Memorandum

To: Forest Lands Taxation Advisory Committee

From: Bonnie Hamilton, Department of Revenue

Date: March 1, 2022

Subject: Summary of Committee Work

Project topic summary by meeting

Full Committee

Meeting 1 (July 9, 2021): Committee organization; overview of tasks, goals and plan; chairperson selection

Meeting 2 (August 12, 2021): Overview of current valuation process; department's alternate proposal to determine stumpage value; time-line discussion-including possible implementation date of final decision

Meeting 3 (September 9, 2021): Presentations from Bureau of Business and Economic Research (BBER) and NorthWest Management regarding timber sales and harvest cost data; department's white paper introduced; discussion of a potential bias in stumpage price; subcommittee selection

Meeting 4 (November 10, 2021): Subcommittee spokesperson appointment; request to review zones, other data sources, and variables for the stumpage value model

Meeting 5 (January 19, 2022): Subcommittee report- Jared & Dylan, TPR discussion of the new regression, the results, comparison with the previous model, and possible policy decision for further adjustments to stumpage value. Members identified items to be completed as: 1) contacting BBER to identify DNRC sales premium so an adjustment might be determined and stumpage values finalized, 2) review the forest zones, 3) review the capitalization rate, 4) look at the taxable percentage and, 5) prepare summary report.

Subcommittee: Review white paper; Dr. Jackson question and answer; department's model analysis and development (*Forest Lands Taxation Advisory Subcommittee Summary Report by TPR*); various information sources (USFS, BBER, BIA); capitalization rate (*Capitalization Rate Memorandum*); tax percentages.

Meeting 1 (September 13, 2021): Scope of work- Work with DOR to develop an appraisal process for stumpage value to be used in forest land valuation; management costs and capitalization rates may need review; review residual value, comparable sales

and other appraisal methods, available data sources; develop process for establishing stumpage value to include compiling data, identifying pertinent variable, determine adjustments, establish stumpage for each zone.

Meeting 2 (September 27, 2021): Dr Jackson presented methods used to determine current zones and stumpage values. Discussion on possible DNRC sales premium, use of forest service and state timber sales, insect damaged timber sales, salvage sales, costs and accounting for species mix.

Meeting 3 (October 28, 2021): Dylan, TPR and subcommittee discuss data sources, data collection, relevant variables, residual value approach and building an in-house (DOR) regression model. Issues for that model were discussed such as timber volume, price indices. TPR to develop model.

Meeting 4 (January 6, 2022): Dylan, TPR compared Dr. Jackson's data and their data, explained need for regression model. Subcommittee and TPR discussed these topics at length. Discussion of reverting to agricultural land valuation for tax purposes.

Meeting 5 (January 19, 2022): Jared, TPR discussed the regression model developed including the changes, reasoning for the various components, results. Discussion on different data types, normalization and simple averages. General agreement that a regression model is the better solution.

Meeting 6 (February 7, 2022): Jared, TPR presented subcommittee summary report on developing stumpage values including the regression model, alternative methods and averages. Gordy reported that BBER has no data to confirm a premium on DNRC sales. Bonnie, DOR presented memorandum on capitalization rate, taxable percentages and forest land classification. Voted to maintain the current capitalization rate and current zone delineations.

Committee Progress by Topic

Topic			Subcommittee	Committee work	Decision
organization, tasks, goals, plan, scope of work			9/13/2021-2/7/2022	7/9/2021-present	--
valuation components:				7/1/2021-present	--
stumpage value	sales data	DNRC data vs. others, green sales vs. salvage & damaged timber sales	transitioned to DNRC data (not a decision)		
	regression model	reviewed Jackson's, TPR developed	approved method-1/19/2022		
	residual method	TPR analysis	(would be a good QA check)		
	DNRC premium adjustment	BBER has no data to support	move to full committee 2/7/2022		
capitalization rate		Cap rate memo	keep as is 2/7/2022		
zones			keep as is 2/7/2022		
management costs					
forest land use incentive		Cap rate memo			
6-year vs. 2-year cycle					
taxable percentage		(TPR) after other decisions are made			
average taxpayer definition					