



STATE BOARD OF EQUALIZATION
PROPERTY AND SPECIAL TAXES DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
916 445-4982 • FAX 916 323-8765
www.boe.ca.gov

BETTY T. YEE
First District, San Francisco

BILL LEONARD
Second District, Ontario/Sacramento

MICHELLE STEEL
Third District, Rolling Hills Estates

JUDY CHU
Fourth District, Los Angeles

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Executive Director

No. 2007/017

March 13, 2007

TO COUNTY ASSESSORS,
TIMBER ADVISORY COMMITTEE MEMBERS, AND
OTHER INTERESTED PARTIES:

REVISION OF THE
TIMBER AND TIMBERLAND VALUES MANUAL

On November 15, 2005, the Board adopted the *Timber and Timberland Values Manual*. The manual describes the principles and procedures used by the Board in the valuation of timber to be harvested and the establishment of timberland production zone values, and provides an overview of the responsibilities of the Timber Advisory Committee.

Board staff has initiated a project to correct four pages in the manual that contain technical errors. Enclosed are pages 12, 27, 28, and 33 of the manual showing the proposed changes in strike-out and underscore format. Interested parties may submit comments regarding the proposed changes by April 16, 2007. Comments should be submitted to Ms. Sherrie Kinkle at the above address or to sherrie.kinkle@boe.ca.gov.

If necessary, an interested parties meeting will be held in May 2007 to discuss concerns with the proposed changes. It is anticipated that the proposed revisions will be discussed at the Board's Property Tax Committee on July 17, 2007.

All documents concerning this project will be posted to the Board's website at www.boe.ca.gov/proptaxes/otherprojects07.htm. If you have questions regarding this project, please contact Ms. Kinkle at 916-322-2921.

Sincerely,

/s/David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:sk
Enclosures

CHAPTER 2: APPRAISAL PROCESS

The statutory mandate on the Board regarding valuing timber and timberland under the Timber Yield Tax Law is:

- ~~As of January 1 and July 1~~ On or before June 30 and December 31 each year, the Board must adopt a schedule of immediate harvest values by species, quality, and location to be used by timber owners when filing their taxes on harvested timber.¹
- ~~As of~~ By November 30 each year, the Board must adopt timberland site class value schedules to be used by county assessors when valuing timberland properties within their counties.²
- ~~As of December~~ On or before December 31 each year, the Board must adopt the yield tax rate.³

The primary focus of this manual is on the development of the immediate harvest values by timber appraisers in the Board's Timber Tax Section. (See Appendix 3 for a sample of an immediate harvest value schedule.)

For the Board's timber appraisers, *appraisal* is the process of estimating the value of each species or subclassification of timber within each timber value area as of the timber appraisal date—the date that the immediate harvest values are determined. The values established represent the amount that each species or subclassification of timber would sell for on the stump at a voluntary sale made in the ordinary course of business with all access and permits in place. These values are a reflection of the marketplace as of the appraisal date (the date that the immediate harvest values are determined); they are not an attempt to predict the future marketplace.

IMMEDIATE HARVEST VALUE

Immediate harvest value is the amount of cash or its equivalent for which timber would be sold from a willing and informed seller to a willing and informed buyer, both seeking to maximize their incomes, if the timber could be harvested in the forthcoming year. This type of transaction is commonly known as an open-market, arm's-length transaction.⁴

When developing the immediate harvest values, the Board's staff considers all elements of value, including but not limited to, volume by species, quality, defect, market conditions (including date of sale), volume per acre, size of timber, method of harvesting, accessibility, topography, logging conditions, and distances from a processing center capable of utilizing the timber.⁵

¹ Section 38204.

² Section 434.5; Property Tax Rule 471.

³ Section ~~38202~~-38203.

⁴ Section 110.

⁵ Property Tax Rule 41, subsection (b).

CHAPTER 3: TIMBER ADVISORY COMMITTEE

Pursuant to the requirements of section 434.2, the Board has maintained a Timber Advisory Committee since the enactment of the Timber Yield Tax Law in 1976. Section 434.2 provides:

Within 30 days of the effective date of this section, the board shall appoint the timber advisory committee as defined in subdivision (c) of Section 431.

Subdivision (c) of section 431 provides that:

"Timber Advisory Committee" means a standing committee appointed by the board composed of one representative of the Board of Equalization, one representative of the State Board of Forestry and Fire Protection, five assessors from the rate adjustment counties defined in Section 38105, and one member representing small-scale timber owners, and one member representing large-scale timber owners.

DUTIES

Sections 434, 434.1, 38109, 38116, 38204 and Property Tax Rule 1023 include references to various duties of the TAC. With the exception of indicating that the TAC is to consult with the Board, the statutes are silent as to specific duties and responsibilities of the Committee. However, in an opinion dated August 29, 1978, the Attorney General stated that the duties of the TAC "... are advisory in nature and encompass no administrative responsibilities."⁶ That is, the TAC's purpose is to advise the Board relative to the Board's fulfillment of its responsibilities in the administration of the Timber Yield Tax Law. After meeting, discussing, and voting, the TAC advises the Board on timber issues as one body.

The original language of the Z'Berg-Warren-Keene-Collier Forest Taxation Reform Act required that the Board complete the following duties after consultation with the TAC:

- On or before September 1, 1976, prepare instructions setting forth temporary criteria and procedures for grading timberland on the basis of site quality and operability.⁷
- Prior to December 31, 1976, and periodically thereafter, adopt regulations establishing a standard unit of measure for timber and conversion factors for converting other units of measure to the standard.⁸

⁶ A. G. Opinion CV 78-52.

⁷ Section 434.

⁸ Section 38109.

- On or before December 31, 1976, designate areas containing timber having similar growing, harvesting, and marketing conditions to be used as timber value areas for the preparation and application of immediate harvest values.⁹
- On or before March 1, 1977, estimate the immediate harvest values of each species or subclassification of timber within the timber value areas for timber to be harvested between April 1 and December 31, 1977. On June 30 and December 31 of each year thereafter, estimate the immediate harvest values for timber harvested during the succeeding two calendar quarters.¹⁰
- On or before March 1, 1977, adopt regulations setting forth the final procedures for grading timberland on the basis of its site quality and operability, replacing the instructions adopted on or before September 1, 1976.¹¹
- On or before January 1, 1980, and every three years thereafter, adopt schedules re-establishing the value of each grade of timberland pursuant to section 434 (section 434.5 (b)).¹²

In addition to the specific statutory duties listed above, the TAC, at the direction of the Board and/or staff, performs other duties in support of the timber tax program, such as reviewing proposed amendments to statutes or administrative rules, and generally advising the Board on timber issues. The following significant changes have been made by the Board, through the consultation and advice of the TAC, in the timber tax program since completing the initial statutory requirements of the Z'Berg-Warren-Keene-Collier Forest Reform Taxation Act:

- In 1997, the harvest value schedules were simplified. This included the allowance of adjustments in the form of deductions to the values in the schedules for logging systems, small total volumes, and county locations.
- In 1998, Property Tax Rule 1024, *Exempt Timber*, was adopted for the purpose of exempting any timber from the timber yield tax if the tax on the timber would amount to less than the cost of administering and collecting the tax.¹³
- In 2000, the timber yield tax was converted from a system using old-growth and young-growth classifications to a system based on average log size, removing much of the subjectivity of the previous system. Additionally, some species were consolidated, thereby reducing the number of categories and further simplifying the harvest value schedules.
- In 2001, based on historical data, a firm standard was implemented for establishing the value of salvage species. Specifically, when there are not enough salvage sales in a species

⁹ Section 38204.

¹⁰ ~~Section 38109; Property Tax Rule 1023, *Immediate Harvest Value*.~~ Section 38204.

¹¹ Section 434.1, subdivision (a).

¹² Section 434.5 was rewritten in 1984 establishing new values for timberland and implementing a formula for adjusting timberland values for subsequent years.

¹³ Section 38116.

current market value, whichever is less, ~~depending on whether the use is considered a "nonexclusive" or "exclusive" compatible use.~~

"Nonexclusive" compatible uses of timberlands, such as grazing, receive different treatment than "exclusive" compatible uses, such as a structure site. The lesser of fair market current full-cash value or factored base year value attributable to a nonexclusive compatible use is determined and enrolled annually, above and beyond the TPZ value.¹⁴

For exclusive compatible uses, any structure on the land or an area of reasonable size used as a site for compatible uses are not restricted or subject to TPZ restrictions.¹⁵ Therefore, the taxable value attributable to an area used exclusively as a site for an approved compatible use is the lesser of its factored base year value or fair market value.¹⁶

A special base year problem is created when, for example, a new homesite is developed on a TPZ property, thereby changing a portion of the property's use from timberland production to residential. The question then becomes, what base year should be assigned to the portion of land developed into the residential site? There has been no change in ownership that would warrant a reappraisal of the site, yet new construction such as grading has been performed that has brought about a change in use.

Property Tax Rule 463, subsection (b)(2), defines *newly constructed* or *new construction* to mean and include:

Any substantial physical alteration of land which constitutes a major rehabilitation of the land or results in a change in the way the property is used ... In any instance in which an alteration is substantial enough to require reappraisal, *only* the value of the alteration shall be added to the base year value of the preexisting land or improvements. Increase in land value caused by appreciation or a zoning change rather than new construction shall not be enrolled.... (Emphasis added.)

Therefore, while the value added by the physical alteration is assessable, the value attributable to the change in use is not assessable. Any physical changes such as driveway, grading, domestic wells, etc., associated with the newly created site should be assessed as new construction and assigned a base year as of the date of completion. However, the underlying land cannot be reassessed, and the base year value allocation has to be made as of the last actual change in ownership.

Example

Assume that a 160-acre TPZ property, with no improvements, transferred in September 2003. In July 2005, construction is completed on a new residence and the appraiser determines that the appropriate size for the site is one acre.

¹⁴ Section 435, subdivision (a).

¹⁵ Section 435, subdivision (c).

¹⁶ Section 435, subdivision (b).