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USE VALUE OF FOREST RESERVE CORRECTLY DETERMINED

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A panel of the Commonwealth Court concluded that an assessment board correctly determined the use value of forest reserve land that qualified for preferential tax assessment under the Pennsylvania Farm Land and Forest Land Assessment Act of 1974, 72 P.S. §§ 5490.1-5490.13. *Herzog v McKean County Board of Assessment Appeals*, No. 1883 C.D. 2009 (Pa. Commw. Feb. 22, 2011). The statute permits a county assessor to value forest reserve land at a use value established by the Department of Agriculture. The taxpayer claimed that the assessor should have valued the land at a lower value using a discounted cash flow method. The court held that the use of a value other than that determined by the Department was not mandatory and the taxpayer had not shown that the Department's value was invalid.

Although collateral to the decision, the court discussed confusing testimony on the discounted cash flow method. Citing testimony by the board's expert, the court stated that the discounted cash flow method recommended by the taxpayer's expert would produce fluctuating values depending on whether trees in the land were young or ready for harvest. The board expert evidently claimed that the income capitalization method would produce a more even result. The opposite is true. The discounted cash flow method is a variation on the income method of valuation. It is used when income from a property can vary considerably over the years. The point is to combine the varying income streams after discounting to present value to produce a value that does not fluctuate from year to year. *Appraisal Institute, The Appraisal of Real Estate*, Ch. 24, Discounted Cash Flow Analysis and Special Applications in Income Capitalization (13th ed. 2008). By contrast, standard income capitalization can produce fluctuating values from year to year, as it generally uses current income, with certain adjustments, to which is applied a capitalization rate. If income from the property fluctuates, the value is more likely to fluctuate from year to year under the standard income capitalization valuation method. When values fluctuate, the discounted cash flow method better captures economic reality and matches what buyers actually use in the marketplace.