



2021-2026

Montana Forest Land  
Classification and Valuation Manual



Effective January 1, 2021



# Department of Revenue

**2021-2026**

## **Forest Land Classification and Valuation Manual**

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The Department of Revenue prepared the Montana Forest Land Classification and Valuation Manual pursuant to ARM 42.18.121, Adoption of Montana Reappraisal Plan and Manuals.

The manual is available to the general public.

Any legislative or administrative rule change made after the published date of this manual supersedes the information contained in this manual.

Please direct questions pertaining to this document to the Department of Revenue Property Assessment Division at <https://MTRevenue.gov>

# Table of Contents

General Information.....	1
Introduction.....	1
History .....	1
Legislative Authority.....	1
Forest Land Taxation Laws (MCA) .....	2
Administrative Rules-Forest Land.....	2
Eligibility .....	2
Ownerships.....	3
Land Use .....	3
Tree Species .....	4
Stocking Rate .....	4
Productivity .....	5
Area Requirements.....	6
Contiguity .....	6
Accessibility .....	7
Ineligible Characteristics.....	7
Non-forest Land, Nonproductive Forest Land and Noncommercial Forest Land .....	8
Restrictions and Easements .....	8
Other Uses.....	8
Classification.....	9
Date .....	9
Valuation.....	9
Zones.....	10
Formula .....	10
Mean Annual Net Wood Production.....	11
Stumpage Value.....	11
Agricultural Related Income .....	11
Forest Costs.....	11
Capitalization Rate.....	12
Natural Disaster Valuation Reductions .....	12

Valuation Phase-In ..... 12  
    Value Before Reappraisal (VBR)..... 13  
Improvements on Forest Land ..... 14  
    Homesites..... 14  
        Classification..... 15  
        Valuation ..... 15  
    Land Under Other Structures..... 16  
        Associated with forest management ..... 16  
        Homesite Examples ..... 16  
..... 18

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# General Information

## Introduction

In Montana, commercial forest covers approximately 14.6 million acres with most of this land in public ownership. The Department of Revenue (department) classifies approximately 3.9 million privately owned acres as forest land. The classification and valuation of forest land for property tax purposes are the topics of this manual.

## History

In 1957, the legislature directed the State Board of Equalization to provide a general and uniform method of appraising timberlands. Two years later, the State Board of Equalization was directed to develop and transition to a standing inventory tax system. Each elected assessor had the option to classify the timber in their county or contract the work to the state Division of Forestry.

The Executive Reorganization Act of 1971 created the department to implement taxation as found in the 1972 Constitution of the State of Montana. This made the department responsible for maintaining the standing inventory system and valuations for property taxation. The new constitution effectively terminated the Board of Equalization.

The Forest Lands Tax Act, passed in 1991, replaced the standing inventory tax system with a forest land productivity tax. This law covers all aspects of the new system including classification and valuation. The department worked with the University of Montana, College of Forestry and Conservation to develop the system, which became effective January 1, 1994.

The department implemented several changes for the 2009 reappraisal including using geographic information system (GIS) technology, converting from four productivity grades to using advanced productivity models, classification changes, and manually identifying forest boundaries on a map. The GIS data enhances the department's ability to maintain current and equalized appraisals on forest properties as it contains a variety of data including ownership, productivity, land use, classification, and aerial imagery.

A forest lands taxation advisory committee (committee) was created to review and provide guidance to the department regarding valuation of forest properties beginning in 2012.

Through the years the legislature has moved the forest land classification from property class 3 to property class 10 and changed the taxable percentage rate several times. The current taxable percentage rate is 0.37%.

## Legislative Authority

The laws related to forest land classification and valuation for taxation purposes are 15-44-101 through 15-44-106, Montana Code Annotated (MCA). The department adopted Administrative Rules of Montana (ARM) 42.20.701 through 42.20.745 to administer the law. These rules are periodically revised and updated.

Standing timber is exempt from property taxation as provided in 15-6-223, MCA. Only the bare land under the timber is eligible for assessment. If a landowner deeds his timber to another party, the landowner, not the timber owner, is responsible for the forest land property tax.

### **Forest Land Taxation Laws (MCA)**

Specific criteria for forest land classification and the valuation formula are found in Montana Code Annotated (MCA) Title 15, Chapter 44. Below are the statutes that the department follows in appraising forest properties.

15-6-143	Class ten property – description – taxable percentage
15-6-223	Timber exemption
15-7-103	Classification and appraisal – General and uniform methods
15-8-201	General assessment day
15-44-101	Forest lands tax act – short title
15-44-102	Definitions
15-44-103	Legislative intent – value of forestlands – valuation zones
15-44-104	Reduction in valuation for forest lands for trees destroyed by natural disaster
15-44-105	Administration – rules
15-44-106	Tax on change of use of part of tract

### **Administrative Rules-Forest Land**

42.20.156	Agricultural and forest land use change criteria
42.20.701	Definitions
42.20.705	Forest land classification
42.20.725	Forest land valuation
42.20.740	Natural disaster reduction – general principles
42.20.745	Forest land value change process

### **Eligibility**

Land may be covered in trees, but it must meet specific eligibility criteria to receive forest land classification for taxation purposes. The parcels under one ownership must have 15 contiguous acres with a forest potential productivity of at least 25 cubic feet per acre per year (bfa) as stated in 15-44-102, MCA and detailed in the following sections. Land that does not meet the requirements is considered non-forest land, nonproductive forest land or noncommercial forest land.

## Ownerships

Eligibility for forest land classification is based on the parcel(s) under one ownership. As stated in ARM 42.20.701, under one ownership means when two or more parcels of land are titled under an owner's identical name, or when an owner has obtained department recognition of parcels under one ownership through the affidavit process described in ARM 42.20.705. The definition of under one ownership doesn't change as the size of the ownership changes.

The department determines that parcels are under one ownership when the following conditions are met.

1. The parcels are owned by the same party and titled identically in the party's name.
2. The party has received title in the parcels by a transferring instrument such as a deed, contract for deed, or judgement.
3. The party has the present right to possess and use the parcels.

### Examples of parcels under one ownership:

4. John Doe owns parcel A and John Doe owns parcel B;
5. John Doe owns parcel A and William Smith, in-care-of John Doe, owns parcel B.

A party who owns two or more contiguous parcels of land titled in nonidentical names may file an affidavit with the department to prove a single ownership of the parcels.

### Examples of owners with parcels titled in nonidentical names that may prove single ownership by filing an affidavit:

1. John Doe is the same person as John G. Doe;
2. James Cole Smith is the same person as James C. Smith.

### Examples of owners with parcels titled in nonidentical names that cannot prove single ownership by filing an affidavit:

John Doe has title to one ownership and John and Mary Doe have title to a different ownership;

1. John Doe has title to one ownership and John Doe corporation has title to a different ownership; and
2. John Doe has title to one ownership and John Doe trust has title to a different ownership.

## Land Use

The department is required to classify all land according to its use, 15-7-103, MCA. Land that meets the requirements for forest land classification is considered in forest land use.

## **Tree Species**

Forest land classification requires the land to be stocked with commercial softwood species. Not all trees meet this requirement. Tree species are divided into two categories, softwoods and hardwoods.

Softwood species, also known as conifers or pine trees, include trees that the department considers commercial trees and others considered noncommercial trees. In the Pacific Northwest, conifers have a major economic impact. Commercial species recognized in Montana for property classification purposes include ponderosa pine, Douglas fir, lodgepole pine, alpine fir and Engelmann spruce. Other conifers such as the Rocky Mountain juniper, limber pine, and whitebark pine are considered noncommercial trees in Montana due to low site productivity and poor lumber utility.

Hardwood species, also known as deciduous trees or trees with leaves, do not produce wood in quantity or quality necessary for the commercial manufacturing of wood products. Montana hardwoods include cottonwood, aspen, alder, Rocky Mountain maple and birch. Because these have limited commercial use and have caused concerns regarding logging in riparian environments, hardwood trees are not considered commercial tree species in Montana. Land producing hardwoods is considered noncommercial forest land and cannot be classified as forest land by the department.

Naturally growing trees on forest land that are sheared, tapered and harvested as Christmas trees are eligible to meet the tree species requirement. These trees are typically scotch pine, spruce and grand fir trees located in non-cultivated mountainous regions of northwestern Montana.

## **Stocking Rate**

The land must be stocked with at least 10 percent commercial softwood trees unless the trees have been removed by man through harvest, including clear-cuts, or by natural disaster. The stocking rate is a measure of the degree of an area covered with standing eligible trees. It can be described as either the number of stems per acre or the amount of crown closure per acre. Crown closure is the amount of land covered by the tree from an aerial viewpoint and can be estimated by extending an imaginary circle around the edge of the tree's crown to the ground. The area covered by tree crowns is then compared to the area not covered by tree crowns.

If trees were removed by timber harvest or natural disaster, the department classifies the land as forest land. If commercial trees don't regenerate within 10 years after the harvest operations or natural disaster, the land may be reclassified to non-forest land.

A property owner may convert non-forest land to forest land by planting a minimum of 300 commercial tree seedlings per acre. This planting rate is approximately equivalent to a spacing of 12 feet by 12 feet per seedling. Mortality reduces the stocking level and may cause the stocking level to drop below the requirement for forest classification. If landowners do not plant an adequate

number of seedlings to cover mortality losses, the land may not meet the minimum-stocking requirement for forest land classification.

## **Productivity**

Forest land classification is based on the potential productivity of the land, which is the maximum amount of wood the land can produce annually. Forest land classification requires the land's productivity must meet or exceed 25 cubic feet per acre which is 100 board feet per acre per year using the conversion factor of 4 provided in ARM 42.20.701 (5), at the climax of its growth cycle, known as the culmination of mean annual increment (CMAI).

Forest land productivity, both actual and potential, is influenced by the soil's fertility, climate, topography, slope, aspect, elevation and, length of the growing season. The potential productivity is inherent in the land, constant, and not influenced by natural disasters, overstocking or logging. In contrast, actual productivity is dynamic and constantly changing as influenced by climate, natural disaster, management, and logging. Potential productivity is not the same as actual productivity which is the annual growth of wood that has been produced or is currently being produced on the land.

The potential productivity for Montana's forest lands was determined by Dr. Kelsey Milner, former forestry professor of University of Montana, and Dr. Hans Zuuring, former forest biometry professor of University of Montana. Their analysis included collecting site data, applying statistics and mathematical models, and estimating site quality and potential productivity.

The following example illustrates the difference between potential and actual productivity. One stand of trees is diseased with dead and dying timber, but an adjacent stand supports young, healthy trees. Their actual growth rates are quite different, but the underlying potential productivity could be quite similar. The same comparison can be made between a clear-cut and an old growth stand. Both sites may have the same underlying potential productivity even though the clear-cut contains no standing timber and has no actual board foot production.

Potential productivity is the annual per-acre net forest yield at the culmination of mean annual increment (CMAI). Mean annual increment (MAI) is a measure of the average yearly increase in volume growth produced in a tree or a stand of trees on one acre and is calculated by dividing total tree or stand volume growth by the total growth interval. Mean annual growth varies throughout the growth cycle of a tree or stand of trees as it typically increases in the early developmental stages of the tree or the stand, attains a maximum growth increment in the tree's or stand's middle development and, then decreases as the tree or stand becomes more mature. The point in the tree or stand development that produces the maximum MAI is the culmination point referred to as CMAI or biological rotation age. The CMAI is the ideal harvest age in terms of most efficient net annual volume production.

The potential productivity is expressed in board feet per acre per year (bfa). A board foot is the measurement of volume contained in a block of wood one inch thick by 12 inches long by 12 inches wide. Potential productivity estimates are based on the

volume of lumber a mill could produce from all trees on an acre of land that are at least 8 inches in diameter at breast height (DBH). The tree's shape and structure, trunk diameter, taper, and defects influence the amount of wood that can be harvested from a tree. Tree volume is calculated using the Scribner Decimal Log Rule based on measurements from a one-foot stump to a six-inch top (inside the bark), in 16-foot lengths and five percent hidden defect.

Small areas of the state have a very high potential forest productivity estimated at greater than 400 board feet per acre.

### **Area Requirements**

Forest land classification requires 15 contiguous acres or more under one ownership, capable of producing timber, and meets all the requirements in this manual. Any acres under a different use or classification, such as one acre under a residence, are not eligible to count towards the 15-acre requirement.

The one exception to the 15-acre requirement is found in 15-6-143, MCA as follows: "Any parcel of growing timber totaling less than 15 acres qualifies as class ten property if, in a prior year, the parcel totaled 15 acres or more and qualified as forest land but the number of acres was reduced to less than 15 acres for a public use described in 70-30-102 by the federal government, the state, a county, or a municipality and, since that reduction in acres, the parcel has not been further divided."

#### *Example*

A 15-acre parcel was classified as forest land but since the original classification, 2 acres were taken due to improvement of a state highway. The parcel is now 13 acres and remains classified as forest land.

### **Contiguity**

Another requirement for forest land classification is that the parcels under one ownership must have at least 15 acres of contiguous forest land. Different criteria are used to decide if the parcels under one ownership are contiguous **and** if the parcels under one ownership have contiguous forest land. Natural and man-made features that have no bearing on the determination of contiguous parcels may or may not have a bearing on the determination of contiguous forest land.

#### *Contiguous parcels of land*

The department considers multiple parcels of land under one ownership as contiguous, if the parcels share a common boundary or are physically touching; would touch or share a common boundary but are separated by natural or man-made features such as rivers, streams, roads, utility lines and railroads; or are separated by federal or state land leased by this property owner.

The distance that separates two parcels of land under one ownership, because of physical features like rivers and streams, roads, utility lines and railroads, is not considered in the determination of contiguous parcels. For example, if a river between two parcels is 30 feet wide or 1 mile wide, and the parcels are under one ownership, the department considers the parcels to be contiguous.

### *Contiguous forest land*

Contiguous forest land is forest land areas that physically touch or border each other and are not separated by non-forest land or land in another ownership. Non-forest land is five acres or more and at least 120 feet in width that does not meet the requirements of forest land classification.

Contiguous parcels may not meet the 15 acres of contiguous forest land requirement as the acres that are covered by commercial softwood species must be contiguous.

#### *Example*

A stream that is generally less than 120 feet wide passes through forest land. The forest land on each side of the stream is contiguous, provided the forest land on both sides of the stream are in the same ownership. The streambed is classified as forest land.

#### *Example*

A road creates a 120-foot width of non-forest land through forest land. The forest land on either side of the road is noncontiguous. In this situation, the forested area on each side of the road must qualify as forest land on its own merit by meeting the eligibility requirements.

### **Accessibility**

Land is not classified as forest land if it is incapable of yielding wood products because of adverse site conditions or physical inaccessibility. This is used in very narrow terms as most forest land can be harvested with today's modern logging equipment. Logging does not have to be profitable for the parcel to be classified as forest land. Land is classified as non-forest if constructing a road to a forested area is virtually impossible such as forested land located beyond impassable physical obstacles. If helicopter logging is the only option for harvesting an area, the property is classified as non-forest land.

If a parcel is landlocked and the landowner is denied access to the property, the property is classified as non-forest. If the property is landlocked, but the landowner is allowed access by adjoining neighbors, the land remains in forest land classification. The productivity is not lowered because of access problems.

### **Ineligible Characteristics**

Land that does not meet the requirements for forest classification, is considered non-forest land, nonproductive forest land or noncommercial forest land as described in the sections below and is classified according to ARM 42.20.156.

It is important to note that a parcel may have multiple land classifications but each portion of the parcel of land is classified according to its use. For example, a 20-acre parcel may have 15 acres of forest land with the other 5 acres classified as agricultural, nonqualified agricultural, or tract land.

### ***Non-forest Land, Nonproductive Forest Land and Noncommercial Forest Land***

Non-forest land is land that does not meet the requirements of ARM 42.20.705 and is at least 5 acres in size and 120 feet in width. Non forest area requirements however, are not tied to the ownership. The size of the non-forest land is not tied to ownership, however, the minimum non-forest area that is aggregated into a single productivity designation is five acres. Non-forest land may include rivers, streams, roads, highways, power lines, railroads, or other land uses.

Noncommercial forest land and nonproductive forest land are types of non-forest land. Noncommercial forest land is land that does not meet the forest land requirements as it is stocked with noncommercial tree species. Nonproductive forest land is land that does not meet the minimum productivity requirement of 100 board feet per acre.

Non-forest land is classified as property class three (agricultural or nonqualified agricultural land) or property tax class four (residential, commercial or industrial land).

If the physical feature or area that does not meet the forest land classification requirements is surrounded by forest land, is less than 120 feet in width, and less than 5 acres in size, it does not break forest land contiguity. It is classified as forest land and valued using the underlying forest land productivity.

Land used to raise cultivated Christmas trees, ornamental trees or windbreaks is not eligible for classification as forest land but is considered an agricultural land use.

### ***Restrictions and Easements***

Land that has restrictions to commercial logging or has a conservation easement that precludes commercial timber harvest is not classified as forest land. The restrictions must strictly prohibit commercial timber harvest. An example is private forest land in Glacier National Park. Because logging trucks are not allowed in the park, harvesting private timber on these parcels is not feasible.

Conservation easements that prohibit commercial timber harvesting are rare. The conservation easement is typically used to limit certain types of land development but in some cases, the objective may be for protecting scenic areas or wildlife habitat.

### ***Other Uses***

Owners may use forest land for livestock grazing with the land producing both timber and livestock forage. In these cases, if the land meets the classification criteria, the forest land classification supersedes grazing land classification and the land is classified as forest land, including any clear-cut areas.

If land classified as forest land is dedicated to another use such as agricultural, residential, commercial, or industrial use, the land is classified as stated in ARM 42.20.156. When the timber is clear-cut and the stumps are removed, the department must reclassify the land based on the new use. For example, if the property owner converts the forest land to pasture or farmland, the land is

reclassified to the appropriate agricultural use classification and the land is valued based on its agricultural productivity.

## **Classification**

Any land that meets the requirements for forest land eligibility as found in the preceding eligibility section, is classified as forest land. If the department determines that the land does not meet the requirements for forest land classification, the department classifies the land according to the land's use and criteria in ARM 42.20.156.

A parcel may contain multiple land use classifications and subclassifications, but a parcel can never have both agricultural land and nonqualified agricultural land.

## **Date**

The department's land classification of a property is based on the property's use on January 1 of the current year and the property's ability to meet the forest land eligibility requirements provided in ARM 42.20.705. The following examples are given to illustrate the relationship of the classification date and forest eligibility requirements for forest land classification.

- 1) A property owner owns a 10-acre parcel on January 1 of the current year classified as residential property. This property owner purchased a contiguous 10-acre parcel on May 1 of the current year which is also classified as residential property. The parcels were in different ownerships on January 1 and remain in residential classification for the current year. The following year, the department reclassifies the land as provided in ARM 42.20.156. If it is not in a residential, commercial or industrial use the parcels are considered a 20-acre contiguous ownership and are classified either as forest land, non-qualified agricultural land or, agricultural land.
- 2) A forest property owner requests a review of the forest land productivity by appropriately filing a Request for Informal Classification and Review. If the department determines that change in productivity is appropriate, the change is effective for the current year because the basis for the property's productivity existed on January 1 of the current year.

## **Valuation**

Forest land values are based on the productive capacity of the land, i.e., the ability of the land to produce income from commercial timber harvest and a secondary income from livestock grazing the land.

This valuation assumes an all-aged forest where, in any given year, some stands are harvested, some stands are thinned and others are planted.

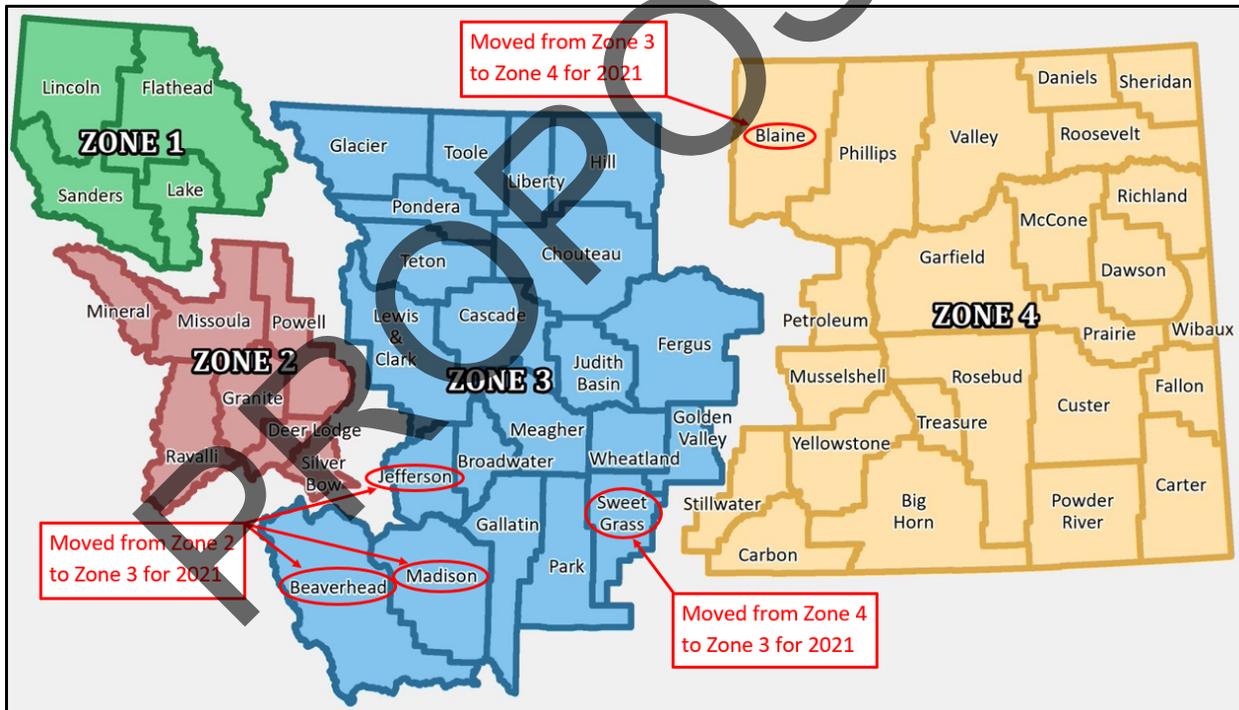
The valuation formula for forest land is stated in 15-44-103, MCA with the variable values dependent on the zone that the property is located in.

## Zones

Montana has four forest land valuation zones as identified by Dr. David Jackson from the University of Montana. Each zone is comprised of counties grouped together based on uniqueness of marketing areas, timber types, growth rates, access, operability and other pertinent factors. These zones are determined by identifying the major independent variables in state timber sales and analyzing their relationship to stumpage price. Some of the major independent variables are log flows to manufacturing centers and sale population.

Each valuation zone has the same valuation formula; however, the income and expense data are unique to its zone. The valuation data is applied to the average yield calculated by the GIS for each forest land polygon. The average yield is a weighted mean and varies from one forest polygon to the next. Therefore, there is an unlimited combination of forest land values that can occur. Valuation data is updated for the beginning of each reappraisal cycle and then frozen for the duration of the cycle.

Some counties shifted to new zones for the 2021 cycle. Zone 1 remained the same. Zone 2 decreased in size as Beaverhead, Jefferson and Madison counties moved to Zone 3. Sweet Grass county moved to Zone 3 from Zone 4 while Blaine county moved from Zone 3 to Zone 4.



## Formula

The department uses the income approach to value forest land as provided in 15-44-103, MCA. Net income, forest income plus grazing income minus cost, is estimated and capitalized to calculate the value. The income approach uses the formula, forest land net income per acre (I) divided by capitalization rate (R) equals value per acre, expressed as  $I/R = V$ .

The department calculates the forest land net income using a productivity-based formula. The formula is expressed as  $(M \times SV) + AI - C = I$  where the variables are:

Mean annual net wood production (M),

Stumpage value (SV),

Agricultural-related income (AI), and

Per unit cost of the forest product and agricultural product produced (C).

The department determines the values for these variables as explained in the following sections.

### ***Mean Annual Net Wood Production***

Forest income is calculated using the mean annual net wood production (productivity) of the land. The productivity, expressed in board feet per acre (bfa), represents the average annual increase in wood produced on an acre of forest land. This is covered in more detail in the productivity section.

### ***Stumpage Value***

Forest income is calculated using the average stumpage value for each zone. The average stumpage value represents the price a willing buyer would pay for standing timber from a willing seller. Average stumpage values are derived from state timber sales using multiple regression models developed by University of Montana, College of Forestry.

### ***Agricultural Related Income***

Forest income is calculated using the agricultural related income for each zone. Agricultural related income of forest land is calculated using private grazing fees as livestock grazing is the primary agricultural activity occurring on forest lands. Montana's private grazing fees are gathered from statistics published by the United States Department of Agriculture (USDA), National Agricultural Statistics Service (NASS).

Net grazing income on forest land is low, as the carrying capacity under most forest canopies is poor. Timber stands with crown closures of 70 percent or greater generally have very little livestock carrying capacity.

Agricultural expenses are 25 percent of the private grazing fee. The agricultural net income calculation is identical to the valuation used for agricultural grazing lands.

### ***Forest Costs***

The department uses costs incurred by the Department of Natural Resources and Conservation (DNRC), Forestry Division (FD) and Trust Land Management Division (TLMD). These costs are highly dependent on the timber sale activity and budget considerations of the legislature. Forest costs include fire assessment fees, severance tax, slash disposal, forest management, timber sales, forest practices and administration.

### **Capitalization Rate**

The department uses a capitalization rate to convert the estimated income stream of the forest property into an estimated property value. Although each forest zone may have a unique capitalization rate, currently Montana uses the capitalization rate set in statute at 8% for all zones. The capitalization rate is to be reviewed by the advisory committee. 15-44-103, MCA.

### **Natural Disaster Valuation Reductions**

Property owners may receive a 50 percent reduction in the valuation of their forest land for 20 years if the standing timber is destroyed by a natural disaster as provided in 15-44-104, MCA. Fire is the most common natural disaster but, high winds, insects and disease may also cause destruction.

To receive this reduction the following criteria must be met.

1. The property owner must file a timely request for an informal classification and appraisal review (Form AB26) with the department. The first year of eligibility for the natural disaster reduction is the year following the date of the event. The reduction runs until 20 years from the date of the event so if the application is filed 5 years after the event, the property value is eligible for reduction for the remaining 15 years.
2. The parcel must have been classified as forest land the year prior to the date of the disaster.
3. The impacted area must be at least 15 acres or larger.
4. This area must have had at least 10 percent stocking before the natural disaster occurred. For example, areas with forest classification that were harvested with a clear-cut are not eligible for this reduction.
5. The surviving trees must not meet the 10 percent stocking rate. In other words, most of the live trees have been destroyed.

The department reduces the value of eligible forest land for 20 years from the date of the natural disaster. No modification is made to the forest classification or the forest productivity.

### **Valuation Phase-In**

Forest land value increases are phased-in incrementally throughout the six-year reappraisal cycle resulting in the property reaching its full forest land reappraisal value in the sixth year. 15-7-111, MCA. The department determines the market value for each year by dividing the difference in value from the previous cycle by 6 and adding it to the previous year's value. Any decrease in forest land appraisal value from one reappraisal cycle to the next is fully implemented the first year of the new reappraisal cycle as provided in ARM 42.20.745. Simply stated, the phase-in is calculated as follows.

- 1) Find the difference in valuation by subtracting the prior cycle's forest land reappraisal value (VBR) from the current cycle's forest land reappraisal value,

2021 Full Reappraisal Value	\$100,000
2020 Full Reappraisal Value	- <u>\$40,000</u>
Difference	\$60,000

2) Calculate the annual phase-in by dividing the difference in valuation by 6,  
 $\$60,000/6=\$10,000$  annual phase-in.

3) Calculate the phase-in value by adding the annual phase-in to the previous year's forest land phase-in value.

$$\$40,000 + \$10,000 = \$50,000 \text{ assessed value for 2021}$$

Year	2020	2021	2022	2023	2024	2025	2026
Phase-In Value	\$40,000	\$50,000	\$60,000	\$70,000	\$80,000	\$90,000	\$100,000

It is important to note that only the forest land value increases receive a phase-in.

**Value Before Reappraisal (VBR)**

The department's process to determine the phase-in of forest land value increases requires a standard method of identifying the forest land appraised value from the previous cycle, also known as the value before reappraisal (VBR), which is used in the phase-in calculation.

For a property with no changes in the forest acreage from the previous cycle, the VBR is the previous cycle's forest land reappraisal value. The department uses this VBR to determine the phase-in value for forest properties with no land classification changes, forest productivity-only changes, or changes resulting from the department's GIS agricultural and forest updates.

If a property has experienced a change in forest acreage due to a land classification change or land use change, the department must calculate the VBR because the acreage is not the same as it was in the previous cycle. The department calculates the VBR by using the current forest data, acres and productivity, in the previous cycle's forest valuation formula.

The following examples show how the department determines the VBR for a property:

1. A parcel is classified as forest land in both the previous and current cycle and has experienced no changes other than land value. The department uses the previous cycle reappraisal value as the current cycle VBR.
2. A parcel has both forest and agricultural acres. The acreages in the land classification change due to line shifts in the upload data. The department uses the previous cycle reappraisal value as the current cycle VBR.
3. Parcel A did not qualify for forest land classification because it had less than 15 contiguous acres of forest land. Parcel A is sold to the owner Parcel B which borders Parcel A and has forest land that is contiguous to the Parcel A's timber.

The two parcels are under one ownership and meet the requirements for forest land classification. The forest acres on Parcel A, are newly classified as forest land and the department must use a calculated VBR as there is no forest land value in the previous cycle.

4. A parcel has acreage classified as forest land in the previous cycle and is reclassified to include a forest homesite and forest acres for the present cycle. The previous cycle reappraisal value is for a different number of acres so the department must use a calculated VBR for the current forest acres.
5. A parcel has acreage classified as forest land in the previous cycle and a portion of the parcel is transferred to another ownership for the present cycle. The previous cycle reappraisal value on the original parcel was for the total forest acreage so the department must use a calculated VBR for the current forest acres on both parcels after the transfer.
6. A property owner plants trees on an agricultural parcel and meets the requirements for forest classification. The property did not have a forest land value in the previous cycle so the department must use a calculated VBR.
7. A property owner removes the timber and pulls out the stumps on some of the forest to transition the land to a non-forest use. There are other acres that remain in forest classification. The previous cycle reappraisal value is for a different number of acres so the department must use a calculated VBR for the current forest acres.

## **Improvements on Forest Land**

The International Association of Assessing Officers (IAAO) glossary in part defines improvement as anything done to raw land with the intention of increasing its value. A structure erected on the property constitutes one very common type of improvement. The International Association of Assessing Officers (IAAO) glossary further defines improvements as buildings, other structures, and attachments or annexations to land that are intended to remain so attached or annexed, such as sidewalks, trees, drives, tunnels, drains, and sewers.

On forest parcels, the department classifies the land under improvements based on the improvement type. These classifications are described in the following subsections.

### **Homesites**

When a residential improvement, residence, exists on an agricultural, nonqualified agricultural or forest parcel, the department identifies one acre under the improvement as a homesite for classification and valuation purposes as governed by 15-6-133 and 15-6-134, MCA and ARM 42.20.655.

A residence is defined in ARM 42.20.701 as a conventionally constructed home, mobile home or manufactured home that may serve as living quarters for one or more individuals or a family, regardless of occupancy.

The residence must contain, at a minimum, sleeping facilities and is not required to contain water and sewer or septic amenities.

### **Classification**

When a residence is located on a property, either agricultural, nonqualified agricultural, or forest land, a corresponding homesite must be designated. Each homesite consists of exactly one acre regardless of the size of the residence.

If a parcel is less than one acre in size and contains a residence, the entire parcel is classified as a homesite. No additional area shall be classified as a homesite on adjoining parcels for this residence. A homesite does not cross parcel boundaries. When a homesite crosses a parcel boundary with residences on both parcels, a separate one-acre homesite must be designated for each parcel.

A one-acre homesite may contain multiple residences if the residences are located within the same one-acre area. When a property has multiple residences that are not located within a single one-acre area, a one-acre homesite must be designated for each residence.

A homesite is not assigned to a site that contains only a well and septic system without a residence. For example, a homesite is assigned to land that contains a well, septic system and a manufactured home. If the manufactured home is removed from the site, leaving the land without a residence, then the one-acre homesite is removed from the land's assessment. Land with a manufactured home that is not permanently attached to a foundation or connected to water and/or septic improvements, is not assigned a one-acre homesite.

When a parcel contains both forest and agricultural land, the homesite location is important. If the homesite is located within the forest portion of the parcel, the correct classification is a forest homesite. If the homesite is located outside of the forest portion, the correct classification is an agricultural homesite.

When an ownership contains less than 20 acres total with at least 15 acres of forest land, the remaining acres are non-forest land. If the non-forest land meets the agricultural eligibility requirements the land is classified agricultural but if it does not meet the agricultural eligibility requirements, the non-forest land is valued at market. If the residence on these parcels are surrounded by nonagricultural land, the land under the residence is not assigned a one-acre homesite. The non-forest land is classified as class 4 land and assessed at its market value. Residential tract land does not receive a one-acre homesite designation.

### **Valuation**

The department values forest homesites using the market value developed for one-acre sites in that neighborhood. In other words, the forest homesite is valued based on the

sales of comparable one-acre sites in that market area. It is not based on the productivity value of the forest land.

### **Land Under Other Structures**

Garages, outbuildings, agricultural structures and any buildings used entirely for storage are not considered residential improvements. A homesite is not designated for these structures however, if one of these structures is in close proximity to a residence, the outbuilding may be located on land classified as a homesite.

Improvements such as barns, sheds, silos, cribs, and like structures are considered agricultural improvements, not residential improvements. Land under agricultural improvements is classified as grazing land and valued according to the agricultural productivity of the land. 15-7-202 and 15-7-206, MCA. If these improvements are located on the one-acre homesite, no additional land classification is needed.

Land under commercial or industrial improvements, on either Class 3 or Class 10 property, is not assigned a one-acre homesite. The actual amount of land under the commercial or industrial improvements, and the land that supports those improvements must be classified as class 4 land, commercial, or industrial. An example of a commercial improvement on a parcel containing agricultural land is a riding arena that is used to produce nonagricultural income. An example of an industrial improvement on a parcel containing forest land is a wood products plant.

### ***Associated with forest management***

Land under structures that are associated with the management of the forest land is classified as forest land unless the structures are located on a homesite. In the scenario of the structures being located on a homesite, the homesite classification takes precedent.

### ***Homesite Examples***

Following are some homesite classification scenarios:

1. A forest property has a residence on the property, the parcel is assigned a one-acre homesite.
2. A forest property has a primary residence with an adjacent guesthouse both located on the same 1 acre, the parcel is assigned a one-acre homesite, even though the parcel contains two residences.
3. A forest or agricultural property has several residences that are not located on the same acre, a one-acre homesite must be assigned to land under each residence.
4. A landowner owns contiguous agricultural parcels in the same ownership. The parcel with the residence is less than one acre in size. The entire parcel with the residence must be classified as an agricultural homesite.

5. Two houses are located within one acre but are on two different contiguous parcels in the same ownership. A one-acre homesite must be assigned on each parcel.
6. A summer home or cabin without a septic system and/or well is appraised as a residential structure and the land under the structure is classified as a homesite.

PROPOSED

Classification of One Acre Homesites					
Situation	Ag Homesite	NQ Homesite	Forest Homesite	Tract Land	Remainder acres
Forest parcel with a residence			3FOR-1Ac. homesite		appropriate land classification based on eligibility criteria
Forest parcel with multiple residences on one acre			One 3-FOR-1Ac. homesite		appropriate land classification based on eligibility criteria
Forest parcel with multiple residences on separate sites			One 3-FOR-1Ac. homesite for each site		appropriate land classification based on eligibility criteria
Forest parcel with multiple residences in one location but doesn't fit on 1 acre			One 3-FOR-1Ac. homesite each residence as needed to fit on 1-acre sites		appropriate land classification based on eligibility criteria
Forest parcel with residence on agricultural land	1 acre FSA				appropriate land classification based on eligibility criteria
Forest parcel with other agricultural scenarios	Follow agricultural guidelines				appropriate land classification based on eligibility criteria
NQ parcel with a residence		3NQ-1Ac. homesite			NQ agricultural land
Residential parcel with a residence				Follow residential guidelines	

Ag means agricultural.

FSA means farm site on agricultural land.

NQ means nonqualified agricultural land.

3NQ-1 Ac. means a 1-acre homesite on nonqualified agricultural land.

3FOR-1 Ac. means a 1-acre homesite on forest land.