Committee For Family Forestlands
Meeting Minutes for May 15, 2013

Pursuant to public notice made by news release with statewide distribution, a committee meeting of the Committee for Family Forestlands [an advisory body to the Oregon Board of Forestry with authority established in Oregon Revised Statute 527.650] was held on Wednesday, May 15, 2013 at the Oregon Department of Forestry, Operations Building D, Santiam Room, Salem, Oregon.

Committee members present:

Craig Shinn, Chairman
Mike Cloughesy, Ex-Officio
Jim James, Ex-Officio
Sarah Deumling, Voting
Sara Leiman, Voting
Joe Holmberg
Lena Tucker, Secretary
Scott Gray, Voting
Susan Watkins, Voting
Cindy Glick, Ex-Officio
Rex Storm, Ex-Officio

ODF staff present:
Susan Dominique

Guests:
Paul Barnum, OFRI
Clint Bentz, Boldt, Carlisle & Smith CPAs
Dallas Boge,

Call to Order
Chair Craig Shinn called the meeting to order at 9:05 a.m. Roundtable introductions were made to Cindy Glick, Sweet Home Ranger District Forester, Willamette National Forest and new ex-officio member to the Committee.

1- Review of the Agenda/Approval of the Minutes
   • There were no changes to the agenda.
   • Approval for the Minutes
Edits noted were to add Jim Cathcart to the attendee list in the minutes for April 17, 2013. Name changes were pointed out as an edit crediting Jim Cathcart and Jim James properly. Motion was called for Acceptance of Minutes with edits, Motion initiated by Susan Watkins; Sarah Deumling seconded approval with edits. All were in favor, none were opposed. Motion carried for granting approval with noted edits.

2 – Public Comment
No comment offered.

3 – Legislative Updates – Lena Tucker/Jim James
Lena – Reported that there was nothing new yet from both the Budget Hearing and Wildfire Protection Act Hearing. The next step is to wait for the Revenue forecast for support of the budget requests. Lena
asked Susan W. to share her experience in testifying before the sub-committees. Craig recognized Susan Watkins positive representation on behalf of CFF to the Ways and Means committee Oregon Legislative Hearing for the Wildfire Protection Act and ODF Budgets.

Susan shared that she expected questions and critique regarding the testimony similar to what would occur at a BOF meeting but there was only positive testimony before sub-committee. Christina McNib, from OFIC gave a great presentation as well. The closure of the Rough and Ready Mill was noted and added a touch of urgency to the conversation. Rep. Bruce Hannah agreed noting the problems industry is facing. Susan noted that the industry’s story was important as well, but she was there in support of the forestland owners. The majority of witnesses at the WPA hearing were small landowners and as the agenda got pushed back by a previous hearing, the testimonies became a bit rushed. In summary it seemed that all were in favor as there were no questions, no voiced opposition.

Jim – There is a work session from HB2050 next week to facilitate approval. With the early fires occurring there is a sense of urgency to get to an early vote prior to fire season. The vote will have an effect on Fire Insurance rates for the State through Lloyds of London.

Susan – Nancy Hirsch, Deputy Chief Protection from Fire Division started off the testimony.

Craig – These kinds of hearings are not typical. There generally is some opposition. ODF and CFF’s early participation in communicating the state’s need has been part of the success.

Jim – OSWA is optimistic on the status of two bills, HB2441 Pole Building Bill and HB 2615 (formerly, the Branding bill) which now pertains to the truffles status as a Special Forest Product. The bill would authorize the Board of Forestry to add “wild edible fungus” to the list of Special Forest Products through rules change. These truffles have significant value and law enforcement hasn’t been able to adequately deal with the theft and destruction caused by unauthorized harvest. It looks like HB2441 will be signed, and is currently on the Governor’s desk; allowing forestland owners to build non-residential building for storage similar to agricultural allowances currently in place which allow building without permit. HB2615 has passed the House and has a hearing in the Senate on Tuesday.

Susan – Lena had forwarded an email regarding the possible closure of the Jackson and Josephine County Extension offices due to layoffs. Suggestion was made to write a letter of continuing support for the extension services budgets statewide.

Jim – Regarding the Jackson/Josephine counties situation, it is the counties providing the money for extension programs, not the state. There is an initiative petition being circulated to create a county special assessment for public vote to keep the program.

**Motion**
Keep the Extension funding county component on future agendas.
Craig called for Motion to write a letter to the Ways and Means Committee in support of Extension Forestry Programs. Sara raised Motion, Susan W. seconded.

**Action Item:** Susan W. will draft a letter in support of Forestry Extension.
Jim – Forestry gets only 10% of educational extension dollars and agriculture gets 90%. Perhaps we could suggest allocation changes to the colleges and influence an increase in forestry support.

Sarah – Provided an example of how extension services are valued by the public and the need in the community for the education and tools provided.

Craig – There is more to go on this; leveraging funds, talking points and strategy. The letter should probably be addressed to the Natural Resources Ways and Means Sub-Committee for salutatory support regarding the value of this program and the risk to the funding structure in these counties.

Jim – A letter should also be sent to the counties.

Craig – This committee needs to know a little more regarding the county situation. The counties will be looking for solutions not just voices of support.

Sara – The letter should include how many forestland owners there are and the risks of alternative use changes.

Craig – We will write a general letter to the Natural Resource sub-committee but also weigh in at the university level as well. We need to determine a strategy.

Mike – I would make a suggestion to bring in a panel as we have done with taxes and invite Jim Johnson and Scott Reed.

Sara agreed that it would be good to get Jim Johnson on a future agenda

Sarah – Counties need revenue. There are Woodland Coops which have been successful on a small scale. It would be interesting to learn more about successes.

Susan – Do we want to include Forest Research Centers? Statewide public services?

4 – MFJD Private Forestlands Collaborative Update – Mike Cloughesy

[Handouts: Project Timeline; One pager Pre-Proposal Draft; State & Private 2014 Project Proposal]

Mike provided handouts and provided a short background of the beginnings of the project to bring Cindy Glick as a new committee member up to speed. He shared the committee’s concerns over landownership turnover, landscape scale issues, and watershed level issues. With the success that Extension and ODF have had with the Western States Competitive Grants it was proposed to contact landowners in the Ritter Valley with a way to fund needed forest management work. Then the committee worked on getting landowner commitments and began the grant application process. Next steps are composing a Project charter and setting up governance.

Craig – This project started as a quiet conversation among CFF members then was extended to landowners as a possibility. At this time Roje has had additional calls of interest from the initial solicitation. Prior to this point we had to find out if other “agency actors” were also interested. They showed up for our meeting enthusiastic. It was emphasized that although governance is important for success, private landowners will be the big “actors” not state and federal agencies.
Mike – At the last meeting we agreed to present a pre-proposal to the National Fish & Wildlife Foundation/Conservation Partners grant and provide a tie-in with conservation of upland ecology to maintain salmon runs. It was a very quick turnaround by the time we got a proposal together. It was not chosen because of the limited funds available.

The current timeline is:
May 16: Receive National guidance from USFS regarding application process. (We have not heard when the FY14 Western Competitive Resource Allocation guidance will come out. This timeline is an estimate from the time frame from last year’s schedule.)
June 13: CFF Meeting and Pre-Proposal deadline for submission to Cathy Clem
June 15: ODF committee will meet to review and select proposals
June 15 – August 20: Prepare proposal if selected
August 20: Final draft due to ODF Coordinator
August 24 – Sept. 7: Proposals are submitted to Forest Service for review and comment
September 7-14: Authors complete final edits
September 14: Submission to Western Forestry Leadership Coalition
November/December: Final results announced.

Craig: We want to be ready in June. Suggestion to add to last paragraph on pre-proposal as to the premise that we are not doing this project ‘to them’ but ‘with them’. It is important to provide a proper introduction as to “why” and distinguish the important features such as the assistance types needed. We need to check with Roje on how the landowners could react to being part of a study of collaboratives – graduate students may be interested in this project.

Susan – Wanted clarification on the “report back” function in the pre-proposal.

Mike – Walked through the current Pre-Proposal drafts he handed out. Responsibilities included that a CFF representative will facilitate local meetings with the landowners. (Roje) NFJD will help coordinate technical and financial assistance, we will help with that. OFRI will provide non-federal matching funds probably going through Extension for the education part and provide documentation of the pilot in an effort to make this a reproducible effort.

We haven’t identified the technical assistance responsibility part between ODF and the NFJD Watershed Council. On the ground there seems to be a good relationship between ODF and the Watershed and they were both comfortable with that. We will add a bullet regarding CFF policy focus and policy recommendation to the BOF.

Craig: In a three year project, we would hope that we would continue to leverage the possibilities of new funding. The way this list is currently, we are defining commitments and expectations but we have to have a way to point out or develop more funding opportunities over time.

Mike – Project description number 7. This part came out of Roje’s letter. There are actual character limits to these forms and we have probably exceeded that but it is important to include this information. These are the projects that are important to the landowners and adjacent neighbors. These are not all new but important. We probably have too much. Number 8 has more room. I have come up with these
objectives and outputs. Mike will move some of the projects list (#7) under the outcomes and outputs (#8).

Sara: Outcomes and manageable outputs. We say we are going to coordinate is that an output? Caution regarding what we say. If we aren’t going to do it, don’t say it. I like coordinating as an output.

Mike: We need numbers for the final. But until we develop the plan it has to remain broad. ODF isn’t going to do this, the landowners and operators will be doing it.

Cindy: Will it attract local employment? Is this going to create jobs?

Mike: Yes, I believe so. We will add this as an outcome.

Sara: Providing the opportunity not necessarily the jobs.

Sarah: These jobs may disappear but, it’s a super important component, a circular component, if you don’t have the operators you don’t have the restoration. With socio-economics one depends upon another.

Cindy – Could this be local jobs.

We could make local jobs a priority, but can’t guarantee it.

Susan: Coordination on this list, more could be worded like the aspen stand ones. We are assuming these projects wouldn’t occur if they didn’t occur collaboratively. We would actually be able to get the professional help to do it because of the size of the individual projects and expense. Or didn’t consider it because it is too much work, but with neighbors on a bigger project they could get it done.

Sara: It is a two-fold outcome, we are helping them coordinate but they are doing the work. Perhaps two columns are necessary.

Mike: We make sure we get evaluating in there and by local landowners.

Rex: The coordination would increase the likelihood that projects would be done. Coordination would elevate the potential.

Mike: For the Conservation/Innovation grant, that is what is innovative and coordinated at the landscape level.

Cindy: Would a product be tracking that? What external funding is generated by the coordination?

Mike: The non-bulleted portion says, this project addresses maintaining the forest land base through active management of forestlands to increasing profitability and sustainability and restoring ecosystem health, the diversity of upland and aquatic habitats.

Sarah: Regarding the diversity of upland and aquatic habitats, would complexity be a better choice rather than diversity?
Mike: I like that. Number 9, on the Leverage. A lot of this is in-kind contributions; we need to show that our match is 300,000. OFRI will be used to support extension, other projects and Mike’s time, OSWA in-kind, OSU extension in-kind, Tree Farm? Joe offered to increase to 15,000. And then NFJD might want to decrease. We will have this as an actual table that this goes in as they do demand to show the in-kind. Number 10, nothing new, it just sets the stage, but it does need a re-write. It talks about us working collaboratively; they want to see that collaboration happens.

Craig: Include a little bit of the governance charter which will underscore that and describes the how.

Mike - Looking at Number 11. This came out really strongly at the John Day meeting. They want us to address program integration. There are a lot of things happening. With the Invasive Species Collaborative, Malheur Range Collaborative, Middle Fork Intensively Managed Watershed and integration with all of these also with the USFS Blue Mountain Partnership.

Craig: We wanted to talk with Nils and reminded ourselves that we were silent regarding the tribes and need to figure out what to say.

Mike: The thing on the meaningful scale which we are doing by coordinating active management activities at the watershed scale for forest restoration and develop a tool for planning and tracking.

Joe: Would it be helpful to add the acreages?

Craig: Roje should write us a statement about the social scale. We tend to think ecologically but it wouldn’t happen without the social component.

Sara: Get the Invasive Species Collaborative, why are we targeting invasive species, aren’t they helping people? We do need this on forestland.

Mike - They work primarily with rangeland and have limited money.

Craig - Spread across the landscape, integration these programs and leveraging those funds.

Mike - Number 13: Sustainability of Outcomes. After they give us the $300,000, and the 3 years is over we will still do good stuff?

Joe – How about exportability? Include something about the documentation and exportability to others watersheds?

Craig - We need to include, and promote policies that facilitate collaboration.

Sara - This is a model for something that may have been done before, or is this something new?

Sarah – We don’t know.

Sara - So nothing in this model is formalized as far as we know. A collaborative of private forest owners, this is different.
Mike - Perhaps in the problem statement could advance this idea.

Sarah - Scale. A meaningful scale is important so that it’s big enough to mean something. It’s also important that we don’t overreach. The scale should be small enough for landowner to landowner relationships. Results should be tight enough to report on what we do. It gets unmanageable in some ways when you have people that have never worked together before.

Craig - The landowners understood the social integrity involved, it was obvious that there is a social scale as well as an environmental scale. The social integrity is important to the landowners.

Cindy: Building on that social scale, what these landowners are going to do is provide a social good to society, not having to absorb all the cost of doing that. We should be able to get financing of benefits to society done on a private scale.

**Action Item:** Mike to send out Pre-proposal draft electronically.

**BREAK**

**5 - Forest Taxes in Oregon – Paul Barnum, OFRI**

[Handout: Draft/Confidential version of Public Revenue from Oregon’s Forest Sector - An Overview]

Paul shared a document on Public Revenue from Oregon’s Forest Sector. Working closely with Marcus Kaufmann here at ODF and others. The document will be going out to legislators and policy-makers. Biomass is a sketchy kind of thing; people have a lot of hope in biomass it has potentials that remain to be proven. There are challenges and obstacles to biomass usage. Electrical, thermal, transportation fuels are examples of it being used. There are things to do to encourage biomass usage. But we need the markets.

Forest taxation is a muddy issue for OFRI. OFIC requested something definitive on forest taxation, as there are a lot of questions being asked about it. OFRI contacted Tom Pitowski, Director NW Economic Research Center at PSU. Tom was part of the team on the 2012 Forest Report (a comprehensive economic assessment of the forest sector in Oregon) led by Mason, Bruce and Gerard in Portland. There were 11-13 consultants on the team. I went to NERC and asked Tom if he would take this on. He agreed. OFRI put an outline together. A little bit of the history, what the forest sector pays relative to other sectors. What’s the current state of taxation in 2013? This is not quite finished. There is some information that has been determined is missing from this report. Please keep this draft confidential.

Paul shared highlights of the Overview with the committee. First, this is public revenue from Oregon’s Public Forest Sector not just landowners. We learned that there are 76,000 directly employed in Oregon’s forest sector including foresters, land managers, consultants, loggers, primary and secondary manufacturing, transportation, all the way through the value chain. We were interested in the contribution of the entire Forest sector.

Linc Cannon (OFIC) and Gary Lettman (ODF) provided the knowledge base of forest taxation in partnership with Tom and that team also looked at other sources. The main thing that came up was that as of 2013 the prevailing attitude in Oregon is that timber is a crop. Taxation on private timberland treats timber as a crop exempt from real property taxes. Forestland owners pay taxes on the value of
the land to grow the timber crop rather than on the timber itself. We’ll identify when that change took place.

The passage of Ballot Measures 5 (1990) and 50 (1997) turned things around. It changed how we looked at property taxes in Oregon. We couldn’t have a system where all property owners except forestland owners benefited from a measure that’s passed by the entire state. Once they realized the situation passage of those measures caused they backpedaled to fix the issue and secure a revenue source for education. Viewing timber as a crop and the consequences of property tax measures really had an effect.

The 1993 legislation, is what defined timber as a crop. Property taxes are just one tax the forest sector pays. Others are listed in the report. The taxes paid by the forest sector is comparable to other states as a ratio of production. The personal income tax has become the default tax to support the General Fund (87%) here in Oregon. Timber revenue from our Federal Forests (30 million acres/60% of Oregon’s forest base) is managed by the USFS and BLM. They don’t pay taxes. We did receive timber revenue when there was timber revenue, but with the advent of restrictions on Federal timber harvest that revenue is declining. It was propped up some with the passage of the Oregon Secure Rural Schools Funding. In comparison with other Oregon industries, the forest sector is on par, but that is because no one was making any money. Taxation has a purpose to pay for needed public services but you can tax people into the ground. While taxes policies have changed over time they still continue to promote and encourage investment in forest production and forest management.

Figures from personal and corporate are under-represented because of pass-through organizations which are not included such as “S”Corps (different from “C” corporations) and LLC and non-corporate entities not included in corporate income taxes.

1929 state instituted a change. Timber was taxed since before we were a state in 1853. Severance tax was the tax at the time. Based on the premise that timber was a “found resource” similar to mining. You didn’t build that. Government was justified in taxing timber to pay for the state’s infrastructure. Severance taxes charged on timber became the main source of revenue, and built the Oregon we all benefit from, highways, schools, etc. But eventually the harvest of began to end native trees they had to start re-investing in the forest, individuals and companies had to re-plant, nurture and protect from fire along with all the associated costs borne by the forestland owner. So that is the rationale behind changing from a severance tax to a property tax on the ability of the land to grow timber but not on the timber itself and the taxes paid would be the same as agriculture, on the profit. Timber reflects the return on investment.

Craig – This history section is excellent.

Rex - The early advantage of the severance tax was that it was easily measurable at the gate.

Mike - It replaced the ad-valorem property tax in the old days every year as your timber got more valuable your taxes went up that was not conducive to good management.

Paul – Measure 5 and measure 50 changed everything and we are still living with that legacy in terms of how we fund education. The Corporate income tax came into being in 1929 at the same time the personal income tax, then the stock market crashed. But the purpose of that was to lessen the dependence on property taxes.
The recent special session set up a “Single Sales Apportionment” for industry that was not a tax break but provided a tax certainty to the state with large capital investment taxed only on sales within Oregon.

All the emphasis is on income tax now; the chart (on page 30) compares the forest sector with other corporations. The Forest Products Harvest Tax, has OFRI as a beneficiary at a rate of .89/1000BF they are looking for an increase to .99/1000bf and the OFRI Board decides the tax rate. OFRI will cap funding at $4 million for annual costs to maintain an effective program. Money in access of that would be put into a reserve fund to bridge bad times. Other recipients are the Oregon Forest Land Protection Fund, OSU Forest Research Lab and Forest Practices Act.

Jim - OSWA agrees and will testify to the OFRI increase to previous levels.

Paul - What’s missing?

Rex – Lack of information that effects the REITS?

Paul – C Corps want to see information about REITS, REITS don’t want information at all. The REITS are fairly new structures that are manifestations of federal corporate tax structure. OFRI will add to this information including documentation of other tax structures and how they operate within the state.

Sara - How do different tax policies effect the way we do business? What about estate taxes?

Rex – Estate taxes are important to family forestland owners.

Mike – What’s the argument from here on adding back the severance tax?

Paul – It’s already been argued, private forests are more at risk than ever before with environmental changes and increasing fire threat and its status as a crop is still the same. Assuming that risk, there is just as strong an argument today to tax the land and its ability to produce a crop and income not the timber itself. Example Barry Point Fire losses.

Rex - That argument transcends the entire agricultural community.

Craig – This is a great profile, for understanding the other components affecting family forests.

Paul – We do not have a severance tax on private land but what about on public land? There are characteristics that different markets might want. Should there be an additional tax?

Dallas – Do you really want to start that conversation again? Be careful.

Jim – There was a bill in this session for $15/1000BF harvest tax on exported trees where monies would go back to the counties. Severance Taxes are not a good way.

Craig – Thanks to Paul Barnum! Remember to maintain the confidentiality of this draft.

LUNCH
Clint Bentz partner in the 6th largest CPA firm in Oregon with strong expertise and focus in the forest sector. We do a lot of estate and succession work. I have been involved deeply with the entire legislative component concerned with forest taxation specifically of the re-write in 2003 of property tax issue Small Tract Option Tax with Norm Miller. Also on Oregon Law Commission Taskforce that spent two years on the rewriting Oregon’s Inheritance tax system and Natural Resource credit this last legislative session. Today, we’ll talk about two components, the property tax program, and Estate tax program/Natural Resource credit.

In 2003 when we got the Small Tract Option Program, the idea behind this was that we got rid timber off ad valorem tax rolls which promoted early harvest of timber. People were prematurely cutting timber because the taxes kept increasing with the value. Today forestry is no longer an extracted resource but is used as a long-term crop, realizing we don’t tax removal of corn, wheat, and etc. 40 – 60 year rotation. We got rid of severance tax, now have the Harvest tax which funds certain programs, like OFRI. The property taxes can be the biggest annual holding cost of the land. Since 2003 if you chose to put your property in this program you would pay 20% of value. In exchange for having special assessment of 20% at harvest you would pay a severance tax which would increase by 3%/year. That number (3%) over a 60 year cycle would recapture the 80% of the tax. In whole, it structured the payment of the tax. If I am a landowner and would have a major harvest in 5 years it wouldn’t make any financial sense to enter the program. The program is primarily for people that have young timber or sign up after major harvest and put young stands in. 7000 landowners signed up. This program has had huge buy-in relative to landowner numbers. But program administrative costs are high relative to taxes collected. But they are tying in the administrative costs from the Harvest tax program as well. Administratively there are things that can be done on costs. There was concern that people would be gaining the system. Perhaps the administrative burden can be reduced, requirements could be lessened.

It has been a positive program especially for the eastside landowners. They have a lack of infrastructure and this has helped them manage their costs. DOR doesn’t realize the passion that began this process.

This is a small program. So the administration costs are high vs. collections. These are people working in the Harvest tax program and allocating time for the Small Tract Option. In review, closing the program would not affect the administrative costs significantly.

The difference is that the revenues from the program primarily go back to the counties. Allocating costs reduces amounts going to the counties. CFF needs to advocate for this valuable program. But DOR is using Small Tract Option to cover administrative costs of Harvest Tax rather than taking it all out of the Harvest tax.

Sara – We need a report on this program, how it is currently functioning.

Clint - Could we have a lot more landowners signed up? Yes, there hasn’t been an effort since 2004. In 2003 there was about 25,000 in 2003 10 acres and up, now 60,000 in 10 acres and up due to parcelization. So there are 30,000 new landowners that could be signed up. There are 69,000 landowners with parcels over 10 acres.

Joe – Federal study showed nationally that timber is not the primary reason for having their property.

Clint – A lot have signed up for the deferral.
Jim – He was referring to the value of the land. Forest tax value is lower than residential.

Craig – Has anyone looked at the sign up early on?

Clint – DOR did a study, we expected to have hearings but it never happened, but will probably come back.

Jim – Why they didn’t have a bill to make a good change? The counties weren’t interested. That is something we should consider promoting as a committee.

Scott – When a property is sold or split does it fall out of the program?

Clint – They have to re-apply. But there is a penalty if not kept in the program.

Craig – Has there been a behavioral change since this program began incentivizing a longer rotation?

Clint – A study hasn’t been done yet. Keeping timberland as timberland. Natural Resource Credit/Inheritance Tax. This is a complete re-write of Oregon’s Inheritance Tax statute. Now it is an “Estate” Tax. We have streamlined it, made it easier to administer. The old statute was a complete disaster, very complex. Now calculations can be done on the back of a napkin. The Natural Resource Credit started out simple, wound up complex and was brought back after 6 years of work, 5 sessions but it still didn’t work. I have been involved every session to make it work. Ultimately, the House Revenue committee had commissioned the Oregon Law Commission to make it work. The statute has been re-written. So, the new statute, there are only 3 states (OR, WA, HI) in the West that have an estate tax. In WA the first $2 million are exempted, over 2 million then you pay 10 – 19% on amounts over 2 million. Oregon couldn’t do that it was too expensive. The tax does raise $40 – $120 million a year in revenue. The old system you owed tax on the 1st dollar but didn’t pay anything until over 1 million at that point you owed 33,000 on the first dollar over 1 million. This was hard to explain. Basically we created a zero tax rate for the first million. The first dollar over 1 million the tax rate is 10-16%. 40% of returns 25% of the dollars were on estates between 1 to 2 million. We are a low wealth state. It was a revenue neutral deal.

Then with the Natural Resources Credit we defined it better, anything that has to do with Natural Resources property, with forestry land, timber, equipment, including 15% cash of total on top of all Natural Resource property. Basic requirement is that 50% of your estate assets have to be made up of natural resource “property”. Farmers usually 100% of assets are tied up in the farm. Includes home, home site, timber, tractors, inventory, has to add up to 50% of Estate. And additionally Estate can’t be in excess of $15 million. The executor has to make an election of how much of the property they want to make a claim for the credit on. The heirs have to actively manage for at least 5 years. We are retaining this percentage of the estate as a Natural Resource for at least 5 years.

This credit is for farms, forest, and commercial fishing assets. Would people game the system? They have set up a 5 year look back owned and actively managed for the 5 previous years and 5 additional years by the heirs. Lifetime gifts no longer count against estate in Oregon but they do for federal accounting.

Cindy – Your home counts in?

Clint – Homes, buildings can be elected as part of the percentage.
Craig – What are the watch outs in terms of this tax?

Clint – None of this is sunsetted, this is permanent law until it gets changed. House and Senate Revenue don’t want the Natural Resources credit brought up again. The NR Credit is much improved from what it was before and a tremendous benefit to Oregonians.

Dallas Boge – Registered professional engineer until the 1980’s then took up tax consulting. Dallas has been consulting since 1998 working on income and estate taxes, setting up LLCs and gifting property to heirs. Dallas has private practice in Gales Creek.

Susan – How do you work with smaller estates? Clint usually advises LLC’s for estates that are more substantial because they can afford the fees.

Clint – This is a policy thing. Of the land that is owned the vast majority is still held in individual names. This is inherently risky; you have to get the adult kids involved to have a successful handoff if you want to see the continuance of the forestland. It’s hard to have the discussion. Trust planning is a system of governance of the estate creating partnerships upon death. The default is to legally divide the estate equally, when they haven’t worked together and can’t afford to buy it, so it may wind up in a sale which could take it out of forestland. The real issue is not the estate, but capturing the passion and intellect of the next generation in the desire to be natural resource managers. Today 65% live on or within 1 mile of their ground. The next generation may have 80% absentee landownership group, which will be a huge change. How do we engage them? This is a huge issue for Oregon. Ultimately our current policy is built around people who live on the ground and care about it and don’t want to see it change. If the majority is absentee they will want to monetize it. Our zoning laws will be subject to political risk with this change. You can’t afford not to plan for family ownership. It’s an aspirational goal. Very few ownerships today are held jointly. We are first generation ownerships.

Dallas – They are not intergenerational at this point. It’s not that way.

Sara – If you start it as a business entity where children are brought into it early the ownership is meaningful.

Clint – It’s a business relationship as partners. We are business partners as well as family, siblings, etc. We have rules for the road to interact.

Susan – Using the LLC as a tool for governance as well as estate planning. Are there other differences between estate planning and working with forest landowners after death?

Clint – Succession planning is something is done with the kids, estate planning is something done to the kids. This is a national challenge how do we get people to “walk past the check”. It happens every day, they care about the ground, it’s their heritage and defines who they are. Changes happen unless restricted by zoning. Zoning is the governmental power route that says you can’t change the use. These entities give you the form to have the discussion. Start engaging the kids, why do we own this ground?

Craig – The other question is entry. Who is the next buyer?
Clint - Can we develop an easy path for them to get in? How do people get the capital to invest? Farm Credit likes to loan to farms but not forests. There is no regular cash flow.

Cindy - What about unevenaged management for a sustained yield over time on private forests?

Clint – Most of the well-managed parcels they only have 1 or 2 aged classes. But that can be managed.

Sara – Are there any items that come up that encourage or discourage people with forest as far as taxation goes?

Dallas – Taxation doesn’t seem to be a particular problem. The taxation they are most concerned about is the capital gains tax that they may pay when they harvest. It’s better now than it has been for a long time. Particularly for the smaller landowners 40-60 acres if in the 10-15% tax bracket federally they will pay zero.

Sara – There is no capital gains in Oregon.

Clint – If you have an average to long rotation, you are paying taxes on the depreciation of the currency over 60 years. The purchasing power doesn’t change. They may become a millionaire but the actual dollar value is the same. That is an inherent unfairness to the forest products industry as a holding cost. We are paying taxes on inflation. Having a lower tax rate is some benefit. I don’t know how you would fix that.

Sara – What is the capital gain rate? Could you review?

Dallas - Federal and state holding period is the same, a year and a day anything older is a capital gain. Short term is federally treated as regular income.

Clint – There are three tax rates 0 – 15 and 20%. Capital gain lays on top based on the other incomes. 3.8% surtax additional tax on all investment income over $250,000 including capital gains to pay for Obama Care. Oregon does have a preferential 5% capital gain rate on sale of farmland or stock of farmland corporation. That may be something we go to the well for in the legislature.

Sara – Yet we could own farmland for 50 years and we get nothing... I don’t think everyone understands the capital gains. We are trying to keep our lands in forestland but farmland gets the break.

Mike – Based upon Designated Forestland. The surveys I’ve done shows this is a huge issue when ¼ of the state is rural residential. 725,000 acres of non-industrial forestland, 740,000 are in designated forestland in 3 southern counties. Many don’t understand “basis”.

Clint – I advise clients to make sure and get a cruise for the Basis. Some counties are being really aggressive in the classification of land. Communities need to be aware of this practice. Some are disallowing forestland and farmland owners most are in timber dependent counties.

Sara – Is designated forestland a two acre minimum? Could it be higher?

Clint – Its two acres and you have to sign up if you are going to actively manage it for timber. We came up with the Small Tract Forestland Option when writing up the requirements we asked ourselves about
whether to require active management plan to sign up? We decided not to go there; I think we made a mistake. Let’s prove intent, and if we had required a written management plan, all would have been qualified for third party certification stuff. Other states have that requirement. A couple of counties do require it.

Craig – Any other questions? We appreciate both of you for being here. We are paying attention to policy issues and catalog what we think we know and perhaps make an issue paper for family forestland owners and policy consequences. We are taking a comprehensive look from the ground up.

Clint – I would suggest the following for your agenda, if it isn’t already. The BOF has been dealing with the riparian issues. There is a suspicion or more than that, that these rules are seen as falling disproportionately on family forestland owners because we think we own more as a percentage. But I don’t know that anyone has compiled that data. The data it is there, but whether it has been compiled within a GIS basis. Politically, it is critical that this committee to know what that is.

Craig – You should know that we have been very active on this issue. We have not done this particular calculation across the landscape. But we certainly have done it when we did the Westside tour for the BOF we had photographs that took a look at exactly that particular thing, different protection areas. They essentially become “no go” zones because managing it is so problematic. If you have 40 acres that has a creek and a half that runs through it, there’s 12 acres left. The notion of doing that calculation is...

Joe – The size of the parcel is important too.

Clint – The data exists but nobody has broken down that way. It is important to know who is taking the burden. Industrial people say this is political cover; it doesn’t have the same level of impact as us. Industry has their own professional foresters working with FPF’s every day and knows how to work around the regulations. It’s more difficult for us (family forest landowners) to deal with the regulatory swap so we just leave it alone.

Craig – FFLO have a strong sense of responsibility for the quality of those riparian zones. And so their goal is to enhance the quality, if you leave it alone, you may or may not be...

Clint – If we could do some economic activity in those zones, how cool would that be?

Sara – Even these industrial foresters ribbon off. It’s too hard...

Cindy – I was at that South Santiam Watershed Council meeting and one of the Board members, a forestland owner, had an ingenious idea dealing with the issue of water scarcity in the Willamette Valley that would be a real issue very soon. Turn all of our riparian areas into water storage areas. For example, wetlands, and getting wetland credits and there is your economic incentive! Let’s make that happen, it’s a good idea.

BREAK

**OSWA Meeting**

Jim/Joe – The OSWA Annual Meeting is now a 3 day event, Thursday at Douglas County Fairgrounds, tours that day, Board meeting and dinner after the CFF Meeting. Great program for Friday. Bettina Ring, Executive Vice President, American Tree Farm System, Mike Burnes, Regional Forestry will both come
out. American Tree Farm System representative will be joining our meeting. Bettina will be speaking on Friday. Jennifer Ring will be presenting information on Generational differences. George Taylor will talk about Climate Change. Roje will be talking on the CFF Project; Doug Decker will be present to talk about Board issues. The June CFF meeting and Annual OSWA meeting and Tree Farmer Tour will be June 13-15 in Roseburg. For CFF members who will stay Wednesday night to attend the CFF meeting ODF will cover the lodging costs. Those staying over for the OSWA meeting will need to register with OSWA. Thursday night dinner with OSWA requires registration. The dinner is $25/person. Use the registration form if you want to attend. Friday and Saturday events all are welcome. It is a great program and encourages the committee members to attend.

Craig – The logic of this is we try to take the CFF meeting out of Salem once a year. The tours are important to our function and vision. For CFF business, CFF will cover the expenses.

**Action Item:** Susan D. to send out reminder regarding Wednesday night reservations for CFF business. ($72 state rate)

**Item 8 – June Agenda**

Craig –
- Check in on the pilot
- Path forward on the Tax and Finance Issue – What are we going to do with this information? Product targets? Format?
- Finalize Annual Report
- Letter to Congress regarding the Farm Bill
- Update from Brad on Starker Chair/Cameron Tract
- Tom Imeson may attend late in the meeting. (Craig to contact)
- Bettina Ring, American Forest Foundation (Joe to contact) (1 hour)
- Introduction to CFF functions and accomplishments for OSWA and AFF.
- Representation for Small woodlands

Jim – There is a good chance OSWA members will come to the CFF meeting rather than the tour. Someone should provide an introduction to CFF.

Sara – Someone could create a one pager introduction with a summary of letters and projects to show what CFF is about.

- **Action Item:** Susan D. to prepare an introduction to OSWA members regarding CFF – What we do, who the members are, list of topics/white papers. Craig to report at the OSWA Board meeting.

Lena: For the July Board meeting, 2 (three year term) appointments are due. Sara Leiman and Roje Gootee are up for reappointment to another term.

Craig - The Committee makes these nominations so we need to state that we want to make these re-appointments.
- **Recommendation:** “By affirmation we submit these nominations to the Board of Forestry assuming that the parties agree to another term of service.”
Lena - We are going to be term limiting some after this next cycle and need to start thinking about that.

**Action Item:** Lena will prepare these re-appointments for the Board meeting in July.

Susan W. – Small Woodlands Landowner position will be coming up, which Jim now holds, perhaps we switch over to the Tree Farm System representation for a couple of years.

Craig - That decision rests on CFF. We can put it on the agenda. These are two year appointments.

Joe – Last week I was in Washington and attended the “Tree Farm Fly-in” where private landowners matched up with State Foresters. Tree farmers in 25 different states went around talking about family forests and state forest issues meeting with legislators. And appeared with legislative aides and representatives. It was very effective and they talked about continuing that.

Jim – I don’t think small woodland landowners appreciate all that the AFF plays in Washington, D.C on forest issues.

**Item 7 – Annual Report Work**

Craig – The last business is related to our Annual Report. We have notes cataloging the activities that we have been engaged in. I have gone through Annual Report in our draft form and have made notes about additions and how this information could be condensed. This has the information from the last year well cataloged and appropriately located. If you look at this and see things you’d like to have changed let Susan D. know. But let’s leave the final review and edits for June. I would like us to spend this next hour building our forward agenda. Please look these draft notes over before we meet in June and then we can affirm in principle that Annual Report. We submit the annual report in July, in June we can do final edits. I want to make sure that the one we post and deliver have links to our reports and policy documents and make those available and have access to those links.

What we have done in the last few years is that we have made a laundry list of topics and sorted them into 3 tiers. I suggest we start without references to this year’s annual report on topics we think are important. Then we can come back and look at this list and highlights and decide what to add or delete. Let’s start with what topics we want to focus on for next year. There is no boundary on this except, to what our charter directs us to address important to family forestlands.

Jim – As Clint mentioned, the BOF is still wrestling with the riparian rules and anticipate a draft rule might come out and expect that in the next 12 months we need to be ready to respond to that.

Craig – Do we want to continue on the focus on the Eastside project? [Yes!]

Clint also brought up that there was some illusion of the ancillary values that come on forestlands that the public is receiving but the landowners are not receiving value for.

Lena - Extension Funding topic?

Jim – Roll that into assistance to family forestland ownership if additional stewardship foresters are available and how best to spend that money or direct that energy might be of value to ODF.
Lena - Referring to the policy option packages.

Mike - Cindy has some exciting work she’s doing in Sweet Home on “All Lands” interrelationships between National Forests and private timberlands and would be great to learn about.

Sara – That’s right in there with ‘neighbor’ issues.

Joe - Paul mentioned the Barry Point fire. The restoration of those private lands that are burned over and the issue of lack of funds in the Farm Service Agency to help. There is a small pot of money in the Farm Service Agency that gets sucked up early by Hurricane relief.

Mike - In 2011 they took away the reforestation tax credit which would have helped now.

Craig – I think that fire goes up there; and I suspect that there will be a new suite of issues that haven’t come up yet.

Sara – As part of the log market, the issue comes back to getting operators and contractors to do our planting, to do our logging, to do the work. Now is a good time to bring this to the fore. People are having trouble hiring people. I would call it Forestry Capacity/Operators/Contractors to serve the small landowners.

Cindy – What about Climate Change?

Craig – One of the things that was on our list this year that resulted in our invitation to Cindy was the integration of federal forestlands with family forestlands. We have a placeholder here with ‘all lands’. There are a couple of things going on there.

Susan – Continue to invite BOF to come.

Craig - We should consult with the Board to see what agenda topics are coming up for them. “Directed Issues”. We have periodically invited the operating heads of the ODF programs to come as we have in the past, including State Forests. We need to remember to do that.

Rex - Water quality protection relating to both roads, streams and operations and water quality. In particular roads and operations and water quality. Just because there was a positive rule by the Supreme Court doesn’t mean this issue is dead we need significant focus and attention towards compliance with the current rule package across all ownership types including small family forestland owner.

Cindy - I’d like to see some thought given to the intergenerational capacity for managing small forestland. More conservation education or more demonstration areas. What do we need to get an edge of the value of those lands?

Susan - Communicating with the non-forest public.

Craig - Introduction to ownership barriers. Now let’s take a look at this year’s topics and tiers. Other topics?
Lena - Stem – to – Stern review needs to stay on there. This is a look at all the PF Division internal business focused on the FPA efficiency and effectiveness and all our business.

Susan – I have some feedback to report. The committee members mentioned that they were very satisfied with the internal review of Private Forests Division and were happy that the things they asked to be done were done in response to their budget note. The results were being seen by the public as very positive.

Craig – This goes a long way in public perception. The agency did what the legislature asked.

Craig – We need to put on and be more active on the Starker Chair/Cameron Forest process. On our June agenda we need to address someone from the committee to stay on top of this process.

Jim – Thomas Maness, OSU has a plan to promote the Starker Chair as part of the Extension program and is looking to find an expert in silviculture and economics to assign. Half of their time would be spent in Extension on those topics.

Sara – Brad is on their committee and can report back.

Mike – That the idea of the chair being part of Extension may not be universally welcomed by industry. Some touchback from the committee might be good.

Jim – At OFIC meeting the operations committee gave him a thumbs up.

Motion: Motion made by Sara and Scott seconded to write the affirmative letter to Dean Maness on the Starker Chair focus on family forestland owners. All in favor, none opposed, and none abstained.

Action Item: Craig to compose draft and send it around and bring to June meeting. Primary purpose would be to assure the Dean that the committee is behind his vision for the chairmanship.

Joe – Ways CFF might influence federal policy is one of this year’s topics. So it may be a good time to write a letter to Congress’s Oregon delegation on the farm bill. There are all kinds of things in that Farm Bill for forestry and we just want a continuation of current funding.

Craig – Let’s bring the draft letter to the June meeting. Other hot topics and issues?

Action Item: Draft letter to the Oregon Delegation on the Farm Bill.

Craig - Is there anything we want to do on feedback processes or procedures. There is some activity and changes and how well that is working. The last couple of years we haven’t heard much about what changes have been going on in Private Forests.

Lena – The compliance audit with sampling of operations on landowners. The electronic notification system (FERNS) Use of technology for landowners. We’ve engaged contractors and there will be a significant technology change.

Cindy – Benefits from nature/economy? Personal woodland owners as investors, Like a stock exchange of opportunity that people could invest in. Public values.
Craig – We now need to prioritize? We have set up 3 tiers of importance.

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<tr>
<th>Work Plan 2013-2014 Topics</th>
<th>Tier</th>
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<tr>
<td>Continuation of Riparian Rules Analysis work by the BOF</td>
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<td>MFJD Pilot Project</td>
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<td>Tax &amp; Finance Issues Facing Family Forestland Owners</td>
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<td>Public Values on Ecosystem Services</td>
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<td>Extension Program Funding</td>
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<td>Technical Assistance for Family Forestland Owners (POPs)</td>
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<td>All Lands – Federal and Private Lands in Linn County</td>
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<td>Private Land Restoration/Fire</td>
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<td>Fire &amp; Management Impacts</td>
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<td>Contracting/Operators Capacity</td>
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<td>Federal Lands integration</td>
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<td>Entry/Barrier to Ownership</td>
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<td>Short Legislative Session</td>
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<tr>
<td>Private Forests Stem-to-Stern Review</td>
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**Item 9 - Wrap Up – Chair Shinn**

There being no further business, the meeting was adjourned at 3:00 p.m. The next meeting is scheduled for June 13, 2013 at the Douglas County Fairgrounds, Roseburg, OR at 9:00am – 3:00pm. This meeting will be held in conjunction with the OSWA Annual Meeting and Tour.

**Action Item Summary**

1. Mike to send out updated Grant Pre-Proposal electronically.

2. Susan W. will draft a letter in support of Forestry Extension.

3. Susan D. to prepare an introduction to OSWA members regarding CFF – What we do, who the members are, list of topics/white papers. Craig to report at the OSWA Board meeting.

4. Lena will prepare these re-appointments for the Board meeting in July.

5. Draft letter to the Oregon Delegation on the Farm Bill.

6. Craig to compose draft letter to Dean Thomas Maness, OSU regarding the Starker Chair and send it around to the committee and bring to June meeting. Primary purpose would be to assure the Dean that the committee is behind his vision for the chairmanship.

/s/
Lena Tucker  
Committee Secretary Regional Forest Practices Committee [05/21/2013]