

CFTM
 Committee on Forest Land Taxation Methodology
 September 23, 2004
 11:00 AM
 Beauty Bay Room, Coeur d'Alene

Chairman Watson called the meeting to order at 11:20 AM, after the room was rearranged to care for all those in attendance. There were several persons in attendance who were new to the committee so Chairman Watson asked everyone present to introduce themselves to the group. The agenda, and meeting notes from the September 2nd meeting for those who did not receive them earlier, announcement for the 2005 stumpage value meeting in Boise on October 13th, and information from Dr. Schlosser were all passed out to the committee members and guests. Following is a list of those in attendance.

Name	Representing	E-Mail
Larry Watson	ISTC Commissioner	lwatson@tax.state.id.us
Mark Munkittrick	IFOA – CDA	baronflyer@icehouse.net
Vincent Corrao	Northwest Mngt., Inc.	corrao@consulting-foresters.com
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
Jane Gorsuch	IFA – Boise	jane@intforest.org
Dr. William Schlosser	NW Management Inc.	schlosser@consulting-foresters.com
Rod Brevig	ISTC	rbrevig@tax.state.id.us
Duane Little	Guest	duanelittle@hotmail.com
Don Pischner	Guest/Stimson Lumber Co.	pischeda@aol.com
John Currin	Potlatch Corporation	John.Currin@potlatchcorp.com
Michael G. McDowell	Kootenai Cty Assessor	mmcdowell@kcgov.us
Roy Eiguren	Boise Cascade	RoyEiguren@givenspursley.com
George B. Perala	Boise Cascade	georgeperala@bc.com
Dennis Parent	Inland Empire Paper	Dennis_Parent@iepc.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
Mellisa Stewart	Clearwater County Assessor	mstewart@clearwatercounty.org
Daryl Bertelsen	Whitepine School District	dbertelsen@sd288.k12.id.us
Harley Hinshaw	ISTC	hhinshaw@msn.com
Ron Craig	ISTC	Cadist1@direcway.com
Jack Nelson	Latah County Comm.	JLNelsen@TDS.net
Roger B. Jackson	Boise County Comm.	

Don Ebert	Clearwater County Comm.	commissioners@clearwatercounty.org
Dr. William Schlosser	Northwest Mngt. Inc.	schlosser@consulting-forsters.com
Teresa Jeffrey	Benewah County Assessor	Tjeffrey@benewahcounty.org
Jerry White	Shoshone County Assessor	jwhite@co.shoshone.id.us
Peggy Delange-White	Shoshone County Clerk	Pwhite@co.shoshone.id.us
Robin Stanley	Mullan School Dist. #392	robins@sd392.k12.id.us

Commissioner Watson turned the meeting over to Dr. Schlosser.

Dr. Schlosser explained the information that he had handed out to the committee and guests. He suggested that the committee refer to <http://www.forecasts.org/data/> for historical and current data on T-Bills. He explained that he had gone back to some of the original data from the 1998 cost study to determine the acres that were used to do the weighting that was in the data sets that were discussed at the last CFTM meeting.

John Currin asked if the procedure used in the future would be to weight the reported costs by the acres reported and then weight that answer by the total acres for the Forest Value Zone.

Dr. Schlosser indicated that it would be the appropriate procedure to follow in the future.

John Currin asked if some of the amounts from some of the subcategories had been taken out of the total as had been discussed at the last meeting.

Dr. Schlosser indicated that they had, for instance the subcategory of Research and Development had been taken out.

Mike McDowell asked if the costs were on the charts that had been handed out.

Dr. Schlosser indicated that some of the information was on the charts that had been handed out. He then went to tables in his laptop and calculated the cost allowance for FVZ 1 to be \$11.88, FVZ 2 to be \$12.00 and FVZ 3 to be \$7.13 per acre.

John Currin questioned why the expenses for FVZ 2 were higher than those indicated for FVZ 1, he didn't feel that it was intuitively obvious as to why that should be the case.

Vincent Corrao offered that in the original data the variation shown was indicated by the information that was provided by the responses. There was a lot of variation in the information that came from the responses and that is reflected in the data that is being shown.

Mark Benson asked if the NIPF's were the reason for the skewing of the data.

Vincent Corrao suggested that the NIPF's might have caused the indicated expenses to go up rather than going down. He asked that the CFTM look at the cost study and see that the answers were in the range of the data that was produced by the study.

Mark Benson said that he is concerned by the amount of “noise” in the data set. He said that he feels that because the industrial owners keep better records and because they have the mandate to manage their lands for a profit they are in the best position to provide reliable cost data for future analysis and study.

Dr. Schlosser indicated that in one category the costs could vary from .55 per acre to over \$1,000 per acre and remain within the variation indicated by the data in the study. He suggested that because of this extreme variation in the data a negotiated value would be as valid as the result that came from the study.

Roy Eiguren asked how many responses there had been to the study.

Vincent Corrao responded that the large owners were the only ones who provided statistically valid information.

Dr. Schlosser went to the data set and provided the information on the number of responders there had been in each of the categories of landowners. He indicated that the number of responders was pretty good from the standpoint of normal research parameters.

Jane Gorsuch asked why the numbers that Dr. Schlosser was showing did not agree with the notes that she took during the last meeting.

Dr. Schlosser said that the tables he was working with were the exact tables that he was using during the last meeting.

Mark Benson indicated that his notes from the last meeting confirmed the figures that Dr. Schlosser has been showing.

Kevin Boling asked how the figures went from an indicated cost per acre in FVZ 1 from \$38.19 per acre to \$11.88 per acre.

Dr. Schlosser demonstrated that it was due to the averaging and weighting of these figures that had taken place.

Dennis Parent asked if a factor for inflation had been applied to the indicated cost figures.

Dr. Schlosser said that the cost figures had not had an inflation factor applied to them yet, but that it would be appropriate to do so. He indicated that it would be appropriate to inflate them from a starting point of 1997.

There was a general discussion as to whether the appropriate starting point would be 1997 or 1995. The notes from the previous meeting were referenced to indicate that the starting point of 1995 had been agreed to at the last meeting.

Dr. Schlosser showed a table of the indicated cost figures that would vary by productivity class:

	Average by FVZ	Good	Medium	Poor
FVZ 1	\$11.88	15.22	9.78	4.35
FVZ 2	\$12.00	14.72	9.46	4.21
FVZ 3	\$ 7.13	10.41	6.93	3.25

All Zones \$7.21/Acre Cost Allowance

Chairman Watson asked who would do the future cost survey?

Dr. Schlosser suggested that the ISTC could do future cost surveys or contract with someone else to do the survey.

Jane Gorsuch suggested that in previous discussions held by the CFTM the ISTC had been asked to provide a cost survey every five years. She added that the ISTC should bear the cost of these surveys.

Chairman Watson asked Roy Eiguren to make sure that the expense of the cost surveys be included in the legislation that is drafted for these changes in the Forest Tax Law.

Roy Eiguren indicated that these provisions could be included in the legislation.

Dr. Schlosser suggested that the information that is provided by NIPF's in response to the survey could be audited for accuracy by the ISTC.

Chairman Watson suggested that if the survey was sent by the ISTC the response by the taxpayers might be negative to yet another intrusion into their privacy by a taxing authority.

Vincent Corrao indicated that his firm had received a large number of negative responses from people who had received the original survey. He had been asked a number of times why his firm had become involved in seeking information that was going to be used for property tax purposes.

George Perala asked how much the cost allowances would be brought up by the application of a factor for inflation.

Dr. Schlosser said that an appropriate inflation factor for the last ten years would be around 1.4%. He indicated that he would use the PPI index to provide an indication of the appropriate inflation factor.

John Currin said that in the poor productivity class there should not be an allowance for a cost for reforestation or there should be an allowance for a longer rotation age.

Chairman Watson asked for further discussion on this subject.

Kevin Boling suggested that he does have costs associated with his poor sites and thought it appropriate to include a reforestation cost for these lands.

John Currin said that if the reforestation costs are included for the poor category then it would be appropriate to shorten the rotation age.

Kevin Boling suggested that he does not agree with John's arguments.

Dr. Schlosser provided the cost allowance figures for the poor productivity category for each FVZ if the costs were reduced by an elimination of the reforestation costs. For FVZ 1 the value would be \$3.39, for FVZ 2 the figure would be \$4.04, for FVZ 3 the cost allowance would be \$2.59 per acre.

Mark Benson asked that the cost survey be done as soon as possible so that there would be some updated information that could be used to indicate the appropriate cost allowance figures.

Vincent Corrao suggested that many of the NIPF's would report costs of zero because they didn't do anything to their forestland in the last five years.

George Perala suggested that the prudent landowner would not spend more on his land than he could expect to obtain in the returns he receives from his land. He indicated that he had witnessed instances in which NIPF's had poured money into costly treatments for their land. He suggested that the reason they do this is that they have other priorities for their land beyond receiving a monetary return from their land.

Dr. Schlosser indicated that this might be a reason to only have the industrial owners questioned in the cost survey.

George Perala suggested that custodial costs should be used and not the extreme costs indicated by some of the NIPF responses in the past.

Mike McDowell said that we had discussed this issue during the last meeting and that custodial costs should be accompanied by custodial growth rates.

Mark Benson stated that he only wants industrial owners surveyed by future cost studies. Kevin Boling, George Perala and Dr. Schlosser all added their agreement.

Kevin Boling asked if the CFTM could take up the matter of who is surveyed at a future time and get back to the substantive parts of the current discussion, which needs to take place today.

Chairman Watson asked Dr. Schlosser if it would be appropriate to send the cost survey to only the large industrial forestland owners.

Dr. Schlosser asked if the CFTM would think it politically acceptable to the small owners if only the large owners were to receive the cost survey. Would the small owners be content to have their taxes to be determined by owners other than those in their ownership class?

Roy Eiguren suggested that the language in the legislation should assign the responsibilities for the forest cost survey to the ISTC. Then the ISCT can work out the details of the study and the survey can be done sooner rather than later.

Chairman Watson asked what the cost of the last survey had been.

Vincent Corrao said that the cost of the last survey was \$25,000.

Dr. Schlosser asked for a general discussion about dropping the reforestation costs for the poor productivity class.

Dennis Parent said that he still feels that there is an appropriate cost for reforestation that occurs with poor productivity forestland.

John Currin said that he doesn't normally see owners of poor productivity forestland planting those lands. They normally wait for natural reforestation to take place.

Mark Benson said that in his opinion they don't have the option to plant, it's a requirement of the forest practices act.

Kevin Boling added that he had just been required to pay \$3,000 for reforestation of a site in Clearwater County because after harvest the stems per acre were not adequate to meet the requirements of the Forest Practices Act.

George Perala asked if we could use the costs and rotation age of 80 years as originally discussed and move on.

Mike McDowell asked if the 80-year rotation was established based on the assumption that natural reforestation was being assumed for the poor category.

Dr. Schlosser suggested that the CFTM use the rotation age and cost figures for the poor category that had previously been discussed and move on. He indicated that the 80-year rotation was not dependent on no reforestation costs being incurred. He showed a table of the cost allowances with the appropriate spread by productivity class.

	Average	Good	Medium	Poor
FVZ 1	\$13.46	\$17.25	\$11.09	\$4.93
FVZ 2	13.60	16.69	10.73	4.77
FVZ 3	8.08	11.79	7.85	3.69

Chairman Watson asked for a vote on these indicated cost figures and they were approved unanimously.

Dr. Schlosser asked the CFTM to turn their attention back to the discussion of the PPI index for softwood logs and bolts. He showed from the data set that the RPA (real price appreciation) for 20 years has been 3.4% on average.

Mark Benson asked again if there were other data sets that could be utilized to develop and estimate of the RPA.

Mark MunKittrick asked for a clarification as to whether the values for softwood logs and bolts were gate wood values or stumpage values?

Dr. Schlosser indicated that these are stumpage values.

John Currin suggested that the Timber Data Company might also be a source of similar information.

George Perala said that he had investigated using their data set and had found that the information only goes back for ten years.

Dr. Schlosser said that there is some variation in the data set from year to year. He indicated that in most other data sets he has examined the average indicated RPA is around 3% rather than the 3.4% indicated by this data set.

Mark Benson suggested that there has been a lot of volatility in the past 20 years. The question he is posing is whether or not it is appropriate to use the last 20 years with all of the volatility that existed as an appropriate indication as to the future. In the past 20 years many mills have gone broke because they couldn't stay in business paying the high stumpage values of the period. He indicated that one of the challenges facing the forest products industry today is too much, not too little, wood coming on the market. Log suppliers in the United States now have to compete with logs coming from Chile, New Zealand, South America or Europe. In the last decade we have moved from a local to a global economy.

Kevin Boling asked Mark Benson what he would suggest as a substitute.

Scott Gray said that this is the reason why he questions the appropriateness of using a figure for RPA at all.

Dr. Schlosser said that if the inflation were to be taken out of the 3.4% figure the indicated RPA would become 2%.

Kevin Boling suggested that he has observed over time that the real appreciation in wood values has been around 2%. He indicated that something in the 2% range would offer a figure that he would feel more comfortable with.

George Perala said that in a recent US Forest Service study the RPA had been in the 1 to 1.5% range.

Dr. Schlosser suggested that the figure of 2% could be used at this point to further our discussion. He added that this figure comes from softwood alone and doesn't have hardwood in it as a component.

Mark MunKittrick asked if we could use a 5 or 10 year rolling average again.

Dr. Schlosser suggested that the 20-year period is appropriate because we only have one application for this figure.

Mark MunKittrick pointed out that if the two high and the two low years were taken out of the 20-year history used to develop the RPA at 3.4%, the figure would turn negative. He observed that the volatility in the data set is a problem that we should recognize.

Mark Benson said that the timber companies in the United States have moved to the south and east because of the volatility observed in the log markets in the west. Because of the problems timber producers face in the west with relatively low productivity and high harvest costs the west is a follower in the marketplace and not a leader. He added that the terrain and haul distances experienced in the west mean higher costs in comparison with those experienced by timber producers in the southern U.S.

Steve Fiscus asked if it would be true that if this model were also used in other regions of the U.S., the model would accommodate all of the differences Mark is suggesting. The result would be an equitable relationship between these regions.

John Currin suggested that since we have 20 years of stumpage values available to us from the history of the forest tax law in Idaho, perhaps these would be better figures to use than the national figures that Dr. Schlosser is suggesting.

Dr. Schlosser said that he could put that history together with the information available to him on his computer but it would take a few minutes to accomplish it.

The committee took a break while Dr. Schlosser compiled the figures. He completed the calculations and shared the result of 5.42%. He suggested that it would be appropriate to obtain an inflation figure for Idaho to go along with this new figure.

Dan Chadwick suggested that the Department of Commerce might be a resource to tap for that figure.

Dr. Schlosser said that if we could obtain the inflation figure it might be appropriate to use the information from Idaho.

Vincent Corrao suggested that information on stumpage values from the Idaho Department of Lands should be available clear back into the 1950's.

John Currin asked if the inflation figure would need to be for all of the wood products industry rather than just stumpage values.

Dr. Schlosser suggested that it would be a problem to put these figures together.

Mark Benson suggested that the IDL figures might not be appropriate. The typical IDL sale has larger volumes and longer contract time periods than the typical private sale.

Kevin Boling asked if the committee could go with the 2% figure for now and move on.

Chairman Watson asked for a vote of the committee and the issue passed unanimously.

Dr. Schlosser put the indicated forestland values for FVZ (forest value zone) 1 on the screen using the variables that the CFTM had discussed over the last several meetings. The indicated value for good was \$101 per acre, for medium \$0 per acre and for poor a negative \$27 per acre.

Kevin Boling stated that these figures have been produced by the variables that the committee had agreed to and assured the committee that the indicated figures are correct. Any changes that occur from this point on are a political compromise that is an accommodation for the needs of the counties and the schools.

Dr. Schlosser changed the RPA figure from 2% to 3.4% and the indicated forestland values changed to \$684 per acre for good, \$347 per acre for medium and \$246 per acre for poor.

Kevin Boling suggested that the committee could "muck around" with the numbers as much as they want but the end product is not going to change.

Dr. Schlosser suggested that this is the reason why he has led the committee in a discussion of the input variables one at a time. Without knowing the end result the discussion could focus on each of the input variables and how they would be derived.

Duane Little asked what is going to happen to the school districts if these values are adopted?

Chairman Watson suggested that he will have Alan Dornfest and Tim Hill address the issue of impacts. The committee needs to maintain their focus on the model and the inputs for the model.

Stan Leach said that these values would break Clearwater County. There is no place to go to obtain other sources of revenue.

Mark Benson asked why Clearwater County should have that much of a problem.

Dennis Parent asked if he could obtain the spreadsheets used to develop the estimates of value from Dr. Schlosser.

Dr. Schlosser said that he would get the spreadsheets out to the committee members by Monday of next week.

George Perala observed that the Mason Bruce & Girard figures that were produced in 1998 were much tighter between good, medium and poor because the model specifications were more complicated and included inputs for fertilization and intermediate harvests that the present model does not.

Chairman Watson asked the CFTM to work with these figures over the next couple of weeks and come to the meeting on October 13th in Boise ready to discuss them. The next CFTM meeting will be in Boise on October 13th in room 1CR5 and will start at 9 am.

Mark Benson suggested that we are at the point now in our discussions where the committee needs to deal with the tough issues. He asked if Tim Hill and Alan Dornfest would be available to assist the committee with their discussion of some of these issues.

Chairman Watson said that he wants to be fully prepared for the discussions on October 13th so that the committee doesn't waste any time in resolving the remaining issues.

Mark Benson asked if tables could be developed that would examine the impacts of changes by \$50 increments. These tables would assist the committee to determine the precision that would need to take place in model calibration.

Chairman Watson closed the meeting at 2:58 pm as the room needed to be vacated by 3 pm to accommodate the needs of the convention facility.