Forest Lands Taxation Advisory Committee Report

April 18, 2022

MONTANA
Department of
REVENUE

Project topic summary by meeting

Full Committee

Meeting 1 (July 9, 2021): Committee organization; overview of tasks, goals, and plan; chairperson selection

Meeting 2 (August 12, 2021): Overview of current valuation process; Department's alternate proposal to determine stumpage value; time-line discussion-including possible implementation date of final decision

Meeting 3 (September 9, 2021): Presentations from Bureau of Business and Economic Research (BBER) and NorthWest Management regarding timber sales and harvest cost data; Department's white paper introduced; discussion of a potential bias in stumpage price; subcommittee selection

Meeting 4 (November 10, 2021): Subcommittee spokesperson appointment; request to review zones, other data sources, and variables for the stumpage value model

Meeting 5 (January 19, 2022): Subcommittee report - Jared & Dylan, TPR discussion of the new regression, the results, comparison with the previous model, and possible policy decision for further adjustments to stumpage value. Members identified items to be completed as: 1) contacting BBER to identify DNRC sales premium so an adjustment might be determined and stumpage values finalized, 2) review the forest zones, 3) review the capitalization rate, 4) look at the taxable percentage and, 5) prepare summary report.

Meeting 6 (March10, 2022): Subcommittee report – Jared & Dylan, TPR discussed the adjustments and assumptions used in the model, changes to variables and regression parameters; presentation of capitalization rate memo also included taxable percentages (tax rates) and forest classification incentives; discussion of forest zones, averaging methods, reappraisal cycle length, concluding with possible policy recommendations and committee summary report.

Meeting 7 (April 7, 2022): Department presentations on reappraisal cycle length; discussion of averaging methods; Jared & Dylan, TPR discussed tax rate changes; committee discussion and recommendation for possible legislation.

Subcommittee

Review white paper; Dr. Jackson question and answer; Department's model analysis and development (*Forest Lands Taxation Advisory Subcommittee Summary Report by TPR*); various information sources (USFS, BBER, BIA); capitalization rate (*Capitalization Rate Memorandum*); tax percentages.

Meeting 1 (September 13, 2021): Scope of work- Work with DOR to develop an appraisal process for stumpage value to be used in forest land valuation; management

costs and capitalization rates may need review; review residual value, comparable sales and other appraisal methods, available data sources; develop process for establishing stumpage value to include compiling data, identifying pertinent variable, determine adjustments, establish stumpage for each zone.

Meeting 2 (September 27, 2021): Dr. Jackson presented methods used to determine current zones and stumpage values. Discussion on possible DNRC sales premium, use of forest service and state timber sales, insect damaged timber sales, salvage sales, costs and accounting for species mix.

Meeting 3 (October 28, 2021): Dylan, TPR and subcommittee discuss data sources, data collection, relevant variables, residual value approach and building an in-house (DOR) regression model. Issues for that model were discussed such as timber volume, price indices. TPR to develop model.

Meeting 4 (January 6, 2022): Dylan, TPR compared Dr. Jackson's data and their data, explained need for regression model. Subcommittee and TPR discussed these topics at length. Discussion of reverting to agricultural land valuation for tax purposes.

Meeting 5 (January 19, 2022): Jared, TPR discussed the regression model developed including the changes, reasoning for the various components, results. Discussion on different data types, normalization and simple averages. General agreement that a regression model is the better solution.

Meeting 6 (February 7, 2022): Jared, TPR presented subcommittee summary report on developing stumpage values including the regression model, alternative methods and averages. Gordy reported that BBER has no data to confirm a premium on DNRC sales. Bonnie, DOR presented memorandum on capitalization rate, taxable percentages and forest land classification. Voted to maintain the current capitalization rate and current zone delineations.

Committee Progress by Topic

Topic			Subcommittee	Committee work	Decision
organization, tasks, goals, plan, scope of work			9/13/2021-2/7/2022	7/9/2021-present	
valuation components:				7/1/2021-present	
stumpage value	sales data	DNRC data vs. others, green sales vs. salvage & damaged timber sales	transitioned to DNRC (not a decision)	discussed	
	regression model	reviewed Jackson's, TPR developed	approved method-1/19/2022	approved use of DOR in-house model for use, effective in 2025	recommendation to Revenue Interim Committee
	residual method	TPR analysis	(would be a good QA check)	discussed	
	DNRC premium adjustment	no data to support	Gordy to ask BBER	discussed	
	Averaging method	rolling average vs. Olympic average		approved 10-year Olympic average	recommendation to Revenue Interim Committee
capitalization rate		Cap rate memo	keep as is 2/7/2022	discussed	
zones			keep as is 2/7/2022	discussed	
management costs				discussed	
forest land use incentive		Cap rate memo		discussed	
6-year vs. 2-year cycle				approved move to 2-year cycle effective in 2025	recommendation to Revenue Interim Committee
taxable percentage		(TPR) after other decisions are made		approved adjustment of 0.29 for 2023 and 0.27 for 2024	recommendation to Revenue Interim Committee
future FLTAC meetings				approved at least annual meeting of Committee	recommendation to Revenue Interim Committee

Final Recommendation

At the conclusion of the numerous meetings summarized above, the Forest Lands Taxation Advisory Committee recommended the following to the Revenue Interim Committee request legislation:

- to revise the reappraisal cycle for class ten forest property to a 2-year cycle beginning in tax year 2025,
- to use a 10-year Olympic average,
- to revise the tax rate for TY23 to 0.29% and for TY24 to 0.27%,
- to have the Department of Revenue appraise forest property (remove University of Montana), and
- to require the Forest Land Taxation Advisory Committee meets at least once annually, more as needed.

The capitalization rate and forest zones were discussed and left unchanged at the recommendation of the subcommittee.