CFTM
Committee on Forest Land Taxation Methodology
March 9, 2004
10:00 AM
Boise, Idaho

STC Commissioner Larry Watson, Committee Chairman convened the second formal meeting of the Committee on Forest Land Taxation Methodologies (CFTM) on March 9, 2004 at 10:28 a.m. in room 1CR5, of the offices at the Idaho State Tax Commission, Boise Idaho. Chairman Watson provided brief opening comments and began the introductions of the committee members in attendance.

Those present are as follows:
CFTM Chairman, Commissioner Larry Watson
Dan Chadwick, Executive Director, Idaho Association of Counties (IAC)
Jane Gorsuch, VP Idaho Affairs, Intermountain Forest Association (IFA)
Idaho Association of Counties Members;
Steve Fiscus, Latah County Assessor
Mike McDowell, Kootenai County Assessor
Dave Ryals, Boundary County Assessor
Stan Leach, Clearwater County Commissioner
Phil Davis, Valley County Commissioner
IFA members;
Scott Gray, Stimson Lumber Co.
Mark Benson, Potlatch Corporation
George Perala, Boise Corporation
Kevin Boling, Forest Capital Partners, LLC
IFOA member;
Mark MunKittrick, AWL Resources
Idaho Rural Schools representative John Icom was present for the afternoon portion of the meeting, representing Tim Hill. IAC Alternate, Boise County Commissioner Roger Jackson was absent. Also in attendance; STC staff members Gregory Cade, Harley D. Hinshaw, Rod Brevig and Ron Craig. John Currin of Potlatch Corporation was also present for the morning portion of the meeting.

Chairman Watson delayed the beginning of the meeting to allow Jane Gorsuch time to be present as she was caught in another meeting.

Chairman Watson asked Dan Chadwick to comment on the goals of the IAC members on the committee. Dan deferred to Steve Fiscus. Steve said that he saw their goals as those shown in the agenda – a stable model that will produce predictable revenues. Steve asked Phil Davis to address the group. Phil suggested that equity is important, especially in the agricultural categories. We use the same model for ag and for timber – if we change the model we will end up favoring one of these categories over the other. Stan Leach said that the 10% reduction this year would cost them $225,000 in revenue in their county.

Clearwater County is up against their levy limits, when the levy limits are reached they have no choice but to cut services – any further reductions will crush their county. Steve Fiscus asked if the reductions being sought could be clarified. What kind of a reduction can we expect the timberland owners to pursue? If you will let us know what you are expecting we can determine if we are a long way apart or fairly close together.

George Perala responded that as far as he knew they had done no work on the model since they had employed Dave Cox in 1999. George said that while some of the values have changed in the market place he didn't expect those changes to affect the outcome that would be produced by the model.

Steve Fiscus asked Rod Brevig what the 'good' value would be in 2005. Rod replied that the value would be around $400/acre. Steve Fiscus said that they had determined that the reduction from 2003 to 2004 has been 11%.

Mark Benson asked why the 7% reduction per year that had originally been calculated had become 11%? George Perala clarified that the 7% per year will become a larger percentage as the values decline on a year-by-year basis. Mark continued; we want to understand the impacts caused to the counties, but the counties also need to be aware of the problems caused to taxpayers as well.

Commissioner Watson said that one of the issues under discussion here is the huge impact on the counties and the elected officials want to be sure that you are aware of them.

Kevin Boling presented some figures concerning the effect of changes in value of forestland for taxation purposes over time. He pointed out that the revenue derived from forestland had increased from $3 million to $11.2 million. He said that the value of timber had easily increased more rapidly than ag over this period of time. When he was working for Potlatch their tax bill had increased from $2 million to $4 million which is ridiculous – the tax becomes confiscatory when it is so high.

George Perala said that the maintenance of forestland production is important to the lumber manufacturing facilities in the state. These mills provide stability to the communities they are in. George suggested that if the state wants a stable forest products industry in Idaho and not have the use of the land change to subdivision or recreational ground, we have to come up with an equitable system of taxation that will promote forest management. As an aside, how do we define "equity"? We need to define the term before we can address it. George said that there was a dramatic shift from other property categories to forestland and yes it will be painful as the shift goes back. We are looking for ways to lessen that pain. He continued that the third point is equity. State law states that we will value the land at its current use, just the land, not the inventory on the land.

Mark Benson asked Stan Leach what the changes would be in services provided by the county and where the levy limits would come from. Stan Leach said that the county is very close to their levy limits. Steve Fiscus offered a clarification as to what the levy limits are and how they affect budgets. Mark Benson asked for a clarification as to what the reserves or forgone amounts are and if these could be carried forward to cover deficits incurred by the county. Dan Chadwick suggested that forgone amounts only accumulate in counties, which experience high growth rates. He didn't think that Clearwater County would see much in terms of forgone amounts because they are not in a high growth rate area. Mark Benson asked if the levy limits had been reached yet in Clearwater County or if it could even be expected that they would be reached in the foreseeable future. Stan Leach responded that the levy limits had not been reached yet. Steve Fiscus said that in some areas in Latah County such as the justice fund they could easily reach their levy limit. The limit for the justice fund is 2% and they have been just on the edge at 1.99% for some time.

Kevin Boling asked for some background concerning the foregone amount. Larry Watson said that the reason for the foregone amount was to make the 3% a limit and not a cap. If growth occurs in the county above the 3% level the county can have an amount of increase that would be warranted that is set aside in the foregone account. The county can at a later time recoup the forgone amount. Once tapped, the forgone amount is used to provide the services that will be needed to care for the increased growth. Mark Benson asked if it is the cost of county government that is being discussed. Steve Fiscus said that it is not unusual for the counties to use all of the increase that occurs due to growth.

Phil Davis said that we are talking about two different things, one is budget, and the other is value. He said that he isn't hung up on tax shifts. He had seen the Boise Corporation lumber mill in Cascade decline in value, shifting tax burdens to other property owners. He had supported reductions in valuation on the mill because he saw the mills value declining. The mill did eventually shut down and salvage value was all that was left. He added that Kevin Boling was bringing up a point that he questioned because he thought it was very important to value ag and timber in the same manner, maintaining equity between these property categories. The increase that had occurred in timber values was justified because the market value of timber had increased. The value of agricultural products during the same time period did not go up. The price of wheat and hay is the same that it has been for years. He said that if we only accomplish a clarification of this issue on timber being an inventory, then we would have accomplished something today.

Mark Benson said that the problem is with the formula. The timber formula assumes that we harvest from every acre every year. The farmer does harvest off of every acre every year. He said that it is a flaw to assume that we harvest timber off of every acre every year, because it is obvious that this is not true and this is causing the problem. He said that is not fair to pay taxes on income that they have not recieved. Phil Davis said that he doesn't harvest off each acre each year on his timberland. But he does harvest off his timberland each year. There is wood fiber produced on every acre every year, so he doesn't see the difference between ag and timber. Steve Fiscus said that there is a yield tax on timber that is harvested from land that is in the dry grazing and bare land and yield categories. George Perala said that on Boise Corporation ground they pay 8 cents per acre in taxes on their dry grazing land and $3/acre on their timberland. Phil Davis clarified that for the timberland that he owns it is all in the productivity category.

Mike McDowell said that he wants a simple system that is easy to replicate and explain to his constituents. He is not in favor of a system of valuation that is dependant on some predicted prices far in the future that are discounted at some speculative discount rate back to the present. Mike asked if there isn't a system that is more predictable and not subject to large fluctuations over time.

Mark Benson said that he didn't want to address that right now. He wanted to go back to a point of previous discussion. He said that the present formula does tax inventory that is supposed to be exempt from taxation as of 1982. He said that the law states that it is supposed to be exempt. The ground is their factory and the trees on the ground are inventory, which is exempted from taxation.

Larry Watson suggested that he could have Rod Brevig, Ron Craig and Scott Erwin spend time getting background on the ag and timber valuation systems. They could bring that information back to the committee in the form of a presentation for the benefit of clarification on these points for the committee.

Mark Benson said that he didn't want to do that because the charge for the committee is to address the needs for a valuation system for timber and not for ag. He insisted that it is not fair to tax the growth of trees that increases each year and then pay again when the trees are harvested.

Dave Ryals said that the trees also become part of the factory, not just the dirt, growth is accumulated on the trees and taken when the trees are the right size. He said that he was wondering if the committee is going to be able to come up with a system of valuation and if it wouldn't be more appropriate to seek a compromise that would be agreeable to the committee members.

Steve Fiscus asked Mark Benson if he really meant that the trees are adding 300 board feet each year, with 600 board feet the next year and so on. Mark said that is what he said but that he realized it was not correct. Steve continued. Isn't it true that we use the mean annual increment to average the growth that occurs over the rotation in our current valuation system? That is not taxing inventory, it is basing the value on the productivity of the dirt. The same MAI is used in both the SEV and direct cap model that we are using currently, so there isn't any difference. John Currin said that yes it is true that we use MAI. But we don't value logs waiting to go into a sawmill, nor do we value the lumber coming out of the mill, which are both considered inventory.

Phil Davis responded that he perhaps thinks that this is the rub. We are not starting with bare land each year. We start with every size tree each year. There is an income each year and we are only taxing the capacity of the ground to produce the 300 board feet each year. It doesn't matter if you are growing wheat or trees it is the same. The valuation system that we have in place is appropriate because it is based on the ability of the dirt to produce, it does not tax the standing timber as an inventory.

George Perala said that if he has a neighbor with 40 acres that has just been cut there would not be another opportunity to obtain income from that land for another 30 or 40 years. Boise Corporation can have income each year because they have enough land to contribute to that harvest each year. George said that the value of the land is not due to the value of the timberland today. It is only worth the discounted cash flow value of the land today.

Mike McDowell responded to George. If we follow your logic we can have two forestland owners with 160 acres each that are adjoining and of the same productivity. If one owner has a stand of trees, which are 15 years in age, and the other trees that are 60 years in age we have to value these parcels differently. We would have two answers – the land would be valued differently – we cannot do that. In 1982, Kootenai County had foresters on the ground that were valuing the tree inventory. Industry didn't want that. If we have different capabilities in the dirt then we have to recognize that difference. We have a difference in philosophy here that we may not be able to reconcile.

Mark Benson responded. I think that I agree with much of what you just said. We are in agreement on what we are trying to value. He then asked; what are we trying to value? Larry Watson responded, the dirt. Mark continued; there are many inputs into the ground. I'm not smart enough to figure out what all of those are, or their contribution to the value of the land as a whole. It doesn't matter if the land is timber or ag it should produce an 8% return per year to its owner over time. He asked; is there a time value of money here that we need to get at? I agree with much of what Mike is saying – we are trying to value the dirt, and we are trying to fit it into the law.

Mark MunKittrick said that the issue is the little (i) in the formula. We need to agree on the source of the rate we use in valuing the property.

George Perala said that he is certain that this discussion needs the benefit of the expertise of a forest economist. A forest economist can address the differences in the model we use now and the SEV model. A forest economist can come up with valuable instruction concerning the appropriate interest rate to be used in each of the formulas. He wants to see a forest economist who is familiar with the Intermountain Northwest.

Steve Fiscus questioned Kevin Boling about the increase that he had indicated in forest tax revenue from $3 million to $11.2 million. Steve asked if the $11.2 million wasn't the peak in revenue that occurred in 1999 and hasn't that revenue declined significantly since that time. Kevin responded that it was true that the revenue had declined and he thought that they have the current revenue figure. Jane Gorsuch began to search her notes for the figure. Steve Fiscus responded that it was ok. Then asked why, if the SEV model has been available since the early 1800's, as George Perala had mentioned, wasn't it used in 1982 instead of the model we have, because it was industry that insisted on the current model back in 1982. George Perala responded that the current model was used as a compromise in 1982 based on concerns about what would happen to the revenue structure in Clearwater County. He said that he thinks that we are facing the highest land values and the highest stumpage values that we will see for a long time. Both forestland values and stumpage values are likely to decline in the future.

Phil Davis said that the formula's used for ag and timber works now because we are trying to value the same thing.

Kevin Boling said that he is starting to hear repetitions of the same arguments being presented by both sides of the table. He suggested the need to have a neutral third party to help in this discussion. A neutral third party may assist us in sorting these differences out. Dan Chadwick said that he agrees with Kevin. There is a need to be able to determine the outcome and then we can continue with our discussions.

Scott Gray suggested that the difference with ag and timber could be illustrated with the yields on a bond. We would not pay the same for a bond that yields once a year and one that yields once every 40 years. It is the same with ag and timber.

Jane Gorsuch suggested that the reason the forest economist was brought into the legislation back in 1999 was because the discussion between the parties is the same as it was back then. She stated that the SEV is the right way to value forestland.

Steve Fiscus said that he agrees with Kevin that the value is important. But even if we agree on the value the method of valuation is central to the administration of the law. We have to have a system that is easy to use. The SEV formula that he has seen presented will cover every board in this room. He added that the directive in the law is 'shall' retain a forest economist. If the law states that we shall, then that is what we have to do.

Mark Benson said that they are willing to value forestland as dirt – not something that will be made into a subdivision – but what a willing buyer and a willing seller will pay for the dirt. Steve Fiscus asked him what that value is. Mark said that their definition is that it is what the dirt is worth if it produces a stand over time and the value is discounted back to today.

Phil Davis responded, and asked if we are starting with a seedling? If we are, that argument ignores the reality of the existing forest that is now there. He stated; we are still miles apart. Mike McDowell suggested that we need a system that is explainable to our constituents and is stable over time.

Kevin Boling said that the forest economist would be able to crystallize the differences between the two sides.

Phil Davis said that he is seeing where we are at now. We have to go to Canyon County and assume that there are no canals, no reservoirs, no irrigation, and no previous production. Then we can replicate with ag what is being suggested as a starting point with timber. We have to understand that we are starting with a different place with forestland. It has trees on it, not bare dirt. John Currin countered that we have to start someplace because we have to assume that we are starting at a point in time.

Chairman Watson called for an end to the discussion as it was 12:23 p.m. and suggested a lunch break as the box lunches had arrived.

Chairman Watson called the committee back to order at 1:30 p.m. as the IFA group had been meeting in caucus for the past 30 minutes. Larry said that he has had staff pass out the three responses that we have been received from the pre-bid survey. Larry suggested that if it is the pleasure of the committee we can consider the three responses and begin a discussion of them. Mark Benson interrupted and suggested that he could present to the group what the IFA group had been discussing over that last few minutes while they were in caucus. Mark continued; starting with the 1982 formula and HB 513 back in 2000 the value of the good class of forestland in FVZ 2 was $700/acre. By 2005 that value will be at $431/acre. The SEV value will be less than the $431/acre and it is our goal to make the gap as easy for the counties to accommodate as possible. He said that they have asked themselves; do we really need the SEV model? Our conclusion is that we need the SEV model to identify the real value of the land. In our view this is the value of the property. Larry Watson asked if it is certain that the SEV value will be lower than the HB 513 value in 2005. Mark said that he thinks that the SEV value will be lower than the HB 513 value in 2005. Mark suggested that the forest economist would be able to make a presentation to the committee on these differences.

Larry Watson suggested that we need to move ahead with the selection of a forest economist. Greg Cade asked if the STC staff could assist the committee with the process of putting together the RFP, using the documentation that has been passed out.

Dave Ryals asked if the forest economist could present on a number of valuation models and explain them to us. Mike McDowell also suggested that the RFP should have a scope that will allow a discussion of models in a broader context than just the SEV model. Greg Cade suggested that the code describes the SEV and other income approaches. Larry Watson said that the RFP should describe the scope that is permitted by the code section. Jane Gorsuch agreed.

Dan Chadwick said that he was confident that Dave Ryals had been suggesting just that. We want the economist to make a presentation to the legislature. One of the ways that we could work with this situation is to limit the scope of the RFP initially and broaden the context of the discussion if there should be a future need. Greg Cade asked for a clarification and asked if we want to have a description of the scope that they want in the RFP from both IFA and IAC before we proceed with the RFP.

Kevin Boling suggested that the economist needs to be on a single source provider basis rather than just looking for the lowest bid. He doesn't want to have anyone with a ponytail and ear rings representing them, Jane Gorsuch took exception to this comment.

Greg Cade asked that the committee consider the gant chart that he had handed out. Does the chart accurately represent the anticipated progress for the committee through these discussions? The committee indicated that the gant chart works ok. Larry Watson asked if May 11th from 10 a.m. to 3 p.m. in Lewiston would work for the next CFTM meeting. The committee agreed to that date, time and location.

Greg Cade asked if he could have staff include an analysis of neighboring states. George Perala responded that he didn't want to spend money on that. He said that Rod Brevig has already done that. Mark Benson asked if Jay O'Laughlin hadn't already published a report on this topic. Jane Gorsuch stated that his report was an analysis of the bare land and yield option and people switching from the productivity option to the bare land and yield option in 2002.

Greg Cade asked if it would be appropriate for the forest economist to recommend a valuation system to the committee and make a presentation that would justify that recommendation. Steve Fiscus and Mike McDowell said that they did not want to bias the forest economist in this way. They want the forest economist to remain neutral in the matter and represent all of the interests of the committee members. Steve Fiscus asked if the committee could make a decision on a forest economist at the meeting in Post Falls. Jane Gorsuch asked what it is that will be discussed in Post Falls. Larry Watson suggested that the primary reason for the meeting in Post Falls would be the selection of the forest economist. Greg Cade and Harley Hinshaw suggested that it might well be difficult for the forest economist to be able to complete all of the work required in the RFP by the time of the Post Falls meeting. Mark Benson suggested that there is a need to have the information back from the forest economist two weeks prior to the Post Falls meeting so that it can all be considered there.

The committee decided to cancel the Post Falls meeting due to the uncertainty over how quickly the forest economist could respond to the RFP and take up the discussion on May 11th in Lewiston. Phil Davis asked if the committee could have the forest economist look at the equity issue between ag and timber. Steve Fiscus suggested that Alan Dornfest could make a presentation on that equity question. Mike McDowell excused himself so that he could make his plane. Mark Benson asked him to wait a moment before he left. Mark said that he felt that there had been good work done by the committee today and that there had been a great deal of valuable discussion. Larry Watson agreed, stating that he too appreciated the discussion that had occurred.

Kevin Boling said that when he had worked as a lobbyist for Potlatch Corporation, Tom Clark, who was also a lobbyist, offered this advice. Don't tax me and don't tax thee, only tax the fellow behind the tree.

Larry Watson closed the meeting at 2:15 p.m. and told the committee that he would see them again in Lewiston.