

CFTM
 Committee on Forest Land Taxation Methodology
 October 13, 2004
 9:00 AM – 4:00 PM
 1CR5 Idaho State Tax Commission
 Boise

Chairman Watson called the meeting to order at 9:20 AM, after the ISTC open meeting introducing the 2005-stumpage values was completed. There were several persons in attendance who were new to the committee so Chairman Watson had everyone present introduce themselves to the group. 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
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
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
Daryl Bertelsen	Whitepine School District	dbertelsen@sd288.k12.id.us
Harley Hinshaw	ISTC	hhinshaw@msn.com
Ron Craig	ISTC	Cadist1@direcway.com
John Eikum	Idaho Rural Schools	jjikum@aol.com
Bill Ruff	Avery School District	averysuper@sd394.com
Reid Straabe	Wallace School	reids@usamedia.tv

Commissioner Watson turned the meeting over to Dr. Schlosser.

Dr. Schlosser compared the forestland valuation model he has developed to an old car that he worked on as a kid. He said that the first time he started that car he had to turn it off after a few seconds because they didn't get everything right the first time. It is similarly true with the valuation model. The trial run was in Coeur d'Alene at the last

CFTM meeting. Since the last CFTM meeting he has consulted with a forest economist from out of state and made some adjustments that he will share as the discussion progresses today. There were a couple of errors in the model that he has corrected. He will supply those adjustments to the model and those that come from the discussion today to the Chairman later this week. He commented that the PPI recently has been volatile due to the high cost of oil, in contrast to the CPI. With the corrections to the model that he had made the guiding discount rate is about .0413, with the .075 sideboards that have been previously agreed to, there should be stability in the model. He commended the CFTM in their work on setting the parameters or sideboards because they seem to work with the data set.

Phil Davis asked for an explanation of the peaks and valleys demonstrated in the data set that is being used to derive the base rate from the Bureau of Labor Statistics data. He made the point that he hasn't seen an 18% discount rate in any of the years in the data set.

Dr. Schlosser indicated that it is a blip in the data when looking at the 2001 negative "deflationary" period and that's why the CFTM needs to use the 10-year trend rather than the spot market. When the T-Bill rate is adjusted for the inflation component in the model, and the green line tends to reflect the stabilized/normalized rate of return over a longer period, rather than the spikes and troughs illustrated by the blue points on the chart. He displayed a preliminary users manual that he had put together that discusses some of the background information that has been considered by the CFTM. He said that his purpose is to provide enough detail that anyone can check the system to make sure that it is working, as it should.

Chairman Watson asked if the changes in the table that Dr. Schlosser is proposing would yield only minimal changes in the chart that had been provided to him on Tuesday October 12.

Dr. Schlosser by way of an answer began a discussion of the RPA or real price appreciation for wood. The data set that he is using from the Bureau of Labor Statistics only has 20 years worth of data in it. He would like to have at least 50 years of data to make the projections for the model that is trying to look out over the next 60, 70 or 80 years. From the discussions in Coeur d'Alene the RPA is about 1.64%, but he doesn't feel that he can defend that figure for a period of 60 to 80 years. He looked around for another source for a number that could be utilized for the RPA. He presented his finding that the US Forest Service PNW Exp. Station in Portland, Oregon, has published their rate projection of 1% for stumpage in the western US. This rate has inflation taken out of it and represents the work of many experts in the field of forest economics who work at the station. He suggested that the CFTM discuss the RPA and negotiate a rate that would work for the interests represented in the state of Idaho. He demonstrated the impact on forestland values of changing the RPA from 1% to 1.64% so the CFTM members could gain an appreciation for the impacts that are involved.

Mark MunKittrick asked why the committee decided not to use the stumpage data set that has been developed for the state of Idaho.

Dr. Schlosser reminded him that we would have to derive an inflation rate specifically for Idaho, and he doesn't know of a data set that is available to make that calculation (one which matches the periods used for deriving the stumpage values). He restated his discomfort with the volatility in the data set from which the RPA is being developed.

Mark Benson asked about the volatility in the data from the Bureau of Labor Statistics pointing out that one way to get away from it is to use the RPA developed by the PNW Exp. Station.

Mike McDowell asked for Dr. Schlosser to demonstrate where the forestland values come in at if the rate varies from one point to another.

Dr. Schlosser restated his discomfort with the level of volatility in the data set and continued to demonstrate what the impacts are if the RPA varies from one point to another.

George Perala suggested that in his experience in working with others states he has observed a rate of 1% being used often, before the USFS stopped selling trees. In fact he felt that the 1% rate may be a bit high. In Oregon if Doug fir is taken out of the data set the RPA would be less than 1%. The volatility that was induced in the market when the USFS stopped selling trees is still being worked out by the market. That volatility can be expected to continue as long as significant variation to the demand and supply side continue. He said that if the USFS starts to sell a large volume of trees again another large disruption will occur in the market place as the changes in this fundamental part of the market continue.

Dr. Schlosser added that when looking at the last 25 years of data the normalized rate is predicted to continue to decline. This would argue for a rate of less than 1%, looking well into the future. Dr. Schlosser pointed out that the rate is approaching a stabilizing level, which is not necessarily at 0%, but as has been suggested by other researchers, perhaps it will stabilize at 1%.

Jane Gorsuch asked if the USFS data is around 1%.

Dr. Schlosser responded affirmatively and added that they predict their rate will stay close to 1% well into the future.

Mark MunKittrick asked if the PNW Exp. Station information is available on the Internet.

Dr. Schlosser again responded in the affirmative.

Mark Benson again suggested that one of the factors facing the wood products industry is too much wood. There may not be a surplus from the Salmon River to the Canadian border but that is not true globally. He argued that the market place cannot tolerate

continued high stumpage prices. Substitutes will come into the market when an imbalance occurs. He used as an example the 20,000 acres of potato ground that Potlatch bought near Hermiston and planted to hybrid poplars. At the time they were facing \$124 per ton wood chip prices, which they could not tolerate and stay in business. After they bought the ground and planted the trees the prices for wood chips tumbled and now they have a lot of trees that they are not able to sell. With substitute products, and offshore wood the result will be an RPA that continues to decline. We are inviting long-term problems if we ignore the greater forces of economics. We have to ignore the outliers because it is the average that reflects the expectations of companies making the decision to invest in forestland.

George Perala added that the competition from foreign markets will continue to push down RPA rates in the U.S. in the long-term.

Dr. Schlosser suggested that Russia has produced a lot of wood, but that wood is being processed in Japan, Korea, and China. This offshore source will add to the volume of wood already mentioned in the global marketplace

Phil Davis said that he would prefer to weight the more current data rather than to discard the data set and negotiate the RPA. He suggested a compromise between the two rates of 1 and 1.64% and put the RPA at 1.32%.

Dr. Schlosser responded that he feels that a negotiated figure would be appropriate provided is in the range of the values presented. He acknowledged that in every other element of the model, by using historical data, good results could be derived. However, in looking at each cell of the RPA data spreadsheet (only 22 years) the data set is just too unstable to provide a good guide for our use. He pointed out that this is an opportunity for the committee to negotiate a rate that is acceptable, just as they have other contentious parts of the discussions which have taken place over the last few months.

Steve Fiscus said that he recognizes that from the last months meeting that the changes in the “what if” model showed huge fluctuations in the per acre values with small changes in the RPA rate. He asked what would happen if the RPA turns negative?

Dr. Schlosser responded that the model will continue to work because the market would most likely compensate for the imbalance that would produce the negative number.

Steve Fiscus said that he was noticing in Coeur d’Alene that a small change in the RPA makes a very large change in the forestland values from a few dollars to over \$1,000 per acre.

Dr. Schlosser responded that is the reason he is suggesting the need for a negotiated RPA figure. He suggested that the negotiated value should be in place for a period no longer than 5 to 10 years because by then other market forces will be important in the market place.

Scott Gray indicated that he agreed because he sees the RPA values as being the most speculative portion of the model.

Dr. Schlosser demonstrated that the stumpage values can vary by \$100/MBF without the dramatic influence over values noticed when the rate changes by a fraction of a percent. He indicated that the model could remain somewhat sensitive to the market if the rate was determined by negotiation on the part of the committee.

John Currin asked for a clarification on the columns of the PPI index that Dr. Schlosser was using.

Mike McDowell asked when the substitution of other products in the market might occur and if there is some way to predict when that might happen.

Mark Benson said that unless we see a sea change, such as the USFS opening up their forests, the changes we observe should be gradual and will result in small changes in the RPA rate over time. He restated that the PNW Exp. Station figure is developed by many scientists spending a lot of time researching these issues. They should be less biased than other sources for the RPA rate and they come in at 1%.

Dr. Schlosser took the CFTM back to the spreadsheet to discuss the variables in the model. He indicated that it is not appropriate to include the property taxes in the guiding discount rate in an SEV model. Because the rates are carried for the length of the rotation there is a disproportionate influence over values if the taxes are included as a rate. If they are included as an annual cost they don't have the drastic impact on values that a rate change causes. For this reason it is more appropriate to include the taxes as a portion of the cost rather than as a part of the rate. He said that combining the tax rate with the cost of capital may be appropriate when dealing with annual income such as is done with agricultural land and other asset valuations, but in the SEV model this is not appropriate as it discounts the annual costs and periodic income stream disproportionately. He demonstrated in the model how this was handled; by calculating a pre-tax SEV and then the post-tax SEV including property taxes as an annual cost over the life of the rotation.

Steve Fiscus suggested that in appeals in his county they had included a calculation of the value based on the taxes being part of the rate or part of the costs and the value conclusion came out within pennies of each other. Steve asked if it would be appropriate to put sideboards on the RPA as Chairman Watson had suggested earlier.

Dr. Schlosser confirmed that if the calculation is being performed for a one-year period there will be little difference in the answer if the taxes are included in the rate or in the costs. In an SEV model the rate is carried for so many years that the end result is affected drastically if the property taxes are included as a part of the rate instead of as a cost.

The CFTM took a 20-minute break to caucus.

Dr. Schlosser passed out his preliminary “users” manual with the caution that the contents are not ready for release beyond the committee. He then moved to his model and started running some iterations based on variations of the real price appreciation rate for stumpage, taxes were being treated as part of the costs. He demonstrated that RPA rate from 1% to 1.64%. The committee continued to discuss the impact of changing the RPA in one way or another.

John Currin suggested that the difference between the rates can be 300% and stay within the sideboards that have been established. He asked what the taxes are as a percentage of the costs. In FVZ 2 they were estimated at 22% of the Equal Annual Equivalent (annual income).

Dr. Schlosser estimated that for all zones the property taxes may range between 18 and 29% of the cost allowance.

Chairman Watson asked that an RPA of 1.2% be entered into the model. The results seemed to approximate the values that had been in the range that were acceptable to most of the CFTM.

Jane Gorsuch asked if the State Tax Commission could do an analysis of comparable resource industries to determine what they pay in property taxes as a percentage of their management expenses.

Dave Ryals asked what would happen to the values if the levy rates went up as a result of lower forestland values. He suggested that the property taxes as a component of management expenses would go up also. If the RPA gets high enough and the values continue to decrease there will be a shift to other property tax categories and dry grazing and recreational categories will be impacted.

Mark Benson said that is why he is in favor of using the figure that has been produced by the PNW Exp. Station. What is the incentive for Potlatch to invest in these resources, which are not offering even a break even return, when we can invest in T-bills with a greater return and less risk?

Dr. Schlosser said that there are other factors that play into these investment decisions, for instance integrated operations such as lumber, paper and OSB, which do not necessarily show a return to the forestland investor, but to the entire operation instead.

John Currin said we have an obligation to maximize profits on our investment and many inputs like fertilization can change the relationship of property taxes as a percentage of overall management expenses.

Steve Fiscus asked Dr. Schlosser what rates he had put into the manual. He also pointed out that we are ignoring the income associated with such things as conservation easements.

Dr. Schlosser said that he put in the manual the rates the committee had previously discussed. The RPA figures are varying from 1% to 1.64%. He said that the manual includes a discussion identifying the need to redress this issue because of variability in the input models.

Jane Gorsuch said that integrated forest products operations are becoming uncommon. For instance Forest Capital has sold off its mills and is a land holding company.

Dr. Schlosser suggested that it is important to make sure that the productivity classes are done correctly. If there is a mistake in the productivity class the opportunity for error may be larger than an error in the model would create.

George Perala said that there is a difference between actual and functional use and highest and best use. He added that some of the counties have not done a very good job of establishing their productivity classifications.

Mark MunKittrick said that he is concerned about the PPI index that Dr. Schlosser has used to establish the RPA rate. He feels that the PNW Exp. Station brings more reliable data sets and he is more comfortable with the indicated RPA of 1%.

Dr. Schlosser suggested that the tables could be weighted by species, but we have to look beyond Idaho for some of the data sets to do the weighting.

Steve Fiscus suggested that the CFTM has hired Dr. Schlosser to guide them in developing the model. He said that the committee can continue to discuss the RPA until 4 PM without coming to a resolution. He indicated that he was willing to go with a rate that Dr. Schlosser would suggest.

Dr. Schlosser said that he is comfortable with a rate of 1%. If the committee should decide on a rate of .9% or 1.1% he could also work with these figures. He suggested again that as an economist he can present the range that the figures should fall within but the committee should decide where they feel they can tolerate the figures being. The committee knows whom they have to go back to and explain the results of their work.

Mike McDowell asked if the CFTM could look at any other variables that Dr. Schlosser had changed in the model. He would then be interested in using the caucus arrangement to determine their tolerance for the values that are being projected.

Mark Benson suggested that the rate should be 1% because the returns indicated in the calculation are realistic. The problem with weighting towards the 1.64% rate is that it is derived from the havoc that was inflicted on the forest economy due to the events of the 80's and 90's when the USFS decided to stop selling trees. The PNW Station figures are more regional with better data sources, and more accurately reflects equilibrium that may witness further declines in appreciation. We only have one number from the PNW Station and we should not feel free to change the figure arbitrarily. We can defend the figure and it is the most relevant figure for the Rocky Mtn. Region. If it drives values

down, we should address that as a separate issue and not “contaminate” the validity of the PNW Station RPA figure.

Phil Davis suggested that Mark’s argument depends totally on the accuracy of the calculations made to arrive at the 1% RPA.

Steve Fiscus said that the income indicated from this model is from a harvest in 60 to 80 years plus the grazing income. It does not take into account income from other sources.

Dr. Schlosser said that if a conservation easement does sell, the transaction merely demonstrates the value of the land for development or recreational uses. By illustrating this value in the sale it confirms the importance of not including the value in this calculation.

Jane Gorsuch argued that integrated companies are spinning off their lands and not maintaining their ownership of the land. Forest Capital is an example of a company that has purchased forestland for the sole purpose of creating a return from that land.

George Perala suggested that in his ownership there is a mosaic of good, medium and poor forestland. If a person devoted a lot of time and resources in an effort to identify in great detail all of these distinct areas and map them, the result would be some small difference from the average values at this point in time.

Mark MunKittrick suggested that there is a need to consider the 1% as viable because of the variation in the data set it comes from. He said that it is because of Dr. Schlosser’s expertise that we have brought him into these discussions and we should consider his advice.

Steve Fiscus asked if the PNW Exp. Station figures by species may be more appropriate. He reminded the committee of the 1.75% figure that had been shared for Douglas fir.

Dr. Schlosser said that the 1.75% was for west side Douglas-fir. Ideally it would be good to have a rate available for each of the species in Idaho, then create a weighted RPA, based on the influence each species carries. However, he said we do not have sufficient data to create this model at this time.

Steve Fiscus asked why folks like Forest Capital come into the state and buy forestland if they aren’t getting a return on their investment.

Mark Benson countered that they can’t buy bare forestland at these values and make money.

Phil Davis asked for more of an explanation of this (the 1%) RPA rate because he doesn’t have any confidence in it.

Dr. Schlosser said that he agrees but that we can see the range of values appropriate for this region.

Phil Davis asked if we are trying to say that the increase in value over the next 60 years will be 1%.

Dr. Schlosser said that is what we have been trying to say. He pointed out that the change in value is above inflation. He calculated what the wood appreciation rate would be for the stumpage value data set for Idaho. The indicated rates were higher than the figures generated from the PPI index.

Mark Benson suggested that he doesn't have any confidence in the 1% or the 1.64% figures. The fact that Idaho has been higher than the PPI figures indicates a higher dependence on federal timber in the past. For this reason he feels that the PNW Exp. Station figures of 1% can best be used to explain the predicted movement of values in the future. He pointed out again that the rate comes from the work of qualified forest economists who derived it after a lot of time and research effort.

John Currin said that he has seen more out of state interests coming into Idaho and driving up prices and this was particularly true in the early 1990's. The USFS could change things drastically again depending on what happens to their stumpage sales in the future.

Steve Fiscus said that he has to be sensitive to the audience that he has to go back to and explain these values. He is not going to be able to explain the values that have been generated by the 1% rate that industry is arguing for. He recognizes that timber did pay a disproportionate share of property taxes in the early 1990's because their values had gone up faster than any other property class. Now however, the timber property category has been going down, when every other property class has been going up. If the forestland values stabilized in the area they are now (with the 2004 HB 513 values), we could say that none of the county offices have had to shut their doors, so we can probably live with the results.

Dave Ryals said that the 1% RPA figure would create a loss to Boundary County that is 3 times what their growth has been from other areas such as new construction.

Stan Leach said that in Clearwater County the 1% RPA figure would create an additional loss in value of \$750,000 and that doesn't work. Services would have to be cut because they are up against their levy limits and don't have any place else to turn.

George Perala said that they did a study of forestland values in eastern Oregon that came up with a bare land value of \$80 per acre. However, he does realize that there is an economic reality and a political reality. He reminded the committee that Dr. Schlosser has indicated that he likes the 1% rate.

Mike McDowell asked that Dr. Schlosser provide his opinion of splitting the baby at 1.32% for the RPA. He recognizes that it is a political decision and he would pass the decision on the rate back to the CFTM.

Dr. Schlosser said that he feels that it is important for the CFTM to determine if they can live with the results of the work of the committee. He feels it is important to find a level of comfort with the variables in the model for all of those on the committee.

Chairman Watson asked if the negotiations on these values needs to take place here and now or at some other time and place?

Dr. Schlosser suggested that his feeling is that the CFTM may need to have some additional experience with the model before they make this discussion. For instance what happens if we increase or decrease the stumpage values and change the RPA rate?

Steve Fiscus asked if he would increase the stumpage value and the RPA and see if the values are acceptable. The values went to \$650 for good in FVZ 1 and FVZ 2. Steve asked the committee if these values are acceptable.

John Currin asked if we could change the rate to 7.5% the upper bounds of the sideboards that were provided. The values went negative. John asked the committee what would be acceptable.

Steve Fiscus said yes the formula is what it is, but we have to stabilize the values to have something that we can work with into the future.

Jane Gorsuch said that we have to account for the other influences like supply and federal sources, mill closures and there is not a simple correlation between stumpage values and interest rates.

Steve Fiscus argued that there is a lot of volatility between the values in the good, medium and poor categories when the inputs in the model are changed. To stabilize the model there needs to be a clause that would kick the values back to a negotiated value like the HB 513 values if they get to volatile.

Phil Davis suggested that we should consider going back to the previous model (that is in the current forest tax law) and establishing sideboards for it rather than this model that has huge fluctuations with the smallest change in some of the variables?

Dr. Schlosser suggested that we have seen that the upper limit of 7.5% that was set for the sideboards has produced values that are unacceptable. He suggested a need to go back to the sideboards and make some additional adjustments so that the results will be acceptable to the committee. He suggested setting the Guiding Discount Rate sideboards at a range of 4% to 5%, for example.

John Currin asked if the committee could establish the RPA rate before they go into discussions of the sideboards.

The committee took a 15-minute break for the sides to have an opportunity to caucus.

Mark Benson said that industry offers to agree to an RPA of 1.25%, in the spirit of compromise, to establish a value for the next five to ten years. The cost study needs to be done immediately and again in five years after that. Assuming that it takes two years to complete the cost study, the RPA of 1.25% would then be in effect for a period of seven years before it is reviewed again. Mark Benson said that while he realizes that it goes against the argument that he was making earlier, there is a basis for defending the RPA at a rate of 1.25%, which would provide a basis to maintain the integrity of the model. The values that the model produced with the variables at 4.13 base (guiding) rate, 1.25 RPA and 2005 stumpage values were:

	FVZ 1	FVZ 2	FVZ 3
Good	\$448	\$419	\$211
Medium	212	199	98
Poor	59	56	25

Mike McDowell suggested that the IAC caucus felt that stumpage values might be rising in the next few years, which would cause values to continue to decline.

John Currin countered that the 10-year rolling average is rolling off higher rates in 1993, 1994, 1995 and that would tend to push the RPA down or at least flatten it out as the 2001, 2002 and 2003 rates are rolled in. He reminded the CFTM that the IAC group has not offered their RPA number.

Mark Benson said that while there has been an offer at 1.25% for the RPA are the counties satisfied with the values that are being produced?

Steve Fiscus suggested that if the RPA is set at 1.25% it is no more defensible than a rate of 1.32%, which would be an exact split between the 1% rate and the 1.64% rate. Steve said that the position of the counties is to freeze the forestland values at the 2004 HB 513 values for a period of five years and see where the functioning of this model would take us in the meantime. This process would allow us to get some real life experience with it. In this way there is not the outcome of having a result that is painful for one side or the other. In this way we will not agree to something that we could not determine the outcome of before the natural economic forces create outcomes that could not be predicted at this point in time.

Phil Davis asked if it wouldn't be better to peg the changes that the model will produce to the market. If stumpage values go up or down there would be a corresponding change produced by the outcomes of the model.

Chairman Watson asked the IAC group if they would accept the 1.25 RPA figure.

The response was no! They did not feel comfortable with the figure.

John Currin pointed out that if the last five years of market results are considered with the RPA the rate for the RPA would be less than 1%. For this reason it should be obvious that industry is giving up quit a bit by agreeing to settle with a rate of 1.25%.

Dr. Schlosser suggested that the CFTM consider setting the RPA at 1.25%, the base rate at 3 to 5% and allow the stumpage values to fluctuate with the market.

Steve Fiscus suggested that the brackets for the base rate or the guiding rate don't protect values enough. That is why he is suggesting that the values should be frozen where they are now.

Dr. Schlosser put a rate of 4% in as the base rate rather than a rate of 4.13% and an RPA of 1.25%.

John Currin asked for a caucus based on the suggestions that Steve has made.

Dr. Schlosser put in a base rate of 5% in the model so that the committee could consider the results. The values produced were too low to be acceptable to the IAC group.

Steve Fiscus suggested that what would be acceptable to the counties would be a base rate of 4% and an RPA of 1.25% and let the stumpage values run with the market.

The CFTM took a 10-minute break to caucus concerning the latest suggestions.

Mark Benson suggested that industry is willing to agree with a base rate of 4% and an RPA of 1.25% and allowing the stumpage values to vary with changes in the market place. Additionally, they want the forestland values to change when the cost study is completed and the results of the study should be implemented at their full amount.

Steve Fiscus suggested that the cost study results should be implemented at a rate that reflects the percentage change in the stumpage values over the same period in time. The same would be true of the second cost study that is completed five-years later. This process would ensure that the cost figures do not come to have a disproportionate impact on the forestland values beyond what is being agreed to by the committee at this time.

George Perala asked for a clarification of how the values would change and when the changes would be implemented? He asked then if the cost study revealed an increase from \$16.46 per acre to a cost of \$18.46 per acre and the stumpage values remained static over this period of time would the cost figures remain static also? There should be very little difference in what the management costs are now and those that would come from the new study.

Mark Benson said that he is under the impression that the ISTC will complete two cost studies, the first within two years and the second five years after the first. When these studies are completed the full amount of the indicated change in costs would be reflected in the model. He added that he doesn't expect the costs to change that much because they reflect the amounts that are needed for custodial management and that doesn't include costs such as fertilization and replanting. Let the stumpage values float until 2012. The next cost study would be completed in two years, or by 2007, and the second in 2012. The base rate will remain at 4% and the RPA at 1.25% during this time with the costs being adjusted as the cost studies are completed.

John Currin said that the offer being made is that the base rate be set at 4% and the RPA at 1.25% until the year 2012 or until the second cost study is completed.

Mark MunKittrick asked Dr. Schlosser if NW Mngt. would be able to complete the cost study in 2005 if they got the nod to go ahead with the study by January of 2005.

Dr. Schlosser suggested that they could complete the work in 2005 if they got the directive to start the work in January of 2005.

Chairman Watson asked for confirmation that industry is suggesting that the formula be codified and the input variables be reviewed in 2012?

Roy Eiguren reminded the committee that the current forest tax law provisions automatically sunset in January of 2006.

Steve Fiscus asked if the proposed law could be implemented in January of 2005 to protect the counties from the lower values that are scheduled to be implemented as the final phase of HB 513 kicks in.

George Perala suggested that the counties should take a look at the proposed values for the medium and poor classes of forestland before agreeing to that proposal.

Steve Fiscus said that he was being sensitive to that but he continues to feel that implementation of the proposed law in January of 2005 would benefit them.

George Perala assured the committee that he didn't think that there would be a large number of folks coming in for a change in their productivity classes because of these changes in the forest tax law.

Steve Fiscus assured him that he was confident that there would be those folks who would be interested in looking at their productivity classifications because he has experienced it in his office. He cited the example of a little old lady who came into his office and after choosing the bare land and yield forest tax option also suggested that she liked the medium productivity class.

Mark Benson suggested that the productivity classes be frozen until 2012.

George Perala asked if the productivity classes could be frozen when all landowners have the right to appeal their values.

Chairman Watson suggested that a motion be passed by the CFTM with the following components: (1) the base or guiding rate is set at 4%, (2) the RPA be set at 1.25%, (3) the cost study be completed by the ISTC as soon as possible and that the results be implemented after a public review, (4) the stumpage values will be allowed to run with the market, and (5) the model will be reviewed in 2012 and changed as required at that time to meet the economic conditions of that time.

The motion passed **unanimously**.

Roy Eiguren suggested that a draft bill be made available to the CFTM prior to the next CFTM meeting. He said that he and Dan Chadwick could offer some suggested wording to assist the legal staff of the ISTC. This proposal was accepted by the CFTM.

The next meeting of the CFTM was set for November 10th in room 1CR5 at the ISTC offices in Boise from 9 AM to 4 PM.