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Big Money Bought the Forests. Small Logging Communities Are Paying the Price.

Tony Schick, OPB, Rob Davis, The Oregonian, and Lylla Younes, ProPublica

June 11, 2020

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FALLS CITY, ORE. — A few hundred feet past this Oregon timber town, a curtain of Douglas fir trees opens to an expanse of skinny stumps.

The hillside has been clear-cut, with thousands of trees leveled at once. Around the bend is another clear-cut nearly twice its size, then another, patches of desert brown carved into the forest for miles.

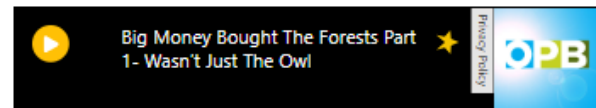
Logging is booming around Falls City, a town of about 1,000 residents in the Oregon Coast Range. More trees are cut in the county today than decades ago when a sawmill hummed on Main Street and timber workers and their families filled the now-closed cafes, grocery stores and shops selling home appliances, sporting goods and feed for livestock.

But the jobs and services have dried up, and the town is going broke. The library closed two years ago. And as many as half of the families in Falls City live on weekly food deliveries from the Mountain Gospel Fellowship.

“You’re left still with these companies that have reaped these benefits, but those small cities that have supported them over the years are left in the dust,” Mac Corthell, the city manager, said.

Listen to the Story

Wall Street investment funds took control of Oregon's private forests. Now, wealthy timber corporations reap the benefits of tax cuts that have cost rural counties billions.



For decades, politicians, suit-and-tie timber executives and caulk-booted tree fallers alike have blamed the federal government and urban environmental advocates for kneecapping the state's most important industry.

Timber sales plummeted in the 1990s after the federal government dramatically reduced logging in national forests in response to protests and lawsuits to protect the northern spotted owl under the Endangered Species Act and other conservation laws. The drop left thousands of Oregonians without jobs, and counties lost hundreds of millions of dollars in annual revenue.



Top left: The Boondocks, a restaurant in Falls City, Oregon; top right: Frink's General Store, a market in town; bottom: a truck carrying logs rolls through Falls City. (Beth Nakamura/The Oregonian)

But the singularly focused narrative, the only one most Oregonians know, masked another devastating shift for towns like Falls City.

Wall Street real estate trusts and investment funds began gaining control over the state's private forestlands. They profited at the expense of rural communities by logging more aggressively with fewer environmental protections than in neighboring states, while reaping the benefits of timber tax cuts that have cost counties at least \$3 billion in the past three decades, an investigation by OPB, The Oregonian/OregonLive and ProPublica found.

Half of the 18 counties in Oregon's timber-dominant region lost more money from tax cuts on private forests than from the reduction of logging on federal lands, the investigation shows.



A tree sapling grows in an industrial forest in Oregon's Coast Range. (Beth Nakamura/The Oregonian)

Private timber owners used to pay what was known as a severance tax, which was based on the value of the trees they logged. But the tax, which helped fund schools and local governments, was eliminated for all but the smallest timber owners, who can choose to pay it as a means to further reduce annual property taxes.

The total value of timber logged on private lands since 1991 is approximately \$67 billion when adjusted for inflation, according to an analysis of data from Oregon's Department of Forestry. If the state's severance tax had not been phased out, companies would have paid an estimated \$3 billion during the same period. Instead, cities and counties collected less than a third of that amount, or roughly \$871 million.

Polk County, home to Falls City, has lost approximately \$29 million in revenue from timber sales on federal land. By comparison, the elimination of the severance tax and lower property taxes for private timber companies have cost the county at least \$100 million.

"You have that tension between this industry that still employs people, but we're losing some of the benefits of that relationship," Falls City Mayor Jeremy Gordon said. "As those jobs diminish, there's less and less support to subsidize that industry in the community."



"A Completely Different Business Model"

OREGON'S CONNECTION to the timber industry is so tightly knit that casinos, high school mascots and coffee roasters take their names from mills, loggers and stumps. The state Capitol is domed by a golden pioneer carrying an ax, and its House chamber carpeting is adorned with trees. The mascot of the Portland Timbers, a Major League Soccer team, is a logger who revs a chainsaw and cuts a round off a Douglas fir tree after every home goal.

While the industry today still rakes in billions of dollars annually, it's starkly different from the one that helped build and enrich the state.

Oregon lowered taxes and maintained weaker environmental protections on private forestlands than neighboring states in exchange for jobs and economic investment from the timber industry.

Despite such concessions, the country's top lumber-producing state has fewer forest-sector jobs per acre and collects a smaller share of logging profits than Washington or California.

If Oregon taxed timber owners the same as its neighbors, which are also top lumber producers with many of the same companies, it would generate tens of millions of dollars more for local governments.

Timber once employed 1 in every 10 working Oregonians and pumped over \$120 million per year into schools and county governments through severance and property taxes. Now, it employs 1 in every 50 working residents and pays about \$25 million in severance and property taxes that go directly back to communities.



Left: Henry Cross, 8, lives in Falls City and is the grandson of a former timber worker; right: photos of Cross' grandfather from his timber days. (Beth Nakamura/The Oregonian)

The profits are concentrated with a small number of companies controlled by real estate trusts, investment funds and wealthy timber families. Small timber owners, who grow forests that are older and more biologically diverse than what corporate owners manage, have sold off hundreds of thousands of acres.

In western Oregon, at least 40% of private forestlands are now owned by investment companies that maximize profits by purchasing large swaths of forestland, cutting trees on a more rapid cycle than decades ago, exporting additional timber overseas instead of using local workers to mill them and then selling the properties after they've been logged.

Such intensive timber farming contributes to global warming because younger trees don't store carbon dioxide as well as older ones. It also relies heavily on the use of herbicides and fertilizers, magnifies drought conditions and degrades habitat for wildlife such as threatened salmon and native songbirds.

Jerry Anderson, region manager for Hancock Forest Management, one of the largest timber investment companies in Oregon, said local leadership makes decisions about the best practices for the land despite responsibilities to investors.

"There's nobody from outside this area that has come in and told us what to do on these individual plantations. Those are local decisions," said Anderson, who has been managing land in Polk County under various companies for the past 40 years. The last eight years have been with Hancock. "I think our decision-making is very measured."

In investor materials, Hancock, which belongs to the publicly traded, \$25 billion Canadian Manulife Financial, says that it is well-equipped for the shift from managing natural forests to plantations of trees designed to grow as fast and as straight as possible, like arrows jutting out from the ground.



A few trees are left behind after a clear-cut in an industrial forest in the Coast Range. (Beth Nakamura/The Oregonian)

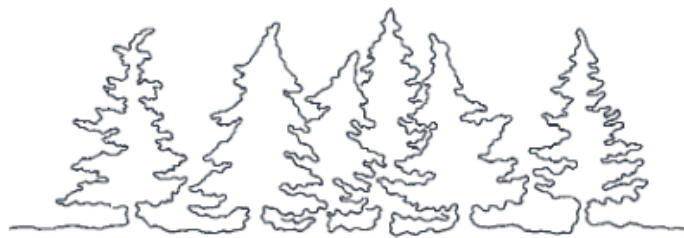
From a distance, tree plantations can be confused for natural forests. Oregon vistas still boast hundreds of thousands of acres of green treetops. But, on the ground, plantations of trees crammed together are often eerily barren, devoid of lush vegetation and wildlife.

Former Oregon Gov. John Kitzhaber said that he and his advisers were alarmed by the shift toward investor-driven forestry during his last of three terms in office. By then, forest ecologists, the U.S. Forest Service and even a former chief investment officer for Hancock had published papers warning that investor-driven forestry was ecologically damaging and less capable of sustaining rural communities.

“They have a completely different business model,” Kitzhaber, a Democrat, said.

Kitzhaber, who received nearly \$200,000 in contributions from timber-connected donors while in office, supported multiple industry-backed measures during his tenure. He led a plan to save Oregon’s salmon that relied on voluntary measures from timber companies instead of regulations, and he signed into law a massive tax cut for the industry that’s still felt in many counties.

“The current state isn’t working,” Kitzhaber said in an interview. It may benefit investors, he said, “but it’s not working for small mill owners. It’s not working for rural communities. They don’t have any control of their future.”



A Forest Town Surrounded by Corporate Trees

FROM HIS FAVORITE SPOT on a hill near Falls City, Ed Friedow can see what he refers to as the big picture: the Oregon coast, rolling hills, a national forest and industrial lands now managed mostly by timber investment companies.

Friedow, a logger who grew up on a farm outside of town, watched as smaller timber companies from his childhood closed in the aftermath of the spotted owl protections, leaving control of the industry with larger companies that were more equipped to scale production.

“All of a sudden, it was just like a takeover situation,” Friedow said.

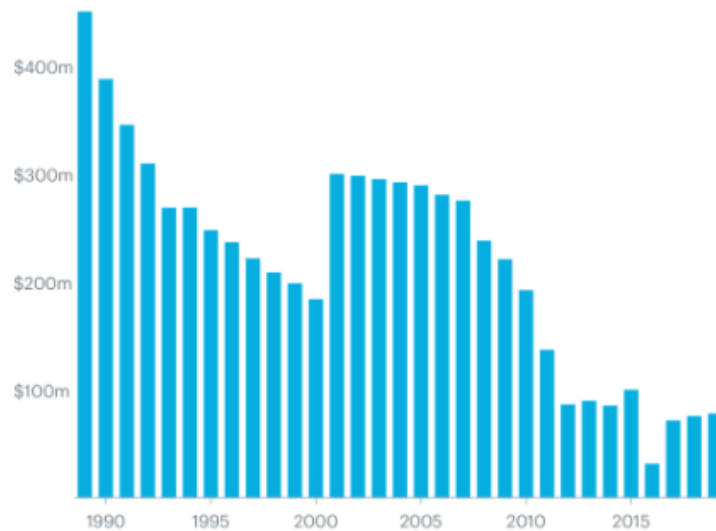
At the same time the changes were happening in Oregon, the timber industry was emerging from a nationwide recession that caused widespread bankruptcies in the 1980s. Many debt-laden companies began selling off forestlands. Meanwhile, changes in the federal tax code made timber an attractive investment that wouldn’t crash with the stock market.

Under federal tax law, pension funds and other investors can acquire forestlands without paying the corporate taxes incurred by traditional timber companies that mill their own products. Those corporate taxes have reached 35%. Investors in the company instead pay a capital gains tax closer to 15%.

In the 1990s, as federal logging plummeted, timber prices skyrocketed, making those investments look even smarter, said Brooks Mendell, president of the forest investment consultancy Forisk.

“Overnight, private landowners had something that became more valuable,” Mendell said.

Federal Payments to Oregon’s Western Counties Dropped Precipitously



Lylla Younes/ProPublica; Source: Headwaters Economics

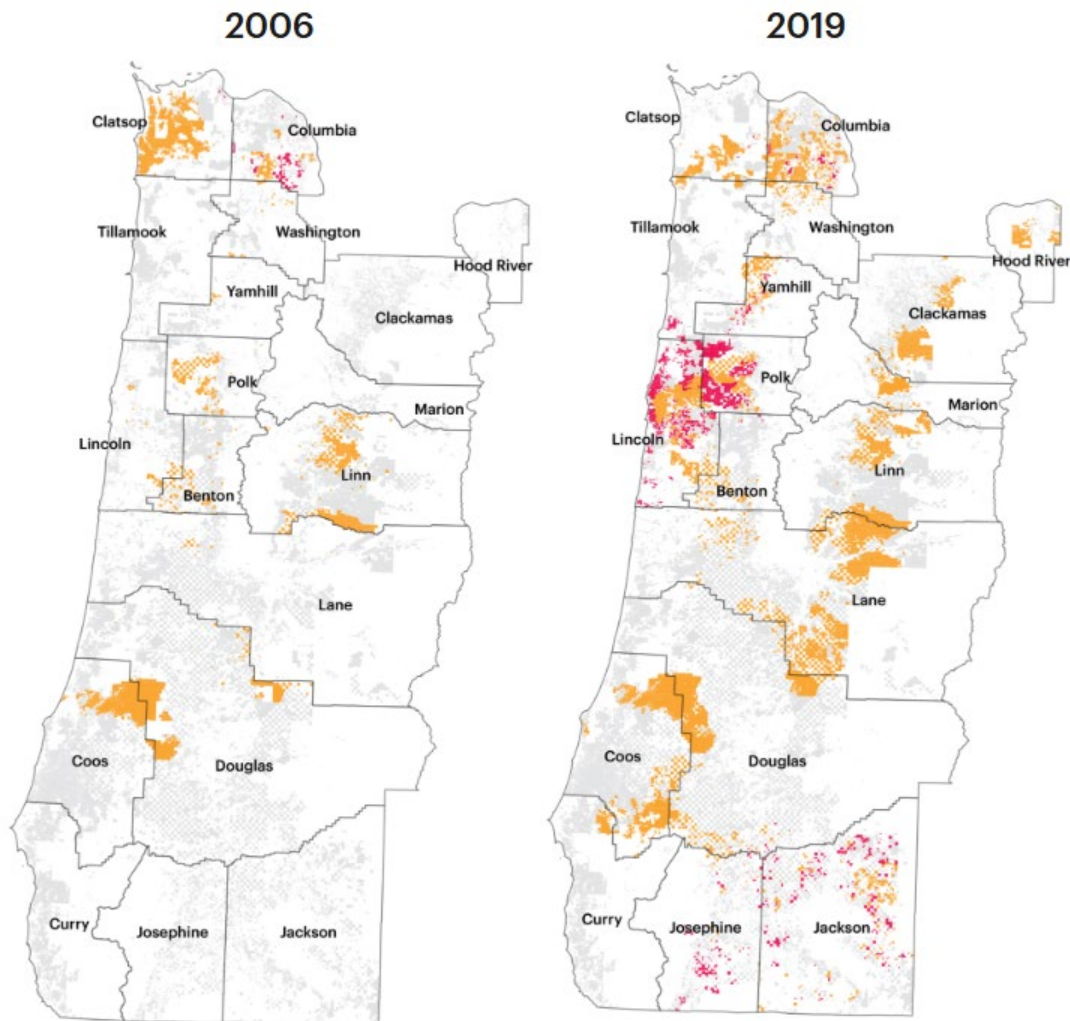
Investors jumped at the opportunity to own timber, and existing companies like Weyerhaeuser restructured to take advantage of the tax breaks. The longtime Seattle-based timber company converted into a real estate investment trust in 2010.

Timber investment companies, a rarity in the 1990s, now control a share of the forestland in western Oregon roughly the size of Delaware and Rhode Island combined.

Weyerhaeuser, the largest of such companies, has more than doubled its size in western Oregon over the past 15 years, the investigation by the three news organizations found. The company owns more than 1.5 million of western Oregon's 6.5 million acres of private forestland.

Oregon's Two Largest Wall Street-Traded Timber Companies Gained Ground

Between 2006 and 2019, Weyerhaeuser (orange) and Hancock Forest Management (pink) more than doubled the amount of forestland they owned in western Oregon.



Despite its growth, Weyerhaeuser employs fewer people than it did two decades ago and has shed most of its mill operations. It has three wood products facilities in Oregon and directly employs about 950 people, fewer than a quarter of the 4,000 employees the company listed in a 2006 news release. The decrease stems from factors that include consolidation and automation of jobs in mills.

Just outside of Falls City, Weyerhaeuser owns roughly 21,000 acres. The company controls the road into the forest that leads to public lands and the land surrounding the creeks that supply the town's drinking water. In 2006, the city temporarily shut down its water treatment plant because it was clogged with muddy runoff from logging operations.

Weyerhaeuser spokesman Karl Wirsing said the company remains a good partner to local communities. In the past five years, the company has donated nearly \$1.6 million across the state, including \$10,000 to the Falls City Fire Department and \$16,000 to the Polk County sheriff to help fund a new position that also patrols private forestlands.

"We don't simply do business in Oregon; our people have been living and working across the state since 1902, and we are proud of our role supporting local communities and economies," Wirsing said in an emailed statement.



Industrial clear-cuts, where thousands of trees are leveled at once, are a common sight in Oregon's rainy coastal mountains. (Beth Nakamura/The Oregonian)

But not all communities describe the relationship as a beneficial partnership.

Corthell, the city manager in Falls City, said it took him nearly two years of phone calls and emails before Weyerhaeuser responded to his requests for help.

The stretch of road between the forest and the town is cracked like a jigsaw puzzle.

Corthell had hoped that the timber companies that use the road every day could pitch in to help pay for the \$200,000 in needed repairs. But he said he didn't get a meeting with them until after he suggested the road might close if it weren't repaired.

At that meeting in March, representatives for Weyerhaeuser and a few other timber companies told Corthell that they were willing to provide matching funds if the town could secure a state grant. In response to questions about Weyerhaeuser's delay in returning Corthell's emails and calls, Wirsing said the company had previously been willing to contribute to the road project but the town never asked for a specific dollar amount.

Corthell is now preparing the town's grant application. If the funding doesn't come through, he doesn't know where he'll find the money.



“I Fear My Father Was Right”

PENELOPE KACZMAREK, 65, spent her childhood smelling freshly cut wood at the family mill and the sulfury wafts of the distant pulp mill through her kitchen window in the coastal fishing town of Newport more than an hour southwest of Falls City.

She watched floating logs await their turn at her father's saw blade, mesmerized as men in hickory shirts, sawn-off jeans and hard hats rolled them across the water.

Kaczmarek's father, W. Stan Ouderkirk, was a logger, small mill owner and Republican member of the Oregon House of Representatives in the 1960s and 1970s. He represented Lincoln County, home to the Siuslaw National Forest and a vibrant commercial fishing port.

When a large, out-of-state corporation bought his mill in the mid-1970s, Ouderkirk told his daughter that a rise of corporate ownership and loss of local control would lead to worse outcomes for Oregon's forests and the people who depended on them.

"I fear my father was right," Kaczmarek said.



Penelope Kaczmarek (Beth Nakamura/The Oregonian)

Lincoln County lost an estimated \$108 million in timber payments after the federal government restricted logging on public lands. But the sharp drop in federal forestland revenue is only partly to blame for budget cuts that have led some counties to force-release inmates from jail or reduce sheriffs patrols to the point that 911 calls for break-ins and assaults went unanswered.

Tax cuts for large timber companies that log on private lands cost the county an estimated \$122 million over the same period.

Before lawmakers began chipping away at the tax through multiple measures, Lincoln County collected an average of \$7.5 million a year in severance taxes. Last year, the county received just under \$25,000.

Now a psychiatric social worker, Kaczmarek sees people with mental illnesses filling local jails because the county doesn't have the money to provide adequate health services. In therapy sessions, teachers tell her about overcrowded classrooms and school programs cut to the bare minimum. County leaders blame the majority of the financial struggles on the decline in revenue from logging.



Left: Timbers, a restaurant in Toledo, Oregon; right: the Little Log Church and Museum in Yachats, Oregon. Toledo and Yachats are in Lincoln County. (Beth Nakamura/The Oregonian)

To avoid crushing cuts in services, communities that already struggle with high poverty and unemployment rates have had to raise taxes on residents and small businesses, said Jaime McGovern, an economist with the state's Legislative Revenue Office.

"If they don't get approved, then there's no money there," McGovern said. "And so, you've seen libraries closing, police stations closing."

In the Marcola School District, about 15 miles northeast of Eugene, the elementary school was so dilapidated that voters in 2015 passed a bond to build a new one.

The additional funding helped, but it wasn't enough. The new elementary school is already bursting with students.

"That hits home because I volunteer at the school district and I care about my taxes," Helen Kennedy, a retired attorney, said. "I care about the kids."



Helen Kennedy, who lives in Marcola, Oregon, pays nearly 100 times the tax rate of Weyerhaeuser, the largest timber investment company in Oregon. (Beth Nakamura/The Oregonian)

Kennedy, who lives on 3.5 acres in the district, saw her property taxes increase by more than 20% after she voted for the bond. Last year, Kennedy paid \$1,443 in property taxes, or about \$412 per acre. That's a fraction of what she'd pay in a city like Portland, but nearly 100 times the rate of the district's biggest landowner.

Weyerhaeuser, which owns more than 49,000 acres in the district, paid about \$226,000 in property taxes last year, according to county records. That amounts to about \$4.60 per acre. At the rate Kennedy's land is taxed, the company would have had to pay an additional \$20 million.

"Holy cannoli," Kennedy, 64, said about the losses from timber tax cuts. "The old adage that 'what is good for the timber industry is good for Oregon' is no longer true."



The Billion-Dollar Tax Cut Almost Nobody Remembers

HANS RADTKE knew the loss for counties was coming.

Radtke, a member of a gubernatorial task force on timber taxes, sat in a hotel conference room near the state capitol in 1999 listening to lobbyists and timber executives argue that their industry was being unfairly taxed.

In the early 1990s, as Oregon voters passed reforms to limit their property taxes, large timber companies successfully lobbied to gradually cut the severance tax in half, lowering their own bills by \$30 million a year.

But now they wanted to completely eliminate the severance tax.

Timber companies argued that since they'd already cut nearly all of the existing forests on their land, and state law required them to plant new trees, they were essentially farmers. And since Oregon didn't tax crops, it shouldn't tax trees.

As the owner of 100 acres of forestland, Radtke could have personally benefited from the tax cut. But as an economist advising Kitzhaber, the governor at the time, he knew it would devastate rural communities.



Hans Radtke, a member of a gubernatorial task force on timber taxes, opposed the elimination of the severance tax, which would devastate rural communities. (Beth Nakamura/The Oregonian)

After several failed attempts to offer changes that would lower industry taxes but avoid eliminating the severance tax altogether, Radtke knew the cut would pass. He turned to the industry lobbyist sitting next to him and said, “You’re fucking us.”

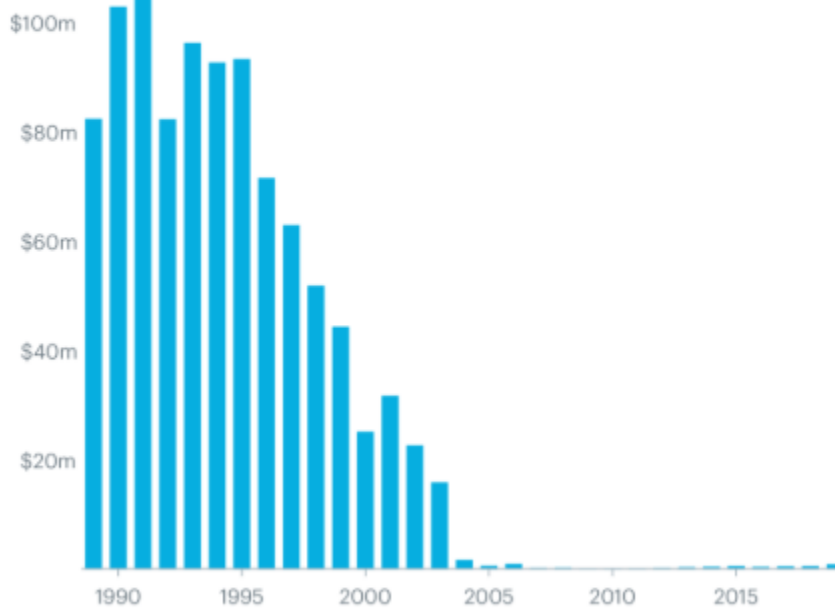
“And he just smiled,” Radtke said.

The task force dissolved without advancing any recommendations. Months later, Lane Shetterly, a former Republican state representative whose district included Falls City, introduced a bill at the request of the timber industry to phase out the severance tax.

The bill contained an increase in forestland property taxes that many believed would lessen the impact of the cut.

The Association of Oregon Counties supported it. The school lobby didn’t fight it. The governor signed it.

Revenue From Severance Tax Payments to Oregon's Western Counties Has All but Vanished



Lylla Younes/ProPublica; Source: Oregon Department of Revenue

Shetterly, now president of the Oregon Environmental Council, one of the state's top environmental groups, remembers almost nothing about the bill.

"Yeah, man that's a long time ago," Shetterly said in a phone interview.

Kitzhaber, who vetoed an earlier version before ultimately approving the measure, also doesn't recall his support of the tax cut.

"I don't question that I did," Kitzhaber said, "but I can't remember the context."

Two decades later, Oregonians are still picking up the tab.

If Oregon hadn't phased out its severance tax, timber production in 2018 would have generated an estimated \$130 million.

The state would have received an estimated \$59 million under California's tax system and \$91 million under Washington's system, the investigation by OPB, The Oregonian/OregonLive and ProPublica found.

Unlike Oregon, those states still tax large timber companies for the value of the trees they log.

Timber companies continue to pay state taxes that apply to all Oregon businesses, including income taxes and lowered property taxes, kept far below market value as an incentive for residents to own forestland.



Machinery logs forestland owned by Weyerhaeuser outside Falls City. (Beth Nakamura/The Oregonian)

The companies also pay a flat fee on the volume of logs they harvest. That fee, set in part by a board of timber company representatives, generates about \$14 million annually. It funds state forestry agencies and university research instead of local governments.

Linc Cannon, former director of taxation for the Oregon Forest & Industries Council, defends the elimination of the severance tax.

In many cases, Cannon said, counties didn't lose as much money because they simply shifted the tax burden to residents and small businesses.

Cannon said timber is a crop and should be treated like one. States that tax timber differently are simply wrong, he said.

"If you don't believe timber is a crop, then you can tax it in other ways like Washington does," Cannon said.



“This Is Exploitation”

A WISP OF SMOKE from a burning pile of logging debris swirled into the fog drift above the jagged hills behind Falls City, home to some of the nation’s most productive timberlands.

At each bend in the rocky logging road, Jerry Franklin’s voice rose. Oregon has become a case study for what can happen when state leaders fail to regulate the logging style practiced by investment companies, said Franklin, who is one of the Pacific Northwest’s best-known forest scientists.

“This is not stewardship,” Franklin said, pointing to clear-cuts down to skinny stumps, sprayed over with herbicides, dessicated brown plants and streams without a single tree along the banks. “This is exploitation.”

Franklin doesn’t object to logging. He and Norm Johnson, another forest scientist with whom he works closely, have drawn the ire of environmental groups for supporting more logging on federal lands, including certain types of clear-cutting.



Forest scientists Norm Johnson, left, and Jerry Franklin stand in the Valley of the Giants, an ancient forest in the Coast Range. (Beth Nakamura/The Oregonian)

But this, Franklin said, is different.

Douglas fir trees, which can live for centuries, are cut after only about 40 years, resulting in lower-quality wood that is worth less. The shorter timetable forces cutting across more acres to produce the same volume, but fewer workers to log and process the wood.

At 83, Franklin is older than most of the Douglas firs now growing in Oregon.

“They’re wasting it,” Franklin said, his tone matching that of a Sunday preacher, as he looked at clear-cut Weyerhaeuser land. “The incredible capacity of these forests to produce incredible volumes of high-quality wood is wasted. It’s criminal.”

In reports to investors, Weyerhaeuser says the average age of a tree cut in the Pacific Northwest is 50, but the company expects a decrease. Some older trees have yet to be logged because of regulations that limit the percentage that can be cut annually, the company states in reports.

Weyerhaeuser representatives said the company’s conversion to a real estate investment trust didn’t change its management of forestlands.

“We have been practicing and continually improving on this system of sustainable forest management for generations, and we will continue to do so in Oregon — and on all our timberlands — for generations to come,” Wirsing said.



Smoke rises from clear-cut land and mixes with fog at an industrial forest in the Coast Range. (Beth Nakamura/The Oregonian)

Oregon is suffering from the side effects of short-term logging practiced by companies that don't plan to stay around long, said Steven Kadas, who until two years ago was chief forester for the smaller, locally owned company Thompson Timber.

When trees are cut down before reaching the peak of their ability to absorb carbon, it stunts one of the state's biggest assets in combating climate change. The use of herbicide on clear-cuts and the lack of mature trees have deteriorated habitat for native songbirds on industrial private lands. Streams for salmon, for other fish and for drinking are drying up because young forests use more water and lose more of it to evaporation.

"You're not going to see the results of what you do," Kadas said. "You're not going to have to live with those."



A New Economy Behind Locked Gates

FALLS CITY'S MAYOR stands in the empty lot that once housed the town's mill, imagining a two-story brewpub, its rooftop seating filled with locals and tourists on a summer evening.

Just up the hill, brush and bramble have overtaken a rusted chain link fence. Dirty yellow paint peels off a "dead end" sign dangling upside down.

But Gordon envisions a waterfront park fit for Instagram, complete with a footbridge across the namesake falls on the Little Luckiamute River.

"Falls City — end of the road. Start of your adventure," Gordon said. It's a slogan the town adopted this year as a way to jump-start its economy.

The town is the gateway to the Valley of the Giants, a 51-acre federal forest preserve with an iconic grove of trees as big as redwoods, draped in soggy neon moss. On the way is the ghost town of Valsetz. Then, the scenic Oregon coast.



Falls City is the gateway to the Valley of the Giants, a federal forest preserve with trees draped in neon moss. (Beth Nakamura/The Oregonian)

But the roads to those destinations are often behind locked gates during peak summer tourism months because of the timber companies that own them.

The companies restricting access say they are worried about vandalism and wildfires, but \$250 a year can buy you a permit to camp or collect firewood on Weyerhaeuser lands. Hancock, the other major investment company that owns property near the town, opened part of its lands for recreational access during non-wildfire months after receiving \$350,000 in grants from the state. Falls City leaders are seeking more grant funding to open up the road to the Valley of the Giants.

“I just don’t think that’s something that would sit well in the stomachs of most Oregonians,” Corthell, the city manager, said. “To know that there’s a town right here that’s suffering for lack of ability to support itself in many ways and that we have this giant asset right up the road that we can’t get to because the big corporations have control over it.”



A truck hauling felled trees on the logging road leading into Falls City. (Beth Nakamura/The Oregonian)

A few times a year, Friedow, the local logger, acts as a guide for tours to the Valley of the Giants.

He stops at the concrete slabs that remain of Valsetz, telling stories of the now-defunct mill town. Then he begins the more than hourlong drive to the grove with trees older than the founding of the United States.

Friedow doesn't get far out of town before hearing from shocked tourists.

They can't believe the clear-cuts.



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