

Forest Lands Taxation Advisory Subcommittee Minutes 02/07/2022

<u>Committee Members Present:</u> Gordy Sanders Paul McKenzie Sen. Pat Flowers Nancy Mehaffie Rep. Becky Beard	<u>Department of Revenue Staff:</u> Scott Mendenhall-Deputy Director-DOR Kory Hofland-PAD Robin Rude-PAD Bryce Kaatz-PAD Bonnie Hamilton-PAD (Host) Ed Caplis-TPR Dylan Cole-TPR Jared Isom-TPR
<u>Public/Guests:</u> John Baucus	<u>Presenters:</u>

- I. Meeting was called to order at 2:01 PM by Gordy Sanders, who introduced Bonnie as the host for today's meeting. Motion to approve last subcommittee meeting was put forward and seconded.
- II. There was a general discussion and comment period on the revised forest lands valuation TPR report.
- III. Gordy spoke to representatives from BBER regarding the potential of a premium being paid for DNRC sales, compared to private timber sales. The representative declined to state that a premium was being paid, they don't have the data to substantiate that information. Gordy did state that it is possible that the smaller, shorter contracts for the smaller sales might be giving the impression that the sale is simpler, therefore not as profitable. Paul suggested that there might be some benefit to creating an adjustment to normalize the stumpage value due to possible drastic variations in supply or market value.
- IV. Sen. Flowers asked about the apparent flat curve of the DNRC sales, which generated discussion regarding the results showing in the report. Both Gordy and Paul stated that the shape of the curve was not surprising or unreasonable for a number of reasons.
- V. Gordy asked for input from the TPR team regarding a reasonable stumpage value. The TPR team stated they have provided the numbers from the regression model and suggested the value decision should fall back to the forestry experts on the subcommittee as to a policy decision regarding stumpage valuation and taxation. Sen. Flowers supports the value from the model, but just picking a number probably isn't the best way to go forward; the data from the model should be considered. Paul agreed, and Gordy reiterated that the committee is looking for results that are repeatable and defensible. He suggested that the subcommittee results should go to the full committee for discussion.

- VI. Sen. Flowers asked Kory about any other taxation rules for other land categories that might be similar to what the committee is trying to do with regards to stumpage value. Kory stated that other land categories look at market value. Bonnie stated that agricultural valuation is similar to forest valuation in that the formula is set in statute but the agricultural commodity prices used are derived from those that the producers report to the USDA thus adjustments for agricultural valuation are found in the productivity variable rather than the commodity price except for alfalfa hay. This variable is adjusted per statute but there is no documentation to support or explain the basis for it.
- VII. The next item on the agenda was a brief discussion about the zones as defined by Dr. Jackson, and if any adjustment is needed. The subcommittee discussed and determined the zones were sufficient as is.
- VIII. Bonnie discussed her report regarding the capitalization rate, taxable percentages, forest land classification and Montana's land classifications. Discussion ensued. It was agreed that for now, the capitalization rate should not be changed.
- IX. Public Comment: John Baucus stated he would like to get more information on the inputs to the model and how the legislative process works to determine the CAP rate.
- X. Deputy Director Mendenhall commented that considerations should be made on the 6-year versus 2-year appraisal cycle. He believes the TPR work and methodology potentially allows for a 2-year cycle which would reduce the strain on DOR employees by eliminating the need to reacquaint themselves with the process every 6 years. Kory added that the shorter cycle would also reduce "sticker shock" and make the department more efficient. Discussion ensued.
- XI. Next full committee meeting will be on March 10, at 9:00 AM. Chairwoman Beard outlined an agenda for that meeting. There was discussion as to what types of items would be worth discussion with the full committee, and what other work may need to be done prior to the full committee meeting.
- XII. Meeting was adjourned at 3:12 PM.