

Forest Land Taxation Advisory Committee Meeting
April 8, 2014
Venue: Mitchell Building, Yellowstone Room
125 N. Roberts

Committee Members Present

Jean Curtiss
Kelly Gebhardt
Scott Settle
Steve Flynn
Doreen Stokes
David Affleck- on phone, mid-meeting

Department of Revenue Staff and Other Guests

Mike Kadas- Director, DOR
Cynthia Monteau Moore - Administrator, PAD
Bonnie Hamilton - Ag/Forest Management Analyst, PAD
Frank McCall - Ag/Forest Management Analyst, PAD
Michele Crepeau - Attorney, DOR
Ed Caplis, Director TPR, DOR
Katrina Garrod - Executive Assistant, PAD
Dr. David Jackson- UM Professor Emeritus, Guest
Paul McKenzie- Stoltze Lumber, Guest
Jaret Coles- Montana Legislative Services, Guest
Megan Moore- Montana Legislative Services, Guest
Jim Kranz- Plum Creek, Guest
Bob Story- Montana Taxpayers Association, Guest,
entered mid-meeting

I. Greetings, Mike Kadas, Director

Chairman Kelly Gebhardt called the meeting to order at 10:05 a.m. All in attendance gave a brief introduction of themselves. Chairman Gebhardt suggested that committee members and the public be allowed to comment on agenda topics throughout the meeting, rather than save discussion for the end. Director Mike Kadas agreed. Director Kadas then asked that committee members put aside their own self-interests, and use their expertise to help provide the fairest mechanism for valuing forestland.

II. Approval of Minutes

Chairman Kelly Gebhardt requested the committee entertain a motion to approve the minutes.

Motion: Steve Flynn.

The motion is to approve the minutes.

Second: Jean Curtiss.

Vote: Yes- 5; No- 0. Motion carries unanimously.

III. Prior Meeting Follow-up, Bonnie Hamilton and Frank McCall, Management Analysts

a. Analysis of Valuation Formula and Appraisal Processes

Frank McCall described the valuation formula. He explained that each zone has its own unique stumpage value cost and agricultural income. Dr. David Jackson, University of Montana professor emeritus, determined the stumpage value. The forest costs are determined by the department with data and consult from the Department of Natural Resources and Conservation (DNRC).

b. Analysis of the Capitalization Rate

Frank McCall and Director Mike Kadas explained the statute regarding the capitalization rate. Section 15-44-103 (6), MCA, reads as follows: "The capitalization rate must be calculated for each year of the base period and is the average capitalization rate determined by the department after consultation with the forest lands taxation advisory committee, plus the effective tax rate. The capitalization rate must be adopted by rule. However, the capitalization rate for each year of the base period for tax years 2009 through 2014 may not be less than 8%." Historically, the cap rate was tied to the Federal Land Bank interest rates. Frank showed a slide of current interest rates averaging in the 5-6% range. There was discussion about whether the current cap rate is set too high at 8%. Chairman Kelly Gebhardt suggested that the committee recommend a capitalization rate.

c. Statutory and Administrative Rule Recommendations

Frank McCall described the difference between statute and administrative rule. .Administrative rules are adopted through a public hearing process to assist the department in administering laws. Chairman Kelly Gebhardt recommended that the committee read through the rules and make sure everything looks accurate.

d. Natural Disaster Discussion

Frank McCall explained that 15-44-104, MCA, regarding natural disasters states, "Forest lands upon which, at any time after December 31, 1993, trees are destroyed by fire, disease, insect infestation, or other natural disaster so that the lands affected will not meet minimum stocking requirements are eligible for a reduction in value for the first 20 tax years following the loss." Within that statute, forest land must contain at least 10% stocking of live trees prior to the natural disaster and contain 10% stocking or less of live trees after the occurrence of the natural disaster. The committee agreed that this does not work for all tree types and that the rule should be reviewed. Director Mike Kadas suggested that the committee recommend the department review the rule and to look at all the different variables involved in natural disaster.

IV. Final Report: Stumpage Values and Forest Zones, Dr. Dave Jackson

Dr. Jackson discussed the number of sales used to determine stumpage values in the 2009 reappraisal versus the number of sales available for 2015. There was a shift in the location of Montana timber sales, with a small increase in sales in the Northwest and Central zones, and a decrease in the Southwest and Eastern zones. The Northwest zone accounts for 61% of the sales used for the current analysis, as opposed to 38% for the 2009 cycle. Dr. Jackson suggested moving Lewis and Clark County to the Central zone. Due to the change in milling infrastructure, the spatial pattern of log flows, and general timber characteristics. Stumpage values for each zone were presented.

Timber values in each zone (\$/MBF 4th quarter 2013 dollars)

a. Northwest Montana	\$188.15
b. Southwest Montana	181.15
c. Central Montana	103.55
d. Eastern Montana	14.61

Percentage changes in timber prices from previous to current appraisal were also presented.

e. Northwest Zone	49% decrease
f. Southwest Zone	43% decrease
g. Central Zone	46% decrease
h. Eastern Zone	89% decrease

Dr. Jackson discussed the technical aspects of the statistical regression analysis used in determining the Central, Southwest, and Northwest zone timber values. He suggested that the

methodology that the department is required to use resulted in higher forestland values during the economic downturn, and lower forestland values during periods of prosperity or upturns, as we seem to be experiencing now. There was a detailed discussion of the statistical regression model that Dr. Jackson used for the Northwest, Southwest, and Central zones and the different methodology used in Eastern Montana due to the lack of green timber sales. The committee discussed including the United States Forest Service (USFS) and Bureau of Indian Affairs (BIA) sales in Eastern Montana. The sales were converted to a common unit of measure using conversion factors from previous appraisals adjusted for purchasing power, then converted to a 4th quarter, 2013 dollars. Dr. Jackson noted that this equation could be used for shorter reappraisal cycles.

After Dr. Dave Jackson completed his report summary, committee members and guests made comments on the report. Jean Curtiss asked Jim Kranz of Plum Creek if the numbers in the summary were adequate representations. Mr. McKenzie replied that the numbers were reasonable for mass appraisal purposes. Other committee members agreed with his comment.

V. Forest Costs and Valuation Examples, Frank McCall

Frank McCall reviewed the zone re-arrangement as determined in Dr. Jackson's final report. Each zone will have its own unique stumpage value, forest costs and agricultural income. There was a brief discussion regarding the change in value on forestland. Frank explained that the information used in developing forest costs are obtained from the Department of Natural Resources. Staff at the Department of Natural Resources also reviewed the department's analysis of forest costs. Frank McCall also explained his methodology for determining the agricultural income associated with forest lands.

VI. Forestland Reappraisal Impact, Ed Caplis, Director of Tax Policy and Research

Ed Caplis was introduced. He explained that under current law, if we apply the current valuation formula and current cap rate, the taxable value on forestland will decrease. He explained that barring a

change in law, or to the valuation process, such a reduction in the taxable value of forest land may result in the increase of some county mill levies.

Mike Kadas commented that because of the low tax rate on forest lands, the total taxable value on forest lands is relatively small.

VII. Action Items and Roundtable Discussion

a. Recommend approval on Dr. Jackson's final report

Dr. Jackson's report was discussed, in particular his reliance on DNRC and other government agency sales. Dr. Jackson pointed out that using this database continues to be the only reliable source of sales and forest income data. It would be difficult to get reliable data from the private sector without a change in law to require them to divulge this information. It was suggested that the department continue to explore other sources that could be used to develop stumpage values on timber land.

Motion: Jean Curtiss.

The motion is to recommend that the Department of Revenue accept Dr. Jackson's final report with the stumpage value calculations and the change in zones.

Second: Scott Settle.

Vote: Yes-5; No-0. The motion was carried unanimously.

i. Stumpage value calculations and zones

Motion: Chairman Kelly Gebhardt.

The motion is to recommend that the department continue to explore additional sources of data for calculating stumpage values, including timber sales from private land owners.

Second: Jean Curtiss.

No further discussion.

Vote: Yes- 5; No- 0. Motion carries unanimously.

b. Recommend approval of DOR forest cost calculations

The committee discussed the forest fire assessment fee calculation. The fire assessment fee can vary from county to county. A suggestion was made that the department recalculate the fire assessment fees and apply them to each county. Frank McCall suggested that since our system is set up to value forestland by zone, and not by county, it would be better to calculate the fees by county, but apply them to each zone.

Motion: Jean Curtiss.

The motion is to recommend that the department accept the forest cost calculations with the fire assessment being calculated for each zone.

Second: Steve Flynn.

No further discussion.

Vote: Yes- 5; No- 0. Motion carries unanimously.

c. Recommend approval of DOR agricultural income on forestland calculations

Motion: Steve Flynn.

A motion was made to accept the agricultural income on forestland calculations.

Second: Doreen Stokes.

No further discussion.

Vote: Yes- 4; No- 0; Abstained- 1 (Scott Settle). Motion carried.

d. Recommend approval on capitalization rate

Motion: Steve Flynn.

A motion was made to recommend that the cap rate remains at 8%.

Second: Doreen Stokes.

No further discussion.

Vote: Motion carried unanimously.

e. Public process to revisit administrative rules on natural disaster process

Motion: Jean Curtiss.

A motion was made to recommend that the Department of Revenue establish a committee to review the natural disaster section of the administrative rules.

Second: Steve Flynn.

No further discussion.

Vote: Yes- 5; No- 0. Motion carries unanimously.

VIII. Meeting Adjourned

The meeting was adjourned at 3:49 p.m.