



The League of Women Voters of Oregon is a 101-year-old grassroots nonpartisan political organization that encourages informed and active participation in government. We envision informed Oregonians participating in a fully accessible, responsive, and transparent government to achieve the common good. LWVOR Legislative Action is based on advocacy positions formed through studies and member consensus. The League never supports or opposes any candidate or political party.

February 25, 2021

To: Rep. Witt, House Committee on Agriculture and Natural Resources, Chair
Rep. Vikki Breese-Iverson, House Committee on Agriculture and Natural Resources, Vice-Chair
Rep. Zach Hudson, House Committee on Agriculture and Natural Resources, Vice-Chair
Members of the House Committee on Agriculture and Natural Resources, Chair

Email: <https://olis.oregonlegislature.gov/liz/2021R1/Committees/HAGNR/Overview>

Re: [HB 2379](#) Severance Tax on Timber - **Support**

One of the League of Women Voters of Oregon's priorities for the 2021 session is to "to generate adequate revenue for essential services while promoting equity and **progressivity in tax policy.**" **The League supports a tax system that is based on the ability to pay, but that applies a benefits-received principle** wherever reasonable and that recognizes the role of social expediency.

The old severance tax Oregon had in place starting in 1962 (Eastern Oregon) and 1978 (Western Oregon) has now been entirely eliminated. However, a small amount of revenue from the Small Tract Forestland program brings in on average only a half million dollars per year. The original severance tax had a 6.5% tax rate on the value of the timber when harvested in Western Oregon where most trees are still harvested. A lower rate (5%) applied to Eastern Oregon. It's important to note that the revenue was provided to the counties upon harvest.

LWVOR supports a 5% severance tax in this bill to replace the current harvest tax. The distribution of this new severance revenue is proposed to be 50% to a revamped Emergency Wildfire Fund, 25% to the counties where the timber was cut, 15% to the State Forestry Department and 10% for Forest Research. OFRI funding is omitted.

It seems equitable and fair to ensure that counties get back their share of lost revenue from their "designated forest assessments" that were reduced to 70% of what other local assessed property owners paid. This is a matter of tax equity across industries, counties and as a matter of progressivity in taxation. The original severance/privilege tax was gradually reduced and was finally eliminated by 2003. Rural timber counties especially, with already low property tax revenue, have lost the most due to these low timber property assessments over the past 30 years. Only the current Forest Products Harvest Tax (FPHT) tax, which was started in 1947 is left in place. The revenue from the Forest Products Harvest Tax (FPHT) harvest, however, goes only to pay for forestry-related programs (ODF, OSU, OFRI and a severe fire fund). No revenue goes back to the counties.

LWVOR supports a timber tax based on the value of the forest products harvested imposed at a high enough tax rate that returns revenue for these special assessments back to the counties. The relative importance of timber jobs to the rural economy is important, but has declined due largely

to mechanization and globalization within the timber industry and the decline of harvests on federal lands.

We support a portion of the fund to pay for severe wildfires, but would prefer the funding went mostly towards fire preparedness (defensible space and home hardening) in high fire risk forest areas, and for limited prescribed burning, rather than primarily for fire suppression.

Some will argue that due to COVID and the devastating costs inflicted from wildfires that the timber industry can ill afford to have any increase in taxes. We will argue otherwise.

Wildfires have certainly had a devastating impact on some timber companies in the central and southern part of the state. The [Oregon Forest and Industries Council reported 356,120 acres](#) of private timber, both large and small, was burned in the 2020 Labor Day wildfires. But this is out of a total of [10,601,000 acres of total private forestland](#), according to the Associated Oregon Loggers, Inc. That's 3% of private timber land burned. OFRI's oregonforests.org figures states that 35% of forestland is privately owned. 97% of the private landowners who own one third of all forestland in Oregon (30,472,000) have been unaffected by wildfires. These timber owners and timber-related businesses have been doing exceptionally well in the past year while other industries have suffered.

A [Feb 10 2020 CNBC article reported](#) softwood lumber prices are now about 112% higher than they were a year ago and have jumped 10% in just the past week, according to Random Lengths Futures for March. Lumber prices inched over \$1,000 per 1,000 board feet, double the price from just three months ago. In 2020, sawmills had to lay off workers due to COVID, reducing supply while demand grew contrary to predictions. The construction industry has been hurt by the exceedingly high timber prices, while lumber retailers like Home Depot have thrived. Sawmills are scrambling to harvest now as much as they can, and much lumber has recently been cut. Some of those companies that have lost timber have recently harvested many blackened salvage trees on both public and private land while prices are high, and hopefully they will also be getting insurance, FEMA dollars and some tax credits from the state to help with reforestation.

The timber industry as a whole, however, is one of the few industries that has fared extremely well during the global COVID crisis, and a strong market for timber products is predicted for the future. Commercial timber owners especially can afford to pay higher taxes in line with what they pay in other western timber states and provinces.

In the long term, we need a better system of timber taxation, one based on harvest value that will not cripple the timber industry, certainly, but brings in as much timber revenue as our neighboring western timber states. The Dept. of Revenue presentation to this Committee on Feb. 18 compared Oregon to Washington's timber tax data. Oregon harvests 50% more timber in thousand board feet per year than Washington does. Oregon trees are valued at \$2.24 billion dollars, whereas Washington timber is worth just under half that in value at \$1.23 billion. Comparison of tax systems between Oregon and Washington is difficult because Oregon's harvest tax is based on volume, currently at \$4.13 per thousand board feet cut, (about the size of a large Douglas fir), but Washington's system is based on the value of the timber with a 5% tax rate. **Oregon's taxes bring in only \$16 million per year, while Washington brings in \$47 million annually, nearly three times as much!** However, Oregon timber owners pay higher property taxes (\$25.2 million) on unimproved forestland compared to Washington (\$8.2 million). By these calculations, Washington timber taxes and property taxes together collect more revenue, \$61 million compared to Oregon at \$49 million, despite timber worth half as much and

a much smaller harvest volume! It is time to correct this imbalance and tax our timber more equitably.

We would like to see some additions to HB 2357 or any other severance tax bill proposal. We think a new severance tax should also incentivize longer harvest rotations. We need to encourage forest management practices to preserve forest soils, reduce wildfire damage, increase tree and biodiversity, and most importantly to protect our watersheds for current and future drinking water needs, while sequestering more carbon in trees and soils.

Here are some ways to incentivize longer rotations and good land conservation practices, by providing ***greatly reduced tax rates*** for forestland that is:

- Protected by conservation easements or other legally binding agreements under state law that ensure long term increases in forest carbon storage;
- Managed in accordance with standards for creating forestry carbon offsets (under ORS 526.780 (4));
- Subject to a Wildlife Habitat Conservation and Management plan (under ORS 308A.403 to 308A.430);
- Enrolled in the Conservation Stewardship Program, or the USDA Environmental Quality Incentives Program;
- Enrolled in the Forest Stewardship Program, or the US Forest Legacy Program or
- Certified by the Forest Stewardship Council.

The tax structures for investment trust companies and other corporate tax entities who own much of Oregon's private timberland allow them to avoid paying business excise, and business and personal income taxes to Oregon. Oregon needs to find ways to tax these out-of state-owned entities without hurting our own locally owned timber industries who do pay corporate income and excise taxes and now the new CAT tax. We need to investigate the economics of motivating Oregon private and corporate companies to pay Oregon taxes without causing great hardship to these companies. One idea is to provide a healthy subtraction for the new severance tax on timber companies' business excise/income tax forms for the Oregon timber taxes they pay, including the CAT tax. The new timber tax would be the same high rate of severance tax at harvest (so not in violation of the federal interstate commerce clause), but would allow our Oregon timber businesses to deduct a substantial portion of the *Oregon* severance taxes they pay. This provision would mean we get tax revenue from the real estate investments trusts (REITs) and timberland investment management organizations (TIMOs) who currently pay no state excise or income taxes due to the way these federal corporate entities are structured; these investors pay income taxes only where they receive their dividends (i.e., not in Oregon). The viability of this concept and tax rate should be analyzed and set tax experts to figure out the best way to design the tax.

Another way to encourage longer forest rotations is to promote compensation for timber owners who grow trees longer to sequester carbon, as California does. A larger carbon offset market will drive prices up. As greenhouse gas polluters are required to purchase these carbon offsets by federal regulation, Oregon timber owners could have much to gain by growing their trees to an older age.

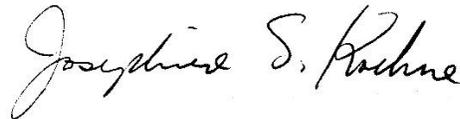
A third idea is to reserve a certain amount of the tax revenue to increase and develop new markets and innovative product development for timber-related products (such as char-wood) for our Oregon timber industry that will not increase our greenhouse gas emissions.

We support HB 2379 and hope that this committee consider some of our suggestions for this or another severance tax bill. We ask that you not postpone timber tax reform to another year or accept a tax reform idea that does not address the tax fairness and revenue need. Our forests and climate cannot wait. We need to ensure that our forests are managed and preserved with future generations' needs for healthy, diverse forests and future drinking water sources in mind, while ensuring a continuous timber supply and a viable timber industry.

Thank you for the opportunity to discuss this legislation. We look forward to working with you and others to arrive at a fair and equitable answer to this issue.



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