

**Approved Minutes
Timber Advisory Committee
May 7, 2015 Meeting**

The meeting was called to order by Dean Kinnee, Chairman, at 9:30 AM in Room 1009, State Board of Equalization (BOE), 160 Promenade Circle, Sacramento, California. All participants were in attendance, except for Tim Treichelt, who participated via teleconference. A quorum was present and the meeting was allowed to proceed.

TIMBER ADVISORY COMMITTEE

MEMBER IN ATTENDANCE

Dean Kinnee, Chairman
George Gentry
Charles Leonhardt
Mike Mallory
Leslie Morgan
Mari Wilson
Susan Ranochak
Marty Olhiser
Lennart Lindstrand, Jr.

REPRESENTING

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

OTHERS IN ATTENDANCE

Ken Thompson
Mike Harris
Mike Doyich
Art Tenneson
Mark Collins
Dan Stapleton
Anna Snowden
Brandi Padgett

REPRESENTING

BOE, SAPD, Timber Tax Section
BOE, SAPD, Timber Tax Section

PARTICIPATING VIA TELECONFERENCE CALL

Tim Treichelt

BOE, Senior Tax Council

1. Oath of Office

Robert Tucker, Assistant Chief Counsel for the Board of Equalization, administered the Oath of Office to all committee members at 9:32 AM. This marked the first time in many years that the committee term of office spans more than one year, with terms extending out

through December 31, 2018. This change was approved by the Board at its March 2014 meeting.

2. Election of Officers

Charles Leonhardt nominated Dean Kinnee for Committee Chair. Mari Wilson seconded the nomination, which passed with all in favor. Marty Olhiser nominated Mike Mallory for Vice Chair/Secretary. Charles Leonhardt seconded the nomination, which passed with all in favor.

3. Approval of the November 7, 2014 Meeting Minutes

Dean Kinnee asked if everyone had reviewed the minutes from the previous meeting. With no errors or omissions heard, Charles Leonhardt motioned to approve the minutes from the November 7th meeting as submitted. Mike Mallory seconded the motion, which passed with all in favor.

4. Harvest Value Discussion for Period of July 1, 2015 – December 31, 2015

Timber Tax Senior Forest Property Appraiser Mike Doyich began with a summary of the extensive background and work experience of the current Timber Tax staff and the TVA's that will be handled by each forester. Marty Olhiser thanked Mr. Doyich for the good job presenting the information and asked if the committee members could get updated contact information for the Timber Tax staff. It was agreed that copies of the signup sheet with phone numbers and email addresses would be provided to all attendees.

Mike Doyich continued with a discussion of general market conditions inland and on the north coast. The redwood market is strong and prices are up. Cedar, which is also a specialty item like redwood is also up slightly. The catastrophic wildfires have flooded the market with an overabundance of low value fire killed timber. The oversupply of low value fire salvage is yielding low prices or no offers at all for Douglas-fir, true fir and pine. Small private ownerships are finding it difficult to sell logs. The export market is softening in response to the Chinese economy slowing. Some of the exporters are not honoring prices given earlier in the season. There is little to no competition in the market because the exporters are aware of the market conditions created by the fires over the last 2 years. Green Diamond is moving from being a buyer of logs and milling logs from their own fee lands, to a seller of logs. Marty Olhiser mentioned the redwood market being in good shape.

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a) Table G - Green Timber Harvest Values

Mike Doyich continued with a summary of conditions in the various TVA's. He explained that spring value sessions are generally index driven due to the lack of early year sales, and this year is no exception. The warm dry winter has facilitated fire salvage harvesting, and this has eliminated the need for some mills to make new log purchases. He explained the need to have our spring value sessions early in the year because yield tax law mandates adoption of values no later than June 30th. He explained that the timing issue is the same in the fall, but that there is much more information available due to the increased harvest activity and that by then we have captured the majority of the available information. He also pointed out that a more recent sale is considered more valuable than an indexed sale. Len Lindstrand asked what the usual date is in the fall and Mike Doyich answered that it is around October 18th.

Mike Doyich mentioned he had prepared ranges of sale values for some species by TVA if there was interest. George Gentry and Charles Leonhardt expressed interest and Mike read sale ranges, 3-year averages, and suggested values for some of the more active areas and species. He also explained the range in values is largely impacted by the haul cost and also by the logging cost. Leslie Morgan asked for clarification as to why the suggested value will vary, sometimes being higher and other times being lower than the weighted average. Art Tenneson responded that stronger consideration is given to the more current sales and current market trend. Mike Doyich expanded on this with information on the span of time that sales are utilized, and how the appraisers view them in analyzing current market conditions for suggesting values to the committee. Len Lindstrand asked for clarification regarding giving current year sales more "weight". Art Tenneson answered that the current year sales are not weighted more heavily in the index, but that they are generally given stronger consideration if they are more representative of current market conditions, and is based on the appraiser's professional judgment.

Charles Leonhardt asked when staff thought the excess volume that has been created by the wildfires will be absorbed into the market and when the small landowner will see some improvement in their ability to sell their timber. The answer tended to vary depending on TVA and what the upcoming 2015 fire season brings. Marty Olhiser also pointed out that it would depend on what the current year housing market does as well.

Motion to approve Table G was made by Leslie Morgan and seconded by Marty Olhiser. Without objection, the motion carried.

b) Table S - Salvage Timber Harvest Values

Mike Doyich summarized conditions created by the continuing drought and continuing mortality in timber stands. Conditions are bad everywhere, and the further south you go, the worse it gets.

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All of the salvage values are based on 75% of the green timber value, with the exception of TVA 9. Numerous studies conducted by our office in past years have shown that in the absence of sales, salvage values are approximately 25% lower than green values. This relationship is due to higher fixed and variable logging costs associated with chasing scattered, low total volume, low volume per acre, and low value timber.

Motion to approve Table S was made by Mike Mallory and seconded by Susan Ranochak. Without objection, the motion carried.

c) Table 1 - Miscellaneous Forest Products Harvest Values

There is very little change in Miscellaneous Forest Products. SSM is down \$10 and all other values in Table 1 remain unchanged.

A motion to approve Table 1 values as proposed was made by Charles Leonhardt and was seconded by Len Lindstrand. Without objection, the motion carried.

5. Other Business

a) 2Q15 and 3Q15 Modified Fire Schedule TVA's 4, 5, 6, 7, & 8

Mike Doyich reiterated that market conditions are flooded (i.e. an over-abundance of supply), and therefore yielding very low salvage values. As far as export being a marketing option, the exporters simply have no competition, and with the Chinese economy softening, their prices are down as well.

In addition to 2Q15, staff is also suggesting 3Q15 modifieds, with pine generally being down \$10-20/M, as compared to 2Q15. The suggested lower pine values for 3Q15 are based on the biological fact that dead pine is stained blue by an anaerobic fungus. There will likely be a long hot summer ahead, and the fire killed trees that are now 1 or 2 years old will have continued staining, lowering pine values even more. Len Lindstrand asked why salvage values for fir dropped in all TVA's except for 8 and 9. Mike Doyich and Art Tenneson responded it was due to different market conditions in the different TVA's.

Staff is trying to avoid the expense and inconvenience to the committee by suggesting 3Q15 modified values now, rather than waiting until later this year. Ken Thompson pointed out that because of noticing requirements for Board Meetings there will likely not be time to collect enough data from new sales to result in any appreciable change in value. If more data becomes available to suggest significant changes in modified values, then the committee will have to reconvene in August to decide on recommending a change to the Board for third quarter.

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A motion to approve Modified Value Schedules for 2Q15 and 3Q15 was made by Charles Leonhardt and was seconded by Lindstrand. Without objection, the motion carried unanimously.

6. New Business

Tentative date for the next meeting and additional information

Dean Kinnee suggested the date for the next TAC meeting be November 5th at 9:30 AM in the same room (Room 1009). This date was agreed on unanimously.

George Gentry mentioned the Board of Forestry is contemplating lifting the 10% cap on Dead, Dying or Diseased Exemptions. This would allow additional harvest without the time and expense of a Timber Harvest Plan. Specifics on the possible percentage of average volume per acre that could be removed under the revised exemption, or when it could be approved, was not currently available.

Timber Tax staff representatives Anna Snowden and Brandi Padgett were introduced to the committee.

7. Adjourn

Dean Kinnee adjourned the meeting at 11:01 am with a thank you to all attendees.