

GRANT COUNTY COMMISSION  
PETERSBURG, WEST VIRGINIA 26847

## GRANT COUNTY COMMISSION MINUTES

**Date:** February 19, 2021    **Time:** 9 a.m.    **Location:** Conference Room  
Grant County Courthouse

**Commissioners:**

Scotty Miley, President  
Jeff Berg  
Tyson Riggelman

The Board of Review and Equalization reconvened February 19, 2021 at 9 a.m.

Beth Mallow from the Assessor's Office appeared before the Commissioner, as well at Robert McCalley.

Beth stated that the Assessor does very little with managed timber. She stated that she called Leroy Barker from the State Tax Commission. Mr. Barker appeared by phone to explain the situation to Mr. McCalley.

Mr. Barker asked what Mr. McCalley's objection was and Mr. McCalley stated that it was the tax increase.

Mr. Barker stated that the State receives the stumpage prices from the Division of Forestry, and those prices have increased.

Mr. McCalley stated that he recently cut timber and the timber prices have not gone up. Mr. McCalley stated that there is no clear formula for the numbers that are used. Mr. McCalley stated that he understood that a freeze was placed on the 2021 tax increase in order to re-evaluate the values. Mr. Barker stated that they cannot freeze the taxes. He stated that forestry wants to review the managed timber legislative rule.

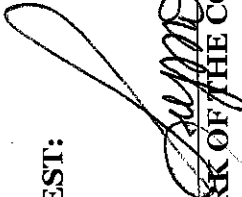
Mr. McCalley stated that he feels his increase is unjustified. It is a 19.2% increase from last year. Mr. Barker stated that it was up to the Commission to change the value of his timberland because he cannot agree to change the value because it was done in accordance with legislative rules.

Commissioner Berg stated that he felt the Commission would have to abide by the State guidelines. Commissioner Miley agreed.

A Motion was made to abide by the State guidelines at this time. **MOTION:**  
**Riggelman**

**ADJOURNMENT:** Having no other appointments scheduled, said board recessed until February 23, 2021 at 5 p.m. **MOTION:** Berg

**ATTEST:**

  
CLERK OF THE COUNTY COMMISSION

  
PRESIDENT

03/09/2021  
DATE APPROVED

TENTATIVE NOTICE OF INCREASE IN APPRAISAL  
WV STATE TAX DEPARTMENT  
PROPERTY TAX DIVISION

PO BOX 372  
CHARLESTON, WV 25322-0372

Exhibit A

*See form*

BOOK 0028 PAGE 0275

PROPERTY OWNER  
MCCALLEY FARMS LLC

11 DOGWOOD DR  
PETERSBURG WV 26847 9617

DATE: 11/30/2020

COUNTY: GRANT

RE: NATURAL RESOURCE APPRAISAL FOR: 05 1650011000000000  
SEQ: 0

LEGAL: 125 AC SURFACE MORELAND LAND

IN ACCORDANCE WITH CHAPTER 11, ARTICLE 6K OF THE WEST VIRGINIA CODE, WE ARE HEREWITH NOTIFYING YOU OF THE CURRENT TENTATIVE MANAGED TIMBERLAND APPRAISAL FOR THE FORTHCOMING YEAR.

APPRAISAL FOR	TAX YEAR	2021	TAX YEAR	2020
MT - MANAGED TIMBER		\$38,750		\$32,500
		<i>(35,625)</i>		
				<i>12% increase</i>

THE APPRAISED PROPERTY VALUE HAS INCREASED BY AT LEAST 10% AND \$1000, BUT THE LEVEL OF POTENTIAL TAX CHANGE IS NOT KNOWN UNTIL LEVYING BODIES SET THEIR TAX RATES.

THIS LETTER ONLY REPRESENTS MANAGED TIMBERLAND AND DOES NOT INCLUDE APPRAISALS FOR SURFACE AND/OR IMPROVEMENTS.  
THIS LETTER IS NOT A BILL AND IS NOT YOUR TAXES DUE.

SHOULD YOU HAVE QUESTIONS REGARDING THE TENTATIVE APPRAISED VALUE, YOU MAY CONTACT THE MANAGED TIMBERLAND SECTION OF THE STATE TAX DEPARTMENT, PROPERTY TAX DIVISION AT 304-558-4455.

IF YOU STILL DISAGREE WITH THE TENTATIVE APPRAISAL AFTER CONTACTING US, YOU MAY APPEAL BY FILING A WRITTEN PROTEST WITH THE CLERK OF YOUR COUNTY COMMISSION SITTING AS A BOARD OF EQUALIZATION AND REVIEW, NO LATER THAN FEBRUARY 20, 2021. IF THE BOARD OF EQUALIZATION AND REVIEW HAS ADJOURNED SINE DIE BEFORE THAT DATE, YOUR APPEAL MAY BE HEARD BY THE COUNTY COMMISSION SITTING AS A BOARD OF ASSESSMENT APPEALS, IN OCTOBER 2021.

IF YOU FAIL TO TIMELY EXERCISE YOUR RIGHT TO APPEAL, YOU FORFEIT THE RIGHT TO APPEAL THIS YEAR'S TAX ASSESSMENT.



*Plenty of money for the taxes  
as that money will be used  
to pay the taxes*

*11/30/2020  
12/12/2020  
12/12/2020  
12/12/2020*

*more than  
paper  
appeal  
passed by the board  
assess  
unclear  
county  
for a  
minutes*

Exhibit B



Dave Hardy  
Secretary of Revenue

Dale W. Steager  
State Tax Commissioner

STATE TAX DEPARTMENT

December 18, 2020

Delivered by email only

[REDACTED]

Re: Managed Timberland

[REDACTED]

This is in response to your telephone call on December 16, 2020, requesting information about the valuation of managed timberland for property tax purposes.

The managed timberland program is provided for in W. Va. Code § 11-1C-1 et seq. In particular, see Subsection 11-1C-2(b) (defining "managed timberland"); Subdivision 11-1C-10(d)(1) (criteria to participate in managed timberland program); Section 11-1C-11 (managed timberland; findings, purposes and declaration of legislative intent; implementation; inspection and determination of qualification); Section 11-1C-11a (certification of managed timberland; assessment of qualification); Section 11-1C-11a (comply); Section 11-1C-11b (valuation; rulemaking; aggrieved person and taxpayer protests; exhaustion of remedies; compliance inspection; notice of revocation; appeal; effective date); and Section 11-3-5a (notification to assessor of changed use of managed timberland; independent action of director; penalties; effective date).

The legislative rule for the managed timberland program is CSR § 110-1H-1 et seq. A copy of this rule is available at the Secretary of State's website. The formula for valuing managed timberland is set forth in Appendix 5, on page 14 of the rule.

Annually, the Tax Commissioner determines certain variable that will be used when valuing managed timberland and other natural resources for property tax purposes for the next property tax year. Tentative natural resource variables are published in the State Register on or before July 1 each year for a 30-day public comment period. No comments were received from owners of managed timberland. Final natural resource variables are published in the State Register on or before September 1 each year. The final natural resource variable for tax year 2021 are posted at the Tax Department's webpage under the Property Tax button. The variables for the managed timberland program begin on page 30. A copy of these variable is attached.

The appraised value per acre for managed timberland is calculated by region; neither individual counties nor individual properties are considered in this calculation. It is not based on the number or type of trees on an individual property, but on the soil's ability to produce an income.

The procedure for determining the appraised value of managed timberland has a couple of key components that significantly changed for tax year 2021:

- 1) Average Stumpage Price is used in determining appraised value. Stumpage price is a five-year rolling average determined from pricing reports provided by the West Virginia Division of Forestry. Average stumpage prices increased approximately 10%.
- 2) Harvest income is a component used to determine the actual value of harvesting the trees. This component is adjusted by state and federal taxes. The timber severance tax was terminated on July 1, 2019. This is the first year in which timber severance taxes are not a consideration in the calculation of appraised value for property tax purposes.

I trust this is responsive to your request. Please let me know if you have additional questions.

Sincerely,



Dale W. Steager  
State Tax Commissioner

cc: Leroy Barker, Director  
Property Tax Division

**MANAGED TIMBERLAND APPRAISAL RATES  
TAX YEAR 2021**

(based on market 2015-2019)

**Final Rates Per Acre Revised**

**Class II Parcels**

	<u>Grade 1</u>	<u>Grade 2</u>	<u>Grade 3</u>
Region 1	\$228	\$140	\$50
Region 2	\$235	\$148	\$50
Region 3	\$258	\$164	\$50
Region 4	\$282	\$200	\$81
Region 5	\$200	\$140	\$50

**Class III/IV Parcels**

	<u>Grade 1</u>	<u>Grade 2</u>	<u>Grade 3</u>
Region 1	\$250	\$175	\$75
Region 2	\$250	\$175	\$75
Region 3	\$270	\$180	\$75
Region 4	\$285	\$195	\$75
Region 5	\$250	\$175	\$75

Region 1 = Brooke, Cabell, Hancock, Jackson, Marshall, Mason, Ohio, Pleasants, Putnam, Tyler, Wetzel, and Wood Counties

Region 2 = Braxton, Calhoun, Clay, Doddridge, Gilmer, Harrison, Lewis, Marion, Monongalia, Ritchie, Roane, Taylor, and Wirt Counties

Region 3 = Barbour, Greenbrier, Monroe, Nicholas, Pendleton, Pocahontas, Preston, Randolph, Tucker, Upshur, and Webster Counties

Region 4 = Berkeley, Grant, Hampshire, Hardy, Jefferson, Mineral and Morgan Counties

Region 5 = Boone, Fayette, Kanawha, Lincoln, Logan, McDowell, Mercer, Mingo, Raleigh, Summers, Wayne, and Wyoming Counties

**Harvest Volumes per Acre**

<u>Harvest Interval Grades</u>	<u>35 yrs.</u>	<u>45 yrs.</u>	<u>55 yrs.</u>	<u>80 yrs.</u>	<u>Total</u>
1 - Site Index 75 or more	4.6 cords 1.5 Mbf	- -	2.6 cords 4.4 Mbf	3.3 cords 8.6 Mbf	10.5 cords 14.5 Mbf
2 - Site Index 65 - 75	3.3 cords 1.0 Mbf	- -	7.0 cords 3.2 Mbf	4.6 cords 5.5 Mbf	14.9 cords 9.7 Mbf
3 - Site Index less than 65	- -	3.1 cords 0.8 Mbf	- -	15.4 cords 3.7 Mbf	18.5 cords 4.5 Mbf

Exhibit C

BOOK 0028 PAGE 0279

**MANAGED TIMBER  
PROPERTY ANALYSIS**

**Tax Year 2021**

Dale W. Steager  
State Tax Commissioner  
Department of Revenue

**MANAGED TIMBERLAND APPRAISAL RATES  
TAX YEAR 2021**

(based on market 2015-2019)

Tentative Rates Per Acre

Class II Parcels	<u>Grade 1</u>	<u>Grade 2</u>	<u>Grade 3</u>
Region 1	\$228	\$140	\$50
Region 2	\$235	\$148	\$50
Region 3	\$258	\$164	\$50
Region 4	\$282	\$200	\$81
Region 5	\$200	\$140	\$50

Class III/IV Parcels	<u>Grade 1</u>	<u>Grade 2</u>	<u>Grade 3</u>
Region 1	\$275	\$175	\$75
Region 2	\$275	\$175	\$75
Region 3	\$275	\$180	\$75
Region 4	\$310	\$195	\$75
Region 5	\$275	\$175	\$75

Region 1 =	Brooke, Cabell, Hancock, Jackson, Marshall, Mason, Ohio, Pleasants, Putnam, Tyler, Wetzel, and Wood Counties
Region 2 =	Braxton, Calhoun, Clay, Doddridge, Gilmer, Harrison, Lewis, Marion, Monongalia, Ritchie, Roane, Taylor, and Wirt Counties
Region 3 =	Barbour, Greenbrier, Monroe, Nicholas, Pendleton, Pocahontas, Preston, Randolph, Tucker, Upshur, and Webster Counties
Region 4 =	Berkeley, Grant, Hampshire, Hardy, Jefferson, Mineral and Morgan Counties
Region 5 =	Boone, Fayette, Kanawha, Lincoln, Logan, McDowell, Mercer, Mingo, Raleigh, Summers, Wayne, and Wyoming Counties

Harvest Interval <u>Grades</u>	Harvest Volumes per Acre					Total
	<u>35 Yrs.</u>	<u>45 Yrs.</u>	<u>55 Yrs.</u>	<u>80 Yrs.</u>		
1 - Site Index 75 or more	4.6 cords 1.5 Mbf	-- --	2.6 cords 4.4 Mbf	3.3 cords 8.6 Mbf		10.5 cords 14.5 Mbf
2 - Site Index 65 - 75	3.3 cords 1.0 Mbf	-- --	7.0 cords 3.2 Mbf	4.6 cords 5.5 Mbf		14.9 cords 9.7 Mbf
3 - Site Index less than 65	-- --	3.1 cords 0.8 Mbf	-- --	15.4 cords 3.7 Mbf		18.5 cords 4.5 Mbf

Managed Timberland Statistics

**Estimation of Required Rate of Return: Class II Rates**

A. *Safe Rate of Return (5 Year T-Bill Rate)*

Year	Rate	W/A %	W/A Rate
2019	1.9575	33.33%	0.6524
2018	2.7480	26.67%	0.7329
2017	1.9100	20.00%	0.3820
2016	1.3383	13.33%	0.1784
2015	1.5292	6.67%	0.1020

2.048 %

B. **Nonliquidity Rate**

(12 Month T-Bills vs. 3 Month T-Bills)

Year	Rate	W/A %	W/A Rate
2019	0.5000	33.33%	0.1667
2018	0.3563	26.67%	0.0956
2017	0.2542	20.00%	0.0508
2016	0.2850	13.33%	0.0393
2015	0.2683	6.67%	0.0179

0.370 %

C. **Risk Rate (30 yr T-bills vs 5 yr T-bills)**

Year	Rate	W/A %	W/A Rate
2019	0.6250	6.67%	0.0417
2018	0.3642	13.33%	0.0485
2017	0.9850	20.00%	0.1970
2016	1.2592	26.67%	0.3358
2015	1.3117	33.33%	0.4372

1.060 %

D. **Management Factor of 0.5%**

0.500 %

E. **Property Tax Component**

(60% of Class II Rate)

Year	Rate	W/A %	W/A Rate
2019	0.720	33.33%	0.2400
2018	0.708	26.67%	0.1888
2017	0.714	20.00%	0.1428
2016	0.708	13.33%	0.0944
2015	0.714	6.67%	0.0476

0.714 %

F. **Inflation Rate:**

(Bureau of Labor Statistics)

Year	Rate	W/A %	W/A Rate
2019	1.810	20.00%	0.3620
2018	1.910	6.67%	0.1274
2017	2.110	13.33%	0.2813
2016	2.070	33.33%	0.6899
2015	0.730	26.67%	0.1947

(1.555) %

TOTAL REQUIRED RATE OF RETURN (REAL)

LESS: PROPERTY TAX COMPONENT

TOTAL DISCOUNT COMPONENT

3.037 %

(0.714)

2.323 %



**Stumpage Prices:**

Stumpage Price Adjustment Factor      Sawtimber      0.00%      Pulpwood      2.17%

Region	Current \$/MBF	1.0000			1.0000
		\$/MBF at age 35	\$/MBF at age 45	\$/MBF at age 55	
Region 1	134.14	134.14	134.14	134.14	134.14
Region 2	134.51	134.51	134.51	134.51	134.51
Region 3	144.09	144.09	144.09	144.09	144.09
Region 4	143.53	143.53	143.53	143.53	143.53
Region 5	109.57	109.57	109.57	109.57	109.57

Region	\$/Cord	2.1199			2.6276	3.2668	5.5702
		\$/cd at age 35	\$/cd at age 45	\$/cd at age 55			
Region 1	2.62	5.35	6.63	8.22	14.06		
Region 2	3.45	7.31	9.07	11.24	19.22		
Region 3	3.70	7.89	9.71	12.04	20.58		
Region 4	7.55	16.00	19.83	24.58	42.04		
Region 5	6.10	12.93	16.03	19.87	33.98		

**PULPWOOD:**

**Management Costs:**

Region	\$/acre (1)
1	3.25
2	3.25
3	3.25
4	3.25
5	3.25
State	

**Tax Rates:**

Effective Federal Income Tax Rate	21.00%
Effective WV State Income Tax Rate (6.5% * (1-.21))	5.14%
Effective WV Severance Tax Rate (1.5% * (1-.21))	1.19%

**Yield (Volumes) (80 year rotation)**

Timberland Productivity Grades	Site Index	Yield - MBF	Yield - Cords
Grade I	75 or more	14.5	10.5
Grade II	65-74	9.7	14.9
Grade III	less than 65	4.5	18.5

Managed Timberland Statistics

Estimation of Required Rate of Return: Class III & IV Blended Rates

A. Safe Rate of Return (5 Year T-Bill Rate)

Year	Rate	W/A %	W/A Rate
2019	1.9575	33.33%	0.6524
2018	2.7480	26.67%	0.7329
2017	1.9100	20.00%	0.3820
2016	1.3383	13.33%	0.1784
2015	1.5282	6.67%	0.1020

2.048 %

B. Nonliquidity Rate

(12 Month T-Bills vs. 3 Month T-Bills)

Year	Rate	W/A %	W/A Rate
2019	0.5000	33.33%	0.1667
2018	0.3583	26.67%	0.0956
2017	0.2542	20.00%	0.0808
2016	0.2950	13.33%	0.0393
2015	0.2683	6.67%	0.0179

0.370 %

C. Risk Rate (30 yr T-bills vs 5 yr T-bills)

Year	Rate	W/A %	W/A Rate
2019	0.6250	6.67%	0.0417
2018	0.3642	13.33%	0.0485
2017	0.9850	20.00%	0.1970
2016	1.2592	26.67%	0.3358
2015	1.3117	33.33%	0.4372

1.960 %

D. Management Factor of 0.5% |

0.500 %

E. Property Tax Component  
(60% of Blended III&IV Rates)

Year	Rate	W/A %	W/A Rate
2019	1.320	33.33%	0.4400
2018	1.302	26.67%	0.3472
2017	1.308	20.00%	0.2616
2016	1.308	13.33%	0.1744
2015	1.314	6.67%	0.0876

1.311 %

F. Inflation Rates:

(Bureau of Labor Statistics)

Year	Rate	W/A %	W/A Rate
2019	1.810	20.00%	0.3620
2018	1.910	6.67%	0.1274
2017	2.110	13.33%	0.2813
2016	2.070	33.33%	0.6899
2015	0.730	26.67%	0.1947

(1.655) %

TOTAL REQUIRED RATE OF RETURN (REAL)  
LESS: PROPERTY TAX COMPONENT  
TOTAL DISCOUNT COMPONENT

3.634 %  
(1.311)  
2.323 %

**Stumpage Prices:**

Stumpage Price Adjustment Factor

Sawtimber 0.00% Pulpwood 0.55%

SAWTIMBER	Region	Current \$/MBF	1.0000		1.0000		1.0000	
			\$/MBF at age 35	\$/MBF at age 45	\$/MBF at age 55	\$/MBF at age 80		
	Region 1	204.11	204.11	204.11	204.11	204.11	204.11	
	Region 2	200.25	200.25	200.25	200.25	200.25	200.25	
	Region 3	209.81	209.81	209.81	209.81	209.81	209.81	
	Region 4	211.85	211.85	211.85	211.85	211.85	211.85	
	Region 5	168.74	168.74	168.74	168.74	168.74	168.74	
			1.2116	1.2800	1.3521	1.5508		
PULPWOOD:		Region	\$/Cord	\$/cd at age 45	\$/cd at age 55	\$/cd at age 80		
	Region 1	2.52	3.06	3.23	3.41	3.92		
	Region 2	5.76	6.88	7.37	7.79	8.83		
	Region 3	4.13	5.00	5.28	5.58	6.40		
	Region 4	10.90	13.20	13.95	14.74	16.90		
	Region 5	5.72	6.94	7.33	7.74	8.88		

**Management Costs:**

Region	\$/acre (1)
1	3.25
2	3.25
3	3.25
4	3.25
5	3.25
State	

**Tax Rates:**

Effective Federal Income Tax Rate	21.00%
Effective WV State Income Tax Rate (6.5% * (1-.21))	5.14%
Effective WV Severance Tax Rate (1.5% * (1-.21))	1.19%

**Yield (Volumes) (80 year rotation)**

Timberland		Yield - MBF	Yield - Cords
Productivity Grades	Site Index		
Grade I	75 or more	14.5	10.5
Grade II	65-74	9.7	14.9
Grade III	less than 65	4.5	18.5

West Virginia Wgt/Avg Managed Timberland Stumpage Prices

REGION 1 - Sawtimber						
Year	Volume	\$/MBF	W/A%	\$/MBF	W/A%	\$/MBF
2019	29,461.29	209.92	33.33%	209.92	33.33%	69.97
2018	9,307.85	208.95	26.67%	208.95	26.67%	55.72
2017	21,212.89	213.61	20.00%	213.61	20.00%	42.76
2016	11,080.07	170.93	13.33%	170.93	13.33%	22.79
2015	12,561.80	192.85	6.67%	192.85	6.67%	12.86
	83,643.90					204.11

REGION 1 - Pulpwood *						
Year	Volume	\$/CORD	W/A%	\$/CORD	W/A%	\$/CORD
2019			0.00%		0.00%	0.00
2018			60.00%		60.00%	1.16
2017	3,802.40	5.81	20.00%	5.81	20.00%	0.36
2016	240.00	2.70	13.33%	2.70	13.33%	1.00
2015	7,218.90	15.03	6.67%	15.03	6.67%	2.52
	11,261.30					

REGION 2 - Sawtimber						
Year	Volume	\$/MBF	W/A%	\$/MBF	W/A%	\$/MBF
2019	38,964.42	197.22	33.33%	197.22	33.33%	65.74
2018	37,951.25	214.78	26.67%	214.78	26.67%	57.27
2017	57,210.90	203.96	20.00%	203.96	20.00%	40.79
2016	41,475.00	185.68	13.33%	185.68	13.33%	24.76
2015	26,487.65	175.25	6.67%	175.25	6.67%	11.69
	202,089.22					200.25

REGION 2 - Pulpwood						
Year	Volume	\$/CORD	W/A%	\$/CORD	W/A%	\$/CORD
2019	8,026.30	6.93	33.33%	6.93	33.33%	2.31
2018	5,952.60	4.23	26.67%	4.23	26.67%	1.13
2017	5,606.50	6.84	20.00%	6.84	20.00%	1.37
2016	25,517.30	4.17	13.33%	4.17	13.33%	0.56
2015	42,863.30	5.97	6.67%	5.97	6.67%	0.40
	87,966.00					5.76

REGION 3 - Sawtimber						
Year	Volume	\$/MBF	W/A%	\$/MBF	W/A%	\$/MBF
2019	86,183.30	197.17	33.33%	197.17	33.33%	65.72
2018	107,266.20	233.19	26.67%	233.19	26.67%	62.18
2017	112,269.80	212.95	20.00%	212.95	20.00%	42.58
2016	136,304.30	191.34	13.33%	191.34	13.33%	25.51
2015	135,867.80	207.12	6.67%	207.12	6.67%	13.81
	577,891.40					209.81

REGION 3 - Pulpwood						
Year	Volume	\$/CORD	W/A%	\$/CORD	W/A%	\$/CORD
2019	126,600.70	1.29	33.33%	1.29	33.33%	0.43
2018	25,448.30	6.04	26.67%	6.04	26.67%	1.61
2017	143,565.20	7.86	20.00%	7.86	20.00%	1.57
2016	189,606.30	1.92	13.33%	1.92	13.33%	0.26
2015	184,907.30	3.85	6.67%	3.85	6.67%	0.26
	650,127.80					4.13

**REGION 4 - Sawtimber**

Year	Volume	\$/MBF	W/A%	\$/MBF
2019	29,355.02	204.95	33.33%	68.32
2018	25,592.56	218.49	26.67%	58.26
2017	15,073.14	238.37	20.00%	47.67
2016	9,925.16	170.26	13.33%	22.70
2015	6,644.42	223.42	6.67%	14.90
	86,580.30			211.85

**REGION 4 - Pulpwood**

Year	Volume	\$/CORD	W/A%	\$/CORD
2019	2,348.30	10.05	33.33%	3.35
2018	4,428.90	12.56	26.67%	3.35
2017	3,813.30	11.16	20.00%	2.23
2016	4,538.50	11.14	13.33%	1.49
2015	6,137.40	7.22	6.67%	0.48
	21,267.40			10.90

**REGION 5 - Sawtimber**

Year	Volume	\$/MBF	W/A%	\$/MBF
2019	35,343.64	180.50	33.33%	60.17
2018	10,243.05	173.82	26.67%	46.35
2017	45,373.14	162.33	20.00%	32.47
2016	23,026.02	150.53	13.33%	20.07
2015	37,714.40	160.15	6.67%	10.68
	151,700.25			169.74

**REGION 5 - Pulpwood**

Year	Volume	\$/CORD	W/A%	\$/CORD
2019	1,659.60	4.99	33.33%	1.66
2018	1,568.50	5.73	26.67%	1.53
2017	9,644.70	7.32	20.00%	1.46
2016	2,794.40	5.99	13.33%	0.80
2015	2,889.50	4.05	6.67%	0.27
	18,556.70			5.72

Exhibit D



Dave Hardy  
Secretary of Revenue

Dale W. Steager  
State Tax Commissioner

STATE TAX DEPARTMENT

ADMINISTRATIVE NOTICE 2021-11

PROPERTY TAX  
STATE TAX COMMISSIONER'S STATEMENT  
FOR THE DETERMINATION OF THE CAPITALIZATION  
RATES FOR MANAGED TIMBERLAND FOR PROPERTY  
TAX PURPOSES FOR TAX YEAR 2021, PURSUANT TO § 110 CSR 1H-12

On May 1, 1999, the Legislative Rule for the appraisal of managed timberland properties (See § 110 CSR 1H) became effective. This notice will address one of the valuation variables, the capitalization rate, setting forth the generally accepted appraisal procedures used in developing the respective rates and in applying the rates to income streams generated by managed timberland properties. To this end, this notice will discuss development of capitalization rates for managed timberland.

DISCUSSION

The International Association of Assessing Officers text *Property Appraisal and Assessment Administration*, 1990, defines a capitalization rate as: "Any rate used to convert an estimate of income to an estimate of market value; the ratio of net operating income to market value." In other words a rate used to convert an estimate of future income into an estimate of present value.

The average statewide capitalization rate (based on a 5-year weighted moving average of various components) for managed timberland is determined annually by the Tax Commissioner through the use of generally accepted methods of determining such rates. The rate is based on the assumption of a discounted cash flow model based upon harvest intervals reflected in Appendix 4 of § 110 CSR 1H.

Generally, there are three (3) components that must be considered and, if appropriate, developed and included in an overall capitalization rate. These components are: the discount component, the recapture component, and the property tax component. The development of the components is discussed in the Rule under Section § 110 CSR 1H-12.1. These are as follows:

Property Tax Division, 1124 Smith Street, P.O. Box 2389, Charleston, WV 25328-2389  
Telephone 304-558-3940  
Fax 304-558-1843

DISCOUNT COMPONENT

The summation technique is used to develop a discount component of the capitalization rate. The five sub-components of the discount component are:

**Safe Rate.** -- The safe rate reflects a rate of return that an investor could expect on an investment of minimal risk. This rate is developed through weighted averages of interest rates offered on five-year United States Treasury Bills for the five years immediately preceding the appraisal date.

**Nonliquidity.** -- The nonliquidity rate is developed through an annual review to determine a reasonable estimate of time that timberland, when exposed for sale, remains on the market before being sold. The time thus determined is used to identify United States Treasury Bills with similar time differentials in excess of thirteen-week Treasury Bills. The interest differential between these securities is used to represent the nonliquidity rate. For example, if it is determined that a tract of timberland remains on the market for an average of nine months (39 weeks) before being sold, the nonliquidity rate is derived by subtracting the rate on 13-week Treasury Bills from the rate on one-year Treasury Bills. This review considers the weighted average of these differences for a five-year period immediately preceding the appraisal date.

**Risk Rate.** -- The relative degree of risk of an investment in timberland is developed through an annual review of thirty-year United States Treasury Bills less five-year United States Treasury Bills. The review considers the weighted averages of debt and equity components of these differences for a five-year period immediately preceding the appraisal date.

**Management Rate.** -- The management rate represents the cost of managing the investment, not the cost of managing the timberland. Historically, the management rate has been one-half of one percent (0.5%); therefore, this rate is considered the industry standard for current applications.

**Inflation Rate (negative).** -- Nominal interest rates, including the "safe rate" mentioned above, are higher than real rates by an amount representing expectation of future inflation. Therefore, the capitalization rate must be a real rate, net of expectation of inflation. The inflation rate is established through a weighted average analysis of the most recent five calendar year's urban consumer price index as determined by the United States Department of Labor, Bureau of Labor Statistics.

In determining the discount component of the capitalization rate, the Tax Commissioner determines the sum of the safe rate, the nonliquidity rate, the risk rate, and the management rate, and deducts from this sum the inflation rate.

RECAPTURE COMPONENT

The discount component previously discussed provides an investor with a rate of return-on-investment (interest). The second capitalization rate component, recapture, provides the investor with a return-of-investment principal (i.e.: provides an estimate of return necessary for the investor to recover the principal invested). Once a capitalization rate has been developed, the income series is discounted to present worth through selection of a multiplier(s). The multiplier has a built in factor for recapture thus removing the need to separately accommodate for recapture in the capitalization rate.

PROPERTY TAX COMPONENT

The final component, property taxes, is derived for Class II, Class III, and Class IV properties by multiplying the assessment rate by the statewide average of tax rates on such classes of property.

APPLICATION

The rates as developed above (and shown on attachments) are applied against the difference between future values of the harvest (at determined harvest intervals) less the future value of the management costs less a property tax adjustment for each class of property.

For more information concerning the development of capitalization rates for managed timberland properties see § 110 CSR 1H or contact the State Tax Department at (304) 558-3940.

Notice of this determination will be filed in the West Virginia Register.

Issued: January 29, 2021



Dale W. Steager  
State Tax Commissioner

State Tax Department  
Property Tax Division  
P. O. Box 2389  
Charleston, WV 25328-2389

Operator on Duty 8:30 am - 5:00 pm  
Monday through Friday  
Phone: (304) 558-3940  
FAX: (304) 558-1843



Exh. b. if E

Submitted to: WV Division of Forestry (WVDOP)

Submitted by: Curt Hassler – Balkentier LLC (Contractor)

### Project Narrative

#### Background

The traditional source of stumpage values in West Virginia has been surveys of timber buyers operating in West Virginia. Both the WV Division of Forestry (West Virginia Timber Price Report) and the WVU School of Forestry-Appalachian Hardwood Center (AHC) (West Virginia Timber Market Report) have conducted stumpage surveys on an annual and quarterly basis, respectively, with the information classified by 5 separate regions. Both the WVDOP and the AHC recognize the weaknesses inherent in this approach. First, the number of respondents is low, making any quantitative conclusions difficult. And second, because of the proprietary nature of the stumpage pricing from individual companies it is not possible to verify the accuracy of the rates.

A more scientific method to developing stumpage prices would be preferable to a survey methodology. With the ongoing efforts of the AHC to develop empirical data as the basis for log pricing, an alternative methodology is possible. Coupled with the recent collaboration between the AHC and the Appalachian Hardwood Manufacturers, Inc. (AHMI) to implement a standardized log grading and scaling system the necessary platform for developing a stumpage pricing system can be developed.

This proposal outlines the components of a stumpage pricing methodology that can be used for Appalachian hardwoods.

#### Project Description

The buying and selling of stumpage in the marketplace occurs in a number of different ways, including lump sum purchase through competitive bid sales, lump sum purchase via negotiation between buyer and seller, and percentage sales where the landowner and stumpage purchaser agree on the percentage each one receives from the gross sales price of harvested products. Determining stumpage value in these various scenarios is complicated. The proceeds of the sale to the landowner represent the true stumpage value, but this is rarely if ever categorized by species. Therefore, gathering stumpage data

from landowners is effectively a dead end option. Gathering stumpage values from buyers is, as discussed in the Introduction of this proposal, a better option than generating the data from sellers/landowners, but has its own inherent weaknesses.

A quantitative approach to stumpage value determination will require addressing several variables. At an elemental quantitative level, stumpage value is determined as:

$$\text{Stumpage Value (SV)} = \text{Delivered log price (DP)} - \text{Logging Cost (LC)} - \text{Trucking Cost (TC)} - \text{Profit (P)} \quad (1)$$

Delivered log pricing can be determined in 2 ways: using pricing sheets from mills that purchase logs on the open market or through a scientific methodology that is based on lumber grade yields, overrun/underrun, sawing cost, and market pricing of lumber and cant products. The problem with pricing sheets from mills is that there is no standardization of log grades or scaling practices for log volume. Therefore, it is very difficult, if not impossible to estimate stumpage value from mill specific pricing sheets because one is necessarily comparing apples to oranges to pears.

So, from a quantitative, scientific approach delivered price is what a mill can afford to pay for a log of specific quality and size. This calculation is based on the expected lumber grade yield of the log, the expected overrun/underrun from the log, the cost to saw that log, and the market prices for the lumber and cants produced from the log. The AHC has, using empirical data, developed a standardized system of log grading, scaling, and pricing of hardwood logs. This model is based on scaling diameter and clear faces to establish log grade. A log grade is determined from the expected volume of Select & Better lumber from that combination of scaling diameter and clear faces. The empirical data also includes overrun/underrun by log size class. Lumber and cant pricing can be based on Hardwood Market Report (HMR) or Weekly Hardwood Review (WHR) price reports available on a weekly basis. Sawing cost is mill specific and would have to be obtained by way of survey from sawmills in WV.

Data on logging cost and trucking cost present an issue not unlike securing stumpage prices from stumpage buyers. At this point in time, the only feasible way to obtain this data is to ask those in the business of harvesting timber what the prevailing logging and trucking rates are. This can be a combination of loggers and those at the various mills contracting with loggers and truckers on a regular basis. This differs somewhat from asking buyers for stumpage prices for multiple species that are perhaps of a more proprietary nature. In this case logging and trucking rates are less proprietary and require the respondent to provide only two dollar amounts. Another issue is that trucking cost is based on distance from the mill and would therefore require an assumption about distance. For instance, what is the cost per mile for a 20 mile, one way haul distance to the receiving mill?

The final variable in equation (1) is profit. Since profit is a highly proprietary number, the model could just assume a fixed profit level (say 5%) or simply assume that all the estimates are based on breakeven pricing.

The various steps to be taken in developing a stumpage value procedure are outlined in the following Workplan.

#### **Workplan**

1. The contractor will assist the WVDOF in developing a survey to be distributed to businesses that can provide logging, trucking, and sawing rates. Trucking rate will require an assumption about average distance to the receiving sawmill for delivery of sawlogs. Consideration should also be made as to whether the survey will categorize sawing costs by species or species groups. Finally, the contractor can also assist in developing a mailing list of pertinent businesses to survey, if desired by WVDOF.
2. Stumpage value is defined in Title 110, Series 1H, Valuation of Timberland and Managed Timberland. The relevant section is 110-1H-3.17, which states that stumpage value will be "... based upon 16-inch (dbh) logs". This particular language leaves the issue open to different interpretations. First, it could mean that stumpage value should be based on sawlogs with a 16-inch scaling diameter, ignoring the reference to "dbh", as it seems out of place. Second, it could mean that trees of 16-inch dbh should be used. In this case, the resulting 16-foot butt log will have a scaling diameter of 13-inches, based on a Form Class 80 calculation of the diameter at 16 feet. Based on empirical data from a mill the AHC is working with, their most common size log is 16-inches, with 13-inches being the sixth most common log size. Thus, it does not seem logical to focus stumpage value solely on 13-inch logs.  
  
Therefore, in order to cover the various bases here, the contractor will calculate stumpage value based on both 16-inch and 13-inch logs, over the range of quality as reflected in the number of clear faces (0 to 4 clear faces). The contractor will attempt to define the distribution of log quality from contacts with sawmills in WV. The results will be a weighted average stumpage value, based on diameter (16-inch and 13-inch) and clear faces.
3. Contractor will provide WVDOF with a report describing the methodology used and any assumptions made, as well as, a spreadsheet for calculating stumpage values, in which logging rate, trucking rate, sawing costs, and lumber/cant pricing can be updated as needed, using survey results. The two third party lumber pricing organizations, Hardwood Market Report and Weekly Hardwood Review, can be used for lumber/cant pricing.

The spreadsheet will contain stumpage value calculations for the following species: Walnut, White Oak, Red Oak, Cherry, Hard Maple, Soft Maple, Ash, Yellow-poplar, Basswood, and Hickory, as currently reported in the West Virginia Timber Price Report. Because the database does not contain any softwood results, White Pine and Other Pine will not be included. Also, without any published pricing data on "Other Oak" and "Other Hardwood", these species will not be included in the spreadsheet (although it could be possible to use beech pricing as a substitute for "Other Hardwood"). Also, any differences between the five regions, as currently reported, will necessarily be a result of differences in logging, trucking, and sawing costs, not on any possible geographic differences in lumber grade yields and overrun/underrun.

#### **Budget and Timeline**

It is estimated that the project will be completed by January 31, 2021.

The lump sum budget for completing the project, as outlined above, is \$9,300.

Issues:

- The Tax Commissioner has determined the 2020 Managed Timberland Taxes will increase a dramatic 16%-21%
- The legislative rule which established the formula is extremely complicated and both the Tax Department and the WV Division of Forestry have stated the need for revision.
- There are several issues with the methodology and accompanying data inputs used to calculate tax liability, that do not reflect the current conditions for hardwood timber management in WV.

Examples:

- Stumpage prices are not statistically accurate due to lack of annual survey responses; (there is no requirement, or incentive, to provide information).
- The methodology for grading timberland to determine productivity potential is severely out of date
- The capitalization rate is based on several components, some of which no longer exist and others that do not accurately reflect current conditions in hardwood management which will require them to file for an exoneration at the County Commissioners' Board of Equalization and Review. Those dates are fast approaching.

The Forestry Industry has been extremely hard hit with the Chinese Tariffs and the Covid-19 pandemic. This tax increase will have a grave impact on an already crippled industry. The enrollees will have:

- Less incentive to manage their timberland in a sustainable manner which will affect the availability and quality of raw material our forest industry depends on.
- Liquidation of their timber assets in the near term will reduce stumpage prices with the increased sales, further reducing future tax rates, and loss or revenues for local governments.

The West Virginia Forestry Association and the WV Division of Forestry have been in discussions as to how to move forward to alleviate the proposed increase and find a suitable solution. WVFA has also had several conversations with the Tax Department and information is attached as to the method used to formulate the tax.

Suggested solutions:

- Freeze the 2021 tax increases at the 2020 tax rates for one year.
- Perform a comprehensive review of the Managed Timberland tax rate calculations and develop recommendations on how to revise the program to better reflect current conditions.

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