



Timber Tax Fairness

Representative Witt asked us to help identify rural residents, water managers and regular citizens to address timber taxation and rural needs.

Before your committee is a robust set of bills dealing with the Oregon Forest Harvest Tax, the Oregon Forest Research Institute (known as OFRI), and a basic severance tax which in the past went by a handful of different names - yield, reforestation, severance or privilege tax, all used to fund counties.

And you face a broad range of funding needs, including:

- counties who lost a significant source of revenue for essential services,
- the rising cost of fire-fighting,
- the cost of better preparing communities and homes for wildfire readiness, and
- the costs for the damage done to public and private water systems due to weak forest laws.

You have made a lot of progress. The bills before you identify the key issues and problems. With some focused attention one or more of these bills, with amendments, will be ready to roll. There is work to be done and we have 4½ months of the legislative session in which to do it. I encourage you to form a workgroup to sort through the concepts, find the best ideas, and deliver to you a strong bill to set the state on a better course for fair taxation of this particular industry.

You will of course hear that any change is too much. But the truth is, this state produces more timber than any other state. The numbers vary from year to year, but all seem to have the same trajectory. At forums across the state I've used these statistics, from 2017.

Compared to Washington State

- Oregon has 39% more forestland
- With 46% more trees harvested
- But our severance tax – the Harvest Tax collects only 1/3 of what Washington's collects

When LRO analyst Jaime McGovern provided figures last Thursday, we learned that compared to Washington State, we collect over 56% less per acre in property and severance taxes.

We have 31% more acres of unimproved forestland, which produced 34% more harvested timber. But Oregon's timber is better. It is valued

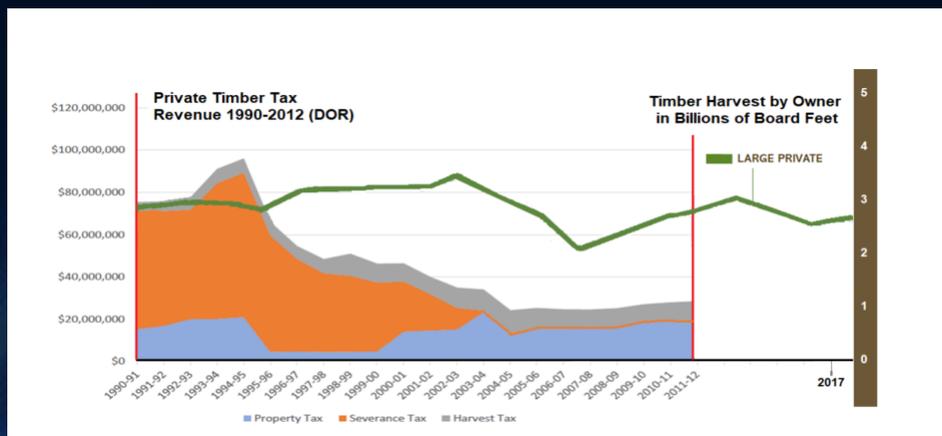
at 97% more than Washington's harvest. Yet we collect significantly less revenue in severance and property taxes.

Compared with Washington State

- Oregon has 31% more acres of unimproved forestland
- Produces 34% more harvested timber
- Valued at 97% more
- Yet we collect 56% less per acre in property and severance taxes

We've obvious better conditions for growing trees, why aren't we collecting more in taxes?

Taxes on timber have shrunk



It's true that harvest from Federal land is down, it has been for decades. But counties' severance tax from most harvests was phased out and has been totally gone for the last 17 years as well.

Understandably, communities are worried about increasing the loss of jobs. Timber jobs are especially important in timber dependent counties. And between 2012 and 2017, 23% of forest sector jobs have disappeared according to OFRI's statistics. They count as forest sector jobs selling and logging timber, fighting forest fires, working in sawmills or veneer manufacturing, building kitchen cabinets and windows, working in distribution and transportation, as forestry researchers or consultants, or with the U.S. Forest Service. Those jobs a good paying jobs in rural communities. But the numbers are down. From the red line in 2012 when there were 76,073 jobs to 2017 when there were 61,051 we lost 23% of jobs in the forest sector. That is despite what you can see is a relatively flat number of board feet harvested. Mechanization and the export of unfinished logs will continue with or without taxes. Severance tax revenue will support other jobs – sheriff officers, librarians, teachers, economic development officers, and mental health workers. Those are the kinds of jobs rural communities have lost because they lost revenue They are also good paying rural jobs, which should be restored with a robust severance tax.

You will hear that in other states, forest owners don't pay for forest fire fighting. That is largely true; instead they put severance tax money into the General Fund, and the General Fund pays for forest fire fighting.

You have heard about the activities of OFRI and the need for unbiased, scientifically sound support for forest landowners, teachers and school children.

We don't collect taxes used specifically to educate kids about, or transport school kids to, any other field of interest, such as water resources, technology, medical fields, prison systems, or even farming. Nor do we specifically fund research for or education about other

industries' workforce. We do need consistent funding for our teachers and their students, and we need it free from bias and undue influence.

What do severance taxes pay for elsewhere?

Distribution of severance tax revenues

Washington's Severance Tax

- 80% to the counties
- 20% to the state

Oregon's Harvest Tax on timber

- 0% to counties
- 0% to the state
- 100% to timber-related funds

In Oregon, the severance tax revenue goes to four buckets, all of which attend to the industry.

Where Oregon Harvest Tax revenue goes

- Oregon Forest Resources Institute
- Department of Forestry
- OSU for the Forest Research Lab and for timber education
- Fire fighting fund

Generally, when one pays for services, one expects their interests to be represented. I know of no other industry which chooses the head of the state department that oversees them, whose taxes are used specifically to fund the department that oversees them, the university programs that educate their workforce, or the research that moves their industry forward. That hasn't always worked so well with enforcement by the Department of Forestry or research from OSU. And it certainly hasn't worked to defend a major funding source for counties. It is time to increase our taxes on timber.

There is no one bill before your committee that Tax Fairness Oregon can urge you to support, but there are some excellent ideas in several of the bills, and a hybrid bill is definitely due.

We suggest a workgroup to generate a hybrid bill that combines the best elements of the bills assigned to this committee and other ideas that have been proposed.

Here are some questions for a workgroup to resolve:

- One severance tax or two
- Based on board feet or value
- With what tax rates
- How to invest the revenue, and who should manage the spending
- How often to revisit the tax rates
- Should we encourage and support better forest practices with tax rates and if so, how
- Whether some of our tax breaks – for homesites, machinery, forest roads, and small holdings of forestland as homesites are essential
- Whether our enforcement and penalties are appropriate

In closing, let me say, we cannot afford to put off action any longer. We must take action this session. Some will say we should not make tax changes while negotiations over possible changes to the Forest act are underway or until the Secretary of State's audit is completed. And

especially because of the damage of COVID and our devastating fire season, now is not the time. Three percent of private forest land was burned this season. Just because it is labeled as burned does not mean all value is lost. Owners are harvesting all the timber they can. And this is not a bad time to put timber on the market — in fact it is a great time. Timber prices are at all-time highs. According to new numbers from the National Association of Home Builders, since mid-April of 2020, lumber prices have risen by 130%. They were up before the fires, and they have stayed up.

Further, I've never seen an industry come to the legislature and say "Things are going great for us. Now is the time to raise our taxes." With timber prices at historic highs, now would be the time for the industry to say that, even though 1/30th of Oregon's timberland were hit by fires.

It is undeniable that our counties are \$3 billion in the hole, from the loss of our severance tax. It is clear that many rural and urban water systems are failing or at serious risk. The Oregonian and OPB laid bare the illegal actions and disinformation spread by OFRI.

We know that Washington has stronger forest laws and fairer taxation. We know the needs are great and we know enough to take action. The time has come to make Oregon a place that lives up to its ideals - to provide tax fairness, clean water and sound scientific information to its citizens.