

CFTM
 Committee on Forest Land Taxation Methodology
 May 11, 2004
 10:00 AM
 Potlatch Corp. Lewiston, Idaho

Chairman Watson called the meeting to order at 10:30 AM, after moving to a larger meeting room due to the larger than normal attendance at the meeting. Members and guests introduced themselves and indicated who they represented. Following is a list of those in attendance.

Name	Representing	E-Mail
Jane Gorsuch	IFA – Boise	jane@intforest.org
Mark Munkittrick	IFOA – CDA	baronflyer@icehouse.net
Phil Davis	Valley Cty Commissioner	pdavis@co.valley.id.us
Dave Ryals	Boundary Cty Assessor	dryals@boundarycounty.org
Stan Leach	Clearwater Cty Commissioner	commissioners@clearwatercounty.org
Steve Fiscus	Latah County Assessor	sfiscus@latah.id.us
Harley Hinshaw	ISTC	hhinshaw@tax.state.id.us
Gregory Cade	ISTC	gcade@tax.state.id.us
Rod Brevig	ISTC	rbrevig@tax.state.id.us
Duane Little	Guest	duanelittle@hotmail.com
Daryl Bertelsen	White Pine School District	dbertelsen@sd288.k12.id.us
John Eikum	Idaho Rural Schools	jjikum@aol.com
Carl Morgan	Avery School District	carl@sd394.com
Reid Straabe	Wallace School District	reids@usamedia.tv
George B. Perala	Boise Cascade	georgeperala@bc.com
Roy Eiguren	Boise Cascade	rle@givenspursley.com
Scott Gray	Stimson Lumber	sgray@stimsonlumber.com
Mark Benson	Potlatch Corporation	Mark.benson@potlatchcorp.com
Kevin Boling	Forest Capital	kboling@forestcap.com
Daniel G. Chadwick	IAC	dchadwick@idcounties.org
Michael G. McDowell	Kootenai Cty Assessor	mmcdowell@kcgov.us
John Currin	Potlatch Corporation	John.currin@potlatchcorp.com
Ron Craig	ISTC	cadist1@direcway.com
Larry Watson	ISTC Commissioner	lcwatson@tax.state.id.us

Chairman Watson asked Rod Brevig to give a recap of the committee and the legislation. Rod did so, and in closing indicated that the purpose of the meeting today was to review the applicants for the Forest Economist (FE) position and make a decision on who the committee would pick to fulfill the roll of helping to guide the efforts of the committee to fulfill the task assigned by the legislature.

Gregory Cade reviewed the bid process to date as to the need for the committee at large to select an economist per the instructions of the legislative mandate. The State Tax Commission prepared the specifications for the bid package in conjunction with Jane Gorsuch of IFA, and Dan Chadwick of the IAC. Four (4) companies were provided the competitive bid announcement for recruitment of the (FE) by the committee. In the end, only two companies formally responded to the RFP, Northwest Management Inc. and Forest Econ Inc., both companies located in Moscow, Idaho. The time frames for the response to the announcement were extended to April 27th to offer additional time to other firms, providing them the opportunity to respond if they so desired. The ISTC did follow up with Duck Creek Associates, as well as Mason, Bruce and Girard, to confirm they had received the information on the FRP. Both companies declined to submit bids in response to the announcement for various reasons. The completed responses were sent to all committee members for review prior to the meeting.

Chairman Watson announced that Dr. William E. Schlossser, of Northwest Management and Dr. Charles W. McKetta, of Forest Econ Inc. are scheduled to attend the meeting today to offer a brief review of their presentations and stand for questions by the committee. Commissioner Watson inquired as to whether the committee wanted to make the decision today, following the presentations by the respondents, or would they prefer to wait until after they had further reviewed and digested the information before making a selection of the FE. Additionally, Commissioner Watson suggested that the two firms, Mason, Bruce and Girard and Duck Creek Associates may elect to respond if the committee chose to allow additional time. Steve Fiscus suggested that we talk to the contractors who are available today and make a decision at the end of the day if it would be best to extend the time to permit the other firms to comply with the requirements of the RFP. If there are timing problems for the interviews today they needed to be discussed and addressed now. A concern was presented about the length of the meeting as some committee members expected an adjournment of 3:00 for return travel, while others had reservations to make a 6:45 pm return flight to Boise. If the respondents are interviewed after lunch it could present some timing problems. Commissioner Watson asked Gregory Cade to contact the respondents to inquire if they would be able to move their interviews to an earlier time today.

Chairman Watson asked the membership if there was any desire to try to extend the time frame with the legislature to possibly get more applicants to choose from. Both IFA and IAC members agreed that there was no need to do this. The committee should move ahead, hear the presentations and make their decision.

Chairman Watson came back to the approval of the minutes of the last meeting on March 9, 2004. Steve Fiscus moved to accept the minutes as presented, the motion was seconded by Mark Benson and passed unanimously. Kevin Boling complemented the STC staff in putting accurate notes together from the last meeting.

Steve Fiscus passed out a reproduction of the diagram that Mark Benson had put on the white board at the previous CFTM meeting, which illustrated the stepwise reduction in forestland values, which have occurred under the provisions of HB 513. He had wanted a

written record of the diagram for future reference as Mark had indicated that they would anticipate further reductions in forest land values after 2005 as the SEV model is implemented. Steve indicated in his sheet that the result of the CFTM effort might result in values which are higher than the HB 513 values for 2005. Mark Benson indicated that he didn't have a response to Steve's diagram.

Commissioner Watson opened the floor to discussion of the respondents and their positions.

Mark Benson indicated that the committee needs to formalize some questions for the respondents in order to have some continuity in the decision making process. Steve Fiscus brought up the idea that Dr. McKetta may have some preconceived ideas and biases about the entire process. Dr. McKetta has provided information to the Assessors in the past that has indicated that in his opinion the current formula would not work and that he had informed the industry of that in the past as well (See Dr. McKetta's submitted response to the RFP).

Gregory Cade returned to the meeting with the information that Dr. Schlosser would address the committee at noon and Dr. McKetta would address the committee at 1:30 pm.

Steve Fiscus inquired as to whether forestland property ownership in Idaho would be a detriment to the respondent when developing proposals of valuation models of forestland, or when offering a comparative analysis of other favored models. Kevin Boling indicated that he saw forestland ownership as a plus not a minus, because personal knowledge will assist the consultant in providing better advice. Dan Chadwick indicated that it was a question that should be addressed to each respondent directly in the interviews.

Chairman Watson asked if there were other matters of concern the committee would like the consultants to address?

Phil Davis inquired as to whom the respondents have been associated with or been working for over the past couple of years. He was aware that Northwest Management had been working with some of the counties in other areas but was unaware of what other contact either party may have had with the counties or the forest industry.

John Currin responded that Northwest Management is currently doing some work for Potlatch in the area of slash burning, but Forest Econ was not currently doing any work for Potlatch. John added that Northwest Management had been a consultant on a project between IFA and Potlatch, together with the ISTC in 1999 that had evaluated forest management costs.

George Perala indicated that Dr. McKetta had advised the forest tax committee in 1982 concerning the legislation which is now in place. He also has done work for Boise Corp. in forestland valuation as well as work for the ISTC in the past. Dr. McKetta has taught university classes and some of his students have come to George seeking discussions concerning forestland property taxation. George inquired about the expectations

affiliated with the role of the FE by the committee as to whether a comparative analysis is to be offered or simply a recommendation of a proposed valuation model.

Kevin Boling indicated that he knows Vinny Corrao well but doesn't know Dr. Schlosser. Northwest Management has done work for his firm in the past and is now doing work for them in timber cruising.

Mark Munkittrick indicated that IFOA had no problems with either candidate as they have both addressed their membership at conferences in the past.

Jane Gorsuch indicated that Vinny Corrao is a member of IFA and has done work for IFA in the past.

Dan Chadwick indicated that it was ok because IFA and Potlatch are both associate members of the IAC.

George Perala indicated again that Dr. McKetta had advised the forest tax committee in 1982. Dr. McKetta had suggested at that time that the SEV model could be used to value forestland for tax purposes. Dr. McKetta had explained to them that the direct valuation model that is in current use would have problems with time. George said that it was the decision of the forest tax committee at that time to go ahead with the direct capitalization model that is presently in place anyway.

Jane Gorsuch indicated that Dr. McKetta was involved in the development of the legislation in 1982, but not the wording in the code itself. Further he was not involved in the legislation in 2000 when HB 513 was passed.

Roy Eiguren indicated that there are only two members left in the legislature that had a part in the 1982 legislation, JoAnn Wood and Delores Crow. There are only two folks present today who were involved in the legislation in 1982, George Perala and Duane Little.

Dan Chadwick laid out three questions that he felt related to potential bias and would be appropriate to ask directly of the applicants.

1. Does the contractor own forestland in Idaho and is that a potential conflict?
2. Does the individual have any bias toward a preferred methodology of forestland valuation?
3. Does the applicant have any expectations or preferences as to the outcome of these negotiations?

Roy Eiguren said that he approves of the proposed questions and suggested that it would be appropriate for the Chairman to ask the questions.

Phil Davis said that he thinks that Dr. McKetta does have a bias because he favored the SEV model in 1982 and it seems that he still does.

George Perala asked if the CFTM is going to make the decision or if the consultant is expected to make the decision for the committee. [selection of a recommended model]

Roy Eiguren said that the industry representatives had met earlier this morning and made some decisions. Roy asked for Jane Gorsuch to articulate their decisions to the committee.

Kevin Boling suggested that Dr. McKetta had already mentioned many of the questions that had come up in the earlier discussions and directed the committee's attention to page 5 of Dr. McKetta's submittals.

Commissioner Watson suggested that he anticipates the committee to make its own decision after consultation with the economist so they can understand as much as they can concerning the decision that is being made.

John Currin indicated that it doesn't matter how many models we look at, we need a consultant to advise us concerning how the model will work over time.

Jane Gorsuch indicated that the timber team had decided this morning that the consultant should provide background on the model under consideration. The consultant will provide the information to the STC staff that will review the work and determine impacts and report back to the Committee. The information will also be provided to the IFA, counties and schools who will also do their analysis of the impacts of any of the models.

Commissioner Watson indicated once again that the model that is used should achieve market value, have as few variables as possible, and work to stabilize the entire forest tax system. It's his preference to obtain a methodology that is predictable, and not subject to dramatic spikes or declines from year to year.

Phil Davis indicated that it was obvious that some of the Committee members had been involved in the valuation process longer than others. In previous training sessions Dr. Latham had indicated that very minor swings in the variables in an SEV model could make large swings in the valuation. Phil said that he hoped that the consultants would make a good faith presentation showing both sides of how a model will work when they are offering their advice to the Committee.

Mark Benson indicated that instead of talking about biases, the Committee should be addressing and considering the general qualifications, credentials, education, and background of the candidates. Mark feels we may be introducing our own biases into the selection process, and that the committee should allow the two respondents to stand for such questions.

Chairman Watson agreed to a point but felt that any perceived bias should be explored and reviewed so that all the members of the Committee can have confidence in the ability of the consultant to advise the committee without prejudice.

Dan Chadwick agreed with the need to establish whether there is bias and indicated the initial evaluation of the respondents should include reaction to certain types of questions. Dan indicated that he has two additional questions:

- (1) What valuation methodologies are available for the valuation of forestland?
- (2) What experience does the economist have in working with them?

Steve Fiscus indicated that the questions that have been proposed are good. He said that Kevin Boling's suggestion that the questions posed on page 5 of Dr. McKetta's proposal do provide an outline for consideration. He said that he wants to make sure that when we get to August we don't want to come back to the point we are at now and start over again.

Chairman Watson said that he wants to make sure that everyone is comfortable with the consultant otherwise it will be difficult for the Committee to make real progress.

Phil Davis said that preconceived bias does make a difference. You can hire two economists who came from the same school who have two different viewpoints on a specific subject and have them argue forever about who is right and who is wrong. We are not just considering the expertise of the consultant, his preconceived biases are just as important as his qualifications.

Mike McDowell asked, just what is it that we are expecting? The Committee needs some confidence that the candidate will provide unbiased responses to the Committee.

Kevin Boling said that the industry and the counties need to find some stabilization of taxes. The Committee is looking for aid and guidance in this endeavor from these consultants. He is confident that either of these consultants can offer this advice to the committee.

Mark Munkittrick suggested that the candidates be asked pertinent questions that would indicate the essential element of one's internal conflict. For example, the issue as perceived by the industry is that they are paying too many taxes while there is a perception that the counties just want more tax dollars and industry isn't paying enough. Then ask the candidate to respond to the matter from his own perspective; it may help us to understand their positions.

Phil Davis suggested that the candidates should be asked specifically if the current formula with some possible changes would be the way to go, or is the SEV formula the way to go?

Chairman Watson indicated that the legislators had made the decision that the focus should be on these two types of formulas. He continued by asking, how we proceed from

here, do we need a written list of questions to ask the candidates. Gregory had indicated to the candidates that they would be given time to do a summary of their proposals, cover the strength of their work and stand for questions by the members of the committee. Both sides need to be comfortable with the process, if anyone feels a question needs to be asked, it should be asked.

Mike McDowell indicated that we should not just limit the presentation to the two valuation methods that are being discussed; the Committee needs to explore others, if they exist.

Phil Davis reiterated that the consultant should give the Committee the pros and cons of the formulas they present.

Chairman Watson asked again if it isn't appropriate to ask the questions that come to mind during the discussion so that we can draw the committee together as the discussion proceeds.

Dan Chadwick offered some questions that he had written down:

1. What are the methodologies available for valuing forestland?
2. What experience do you have in valuing forestlands?
3. What are the strengths and weaknesses of the various methodologies?

Scott Gray suggested that he would like to have the words soil expectation model inserted into the question.

Jane Gorsuch indicated that it was important to keep the questions in line with the intent of the legislation.

Mike McDowell indicated that they should listen to any and all suggestions and make the decisions based on the individual presentations. He doesn't want the discussion to be narrowed too soon, as that course may not serve the long-term interests of the Committee.

Dan Chadwick offered another question; there is a disagreement between counties and IFA on taxation of timberland, what is your stance on it?

Phil Davis asked for a comparison of the bare land and yield with the direct capitalization methods that are currently in use.

Commissioner Watson asked Rod Brevig to provide a background of the two valuation methodologies.

Rod Brevig suggested that the Bare Land and Yield valuation method is totally different from the direct cap method. In the Bare Land & Yield method the forestland values are indexed by half of the difference in the five-year rolling average stumpage values from

year to year. With the direct cap method all of the variation in the five-year rolling average is used to make changes in the values from year to year.

Chairman Watson inquired of the IFA members if the Bare Land and Yield valuation process was intentionally left out of the discussion this time by the legislature.

George Perala offered his perspective of the situation. There are different appraisal approaches to value, which can be used for forestland. One that has been used in Oregon and Washington for years, is the bare land and yield tax system. However these have limitations, yield tax collections fluctuate from year to year due to decreasing harvests during bad economic times. Additionally, we have witnessed annual cuts falling off as the numbers of acres available for harvest are reduced particularly as the US Forest Service has curtailed harvesting. Another method that can be used is the market approach. However, market value analysis is impossible when there are a limited number of sales available. Sales of bare forestland which are only “for the purpose of growing timber” are very hard to find (there are a lot of sales for the purpose of development). It is very difficult to allocate the purchase price between the timber still standing on the land and the bare land value remaining. For these reasons the income approach is the only viable way to achieve a reasonable estimate of the value of forestland for taxation purposes.

Chairman Watson indicated that the bare land and yield calculations will not be affected either way by the outcome of the negotiations of this committee.

Phil Davis stated that the duties of the County Commissioners included the equalization of taxes and the assurance that taxpayers are being treated equitably, with these changes, are we still going to be treating taxpayers equitably?

Chairman Watson asked Rod Brevig if we need to have information from the productivity calculation to perform the calculation of the bare land and yield land values.

Mark Benson indicated that the original intention of the law was to maintain equity between the bare land and yield forest tax option and the productivity option over the ten-year designation period.

Rod Brevig indicated that the goal of equity between the bare land and yield system and the productivity tax system has never become a reality. Of greater importance in tax administration is the choice between dry grazing and the bare land and yield forest tax options. If there is a significant difference between the values under the bare land and yield forest tax system and dry grazing system there is an incentive for landowners to shift from one tax system to the other. They pay a yield tax in either instance so if the land values are similar it increases the equity between these two tax options.

Chairman Watson and Roy Eiguren reiterated that Bare Land and Yield is beyond the scope of the legislation, it is not a part of the legislative concern.

The Committee broke for lunch at 11:30 AM

Commissioner Watson called the meeting back to order at noon when Dr. Schlosser arrived.

Dr. Schlosser introduced himself and the Chairman had the Committee members introduce themselves so Dr. Schlosser would know whom he was addressing.

Northwest Management Inc. represented by Dr. Schlosser gave a synopsis of his proposal along with some suggestions for ways to proceed with the process. Dr. Schlosser provided an overview of his professional experience, education and a summary of their (NWMI) bid proposal. (see detail in the response to Competitive Bid for a Forest Economist, 4-27-04)

Chairman Watson asked Dan Chadwick to begin a discussion of the questions. He explained to Dr. Schlosser that they have some standard questions that we would like to pose to each of the consultants.

Dan Chadwick began the questions for Dr. Schlosser. "The perception is that there is a disagreement between the counties and the IFA members on the methodologies of establishing values for taxation purposes. What is your perception of this difference?"

Dr. Schlosser said that he understands the disagreement on the valuation and who pays and receives tax dollars. He felt that there was less disagreement years ago because there was less centralization in the wood processing industry.

Jane Gorsuch asked do we just need to adjust the current valuation model to meet the needs?

Dr. Schlosser said yes it can be used if the right variables are applied. For instance it may be appropriate to use a different rotation age, instead of the biological age used previously it may be more appropriate to use a shorter rotation age like 40 years. Also different businesses may experience a different cost of capital than others and perhaps an adjustment would be warranted there. You need a variety of variables to validate the values established by the SEV Modeling.

George Perala asked for a clarification in terminology. He said that we currently use a direct cap model and we are considering a change to a SEV model, we anticipate that the new model will allow us to be more responsive to changes in the future.

Dr. Schlosser responded that the SEV model is a sound forestland valuation model.

Dan Chadwick asked what will the outcome be if we change to the SEV formula?

Dr. Schlosser; the values will be more consistent for both the counties and the property owners. The valuation will hinge on the discount rate used and can be varied by adjusting

the discount rate. The model may serve the purpose of taking out the peaks and valleys that have been the experience with the model that is currently used.

Steve Fiscus asked that since George Perala had clarified the question about the SEV and the direct capitalization model now used if Jane Gorsuch could ask her initial question of Dr. Schlosser again.

Jane Gorsuch asked again if we could make an adjustment in the current model and have it work?

Dr. Schlosser said that we could. Additionally, we can use one model to test the validity of the other model.

Jane Gorsuch asked another question, "Are there other methods that should be considered?"

Dr. Schlosser; yes, the website "myforestlands.com" has a number of options, some with some new approaches. He visualizes use of this website in the future.

Dan Chadwick asked how will this process play out over the next 5 months?

Dr. Schlosser responded. Let me come into the middle of it (the process) and be a third party facilitator and technical resource.

Dan Chadwick asked, do you have any expected outcome or biases in the questions facing this committee.

Dr. Schlosser responded. We don't have a horse in this race. I will try to maintain my professionalism and act as a facilitator. We work with both of these entities as a consultant and we work with a wide variety of individuals.

Dan Chadwick asked. You have given us cost estimates on an hourly and/or a daily basis, can you give us a ballpark figure on where the total cost might end up, based on your perceptions?

Dr. Schlosser responded. We are unable to give you a ballpark estimate, the end results are too vague and unknown. If there is a budget, the committee needs to let us know up front and we can try to work within it or at least keep the committee apprised as to how we are doing within the budget constraints imposed. At this time it is impossible to be more specific until we get into the process.

Mark Benson; is it possible to achieve a consensus level or agreement in a 3 to 4 month time frame in a situation like this?

Dr. Schlosser responded. Yes, with the help of meeting and active participation including email communications.

Roy Eiguren asked how many valuation methodologies are currently available for review, realistically.

Dr. Schlosser; there are probably 5 or 6 different methods used; the SEV formulas can work.

Chairman Watson asked. Instead of just making subjective decisions, where can we obtain the information publicly to use as variables in the calculation of the formulas?

Dr. Schlosser responded. One source would be the Bureau of Vital Statistics, their information is updated monthly and are not under local control for input or changing. The income side may be more "iffy". Do we penalize taxpayers for good management? At Northwest Management we have a lot of information on stumpage sales and log delivered values that can assist us in determining stumpage values.

Mike McDowell asked if Dr. Schlosser could address which he felt would be the appropriate model and what the sources of information would be for input into the model?

Dr. Schlosser responded that some things have already been done, for instance to divide the state into forest value zones. There are no simple models; there will always be a series of decisions concerning the appropriate inputs to use in the models.

Mark Munkittrick asked. Is it possible to reach a long-term resolution on this issue, or is it something that needs to be addressed more frequently.

Dr. Schlosser responded; "Undoubtedly we will have to monitor it as time goes by. It will just depend on how the assumptions play out. The model itself may last for 25 years, but the components will need to be updated each year."

George Perala asked this question. Some work has already been done on the SEV formulas. Is there a way to make SEV easier to use and easier to explain to the general public?

Dr. Schlosser responded. There are ways to explain the conceptual parts of it. There are ways to manipulate it. Other states have found things that work for them. For instance in Michigan an allowance is made for landowners who have a forest management plan and an allowance is made for those that have them.

Chairman Watson asked this question. Will you leave us a complete set of operating instructions, an operator's manual when everything is said and done?

Dr. Schlosser responded. Well the price just went up! We would need to have a public awareness campaign when everything is done and it is accepted. Our firm will always be available to address questions that arise in the future.

Phil Davis stated. George Perala was right the formula is complicated. Tweaking various parts of the formula can make big changes in the valuation, how can we be assured that this process will work.

Dr. Schlosser responded. There are ways to lessen the reactivity of the changes. By averaging the changes from year to year it can be dampened. It may mean more administrative time for the State Tax Commission.

Roy Eiguren asked. How can we handle the political impacts of the tax shifts? What are your thoughts on this aspect?

Dr. Schlosser responded. This is a tougher issue! I'm not sure what the solution will be, but equity between categories may be a good way to look at it.

Phil Davis asked. How do we reach agreement on what factors are used in the formula? Where do these figures come from?

Dr. Schlosser responded. We need to review the process annually to start with. We need to find out as we go, if the process is working, and we will have to locate resources that will give us the information that we need.

George Perala asked; "How would you go about gathering the data?"

Dr. Schlosser responded. There is a lot of data out there. The industry is a good source of data, but there is a lot of other data out in the public sector, if we look for it we can find it.

George Perala responded. What I'm asking is how much data am I going to have to furnish?

Dr. Schlosser responded that some of the information will come from industry and they have a lot of information at Northwest Management also.

This concluded Dr. Schlosser's presentation and he thanked the Committee for their consideration and left the meeting with assurance from the chair that he would be notified as soon as the Committee had made a decision.

Dr. McKetta from Forest Econ Inc. introduced himself to the Committee and the chairman had the committee members and guests introduce themselves to him. With that Dr. McKetta started his presentation. After a brief review of his presentation in the response to the RFP, Dr. McKetta stood for questions.

Dan Chadwick asked. There is a difference in opinion between the industry and local government concerning the way taxes are calculated and levied, what is your perception of these differences.

Dr. McKetta responded that he had written widely concerning the errors in the methodology being used in Idaho for the valuation calculation used currently. The current model worked in 1982 and shortly after due to countermanding errors that offset the errors inherent in the model. First you have to figure out what you want to tax and then you ascertain how you want to tax it.

Jane Gorsuch asked, do you think that the current model can be adjusted to meet the needs and expectations of the committee?

Dr. McKetta responded. Not in it's current form, the basics of the models are available, but the committee needs to identify what is being valued and then find the methods that will do the job. He can show the committee what they are saying and adapt it to what we want.

Dan Chadwick asked. What will the outcome of the committee deliberations be after reviewing the various models? We have been discussing the SEV model for some time.

Dr. McKetta responded. First, let me clarify that these models are all DCF models, I think the error came into play in some of the language originally used by Mason, Bruce and Girard in their presentations in 1999. The difference between the SEV and the forest annuity is that the SEV values bare forestland the annuity assumes that you are harvesting the annual growth each year. The difference between the two is normally by a factor of 12 to 14. The reason the annuity worked for some time is that inflation disappeared in the last few years. He said that the Idaho Constitution makes timber taxable because it is real estate, but the statute said that it would not be taxed because it is inventory, then the model made it taxable because its included in the valuation method that is being used.

Jane Gorsuch asked. Are there other valuation models that should be considered by the committee?

Dr. McKetta responded. There are others but many are just far too expensive [administratively] to be used in this case. The old ad valorem system did not work. In terms of the DCF approaches we are looking at them. In terms of econometrics there may be some other models available for use. If you reference the Priest Lake decisions, a market-based system was more appropriate than a DCF model because the market recognized the recreational value of the water front property the DCF didn't because the inputs were not correct. There is a green belt undertone to most forest tax legislation, which makes small parcels a particular concern. He added that he could provide an analysis which would assist a decision that would be made about including small parcels.

Dan Chadwick asked how would you envision your work with the committee proceeding?

Dr. McKetta responded. The committee needs to debate the political portions of the questions and then give me the decision on the things they want to value, and then let me

proceed with the analysis. We need to examine the current use vs. the assessed use for instance.

Dan Chadwick asked. Do you see it as your roll to help the Committee ask the right questions?

Dr. McKetta said that he could help the Committee to decide on the questions that they need to ask and then help them get the answers that will help them. I would need to take my instructions from the chairman.

Dan Chadwick asked. Are there any biases that you might have that would affect your decisions in working for the Committee?

Dr. McKetta responded. Yes, I own 400 acres of forestland in Latah County that will be affected by the outcome of the decisions made by this Committee. However, the amount of change in the taxes I pay would not be great. Also, I'm a theoretical statistician, I like to make the calculations and let the answers fall where they may. But, I am a professional and these biases would not affect my work.

Dan Chadwick asked, are you able to give us a ballpark figure on what this procedure will cost us?

Dr. McKetta; before travel and per diem, somewhere around \$21,000 for a medium estimate. But who knows where it will go from there.

Mark Munkittrick asked. If we had adopted an SEV model in 1982 would we be here today?

Dr. McKetta said, yes we would probably be here anyway. Oregon threw away their yield tax provisions. Washington is in constant discussion concerning their tax system. So it wouldn't have mattered; our tax system is subject to continual review.

Kevin Boling asked Charlie, "Which tax category do you have your land in?"

Dr. McKetta said that originally it was in productivity, now it is in Bare Land and Yield. He added that which category you are in depends on how frequently you harvest, in some instances you may pay less taxes if you are in the productivity option.

Roy Eiguren asked Charlie. "Can we take care of the problems in the present model?"

Dr. McKetta said that perhaps we can. If the valuation is based on the bare land, the stumpage value is going to go up and down but the private sector and groups like the Campbell Group have methods for calculating the rates anyway. They are fairly close if you don't mess with the numbers.

John Currin asked; if we use a real rate in an SEV model don't we eliminate that problem?

Dr. McKetta said that the private sector should have a 2.5% risk rate. He has spoken to the Campbell group concerning their rate and they have methods of working out variations in the market.

George Perala asked if these formulas could be made more user friendly and more easily explainable?

Dr. McKetta said that there is. All you have to do is take a full forest valuation, count the total tree value and value the bare land as a % of the total forest value.

Phil Davis asked, am I to understand the answer to the previous question was a no?

Dr. McKetta responded, yes. Part of the simplicity is knowledge. He thought that most of the Assessor's could figure out the Faustman formula in a short period of time. For most taxpayers the task would be a bit harder.

Phil Davis asked; what happens when you have so many different variables that the valuation fluctuates wildly?

Dr. McKetta responded that due to assumptions being implicit, the committee will have to decide which variable will be used. Some of the variables will be very important others will not have much affect on the outcome.

Chairman Watson stated we need valuation and taxation that is predictable, achievable and consistent. Can this be accomplished?

Dr. McKetta said yes, if the Committee can look down the road and pick the appropriate variables. I can give you a rate that is very stable over time, but the fact is that the economy will change around us and there will always be a need to be responsive to that.

George Perala asked Charlie, where will you get your data? How much will I have to furnish? Do you currently have data available?

Dr. McKetta; indicated that he has some data available and that Rod Brevig has furnished some data. There may be a need for additional data if it is available. The committee will have to rely on the industry to furnish some of the data. You need to be careful about USFS data because they have so many hidden costs included in their sales. We can limit the number of variables, for instance three productivity classes and four forest value zones limits some of the variables.

Mark Benson said there isn't as much timber available as there once was. How do you factor in the reduction in timber resources?

Dr. McKetta said that in 1849 when Faustman first developed his formula there were more constraints on timber availability than there are in our area now. There will be some levels of precision that are simply not worth the cost of determination and administration. He provided as an example the distance from the mill as being a variable in the value determination.

Chairman Watson asked if there were any questions that Dr. McKetta wanted to ask the committee.

Dr. McKetta said that he would like to know as soon as possible what the committee wanted of him. There are three levels of precision, which can be considered. The cost will vary depending on the precision required. Dr. McKetta thanked the committee for their time.

Chairman Watson thanked Dr. McKetta for his presentation and indicated that the Committee would let him know the outcome of their discussion as soon as a decision was reached.

Chairman Watson called for a short break at 2:50 PM.

Chairman Watson called the meeting back to order at 3:05 PM.

Chairman Watson opened the discussion for the next meeting time and place. The next meeting was scheduled for June 15th in Boise, from 10 am to 3:30 pm. He asked if there were any decisions that had been reached from the caucuses that had just taken place over the break.

Steve Fiscus spoke for the elected officials indicating that they would like to have Dr. Schlosser for the Forest Economist. Jane Gorsuch indicated that the timber team also preferred Dr. Schlosser. With that, George Perala moved and Dave Ryals seconded that Northwest Management Inc. with Dr. Schlosser as the Forest Economist be retained by the CFTM. The motion passed unanimously.

Steve Fiscus asked if we need to develop a list of requirements for Dr. Schlosser to work on and report on for the next meeting.

Roy Eiguren indicated that we do need to develop an outline on what needs to be done and have Jane and Dan negotiate the costs with future approval by the committee members. It would be wise for the committee to work on this outline for the balance of the meeting today.

Phil Davis indicated that Dr. Schlosser should become more familiar with our current valuation methods and then evaluate them for the committee.

Roy Eiguren responded that in reading the legislation, Phil's suggestion does fulfill the need of the legislation. We need to explore the factual basis of the current valuation methods as well as the factual basis of the proposed valuation.

Steve Fiscus indicated that we need to know where the independent variables are going to come from as well as what public resources are available. Steve suggested that the NCREIF rate should be a part of this investigation. Steve asked if we needed to set a limit on the cost of the work being requested. He recommended a starting limit of \$10,000. Both Dave Ryals and George Perala agreed with the interim limits. However, George reiterated that this was an interim limit as the cost could go to \$25,000 or \$30,000 before it was all said and done.

Roy Eiguren indicated that Jane and Dan should work closely with Northwest Management Inc. to set a “not to exceed” limit on the work.

Jane Gorsuch indicated that there appeared to be six (6) items that needed to be addressed by Dr. Schlosser. The most specific item was to have Dr. Schlosser and Northwest Management present a written plan of work as well as a “not to exceed” cost amount for the work. If committee members think of any other ideas that need to be presented, they should Email them to Jane or Dan for inclusion with the requirements to be reported on at the next meeting,

Chairman Watson asked Gregory Cade to prepare a draft letter for both Dr. McKetta and Dr. Schlosser delineating the outcome of the deliberations.

Phil Davis asked if it was necessary for the Committee to formally agree on what we are trying to appraise.

Mark Benson indicated that the agreement was already in place, it is in the code itself we are valuing the bare land.

Chairman Watson agreed that the legislation directs that we are valuing the bare land.

Jane Gorsuch added that IC 63-1705 directs that the forest products will not be part of the valued asset.

Steve Fiscus said that he thought he remembered Dr. McKetta remind us that code requires that everything over 12 inches be taxed as real property.

Chairman Watson asked again if there was any further questions on what is being valued in this case.

Phil Davis asked for clarification on how the growth factor is used.

Steve Fiscus added that this is where the contention is.

Chairman Watson indicated that hopefully we would get this question resolved with the analysis that Dr. Schlosser will be presenting in the future.

Mark Benson offered that there is a growth factor included in the model, the question is where and how it is applied.

Steve Fiscus asked if there were still going to be four (4) zones and three (3) productivity classes considered in the valuation process. For him, he didn't think that it is fair for his good forestland to be valued in the same way as Potlatch's good forestland in Clearwater County that is so much better than his.

Mark Benson responded that we would lower the valuation on his land then.

Gregory Cade offered that the current zoning and classification might continue to be a fair and effective administrative tool for assessment purposes. Many of the counties have significant investment in the development of the land records reflecting the current zoning system, together with field inventories reflecting the classification system.

Chairman Watson agreed saying that changing zones and classes may be exceeding the scope of the legislation. We have a large enough task to accomplish without adding any more to it.

Gregory Cade assured the committee that the question will not be mute, the process will be reviewed down the line and if the question needs to be addressed it can be.

Chairman Watson asked Jane and Dan if they would like staff to offer a draft agenda and prepare for the next meeting. They responded in the affirmative.

Roy Eiguren complimented the staff and the commission on the meeting and preparation for the meeting.

Commissioner Watson adjourned the meeting at 3:50 PM.