

CFTM
 Committee on Forest Land Taxation Methodology
 May 18, 2006
 10:00 AM
 STC 5CR1 Boise, Idaho

Chairman Katsilometes called the meeting to order at 10:10 AM. Members and guests introduced themselves and indicated who they represented. Following is a list of those in attendance.

Name	Representing	E-Mail
Tom Katsilometes	ISTC Commissioner (Chair)	tkatsilometes@tax.idaho.gov
Jane Wittmeyer	IFA – Boise	jane@intforest.org
Daniel G. Chadwick	IAC	dchadwick@idcounties.org
Phil Davis	Valley Cty Commissioner	pdavis@co.valley.id.us
Dave Ryals	Boundary Cty Assessor	dryals@boundarycountyid.org
Stan Leach	Clearwater Cty Commissioner	commissioners@clearwatercounty.org
Jerry White	Shoshone County Assessor	jwhite@co.shoshone.id.us
Michael G. McDowell	Kootenai Cty Assessor	mmcdowell@kcgov.us
Mark Munkittrick	IFOA – CDA	baronflyer@icehouse.net
Lloyd Fillis	Stimson Lumber	LFillis@Stimson.com
Matt Van Vleet	Potlatch Corporation	Matt.VanVleet@potlatchcorp.com
Kevin Boling	Forest Capital	kboling@forestcap.com
John Currin	Potlatch Corporation	John.currin@potlatchcorp.com
John Eikum	Idaho Rural Schools	jjikum@aol.com
Steve Fiscus	ISTC	sfiscus@tax.idaho.gov
Rod Brevig	ISTC	rbrevig@tax.idaho.gov

Chairman Katsilometes asked Rod Brevig to review the agenda and copied materials with the committee members so they could be prepared for the discussion for the day. Rod briefly discussed the agenda and materials that included the Code, Rule, background information on the 1998 Forest Management Cost Survey and 2005 Survey and a copy of the additional materials for later presentation. Rod also indicated that the purpose of the meeting today is to review the 2005 Forest Management Cost Survey and analyze the impacts of implementation.

Chairman Katsilometes then invited Steve Fiscus to provide a brief review of the CFTM. Steve mentioned that the course of discussion that had taken place during 2004 involved a large number of meetings that occurred at least every month. There had been many matters that had been resolved by the committee in determining the components for the valuation process that were eventually adopted. Some of the components of the valuation process were determined to remain static for a number of years, other components were

to change yearly or periodically depending on the changes that occurred in the marketplace.

Chairman Katsilometes invited Rod Brevig to continue with the presentation of the material that would provide the basis for the discussion for the day. Rod reviewed with the committee the portions of the code and rule that provides direction for and had been influenced by the previous decisions of the CFTM. The emphasis was placed on the discussion of “custodial costs” and how the code and rule provided a framework for the 2005 Forest Management Cost Survey that was sent to cooperators. Rod mentioned that the comparison between the 1998 forest management costs, the negotiated “custodial costs” that have been indexed from 2003 to 2005 by an inflation factor developed from the PPI index and the 2005 Forest Management Cost survey will be included in the presentations that will be made later in the meeting. Rod reminded the committee that the negotiated custodial costs were made in the context of the discussions that had taken place by the CFTM at the time. For this reason the custodial costs that the committee had decided to use should be placed in the context of those discussions.

Dan Chadwick made the suggestion that the notes from the CFTM meetings in 2004 and 2005 should be made available on the STC web site.

Phil Davis added that he has a difficult time remembering how some of the decisions were made even though he was present for almost all of the meetings. Phil suggested that future members of the CFTM be required to consider the notes so that they will know what the context of the decisions were and have the guidance offered in the notes to make better decisions in the future.

Mike McDowell suggested that the notes be indexed so that the information could be better accessed and members would not have to look through all the notes to confirm the context of a decision.

Kevin Boling said that there is technical information in the notes that in some instances makes them lengthy.

Jane Wittmeyer said that the User’s Guide is referred to in statute and rule so there is an opportunity for greater flexibility in amending the User’s Guide rather than having to go through the lengthy process of amending code or rule.

John Currin suggested that the User’s Guide be amended to refer to the notes from the meetings.

Mike McDowell reiterated that there needs to be an index so that the notes would be more accessible to the reader.

Dan Chadwick suggested that the index should be easy to construct through the functions in WORD or similar software.

Steve Fiscus asked if the notes needed to be more formalized in this way because STC staff could make the notes available to any member who wanted a copy.

Dan Chadwick thought that if the notes were accessible they could be used to guide future decisions in the form that they are in.

Mark MunKittrick suggested that future CFTM committees need the flexibility to respond to future needs without being unduly influenced by the past decisions of the committee.

Phil Davis said that because of the large impact of small changes in the components of the valuation process that new members need to read through the notes so they are aware of the complications of introducing large impacts by making small changes in the rates. Future committees should give a lot of attention to the previous work of the committee so that they don't have impacts that are unintended.

John Eikum said that he was certain that the makeup of the committee will not change that much over time and there will always be members familiar with the previous work that can assist those who are new to the committee.

Kevin Boling said that there was a great deal of time spent on balance in the decisions of the committee and that the forest owners had given up a lot to obtain consensus with the county folks during the previous deliberations.

John Currin said that membership of the committee is bound to change. He reminded the committee that George Perala was the only member of the 2004 CFTM committee who was part of the discussions in 1982 when the law was originally enacted and now he is no longer around. When a system as complex as the one currently in place is used for valuing forest land his opinion was that it is very important for future committees to pay close attention to the discussions that have taken place in the past.

Mike McDowell agreed with what Kevin Boling had mentioned that there was a spirit of compromise during the previous discussions and all of the interaction that took place cannot be conveyed in the notes or in the User's manual.

Phil Davis reminded the committee that the counties had three educational sessions prior to the 2004-05 CFTM meetings just to get their knowledge to the level required for them to be able to participate in the discussions and make knowledgeable decisions during the discussions of the CFTM.

Steve Fiscus reported that the cost of the 2005 Forest Management Cost Survey needed to be contained so that there could be a study supplied to the committee as required by the code. The Legislature did not appropriate funds for the survey, so the STC had to supply the funds from their operating budget. The STC staff had been able to obtain the 2005 Forest Management Cost Survey for a total cost of \$4,056.77. This was significantly less

than the \$30,000 which was originally proposed by a forestry consulting firm and within the capability of the STC to absorb the cost in their current operating budget.

Dan Chadwick advised that this discussion needs to be brought to the form of a motion and voted on by the committee.

Mike McDowell made a motion that the notes of the CFTM be provided on the STC web site and be indexed for easy reference. The reference to the notes shall be on page four of the User's Guide and that future notes be kept and made available in a similar manner.

Dave Ryals seconded the motion.

Phil Davis amended the motion to require future CFTM members to consult the notes of previous meetings prior to making future decisions.

Kevin Boling seconded the amendment.

Chairman Katsilometes asked for a vote on the amendment and it was passed unanimously.

Chairman Katsilometes then asked for a vote on the main motion and it too was passed unanimously.

Rod Brevig provided background to the committee on the forest cost surveys. This background included the 1998 Forest Cost Survey and some of the statistics that were presented in the summary report of that survey. This information assisted the committee to determine why the decision had been made to truncate the 2005 survey to only include the large landowner group. The 1998 survey had been sent to 3,000 landowners and 544 surveys were received by the forestry consulting firm hired to compile the results. The landowners were divided into three ownership groups in the 1998 study. Category 1 landowners owned 5,000 acres or more, Category 2 landowners owned 500 to 5,000 acres and Category 3 landowners owned from 5 to 500 acres of forestland in Idaho. The number of owners in each category which were included in the survey comprised 15 in Category 1, 193 in Category 2 and 2,792 in Category 3. The five-year period of this survey included the years 1993 through 1997. Of the 544 surveys that were received 13 of the 15 landowners in Category 1 responded, 34 of the 193 in Category 2 responded and 497 of the 2,792 landowners in Category 3 responded. The average statewide management cost per acre for Category 1 responders was \$17.25 with a standard deviation of \$7.44. The average statewide management cost for Category 2 responders was \$11.54 with a standard deviation of \$27.15. The analysis indicated that the standard deviation and the standard error % were highly variable and not normally distributed and many owners indicated that they had "no activity" on their ownership. Only forty percent of the Category 3 owners indicated that they had management expenses on their ownership. The average statewide management cost per acre reported by this category was \$14.48 with a standard deviation of \$103.79. Both the standard deviation and the standard error % were highly variable and not normally distributed.

The forestry consultant included this helpful note in their summary: “The responses by question have a wide range due to the varying interest and activities that each landowner employs on their ownership. The 544 responders, out of the 3,000 original mailings equates to an overall return of 18%. With the tremendous number of phone calls from landowners our staff fielded during the survey, the reminder post cards mailed to all survey recipients, and with our follow-up telephone calls to the survey recipients, it is unlikely that any additional surveys could be recovered considering the comments and reactions we received from the landowners.” The consultant included in their conclusion: “When this data is combined by Zone for all Categories, consideration should be given to the fact that the data in Categories 2 and 3 is not reliable and may not provide results that are representative of the management cost. The Industrial and non-Industrial reported costs are very diverse. A different sampling system may need to be employed when collecting data from the non-Industrial sector, and continuing education on the Forest Tax Law and how it applies to forest landowners may help in collecting data in the future.”

Rod Brevig continued in his presentation to the committee that as the work progressed on the 2005 Forest Management Cost Survey the decision was made by the IFOA Board of Directors that they would be satisfied with the results of the 2005 survey if only large landowners were included. He reported that STC staff had coordinated the work on the survey with the IFOA Board, IFA through Jane Wittmeyer and IAC through Dan Chadwick. The forestry consultants report on the 2005 Forest Management Cost Survey was included in the materials that had been emailed to the CFTM members and included in the handouts to the committee members today. The results of the 2005 survey were a weighted average cost per acre for FVZ 1 (Forest Value Zone 1) of \$8.15 per acre, for FVZ 2 \$10.81 per acre and for FVZ 3 \$11.41 per acre. There were 7 responders in FVZ 1 which included 247,963 acres, 8 responders in FVZ 2 which included 917,421 acres and 2 responders in FVZ 3 which included 197,320 acres. The survey years were 2000 through 2004.

John Currin stated that the problem is that we are trying to survey various landowners with different accounting methods and different philosophies of tracking the costs incurred in managing their resources. It is impossible to get information that will work for this process.

Phil Davis asked Rod Brevig if there were outliers in the surveys.

Rod Brevig reminded the committee of the data that was presented in the 1998 survey regarding the variability of the data that was received. He also pointed out the variability in the data from the 2005 survey from a low of \$2.84 per acre to a high of \$15.74 per acre in FVZ 1 in 2004 as an example.

Kevin Boling said that he had hoped that by just surveying the large landowners some of the noise in the data would go away. He said that when they received the survey his company had just acquired the Boise Cascade property. He and his staff were extremely busy taking care of the details of that transaction and didn't have much time to devote to

the survey. He assigned the task of completing the survey to one of his staff and was only able to give it a brief review before it was sent in. Knowing now the problems with the data he was sure that they could do a better job on the next survey of getting the cost figures together.

Phil Davis asked if part of the problem was that the 2005 survey asked for “custodial costs” rather than all of the management costs.

Rod Brevig pointed out that the 1998 survey asked for all of the costs and the variability in the data didn’t change that much from that which appears in the 2005 survey which only asked for custodial costs.

John Currin suggested that there are a lot of decisions that have to be made in determining which costs to include and each company will make those decisions differently.

Rod Brevig provided further background to the committee on the forest tax law and its administration. Included in the presentation were estimated impacts of the implementation of the 2005 Forest Management Cost Survey and the alternative of continuing to index the previously agreed upon custodial costs by the PPI Index. The indexed custodial costs have been used in the valuation process in 2004 and 2005. The data demonstrated that instead of a possible impact of a 42% increase in the good productivity class in FVZ 1 if the 2005 cost study were to be implemented in the 2007 valuation cycle, the indexed costs would create an estimated increase of 9% for the same category of property. The data indicated that the small adjustments that have occurred in 2004 and 2005 would continue if the indexed values were used rather than the 2005 cost study values with very large differences from the previous inflation adjusted custodial costs.

Mark MunKittrick suggested that IFOA should be brought back into the process of developing the forest management cost figures in the future.

Kevin Boling stated that Forest Capital would cooperate in future forest management cost surveys.

Lloyd Fillis suggested that there can be a great deal of difference between public and private companies and the cost accounting process that is followed by their accountants that could affect the outcome of the company’s survey response.

Phil Davis said that even with the differences any future study needs to include all of the owners who can be surveyed.

Mike McDowell said that the survey questions are ones that can be difficult to derive but the STC can assist in education and the process of standardizing the survey results.

Dan Chadwick said that the User's Manual gives us guidelines for collecting the cost information but does not tell us to use the data only that the CFTM will analyze the data.

Phil Davis suggested that the User's Manual does state that the data from the 2005 survey will be used in the 2007 valuation process.

John Currin said that the legislation and rules have been developed but further explanation is warranted in the User's Manual to guide future actions of the CFTM.

Jane Wittmeyer suggested that there needs to be a subcommittee of the CFTM that will be tasked with developing a process that will be workable on the part of those who are providing the data and the CFTM that is required to evaluate it for future surveys.

John Currin moved that the subcommittee evaluate the questions in the survey and form a process that will allow industry and landowners to gather the information that will be used in the 2010 cycle of the Forest Management Cost Survey.

Kevin Boling seconded the motion.

Chairman Katsilometes took a vote on the motion and it passed unamously.

Dave Ryals moved to amend the custodial cost survey section of the User's Manual on page 22 to read: In the event that any mandated cost survey is determined by the CFTM to be unreliable, the CFTM members shall annually negotiate an index factor to be applied to the existing costs, which shall remain in place until the next mandated cost survey is conducted and reviewed.

This motion died for lack of a second.

Phil Davis made a motion that the CFTM negotiated base year custodial cost shall continue to be trended by the Bureau of Labor Statistics Producer Price Index as directed by the User's Manual on page 16. This trended CFTM negotiated custodial cost will be used in the valuation process until the next cost study is completed in 2010, evaluated by the CFTM in 2011 for potential implementation in the valuation cycle of 2012.

Kevin Boling seconded Phil's motion.

Chairman Katsilometes took a vote on the motion and it passed unanimously.

Chairman Katsilometes brought the meeting to a close at 2:45 PM and asked that members interested in serving on the cost survey subcommittee let him know of their availability.