

***Forest Land Taxation Advisory Committee Meeting
August 24, 2012 - 9:05 am
Venue: Department of Environmental Quality
1100 N Last Chance Avenue, Helena MT***

Committee Members Present

Bill Baum
Bob Oldenburg
David Affleck
Jean Curtiss – by Conference Telephone
Kelly Gebhardt
Scott Settle
Steve Flynn

Department of Revenue Staff Present

Dan Bucks, Director, DOR
Cynthia Monteau Moore – Administrator, PAD
Bonnie Hamilton – Management Analyst, PAD
C. A. Daw – Chief Legal Counsel, DOR
Frank McCall – Ag/Forest Management Analyst, PAD
Mary Suptic – Ag/Forest Management Officer, PAD
Michele Crepeau – Attorney, DOR
Rose Felter – Recorder, PAD
Ted Chase – Management Analyst, PAD

I. GENERAL MEETING INFORMATION

- **Meeting Facilitator.** The committee does not have a chairperson and the committee decided to elect a Chairperson at a subsequent meeting, therefore, Cynthia Monteau Moore, Administrator, Property Assessment Division, PAD/DOR, facilitated the meeting.
- **Meeting Information.** Notebooks with meeting information and presentations were given to the members. The agenda and public notice for each meeting will be posted on the Department of Revenue's website prior to each meeting.
- **Travel Reimbursement.** A travel information/expense report section is included in the notebook that includes the Travel Expense Voucher and instructions. If members have questions they are directed to call Mary Suptic at 444-0494.

II. OPENING REMARKS AND COMMITTEE CHAIRPERSON SELECTION, Director Bucks, DOR

Director Bucks thanked each member for accepting the position on the Forest Lands Tax Advisory Committee. Each member's expertise and knowledge is valuable to the process of assisting the Department in establishing a fair and equitable valuing system for the state's forest lands. Dan would ask members to, because they advise the Department and the Department wants to incorporate their advice into our work, strike a medium when making judgments. When we look at data in the Department, we like to ensure that the data is as verifiable as possible.

Director Bucks discussed the committee membership as stated in Legislation. The legislation however does not specify who the chairperson should be. Instead, the decision is based upon a vote of the membership. Today's meeting is more of an orientation and informational meeting with no required decisions at this point. The members can elect the Chairperson today or at the next meeting.

The charge for the chair would be to conduct the meetings, preside over the meetings, work with staff to ensure staff is responsive to the committee's needs, make sure the necessary information is gathered to ensure that the committee is successful, approve the agenda, and work with the department planning the meetings.

Per statute, the committee member's appointments end on June 30 of the first year of each reappraisal cycle, therefore, terms commence on June 30, 2015. Most of the committee's work will occur towards the end of 2013 and primarily in 2014. There will be a need to meet several times before the next reappraisal cycle.

The schedule of meetings that was sent to the members will probably change. The statute requires reporting on specific data, although some of the data will not be available until next year. The committee is established as an advisory council to the Department of Revenue's Property Assessment Division. Once the committee's report is complete, it will be presented to the Department, committee members may be asked to discuss the report with the Legislature.

Committee members decided to wait to elect the Chairperson at the next meeting because all members were not present to discuss this issue; however Kelly Gebhardt agreed to Chair the next meeting until the Chairperson is appointed.

III. MONTANA'S PROPERTY TAX SYSTEM, Cynthia Monteau Moore, Administrator, Property Assessment Division, PAD/DOR

Mrs. Monteau Moore discussed the department's authority to administer property tax through the Constitution and applicable statutes; the department's role in the county budgeting process; the classes of property developed by the legislature; the taxation process generally, the department's role and responsibilities; and the advisory committee's role and responsibilities.

IV. APPLICABLE MONTANA CODES AND ADMINISTRATIVE RULES, CA Daw, Chief Legal Counsel, DOR

C. A. Daw, introduced himself and explained his role with the Department. He informed the committee that the Department did not have any forestland evaluation cases that proceeded beyond the State Tax Appeal Board and that there were no cases that proceeded to District Court or the Supreme Court.

All of the mechanics that the Legislature set out for the committee to do are located in Montana Code Annotated 2011 (included in the notebook), Title 15, Chapter 44. Provisions for natural disaster are also included. Forestland's classification class is 10 and the agricultural land classification is 3. Both are reappraised on a six year cycle. Forestland is taxed based upon its productivity instead of fair market value, so staff has to calculate based upon how much the timber grows.

The committee asked if the public meeting law restricts the communication outside this room. CA responded that in his view, only when you get to decision making process. If a recommendation is made to change the rules, we are bound by the rule. This meeting did not go through the public notice process but it is be open to any member of the public.

C. A. will talk to the Public Communications Officer about noticing the meetings and corresponding with others and sharing information by email.

IV. FORESTLAND ASSESSMENT PRESENTATION, Frank McCall and Bonnie Hamilton

Before the presentation, Frank McCall, Management Analyst, explained that part of Property Assessment Division's responsibility is to value the land then the Legislature puts a tax rate on that value and that is the amount the counties use to put their budget together.

Earlier in the meeting, committee members had questions about agricultural land. Agricultural land is valued using the NRCS' soil survey and the production they develop. The NRCS data includes soil types down to ¼ acre. The department adjusts the soil data, per statute, that requires the data to reflect the soil's average production potential over a 12-year period under average management practices. Thereafter, the legislature develops the tax rate. The department determines the productive value by multiplying the productivity by the commodity price (which is a seven year Olympic average, dropping the high and dropping the low value).

The Department is charged with measuring the inherent capacity of the soil, not measuring what is actually on the ground. The soils system is a changing system that NRCS updates regularly. The soil information is changed at the end of the reappraisal cycle and at the beginning of the cycle.

Frank discussed the applicable Administrative Rules that govern how the Department assesses taxes. The same Income Capitalization formula ($V = \text{Income} / \text{Capitalization Rate}$) is used to value most all properties. Currently, the Department reappraises real property on a six year cycle. As a mitigation effort, if there is an increase in value, that amount is phased-in during the six-year period. If there is no change or if there is a decrease in value, the entire value is implemented immediately. The taxable value is the tax rate that is applied to the assessed value upon which the county applies the levy.

To qualify for agricultural classification, the land has to support 30 animal unit months. Each class has criteria and each property is valued separately. Class 4 is residential property; Class 3 is agricultural land or non-qualifying agricultural land. Non-qualified agricultural land consists of parcels 20 acres to 120 acres and is taxed at seven times the agricultural land rate; Class 10 is forestland.

In 2009, the Department looked at every property in the State of Montana through GIS (Geographic Information System), which produced the most significant changes to the productivity tax system since it was implemented in 1993. The GIS helped the Department to incorporate ownership boundaries, land use, building site locations, productivity, climate soils, and topography. Orion is the computer software system the Department uses to assess the property and it is linked to the GIS system.

Property owners who disagree with their property value, have the opportunity to come to the local county office to file an appeal. The county office will meet with the taxpayer and the Department will look at the property more closely to ensure it was valued correctly. Once the decision is made, an appeal may be made to the County Tax Appeal Board or District Court. Most of the appeals this cycle were classification issues that were addressed at the local level.

As outside costs start influencing on how to maintain or to use the property, it is important that we make it possible for the taxpayers to hold on to the land and use it the way they intended it to be used. Conservation easements are still taxed based on the use of the land immediately prior to the conservation easement. It is rare that a conservation easement would prevent the land from being classified as forestland. Depending on the size of the parcel, the land could be classified as agricultural land; land over 160 acres contiguous is automatically classified as agricultural land or forestland, unless there is a prohibition against agricultural use.

The department is required by law to utilize the University of Montana as our source for reappraising all the forestland and agricultural land in the state.

The University of Montana establishes the different zones throughout Montana. There are currently four forest zones. In the previous cycle, there were five forest zones. The Capitalization rate is not less than 8 percent. The department may begin receiving new data in the fall of next year and Dr. Jackson may have the zones completed by that time. The values will go on the books January 1, 2015. It takes a year to get the data together and run the model.

Additionally, Frank reviewed the requirements necessary to qualify for the classification of forestland; application for natural disaster and the qualifications.

V. GIS PRESENTATION, Ted Chase, GIS/Management Analyst, PAD/DOR

Cynthia Monteau Moore introduced Ted Chase, GIS (Geographic Information System) Management Analyst. The GIS team in PAD central consists of Ted Chase, Chris Hinderman and Val Cannon. They primarily work on agricultural land and forestland. Ted showed a Power Point presentation on GIS technology that the department utilizes. By statute, the Department provides cadastral landownership maps for the state to each county. Arc Reader is a GIS tool used by the counties to look at the agricultural and forest data to assist county staff with questions from the taxpayer. The cadastral site is available to the public.

The first productivity model developed by the University of Montana used data from 1991 through 1994, all changes were made manually on old Mylar maps. In 2006, the University updated the model and it is the model the department is proposing to use in the 2015 Reappraisal Cycle. Arc GIS is the software tool the department uses to change the GIS data and to maintain it. It was developed by the Environmental Systems Research Institute. They have several GIS software tools.

VII. THE NEXT MEETING

The committee discussed following Robert's Rules of Order and Mason's Rules to determine which path to follow. It is important for the committee to take action in their recommendations to the department for the department to consider in the upcoming reappraisal cycle. The committee also would like to know more about how Dr. Jackson determines the forestland values. The department is in the process of completing our contract with Dr. Jackson. Once that contract is signed, a conference call will be scheduled to discuss with Dr. Jackson his sources, processes for gathering the data, and how he utilizes the data in developing the values. Kelly Gehbhardt will chair that meeting as the interim committee chair until the committee votes on a chairperson.

Cynthia asked members to email agenda items to her.

SUGGESTED ITEMS FOR THE NEXT MEETING

1. When the contract with Dr. Jackson is finalized, invite him to a tele-conference meeting to be available to answer questions from the committee and provide a background of how he developed the models the department used during the last reappraisal cycle and proposes using for the 2015 reappraisal cycle.
2. Kelly Gebhardt volunteered to Chair the next meeting until the Chairperson and Vice Chairperson is selected and voted upon.

ITEMS TO SEND (via hard copy) TO COMMITTEE MEMBERS

1. Department's organizational chart
2. Staff contact information.
3. Acronym list.
4. Web Links to the following: Department of Revenue's website; Montana's Administrative Rules; Montana Code Annotated; Cadastral website; and the Property Assessment Division.
5. University of Montana Report for current cycle.
6. Final report for the GIS processes.

The meeting was adjourned at 5:11 pm.

Respectfully submitted,

Rose Felter
Administrative Assistant