



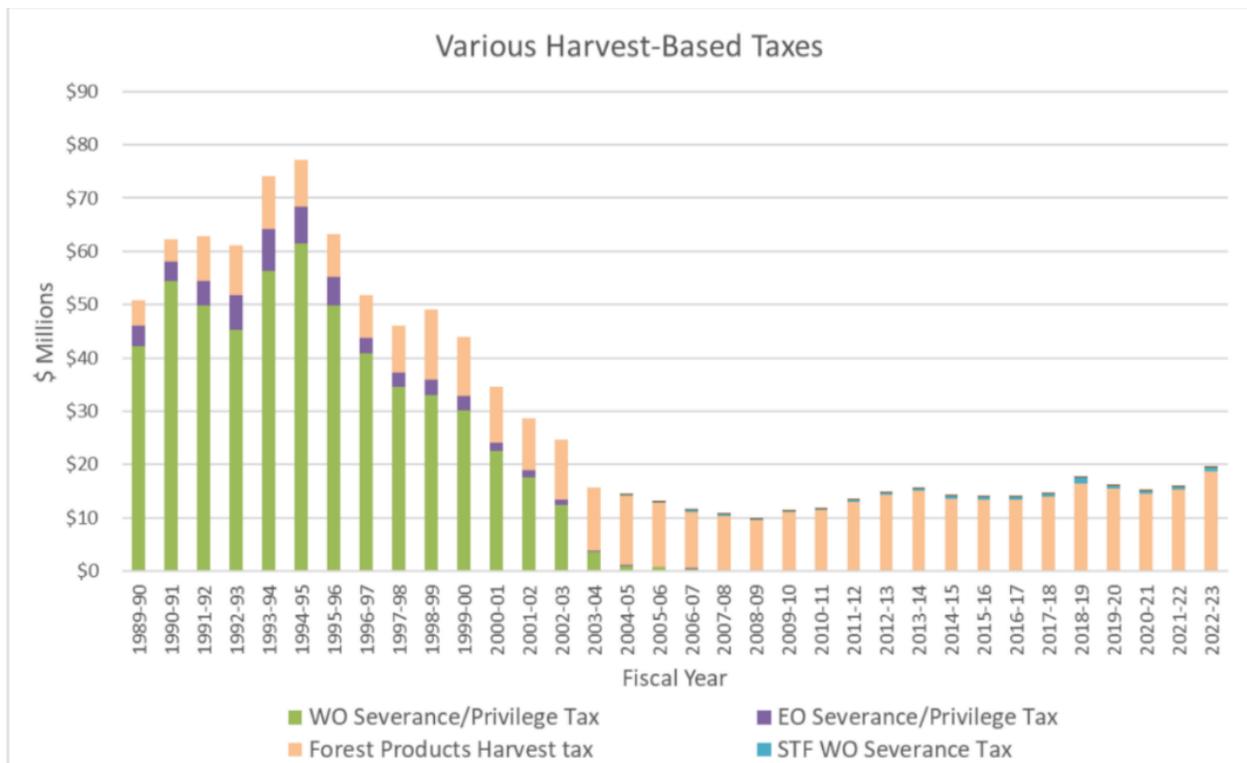
SB 1593 Study of a timber severance tax legislative concept

Senate Finance and Revenue – Jody Wisner – 2.20.2024

Three bills about forestland, wildfire and community preparation funding and the tax receipts to pay for them are before the legislature this year. It's the perfect storm we expected when the OPB/Oregonian/ProPublica stories burst forth several years ago.

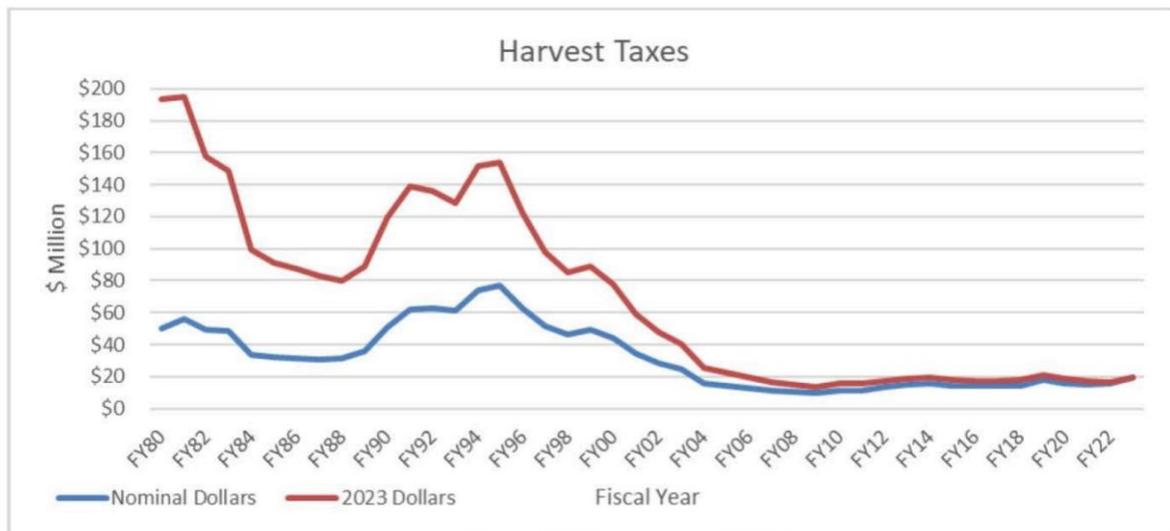
The Steiner and Golden bills focus on different parts of the funding issues and thus are compatible and could, with refinement both move forward. We find the concept to be explored by the study proposed in SB 1593 a most appropriate first step.

Everything we've read, every piece of evidence we've seen shows that the taxes and assessments paid by Oregon's commercial forest industry have diminished dramatically since the 90s. The news stories of several years ago called it \$3 billion in lost revenue for the State then. It would be more now. This LRO graph shows clearly that revenue dropped dramatically when the legislature was convinced to phase out Oregon's severance tax:



The green and purple bars represent the former WO (Western Oregon) and EO (Eastern Oregon) Severance Taxes. The two areas of the state paid different tax rates. STF (Small Tract Forestland Severance Tax), is an additional severance tax that owners of less than 5000 acres can choose to pay in lieu of paying 80% of their property taxes while their trees are growing. This is another element of forestland taxes the legislature could beneficially study.

This second LRO graph shows in the same information, though starting earlier, but the red line shows it in 2023 dollars, making the reduction more obvious.



While the top graph shows the components and the second highlights the losses by using inflation adjusted dollars, both are looking only at Oregon's harvest-based taxes.

Neither income-based taxes nor property-based taxes have increased to make up for the losses. While the CAT tax has been added to our tax base, it is there for every business, not just timber businesses. And while loggers with more than \$1 million in income pay the CAT, the owners of much of the timber harvested in Oregon are not be subject to the CAT tax because they primarily sell their timber out of state.

If it were clear that any other industry group – manufacturers, retail sales, financial services, transportation -- had experienced such dramatic shifts in taxes paid, you would want to address it. SB 1593 suggests that after exploration of the facts and of the mechanics of rebuilding Oregon's severance tax, via a study lead by the State Forester, this legislative body may or may not choose to reinstate a tax on the forestry industry that disappeared three decades ago.

As the State Forester explores the idea, he will want to look at the basis of the proposed tax (per board foot vs value, and pond vs stump), the rates, the carve outs for owners who pay Oregon taxes vs those who do not, whose forestry management practices meet Forest Stewardship Council (FSC) certification requirements or don't, and the distribution of the new tax receipts. This is work that deserves better fact finding and discussion before a bill advances. We hope this study bill will successfully proceed to enactment.

Industry-produced material has, over the last decades, been based on an ever-enlarging definition of the industry so that not just timber owners, loggers and lumber mills, but also lumber stores and kitchen cabinet shops, wood flooring and manufactured homes are included in Oregon's forest industry's numbers, though they are also in states with no forestland. You will see that in the following Ernst and

Young numbers recently prepared for the Oregon Forest Industries Council.

Oregon Forest Industry taxes are estimated at \$113 million in FY19. Private landowners provided an estimated \$29 million in fire funding

Estimated Forest Industry state taxes, local property taxes, and fire assessments in FY 2019¹
(Amounts in millions)

Tax type	Forestry and logging (NAICS 113)	Wood products manufacturing (NAICS 321)	Total Oregon Forest Industry
Property taxes	\$36.7	\$21.6	\$58.3
Forest Products Harvest Tax	\$16.4	\$0.0	\$16.4
Small Tract Forestland	\$1.2	\$0.0	\$1.2
Corporate income and excise tax	\$0.7	\$1.9	\$2.6
Individual income tax ²	\$4.2	\$30.5	\$34.6
Total industry without fire assessments	\$59.3	\$54.0	\$113.2
Assessments for fire protection ³	\$28.9	\$0.0	\$28.9
Total industry with fire assessments	\$88.1	\$54.0	\$142.1

¹ Does not include Corporate Activity Tax (effective in January 2020) or Paid Family Medical Leave payroll tax (effective January 2022) as these taxes were not in effect in FY 2019

² Individual income taxes only include taxes paid on income reported as pass-through business income. The amount of income from timber sales reported as a non-business capital asset can not be estimated and we have not included taxes on this income in this analysis

³ This includes an estimate of fire assessments and taxes paid by private landowners. It includes local Forest Protection District assessments and assessments that provide revenue for the state's Oregon Forest Land Protection Fund (OFLPF). Note that funding from the Forest Product Harvest Tax that is directed into the OFLPF has been subtracted to avoid double-counting since it is included as a severance tax. This estimate does not include in-kind contributions and resources for fighting fires by private landowners.

* Figures may not appear to sum due to rounding

- ▶ **Forestry and logging** businesses grow and harvest timber on a long production cycle. Wood product manufacturers develop wood products such as lumber, plywood, veneers, wood containers, wood flooring, and manufactured homes
- ▶ **Forest Industry businesses** paid local property taxes on forestland, personal property taxes on equipment and machinery, timber severance taxes (Forest Products Harvest Tax and STF severance tax), and income taxes (corporate and individual income taxes on pass-through business income) in FY2019
- ▶ **Fire assessments**, which include funding for local Forest Protection Districts and large fire protection via contributions to the Oregon Forest Land Protection Fund (OFLPF), are estimated as nearly \$29 million from private landowners in FY19

A wise person will only look at the first column of the E&Y report and know that even there a good portion of the income taxes reported in the first column will be paid by the loggers who harvest timber whether it is owned by a REIT or a local family and sold for the Portland airport project or for buyers outside the state or country. Ignore the headline.

The number that Senator Golden's bill addresses is the \$59.3 million.
Senator Steiner's bill addresses the \$28.9 million.

The materials generated by investigative reporters, by LRO and by LFO have consistently shown a sharp drop in revenue generated for the public from our forestland and harvested timber.

SB 1593 asks that the State Forester explore one solution: the return of a robust severance tax for those who harvest trees, be that from public or private land. Of the new revenue roughly:

- \$20 million will go to community risk reduction programs, the very programs that we hope will keep the insurance industry offering insurance to business and homeowners in our State, a service that is crucial to every buyer that needs a mortgage,
- \$31 million to the counties to assist them in providing services in their counties,
- \$8 million to restore and protect domestic water supplies often negatively impacted by logging activities, and
- \$20 million to the current uses of the Harvest Tax which this severance tax would replace.

I hope there will indeed be a similar, perhaps ad hoc study that explores the property assessments for fire protection districts that Senator Steiner's bill addresses, along with the question it raises, should firefighting resources be separated with small, "base fire protection" the sole responsibility of the landowners and large severe fires the sole responsibility of the State. That's a weighty question which also deserves deep consideration by more than the industry itself.

Senator Meeks, Jama, Boquist, Findley and Golden, I hope you will move this bill to the floor. It should no longer need to go to Rules, since it isn't a referral. Legislators deserve to get the answers to these questions from a trusted source so they can make a reasoned decision.

We read the bills and follow the money