

FOREST HISTORY SOCIETY
HISTORY OF FOREST TAXATION IN OREGON

INTERVIEW WITH LELAND W. SVARVERUD, ASSESSOR DOUGLAS COUNTY MAY 16, 1966

Timber has been taxed in Douglas County of course for a good number ~~of years~~ of years but it has only been in the more recent years that it has played an important part as to values.

Following World War Two the demand for timber increased substantially and the burden of taxes also increased in general which ^{PROVIDED} ~~provided~~ a real problem in the taxation of timber. My experience with the timber taxation in Douglas County starts about 1954 when I first came to the County and became aware of the amount of timber. I know that 1954 the summary of the assessment roll showed that the amount of timber that was being taxed in Douglas County was 13, 498, 232,000 Board feet. This had an assessed value of \$8,231,100. based on the ratio in that period this probably meant approximately \$25 million dollars full value. I thought I might just give a comparative figure that we are using today on this volume.

The 1965 summary of the assessment roll for Douglas County shows that we have 9,222,008,000 Board Feet. The assessed value of the timber is now \$22,501,070 or on a 25% ratio close to \$100,000,000 of true value.

This is quite a change in the assessed value over the year 1954. and shows to some extent the change in the value although timber in 1954 realistically may have had a greater value than appeared on the summary roll, ~~the summary of the assessment roll.~~

Going back to 1954 to the beginning of 1961 I was a deputy under Morris Bowker who was the assessor at that time, and the matter of timber values became somewhat critical during those years because it was recognized that the changing value of timber was not being reflected on the assessment rolls. As a consequence in 1958 a 50% increase in the value of timber was made on the assessment roll. This was protested very hard by the Timber Industry in general and as a consequence of that there were hearings held with the Board of Equalization, The State Tax Commission, The Circuit Court and finally the Supreme Court which upheld the side of the Timber Owners, and in effect put the timber value back to what it was the year before.

OGLE: QUESTION: What you are talking about is the Lane County and the Tax Commission meeting as a Board of Equalization \$?

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Q Question (cont) and then the suit that Booth Kelly brought to determine the ? Ans: No that is a separate issue, this issue concerned just Douglas County and the suit was brought ^{NOMINALLY} ~~normally~~ by Roseburg Lumber vs the State Tax Commission order ultimately and the Circuit Court heard the appeal from the State Tax Commission order and then it ~~was~~ ultimately it was reviewed by the State Supreme Court.

Well in 1959, in spite of this hearing by the State Supreme Court, which wasn't actually heard until 1960, the 1959 assessment roll reflected the 50% increase in timber values and those remained on the roll for a period of several years. During this period there was legislation proposed and finally in 1962 with the State Tax Commission ^{WAS MADE} ~~being~~ responsible for the cruising and valuation of forest land and timber, and at this point the assessor became more or less a bookkeeper so far as the assessment procedure involving timber was concerned. This law also provided at least two significant changes in that the reproduction or in other words timber that was less than 12 inches in diameter would be exempt and also that timber that was on a slow cutting rate different than that on a fast cutting rate and in addition to that there was to be, at the time the timber was cut, an additional tax levy. This additional tax amounts to approximately two and one half times the tax which was levied on the timber in the prior year or during the year that they were cutting. In the matter of taxation of timber we find that there was different elements involved and in Douglas County I believe a ^{number} ~~part~~ of these elements showed up. The first thing, that probably entered into the taxation of timber as far as the timber owner was concerned was ? Does the tax make it prohibitive to own the timber? and can the timber owner actually buy timber and hold it and expect to cut it during a period of from one year up to maybe fifty years. It may be that the tax that he would pay would be too great to support. From the point of view of the people that want the tax, in other words the taxing districts, we find that the taxing districts are dependent on an annual amount of money from the wealth of their taxing district, and this is probably an important consideration. ^{Basically} ~~as~~ the property tax is a tax on wealth, If timber is taxed according to its wealth we would have

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one aspect as compared to being taxed according to whether or not they could profitably hold for harvesting at some future date. This is one of the biggest problems, I think, that enters into the problem of taxation of timber.

OGLE ? Well isn't there also the fact that a good many of these operators don't own any timber but are cutting government timber and don't have that holding problem of holding timber for future use.

ANS. Yes I think that we are speaking of privately held timber and we do have this big factor, economic factor, in the harvest of timber in Douglas County, in that we have approximately in round figures ten billion feet of privately held timber, and that we have in round numbers approximately 35 billion feet of government owned timber and that there has been a transition ^{FROM} ~~in the~~, where the logs are obtained,. Ten years ago a large part of the timber was obtained from privately owned land whereas now the shift has been to the government timber and the holders of private timber are only logging those as it is necessary for sanitation, perhaps ^{BUS} kill for one reason or another, but basically they are using government timber wherever possible. There might be one big exception to this. Weyerhaeuser Timber Co. owns approximately fifty per cent of the private~~ly~~ held timber in Douglas County and the amount of timber that they hold is so great that to the best of my knowledge they have not been involved very heavily in government sales, at least in this county. However I think every other major producer of forest products is buying government timber and holding their private held timber as more or less a check against the time that the government timber may not be available or such time that the price and the bidding is too great for them to acquire. Then they can fall back on their ^{own} private held timber.

Cruises in Douglas County have varied to some degree in that probably going back to the twenties a cruise was made of the merchantable timber of the county and this was updated in the period from 1950 to 1954.

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Since the State Tax Commission has become responsible for the cruising of timber they are in the process of re-cruising different portions of the county. Cruising is a very important element in the taxation of timber because the taxes that are assessed against timber depend somewhat upon the accuracy of the cruise and we get into a whole host of problems in cruising. One significant change in cruising that occurs during the years is the change in the use of the ^{LOG} ~~law~~, in other words, there may be today more usable content in a log than there was ten years ago and I would be certain that there was more usable content in the log ten years ago than there was in the preceding twenty years. Our method of utilizing the log such as plywood, particle board, paper production change this concept of how much there is in a tree.

Ogle: Ques: How much ~~value~~ bearing do you think this factor has on the increased valuation. Valuation of timberland prior to that time may have been on the basis of former utilization and when the Tax Commission made their re-appraisal they took into account the value of peelers and the use of cull logs for other uses and that sort of thing dont you think? Well I think that every time a cruise is made that it is updated to meet the present use of the tree; however the fact that cruising is a very time consuming job and the area involved in Douglas County ~~is~~ for example which has three and one quarter million acres, not all of which is timber however it takes a great deal of time to make a reasonably accurate cruise and because of the time involved we don't have an up to date cruise every time there is a change in the use of a tree so consequently a tree could increase in value out in the forest and this value not be reflected on the assessment roll for many years which would mean of course that if they were paying a smaller amount of tax on that tree during that ^{intervening} /period than it would ^{probably otherwise} /be taxed if it were cruised every time there was a change in utilization.

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Knowing how much timber there is to be taxed, in other words, ~~and~~ inventory of the timber is one portion of developing the tax. The second problem would be knowing the value of that timber, and again we run into many ~~at~~ different ~~positions~~ conditions relating to value, distance from market, is probably one of the bigger factors, the cost of getting a tree logged, we have the bidding on government lands and the sales involved there, to compare with, and all in all developing the market value of this inventory is a real big job; however this can be updated more readily than the inventory itself and I believe at the present time, from a value standpoint, that we are probably closer than we have ever been.

OGLE: QUES: What effect do you think the decision in the Moore Mill and Timber case would have on your cutting---was this the case that involved the assessment of down timber on government land? NO. That's the South Fork Lumber Co. Case. No? ~~Expected~~ Discussion not recorded

I am not familiar with that case but I can see from our discussion that ^{would} it/be a problem.

Note: The Moore Mill and Lumber case was one in which the 30% of immediate harvest value to be paid each year was based upon a cruise made by the Tax Commission. When the timber was out it scaled out to be $14\frac{1}{2}$ million feet instead of the $18\frac{1}{2}$ million feet upon which the annual tax was based. The Tax Commission contended that it was without power to reduce the tax based upon the erroneous cruise and that MM & L would have to pay the tax for the year in which the timber was out even though the amount had been corrected as to future years. It contended that failure of the mill company to appeal to the board of equalization when the annual tax was assessed on the erroneous cruise exhausted their remedy.

I am not familiar with that case but I can see from our discussion that the, it would be a serious contention if we had to redetermine the value for everybody that cut their timber who found more or less timber on the spot this would provide a chaos in our assessment field and I think from a practical standpoint that our assessments as they are made each year have to remain certain unless there is a grave bookkeeping error or something of that nature. Once that value has been established for that year

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and has passed the Board of Equalization, I do not believe that it should come up for consideration again.

I mentioned earlier that we had the interest of the timber owner and we had the interest of the taxing district. We also have another interest which is probably the public interest relating to timber and timber taxes which is the conservation problem. The statement that the conservation part of this enters into the taxation of timber I believe is the concept that the legislature has looked at considerably in that they have exempted the reproduction. This is definitely an incentive for planting these cut-over areas ^{as} for the timber would not be assessed for possibly thirty years as this would be the average time for timber to get to taxable size, in other words twelve inches or greater. I think ~~also~~ also that the legislature's recognition of the taxation problem regarding timber is ultimately based upon the public interest which is largely conservation. They did not want all of the private timber cut at one time because of a confiscatory tax and consequently they made provisions in their interpretation of the timber assessments that probably allow the timber owner to hold timber over a fairly long period of time. If timber was assessed in exactly the same manner as other types of property, say a residential home we would find that the tax would be probably four times what they are paying now, but recognition by the legislature, of the problem has provided a means of determining the immediate harvest value, recognizing a long holding period for the bulk of the timber, they have arrived at a tax which would be approximately one fourth of the market value of the timber compared to other classes of property. I think that probably the legislature in making a distinction between what we term a short term cutter and a long term cutter has been somewhat lost in the additional bookkeeping cost and I personally don't believe that it was a good solution. I think the timber should be ~~taxed~~ assessed to the timber owner regardless of the length of time they are going to hold. I think it should all be assessed the same.

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This additional tax provision ~~is~~ is not a good solution, however it has proved to be workable and this was something I was not sure about when it first happened. It may have provided a little more equity between owners of timber but I really feel that the advantage of it to the owner has been lost through the additional ^{bookkeeping} ~~that~~ has been involved by the assessors office.

Now there is another problem in the taxation of timber which we have difficulty in working with and this is the problem that timber is taxed at different rates in different taxing areas. We find timber that has been taxed in an area of high school costs in a lot of instances will pay twice the tax that they would be in another area where they have low school costs. In other words perhaps an area with a few children to educate and a lot of timber area. When we speak about whether or not the tax is equitable it may be more equitable in one area than it is in another.

We try to resolve this in deciding the rate of tax that all of the timber can afford to pay in order to be of economic advantage to the owner probably on what the average is ^{again} but ~~the~~ average does not necessarily apply to the favorable and unfavorable areas. I think this is a serious problem and a very difficult one to reconcile. This is probably one of the bigger reasons, ^{why} in my opinion timber should be taxed on the basis of a severance tax such as we might have in eastern Oregon. I might add that our western Oregon tax is an entirely different thing than our eastern Oregon tax. Going back to that same problem though the severance tax, ^{which is} ~~being~~ a tax at the time of severance may not provide any income to the taxing districts for a long period of time. Then at the time the timber happens to be cut in that particular district they may get a windfall of considerably more money than they could possibly use during that one year; so a method would have to be arrived at which the severance tax would be apportioned to the taxing district over the intervening years so as not to provide a

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droughty period and then a big windfall in any one year. School costs ~~are~~ which are our major tax costs are annual affairs and not on a fifty year basis.

in the taxation of timber we find another area and this is just how much taxes should timber pay and just ~~ix~~ what is their share of the tax burden. Basically in Oregon the property tax is an advalorem tax which means that all property is taxed according to value and that is the uniform tax rate that we assess property on. This is truly a tax on wealth. Timber is wealth and so are stocks ^{BUT} ~~and~~ bonds and stocks and bonds are exempted from taxation in Oregon and it may be that timber by its very nature should be exempted ~~ix~~ from taxation, and again it may not but the main thing is in considering the tax on timber should it share equally with other classes of property in the property tax. It is of a somewhat different nature than other types of property.

Another factor in the taxation of timber ~~ix~~ covered to some degree in the valuation and the cruise of timber is the use. This transition in the use will have further repercussions when we consider that ~~now~~ the tremendous ^{involved} investments ~~now~~ in plants and machinery in the heart of the timber and the payrolls that are developed at the production point and again I think taxation has to consider whether or not it is going to kill the goose that lays the golden egg; if the timber is taxed in such a manner that it prevents the good use of it we may be ~~attacking~~ affecting a whole lot larger, a lot of value that is not a timber value itself in that the ^{INVESTMENT} plant/in Douglas County is very extensive-----I think that the \$35 million paper mill at Gardiner, Oregon ^{which} ~~was~~ built two or three years ago and is a good example of how much plant investment can be based on this raw product, that is standing as trees on our hillsides.

Another factor is the timber, ^{OR THE} ~~people~~ ^{who} hold timber, maybe faced with a problem they haven't been too concerned with up to this point in that timber gets overripe. They may find themselves having to log a lot more timber because of over ripeness than might be to their advantage from

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a purely economic standpoint or at least from the market of the logs.

In Coos County and some of the re-cruising of the Coos Bay Wagon Road lands ^{they} discovered that the ripeness and the defect that had developed in the tree that was overripe had materially cut the value of the timber on the Coos Bay Wagon Road lands and I think that this could be a major problem in Douglas County. ^{somewhat} Again this relates/back to the taxation of this timber in that this timber is overripe and does not have the same economic value and the taxes are probably going to be greater than what ~~the~~ it is economically possible for the owner to pay;; the way to solve this problem perhaps is re-cruising but ~~we know~~ as we noted earlier the re-cruising does not occur on an annual basis and it may be possible that a twenty year period for re-cruising may be a practical period. ^{Ogle question:} What effect might O & C lands have on the tax base. You have about three counties which are pretty well fixed up with BLM and Forest Service money.

Ans: In the government owned timber we find we have a breakdown between different departments of the government basically managed by the Forest Service and the Bureau of Land Management and the County receives payments in lieu of taxes based upon their cutting. In the case of the Forest Service lands I believe the County receives a payment of 25% of the timber which is sold from Forest Service lands. And the County receives 75% from O & C lands ~~which~~ ~~are~~ Oregon California re vested Grant lands.

Ques: On Forest Service lands there is a limitation on distribution.

Ans. Yes 75% of the amount goes for roads and 25% for Schools

The Oregon California re vested grant lands money which is administered by the Bureau of Land Management we get 75% of those funds and some of those are earmarked for roads. Douglas County shares very heavily in the O&C money. Approximately 25% of all ^{O&C} money ~~received~~ is Douglas County Money and this money is used as an offset against taxes in our county. If we didn't have these receipts from the National Forests and the Bureau of Land Management then we would have to increase our levies to make up the difference. This would in turn reflect in the taxes on privately held timber.

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The O & C money, as it is ~~is~~ commonly referred to in Douglas County, and the Forest Service money is put into the road fund so for those tax years all of those receipts ^{from those timber sales} have gone to build better roads in Douglas County. This in turn makes for a better harvest of timber because the roads reach into areas that they can bring this timber out of and it is sort of a circle, build better roads to get more timber out to get more receipts to build better roads; however if we did not have these receipts privately owned timber would have to be making up their share of the tax, and I might say that privately held timber in Douglas County is paying approximately 14% of the tax load so that anything which increases the tax burden you can figure that the people who own timber are going to have to pay 14% of it.

Ques; ^{Doesn't} ~~Doesn't~~ this factor give timber owners in Douglas County a little advantage over the timber owners in some other counties ?

Ans. Yes I am sure this would be reflected in lower tax costs to timber owners in Douglas County and in some other counties, however again we get back to the taxing districts and from district to district this levy varies, consequently you may have one owner really benefitting from a low taxing district and maybe a whole lot of other owners paying a very high tax. It is very difficult to relate the tax on timber, how much it is to timber in general; you can determine it by individual tax ~~by~~ as to its location. We also have another category of government owned lands which we call Coos Bay Wagon Road lands and these lands are also revested grant lands and they are located in Douglas and Coos Counties ~~and~~ the government pays a tax on those lands just as if they were privately owned. They are not on the assessment roll but a tax is computed just the same as if it was on the assessment roll and a bill is sent to the government and they remit the money for those Wagon Road lands.

Ques: In other words the milage is applied to those lands just the same as it is to privately owned lands.

Ans: The milage is applied to them just the same and the money distributed to each school district in the County. However this only amounts to about

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\$50,000 in taxes so that it is not a big item but it a ~~little~~ rather unique tax on government owned property which is normally exempt from the property tax.

One of the more long range problems which we are always concerned with is that timber is always competitive with other types of building material such as masonry type materials, aluminum and steel and we find that it is a matter of concern that people will want timber 25 years from now; there may be such inovations that the demand for timber will fall ~~expiditly~~ drastically ^{FROM} ~~with~~ no prior experience ~~but that~~ timber is used less in a house than it used to be and other materials have taken its place; on the other hand there may be another transition to the use of particle board, prefinished flooring, prefinished panneling and we may continue to be in a very competitive position with other types of materials. This is of course a big factor for if timber can't be competitive, in the market, then any tax on it is going to be confiscatory.

Ogle : The matter of competition from other parts of the continent?

Yes, I know that some of the plywood producers for example have looked very closely to the South's entry into the pine plywood production and when we see people carrying logs ~~intact~~ in to be peeled as compared to the machinery we are using here to prepare logs we begin to wonder whether we will be able to comp ete or not. However I think that this transition ~~is~~ ~~continual transition to~~, in the use of materials will keep the northwest competitive with any other area in the United States. We have had some wonderful inventions; infact just this weekend I bought some prefinished panneling and the design on the panneling was photographed on and it was so natural, in fact it was natural because it was photographed on and it is a relatively inexpensive way to cover a wall. Things like this have kept timber competitive with another product. Roseburg Lumber Company is the distributor in this area but I am not sure that they are alone in the production of this plywood panel. This floor panel, I think is going to replace flooring throughout the country to a large degree, this is about a 5/8 wood ^{fiber} ~~panel~~ pressed together

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We have some alternative methods of taxation of timber one of these alternatives is the Forest Fee & Yield Tax which was originally passed in 1929 and there were quite a number of acres put under this Forest Fee & Yield Tax.

Primarily it is a severance tax ; the lands that were meant to go under this tax were the lands which had been cutover, and the ^{theory of it is that} lands which under ~~the~~ were to pay a flat fee of so much an acre, which in western Oregon is now 10¢ per acre, and whenever there is any harvest of a forest product then they would pay $12\frac{1}{2}\%$ of the value of this forest product. During recent years there has actually been a decline in the acreage in the acreage put under the Forest Fee & Yield Tax. I think primarily, one of the biggest reasons that there has been a decline is that being taxed in this manner provides some strings attached to the property,; the person who has property subject to the tax does not have clear fee to the property, that is he would own the property but it would be subject to the laws and regulations which apply to this type of ~~property~~ tax. Conceivably this type of tax could be more economical than the ad valorem tax. Getting back to the fee, I think that this is the reason; at least ^{the evidence will show that} in Douglas County there have been no new applications for several years to put lands under this Forest Fee & Yield Tax and our acreage is more or less static in that regard.

In 1961 the legislature also passed a small woodland type optional tax in which the land could be valued at a higher rate but the timber would not be assessed as such. I believe the law provides that the timber would not be assessed until it was 90 years or older So this is another ~~form~~ form of optional tax. This is limited however to ownerships of less than 1000 acres so that the larger timber owners would not be able to utilize this form of timber taxation.

The last two legislatures have extended the time for filing applications to come under this tax (present deadline Aug. 9, 1966) we in Douglas County have had I believe only two applications since the law was passed.

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I do not know if it is popular in other parts of the state but it certainly not in Douglas County. I think that people that own land want to own the land without any strings attached to it. I think that this prevents them from entering into some of these special agreements.

Ogle: Don't the fact that there are several different methods of taxing timber in western Oregon result in some confusion in making up the taxrolls? Forest Fee & Yield tax, Small Owner timber tax, Western Oregon Ad Valorem tax etc.

Ans: Yes, there is some confusion to it to ¹⁵ this extent: that the Forest Fee & yield Tax is on an acreage basis and not on an ad valorem basis, so that means that this particular group of property has to be kept separate and it has to be handled in a separate manner. The additional tax which is assessed in the year of harvest ¹⁵ handled in a different manner than the ad valorem tax ^{PVD} has to be done more or less by hand as we have no way of feeding this information into the machines which turn other taxes out more as a machine ~~product~~ product and people who are involved in the administration of offices are generally concerned when they have to do something by hand ^{than} when they can do it by machine as it gets considerably more expensive. So this has made an additional problem and we also have under this Western Oregon timber law, diferentiating between the slow cutters and the fast cutters. This provides another segregation of property. All of these things add up to expense when it comes to administration, compared to what it would be if we just had one straight wa value for timber and that was it.

In Douglas County we have what we call fire patrol charges for fire protection and this is headed up by the State Forester who determines an annual charge to be made against timber and timberlands as well as some grazing lands. In some instances this fire patrol charge is greater than the ad valorem tax. And therefor I think that it is something which should not be overlooked when they are figuring the economics of taxxing timber, for when the fire patrol tax is greater than the ad valorem tax it should at least be an equal problem in developing timber taxes. This fire patrol

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charge is made to the timber owners on the basis of ~~the~~ the land they own. There has been a lot of thought given to a charge in general through the state because the fires that occur are put out in the public interest. The cost of protection is shared by only a few people but the benefits are received by all of the state and it may be an unfair burden to tax ~~the~~ only the timber owners for this type of protection, although they do receive the direct benefit of the fire protection. Certainly putting the fire out is in the public interest.

One other problem that western Oregon is facing is the taxation of forest land which has to be available in order to raise the timber. So consequently the timber owner is going to be paying taxes on forest land. One of the problems on forest land taxation has been that the people are coming in to Oregon who want these forest lands for other uses and these other uses are more valuable than the use for forest land so that we find different values on some forest land when compared to others and this is causing grave concern among the timber owners and taxing authorities. I shouldn't be surprised if the legislature wouldn't have to consider this again.