

HOUSE COMMITTEE ON AGRICULTURE, FORESTRY & NATURAL RESOURCES

February 14, 1991
Tapes 19 - 20

Hearing Room F 8:15 A.M.

State Capitol

MEMBERS PRESENT: REP. WALT SCHROEDER, Chair REP. LIZ VANLEEUEWEN,
Vice-Chair REP. SAM DOMINY REP. BILL DWYER REP. TIM JOSI REP. JOHN MEEK
REP. CHUCK NORRIS

STAFF PRESENT: BETH PATRINO, Administrator EDWARD C. KLEIN,
Assistant

MEASURES CONSIDERED: HB 2321 - PUBLIC HEARING

These minutes contain material which paraphrases and/or summarizes
statements made during this session. Only text enclosed in quotation
marks reports a speaker's exact words. For complete contents of the
proceedings, please refer to the tapes.

TAPE 19, SIDE A

003 CHAIR SCHROEDER: Calls the meeting to order at 8:15 A.M.

-We will postpone the Work Session on HB 2148.

-The informal working group that was appointed to work on HB 2244 will
be headed up by MARTHA PAGEL; REP. DWYER will be our representative.

OVERVIEW OF JOINT INTERIM COMMITTEE ON FOREST PRODUCTS POLICY -- EXHIBIT
A

Witnesses: Jill Bowling, Governor's Forest Planning Team, Formerly Staff
Member of Joint Interim Committee on Forest Products Policy Ann Hanus,
Assistant State Forester, Department of Forestry Bernie Agrons, Retired
State Representative

026 JILL BOWLING, Governor's Forest Planning Team, Formerly Staff Member
of Joint Interim Committee on Forest Products Policy: Presents an
overview of the legislation introduced by the Joint Interim Committee on
Forest Products Policy (EXHIBIT A).

-She summarizes the Secondary & Value Added Wood Products Strategy.

-She summarizes Worker and Community Adjustment.

-She summarizes Small Woodlands.

-Two areas that need more work:

-Riparian rules. A constant theme of discussions during the interim was
the differential treatment between forest owners and agricultural owners
on riparian rules. An agricultural owner may be able to run cattle next
to a stream, but the forest owner next door has strict riparian zone

rules.

-Tax differentials between agricultural land and forestland. Agricultural land is taxed at a lower rate than forest land. Some marginal grazing land could be used as forest land.

126 CHAIR SCHROEDER: You're recommending those last issues be looked at in the future?

BOWLING: Correct. Those issues are in the committee's final report.

131 REP. JOSI: Please go over the difference in the riparian regulations.

BOWLING: Explains.

REP. JOSI: There won't be a decrease in regulations for forest land, but you're looking for an increase in regulations on agricultural land?

BOWLING: Is not making a recommendation, but that differential needs to be addressed.

CHAIR SCHROEDER: There is a riparian zone regulation for agricultural land that restricts plowing too close to the riparian zone. Cattle moving through a riparian zone is a problem.

-He has asked for an opinion from the Water Resources Department about pumping water outside the riparian zone for watering purposes.

-He refers to page 2, EXHIBIT A. He discusses the referrals of the small woodlands legislation.

-If the committee members think we should get any of the Senate Bills, please get in touch with me.

181 ANN HANUS, Assistant State Forester, Department of Forestry: Presents testimony from JAMES BROWN, State Forester (EXHIBIT B).

201 BERNIE AGRONS, Retired State Representative: Presents an overview of the small woodlands package.

-He discusses the non-industrial private forest owners.

-25,000 small woodland owners own 16 percent of all forestland.

-They have been producing 360 million board feet, about five percent of the total timber supply.

-The lands are under-managed and there is a potential of greater production if some of the disincentives are removed.

-The Department of Forestry estimates that their productivity could be increased from 28 percent to 50 percent with increased management intensities.

-Increased management intensities require capital investment.

-He discusses the landowner attitude study conducted by Oregon State University. The study told him that the wrong people own the land. They don't own the land for the purposes of growing timber.

-The ownership is changing constantly. As a matter of policy we should be striving to change the population by changing the circumstances under which people own timberland.

-We should encourage people to own and manage the land for the production of timber.

-There are so many disincentives people don't own land for timber production.

-The problems and constraints on small owners hasn't changed in 40 years.

-The way to encourage forest management on small timber land is to provide economic incentives to make it an economically viable proposition.

-We should impute value for immature timber.

-Two of the small woodlands bills (HB 2317 and HB 2321) are very innovative and don't exist anywhere else.

-We decided we didn't need any legislation on riparian areas at this time. We sent a letter to the Board of Forestry conveying that there was a lack of understanding among small woodland owners about what they could and could not do in riparian areas. There was more flexibility than the owners believed there was. The Department of Forestry needs to pay more attention in communicating with small woodland owners.

-The Revenue Committee will deal with the tax issues of HB 2318 and HB 2322, you need to deal with the principles.

-The provision of capital gains treatment of revenue from timber is so important that the least the state can do is demonstrate its support with its own dollars. Investment in forestry dates from the 1940's when the Federal Government initiated capital gains treatment of timber.

-Taking away capital gains was a serious blunder and a blow to forest management.

-HB 2322, regardless what the Federal Government does, treats timber revenues with a capital gains provision.

420 REP. MEEK: Would like him to testify before the Revenue Committee.

AGRONS: Describes HB 2318.

-House Bills 2322 and 2318 rectify serious problems and demonstrate to our Congressional delegation that the State of Oregon thinks these two issues are very important.

-HB 2319 and HB 2320 are housekeeping and improve legislation already on the books.

-HB 2319 would even out the fluctuations of the forestland values and make things more predictable for small woodland owners.

TAPE 20, SIDE A

025 AGRONS: HB 2320 relates to a provision in the law whereby a landowner can have their land classified as forestland and get a lower tax assessment.

-Present statutes require they meet certain criteria, but the law has never been enforced because of a lack of funding.

-A lot of people are receiving a tax break and don't deserve it because they are not meeting the criteria. Why should they be getting a tax break when they are not meeting the criteria?

059 REP. NORRIS: In regards to House Bill 2320 and the possible declassification of timberland: are there clear standards of what people should meet?

AGRONS: They are in the law.

REP. NORRIS: Who would be the policeman?

AGRONS: The State Forester.

REP. NORRIS: They have the resources?

AGRONS: They have that charge now, but they haven't been given the funds.

-House Bills 2317 and 2321 don't exist in any other states.

-One of the impediments to investment for the small woodland owner is the lack of liquidity for immature timber.

-HB 2317 encourages investment in timber by making immature timber more liquid.

-He describes HB 2317.

124 REP. JOSI: As the timber grows doesn't the value of the land and timber increase?

AGRONS: Yes.

REP. JOSI: If you needed capital couldn't you borrow money using the timber land as collateral?

AGRONS: Sometimes; you might be able to borrow against the property, but it is very difficult to get loans on immature timber. The value of the property would be its market value and may have no relation to the value of the timber.

-In HB 2317 you can project what the value of timber is at a certain age.

148 REP. DWYER: It seems that the state would be doing what banks do by selling bonds. He understands the goal, but isn't sure the state should do it.

AGRONS: Live with the concept for a while.

163 REP. MEEK: The bill talks about creating a fund. He's heard comments about lending. Part of the bill talks about purchase. Are we

asking the state to loan money or buy the timber; in which case the state would gain in the growth value of the timber?

AGRON: The state takes a position in the timber. The state makes an investment and engages in a partnership with the owner.

189 CHAIR SCHROEDER: The state is buying the timber rights; you're not removing the ad valorem tax from the tax rolls? The severance tax will still be paid?

AGRON: We're not changing the taxation.

-The state is taking a partnership position.

-It's secured by revenue bonds.

-You'll hear some concerns about the potential for crop damage. The risk would be spread all over the state.

-It is purely voluntary.

-Even if someone doesn't use it, the incentive will be powerful enough for people to still make the investment in timber.

208 CHAIR SCHROEDER: Does the bank you're a board member of loan money on immature timber?

AGRON: No. Banks are not interested in doing that.

-Land banks will make loans if they have the money, but the interest is high.

REP. DWYER: The flaw is the concept for allowing the landowner to opt out. That makes it a loan.

AGRON: You could say that, but the state will get more timber out of it.

REP. DWYER: Why should the state take the risk out?

AGRON: There is some risk being taken out of it.

-The benefit is to the state. More timber is put on the market and it encourages investment in timber.

257 REP. MEEK: There is an appearance that we're not letting people invest in their property. The state is buying the timber. Why should the state become the owner of the timber?

AGRON: The other option is for state to get into the lending business.

-The committee felt it was better for the state to take ownership rather than be a lender.

-As REP. DWYER said, the state is, in a sense, a lender.

-It's safer for the state to take a position in the timber than it is for the state to be a lender.

284 REP. VANLEEUEWEN: What if there was a nest of spotted owls in the

midst of a person's timber, will the state help the person out?

AGRONS: Doesn't know.

296 REP. DOMINY: Who has the responsibility to keep the timber growing?

AGRONS: There is a contractual arrangement; a management plan is written, the landowner is obligated to do their part.

-It's up to the State Forester to manage that land.

REP. DOMINY: What if the state buys 50 percent and if landowner didn't keep up the agreement? Because the landowner didn't keep up the agreement--

AGRONS: The state has the right to do what ever needs to be done to safeguard the investment.

327 REP. MEEK: What's the assurance that the timber will ever get harvested?

AGRONS: In order to recover its investment the state will harvest it at the appropriate age.

REP. MEEK: We can say that now, but we don't have hundreds of people demanding that timber should not harvested.

AGRONS: The state would be in the same position as any landowner.

-It might be an incentive to take a look at the other issues the private landowners are confronted with.

344 REP. JOSI: Refers to page 2, line 27. According to this the State Forester is required to pay the landowner for managing the timber?

-This seems like a convoluted way to obtain money.

AGRONS: The state will benefit. If it was state land the state would hire people to manage the timber.

-The bill provides more liquidity and some annual income.

REP. JOSI: There's a real need for something like this, but this bill seems very convoluted and it could be done an easier way.

AGRONS: We came up with this after a lot of study.

-You'll hear more testimony.

-He discusses HB 2321.

-Cutting immature timber is a problem.

-Over the long-term it is not to the state's or anyone's benefit to prematurely harvest timber.

-In HB 2321 the severance tax is higher if you cut immature timber and lower if you harvest at maturity.

-It's revenue neutral or makes \$.5 million.

-The incentive is to hold timber and harvest it at maturity. It's a disincentive to harvest immature timber.

TAPE 19, SIDE B

025 CHAIR SCHROEDER: Does HB 2321 penalize low site index land?

AGRONS: That's not the intention; he doesn't think it does.

-That's taken into account by the site productivity class and age for softwoods and hardwoods.

035 REP. JOSI: Concurs with the concept of the sliding scale. Isn't it premature to look at this considering Ballot Measure 5?

AGRONS: This is revenue neutral. Over time the counties will come out about the same. This will not negatively impact the counties.

REP. JOSI: Is referring to the term of definitions. House Bill 2550 is looking at the concept of severance taxes and changing them to privilege taxes.

AGRONS: That's something the Revenue Committee will deal with. Your task is to look at the forestry aspect and whether or not you think its the kind of incentive the interim committee did.

055 CHAIR SCHROEDER: HB 2317 is our bill, but may have a subsequent referral. HB 2321 is borrowed from Revenue; we'll just look at the policy aspects.

REP. NORRIS: There was an assumption in the 1970's that there was a 12 percent, 15 percent, 20 percent appreciation per year resale value of timberland.

-He suspects that has leveled off and is nonexistent.

AGRONS: It depends where the land is. That is real estate value and not timber value.

-There is a difference between real estate value and timber value.

-He discusses his timber land in Northern California.

-We were an unusual interim committee; we had some money and were able to hire some consultants and had good staff support. A lot of thoughtful work went into this legislative package.

-Please send me copies of all the testimony.

HOUSE BILL 2321 -- EXHIBIT C

Witnesses: Gary Carlson, Oregon Small Woodlands Association Bert Udell, Legislative Chairman, Oregon Small Woodlands Association

CHAIR SCHROEDER: Opens the Public Hearing.

127 GARY CARLSON, Oregon Small Woodlands Association: Introduces BERT UDELL.

140 BERT UDELL, Chairman, Legislative Committee, Oregon Small Woodlands Association: Presents testimony on HB 2317 (EXHIBIT C).

238 REP. VANLEEUEWEN: The date on the bottom of the "Forest Production and Management", page 6, EXHIBIT C, says 1958?

UDELL: Correct; the program was apparently started in 1958.

-He refers to the letter from G C. HENDRY, page 4, EXHIBIT C.

-He describes the property he purchased to begin his tree farming.

-He refers to the promissory note, page 10, EXHIBIT C.

-This is the entire paperwork for the program.

-He refers to the bracketed paragraph on the promissory note.

-He discusses paying off the loan.

334 CHAIR SCHROEDER: You've discussed HB 2317, do you have any comments on HB 2321?

UDELL: If people have to liquidate they will.

-He doesn't pay any tax now, he is under the Western Oregon Small Tract Option Tax; which is a wonderful incentive program.

-The Department of Forestry says you have to produce and you have to harvest under that program.

-He describes thinning he did. These trees were 40 years old and had seven inch diameters.

-These poles are exported to Japan.

-He describes the size and prices of poles.

428 CHAIR SCHROEDER: Is diameter a better measurement than age?

UDELL: Has problems with both measurements.

-Age matters with the productivity of the land; you wouldn't get even-sized timber.

-On underproductive Class 5 land you'd have to go to 50 year old trees, which would not be very big.

-On Site 1 coast lands you get a lot of growth.

-The severance tax on hardwoods is the same as softwoods, which seems severe.

-Hardwoods are often harvested at a younger age.

-He doesn't fully understand the bill.

TAPE 20, SIDE B

022 CARLSON: This is an innovative idea to reduce the cutting of premature timber.

-We're still talking about a converted ad valorem tax; a product of the soil.

-No taxes are paid on any other products of the soil.

-The forest economy is rapidly becoming a second-growth economy.

-We would talk about eliminating the severance tax as soon as possible.

-We need to look at the basic disincentives which determine whether or not people will put money into the harvesting of timber.

UDELL: Mills are shutting down. A lot are geared for big logs.

-The industry is gearing to smaller logs.

-If he can get a high price now, he's better off harvesting the immature timber and replanting.

071 CHAIR SCHROEDER: Are the poles you are taking out precommercial thinned or final cut?

UDELL: It's a second thinning.

REP. VANLEEUEWEN: Invites the committee members to attend an annual program at Happy Valley Tree Farm in August.

UDELL: It's the third Saturday in August.

REP. VANLEEUEWEN: It's an excellent educational opportunity.

091 REP. NORRIS: The conservation reserve program takes agricultural land out of production if it's highly erodible or marginal. They pay the owners an average of \$50 an acre for 10 years. They are encouraged to put trees on that land. There could be a possible connection with this program and the liquidity of immature trees.

CHAIR SCHROEDER: Due to time constraints we have to adjourn and we will try to hear these bills next Tuesday.

-He adjourns at 9:49 A.M.

Submitted by: Reviewed by:

Edward C. Klein, Beth Patrino, Committee Assistant Committee
Administrator

EXHIBIT LOG:

A - Joint Interim Committee on Forest Products Policy Pre-session
Filed Legislation - Jill Bowling - 2 pages B - Testimony on
increasing productivity of non-industrial private forest lands - Ann
Hanus for James Brown - 2 pages C - Testimony on HB 2317 - Bert

Udell- 10 pages