

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

HOUSE COMMITTEE ON AGRICULTURE, FORESTRY & NATURAL RESOURCES

February 19, 1991 Hearing Room F 8:15 A.M. State Capitol
Tapes 21 - 24

MEMBERS PRESENT: REP. WALT SCHROEDER, Chair REP. LIZ VANLEEUWEN,
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 2317 - PUBLIC HEARING HB 2318 - PUBLIC HEARING
HB 2321 - PUBLIC HEARING

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TAPE 21, SIDE A

003 CHAIR SCHROEDER: Calls the meeting to order at 8:16 A.M.

PUBLIC HEARING ON HOUSE BILL 2317 -- EXHIBITS A to E

Witnesses: James Monroe, Vice President, Linn County Farm Bureau John Helmer, Jr., Small Woodland Owner Ann Hanus, Assistant State Forester, Department of Forestry Dave Stere, Director, Forest Resources Planning, Department of Forestry Anthony Boutard, Staff Forester, 1000 Friends of Oregon Clyde Ramsey, Oregon Small Woodlands Association

CHAIR SCHROEDER: Opens the Public Hearing.

013 JAMES MONROE, Vice President, Linn County Farm Bureau: These views are of the Linn County Chapter only. The Oregon Farm Bureau Forestry Committee will be meeting Friday to go over the introduced bills, set farm policy and make recommendations on the legislation.

-He presents testimony in support of HB 2317 (EXHIBIT A).

119 REP. DWYER: Why should the state get into the loan business?

MONROE: Doesn't think this bill is social engineering; trying to adjust tax laws or zoning.

-The state should attempt it to see if it works. It's low cost, it's

attempting to work at a problem that hasn't been dealt with successfully. It's not that much of a step and does not appear to be an expense.

-If it doesn't work, it will disappear.

-We should give it a try and see what happens.

REP. DWYER: Why is it social engineering when the state gives money to farmers and businesses and it's welfare when it is loaned to the little people?

MONROE: It's how you interpret it.

146 REP. JOSI: You testified this would help to keep small woodlands out of the EFU zone?

MONROE: No; it would help keep small woodlands in the EFU zone in small woodlands. It is a long-term commitment of trees and the means to get money up front to grow a crop. Once a person is committed to growing a crop they want to continue growing a crop.

REP. JOSI: Has always thought exclusive farm use is for agriculture and not forestry. You're saying the two are compatible?

MONROE: Correct.

REP. JOSI: That's a practice that happens in Oregon?

MONROE: We'd like to see it happen more.

161 CHAIR SCHROEDER: Could you give us a brief description of agroforestry?

MONROE: Describes agroforestry.

187 CHAIR SCHROEDER: That was developed in Douglas County and it seems to be very successful.

MONROE: Has done it successfully in Linn County.

-He has recently purchased property in Lebanon and they are doing an agroforestry research project to quantify how to do agroforestry.

CHAIR SCHROEDER: You're making some money to pay taxes until the trees grow.

MONROE: You can have stable pasture and a stable tree farm, but you have to think 10 to 20 years in the future.

CHAIR SCHROEDER: The important point is that we're learning.

206 REP. JOSI: Where's the old "cookbook"?

MONROE: There isn't one.

-We have no quantified data at this time. It's being started at Oregon State University.

230 JOHN HELMER, JR, Tree Farmer in Washington County: Has a personal

interest in HB 2317.

-He has learned tree farming on his own.

-If there was a program such as is outlined in HB 2317 he could borrow on his existing forest and buy additional property.

-It's difficult to realize any return on trees until they're mature.

-This bill would allow people to buy capital equipment and pursue their goals of growing trees.

298 REP. DOMINY: How would you feel about the state regulating your land? Do you feel you would lose any control you had?

HELMER: The program would be run by trained foresters and he'd have no problem with going along with the state's recommendations.

REP. DOMINY: Do you do anything else on the land?

HELMER: Doesn't do any recreational activities on the land.

REP. DOMINY: Another committee is looking at taking away tax credits for fee hunting.

-If this passed, how would you feel about the state telling you you could or couldn't do certain things with your property?

HELMER: Has no problem with that.

346 REP. DWYER: Didn't think the program was put together to advance capital to purchase new land.

-What compelling interest has the state to loan money for people to be able to expand their land base and do things not available to other citizens?

HELMER: To promote woodland owners to grow more trees.

REP. DWYER: Shouldn't we start growing more trees on state land first?

HELMER: The state should grow more trees?

REP. DWYER: There are a lot of areas on state lands that should be managed to grow more trees.

HELMER: Agrees. We should put those lands into production.

392 REP. MEEK: The bill does not talk about a loan program. The state is buying timber.

-He objects to that more than the loan.

HELMER: They will buy the timber, but the owner can buy it back.

REP. DWYER: Objects to the buy back option.

HELMER: The state would have to sell at the market price. The landowner shouldn't get a good deal.

CHAIR SCHROEDER: It seems like this is a loan program. The immature timber is the collateral. If you pay off the loan you get the timber back and if you don't the state takes the timber and harvests it.

430 REP. DOMINY: How about amending the bill so that once you sell the timber you could never get it back?

HELMER: Doesn't know if he would be as interested in the program then.

REP. DOMINY: The difference is that instead of waiting for 40 or 50 years you would get the money today. That may take care of some of the concerns about being in the loan business.

HELMER: That's a possibility. The woodland owner would have to think about it.

-Eventually the woodland owner will sell the trees; maybe that's alright.

TAPE 22, SIDE A

020 REP. MEEK: If the state purchased your timber, would you be around in 30 years to buy it back? Would you be interested in buying it back 30 years from now?

HELMER: Wouldn't be able to work it in 30 years. You could have the state do it.

REP. MEEK: Wouldn't want the state to do it.

029 REP. JOSI: There are incentives to buy the timber back.

-He refers to page 1, lines 13 to 16, House Bill 2317. It's a discounted amount and it would be in the landowner's best interest to buy the timber back.

-He has some problems with that.

042 ANN HANUS, Assistant State Forester, Department of Forestry: Presents testimony on HB 2317 (EXHIBIT B).

098 REP. MEEK: You're saying that instead of the state buying the timber it would be more of an incentive tax credit where the state would assist in reforestation even if it was EFU land?

HANUS: This would be a loan program to provide incentives to commercial lending institutions. HB 2317 doesn't place any restrictions on what the money is used for.

REP. MEEK: One of his concerns was the open ended use for the money.

-A major concern was the state buying the timber. You would amend it so the state wouldn't be buying the timber?

HANUS: Correct.

REP. MEEK: You have no problem with that?

HANUS: We'd rather not get into the business of buying timber.

CHAIR SCHROEDER: You're talking about a guaranteed loan program.

124 REP. NORRIS: The bill talks about selling revenue bonds.

-My concept of revenue bonds is that they are only appropriate where there is a reasonable assurance of cash flow.

-In this case there would be a very long-term cash flow.

-What would be the concept of paying off the revenue bonds?

HANUS: One problem with the revenue bonds is that you would need a variation of age classes so you could start paying off the bonds.

-If we don't have revenue for 10 or 20 years it makes it difficult to pay them off.

REP. NORRIS: It doesn't seem revenue bonds are the real vehicle for this. He is concerned there wouldn't be the cash flow to retire the bonds.

HANUS: You might have to look at appropriating a start up amount of money to be repaid once the revenue bond program got started.

147 REP. DOMINY: Has anyone discussed this with the Treasurer to know if we could even float a bond?

HANUS: Has had brief contact.

PATRINO: The Treasurer's Office was concerned with who would issue these bonds.

REP. DOMINY: Who would pay the severance taxes?

HANUS: The bill is somewhat vague about that.

-She refers to page 3, lines 27 to 29.

-It's not clear, even if the landowner buys the timber back, whether or not they'd assume those taxes.

174 DAVE STERE, Director, Forest Resources Planning, Department of Forestry: My understanding is that for most owners, as long as they're under the severance tax option, they pay no annual tax on the timber. The landowner would continue to pay the property taxes on the land. If any timber was harvested the state would pay the harvest tax.

-It's not clear who would pay the tax if the landowner buys back the timber rights.

CHAIR SCHROEDER: According to the contract it would be the owner at the time of sale.

REP. DOMINY: That's another question we need a clear answer on.

194 REP. VANLEEUEWEN: We haven't addressed the cost to the Department of Forestry.

CHAIR SCHROEDER: Ann has addressed that when she talked about additional staff.

-He refers to page 3 of the testimony, "In order to address the concerns" What other incentives are there to encourage commercial lending institutions to get involved?

214 HANUS: A tax credit could be used to lower the interest rate where you provide a subsidized loan program. You could provide a tax credit or other tax incentives for offsetting some of the risks.

-There is a problem of small woodland owners being able to secure loans, because banks are unwilling to assume the risk because of immature timber.

CHAIR SCHROEDER: How low an interest rate would the bank have to charge to take care of any risk?

-The timber could be wiped out by a fire.

HANUS: There may be ways to do that. For example, subsidizing the cost of an insurance program.

231 REP. MEEK: If you make a loan program you have to have some kind of insurance so the lending institution knows their money is protected.

CHAIR SCHROEDER: If the state is the lender we are assuming the risk.

258 ANTHONY BOUTARD, Staff Forester, 1000 Friends of Oregon: Presents testimony on HB 2317 (EXHIBIT C).

351 REP. DWYER: Why should the state furnish free cash for any enterprise?

BOUTARD: We're suggesting the owner puts the cash into the enterprise.

-He refers to page 4 of the testimony. As has been pointed out, landowners can't borrow money on their forestland.

-The question is not giving landowners cash to put into their land. The question is, when landowners make a considerable investment in their land can they get it out?

-The more liquid an investment, the more valuable it is.

REP. DWYER: There are a variety of programs for forestland owners that no other group gets. Now you want free money.

BOUTARD: It's not free money.

-It is in effect a loan program, because of the buy back option. It is not free. They have put labor into that forestland and it is secured by an asset that has been carefully managed.

-The only way to participate in this program is to do the work in advance. It is money earned by the landowner. It is not a handout.

REP. DWYER: We have a difference of opinion on when a handout is a handout.

406 BOUTARD: If a landowner has spent 15 or 20 years investing in an asset, the landowner deserves some way to get that money out.

REP. DWYER: The landowners are getting subsidies all along; deferred taxes, lower rates, things that allow people to make an investment. Isn't the price of liberty risk?

BOUTARD: This is not removing risk from the enterprise.

-Please restate your question.

REP. DWYER: We have allowed subsidies all along, now you want us to take the risk out.

BOUTARD: Deferred taxes are not subsidies. They pay their fair share.

REP. DWYER: If a person defers taxes for 25 years and grows trees and decides to sell; how far does the state go back for taxes?

BOUTARD: The state takes 6.5 percent of the net receipts. It's not a subsidy.

REP. DWYER: How far do we go back for an ad valorem?

BOUTARD: They tried to keep the severance tax program as neutral as possible. The idea was that it was difficult for landowners to pay taxes on the timber, in part because of the liquidity problem. The ad valorem tax program caused early cutting.

TAPE 21, SIDE B

028 CHAIR SCHROEDER: It's not a deferral; they pay an ad valorem tax every year.

REP. DWYER: It's a different value than other land and they only go back a certain amount of time as opposed to lands not in a deferral.

CHAIR SCHROEDER: They pay an ad valorem tax on the tree growing capability. When it's harvested they pay on the trees.

-A deferred tax means you don't pay until you sell the land.

REP. DWYER: It's a lower rate.

CHAIR SCHROEDER: It is a lower rate. That land is not usable for anything else; it has to grow timber. It has no higher and best use.

039 REP. DWYER: Shouldn't people invest and buy homes? Wouldn't the state's interest be more compelling, if we are going to have a loan program, to spread it out to more people than this program?

BOUTARD: The commercial institutions are well suited for addressing investing in and buying homes.

-He refers to page 4 of his testimony, "Is this or a similar service" Banks make loans on a one or two year basis.

-Timberlands are a unique and special case and warrant special attention.

-It's shortsighted to say they don't deserve any recognition for their contribution.

-It's shortsighted to have part of our landbase unproductive.

080 REP. MEEK: You referenced loans.

-The term "loan" is not in the bill and should not be used, it is a misrepresentation of what the bill does.

BOUTARD: Uses the terms interchangeably. The bill has a buy back provision.

-He discusses the buy back option (see pages 4 and 5 of testimony).

REP. MEEK: The contract is another issue.

139 REP. VANLEEuwEN: Refers to page 3 of the testimony, "As the bill is written"

-How will it not burden the department with additional cost?

144 BOUTARD: The landowners will pay the administrative costs. That's part of the sale.

-Timber is a good investment and this should pay for itself.

REP. VANLEEuwEN: When and how do they pay those costs?

BOUTARD: Out of the initial settlement. It's also tied to the bonding. Zero coupon bonds allow the state to pay off the money at the end of the bond term in a lump sum.

REP. VANLEEuwEN: Is that taken care of in section 10?

BOUTARD: Believes it is.

-A lot of components of the bill need to be ironed out by the department and State Treasurer. There are several checks and balances by keeping this program open and relatively unencumbered by requirements.

-There is a section that deals with administrative costs.

REP. VANLEEuwEN: That's a question we need to ask the department.

186 REP. DOMINY: It's an intriguing concept. He has concerns about the program taking the risk away from landowners.

-He sees nothing in the bill that says if the state gives someone \$50,000 for the timber and in 20 years they want to buy it back the person gives the state \$50,000 plus some number written into the contract.

-If there is a bug infestation or fire the state takes the risk.

-Is there anything in the bill that says the state would be able to collect anything they would lose because of fires or infestation?

203 BOUTARD: There is salvage value. In some cases salvage value may cover the amount of money given the owner at the time of the sale.

-Risk in forest land changes.

-The risks are greatest in the early rotation. After 10 or 15 years, the stands stabilize.

-The probability of stand failure after 20 years drops rapidly.

REP. DOMINY: How does the state get money to pay back the bond?

BOUTARD: The state can distribute some of the risk through the discount rate it is charging and it can build an insurance policy into that discount rate.

REP. DOMINY: How can the state break even if nothing happens to the land? There would be no reason to purchase the land back if you can't make a profit on it.

BOUTARD: Doesn't understand.

REP. DOMINY: If the state gives you \$50,000 for your timber and you want to buy it back; does the state just get the \$50,000 back?

BOUTARD: \$50,000 plus market rate interest.

267 REP. MEEK: There is no interest in a bond, it is bought back at market value.

-What does the state do with the timber if the individual dies?

BOUTARD: There would be a new owner and they'd have the option to buy it back.

REP. MEEK: What has the state invested in?

-How is the state going to recoup the investment?

BOUTARD: Selling the timber.

REP. MEEK: The state would cut it?

BOUTARD: Yes.

REP. MEEK: You agree you have to cut the trees to reap the investment?

BOUTARD: We have supported harvesting trees for a long time.

-We are a conservation organization and have spent 15 years representing farmers and foresters and encouraging the use of Oregon's woodlands for forestry uses.

-We have supported reasonable, sane management of the forests.

REP. MEEK: Wants him to be aware of the perception they have.

BOUTARD: That perception keeps building. We've never opposed harvesting trees.

326 CHAIR SCHROEDER: What's the salvage value in 10 to 20 year old stock after a fire?

BOUTARD: Not a lot. That will be represented in the price. The price

will change over time.

-We want the landowners to hold the trees and continue to manage them.

-It's in the state's interest to encourage people to invest.

REP. DWYER: Is 1000 Friends active in withdrawal of any forest landbases or the implementation of any wilderness areas?

BOUTARD: We're not involved in federal timber issues or wilderness issues. We're involved in the land use program. Forest and agricultural land needs to be managed and used.

CHAIR SCHROEDER: Recesses at 9:41 A.M.

-He calls the meeting back to order at 9:46 A.M.

360 CLYDE RAMSEY, Second Vice President, Oregon Small Woodlands Association: This bill is a pipe dream.

-He can market his immature timber and keep control of his land.

-This would result in more state control.

-If this were developed into a loan program it might have a lot of merit. It would give landowner a chance to market timber at a later date.

-The association turned down the idea of a loan program a long time ago, because we didn't think it was workable.

CHAIR SCHROEDER: Elaborate on your market for immature timber.

RAMSEY: He describes a program that was run by Publishers Paper Company, which helped develop a market for immature timber.

-We can sell it on a tonnage basis, down to a five inch stock.

437 CHAIR SCHROEDER: That means cutting it when it's immature.

RAMSEY: Yes.

-Stimpson has a program to help non-industrial owners.

-Weyerhaeuser has a workable program. If we need it, they will give us a hand.

CHAIR SCHROEDER: They're not buying it and cutting it; they're loaning money, allowing it to grow?

RAMSEY: They're giving advice and in some cases loaning money. He's not sure how the program works.

465 REP. MEEK: Before Christmas approximately 5 million immature douglas firs were cut down. We call them Christmas trees. But when trees are harvested for poles they're considered immature timber.

RAMSEY: Christmas trees are developed as a crop. You can get as much or more for a Christmas tree as you can for a 40 foot pole. They are an important cash flow crop.

TAPE 22, SIDE B

030 REP. MEEK: There's a market for Christmas trees and we don't refer to them as immature. When there's a market for poles they're referred to as immature.

RAMSEY: If you have something to sell, you better sell it.

-There is no sound economic reason to plant trees; unless you plant Christmas trees, but too many people are planting them.

-We need sound economic reasons to plant trees.

-Under the present conditions he wouldn't have planted his first acre of trees.

051 REP. DOMINY: What's wrong with giving small woodland owners the opportunity to sell the immature trees outright? Would that be desirable?

RAMSEY: We have that opportunity, but you have to sell it with at least a 10 percent discount.

-Most land he manages was underproductive land and he had reasons to develop the land. We had capital gains and could expense most of our costs.

-We had investment tax credit, we had income averaging; things we don't have now.

-This program doesn't speak to anything like that. It doesn't really help the non-industrial owner.

CHAIR SCHROEDER: We have a bill to reinstate capital gains. Wouldn't that be an incentive?

RAMSEY: It would be very important.

CHAIR SCHROEDER: Your association passed out some material which talks about some of the disincentives and some possible incentives. We'll be dealing with some of those.

RAMSEY: The non-industrial owner starts in a hole and when he starts to climb out he gets beaten back.

097 REP. NORRIS: Is your statement about there being "no sound economic reason to plant trees" true in the full scale of timber management?

RAMSEY: Can't speak for the industrial owner, but it's true for the non-industrial owner.

REP. NORRIS: Is the tax policy one of the main reasons?

RAMSEY: It's not only tax policy, it's a lot of policy that takes away the freedom to operate.

-Riparian habitat, for example. It's a good thing, but the state takes away part of the production without giving any compensation. That's

wrong.

-More riparian habitat has been destroyed than we can gain back in the next 20 years. Small woodland owners are independent and when they know something is going to be taken away they will remove it.

CHAIR SCHROEDER: That's happened with the 70 acre set aside for the spotted owl. People have been cutting their trees.

RAMSEY: There's been tremendous cutting in the past three years, because people are afraid of what will happen.

CHAIR SCHROEDER: It wasn't planned that way, but it's happening.

RAMSEY: Many of these programs are well intentioned, but they always will destroy what they are trying to save.

-The land use program is a prime example. You can force people to retain the land, but can't force them to grow anything.

CHAIR SCHROEDER: Closes the Public Hearing.

Testimony from SCOTT FERGUSON in support of HB 2317 is filed as EXHIBIT D.

Testimony from DON J. DUHRKOPF in opposition to HB 2317 is filed as EXHIBIT E.

OREGON FOREST LAND AND TIMBER TAXES -- EXHIBIT F

Witness: Joe Misek, Forest Tax Programs Manager, Department of Forestry

139 JOE MISEK, Forest Tax Programs Manager, Department of Forestry: Discusses "Oregon Forest Land and Timber Taxes and Assessments" (EXHIBIT F).

-The Western Oregon Severance tax is pre-Measure 5. My understanding is that in July, the 6.5 percent will go to 2.5 percent and eventually to 1.5 percent.

-He continues with the Western Oregon Forest Land Tax.

184 REP. DOMINY: Refers to the Eastern Oregon Severance Tax.

-Will Measure 5 affect that 5 percent rate?

MISEK: My understanding is that it will also go down to 2.5 percent and 1.5 percent.

CHAIR SCHROEDER: There are proposals to take a lesser cut; the same cut as other taxpayers are paying.

MISEK: Correct.

REP. VANLEEuwEN: What is that?

CHAIR SCHROEDER: HB 2550. It might not be as drastic as JOE MISEK has indicated.

MISEK: Continues with the Harvest Tax.

216 REP. NORRIS: Do woodland owners understand any of this?

MISEK: Most owners ask questions. He has additional explanatory handouts for woodland owners.

-The tax laws are complicated, you can break them down and take them a little at a time.

-This is just a thumbnail sketch.

REP. NORRIS: What's the demarcation between west and east; the Cascade crest?

MISEK: Believes it is the Cascade crest.

REP. JOSI: It is the Cascade crest.

CHAIR SCHROEDER: Refers to an earlier handout he distributed.

-There are publications that explain these taxes. The Extension Service has some.

MISEK: The Extension Service publications are excellent.

CHAIR SCHROEDER: Isn't the Western Oregon Forest Land Tax adjusted every six months?

MISEK: The Western Oregon Severance Tax rate has tables that come out every six months.

-The land tax is figured annually.

253 REP. NORRIS: Both eastern and western Oregon have both a severance tax and a land tax. Can the timber owner or landowner have a choice to pay either the severance tax or the land tax?

MISEK: The severance tax is separate from the land tax. You can apply to have your land assessed as forest land, and pay a lower tax.

-In general, everyone pays the severance tax.

-In western Oregon there are lands designated as highest and best use as forestland. They can come under the values of the Western Oregon Forestland Tax, but the landowner's don't have to apply for the special designation. Those are typically industry lands which are recognized for growing timber.

286 REP. JOSI: Is the Western Oregon Small Tract Option Tax in lieu of the Western Oregon Forest Land Tax and the severance tax?

MISEK: Correct; you're paying on the productivity of the land.

PUBLIC HEARING ON HOUSE BILL 2321 -- EXHIBITS G & H

Witness: Joe Misek, Forest Tax Programs Manager, Department of Forestry
Dave Stere, Director, Forest Resources Planning, Department of Forestry

CHAIR SCHROEDER: Opens the Public Hearing.

-He refers to HB 2321 overview (EXHIBIT G).

318 JOE MISEK: The overview was just background information.

-He presents testimony on HB 2321 (EXHIBIT H).

441 CHAIR SCHROEDER: Who determines whether an exception from clearcut rates is granted?

MISEK: The State Forester.

REP. DOMINY: What about those that only harvest by selective harvesting; would they be charged the lowest rate?

MISEK: The bill talks about "commercial thinning" and "uneven aged harvest"; those definitions would have to be developed in administrative rules.

-You're looking at removing not more than a certain percentage of the stand.

REP. DOMINY: The adopted rules would define it?

TAPE 23, SIDE A

020 MISEK: Those rules would be important to the bill's implementation, because of the technical nature of commercial thinning and uneven age management. The problems that would evolve would be more appropriately handled in administrative rules and not in law.

-He continues with "This bill provides no severance taxes ..., page 1 of testimony.

065 REP. NORRIS: Is that exception to plant hardwoods under the credit available throughout the state?

MISEK: SB 799 applied to any fast growing fiber farms.

-Areas on the east side of the state lend themselves to fast growing hardwoods.

REP. NORRIS: Would a grower in eastern Oregon be free of the Forest Practices Act; could this be viewed as a crop as opposed to timber?

MISEK: Currently, the department's position is that this is not free from the Forest Practices Act.

REP. NORRIS: Isn't that one of the exceptions in section 7 of the bill?

-He refers to page 4, line 43 and page 5 lines 9, 12, 14.

MISEK: The law discussed is that they are not subject to the Western Oregon Severance Tax.

REP. NORRIS: We might want to consider an amendment.

CHAIR SCHROEDER: That's noted.

-Do you have the wording?

REP. NORRIS: No. He'll do it.

098 MISEK: Continues with page 2, "This bill imposes a 300% penalty
...."

CHAIR SCHROEDER: The amendments are on page 2?

MISEK: Not amendments; sections 12 and 14 clarify legislation passed in
198 9.

-He continues with amendments, page 2 and 3 of testimony.

158 CHAIR SCHROEDER: Refers to page 4 of the testimony. This amendment
will replace the language on page 5, lines 16 to 19?

MISEK: Correct.

-He concludes his testimony.

CHAIR SCHROEDER: Does this bill penalize low site lands more than high
site lands?

MISEK: Refers to the tables on page 2 of the bill. The severance tax
rate is graduated.

-He refers to page 2, line 24. You would pay a higher rate if you
harvest land that's on lower site classes at the same age. You're
dealing with smaller timber, because land in those lower productivity
classes (classes 4 and 5) grow at a much slower rate than land in higher
productivity classes (classes 3, 2 or 1).

-Timber reaches maturity faster in the more productive sites.

-If they harvest at the same age that penalizes those lower productivity
sites, but once it reaches a stage of maturity it gives them a favorable
rate.

CHAIR SCHROEDER: Refers to page 2, line 20; is the Cubic Foot
Productivity Class comparable to site class?

203 DAVE STERE, Director, Forest Resources Planning, Department of
Forestry: Explains how Cubic Foot Productivity Class was adopted.

-They are based on the inherent nature of the soil to produce wood fiber
regardless of species.

CHAIR SCHROEDER: Are they comparable to site class?

STERE: They are not directly attributable, because these tables are
exclusive of species and site class is species dependant.

REP. VANLEEuwEN: Why the change from board feet to cubic feet; why not
be consistent?

STERE: People planning for the growth of trees plan in cubic feet and
those planning for harvest plan in board feet.

-One day the industry will switch to cubic feet, because the tree size
will get small enough to make board feet meaningless.

248 REP. MEEK: Is generally supportive.

-This is more regulation. Why are we penalizing someone when they want to sell timber?

-What assurance do we have that after 60 years they can harvest their timber?

MISEK: We're penalizing for immature harvest. Many of these owners are under special assessments. These special assessments are encouraging timber for tomorrow.

REP. MEEK: For what?

MISEK: For Oregon's benefit; for jobs, for economic multipliers associated with timber.

-The state passed the special assessment to try to get people to grow and manage trees.

-The bill recognizes that people have the right to cut trees when they want.

-The policy to be addressed:

-If trees are cut early the state loses economic multipliers in terms of jobs and future benefits.

-There is more benefit to the state and landowner to harvest at maturity.

-He does not have a good answer about the assurance to cut trees.

REP. MEEK: Until we have that assurance he struggles to know the best policy for landowners.

REP. DOMINY: On page 7, line 34 is the phrase "underproductive Oregon forestlands". What is that?

338 MISEK: There are different regions of the state under the Forest Practices Act. In each region different amounts of trees are required to be established at the end of the harvest.

-"Established" means they have gone through two growing seasons.

REP. DOMINY: There's no fiscal impact?

BETH PATRINO: It hasn't been prepared yet.

377 REP. DWYER: How many times have we changed the timber tax structure in the last 20 years?

MISEK: The optional tax came in 1961. There was major restructuring of the ad valorem system in 1977. The Western Oregon Small Tract Optional Tax was created in 1961. There were also tax law changes in 1971, creating the eastern Oregon system.

-You bring up a good point that we meddle with tax law on a yearly basis.

-The woodland owners complain we keep changing the rules.

-A lot of things have changed.

432 REP. JOSI: You mentioned the sliding scale would be revenue neutral?

MISEK: That was the intent.

REP. MEEK: Is this prior to Measure 5?

MISEK: This was developed prior to Measure 5, but was considered after Measure 5 passed. The interim committee wanted the bill discussed knowing some of the numbers might change.

CHAIR SCHROEDER: Reminds the members that we are only looking at the policy. He's not sure how far we can go with the bill.

REP. JOSI: REP. MEEK brought up a fundamental question. Until we can agree on the amount of timber that can be harvested after 60 years it is hard to tinker with a sliding scale to encourage harvesting after 60 years when we can't guarantee there can be a harvest.

-We can take care of the incentives once we guarantee the harvesting.

CHAIR SCHROEDER: Closes the Public Hearing.

TAPE 24, SIDE A

PUBLIC HEARING ON HOUSE BILL 2318 -- EXHIBITS I & J

Witness: Ilene Waldorf, Small Woodlands Association

CHAIR SCHROEDER: Opens the Public Hearing.

039 ILENE WALDORF, Vice President, Oregon Small Woodlands Association: Presents testimony on HB 2318 (EXHIBIT I).

126 CHAIR SCHROEDER: Do you have any suggested amendments?

WALDORF: We could develop some.

CHAIR SCHROEDER: The definition of "free to grow"?

WALDORF: Would prefer the State Forester define it. There has to be a common thread that we can understand and deal with, before we can say this is a good program.

128 REP. NORRIS: This mentions that expenses can be deducted from the federal tax return; are they not now deductible?

WALDORF: Correct.

REP. NORRIS: How can we make it deductible on the federal return?

WALDORF: It would only be deductible on the state return.

REP. NORRIS: It's deducted from federal taxable income as it applies to the Oregon return?

WALDORF: Correct.

149 REP. DWYER: He refers to the Fiscal Analysis (EXHIBIT J).
"Woodland management plans are developed"

-This is not without fiscal consequences.

-"Free to grow" is probably defined by rule.

WALDORF: The problem with the free to grow status is that we understand what it was designed to do, but a seedling may be free to grow in three months after it's planted. In two years, if you're not taking care of brush and animals, that seedling might not exist or be free to grow.

-It seems simple, but is very complicated. Written into a bill it could wipe out the good intentions of the bill's author.

183 CHAIR SCHROEDER: You said this was a good start. Are we getting at some of the other incentives in this package? Capital gains is one.

WALDORF: Capitol gains is the largest incentive.

-We are constantly faced with new rules and regulations, but are losing rights to ownership.

-Most people have no concept of the risks, time or costs involved in managing small woodlots.

-Few people can afford to only manage their tree farms.

-We don't view these incentives as handouts. Small owners don't want handouts, they want to be free to manage timber.

-Given the proper incentives the land will be replanted.

-There are too many disincentives, what's the point in continuing if there are no benefits down the road?

-She is only asking that you allow her to do her job as well as possible.

CHAIR SCHROEDER: The Forest Practices Act is one incentive for replanting.

-We'll ask the Committee Administrator to brief us on your testimony when we take this up again.

-He adjourns at 11:00 P.M.

Submitted by: Reviewed by:

Edward C. Klein, Beth Patrino, Committee Assistant
Administrator

Committee

EXHIBIT LOG:

A - Testimony on HB 2317 - James Monroe - 2 pages
B - Testimony on HB 2317 - Ann Hanus - 3 pages C - Testimony
on HB 2317 - Anthony Boutard - 6 pages D-Testimony on HB 2317 - Scott
Ferguson - 1 page E-Testimony on HB 2317 - Don Duhrkopf - 4 pages F-Tax
Summary - Joe Misek - 2 pages G-HB 2321 Overview - Joe Misek - 1 page
H-Testimony on HB 2321 - Joe Misek - 4 pages I-Testimony on HB 2317 -
Ilene Waldorf - 3 pages J - Fiscal Analysis of HB 2317 - Staff - 1
page