

FTLAC Advice to BOF:

Achieving Greatest Permanent Value

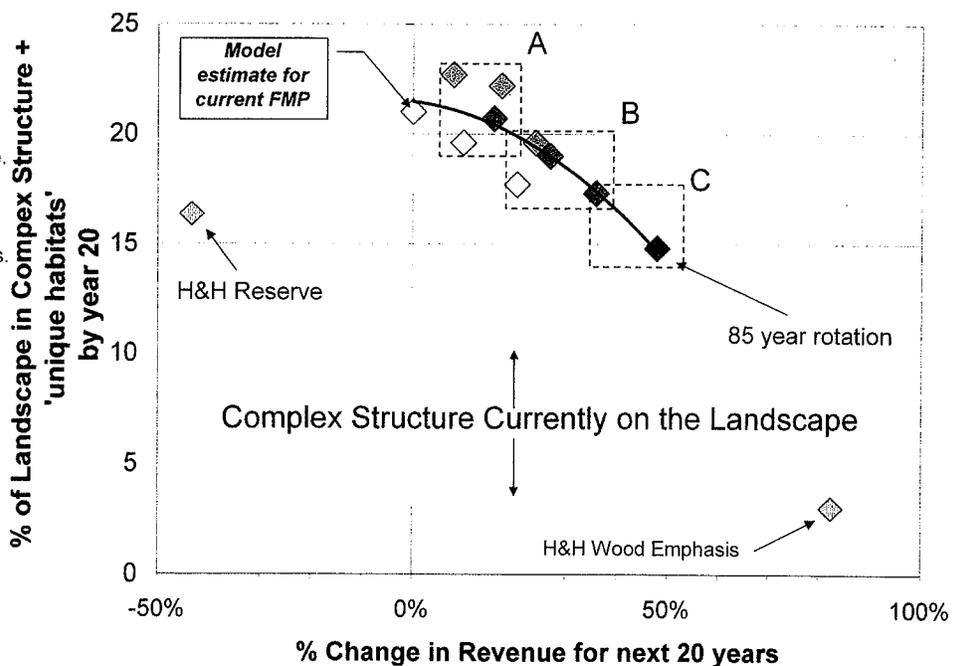
Tim Josi
 Chair, Forest Trust Land Advisory
 Committee
 11/2/07

Green: Take Avoidance with three complex structure goals: 50%, 40% & 30%
Yellow: Current FMP practices (HCP & Take Avoidance): 50%, 40% & 30%
Blue: Zone approach: 50%, 40% & 30%

Box A:
 Current FMP with 10% - 20% increase in revenue.

Box B:
 17% - 20% complex Structure in first 20 years. 25% - 45% increase in revenue.

Box C:
 85 year rotation, Emphasis in wood Production, 45% and higher increase in revenue.

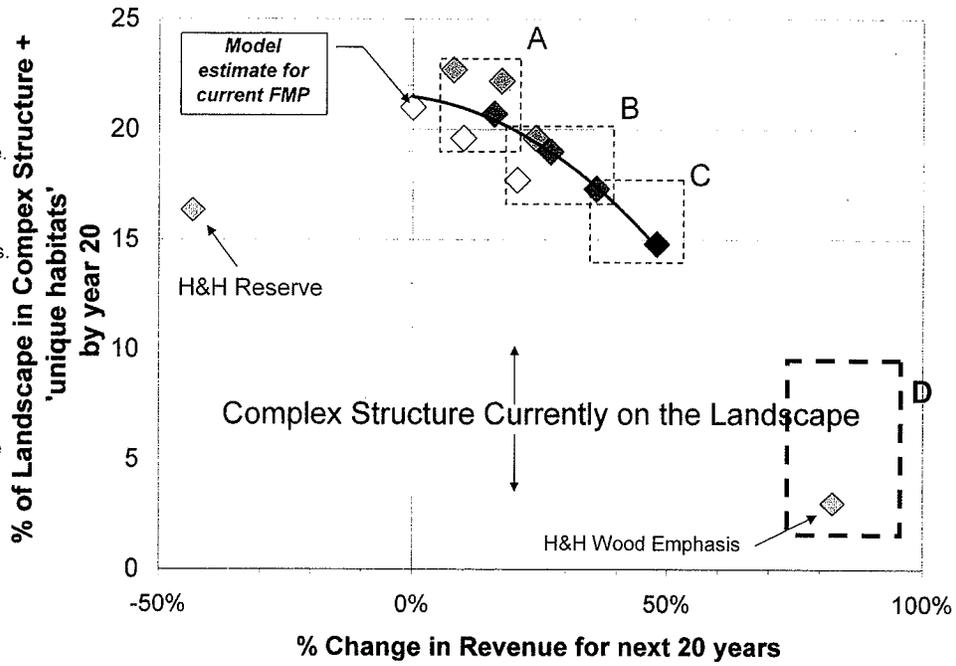


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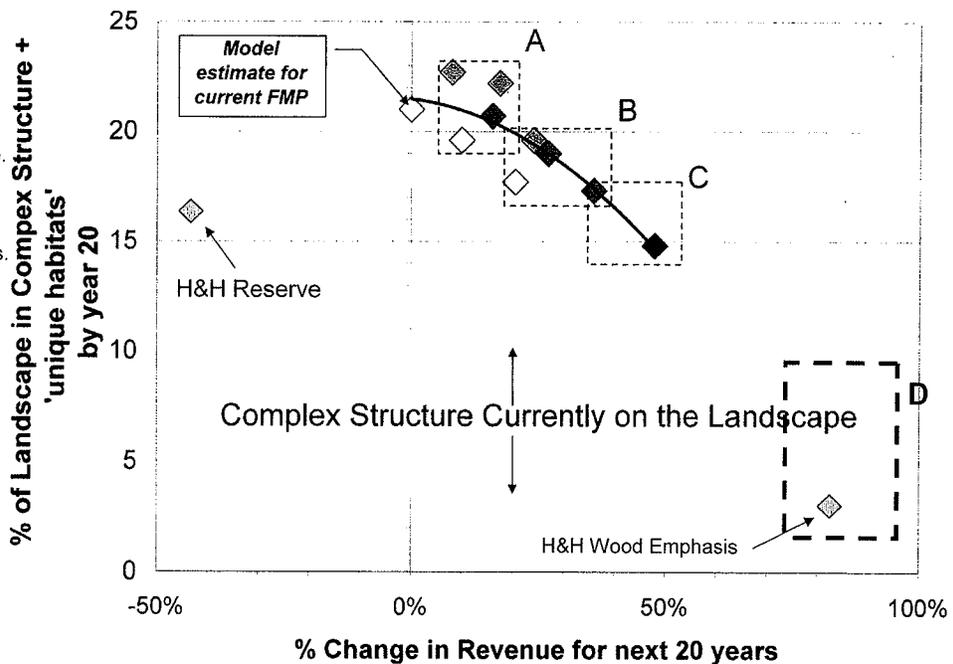


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Return on Current Asset Value

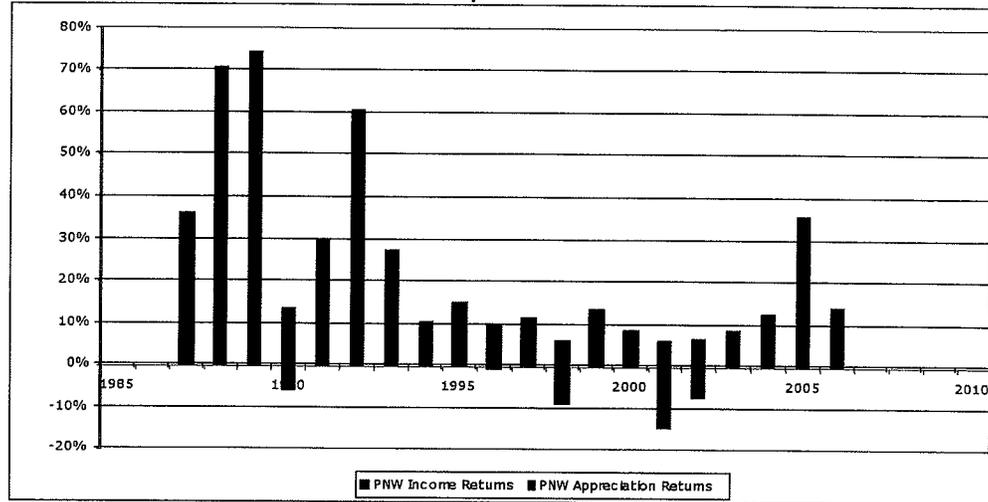
2.2%

3.3%

4.5%

Commercial timberlands in the PNW return 8-10%

Figure 2. NCREIF PNW Timberland Return Components



Source: National Council of Real Estate Investment Fiduciaries

Concluding Remarks:

- Every option increase complex structure
- Because of the proposed Target two-year review, risk is minimized.
- If the Board takes no action today, you are electing to stay the present course.
- Delaying action today prevents the Department from moving forward.
- The Board needs to pick a target today.
 - This will give the Department a specific range of options so that they can develop a management approach to present at your January meeting.
- FLTAC Recommends:
 - GPV will be found in Box C or D.
 - This is your chance to help Oregon's rural counties.

HISTORICAL OVERVIEW:

Prepared by Tim Josi, FTLAC Chair

10/31/2007

Oregon's 1939 Acquisition Act:

- Governors, the Board of Forestry and the Department of Forestry actively promoted the program
- Assurances were made that the lands would be rehabilitated, reforested and protected to produce future forest crops.
- Timber production was to be the primary purpose.

State Forester George Spaur: February, 1955:

- "It is our duty to manage these forestlands to obtain the greatest benefit to the greatest number of people over the greatest period of time.
- It means managing the land to obtain maximum sustained yield production of forest crops.
- It means harvesting the timber in a manner to obtain the greatest value for the state, county, local government and industry."

Counties made financial investments in the partnership:

- We consented to changes in the revenue formula to provide a greater share to the state for fire suppression, protection and intensive management.
- We continue to make substantial investments in the system of forest roads, bridges and habitat improvements from our share of the revenues.
- We now have a reasonable expectation for the promised return on our investments.

Findings from Oregon's Courts:

- **Judge Ertsgaard: April 18, 1984**
The State of Oregon has a fiduciary responsibility to its partners which are in the nature of a trustee obligation – there being an offer, acceptance and consideration.
- **Oregon Supreme Court: December 30, 1987**
The state admits that it sought and bargained for the land, that it "actively promoted the benefits of county participation in the program.
- **Judge Barons: July 5, 2005**
The State "gave assurances that the lands would be used to produce revenue."
- **Judge Barons: September 12, 2005**
"The interaction between the counties and the state envisions management of the forests lands to achieve the highest return to the counties."

2001 Board of Forestry's attempt to uphold the promise:

- Adopted the FMP, which indicated an annual yield of about 279 mmbf for the three NW Districts.