

CFTM
 Committee on Forest Land Taxation Methodology
 January 12, 2005
 9:00 AM – 3:00 PM
 1CR5 Idaho State Tax Commission
 Boise

Dr. Schlosser started the meeting at 9:18 AM. A number of the committee members could not be in attendance. Two members of the IFA team were not able to attend this meeting Mark Benson and Kevin Boling. One member of the IAC team was not able to be in attendance, Mike McDowell. Following is a list of those in attendance.

Name	Representing	E-Mail
Larry Watson	ISTC Commissioner	lwatson@tax.state.id.us
Mark Munkittrick	IFOA – CDA	baronflyer@icehouse.net
Phil Davis	Boise County Commissioner	pdavis@valley.id.us
Stan Leach	Clearwater Cty Commissioner	commissioners@clearwatercounty.org
Steve Fiscus	Latah County Assessor	sfiscus@latah.id.us
Jane Gorsuch	IFA – Boise	jane@intforest.org
Dr. William Schlosser	NW Management Inc.	schlosser@consulting-foresters.com
Rod Brevig	ISTC	rbrevig@tax.state.id.us
Carl Olsson	ISTC	colsson@tax.state.id.us
Scott Gray	Stimson Lumber Company	Sgray@stimsonlumber.com
Alan Dornfest	ISTC	adornfest@tax.state.id.us
Dave Ryals	Boundary County Assessor	dryals@boundarycounty.org
George B. Perala	Boise Cascade LLC	georgeperala@bc.com
Henry Nagel	ISTC	hnagel@tax.state.id.us
Gregory Cade	ISTC	gcade@tax.state.id.us
John Currin	Potlatch Corporation	John.Currin@potlatchcorp.com
Roy Eiguren	Boise Cascade LLC	RoyEiguren@givenspursley.com
Don Pischner	Stimson Lumber Company	pischcda@aol.com
Duane Little	guest	duanelittle@hotmail.com

Dr. Schlosser began with a description of the CFTM rules subcommittee meeting held last Thursday, January 6th in Lewiston, Idaho. He mentioned that they had found that it was important to develop the code and rule changes together. Because they are dependant on each other if one is modified the other is affected also. He mentioned that he had met with STC staff yesterday and there were further clarifications that had been made which impacted the code. Copies of the new revision have been passed out for all in attendance. He mentioned the changes that had been recommended to 63-1701. He invited Carl Olsson to discuss the problem with the automatic updates of the User's Manual that had been previously written into the revisions of the code.

Carl Olsson reported that the language that suggests that the User's Manual could be changed without legislative action, needs to be dropped. He cited an Idaho Supreme Court case that invalidated code that had accompanied the automatic update provisions in another code section. He also mentioned instances when the state of Idaho would like to be able to adopt changes to the income tax sections of the internal revenue code automatically but these had been found to be illegal by the Idaho Supreme Court.

Alan Dornfest suggested that the numbers that are used to produce the forest land values as directed through the User's Guide would not need to be legislated. However, if the process is changed that would need to be approved by the legislature.

Dr. Schlosser struck the reference that had been in the amendment that called for automatic updates and asked Roy Eiguren and Jane Gorsuch if they were ok with this modification?

Roy Eiguren said that he didn't have any issues with this change.

Jane Gorsuch asked if there would be a reference to the STC's technical corrections process if there needed to be minor changes made at some point in the future.

Alan Dornfest and Carl Olsson suggested that the STC's technical corrections process would not be an appropriate way to make these changes in the code.

Jane Gorsuch said that she, like Roy, was ok with the change.

Mark Munkittrick asked if the language in 63-1705 provided the opportunity to change the User's Guide?

Alan Dornfest responded that there is a call for reports and recommendations to go from the CFTM to the legislature and that would be an appropriate way to make changes.

Jane Gorsuch said that her concerns had been satisfied.

Dr. Schlosser took the committee back to the code at 63-1705 and verified that everyone was ok with the changes that had been proposed yesterday by STC staff. He then began a discussion of the changes that had been recommended to rule 960 and 962.

John Currin asked if it would be appropriate to include the cost of fencing under custodial costs? He presented the argument that fencing costs should be allowed because the fencing is needed to protect seedlings from cattle grazing and the income from cattle grazing is included in the income stream used in the model. He mentioned that Potlatch purchases the materials and that the lessee provides the labor to construct the fencing.

Dr. Schlosser referenced rule 960 to facilitate further discussion concerning custodial costs.

Steve Fiscus asked about the changes that had been made to the references to reforestation costs in rule 960. He mentioned that the version he had seen previously had allowed for the costs of interplanting between existing trees but now there is a provision to allow the costs of stand establishment.

John Currin said that the costs of site preparation would not be included but the costs of seedlings and planting them would be included. John related the costs that would be included had previously been extensive. He reminded the committee that in the original survey the costs had come to nearly \$20 per acre for reforestation. The agreement that the CFTM had come to was that these costs should be limited and a figure of \$4 per acre had been agreed to. In his mind the \$4 per acre per year would be a realistic allowance for the costs associated with the seedlings and the costs of planting them.

Phil Davis said that in some parts of the state there are no seedlings planted at all.

George Perala said that the costs of planting the new stand needs to be considered or the rotation age needs to be lengthened.

Steve Fiscus said that he has concerns about these costs being placed at the front end of the rotation.

John Currin said that we don't reforest every acre each year. Even though the costs often run \$300 to 400 per acre when planting takes place the allowance of \$4 per acre adjusts for the amount that should be allowed on every acre to cover the higher costs that are realized on acres that are actually planted.

Steve Fiscus said that he cannot disagree with John based on what he is saying but he asked that the reforestation cost provision be stated clearly enough to allow for those that follow to be able to accurately report costs on future cost surveys.

Phil Davis suggested that if there is a person who doesn't replant, or alternatively, one who plants a great number of seedlings, and if either of these extremes is included in the cost survey, the data may be skewed.

George Perala and John Currin said that the costs are averaged across all the owners in the FVZ in terms of the reforestation costs.

Phil Davis asked if the Assessors could send out the cost survey, because they send out surveys of this kind routinely to obtain other information from landowners.

Dr. Schlosser said that the education for the Assessor's and IFOA folks would help the overall process of completing the forest cost survey. He then went through each of the custodial cost allowances that had been made so the committee could consider them individually.

Stan Leach asked if the definition of facility operations and maintenance expenses is written with specific enough language to be understood in the context of custodial costs. He mentioned that his concern were the facilities that are in Headquarters.

John Currin said that he fills out the survey for Potlatch and he feels that he has a clear understanding of what custodial costs are.

Steve Fiscus asked John about the new building in Bolville that Potlatch is building for their foresters. Would he include that as an expense in the cost survey?

John Currin said that he would include the depreciation cost of the building but not the construction cost.

George Perala said that he wouldn't include the cost of construction but would include the costs of repairs to the roof, if the roof were leaking.

John Currin asked then for clearer language that would assist someone to not come to the same erroneous conclusion that he had considering depreciation.

Jane Gorsuch said that her experience with the last survey was that everyone accounts for each of these expenses differently. We cannot write a definition that will cause everyone to come to the same conclusion because they will be influenced by their own procedures in providing their answers anyway.

Dr. Schlosser asked if the language for environmental analysis and documentation expense would exclude the costs of forest certification?

Jane Gorsuch said that in her mind the cost of forest certification should not be included.

John Currin agreed that forest certification is not required of landowners, so it would not be included in the custodial costs of the land.

Jane Gorsuch thought that the item in subsection 7 "consistent with custodial costs" that was added should be eliminated that it was redundant and unnecessary. The wording "consistent with a custodial management regime as defined in the User's Guide" was added then deleted.

Chairman Watson asked if Dr. Schlosser and Rod Brevig could understand that environment would only be considered in the context of custodial costs. If that clause were struck would they continue to understand that only custodial costs should be included. Both Dr. Schlosser and Rod Brevig said that they could understand that meaning.

Dr. Schlosser said that all of the items under Section 3 are custodial expenses, however the items under (b) are excluded. For this CFTM definition certain items have been excluded, for instance in items subsection (b) (1) to (11).

Carl Olsson suggested that all litigation expenses defined under custodial expenses are excluded unless defined in Rule 960 subparagraph (03) (b) (1) to (11). If the CFTM wants those expenses to be included then they need to be included specifically.

Dr. Schlosser continued the discussion of the appeal and litigation subsection. After a great deal of discussion the committee decided to add a subparagraph under 960 (3) (b) to exclude the expenses related to those items listed under 960 (3) (b). He suggested that a landowner could use the other management expenses subparagraph to write down something and then provide a justification for it with the listed costs. The CFTM then would have the opportunity to discuss the results of the forest survey and decide on individual items like that.

Phil Davis asked why rule 960 (3) (b) is listed at all then. In his mind the fact that the term custodial expense is used at all, would exclude the costs that have been discussed recently.

Steve Fiscus said that he had to admit that it may be an oxymoron but in his mind it makes sense to include the term because it attempts to keep the issue of costs clear. It is necessary to plainly tell taxpayers what is not included in custodial expenses.

George Perala said that he agrees with Phil and had argued the point for a half hour last Thursday and had lost.

Dr. Schlosser brought the committee to a consideration of rule 960 (6) and (7) that discussed the calculation of the average levy rate.

Rod Brevig offered an explanation with an illustration on the dry erase board of how the mechanics of the calculation of the average levy rate works.

John Currin asked if the number of acres of forestland in each code area could be calculated so that weighting by acres could occur at the code area level of the data.

Both Steve Fiscus and Dave Ryals said that they thought that the counties could supply the information in that level of detail.

Alan Dornfest suggested that lacking the data for 2005 it would not be done for this year.

Dr. Schlosser suggested going to rule 962 (3) and the changes that had been suggested to provide continuity between the rule and the changes that had been made in code and the change in the site index curves to those listed in the habitat typing manuals.

John Currin said that Potlatch had done a study within their system of these provisions using SPS and SVS. The former uses site index as an indication of productivity potential. The latter uses habitat type. John said that the 2nd Approximation admits that the authors were not confident of the relationships between site index and habitat types. He said that he has a secondary concern also. He went to Melissa Stewart the Assessor in Clearwater

County and asked for her to produce documentation for the productivity classifications that had been made on Potlatch ground in her county. He reported that she could not produce the methodology that had been used to develop the productivity classifications on the Potlatch ground that he had wanted to check on. He has great concerns about a system that cannot be verified or duplicated by others. He said that he has more confidence in the soil mapping that was done by the NRCS and he feels that it would be more applicable in Clearwater County at least and would be preferable to habitat typing.

Dr. Schlosser said that he had pulled down NRCS data and there were good coverage's in most areas. However, he said that there might not be good correlations between the soil survey and soil productivity for forestland.

Rod Brevig related, in answer to John Currin's statements, that even though the authors of the 2nd Approximation indicated that more work needs to be done to build confidence levels in the site index indications for the individual species in Appendix F, they were encouraging more research to verify their findings. In extensive application of the indications in Appendix F across most of the applicable areas in the state, the correlations between site index and habitat type have been found to be very high. The NRCS depended on these correlations to draw the conclusions they have made in the soils classification work they did in Clearwater County. In the situation that John describes in Clearwater County with Melissa Stewart, Rod assured John that there are field sheets that verify the work that was done to determine the productivity classifications on Potlatch ownerships. Melissa may not have been able to find them or have much knowledge of them because others did the work prior to the time she became Assessor. If John or someone else would go into the field and use the same procedure that the county had in establishing these productivity classifications, their results would be similar to those drawn by the county.

Steve Fiscus said that he uses the same procedures in his county. The field sheet that they use has the habitat type listed on one side and the site index on the other side of the sheets. They take information on each of the properties and include the information in the data for each property. They have used these procedures for many years and find the procedure to be dependable.

Dave Ryals said that if there is a question that comes up in the county, they ask Rod Brevig for assistance when they are unable to resolve the matter themselves.

Rod Brevig confirmed that he is available for assistance to the counties. Rod continued with a clarification that the method of stratification using habitat types and then taking site index to establish forestland productivity is dependable and reproducible for anyone who is familiar with the process and methods.

John Currin suggested that the current system of land classification be retained without changes.

Dr. Schlosser expressed concerns about the variation that he observes in the site index by tree species in Appendix F for any one of the habitat types listed. He suggested the possibility of using one species, for instance Douglas fir, as the species to select for determining the site index on the site.

Rod Brevig advised against following this procedure. He explained that the difference seen in Appendix F between site index by species represents the differences in the ecological roll that each of the species serves in the stand. What is evidenced in the data by species is the richness in the data set shown in the 2nd Approximation. The richness of this data assists the Forester to recognize the ecological roll of each species in relation to the other species that will be present in the stand. A better evaluation of the stand characteristics can occur because of a greater understanding of the ecological dynamics that are occurring. The fact that there are different site indexes shown for the different tree species evidences the problem with relying on site index as the only indication of productive potential and the danger of having the uninitiated drawing conclusions that are based on incorrect assumptions.

John Currin said that he's not advocating doing away with habitat typing but just doesn't want to make a change at this time. It is important for everyone to work together to find a system, which he can be confident in.

Alan Dornfest said that it is time to chose one alternative or the other. There is not enough time to resolve the issues that have been brought up in this discussion.

Dr. Schlosser emphasized that we are trying to tie productivity to site indexes and to measurements of 350/225/125 MAI's established for each productivity class.

George Perala suggested that the CFTM leave the former language in place in the rule and finish the discussion of Rule 962, and come back to this discussion, time permitting.

Chairman Watson suggested that the committee move away from the discussion of site index and habitat typing because we probably cannot resolve all of the important issues today. He asked the original language be used in the rule and a later discussion take place to consider these issues.

John Currin asked that the CFTM employ a mensurationist in the same manner as they have a forest economist who can assist the CFTM with this question. He suggested that the work might be completed in a year and then a CFTM subcommittee could revisit the productivity standards in the 2005-2006 time period.

Chairman Watson asked if the committee was comfortable with the changes that had been recommended and the language that had been left in tact in the rules? There was general consensus.

George Perala moved and Phil Davis seconded that the code and rule be accepted as amended by the committee today. The motion passed unanimously.

Jane Gorsuch suggested that it might be appropriate in the early summer to conduct a field day that would include a tour of habitat typing in the field. She suggested that Dan Chadwick and she could put together a work plan for the field trip and distribute that back to the CFTM after the Legislature adjourns. The time would allow Tom Richards from NW Mngt. to put together a bid to accomplish the work.

Chairman Watson asked Jane Gorsuch and Dan Chadwick to get together and decide how to address the questions on growth and productivity. He asked Jane Gorsuch if she and Dan would see that the RS would be put together and asked that the members of the committee be kept informed. He asked if there could be a joint meeting of the legislative committees? He also asked Duane Little if he feels that there are any concerns from the rural schools about the legislation?

Duane Little indicated that he didn't anticipate a concern from the schools.

Jane Gorsuch asked if there is any potential criticism that any of the committee has been able to determine.

Steve Fiscus suggested that if there are complaints about the RS when it comes before the legislative committees the CFTM could answer the questions as they come up.

Jane Gorsuch offered her appreciation on behalf of IFA to the CFTM members and her appreciation to the Chair and STC staff.

Phil Davis indicated his gratitude for the work of NW Mgt. and Dr. Schlosser in support of the committee.

Chairman Watson asked if the CFTM feels a need to meet again prior to the time the legislation is taken to the Legislature? The committee decided that they did not feel a need to meet again. He closed the meeting at 2:45 pm.