



February 26, 2024

Senator Meek, Chair
Senate Committee on Finance and Revenue
Oregon State Capitol
Salem, OR 97301

Subject – Senate Bill 1593

Chair Meek, Vice Chair Boquist, Members of the Senate Finance and Revenue Committee.

Thank you for providing the opportunity to share perspectives by The Association of Oregon Counties (AOC) on Senate Bill 1593 and the proposed amendments.

AOC is opposed to Senate Bill 1593 as introduced, but does not currently have an official position on the -1, -2, or -3 amendments.

Senate Bill 1593 as introduced would place on the November Ballot, the possibility to reintroduce the Severance Tax. The proposal calls for a different taxable percentage based on the number of acres owned by each landowner. The bill also would implement the severance tax being imposed (if passed) only on private landowners. The -1, -2, and -3 amendments however call for the severance tax on all private and public landowners. It removes the ballot referral - instead calling for the State Forester and the Oregon Department of Forestry to conduct a study of the proposed severance tax (Section 2) and produce a report for consideration by the Legislature in November of 2024.

First, AOC would like to give a brief background on the severance tax in Oregon. Then, a few thoughts on the proposed legislation as presented.

History of the Oregon Severance Tax

Prior to 1929, the value of all private forestland and the value of standing timber on the land were subject to property taxation. This caused significant problems for counties as Oregon did not have the Forest Practices Act and the requirements to replant as they do today. Because of this, many companies at this time partook in the practice of “cut and run.” Timber companies would harvest the landscape and then move on to the next location, many times not paying their property tax and putting the lands in foreclosure with the counties.

Between 1929 and 1977, a Forest Fee and Yield Tax was allowed for the reforestation of lands in lieu of property taxes. By 1953, a Forest Products Harvest Tax was imposed per thousand board

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feet (mbf) on all timber harvest from both public and private lands. In 1961, in lieu of a property tax on the value of standing timber, a 5% severance tax was established on all harvested timber in Oregon east of the cascades. In 1977, the Oregon Legislature chose to repeal the Forest Fee & Yield Tax and impose a 6.5% severance tax on timber harvest west of the cascades. Thus, creating two separate severance tax rates on each side of the mountains.

In 1991, the legislature redefined the severance tax as a privilege tax and reduced the tax rate through December 31, 1993. The legislature continued to make changes to the taxable rate and by 1996, the severance tax (privilege tax) rate was 3.2% imposed on all private harvests in western Oregon for all but the small tract option; the eastern Oregon privilege tax was at a rate of 1.8%. With the passage of Measure 5 and 50 by the people of Oregon, standing timber became exempt from property tax assessment. The privilege taxes levied on timber harvest value, however, was enough to preserve roughly 80% of the amount that used to be collected. By 1999, the severance tax was no longer in place and timber companies were operating almost entirely under a Forest Products Harvest Tax. The 1999 Legislature created this new program which phased out the privilege tax at harvest with a full exemption occurring no later than 2003.

During the period of time severance tax was assessed by the Oregon Department of Revenue, counties were the recipients of the revenue that was generated. After the assessment was collected, counties shared the revenues with local schools (k-12, ESDs, and community colleges), special taxing districts, and kept a portion for their own use. The amount generated depended on the tax rate in place, the value generated by the species of the tree, and the amount of harvest that occurred.

For example, in 1990, east of the cascades, county governments received 17.1% of the revenues generated; however west of the cascades, county governments were able to keep 9.1% of the revenues generated. By 1997, with the passage of Measure 50, the calculation of district tax rates used in the distribution formula was eliminated – which caused a gradual decline in the schools share of the revenue generated and by the 2001/2002 biennium, the severance tax revenues no longer occurred.

Senate Bill 1593, as introduced, allocates 40% of this new revenue generated to be appropriated to the counties where the harvest occurred as unrestricted dollars. This has the potential to be more funds than what was received when the severance tax originally was in place; however, not knowing the landowners that fall under each taxing-threshold bucket, the value of said timber that is being generated, or where the harvest is occurring, it is hard to fully know the amount going to each county. It is possible however that these questions could be addressed with the passage of the proposed amendment as the study calls on the State Forester to, “[q]uantify the overall revenue benefit accruing to counties and other taxing districts in counties where timber is harvested” (Section 1 (3)(d)).

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However, the language in the amendment does give counties pause. If the funds are given to the county where the harvest occurred, and it is unrestricted, what impacts will “other taxing districts in counties” have? The severance tax portion of the bill/amendment does not currently contemplate special districts.

Other provisions of the Bill / Amendment:

Although the revenue aspect is very appealing, there are issues in the bill that counties flagged during their review which caused the Association to take an opposition position. I have listed some of them below for the committee’s contemplation.

First, counties believe a discussion around potentially reintroducing the severance tax is not one for the short 35-day session. Counties want to ensure, if reintroduction of this tax is the direction the state takes, that adequate time and research into this subject is conducted. Counties do not believe the base bill had this in-depth analysis.

The -1, -2, and -3 amendments call for a study on the reintroduction of the severance tax. Many counties have strong views and thoughts on all sides of this issue. Counties believe that the time to have conversations around this issue and to fully understand all aspects should be considered before the state decides to embark on this potential tax. AOC appreciates that the proposed -1, -2, and -3 amendments specifically identifies The Association of Oregon Counties as an organization for the State Forester and the Department of Forestry to consult with on the severance tax proposal (Section 1 (4)(b)(A)). We believe if a severance tax is reintroduced, time should be spent analyzing whether the approach presented in the introduced bill, as well as contemplated in the proposed amendments, is the correct approach.

However, counties would be remiss if we did not identify a potential issue with the timeline established in the proposed amendments. The study requires ODF and the State Forester to conduct these interviews, do all research required (Section 1(5)), and produce a final report all before November. This means the work being required is occurring during the spring and summer - the height of Fire Season. Counties believe the Department should focus their time during the summer months on wildfires and preventing the growth and spread of wildfires. 2024 has the potential to be a very bad wildfire season.

The second issue AOC would like to raise is regarding the study itself contemplated in the -1, -2 and -3 amendments. Counties want to make sure that the study, if it moves forward, is not done with an anti-forestry bias. Every county in the state apart from one has forestland within their borders. Forestland makes up 29,656,000 acres within the state, or roughly 48% of the total land base of Oregon. Oregon has led the nation in the production of softwood lumber and plywood, typically used in the building of homes for our citizens. With more than 30 distinct forest types in the state, these lands employ hundreds of employees across the state. In fact,

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according to Oregon Forest Resources Institute, in the year 2021, the forest sector employed 61,970 jobs in Oregon - roughly 3% of the entire employed constituency. In five rural counties, however, the forest sector accounted for more than 10% of the total workforce.

In multiple counties, the average annual wage of those working in the forest sector is 7% more than the average wage for all Oregon employment; however, many rural counties have significantly higher-than-average wages. For example, Clatsop County is 71% higher and Harney County is 62% higher.

Counties want to make sure that the study does not disproportionately burden the forest sector, discourage sustainable forest management practices, or cause the fully benefited-family wage jobs to be lost because of a significant increase in the tax bill not currently experienced or anticipated.

Finally, there is a concern among the Trust Land Counties that this severance tax would be used to backfill the revenue lost due to the potential passage of the Department of Forestry's Habitat Conservation Plan (HCP). If the HCP is passes, Trust Land Counties are concerned that this severance tax would be used to backfill the revenues lost due to lower harvest amounts in the state forests. Trust Land Counties are not interested in a severance tax as the method of funding their counties because of the HCP shortfall. Trust Land Counties believe these conversations need to be separate and should not be considered together.

For these reasons above: **The Association of Oregon Counties is opposed to Senate Bill 1593 as drafted and does not currently have an official position on the proposed -1, -2, or -3 amendments.**

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