

**LONE ROCK TIMBER MANAGEMENT CO.
LONE ROCK LOGGING CO.**

P.O. BOX 1127 * ROSEBURG, OR 97470
TELEPHONE: 541-673-0141
FAX: 541-440-2516 or 541-440-1573

MEASURE: HB 3169
EXHIBIT: F
Joint Committee on Tax Credits 76th Session
DATE: 04-08-2011 PAGES: 7
SUBMITTED BY: Jake Gibbs

**TESTIMONY FOR HB 3169
Relating to Reforestation Tax Credits**

Joint Committee on Tax Credits
Oregon State Capitol
900 Court Street NE, Room 143
Salem, OR 97301

April 8, 2011

Co-Chairs and Members of the Committee:

My name is Jake Gibbs. I am forester and member of the management team with Lone Rock Timber Management Company in Roseburg. Lone Rock Timber Management Company (LRT) is a family owned forest management company overseeing 120,000 acres in southwest Oregon. We have 100 employees that conduct all activities relating to managing these lands.

I am here to share with you the success of this program, to show you what the State has received for its investment in reforesting underproductive lands, and encourage you to recommend extending the credit.

Background

The Oregon Forest Practices Act (FPA) requires reforesting after harvest. Re-establishing forests after harvest makes economic and environmental sense. However, there are sites that are capable of growing vigorous forests but for a variety of reasons are growing blackberry, scotchbroom, gorse, and other less than desirable vegetation. These sites are expensive and difficult to convert. It is for these sites that the reforestation tax credit is intended and it has proven to be a valuable incentive to landowners like LRT to invest in reforestation efforts.

Since 1990, LRT has utilized the reforestation tax credit to establish forests on 6,100 acres of previously underproductive lands. Some of these lands were "brush" fields, some were pastures that had been forested and converted to pastures, and some were lands that had been logged prior to the implementation of the Forest Practices Act and had been overcome by invasive species

like blackberry, scotchbroom and gorse. These types of lands are typically more difficult and hence, more expensive to establish. Converting these sites from brush to conifer forest requires technical expertise, financial resources and patience.

Some general costs and influence of the tax credit on conducting these activities are listed below:

| | <u>Without tax credit</u> | <u>With tax credit</u> |
|---|---------------------------|------------------------|
| Establishment cost per acre: | \$700 | \$350 |
| Projected value per acre: (35 MBF x \$450/mbf, 45 years) | \$15,750 | \$15,750 |
| Internal Rate of Return: (between established costs and projected values) | 7.33% | 9.04% |

As a frame of reference, the stock market over the last 15 years has returned better than 10%. Investing in forest management is conservative by comparison.

So What?

So what is the benefit to the State of Oregon for providing this tax credit? What can be shown for this investment?

A variety of benefits have been realized:


- Our working forests land base has been expanded. The acres we have converted to productive Douglas-fir forests expands our operating land base. The demand for wood products has not declined over the last 20 years while the land base available to meet this increasing demand has contracted. Responsibly managing productive forest land acreage to maximize productivity allows for continued investment in needed infrastructure and services—mills and loggers. In southwest Oregon, these are critical employment opportunities.
- Environmental services are provided. Removing invasive species or converting pastures to establish native conifer forests enhances water quality and wildlife habitat. Virtually every project on which we have utilized with this tax credit has a stream on it or immediately nearby. It is the intent of our management that as these forests mature, they will contribute to fish and wildlife habitat needs.
- Some unintended benefits have been realized. Twenty years ago, private industrial forests were managed almost exclusively for sawlogs. Today, sawlogs remain our primary

commercial product but now we account for carbon and biomass in our inventories. While these remain developing markets, the reality is we have increased the ability of our lands to sequester and store carbon. As energy demand continues to rise, the utilization of woody biomass for energy production becomes more likely. Maintaining or even expanding the land base capable of contributing material to this market is a benefit not even thought of 20 years ago.

The reforestation tax credit has proven to be an essential incentive in our land management strategy. It has allowed us to remain competitive with much larger land owners by providing us the modest means to increase productivity from our land base. Without this program, many of our projects would be marginal investment opportunities. The growing recognition of the contributions of working forests to our local and State economies, communities and the environment supports continuing incentives that promote investment in working forests. The reforestation tax credit program is a relatively small program that achieves just that outcome. We encourage the continuation of this program.

Sincerely,

LONE ROCK TIMBER MANAGEMENT COMPANY

A handwritten signature in black ink that reads "Jake Gibbs". The signature is written in a cursive, slightly slanted style.

Jake Gibbs
Director of External Affairs



**LONE ROCK TIMBER MANAGEMENT CO.
LONE ROCK LOGGING CO.**

P.O. BOX 1127 * ROSEBURG, OR 97470
TELEPHONE: 541-673-0141
FAX: 541-440-2516 or 541-440-1573

April 8, 2011

What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?

- A 1991 Department of Forestry report indicates over 310,000 acres in Douglas and Coos Counties is underproductive forest lands. The public benefit from fields of blackberry, scotchbroom or other invasive species is non-existent. Incenting landowners through assistance to convert these underproductive lands to productive forests results in gains for the State and the individual landowner. The State is assured forest lands remain as forest lands providing trees for carbon storage, logs for manufacturing, habitat for wildlife, and clean water. The landowner benefits from revenues generated from potential future logging operations or other markets related to the forest on the hill.
- Considering a little over 60,000 acres have utilized this tax credit program, I'd say the timeline for achieving the goal of increasing the acres of productive forestlands warrants extension.

Who (groups of individuals, types of organizations or businesses) directly benefits from this credit?

- Any landowner with management responsibilities on at least 5 acres qualifies for applying for this tax credit.

What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?

- If the credit fully sunsets, a smaller subset of landowners will be able to absorb the costs associated with converting underproductive lands. A variety of scenarios could possibly result: small private non-industrial landowners will be limited in their ability to convert lands. As these properties transition from generation to generation, the ability of families to recover value from the lands will be reduced. Selling these lands will be an option. Conversion to other land uses is possible.

- There are multiple components to qualifying for the credit. Meeting the definition of under productive forestland is one threshold. The current definition challenges the ability of landowners to economically operate on these lands and convert them to productive forests. If the amount of credit available to a landowner is modified then it would be appropriate to evaluate the definition of productive lands as well.

What background information on the effectiveness of this type of credit is available from other states?

- Other states provide tax credits for allowing public access to private forest lands and other recreation and ecosystem benefits. There is growing recognition and appreciation of the benefits derived from keeping working forests working. Tax credits are one identified mechanism for supporting this objective. The Oregon reforestation tax credit is a minor incentive in the overall management of private forests.

Is use of a tax credit an effective and efficient way to achieve this policy goal?

- Private forests provide public benefits while receiving no direct compensation for providing those services. Examples include recreation opportunities (hunting, fishing, hiking) and ecosystem services (wildlife habitat, carbon storage, clean water). Without imposing additional fees on beneficiaries of these services, a tax credit may be an appropriate mechanism in providing some relief to private forest landowners.

What other incentives (including state or local subsidies, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?

- I am aware of federal programs that assist landowners in very specific afforestation projects. I have no firsthand experience implementing one of these programs on our lands due to the restrictions on future management options.
- I am not aware of any currently funded program focused on converting underproductive forest lands to productive forest lands.

Could this credit be modified to make it more effective and/or efficient? If so, how?

- Adequate field and technical support from the Oregon Department of Forestry would benefit landowners who may qualify for this credit. If landowners were aware of the potential productivity of their land and that incentives exist to assist in achieving that level of productivity, perhaps more lands would be maintained as working forests.

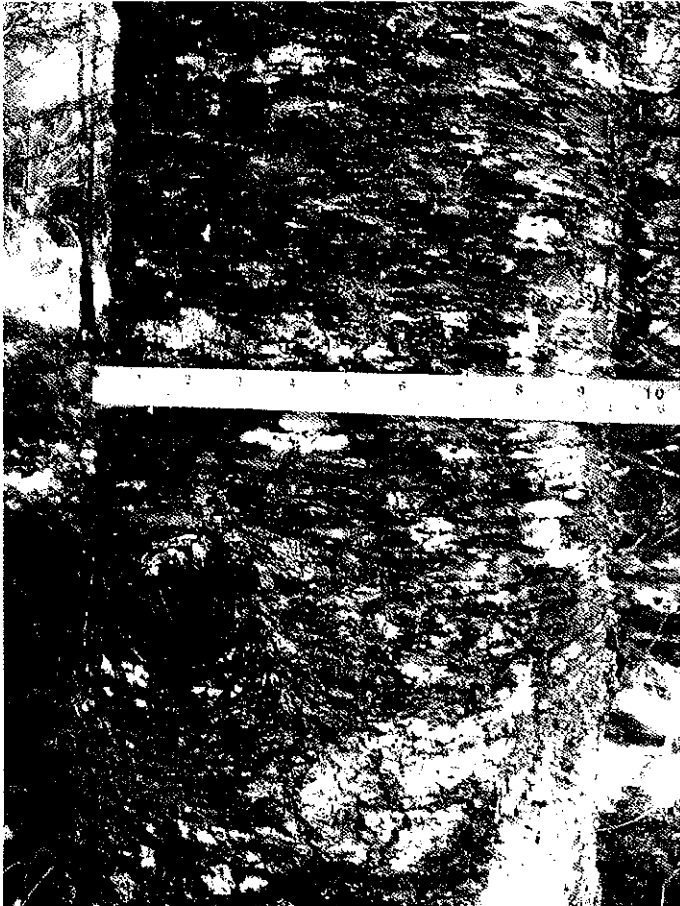
Pasture to be planted to conifer 2012 (photo taken 2/3/2011)



1997 Pasture/brushfield conversion (photo taken 2/3/2011)



1990 Reforestation Tax Credit Douglas-fir (photo taken 2/3/2011)



1990 Reforestation Tax Credit Forest (photo taken 2/3/2011)

