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How about my covering some of the economic background the conditions which preceeded the approach and the reasons for the recognition of this approach.

Basically my experience in the timber tax field started in 1950 at which time I became assistant in the Long Bell Lumber Company, Western Land Department. This department was charged amongst other things with the handling of all timber taxation on lands in Washington, Oregon and California.

My first experience at a legislative body was in the state of Washington in 1951 and in the state of Oregon two sessions later in 1955, at which time I had become the head of the Western Land Department which subsequently became the Long-Bell Division of the International Paper Co. through a merger.

In the course of my experience with timber taxation in the years immediately prior to becoming involved I found that many of the lumbermen themselves were in complete disagreement as to what they had on their lands in terms of timber volume. The factors that were involved in this desagreement were the varients or in some cases the failure to accept new utilisation factors which added materially to the estimates of volume, which were merchantable; in addition to this many of the cruises that were on the books of the various companies were not indicative of either the number of stems or the gross volume on the land and when these problems were transferred to the pressures that were increasing, from assessing officials for the volumes that were being taken into the mill in terms of harvest. Then these arguments were transferred to disputes with taxing authorities. The Gentlemen in this period sincerely believed that the figures they were giving the assessing officials were correct. In some instances the assessors had information which was actually better than ~~thexinformationx~~ that available to the taxing officials of the various companies.

It was in this situation then, that the State Of Oregon, which at the time assessed timber through the assessors of the various counties, that the questions of value came up. Federal timber sales indicated that the value placed upon the timber was far in excess of that recorded on the tax rolls even when fully accounting for the assessment ratio. This increased pressure lead to a re-analysis by company officials of the current value of their timber, and it was here established that there was a retail value to timber but that there were various factors, such as accessability, cost of logging, or in practicality of logging in some instances, were actually causing the separation of two general classes ; that which had a current market value and could be removed, and was being removed and that which had a wholesale value which either was inaccessable through lack of transportation or transportation facillities, or because of the logging plan of the various operators would not be removed for a period of years. In the meantime the immediate post-war era, starting in about 1948 placed a considerable amount of pressure, particularly upon school districts for more money to take care of new growth in population and new requirements with regard to education. This was a period of inflation when taxing bodies were increasing the salaries of their employees. Since these adjustments were taking place in industry it was a matter of re-adjucting the tax picture. As an example one town in Washington had an entire school district increase by 48 % in one year and this school district did not include timberland but only residential and industrial property and incidentally the industrial property had undergone no radical addition during the period of increased assessment. These same factors were being applied to timber but because of the fact that the valuation of timber had risen so radically at the retail level and because of the fact that great tracts of young growth and cut-over lands had reverted to the county from excessively high tax rates during the depression period, the assessors

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were cautious. The Tax Commission of the State of ~~Washington~~ Oregon in the mean time had strengthened its timber department and was pushing for an equalization of various property classes throughout the state in terms of valuation. This led them to attempt to bring under their ~~jurisd~~ jurisdiction the valuation of timber. ----------

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Now what else do you want me to cover on this? Ogle: I was thinking as you went along as you spoke about the difference in ration between timber and farm land for instance was probably partially compensated by a under-valuation of timber for many years. Ans. Well this is ture. In actuality it was difficult for the timberman to contend on the timber that was

there in terms of value with the tax people because they themselves wern't sure what was there, whereas the farmer had an annual crop which had a value and from this value and from the estimated profit therefrom you could come to a reasonable figure as to the value of his farm land and ultimately as to the projected future value of that land should be areas that could be sub-divided at a reasonably close date to the date of assessment, that is within five or six years, these factors could be projected . But timber was the only thing that had a hundred year rotation and that was what we were thinking of in those days and in some cases we thought in terms of one hundred and thirty years as a rotation period. For this reason we were not inclined to spend a tremendous amount of money on actually getting the volume estimated by cruises with any degree of accuracy simply because the problem did not have current value to us. It was something we did not feel that we could afford to keep up merely for the purposes of taxation. As a result of this, of course, the older cruises on the county rolls came under tremendous pressure to be updated and in fact the tax commission attempted to take control of this. The singular instance that I recall was that Douglas County undertook to make their own cruise with qualified cruisers and continued to control all facets thereof. Mr. Morris Bowker who was assessor at that time was in my opinion, the most competent assessor that I had or have met in any of the three states in which I did business for the company. His understanding of the problem and his impartiality in dealing with the various economic interests within lhis county tended to lend credence to his positions with regard to the appraisal of timber to the timbermen themselves. It was difficult however to justify a tax man's position in reporting to his superiors twenty, thirty and forty percent increases in taxes which were primarily attributable to incresses in valuation of a particular class of property such as timber.

The Tax Commission in attempting to establish their concept of area was primarily in recognition of the lack of validity of dilineating assessments

at a county line in property classes such as timber which do not necessarily change at the county line. I recall that the tax commissioner, Dean Ellis, did have the concept that he could fix in mind a percentage of the taxes that timber contributed at a given time and adjust to final retail value or toward final retail value by increasing that percentage periodically, as often as every year, in order that the taxes paid by timber would be roughly equivalent to the preceeding year in spite of the fact that old growth timber had been removed during that year in substantial quantities. Basically we were on an old growth philosophy at the time these particular tax problems came to the fore and there was a considerable amount of concern, within the industry as to the advisability of spending rather large sums of money to grow a new crop, when their economists, in terms of the projected tax load alone, could not justify a profitable return therefrom. The concept of sustained yield had been generally accepted but this was not a philosophical concept it was an economic concept and taxes constituted the biggest single road-block to the achievement of sustained yield and perpetual operation; therefor the industry tended to organize the Associated Forest Industries of Oregon and a working tax committee which had attack this problem. In addition the Industrial Forestry Association became concerned with the matter and hired a man to become a tax counselor to the committee that was appointed to investigate and generally there was a considerable amount of alarm at the prospect, not only of the tremendous increase anticipated on old-growth timber which might unnecessarily accelerateits cut but upon the prospects that the young growth timber, not yet of merchantable age , or not to maximum rate of growth, even though of merchantable size, would have to be removed in order that there was economic justification for its growth. This prospect was answered by the industry with a number of proposals but at this time we had a new situation come into the industry in-so-far as its impact was concerned. A firm which had its beginnings in another portion of the country, in order to expand its operation on the west coast, undertook to take the purely financial approach to the timber situation, which is basically stored capital, and block large areas of old growth by absorbing other companies and Pertorm

a rapid liquidation which returned their capital plus a profit achieved on a capital gains basis, and this factor of liquidation and the fact that others were reviewing this as the answer to the increased tax load caused a considerable amount of alarm in the industry which was basically devoted to perpetuating itself. This rapid liquidation also served to emphasize the problem for the assessing officials of timber liquidation and the replacement by tax officials of lost revenue from some other source. Of course the most readily available source was the remaining timber. Thus the burden would be shifted, perhaps, between owners but not as to class of property or class of owners. I think that it was this single fact that served to accelerate the tendency of many of the timber property owners to accede to the push by the State Tax Commission to abandon the area concept as originally proposed and to accept much broader areas such as Western Oregon and Eastern Oregon than had heretofore been ac acceptable to either industry or most of the assessing officials. It was when this concept was abandoned that the present law found seeds for its birth. It was the rapid liquidation of timber by a few owners which served to give the legislators, in it the area so affected, the impetus to redraw the laws empowering the Tax Commission to place a value on timber and allow a valuation factor conceived wholly in the time element for the prospective/timber removal as it was applied as a multiple of the current or retail value. This proposal saw its first basic light in the legislature as House Bill 209 (1/24/57). At this point several of the firms, primarily Weyerhaeuser, had examined this and felt that they could support it. Speaking for myself, the bill was introduced while I was in attendance at the legislature but was not heard until somewhat more than half way through the legislature at which time I was attending to tax matters in the state of California. I was unable to report that my company wished to push for the passage of this bill, however shortly

thereafter, in reviewing their own situation, they felt that they could support the concept. At the end of the 1957 legislature an interim committee on taxation was appointed, with Clarence Barton, who had been chairman of the House Taxation Committee, appointed as the interim committee head. Mr Barton wrote me a letter, approximately sixx weeks after the end of the legislature, in which he requested that I voice an opinion as to the approach made in HB219 (209) which had died in committee. I wrote back a rather lengthy letter- which should still be in the Long Bell files- proposing the acceptance of the retail and wholesale factors and proposing that a study be made of the possibility of the introduction of these factors. Not long after this I received my first notice of the first Interim Committee Taxation hearing and the subject matter was discussed and from this Interim Committee series of hearings, which took place over the next year and a half, ~~ix~~ came what was known as House Bill 14.
By this time the timber owners had tended to gather into two basic groups . In the first group were, primarily, the larger owners of timber who were in support of a long range operation and who opposed the rapid liquidation of their own old growth prior to achieving a merchantable rotation age with their younger timber. Now it must be remembered at this point that most of these operations had been considerably expanded from the time of conception. By this I mean that what was cut in say 1900 by a mill was perhaps but ten percent of what that mill was cutting in 1950 and that therefor the amount of available fifty year old stocking was but ~~ix~~ ten percent in terms of area alone of the area removed for cutting in 1950. The volume contained on this ten percent area was only fractional on a per acre basis, of that which was being removed in terms of old growth.

Therefore it must be remembered that a considerable length of time in excess of even the anticipated rotation period for a model forest was necessary to raise a forest for its second full cutting. It was in this area that other timber owners came to opposition. They felt that the achievement of rotation age was/an impractical matter as far as their particular position was concerned. They felt further that they, as rapid liquidators, of timber or that their reserves were such that they would be cut out in a few years and it take many more before they were ready for a second crop on their lands, that they would be paying an unduly high proportion of the tax burden in the next few years. These problems were seriously considered by the legislature and Mr., Richard Eymann who was advisor to the taxation committee in that year, and a Mr. DeMoulley who was the attorney advisor to the House Taxation Committee, undertook to rewrite the bill taking into consideration themany factors brought forth by these two groups, and also taking into consideration, of course theneed for taxable values on the rolls as professed by the assessing and taxing authorities of the local districts. The differences between the western Oregon timberlands and the eastern Oregon timberlands came to the fore. Where clear cutting was and is the best method for removal of stands which are primarily Douglas Fir, the Pine regions of eastern Oregon were aware of the fact that since their stands are not even growth stands as those found in the Douglas fir region but in the Pine were of variable ages, that the approach to taxation must be different since basically there would always be timber growing on every acre presently growing timber in eastern Oregon. Of course at this time there were a number of species of timber which had virtually no value on the tax roll. Western Hemlock, found in the coastal regions, had some value but considerably less than Douglas fir; Lodge Pole Pine, White Fir and Shasta Red Fir had virtually no value in the eastern Oregon region.

For these reasons the basic thinking of each of the two areas, east and west, were in terms of one species only although of course eastern Oregon has two separate species of Pine, Sugar and Ponderosa.

This recognition that there was a difference between eastern and western Oregon timber tax approaches, because of the different factors of growth, led to the separation of the taxx interests and formation, which had actually taken plave through various organizations some time before, but the eastern Oregon formation then came out in opposition to HB 14 in so far as it applied to eastern Oregon. The primary legislators supporting HB 14 at the time were western Oregon peopleand the eastern Oregon people decided to oppose HB 14 as it applied to their lands. The small timberland owner who was inclined to use his timber as a bank and might liquidate as much as a third in one year with no intent of liquidating more,for a number of years, also opposed HB 14 since the evidence of the cut would be the average of the prior three years and this would work against would apply a rate higher than would be justified by the facts assuming that the small timberland owner would be able to follow out his intent. The farmer basically was opposed to this rate of tax also although there was a variance of reasons therefor. The farmers also were opposed to the rate of tax being applied to them at the time since there was not general recognition in this group as to the values contained on their land.

A number of people attempted to come up with answers. The state Tax Commission of course made its proposal. But they basically- and here again- we were ta talking of Oregon as an old growth economy, that there would be a severance tax on timber harvested, and that there would be a valuation placed on timber which would be twenty per cent of the retail value, but the severance tax feature was opposed since there was a variance of tax rates in the various counties which made the actual severance rate somewhat unfair where the rate was lower and of course it was opposed by those areas where that rate of severance would be less in return to the county although at the time I can recall none that would so benefit.

David T. Mason, who had played a principal part in the 1947 acceptance of the application of the Capital Gains Law to timber and was in high repute as a consulting forester of Mason, Bruce and Girard also had a severance tax but it would be basically on the ad valorem tax rate in the district in which the timber was found. There were others including one by Georgia-Pacific which was known as the primary culprit in timber liquidation- if I may use the term- and what ended up as the Industrial Forestry Association proposal which was embodied to a reasonably large degree in the referred to HB 14.

In the process of attempting to meet the attack on the bill which was the prime bill in the legislature as far as the chairman of the taxation committee was concerned. The Tax Committee advisor and the attorney thereto attempted to plug up the various loopholes and ended up with an an engrossed bill, a re-engrossed bill and finally a re-re-engrossed bill. A portion of my part at this particular period was to organize the timber industry which supported this bill and bring them to the point where they would point out the importance of coming to a decision in this area to the various representatives and senators from their districts a number of them had also mad substantial contributions to the well being of the state and by reputation were known- to many who did not represent areas where such a lumberman had an economic interest. These men came forth willingliy and gave testimony, talked to their representatives and senators and otherwise demonstrated their favor of the bill. There were however, by this time, some doubts arising in the minds of some of those who had formerly endorsed the principle embodied in HB 14. These doubts were primarily raised as the bill became more complex and Commissioner Ellis made the public statement that he felt that HB 14 was impossible to administer in its final re-re-engrossed form. Despite this the bill was forced to the floor and on the floor of the House lost by one vote.

The pressures to get an answer had been so great that the Governor prevailed upon several of us to attempt to compromise our differences in the timber tax field within the industry prior to the next legislative session. It was his feeling that these pressures were so great that due attention was not being paid to other matters which would have received more attention from the legislature had not the fight been so hard.

Thereupon selected members of the IFA Taxation Committee, as well as representatives of the timber industry in eastern Oregon, met with the governor heard his plea and agreed that they would do everything possible ~~xxxxxxx xxxxxxxxx~~ for a solution wherein the industry was not attacking its own members. The IFA then became the proving grounds for some very hard, harsh talk in a manner which no longer had the advantage of cold economic review and the attempt to make the two divergent economic philosophies come together with a tax bill,,was made. My principal part, as I saw it at this period, was in acting as a counterbalance to the various proposals until I was assured that a true compromise had been achieved. In the course of doing this there were a number of meetings of western operators with eastern operators, wherein the proposals made by the eastern operators were acceptable as being non-conflicting with those of the western operators but acknowledged to be separate. Representing a western operator, the same general principles embodied in HB 14 were maintained lbut definite efforts were made to consult the Farm Bureau, the Farm Foresters Assn., the members of the Associated Industries of Oregon who were not participants in the IFA committee, and any other group that was directly affected by this problem. When Labor had its convention in August of 1960, I was in attendance My prime purpose in being there was to attend to two matters, one of which was the timber tax bill. At this point there had not been complete agreement amongst the timber operators but in my opinion it was sufficiently substantial to inform labor of the resolution of these problems, and to ask that if a position be made, that it be made in recognition of the work that had been done, principally by the IFA Committee since the prime union interests and the timber industry at the time were located on the west slope. Labor then passed a resolution exhorting the industry to

resolve the problem in a manner fair to all taxpayers.

I regarded this as a necessity since the legislators were by this time so sensitive to the problems which had been created by the timber tax fight that they would ~~first~~, in my opinion, be inclined to come up with almost any excuse not to find an answer should the fight break out again. Having done this and resolved some of the other problems such as the direct consultation by ~~with~~ Mr. Irvin Luiten of Weyerhaeuser with prominent Republican officials keeping them advised and informed as to the progress and the ultimate solution made available of the timber tax problem, and with the same work being done in the Democratic party, we felt that we had touched all bases. Many of those who opposed previously, including Georgia-Pacific which was the principal opponent of HB 14 in the 1959 legislature now moved themselves to the position of (a) ~~xxxxxxxxxxxx~~ endorsement, or (b) non-opposition. However a last minute fight appeared to be possible with the small farm foresters and some last minute concessions were made. But the basic law which is now represented on the books was conceived primarily through the various agencies heretofore mentioned and brought to fruition by constant consultation with the Oregon State Tax Commission and many of the assessors by the Industrial Forestry Association. The bill as passed represented a considerable saving in ~~xxx~~ money paid by large timber owning companies which were on a true sustained yield basis or whose period of rotation of old growth timber exceeded 30 years. The impact, as proposed upon the smaller owners was lessened by the fact that the primary payment for the liquidation of timber, occurred in the year of liquidation. The administrative problems were materially increased for the assessing and taxing officials but this appears to the participants to be a small price to pay for a reasonable solution to the problem.

There are several problems that remain and one of them is the withholding of timber and using it as a bank when a mill operator then goes and buys federal timber upsetting any local balance which may have heretofore been obtained in consideration of the capacity of the area to produce.