

Severance Tax Testimony

Chair Witt, Committee Members, and Staff:

I'm John Sweet, Coos County Commissioner and Vice Chair of the AOC Natural Resource Steering Committee. I appreciate the opportunity to testify about proposed timber severance tax legislation. My remarks are being submitted on behalf of AOC whose Natural Resource Steering Committee and Legislative Committee both voted unanimously to oppose the proposed severance tax bills for two basic reasons:

First, this is simply not the time to be adding a tax that could adversely impact the timber and wood products industries. In much of rural Western Oregon, these remain the dominant providers of family wage jobs averaging \$50M per year with full benefits as compared to tourism jobs which average \$25M per year, are often seasonal, and generally do not provide benefits.

Despite currently strong lumber and plywood prices, the industries are suffering strong cost and raw material supply issues. The only thing holding log and product prices in check now is salvage logging of trees killed by last year's forest fires. Not only have timberland owners lost millions upon millions of dollars to the fires, but the destruction of trees on lands in reforestation means reduced harvest levels in the future. Keep in mind that last year's fires were not a one-off happening. The industries have suffered a series of such losses.

On top of fire losses, we have continued to see federal and state owned lands taken out of our state's harvest base in recent years. In Coos County alone, over 300,000 acres (240,000 of

O&C Railroad Lands, 60,000 of Coos Bay Wagon Road Lands, both managed by the Bureau of Land Management, and 60,000 acres of the Elliott State Forest) are no longer being harvested save for a few thinning sales. It's little wonder G-P shut their Coos Bay sawmill down.

Additionally, our Board of Forestry is currently considering taking another 300,000 acres, about half of the County Forest Trust Lands, out of production. This is all in addition to huge reserves of USFS land already removed from the state's harvest base.

It goes on – the industries are faced with absorbing the gross receipts tax enacted during last year's legislative session. And, a State brokered commitment among timber companies and environmental interest to work together to modify existing timberland management and harvest levels is underway. This is likely to add management costs and reduce harvests. We need to let this effort play out before adding another tax on forest lands.

Imposing a severance tax on top of all else I have described above does not seem desirable. At some point we are likely to add the straw that breaks the camel's back. As badly as the counties and other local taxing districts need the additional funding a severance tax would provide, it is secondary to the importance of jobs and the economic activity created by our timber and wood products industries. Rural Oregon simply cannot risk losing these industries.

The second reason behind AOC's opposition to the proposed severance taxes is that we hold such a tax be solely for support of local taxing districts, not the State or special interests. It appears that the proponents of the proposed severance taxes view revenues so created as "found money". To local governments and taxing districts, severance revenues represent "lost

money”, money we once had but were relieved of by State action when previous severance taxes were phased out.

To provide an understanding of Oregon timber taxation policy leading up to, first, the past implementation, and then the cancellation of a timber severance, I’d like to give a short history of timber taxation in the State. Please note that my comments apply to timber holdings of 5,000 acres or more. Forest land holding of under 5,000 acres are subject to slightly different tax protocols.

Prior to 1929, the value of all private forestland as well as the value of the standing timber on those lands were subject to property taxes. Between 1929 and 1977, a Forest Fee and Yield Tax was allowed for lands in reforestation in lieu of such property taxes. I believe lands not in reforestation continued to be taxed as prior to 1929, but am not clear on this.

In 1953, the State imposed a Forest Products Harvest Tax as a flat per MBF fee on trees harvested from both private and public land. It remains in effect today as a State tax to support forestry research at OSU, forest fire control, enforcement of the Oregon Forest Practices Act, and OFRI.

In 1962 in Eastern Oregon and 1977 in Western Oregon severance taxes were imposed on the value of harvested timber. It is important to note that it was IN LIEU OF AN AD VALOREM TAX ON STANDING TIMBER. The land itself remained subject to an ad valorem tax. The State collected the severance taxes along with the taxes on the land and DISTRIBUTED THEM TO LOCAL TAXING DISTRICTS.

The reasoning behind replacing the ad valorem property tax on standing timber with a severance tax is interesting. In the years before 40 – 50 year harvest rotations became the norm, timberland owners would expect an 80 plus year interval between harvests or after fires. This meant an 80 year period of paying property taxes on land and timber that one would likely not live to see harvested again. As a result, the counties were overridden with forest lands foreclosed upon for non-payment of property taxes. To remedy this, the severance tax was substituted for the ad valorem tax on standing timber.

In 1991, a privilege tax replaced the severance tax to avoid conflict with Measure 5 property tax limits.

Then, in 1999, the legislature created a new program that phased out the privilege (severance) tax by 2003. It's been suggested that the State may have been supportive of such an arrangement because doing so would have increased timber companies' profits with resultant increases in State income taxes.

Whether by law or by practice, in Oregon property taxes are typically used to fund local governments and income taxes to fund State government. We contend that the severance tax, by virtue of the fact that State law classifies timber as real property and/or that such a tax was clearly enacted to be in lieu of an ad valorem tax on standing timber, should be reserved, if re-enacted, solely for the funding of local governments. One last thing to keep in mind is like ad valorem property taxes, 40 to 50 percent of severance taxes benefitting local governments flow through to the State through school equalization. The idea that some severance

proposals have that the State get a share of severance payments off the top in addition to the 40-50 % are unreasonable.

In closing, I urge you not to move the severance proposals forward pending ample time for the timber and wood products industries to absorb the adverse impacts of fires, new taxes, increased costs, and new regulations; and time for the legislature to dig more deeply into severance tax considerations.

Respectfully submitted,

John W, Sweet