

CFTM  
 Committee on Forest Land Taxation Methodology  
 November 10, 2004  
 9:30 AM – 4:00 PM  
 1CR5 Idaho State Tax Commission  
 Boise

Chairman Watson asked ISTC Division Administrator Harley Hinshaw to act on his behalf and call the meeting to order at 9:30 AM. Participants introduced themselves before Dr. Schlosser began his presentation. Two members of the IFA team were not able to attend this meeting Scott Gray and Kevin Boling. Also two members of the IAC team were missing from this meeting Mike McDowell and Dave Ryals. Following is a list of those in attendance.

Name	Representing	E-Mail
Larry Watson	ISTC Commissioner	<a href="mailto:lwatson@tax.state.id.us">lwatson@tax.state.id.us</a>
Mark Munkittrick	IFOA – CDA	<a href="mailto:baronflyer@icehouse.net">baronflyer@icehouse.net</a>
Phil Davis	Boise County Commissioner	<a href="mailto:pdavis@valley.id.us">pdavis@valley.id.us</a>
Stan Leach	Clearwater Cty Commissioner	<a href="mailto:commissioners@clearwatercounty.org">commissioners@clearwatercounty.org</a>
Steve Fiscus	Latah County Assessor	<a href="mailto:sfiscus@latah.id.us">sfiscus@latah.id.us</a>
Jane Gorsuch	IFA – Boise	<a href="mailto:jane@intforest.org">jane@intforest.org</a>
Dr. William Schlosser	NW Management Inc.	<a href="mailto:schlosser@consulting-foresters.com">schlosser@consulting-foresters.com</a>
Rod Brevig	ISTC	<a href="mailto:rbrevig@tax.state.id.us">rbrevig@tax.state.id.us</a>
Duane Little	Guest	<a href="mailto:duanelittle@hotmail.com">duanelittle@hotmail.com</a>
John Currin	Potlatch Corporation	<a href="mailto:John.Currin@potlatchcorp.com">John.Currin@potlatchcorp.com</a>
Alan Dornfest	ISTC	<a href="mailto:adornfest@tax.state.id.us">adornfest@tax.state.id.us</a>
Tim Hill	Idaho School Districts	<a href="mailto:thill@sde.state.id.us">thill@sde.state.id.us</a>
George B. Perala	Boise Cascade LLC	<a href="mailto:georgeperala@bc.com">georgeperala@bc.com</a>
Maggie Colwell	Idaho Association of Counties	<a href="mailto:dchadwick@idcounties.org">dchadwick@idcounties.org</a>
Gregory Cade	ISTC	<a href="mailto:gcade@tax.state.id.us">gcade@tax.state.id.us</a>
Mark Benson	Potlatch Corporation	<a href="mailto:Mark.benson@potlatchcorp.com">Mark.benson@potlatchcorp.com</a>
Vincent Corrao	NW Management Inc.	<a href="mailto:corrao@consulting-foresters.com">corrao@consulting-foresters.com</a>
Harley Hinshaw	ISTC	<a href="mailto:hhinshaw@msn.com">hhinshaw@msn.com</a>
Ron Craig	ISTC	<a href="mailto:Cadist1@direcway.com">Cadist1@direcway.com</a>
John Eikum	Idaho Rural Schools	<a href="mailto:jjikum@aol.com">jjikum@aol.com</a>
Reid Straabe	Wallace School	<a href="mailto:reids@usamedia.tv">reids@usamedia.tv</a>

ISTC Division Administrator Harley Hinshaw turned the meeting over to Dr. Schlosser.

Dr. Schlosser began by stating that he had added a macro to the calculations in the model to perform the iterations required to develop the best fit for the post tax value by Forest Value Zone (FVZ). As the calculation when done by hand takes several minutes to

perform and in the importance of time during the last CFTM meeting, he had not been able to complete the calculations prior to the completion of the last meeting. He pointed out that these calculations changed the statewide value conclusion by an increase of \$51,000,000. Dr. Schlosser suggested that the CFTM would come back to the discussion of these values later in the day. Because of other commitments for both Alan Dornfest and Tim Hill later in the day Dr. Schlosser invited them to provide their presentations to the CFTM.

Alan Dornfest began by explaining that his impact study was based on the figures provided from the model that were available to Rod Brevig on October 21, 2004. These values do not include the differences that Dr. Schlosser has just explained. On chart one of his report Alan showed the figures that he was provided by Rod Brevig as the basis for his impact study. Three sets of figures were presented, one for the estimated 2005 “old method”, a second for the 2005 HB 513 values, and the third the CFTM statewide figures that had been available on October 21, 2004. Alan explained that his study has a number of assumptions that need to be understood to provide the context in which to place the value conclusions drawn from his study. He assumes that there is no change in the property taxes in any other way than the way that he is analyzing at the time. Alan also pointed out that there are special situations in several instances scattered around the state. For example the Lewiston School District would lose some value, which they are dependant on for paying back an override levy that was recently passed. In most instances the counties have different funds that they can move portions of their budgets into in order to avoid the consequences of levy limits and caps. It is important that the counties have this ability because they can avoid overdue impacts to their budgets in any one area by doing this. However, when he does one of these studies he has no way to determine which fund a county might utilize in any given situation. Without knowing what the counties will do it is impossible for him to predict with certainty what the final outcome of any reduction in value might be overall. The value summaries that Rod Brevig provided were dependant on information that he cannot duplicate in his analysis. For instance, some of the code areas that Rod used go across county boundaries. What one county may chose to do will not be identical to the choices made by a different county. This is another reason why the actual outcome will be different from the estimates he provides in his report.

Alan went to chart one and had Rod Brevig describe how he developed the estimates that were provided in each of the columns of the chart.

Rod Brevig described the three methods that were used to develop the inputs for Alan’s analysis. The “old method” is the model that was placed in law in 1982 and has been used for many years to determine forestland values in Idaho. The HB 513 values were derived by taking the forestland values that were in place in 1999 and reducing them by about 10% per year until 2005. The third method is the proposed method being developed by the CFTM. The values provided to Alan were those that were available on October 21, 2004 from this source.

Phil Davis asked why the 2005 HB 513 values and the 2005 “old method” values are fairly close to each other in FVZ 3 and the CFTM values are so much lower?

Rod Brevig clarified that the HB 513 values are based on reductions from the 1999 values of about 10% per year until 2005. The “old method” values reflect the reductions in stumpage values since the mill closure in Cascade so they more accurately reflect the reductions in market values that have taken place in recent years. The CFTM values use the lower stumpage values and the assumptions built into this model to determine a lower land value than the previous model.

Alan Dornfest explained the charts in his report for the benefit of the CFTM committee members and guests. His analysis included nine charts that presented changes in funding for schools on an individual basis, and counties on their individual basis. The chart 1 values, it was agreed, should not include category 7 or bare land and yield values because they are not included in the other comparisons in the report.

Tim Hill said that the department of education assumes that all school districts will levy the maximum M&O (maintenance and operations) budget that they can. He explained that there is also an amount of money that is pooled for the state and distributed back to the school districts. The exceptions are the floored school districts such as Avery in Shoshone County, some districts in Blaine County and the McCall/Donnelly School District in Valley County. The flooring is created by school districts with very high values and low student populations. He explained that as a rule of thumb, every million-dollar change in market value affects school districts by about six dollars. For this reason the 50 million dollar difference being proposed by Dr. Schlosser in his recent changes would affect the average school district by thirty dollars. School districts such as Avery and McCall-Donnelly will take the full impact of any reduction in forestland values because they are floored. For the McCall-Donnelly school district there are other increases in value in the school district to moderate the impact. For the Avery school district it is less likely that other value increases would moderate reductions in forestland values.

Mark MunKittrick asked Tim Hill and Alan Dornfest if they could provide information on the changes in value that are occurring in other property categories across the state.

Alan Dornfest said that the total property value in the state is up by six percent this year. The ag category is flat. The timber category is down. The two categories, which have increased the most this year is residential and commercial. There are some areas in the state that have increased more rapidly than others.

Mark Benson asked if the CFTM really thought that it is necessary to adjust a whole tax system just to serve the needs of twenty students in Avery? The change is what it is.

Tim said that he isn't at the meeting to make value judgments. His purpose is to provide information that the CFTM can use in making their decisions.

Mark Benson asked for an explanation as to why the McCall-Donnelly school district is flooded?

Tim Hill responded that it is the ratio of the total market value in the school district compared to the student population. There are instances when a school district can be flooded for a year and then go back up again. He cited the example of Teton school district. Tim said that he is uncertain as to whether the legislature meant for this outcome when they originally passed it. However, they don't have the option but are required to use the law the way that it is written.

Phil Davis asked Alan if he had compared all of the taxes in each of the property categories.

Alan asked him to look again at Chart VII. He asked the CFTM if he could obtain their direction as to changes they would like to see in his next report.

Mark Benson suggested that he could drop the "old method" from his report because it isn't relevant to the discussions at this point in time.

John Currin suggested that the category 7 be dropped from the comparison so that the information sources are more closely aligned.

Steve Fiscus suggested that the 2004 data be dropped because the CFTM is considering values and impacts for 2005 in their discussions.

Alan said that he could consider 2005 values but that he will continue to need to use the levy rates for 2004 because the 2005 levy rates have not been determined yet.

George Perala asked about how fire districts are included in establishing the rates because he is aware that in some districts they include some things and they don't include in others.

Alan agreed with George. He said it is discretionary on the part of the fire districts. They can determine that they want to include some properties and not others.

Duane Little pointed out that in most instances the fire districts don't want timber to be included. The IDL already protects timber so it would be redundant for the fire districts to include that value also.

Steve Fiscus said that he is aware that in many instances the fire districts will exclude timber. He said that he wants to raise a dissenting opinion about not including the "old method" in Alan's report. By code the "old method" has to be used to value timber if the value produced by that method is lower than the HB 513 value, code would require that it be used.

Phil Davis said that for him it is important to compare the two values produced by the “old method” and the HB 513 values.

Mark Benson responded that he could see what Phil is saying but for the legislature they will want to see the difference between HB 513 and the CFTM values.

Phil Davis said that is fine for the legislature but for our work we need to include the “old method” as one of the variables.

Chairman Watson said that he doesn’t want the “old method” to be included in the report because the information goes out to other folks who may be confused by the differences.

Phil Davis insisted that it is important to see these differences because it represents what really happened.

George Perala said there are differences in all of these numbers. If we really want to look at differences one of the things that we could do is go back to 1982 and see what has happened to the forestland values since then.

Dr. Schlosser suggested that the CFTM take a fifteen-minute break and come back at 11:45 AM.

Bill explained some of the differences between the CFTM values and the HB 513 values for 2005.

Phil Davis said that he is very nervous about the differences that he sees in the CFTM 2005 values between FVZ 1 and 2 and FVZ 3. It looks like he has sold out and that George Perala has taken advantage of everyone in these discussions.

Steve Fiscus said that he is able to keep track of stumpage values because of timber he is selling off his own property. He asked Phil Davis, since he is a timber owner also, if he has been able to keep track of stumpage values in his area?

Phil Davis confirmed that he keeps close track of stumpage values. He said that stumpage values on average are \$100/MBF less than they were when all of the mills were open.

Dr. Schlosser assured Phil Davis that the changes in the stumpage values could be reported appropriately. They will reflect market values as these change over time.

George Perala asked if there should be a thorough discussion of the Bare Land & Yield forest tax option.

Steve Fiscus said that he doesn’t want to spend another year discussing changes in the Bare Land & Yield forest tax option.

Mark Benson said that he was surprised by the change in the CFTM values between the last meeting and today. If he had known that these values were there the industry side would not have been so willing to accept the 4% for the base rate and the 1.25% for the RPA that they had agreed to during the last meeting.

Steve Fiscus said that the counties could live with the 2005 HB 513 values but not the values that were generated by the 1.64% RPA rate which were around \$100/acre for good and negative values for poor in FVZ 1. He also needs to know what produced the differences that Dr. Schlosser has shown at the last meeting and those he is showing today.

Phil Davis asked if the rotation age for poor could be changed to 75 years to fix the poor land values for the productivity option.

Dr. Schlosser suggested that these are negotiated values so the committee has some discretion in the establishment of the final values.

Phil Davis suggested that if that is the case then the committee needs to get with it!

Dr. Schlosser took the CFTM back to the charts that were originally used to set the rotation ages at 60, 70 and 80 years.

John Currin asked that the volumes be reduced to reflect the 65% stocking rate that was used by Haig in his original work to reflect the clumpiness in the natural stands.

Phil Davis asked if in reality the good, medium and poor would be managed together anyway and it does not reflect reality to place different rotation ages on these stands.

John Currin insisted that it is not necessarily true that good, medium and poor productivity areas would be managed with the same rotation age.

George Perala asked if Dr. Schlosser could go back and plug in 75 years for the poor category rather than the 70 years that had been requested before.

Dr. Schlosser took the CFTM back to his charts and demonstrated what would happen to the forestland values if the rotation age for poor were changed from 70 to 75 years.

Commissioner Watson asked what would happen if the rotation age for good was changed from 60 years to 65 years. The values dropped significantly in each of the FVZ's. When the dollar change was seen as a percent in each county the values were similar to the HB 513 values in most of the counties. The exception is FVZ 3 where CFTM values were still much less than the HB 513 values.

The CFTM broke for lunch and came back to session at 1:30 PM after a great deal of private discussion.

Mark Benson presented the position of industry as being a rotation age of 75 years for poor and 65 years for good.

Steve Fiscus said that the 75 years for poor was for the purpose of accomplishing equity between the Bare Land & Yield poor values and those that would be produced for the productivity poor values. The 65-year rotation for good moves values too low to be acceptable to the counties. There are many more acres of good forestland than there are acres of poor forestland so the impacts are very large.

Stan Leach pointed out that the difference in value that the counties have gained in moving the rotation age for poor to 75 years from 80 years do not compare with the losses that would be generated by changing the rotation age of good to 65 years from 60 years.

Mark Benson said that this is not horse-trading. When we walked in the door for this meeting the forestland values had increased on a statewide basis by \$50 million dollars and that increase is not acceptable to them. They would have positioned themselves differently had they known of this change. Their goal was to ensure that the good forestland values in FVZ 1 would not be higher than \$500/acre. Mark said that over the last ten months of discussions the forestry community has come to the realization that they were not going to get to the \$300/acre for good in FVZ 1 that they had originally intended. They have moved to an area of \$500/acre for good because they recognize that there have been costing requirements that the counties and school districts have incurred which they recognize that they need to support.

Steve asked if the \$300/acre is an average for the forest value zone, which is about where we are at now, or if the goal was really as Mark had stated \$300/acre for good?

Jane Gorsuch said that the two folks from her committee who are not here today, Kevin Boling and Scott Gray have argued eloquently for the Mason Bruce and Girard values which were established in 1999, which were much lower than \$300/acre for good in FVZ 1 and 2. It should be obvious that the forest industry has given up a great deal from where their original position was.

Dr. Schlosser asked about the levy rates for FVZ 1 for 2004 so that he could make a correction in that detail from where we were at before. He ran many iterations of the model looking at small changes in the rotation ages, the guiding discount rate and the levy rates.

Commissioner Watson asked for a vote on the changes that seemed to be most agreeable to the committee. The rotation ages would be set at 63 for good, 68 for medium and 73 for poor. The assumed growth rate for poor would change from 100 to 125 bd.ft./acre/year. The indicated forestland values for FVZ 1 would be \$501.78 for Good, \$279.40 for Medium and \$128.85 for Poor. For FVZ 2 the forestland values would be \$476.37 for Good, \$265.71 for Medium and \$123.08 for Poor. For FVZ 3 the forestland values would be \$242.20 for Good, \$136.31 for Medium and \$64.09 for Poor.

The motion passed unanimously.

Chairman Watson asked if he could entertain a discussion of setting up a subcommittee of the CFTM that will develop the language for the implementation of the SEV model.

Steve Fiscus suggested that the subcommittee members who have been suggested are himself and Mike McDowell for the counties and Mark Benson and George Perala on the industry side. Roy Eiguren and Dan Chadwick will serve as legal advisors for the subcommittee. Steve Fiscus asked for a clarification on the cost study. Who will do what and when will they do it?

Mark Benson suggested that the cost study would be done in 2005 for implementation in 2007. Another study would be completed in 2010 for implementation in 2012. A third cost study would be completed in 2015 and would be implemented in 2017. The 1.25% RPA and the 4% base rate would be locked in for the period 2005 to 2012. We would look again at these rates in 2011 for changes that would be implemented in 2012.

Jane Gorsuch suggested that the cost study would be completed and a subset of the CFTM would come together to decide on its implementation.

Chairman Watson asked if the full committee needs to meet in December to approve the language.

George Perala suggested that it would be important for the full committee to meet to approve the language.

Mark Benson suggested that the full committee may need to meet again in the first part of January.

George Perala suggested that the subcommittee can be done with their tasks by the December meeting of the full committee.

There was a general discussion of the best date in December for the full committee to meet. The date of December 17<sup>th</sup>, in Boise, from 9 AM to 4 PM was set.

John Currin suggested that the rules need to be developed at the same time as the legislation is drafted.

George Perala supported his suggestion.

The subcommittee members for drafting the rules were set to be Steve Fiscus coordinator, Mike McDowell, George Perala and John Currin. ISTC staff members Rod Brevig and Alan Dornfest will provide support. Dr. Schlosser will be available for consultation.

Chairman Watson closed the meeting at 3:40 PM.