

**Approved Minutes  
Timber Advisory Committee  
October 30, 2012 Meeting**

The meeting was called to order by David J. Gau, Chairman, at 9:42 a.m., Room 1009, State Board of Equalization (BOE), 160 Promenade Circle, Sacramento, California, with the following in attendance. A quorum was present.

**TIMBER ADVISORY  
COMMITTEE (TAC) MEMBER**

**REPRESENTING**

David J. Gau, Chairman  
Mike Mallory  
Leslie Morgan  
Charles Leonhardt  
Mari Wilson  
Sue Ranochak  
George Gentry  
Marty Olhiser

BOE  
Assessor, Siskiyou County  
Assessor, Shasta County  
Assessor, Plumas County  
Assessor, Humboldt County  
Assessor, Mendocino County  
Board of Forestry Representative  
Large-Scale Timber Owners

**OTHERS IN ATTENDANCE**

**REPRESENTING**

Ken Thompson  
David Yeung  
Peter Murphy  
George Felix  
Mike Doyich  
Art Tenneson  
Tim Treichelt (via teleconference)

BOE, SAPD, Timber Tax Section  
BOE, Legal Department - Steel

George Belden, the Small-Scale Timber Owners representative was unable to attend due to illness.

1. Approval of the April 24, 2012 Meeting Minutes

No discussion or comments were offered regarding the previous meeting's minutes. Susan Ranochak made a motion to approve the minutes as presented. Marty Olhiser seconded the motion, which passed without objection.

2. Harvest Value Discussion for Period of January 1, 2013 - June 30, 2013

Timber Tax Senior Forest Property Appraiser Peter Murphy began the discussion on the first half 2013 suggested timber values by passing out a handout for the committee to examine and then he opened the discussion with some introductory comments. The first graph showed that taxable timber values peaked in 1993 at about \$1.3 billion dollars. The market's lowest point ever was in 2009 when just under \$100 million dollars in taxable value was reported for the

state as a whole. The peak year for volume harvested was in 1988 when 4.7 billion board feet of timber was harvested statewide. The statewide harvest volume also hit bottom in 2009 at 8 million board feet. Since the historic lows of 2009, both timber value and volume harvested have been on an upward trend statewide, and so far that trend is continuing for the first two quarters of 2012.

The export market this year has had much smaller influence on timber values this year than in the recent past. A slowdown in the Chinese economy and more sophisticated overseas buyers are perceived to be the cause of this. Demand for private logs in Humboldt County (TVA 1) was also down significantly this year and mills there relied primarily on lower cost logs from company fee lands. Generally, delivered log prices for mills in Mendocino County were higher than for mills in Humboldt County. In some cases, where the higher log price justified the higher cost of a longer haul, Humboldt County private logs were sold to mills in TVA 2.

a. **Tables G & S, Green and Salvage Timber Harvest Values**

The two year range of sales in the analysis that were used to develop the timber values currently being suggested for the first half of 2013 was from October 1, 2010 through October 8, 2012. The delivered log price index maintained by staff, adjusts older sales used in the appraisals for time, by adjusting the original sales price, either up or down, by the relative change in the market. The adjusted value represents what each older sale would sell for theoretically on the appraisal date. A range of Immediate Sale Values (ISV) and respective suggested values for several TVA's were provided to the committee as examples. In the absence of sufficient salvage sales information, salvage values are based on 75% of the green timber value. Previous studies based on empirical data have consistently demonstrated that salvage value is about 75% of the green value. In this particular analysis, both TVA 5 and TVA 7 contained salvage values based on sales information.

Marty Olhiser questioned the suggested increase in redwood values in TVA 2, when he felt the redwood market is generally down. Specifically, he questioned RG2 being up \$50 as compared to the second half 2012 value in TVA 2. Mr. Olhiser requested an explanation as to how that value was derived. Staff responded with relevant sales and appraisal information, but this did not seem to satisfy his concern. After further discussion, Mike Mallory made a motion to approve Tables G & S as suggested. Susan Ranochak seconded the motion. The motion was carried, with Marty Olhiser objecting.

b. **Table 1, Miscellaneous Forest Products Harvest Values**

With respect to volume harvested and tax revenue generated, the most significant Forest Products contained in Table 1 are Poles, Small Sawlogs Miscellaneous, and Miscellaneous Conifers. Since Table 1 products are not indexed, current year sales are given stronger consideration over the two year average in the analysis. Since there is only one pole buyer in the state, pole values are strongly influenced by price quotes from that one facility.

Although some pole stumpage sales are obtained, they are generally very limited. The Miscellaneous Conifer category continues to contain a large lodgepole pine component and lodgepole pine is one of the species used in high value custom log homes. The reason CM came in higher in value than SSM is because of a large number of high volume and high value lodgepole pine sales. At the conclusion of the discussion on Table 1 values, Chuck Leonardt motioned to approve the Table 1 values as suggested. Marty Olhiser seconded the motion, which passed without objection.

## 5. Other Business

### a) Discussion of TVA 7 and TVA 8 Boundary Realignment Decision

#### Background

In early 2012, the agent for a small private landowner in Placer County contacted Small-Scale Timber Owners Representative George Belden requesting relief from high timber values in TVA 7. The landowner believed that the values were not representative of stumpage prices they received from the sale of their timber, putting them at a disadvantage in that market. The 40,000 acre ownership is situated in the remote southeast corner of Placer County. Especially long and higher haul costs reduce their return to stumpage. At the last meeting the committee requested staff to consider the following three alternatives:

1. Divide Placer County into 7 North and 7 South, with the North Fork of the American River being the dividing line.
2. Move all of Placer County south into TVA 8, where the IHV's more accurately reflect the landowner's return to stumpage.
3. Move TVA 8 north to the North Fork of the American River, so as to incorporate the ownership requesting consideration.

#### Analysis

**Rule 1020** of the *California Timber Yield Tax Law* requires that similar growing, harvesting, and marketing conditions be considered when determining TVA boundaries. Since growing and harvesting conditions are similar in TVAs 7 and 8, the only variable that could be analyzed was marketing conditions. Color maps were handed out to the committee members in conjunction with a Power Point presentation depicting the results of the market analysis covering the years 2009-2012 for sales involving more than 500 MBF. The maps plotted location of sale origin and final sawmill destination for the sales meeting the criteria. Some unusual marketing patterns emerged that reflected the closure of the sawmills in Camino and Sonora. Both of these mills were closed in the second half of 2009. The sawmill in Sonora has since reopened (May 2011), while the mill in Camino currently remains closed. The Camino mill is capable of reopening if the U.S. Forest Service would increase log supply in that region

by selling more timber. Nevertheless, very definite marketing patterns emerged from the analysis.

#### Conclusions and Recommendations

The study did not support or justify a split of Placer County into North and South, or moving all of Placer County south into TVA 8. But surprisingly with the Camino mill closure, the analysis did support moving El Dorado County north into TVA 7. If this change were to be recommended, timber values would go up in El Dorado County. Conversely, if Placer County were to be moved south into TVA 8, the number of high value, large volume sales from Placer County would raise timber values for the remainder of TVA 8 by a significant amount. When and if the Camino mill is considered permanently closed by SPI, this issue could be revisited in the future.

Several haul deduction systems were also considered, but in the end this option was dismissed. The details were considered too complex to be used statewide and it created more problems than it solved.

It was staff's conclusion to recommend no change to the present TVA boundaries. Staff met with George Belden in the Redding office in August to discuss the results of the analysis and its recommendation. Mr. Belden concurred with staff's recommendation and requested staff to contact the landowner's representative and inform him of the results and that the decision in the matter was final. Upon being briefed on the results of the analysis and the recommendation Timber Tax Section was preparing to make to the committee, the agent was understanding and in agreement with the decision. Peter Murphy said that staff will continue to monitor marketing conditions as they relate to TVA boundaries and recommend changes, should they be warranted at some point in the future. Mike Mallory motioned to accept staff's recommendation of no change or adjustments to the present TVA boundaries. The motion was seconded by Chuck Leonhardt and passed without objection.

#### **b) Alternate Locations of Future TAC Meetings**

David Yeung discussed the various options for alternative meeting locations that were researched and he offered the following conclusions: The Timber Tax office in Redding is too small for TAC meetings. The U.S. Forest Service Office in Willows is available at no cost, but is too small for our needs as well. The Granzella's Conference Room in Williams is large enough, but it has a minimum \$400 rental fee which causes budgetary concerns. The last option considered was to use one of the county assessor's offices. BOE's technical support and security department said alternate locations would create hardware issues of compatibility, possible software issues, and firewall security issues. George Gentry said he has similar problems with finding more central alternative meeting locations for the Board of Forestry, and that Sacramento usually ends up being the most acceptable compromise. The main issue isn't technology for Web-X or teleconferencing, it is public noticing and making arrangements for the public to attend at a public meeting site. In instances where audio/visual presentations and

handouts are provided at the meeting, and considering that the annual swearing in of committee members takes place at the spring meeting, alternative locations really are not feasible. As a compromise it was decided to move the fall meeting to a Wednesday rather than a Tuesday, and to try and coordinate the TAC meeting with the Fall Assessor-Megabyte meetings, in order to accommodate the assessors.

## 6. New Business

### a. Logging Code S Deduction Change

Input from the public has prompted staff to conduct a review of the yarder/skyline cable logging adjustment. The statewide cost differential between average tractor and average cable logging costs currently recognized in the value schedule is \$50/MBF. Generally, cable logging on the coast and in the northern part of the state is more costly than in the central and southern regions. Since this is a statewide deduction a reasonable compromise must be obtained. The last revision to the cable logging deduction was July 1, 2006. Staff will continue to gather information over the next several months, and then analyze and determine a reasonable amount for this adjustment. A recommendation will be made to the committee at the April 2013 meeting.

### b. Modifications to Schedule Instructions

Recent calls from taxpayers regarding some wording in the value schedule instructions has prompted staff to suggest some wording changes, in an attempt to clarify and avoid future confusion. Staff is recommending that on page 1, paragraph 3 of the harvest value schedule instructions the word "*unadjusted*" be removed, the word "*and*" be changed to "*when*", and to add the phrase "*and the volume per acre removed in the quarter is 5 MBF per acre or more*". The corrected sentence would then read as follows: "*The sawlog values listed in Table G (green timber) and Table S (salvage timber) are values for timber harvested using a tractor logging system when the volume removed in the quarter is 300 thousand Board feet (MBF) or more and the volume per acre removed in the quarter is 5 MBF per acre or more*".

Lacking any objections, the committee approved this language change without a motion.

### c. 4Q'12, 1Q'13 Modified Fire Schedule TVA 5 and TVA 7

Peter Murphy talked about the 2012 California wildfire season and the need for a Modified Harvest Value Schedule that would be reflective of salvage timber values that taxpayers will realistically recover as a result of these catastrophic wildfires. George Gentry wanted to know what criteria triggers a modified value schedule. Peter explained that it is when a catastrophic event (e.g. a wildfire or severe windstorm) causes unusual market conditions and undue hardship. The two largest and most destructive fires so far this year were the *Chips* and the *Ponderosa* fires. At this time, it is currently unknown

how much salvage volume will be offered on the market from these two fires. Current estimates are over 200 MMBF. The Chips Fire affected TVA 7 and the Ponderosa Fire burned in TVA's 5 and 7. Fire killed timber is generally lower in value due to staining, checking and cracking. Logging costs can be lower in some cases due to the higher volumes per acre and because it is essentially lower cost clearcut logging with fewer logistical problems. Sierra Pacific Industries is the largest industrial timberland owner affected by these two fires and they have suspended all green timber harvesting on their affected districts until the majority of their fire salvage timber is removed. With such a large amount of salvage timber being offered on the market, log prices are likely to fall as supply exceeds demand. Handouts were presented summarizing salvage sale information received and analyzed so far. Much more information will be forthcoming as more harvesting occurs. Some anomalies in the early salvage sales in TVA 7 were apparent, as several fire salvage values were higher than the normal Table S salvage values. Peter requested the committee approve his recommendation to lower the fire salvage values for TVA 7 MPP3 and MF that were higher than the Table S salvage values for PPS3 and FS, to the lower Table S values. Chuck Leonhardt made motion to approve the request as stated by Peter Murphy. Mike Mallory seconded the motion which passed with all in favor.

- d. Tentative date for next meeting – Thursday, April 25 2013 at 1:30 p.m. in Sacramento in the same building and room.

## **7. Adjourn**

David Gau adjourned the meeting 11:20 a.m.