

Forest Lands Taxation Advisory Committee Meeting Minutes 11/23/2020

Committee Members Present:

Gordy Sanders
Randy Mannix
Andy Hunthausen
Paul McKenzie
Sen. Pat Flowers
Rep. Marilyn Marler

Department of Revenue Staff

Dan Whyte – Chief Legal Counsel, DOR
Kory Hofland – Deputy Administrator, PAD
Dan Nelson - CAMA Unit Manager, PAD

Bonnie Hamilton –Management Analyst, PAD
Bill Billman - Program Support Specialist, PAD

Other Attendees:

David Jackson – UM Professor Emeritus,
Presenter
Allen Chrisman – Montana Tree Farm Systems,
Julia Altemus – Montana Wood Products
Association,
Brian Sugden – American Forest Management,
Don Patterson – Stimson Lumber,
Debra Parker Foley – Montana Forest Owners
Association,

I. Introductions and General Housekeeping Information, Bonnie Hamilton, Management Analyst, DOR

Bonnie Hamilton started the meeting at 9:00 a.m., she was unable to start the recording, Kory Hofland said Bill Billman would take the meeting minutes. Bonnie Hamilton introduced herself and the DOR staff, the meeting attendees then introduced themselves. Bonnie Hamilton took roll call; all committee members were present.

II. Selection/Volunteer of Committee Chairperson, Committee

Kory Hofland suggested the committee select a chairperson, he added they could follow Robert's Rules as strictly or loosely as they wanted, it is up to them.

Senator Pat Flowers nominated Gordy Sanders as chairman, Andy Hunthausen seconded the motion, a vote was held, and Gordy Sanders was elected chairman by all committee members.

III. Statutes and Committee Responsibilities, Dan Whyte, Chief Legal Counsel, DOR

Dan Whyte went over the committee responsibilities set in statute, 15-44-103, MCA.

Chairman Gordy Sanders asked Dan Whyte if the 12/31/2020 date to have the forest values in for reappraisal was set in stone or if there was latitude with the date? Dan Whyte told Chairman Gordy Sanders, it was somewhat set in stone, but there may be some latitude.

There were no more questions.

IV. Administrative Rules, Bonnie Hamilton, Management Analyst, DOR

Bonnie Hamilton went over MAR Notice 42-1021, for the forest rules. She explained the reason the department combined the rules was for ease of use, to condense rules and combine similar information together.

Paul McKenzie inquired about how committee recommendations were heard and handled by the Department and whether the committee's recommendations could be extended past 12/31/2020?

Kory Hofland explained the advisory nature of the committee and how recommendations are handled.

There were no more questions regarding the forest rules.

V. Overview of Proposed Forest Land Classification and Valuation Manual, Bonnie Hamilton, Management Analyst, DOR

Bonnie Hamilton discussed MAR Notice 42-1024, pending rule notice regarding adoption of reappraisal manuals. She explained that the department rewrote the Forest Manual to be less technical so the average person could understand the material and removed the historical information.

Senator Pat Flowers asked Bonnie if it would be possible for the department to follow a path like Dr. Jackson and put the historical and technical parts in appendices in the manual? Bonnie deferred the question to Kory Hofland, Kory told Senator Pat Flowers to comment on the rule during the comment period.

Paul McKenzie asked if the committee members would see a revised draft of the Forest Manual? Kory Hofland said, no, the department will respond to all comments received during the comment period.

Chairman Gordy Sanders stated that he would like to know if the comment deadline for MAR Notice 42-1024, could be extended past 12/31/2020? Kory Hofland said he did not know but he would get Chairman Gordy Sanders the answer.

The Department would be willing to extend the deadline, but no later than 01/15/2021.

There were no further questions.

VI. Overview of Valuation (including cost data), Bonnie Hamilton, Management Analyst, DOR

Bonnie Hamilton went over the Forest Land Valuation Overview document she made at the request of Paul McKenzie at the prior meeting, with a breakdown and comparison of costs and income from the 2015 cycle to the upcoming 2021 cycle. Senator Pat Flowers asked Bonnie Hamilton to share her screen, she tried and was unable. She told Senator Pat Flowers it was one of the documents in the meeting materials on the department website. Chairman Gordy Sanders thought it would be a good idea to make sure you can share your screen in the future.

Paul McKenzie asked what all is encompassed in the DNRC expenses used by the department? Bonnie said it is all the management costs but doesn't know everything that goes into it. Chairman Gordy Sanders asked Bonnie if she could follow up with the DNRC and find out what is all included in their costs? Bonnie said she would follow up with the DNRC and try to get the information for the next meeting.

There were no further questions.

VII. Time Line Presentation, Bonnie Hamilton, Management Analyst, DOR

Bonnie Hamilton went over the 2021 Forest Land Reappraisal Timeline document which shows the dates each step of the reappraisal process takes.

Senator Pat Flowers asked if would possible to get a timeline of when it should be done and when it is done? Bonnie Hamilton said yes.

Paul McKenzie asked Kory Hofland how we can get this committee appointed earlier in the future, so the late appointments don't happen again? Kory Hofland said he doesn't know; the department doesn't appoint the members. We are still waiting on an appointment from Representative Tschida. Kory Hofland referred the question to Dan Whyte. Dan Whyte said he doesn't know either, maybe you can do something Mr. Chair.

Representative Marilyn Marler asked if the committee has been held up due to the majority not making their appointments? Paul McKenzie said that wasn't the case as Senate Majority Leader, Fred Thomas appointed him in May. Someone said the Governor just made his appointments. Dan Whyte said we don't need to turn this into a partisan issue.

Senator Pat Flowers asked what can be done to get the committee up and going earlier than it was this time? There's not enough time for the committee to go over the information they are required to go over. Representative Marilyn Marler said she would like to echo Senator Pat Flowers comments.

Chairman Gordy Sanders asked if Kory Hofland and Bonnie Hamilton could draft a protocol to ensure the department doesn't get in this position again? Kory Hofland said he will work with the director's office.

VIII. Dr. Jackson presentation, Dr. Dave Jackson, Jackson & Jackson LLP and professor, University of Montana College of Forestry

Dr. Jackson went over his report, he said this is the best work he has done for a reappraisal. He said he wouldn't be doing it next time but said he worked with Mike Niccolucci this time and maybe he could do it.

Chairman Gordy Sanders asked why Dr. Jackson dropped Bureau of Indian Affairs and salvage sales? Dr. Jackson said it was because BIA sales don't use predicted price, they use roll off factor and they're not arm's length transactions. Salvage sales were removed because they are lower, and Montana uses green timber in valuation.

Paul McKenzie asked if there is a way to quantify or discount the DNRC dataset to compare to private sales? Dr. Jackson said I used framing price index and sales from BBER. If you use a state price in the Bureau are low, they are self-reported prices, and puts the state in a tough spot to use them. It would be nice if prices were reported. I struggle to use delivered logs; they are at a premium.

Senator Pat Flowers asked do you think the way the tax is based on trust land sales they have different management objectives? Can you apply anything to it? Dr. Jackson said I was against the way we do it, I testified to the Legislature about it, I can't answer that.

Senator Pat Flowers asked how Dr. Jackson makes the choice to shift counties? Dr. Jackson said he uses the "F Test", I put the county in zones and run a regression analysis to see where it works the best. Dr. Jackson said whoever does this in the future needs to look at the counties in more detail.

Paul McKenzie asked were you able to look at average bids in the sale not just winning bids? Are straight up DNRC values good? Dr. Jackson said we were valued in the recession last time and now prices are back up.

Paul McKenzie asked if there were there any species mix adjustment this time? Dr. Jackson replied not this time, I used the framing price index, not a lot of cedar in these sales. I tried to get it, but it didn't work.

There were no further questions.

IX. Public Comment

Chairman Gordy Sanders asked how long do they get to comment? Bonnie Hamilton said however long you like. Chairman Gordy Sanders said three to five minutes.

Brian Sugden, Manager with American Forest Management, we manage Southern Pines Plantations land. I'm still learning about taxation in Montana and I would like to give my observations. DNRC stocking levels are high, while land stocking levels are low on our land. The market for pine is low, you can't pay enough to get it hauled out of the woods, private lands should be given a discount.

Allen Chrisman with Montana Tree Farm Systems said his biggest concern is the point of scale comparison with the DNRC value. He is here to make sure the small forest owners are heard. He wonders if an adjustment can be made because small forest lands can't compare to DNRC volumes, it doesn't compare to small owners.

Debra Parker Foley with the Montana Forest Owners Association asked that their email address be added to the list of interested parties, so they are notified when this committee meets. Bill Billman said he would get it added. She also wanted to reiterate concerns that DNRC sales don't work with small owners.

Julia Altemus With Montana Wood Products Association said she was here to listen, and she appreciates all the comments.

Don Patterson with Stimson Lumber asked how does the 2009, 2015 and 2021 land value changes play in how these take affect? Why do drastic changes work for the department? Should there be inflators to work with that? Bonnie Hamilton answered Forest is on a six-year cycle, at the end of a six-year cycle the prices are far removed. If forest land were on a two-year cycle prices would be more in line with the market and the sticker shock wouldn't be so profound. Dr. Jackson said ten year rolling average will be too high. Any appraisal based on evidence will be based on history. Prices might be too high. House prices in Missoula are high, based on sales observations. Small owners' low volumes are true, I don't know what to do with them.

Andy Hunthausen asked Mr. Jackson, from your experience, do the same questions arise each time? Dr. Jackson said absolutely. Dr. Jackson said I have never had small landowners comment before and hasn't had those questions before, low level management. I don't like to propose new studies, but maybe there needs to be a study of small lands. To do that we would need prices that have to come from the land owners, in a verifiable kind of way. It would be tough, Montanan's like their privacy.

X. Schedule next meeting

Chairman Gordy Sanders asked do we want to meet again before 12/31/2020? Should we extend the comment period to the rule? Kory Hofland the current deadline of 12/9/2020 can be extended to 1/9/2020, I don't think we'll get anymore comments though. Chairman Gordy Sanders said not to extend comment deadline. Senator Pat Flowers agreed with Chairman Gordy Sanders not to extend the rule deadline, but to have committee members bring their recommendations to the Forest Manual to the next meeting. Representative Marilyn Marler agrees with Senator Pat Flowers to not extend the comment deadline and committee members have their recommendations for the Forest Manual at the next meeting, she also hopes to be done before 1/4/2020 when the new legislative session starts. Randy Mannix agrees.

Chairman Gordy Sanders next meeting scheduled for December 7, 2020 at 9:00 A.M. Committee members provide feedback for comments on the Forest Manual. Chairman Gordy Sanders asked Kory Hofland and Bonnie Hamilton to have answers to the comments that have already been received by the department.

XI. Adjourn

Chairman Gordy Sanders adjourned the meeting.