

CFTM
Committee on Forest Land Taxation Methodology
February 5, 2004
2:00 PM
Boise, Idaho

STC Commissioner Larry Watson, Committee Chairman convened the first formal meeting of the Committee on Forest Land Taxation Methodologies (CFTM) on February 5, 2004 at 2:00 p.m. in room 1CR5, of the offices at the Idaho State Tax Commission, Boise Idaho. Chairman Watson provided brief opening comments and began the introductions of the committee members in attendance.

Those present are as follows:

CFTM Chairman, STC Commissioner Larry Watson

Dan Chadwick, Executive Director, Idaho Association of Counties (IAC)

Jane Gorsuch, VP Idaho Affairs, Intermountain Forest Association (IFA)

Idaho Association of Counties Members;

Steve Fiscus, Latah County Assessor

Mike McDowell, Kootenai County Assessor

Dave Ryals, Boundary County Assessor

Stan Leach, Clearwater County Commissioner

Phil Davis, Valley County Commissioner

IFA members;

Scott Gray, Stimson Lumber Co.

Mark Benson, Potlatch Corporation

George Perala, Boise Corporation

Kevin Boling, Forest Capital Partners, LLC

IFOA member;

Mark MunKittrick, AWL Resources

Idaho Rural Schools representative John Icom was present, representing Tim Hill.

Also in attendance; STC staff members Gregory Cade, Harley D. Hinshaw, Rod Brevig and Ron Craig. Kootenai County Chief Deputy Assessor, Rich Houser was also present.

Chairman Watson explained that STC staff were present to answer questions from the Committee, offer technical clarification, and to conduct minutes of the meeting.

Chairman Watson asked Jane to provide comments and a historical perspective of the legislation, HB 513a adopted by the 2000 legislature. She said the IFA and IFOA members who are present, are committed to fulfilling the obligations directed by Idaho Code, and efforts given to “working through the process” to develop a methodology in keeping with the requirements of the statute, and reiterated the charge given to the committee by the legislature to address “soil expectation valuation” models (SEV), or other Income Methodologies.

Dan Chadwick shared that he remembers the last time that this topic was discussed. He said that his group is also here to fulfill the obligations of HB 513. He provided background regarding the positive benefits arising from the woods tour last fall, and some history relating to this statute in 1998 when some of members of this committee had previously negotiated recommendations affiliated with this statute.

Chairman Watson opened discussion relating to some procedural issues for the committee to consider, including scheduling frequent meetings, and sought input concerning the location and suggested schedule for future meetings, review of timelines, and the appropriate scope of the committee's work. Some members felt that monthly meetings may be too frequent at first until agreement was reached about the retention of a Forest Economist. There was general agreement that monthly meetings should be scheduled out at this time, reserving to the Chairman the option to cancel or reschedule as needed. Members acknowledged future meetings should be scheduled to allow for rotating locations, i.e., Moscow, Coeur d'Alene, Lewiston for the benefit of some of the members traveling from the north.

The Chairman inquired if the Committee should drive the process initially, with Steve Fiscus suggesting that there is little object in meeting without an economist to guide discussions. Mark Benson agreed, and suggested that the forest economist be brought in earlier, rather than later, indicating that the process may be too complex without the aid of the expert. Jane Gorsuch asked if the economist could supply information initially for consideration and that those topics presented be discussed by email initially. She offered a draft proposal provided to Dan Chadwick prior to the meeting, announcing the Committees intent to receive commitments from parties of interest through the use of a "pre-bid survey".

Chairman Watson asked STC staff if the list of potential Forest Economists previously developed was available to the Committee, and for copies of the list provided to those in attendance. Dan Chadwick asked members if they believed those names represented the "universe" of potential consultants. Discussion about the appropriate credentials acceptable to the committee, and other potential bidders not previously identified. Dan recommended that the committee should "put the survey out on the street" and first explore the level of interest, then allow the committee to sort out the responses rather than discuss at this time which potential consultants may provide the appropriate qualifications. Kevin Boling inquired why Jay O'Laughlin's name was not on the list of Forest Economists. Jane Gorsuch suggested that Jay's work, as director of the PAG (Policy Analysis Group), would keep him too busy to be able to meet the time line of the committee. She reminded Kevin that in many instances it would take him a year to respond to a request from the board of directors for the PAG. Kevin indicated that he is aware of outside work that Jay takes on. Steve Fiscus also suggested that Jay's name should also be added to the list.

Dan Chadwick recommended that email be used to field questions from the forest economists and these questions and the responses be distributed to the committee through Jane Gorsuch and himself. Staff was directed to send out the pre-bid survey early in the

week of February 9th, and to add the names offered by Kevin Boling and Mark Benson. Keith Blatner from WSU, and Jay O’Laughlin with the U.of. I. were added to the list of potential consultants. Chairman Watson also asked the staff to enclose a copy of I.C. 63-1705 with the pre-bid survey.

Dave Ryals suggested that the pre-bid survey should go to the economists immediately and their responses provided to Dan Chadwick and Jane Gorsuch through STC staff as they come in for consideration by March 2, 2004 in advance of the next meeting. Jane clarified that the pre-bid survey is intended to identify the forest economists who are interested in performing the activity of guiding the committee. Additionally, she suggested that a sentence should be added that would ask them to provide their vitae on all of those who would work on the project. She cited the example of Mason, Bruce & Girard who, although Dave Cox would be the principle resource, their group would probably have several others who would contribute to gathering data and analyzing it for an analysis or report that would be developed for the committee.

Mike McDowell said that the scope of work and expectations should be made clear by the committee so that the contractors could provide an adequate and focused response to the committee’s pre-bid survey. Dave Ryals and Mike McDowell suggested that the report from the economist should be presented to the committee by October 15, 2004 to allow the committee time to work with the report before January 2005 when the committee is to report to the germane committees. Jane Gorsuch and George Perala felt the wording of the pre-bid survey was sufficient enough for any potentially qualified consultants to respond at this level concerning their interest.

Considerable discussion took place about the scope and depth of the work of the consultant. Phil Davis suggested that he needs to know if the economist is going to suggest the universe of forest valuation models or are they going to present the method that they would consider to be the most acceptable? Steve Fiscus recommended that whatever is presented by the selected Forest Economist it should be analyzed by Rod Brevig, and others, to assist the committee with determination of impacts, particularly long term fiscal impacts to the taxing districts. Mark Benson felt that the potential pool of consultants would offer PhD level credentials, and those previously identified may even be constrained by prior commitments. Kevin Boling suggested that the economist would be expected to bring something substantive back to the committee so that the committee doesn’t spend a lot of time trying to consider all the potential alternatives. The cost of exploring all the alternatives would be prohibitive for the resources available to the committee.

George Perala suggested that it is very difficult to value forestland by some of the alternative (appraisal approaches) models available to the appraisal profession. George said that over time the income approach has been found to be the most practical valuation model for forestland, he added that other states in the Pacific Northwest have studied this approach using the DCF model. Kevin Boling suggested that together with the analysis prepared by the consultant, the committee require a recommendation from the Forest Economist of the preferred methodology, with a supporting explanation.

Jane Gorsuch said that unless the scope of the work assigned to the Forest Economist is carefully described, the consulting costs would become excessive. Jane indicated that since the cost is to be born by those around this table that the total expenses affiliated with the analysis should be in keeping with the intent of the statute. Mike McDowell said that the methods that are used in the other states should be a topic for training by the forest economist and STC staff.

Phil Davis asked if the SEV (soil expectation value) is an income approach. George Perala replied that the SEV is an income approach, and offered additional background regarding his work in other states researching and crafting forest land valuation methodologies. Mike McDowell offered that the committee needs to learn of the strengths and weaknesses of the various approaches and the associated impacts. Chairman Watson asked the staff if they could prepare training for the committee members relating to various forest valuation methodologies used by other states in an effort to minimize expenses affiliated with the consultant. The staff agreed to begin preparing this background for future presentation to the committee.

Phil Davis asked for additional explanation of the SEV approach. George Perala said that the current income approach depends on an estimate of yearly income to the property. George suggested that the DCF model is better for forestland valuation because it takes into consideration periodic income. He added that there are a number of studies available in the forestry literature comparing forest tax systems from other states and that STC staff can do the research into those valuation methods that other states use instead of using an expensive consultant to do that training. George said that he has a list of the models used by other states and that he can make that available to staff at a later date.

Chairman Watson asked if the committee needs to go through the RFP process and formally contract for these services or if there were better approaches to retaining the Forest Economist. Staff suggested that the State of Idaho could be the originator of the RFP and contract, but the process would be cumbersome and could delay the work of the CFTM Committee. Dan Chadwick suggested that IAC could administer the RFP on behalf of the committee with he and Jane Gorsuch coordinating the contractual issues, rather than delaying the process unnecessarily if it were administered by Idaho's division of purchasing. Mark Benson suggested that IFA and IFOA could be the sponsors of the contract. Jane Gorsuch and Dan Chadwick acknowledged acceptance of this role.

Dan Chadwick responded that his preference is to limit the entities being involved to help expedite the process. Chairman Watson confirmed agreement among the committee members that contract coordination and administration should be handled by IFA and IAC as the sponsoring agencies. Dan asked that the STC assist in the preparation of the RFP. Staff indicated willingness to offer their assistance as directed by the Chairman and the committee. Dan suggested that it would be appropriate for the committee to vote on this issue. Chairman Watson called for a vote on the motion that IAC and IFA would be the sponsors of the Forest Economist contract, Kevin Boling moved and Dave Ryals seconded the motion. The motion was passed unanimously.

Steve Fiscus asked about funding for the travel of the members. Staff indicated that the statute requires the individual committee members bear their own expenses. It was also noted that the statute also directs the committee to decide how to support the cost of the consultant. Jane Gorsuch suggested that IFA and IAC could split the cost of the consultant. Dan Chadwick agreed. He indicated that IFA and IAC jointly represented the committee with the STC offering support services in the RFP process. Mark Benson commented that for purposes of balance the contractor should have a clear understanding that he/she will be representing the interests and objectives of both groups while performing activities under the general direction of the committee chairman together with Jane and Dan. Chairman Watson asked Jane and Dan to develop an outline with regard to the funding and contract administration of the consultant.

The motion was made by Dan Chadwick for the committee to authorize he and Jane, on behalf of IAC and IFA to formalize funding expenditures, and management of the fiscal responsibilities associated with the Forest Economist. Chairman Watson asked for a vote on the motion that the cost of the consultant be divided evenly between IFA and IAC, and to authorize Jan and Dan to direct the RFP administration. The motion was passed unanimously.

Chairman Watson asked for a discussion of item V on the agenda, which calls for Budget Preparation with subheadings of Funding/Contributions, Costs/Expenditures and Approval of Costs. Dan Chadwick suggested that Jane Gorsuch and he can take care of the details concerning the costs related to the meeting place and meals for the meetings of the committee. Dan indicated that he and Jane will help to coordinate the logistical planning of future meetings, locations, rotations, meeting rooms, etc.

Chairman Watson called for a vote on the motion that Jane Gorsuch and Dan Chadwick take care of the cost details related to the meeting place and meals. The motion was passed unanimously.

Chairman Watson asked about the dates and places for the next two meetings. Dan Chadwick suggested that the April meeting could take place in conjunction with the IAC/CEO training slated for Post Falls the week of April 5th. Dan said that a meeting room could be arranged coincident with the Convention. He will also arrange for a catered meal for those attending the meeting. The decision of the committee was that this arrangement would work and the date should be set for April 6th at the Templin facility in Post Falls.

Following a brief discussion relating to the location and time of the March meeting of the CFTM, Mark Benson asked what would be discussed at the March meeting. Dave Ryals suggested there is a lot to discuss concerning the RFP and contract. Jane Gorsuch suggested the committee would review the pre-bid survey responses and the need to review the pool of potential consultants. Staff offered to assist in the preparation of the RFP specifications, citing some of the details involved in these documents.

Mike McDowell asked that the committee members have information concerning the RFP delivered to them prior to the March meeting. Staff indicated that a sample document and outline could be made available.

George Perala asked that the information from Dave Cox be presented to the committee that was developed the last time that discussions on this topic took place in 1999. He also inquired of Jane Gorsuch as to what level of access the committee has to the research conducted by Mason, Bruce and Girard. Dan Chadwick suggested that it may be more appropriate to learn about the complete pool of prospective bidders and that all options should be available to the committee. Dan asked that the committee save the discussion of Dave Cox's work for a later date after the survey results are reviewed so as not to limit the level of interest by other potential bidders. Jane Gorsuch indicated she would have to seek clarification with her IFA Board to determine the availability of the MB&G work as it may be proprietary in nature, and she would report back to the committee. However, Jane did reply to George's question about the ownership of the earlier analysis by indicating it was her belief that the information belonged to IFA.

Chairman Watson asked for input from the members about the March meeting time and place. Dave Ryals asked for the information on meeting times and places be made at least two weeks in advance. Mike McDowell suggested that three weeks in advance would be a better time horizon. Jane Gorsuch offered that six weeks would be even more appropriate, especially with the summer months soon to be upon us. The Chairman responded that at the March meeting the schedule for the balance of the year could be set out, alternating between north Idaho and Boise. Chairman Watson suggested that the March meeting be held in Boise on Tuesday, March 9th from 10 AM to 3 PM, to allow for the best arrangement for all the committee members. Dave Ryals and Mike McDowell said that the meeting times would allow them to make their flight arrangements. Stan Leach said that the schedule would allow him to make the drive. The Chairman asked that staff make arrangements for the use of 1CR5 again for the March meeting and arrange for lunch to be catered so that work could continue through the lunch hour. The Chairman asked that staff make draft templates or outlines of the RFP process available to the committee in advance of the March meeting. He also suggested that John Icom's name be added to the list of the committee. Jane Gorsuch suggested that Tim Hill is the officially designated person to represent Idaho Department of Education and the districts. Staff mentioned that John Icom, who had left the meeting at this point, had been present to represent Tim Hill and that he has had an ongoing interest in this subject. The Chairman indicated John was welcome to attend any of the CFTM meetings.

Motion to adjourn, approved. Meeting of the CFTM committee was adjourned at 4:00pm on February 5, 2004.