund to operate the DSFs, and how the DSFs are prioritized under the current statutory funding framework will impact the available resources to manage them.

Stakeholders in opposition to this bill cite concerns with shifting the DSFs' budget to the TRFRF noting that because the TRFRF prioritizes regulatory and programmatic functions first, support for DSFs would be pushed to a lower priority tier. They state, "This change creates significant uncertainty about whether the forests will have the reliable funding needed to maintain infrastructure, support research programs, and carry out forest health projects."

Writing in opposition to the bill, the California Forestry Association (Calforests) notes that revenue generated by the lumber assessment is inconsistent and heavily impacted by the volatility in lumber markets and the broader economy. Since its peak in FY 2021-22, annual revenue into TRFRF has decreased by more than 14% year over year in both FY 22-23 and FY 23-24. Calforests writes that with the challenges facing the housing market and decreases in lumber prices, it is reasonable to assume that lumber assessment receipts will continue to decline: "As such, adding the additional \$8.5-9 million necessary to fund the [DSF] program threatens the ability to meet the existing priorities funded through FRFR, but also the fiscal solvency of the DSF program."

Timber Yield Taxes. The timber yield tax is a property tax paid by timber owners when they harvest trees, or timber. The tax is paid on a quarterly basis to the California Department of Tax and Fee Administration, which returns it to the counties where the timber was harvested. A county board of supervisors or a city council can zone parcels capable of economic timber production for that restricted use. The zoning designation is known as a Timberland Production Zone (TPZ). TPZ land is valued according to its ability to grow trees. As a result, its assessed value may be lower than that of land zoned for other uses.

The five largest DSFs are in counties with TPZs. Annually, the DSFs contribute about \$175,000 in timber yield tax across all forests combined. If timber production is reduced in DSFs, those revenues will be lost to the counties that receive them for local public services. The author's office and local supporters counter that the forests will encourage greater visitation and the benefits from that tourism will help buffer any yield tax revenue reduction.