

**Forest Lands Taxation Advisory Committee Meeting Minutes 12/07/2020**

**Committee Members Present:**

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

**Department of Revenue Staff**

Kory Hofland – Administrator, PAD  
Dan Nelson - CAMA Unit Manager, PAD  
Bonnie Hamilton –Management Analyst, PAD  
Bill Billman - Program Support Specialist, PAD

**Other Attendees:**

Allen Chrisman – Montana Tree Farm Systems  
and Montana Forest Owner Association  
Julia Altemus – Montana Wood Products  
Association,

**I. Call to Order, Chairman Gordy Sanders**

Bonnie Hamilton started the meeting at 9:07, Chairman Gordy Sanders was having trouble getting in the meeting.

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

Bonnie Hamilton told all attendees the meeting was being recorded and introduced the DOR staff present at the meeting. Bonnie Hamilton took roll call; all members were present. Bonnie Hamilton turned the meeting over to Chairman Gordy Sanders.

Chairman Gordy Sanders thanked Bonnie Hamilton for getting the meeting started, and said let's jump right in, we have quite a bit to cover today.

**III. Minutes, Bill Billman, Program Support, DOR**

Chairman Gordy Sanders asked Bill Billman if he wanted to go through the minutes from the last meeting? Bill Billman asked if Chairman Gordy Sanders wanted him to read through the minutes and said that he submitted them for the committee to review and comment. Chairman Gordy Sanders asked if the committee had time to review the minutes? Bill Billman told Chairman Gordy Sanders he submitted them last week for the committee members to review. Chairman Gordy Sanders asked if there were any comments? Randy Mannix said he did not see the minutes and asked Bill Billman what day he sent them? Bill Billman said they were put on the website and asked Bonnie Hamilton if she remembered what day they were sent out. Bonnie Hamilton said she didn't remember when they were put on the website, but they were sent out with this meeting invitation last week. Kory Hofland told Randy there's a link toward the bottom of the calendared meeting that you got, that has a link to our website. Representative Marilyn Marler said she put a link to the minutes in the chat box too, Bill Billman misunderstood and thought Representative Marilyn Marler asked him to put a link to the minutes in the chat which he also did. Chairman Gordy Sanders asked the members that did see the

minutes if they saw anything that needed corrected? Paul McKenzie was shaking his head no, and Chairman Gordy Sanders asked if he reviewed them and they were fine? Paul McKenzie said he did, and they were fine. Paul McKenzie then made a motion to accept the minutes as presented, Andy Hunthausen seconded the motion, Chairman Gordy Sanders asked for a vote, the minutes were approved unanimously.

#### **IV. Committee Information Requests,**

Chairman Gordy Sanders moved to committee information requests.

**a. Proposed Forest Land Classification and Valuation Manual, Kory Hofland, Administrator, PAD**

Kory Hofland explained he wanted to speak with our rules hearings officer to make sure we were covering our basis regarding comments made to the rules. Paul McKenzie had commented regarding historic information being left in the Forest Manual. The department can take Paul McKenzie's comment and accept them for the committee and put the historical information in an addendum in the Forest Manual. Kory Hofland went on to say if the committee was okay with that, there would be no need to extend the comment period on MAR 42-1024, beyond the current December 9, date. Chairman Gordy Sanders asked the committee members how they feel about that, and if they were ok. Chairman Gordy Sanders asked the committee members if they were good with that and they all were. Chairman Gordy Sanders said, we are good; we do support the proposed changes to the manual. Chairman Gordy Sanders asked if they need a motion? Chairman Gordy Sanders said, everybody was thumbs up on it, so we're good to go.

**b. DNRC Data Components, Bonnie Hamilton, Management Analyst, DOR**

Chairman Gordy Sanders called on Bonnie Hamilton as she was next up on the agenda to discuss what was included in the DNRC data. Bonnie Hamilton said, the committee had questions about what were included in the forest costs the department gets from the DNRC and specifically were the environmental study and analysis costs included? Bonnie Hamilton said, she went back and looked in our current manual and upcoming manual and it does list that the forest costs include fire assessment fees, severance tax, slash disposal, those are separate components that we add in to it, and then Forest management, timber sales which is the cost for getting those sales out, the forest practices and administration. Bonnie Hamilton said, she talked with Rebecca Phillips, Budget Analyst from the DNRC, she's not the one that put those costs together, the person that did has retired. Rebecca went through it and said, personnel services for the programs, all operating expenses for the forest improvement cost, which includes any and all charges for the regrowth of the forest and does include environmental studies and analysis costs. Chairman Gordy Sanders thanked Bonnie Hamilton and asked if she had anything additional? Bonnie Hamilton said, that is all I have.

Chairman Gordy Sanders then asked if there were any questions from the committee? Paul McKenzie said, if you remember from Dr. Jackson's presentation, he said he added the forest improvement fees to the stumpage value, so I guess I'm trying to think through this. Bonnie mentioned that the cost of forest regeneration and improvement were included in the cost side of things, which makes sense that they're offsetting each other there. It would be something to dig into a little bit to understand it, it's a little unclear to me as how the costs can vary so much by region given what was discussed being in them because they should be similar I would think, region to region based on those items. Chairman Gordy

Sanders asked, any other comments or questions? Chairman Gordy Sanders said, I think what is true is there are probably significant differences in the degree of environmental analysis when you look at the eastern zone versus the northwest zone, I think it's, I'm certain their personnel cost some of that, it the cost of preparing the timber sale, certainly is significantly more than what you'd realize with a private forest land owner.

Chairman Gordy Sanders asked if there were any other comments or questions? Senator Pat Flowers said he had a question, he said he was pondering the same question related to the environmental review costs given that that isn't a requirement on private lands or nonindustrial private lands, is that then an overstatement? This is maybe a question for you (Chairman Gordy Sanders) or Paul. In fairness, is that an overstatement of the costs you incur on nonindustrial private forest lands or industrial forest lands, recognize that you go through your own analysis, and in some cases for now industrial private landowners are hiring a consultant to do that for them. Do you think those costs are similar enough that the DNRC costs are a fair measure of forest management cost on nonindustrial and industrial private forest lands? Chairman Gordy Sanders said, great question Senator Flowers. So Paul, do you want to take a crack at the answer first? Paul McKenzie said, it's a hard one to answer Senator Flowers, it's just not an apples to apples comparison between what private landowners have to do. You know, quite honestly you could make a pretty good case that the costs should be significantly higher, if you look at the costs of regeneration all that stuff is supposedly included in that, for the northwest zone that is \$14 an acre per year. I'm just trying to think through the whole thing, you accumulate costs and pay them when you do a harvest, it would take a bit of an analysis, but that's one of the things to ask to look at that to do an analysis what does that cumulative cost look like and how does that really compare to what private landowners do. It's certainly not apples to apples I wouldn't think. Chairman Gordy Sanders said, he would respond the same way, there's enough of a difference down the road there needs to be a little more dialog and certainly we would have had this conversation if we had in convened some time ago.

Chairman Gordy Sanders asked if there were any other questions from the committee? Senator Pat Flowers said he had a follow up question, and he appreciated that answers. Senator Pat Flowers said, he was struck in the last meeting we had with Dr. Jackson about the other reality that the landowner incentives or objectives for how they manage their land certainly vary between industrial and nonindustrial, state, federal, and with that kind of the income that you can kind of expect off that land changes, so for example if a nonindustrial private forest land owner wants to take a pretty conservative approach and maintain a different aesthetic on his or her property, they'll probably realize less net revenue. Senator Pat Flowers went on, so the question I have is whether it's appropriate that we tax all landowners based on a more aggressive so to speak, approach to forest management that might be representative of trust lands or industrial lands, and if so it seems like it's a penalty then to nonindustrial private landowners if they choose to take a slightly less aggressive management approach maintain higher stocking and make those kinds of choices, so I'd like your kind of, Gordy again you and Paul you in particular, or anybody else on the committee if you want to weigh in on that. Chairman Gordy Sanders said he appreciates Senator Pat Flowers's question and thinks his perception is right on. Chairman Gordy Sanders went on to say, I think having dealt with lots of different private forest landowners we have multiple objectives, a lot of those, one of the highest priorities I guess is for example wildlife habitat, insect and disease which kind of drives them to do something with their property and certainly aesthetics are a good option, you take a look at their highest priorities nowadays are return or income from their forest management treatment. It's always one of those that they're looking for but it's never going to be their highest priority, so your comment about, does that really look like a penalty may very well be true. Chairman Gordy Sanders asked Paul McKenzie if he wanted to weigh in. Paul McKenzie said

sure Chairman Sanders, this is a difficult thing to wrap your head around a little bit, so we're dealing with a productivity tax, so we're looking at what's the capacity of the land to produce a product, kind of irregardless of what individual landowner's objectives might be. So, when you look at it from a production standpoint in the classifications of productivity per acre, I think the assumptions made in that model really have to go back to what's the ability of the dirt to produce volume. I think that part of the equation is relatively set, and I don't think we want to mess with productivity because based on different objectives I think that's fairly well established in the Legislature that establishes the taxation system. I think where your comments do play into consideration comes on the cost side of things, so when you start looking at the revenue that can be generated from those, that income, the maximum productivity we have to account for the extra costs that come along with private land management that might be different from straight comparisons between the DNRC values that come out of that and the straight comparison without any adjustments to the private lands because I think there are some major differences there between what the state agency is able to accomplish versus what a private landowner is accomplishing. So, it comes back to this question of valuation, the stumpage valuation, establishment of costs that translates into a per acre revenue. I think that's if we can have a chance to talk about that a little bit we can ask some questions there, I don't know if we'll have a lot of answers, but I think that's where we need to consider the differences between private land management and public land management that we're currently using to establish stumpage values, that's just my perception. Chairman Gordy Sanders thanked Paul McKenzie and asked the other committee members if they wanted to add anything, none had anything to add.

Chairman Gordy Sanders said he had Bonnie send out a few slides for folks to kind of broaden the perspective and discussion around valuation and what that means. Obviously, all of us, this is all kind of new to be engaged in this, Paul is probably the most seasoned. He asked Paul McKenzie to walk through the slides he did up for this meeting. Paul McKenzie said he would be glad to share the slides on his screen if he had the capacity to do so. Chairman Gordy Sanders asked Bonnie Hamilton if she could set Paul McKenzie up so he could share his screen. Bonnie Hamilton said, I just gave him the opportunity to be a co-host and share his screen, which he did. Paul McKenzie said, the context of this information is to fill out the discussion. We had a good opportunity to hear Dr. Jackson at our last meeting explain the process he went through to establish the stumpage values we've all seen proposed. He explained that the Legislature directs the department to use the DNRC Trust Lands timber sales data set as part of the valuation process or the basis for it, which Dr. Jackson did and I think he did a good job of reflecting what that data set provided for information. I think the question I wanted to pose to the committee today and provide some information on is the concept of transferability. Is it appropriate to take the state data set and directly transfer that to the rest of the private lands in Montana as a one to one proxy for valuation on these private lands? Gordy and I both do this on a regular basis, we do a lot of appraisals to figure out the value of timber is on lands that we might be working with private landowners on, it might be an agency timber sale we might have to prepare a bid for to acquire the timber off of, or it might be a property we are looking to acquire. When we do that, we look at it a couple different ways, obviously transactional evidence is an important part of it, and that is what Dr. Jackson did with his review of the DNRC timber sale data. At the same point in time we also often do what we call a residual value appraisal, just to kind of get to that sniff test. Does it make sense? Do the numbers that we get out of one appraisal really make sense and be reflective of what the value of this timber is? One of the drivers for the value of timber is, well there's two major drivers, you can make an argument that lumber value is a major driver of the value of timber at some level, once again it's not a direct correlation but certainly the value of the log delivered to the buyer of those logs, which in Montana is generally sawmills, is another good indication of what the value of the stumpage value of

that timber is. So, I just want to provide some information here that's publicly available, it's kind of the sniff test portion of looking at the valuation process.

Paul McKenzie started his slide presentation. This first slide is from the University of Montana (UM), Bureau of Business and Economic Research (BBER). They track delivered log values in Montana, they send out quarterly surveys to all the log purchasers in the state of Montana and then they collect that data and make it publicly available. The gray line on this chart reflects those log values as reported to UM, BBER, all I'm trying to show here, and then the red line is the lumber index, it's a very broad based lumber index, it's what the value of lumber is across the nation on any given quarter. All we're trying to show here is there is a little bit of a disconnect between the log values and lumber values in Montana especially seen in that period from 2005 to 2009 there was a serious lag where we saw a pretty dramatic drop in lumber values but it took a while for log values to drop to a corresponding level. There's just a lot of factors that go into the valuation of logs in the state of Montana and you see that trend throughout the process, there tends to be a lag between what lumber markets do and what log values do, and log values aren't quite as volatile I guess you would say as the lumber markets in that same period of time. That's what this first slide shows, I'm going to move on to the next one. And this is basically the same information on a little smaller timeframe, and so this is a period of time we're looking at for our appraisal, it's 2010 through 2019. The colored lines at the top are just various lumber indexes. The top one is an Inland Lumber Index, the next one down is the Western Wood Products Association Douglas Fir and Larch Average Annual Index and that's probably the most similar to the products we produce here in Montana, and then the last one is the General Framing Lumber Index. So, it shows a pretty consistent trend there, they all track each other fairly closely as far as highs and lows, and then the gray bars beneath are the delivered log values for that same period of time. Then you can see they track the same general trend, in 2017 and 18 you didn't see as great a response to the lumber values but like was in 2019 where it dropped off quite a bit, those log values kind of stayed fairly similar, so this kind of establishes that baseline that there is a correlation between lumber values and log values in the state of Montana, and that's really what drives the value of stumpage to a private landowner, this is the market they're able to sell their products in to.

Paul McKenzie asked if there were any questions on those two slides? There were no questions.

Paul McKenzie started his third slide. Paul McKenzie said, so, this next slide here just kind of goes through this concept of Residual Value Appraisals, what this is, is if you were a landowner and you were planning a timber sale, what you would be looking for is the stumpage value, or what the net value, what the payment to you is going to be after other costs are removed from that. So, the way that this actually works is take your delivered log value, what you can expect to receive from your purchaser at the sawmill, then you have to start backing out your costs, so obviously you have your logging costs, the cost of cutting the trees, processing them, turning them into logs, then you have your transportation cost, those are just the very basic drivers of what the cost side of that equation looks like. What this graph shows is an estimation of what that looks like, the blue lines are the delivered log values, the orange line is just a real generalized average log and haul cost for the state of Montana and this once again comes from information that's collected by the BBER, it's publicly available online, it's kind of the average logging costs for, I just used kind of the low-end so it's all ground based logging, relatively short skids, kind of the low-end of what you would see on the logging costs thing and then likewise I added a haul rate on it, once again based on the BBER numbers of just a 30 mile haul, and there's a lot of places in Montana where the haul to your market is way longer than 30 miles and as you can imagine the cost increases exponentially the farther away from the market that you get. What this shows is just that, you take the costs and your delivered value and you literally just subtract the two and it gives you an idea of

what a residual value or stumpage value to the landowner might look like, and that's what this red line shows. As you can see for the 2010 through 2019 period you see residual values ranging from, and this is statewide and it's not broken out by regions or anything like that so it's just more to look at trends than to make direct comparisons to but it ranges from \$71 to \$140 with a high of \$216 per thousand board feet in 2014. That's just another way of looking at valuation, once again looking at the sniff test. Paul McKenzie asked if anyone had any questions on this process? Senator Pat Flowers asked, are these numbers adjusted for inflation? Are these real dollars? Or are they nominal? Paul McKenzie replied, they're not adjusted for inflation, they're the logging costs was available every two years so that went up a little bit in two year increments, and the hauling costs is just a flat rate based off of I think a 2018 number, so there is no inflation adjustment here, likewise they're real numbers on the delivered log values as well. We don't normally see inflation affecting either lumber or log values quite honestly it seems to be kind of independent of inflation, whereas our cost side certainly are affected by that. Senator Pat Flowers said, that's what I was observing the costs, let's see the yellow line is, I don't see the index is off of here, so I don't know what the yellow or kind of orangish line is what? Paul McKenzie said, that's the log and haul cost, those are the costs getting it to the market. Senator Pat Flowers said, okay. Those costs are kind of strikingly flat. What's the explanation for that, because with just the gas prices, you would think that would vary some? Paul McKenzie answered, well that's just the reality of the market we live in in Montana quite honestly, we don't see a lot of fluctuation in either the value or the cost side, that's driven by inflation. Senator Pat Flowers said, okay, thank you. Paul McKenzie said, with that I'm going to move on to his next slide if no one has any other comments or questions.

Paul McKenzie started his fourth slide. The next slide is just a comparison of the two processes. I apologize I don't know how to make this, let me see if I can make this a little bit smaller so you can see this all at once. There, how's that, can you see the whole graph on your screen at one time? Everyone with cameras on nodded yes. Paul McKenzie continued; this is just a comparison of the numbers that were provided through Dr. Jackson's model those are the four lines, the orange line, the blue line, the gray line, and then the yellow line is by the four different regions in the state of Montana, the red line is the same residual value appraisal that came from the previous slide. You can see from the period 2010 through 2013, while they didn't line up exactly it's a relatively reasonable comparison of values for that period of time. Then between 2013, 2014, and 2015 something happened and I don't know what that is with respect to the model, but there is a very significant increases in the proposed stumpage values in that period of time, at least from my review of the data really aren't backed up by a similar response in either log or lumber value markets. So, it's just a question. What happened there and why is the model showing such different responses between what we're seeing in the residual value version versus what the DNRC data set is showing Dr. Jackson? I just wanted to show that difference there and ask that question. I don't know what the answer is. But what happened there in that period of time that caused a very dramatic change in valuation between the two different valuation methods? Representative Marilyn Marler said I have a quick question about this, it's a little hard to read the numbers on each of the lines in the y-axis. Is it the y-axis here? Paul McKenzie answered, sure, yes. Representative Marilyn Marler continued what is the, I mean can you just explain the magnitude of this, I mean I see that it's like three times more, but is that? Paul McKenzie said, sure. Can you see my cursor? I don't know if it shows on your screen. Representative Marilyn Marler nodded her head yes. Paul McKenzie said, so if we go to 2013 residual value appraisal is at \$170, the central stumpage value is at \$182, northwest and southwest are essentially at \$240 and \$250. And then if we go to 2014 residual value's at \$216, central goes to \$344, then \$361 for northwest, and \$407 for southwest. In 2015 it drops down to \$177 residual value, this stays at \$337, \$355 and \$400. 2016 drops to \$140, it dropped to \$315, \$332 and \$378, so about a \$200 difference per thousand board feet in this range in here, just to give you some context there. This next slide might help demonstrate that a little bit as well. Bonnie Hamilton told Paul

McKenzie she had a question for him. On the slide you're just at, you have the four different ones for the DOR zones. Are you using just the yearly values that we put into the formula? The reason I ask that is because when we get to the start of a reappraisal cycle it should be, for the actual values that we're using on that would be straight across because we set that value for six years. I was a little confused there. Paul McKenzie said, you're right, so the average is what you're looking at for that entire ten year period, but that average is a reflection of the year by year data so at this point in time we're looking at the year by year Bonnie, and then obviously your data shows the average numbers we can look at as well. Bonnie Hamilton said, okay, that was my confusion, thank you. Senator Pat Flowers asked Paul McKenzie if he could ask a follow up question, Paul McKenzie said, yes. Senator Pat Flowers asked, could you describe in a little more detail the database you used to come up with the red line, your estimate of the residual value. What's the cost basis and what's the revenue basis that nets that amount? Paul McKenzie said, I'll go back to that slide right here. So, this is the basis for the red lines, the red lines in this graph are the same as the red line in the next graph Senator Flowers. The blue lines are the average delivered log values in the state of Montana as reported by the Bureau of Business and Economic Research. Senator Pat Flowers said, okay. Paul McKenzie continued, the orange line is my estimation of what an average logging and hauling rate would be, but it's based off of the data, some survey data the Bureau provides on average logging rates and average hauling rates in the state of Montana. So, the assumptions behind this is that we use the lowest logging rate which is essentially ground based systems with short skids and a haul distance of only 30 miles, so relatively close to the market. I was purposefully trying to give this estimate on the low side, so I didn't overinflate the costs. Obviously, there's a lot of process that we could go through here to try to make this more specific but I'm just trying to illustrate some alternative questions to ask that the committee might want to consider going ahead as we review different types of valuation processes out there. Senator Pat Flowers asked, do you know what landownership drives these cost estimates or these stumpage values? Paul McKenzie responded, the delivered log values that are reported by the mills are irrespective of landowner, so these are open market values, so if you were to call up Gordy's mill, or my mill, or Thompson River Lumber, this is an estimation of a range you might get quoted for a value delivered there. Likewise, on the logging and hauling side that's irrespective of landowner type too, that's a survey that just asks logging contractors, given these parameters what's your average logging rate going to be for this type of harvest volume? It's across all landowner types. Senator Pat Flowers said, thank you. I guess what I was getting at, do you know based on what you know about the market, what's driving those costs? Is it mostly on industrial lands? Is it mostly on nonindustrial lands? Is there a percentage breakdown? I'm just trying to figure out for myself also why this difference is there and it's because it doesn't add up. Paul McKenzie said, Yeah. I would say that the cost side of things is reflective of the distribution of timber harvest across the state, so if you were to look at that, I don't know, Gordy you might know the numbers better offhand than I do, but you're probably looking at 20 to 30 percent of the volume is off of federal lands, four or five percent is off of school trust lands and the balance is going to be off of private lands. Once again, it's irrespective of landownership, what logging contractors are seeing as their cost basis across their scope of work. Chairman Gordy Sanders added, If I can add notes, landownership plus distance through existing mills because right now there's seven different locations you can haul logs to, also they're about 100 miles apart, so that makes a big difference in terms of cost. It's like what Paul did here, coming up with the log and haul cost here, you're taking the average to kind of paint a picture of what the difference is to come up with a residual value based on what we realized for the delivered log scenarios. My answer, Northwest Management, which is a consulting firm, they do a survey just like the Bureau of Business Research on delivered log cost, and it very much parallels what the Bureau brings in every quarter. GCS asked, do you have any further questions? Senator Pat Flowers responded, Gordy I'm sorry to ask so many questions but I'm trying to make sense out of this. So, I assume your mill was during that period from 14 to 19, you were bidding on some state sales, so obviously there were some kind of a

premium on state sales during that period compared to other ownerships because Dr. Jackson's estimates are based on their actual sales for those periods by region. Do you have an explanation for why the premium? Why those values seem to be so much higher than what the residual value would describe? Chairman Gordy Sanders's said, one of the, you know there's probably, it's pretty complicated, no alternatives not to fairness certainly. What we've seen over the last 10 years is an increase number of logging contractors that are actively bidding on state timber sales. So, a lot of that came from a lack of opportunity to harvest any on industrial private. The crazy thing competitors in the market place previously, you know some of us did not realize, they certainly they own their own equipment, they own their logging equipment, their own trucking. As far as the landowners, I think with DNRC we'll be seeing all of the last, even though Dave Jackson mentioned it, that you look at species, because you had a question Pat previously about if you looked at the different species and he said, I did and that he hadn't seen any cedar, but the reality is there were probably eight different sales during the period that had a high volume of cedar including the one that he referenced in September of this year. That certainly does influence what bidders do. I know we acquired some of those sales and a lot of other competitors winded up with other ones. Chairman Gordy Sanders asked Paul McKenzie if he wanted to add anything additionally to that? Paul McKenzie said, just a couple things you know, yeah I think those are questions we have to ask because what we see in the dynamics of these bids Senator Flowers is that you'll see a tremendous range on the same timber sales as far as the bid and sometimes that can be twice as much, so we have bidders that are, let's take some round numbers there at \$20 a ton and you have a bidder at \$40 a ton and so you may have eight or nine bidders on these sales, so you're seeing these tremendous ranges there. I think that just shows some other factors that are affecting the value in not necessarily you know just, this is hard, it's hard. Once again, I think that the DNR dataset is probably the best of what we had to work with. The question is, is it directly transferrable to private lands? You know, and I think that's the questions we want to explore. For example, there were I think 17 sales that Dr. Jackson did not include in his dataset, where I think you could make a pretty strong argument that if you're a landowner, you might have a fire salvage sale, you might have a blowdown sale, you might have a small volume sale and that those sales should be included in the dataset as well because that's reflective of the average value of what you could recover. I guess that's a question that I have, when you look at this graph here, you'll see this tremendous premium that's up there. I don't doubt that there's good statistical data to back up these numbers that show up here, but let me go to this next graph here because, for example, I don't have, there's on graph that I have in here that I didn't share with you, but if you look in 2014 the average delivered log value was \$407 per thousand feet and that's delivered to the mill. If you go back to 2014 for the southwest land office the average stumpage value that's being projected is \$407. So, that just doesn't make sense, right? You can't have a delivered, you can't have a stumpage value that the landowner received that's equal to what the logs are worth delivered to the mill. So, I guess that's the question you have. How do we get this big disparity, especially in this last part of the dataset? That's what I have a hard time justifying is that yeah certainly there was an increase in value from 2012 to 2014, it went from basically \$300 per thousand to \$400 per thousand as far as delivered log values and we saw a jump in stumpage values of a magnitude of \$200 per thousand. So, I guess the question I have, it's kind of like, if the department just had a database on waterfront property to establish residential values and they came up with an average value of waterfront properties and this transferred that straight across to all other lands that are out there. That database on the waterfront property might be good at indicating trends and changes in value, but it may not be directly transferrable to all the different lands out there. There's an adjustment process that needs to take place to make adjustments for the differences between the dataset you have and the actual lands that we're appraising. I guess that's the point more than anything I was trying to make here, is that it appears that that opportunity for adjustments is what we have not had the ability to do or ask questions about, you know in this process, as a committee. So, this last slide that I have here, and we can open it up for

discussion, this shows, these straight lines are just trend values, so it shows the trend value of the log values for the period of 2010 through 2019 and it certainly is an increasing trend but it's relatively flat especially when you compare it to the trend values for the stumpage values that are coming out of the model we're currently being presented with. You see the difference in slope is tremendous and I guess the question I have is why would you see that kind of a difference in trend values for this period of time? It kind of gets back to Bonnie's comment about averaging, this is kind of the averaging that goes into that and I just see a disparity there that I can't explain with respect to the differences in, or the change or trends and what we're being presented with, with the Department of Revenue's stumpage values versus what markets are. I can do the same graph with the lumber values down here and it's almost identical. The lumber values and log values as we demonstrated before are relatively closely correlated and once again, you'll see a major difference in the rate of change, I guess you could say, over this period of time. I guess that's the dataset I was trying to present Gordy. Chairman Gordy Sanders said, thank you Paul, appreciate that. And thinking back to Dr. Jackson's comments he did talk about the new model and the old model, so I don't think any of us know really what that, what changed in the model, in the assumptions, in his regression formula. We're kind of at this awkward position that we've been placed in for the last couple of meetings. Are there any other questions about Paul's information? It was strictly to provide a different way of looking at things. Kory Hofland said, Mr. Chairman, Kory Hofland. Mr. Chairman members of the committee, Paul just a couple of questions on your log and haul costs. What percentage of that total cost is related to the log processing, and what percentage is related to the hauling of the logs? Is it 50/50? Is it 75 percent processing 25 percent hauling? Do you know what goes into those costs? Paul McKenzie answered, you know I have that information I can pull it up real quick here and get that answered. It's probably two thirds logging and one third hauling, just speaking off the cuff but I can get you the actual data. Kory Hofland said, okay, no problem. Kory Hofland continued, and then on the hauling would the number one cost of the hauling be related to diesel fuel cost? Paul McKenzie said, it's interesting you know, if you were to look at that BBER study diesel fuel cost has an impact but it's not one to one so, this is based off of \$1.80 a gallon diesel fuel these costs are so it's the very low end of the market and obviously they had ranges that went up to \$3.60 a gallon and there's some other information there you can look at so, that's certainly a driver, it not a one to one though. Kory Hofland replied, okay, and then on the slide where you were showing the revenues from the delivered log sales at the mill and you said that that was an average. Is that an average of the entire state? Is that an average of only western Montana? What's that an average of Paul? Paul McKenzie replied, that's an average of all the respondents to the survey, which I think they get, but you would have to ask BBER that but I would imagine, Gordy maybe you know, but I think they get a 100 percent response from at least the larger mills in the state of Montana so that would be from seven primary purchasers. Chairman Gordy Sanders said, they do, they get a response from everyone, all the mills need to know the market. Kory Hofland said, okay, and then one of Dr. Jackson's worries was the verifiability of these sales and the data that goes into that from the mills. Is that audited or confirmed in any way when they compile that into an average? Paul, do you know? Paul McKenzie replied, Dr. Jackson is correct, it's self-reported data without a doubt. I was talking with some of the gentlemen at the BBER and they said well, data is data, you know it's the best of what they have. So, it's not exact and I'm not trying to present it as such, there are some other log surveys out there that are done by private companies you could use to verify it. I would say these numbers are probably pretty reflective of what the values are at least from a trend standpoint. Kory Hofland said, excellent thank you you guys I appreciate it. Chairman Gordy Sanders asked, any other questions? With no other questions Chairman Gordy Sanders said, thank you Paul, appreciate that. I know it doesn't add a lot of clarity to things, but you know, we're here to have some conversations to see if we can come up with some kind of recommendations going forward.

**c. Time Line, Bonnie Hamilton, Management Analyst, DOR**

Chairman Gordy Sanders said, so, time line, Bonnie. You're on mute. Bonnie Hamilton said, just a second, I was trying to pull that up so I could look at it. Okay, come up, there we go. So, I'm sharing my screen, the committee had asked for me to give a comparison of what the dates were that we, our target dates for the different tasks that I had given you on our list last meeting and when we actually completed them. Representative Marilyn Marler asked, Bonnie can you make that bigger? Can you zoom in a little on that? Thanks. Bonnie Hamilton said, I will give it my best shot here. Bill Billman came on and said, hey Bonnie if you maybe push control, hold control and then roll up with your wheel on your mouse. Bonnie Hamilton said, ah ha, gotcha, that maybe was a bit too much. Bonnie Hamilton then asked, alright does that work for you Representative Marler? Representative Marilyn Marler nodded her head yes. Bonnie Hamilton said, okay. So, what I did here is I put the tasks in here, the schedule date our target date for those and then what date we actually completed those. I highlighted the cells the for the ones that were late which if you notice both of those two, are the for, have to do with this committee, again the scheduled date for this committee to be up and running was in September of 2018 and we were contacting the Governor's office for appointments etcetera at that time. However, the last of these appointments for the committee that we have was in November 9, and again we still have one committee member that was never appointed. The forest advisory committee meetings then as a result, because we didn't have a committee before that time, is also quite a bit behind. Normally you would as a committee have been done with your meetings in June of 2020, would have been your last meeting. Typically, we've had like three meetings coming forward and the first one was just generally a learning meeting, a meeting to bring you up to speed, so that has been behind. The bulk of what we've done, because we had to just move forward we were behind on that, you notice is in white, we were on our deadlines, and then I at the bottom have some in green because we haven't gotten to those dates yet and so we expect those to meet their target with the reappraisal beginning on the first of January. Doing our uploads of our productivities which is in conjunction with the agricultural uploads that we do, and then assessment notices going out and those mail out, depending on the type of property from April through the end of May. Bonnie Hamilton asked, any questions? Chairman Gordy Sanders asked, any questions from the committee? There were no questions. Chairman Gordy Sanders said, thank you Bonnie.

**d. Committee appointment protocol, Director's memo, Kory Hofland, Administrator, PAD**

Chairman Gordy Sanders moved on to the next agenda item and said, so, Kory committee appointment protocol and Director's memo. Kory Hofland said, you bet, Mr. Chairman, members of the committee, at the last meeting you had asked if the department could provide an opinion of what we could do to make sure that we stay on track a little better. I worked with the current director, Gene Walborn, he put together the memo we shared with you. There is a person who's appointed under the Governor's office who handles all appointments whether they're Governor appointments or Legislative appointments she works with the Legislature to also work with those. What we propose doing is again beginning this process, forest land is one of the only classes of property that's still on a six-year reappraisal cycle and not a two-year reappraisal cycle. So, we suggest getting the appointments in and approved in the second to the last year of the six-year cycle which would be no later June 30, 2024, which would give the committee two years to be able to meet, ask questions, review analysis. I don't think it'll be Dr. Jackson next year by the sounds of it, or at the next cycle, but it will be again someone from the UM that will be doing the analysis. And again, that's the Director's suggestions. We also utilize key date calendars throughout the Department of Revenue. Even in the transition period there's transition documents that are being put together now for the new administration coming in, and those key date calendars are part

of that transition planning and we do have these dates included in the key date calendars, and as part of our transition plan. And again, the Director wanted to thank you all for your great work and service on the Forest Lands Taxation Advisory Committee. And Mr. Chairman, members of the committee, that's all I had on that. Chairman Gordy Sanders said, thank you Kory. Any questions for Kory? There were no questions.

**e. Committee Comment Deadline, Kory Hofland, Administrator, PAD**

Chairman Gordy Sanders said, okay, committee comment deadline, Kory. Kory Hofland responded, Yes Mr. Chairman, members of the committee, you had asked how much time and we had recommended the comments from the committee to the department be made by December 31, 2020, to give the department time to be able to respond to the comments, make changes, and still get our values loaded into our computer system that allows us to get assessment notices out to the forestland taxpayers in the spring of 2021. We would be able to extend that period but we really can't go much past January 15, 2021, and still be able to meet our deadlines and get assessments out in the spring so, the department would be willing to take comments up until January 15, 2021, from the committee. Chairman Gordy Sanders said, okay thank you. Any comments from the committee? Questions? There were no comments or questions. Chairman Gordy Sanders said, okay, well thanks for that clarification and your willingness to kind of stretch a little bit. Kory Hofland responded, you bet.

**V. Committee Discussion**

Chairman Gordy Sanders went on to the next part of the agenda and said, so, committee discussion. So, where are folks at? What are we thinking at this point? In light of all that we've heard in a very very short time obviously we should have been convened a couple years ago and that's not true so, we're here and we have lots of questions. So, any comments from folks?

Kory Hofland spoke up, Mr. Chairman, if I could, Kory Hofland with the Department of Revenue real quick. I do believe and Bonnie, or Dan Nelson, or Bill correct me if I'm wrong. I do believe we do have some money left in Dr. Jackson's contract, we had him for possibly two meetings and so I think if there are follow-up questions that you have for Dr. Jackson I think we have money in his contract to be able to bring him back for one more meeting if you needed to. Chairman Gordy Sanders said, thank you.

Chairman Gordy Sanders said, So, (inaudible), Senator Flowers you've been asked the question. Senator Pat Flowers said, thank you Mr. Chair, you know Paul did a very nice job of describing what he sees as a discrepancy or an anomaly is maybe a better way to put it. And, I guess my feeling is whatever we land on here as a valuation needs to be accurate and fair. Right now given what Paul laid out I can't explain either why there are the differences there are, and I think as a committee we should I guess take the opportunity over the next few weeks to get an explanation on why that is the case in order to determine whether the values that come out of the DNRC database that Dr. Jackson's using are really reflective of actual stumpage values that private landowners should be taxed on, so to speak. So, that's what I'd like to do over the next few weeks and reconcile in a way that we can comment on that one way or the other as a committee. Chairman Gordy Sanders said, thank you Senator Flowers.

Chairman Gordy Sanders then asked, Representative Marler, do you have any comments or questions? What are you thinking? Representative Marilyn Marler responded, I agree with Senator Flowers, and I appreciate Mr. McKenzie bringing that perspective to the committee. It is hard because we are on a

crunch timeline, but we want to be fair and do a good job with this work. Chairman Gordy Sanders replied, that's right, that we do.

Chairman Gordy Sanders asked, So Andy, what do you think from a County Commissioner perspective? Andy Hunthausen replied, thank you Mr. Chair, just a couple of thoughts, again we do have that timeline, so I guess two questions. One is for maybe Kory can answer this. What we have to do right now, we are an advisory committee, so you know if we as has been pointed out, if there are discrepancies or anomalies that we want to have addressed I think we just need to make that into a recommendation and move forward. And maybe Paul, a question to Paul is, the information that you presented today. How would we translate that into a recommendation to the department for future study or possible changes? I think that's what we really need to get to, I'm looking at this from a practical perspective. Whatever we feel is off, or needs to be addressed, or whatever we need to put that into a recommendation and move this down the road. I think the law points out pretty clearly what they have to base the valuation on and all of that, using the UM and all of that. And though we'd like to draw in some of these private sales, as Dr. Jackson pointed out, we don't know what those are exactly, so they have to use DNRC numbers. From one perspective, you know it's pretty laid out what has to be relied upon and we need to move that forward but there's obviously questions and maybe this whole process could be done better, and I think we need to formulate that into recommendations and pass it on back to the department, and the new administration, and the Legislature to try and address those questions that we've brought up, or recommendations. So, I'll leave it at that. Thank you, Mr. Chair. Chairman Gordy Sanders said, thank you Andy. So, Paul. Paul McKenzie stated, yeah, we're in a tough spot here, you know I appreciate your comments Andy that really looking ahead, I think that question's easier. How do we not end up in this position in the future? I think it just really ties into, that's really what this committee is intended to do, is to provide input on the process of the valuation. It's just really hard to do that where we're at in this timeline right now. I wasn't trying to say that my numbers are any better, or is the right number compared to Dr. Jackson's number. I just see there's something going on there, that if we'd have had this discussion back in 2019, I think we could have worked through it inside the scope of Dr. Jackson's analysis and probably come up with a valuation we all felt comfortable with. I don't feel comfortable with the numbers that we have right now and I'm a little bit at a loss as far as how we address this going ahead in the short term for this valuation cycle, because I don't know that we can fix it, so to speak at this point in time, in a way that's fair and accurate. I just think we don't have the time that's going to be required to do that is more than what we have as a committee to do so. I would be interested to hear some feedback from the department on what kind of a scope of comments that they could accept from us. And certainly, moving ahead I think just the ability to look at the process, have some feedback, and ask questions along the way is going to make a product that we all feel more comfortable with. Chairman Gordy Sanders said, thank you Paul.

Chairman Gordy Sanders asked, Randy, did you want to share any comments? Randy Mannix said, Well Mr. Chairman, I guess I'm having a hard time connecting the dots on using the information from the data on stumpage values and logging cost and how it applied to our taxable value per acre of our forestland. Chairman Gordy Sanders replied, thank you.

Chairman Gordy Sanders said, so, maybe the department wants to weigh in a little bit on this question about the scope. What's the range of recommendations we can provide? Appreciate Andy's comment about looking forward, provide recommendations that may make the next process smoother and certainly in a more timely way. And is it possible for, you know we could come up I, tell me if I'm wrong, we can come up with recommendations you know down the road whoever does the appraisal should use both transaction evidence, and residual value appraisal. So, it's kind of a bellwether to see how

things look. And maybe secondly, can we provide a recommendation to the department to get them where we are and how we got significant differences that none of us can squarely land on and fully understand it. There's certainly more questions than answers. Can we recommend going forward with a revenue neutral approach? Kory Hofland answered, yeah, Mr. Chairman, members of the committee, I don't, I think there's no limit to the recommendations you can make, you know furthermore all of these minutes that we're capturing are put into the record, we carry these forward, you got to see the minutes from previous tax advisory meetings. So yeah, I don't think there's any limit to what you can comment. You can comment on the current valuation process, any recommendations you have to adjust Dr. Jackson's valuations if you feel it's necessary. Recommendations for future meetings, and maybe what you think should go in to future studies done by the UM. I don't think there's any limits to the comments you can make. The department, the way it works, as it's stated you are an advisory committee. The director will sit down with all the comments they'll go through them, you know he does have a chief legal that's part of his staff. They'll look at the legality of it. Can we legally do this? Can we legally use this information? And at the end of the day the department will either accept all, none, or portions of the comments made by the advisory committee, finalize their stumpage values, and then those will be used for the next six years. There is a phase in under the six-year model for forestland reappraisal so those stumpage values would be phased in over the six years of the appraisal cycle. But no, Mr. Chairman, members of the committee I don't think there's any limitation to the recommendations you can make. I can't guarantee you what recommendations would be acted upon but again I don't think there's any limit to those recommendations. Chairman Gordy Sanders replied, you could have said, well, all of it would be fine. Anyway, thank you Kory.

Chairman Gordy Sanders asked, any other questions or comments from folks on the committee? Or the department? Thanks for the clarification Kory. And thinking about going forward, think the committee needs to probably start drafting some recommendations. Does that make sense to folks? And if it's acceptable to everybody, you know someone could volunteer to actually craft the recommendation, and if you don't volunteer, then I'll certainly just ask one of you to do it. Andy Hunthausen asked, Mr. Chair, question about that as Kory was just speaking. Sounds like the discussion and the questions, which are essentially, they turn into official comments, that's what I'm understanding, Kory, that all the discussion we've had, and the presentation, the questions or possible recommendations for studying how this is done going forward, all that will be taken in to consideration? So, in essence do we need to actually write up recommendations or do our meetings and our discussions act as those recommendations? I know we can make motions or whatever. But, is it necessary to write up some sort of document from the committee? Chairman Gordy Sanders said, good question Andy. Kory Hofland replied, I don't know that the minutes make clear what your recommendations are because there were a lot of discussions going on. But, I think if you wanted to go through the minutes and summarize the points you would like us to consider, I think we could if you would like you know, Paul's analysis of residual values to be considered as stumpage values, things like that. If you could point to the minutes and tell us what you would like us to consider, I think you could do that but, I think just the record and the minutes itself would not probably suffice as recommendations. Chairman Gordy Sanders said, thank you Kory. Any other comments? Bonnie Hamilton said, Mr. Chair, this is Bonnie. Chairman Gordy Sanders replied, go ahead Bonnie. Bonnie Hamilton continued, in the past at the end of the meeting the committee had a section where they talked and we didn't take the entire discussion but, there was recommendations portion of the meeting where someone made so to speak, like a motion, this is my recommendation and the committee voted on it and said, yes, we want this to be a recommendation. And then we just took that section as our recommendations from the committee, rather than having to have them written up separate. But it was a section at the end of the minutes. Kory Hofland said, thanks Bonnie, appreciate that. Andy Hunthausen spoke up, Mr. Chair this is Andy again, I'd recommend that we maybe do that

because I think, if I'm not mistaken, and please help me out Bonnie or Kory, that the ninth is a deadline for the manual. Right? That we have to make recommendations, so today we probably should make some sort of motion that advises or recommends that the department move forward with the current proposed manual and then we add to that whatever recommendations that people can verbalize. I know Paul can probably spout off a whole bunch of them, he's pretty up to date on this kind of stuff, and Senator Flowers had several questions. So, at least recommendations that we can ask the department to look into I think we could probably do that verbally, today. Kory Hofland said, you bet, Mr. Chairman, Commissioner Hunthausen, yeah the thing that we gotta keep straight here is the December 9, deadline is for the public and you as a committee to make recommendations on the Administrative Rule process which includes the publication of the manual. The last time we discussed it nobody thought there wasn't any real big things to change to the manual except maybe adding an addendum to capture the historical information and we've got that. But, your recommendations as an advisory committee to the department you have until January 15, to get those comments to us. So, there's kind of a little difference on the comments that are being made. Andy Hunthausen said, thank you. Sorry for the misunderstanding. Chairman Gordy Sanders thanked Kory and asked if there were any other comments or questions from the committee.

Chairman Gordy Sanders asked, so what do we think about crafting something in writing, so we can kind of see most committee members what we're recommending to the department to take into consideration, and then we can have a follow-up conversation and kind of finalize where we are. I think we don't want to drag our feet too far, too long into January because certainly Senator Flowers and Representative Marler are going to be very very busy, as well as I'm sure the department also. Does that make sense to folks? Are we okay with Paul drafting that? Chairman Gordy Sanders said, thumbs up, everybody good? Okay, thank you Paul, thanks Paul for volunteering. Paul McKenzie replied, I just ask that anybody if you have any specific questions, please forward them to me so I can make sure that I include them in any comments please. Chairman Gordy Sanders said, thank you. Kory Hofland spoke up and said, thanks Paul. And Paul if you have any questions of the department or need any help as you work through that let us know and we would be glad to assist in any way we can. Chairman Gordy Sanders replied, okay, thank you. (inaudible). Okay, any other business for the committee before we take public comment? Andy Hunthausen said, So Mr. Chair this is Andy again. I just want to be clear for my own understanding, I think I am but, I just want to double check. So, Kory, there's no action we have to take today. Is that correct? Kory Hofland responded, correct. There's no action, I mean other than your normal business processes. No. You still have until January 15, to compile your recommendations and decide how you want to do that. Chairman Gordy Sanders said, okay, thank you.

## **VI. Public Comment**

Chairman Gordy Sanders moved on to public comment and called Allen Chrisman. Allen Chrisman said, thank you Mr. Chairman, I'm here today as representative of both the Montana Tree Farm Program and the Montana Forest Owners Association. Our president for MFOA, Deb Foley wasn't able to attend today. I want to thank you for the opportunity to provide comment here and I appreciate that our comments were included in the minutes from the last meeting. First of all, let me express my disappointment, not with this committee, but the disappointment that the committee wasn't engaged in the timely manner that it should have been. I think that's a failure to the private forest landowners in the state of Montana and it's a direct responsibility of Montana state government. Thank you for making sure you lined out a process that hopefully will work better in the future, I really appreciate that. At the last meeting Dr. Jackson acknowledged that the DNRC's sales scale that were used in the valuation did not equate, or were not reflective of small private landowners and antidotally I know my logging costs

are significantly higher on a per thousand basis, you know, selling 100,000 to 200,000 board feet than they are on a DNRC sale that sells 1,000,000 to 3,000,000 board feet or more. I want to thank Paul for that clear assessment, it was staggering to see the differences between the residual value appraisal, you know especially from the midpoint the decade compared with Dr. Jackson's valuations. And to me the information Paul provided fits my understanding intuitively of what's going on for private forest owners across the state, and I think it's spot on. I want to thank Senator Flowers for being aware and concerned about the disproportional impacts by all private forest owners and especially the small nonindustrial private forest owners. And thank Representative Marler for her engagement here too as well. From the standpoint of both Montana Tree Farm and Montana Forest Owners representing over 400 tree farmers in the state of Montana and 166,000 acres and over 100 members of the Montana Forest Owners Association. I would strongly recommend that you adopt the residual value appraisal that Paul engaged in or demonstrated instead of Dr. Jackson's. I realize that you're crammed on time but, I think a conservative approach to this would serve your private forest landowners much better than something that doesn't seem to be easily explained in terms of, especially of the value we see from the middle of the decade. Again, I appreciate the committee recognizing this issue, especially in terms of the short timeframe that you've had to deal with and very consciously trying to make something work that serves the citizens of Montana. So, thanks again for the opportunity to comment, thank you Mr. Chairman. Chairman Gordy Sanders replied, thanks Allen, appreciate it.

Chairman Gordy Sanders called Julia Altemus. Julia Altemus said, good morning, thank you Mr. Chairman, members of the committee, thanks for the opportunity. I really appreciate your attention to this matter and to this issue, I know it's really complicated to figure out forestland values as there's a lot that goes into it. I certainly appreciate the information that Paul has provided, he's always been my go to guy for information. I certainly appreciate Senator Flowers, your questions, and Representative Marler, you're new to this issue and it is, like I said there's a lot of information that goes in both on the cost side and on the, the red side and the black side of the ledger. But it's really important that you get it correct, that we get the valuations correct because private timberland owners will make decisions based on their costs and if the taxable valuation goes up unfairly they'll make different decisions and it will become a springboard in six years from now it will become that springboard as to how you value these timberlands going forward. I know it's incrementally but, by the time you hit that sixth year, it's going to be your springboard going forward. I appreciate all the due diligence the committee is giving this and the attention you're giving this issue because it is really important to the 850,000 acres of industrial private timberland that Montana hosts. They can make different decisions in the future. Again, I want to thank you for your attention, and thank you for the opportunity to comment, and I'll leave it at that, thank you. Chairman Gordy Sanders said, thanks Julia.

The committee received the following written comments.

Committee members:

I am commenting after listening in on the meeting of your committee of November 23, 2020 (The Meeting). These comments reflect my personal opinions, and not the viewpoints of any group of which I may be a member.

While it is undeniable that Forest Parcel valuations are due for a meaningful increase this appraisal cycle, and that it is fortunate for Montana taxpayers that the legislature instituted the rolling 10-year average for the purpose of calculating valuations, it is not at all apparent that the results from the methodology undertaken by the consultants in their report (The Report) should be used in setting the

Forest Parcel rates for the next assessment period. It may be that the work and conclusions of The Report are valid, but its presentation does not offer sufficient evidence to support this conclusion.

This is primarily due to:

1. The questionable utilization of DNRC sale information, and the lack of presentation of the sale data in a format that allows objective assessment of the validity of the database used in the modeling;
2. A lack of contextual information from DNRC relative to its timber base to allow calibration of the reported sale data;
3. The lack of supporting evidence that the average Forest Parcel owner in Montana will achieve the same sawlog price as DNRC and experience the same cost structure;
4. The use of indexes in The Report which are different than the index(es) used by DNRC in its appraisals, at least for certain time periods, with no correlation between the various indexes presented;
5. The reapportionment of counties into zones with different makeup than those used historically for valuation purposes in order to achieve some sort of statistical relevance that may or may not be fair to taxpayers in the zones whose makeup was changed, without any comparison of the data points that were moved in the recalibrated zones, any guarantee that the new zone makeup and sale values therein will endure for even the next valuation cycle, or any presentation of a typical sale profile for a given zone, old or new, that relates to the amount and productivity of State acreage and the likelihood of future State sales;
6. The lack of comparison of valuations utilizing the old distribution of counties to the one proposed in The Report, forcing the committee to accept the results of The Report without understanding the magnitude of incremental valuation changes resulting from the reapportionment. Without further basis for comparison it is possible to speculate that The Report was primarily designed to simply further inflate valuations for multiple assessment zones by reallocating sales locations.

I recommend at a minimum that

1. The committee require the authors of The Report and/or DOR to prepare two proposed 2021 valuations and present same in table form: one using the old distribution of counties and one the new. Presentations of the valuation data by zone should be included for both iterations. Then at least a conscious decision on the effect on valuations resulting from the recalibration of counties and zones can be made, comparing both to the 2015 values;. This will ensure that legislators will understand the magnitude of the tax increases that they will be approving for their constituents to pay;
2. Map the relevant sale data by year to see visually where they lie on the ground;
3. Initiate a review of the DNRC sale processes and data from appraisal to harvest, to assess the validity of using DNRC data as a proxy for private forest owners going forward. Realistically, this timeline would be over the next several years with the goal of having vetted this information and having well supported models derived from a well understood database in place by the next appraisal cycle;
4. Gather additional and comparable cost information, some of which is readily available from other state agencies, to ground truth the DNRC data now used exclusively;
5. Define the “DNRC or State Premium” that was discussed in The Meeting, and which seemed to be a ‘thing’ as far as most of the participants were concerned. If true, this is potentially a double

hit for private forest owners, both as potentially inflated valuations on their forest lands, and as price takers as they sell their timber to buyers who perhaps have overpaid the State and have to make up the difference in log values on private forest harvests.

6. Request DNRC to provide statewide timber characterization materials to the committee to facilitate the assessment of the quality and utility of the current sale data, and predict the likely course of future state timber sales and valuations. This would serve as a guidepost during future valuation cycles.

Finally, it is not entirely clear that reallocating the counties into different zones in arrears, instead of on a point forward basis (as in Congressional reapportionment), would pass legal scrutiny if challenged. Is it possible that forest property was purchased after review of the State's 2015 Forest Valuation handbook with the original distribution of counties/zones and an expectation of sale activity and productivity that would drive said Forest parcel valuation, and thus taxation? If so, the updated valuation as proposed might be a bitter pill to swallow for some.

Thank you for the opportunity to comment.

Bill Wilsey  
Montana Private Forest Landowner  
December 2, 2020

Chairman Gordy Sanders asked, is there anybody else from the public on? (Inaudible), we'll close the public comment period.

## **VII. Adjourn**

Chairman Gordy Sanders said, so, we should probably have a discussion about next meeting. I'm not particularly interested, I wouldn't like to see us push things out right through January 15, even though we have that latitude. So, what's the census of the committee? Obviously, we've got, you know we could do something next week, the week after that is Christmas. Correct? What's the census? Paul McKenzie spoke up and said, Chairman Sanders I would just, to be cognizant of the Legislative schedule, I would recommend that we try and meet again next Monday the 14, if that's possible, and try to get this wrapped up as quickly as we can. Senator Pat Flowers responded, Mr. Chairman, I would agree with that and that works for me. Chairman Gordy Sanders said, thank you. Marilyn, does that work for you? Representative Marilyn Marler replied, I'm available the morning of the 14, for sure. Chairman Gordy Sanders asked, everybody else? Randy? Andy? Andy Hunthausen gave a thumbs up while nodding yes. Randy Mannix said, it works for me. Chairman Gordy Sanders replied, k. So, December 14, 9:00 am. And, we should have a draft recommendation to talk about, and anything else that is on folk's mind. Paul McKenzie said, Chairman Sanders I'll try to get you draft recommendations by the middle of this week so you can share them with the rest of the committee. Chairman Gordy Sanders replied, thank you Paul, appreciate it. Anything else for the good of the order? Did we miss anything Bonnie? Kory Hofland told Bonnie she was muted. Bonnie Hamilton said, there was an email that was forwarded to me that was sent to all the committee members. Do you wish to have that included as part of the public comment to this meeting? Chairman Gordy Sanders said, yes, I think that would be appropriate, we all saw it, it would be appropriate as far as comment. Bonnie Hamilton said, alright. Chairman Gordy Sanders asked, any other questions? All righty, well thank you all appreciate your participation and involvement. We'll march forward and see if we can come to some resolution to, as I've said before, a fairly awkward

situation. Alright, enjoy the rest of your day. Kory Hofland said, thanks for your hard work, appreciate you guys. The meeting was adjourned.