

## Montana Forest Land Tax Advisory Committee

Chairman: Gordy Sanders

Members: Senator Pat Flowers, Representative Marilyn Marler, Commissioner Andy Hunthausen, Randy Mannix, Paul McKenzie

Montana Department of Revenue  
Director Gene Walborn  
PO Box 5805  
Helena, MT 59604-5805

### **RE: Comments from the Forestland Taxation Committee on 2021 Re-valuation cycle:**

Dear Director Walborn,

Please accept the following comments as recommendations from the members of the statutorily established Forestland Taxation Advisory Committee regarding the proposed 2021 valuation of classified forestland as well as recommendations for operation of this committee going ahead.

As you are well aware, the Committee is charged with acting as a resource to the department and provide input on the following issues:

#### **MCA15-44-103 (10)(c)**

*The advisory committee shall:*

- (i) review data required by subsections (2) through (6), (8), and (9), including data on productivity value, stumpage value, wood production, capitalization rate, net income, and agriculture-related income;*
- (ii) recommend to the department any adjustments to data if required by changes in government forest land programs, market conditions, or prevailing forest lands practices;*
- (iii) recommend appropriate base periods and averaging methods to the department;*
- (iv) verify for each forest valuation zone and forest land classification and subclassification under subsection (3) that the income determined in subsection (5) reasonably approximates that which the average Montana forest landowner could have attained; and*
- (v) recommend forest land valuation techniques to the department.*

The committee for the 2021 valuation cycle was first convened on 11/9/2020, leaving only two months to perform the duties outline above. Needless to say, there has not been sufficient time for committee members to become familiar with the duties of the committee, let alone provide for meaningful interaction and input between the committee and Department.

To that end, with the assistance of Department staff, the members of the committee have been working diligently on a compressed timeline to meet our charge. We have held four virtual meetings, and worked individually in the interim to provide the following comments. Public input has been received and the committee has deliberated on a variety of issues.

In the interest of providing a fair and accurate representation of taxable value, we provide comment on the current valuation proposal as well as provide comment for future operation of the committee to ensure the statutory intent is met.

### **2021 Appraisal Cycle Valuation Recommendations:**

- The committee recognizes use of the DNRC Trust Land timber sale data set is dictated in both statute and rule. **However, the committee questions the assumption that the direct, unadjusted adoption of the values generated by the DNRC timber sale program analysis is the appropriate method to set stumpage rates used to establish the productivity value of private classified forestland across the state.** The following issues were raised by the committee and public that call in to question the validity of this assumption and therefore the accuracy and fairness of the stumpage rates proposed to be used by DOR.
  - Difference in economies of scale and elongated contract periods between Trust Land timber sales and private timber transactions may require adjustment in stumpage values.
  - Additional research into the possibility of a “premium” that applies to Trust Land timber sales that may not be applicable to private timber transactions should be considered. Should a discount rate be adopted for private values?
  - Differences in species mix, location, logging systems, transportation costs, infrastructure costs, forest improvement costs etc between Trust Land timber sales and private timber transactions must be considered.
  - Without the opportunity to examine the reasoning for exclusion of certain timber sales from analysis, it appears the failure to include “all” timber sales in the DNRC database may prejudice the values analyzed.
  
- The proposed valuation shows a range of change between 55% decrease and 106% increase in market value by zone between the 2015 and 2021 valuation for an overall increase of 81.72% in market value of forestland. **This scale of increase is not supported by other market value indicators for income from forestland.** The following issues were raised by the committee and public that call in to question the scale of increase in market value.
  - Additional research needs to be done to ensure DNRC values are reflective of what a private landowner could expect to receive in a fair market transaction for stumpage.
  - Use of other regionally available information such as lumber indexes and log value reports needs to be considered as benchmarks when reviewing the accuracy of stumpage value trends.
  - Using publicly available information, a residual value appraisal (gross revenue less associated costs) exercise should be completed for each zone to verify the reasonableness of stumpage values generated by DOR models.
  - Further analysis of the “DNRC Forest Cost” figures by DOR valuation zone is warranted to ensure no adjustments are necessary to reflect differences in costs for private lands.
  
- **Due to the inability of the committee to adequately address the issues raised above, the committee cannot verify the currently proposed stumpage values “reasonably approximates that which the average Montana forest landowner could have attained.”**

- **Given the short timeframe for review and revision of the analysis required to develop more accurate stumpage value estimates for the four appraisal zones, the committee encourages review of alternative adjustments to ensure fair and accurate valuations of forest lands for the 2021 cycle.**
  - Develop a downward adjustment to be used on the DNRC dataset to more accurately value private timber and ensure valuation is reasonable with respect to commodity value of the forest products.
  - OR:
  - Adopt a tax rate that will result in a revenue neutral tax schedule for Class 10 forest land.

#### **Recommendations for future reappraisal cycles.**

- The forest land tax advisory committee members should be appointed 3 years prior to reappraisal and the committee must be convened no less than 2 years prior to the scheduled reappraisal date.
- Committee should meet a minimum of six times prior to re-appraisal covering the following topics:
  - *Initial meeting:* Orientation to forest land productivity appraisal and taxation system.
  - *W/in 2 months:* Review of general factors affecting the valuation of private timberlands. Log and lumber market trends, change in infrastructure and market areas. Discussion of management costs and agricultural income projections.
  - *Upon award of appraisal contract:* Initial meeting with contract appraiser to discuss appraisal methodology, database and informational issues prior to analysis.
  - *Per contract timeline upon initial draft due date:* Review and input on draft appraisal results and discussion of values.
  - *Per contract timeline upon final report due date:* Review stumpage value appraisals. Endorse valuation or request additional analysis if necessary. Review final forest cost and agricultural income data. Review capitalization rate.
  - *Upon DOR timeline:* Review rule change proposals and handbook updates.
  - *Upon DOR timeline:* Review and endorse final appraisal valuations
- Advertise a Request for Proposal to develop stumpage values for future valuation cycles in a timeframe that allows the involvement of the Montana Forest Tax Advisory Committee and issues identified as described above.
- The period of 2015-2019 should be re-appraised using the new methodology to ensure accurate and fair valuations are available for the 10-year average valuation.
- Methodology should be explored to quantify appropriate adjustments from the DNRC Trust Land timber sale data base to accurately reflect the attributes of private timber values.
- Alternative data sets and sources of information with regard to income estimation for private lands should be explored.
- Residual value appraisal methodology should be part of the verification process for future stumpage appraisals.

In closing, thank you for the opportunity to provide comment to the Department on this issue. We appreciate the work of the Department and Dr. Jackson in preparation for the 2021 valuation, and recognize the limitations caused by delayed appointments to the Montana Forest Land Tax Advisory Committee. That said, the legislative intent of establishing a Forest Land Tax Advisory Committee is clear, yet implementation of the committee for the 2021 valuation cycle falls short of the mark of serving as a sounding board and resource for the department.

It is the intent of the members of this committee to aid the Department in fair and accurate valuation of Class 10 forest land and ensure equitable tax treatment for the forest landowners. To quote the legislative intent of the forest land valuation statute, the valuation of forestland should :“ *...encourage landowners of private forest lands to retain and improve their holdings of forest lands, to promote better forest practices, and to encourage the investment of capital in reforestation....*”. The recommendations of this committee need to be fully considered and adopted by the Department to ensure this valuation cycle meets legislative intent. We ask that you provide a written response to these recommendations with a clear indication as to whether you agree or disagree with the recommendations, and how you will adjust your process accordingly.

Sincerely,

Gordy Sanders  
Chairman