

**Forest Land Taxation Advisory Committee Meeting**  
**June 13, 2013**  
**Venue: DPHHS Wilderness Room**  
**2401 Colonial Drive Helena, Montana**

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**Committee Members Present**

Bob Oldenburg  
David Affleck  
Jean Curtiss - by Conference Telephone  
Kelly Gebhardt  
Scott Settle  
Steve Flynn

**Department of Revenue Staff and Other Guests**

Mike Kadas, Director, DOR  
Cynthia Monteau Moore - Administrator, PAD  
Bonnie Hamilton - Ag/Forest Management Analyst, PAD  
Frank McCall - Ag/Forest Management Analyst, PAD  
Mary Suptic - Management Officer, PAD  
Michele Crepeau - Attorney, DOR  
Katrina Garrod - Recorder, PAD  
Dr. David Jackson- Guest  
Julia Altemus- Guest  
Mark Baker- Guest

**I. Greetings, Mike Kadas, Director**

The meeting began at 10:08 am with Director Mike Kadas introducing himself followed by the meeting attendees introducing themselves. Mike thanked the committee for being a part of the meeting, and helping the department gain more knowledge about the process for evaluating forest lands. He stated that the department needs the technical expertise that the committee members all have, but that personal interest be set aside so that we can come up with a fair, justifiable, and transparent system for evaluating forest properties.

**II. Opening Comments & General Housekeeping**

- a. **Opening Comments:** Cynthia Monteau Moore started with a general recap of the last meeting regarding the laws for forest valuation. Dr. David Jackson's work was discussed, in particular, how he developed the valuation zones. She explained that the committee had discussed with Dr. Jackson via conference call, the sources for the data collected. Cynthia said that today, Dr. Jackson will review his report and his methodology of the current cycle with the committee. The current cycle ends December 31, 2014, therefore, now is the time to discuss the methodology, zones, resources, etc. in preparation for the next valuation cycle.

- b. **General Housekeeping:** Cynthia stated that the department reimburses travel costs, and that the travel forms should be included in the Forest Committee books, but if a form is needed to please let her know. The travel form will be processed through the department's accounting division.

### **III. Selection Of Chairperson**

Cynthia Monteau Moore reminded the committee that at the last meeting a chairperson was not selected. And since the last meeting, a board member had resigned. She offered the option of taking action today, or waiting until the vacant position was filled, and choosing a new chairperson at the next meeting. Cynthia opened discussion among the committee to determine whether a chairperson should be selected at this time. Steve Flynn asked Kelly Gebhardt if he was interested in serving as chair. Kelly Gebhardt asked if someone locally would be a better option because of the participation needed for the position. Cynthia responded that she did not believe that it would make a difference as long as the person is accessible. Kelly said that he would be interested, and that he would like to elect the chairperson at this meeting rather than going through this same process the next time.

**Motion:** Steve Flynn. The motion is to nominate Kelly Gebhardt as chairman.

**Second:** Bob Oldenburg.

**Vote:** Yes - 5; No - 0. Motion carries unanimously.

At this time, Kelly Gebhardt chairs the meeting. Chairman Gebhardt recommended that a vice-chair be elected. David Affleck was asked if he would be interested in serving as vice-chair. David asked about the credentials of the position, and agreed to serve in this capacity.

**Motion:** Steve Flynn. The motion is to nominate David Affleck as vice-chairman.

**Second:** Scott Settle.

**Vote:** Yes - 5; No - 0. Motion carries unanimously.

**Motion:** Steve Flynn. The motion is to close the nominations.

**Second:** Bob Oldenburg.

Vote: Yes - 5; No - 0. Motion carries unanimously.

Chairman Gebhardt asked for a voice vote to elect David Affleck as vice-chairman.

Vote: Yes - 5; No - 0. Motion carries unanimously.

David Affleck is the Vice-chairman.

#### IV. Approval of Minutes

The Committee approved the minutes from last year's meeting, as well as the January 16, 2013, teleconference meeting minutes.

#### V. HB 195

Cynthia Monteau Moore stated that HB 195 allows the forest taxpayer to maintain forest status, which requires a minimum acreage of 15, if there is a public use for the property that drops the acreage below the 15 acre requirement. The types of public uses are identified in statute. Cynthia explained that HB195 was brought forward by Representative Ingraham because of an eminent domain occurrence in Sanders County that impacted some property owners' forest land classification. Discussion addressed whether easements reduce the acreage. Michelle Crepeau stated that easements do not usually transfer ownership, it just gives rights, and that easements do not disturb the 15 acres. She explained that as HB 195 is written, if the parcel is transferred with the same legal description, then the forest land classification will run with that land, but if that 15 acre parcel is subdivided in anyway after the eminent domain action, then the forest land classification goes away.

#### VI. Dr. Jackson's Report

Dr. Jackson briefly described his background, and his experience in developing the forest valuation reports. He explained that there are two sources of timber sales available: US Forest Service sales and the State of Montana sales. We are looking for a price that reflects the fair market rate between two willing participants. Dr. Jackson spoke about the state and forest service having escalation clauses, which means when product prices go up, stumpage

prices go up, and when product prices go down, stumpage prices go down. Jean Curtiss asked if property owners could file an informal review (Form-AB26) for property that had been destroyed because of beetle kill, natural disasters, fires, etc. Frank McCall verified that a forest land owner can file an AB26 form with the department and the property will be reviewed. If the property is impacted or destroyed such that the minimum stocking requirement is no longer met, the department will reduce the value of the land by 50% for 20 years. Dr. Jackson explained that once the valuation zones are identified, he will develop the average stumpage value based on species present in each zone. Kelly Gebhardt expressed his concerns about the valuation process being unfair to the timber land owners. He explained that some owners have had trees destroyed by beetle kill or fire, and some have not, but they are being valued the same. Mike Kadas said that what we are doing, because we have very few comparable sales, is using the income producing ability of the property to generate what would be a market value. The farther we get away from the true market or sales value the more tenuous our methodology gets. Frank then explained the formula for productivity  $V=I/R$ ;  $I=((M \times SV)+AI-C)$ . Michelle Crepeau explained that the current way we value forest land is established by statute, and if nothing changes in the near future that will be the method used. She commented that this committee can review that valuation method, and make recommendations on different ways to value forest lands.

## VII. Roundtable Discussion

The Committee discussed the capitalization rate. The capitalization rate uses net income to determine a value. Frank McCall discussed the polygons of forest productivity and explained that the value depends on which zone a parcel resides. Jean Curtiss asked Dr. Jackson if he could clarify which methodology he was recommending for this project. He said the transaction method. Mike Kadas let the committee know that in the next meeting we will have research put together for a thorough analysis of the capitalization rate. Dr. Jackson said that we need to look into the value impact of salvage timber sales. The question was asked again about the equality of two landowners, one who tries to get ahead of the beetle kill and one who does not. The landowner who gets ahead of the beetle has to pay the same taxes as the one who does not. Cynthia Monteau Moore said that we consider average management practices. The more equitable way is to value forest land based upon its potential productivity. Dr.

Jackson spoke about wood products and how the industry is suffering. He said mills create wood value for the wood products. On his reports, there are counties that have no timber sales yet they have to be put into zones. It was asked how difficult it would be to do counties individually. Cynthia said it would be difficult because of the lack of data.

Cynthia identified the following list of topics that the department will provide for the next meeting:

1. Analysis of the Capitalization Rate for forest lands;
2. An analysis of Productivity Formula;
3. Examples of how the variables in the formula impact the value;
4. Example of NRCS Data Collection, Polygons Explanation, and how zones impact the value; and
5. Statutory and Administrative Rule Recommendations (presented by March 2014 for the next reappraisal cycle, and the 2015 Legislative Session).

#### VIII. Public Comment

There was no public comment.

#### IX. Committee Schedule

Next meeting to be scheduled in September.

#### X. Adjourn

The meeting was adjourned at 3:00 p.m.