

Wealth, Income and Oregon's Rural Communities



Coast Range Association
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An aerial view of Oregon forestland owned by a Real Estate Investment Trust (REIT). Investor driven ownership grows money not a forest. We believe local, community ownership will allow much better forest management and direct greater wealth into the local economy.



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Introduction

The principle business across western Oregon’s rural lands is timber growing and harvesting. We know that the forest products and recreation industries are the main sources of rural wealth connected to land.

This report explains how private timber sales dollars flow through a company and end up as someone’s income. We explore where the timber dollars are spent and who receives those dollars. We then offer a proposal to keep more timber wealth in local communities.

Western Oregon is a land of forests. Forest ownership in the region is split 56% public and tribal ownership and 44% private. For private forests, 70% or more are owned by large corporate firms and 30% by small, non-industrial owners.

Federal, State, Local Government & Tribal Ownership = 56%	
Private Ownership = 44%	
Small Forest Owners = 30%	Industrial-Corporate Owners = 70%

Between 2002 and 2020, 72.7 billion board feet (BF) of timber was harvested in Oregon. Big private forest owners cut 68% of all timber and small private owners cut 11.5%. Local, State, tribal & Federal Forests accounted for 20.5% of all remaining timber cut

We believe the route to increasing rural wealth is to focus on those forests producing serious timber income. Which is to say industrial forestlands. Such income is generated through the current sale of harvested timber. Therefore, this report and proposal follows-the-money in today’s industrial timber companies. We focus on those companies that are owned by Wall Street money or what the business press calls financial capital.

Land Ownership, Small Forest Owners & Wall Street

Over the past 40 years, big change in forestland ownership has occurred in western Oregon. First, a steady loss of small landowners has occurred as they are bought out by large timber owners. Studies have shown that in the past 60 years, over 600,000 acres of small landowner property has been bought by Oregon's big timber companies. The sale of small forestland owner holdings to big timber companies results in people leaving rural communities. Population loss affects the rural economy directly through reduced local spending. Every time a family sells its land and moves away there is one less customer at the local grocery or hardware store.

Second, because of mergers and buyouts, there has been a steady increase in the amount of private forestland controlled by just a few of the largest timber companies. Today, 10 companies own 81 percent of all industrial forestland in western Oregon.

Third, the timber business model has moved away from companies that own forests to supply their lumber mill and toward timber only investment companies that sell logs to unrelated buyers, and, in some cases, to their own mills. In this new model, forestlands are narrowly managed for shareholders, investors and bondholders. We will explain how the main goal of western Oregon's timber companies is to send money (income, interest and profits) to the wealthiest people in the world.

Corporate timber firms do many things, but the following list is important to keep in mind:

- They lower their taxes through political power and the influence of money;
- They adopt labor practices and subcontracting strategies that reduce labor costs;
- They use cutting cycles that lower timber production but increase return on investment.
- They continue the buyout of small landowners leading to rural depopulation.

New Land Ownership & Community Benefit Companies

We propose land reform through the buyout of Wall Street owned forests and the transfer of purchased lands to a locally owned community benefit company. We are inspired by the U.S. electric and telephone co-ops that service over 80% of rural lands in the country. For 80 years, rural electric co-ops have provided low-cost power to rural America. New social benefit timber companies, if properly financed, could reinvest much of their income in employees and local communities instead of payouts to bond holders, banks and rich shareholders.

The conversion of industrial, investor-owned forestland to new social benefit ownership is based on economic reality. Only land reform and a community owned business model will meet the

goal of this proposal—to redirect forest wealth away from banks, shareholders and bondholders and into local communities and worker paychecks.

How We View Issues

Two main criteria were used to assess the timber industry. One consideration asks where timber money goes. The timber industry, like any industry, has money because it sells a product. Where does timber income go as it flows through and out of a company? Eventually, all timber sales dollars end up as someone's income. Our goal is to build rural wealth. So we want to know how many timber dollars stay local, how many timber dollars go to big cities or go out of state.

The second criteria follows timber income dollars to look at **who gets the money**. For this we used the following household income breakdown:

- The top 1% of largest income households.

- The next highest 9% largest income households.

- The next 40% largest income households.

- The lowest 50% income households.

We attempt, where possible, to show how timber dollars end up either as a working person's paycheck or a rich person's income from the stock, bonds or timber equity that they own.

Wealth, Income and Oregon's Rural Communities

Forests cover nearly half of Oregon and the state continues to lead the nation in lumber and plywood production. In the 1940s, faced with the end of private old-growth timber, companies began replanting cutover lands and developed the tree farm system. The goal was an even flow of quality timber from private forests.

In the 1960s timber companies began another transition. They adopted finance driven forest management. Financial forest management is focused on how much profit a given amount of invested money will return, not how much timber is grown per acre per year. The result is forestry based on plantations that are cut when invested money matures, not when the trees reach maturity. Since the 1960s, the tree farm system has evolved to grow small and midsize timber using financial management practices.

Land Ownership

Over the past 40 years, federal tax law has reshaped land ownership in western Oregon. In the 1970s, Congress intended to open real estate investing to small investors by creating the Real Estate Investment Trust (REIT). The pot was sweetened so-to-speak by allowing REITs to be tax exempt. In 1991, Congress allowed publicly owned companies to become REITs.

It didn't take long before timber companies realized that a conversion to a REIT would save dollars going to corporate income tax. So, beginning in the early 1990s, a shift began in forest ownership. Today, Wall Street real estate trusts and investment funds have gained control over most private forestland in western Oregon.

The Weyerhaeuser Company, a Real Estate Investment Trust, owns about 40 percent of Oregon's industrial forests. As a REIT, Weyerhaeuser may own up to 25 percent of its book value in non-forestland assets as wholly owned milling and manufacturing units.

As a REIT, Weyerhaeuser sends U.S. timberland profits to shareholders without paying corporate income tax. In 2021, Weyerhaeuser had net earnings of \$2.607 billion. The company sent \$884 million in profits to its shareholders. The bulk of Weyerhaeuser's profits were a result of its U.S. and Canadian milling and lumber products divisions. Therefore, the company did make a provision for \$709 million in 2021 income taxes.

Western Oregon's Ten Largest Private Industrial Timber Owners

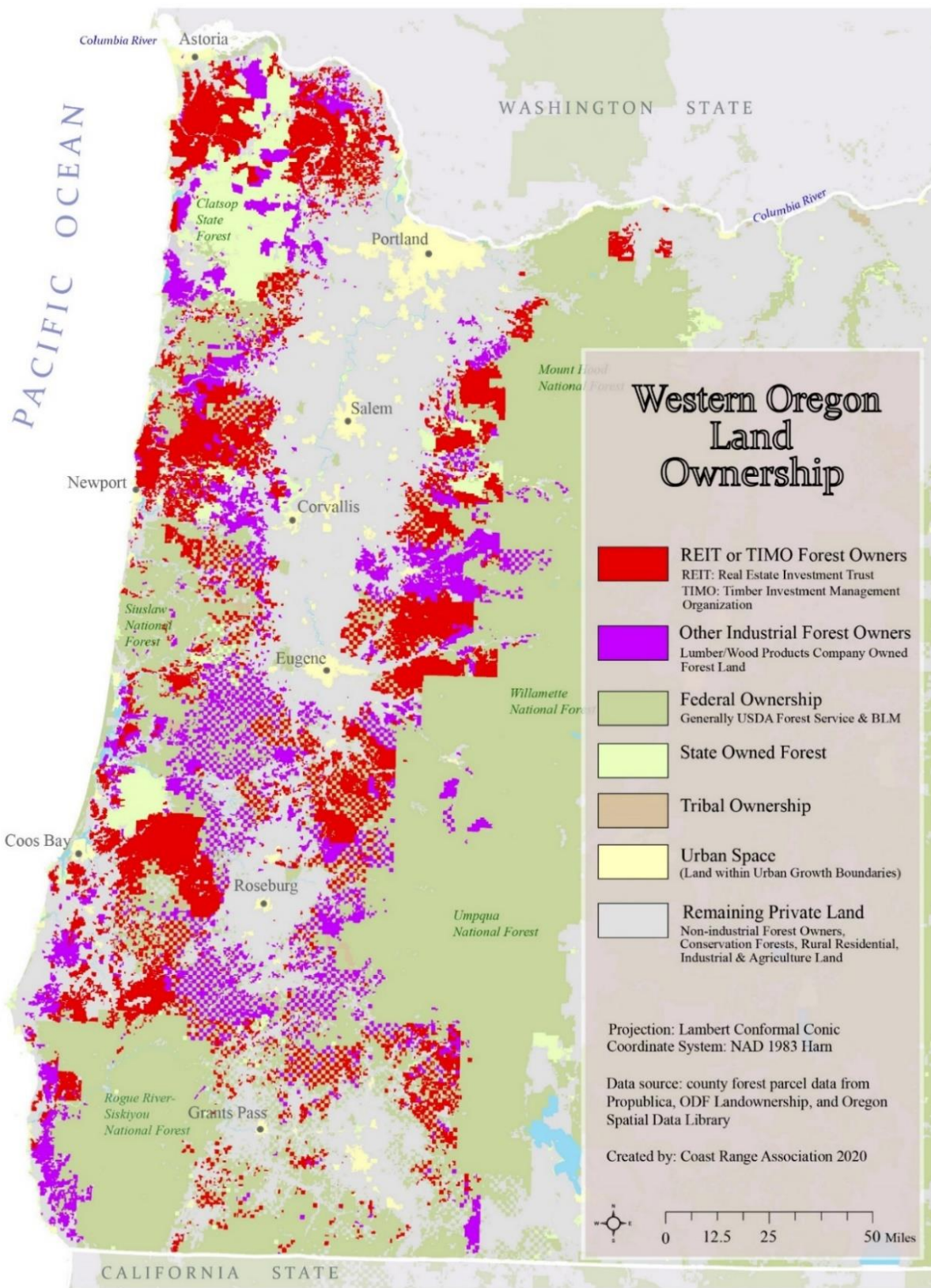
	Company	Acres
1	Weyerhaeuser Company	1,755,069
2	Roseburg Forest Products	466,074
3	Hancock Natural Resource Group	304,934
4	Sierra Pacific Industries	172,949
5	Nuveen-TIAA	166,758
6	Stimson Lumber	156,405

7	Campbell Global, LLC	150,336
8	Cascade Timber Consulting, Inc.	144,410
9	Forest Investment Associates	137,714
10	Guistina Resources	135,562

Data is from the CRA's 2020 forest ownership analysis

Together, the 10 largest forest firms own around 3,563,179 acres or 81 percent of the 4.4 million acres of industrial forestland in western Oregon. In 2017, the Coast Range Association published the results of a land ownership analysis for 18 of western Oregon's counties. We coded all rural property parcels outside of Urban Growth Boundaries in one of five categories: (1) mill-related industrial forestland, (2) financially managed forest land, (3) tribal land, (4) public lands (local, state and federal), and (5) all remaining land usable for settlement, commercial use, and agriculture. The resulting map displays a dramatic picture.

Land in western Oregon is dominated by industrial timber owners or public lands. The map below shows Wall Street owned companies in red.



Acres Owned by Small Landowners Has Declined

A steady loss of small landowner holdings has occurred due to purchase by industrial owners. A 1999 Forest Service study of private forestland in western Oregon stated that 763,555 acres of non-industrial forestland was acquired by industrial owners between 1961 and 1994. Some industrial forestland moved into other uses. The net gain by industrial owners of small non-industrial land was 622,705 acres in the period 1961 to 1994. (Zheng and Alig. 1999)

There is no reason to believe that the 1961 to 1994 trend has reversed in the past 29 years. Even assuming a dramatic slowdown in the loss of small owner land (say 4,000 acres/year), easily another 100,000 acres of small holdings have been lost. The outcome is that many rural valleys have lost population. When families leave rural areas their contribution to the local economy disappears. The growth of industrial forest holdings contributes to the further urbanization of Oregon. Today, Oregon is the 19th most urbanized state in the nation.

Rural Population: Declining or Stagnant

Between the 1990 and the 2020 census, almost 30% of western Oregon's rural areas lost population. An additional 40% of rural land saw poor population growth of less than half the state's average. An astounding 70% of all rural land in western Oregon that saw poor growth or actual loss. The above numbers come from population research we conducted using population data from census tracts. The analysis compares 1990 to 2000 census data.

We believe that rural population change reflects local economic conditions. When an area's economy is thriving, opportunity attracts new residents and young people stay. But, when a local economy is stagnant or in decline, people, especially young people, pack up and leave.

Between 1990 and 2020, Oregon's population grew by 49%. The map here is shaded for the following categories:

Actual Population **Loss** (white)

Population growth less than half the state's average (0% to 24.5%) = **Poor** (light grey)

Population growth in the range of (24.6% to 73.5%) = **Average** (dark grey)

Population growth greater than 74% = **Strong** (black)

Here is the map for western Oregon showing 1990 to 2020 population change using these four categories.

Coast Range Association Population Study: Rural Western Oregon

A Comparison of 1990 and 2020
Community Population

Population loss (white areas) or poor growth (light grey) occurred in all of Oregon's rural areas. Over time, we believe long-term population change reflects local economic vitality. Here's the map of our research.

Almost all average (dark grey) or strong (black) rural population growth occurred near urban areas, the Willamette Valley or select coastal communities.

Three circled areas with a high percentage of private forests saw population loss or poor population growth. Those areas are Clatsop and Columbia counties, the Hwy 20 corridor between Philomath and Toledo, and Coos County.

Coos County forests are 62% privately owned. If any county should benefit from unrestricted logging it was Coos County. Yet, Coos County had the worst performance for population growth of all western Oregon counties. The county lost population between 1990 and 2020.

The Coast Range Association (CRA) population study is based on a set of rural community boundaries defined for the entire area of the Northwest Forest Plan. See Donoghue, E.M.; Sutton, N.L. 2006. **Community Socioeconomic Information System (CSIS)**. General Technical Report PNW-GTR-672. Portland, OR: U.S. Department of Agriculture, Forest Service, Pacific Northwest Research Station.

The CSIS has socioeconomic data for each community using information from the 1990 and 2000 Census. The Coast Range Association updated each CSIS defined community with data from the 2010 and 2020 U.S. Census. The difficult work of integrating two new Census data sets into the CSIS geospatial boundaries was accomplished by Spencer Zinke - a 2022 graduate from UCLA in Geography. CRA staff then characterized each community's population change between 1990 and 2020 according to four categories. Those four categories are either population loss or one of three growth categories related to Oregon's 1990 to 2020 population growth of 49%.

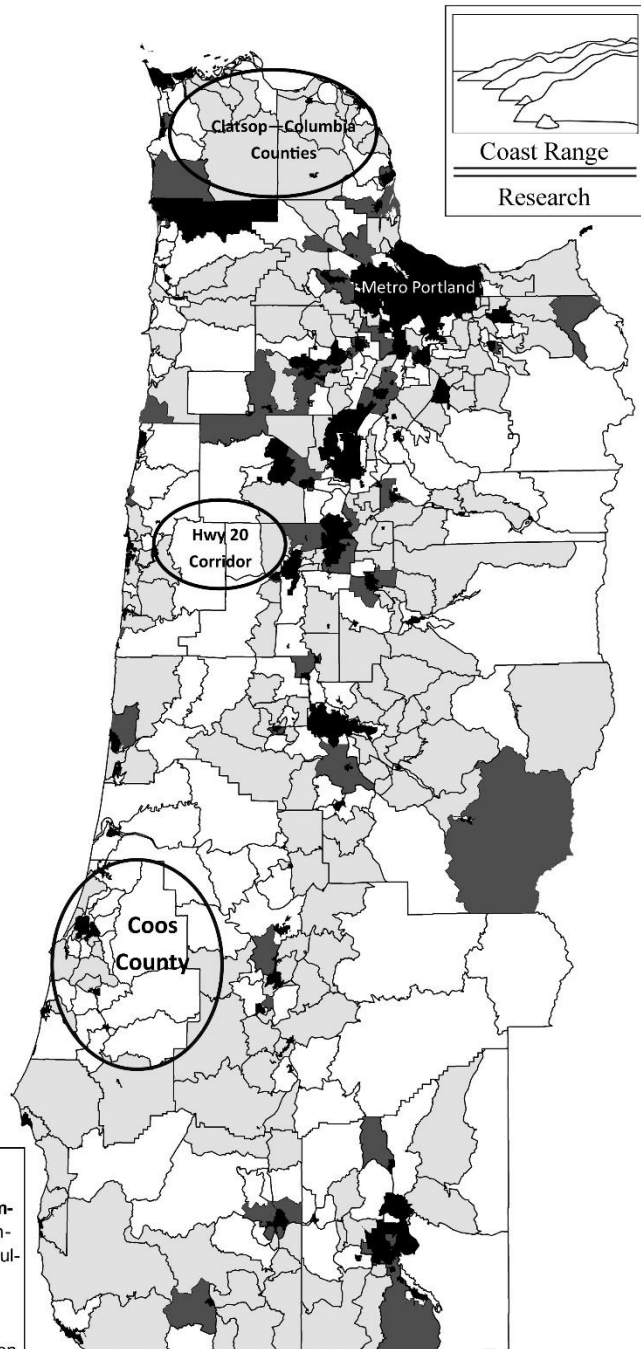
Categories of Population Change

Loss = An absolute decline in population (<0%)

Poor Growth = Half or less of Oregon's 1990-2020 population growth of 49%. (0% to 24.5%)

Average Growth = 24.6% growth to 73.5% growth

Strong Growth = >73.6% growth or greater



Population Loss



Poor Pop. Growth



Average Pop. Growth



Strong Pop. Growth



Rural Households Struggle

Studies sponsored by the United Way have identified households with few assets (**asset limited**), income likely in the lower 50% of households (**income constrained**), and one or more adults in the household having a job ([2023 ALICE-in-Oregon Report](#)). These are families that can't make ends meet. The United Way calls such economically challenged households ALICE households. In 2021, about 44 percent of Oregon households were poor or economically challenged. The combined poverty-ALICE percentages tell a familiar story. Rural landscapes that depend on a land-based economy have a high percentage of people who are not making ends meet. Yet, Multnomah County have seen a rise in households not making ends meet. No doubt many urban areas with higher average income levels are stressed over the costs of housing.

County	Total Households	ALICE & Poverty
Benton	39,350	44%
Clackamas	161,945	38%
Clatsop	16,649	45%
Columbia	19,933	47%
Coos	27,627	46%
Curry	10,788	41%
Douglas	45,981	52%
Jackson	90,817	43%
Josephine	36,755	55%
Lane	144,166	43%
Lincoln	22,093	42%
Linn	51,347	45%
Marion	124,719	46%
Multnomah	348,216	46%
Polk	33,425	39%
Tillamook	11,381	49%
Washington	233,615	41%
Yamhill	38,988	46%

Using Household Income to Assess Laws and Policy

Take 100 households and write their incomes on a piece of paper. Each household will have a different income. Many households will have similar incomes. One household will have the largest income. That household is the top 1%. The next nine households with the most income are the top 9%. The next 40 households with the largest incomes make up the upper 40%. And the 50 households that have less income than everyone else make up the lower 50%. Now apply the above income breakdown to a town, a county, a state or the whole country. If your family had income over \$600,000 you would be in the top 1% of U.S. households in 2022.

It's obvious that government policies, programs and laws apply to families very differently based on how much income a family makes. We believe all government laws, policies and programs should be assessed by whether they help or don't help people at each level of income. This particular way of looking at income and wealth has shaped this proposal and our assessment of Oregon's Wall Street forest owners

1,312,000 households are the top **1%** largest income earners.
50% of all business income and 65% of all capital income* goes to the top 1%.

11,808,000 households are next top **9%** earners of income.
30% of business income & 25% of capital income goes to the next 9% of households.

52,480,000 households make up the next **40%** of households by income. 65,600,000 households make up the lowest **50%** of household income earners.

The lower 90% of all households in the U.S. by income, despite decades of efforts to become "the ownership society," receive just 10% of the money flowing from capital and 25% of the profits from all U.S. businesses.

*capital income = capital gains, interest, rent, and dividends, less corporate taxes.



In 2022 there were a total of 131.2 million U.S. households.

Oregon's Wall Street Timber Companies: Follow the Money

This section is directed to one issue: The flow of timber dollars from corporate timberlands. Where do timber sales dollars go? How many stay local and how many go to cities or out of state?

We suspect big timber owners deliver very few dollars to rural households. Instead, a large portion of timber dollars go to three non-local uses:

1. Income to timber managers, support professionals and other workers living in urban areas.
2. Income used to buy goods and equipment purchased from outside rural communities, diesel fuel and logging and hauling equipment being two such spending streams.
3. Income to company owners, shareholders, investors and other debt owners who hold corporate bonds, equipment leases and debt.

Understanding how cash flows in the modern timber company opens a window into seeing how a land reform proposal makes sense. In Section III we'll describe an ownership proposal that allows more timber dollars to stay local.

Wall Street Timbering

Under Wall Street forest ownership, forest owners either subcontract their forest management to a timber investment management organization (TIMO) or, if the land is owned outright by the company, the business is organized as a real estate investment trust (REIT). REIT and TIMO timber companies, what we call Wall Street ownership, focus on four areas of work:

1. Harvest scheduling, harvest management and log sales.
2. Growing new trees (silviculture) which involves replanting, pest control, stand fertilization and plantation management.
3. Land and road management. Road management involves the local production of rock, new road building and road maintenance. Non-timber land management creates income from hunting and fishing access, the sale of non-timber forest products, mineral rights sales, and site leasing for such uses as cell towers etc.
4. The general administration of the business on behalf of owners and investors. A key responsibility of senior management is to work with the firm's directors to determine the distribution of profits each year.

Quest to Lower Costs

In the timber business, the quest to lower costs is ongoing through the adoption of new methods and machines. The goal is always a smaller but more productive workforce. When timber prices are low, the company may use its muscle to squeeze better deals from subcontractors, labor and suppliers.

As with almost all U.S. businesses, blue-collar productivity has increased over the past 50 years, while inflation-adjusted wages remain mostly flat. This fact is hidden through the much-advertised **average** timber wage. But the **median** wage is what really matters because it's the wage where half of employees earn more and half less.

Big Wall Street forest owners lower their costs through at least three strategies:

1. **Lower labor costs through subcontracting.** Timber operations are generally subcontracted to hundreds of independent firms that do the logging, hauling, road building, reforestation and technical support. Timber companies often provide their employees with quality health care, pension plans, relatively high wages, and year-round employment with job security. The subcontracted workforce is employed under very different conditions. The least secure workers are the reforestation workforce. Log haulers and loggers work in competing small businesses that make up the world of subcontracting.

2. **Lower regulatory and taxation costs through political power and influence.** Most rural voters don't understand the degree of regulatory and tax cost savings corporate timber firms have engineered in Oregon. Adjusted for inflation, our analysis indicates corporate timber firms pay about \$120 million less per year to local governments and schools than they did in 1990.

One reason Wall Street forest companies were able to lower their local taxes was due to Oregon's election financing laws. Oregon is one of five states that have no campaign finance limits. Oregon is the 27th largest state by population but ranks sixth for total corporate money given to the average lawmaker and is first for per capita corporate giving (Davis, 2019). We believe there are good reasons for low taxes on timber and timberlands. But having low taxes so that big timber can send more money to Wall Street investors isn't one of those reasons.

3. **Financial forest management:** The corporate tree farm model is based on financial guidelines such as, for example, the idea of opportunity cost. Based on how an investment pencils out, a company may **believe it is losing money each year harvest is delayed.** Wall Street timber companies grow money, and indirectly grow trees.

The Wall Street way of thinking about money means companies cut timber when money is mature, not when the trees are best to cut for timber volume. Depending on soil fertility, Wall Street companies lose 20% to 50% of potential timber production due to the fact that they set harvest times to sync with the maturity of money not trees.

If Wall Street’s way of viewing the world seems disconnected, remember that investors view life as being about money and how it grows – not about forests, rural communities, or any other real thing. This focused concern with the capital-profit ratio is what makes financial timber companies different from a small business in your town.

We also know that if today’s low-production, return-based timber companies were replaced by community-based, locally owned timber companies, the amount of timber harvested in the future could surpass current output while providing greater income for local communities. This fact of forestry (Curtis, 1994, 1996) has shaped our proposal.

Big Timber Company		What the Company Does		
		Cut & Sell Timber	Grow New Trees	Manage Land & Roads
How to Make the Most Profit	Subcontract Work	Subcontract Logging & Hauling	Subcontract Replanting & Stand Man.	Subcontract Road Building & Maintenance
	Lower Taxes	Control State Tax Policy		
	Manage for Money Not Timber	Net Present Value Project Analysis for Return on Equity		

Timber Sales: Where Dollars Come From

The first thing to recognize is that a company must have sales to bring in income dollars. Log sales are the main source of a company's income but today's timberland owners may also sell hunting and fishing access, rent land for cell towers and, when possible, sell mineral rights. For our story we will focus on timber sales.

A timber company's income equals the price of logs in the market times the volume of logs sold. The price of mill delivered logs may change from month to month just as the amount of timber cut and sold varies month to month. The dance of supply and demand plays out each month in the pursuit of profit.

When log prices are too low a company may cease timber harvest. When log prices are high timber companies will increase harvest and see healthy profits. For example, after the 2008 financial crisis and the collapse of home construction, Northwest #2 Doug fir saw logs were selling for under \$400 per thousand board foot (mbf). In contrast, by 2018 Northwest #2 Doug fir saw logs recovered in price to over \$800 per mbf.

Generally, between 2012 and 2020, #2 Doug fir mill delivered saw logs sold in the \$700 per thousand board foot (mbf) range. (Reimer, 2021). For our purposes here, we'll use an average 20-year, inflation adjusted log price of \$700.

2002 – 2021 Oregon Harvest Volume (1,000 Board Foot) from Industrial Timberlands

2002	2,985,389	2009	1,985,864	2016	2,459,375
2003	2,948,628	2010	2,204,656	2017	2,535,451
2004	3,032,006	2011	2,454,521	2018	2,532,932
2005	2,970,365	2012	2,555,496	2019	2,295,390
2006	3,174,015	2013	2,762,168	2020	2,244,982
2007	2,830,025	2014	2,625,009	2021	2,504,846
2008	2,583,256	2015	2,391,304		

From the above timber harvest volume table, about 52 billion board feet (BF) of timber was harvested on Oregon's industrial forestlands between 2002 and 2021. Assuming an average inflation adjusted sale value of \$700 per thousand BF, total sales equaled \$36.4 billion. A 2019 OPB/Oregonian/ProPublica investigation found that the total inflation adjusted value of private timber logged since 1991 was about \$67 billion.

Whether one uses an income figure of \$36.4 billion or \$67 billion, the goal of this section is to describe where that money likely went. How much stayed in local communities and how much went somewhere else?

Where Timber Sales Dollars Go

There are four levels where timber sales dollars go. The first and basic level is called the **Cost of Production**. This is the money spent on all direct costs of log production and maintaining company timberlands. The remaining dollars are the Gross margin or **Gross Profit**. Costs deducted from **Gross Profit** are indirect company expenses such as selling costs and general administration and management costs. What remains after all other company costs are paid is the timber company’s **Operating Income**. From operating income, taxes and interest charges are paid. This results in the company’s **Net Profit**, profit being what company managers and the business press call “**earnings**.”

The Flow of Dollars in a Timber Company

Timber Cut	X	Log Prices	=	Sales Dollars
Sales Dollars	Less	Cost of Production	=	Gross Profit
Gross Profit	Less	Other Expenses	=	Operating Income
Operating Income	Less	Taxes and Interest Costs	=	Net Profit
For a timber REIT to remain tax exempt, 90% of its net profits must be distributed to shareholders each year.				

First we’ll discuss how dollars are spent on the **costs of production**. We’ll look at who receives money and where those dollars go. Then we’ll visit ‘**other expenses**’ and move on to **operating income** and **net profits**. Lastly, we’ll discuss what is known about where profits go. Importantly, we want to know how dollars at each level might stay in the rural economy.

Cost of Production

Typical timber production costs are:

Equipment – Purchase, depreciation and interest on equipment acquired through loans or leases. This is what the company calls “capitalized equipment depreciation.” Equipment purchased directly is depreciated over time.

Labor – Employee direct wages, medical benefits, and worker’s compensation for timber production, harvest and land management. These costs include all company employed loggers, haulers and road maintenance staff; also replanting and stand managers and planners; company technical staff directly supporting timber production such as hydrologists, fisheries specialists, road and timber harvest engineers, GIS technicians and foresters.

Consumable Supplies – Diesel and other fuels, oil, tires, repair parts and materials, service calls and charges, and any equipment that can be directly expensed. Also in this category are all materials for road building and maintenance.

Contract Services – Logging, log hauling, equipment moving, road building, or other work by independent contractors. Contracted technical services might include surveying, forestry consulting and analysis, aerial photography, etc. Other services might be brush management; helicopter spraying; rodent, pest and beaver management; and aerial fertilization.

Local Timberland Administrative Overhead – Timberland field office and shop rent and/or maintenance, mechanics, phone, electricity, training expenses, licenses and permits, property taxes, heating and any other costs spent directly in timber operations or land management.

What’s your guess on how many cost of production dollars are spent in the rural economy? We estimate that less than 40% of the cost of production is spent in rural communities. One thing is certain: Wall Street timber companies have no reason to consider the issue. The welfare of small rural towns and local economies does not enter their spending decisions.

Cost of Timber Production	
Dollars Spent in Rural Economy	Dollars Spent in Urban Economy or Out of State
Wages for Rural Loggers	Wages for Urban-Based Loggers
Payments to Rural Contractors: Logging and Hauling	Payments to Urban-Based Contractors: Logging and Hauling
Rural Sourced Supplies & Services	Urban Sourced Supplies & Services
None	Support Professionals & Managers
None	Insurance & Bank Fees
None	Fuel & Related Purchases
None	Purchase or Lease of Equipment
None	Medical Insurance & Retirement Funds
Local Administrative Overhead	Local Administrative Overhead

In 2021 Weyerhaeuser reported \$2.17 billion in timberland sales. They claim the cost of production was \$1.65 billion (76% of all sales dollars), with \$521 million Gross Profit. The company includes in their costs of sales \$261 million in non-cash depletion, depreciation,

and amortization (DDA) expenses. Removing the DDA dollars from the Cost of Sales means the company paid out about \$1,389 million cash (64%) to produce the timber sales.

Weyerhaeuser Timber Division cash flow based on the 2021-10k report

Log Volume	X	Market Price	=	\$2.17 billion Total Sales
\$2.17 billion Total Sales	Less	\$1.65 billion Cost of Production	=	\$521 million Gross Profit
\$521 million Gross Profit	Less	\$57 million General Expenses	=	\$464 million Operating Income
\$464 million Operating Income	Less	Taxes and Interest	=	Net Profit

Weyerhaeuser says they sell their Canadian Crown Land timber to their mills at cost. Because Weyerhaeuser is a U.S. REIT, the company must sell its U.S. timber production at fair market value to their mills and calculate costs in some way to arrive at Net Profit.

General Expenses

Once the direct costs of timber production have been paid, a company is left with its Gross Profit. From Gross Profit, the company pays many general or companywide expenses.

Gross Profit also pays the salaries of some mid-level and top management, which may include **corporate leadership team bonuses**. Included in the compensation for company employees not directly involved in timber production are payments for medical insurance and other benefits.

Gross Profit also pays for many general expenses such as legal and accounting staff, the HR and IT departments, public relations and advertising, political lobbying, various forms of insurance, and, when publicly owned, stock buybacks. Stock buybacks are another way to send money to investors and top managers. In 2021, the Weyerhaeuser board approved \$1 billion in stock buyback authority.

Other Company Expenses			
Rural/ Local	Urban Centers	Out of State	Out of Country
Replanting	N/A	N/A	N/A
Community Donations	Community Donations	N/A	N/A
None	Lobbying, Advertising, Legal and Financial Services	Lobbying, Advertising, Legal and Financial Services	Lobbying, Advertising, Legal and Financial Services
None	Corporate Services Purchased	Corporate Services Purchased	Corporate Services Purchased
None	Bonuses & Executive Compensation	Bonuses & Executive Compensation	N/A
None	Stock Repurchases	Stock Repurchases	Stock Repurchases

After ‘other expenses’ are paid, a company ends up with its Net Operating Income. A company’s yearly operating income may swing wildly based on log prices. The timber industry generally does not report many details regarding operating expenses. But sales revenue and operating income are reported for publicly held companies.

Rayonier, the nation’s largest seller of raw timber, reported operating income for 2021 of \$269.8 million. Like Weyerhaeuser, Rayonier is a Real Estate Investment Trust. Weyerhaeuser for 2021 reported timber operating income of \$464 million.

Taxes & Interest Expenses

From Net Operating Income are deducted corporate income taxes and other taxes, and interest expenses on corporate debt. What remains is the company's Net Profit.

Taxes & Interest				
	Rural/ Local	Urban Centers	Out of State	Out of Country
Corporate Taxes	Property Taxes	Property Taxes & State Income Taxes	Federal Income Taxes	N/A
Interest on Debt	None	Generally, interest payments on corporate bonds and other debt obligations go to wealthy individuals across the nation and the world.		

Net Profit

Net Profit is distributed to a timber company's **owners and investors**, which is, after all, the purpose of the corporation. For example, in 2021 Weyerhaeuser paid cash dividends on common shares of \$884 million. So, where do timber industry profits go?

Net Profits: 0% to 20% of Timber Sales (Depending on log market)			
2002-2021 Timber Sales Estimate = \$32.7 billion Industry Timber Profit @ 10%: \$3.27 billion			
Rural/ Local	Urban Centers	Out of State	Out of Country
Little to None	65% to Domestic Investors & Shareholders = \$1,694,400,000		35% to Foreign Investors & Shareholders = \$915.6 million

Here is what is known about U.S. stock and business ownership:

(1) 35% of stock dividends flow to people living outside the U.S.

(2) Of stockholders living in the U.S., 90% of all dividends go to the wealthiest 10% of U.S. households and 60% go to the wealthiest 1%.

(3) According to the Congressional Budget Office, the top 10% highest income households (ranked by income before taxes and transfers) received over 80% of business income.

(4) The top 1% highest income households received over 50% of business income.

If we add bondholders to the above households and look at capital income (capital gains, interest, rent, and dividends, less corporate taxes):

1. The top 10% highest income households receive nearly 90% of capital income.
2. The top 1% income households receive nearly 65% of capital income.

The above facts lead us to conclude; Industrial forests of western Oregon are managed to generate profits for elite timber owning families, wealthy shareholders, investors and company bondholders. Based on an industrial forest area of 4.4 million acres, we believe that 3.8 million acres of industrial forestland are dedicated to sending profits and interest payments to the top 10 percent of the wealthiest U.S. and global households, and 2.7 million acres generate profits only for the richest 1% of U.S. households.

Because most of Oregon's timber companies are closely held companies, we don't have a window into their books. There's no one way to exactly know where big timber's sales dollars go. Any approach can be argued with. Our description of where timber money goes seem reasonable and we're honest about where we speculate or have hard data.

Take a look at the forests near your home or town. Our work indicates that most income from timber sales goes to urban areas and large cities or out of state while the profits go to the richest people in the U.S. and the world. And those people who receive timber industry profits generally pay income tax on those profits at a 20% capital gains rate.

The Organization of Corporate Timber Companies

In broad outline, the industry is made up of investors/owners, corporate management (working on behalf of investors/owners), subcontractor firms and a compartmentalized workforce at the level of forest operations.

When a corporate firm employs contractors, the company is prohibited from the direct supervision of the timbering workforce. The land owning or managing corporation can set standards and specify the work to be done, but the management of the contracted firm, must, by law, be in charge of its employees. This means the contractor, not the firm, decides how work is to be performed. This legal fact provides a firewall between the corporate timber company and its forest workforce. Most timber and reforestation workers are isolated in small competing firms. Isolation limits communication between workers about common issues like working conditions, pay level and benefits.

Logging Contractors

The responsibility to conduct highly efficient logging operations, assemble the right machinery and crew, and assume risk falls on the logging contractor. Logging contractors face the following common problems:

1. Unfair contract practices due to big timber's market power to dictate inadequate compensation or unfair terms.
2. Workforce turnover, which impedes production and safety.
3. Contractors who are economically stressed have difficulty expanding when necessary.
4. Low timber contractor profits that are common in comparison with similar trade industries.

Log Hauling

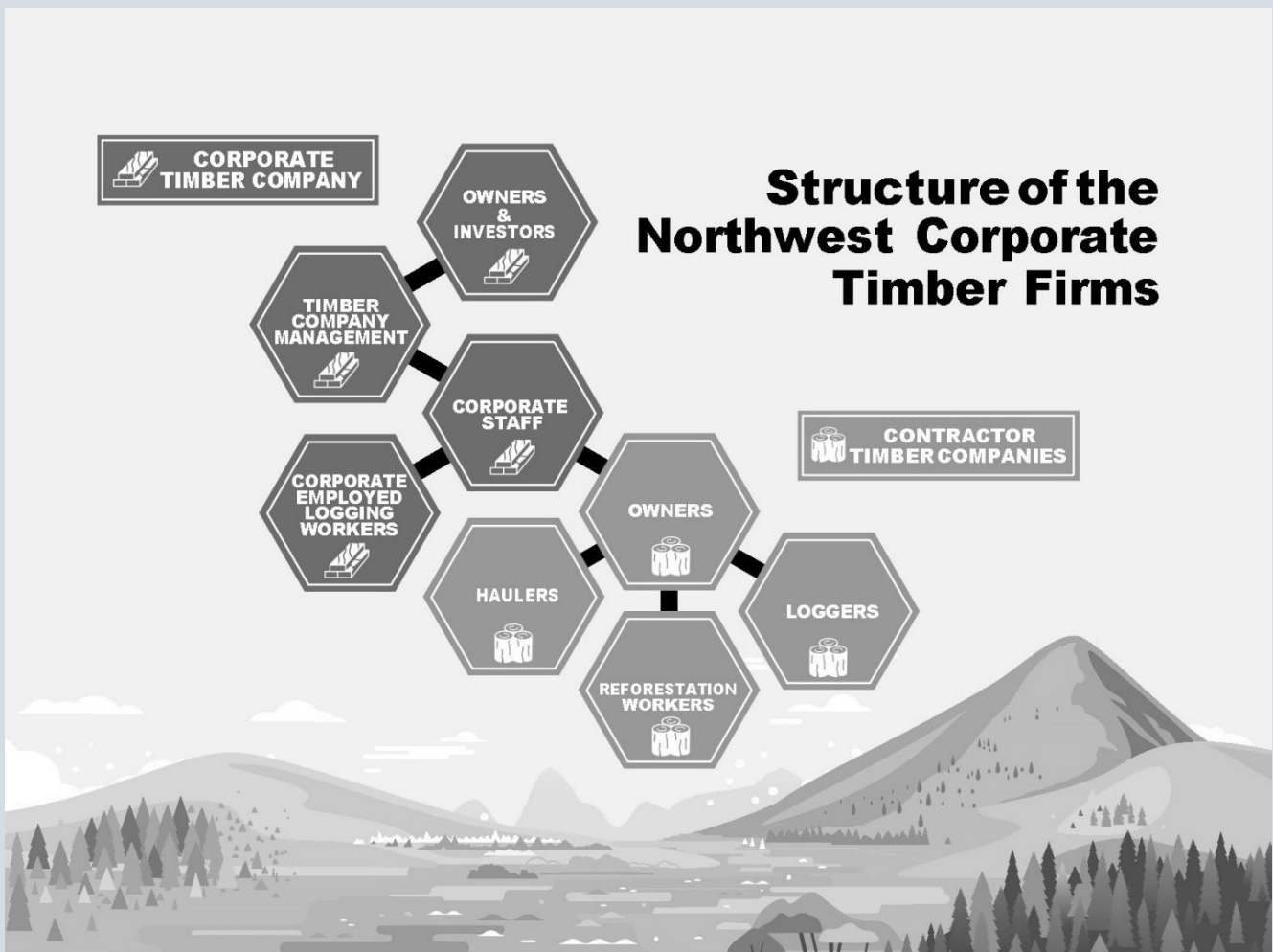
Everywhere in western Oregon log trucks are seen on the highways and byways. Given how narrow and winding logging roads are, driving a log truck requires a highly skilled driver. Average hours worked per year are high: 45 work weeks averaging 12 hours per workday. This equals 2,700 hours per year, which is about one-third more hours than a full-time job.

The log hauling profession is economically stressed and comprises an older workforce. Due to the high degree of skill needed and the long hours with modest compensation, recruiting

new drivers is an ongoing problem. The log truck workforce undoubtedly must feel at-risk from any increase in fuel prices, health care costs or taxation.

Reforestation Work

After timber harvest, by Oregon law, a clearcut must be replanted. Forestry work to re-establish a forest stand is called reforestation. Reforestation involves the repetitive planting of seedlings; planting in rough terrain; working in extreme temperatures and inclement weather; exposure to plants such as poison oak and ivy, and possible exposure to freshly sprayed pesticides. As with all contract work, there is constant pressure to work harder and faster. The Oregon reforestation workforce is dominated by workers of Mexican and Central American heritage, many of whom are employed through an H-2B temporary work visa.



Community Forest Ownership & Community Owned Business

Land ownership is the foundation of the timber enterprise. Ownership confers control under state law. In nations with a common law tradition, such as the U.S., land ownership is through fee title.

Based on information we presented in Sections I and II, we believe the path to building greater rural wealth requires that communities become owners of local forestland. Our proposal is to change the ownership of Wall Street owned timberlands to a business model that benefits rural communities. Land ownership is the key to directing forest revenues toward communities and not distant wealthy investors and owners.

Forest ownership by community-based businesses is compatible with rural beliefs. Many rural towns own and manage their local watershed for drinking water. Coos County owns 15,000 acres of forestland in support of county income. The county website says, “The Forest is located in the westerly portion of Coos County. The Beaver Hill/Seven Devils unit is a 12,000-acre block located about 8 miles south of Coos Bay. The Daniels Creek/Blue Ridge unit consists of 3,000 acres in two blocks located approximately 12 miles southeast of Coos Bay.” See: <https://www.co.coos.or.us/forest/page/general-information-and-history>

Nothing radical is being proposed. Transferring corporate land ownership to new local companies may appear daunting, but bear with us as we explore how such a transition might occur. It must be remembered that Oregon’s industrial forestlands have changed hands many times over the past 60 years. Some large holdings have been bought and sold three or four times. We are proposing one more change in ownership.

Our proposal for new land ownership and a new business model comes from a realistic understanding of the current forest owners. As long as Wall Street controlled companies own the land and forest, they have a legal obligation to maximize profits for investors and owners. This is a business fact of life. And that fact has a huge impact on how timber is managed and where all the cash from timber sales goes.

A Wall Street owned company must maximize profits as a **return on capital**. Which means, as we explained earlier, that they grow money, not trees. Current Wall Street owners sacrifice 20% to 50% of saw timber production. Of course, such companies always seek to limit wages. They fight wage increases and, when possible, swap an

employed worker's paycheck for a machine's lease payment. Going from wages to machine lease payments, something management will brag about, means cash that went to a local paycheck now goes to a rich investor who likely financed the lease.

How Much Will It Cost?

Under the U.S. Constitution private property cannot be confiscated. Land must be bought at fair market value. Let's look at a few ways to view a large timberland purchase. There is a big difference between ordinary people buying land and big money buying land.

Some people will argue that industrial forestland is worth \$5,000 or more per acre depending on the size of the trees. Perhaps that is a real price for a small landowner wishing to buy timber company land next to their home.

Strategy 1: Buy the Company

In 2016, Plum Creek Timber Company was bought by the Weyerhaeuser Company. Plum Creek owned approximately 6.2 million acres of timberlands located in 19 states. Weyerhaeuser paid \$8.4 billion to acquire Plum Creek. This is about \$1,355 per acre of timberland or \$1,668 in today's dollars. Admittedly, a good portion of Plum Creek's timberlands was in the interior West and not of western Oregon's timberland value.

Monk, B. (2015, November 9). Weyerhaeuser, Plum Creek merge in \$8.4 billion deal. Retrieved from <https://www.bizjournals.com/seattle/blog/2015/11/weyerhaeuser-plum-creek-merge-to-form-one-of-the.html>

To be generous, let's assume Weyerhaeuser's western Oregon timberlands are currently worth \$3,000 per acre in a Plum Creek size acquisition. Which translates to a \$5.265 billion dollar purchase. That's serious money. However, it is only an Oregon per capita bonded debt obligation of about \$1,254, and \$1,254 is only 37% of the school bond obligation residents of Corvallis passed in 2020 to rebuild all schools for earthquake safety. In other words, if the citizens of Oregon and its elected leaders wanted to see Wall Street forest ownership end, the financial muscle and legal power exists to achieve that objective.

But let's think more creatively. Perhaps the forest could be legally had at little cost. All the state would have to do is play the game Wall Street plays every day.

Strategy 2: Hostile Takeover

Currently (3/24/2023), Weyerhaeuser's market capitalization (the value of all its stock shares) stands at almost \$21 billion. Offering a 30% stock premium (\$6.5 billion) for a hostile acquisition purchase means that for around \$13.6 billion a majority stake could be had in the company. Such control gives a takeover group a leading company for lumber, extensive domestic and foreign market channels, and 12.4 million acres of U.S. timberland plus 14 million acres of licensed Crown lands in Canada.

Removing 25% of the company's value for its milling and manufacturing capital, leaves a market cap value of almost \$20.7 billion or \$784 per forest acre owned or leased. Even accounting for its corporate debt, Weyerhaeuser is an undervalued company. In other words, its parts are worth more than the whole company. An ambitious investor group led by the state of Oregon, could likely acquire Weyerhaeuser's 1.75 million acres of in-state forests for far less than the land's standalone market value.

We don't know why anyone in Oregon would object to a hostile takeover strategy to acquire Weyerhaeuser. After all, in 2002 no state political leaders objected when Weyerhaeuser acquired Oregon's largest forest products company, Willamette Industries, in a hostile takeover.

Building a Vibrant Rural Forest Economy

Our proposal is not a threat to small forest owners. In fact, land reform is the best option to reverse the erosion of small forest holdings. As we stated earlier, over 600,000 acres of small forestland ownership has been lost to corporate forest owners. A close analysis of prior ownership patterns will likely identify many forest acres suitable for resettlement through small-scale farming and small woodlot ownership.

The question we asked ourselves is this: Who will own forestland and what business models will govern forest management? These are reasonable questions since our concern is about where the forest's wealth goes.

Fortunately, we do not need to look far because a business model exists across Oregon's rural landscape. As an outcome of the 1930s New Deal, social benefit models of business are all around us. And many alternative forest management strategies exist to support such enterprise. Foresters, not bankers, could once again become essential to the management of forests.

Community Benefit Business

The structure of new forest businesses that we propose will range from member-based cooperatives to local government. Specific language in the corporate charter of new forest businesses will emphasize service and benefit, to either a local area or an organization's members.

All land conveyed to a new forest enterprise will come with a *working forest production easement* held by a third party. The easement will be required for financing grants. The easement ensures and specifies future forest growth for high productivity and prevents forest conversion to other uses. Just as current corporate owners are constrained by financial mandates requiring early harvest, new working forest easements will constrain harvest and ensure that a forest matures toward culmination of mean annual increment and the social benefit mission of the owning business.

In all cases, the basic business model will be directed toward increased forest growth within a range of forest management strategies. Different forest management strategies will increase or decrease the rate of forest growth and higher timber production per acre. Debates over specific forest management issues such as, for example, aerial herbicide spraying, can be settled locally by communities and forest co-op members.

The Business Model

We draw inspiration from the ownership and business model of rural electric co-ops. Electric cooperatives are incorporated under state law as nonprofit corporations and granted federal tax-exempt status under IRS section 501(c)(12), provided that 85 percent or more of their annual income comes from members. Federal tax-exempt status will apply to new forest owning companies.

The University of Wisconsin Center for Cooperatives explains the electric co-op model in the following passages:

“Each rural electric cooperative (REC) customer is a member-owner, and membership is a requirement of all customers. Since most RECs operate as monopolies, consumers must become cooperative members if they wish to purchase electricity. Members elect a board of directors from among the membership on a one-member/one-vote basis.”

“As with other cooperatives, RECs strive to operate at cost. However, like other businesses, RECs must accumulate equity capital to support their operations and new initiatives. Because the members are owners of the cooperative, when the REC has net earnings (i.e., revenues exceed expenses), or margins, those margins are returned to member-owners based on patronage.”

“Among the REC cooperatives, the amount of margin allocated to each member is called a “capital credit.” Capital credits are allocated to members’ accounts, but the underlying value is retained by the cooperative for a period of time. Most RECs have capital credit retirement programs, by which the cooperative gradually returns the value of past allocated capital credits to members. In most cases, members receive the value of their capital credits as a deduction on their electric bill.” (University of Wisconsin Center for Cooperatives)

There are 1.9 million electric utility customers in Oregon, 1.64 million of which are residential accounts. Wall Street owned utilities charge 20 to 40 percent more per kilowatt-hour (kWh) than cooperatives, municipalities or people’s utility districts (Ackerman, 2014).

No one has ever asserted that public benefit utilities provide poorer service or under-perform compared to private investor-owned utilities. The excellent performance of public benefit utilities is one reason the state of Nebraska has electric service entirely from cooperative and municipal utilities.

Community benefit business models are tried and true business models, often more familiar to rural people than city dwellers. The need to convert industrial corporate lands to community benefit ownership is a reasonable response to the main issue: having more income flow into rural communities.

Conclusion

The reason western Oregon’s industrial forests offer a big opportunity for rural economic development is simple: Oregon’s 4.4 million acres of industrial forests exist as tree plantations cut on short intervals. While tree growth in young stands is high, 20% to 50% of potential timber volume is lost using the standard financial cut cycle.

Forests owned by Wall Street financial capital cannot serve the interests of local communities. We don’t believe many people will disagree with such an opinion. Our

analysis has followed the money of timber income and clarified who does and does not benefit from today's ownership. Whether you agree with our land reform or forest business solution, we hope our explanation of cash flow and company operations is of value.

We conclude that the best path forward is to buy out Wall Street controlled forestlands through land purchase grants and transfer forest ownership to local social benefit companies. New social benefit forest ownership will help solve problems currently being swept under the rug.

We've presented information here on Oregon's rural social and economic conditions. The mapped population change between the 1990 and 2020 censuses is new research by the Coast Range Association. Rural population change between 1990 and 2020 reflects the abandonment of the rural economy at a national and state level.

The extent to which smaller forest owners have been acquired by large industrial owners is a big issue rarely mentioned by political leaders. The fact that more than 60% of timber company profits and interest payments flow to the wealthiest 1% of U.S. households explains much about rural economic distress and population growth. And the flow of these dollars to the wealthiest people is not an issue discussed by either major political party.

Any strategy to build rural prosperity must address a fair outcome for the entire forest workforce. And that is what our proposal would make possible. What we are proposing for western Oregon's industrial forests is common sense.

Local, social benefit business is a tried and true business model. Such businesses currently work in many communities ranging from municipal water service to the co-ops that deliver rural electricity and telecommunications.

Dramatic disruptions to society's economic fabric are never undertaken lightly. Rapid social change generally occurs during times of crisis and stress. The economic crisis is here now every day in rural Oregon. While the future cannot be known, our assessment is that the proposal we offer is a reasonable strategy to revitalize rural Oregon.

Opportunities to rebuild the U.S. economy and rebalance productive capital for social benefit are all around us. Transitioning Oregon's industrial forests to a people centered, productive future will improve people's lives and ensure a prosperous future. We offer this analysis and proposal in the spirit of solidarity with those who labor in the woods today.



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