



LEGISLATIVE REVENUE OFFICE

State Capitol Building
900 Court Street NE, H-197
Salem, Oregon 97301
(503) 986-1266

<http://www.leg.state.or.us/comm/lro/home.htm>

Research Report

Number 7-00

September, 2000

REVENUES FROM TIMBER IN OREGON

This report reviews the revenues that flow primarily to local governments from property taxes on forestland, from privilege taxes on timber harvested from privately owned forestland, and from shared revenues when timber is harvested on state or federally owned forestland. Section 1 is an overview of forestland ownership, total timber harvests, and total local government revenues. Section 2 looks at the individual local government revenue sources, and Section 3 reviews the Forest Products Harvest Tax, which funds a number of forest industry related programs.

Overview

The Department of Forestry classifies 27.5 million acres of land as forestland. Of this total 4.9 million acres (17.8%) is incapable of producing 20 cubic feet in volume per year and is of little value for timber production (low quality). An additional 6.3 million acres (23%) is in wilderness or other areas that prohibit timber harvests (reserved). The remaining 16.3 million acres are productive and potentially open to harvest (open).

The table at right shows the distribution of forestland by type of ownership in each of these categories. While there have been minor reclassifications, the biggest change in this distribution since 1990 has been the movement of about 5.3 million acres of federally owned forestland from the open classification to low quality (1.1) and to the reserved classification (4.2).

The 16.3 million acres of timberlands open to harvest

OREGON'S FOREST LAND BASE (1997)

Thousands of Acres

Ownership	Low	Timber Land		Total	Percent
	Quality	Open	Reserved		of Open
Private					
Industry	280	5,674	-	5,954	34.8%
Nonindustrial Private	1,766	2,671	1	4,438	16.4%
Total Private	2,046	8,345	1	10,392	51.2%
Public					
State					
Forestry	21	728	29	778	4.5%
Transportation	3	7	57	67	0.0%
Fish & Wildlife	-	39	-	39	0.2%
Higher Education	-	15	-	15	0.1%
Total State	24	789	86	899	4.8%
Federal					
Forest Service	2,816	5,971	4,276	13,063	36.7%
BLM	-	624	1,744	2,368	3.8%
Park Service	5	-	161	166	0.0%
Fish & Wildlife	1	3	9	13	0.0%
Total Federal	2,822	6,598	6,190	15,610	40.5%
Local Government	10	77	36	123	0.5%
Indian Lands	-	480	-	480	2.9%
Total Public	2,856	7,944	6,312	17,112	48.8%
Total Oregon	4,902	16,289	6,313	27,504	
Percent	17.8%	59.2%	23.0%		

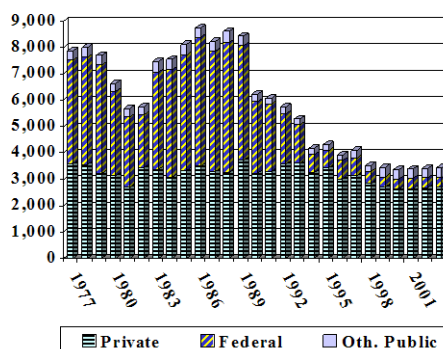
Source: ODOF 1997 Annual Report (revised 1/29/99), page 4

generate the revenues reviewed in this report. Of these, either the U.S. Forest Service (USFS) or the Bureau of Land Management (BLM) owns 6.6 million acres (40%). Harvests from these lands have been severely restricted since the late 1980's because of the Endangered Species Act and changes in management practices.

Chart 1 at right shows the volume of timber harvested from Oregon forests between 1977 and 1999 and the harvest forecast through 2003. The biggest change over the period is the decline in the harvest from forestland managed by the USFS and BLM. These harvests reached a maximum of 4.9 billion board feet in 1988, rapidly declined in the early 1990's, and are forecast at about 0.7 billion board feet through 2003.

The harvest from privately owned forestland reached a maximum of 3.7 billion board feet in 1989, held fairly constant at about 3.4 billion board feet through 1995, and fell to 2.7 billion board feet by 1999. The forecast is for about 2.7 billion board feet through 2003. The harvest from other public forestland has varied between 0.2 and 0.4 billion board feet per year.

Chart 1: Timber Harvest
Million Board Feet

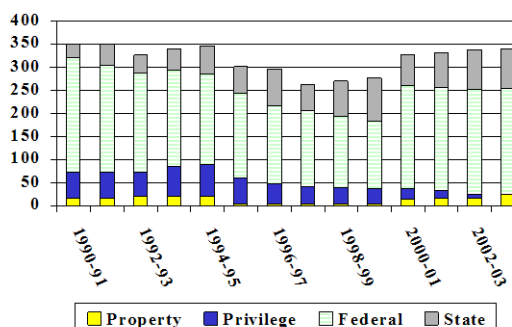


Private forestlands generate property tax revenue and timber harvests generate privilege or severance tax revenues. Some publicly owned forestlands, such as the Coos Bay Wagon Road lands, pay in lieu property taxes, but most share a portion of receipts from timber harvests with local governments. Chart 2 summarizes revenues from all sources.

Revenues over this period reflect changes in the volume and value of timber harvested, changes in Oregon's taxes, and changes in federal revenue sharing.

Each of these revenue sources is discussed in the following sections of this report. The first section deals with revenues from privately owned forestland, looking first at privilege taxes on timber harvests and then at property taxes on forestland value. The second section deals with revenue from publicly owned forestland and the finally section looks at the Forest Products Harvest Tax.

Chart 2: Local Revenue
From Forest Land



Tax Revenue from Private Forests

There were two major changes in timber tax policy, which affected revenues from private forestland during the 1990's. The 1993 Legislature exempted standing timber from property tax and continued the privilege taxes on timber harvests in lieu of 80% of the property tax on forestland value with forestland assessed at 20% (the 1993 Program). The 1999 Legislature created a new program for forestland in large ownerships (optional for forestland in small ownerships), under which timber harvests are exempt from privilege taxes and forestland is assessed at 100%. This program is referred to as the Oregon Forest Land Program (OFLP).

Privilege (Severance) Taxes

Western Oregon Generally

In 1977, the value of standing timber was exempted from property tax and a 6.5% severance tax was imposed on timber harvests in lieu of property tax. This legislation repealed the Forest Fee and Yield Tax and reduced its 12.5% yield tax by 0.25% per year to reach 6.5% in 2002 (reforestation lands). The 6.5% rate was in effect through June 30, 1991. The 1991 Legislature redefined the severance tax as a privilege tax and reduced the tax rate and the additional rate on reforestation lands for harvests between July 1, 1991 and December 31, 1993. The 1993 Legislature further reduced these rates for harvests in calendar years 1994 through 1996. As of 1996, a 3.2% privilege tax rate was imposed on all private harvests in western Oregon except forestland under the small tract option (see property tax section). The 1999 Legislature created a new program, which we call the Oregon Forest Land Program (OFLP) because it is basically uniform in both eastern and western Oregon. It applies to forestland in ownerships of 5,000 or more acres (large ownerships) and is optional for smaller ownerships. Harvests from forestland, under OFLP, pay privileges taxes at reduced rates for 2000 through 2002 and are exempt from privilege taxes thereafter as the forest land value assessment ratio increases from 20% to 100% (see discussion under property tax). Harvests from small ownerships not taxed under OFLP will continue under the 1993 Program (or as modified by the 2001 Legislature).

The Department of Revenue publishes Stumpage Value Tables for each calendar year. These show value per thousand board feet (or by ton) by specie and grade for 42 value areas in western Oregon. The taxable value of a harvest is determined by multiplying the volume harvested in each category by the appropriate value from the Department's tables. The method of determining these values has changed over this period, moving toward the Log Purchase Value Index when sales are insufficient to determine stumpage values. Beginning July 1, 2001, taxable value is defined as immediate harvest value.

Chart 3: W.O. Privilege Tax
Harvest Volume & Value

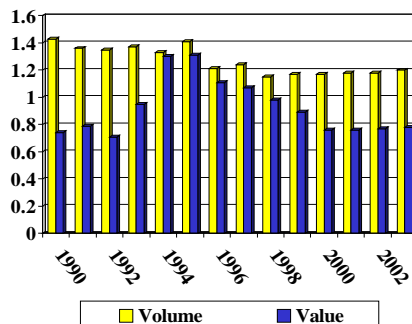


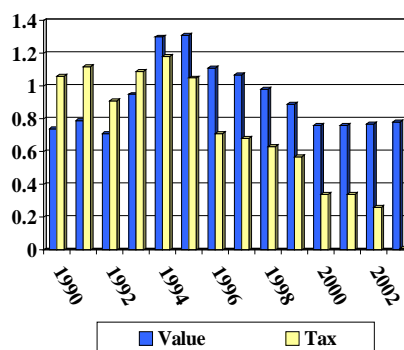
Chart 3 above shows the volume and value of harvests in western Oregon subject to privilege taxes. To facilitate comparison, volume is shown in units of 2 billion board feet (double the vertical values) and value is in billions of dollars. Volume is around 2.8 billion board feet through

1995 and then drops to about 2.3 billion board feet in 1999. The forecast is for roughly 2.3 billion board feet through 2003. Rising stumpage prices through 1994 approach \$500 per 1,000 board feet and yield rapidly increasing harvest values. Between 1994 and 1999 both volume and stumpage prices decline and harvest value falls below \$1 billion. The forecast assumes a further decline in stumpage value in 2000 and constant prices thereafter.

Chart 4 below repeats harvest values in billions of dollars and adds privilege tax liability in units of \$50 million. Tax liability fluctuates about \$50 million (multiply the vertical scale by 5) through 1995 as decreasing privilege tax rates offset increased harvest value. Between 1996 and 1999, the privilege tax rate is constant at 3.2% and tax liability falls proportionately with harvest value. For 2000 through 2002 the forecast assumes that 91% of the harvest is from forestland OFLP, 7% is from forestland under the old program, and 2% is from reclassified land (farmland, residential, etc.). In 2003, the percentages are 95.5%, 2.5%, and 2%; respectively.

The Department of Revenue collects the tax and determines the distribution to local governments by formula and transfers the revenue to county treasurers. Prior to 2000, county distributions depended on forestland and harvest value histories and distributions to districts within counties depended on these factors plus the district property tax rate histories. Beginning in 2000, any tax paid under OFLP is divided between the State School Fund (93%) and the Community College Support Fund (7%). Tax paid under the 1993 program is divided between schools (65%) and county governments (35%). The school portion is divided between the State School Fund (93%) and the Community College Support Fund (7%). The distributions to western Oregon counties are in proportion to forestland value.

Chart 4: W.O. Privilege Tax
Harvest Value & Tax Liability



Property tax levies submitted by local taxing districts were reduced by estimated privilege tax revenues (timber tax offsets) prior to 1997-98. Measure 50 ended this offset process for school districts and created an offset tax rate for other districts. The offset rate reduces the district's prime rate. Estimates are required because actual fiscal year privilege taxes are not known at the time levies are submitted. To assure that revenues transferred to the districts by the county treasurers are equal to the offset amounts, the legislature established reserve accounts and required county treasurers to hold any distributions in excess of the offset amounts to be distributed in the following year. The 1999 legislation ends this complicated process in 2001-02 by holding the county share for distribution in August of the following fiscal year. Thus the actual distribution is known when the county levy is submitted. As privilege tax revenue declines, the offset rate will decline and the tax rate imposed by the district will increase.

Actual privilege tax revenue distributions to the counties (not offset amounts) are shown in table B1 of Appendix B. In 1990-91, \$46.2 million was distributed. Of this 86.8% went to schools (75.5% to k-12 schools, 4.7% to education service districts, and 6.6% to community colleges), 9.1% went to county governments and 4.1 % went to all other taxing districts. These distribution percentages were fairly stable through 1996-97, shifting slightly in favor of other districts. In 1997-98, Measure 50 eliminated the calculation of district tax rates used in the distribution

formula. As a result, the district prime rates were used in computing the 5-year average of district tax rates. This produced a gradual decline in the school share through 2000-01 to about 75%. The 1999 legislation ends this process in 2001-02.

Eastern Oregon (highlights differences from treatment in western Oregon)

In 1990, harvests from private forestland in eastern Oregon (2,040,000 acres) paid a severance tax at the rate of 5% of immediate harvest value. This tax was enacted in 1961 in lieu of property tax on the value of standing timber. Roughly 114,000 acres was classified as reforestation lands and paid an additional rate (4.5% in 1990) following the repeal of the Forest Fee & Yield Tax in 1977. This additional rate was scheduled to decrease 0.25% per year, falling to zero in 2008. The 5% rate was in effect through June 30, 1991. As with western Oregon, the 1991 and 1993 Legislatures redefined the severance tax as a privilege tax and reduced the tax rate and the additional tax rate on reforestation lands. By 1996 harvests from all private forestland in eastern Oregon paid a privilege tax at a rate of 1.8% of immediate harvest value. The new program (OLFP) created by the 1999 Legislature also applies to eastern Oregon (see above). Harvests from forestland, under OLFP, pay privilege taxes at reduced rates for 2000 through 2002 and are exempt from privilege taxes thereafter. Harvests from small ownerships taxed under the 1993 Program will continue to pay privilege tax at a rate of 1.8% (or as modified by the 2001 Legislature).

The Department of Revenue publishes Immediate Harvest Value Tables for each calendar year. These show value per thousand board feet (or by ton) by species and grade for a number of value areas in each eastern Oregon County. The method of calculating immediate harvest value has remained constant over this period. Chart 5 at right shows the volume and taxable value of harvests in eastern Oregon subject to privilege taxes. Volume is shown in units of 2 billion board feet (double the vertical scale values) and value in billions of dollars.

Harvest volumes increase and then decline primarily because of the pine beetle infestation, but are around half a billion board feet through 1999 and for the forecast through 2003. Immediate harvest values increase through 1994 causing taxable value to rise rapidly. Declining harvest volumes and prices reduce taxable value through 1999. The forecast assumes a further decrease in prices in 2000 but stable prices thereafter.

Chart 6 at right repeats harvest value in billions of dollars and adds privilege tax liability in units of \$50 million (multiply the vertical scale values by

Chart 5: E.O. Privilege Tax
Harvest Volume & Value

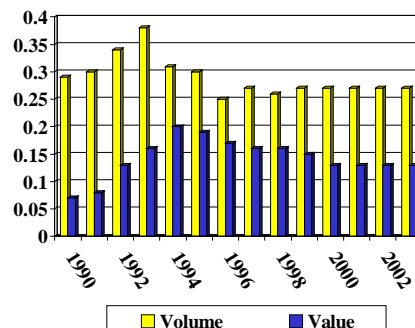
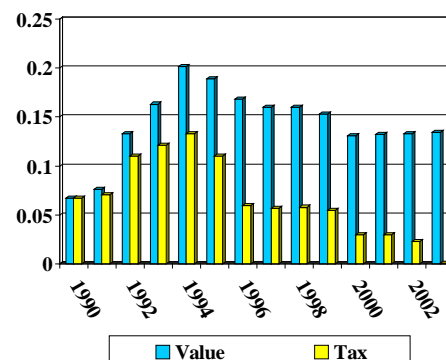


Chart 6: E.O. Privilege Tax
Harvest Value & Tax Liability



5). Tax liability increases through 1994, but more slowly than taxable value because of declining privilege tax rates. In 1995 and 1996, tax liability falls rapidly as both harvest value and the privilege tax rate fall. Privilege tax rates are constant at 1.8% through 1999 and tax liability is proportional to taxable value. For 2000 through 2002 the forecast assumes that 91% of the harvest is from forestland under OFLP, 7% is from forestland under the old program, and 2% is from reclassified land (farmland, residential, etc.). In 2003, the percentages are 95.5%, 2.5%, and 2%; respectively.

The Department of Revenue collects the tax and distributes the revenue to county treasurers by formula. Prior to 2000, county distributions depended on the appraised value of standing timber on the 1964 tax rolls and county assessors based on these same values determine distributions to districts within counties. Beginning in 2000, the distribution is the same as for western Oregon. Any tax paid under OFLP is divided between the State School Fund (93%) and the Community College Support Fund (7%). Tax paid under the old program is divided between schools (65%) and county governments (35%). The school portion is divided between the State School Fund (93%) and the Community College Support Fund (7%). The distributions to eastern Oregon counties are in proportion to forestland value.

Prior to 1997-98, property tax offsets also depended on the 1964 value of standing timber but were otherwise similar to those for western Oregon. The changes under Measure 50 are the same as for western Oregon (see above).

Actual privilege tax revenue distributions to the counties (not offset amounts) are shown in table B2 of Appendix B. In 1990-91, \$4.2 million was distributed. Of this 79.4% went to schools (64.4% to k-12 schools, 12.1% to ESD's, and 2.9% to community colleges), 17.1% went to county governments and 3.5 % went to all other taxing districts. These distribution percentages were fairly stable through 1996-97, though the county's share fell slightly in favor of schools and other districts. In 1997-98, Measure 50 eliminated the calculation of district tax rates used in the distribution formula. As a result, the county assessors used the district prime rates in computing the offset amounts. This reduced the school share through 2000-01 to about 50%. The 1999 legislation ends this process in 2001-02.

Property Tax

Western Oregon Generally

Private forestland is taxed as part of the local property tax system. All Forestland (5.5 million acres) is assessed based on its value in forest use (specially assessed value) with one exception. Forestland under the Small Tract Option (0.2 million acres) is assessed at its productivity value (discussed below). Prior to 1995-96 assessed value was 100% of specially assessed value (assessed value was an increasing percent of specially assessed value for the 860,000 acres of reforestation lands formerly under the Forest Fee and Yield Tax). For 1995-96 and 1996-97 it was assessed at 20% of its specially assessed value. Since 1997-98 it has been assessed the lesser of 20% of its specially assessed value or its maximum assessed value (see below). The OFLP created by the 1999 Legislature is required for forestland in large ownerships (5,000 acres or more) and optional for forestland in smaller ownerships. Under OFLP, for 2000-01 through 2002-03, assessed value is the lesser of 75% of specially assessed value or maximum assessed value (redefined). Beginning in 2003-04, assessed value is the lesser of specially assessed value or maximum assessed value (redefined). Forestland remaining in the 1993 Program will continue to be assessed at the lesser of 20% of its specially assessed value or its maximum assessed value.

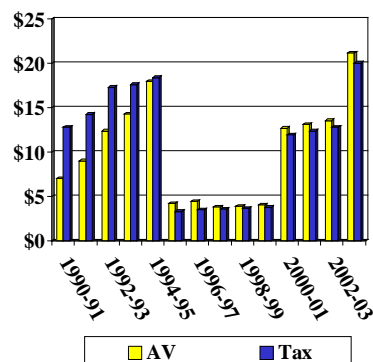
The method of determining specially assessed values has also changed over this period. Values are determined for 8 site classes (FA through FG & FX), which measure soil productivity. Prior to 1995-96 these values also varied by market area and by value zone and were determined by indexing values set for 1977 by the Oregon Supreme Court. The 1993 Legislature set new values for each site class in statute, which apply to all areas of western Oregon. These are indexed annually and took effect in 1995-96. The indexes used over this period also changed. The 1999 Legislature required the Department of Revenue to convene working groups to review these values, to develop a process for class action appeal of forestland values, and to review the method of taxing forestland not covered by the new program.

Maximum assessed values were imposed by Measure 50 in 1997-98. For 1997-98, they were set at 90% of the 1995-96 assessed value (18% of 1995-96 specially assessed value) and increase 3% per year thereafter. For forestland OFLP, the 1997-98 maximum assessed value base is redefined as 75% of 1995-96 specially assessed value for 2000-01 through 2002-03 and at 100% beginning in 2003-04.

Chart 7 at right shows the growth in assessed value of forestland in western Oregon (excluding Small Tract Option) and the property taxes on these lands. Assessed value is shown in units of \$100,000,000 and tax is in units of \$1,000,000.

Amounts through 1999-00 are estimated based on the site class distribution of forestland and the average tax rates that apply to rural properties. Amounts shown after 1999-00 are based on forecasts of harvest volume and value and on the amount of forestland that will be taxed under the new program. Assessed value increased through 1994-95, despite a declining harvest

Chart 7: W.O. Property Tax
Assessed Value and Tax



volume, because of rising stumpage values. During this period, property tax rates declined under Measure 5, so property tax increased more slowly than assessed value. For 1995-96 and 1996-97, specially assessed value continues to grow, but assessed value drops to 20% of specially assessed value. Between 1997-98 and 1999-00, assessed value is reduced and then grows more slowly because it is limited to maximum assessed value. The forecast assumes that about 75% of forestland will be in the new program for 2000-01 through 2002-03 and 91% in 2003-04.

Small Tract Option Tax

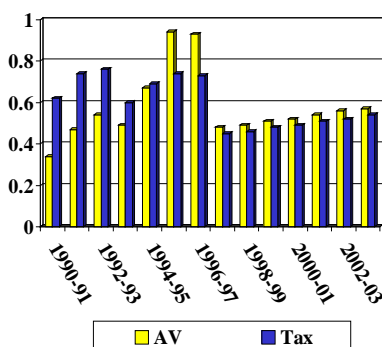
Forestland under the Small Tract Option is assessed based on its productivity value. Prior to 1997-98 these values were determined for 5 site classes by the Department of Forestry using an income approach. The average productivity value for forestland in this program increased from \$177 per acre in 1990-91 to \$509 in 1996-97. The 1997 Legislature redefined productivity value as the specially assessed values determined by the Department of Revenue. This required matching Forestry's site classes to Revenue's site classes. In this process, the Legislature redefined maximum assessed value to be 90% of the 1995-96 specially assessed values. Since harvests from these lands are exempt from privilege taxes, they were assessed at 100% of their productivity value prior to 1997-98 and have been assessed at the lesser of their productivity value or their maximum assessed value since 1997-98.

Chart 8 at right shows the growth in assessed value and property tax for forestland in the Small Tract Option. Assessed value is shown in units of \$100,000,000 and tax is in units of \$1,000,000. Amounts through 1999-00 are estimated based on the site class distribution of forestland and the average tax rates that apply to these properties. Amounts shown after 1999-00 are based on expected tax rates and a 3% per year increase in maximum assessed value.

Despite the slight decline in the number of acres in this program, increasing stumpage prices produced generally increasing productivity values through 1996-97. During this period, property taxes are

roughly constant as property tax rates decline under Measure 5. In 1997-98, assessed value is reduced because productivity value is redefined as specially assessed value under the Department of Revenue's site classes and because of the limit on assessed value imposed under Measure 50. Growth after 1997-98 assumes a 3% per year increase in assessed value and slightly increasing property tax rates as timber tax offsets decline.

**Chart 8: W.O. Small Tract
Assessed Value and Tax**



Eastern Oregon (highlights differences from treatment in western Oregon)

Like western Oregon, private forestland in eastern Oregon is taxed as part of the local property tax system. Prior to 1995-96 assessed value was 100% of specially assessed value (assessed

value was an increasing percent of specially assessed value for the 114,000 acres of reforestation lands formerly under the Forest Fee and Yield Tax). For 1995-96 and 1996-97 it was assessed at 20% of its specially assessed value. Since 1997-98 it has been assessed at the lesser of 20% of its specially assessed value or its maximum assessed value. OFLP created by the 1999 Legislature is required for forestland in large ownerships (5,000 acres or more) and optional for forestland in smaller ownerships. Under OFLP, for 2000-01 through 2002-03, assessed value is of the lesser 75% of specially assessed value or maximum assessed value. Beginning in 2003-04, assessed value is the lesser of specially assessed value or maximum assessed value. Forestland that is not taxed under OFLP will continue to be taxed under the 1993 Program or as provided by the 2001 Legislature.

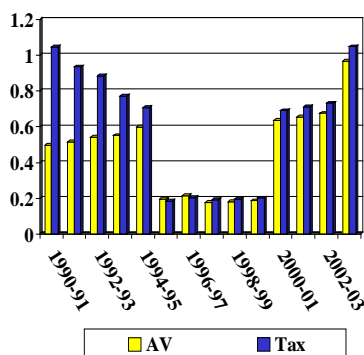
The definition of specially assessed value has varied over this period and is slightly different than those that apply to western Oregon. One value applies to all forestland in eastern Oregon with no distinction by site class. Prior to 1995-96, specially assessed value was based on indexing the \$25 per acre value set by the legislature for 1982. The 1993 Legislature set a statutory value of \$47 per acre, which is indexed, based on immediate harvest value. The review of forestland values required by the 1999 Legislature applies to both eastern and western Oregon (see above).

Maximum assessed values in eastern Oregon are the same as for western Oregon (see above).

Chart 9 at right shows the growth in assessed value and property tax on eastern Oregon forestland from 1990-91 through 2003-04. Assessed value is shown in units of \$100,000,000 and tax is in units of \$1,000,000. Amounts through 1999-00 are estimated based on assessed value of forestland and the average tax rates that apply to rural properties. Amounts shown after 1999-00 are based on forecasts of harvest volume and value and on the amount of forestland that will be taxed under OFLP. Assessed values grew through 1994-95 but more slowly than in western Oregon, primarily because of differences in the indexes of forestland value. Property taxes are higher, relative to assessed value,

because property tax rates are higher in eastern Oregon. They show the same decreasing trend, as on the West Side, because property tax rates fall under Measure 5. Between 1995-96 and 1999-00 both assessed value and property tax fall because assessed value is reduced to 20% of specially assessed value. In 1997-98, assessed value is reduced under Measure 50 and growth through 1999-00 is limited to 3% per year. The forecast of assessed value assumes that 84% of forestland in eastern Oregon will be under OFLP for 2000-01 through 2002-03 and 90% in 2003-04. Tax rates are increased to reflect the reduction in timber tax offsets (see below).

Chart 9: E.O. Property Tax
Assessed Value and Tax



Shared Revenue from Public Forests

State privilege (severance) tax laws and property taxes do not apply to publicly owned forestland or timber harvested from those lands. Instead, local governments get, under federal and state law, a share of the revenue earned from management of these lands. Most of this revenue is from timber sales.

State Forest Lands

The State Forester manages 786,000 acres of forestland. There are two sources for this land. One is retained land grants of 136,000 acres from the federal government for education. These are called Common school lands. The other is former county land of 654,000 acres, which were deeded to the state in trust. These are called Board of Forestry lands.

Land grant forestland is the remnants of the federal lands dedicated for the support of public schools. Revenue from timber sales on these lands is constitutionally dedicated to the Common School Fund. Forestry's expenses for managing these lands are paid from Common School Fund earnings. Chart 10 shows the revenue paid into the Common School Fund for fiscal years 1990-91 through 1999-00. The forecast through 2003-04 assumes \$24 million a year.

The Common School Fund is like an endowment fund where the revenue is invested and only the earnings of the fund are distributed. The market value of the Common School Fund was about \$750 million on December 31, 1999. Fund earnings are distributed first to the counties on the basis of school age children (age 4 to 20) and then to school districts on the basis of average daily membership. Annual distributions fell from about \$14 million in 1990-91 to \$9.3 million in 1994-95 and then grew to about \$10.5 million in 1998-99. The 1999 Legislature required revisions in the State Land Board's distribution policies, which were intended to increase distributions by about \$25 million a year. Preliminary data show \$22.8 million distributed in 1999-00 and \$38 million for distribution in 2000-01.

Chart 10: State Lands
Common School Fund

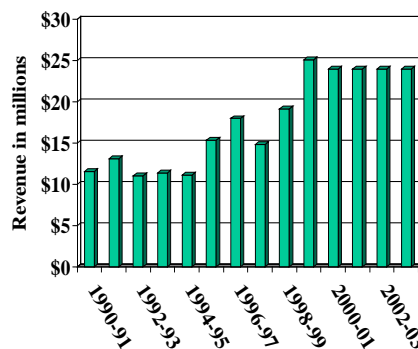
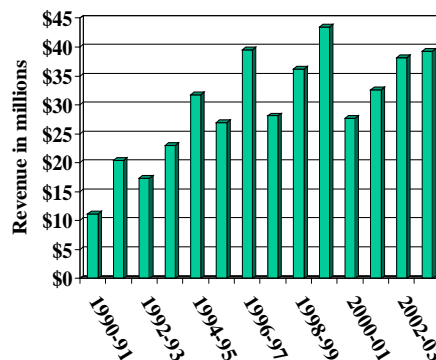


Chart 11: County Trust Lands
Local Government Revenue



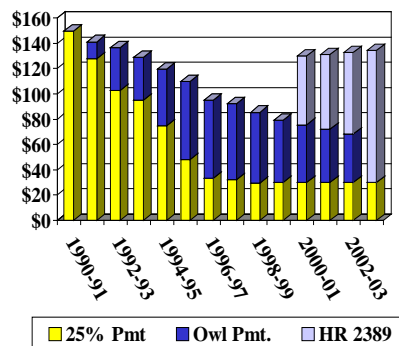
Counties foreclosed on some private forestland in the 1930's and 40's that had been burned or cut over. The counties in turn conveyed this land to the state for reforestation in exchange for a share of revenue generated from these lands. Revenue, after deductions for protection, development, and management costs is distributed to the counties where the land generating the revenue is located. Throughout this period 36.25% of total revenues have been required, primarily management expense by Forestry with the remaining 63.75% distributed to counties. Counties keep at least 10% for management and supervision. The County School Funds are credited with 25% of the balance and the remaining 75% is allocated among taxing districts with trust lands based on district tax rates. Chart 11 on the previous page shows the revenues distributed to counties for 1990-91 through 1999-00. The forecast through 2003-04 is based on preliminary management plans as of April 1, 2000. The distribution by county is shown in table B3 of Appendix B for 19990-91 and the three latest years.

U.S. Forest Service lands

The U.S. Forest Service shares revenue from timber sales with counties in effect as a payment in lieu of property tax. Revenues from each federal forest reserve are allocated to the counties based on acres in the reserve. Under a federal Act of May 23, 1908, counties receive 25% of the receipts from timber sales on the national forest land in the county. To forestall the precipitous fall in these revenues in the early 1990's following harvest reductions primarily related to the Endangered Species Act, the federal government provided, in the 1993 Omnibus Budget Reconciliation Act, for an alternative payment plan for fiscal years 1994 through 1998, which became a minimum payment for 1999 through 2003. This plan applies to

forest reserves affected by the Spotted Owl. Minimum payments to the counties, from these reserves, are a declining percentage of the average payments for fiscal years 1986 through 1990. The percentage was 85% for 1994 and decreases 3% per year through 2003. The Secure Rural Schools and Community Self-Determination Act (HR 2389), passed by Congress in October 2000, repeals the Owl guarantees and sets 2000-01 payments equal to the higher of the 25% payment or the average of the three highest payments between 1984 and 1999. This Act applies to all federal forest reserves, whether or not affected by Spotted Owl legislation. The amounts for 2000-01 are indexed through 2005-06 by half the increase in the U.S. Department of Labor's CPI for rural areas. Chart 12 above shows payments to Oregon counties by the U.S. Forest Service from 1990-91 through 1998-99 and estimated payments through 2003-04 based on HR 2389. The amounts shown do not include an estimated 15% dedicated by the Act to Resource Management Plans. The Owl payments, in the chart, are the amount in excess of the 25% payments under the 1993 Act through 1999-00 and what they would have been thereafter. County receipts are split in two ways (there are statutory exceptions for several counties). The county road funds receive 75%. The county school funds receive 25%, which is distributed based on the number of students. These revenues are not offset against property tax levies. The distribution of U.S. Forest Service payments by county is shown in table B4 of Appendix B.

Chart 12: Federal Payments
U.S. Forest Service



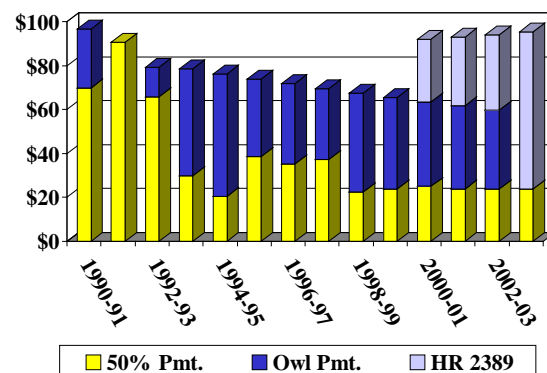
Oregon and California Railroad Lands (O&C)

The Oregon and California Railroad lands are remnants of a huge land grant made in 1869 to a private company for building a north-south railroad through western Oregon. Lands reverted to the federal government when the company violated the terms of the grant. There are about 2.5 million acres in 18 counties, which are all in western Oregon except for Klamath County. The greatest concentration of land is in Coos, Douglas, Lane, Jackson, and Josephine counties. The land is primarily administered by the Bureau of Land Management (BLM). Land in national forests is managed by the U.S. Forest Service.

Under a 1937 federal Act, counties receive 50% of the revenues from timber sales on lands in the county. These are effectively payments in lieu of property and privilege taxes. The 1993 and 2000 federal Acts also apply to forestland managed by BLM (see the U.S. Forest Service Lands above, for a discussion of these Acts). Thus the federal government has provided alternative or minimum payments as a declining percentage of average payments between 1986 and 1990 through 1999-00 and will make minimum payments through 2005-06 based on the average of the three highest payments between 1986 and 1999.

Chart 13 shows payments to Oregon counties by BLM from 1990-91 through 1999-00 and estimated payments through 2003-04 based on HB 2389. The Owl payments, in the chart, are the amount in excess of the 50% payments under the 1993 Act through 1999-00 and what they would have been thereafter. The distribution to each county is a fixed percent of the total based on the adjusted 1915 assessed value of O&C land. There are no requirements for redistribution to local governments within the counties. This county revenue is a general budget resource and not offset against the county's property tax levy. The distribution of BLM O&C payments by county is shown in table B5 of Appendix B.

Chart 13: BLM Payments
O & C Land Grants



Coos Bay Wagon Road

The Coos Bay Wagon Road (CBWR) is similar to the O&C situation. These lands were granted by the federal government to the Coos Bay Wagon Road Company to help finance building a wagon road between Coos Bay and Roseburg. Land reconveyed to the federal government is managed by BLM. There are about 75,000 acres in Coos and Douglas counties.

The CBWR lands were omitted from the 1937 Act which covers O&C lands. Under a 1939 Act, the federal government makes in lieu tax payments to local taxing districts. Unlike federal payments from Forest Service and O&C land, the amount of payment is equal to what property taxes would be on forestland value plus what privilege taxes would be on timber harvested. Thus the payment to each district depends on its tax rate, the value of forestland in the district, and the value of timber harvested in the district. A separate commission was established to determine

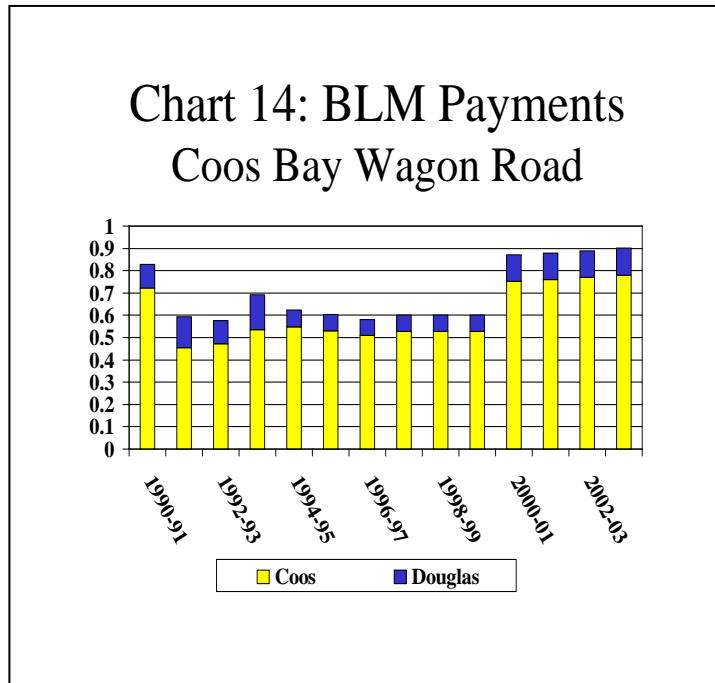
the assessed value of forestland and the value of timber harvested. CBWR lands were not covered by the 1993 Act but are included in the 2000 Act (see the U.S. Forest Service Lands above, for a discussion of these Acts)

Chart 14 at right shows BLM payments to Coos and Douglas counties for Coos Bay Wagon Road Lands. Payments through 1996-97 are actual amounts. The forecast assumes \$600,000 per year through 1999-00. For 2000-01 through 2003-04, the amounts are estimates of the payments under HR 2389.

District revenue is a general budget resource and not offset against each district's property tax levy.

Public Domain Land

When Oregon became a state in 1859, certain federal land was retained under Public Domain designation. This is former homestead land that is now managed by BLM. Receipts from this land include timber, land, and material sales. The federal government specified in the Admissions Act (to the Union) that 5% of the net receipts from this land is to be distributed to the state. Currently 20% is set aside for management expense, so the state receives 4% of total receipts. These payments are not covered by the 2000 Act. Oregon statutes dedicate this revenue to counties based on the square mile area of each county. The law stipulates that the county is to use its receipts for public roads and bridges. County receipts from public domain forestland average about half a million dollars a year.



Forest Products Harvest Taxes

Forest Products Harvest Taxes are imposed per 1,000 board feet of timber harvested from all lands in Oregon including public and private forestland and land otherwise classified (except harvests of short-rotation hardwoods). They include a number of tax rates levied to fund separate state agency programs and the Oregon Forest Resources Institute. The rates effective for calendar 2001 harvests include:

- \$0.67 to fund forest research at Oregon State University,
- \$0.00 to support the Oregon Forest Land Protection Fund (OFLPF),
- \$1.08 for various Department of Forestry programs (primarily the Forest Practices Act),
- \$0.79 to fund the Oregon Forest Research Institute (subject to Board action), and
- \$0.15 to fund Department of Forestry assistance to nonindustrial private landowners.

The rate shown for OFLPF in 2001 is zero because the Emergency Fire Cost Committee determined that the Fund balance in February 2000 exceeded the required \$15 million minimum balance. The statutory rate is \$0.50, which may be exceeded to maintain the minimum balance or waived for the following calendar year when the Fund balance exceeds the minimum.

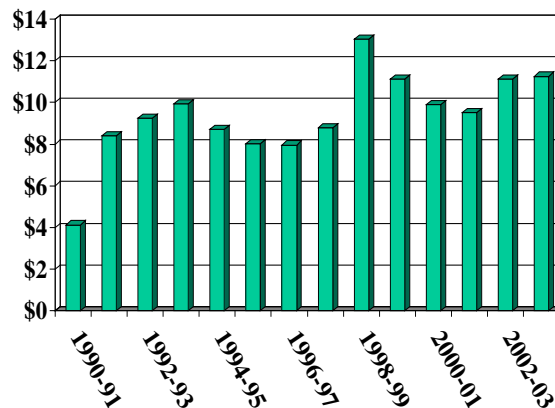
Forest Products Harvest Taxes do not go to local governments but are included in this report to help complete the picture of revenue from timber.

Chart 15 at right shows total Forest Products Harvest Taxes for 1990-91 through 1999-00 and forecast revenues thereafter. The forecast assumes a \$0.50 rate for OFLPF in calendar year 2002 and subsequent years.

Tax rates have increased 4.76 fold over this period. Revenue has increased much more slowly because of the decline in the volume of timber harvested, primarily timber harvested from U.S. Forest Service and BLM managed lands.

The legislature adjusts these tax rates biannually to meet the needs of the programs funded. Thus, annual variations reflect the changing nature of programs funded, the level of funding for these programs, and unexpected variations in harvest volume.

Chart 15: Other Revenue
Forest Products Harvest Taxes



APPENDIX A

Local Government Revenue from Timber in Oregon

Table A1: Revenue From Privately Owned Forestland

Fiscal Year	Property Tax			Severance or Privilege Tax			Total Private Forest Land
	Western Oregon	Small Tract	Eastern Oregon	Western Oregon	Eastern Oregon	Total	
1990-91	\$ 13,576,001	\$ 617,654	\$ 1,046,157	\$ 54,427,234	\$ 3,658,417	\$ 58,085,651	\$ 73,325,463
1991-92	15,151,704	741,557	934,436	49,835,376	4,500,574	54,335,950	71,163,646
1992-93	18,376,592	755,058	883,609	45,326,106	6,508,663	51,834,769	71,850,027
1993-94	18,720,952	604,859	772,142	56,298,605	7,941,012	64,239,617	84,337,569
1994-95	19,517,773	691,848	706,765	61,557,996	6,849,282	68,407,278	89,323,664
1995-96	3,513,039	735,242	183,904	49,931,936	5,183,531	55,115,467	59,547,652
1996-97	3,724,824	731,708	203,120	40,903,334	2,881,821	43,785,155	48,444,807
1997-98	3,778,551	449,669	190,652	34,593,652	2,709,291	37,302,943	41,721,815
1998-99	3,891,908	463,159	196,371	32,974,010	2,954,982	35,928,992	40,480,430
1999-00	4,008,665	477,054	202,262	29,948,793	2,730,213	32,679,006	37,366,987
2000-01	12,940,633	492,680	689,573	20,987,924	2,689,688	23,677,612	37,800,498
2001-02	13,412,991	508,815	710,260	15,863,788	1,310,816	17,174,604	31,806,670
2002-03	13,879,641	524,615	731,568	9,483,298	650,710	10,134,008	25,269,833
2003-04	21,850,035	542,453	1,047,181	624,766	60,901	685,667	24,125,336

Source: Legislative Revenue Office

Table A2: Revenue from Publicly Owned Forestland

Fiscal Year	U.S. Forest Service	Bureau of Land Management	State Managed Lands		Coos Bay Wagon Road	Total Public Forest Land	Total All Forest Land
			State Owned	County Trust			
1990-91	\$ 149,671,845	\$ 96,602,913	\$ 11,542,121	\$ 11,163,898	\$ 828,958	\$ 269,809,735	\$ 343,135,198
1991-92	141,176,614	90,651,931	13,118,631	20,371,902	593,143	265,912,221	337,075,867
1992-93	136,540,593	78,586,460	11,036,233	17,283,977	574,786	244,022,049	315,872,076
1993-94	128,866,867	78,586,460	11,377,936	23,030,584	690,214	242,552,061	326,889,631
1994-95	119,791,067	76,228,866	11,117,621	31,803,713	624,858	239,566,125	328,889,789
1995-96	109,647,413	73,942,000	15,323,965	26,986,187	602,804	226,502,369	286,050,021
1996-97	95,238,953	71,723,740	17,970,974	39,491,154	580,751	225,005,572	273,450,379
1997-98	92,242,534	69,572,028	14,849,020	28,108,940	600,000	205,372,522	247,094,337
1998-99	85,505,450	67,484,867	19,099,362	36,186,156	600,000	208,875,835	249,356,265
1999-00	79,261,910	65,460,321	25,109,930	43,486,540	600,000	213,918,701	251,285,689
2000-01	129,867,893	91,110,270	24,000,000	27,693,000	913,033	273,584,196	311,384,694
2001-02	131,195,398	92,041,595	24,000,000	32,567,897	922,366	280,727,256	312,533,926
2002-03	132,809,995	93,174,334	24,000,000	38,214,828	933,717	289,132,874	314,402,707
2003-04	134,516,492	94,371,546	24,000,000	39,236,586	945,715	293,070,339	317,195,676

Source: Compiled by LRO from various state and federal sources.

APPENDIX B

County Distributions of Local Government Revenue from Timber

Table B1: Western Oregon Privilege Tax

County	1990-91	1996-97	1997-98	1998-99	Three Year Average	
					Amount	Percent
Benton	\$ 1,296,070	\$ 1,156,560	\$ 1,015,288	\$ 790,045	\$ 987,298	2.9%
Clackamas	1,467,354	1,189,402	1,008,337	747,045	981,595	2.8%
Clatsop	2,431,197	2,717,434	2,273,691	1,675,729	2,222,285	6.4%
Columbia	4,150,179	3,692,784	3,136,422	2,369,165	3,066,124	8.9%
Coos	3,969,742	4,004,306	3,374,276	2,642,956	3,340,513	9.7%
Curry	721,725	1,026,606	790,589	584,965	800,720	2.3%
Douglas	7,518,495	5,667,221	4,627,235	3,463,348	4,585,935	13.3%
Hood River	181,962	222,992	151,021	119,336	164,450	0.5%
Jackson	2,404,808	1,298,369	993,635	791,088	1,027,697	3.0%
Josephine	202,221	461,057	379,166	286,376	375,533	1.1%
Lane	8,289,440	6,765,140	5,818,389	4,526,002	5,703,177	16.5%
Lincoln	2,798,117	3,083,127	2,402,367	1,621,093	2,368,862	6.9%
Linn	4,395,825	3,009,780	2,632,070	1,957,695	2,533,182	7.3%
Marion	689,719	707,234	621,666	473,724	600,875	1.7%
Multnomah	235,193	250,344	202,765	134,553	195,887	0.6%
Polk	2,147,823	2,131,961	1,874,899	1,388,370	1,798,410	5.2%
Tillamook	1,108,109	1,344,347	1,120,879	873,210	1,112,812	3.2%
Washington	1,135,557	1,561,033	1,480,712	1,165,669	1,402,471	4.1%
Yamhill	1,092,463	1,468,538	1,300,926	917,097	1,228,854	3.6%
Total	\$ 46,235,999	\$ 41,758,235	\$ 35,204,333	\$ 26,527,466	\$ 34,496,678	100.0%

Source: Department of Revenue, Oregon Timber Tax Profiles

Table B2: Eastern Oregon Privilege Tax*

County	1990-91	1994-95	1995-96	1996-97	Three Year Average	
					Amount	Percent
Baker	\$ 65,078	\$ 189,269	\$ 136,524	\$ 102,668	\$ 142,820	2.2%
Crook	162,650	332,652	244,164	183,213	253,343	3.9%
Deschutes	125,000	340,031	171,550	158,997	223,526	3.5%
Gilliam	1,719	3,211	2,353	1,385	2,316	0.0%
Grant	155,365	399,301	224,554	169,347	264,401	4.1%
Harney	18,465	25,390	19,645	13,616	19,550	0.3%
Jefferson	95,667	172,664	130,753	98,858	134,092	2.1%
Klamath	1,380,760	2,822,938	2,082,623	1,564,860	2,156,807	33.4%
Lake	981,060	2,009,367	1,455,699	1,097,899	1,520,988	23.6%
Malheur	2,326	4,714	3,463	2,636	3,604	0.1%
Morrow	139,423	283,116	203,654	153,347	213,372	3.3%
Sherman	-	-	-	-	-	0.0%
Umatilla	217,443	471,650	273,818	273,819	339,762	5.3%
Union	235,759	480,204	353,958	264,994	366,385	5.7%
Wallowa	245,258	499,259	361,600	270,262	377,040	5.8%
Wasco	170,162	231,787	152,714	113,412	165,971	2.6%
Wheeler	165,776	368,514	250,911	186,529	268,651	4.2%
Total	\$ 4,161,911	\$ 8,634,067	\$ 6,067,983	\$ 4,655,842	\$ 6,452,631	100.0%

Source: Department of Revenue, Oregon Timber Tax Profiles

* Latest years available.

Table B3: Board of Forestry Payments to Counties*

County	1990-91	1997-98	1998-99	1999-00	Three Year Average	
	\$	\$	\$	\$	Amount	Percent
Benton	\$ 739,698	\$ 630,119	\$ 2,255,339	\$ 1,611,175	\$ 1,498,878	4.2%
Clackamas	334,734	94,878	1,908,544	1,730,742	1,244,721	3.5%
Clatsop	3,135,276	6,999,294	8,929,290	14,184,226	10,037,603	27.9%
Columbia	507,298	45,781	279,962	1,081,935	469,226	1.3%
Coos	7,440	1,787	61	89,587	30,478	0.1%
Douglas	7,343	120,991	679,218	984,728	594,979	1.7%
Josephine	5,000	27,093	-	3,674	10,256	0.0%
Klamath	234,338	274,219	214,649	446,810	311,893	0.9%
Lane	125,930	814,787	2,424,647	920,633	1,386,689	3.9%
Lincoln	1,723,103	3,546,672	3,911,423	1,871,381	3,109,825	8.7%
Linn	334,082	3,033,166	3,367,199	3,289,989	3,230,118	9.0%
Marion	13,094	2,095,437	1,927,780	973,096	1,665,438	4.6%
Polk	498,042	852,628	278,604	311,071	480,768	1.3%
Tillamook	3,083,466	7,597,873	7,694,455	11,108,577	8,800,302	24.5%
Washington	415,054	1,974,215	2,314,985	4,878,917	3,056,039	8.5%
Total	\$ 11,163,898	\$ 28,108,940	\$ 36,186,156	\$ 43,486,540	\$ 35,927,212	100.0%

Source: Oregon Department of Forestry

* Based on timber sales from state owned forest lands. Does not include Payments to the Common School Fund.

Table B4: U.S. Forest Service Payments to Counties

County	1990-91	1996-97	1997-97	1998-99	2000-01: HR 2389	
					Amount	Percent
Baker	\$ 1,566,687	\$ 517,052	\$ 525,109	\$ 229,593	\$ 1,017,447	0.8%
Benton	339,360	329,652	316,510	291,519	395,359	0.3%
Clackamas	6,121,435	4,700,139	4,521,120	4,155,441	5,656,804	4.4%
Clatsop	-	-	-	-	-	0.0%
Columbia	-	-	-	-	-	0.0%
Coos	618,195	533,311	512,632	472,742	633,248	0.5%
Crook	3,640,527	602,039	482,702	117,427	2,889,782	2.2%
Curry	4,667,605	3,732,291	3,590,220	3,304,152	4,399,482	3.4%
Deschutes	4,175,756	3,191,875	3,072,339	2,855,243	3,777,317	2.9%
Douglas	24,278,440	14,816,603	14,247,538	13,122,180	17,809,538	13.7%
Gilliam	-	-	-	-	-	0.0%
Grant	10,810,104	3,050,017	2,281,682	1,034,054	8,116,942	6.3%
Harney	4,318,697	985,435	673,062	265,765	3,331,623	2.6%
Hood River	2,542,447	1,915,370	1,841,677	1,692,814	2,335,010	1.8%
Jackson	4,532,283	4,228,807	4,084,201	3,763,238	5,051,406	3.9%
Jefferson	748,815	576,923	554,074	516,413	680,298	0.5%
Josephine	2,518,474	2,038,252	1,960,760	1,808,067	2,407,014	1.9%
Klamath	13,300,540	9,846,949	9,735,144	8,589,535	13,518,539	10.4%
Lake	6,191,279	1,341,880	1,967,682	956,147	4,469,003	3.4%
Lane	29,502,433	22,407,274	21,548,517	19,845,584	26,852,201	20.7%
Lincoln	3,570,204	3,469,529	3,337,422	3,073,907	4,161,603	3.2%
Linn	10,125,217	7,436,613	7,162,170	6,596,806	8,953,603	6.9%
Malheur	11,199	3,539	3,281	1,459	7,591	0.0%
Marion	3,764,604	2,804,971	2,706,152	2,493,017	3,365,713	2.6%
Morrow	432,619	163,272	252,615	98,315	298,954	0.2%
Multnomah	887,772	711,518	685,880	630,401	839,896	0.6%
Polk	6,617	6,427	6,171	5,684	7,710	0.0%
Sherman	-	-	-	-	-	0.0%
Tillamook	1,917,080	1,848,617	1,774,919	1,634,561	2,224,532	1.7%
Umatilla	1,181,512	445,750	681,988	266,237	815,651	0.6%
Union	1,317,546	464,411	567,843	238,774	833,009	0.6%
Wallowa	2,328,159	352,592	536,869	446,592	1,112,113	0.9%
Wasco	2,523,439	1,979,189	1,904,381	1,768,852	2,347,204	1.8%
Washington	-	-	-	-	-	0.0%
Wheeler	1,202,227	224,816	214,520	62,564	941,865	0.7%
Yamhill	530,574	513,840	493,356	454,401	617,440	0.5%
Total	\$ 149,671,845	\$ 95,238,953	\$ 92,242,534	\$ 80,791,484	\$ 129,867,893	100.0%

Source: Association of Oregon Counties. HR 2389 from Senator Ron Wyden.

Table B5: BLM Payments to Counties for O&C Lands

County	1990-91	1996-97	1997-97	1998-99	2000-01: HR 2389	
	\$	\$	\$	\$	Amount	Percent
Benton	2,714,540	2,015,437	1,954,974	1,818,583	2,564,479	2.8%
Clackamas	5,361,460	3,980,668	3,861,248	3,591,864	5,065,023	5.6%
Columbia	1,990,020	1,477,509	1,433,184	1,333,196	1,879,990	2.1%
Coos	5,699,570	4,231,700	4,104,750	4,270,701	5,258,900	5.8%
Curry	3,526,000	2,617,917	2,539,379	2,362,217	3,331,051	3.7%
Douglas	24,199,030	17,966,797	17,427,793	16,273,560	22,835,165	25.1%
Jackson	15,137,670	11,239,110	10,901,937	10,141,352	14,300,703	15.7%
Josephine	11,669,630	8,664,228	8,404,301	7,817,966	11,024,409	12.1%
Klamath	2,260,500	1,678,336	1,627,935	1,514,407	2,135,523	2.3%
Lane	14,751,260	10,952,215	10,623,649	9,882,478	13,935,657	15.3%
Lincoln	347,770	258,205	250,459	232,986	328,542	0.4%
Linn	2,550,310	1,893,507	1,836,702	1,708,562	2,409,308	2.6%
Marion	1,410,400	1,047,167	1,015,752	944,887	1,332,420	1.5%
Multnomah	1,052,970	781,789	758,335	705,429	994,752	1.1%
Polk	2,086,620	1,549,233	1,502,756	1,397,914	1,971,252	2.2%
Tillamook	540,970	401,653	389,603	362,422	511,065	0.6%
Washington	608,590	451,860	438,304	407,725	574,949	0.6%
Yamhill	695,540	516,411	500,919	465,972	657,084	0.7%
Total	\$ 96,602,850	\$ 71,723,742	\$ 69,572,030	\$ 65,232,221	\$ 91,110,271	100.0%

Source: Association of Oregon Counties: HR 2389 from Senator Ron Wyden.