

CFTM
Committee on Forest Land Taxation Methodology
Thursday, March 25, 2010
10 AM – 3:30 PM
St. Maries Federal Building
128 S. 7th Street
St. Maries, Idaho 83861
Conference Room

Tom Katsilometes opened the meeting at 10:00 AM welcoming everyone and asking them to introduce themselves.

In attendance:

Name	Representing	E-Mail
Tom Katsilometes	ISTC Commissioner (Chair)	tom.katsilometes@tax.idaho.gov
Steve Fiscus	ISTC County Support	steve.fiscus@tax.idaho.gov
Jim Riley	Intermountain Forest Assoc.	jim@intforest.org
Dan Chadwick	Idaho Assoc. of Counties	dchadwick@idcounties.org
Jerry White	Shoshone County Assessor	jwhite@co.shoshone.id.us
Stan Leach	Clearwater Cty Commissioner	commissioners@clearwatercounty.org
Dave Ryals	Boundary Cty Assessor	dryals@boundarycountyid.org
Jack H. Buell	Benewah Cty Commissioner	jreynolds@Benewahcounty.org
Michael G. McDowell	Kootenai Cty Assessor	mmcdowell@kcgov.us
Mark Benson	Potlatch Corporation	Mark.Benson@potlatchcorp.com
Brad Stinebaugh	Potlatch Corporation	Bradley.stinebaugh@potlatchcorp.com
Don Patterson	Stimson Lumber	dpatterson@Stimsonlumber.com
Kennon McClintock	Forest Capital Partners	kmcclintock@Forestcap.com
Mike Wolcott	Inland Forest Management	inlandforest@imbris.com
Teresa Jeffrey	Benewah County	tjeffrey@benewahcounty.org
Melissa Stewart	Clearwater Cty Assessor	mstewart@clearwatercounty.org
Mike Goodwin	Clearwater Cty Appraiser	mgoodwin@clearwatercounty.org
Patrick Vaughan	Latah County	pvaughan@latah.id.us
Ron Craig	ISTC County Support	rcraig@tax.idaho.gov
Rod Brevig	ISTC County Support	rod.brevig@tax.idaho.gov
Rick Anderson	ISTC County Support	rick.anderson@tax.idaho.gov

Agenda

10:00 AM Welcome and Introductions of Committee Members – Tom Katsilometes, Chair.

10:10 - 10:30 AM

Explain the 2010 Forest Cost Survey and need for CFTM attention. Reference IC 63-1705 (3) (d).

- Steve Fiscus – Division Administrator, Idaho State Tax Commission.

10:30 AM - 12 Noon

Review the proposed changes to Rule 962 and the suggestions of the CFTM. Review IC 63-1705 (3) (b).

- Rod Brevig – Forest Tax Administrator, Idaho State Tax Commission.

12 Noon – 1:00 PM Lunch (Provided by Benewah County)

1:00 - 2:00 PM

Review the Forest Valuation Model developed by the 2004 directives of the CFTM. Reference IC 63-1705 (3) (c). The requirement is that: “The guiding discount rate and the real price appreciation rate for timber products shall remain constant at four percent (4%) and one and one-quarter percent (1.25%) respectively, until January 1, 2012.”

- Rod Brevig – Forest Tax Administrator, Idaho State Tax Commission.

2:00 PM to 3:00 PM

Review CFTM meeting schedule for 2011 to meet the requirement to: (1) extend the dates of application of the current guiding discount rate, (2) revise the valuation guiding discount rate, or (3) rewrite the valuation model to better reflect the economic conditions currently being experienced by forestland owners.

3:00 – 3:30 PM

Meeting conclusion and determine the date for the next CFTM meeting.

- Tom Katsilometes –ISTC Commissioner and CFTM Chair.

The Committee on Forestland Taxation Methodologies.

- (1) The CFTM membership:

- a. A nonvoting chairman from ISTC. (Tom Katsilometes)
- b. Four (4) members of the Intermountain Forest Association. The CFTM committee members: Mark Benson (Potlatch), Kennon McClintock (Forest Capital), Don Patterson (Stimson Lumber) and Brett Bennett (Bennett Lumber Products).
- c. One (1) member from IFOA. Mike Wolcott.
- d. Five (5) members from the IAC. Jerry White (Shoshone County), Mike McDowell (Kootenai County), Dave Ryals (Boundary County), Stan Leach (Clearwater County) and Jack Buell (Benewah County).
- e. Nonvoting member from the state superintendent of public instruction. (John Ikom)

Discussion

Steve Fiscus went over some information on the Forest Management Cost Study process and why the 2010 study is coming up for discussion today. There was no appropriation from the Idaho Legislature to conduct a study in 2010. The 2005 study was not used by the CFTM as the results were not satisfactory and the PPI indexed forest management costs were more acceptable to the CFTM committee.

Mark Benson asked for additional background. What were the cost allowances that were negotiated by the CFTM and how have they changed since then. Mark stated: "If we're being asked to make a decision on the 2010 Forest Management Cost Study we need to know what the figures are".

Rod Brevig provided additional history concerning the forest management costs including several handouts that included the Excel summary page with the 2010 valuation calculations. The CFTM negotiated Forest Management Cost "custodial cost" allowance negotiated in 2004 for use in the 2005 valuation calculation were for FVZ 1 \$11.88/Ac, FVZ 2 \$12.00/Ac and FVZ 3 \$7.13/Ac. The "original" 1998 cost study figures for FVZ 1 \$18.85/Ac, FVZ 2 \$17.63/Ac and FVZ 3 \$11.40/Ac. The primary reason the 2005 cost allowances were lower than the 1998 cost allowances is that they were limited to „custodial costs" and didn't include all of the items in the 1998 cost study. The PPI trended cost allowance used in the 2010 valuation calculation are, for FVZ 1 \$18.10/Ac, FVZ 2 \$18.29/Ac and FVZ 3 \$10.86/Ac.

Dan Chadwick suggested that since the Idaho Legislature did not provide an appropriation to conduct the 2010 Forest Management Cost study that the statutory responsibility does not exist to conduct the study. Since the legislature didn't make the funds available the members of the committee would need to provide the funds or continue to trend the existing numbers. Dan asked what the CFTM should do. Is there a feeling on the committee that there needs to be a new study?

Don Patterson asked what measure is currently being used in the trending process.

Rod Brevig responded that the Producer Price Index is being used to determine the trend factor.

Steve Fiscus asked if there is a need for a new study due to changes in the forest products industry. Steve suggested that there is a need for an annual appropriation from the Idaho Legislature to provide a continuous process of gathering forest management cost data. Initially there is a need to conduct the study and after that there is a need to monitor forest management costs on a yearly basis which will require funding to perform.

Mark Benson said that he doesn't see a need to do another forest management cost study at this time. The forestland values that have been produced when the indexed forest management cost figures have been used have provided stability in the system of valuation.

Jerry White responded that we may need to do a forest management cost study. His opinion is that it would be the best way to determine if there have been any changes in these costs due to the economic problems that have occurred over the last couple of years.

Steve Fiscus said that he didn't know how forest management costs have changed recently but he suggested that there are others here in our meeting who should know, referring to the forest landowner representatives.

Tom Katsilometes asked if the whole CFTM committee is in attendance today.

Jim Riley pointed out that the CFTM member Brett Bennett isn't present. Jim asked for the business process used by the CFTM committee to accommodate the situation if the total number of representatives are not present for the meeting?

Dan Chadwick said that the committee has worked to come to a unanimous agreement on the decisions that are made by the committee. As long as the process of unanimous decisions continues then there is no danger of a matter being forced to a decision that would be viewed as detrimental to the interests of any of the members.

Don Patterson made the motion that: "The Idaho State Tax Commission shall use the process of indexing required by the User's Guide to continue the trend in the cost allowance for forest management costs based on changes in the Bureau of Labor Statistics Producer Price Index which is used in the calculation of forestland values, on a continuing basis. The Idaho State Tax Commission will request on an annual basis an appropriation from the Idaho Legislature to conduct a five year cost study that will be reviewed by the CFTM for inclusion in the valuation model at a future date."

Dave Ryals seconded the motion.

Mike McDowell asked for a clarification as to the annual process of seeking an appropriation. Will the sought after appropriation be for a five year forest management cost study? The committee responded that Mike's thinking is correct.

Jack Buell asked if there is a need to have some recognition that the market value for forestland routinely exceeds the value of forestland that is used for property tax purposes.

Mellisa Stewart added that the public perception is that forestland is not carrying its share of the load for property taxes.

Teresa Jeffrey suggested that in her county she is often asked why forestland gets off so cheaply compared to other properties.

Mike McDowell said that he experiences the same feeling in his county. In particular he noted the water front property owners see the discrepancy between them and forestland tax loads as unfair when they often have similar property.

Mark Benson said that the tax load for forestland in Idaho is based on its actual use. So if agricultural ground is taxed at its actual use then forestland taxation should also rest on the foundation of actual use.

Jack Buell responded that the public has to be informed of the similarity between forestland and agricultural land and how actual use comes into the picture. Otherwise the perception of inequity will continue.

Ron Craig said that all land in Idaho is at market value unless it has a specific exemption provided to it by the Legislature.

Dave Ryals added that here is the argument that the public is making. Forestland produces an income that pays the tax. Residential homeowners don't get any income but have the full burden of their property taxes to pay. This difference creates an inequity in the minds of the public and the way the property tax load is distributed.

Jack Buell suggested that the Forest Products Commission could be helpful in the outreach to the public education that needs to take place.

Stan Leach said that the way that he reads the law it is because forestland is held for the purpose of producing future forests that they have the favorable tax treatment that they do.

Rod Brevig read the resolution made by Don Patterson for inclusion in the CFTM meeting notes to ensure that what he had recorded is what Don Patterson had intended to use for language concerning the 2010 forest management cost study.

Don Patterson said that the wording did capture his intent.

Tom Katsilometes took the vote of the committee and the resolution on the 2010 Forest Management Cost Study passed unanimously. Tom asked Rod Brevig to review the proposed changes to Rule 962.

Rod Brevig passed out four documents to initiate the discussion of the proposed changes to Rule 962. (1) the current existing Rule 962, (2) a paper labeled as Draft 2 that details the changes in Rule 962 which would incorporate current field procedures, (3) a paper labeled as Draft 1 which included the most recently developed site index curves that have been developed from stem analysis and DBH age and (4) a paper consisting of several pages entitled; "Relations Between Western White Pine Site Index and tree height of several associated species.", INT-22, 1965, containing site index curves for associated species which estimate the white pine site index of a site when no white pine site index trees are present at the time of inspection.

Rod explained that his intention was to provide information that could facilitate the discussion of the subject of site indexing on a step by step basis. By providing several documents that detailed the proposed approaches to the identification of the appropriate site index curves to use Rod was trying to simplify a discussion that can become very technical and difficult to follow by the folks who are not foresters in the group. Rod explained that by using habitat type to stratify the parcel or area and by following-up by measuring site index with an appropriate site index tree, similar areas can be treated uniformly and equity between landowners and areas can be maintained. The Natural Resources Conservation Service (NRCS) provides useful information which correlates forest soils with habitat type and site index and assists in the process of stratification for a parcel or area. References to the NRCS data are included in Draft 1 and 2 that each of the CFTM committee members has before them.

Kennon McClintock said that he didn't think much of the NRCS information. In fact the fellow from the NRCS who presented at the CFTM meeting of May 1, 2008 in Coeur d'Alene as much as said that the tree data was pulled out of thin air.

Rod Brevig corrected Kennon's statement by reminding the committee that Brad Duncan (the fellow from the NRCS) had said that he, as a soils scientist, was not familiar with the details of the collection and recording of the tree measurement information. However, he was sure that the forester who works for the NRCS would be able to discuss the specific information with those who would like more details.

Don Patterson said that in some places the NRCS work is better than in other places. The quality of the work just depended on the quality of the forestry people who were doing the work.

Rod Brevig agreed with Don's assessment and that is why the rule states that the NRCS information may be consulted in efforts to stratify an area. Rod expressed further that he is concerned that the current forest measurement practices are not detailed in the existing rule even though they've been followed for many years. The paper that Rod just

handed out entitled “Relations between Western White Pine Site Index and Tree Height of Several Associated Species” by Glenn H. Deitschman and Alan W. Green, INT-22, published in 1965 has been the source of the site index curves used in field procedure since the inception of the current forest tax law in 1983 and yet is not included in Rule 962. The wording in Draft 2 for Rule 962 includes a reference to this publication. The wording for Draft 2 is included here for reference:

*Property Tax Proposed Rule 962
St. Maries Draft 2, March 25, 2010
Current Field Procedure
Changes are marked from the existing rule*

**962. TAXATION OF FORESTLANDS UNDER THE PRODUCTIVITY OPTION
(RULE 962). SECTION 63-1705, IDAHO CODE. (4-11-06)()**

01. Forestland Valuation Process. The process used to determine the forestland value under the productivity option shall be as specified in the User’s Guide referenced in Section 63-1704~~5~~, Idaho Code. (4-11-06)()

02. Forest Valuation Zones. The state shall be divided into four (4) forest valuation zones: (7-1-99)

a. ZONE 1 - Boundary, Bonner, Kootenai counties. (7-1-97)

b. ZONE 2 - Benewah, Shoshone, Latah, Clearwater, Nez Perce, Lewis, Idaho counties. (7-1-97)

c. ZONE 3 - Adams, Valley, Washington, Payette, Gem, Boise, Canyon, Ada, Elmore, Camas, Blaine, Gooding, Lincoln, Jerome, Minidoka counties. (7-1-97)

d. ZONE 4 - The remaining nineteen (19) counties. (7-1-97)

03. Classification of Forestlands. In all forest valuation zones, there shall be three (3) separate productivity classes of forestland: poor, medium, and good. These broad classes are related in the following manner by definition to the “Meyer Tables” published in “Yield of Even-Aged Stands of Ponderosa Pine” and “Haig Tables” published in “Second-Growth Yield, Stand, and Volume Table for the Western White Pine Type” as both documents are referenced in Rule 006 of these rules. The site index curves used to determine which of these three productivity classes land will be placed in are defined further in subsection 04, 05 and 06 of this section. These classes apply to forestland which may or may not be stocked with commercial or young growth timber.

a. Poor productivity class is defined as forestland having a mean annual increment, MAI, of one hundred twenty-five (125) board feet per acre per year, based on a seventy-three (73) year rotation. This productivity class includes western white pine site index 35 - 45 and ponderosa pine site index 45-80. To determine the site index on a site the site curves for the appropriate species listed in subsection 04 shall be used and One hundred twenty-five (125) board feet per acre MAI shall be used in the valuation process. (4-11-06)()

b. Medium productivity class is defined as forestland having a mean annual increment, MAI, of two hundred twenty-five (225) board feet per acre per year, based on a sixty-eight (68) year rotation. This productivity class includes western white pine-site index 46-60 and ponderosa pine site index 81-110. To determine the site index on a site the site curves for the appropriate species listed in subsection 04 shall be used and ~~Two~~ two hundred twenty-five (225) board feet per acre MAI shall be used in the valuation process

(4-11-06)()

c. Good productivity class is defined as forestland having a mean annual increment, MAI, of three hundred fifty (350) board feet per acre per year, based on a sixty-three (63) year rotation. This productivity class includes western white pine site index 61 and above and ponderosa pine site index 111 and above. To determine the site index on a site the site curves for the appropriate species listed in subsection 04 shall be used and ~~Three~~ three hundred fifty (350) board feet per acre MAI shall be used in the valuation process.

(4-11-06)()

.04 Site Index Curves The site index curves used to determine the productivity classes for forestland will be the following: ()

i. For Western White Pine the site index curves for Western White Pine published by Irvin Haig in USDA Technical Bulletin No. 323 in 1932; ()

ii. For Douglas-fir, Western Larch, Lodgepole Pine, and Grand fir the site index curves published in the Relations between Western White Pine Site Index and Tree Height of Several Associated Species by Glenn H. Deitschman and Alan W. Green in 1965; ()

iii. For Ponderosa Pine, the site index curves published in USDA Technical Bulletin No. 630 by Walter Meyer in 1936; as these documents are referenced in Rule 006 of these rules. (4-11-06)()

d05. Stratification of Forest Zones 1 and 2. For forest valuation zones 1 and 2, forestland shall be stratified into areas of similar productive potential using the habitat typing methodology described in "Forest Habitat Types of Northern Idaho: A Second Approximation," referenced in Rule 006 of these rules. Additionally the stratification of forest soils when available from the Natural Resources Conservation Service (NRCS) as referenced in Rule 006 of these rules may be used to identify areas of similar potential productivity. Within these stratified areas, site index trees will be selected and measured that will identify the site index to be used to place the land in one (1) of the three (3) productivity classes listed above. (5-3-03)()

e.06 Stratification of Forest Zones 3 and 4. For forest valuation zones 3 and 4, the criteria for stratification shall be generally the same as that used in zones 1 and 2 based on the habitat typing methodology described in "**Forest Habitat Types of Central Idaho**," as referenced in Rule 006 of these rules, and the stratification of forest soils when available from the NRCS, with the following adjustments made in growth rates for lower moisture levels. Poor productivity class, one hundred twenty-five (125) board feet per acre MAI shall be used in the valuation process. Medium productivity

class, two hundred thirteen (213) board feet per acre MAI shall be used in the valuation process. Good productivity class, three hundred twenty (320) board feet per acre MAI shall be used in the valuation process. (4-11-06) (____)

Mark Benson stated that the current practices should have been incorporated in Rule 962 in 1983 with the inception of the forest tax law.

Rod Brevig responded that he agreed and that the current rule is not adequate because it does not detail current field procedures.

Dan Chadwick questioned whether there needed to be a rule change just because it doesn't cover current field processes. If everyone recognizes those processes isn't it ok?

Steve Fiscus explained that the draft rule was presented to the Idaho State Tax Commission (ISTC) Rules Committee a few months ago. As the ISTC Rules Committee had received a request from IFA that the CFTM review the draft and make suggestions you have the drafts before you that you do today. After receiving the CFTM comments they could take up consideration of the rule again.

Rod Brevig explained that the role of soils in determining forestland productivity is better understood now than it was in the past. Soils scientists have improved their mapping of forestland soils by recognizing volcanic ash as contributing greatly to the productivity of forestland soils. When the soil survey was conducted in Clearwater County the contributions of volcanic ash to forestland productivity began to be better recognized and by incorporating habitat type in soils series descriptions the NRCS has improved their forestland soils mapping greatly. Rod explained that when he sent an early draft of the suggested changes to several members of the CFTM who are foresters asking for their input in December of 2008 he didn't receive any suggestions for changes back. Yet when these changes to Rule 962 were presented to the ISTC Rules Committee for their consideration there were objections presented by IFA and a request that the CFTM committee review these proposed changes to Rule 962. For these reasons the CFTM members have Draft 1 and Draft 2 of the proposed changes to Rule 962.

Don Patterson questioned whether this meeting of the full CFTM was the appropriate forum to consider these matters as they are highly technical and a forestry background is necessary to understand the concepts and implications of the changes that are being considered. Don asked if it wouldn't be important to assign this matter to a subcommittee for further consideration.

Dave Ryals agreed and thought that a subcommittee could consider this issue.

Mark Benson expressed that perhaps this could be referred to a subcommittee but that it is very important for the CFTM to maintain control of their responsibilities. There have been previous discussions of the productivity issues that have not centered on Rule 962 and it has always proven to be a difficult subject for the CFTM to discuss.

Rod Brevig pointed out that the proposed changes to Rule 962 have been purposely constructed to not change the valuation model or introduce changes in the determination of site indexes that are used to define the current field procedure. All that is being proposed is updating the site index curves to more current science. The advantages are using DBH age for entering the site index curves, using stem analysis to determine the development of the site index curves and eliminating the 100-year base age curve that is used for Ponderosa pine that deviates from the 50-year base age used for every other tree species. This difference in base age introduces a process induced error that could easily be eliminated. These improvements are incorporated in Draft 1 that the committee members have before them and are incorporated here for reference:

*Property Tax Proposed Rule 962
St. Maries Draft 1, March 25, 2010
Changes are marked from the existing rule*

962. TAXATION OF FORESTLANDS UNDER THE PRODUCTIVITY OPTION (RULE 962). SECTION 63-1705, IDAHO CODE. (4-11-06)()

01. Forestland Valuation Process. The process used to determine the forestland value under the productivity option shall be as specified in the User's Guide referenced in Section 63-1704~~5~~, Idaho Code. (4-11-06)()

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b. ZONE 2 - Benewah, Shoshone, Latah, Clearwater, Nez Perce, Lewis, Idaho counties. (7-1-97)

c. ZONE 3 - Adams, Valley, Washington, Payette, Gem, Boise, Canyon, Ada, Elmore, Camas, Blaine, Gooding, Lincoln, Jerome, Minidoka counties. (7-1-97)

d. ZONE 4 - The remaining nineteen (19) counties. (7-1-97)

03. Classification of Forestlands. In all forest valuation zones, there shall be three (3) separate productivity classes of forestland: poor, medium, and good. These broad classes are related in the following manner by definition to the "~~Meyer Tables~~" published in "~~Yield of Even Aged Stands of Ponderosa Pine~~" and "~~Haig Tables~~" published in "~~Second-Growth Yield, Stand, and Volume Table for the Western White Pine Type~~" as these tables ~~both documents~~ are referenced in Rule 006 of these rules. The site index curves used to determine which of these three productivity classes land will be placed in are defined further in subsection 04, 05 and 06 of this section. These classes apply to forestland which may or may not be stocked with commercial or young growth timber. (4-11-06)()

a. Poor productivity class is defined as forestland having a mean annual increment, MAI, of one hundred twenty-five (125) board feet per acre per year, based on a seventy-three (73) year rotation. This productivity class includes ~~western white pine~~

site index ~~35- 45~~ and below ponderosa pine site index 45-80. To determine the site index on a site the site curves for the appropriate species listed in subsection 04 shall be used and ~~One~~ hundred twenty-five (125) board feet per acre MAI shall be used in the valuation process. (4-11-06)()

b. Medium productivity class is defined as forestland having a mean annual increment, MAI, of two hundred twenty-five (225) board feet per acre per year, based on ~~an~~ sixty-eight (68) year rotation. This productivity class includes ~~western white pine site index 46-60 and ponderosa pine site index 81-110~~. To determine the site index on a site the site curves for the appropriate species listed in subsection 04 shall be used and ~~Two~~ hundred twenty-five (225) board feet per acre MAI shall be used in the valuation process (4-11-06)()

c. Good productivity class is defined as forestland having a mean annual increment, MAI, of three hundred fifty (350) board feet per acre per year, based on an sixty-three (63) year rotation. This productivity class includes ~~western white pine site index 61 and above and ponderosa pine site index 111 and above~~. To determine the site index on a site the site curves for the appropriate species listed in subsection 04 shall be used and ~~T~~three hundred fifty (350) board feet per acre MAI shall be used in the valuation process. (4-11-06)()

.04 Site Index Curves The site index curves used to determine the productivity classes for forestland will be the following: ()

i. For Western White Pine the site index curves for Western White Pine published by Irvin Haig in USDA Technical Bulletin No. 323, 1932; ()

ii. For Western Hemlock and Grand fir the site index curves published in the Relations between Western White Pine Site Index and Tree Height of Several Associated Species by Glenn H. Deitschman and Alan W. Green in 1965; ()

iii. For Ponderosa Pine, Western Larch and Lodgepole Pine, the site index curves for those respective tree species published in Site Index and Height Growth Curves for Ponderosa Pine, Western Larch, Lodgepole Pine, and Douglas-fir in Western Montana by Kelsey Milner in 1992; ()

iv. For Douglas-fir the site index curves published by Bob Monserud in 1984 in, Height growth and site index curves for inland Douglas-fir based on stem analysis data and forest habitat type. Forest Science Vol. 30, No.4, 1984, pp. 943-965. ()

v. For Engelmann Spruce, Subalpine Fir and Mountain Hemlock the Engelmann Spruce site index curves published by Clendenen in 1977 as 50 year base age modifications of Alexander's 1967 site index curves as these documents are referenced in Rule 006 of these rules. (4-11-06)()

d05. Stratification of Forest Zones 1 and 2. For forest valuation zones 1 and 2, forestland shall be stratified into areas of similar productive potential using the habitat typing methodology described in "Forest Habitat Types of Northern Idaho: A Second Approximation," referenced in Rule 006 of these rules. Additionally the

stratification of forest soils when available from the **Natural Resources Conservation Service (NRCS)** as referenced in Rule 006 of these rules may be used to identify areas of similar potential productivity. Within these stratified areas, site index trees will be selected and measured that will identify the site index to be used to place the land in one (1) of the three (3) productivity classes listed above. ~~(5-3-03)~~()

e.06 Stratification of Forest Zones 3 and 4. For forest valuation zones 3 and 4, the criteria for stratification shall be generally the same as that used in zones 1 and 2 based on the habitat typing methodology described in "Forest Habitat Types of Central Idaho," as referenced in Rule 006 of these rules, and the stratification of forest soils when available from the **NRCS**, with the following adjustments made in growth rates for lower moisture levels. Poor productivity class, one hundred twenty-five (125) board feet per acre MAI shall be used in the valuation process. Medium productivity class, two hundred thirteen (213) board feet per acre MAI shall be used in the valuation process. Good productivity class, three hundred twenty (320) board feet per acre MAI shall be used in the valuation process. ~~(4-11-06)~~()

Mike McDowell expressed that the use of current science along with using the new site index curves could affect the classifications in a minor way but doubted that there would be any noticeable changes because of the improvements to the rule.

Stan Leach questioned whether or not the CFTM could make any progress on this subject today.

Don Patterson said that he was willing to try.

Rod Brevig reiterated that the proposed changes are not intended to change the outcome in determining productivity classifications in the field. They are drafted purposefully in a way so as not to change the three productivity classes of Good, Medium and Poor that are now used for forestland productivity classification.

Don Patterson said that the standards used in the valuation model in regard to MAI should be changed to include data from AI Stage's 1988 publication; "Selected Yield Tables for Plantations and Natural Stands in Inland Northwest Forests".

Rod Brevig disagreed with Don's assertions. The MAI's used in the model were negotiated by the CFTM to produce values that were acceptable to the group at the time and were not intended to agree with any certain yield table. The amendments to Rule 962 have nothing to do with that and Don's suggestions are expanding the scope of the discussion into the model and value development that are subjects for discussion in 2011 and not now.

Don Patterson argued that MAI's are not based on site curves but on yield curves and the ISTC website confirms this.

Steve Fiscus countered Don's statements by saying that the MAI's that are currently used in the valuation model were arrived at in the negotiations of the CFTM

and were not intended to agree with yield tables that had been developed by someone else in another way and for a different purpose.

Don Patterson stated that you cannot get 350 board feet of production based on a 60 to 63 year rotation.

Rod Brevig said again that what is being proposed are new site index curves that conform to the site indices currently cited in Rule 962 with the express purpose of not influencing values in any way. The intention is to improve the system of forestland productivity classification without influencing the valuation process.

Don Patterson said that he has concerns about any changes that are made to Rule 962. Don said again that the site indexes and MAI's do not agree.

Kennon McClintock said that it is impossible to find a stand that will match the yield tables. He continued that it is also impossible to find representative site trees on the ground in stands that have been abused for years by previous logging practices.

Don Patterson said that the yield tables and the site index curves can be linked but he has a question about habitat typing, site indexing or yield tables which standard are we using?

Rod Brevig responded that just as Rule 962 describes we are stratifying the land using habitat typing to get similar land identified in the same way. Then within those areas we measure site index trees to identify which of the three productivity classes the property should be placed in.

Don Patterson said that from his experience the northern counties use the NRCS soil surveys and have for a long time.

Tom Katsilometes asked the CFTM if they would like to break for lunch at this point in the discussion. Seeing no dissenting opinions the committee broke for lunch.

The CFTM committee broke for lunch.

Tom Katsilometes asked for comments from the committee on the proposed changes to Rule 962.

Mark Benson said that he asks his tax person how many acres of poor, medium and good they have in their ownership so that he can monitor the impacts of changes that have been made. He reiterated that when the CFTM finished their work in 2004 he thought that all of these productivity classes were fixed in time and wouldn't change. He wants to determine how much creep there will be from poor to medium and from medium

to good, because it doesn't ever seem to go in the other direction. He wants to determine where they will be and what their exposure to increases in their taxes might be. If a parcel goes from medium to good the property tax value almost doubles and that is very unsettling to them. He wants to know how they can work from here.

Rod Brevig responded by reassuring Mark that there is nothing in the proposed versions of the changes to Rule 962 that will influence the determination of which productivity class the property will be placed in. If corrections to the productivity classes are made by the counties there had previously been errors that have been present in many instances since 1983. This misclassification represents an inequity that has been in place for a long time. To use an analogy, if a house has a basement that was missed in the last reappraisal cycle by the county and its caught in the new reappraisal and added to the value of the parcel for the next assessment cycle then that is part of the work that the Assessor's office commonly does. The fact that the basement was missed for so long a time represents an inequity that needed to be corrected in the normal course of business for the Assessor's office.

Mark Benson responded that he didn't think that Rod understood what the issue really is. Their issue is that they bought into the values as of 2004 and he thought that these should be fixed in time.

Jerry White said that he will try to put all of the property in his county on the roles for the values that should be attached to them. That is his duty as the Assessor and he doesn't see any difference between one type of land and another.

Mark Benson responded that in regard to Shoshone County that while they didn't like what took place with the revisions of the productivity classes in the county in 2007 and 2008 they have come to recognize that there were errors in the previous productivity classes in the county and they don't have a problem with the changes that were made now. What their concern now is that there may be more changes in the future and they want to determine what their exposure to changes in their values might be.

Mike McDowell said that Kootenai County has been correcting productivity classifications on an ongoing basis since 2004 and before. They have always considered it as part of their work and they have a staff position that is responsible for making those changes as his work load will allow him the opportunity to perform the work.

Mark Benson said that site productivity does not change unless there is a disaster. It is not an unreasonable assumption that the site was done previously and that it should not change.

Jack Buell asked how often the field work and changes to productivity classes actually is done in Kootenai County. There are a lot of demands on staff time and how much work can actually get done.

Mike McDowell responded that they only have one Forester and he has to take care of new owners and splits first in order to keep their work current. Then as time permits he can take on some of these other tasks.

Mark Benson said that the forestland that Potlatch bought in 1903 has the same productivity class now as when they purchased it and they have always made the assumption that the productivity classes wouldn't change.

Don Patterson said that they could go back and renegotiate the parameters used in the valuation model to accommodate these changes to the productivity classes but they don't want to do that right now.

Melissa Stewart said that Clearwater County is intending to go back and audit the productivity classes in their county now that they have a Forester on staff. Mike Goodwin brings a new set of skills as a Forester and she would like to be able to have mapping that will allow her to work with her taxpayers more effectively. They are using the NRCS mapping that is available to work with this. She wants to be responsive to the requests that folks like John Currin (a former Potlatch employee) has made of her for better parcel information.

Mark Benson said that he knows what Melissa is saying and why the county would want to do the work. Large forestland owners continue to want to know what is going to happen in the future. He said that he had previously determined that he wasn't going to bring this up but going against his better judgment he has to say that prior to 2008 the CFTM had an 18 month discussion about the 10-meter site indexing system. They wanted to see a normal distribution which would bring most of their land into the medium productivity classification. He reasoned that the science would say that the normal distribution of productivity classes should be accomplished in any work that is done with productivity classes. Now their land is skewed to the upper end of the distribution curve and that concerns them.

Steve Fiscus responded that it sounded like Mark's assumption is that the medium category should be the most common in their ownership and that may not be true.

Mike Wolcott said that he wasn't in on the discussions in 2004 but he can see that there could have been an assumption that there wouldn't be changes to the productivity classes after the decisions had been made by the committee.

Jack Buell responded that he has been on the Idaho Scaling Board for many years and there has always been a feeling that any process has to be consistent. Is this what we are talking about here because everyone is interested in consistency?

Jim Riley suggested (jokingly) that what the CFTM committee needs to do is turn this problem over to the Idaho Scaling Board and they will be able to come up with solutions to all of the problems that are being discussed.

Stan Leach asked if the counties can really legally address this issue in the way that Mark Benson has been suggesting. As far as he knows there is a statutory requirement of the county to make sure that all properties are placed on the roles in their appropriate category or classification. If the county is not performing this task to the best of their ability they are open to accusation from a number of different angles.

Dan Chadwick said that the counties cannot ignore the law. Dan added that he can understand that the priority for taxpayers is tax avoidance, however for the elected officials the priority is equity between taxpayers.

Don Patterson protested that nobody is trying to say that they shouldn't pay their taxes. Don said that they had even discussed over the lunch break not even having a number of forestland productivity classes but reducing it to just one class.

Dan Chadwick said that he is just saying that if there is a change from medium to good or poor to medium then he can understand that the tax burden will go up. Dan reiterated that the goal of all elected officials is equity and consistency.

Steve Fiscus read from the code to refocus the committee discussion on the requirements of the CFTM committee in preparation for 2012. "The guiding discount rate and the real price appreciation rate for timber products shall remain constant at four percent (4%) and one and one-quarter percent (1.25%) respectively, until January 1, 2012."

Mike McDowell reminded the committee that anything that is done by way of field work now will only be in place for a year before the effects of the negotiations of the CFTM committee will be in place.

Dan Chadwick suggested that the CFTM committee leave Rule 962 where it is for now and take up this discussion in 2011 for 2012. Everything can continue on as it is now. We can pick the schedule for 2011 and see where the discussion goes.

Stan Leach asked if the changes to the productivity classifications could be kept track of as they are taking place.

Mark Benson asked if it would be possible to go back to 2004 and keep track of the changes since then to determine what has happened.

Melissa Stewart reminded the committee that after 2004 there had been a two-year moratorium in place so that no changes to productivity classes would take place.

Don Patterson asked if the counties could go back and determine what the productivity classifications had been historically.

Dave Ryals said that they don't keep records that way and even if they did the job to go back and determine that information would be huge.

Jerry White added that their computer crashed and their prior records will not be complete. He reminded the committee that the reason that he did the work in his county were for equity purposes and he would have done the work regardless of the CFTM because he is required to as the County Assessor.

Rick Anderson asked if we are trying to measure the effort and resources that the counties have brought to this issue since 2004.

Mark Benson said that if the changes since 2004 have been small, outside of Shoshone County, then they won't worry about it. If the changes during this time have been large then they will want to address these changes when they meet in 2011.

Don Patterson said that he is concerned about when changes will go into effect this next year.

Mike Wolcott asked if anyone could determine how extensive the changes might be in the next year, and how broadly they would occur.

Rod Brevig responded that the extent and breadth of changes would be determined by the resources of the counties. Additionally, the CFTM will have the opportunity to take up anything in the valuation issue they would like to address in 2011.

Mellisa Stewart assured the committee that her county does not plan to make any sweeping changes. All she intends are housekeeping matters.

Don Patterson said that the county can overlay the NRCS information on their county ownership and make changes. He said that he is concerned about the changes that might be made this year. He offered to work with Clearwater County over the course of the year and develop a base of productivity information for them. He reminded the committee that Stimson doesn't have any ownership in Clearwater County so he doesn't have a conflict of interest in the work that he would do with them.

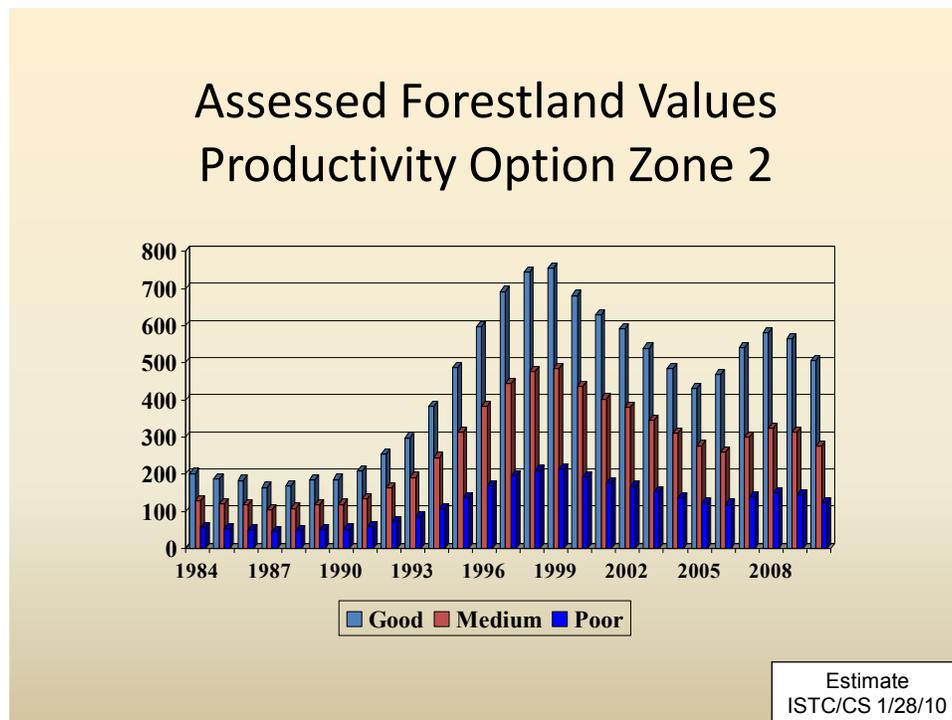
Mellisa Stewart said that she would be willing to do that but she would like Rod Brevig to work with them as they do the work.

Don Patterson said that he has already done this type of work in Latah County so he is familiar with the process. He is confident that he can do it in Clearwater County also.

Mike McDowell said that the landscape in his county has changed dramatically since 2004 and he may or may not have the information that they are seeking.

Tom Katsilometes asked that Rod Brevig move on to the next agenda item which was a discussion of the code requirements of the CFTM committee to address the guiding discount rate and the real price appreciation rate in 2011 for adoption in 2012.

Rod Brevig suggested that to prepare the CFTM committee for the rate discussion in 2011 it would be fruitful to consider where the application of the existing rates have taken the forestland values since their inception in 2005. Reflection on the path of these values in the context of the economic climate that everyone on the committee is familiar with will provide perspective to the discussion of those rates next year. Rod went through the history of the forestland values since 1983 and the reasons for the changes that have occurred over time in a power point presentation to the committee. The chart included here provides the value history that was referenced.



Rod explained that the increase in values from 1990 to 1999 could be primarily attributed to the cessation of timber sales from the US Forest Service lands in Idaho. The decrease in values from 2000 to 2005 could be attributed to a legislative requirement. The gradual increase and then decline from 2006 to 2010 has been the result of the operation of the valuation model adopted by the CFTM in 2005.

Dan Chadwick said that he didn't want to pick on Mark Benson but the legislative requirement of the decrease in values from 2000 to 2005 could be labeled as the "Mark Benson effect" due to the legislation that he was able to put in place to create this decrease.

Don Patterson said that he had read all of the CFTM meeting notes before coming to the meeting today. After the course of the discussion today and reflection on the CFTM meeting notes he had read he can understand more fully that the 4% guiding discount rate and the 1.25% real price appreciation rate were CFTM negotiated values. He can see that just as some of the older committee members have said the values were not taken from a specific source of information.

Steve Fiscus suggested that Don was correct and the values had been negotiated. Further Steve said that due to the schedule of the Legislature the CFTM committee should begin considering their meeting schedule for 2011 in order to have discharged their duty in time to be considered by the Legislature in 2012.

Dan Chadwick suggested that the committee should have their work completed by November of 2011 to be ready for the 2012 legislative session.

Ron Craig asked Mark Benson how many acres Potlatch had sold off since 2004 and if that information from their records would be made available to assist the CFTM in their discussions. In most instances the county records would reflect a change of use on those sales as they are changed from a forestland classification to a residential classification for a home site. When land classification changes like this take place the information in the county records may not keep track of the fact that a change in the productivity classification had followed.

Mark Benson responded that he was sure that they had sold less than 1% of their ownership for recreational values since 2004. Mark said that the total ownership for Potlatch has risen from about 650,000 acres in 2004 to more than 850,000 acres at this time due to their purchase of the former Boise Cascade ownership.

Tom Katsilometes asked if the committee would like to schedule a fall meeting to consider the time line requirements for the CFTM.

Dan Chadwick suggested that a meeting in October/November would be best. Further discussion led to establishing a meeting time of 1:30 to 3:30 PM on Monday, November 29th at the Idaho State Tax Commission offices in Boise.

Tom Katsilometes closed the meeting at 3 PM.