

Agenda Item No.:	10
Work Plan:	State Forests Work Plan
Topic:	State Forest Management
Presentation Title:	State Forests Update: Budget Reductions; Inventory, growth and yield contracts, and system improvements; and aligning implementation plans with resource protection policies
Date of Presentation:	July 20, 2016
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This is an informational update on the State Forests Division’s (1) budget reductions, (2) inventory, growth and yield contracts for analyzing and improving the forest inventory information system, and (3) aligning implementation plans with resource protection policies.

Context

The recession that began in 2008 drove housing starts to near-record lows, leading to severely depressed timber values and substantial erosion of the Forest Development Fund (FDF). The FDF contains the division’s one-third share of revenue generated from the sale of timber off of State Forests and serves as the operating account that funds state forest management. It is important to maintain an FDF balance that can accommodate shifts in market conditions while maintaining a sustainable organization. Between 2007 and 2011 the FDF balance dropped by more than half, despite ODF taking counter-balancing measures, including laying off 30 percent of the workforce in 2009 and 2010, and increasing harvest levels to the upper end of ranges identified in the Northwest State Forest Management Plan (FMP). Today, the FDF has reached critically low levels, with a balance projected to go below zero in 2020.

In January of 2013, the Board received a financial viability report and established a subcommittee to review and gain full understanding of the situation. The report had several findings, one of which was to evaluate changes that could be made to the FMP to increase financial viability. In July 2013 the Board directed the State Forests Division (division) to revise the FMP to meet two goals: achieve financial viability and increase conservation outcomes.

ODF staff, stakeholders, the subcommittee and the Board have invested a great deal of time and effort in the process to revise the Northwest State Forests Management Plan. The Board reviewed a wide range of data characterizing forest conditions, conservation areas and benefits, and draft modeled revenue outcomes that could result from a revised FMP.

Given the urgency of ODF’s financial situation, the complexity of additional analysis needs, and the uncertainty posed by multiple litigation actions, the department has focused efforts on

reducing the division budget and four key priority areas: 1) third-party technical review of inventory and growth and yield data, and processes for near and longer term use; 2) alignment of implementation plans (IPs) with the current FMP; 3) further exploration of Endangered Species Act programmatic compliance mechanisms; 4) continued adaptation of state forest business practices. This staff report provides an update on budget reductions; inventory, growth and yield contracts; and IP revisions. The business improvement topic will be presented to the Board at its September meeting and the Endangered Species Act compliance topic will be presented at the November meeting.

State Forests Budget Reductions

There is an increasingly urgent need to address the dwindling FDF, which is predicted to continue in a downward trend and reach a negative balance in fiscal year 2020. The division's highest priority is to balance its budget, ensuring that annual revenues retained by the division meet or exceed annual expenses. Therefore, the division is prioritizing work to focus on balancing our budget, looking for ways to decrease expenditures, and opportunities to increase revenue through business improvements. With these measures and collaborative leadership from the field and staff, the goal is to construct a financial plan that considers near-, mid-, and long-term actions. Our immediate goal is to slow the fund's declining balance and move the projected negative-balance date out a year or more. Our mid-term goal is to change the fund's trajectory from negative to stable. Our long-term goal is to increase the fund balance, to allow the division to fully deliver Greatest Permanent Value from Oregon's State Forests.

To achieve the near-term goal, the FY17 budget has been reduced by \$1 million. This reduction will strain the division's ability to deliver on Greatest Permanent Value. The Northwest FMP describes three priority levels of implementation, based on the availability of funds to finance forest management activities:

1. *Legally or contractually required activities.*
2. *Minimum activities necessary to achieve the social, economic, and environmental benefits identified in OAR 629-035-0020, including high priority monitoring activities, while emphasizing activities with higher economic return.*
3. *Fully implement all strategies and monitoring plans.*

Budgets and annual operations plans have been developed to meet the requirements described in level 2.

The division anticipates more expenditure reductions may be needed in FY18 and FY19. As the year progresses, more clarity on future budgets will develop. We are committed to frequent and transparent communications with the board and stakeholders on this topic.

Inventory, Growth and Yield Contracts

The agency used various data compiling, management, and planning systems over the years that must be updated and recalibrated to ensure reliable long-range planning. The division uses an older, agency-developed Stand Level Inventory (SLI) data management application,

designed to integrate specifically with the Forest Projection System (FPS) growth modeling software. For long-range planning, the division uses the open-source Forest Vegetation Simulator (FVS) growth modeling software. The division added and updated the various systems' calibrations throughout the years.

The division continues adopting technology to meet its technical, business, and budget needs. Because of changing technology, older data, differences between growth modeling software, and calibrations based on better information, the current standing inventory estimates and the associated projections vary, which creates some confusion. Due to this, the division's current operating and long-range modeling inventory estimates differ. The division understands these differences and uses the FPS-based inventory system to develop plans for current operations. The division also understands the FVS model well and uses it to develop models for long-term planning. These systems must be reconciled and streamlined to ensure consistency between long-range and operational planning.

The growth and yield contract is the first step to help ensure accurate projections. The division uses the SLI information system, developed by the agency in the early 2000s, to meet the Northwest Oregon State Forests Management Plan's analytic, reporting and planning needs. Data collection for this system varies, depending on budget constraints. Over the last 16 years the division sampled about 33 percent of stands and 52 percent of acres using the SLI protocol. Because of the reduced sampling during the Great Recession, most data are over 10 years old.

During the recent land allocation modeling efforts to assess State Forest management options, stakeholders identified the need to review the modeling approach, so the Subcommittee on Alternative Forest Management Plans asked the division to assemble a Technical Expert Review Group. The group helped review the modeling approaches and suggested areas to improve the accuracy of growth and yield estimates. The growth and yield contract is designed to address many of these issues.

Request for Proposals

The division requested proposals for a comprehensive contract to improve the forest inventory information system, including these substantive components:

1. Technical assistance for growth and yield calibrations;
2. An assessment of the current inventory information system; and
3. A plan to guide and evaluate future improvements to the information system.

After receiving only one proposal, the division created and advertised a request for proposals for the technical assistance component only. Components two and three are critical for improving the division's comprehensive inventory information system; however, the division intends to describe these items more fully and re-advertise them under a separate request for proposals later this summer.

The technical assistance for growth and yield calibrations is expected to be completed this fall, allowing time to evaluate and use the findings to create a new, more accurate inventory estimate before the legislative session. The technical advice will help inform how to calibrate certain growth and yield data using the division's available data.

Aligning Implementation Plans and Resource Protection Policies

The division revised seven district IPs to align them with the agency's resource protection policy changes and shifted distributions of northern spotted owls and marbled murrelets. These plan revisions better reflect both the current resource protection requirements and the available harvest areas. These landscape design changes maintained or increased conservation benefits while simultaneously improving financial viability. The State Forester approved these plan modifications.

A work group will further assess and revise the Northwest Oregon Area plans over the next year. In alignment with the FMP, the group will conduct a comprehensive analysis that includes reviewing the forests' current condition and incorporate any new information about key resources to improve the economic, environmental and social outcomes.

Summary

The division has refocused its work on four key tasks in order to address the declining FDF, the complexity of analysis needs, and the uncertainty posed by multiple litigation actions. The budget reductions, IP revisions, and the request for proposals described in this report are crucial actions taken to address these circumstances.

Recommendation

Information only.

Next Steps

The division will continue to focus on four priority topics:

1. Third-party technical review of inventory and growth and yield data, and processes for near and longer term use;
2. Alignment of IPs with the current FMP and further implementation;
3. Further exploration of Endangered Species Act compliance mechanisms; and
4. Continued adaptations to improve the division's business practices.

Staff will provide information on the business practices topic at the Board's September meeting and the Endangered Species Act topic at the November meeting. As we progress through the fiscal year, the division will provide additional information to the Board and stakeholders.