

CFTM
 Committee on Forest Land Taxation Methodology
 June 15, 2004
 10:00 AM
 STC 5CR1 Boise, Idaho

Chairman Watson called the meeting to order at 10:10 AM. Members and guests introduced themselves and indicated whom 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
Robin Stanley	Mullan School District	
Greg Godwin	Kellogg School District	
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
Dr. William Schlosser	NW Management	schlosser@consulting-foresters.com
Ron Craig	ISTC	cadist1@direcway.com
Larry Watson	ISTC Commissioner	lcwatson@tax.state.id.us
Vincent Corrao	NW Management	corrao@consulting-foresters.com

Commissioner Watson asked for an acceptance of the minutes of the last meeting with minor corrections offered by Jane Gorsuch. It was moved and seconded for approval; the minutes with the minor revisions were accepted unanimously.

Commissioner Watson invited Jane Gorsuch and Dan Chadwick to explain the contract with NW Management. Jane began the explanation of the contract. She mentioned that the STC staff had developed the general wording and outline for the contract. After revision by herself and Dan Chadwick the contract had been delivered to NW Management. There were again minor revisions, suggested and made. Dan Chadwick offered an explanation of how payments will be made under the provisions of the contract. The final revision of the contract is what appears before all of the committee members today. Kevin Boling found a word "employees" which had been misspelled. Dan said that he would make the correction and have it initialed by all of the signers of the document. Steve Fiscus asked who would own the data once it is developed by the work being undertaken by the CFTM. Dan Chadwick suggested that the data would be in the public domain as a consequence of the work of the committee and that it would remain in the public domain afterwards. Dr. Schlosser said that any information that comes to NW Management could be kept private and only released if specific permission is given. Dan Chadwick suggested that the committee could go into executive session whenever sensitive information is discussed and then the information can be kept private. Phil Davis asked if the CFTM would need to sign a confidentiality agreement in order to work in this manner. Jane Gorsuch asked if the STC could keep information confidential. Commissioner Watson asked Greg Cade to speak to the issue. Greg indicated that the STC could provide for confidentiality if the information is clearly designated as such during the open meeting. Jane explained that her companies are concerned about the provisions of the antitrust laws and needed to make sure that the information that they provide will be protected in an appropriate way. Commissioner Watson asked if the contract could be accepted with the correction in spelling that had been pointed out by Kevin Boling. The motion was moved and seconded and the vote on the acceptance of the contract was taken and passed unanimously.

Commissioner Watson turned the meeting over to Dr. Schlosser and asked the committee to work with him to fulfill the role that has been assigned to the committee by the Legislature. Dr. Schlosser began his presentation with a suggestion that his goal for the day is to explore some of the ways to determine how the value of the forests in Idaho can be identified and used. He and Mr. Carrao passed out a spiral bound copy of the text he is providing to the CFTM and that he is going to use as the basis for his presentation today. There are several hours of his presentation that can be observed in the text that he provided which took the balance of the morning and early afternoon.

As Dr. Schlosser's presentation got to the discussion of costs in the afternoon, Kevin Boling asked about the cost study that was done in 2001. Vincent Carrao provided some background on the cost study that was done. Intermountain Forest Association and the Idaho State Tax Commission retained NW Management in 1998 to assist them in the completion of the forest management cost study. Mr. Carrao explained that thousands of Idaho's forest landowners were polled concerning the management costs that occurred on their land. These owners were divided into three groups by the size of their ownership. One group owned from 5 to 500 acres, another from 500 to 5,000 acres and a third group owned more than 5,000 acres in Idaho. Summary statistics revealed a management cost that should be used to value forestland in Idaho. Dr. Schlosser suggested that these

management cost figures needed to be updated by some inflation rate each year in order to ensure that they remain current. Jane Gorsuch said that some of her members were not pleased with the results of the study and thought that their costs were much higher than the study indicated. Mr. Carrao suggested that the \$17.50 per acre cost indicated by the study is higher than that experienced by the NIPF (non-industrial private forestland owners) that he works with in his consulting business.

There was a lively discussion by the committee members when Dr. Schlosser introduced the subject of stumpage values. Dr. Schlosser presented statistics, which indicated that increases in stumpage values had outpaced inflation over time. Dr. Schlosser suggested that it was not appropriate to include this margin in the model for developing forestland values. To include this margin in the rate would tax forestland owners on a value that may not be receiving in the future. Mark Benson suggested that it would be appropriate to include a general figure for deflation in stumpage values over time. He based this suggestion on the argument that the world wood basket has gotten larger as foreign countries have produced wood products, which they are seeking to import into the US. As these wood products appear on the US market, stumpage values are predicted to trend down. There was some discussion as to how a general figure for deflation of stumpage values could be included in the discount rate used in the model. Dr. Schlosser suggested that since the average figure for stumpage in Idaho on a five year rolling average is already calculated by STC staff it might make sense to continue to use this figure in the valuation model in the future. Dr. Schlosser pointed out that any attempt to determine a future stumpage value would be fraught with assumptions, which may or may not prove to be true over time. The fairest way to determine the stumpage value to be used in the model may be the procedure which has been in place and would continue in the future with the new model.

Dr. Schlosser began the discussion of the discount rate that could be used in the valuation model. Dr. Schlosser calculated the NPV (net present value) of forestland to be \$799/Acre. His assumptions were a 20 MBF (thousand board feet) per acre volume. A stumpage value of \$280/MBF. A rotation age of 70 years and an inflation rate of 1.0192. The EAE (equal annual equivalent) for these figures is \$20.79/Acre. Kevin Boling suggested that if we use the figure that Bill derived from the EAE of \$20.79/Acre and assume a discount rate of 8%, the indicated land value would be about \$250/acre. Mark Benson suggested that the discount rate should be easy to calculate. If we estimate the cost of capital for a timberland investor and subtract inflation from that we should have the rate that the investor is willing to use in determining what to pay for the property. Dr. Schlosser suggested that there are a number of forest investors represented at the table and that each of those investors will have a different cost of capital that they use as a hurdle rate in the decision matrix they adopt for determining the investments they will pursue. Because of these differences it is difficult to use the expectations of those forestland investors represented at the table to determine the right rate that should be used for the valuation model the committee will use.

Dr. Schlosser suggested that the rate should be somewhere between 0 and 10%. Commissioner Watson asked if Dr. Schlosser is suggesting that the CFTM should

negotiate a number and that number should be indexed after that for a period of time until future discussion would prove to be necessary. Dr. Schlosser suggested that it might be appropriate to do just that.

George Perala suggested that the PPI for the forest products industry has a history of only 20 to 30 years, which is half or less of a rotation for most commercial forest trees in Idaho. He asked if there is a better number that may be available. Dr. Schlosser responded by saying that the long-term inflation has been 2 to 4%. If we add the PPI figure to the general rate of inflation we would have a rate that ranges from 5 to 10%. However this range of discount rates would give a range in values that would be difficult for the stakeholders to tolerate, some values would be too high others too low. For this reason Dr. Schlosser suggested that it may be appropriate to put side boards on the rates so that values remain in a range that would be acceptable to the stakeholders over the foreseeable future. Dr. Schlosser added that it would continue to be necessary to revisit the matter of model development over time because the economy is dynamic and will create influences that cannot be determined at this time.

Dr. Schlosser wrote on the board that the agricultural community uses a simple direct capitalization model to determine value because they have annual income. He stated that a direct capitalization model is not appropriate for forestland valuation because we have periodic income not annual income. Dr. Schlosser took the committee back to his chart with the title "Where to Get Variables" and suggested that the committee needs to work on an agreement as to the range of numbers that could be used for each of the variables in the model.

Phil Davis asked for a clarification of the numbers that Dr. Schlosser has been presenting. Phil specifically asked for further clarification concerning the PPI numbers that had been suggested. Dr. Schlosser pointed out that he had run iterations on an annual, 5-year and 10-year rolling average and 5 and 10-year average rates. Phil continued by suggesting that it is easy to get unrealistic answers depending on the inputs that are used in the model. He asked if it were realistic to use this modeling procedure at all because of the sensitivity displayed by altering the input variables.

Kevin Boling said that his firm, Forest Capital Partners, was formed several years ago and competes with 19 other firms for investment dollars from institutional investors for forestland acquisition and management. The expectation of these investors is that they will get a 5 to 10% return on their investment over time. Vincent Carrao suggested that we are talking about two different things, one is investing in forestland for profit and the other is valuing forestland for tax purposes. He suggested that it is important to keep our perspective clear in this regard.

Commissioner Watson asked if we could come up with a date for the next meeting. The next date was set for August 5th in Boise starting at 10 am. Another date of August 27th in Boise was left in place dependant on the progress that is made in the meeting set for August 5th. The date of September 23rd in Coeur d'Alene has been previously agreed to for another meeting of the CFTM committee. Commissioner Watson asked Jane Gorsuch

if she could get word from Mason Bruce and Girard if they will make data that they accumulated during their study available for the use of the CFTM. She indicated that she should get word this week. Commissioner Watson thanked the committee for their work over the course of the day and Dr. Schlosser for his presentation. The meeting concluded at 4 pm.