September 11, 2014

TO:   Land Conservation and Development Commission

FROM: Jim Rue, Director
      Katherine Daniels, Farm and Forest Lands Specialist

SUBJECT: Agenda Item 11, September 25-26, 2014, LCDC Meeting

INITIATION OF RULEMAKING AND APPOINTMENT
OF RULES ADVISORY COMMITTEE

PRIMARY FOREST PROCESSING DEFINITION

I.  AGENDA ITEM SUMMARY

The Association of Oregon Counties (AOC) requests that the Land Conservation and Development Commission (commission &/or DLCD) amend its 2013-15 policy agenda to include consideration of a rule amendment to define “primary processing of forest products” for forest zones. The definition would be added to OAR 660-006-0005 to provide clarity for county planning departments and others. If you have questions regarding this report please contact Katherine Daniels at 503-934-0069 or katherine.daniels@state.or.us.

II.  BACKGROUND

OAR 660-006-0025(3) authorizes counties to approve temporary facilities for the primary processing of forest products as an outright use in forest zones, while permanent facilities for primary forest processing are a conditional use at 660-006-0025(4). There is no definition for primary forest processing in forest zones in statute or rule, although there is a narrow definition of this use in Exclusive Farm Use zones provided in state law.

In 2013, neighbors objected to an unpermitted log home assembly business in a forest zone in Clackamas County. The county hearings officer determined that the use was not permissible under the forest rule. A subsequent Land Use Board of Appeals ruling concurred with the county hearings officer, finding that the use “goes beyond” primary forest processing authorized by the current rule definition.
In the 2014 legislative session, Senator Chuck Thomsen introduced Senate Bill 1575, at the request of Oregonians in Action, to address these circumstances. The bill was exceedingly broad and proposed changes to state law in order to authorize a range of uses that were not related to the log home business that led to the proposal. The Department of Land Conservation and Development (department &/or DLCD) raised concerns, as did many other interests as well as the neighbors of the log home assembly business. As part of the department’s testimony, the department noted that since this issue derives from a definition of forest processing in DLCD rule, the proponents could have approached the commission to clarify the definition. The bill did not pass out of committee, but AOC was asked to create a workgroup to consider the issue (see Attachment A), which it did. AOC is now requesting that the commission and department take the lead on this matter.

The department believes that there would be value in creating a definition for the primary processing of forest products in forest zones and that such a definition would be better located in rule than in statute. A rule location makes more sense because non-residential uses in forest zones are all currently specified in rule, not in statute. Oregon Department of Forestry staff indicates that there are a variety of new technologies and opportunities (e.g., biogas and biochar energy production from forest waste, among others) that could be included in a definition of primary forest processing. A clarification of the meaning of “primary” as opposed to “secondary” processing, and an identification of permissible uses that fall within such a definition would be a service to counties, potential applicants and neighbors. At the same time, defining this term will open a potentially controversial conversation about a wide range of uses that go beyond addressing log home assembly.

Should the commission elect not to initiate rulemaking on this matter, the department believes it is likely that a legislative solution will be sought in the 2015 session. A legislative approach could focus on log home assembly and not necessarily address the broader range of appropriate uses that should be included in a definition of primary forest processing.

III. **DEPARTMENT RECOMMENDATION**

The department recommends that the commission amend its policy agenda (see Agenda Item 12, Director’s Report), authorize this rulemaking project to begin immediately, and appoint a rules advisory committee (RAC). The department anticipates that approximately three meetings will be necessary. DLCD will report back to the commission with recommended rule wording at the January 2015 commission meeting.
The department has obtained commitments from the following invited RAC members and recommends that the commission appoint them to the RAC:

- Linc Cannon, Oregon Forest Industries Council
- Dave Hunnicut, Oregonians in Action
- Mike McCallister, Clackamas County
- Steve McCoy, 1000 Friends of Oregon
- Mark Nystrom, Association of Oregon Counties
- John Tokarczyk, Oregon Department of Forestry
- Joy Vaughan, Oregon Department of Fish and Wildlife

The department has been unable to obtain commitments from several other invited RAC members at the time of this staff report and recommends that the commission also include them on the RAC and authorize the director to approve the individual(s):

- Tribal member
- Central Oregon Land Watch (confirmed, representative pending)
- The Nature Conservancy (invited)
- A member recommended by the commission’s Citizen Involvement Advisory Committee
- Clackamas County citizen

In addition, the department recommends the commission appoint one of its members to serve as a liaison to this RAC.

The commission’s Citizen Involvement Guidelines for Policy Development will be consulted as the committee is established. The guidelines can be found at [http://www.oregon.gov/LCD/docs/publications/citinvguidepoldev.pdf](http://www.oregon.gov/LCD/docs/publications/citinvguidepoldev.pdf)

**Proposed motion:** I move the commission amend the policy agenda to include rulemaking to establish a definition of “primary processing of forest products” in OAR chapter 660, division 6, and initiate this rulemaking, establish a rules advisory committee as recommended by staff, and appoint [commission member] to the rules advisory committee.

**Alternative Motion:** I move the commission amend the policy agenda to include rulemaking to __________ [any other amendments to OAR chapter 660, division 6 deemed necessary], initiate this rulemaking, establish a rules advisory committee [as amended if necessary], and appoint [commission member] to the rules advisory committee.
IV. ATTACHMENTS

A. Letter from AOC requesting rulemaking
B. *Fritch v Clackamas Co.* LUBA No. 2012-094
C. Senate Bill 1575
Jim Rue
Director, DLCD
635 Capitol St. NE, Suite 150
Salem 97301-2540

Director Rue,

The Association of Oregon Counties (AOC) would like to request that the Land Conservation and Development Commission (LCDC) amend its 2013-15 policy agenda to include consideration of a rule to define primary processing for forest products. The definition would be added to OAR 660.006.0005 in order to add clarity for county planning departments.

During the 2014 legislative session AOC was asked to support Senate Bill 1575 introduced by Senator Chuck Thomsen. The bill was introduced in order to address a need that arose in Clackamas County. At the public hearing for SB 1575 there was impassioned testimony in both support and opposition to the bill. Chair Roblen requested that AOC work with stakeholders and create a workgroup to address these differences. At that point AOC approached DLCD to help find a solution.

AOC would request that LCDC create a workgroup that could develop rule language that would be acceptable by all parties. The intent of the rule would be to define what is primary processing that would include, but not be limited to, accommodation of the initial treatment or shaping, notching, and fitting of logs for log home assembly. Additionally, the rule could address the emerging forest product related technologies such as biochar and gasification.

These uses are forest related processes and can aid local communities in developing jobs in areas where there are increased pressures on farm and forest land for conversion to residential uses. Additionally, a rule change would avoid other parties from going to the 2015 legislature with proposed statute changes.

AOC thanks you for the consideration of our petition. If you have any questions, please contact Energy, Environment and Land Use Policy Manager Mark Nystrom at mnystrom@aocweb.org or 503-400-3236.

Sincerely,

Mike McArthur
Executive Director, AOC
BEFORE THE LAND USE BOARD OF APPEALS

OF THE STATE OF OREGON

MARK FRITCH,  
Petitioner,  

vs.  

CLACKAMAS COUNTY,  
Respondent,  

and  

ROBIN JACOBS, LON WELSH,  
CHRISTINA MEDLYN, MARILYN SULLIVAN,  
SUZANNE PILAND and DIANA PARTIN,  
Intervenors-Respondents.

LUBA No. 2012-094

FINAL OPINION  
AND ORDER

Appeal from Clackamas County.

Daniel Kearns, Portland, filed the petition for review and argued on behalf of petitioner.

Stephen L. Madkour, County Counsel, filed a response brief and argued on behalf of respondent. With him on the brief were Nathan K. Boderman and Christopher Swensen.

Erin Madden, Portland, filed a response brief and argued on behalf of intervenors-respondents. With her on the brief was Cascadia Law PC.

BASSHAM, Board Member; HOLSTUN, Board Chair; RYAN, Board Member, participated in the decision.

AFFIRMED 09/16/2013

You are entitled to judicial review of this Order. Judicial review is governed by the provisions of ORS 197.850.
Opinion by Bassham.

**NATURE OF THE DECISION**

Petitioner appeals a hearings officer’s decision denying his conditional use permit application for a custom log home operation in a forest zone.

**FACTS**

The subject property is a five-acre parcel zoned Timber (TBR). The property is developed with an office and shop, and is located on the east side of Marmot Road. Across the road is an area zoned for and developed with rural residential uses.

For approximately 20 years, petitioner has operated a custom log home business on another site elsewhere in the county, and recently moved his operation to the subject property. After noise complaints from residential neighbors, the county initiated an enforcement action, which prompted petitioner’s application for a conditional use permit. The application seeks approval of the custom log home business as a “[p]ermanent facility for the primary processing of forest products,” a conditional use allowed in a forest zone under OAR chapter 660, division 006, which is the administrative rule implementing Statewide Planning Goal 4 (Forest Lands), and implementing regulations at Clackamas County Zoning Development Ordinance (ZDO) Table 406-1.

The application proposes a series of operations on the subject property. First, raw logs are transported onto the site and stacked for processing. The bark of each log is peeled by hand, and chemical fungicides are applied at some point to prevent rot or insect damage. The logs are scribed, cut and notched with chainsaws and hand tools according to a custom home design prepared by petitioner. Some logs are also milled using a portable saw mill. The logs are then assembled with a crane on a level framework to form the exterior walls of the custom home, which can be one or two stories in height. Weight is added to the walls to compress the logs evenly, and any necessary shaping or adjustments are made to ensure the structure is level and to account for settling. Then the walls are disassembled, the logs loaded
on a truck and shipped to the construction site. At the construction site the walls are
reassembled, a roof is constructed, and stairs, railings, doors, windows added according to the
design. The operations on the subject property typically take several months for each custom
log home.

The hearings officer conducted a hearing on the application, at which residential
neighbors and others appeared in opposition. On November 26, 2012, the hearings officer
issued a decision denying the conditional use application, after concluding that except for the
initial processing of the raw logs, the proposed custom log home operations on the subject
property, particularly the assembly of the exterior shell of the log home, did not constitute the
“primary processing of forest products” within the meaning of ZDO Table 406-1 and OAR
660-006-0025(4)(a). This appeal followed.

MOTION TO STRIKE EXTRA-RECORD EVIDENCE

Petitioner attached to the petition for review two documents not included in the
record: (1) a 2012 report from the U.S. Forest Service regarding Oregon’s forest products
industry, and (2) a 2006 document from Oregon State University entitled “The Wonderful
World of Wood.” The county and intervenors-respondents (intervenors) move to strike the
two documents, as evidence outside the record and not within LUBA’s limited scope of
review. Intervenors also move to strike the arguments in the petition for review based on
those documents

Petitioner responds that the two documents are not produced as evidence, but rather as
“context” for determining the meaning of the phrase “primary processing of a forest product”
as used in OAR 660-006-0025(4)(a). According to petitioner, the two documents
demonstrate that the accepted forest products industry understanding of similar phrases is
broad enough to include the challenged custom log home operation. Petitioner contends that
it is permissible for LUBA to consider the two documents in interpreting the meaning of
OAR 660-006-0025(4)(a).
We disagree with petitioner. For one thing, as discussed below, the Land Conservation and Development Commission (LCDC) adopted OAR 660-006-0025(4)(a) in 1990, and we fail to see how two documents dating from 2006 and 2012 could provide “context” for determining LCDC’s intent in adopting the rule. Even if the two documents existed at the time LCDC adopted the rule, such documents are not legislation that can provide “context” for the administrative rule, or that LUBA could take official notice of. Petitioner cites no authority that would allow LUBA to consider the two documents for any purpose. The motion to strike is granted.

ASSIGNMENT OF ERROR

Petitioner argues that the hearings officer misconstrued the applicable law, in concluding that portions of the proposed custom log home operation on the subject property disqualified the operation as a “[p]ermanent facility for the primary processing of forest products.” According to petitioner, all of the proposed steps of the operation fall within the parameters of that use category.

Intervenors argue, and we agree, that petitioner has not established that the hearings officer misconstrued the term “primary processing of forest products” to exclude at least some components of petitioner’s custom log home operation.

The phrase “primary processing of forest products” as used in ZDO Table 406-1 and OAR 660-006-0025(4)(a) is undefined and the intended scope of that phrase is unclear. Because the county’s code implements the administrative rule, we focus our analysis on the rule.

Under PGE v. Bureau of Labor and Industries, 317 Or 606, 610, 859 P2d 1143 (1993), a reviewing body attempts to determine the intended meaning of ambiguous legislation by examining text and context, supplemented by any available legislative history. If analysis of text, context and legislative history does not resolve the ambiguity, relevant canons of construction may be applied. In the present case, LCDC added the use category of
“[p]ermanent facility for the primary processing of forest products” to the Goal 4 rule in 1990, and that use category and its review criteria have not been amended since. The parties agree that no legislative history exists from the 1990 LCDC proceedings indicating what activities LCDC intended “primary processing of forest products” to include.

Turning first to the text, the hearings officer found, and the parties agree, that “primary” means “first in order of time or development,” and its relevant synonym is “initial.” *Webster’s Third New International Dictionary* 1800 (2002). The most relevant definition of the root term “process” is “to prepare for market, manufacture, or other commercial use by subjecting to some process.” *Id.* at 1808. Thus, it is reasonably clear that the “primary processing” of forest products means the initial or first steps in transforming raw forest products (logs) into products for market, manufacture or other commercial use. Further processing beyond those initial steps are presumably secondary or tertiary steps, and are not allowed on forest lands under OAR 660-006-0025(4)(a). Based on dictionary definitions of “primary,” the hearings officer concluded that “primary processing” applies to the initial treatment of raw timber, which he found would include the debarking of logs, milling, and perhaps the curing or kilning of lumber. However, the hearings officer concluded that “further processing of the logs into a log structure, and all of the associated design, staging, cutting, notching, assembling and disassembling are ‘secondary processing’ akin to a manufacturing business.” *Record* 5.

Petitioner disagrees, arguing that all of the steps the hearings officer identified as “secondary” processing in fact constitute “primary” processing of forest products. According to petitioner, the “secondary” processing or manufacturing aspects of the custom log home operation occur only at the final construction site, when the logs are re-assembled into the structure, and a roof, windows, doors, and other carpentry work is added to produce the final product. Petitioner argues that the design, staging, cutting, notching, assembling and disassembling that occurs on site are all properly understood as the “primary” processing of
forest products, not secondary processing. Petitioner illustrates the proposed distinction
between primary and secondary processing by discussing three types of manufactured forest
products: railroad ties, cedar shakes or shingles, and wooden pallets. In all three cases, we
understand petitioner to argue that only the final steps in producing a ready-to-use finished
product (treating the railroad tie with chemicals, drying and treating the shakes, and
assembling milled lumber into a wooden pallet) qualify as secondary processing.

The text of OAR 660-006-0025(4)(a) does not clarify where “primary” processing
ends and non-primary or secondary processing begins, but we disagree with petitioner’s
apparent position that the line must be drawn to include all steps short of the final steps that
produce a finished, ready-to-use product. The relevant dictionary definition of “primary”
indicates that it means the first or “initial” steps. In a process with multiple steps, as in the
present case, “primary” processing may end well before the final steps resulting in the
finished product. We note that petitioner’s three examples involve relatively simple
processes with only two or three steps. Further, as noted, the relevant dictionary definitions
indicate that “primary processing” of forest products means the initial steps in transforming
logs into products for, among other things, “manufacture.” Under those definitions, any step
in the process that constitutes “manufacturing” is not a primary step. In a process with many
multiple steps, “manufacturing” of the product may occur well before the final step resulting
in the finished product.

In the present case, the hearings officer found, and we agree, that at least the partial
construction of the log home on the subject property resembles “manufacturing” of a product.
We understand petitioner to argue that, because the partially constructed log home is
subsequently disassembled and shipped elsewhere for final assembly, the partial construction
of the log home on the subject property still qualifies as “primary” rather than secondary
processing. However, it is difficult to see how the proposed operation differs in this respect
from a facility that produces wooden pallets, furniture or any other product that is partially
constructed on site, then disassembled for shipping and shipped to the consumer for re-
assembly elsewhere. We conclude based on the text of OAR 660-006-0025(4)(a) that the
“primary processing of forest products” does not include the proposed partial construction of
log homes on the property.

The context of OAR 660-006-0025(4)(a) also supports that conclusion. A
“permanent facility for the primary processing of forest products” is one of two dozen
conditional uses allowed in a forest zone, subject to standards at OAR 660-006-0025(5).
Notably, none of those uses allow manufacturing or quasi-manufacturing types of uses.

Under OAR 660-006-0025(3)(d), a “[t]emporary portable facility for the primary processing
of forest products” is allowed outright on forest lands. Although the two types of facilities
differ in permanency and review standards, the same phrase “primary processing of forest
products” is used in both, and presumably that phrase refers to the same types of processing.
Thus, the same types of primary processing allowed as a conditional use in a permanent
facility are allowed as outright permitted uses in a temporary, portable facility. In our view,
that suggests a narrow rather than a broad scope to the meaning of “primary processing.”

Under petitioner’s broader understanding of “primary processing,” many quasi-
manufacturing or assembly processes could occur on forest lands as outright permitted uses,
as long as those processes did not result in a finished product.

Both parties cite as relevant context ORS 215.283(2)(j) and 215.213(2)(i). Those
statutes are part of the statutory scheme governing non-farm conditional uses allowed in
exclusive farm use zones, and provide for:

“A facility for the primary processing of forest products, provided that such
facility is found to not seriously interfere with accepted farming practices and
is compatible with farm uses described in ORS 215.203 (2). Such a facility
may be approved for a one-year period which is renewable. These facilities
are intended to be only portable or temporary in nature. The primary
processing of a forest product, as used in this section, means the use of a
portable chipper or stud mill or other similar methods of initial treatment of a
forest product in order to enable its shipment to market. Forest products, as
used in this section, means timber grown upon a parcel of land or contiguous land where the primary processing facility is located.”

This provision has existed in the EFU statutes unchanged since at least 1979, and quite possibly was the source of the phrase “primary processing of forest products” that LCDC adopted in 1990 in promulgating OAR 660-006-0025(3)(d) and 660-006-0025(4)(a).

Petitioner cites ORS 215.283(2)(j) and 215.213(2)(i) as support for the proposition that “primary processing” as used in OAR 660-006-0025(4)(a) is not intended to exclude industrial or industrial-type processes such as a chipper or stud mill. By extension, petitioner argues that the proposed custom log home operation, which petitioner argues is similar to a sawmill in many of its operations and impacts, constitutes the primary processing of forest products. On the other hand, intervenors cite ORS 215.283(2)(j) and 215.213(2)(i) to support their argument that LCDC intended to limit the “primary processing of forest products” to the initial treatment of forest products, and did not intend to include the assembly or construction of wood products into secondary products such as log homes.

ORS 215.283(2)(j) and 215.213(2)(i) govern only facilities within the EFU zone, and the limited meaning of “primary processing of a forest product” set out in the statutes does not apply to facilities described in OAR 660-006-0025(3)(d) and (4)(a). Nonetheless, ORS 215.283(2)(j) and 215.213(2)(i) provide pertinent legislative context for the rule provisions. As noted, ORS 215.283(2)(j) and 215.213(2)(i) are likely a source of the language LCDC employed in promulgating OAR 660-006-0025(3)(d) and (4)(a) in 1990. At the time, the statutes represented a significant legislative statement regarding the meaning of the phrase “primary processing of forest products” and that statement may well have informed LCDC’s choice to use that same phrase in the administrative rule governing forest lands. The question is what inference, if any, to draw from the fact that LCDC chose not to further define “primary processing of forest products” in the same manner as the legislature did for the EFU context. LCDC clearly did not intend that the specific restrictions imposed in that legislative definition (timber grown where the facility is located, etc.) would also govern facilities
allowed under OAR 660-006-0025(3)(d) and (4)(a). But it does not follow that LCDC intended the broadest possible scope for the phrase “primary processing of forest products,” to potentially include facilities that manufacture log homes and other commercial products constructed from wood. Although no firm conclusions can be drawn from the context provided by ORS 215.283(2)(j) and 215.213(2)(i), in our view the fact that LCDC chose to use the phrase “primary processing of forest products,” a phrase with a circumscribed scope as applied in a somewhat analogous statutory context, tends to support a narrower rather than a broader interpretation of the scope of OAR 660-006-0025(3)(d) and (4)(a). That view is more consistent with the relevant dictionary definitions of the text of OAR 660-006-0025(3)(d) and (4)(a), as described above.

Petitioner argues, nonetheless, that assigning a broader scope to the meaning of “primary processing of forest products” is supported by contemporary usage of similar terms in the forest industry. Petitioner’s argument is based largely on the two documents attached to the petition for review, which as discussed above are not documents within LUBA’s scope of review. ORS 197.835(2). Selected pages of those documents were submitted into the record below by opponents in support of their contention that petitioner’s log home operation does not qualify as the “primary processing of forest products.” Petitioner argues that the documents read in full actually support the opposite conclusion. However, we do not see that contemporary forest industry usage of terms similar to “primary processing of forest products” sheds any light on LCDC’s intent in 1990 when it promulgated OAR 660-006-0025(3)(d) and (4)(a).

Based on the text and context of OAR 660-006-0025(3)(d) and (4)(a), we conclude that the “primary processing of forest products” does not include the proposed partial construction of log homes on the property.

It is less clear whether other disputed components of the proposed custom log home operation that occur prior to partial construction qualify as “primary processing.” As noted,
the hearings officer concluded that “primary processing” included de-barking and milling of
the raw logs, but did not include the “further processing of the logs into a log structure, and
all of the associated design, staging, cutting, notching, assembling and disassembling * * *”
Record 5. We understand the hearings officer to have concluded that de-barking and milling
the logs into shorter or thinner logs qualifies as “primary” or “initial” processing, but that
more refined processing, such as notching and shaping the log ends according to a custom
design so that the individual logs fit precisely together to form the walls of the log home,
goes beyond primary processing. Although it is a closer question, we agree with the hearings
officer that custom notching and shaping of log ends to form the interlocking components of
the walls of a log home goes beyond primary processing of forest products, within the
meaning of OAR 660-006-0025(4)(a).

In sum, petitioner has not demonstrated that the hearings officer misconstrued OAR
660-006-0024(4)(a) or the ZDO analogue, to conclude that certain operations of the custom
log home operation on the subject property do not qualify as the “primary processing of forest
products,” and therefore the proposed facility cannot be approved as a conditional use in the
TBR zone.

The assignment of error is denied.

The county’s decision is affirmed.
Senate Bill 1575
Sponsored by Senator THOMSEN (Presession filed.)

SUMMARY
The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure as introduced.

Allows establishment in forest zone or mixed farm and forest zone of facility for utilizing raw logs.

A BILL FOR AN ACT
Relating to utilizing raw logs in resource zones.

Be It Enacted by the People of the State of Oregon:

SECTION 1. (1) As used in this section:
(a) “Forest product” includes:
(A) Lumber, construction timbers or cants;
(B) Chips, pulp or pulp products;
(C) Veneer or plywood;
(D) Poles, posts or piling that has been cut or treated for use as poles, posts or piling;
(E) Shakes or shingles;
(F) Aspen or other pulpwood bolts that do not exceed 100 inches in length;
(G) Pulp logs or cull logs processed at domestic pulp mills, domestic chip plants or other domestic operations for conversion into chips;
(H) Shaped, notched or fitted logs for log home assembly;
(I) Firewood cut in pieces 48 inches or less in length; and
(J) Any other item, other than an end-use product, that results from the processing of a raw log.
(b) “Raw log” means a harvested tree, portion of a tree or other roundwood that has not been processed.
(c) “Utilizing raw logs” means one or more methods of manufacturing or processing, including bark removal, sawing, kilning, treating, shaping, notching, fitting and assembling, by which raw logs are converted into a forest product or into an end-use product.
(2) In addition to and not in lieu of any other use authorized by law, a permanent or temporary facility for utilizing raw logs is an outright permitted use of land zoned for forest use or mixed farm and forest use.
(3) This section does not apply to the siting or use of a facility that does not utilize raw logs in a manufacturing or processing operation.

NOTE: Matter in boldfaced type in an amended section is new; matter [italic and bracketed] is existing law to be omitted. New sections are in boldfaced type.