

Forest Lands Taxation Advisory Subcommittee Meeting Minutes 10/28/2021

<u>Committee Members Present:</u> Gordy Sanders Sen. Mike Cuffe Paul McKenzie Sen. Pat Flowers Nancy Mehaffie Rep. Becky Beard	<u>Department of Revenue Staff:</u> Scott Mendenhall, Deputy Director-DOR Kory Hofland-PAD Bonnie Hamilton-Management Analyst, PAD Bill Billman-PAD (Host) Dylan Cole-TPR Ed Caplis-TPR Robin Rude-PAD Bryce Kaatz-PAD Jared Isom-TPR
<u>Public:</u>	<u>Presenters:</u>

- I. Meeting began at 1:34 PM. Bryce asked Dylan to give an update on conversations with other members of the team outside of an official meeting. He stated that Gordy and Paul have been working on collecting data and data sources to give relevant details and variables for further analysis. He went on to discuss the variables as he currently understands them.
- II. Dylan stated that he believes the variables in the DNRC data are likely the same as the Forest Service data. Paul stated that there will be some effort involved in parsing all the data and variables. Gordy added that he could check with the BLM to see if the data is similar. Senator Flowers asked about using a residual value approach versus a transactional evidence similar to what Dr. Jackson used. Dylan stated he is basing his current efforts on transactional evidence. He stated he will use the residual value approach as a double-check on his analysis.
- III. There was discussion about building the regression model in a software system that could remain in-house. Discussion ensued regarding using a model that simply predicts or estimates the price, and the complexity of the model being used and studied. The discussion also included outlier sales and how to try to include or normalize those sales. Gordy suggested he has some data he could share with the group regarding residual values as related to sales over time or on contracts.
- IV. There was discussion about basing value on volume, which Dr. Jackson's model does not consider. This was in relation to a discussion about smaller sales with similar fixed costs as larger sales, and how that affects the overall price paid.
- V. Dylan asked the group about using price indices and whether or not there is value in considering the price index in terms of informing the decision to bid on a project. Paul stated that the relationship between the lumber index and stumpage values is too inconsistent that an index would not be useful.

- VI. Sen. Flowers asked Dylan if he would include only variables that have statistical significance in his analysis. Dylan confirmed this, and also stated that logically the indices between lumber price and stumpage price would move together. Gordy stated that there are examples of index prices not following log prices. Dylan stated he would like to better understand the relationship between stumpage prices and index prices. Paul stated this relationship is not easily defined, but that a delivered log price index in relation to stumpage value is a better comparison than trying to define a relationship between lumber price and stumpage price.
- VII. Discussion ensued regarding overall analysis and creating a regression model from the beginning, including how to include or exclude variables and assumptions and creating a baseline from which to “tweak” the model.
- VIII. Kory stated that more work needs to be done on the model before the discussion continues on all the what-ifs of the model. Dylan agreed.
- IX. Discussion on timeframe, future meetings, and the deliverables already-expressed deadlines ensued.
- X. Ed asked if the cap rate needs to be changed, or if that should be an issue that is taken off the table. Scott agreed that the cap rate should be held on the back burner until a more predictive model is created. There was also discussion about retaining Dr. Jackson’s zones.
- XI. During the discussion regarding meetings going forward, Dylan asked for clarification on his role in the subcommittee, which was stated has to do with land valuation and the methodology used to determine land valuation.
- XII. The meeting ended with discussion regarding timelines, meeting deadlines, and working in-house at the Department of Revenue to coordinate the work.