

February 21, 2021

House Committee on Agriculture & Natural Resources:

Rep. Brad Witt Office, Chair
Rep. Vikki Breese-Iverson, Vice Chair
Rep. Zach Hudson, Vice Chair
Rep. Jami Cate, Member
Rep. Pam Marsh, Member
Rep. Susan McLain, Member
Rep. Bill Post, Member
Rep. Jeff Reardon, Member
Rep. David Brock Smith, Member
Rep. Anna Williams, Member

Re: **Opposition to House Bills HB 2379, 2389 & 2430; Support for HB 2070**

Dear Chair Witt and Members of the Committee:

We request that this letter be entered into the public record on this matter. We are opposed to HB 2379, 2389 & 2430; but, we support HB 2070. As we understand them, House Bills 2379, 2389 and 2430 change the taxing structure for forest products as traditionally outlined in HB 2070. HB 2379 would also eliminate the Oregon Forestland Protection Fund and Oregon Forest Resources Institute, among other things.

First, a little background about us. My wife and I are constituents of Rep. Anna Williams. We are retired, and we own and manage about 84 acres of forestland in western Oregon near Estacada, which we have been doing for almost 30 years. We are proud of our forest stewardship, and we were honored for our work in 2020 as the Clackamas County Farm Forestry Association's Woodland Farmer of the Year. We received this honor not on account of how efficiently we can produce a forest crop, or how well we can log a forest stand; we were honored on account of our forest sustainability practices, fish habitat restoration efforts, and the educational services we present on our property to students of all ages about healthy streams and forests. We actively manage our forest for many requirements and uses, ranging from infrequent timber harvesting to wildlife habitat enhancements, recreation and riparian (relating to or situated on or near the banks of a river) restoration. For many years we have also endeavored to follow best management practices to minimize the risk of forest fire hazards. We had our first commercial thinning performed in 2014 on 20 acres (about one third of the trees were logged); we have another commercial thinning operation planned in about 2035 on about 40 acres, but that will be the extent of logging in our lifetimes.

In our opinion, the following serious issues arise from the current versions of these three bills:

1. **HB 2379: This bill in the most onerous and far-reaching of the three we are opposed to.**
 - a. From a philosophical standpoint, this bill is at odds with decades of effective legislative public policy. In 1977, the Oregon legislature determined that since most old growth forests were gone, and that second and third generation forests were growing, that trees will be treated as a renewable resource, or crop, much like annual crops or orchard products. Severance taxes, by their definition, are applied to "severed" resources, such as oil or coal (or as centuries-old forests were once thought of). Therefore, this type of tax logically no longer applies to timber harvesting in our current environment.
 - b. While this bill will repeal the Forest Products Harvest Tax (FPHT), it replaces it with a 5% Severance Tax on harvested timber (based upon what value is unknown). The difference between these two types of taxes is enormous.

Our own example of logging-related costs is worth relating: when we commercially thinned a 50 year old stand in 2014, the harvest generated 238 MBF (thousand board feet) of merchantable saw logs. At the time, the FPHT rate was \$3.53/MBF (now it is \$4.13/MBF) which resulted in a tax of about $238 \times \$3.53 = \840 . This operation achieved a gross revenue of \$187,977, from which we received net proceeds of \$105,120 (after deducting costs of professional forester fees, logging, hauling and reforestation). Therefore, if a 5% Severance Tax had been in place then, based upon the net proceeds (which is an assumption as the bill is not clear as to what value would be taxed) the severance tax would be $\$105,120 \times 0.05 = \$5,256$, or **an increase of 6.25 times over the FPHT!** It must also be remembered that we pay state and federal income taxes on the net logging proceeds (about \$6,130 (state) and \$17,600 (federal) in this 2014 example) as well as annual property and fire patrol & protection taxes on our parcels. **One cannot simply look at only one tax when there are others that are levied simultaneously upon forestland owners.** Without consideration of the annual taxes or our annual forestland stewardship expenses, the \$187,977 gross proceeds reduces to only \$80,550 that we see, or \$76,134 if a 5% severance tax was in place. Now, if we factored in annual property tax payments and stewardship expenses of about \$750.00/year \times 50 years = \$37,500 (in present dollars), further reduces our net proceeds from \$76,134 to \$38,634 (on 187,977 gross proceeds over a 50-year timeframe). Not much.

When comparing Oregon's timber-related taxation system to other states, the total of all costs, taxes and fees must be compared, and some states, such as Washington, do not have a state income tax. **The point of this example is to demonstrate that logging is an expensive business and any new potential tax must be viewed in light of all other relevant costs and taxes.** Small forestland owners do not harvest trees to make a lot of money: if we see a 3% to 5% net return on our investment, we are doing quite well. We are not like large, industrial timber companies, which have economies of scale, professional staff and annual logging revenues. If we want to make more money, there are other, more profitable avenues (i.e. the stock market).

There will come a point when small woodland owners cannot make a fair profit and thus must look elsewhere to earn a living, such as developing their land or converting it to agriculture. Given the rate the federal forests are burning, I doubt that the legislature would want to be seen as helping to promote either of those scenarios; we need to be protecting our lower-elevation, more productive, privately-held forests to maximize carbon storage and sequestration, among other goals. We strongly suggest that the state legislature draft far-sighted, comprehensive legislation that does not use a stick approach to excessively tax small woodland owners; rather, recognize that we perform a vital service in growing trees, creating wildlife habitat and storing carbon, and how this should be incentivized (with common sense, science-based guidelines) instead of penalized.

- c. Section 14 of this bill also appears to eliminate the Oregon Forestland Protection Fund and related programs, which have been working for decades. How will the replacement program(s) work (assumed to be the newly-created "Emergency Wildfire Fund")? Why not retain past programs and make modifications as needed to them? What proportion of wildfire costs will continue to be paid for by the general public? We must remember that the majority of wildfires are first occurring on public land, often encroaching onto private land, which was clearly evident in the Riverside, Beachie Creek and Lionshead wildfires. Outreach should be done to make all stakeholders aware of potential changes in public policy such as this, so the burden is fairly distributed. What is the motivation behind this section of the bill?

- d. Section 14 of this bill also appears to eliminate the Oregon Forest Resources Institute (OFRI), which provides some valuable educational information to forestland owners; but, we will discuss this in more depth in our testimony regarding HB 2357. If anything, the future disposition of OFRI should wait until Gov. Brown's audit of this institute is completed.
2. **HB 2389:** This bill will make privilege taxes on timber permanent, with annual inflation adjustments. This bill is almost identical with the traditional text found in HB 2070 (put forth by the Oregon Department of Forestry), but with one key difference: it makes such taxes permanent, in lieu of being reviewed every two years. Given the dynamic change potential of this natural, renewable resource, it does not make sense to make such tax rates permanent; rather, they should be examined on a biannual basis, as is currently done.
3. **HB 2430:** This bill is also similar to HB 2070 (again, the traditional, biannual bill put forward to fund needed forestry-related programs), with the exception that taxes must be reviewed and set annually instead of biannually. What is the point of that? This would appear to merely make more work for some government agencies and for what gain?

In summary, we find that HB 2379 would be very unfair to small woodland owners, HB 2389 and 2430 are unnecessary, and all should be withdrawn from further consideration. HB 2070 should be passed.

Thank you.

Sincerely,



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