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TESTIMONY ON HB 3481

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HOUSE REVENUE COMMITTEE

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My name is Lincoln Cannon, and I am the Director of Forest Resources and Taxation for the Oregon Forest Industries Council (OFIC). Thank you for the opportunity to testify this afternoon on HB 3481.

OFIC is a trade association representing more than 50 Oregon forestland owners and forest products manufacturing firms. Our members own more than 90% of Oregon's private large-owner forestland base. OFIC coordinates advocacy on behalf of its members to:

(1) Maintain a positive, stable business operating environment for Oregon's forest products community and encourage long-term investments in healthy forests,
(2) Ensure a reliable timber supply from Oregon's public and private forestlands, and
(3) Promote stewardship and sustainable management to maintain productivity and protect environmental values on all of Oregon's forestlands.

What HB 3481 Does

- Imposes a $20/per thousand board feet (MBF) severance tax on timber harvested in Oregon.
- Allocates 6% of total collections (3% each) to the Departments of Forestry and Revenue for administration of tax collections, distributions and refunds.
- Gives $3/MBF each to Oregon Forestland Protection Fund (OFLPF), Residential Solid Fuel Heating Fund, and Watershed Conservation Grant Fund ($9/MBF total).
- Transfers up to $3/MBF to the General Fund to fund the Biomass Collectors Tax Credit.
- Gives refundable tax credits of up to $3/MBF – certified by the State Forester – to "…an owner of timber, for logs harvested and milled to a diameter of not more than 12 inches in Oregon."
- Remaining revenues are distributed to counties in proportion to the share of total harvest from each county

$20/MBF equals $80 to $100 per log-truck-load. Assuming $100 per truckload:

- $6 would go for administration
- $60 (maximum) to fund various state programs
- $13 (approximate) for tax credits for logs processed in-state
- $20+ (the remainder) distributed back to counties.
- Assuming an average annual harvest level of 4 billion board feet, in total this bill would cost Oregon's forest landowners and forest products industry $80 million per year.

OFIC supports increasing forest products employment and economic activity in our rural communities. We believe, as discussed in more detail below, that penalizing private forest landowners as this legislation would do runs contrary to and would be detrimental to achieving those outcomes. Singling out forest landowners for punitive new taxes undermines the value of their investments, makes them less competitive in the global markets, and by devaluing their investments makes conversion of private forestlands out of forestry into other uses more likely.

HB 3481 is the Wrong Approach

Oregon forest landowners are already taxed like all other property owners in the state, on the value of their property subject to constitutional limitations of Measure 5 and 50. Timber is taxed like every other crop in Oregon, on income realized from the harvesting, processing and sale of the crop. Forest products manufacturers pay corporate and income taxes as well as property taxes on high-value manufacturing facilities. The forest sector provides 59,000 direct jobs for Oregon taxpayers who pay property and income taxes. Every 1 million board feet of timber harvested equates to 11 jobs in logging, trucking and manufacturing. The best way to generate more state and local government revenues from forests is to increase harvest levels, particularly on public lands, to create more family wage jobs and the property and income tax revenues that result.

As previously noted, at an average annual harvest of 4 billion board (BBF), a $20/MBF tax would cost the industry an additional $80 million dollars per year. Distributing more than $16 million of that back to counties seems a blatant attempt to circumvent the constitutional property tax protections afforded all other taxpayers. No one is suggesting that apples, pears, blueberries, hazelnuts, wheat, Christmas trees, or nursery stock should be subject to such egregious taxation to support state programs and county governments. It is unfathomable as to why timber crops should be singled out for such unfair treatment.

As to the tax credit for in-state processing, its apparent intent is to penalize private forestland owners who sell their logs out-of-state and to incentivize them to sell their logs to Oregon mills instead, who would in turn need to hire Oregon employees to process those logs.

Economic research has demonstrated, however, that restrictions and taxes on log exports are inefficient and damaging to industry competitiveness in the long-term. The difficult economic climate and a historically weak housing market following the "great recession" caused many forest landowners to defer harvests, as domestic log demand and prices were too low. As a result, in the absence of an international export market, logs would likely not have been harvested for the domestic market but left on the stump until market conditions improved. Instead, the export market was the one constant during the recession and was responsible for supporting family-wage jobs in logging, trucking, reforestation, stevedoring, and maritime industries.

Domestic log markets do not recognize political boundaries and logs routinely flow from Oregon to surrounding states and logs from surrounding states to Oregon. This is particularly the case with our neighbor to the north, Washington. A logical behavioral change this bill could engender is that more Oregon logs would stay in Oregon, while Washington manufacturers would replace that lost volume with Washington logs currently being imported into Oregon. In domestic markets, the end result would likely be an expensive and intrusive bureaucratic process for collecting and rebating severance taxes while providing little revenue and little or no benefit to Oregon manufacturers.

Creating Jobs: The Path Forward

While it varies year-to-year, 80 to 90 percent of Oregon logs are already sold into domestic markets. While log exports did increase during the recession, domestic wood products markets are now strengthening while foreign log demand is slowing. Since 2011 Random Lengths composite framing lumber price index has increased by 35% while Oregon Department of Forestry's Douglas-fir log prices are up 30%. Chinese finished lumber imports continue to increase and prices are near record highs. Strong demand for finished products allows mills to pay competitive prices for logs, keeping Oregon logs in Oregon mills supporting Oregon jobs, rendering government intervention in log markets unnecessary.

The Oregon Department of Forestry's 2014 report, "Oregon's Log Exports: Situations and Solutions," recommends:

> *Instead of restricting private log exports, a better approach to improving State and local economies would be to increase sustainable timber supply , to strengthen utilization of timber harvested sustainably from Oregon's forests, and to expand existing and to develop new markets for value-added forested products manufactured from Oregon-grown timber.*

OFIC believes that <u>increasing timber supply from public forestlands should be the state's # 1 priority for creating forest sector jobs, revitalizing rural economies and generating tax revenues</u>. Public timber (federal and state) cannot be exported out-of-country. Nearly 60% of Oregon forestlands are in federal ownership, which used to provide half of Oregon's annual timber harvest. In the last 30+ years Oregon has lost three-quarters of its forest products mills and two-thirds of its forest products manufacturing employment, largely as a result of a 90% decline in federal harvest levels. State forests also have the capacity to sustainably provide much higher harvest levels than are being realized today. Increased harvests from public lands, in addition to private logs, are sorely needed to provide timber supply necessary to meet projected growth in demand.

Increasing demand through market development and recognizing wood as renewable, sustainable and the greenest of building materials can also drive manufacturing and job growth in the forest sector. Governor Kitzhaber's Executive Order 12-16 recognizes and addresses concerns around log exports by working to expand demand and develop strong domestic and international markets for green wood building materials manufactured in Oregon.

Building a stronger forest sector creates jobs that generate healthy local economies and communities as well as income and property taxes to fund state, school and other local government services. This is best achieved not by levying punitive taxes on a select group of taxpayers but rather by building markets for Oregon's forest products and making more public timber available to enable wood products manufacturers to meet those demands.

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