

## HOUSE REVENUE COMMITTEE

JANUARY 20, 1999 ñ 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

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Members Present: Rep. Ken Strobeck , Chair

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Bill Witt

Absent: Rep. Anitra Rasmussen, Vice Chair

Rep. Deborah Kafoury

Rep. Jim Welsh

Rep. Max Williams

Rep. Lane Shetterly

Staff: Richard Yates, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

### TAPE 010, SIDE A

007	Chair Strobeck	Called meeting to order at 8:30 a.m., committee will stand at ease until members arrive. Reconvened meeting at 8:33 a.m.
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010	Dick Yates	Revisited "Financing Roads" Exhibit A from January 18, "Local Road Funds," concerning prior questions.
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031	Yates	Revisited "Allocation By Work Category," toward end of Exhibit A January 18. Light category, maintenance, .5% is for studded tires.
070	Yates	Continued January 19 discussion (See January 19, 1999, Exhibit C) 1996-97 Tax Rates: Property, Privilege, Forest Products comparison of eastern and western Oregon
082	Yates	Discussed WOSTOT (Western Oregon Small Tract Option Tax): Allows small landowners to elect to have their land taxed on productivity value as opposed to separate taxes on land value and severance tax.
104	Yates	Timber Land Value Per Acre, 1997-98: Site classes. These are bare land values dedicated to forest use.
163	Yates	<p>Forest Products Harvest Tax Rate per 1000 board feet (1/1/98): Rates set since 1947. These are not permanent taxes, amount needs to be renewed this session.</p> <ul style="list-style-type: none"> <li>• Forest Research (1947)</li> <li>• Fire Prevention</li> <li>• Forest Practices Act (1977)</li> <li>• Forest Resource Institute (1991)</li> <li>• Salmon Recovery (1997)</li> </ul>
232	Rep. Witt	<p>Questions concerning previous slide, "1996-97 Tax Rates," to clarify what figures mean.</p> <p>Questions and discussion on real market value (RMV) of site classes.</p>
320	Yates	Severance and Harvest Tax Revenue: Comparison of Forest Products Harvest Tax (FPHT) in western and eastern Oregon, 1979 ñ 1997.
355	Yates	<p>Timber Tax History: Western Oregon</p> <p>1856 ñ Property tax on land and timber</p> <p>1929 ñ Forest Fee and Yield Tax</p> <p>1955 ñ State reappraisal begins</p>

**TAPE 011, SIDE A**

020	Yates	1961 ñ Partial exemption of standing timber; small tract optional tax
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## Small Tract Optional Tax

035	Yates	Western Oregon  1977 ñ Timber land value class action; 6.5% Severance Tax  1993 ñ Measure 5
101	All	Questions and discussion concerning severance tax, Measure 5.
125	Rep. Witt	Asked Yates to contrast how agricultural cropland is taxed and how crops are taxed, compare with timber and timberland.
132	Yates	Determination of value in farm (land) use is similar, county assessors use various methods to determine value including income approach. Operation has machinery and equipment that may or may not be subject to property tax.  Concerning crops, farmland yields annual crop and farmer pays yearly income tax. This is different in forestry where, unless there is a sustained yield forest, landowners don't pay income tax until harvest when they pay capital gains tax.
187	Yates	Discussed differences in owning forestland and farmland.  Questions and discussion interspersed.
225	Yates	Eastern Oregon  1856 ñ Property tax on land and timber  1929 ñ Forest fee and yield tax  1955 ñ State reappraisal begins  1961 ñ 5% severance tax  1981 - \$25 per acre indexed land value  1993 ñ Measure 5
254	Yates	1993 Interim Committee  <ul style="list-style-type: none"><li>• Issues</li><li>• Economics of timber production</li><li>• Proposals</li><li>• Analysis</li></ul>

264	Yates	Committee Issues <ul style="list-style-type: none"> <li>• What to tax and how much</li> <li>• Valuation of timber</li> <li>• Land value equity</li> <li>• Timber production incentives (80-20 split)</li> </ul>
301	Yates	Economics of Timber Production <ul style="list-style-type: none"> <li>• Timber takes a long time to grow</li> <li>• Importance of discount rate</li> </ul>
345	All	Questions and discussion on growth time between planting and harvest of cottonwood. Growth time is far quicker than Douglas fir or pine.
395	Yates	Discounted Costs ñ Costs occur early in process

**TAPE 010, SIDE B**

022	Yates	1993 Interim Options <ul style="list-style-type: none"> <li>• Mimic M5 percentage cuts</li> <li>• Do nothing (apply M5 directly)</li> <li>• OFIC proposals: 1.5% of land value</li> </ul>
065	Yates	Interim Analysis  Revenue effects, shifts among owners, comparison with farm values, cash flow, sensitive to assumptions
114	Yates	HB 2438 (1993): Effective 1996. Intent of this bill was to tax timber like a crop.  Questions and discussion interspersed.
143	Yates	Western Harvest: Graph shows volume of harvest 1979 ñ 1997 (3 billion board feet), value of harvest showing depression and stagnation of prices.

Quality of harvest changes.

166	Yates	<p>Western Severance Tax, 1979 ñ 1997. Compared value index with tax from harvest. Tax rate constant at 6.5% through 1991, then it diverges.</p> <p>Phase down in tax rates, drop in volume, then rapid growth in value but drop in tax rates.</p>
187	Yates	<p>HB 3734 (1997) -- vetoed</p> <ul style="list-style-type: none"><li>• Landowner election (WOSTOT)</li><li>• Work group to resolve issues</li></ul>
240	All	<p>Questions and discussion on "Western Severance Tax," "Western Harvest" slides.</p>
303	Yates	<p>Timber Taxes ñ Property taxes in darker shade; severance tax in light</p>
330	Yates	<p>Timber Tax bar graph, 1991 ñ 1998, property, privilege tax</p>
365	Yates	<p>Tax Reduction bar graph, 1991 ñ 1998, shows results of phasing down of severance tax.</p>
395	Yates	<p>Timber Tax Share bar graph, 1991 ñ 1998</p>
409	Yates	<p>1995-96 Timber Revenue (before Measure 50): Property tax, severance tax, forest products harvest, state managed, federal</p>
443	Yates	<p>Pre-M50 Distribution (or "Distribution Summary"):</p> <p>Compares non-school and school tax rates for property, severance, FPHT (forest products harvest tax).</p> <p>State sales: Common school, county trust</p> <p>Federal sales: Forest service, O &amp; C, Coos Bay Wagon</p>

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**TAPE 011, SIDE B**

084	Chair Strobeck	<p>Noted, committee will begin hearing bills on Thursday, January 21. Adjourned meeting at 10:00 a.m.</p>
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Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager