

April 4, 2021

House Committee on Revenue:

Rep. Nathanson, Chair
Rep. Pham, Vice Chair
Rep. Reschke, Vice Chair
Rep. Levy, Member
Rep. Pam Marsh, Member
Rep. Smith, Member
Rep. Smith Warner, Member

Re: **Opposition to House Bill HB 2379 (as introduced)**

Dear Chair Nathanson and Members of the Committee:

We are opposed to HB 2379. As we understand it, House Bill 2379 changes the taxing structure for forest products as traditionally outlined in HB 2070 (we support HB 2070). HB 2379 would also eliminate the Oregon Forestland Protection Fund and Oregon Forest Resources Institute, among other things. Various amendments to this bill were proposed in the House Agriculture & Natural Resources committee, but they were no better than this introduced version.

First, a little background about us. 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, were awarded the joint ODFW/ODF "Fish & Wildlife Steward Award for Forest Lands" in 2020 and are certified by the American Tree Farm System due to, among other things, implementing standards of sustainability in accordance with the American Forest Foundation.

The following serious issues arise from the current version of this bill:

1. While this bill will repeal the Forest Products Harvest Tax (FPHT), it replaces it with a 5% Severance Tax on harvested timber. The financial difference between these two types of taxes is enormous. Our personal example follows:

In 2014, we selectively thinned a 50-year-old, 20 acre stand, leaving over half of the timber standing. A description of all logging-related costs follows to demonstrate the difference between these two taxes and the impact of all taxes and costs. 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 and 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 for 50 years of patience and stewardship.

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 (e.g. the stock market).

2. 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, among other things, and how this should be incentivized (with common sense, science-based guidelines) instead of penalized.
3. Section 14 of this bill 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? It is not fair for small woodland owners to pay more than their fair share of wildfire protection costs when the majority of wildfires in recent memory begin on federal land and of those, the majority are caused by humans. In our area, the largest fires, the 2014 "36 Pit" fire (5,500 acres), the 2015 "Eagle Creek" fire (50,000 acres) and the 2020 "Riverside" fire (138,000 acres) were all human caused on public land, which then spread to other lands. Given these facts, the general public should also pay a proportionate share, and also serious thought should be given to temporarily closing our federal forests during extreme dry and windy weather conditions as states such as Colorado are now doing to minimize the risks of wildfire hazards caused by humans. (The City of Estacada recently sent a letter to the US Forest Service recommending a study be undertaken about temporary forest closures for exactly this reason.) This issue must be tackled from multiple angles.
4. Section 14 of this bill also appears to eliminate the Oregon Forest Resources Institute (OFRI), which provides some valuable educational information to woodland owners and educational outreach. The future disposition of OFRI should wait until Gov. Brown's audit of this institute is completed, then if any modifications are proposed, objectively act upon them at that time. Don't get the cart before the horse.

In summary, we find that HB 2379 would be very unfair to small woodland owners, and should be withdrawn from further consideration.

Thank you.

Sincerely,



David & Mary Ann Bugni
30265 SE Kowall Rd.
Estacada, OR 97023