EXHIBIT 10
DATE 1-8-09
HB Informational meeting

Forest Land History, Classification and Valuation

How Forestland is Valued
Prior to 1983, forest land was considered a part of Class 3 Agricultural land. In the 1983 Legislative Session, a separate tax class, Class 10, was created for classifying and valuing forest land separately from agricultural land. The original forest land valuation method was a "standing inventory" method. In the standing inventory method a value is assigned to the volume of lumber that can be produced on an acre of land and the value must be updated each year.

The Montana Legislature passed the Forestlands Tax Act in 1991. This law requires the Department of Revenue to value forestland based on land productivity. The Forest Lands Tax Act was implemented with the 1994 appraisal cycle.

The legislature defined the productivity formula and each component of that formula. It also provided for specific forest valuation zones, with each zone designated to recognize the uniqueness of marketing areas, timber types, growth rates, access, operability, and other factors important to the valuation of the forestland in that geographic area.

The potential productivity system was supported by the forest products industry, the Montana Tree Farmer's Association, and other forestry landowners.

1991 to 2008 Montana Forestland Classifications

Class I	excellent productivity	(85+ cu.ft./ac.yr)
Class II	good productivity	(65 to 84.9 cu.ft./ac.yr.)
Class III	fair productivity	(45 to 64.9 cu.ft./ac.yr.)
Class IV	poor productivity	(25 to 44.9 cu.ft./ac.yr.)

How the Forestland Productivity Classification System Works
Based on Montana Code, forested land must be at least 15 contiguous acres or larger in size and in the same ownership to be classified as commercial forestland. Forested land less than 15 contiguous acres in size is classified as non-forestland.

Potential forest growth is estimated for each acre of forested land, including "clearcuts." That growth is measured in cubic feet per acre per year. This minimum growth requirement is 25 cubic feet per acre per year at the peak biological age of a stand (the technical forestry term for peak biological age is "culmination of mean annual increment"). The estimated potential forest growth is placed in one of four productivity classes.

Forested land that does not meet the minimum growth requirement is classified as noncommercial forestland. Noncommercial forestland is not valued as forestland for property tax purposes. Nonforest and noncommercial forestland may be valued as tract land, agricultural land, or "nonqualifying" agricultural land.

Standing Timber Exemption
Standing timber is exempt from property taxation. Only the land, not the standing timber, is subject to property taxation. The landowner is responsible for the forestland property tax, even if the timber is deeded to another party.

Property Tax Impacts on Timber Harvest
On any given commercial forestland site, a clearcut would receive the same value as an old growth stand (standing timber is not taxed). Forest management practices will not influence the forest assessment. Knowledgeable forestland owners will realize that they can practice iintensive forest management to optimize wood production and enhance other non-timber elements, without the penalty of higher forestland property taxes.

Source of Valuation Information Used in Productivity Formula
The Department of Revenue hires a nationally recognized forest economist from the University of Montana College of Forestry and Conservation to develop the forest and average stumpage value in each valuation zone. The Department of Revenue compiled the forest costs and the capitalization rate.

Representatives from the forest products industry and Montana Tree Farmer's Association reviewed the data and provided their input.

Productivity Formula

Productivity Value	=	Net Forest Income + Net Grazing Income / Capitalization Rate
Net Forest Income	=	Gross Forest Income - Forest Costs
Net Grazing Income	=	Gross Grazing Income - Grazing Costs
Capitalization Rate	=	A capitalization rate is used to convert a net income stream into an estimate of present value

How the Valuation System Works
Forestland appraisal uses five valuation schedules, or zones, in the state. The forestland classification system contains four productivity grades. Therefore, there are 20 different per acre forestland values in the state.

Each value in a schedule represents a range of productivity, income, costs, and interest rates. Income and expense data represent averages for a base period of time. The forestland schedules that were implemented in 2003 use data compiled from state fiscal years 1997-2001. The next appraisal cycle will be implemented in 2009.

Forestland Tax Rate
The legislature assigns all taxable property to individual tax classes. Forestland is in property tax Class 10. The legislature specifies the tax class percentages that are applied against the value of the property within each tax class to calculate the taxable value.

A parcel of land may have several classes of property. The most common property classes for rural land are forestland, agricultural land, "non-qualifying" agricultural land, and a one-acre homesite. Each property class has a different tax class percentage. The tax class percentages for 2008 are listed on previous pages of this report.

The forestland tax rate is 0.35% in tax year 2008. It requires $10,000 in forestland appraised value to produce $35 in taxable value.

Calculate The Tax on Forestland
A 130-acre parcel of land in Missoula County, which is located in forest valuation zone 2, has 30 acres of forestland and 100 acres of non-forestland. The forestland has 20 acres of fair productivity and 10 acres of poor productivity. The 100 acres of non-forestland does not meet agricultural eligibility requirements and is classified as non-qualified agricultural land. In 2008, the fair forestland productivity (grade III) is valued at $619.75 per acre. The poor forestland productivity (grade IV) is $356.93. The statewide 2008 non-qualified agricultural value is $44.10 per acre. For this tax calculation example, we assume the rural mill levy for 2008 is 420 mills.

2008 Forestland Tax Calculation

20 acres x $619.75/acre	=	$12,395 (productivity value - forestland)
10 acres x $356.93/acre	=	$ 3,569 (productivity value - forestland)
100 acres x $44.10/acre	=	$ 4,410 (appraised value - non-qualified agricultural land)
Total Forestland Appraised Value	=	$15,964
Total Nonqualified Agricultural Appraised Value	=	$ 4,410

$15,964 x 0.35% (tax Class 10)	=	$ 56 (taxable value)
$4,410 x 21.07% (tax Class 3)	=	$929 (taxable value)
$56 + $929	=	$985 (total taxable value)
$985 X .420 (mill levy)	=	$413.70 (tax)

Note: The decimal point in a mill levy is moved three places to the left to calculate the tax, so 420 mills equals .420

Average Tax on Forestland in Montana

The weighted average forestland tax in tax year 2008 was $0.83 per acre.

New Forestland Values

Along with the agricultural land owners, all forestland owners will also receive maps generated from the GIS which display the Departments determination of productivity. Forest landowners will also be asked to respond to any concerns. In the late spring of 2009, all forest land owners will receive a new assessment notice showing the change in appraised and taxable values that resulted from implementation of the new forestland valuation schedules. When there is a change in valuation or ownership, the Department of Revenue mails property assessment notices to the owner that reflect the value of the property as of January 1 of that year.