

Forest Lands Taxation Advisory Committee Meeting Minutes 11/16/2020

Committee Members Present:

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

Department of Revenue Staff:

Gene Walborn- Director, DOR
Kory Hofland- Administrator, PAD
Bonnie Hamilton - Management Analyst, PAD
Bill Billman- Program Support Specialist, PAD
Todd Olson- Rules Specialist-MDOR

I. Call to Order, Director of Revenue

Gene Walborn, Director of the Montana Department of Revenue, starts the meeting by introducing himself and thanking everyone for helping with the forest advisory committee. He explains that it's a statutorily provided committee that goes over forest land valuation models for the new 6-year cycle. Gene mentions there may be future meetings to go over the valuation process and basics and a potential meeting with the university professor to go over the models that have been built.

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

Bonnie Hamilton explains that she has been working on the forest land valuation and this committee is to review the department's classification and valuation of forest land. In the past, this committee would have met two years ago but, the current committee didn't get appointed in the same time frame. As a result, we are running short on the time frame. On top of that, due to COVID and not being able to meet in person, the usual three full days of meetings wasn't considered to be acceptable. The purpose of this meeting is to answer questions regarding the materials that were sent and receive requests for any other information that is needed.

Dr. Jackson with the University of Montana has worked on the stumpage values and studies on what counties should be in each zone. These topics will be covered in a meeting next week.

Bonnie states that the meeting is being recorded and the meeting minutes will be posted to the website. Kory Hofland, Administrator for the Department of Revenue Property Assessment Division introduces himself, greets the committee and explains this is his first involvement with the forest land taxation committee so he will be reliant on Dan, Bonnie and Bill to help with tough questions. If there are any questions that can't be answered now, the department will do some analysis and re-group at the next meeting with an answer. Dan Nelson, CAMA unit manager, introduces himself.

III. Department Presentation, Bonnie Hamilton, Management Analyst, DOR

Bonnie explains the laws regarding forest land valuation. These are found in 15-44 103, MCA and administrative rules 42.20.701 through 706. There are links for the current and proposed manuals on the website. Bonnie asks the committee if there are questions about the presentation or materials.

IV. Committee Discussion and Recommendations

Paul McKenzie is dismayed to get materials on a Friday afternoon to prepare for a meeting on Monday morning. Pat Flowers said it's unreasonable to send out that amount of material and expect the committee to have any informed questions. Gordy Sanders agrees but he did have time to skim the documents. Bonnie said that it's possible to have a meeting next week with Dr. Jackson. Would it work better to have a meeting next week, so the committee has time to review the information? Paul for explanation of the timeline with respect to having the values established and the timing of the implementation. Bonnie said the assessment notices for the 2021 cycle will go out in May and the value needs to be in by December of 2020. Gordy says as he understands it the stumpage values must be in by the end of December of 2020. Bonnie and Dan agree this is correct.

Paul notes major changes including a different valuation method proposed by Dr. Jackson and the University of Montana. He has seen information on the value side of timber sales but not much on the cost side which is an important element to consider and has concerns regarding changes of the forest zones. He would like further details and discussion on these topics. Bonnie says the cost basis is not from Dr. Jackson but, this data is gathered from the DNRC. Gordy comments, I assume that for AUM's you've got a value for each of the forest zones. Assuming the basis is productivity, is the basis an average productivity per year per zone class that's a part of the assumption in this or is it just strictly stumpage values? Bonnie states that Dr. Jackson has provided us with the stumpage values, we determine productivity from a model that the University of Montana developed before the 2009 cycle. Since then the department has used these forest land productivities in the valuation formula. Paul McKenzie asks, just to be clear, there haven't been any changes to the productivity model. Is this correct? Bonnie replies yes, that's correct.

Bonnie comments, Dr. Jackson's calculation of stumpage values used stumpage values from last cycle which was a 7-year base period, whereas we are now using a 10-year base period. Paul says the process is difficult to navigate and there's assumptions that deserve discussion with Dr. Jackson to understand his methods. Bonnie explains that Dr. Jackson is available for a discussion on November 23 or 24. The committee agrees that the 23 of November would be a good time to have a meeting with Dr. Jackson.

Kory Hofland apologizes for the late notice. He discussed the timing to get appointments and difficulties due to the outgoing administration and getting everyone together. In order to give the committee further time to review the materials, shall another meeting be scheduled before or after the meeting with Dr. Jackson? Marilyn asks for clarification regarding ending this meeting and reconvening on Monday to discuss things with Dr. Jackson and then having another meeting. Kory replied, yes, if the committee members haven't had time to review the materials and formulate questions, another meeting can be scheduled. The department will certainly answer any questions now as there is more meeting time allocated but, if it would be more beneficial to end this meeting early and schedule another meeting to cover this material. Marilyn asked if Dr. Jackson will be at the meeting on November 23? Kory responds with yes, that meeting would be dedicated to just his report and the committee's questions for him. Another option is to extend the meeting with Dr. Jackson to cover the committee's questions on the current information. Marilyn says it would be helpful for the department to discuss the major changes such as the valuation method today and have another meeting to get everything done.

Pat Flowers agrees and would like to use today to summarize the changes between the 2015-2020 manual and the 2021-2026 manual. Kory said another meeting will be planned in early December, after the meeting with Dr. Jackson. The department will be glad to discuss the major changes in the manual, answer the committee's questions and Bonnie Hamilton will provide insight on any other things that should be discussed such as the last reappraisal cycle compared to the upcoming reappraisal cycle. The department will schedule a longer meeting with Dr. Jackson to provide time after his presentation to delve into any other questions.

Bonnie starts discussing the major changes in the forest manual. For the most part, it was a task to take it from being as technical in language and heavy on the history and putting it to what is actually being used and putting the manual into an organization that fits the classification requirements and taking out things that were already in statute or in rule. The department moved some examples that were in rule and put them into the manual but for the most part no changes were made to the previous information besides revising the language and format. Portions that did change were the section on the forest zones because the zones were recommended to be changed by Dr. Jackson and it does have the stumpage value. The actual methodology for how we calculate the value hasn't changed, it's still the same statutory formula and is calculated by zone. None of that has changed. Only the information and data that goes into the formula have changed including the stumpage values, forest cost, ag cost and ag income. Paul says that in the draft that was sent out he doesn't see any proposed stumpage values. Bonnie says she may have misspoken on that part, Dr. Jackson's report contains the stumpage values per zone and is published on the website. Paul asks Mr. Olson if he can tell the committee where the department is at in the rule making process with respect to that manual and the public input period. Todd Olson comments that the administrative rule hearing was held on October 30, and the original proposal notice contemplated the comment period to run through November 9. Around November 6, the department filed an extension notice with the Montana Secretary of State, so the comment deadline has been extended until December 9, 2020. Based on the status of your meetings and recommendations of the committee or additional requests for revisions to the proposed manual, if those were to come in before December 9, great, if not than the conversation with Mr. Hofland and Director Walborn would be needed to say whether to extend the comment period for another 2 weeks or 30 days for the committee to take time to formulate any questions or proposed revisions. If that was the case the Secretary of States filing deadline is in December and there is only one filing opportunity in the second half of December. All likely hood if the comment period is extended past December 9, the department would file the adoption notice addressing any changes or response to comments required by the Administrative Procedures Act. The department would do that in January but have the adoption be effective January 1. Paul asks if there's been much comment to date and is there a revised draft that is being worked on. Todd says the only comments received are from you sir (Mr. McKenzie) and Stoltze Lumber. There haven't been any formal responses drafted and the department would wait to see what kind of input is received by all stakeholders and the committee on or before December 9. If we need to extend the comment period, the Administrative Procedures Act allows us to do that and it's a fairly simple process. Kory says the department will gather all the public comments and any additional comments from this committee and then will work with the director to formulate responses and decide what to change based on the comments.

Paul says if the committee would like he would share the comments he submitted so all can see the things that stuck out to my review as we have a discussion over that in our next meeting. Kory asks if the

committee would like to see the comments that have been made so far? Committee members say yes. Kory asks Bonnie to post those comments to the website.

Pat Flowers comments that he's a new member amongst others and feels that he's been dropped into the middle of a process without any perspective on what it is. Even with his background in forestry, Pat has never participated on the tax end and frankly didn't even know the department was embarked on a rule making process at this point. He didn't get an email on this committee until November 9. An overview for the new members on the role of the advisory committee and the overall process and deadlines you've touched on would be helpful at the start of the next meeting before we launch into Dr. Jackson's presentation. Andrew agrees, is brand new to this and has read materials quickly but finds it's a steep learning curve not having any experience in this area. Andy went on to say, everything from introductions, roles and responsibilities and what's needed from us specifically such as specific decisions would be good in terms of introductions and understanding what we're supposed to be doing. Kory says the department would be happy to do that and if you look at 15-44-103, MCA, specifically sub 10A, it has a lot of discussion about the role of the taxation advisory committee. The department will put together a summary of statutes and administrative rules and committee responsibilities as well. Dan Nelson comments the department will also supply a timeline. Paul comments that he hasn't seen the proposed stumpage values listed anywhere although in Dr. Jackson's report there's a timber price but no stumpage value. Bonnie agrees to provide the stumpage values to the committee.

Gordy asks if there's been any comments from Tree Farm Organization or the Montana Forest Owners Association? Todd Olson states no the department has received only the comments from Mr. McKenzie. Bonnie comments that everyone on the committee is new and this is only the second forest advisory committee.

After reading the minutes from the 2014 forest land taxation advisory committee, Andrew asks several questions: Does our committee need to make similar decisions as the previous committee? Does this committee even have a chair person? Does the committee have officers? Is this someone the department appoints? Kory says this is my first time with this committee as well. If the committee wants to be set up that way, the committee certainly can appoint their chair person. The department is here to provide support staff for the committee to ensure the information is provided as needed to make these decisions. Kory defers to the committee to make the decision going forward. Paul says it occurs to me just having some history with the legislative forming of this committee the intent was there would be a standing committee that would meet throughout the reappraisal process and the way it is written all our terms expire June 30, 2021. So, the committee is kind of getting pulled together at the last second, I'm not sure if this was an oversight or an administrative decision not to convene this committee sooner. Looking ahead, new members should be appointed on July 1, for the next appraisal cycle so the committee can be a resource to the department and to the folks throughout the entire reappraisal cycle rather than being pulled together last second with ability for input being minimal. I'm hoping to look towards the future and see if we can't make this a valuable committee. Kory comments that the department began requesting member appointments from both the governor's office and the legislative branches quite some time ago. The department worked with the governor's office to get these appointments and didn't hear from either side in a timely manner. Under the current directives, the department needed to move forward with completing the forest valuation so we could do our job and have something ready to go for the 2021 reappraisal cycle. It wasn't really oversight it was just hard getting people to make decisions on who they wanted on this board. It was also my understanding that

the work that had been done on the previous committee covered a lot of that, and it wouldn't be as intense this time. But again, the department was very late in receiving the nominations of members and had to go ahead and move forward with Administrative rules just so we could get them done by January 1 and have them in place for the 2021 reappraisal. There shouldn't be any huge surprises other than reviewing the sales information that the University of Montana utilized. As far as the statutes and administrative rules go nothing has changed substantially. I guess it's up to the committee to decide how to go about reviewing this and if a chair person is needed to chair this committee and make decisions. We can even go into rules of orders if we need to. Kory volunteered to act as the chairperson and run the committee. Pat Flowers comments that it might make sense to have the presentation from the department on the background of this committee and then the committee can decide how to organize to make the recommendations. At this point, Pat is not even clear what the committee's role is, so it is tough to decide how the committee ought to be organized. Marilyn comments it would be helpful to have an agenda available to review before the meeting to be clear on decisions and since this committee is to advise the Department of Revenue it would probably be best not to have someone from that department to chair the meeting. Kory comments that the department will summarize some of this information and he will ask our chief legal counsel to talk about the statutes and responsibilities. Really, the oversight of this board is to approve, deny and make recommendations for the reports so the department can move these values into production and start utilizing these when the assessments go out in May for forest land taxation. At the meeting on November 23, the department will give an overview and discussion on the rules of the committee, have Dr. Jackson's presentation, and decide how many more meetings are needed. According to the time line, this meeting should have occurred over a year ago as a kick-off meeting, but it is November and we are behind the eight ball. The department will do whatever possible to provide all committee members all the information needed to make their decisions.

Paul asks if it would be helpful to Dr. Jackson if the committee sent in specific questions. Kory says to give those comments or questions to Bonnie, and she can distribute that to all the members and start formulating answers to those questions.

Closing, Kory Hofland, Administrator, DOR

Kory closes the meeting with telling the committee he really appreciates the members coming together on such short notice and apologizes for the cluster, but the department wants to get this rolling as soon as possible. The department will start working diligently with getting the details ready for the November 23 meeting, so everyone has more time to prepare. In the meantime, if anyone has any questions, comments or concerns please reach out to Bonnie or Kory. Dan thanks everyone for their patience and apologizes for the late committee start and says an agenda will be available for the next meeting. Bill asks what time should the meeting on the 23 begin? Kory asks if 9:00 a.m. would work for everyone. The committee and staff agree.

