

Dear Chair Witt and Committee Members:

Thank you for holding a hearing on the timber tax bills.

I am testifying on behalf of the Environmental Caucus of the Democratic Party—supported by members in counties across the state. I want to state clearly that we are in support of reinstatement of a severance tax on timberlands.

I have spoken to commissioners and rural folks across the state who are in support of a severance tax but with the majority of funding returned to counties as property tax. However, this is not what the current severance tax bill HB 2379 puts forward.

I am a physician by training. I have seen poverty and lack of services harm people's health, cause depression and early death. I work on this issue to support timber counties who need real revenue to provide services to people impacted by COVID.

Let me be clear, counties have lost \$3 billion since the severance tax has been phased out without a rise in property tax to cover for this.

I would like to speak to all the small tract forest lands who spoke in the public hearing such as the Cafferata's Tree Farm of 79 acres who would not or should not be included in the severance tax. Applying the new tax to forestland over 1000 acres, would exempt the small family forest tract investments and are not causing marked harms to water systems.

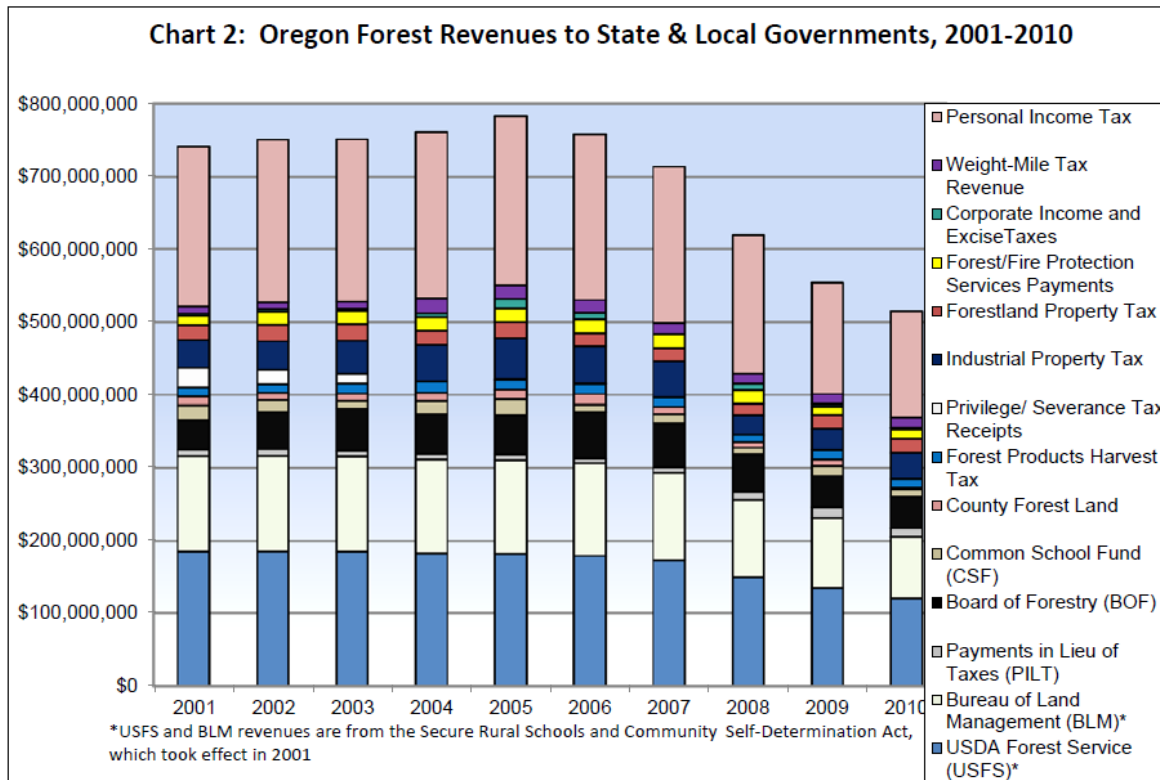
WHAT IS THE PURPOSE OF A SEVERANCE/HARVEST TAX?

Oregon has been taxing property including timber along with improvements on the land since 1856. In 1929, the value of the land was separated from the value of the growing timber also considered property and a severance tax was created to keep owners from abandoning their land and stop paying property taxes. I'm quoting LRO-Research brief on Timber taxes 2013 and 2010. The argument that there is no call for additional severance tax and that timber corporations are paying too much is blatantly not true as you can see from the amount of property tax that is paid in the graph below.

In addition, federal and state lands should be paying this harvest tax to the counties. This is revenue on the land base that counties must have to provide services to those entities and their employees to maintain roads, bridges and services to employees.

The chart below is from the Legislative Revenue Office Research Brief from Feb 2013 entitled, "Revenues from Timber in Oregon".¹ I ask that you call for a similar chart to look at taxes and income from 2010 to 2020. I am sure that in 2020 these numbers will be lower still (adjusted for inflation) because of reduction in personal income tax due to further consolidation of timberland into Wall Street corporate entities. With that corporate structure, there is no pass through of income to local owners. Also note that corporate income taxes barely register on this graph.

¹ https://www.oregonlegislature.gov/lro/Documents/RR2-13_Timber.pdf



CORPORATE STRUCTURE

There was a statement from the industry lobbyist in the last hearing that timber companies can't pay. Let's look at the timber corporations.

Over the last number of decades, over 1 million acres has been consolidated into large Wall Street timberland investment or management corporate structures. 62% of westside acreage is owned by Wall Street investors. These corporate structures pay no corporate income tax in Oregon and the pass through of profits goes to investors all over the world. So, as you can see from the top bar in this graph, personal income from timber corporations has also diminished. There is only a minority of family or closely held private corporations. In addition, there are only 33 total corporations that own more than 5000 acre parcels (defined as industrial) on the westside.

In reality, 10 corporations own 81% of all private industrial timber land in the state.

REAL ESTATE INVESTMENT TRUSTS (REITS) and Timber Investment Management Operations (TIMOs) are corporate entities created to pay less in tax. They pay no corporate income tax. The "owners" (AKA investors) pay no personal income tax on their earnings, only capital gains (at a lower tax rate). There is no "person" there. Only a corporation.

The chart above shows the reduction in personal income tax from the timber industry in Oregon because family holdings are being bought out.

Also note that there is hardly any actual corporate income taxes visible (green).

There has been a steady reduction in the percentage of land held by small timber companies who truly live and work as families in the woods, unlike what Mr. Edwards said in the last hearing about the entire industry being one big happy family. This is a consolidating and very high stakes and currently a high-income industry.

The holdings of the next largest companies below 5000 acres down to 500 acres again on the west side number only 16. These are truly the small timber family holdings like Silver Creek, Zena Woods and the like. Acreage lower than 1000 cannot support a family and is investment only. The severance tax should provide these small holdings (2000-5000 acres) a tax break for conservation easements or for managing the forest with Forest Stewardship Certification because this type of management protects habitat and enhances water storage and purification.

It was said by several at the last hearing that the severance tax should not be imposed on the timber corporations given the recent wildfires. However lumber products are now going for 130% more than a year ago. Weyerhaeuser recorded record profits in the fourth quarter of 2020.

At the invited hearing, an example was told about a contractor company that happened to also hold less than 500 acres of land that was impacted by fire. This person would not be paying severance tax at all if the LC -829 version is used. We must look at the disincentives of a tax on small land holdings.

In addition, most fires are not total loss. On average only 5-10 percent is lost. The fires in the last season were more severe and the majority on the eastside may have been caused by downed electric lines. The events with a severe easterly wind, climate change induced drought and no rain was the perfect storm. Large corporations are insured. Let's look at the smaller companies and adjust accordingly.

DRINKING WATER -a portion of the Severance tax is also needed to require timber companies to pay their fair share for damages done to drinking water.

Forests have multiple functions. They create weather. Fog drip on the coast and in parts of the western cascades is a major source of water gathering. They collect water, filter, and store it, creating clear, clean drinking water. 75 percent of Oregonians drink water from forested watersheds.

Timber corporations should pay their fair share for logging damages to drinking water. Erosion from steep slope logging, inadequate riparian buffers, 50% reduction in summer water flows through tree plantations with trees from 10 to 50 years are all evidence of this. Communities can ill afford new filtration plants, wells and other upgrades and protections of the drinking watersheds. This should come from the severance tax. Communities like Corbett that lost one of two stream sources at the water intake. Wheeler lost water from their entire watershed and had to pull water from wells and pipe it from 5 miles away. Arch Cape and all above are paying dearly for upgrades of over \$2 million each. The wells failed in Neahkahnie, so people are left with even higher costs to filter the water.

The people testifying want to have the Department of Environmental Quality be in charge of managing drinking watersheds with adequate oversight and enforcement that is not being done currently. Communities drinking water needs protection and enforcement.

The Memorandum of Understanding creating the current negotiation between environmental advocates and the timber industry is important. In my understanding and what is written in the bill, the topic of negotiation only includes the forest practices to protect fisheries, not drinking water and not taxes. Getting a Habitat Conservation Protection Plan helps the industry to be in compliance with decades old federal law that Oregon has been in violation of. Yes, it costs money, but so do lawsuits. Mr. Edwards, the timber industry lobbyist is not one of the negotiators. The parties to the MOU are not supposed to be characterizing the negotiation in any way. The timber companies and environmental advocates came to the table in good faith. Corporate interests are there to protect themselves from future litigation on harms to fisheries. It will also help create certainty for their forest practices.

It is important to note that the industry is complying with stricter laws in Washington and still cutting trees and making money.

Sustainable Harvesting Incentives - Lastly, for the sake of climate change and water resources, we must incentivize truly sustainable forest management. Monoculture tree plantations are not forest ecosystems, though if held beyond 60-80 years produces more water. Many small land holders want to practice sustainable logging. This provides more jobs in the community. Clearcutting can be done with one machine and worker (on flatter land). Selective logging is harder to do, but easier on the watershed and results in far more stored carbon. It is our duty to address the multiple purposes of forests in our state and the waters of the state.

For these reasons, the severance tax bill should provide tax reduction or elimination for those practicing selective logging, rotations longer than eighty years, conservation easement land, and those in compliance with Forest Stewardship Certification.

Thank you for the opportunity to testify. Please ask the Legislative Revenue office to extend the chart to truly see how much revenue has been lost.

In summary,

- **Severance tax on value of timber at 6.5%; 5% on East side**
- **Apply to 1000 acres or more; exempt small Tract program**
- **60% to counties as property tax**
- **5% to DEQ for drinking water protection**
- **20% to Oregon Business for grants for water systems or watershed improvements**
- **15% to Development for grants/loans for fire preparedness.**

Warm regards,

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