

Forest Lands Taxation Advisory Committee Meeting Minutes 03/10/2022

<p><u>Committee Members Present:</u> Chairwoman Becky Beard Rep. Marylin Marler Sen. Pat Flowers Sen. Mike Cuffe Gordy Sanders Paul McKenzie Nancy Mehaffie Randy Mannix Greg Chilcott</p>	<p><u>Department of Revenue Staff:</u> Scott Mendenhall-Deputy Director-DOR Nick Gochis-PAD Ed Caplis-TPR Dylan Cole-TPR Jared Isom-TPR Kory Hofland-PAD Robin Rude-PAD Bryce Kaatz-PAD Bonnie Hamilton-PAD Sheila Stenzel-PAD Bill Billman-PAD</p>
<p><u>Public/Guests:</u> Julia Altemus-Montana Wood Products Assoc. Megan Moore-Legislative Services Division Allen Chrisman-Montana Forest Owners Assoc. Brian Hobday-Montana Area Manager for Green Diamond Resource Company Bill Wilsey-Private Montana Citizen Don Patterson-Stimpson Lumber John Baucus-Private Forest Landowner</p>	<p><u>Presenters:</u></p>

- I. Chairwoman Beard called the meeting to order at 9:00 with roll call, housekeeping, and review of minutes from last meeting. The agenda for this meeting was read. She reviewed the statutory requirements for the committee. Key future dates are: Final Draft to Revenue Interim Committee by August, with Final Report and Recommendations due to the Revenue Interim Committee in September.
- II. Sen. Flowers stated that it was brought to the Subcommittee’s attention by Bill Wilsey, that some of the data may have been mis-labeled and that this would be addressed during the housekeeping agenda item for the full committee. Dylan Cole explained the confusion as a couple of counties may have switched zones, which led to the concern from a member of the public. He assured the committee that the model and regression are sound.
- III. Chairwoman Beard asked for the adoption of the minutes from the last committee meeting, the minutes were adopted.
- IV. The Subcommittee Report was reviewed for the committee. Jared Isom discussed the adjustments and assumptions that were used in the model. He also stated that there have been a few changes to the variables that have not been discussed with the Subcommittee yet, and that they added 2020-2021 data to the model to see what it

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looked like. Bonnie Hamilton discussed the Capitalization Rate Memorandum. Gordy Sanders discussed the Subcommittee recommendations regarding the zones as they currently exist. Ed Caplis discussed the averaging methods the Subcommittee has considered. He stated that a possibility could be using an “Olympic Average”, where the data is over a 10-year period, but the highest and lowest are removed from consideration on determining values.

- V. Chairwoman Beard asked that the regression parameters be discussed. Jared gave the committee an outline of what parameters were included. Discussion ensued. Paul McKenzie suggested that data from 2020-2021 be included to ensure the regression works.
- VI. Kory Hofland talked about the reappraisal cycle for forest land and stated that a 2-year cycle would be appropriate to reduce “sticker shock” for the taxpayer. He also stated that the values on a 6-year cycle means the values become stale over time leading to “sticker shock” and that the DOR would support a 2-year cycle. Gordy agreed that a 2-year cycle should be looked at to allow the DOR to be more efficient, since the department would not be re-learning how to evaluate forest land and stumpage value. Sen. Cuffe asked about the cost to DOR to go from a 6-year cycle to a 2-year cycle. Deputy Director Mendenhall stated that a 2-year cycle would likely be more efficient. Ed stated that TPR could move to a 2-year cycle with no change to staff. Kory stated that he does not foresee any cost to moving to a 2-year cycle for PAD. Further discussion ensued.

1) Randy Mannix asked if the amount of data would still be 10 years if the timing was changed to a 2-year cycle. Bonnie stated that the data set would still be 10 years, but instead of throwing out the oldest 6 years and adding the newest 6 years, a 2-year cycle would only exchange the 2 oldest years of data, making the results less volatile. Paul McKenzie stated that going to a 2-year cycle would also eliminate phase-in and the confusion it brings.

2) Sen. Flowers asked about switching to the “Olympic Average” and if that would be a reasonable recommendation to the Revenue Interim Committee. Robin Rude addressed that question, stating that this method is already being used by the DOR for agricultural properties and that it would help level the peaks and valleys of the model output.

3) Nancy Mehaffie expressed some concern that there is quite a bit of discussion about saving DOR money, but there has been little discussion about how going from a 6-year to a 2-year cycle would help the taxpayer. Kory stated the department could present a fact sheet by the next committee meeting showing pros and cons of the change.

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- VII. Chairwoman Beard asked for policy recommendations. Paul stated there are four elements to the recommendations: zones, stumpage values, capitalization rate, and a reasonable taxable percentage. Paul stated and Gordy agreed that the data from 2020-2021 should be included in the discussion regarding recommendations. Gordy added that the 10-year Olympic average would be a policy recommendation the subcommittee would want to be incorporated with the overall work of this committee.
- VIII. Chairwoman Beard asked Bonnie to discuss the FLTAC summary report. Chairwoman Beard then asked if there were comments from the committee. Discussion ensued. Chairwoman Beard put forth a motion to have the report presented to the Revenue Interim Committee by the DOR at their next meeting, April 18-19, 2022. Motion was passed. Randy asked if a property owner could appeal the property classification if the property does not meet the threshold of 100 board feet per acre. Bonnie stated that number is in statute, so the property owner could have an independent study completed for consideration.
- IX. Paul suggested the report be presented in June. Bonnie stated she spoke to Megan Moore, Legislative Services Division, and that the recommendations should be presented in April or June. Discussion ensued. Megan Moore stated that the draft legislation would need to be ready by September, so if the committee waits until then, the Revenue Interim Committee would be required to discuss and approve in the same meeting, with no opportunity to make changes. Discussion regarding timelines, budgets, and changing to a 2-year cycle ensued.
- X. Chairwoman Beard opened the discussion to the public. Allen Chrisman, President of Montana Forest Owners Association, requested that the committee continue to take a conservative approach and commented that 2020-2021 data should be included in the regression. He stated that forest landowners have more risk than agricultural landowners and supports a 2-year cycle. Bill Wilsey, private citizen, asked about Senator Cuffe's county residence. He stated that the data being used was bad because county 56 is grouped in forest zone 2, and Mr. Wilsey stated it should be in forest zone 1. He also stated all properties west of the divide are valued wrong, and that the DOR should re-run the regression to correct what he perceives to be an error. Ed Caplis stated he would be happy to walk through the data with Mr. Wilsey and provided his phone number. Julia Altemus, Montana Wood Products Association, had a comment but had technical difficulties, so she stated her comments in the chat. She thanked everyone for their efforts and the hard work they put in on this project and stated MWPA has over 900,000 acres of industrial timberlands.
- XI. Chairwoman Beard moved to the scheduling of the next meeting. The Revenue Interim Committee meets on April 18-19, so the committee stated that earlier in April would be better to have the opportunity to provide preliminary recommendations to the Revenue Interim Committee. It was decided that the next meeting would be 9:00 a.m. Thursday

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April 7, 2022. While discussion about next meeting was ongoing, Dylan looked back at the data from Dr. Jackson. The DNRC sales data had the counties listed by name where Dr. Jackson assigned a number. Mineral County and Lincoln County were mis-numbered by Dr. Jackson, which may have created some confusion for Mr. Wilsey. Dylan stated the sales were put in the correct zone.

- XII. Meeting was adjourned at 10:35 AM.