



Earl Ray Tomblin
Governor

Charles R. Dye
Director/State Forester

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December 23, 2016

Joint Committee on Government & Finance
WV State Government
State Capitol
Charleston, WV 25305

RE: WV Managed Timberland Impact Assessment

Dear Joint Committee Members:

Attached is the 2016 annual report which assesses the impact of the Managed Timberland Program on West Virginia as required by West Virginia Code 11-1C-11(c).

Sincerely,

A handwritten signature in blue ink that reads "Charles R. Dye".

Charles R. Dye
Director/State Forester

CRD:jmcg;jm

Attachment

cc: Jeffrey Amburgey
Greg Cook
Keith Burdette
Jeremy McGill

REPORT ON MANAGED TIMBERLAND PROGRAM

Prepared by the West Virginia Division of Forestry

C. R. Dye, Director/State Forester

December 20, 2016

Brief Overview

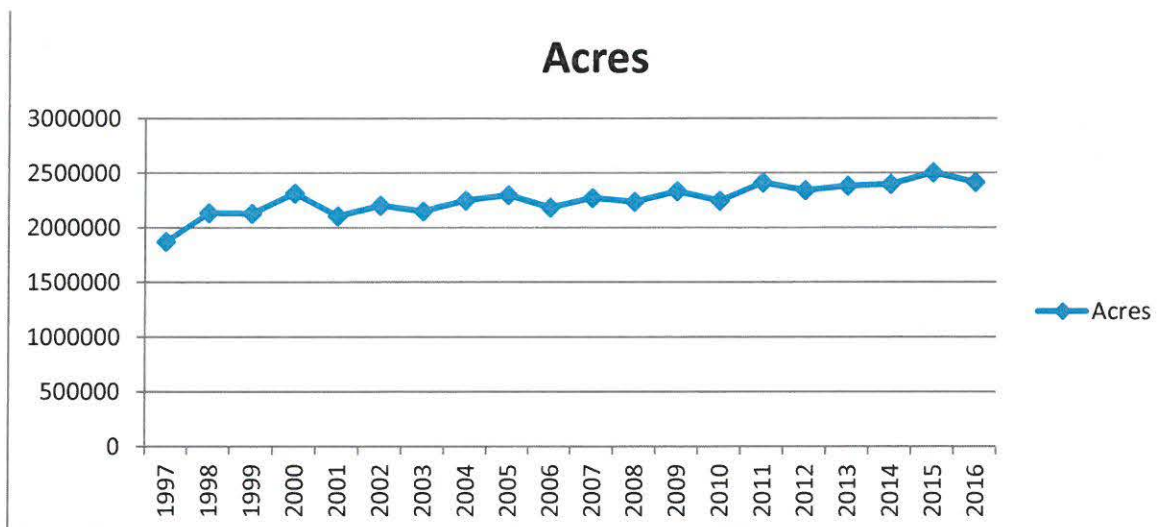
In 1946 the residents of West Virginia passed a constitutional amendment that provided a property tax incentive to forest landowners that practiced sound forest management. The Managed Timberland Program act, passed by the West Virginia Legislature during the 1990 Regular Session, was done to comply with the “Forestry Amendment.” Legislative rules for the act were passed during the 1991 Regular Session. **The legislative rules specified how property in managed timberland was to be evaluated.** Stumpage price was the major factor in computing the appraised value of the property enrolled in this program. As stumpage prices began to rise in the early 1990s, the appraised value of managed timberland properties also rose. The number of acres in managed timberland increased each year until 1995, at which time Managed Timberland properties became the highest valued forested properties in many counties. This resulted in many individuals withdrawing their properties from the program. In 1998, the Legislature amended the law incorporating a new method of appraisal, which relies heavily on land productivity. Since 1998, the number of acres enrolled in the Managed Timberland Program has stabilized; though within the last few years it has begun to gradually climb. An attempted amendment was made in 2016 to amend some potential issues with the valuation method outlined in the 1998 amendment and it was passed by the Legislature in the 2016 session but was then vetoed by the Governor.

Real Estate Investment Trusts and Timber Investment Management Organizations maintain the highest percentage of ownership when it comes to acres enrolled in the program. Nearly 70% of all land enrolled in the program belongs to corporate landowners who hold over 1000 acres. However we are still seeing an increased number of non-industrial landowners that are enrolling in the program. As counties raise the assessments on Woodland in the state, more and more private landowners are turning to the Managed Timberland Incentive program for tax relief on their valuations. This trend will probably increase over the next few years unless some change is made that would discourage enrollment as higher market values on land drive assessments up in rural areas.

History of Managed Timberland Acreage

(Acres as certified by the Division of Forestry By September 1 of each year).

Year	Acres
1997	1,870,960.81
1998	2,133,142.64
1999	2,127,773.09
2000	2,312,340.00
2001	2,104,323.87
2002	2,203,015.20
2003	2,148,463.35
2004	2,245,736.64
2005	2,296,135.00
2006	2,180,337.00
2007	2,268,690.22
2008	2,233,109.00
2009	2,330,501.93
2010	2,242,276.00
2011	2,410,564.00
2012	2,340,737.00
2013	2,380,774.00
2014	2,394,255.20
2015	2,499,661.00
2016	2,413,554.00



Since the amendment of 1998, there were a large number of private non-industrial forest landowners who have entered into a contract to enroll their timberland with the Division of Forestry and have their property certified as managed timberland. Many of these landowners have used the Forest Stewardship program to acquire forest management plans for their property at a reduced cost. The U.S. Forest Service Stewardship program is of great assistance in this effort. One of the goals of the managed timberland program is to encourage forest landowners to begin to use sustainable silvicultural practices on their property. This is best accomplished by following a Forest Stewardship plan.

Impacts of the Program on Forest Industry

- The Managed Timberland Program allows landowners to classify their property as timberland rather than as potential development areas in high growth areas of the State. The lower tax rate associated with Managed Timberland, as opposed to potential development property, allows the landowner to continue his or her long-term investment at an acceptable rate of return. The alternative without the Managed Timberland Program would encourage the landowner to liquidate his or her investment to avoid a loss.
- The Managed Timberland Program encourages new forest industries to locate manufacturing facilities in West Virginia. Long-term raw material supply is more favorable in the State because of the Managed Timberland Program. Urban sprawl in many states has increased land values to the point where timber management is no longer a viable economic option for the landowner. Therefore, forest product manufacturing facilities no longer have a raw material supply and are forced to shut down.
- The Managed Timberland Program encourages timberland owners, both private and industrial, to intensively manage their property on a sustained basis. The management of timberland is a long-term investment; therefore, yields are critically sensitive to cost and interest rates. Interest rates are determined by the world's economy; therefore, the forest landowner must control all other costs, including property taxes, in order to obtain an acceptable rate of return. The Managed Timberland Program allows for this by linking property taxes to soil productivity and stumpage prices, which ultimately determine the rate of return on the investment.

- There has been an instance of a County Commission refusing landowners Managed Timberland Status even though they qualified for the program. The County Commission argued they have this right due to a court decision pertaining to In re The 1994 Assessments of the Property of Righini, 197 W. Va. 166, 475 S.E.2d 166 (1996) wherein the Court stated “If the Legislature had intended to preempt the assessor and the county commission in their respective roles in the assessment process, it would have said so specifically. Absent any specific instruction by the Legislature, we cannot disturb the extant system of valuation of real and personal property.” 197 W. Va. at 171, 475 S.E.2d at 171. The Court thus held that the county assessor had the power to ignore the managed timberland program and appraise the subject property based on its generalized market value rather than the value of its timber as set forth in the managed timberland program. However, in 1998, the legislature amended W. Va. Code § 11-1C-11 (b) to include the word “Shall” in several key spots. One could argue that the intent of this change was to specifically insert the language that was lacking in accordance with the court’s findings. Until this is tested and affirmed by a court though it is likely that the Righini precedence will hold. It’s something to keep an eye on as it could seriously undermine the benefits of the program if more County Commissions or Assessors begin to ignore MTL status in their valuations.
 - a. There is a pending law suit in Ohio County vs the Assessor regarding this, but it does not appear there will be any sort of decision in the near future.
- The Division has been assisting both the Tax Department and a citizen coalition to help adjust the Managed Timberland rule, mapping and valuation system to provide a more accurate method of assessment. An amended rule was passed through the legislature during the 2016 legislative session but was vetoed by the Governor. A presentation outlining the amendment and the issues with the current rule was presented to the Forest Management Review Commission in their September 2016 meeting. However; no action was taken or recommendation made by the Commission.