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Oregon Private Timberland Owners Not Paying Enough State Timber Taxes

by Andy Kerr¹

Abstract

The owners of 7.9 million acres of private timberlands in Oregon pay far less than their fair share (compared with what others pay in other states) or even enough for the state to recoup the cost of providing government services to them. None of the state tax collected on timberlands is spent for the common good. Of the very modest Oregon Forest Products Harvest Tax paid on the logging of all timber on essentially all lands, regardless of ownership, 100 percent goes to pay for programs that primarily and directly benefit the timber industry. Historically, the amount of state timber tax monies collected has been three to six times greater than the current level. State timber tax rates are tied to the volume, rather than the value, of timber cut. The result of both conditions has been shortfalls in the provision of government services at both local and state levels. As federal logging levels have declined, log values have increased. Part of this windfall received by timberland owners should be captured to help pay the state's fair share of replacing declining federal timber payments to counties.

Introduction

The Oregon Department of Revenue, however, shows 7,860,974 acres of private timberlands in its tax base.² Each level of government taxes timber or timberland differently. Counties collect *property* taxes,³ the State of Oregon collects *timber* taxes, and the federal (and state) government collects *income* taxes.⁴ This paper focuses on county property taxes. The amounts “collected” are very low in comparison to amounts collected from private timberland owners in other states.

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² Oregon Department of Revenue. 2011, *Oregon Property Tax Statistics: Fiscal Year 2010--11*, 150-303-405 (Rev. 8-11), <http://www.oregon.gov/dor/STATS/docs/303-405-11/303-405-11.pdf?ga=t>.

³ Kerr, Andy. 2012. Oregon Private Timberland Owners Not Paying Fair Share of County Property Taxes. Larch Occasional Paper #16. The Larch Company, Ashland, OR. Available at www.andykerr.net/downloads.

⁴ Kerr, Andy. 2012. Oregon Private Timberland Owners Not Paying Fair Share of Federal Income Taxes. Larch Occasional Paper #18. The Larch Company, Ashland, OR. Available at www.andykerr.net/downloads.

Systems of Forest Property Taxation

According to the National Timber Tax Website, states in the United States employ one or more of four different systems of forest property taxation:

Ad valorem property tax (current use)—*A tax, duty, or fee which varies based on the value of the products, services, or property on which it is levied.*

Flat property tax—*Under this system the same amount of money per acre is collected on any acre of timberland regardless of its value.*

Yield tax—*A tax on the value of the harvested timber. The tax is collected after the timber is harvested.*

Severance tax—*A flat tax on a specific unit of volume harvested (for example, board feet, cubic feet, cords, tonnage). The tax is collected after the timber is harvested.*⁵

Since it began levying county property taxes and state timber taxes on timber and timberland, Oregon has used various combinations of ad valorem, severance, and yield taxes. It does not employ a flat property tax. Oregon's timber tax, such that it is, is a severance tax. The state used to tax timber by ad valorem property tax or a severance tax, which was significantly higher and went into the state's General Fund.

Is one kind of tax better for the environment than another? The environmental argument for a severance or yield tax is that it encourages longer timber rotations because tax is only paid at the time the timber is harvested, rather than each year it is growing, as in the case of an ad valorem tax. The notion is that the private timberland owner will be more likely to let the trees grow longer if the annual tax bill is not high. This argument is valid only if the tax is high enough to influence the decision to cut timber, which is not currently the case in Oregon. The problem is that it is profitable to harvest as soon as a usable product can be had from a tree. If timber prices are high, the incentive is to cut young timber as soon as possible so as to take advantage of higher prices. If timber prices are low, the incentive is to cut timber as soon as possible in order to liquidate an underperforming asset and convert it to one that is more profitable, such as real estate, stocks, bonds, or gold.

The history of timber taxation in Oregon begins prior to statehood.⁶ While a fascinating subject (at least to me), it is not the subject of this paper. Suffice it to say that Oregon private timberland owners used to pay far more state timber taxes than they do presently (Figure 1 and Table 6). The former severance tax on private timber was eliminated and a forest products harvest tax on the sale of logs from all ownerships (save most tribal reservations) was increased slightly.

⁵ Quick Reference: Forest Property Taxation Systems in the United States, National Timber Tax Website, <http://www.timbertax.org/statetaxes/quickreference>.

⁶ State of Oregon Legislative Revenue Office, *History of Timber Taxes* (Research Report Number 6-00, June 22, 2000), <http://www.leg.state.or.us/comm/lro/report 6-00.pdf>.

For example, in fiscal year 1999–2000, the state collected \$32,843,222 in timber severance taxes, and in fiscal year 2010-2011, the state collected \$252,687,⁷ a decline of 99.3 percent. This was not because logging declined that much; during calendar year 1999, 3.0 billion board feet (BBF) of timber were logged from private lands in Oregon, and in calendar year 2010, 2.4 BBF, a decline of 19 percent.⁸ This was not because stumpage prices for logs declined that much; during CY 1999, stumpage prices averages \$180.67/MBF, and in CY 2010, \$59.37/MBF, a decline of 67%.⁹

Fiscal Year	Privilege Tax		Forest Products Harvest Tax	Small Tract Forestland Tax	Total
	Eastern OR	Western OR			
1979-80	\$2.53	\$45.67	\$1.75		\$49.95
1980-81	\$3.10	\$51.36	\$1.81		\$56.27
1981-82	\$3.05	\$43.04	\$1.89		\$47.98
1982-83	\$2.64	\$43.62	\$2.50		\$48.76
1983-84	\$2.15	\$25.85	\$3.23		\$31.23
1984-85	\$1.98	\$26.92	\$3.35		\$32.25
1985-86	\$1.51	\$25.04	\$2.79		\$29.34
1986-87	\$1.97	\$25.49	\$3.11		\$30.57
1987-88	\$2.15	\$25.08	\$3.87		\$31.10
1988-89	\$2.57	\$30.02	\$3.48		\$36.07
1989-90	\$3.72	\$42.80	\$4.76		\$51.28
1990-91	\$3.60	\$54.43	\$4.12		\$62.15
1991-92	\$4.50	\$49.84	\$8.41		\$62.75
1992-93	\$6.51	\$45.33	\$9.26		\$61.10
1993-94	\$7.94	\$56.30	\$9.94		\$74.18
1994-95	\$6.85	\$61.56	\$8.70		\$77.11
1995-96	\$5.18	\$49.93	\$8.01		\$63.12
1996-97	\$2.88	\$40.90	\$7.96		\$51.74
1997-98	\$2.71	\$34.59	\$8.77		\$46.07
1998-99	\$2.95	\$32.97	\$13.05		\$48.97
1999-00	\$2.73	\$29.95	\$11.11		\$43.79
2000-01	\$1.50	\$22.53	\$10.48		\$34.51
2001-02	\$1.28	\$17.60	\$9.67		\$28.55
2002-03	\$0.78	\$12.49	\$11.42		\$24.69
2003-04	\$0.18	\$3.60	\$11.94		\$15.72
2004-05	\$0.04	\$1.00	\$13.02	\$0.33	\$14.06
2005-06	\$0.03	\$0.70	\$12.00	\$0.32	\$12.73
2006-07	\$0.08	\$0.44	\$10.53	\$0.37	\$11.05
2007-08	\$0.01	\$0.19	\$10.18	\$0.31	\$10.38
2008-09	-\$0.05	\$0.08	\$11.68	\$0.18	\$11.89
2009-10	\$0.00	\$0.06	\$10.96	\$0.15	\$11.17

⁷ State of Oregon Legislative Revenue Office, *2012 Oregon Public Finance: Basic Facts*.

⁸ Oregon Department of Forestry, Annual Timber Harvest Reports, http://www.oregon.gov/ODF/STATE_FORESTS/FRP/docs/25YearHarvestHistory.xls.

⁹ Warren, Debra. 2011. Harvest, Employment, Exports, and Prices in Pacific Northwest Forests, 1965-2010. USDA Forest Service Pacific Northwest Research Station, Portland, OR. General Technical Report PNW-GTR-857.

2010-11	\$0.00	\$0.04	\$11.33	\$0.21	\$11.58
Percent decline between FY 1979-80 and 2010-11					-76.8%
<i>Source:</i> Oregon Department of Revenue (http://www.leg.state.or.us/comm/lro/2009_pub_finance.pdf)					

Furthermore, none of what the Oregon timber industry pays now in state timber taxes goes to support general state services but rather is earmarked for programs that exclusively benefit the timber industry.

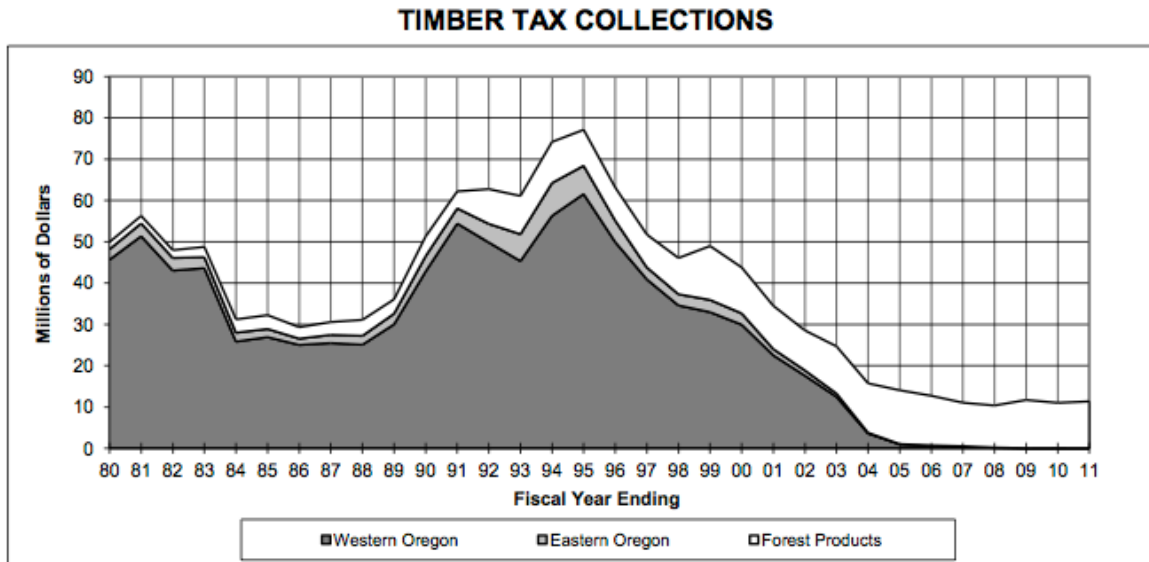


Figure 1. Timber tax collections from 1980 through 2008. *Source:* Oregon Department of Revenue (http://www.leg.state.or.us/comm/lro/2009_pub_finance.pdf)

What’s Taxed and at What Amounts

The forest products harvest tax¹⁰ (FPHT) is levied on “taxable volume,” which is any volume of timber in excess of the first 25 thousand board feet (MBF) logged each year by private timberland owners as well as all other forestland owners, save for most tribal reservations. The Oregon Legislature sets the FPHT rate each year¹¹ (see Table 7). For 2011, it was \$3.5750/MBF.

Unlike property and income taxes that are levied as a percentage of *value* or *income*—both measured in dollars—the FPHT is a set dollar amount levied for *volume*—each 1,000 board feet of logs (after the first 25,000 BF exempted annually). If the price of logs doubles to \$200/MBF from \$100/MBF, the FPHT tax remains the same although the income has doubled, effectively reducing the tax from 3.575 percent to 1.7875 percent.

¹⁰ Oregon Department of Revenue, Forest Products Harvest Tax, http://www.oregon.gov/DOR/TIMBER/2003_fpht.shtml.

¹¹ Oregon Department of Revenue, “Harvesting Timber and Timber Taxes,” 150-441-616 (Rev. 08-10), <http://www.oregon.gov/DOR/TIMBER/docs/441-616.pdf>.

Year	Rate (\$/MBF)	Rate of Annual Change (%)
2004	\$2.9500	
2005	\$2.8500	-3.39%
2006	\$2.6100	-8.42%
2007	\$2.6100	0.00%
2008	\$3.5806	37.19%
2009	\$3.8956	8.80%
2010	\$3.5750	-8.23%
2011	\$3.5750	0.00%

Due to a booming export market,¹² in September 2011 the “pond” (at the processing mill gate) value of Douglas-fir #2 sawlogs in southern Oregon was \$563/MBF.¹³ Deducting logging and hauling costs of an estimated average \$175/MBF,¹⁴ the “stumpage” (logs before they are cut) value is \$388/MBF. At \$3.575/MBF, the effective tax rate is 0.9 percent.

What the Oregon FPHT pays for

Table 8 shows how the FPHT was distributed in 2009. The practice has been for the Oregon Legislative Assembly to tweak the tax and the allocation and rate every two years, at the behest of the timber industry.

Program (% of Oregon FPHT revenues in 2012)	Contribution to Overall Budget (%)	
	Forest Product Harvest Tax (revenues from the sale of timber)	Oregon General Fund (mainly state income tax revenues)
Oregon Forest Practices Act Administration (35%)	40%	60%
Oregon State University Forest Research Laboratory (24%)	10%	10% ¹⁵
Oregon Forestland Protection Fund (17%)	50%	50%
Oregon Forest Resources Institute (24%)	100%	0%
<i>Sources:</i> Oregon Department of Revenue (http://www.oregon.gov/DOR/TIMBER/how-timber.shtml) and http://www.oregon.gov/DOR/TIMBER/tax-receipts.shtml)		

¹² Andy Kerr, “Oregon and Washington Raw Log Exports: Exporting Jobs and a Subsidy to Domestic Mills,” Larch Occasional Paper #10, February 2012 (available at www.andykerr.net/downloads).

¹³ Rick Sohn, “Housing starts: 2nd highest in 3 years,” *Natural Resource Report*, November 1, 2011, <http://naturalresourcereport.com/2011/11/housing-starts-2nd-highest-in-3-years/>.

¹⁴ Oregon Department of Forestry, Log Term Definitions, http://www.oregon.gov/ODF/STATE_FORESTS/TIMBER_SALES/LOGPDEF.shtml.

¹⁵ The amount of Oregon General Fund support for the OSU Forest Research Laboratory was not disclosed by the Oregon Department of Revenue. “The program is supported by state and federal appropriations and by research grants from public and private sources” (<http://www.forestry.oregonstate.edu/research/forest-research-laboratory>). In addition, “The tax is expected to generate \$5.9 million. . . . The lab’s total appropriation for the 2012–13 biennium from general funds and the tax is pegged at between \$11.7 and \$11.8 million, up from \$11.1 million projected this biennium” (<http://www.capitalpress.com/content/ml-forestry-budget-side-061011>), which suggests that the Oregon General Fund contributes on the order of another 10 percent of the OSU FRL budget.

Let's examine each of these programs.

• **Oregon Forest Practices Act Administration.** The Oregon Department of Revenue says:

*The Oregon Forest Practices Act encourages forest management that protects forest resources including soil, air, water, fish, and wildlife resources. It also helps preserve scenic resources along visually sensitive corridors and reduces the risk of injury or death from landslides directly related to poor forest practices.*¹⁶

Any credible examination of practices on almost any private industrial timberlands will not lead one to conclude that “forest management” is protecting “forest resources, including soil, air, water, fish, and wildlife resources.” Numerous government studies have determined that current OFPA rules do not adequately protect fish habitat.¹⁷

As for the “risk of injury or death from landslides directly related to poor forest practices,” an article in the *Oregonian* reports:

Two landslides on clear-cuts logged by Oregon State University's College of Forestry set into motion last week's torrent of mud and debris that inundated homes and U.S. 30 west of Clatskanie.

The slides from the 2,440-acre tract owned and managed by the College of Forestry were the first steps in a dominolike chain of events that sent thousands of truckloads' worth of mud and debris roaring downhill. Nobody was injured, but

¹⁶ Oregon Department of Revenue, How Timber is Taxed in Oregon, <http://www.oregon.gov/DOR/TIMBER/how-timber.shtml>.

¹⁷ Independent Multidisciplinary Science Team (IMST), “Recovery of Wild Salmonids in Western Oregon Forests: Oregon Forest Practices Act Rules and the Measures in the Oregon Plan for Salmon and Watersheds,” Technical Report 1999-1 to the Oregon Plan for Salmon and Watersheds, Governor’s Natural Resources Office, Salem, Oregon, 1999 (nineteen recommendations for changes under Oregon Forest Practices Act rules); NOAA-NMFS, “Public Draft SONCC Coho Salmon Recovery Plan,” January 2012 (specifically recommending revision of OFPA rules in consideration of IMST 1999 and NMFS 1998 recommendations); NOAA-NMFS, 75 Federal Register 29489-29506 *Listing Endangered and Threatened Species: Completion of a Review of the Status of the Oregon Coast Evolutionarily Significant Unit of Coho Salmon; Proposal to Promulgate Rule Classifying Species as Threatened* (May 26, 2010; final as of June 20, 2011)(review of the status of Oregon Coast coho salmon identifying scientific uncertainty over whether the widths of riparian management areas under the OFPA framework are sufficient to fully protect riparian functions, including shade, and stream habitats). See also H. A. Stout, P. W. Lawson, D. Bottom, T. Cooney, M. Ford, C. Jordan, R. Kope, L. Kruzic, G. Pess, G. Reeves, M. Scheuerell, T. Wainwright, R. Waples, L. Weitkamp, J. Williams, and T. Williams, “Scientific conclusions of the status review for Oregon Coast coho salmon (*Oncorhynchus kisutch*),” draft revised report of the Oregon Coast Coho Salmon Biological Review Team, NOAA/NMFS/NWFSC, Seattle, WA, 2011; J. Lockwood (OR), S. Keller (WA), D. Anderson (ID), and R. Edwards (ID), “Forest Practices on Non-Federal Lands and Pacific Salmon Conservation,” NOAA-NMFS, Northwest Region, Habitat Conservation Division, 2005 (recommendations going above and beyond OFPA rules currently in force); NOAA-NMFS and EPA, letter to Department of Land Conservation and Development Commission and the Oregon Department of Environmental Quality stating that Oregon’s Forest Practice program needs strengthening to attain water quality goals and meet CZMA requirements, January 10, 2003.

*buildings and vehicles were heavily damaged, and one person reportedly escaped from a home by crawling through mud and out a window.*¹⁸

• **Oregon State University Forest Research Laboratory.** The Oregon Department of Revenue says:

*Oregon State University supports forestland owners in Oregon by providing forestry research through the Oregon Forest Research Laboratory (FRL).*¹⁹

Please don't confuse OSU's FRL with the US Forest Service's Forestry Sciences Laboratory (FSL) or the US Geological Survey's Forest and Rangelands Ecosystem Science Center, both also associated with Oregon State University. The latter two federal organizations, primarily funded with federal tax dollars, generally do excellent research. In stark contrast, FRL generally does research of narrow interest and direct benefit to the timber industry.²⁰ Some FRL research has broader applicability and is somewhat more balanced, but it is a small fraction.

The FRL has a seventeen-member advisory committee.²¹ Nine members (a majority) represent "industry":

The Campbell Group, LLC
Roseburg Forest Products
Hampton Affiliates
Mater Engineering
Miler Timber Services
Forest Capital Partners
Boise Cascade Wood Products, LLC
Weyerhaeuser
Rocking C Ranch, LLC

There are four "agency" representatives (listed by ascending bureaucratic deference to Big Timber):

US Forest Service research branch
US Forest Service management branch
US Bureau of Land Management
Oregon Department of Forestry

¹⁸ Michael Milstein, December 18, 2007. "Past OSU logging a setup for slide," *Oregonian*, December 18, 2007. (The *Oregonian* link to the original story is dysfunctional. Reference is made to it at http://blog.oregonlive.com/breakingnews/2007/12/red_hed_monday.html. Fortunately, Oregon Wild reprinted the story in its entirety at <http://www.oregonwild.org/about/press-room/press-clips/past-osu-logging-a-setup-for-slide/?searchterm=landslide>.)

¹⁹ Oregon Department of Revenue, How Timber is Taxed in Oregon.

²⁰ Illustrative are the multitude of Forest Research Laboratory "research cooperatives" (<http://www.forestry.oregonstate.edu/research/research-cooperatives>).

²¹ Oregon State University Forest Research Laboratory, Forest Research Laboratory Advisory Committee (<http://www.forestry.oregonstate.edu/research/forest-research-lab-advisory-committee>).

The “public” has three members:

US Bureau of Indian Affairs
World Forestry Center
Conservation Fund

The forestry division of the BIA is quite notorious for its emphasis on timber production at the expense of other forest values. The World Forestry Center is a timber promotion organization.²² The Conservation Fund is a fine organization that does fine conservation work but is in no way a conservation advocacy organization.

The seventeenth member is the director of the FRL, who effectively advises himself in this role (and breaks tie votes, a very unlikely event). The FRL director is also the dean of the OSU School of Forestry, which is now an endowed chair, made possible by a \$5 million gift from the primary owners of “one of the largest family-held wood products corporations in the U.S., and among the nation’s largest timberland owners.”²³

• **Oregon Forestland Protection Fund.** The Oregon Department of Revenue says:

*The Oregon Forestland Protection Fund serves as kind of an “insurance policy” against wildland fires that are beyond the capability of the local district fire protection forces.*²⁴

In a byzantine cost and accounting structure (see box: Another Subsidy to Private Timberland Owners: Oregon Forest Firefighting), the general taxpayer and private timberland owners or lot owners in the wildlands-urban interface share firefighting costs. “Lot” and “improved lot” owners in the wildlands-urban interface pay a surcharge that goes into the fund. This is fair in that it directly benefits lot owners whose lands are not “forestlands” under state law intended for timber production and won’t likely pay any FPHT. (Essentially the first six to eight truckloads of logs are exempt each year.) Table 9 shows the OFLPF charges.

Charges	FY 2009 + Loan Payback
Improve lot surcharge	\$71.47
Minimum lot assessment	\$20.64
Timber assessment, eastern Oregon	\$0.0752/acre
Timber assessment, western Oregon	\$0.1128/acre

Source: Oregon Department of Forestry (<http://library.state.or.us/repository/2009/200904280932142/index.pdf>).

²² The WFC is a nonprofit based in Portland that gets much of its money from the timber industry. Check out its board of directors at [http://worldforestry.org/media/Governance and Performance/WFC BoD members 2010-2011.pdf](http://worldforestry.org/media/Governance%20and%20Performance/WFC%20BoD%20members%202010-2011.pdf). One of its programs is the Leadership Hall of Fame that is the who’s (or was) who of Big Timber ([http://worldforestry.org/media/pdfs/Memorials list for the website.pdf](http://worldforestry.org/media/pdfs/Memorials%20list%20for%20the%20website.pdf)).

²³ Oregon State University Foundation, “Ford Gift Creates Endowed Deanship in Forestry at OSU,” http://osufoundation.org/news/pressreleases/current/0923_ford/index.htm.

²⁴ Oregon Department of Revenue, How Timber is Taxed in Oregon.

Tax “Expenditures” Equals Tax Breaks or Tax Giveaways

The 1995 Oregon Budget Accountability Act requires that the costs of tax expenditures be disclosed for every biennium and accompany the Governor’s budget. A tax expenditure is “any law of the Federal Government or of this state that exempts, in whole or in part, certain persons, income, goods, services, or property from the impact of established taxes, including, but not limited to tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates, and tax credits.”²⁵ Of course, one person’s unfair tax break is another’s fair and just incentive to do or reward for doing good.

Oregon’s direct expenditures for the 2009–2011 biennium were \$60.6 billion (\$30.3 billion annually).²⁶ The revenue impact (money not taken in as taxes) to the state coffers was \$27.9 billion for the same biennium (\$14 billion annually).²⁷

Whether the government gives you a tax credit or a larger than normal tax deduction, it’s the same as if they send you a check (if they send you a check, they might try to tax that income you received). As Oregon tax expenditures go, some of the biggest benefit private timberland owners. Here are two:

Private standing timber. Privately owned standing timber on approximately 8 million acres is exempt from property taxes. It was taxed before 1977 in western Oregon and 1961 in eastern Oregon. To discourage premature logging, the ad valorem tax was replaced by a severance (privilege) tax that has since been eliminated so there is no significant tax on timber. The 2009–10 assessed property value exempted from taxation was \$15.3 billion, resulting in a loss of \$430.7 million in tax revenue for the 2011–13 biennium (\$215.4 million annually).²⁸

Private forestland. Oregon private forestlands total approximately 8 million acres and are either classified as “highest and best use” (HBU; approximately 4.6 million acres or 58 percent) or “designated” (approximately 3.4 million acres or 42 percent) forestlands. The *State of Oregon Tax Expenditure Report* considers only “designated” forestlands to be a tax expenditure. The 2009–10 assessed property value exempted from taxation for such lands was \$3.9 billion, resulting in a loss of \$77.7 million in tax revenue for the 2011–13 biennium (\$38.9 million annually).²⁹

The reasoning—rather specious in my view—is that as a matter of statutory law, HBU is not a special assessment; rather, it is a classification based on an appraisal decision.³⁰ The *State of Oregon Tax Expenditure Report* doesn’t consider the HBU classification to be a tax expenditure, even though the result is a huge tax break for HBU private timberland owners. As a matter of market fact, HBU lands have real market values far in excess of their value for growing timber. If this fact were recognized, the 2009–10 assessed property value exempted from taxation for all private timberlands (HBU and designated) would have been \$9.2 billion, resulting in a loss of revenue of \$182.8 million for the 2011–13 biennium (\$91.4 million annually).

²⁵ State of Oregon Budget and Management Division, Department of Administrative Services and Research Section, Department of Revenue, *State of Oregon 2011–2013 Tax Expenditure Report*, <http://oregon.gov/dor/STATS/docs/ExpR11-13/tax-expenditure-report-2011-2013.pdf>.

²⁶ Oregon Blue Book, Government Finance: State Government, <http://bluebook.state.or.us/state/govtfinance/govtfinance01.htm>.

²⁷ State of Oregon Budget and Management Division, *State of Oregon 2011–2013 Tax Expenditure Report*.

²⁸ Western Oregon: \$14 billion in 2009–10 assessed value exempted with \$394.9 million in lost revenue for the 2011–13 biennium affecting approximately 6 million acres. Eastern Oregon: \$1.3 billion, \$35.8 million, and approximately 2 million acres respectively.

²⁹ Western Oregon: \$3.7 billion in 2009–10 assessed value exempted with \$73.3 million in lost revenue for the 2011–13 biennium affecting approximately 2.3 million acres. Eastern Oregon: \$180 million, \$4.4 million, and approximately 1.1 million acres respectively.

³⁰ Oregon Department of Revenue. 2006. Forestland Manual. Property Tax Division, Salem, OR. 150-303-424 (Rev. 12-06). <http://www.oregon.gov/DOR/TIMBER/docs/303-424.pdf>

Another way to look at it is that a private timberland owner who owns 1,225 acres (~2 square miles) of timberland pays the same amount as the owner of an improved lot. The remainder of this fund comes from the Oregon General Fund.

Another Subsidy to Private Timberland Owners: Oregon Forest Firefighting

In generally developed areas, fire protection is provided by structural fire districts, which are funded almost totally by local property taxes. In undeveloped forestlands (except the National Forest system), the state's general taxpayers (the overwhelming majority of whom live in structural fire districts) contribute more half of the cost of forest firefighting.

Oregon forest firefighting is funded in three major ways.

Basic protection. Fire engines and crews and a few aircraft are stationed around the state by the Oregon Department of Forestry (ODF). The approximately \$40 million of annual cost is split in two different ways. For private lands, the Oregon General Fund and private landowners split the costs. For public lands (state lands, Bureau of Land Management lands in western Oregon, tribes, and so on), the public entity pays the full cost. Approximately 16 million acres of private and public lands are under the fire protection of the ODF.

Severity supplement. "Moveable" resources, primarily contract helicopters and air tanks, are positioned in areas and at times of high fire danger. The Oregon Legislature has set aside approximately \$2.2 million annually from the General Fund (funded by the general taxpayer) for this. After the ODF incurs the cost, it receives reimbursement from the Oregon Legislature's Emergency Board.

Oregon Forestland Protection Fund. For fires costing more than is available under basic protection and the severity supplement, the Oregon Forestland Protection Fund (OFLPF) comes into play. Oregon, unique among the states, annually purchases a fire insurance policy. The approximately \$0.9 million premium buys \$25 million of coverage, *after* having met a \$25 million deductible. The premium cost is split evenly between the Oregon General Fund and the OFLPF. The OFLPF is responsible for the first \$10 million of the deductible, with the General Fund responsible for the remaining \$15 million. If firefighting costs exceed the \$25 million of insurance coverage, then the General Fund (general taxpayer) is on the hook for the remainder.

• **Oregon Forest Resources Institute.** The Oregon Department of Revenue says:

*The Oregon Forest Resources Institute (OFRI) was created in 1991 to improve public understanding of the state's forest resources. OFRI provides information on Oregon's forest practices and encourages sound forest management.*³¹

I must demur on the idea that the OFRI "encourages sound forest management." As of February 2012, the board of the OFRI includes people affiliated with:

The Collins Companies
Stuntzner Engineering and Forestry
Schmidt Family Forest, LLC
Cascade Timber Consulting, Inc.
Georgia-Pacific

³¹ Ibid.

Starker Forests, Inc.
Hampton Affiliates
Weyerhaeuser Company
Stimson Lumber Co.
Little Beaver Creek Tree Farm
Carpenters Industrial Council
Portland State University Institute for Sustainable Solutions (ex officio public representative)
OSU College of Forestry (ex officio)³²

The OFRI is a caricature of a “grower-supported commodity commission” in which the coercive powers of the state are used to collect mandatory fees (a.k.a. taxes) from the producers of various commodities to benefit that industry. This prevents freeloaders in industries that benefit from the joint marketing of their colleagues and competitors.

Oregon has twenty-five “grower-supported commodity commissions” for albacore, alfalfa seed, beef, blueberry, clover, dairy, Dungeness crab, fescue, grains, hazelnut, highland bentgrass, hops, mint, orchardgrass seed, potato, processed vegetable, raspberry and blackberry, ryegrass, salmon, sheep, strawberry, sweet cherry, tall fescue, trawl, and wheat.³³ They are overseen by the Oregon Department of Agriculture and generally limit themselves to promoting the sale of and/or research into those products.

Not so the OFRI. Mere commodity commissions focus themselves on marketing their products. The OFRI’s scope encompasses all forests—even federal public forestlands not dedicated to timber production—and seeks to impose its self-serving management concepts on all forests, not just private timberlands.

Who benefits from the Oregon Forest Products Harvest Tax

State income taxes go into the Oregon General Fund, from which the Oregon Legislative Assembly appropriates monies to all kinds of government services. In theory, all citizens and landowners generally benefit from these expenditures; most don’t directly benefit the individual taxpayer. The same can be said for property taxes. The same cannot be said for the Oregon Forest Products Harvest Tax. The FPHT benefits timber interests, not the public interest.

How Oregon Private Timberland Owners Fare Compared to Other States

Forty-one states levy an *ad valorem* tax on forest property. Of these, ten states reduce the basis for taxation by assessing property based on current use (the value of land for growing and logging timber, often less than the real market value). Eleven states levy a *flat* tax on forest property. Of these, four states reduce the basis for taxation in similar manners. Four states *exempt* forest property from taxation. Twelve states levy *severance* taxes and eleven states levy a

³² Oregon Forest Resources Institute Board of Directors, <http://oregonforests.org/content/board-directors>.

³³ Oregon Department of Agriculture, Oregon Commodity Commissions, http://www.oregon.gov/ODA/ADMD/cc_list01.shtml.

yield tax.³⁴ Some states levy combinations of these kinds of taxes, based on the differing kinds of forestlands.³⁵

Oregon has no severance tax on timber, while Washington and California do (see Table 11).

Table 11		
<i>Private Timberland Taxation in California, Oregon, and Washington</i>		
State	Tax Type	Description
California	Current use value and severance tax	Valued at the present worth of the income and no less than \$2.00 and a 2.9% yield tax
Oregon	Property taxes under this program range from 40 cents per acre to \$6.75 per acre, depending on location of the property and the ability of your property to grow timber.	The property tax on the land is based on the value of the land as forestland ["current use"]. Currently, timber is not taxed through the property tax system.
Washington	Current use value based on forest productivity combined with a yield tax	Current use based on ability of land to grow trees and a 5% yield tax

Source: Timber Tax Website ([http:// www.timbertax.org/statetaxes/quickreference](http://www.timbertax.org/statetaxes/quickreference))

Conclusions and Recommendations

Oregon private timberland owners do not pay their fair and just share of state timber taxes to and have seen their timber values rise significantly as logging on federal public forestlands has decreased, while counties have seen their share of federal timber receipts plummet. A portion of this windfall to private timberland owners should be captured by the state to pay its “fair share” of making up for declines in federal timber receipts to counties.³⁶ Particular recommendations are enumerated below.

The timber industry used to pay far more Oregon timber taxes than it does today. Of what it does pay today, none goes to support the general welfare but rather to earmarked programs that benefit the timber industry, not the public.

A state severance tax on the sale of timber should be re-imposed to help pay for state services.

The Oregon Forest Products Harvest Tax should be restructured to transfer a portion of the windfall received by Oregon log sellers due to the reduction of federal timber sales. Specifically:

- All the costs of enforcement of the Oregon Forest Practices Act should be borne by the General Fund, to avoid the appearance of a conflict of interest on the part of the Oregon Department of Forestry.

³⁴ See “Systems of Forest Property Taxation” earlier in this paper for discussion of the various kinds of timber taxes.

³⁵ Quick Reference: Forest Property Taxation Systems in the United States, National Timber Tax Website.

³⁶ Randi Spivak, “Shared Responsibility: The Conservation Community’s Recommendations to Equitably Resolve the O&C County Funding Controversy,” Coast Range Association, Cascadia Wildlands, Geos Institute, Klamath-Siskiyou Wildlands Center, Oregon Wild Sierra Club, and The Larch Company, 2011. Available at www.andykerr.net/downloads.

- The OSU Forest Research Institute should make their case for fund from the General Fund or rely on contribution from private industry.
- The Oregon Forest Resources Institute should not benefit from the coercive power of taxation by the state for their budget.
- The Oregon Forest Land Protection Fund should be funded exclusively with assessment of private timberland owners.

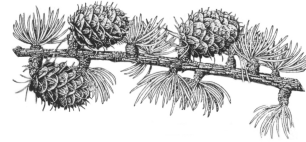
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Additional Resources

- Oregon Department of Revenue. *A Brief History of Oregon Property Taxation*. 150-303-405-1 (Rev. 6-09). <http://www.oregon.gov/DOR/STATS/docs/303-405-1.pdf>.
- Oregon Department of Revenue. *2011 Report on the Health of the Oregon Property Tax System*. 150-338-4000 (Rev. 03-11). <http://www.oregon.gov/dor/PTD/docs/338-400.pdf?ga=t>.
- Oregon Department of Revenue Timber Taxes home page: <http://www.oregon.gov/DOR/TIMBER/index.shtml>
- State of Oregon Legislative Revenue Office. *History of Timber Taxes* (Research Report Number 6-00, June 22, 2000). http://www.leg.state.or.us/comm/lro/report_6-00.pdf.
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