



D.L. Phipps Nursery

2003 ANNUAL REPORT



Manager's Comments

The past year has been a year of rebuilding, change, and uncertainty for the Phipps Nursery: rebuilding from a devastating freeze in October of 2002 (more of that later in the section on Growing Operations); major changes in staffing to make a more efficient operation, and uncertainty about the future of the Nursery.

Uncertainty about the future of the Nursery arises from ongoing efforts of some private nursery owners to close Phipps. Closing Phipps has come up periodically during the last 20 years and the State Forester has responded by convening two task forces, in 1978 and 2003, to ascertain the best way to provide reforestation seedlings to small woodland owners. Each task force confirmed the need for both Phipps and private nurseries. In spite of this, a few private nursery owners believe that Phipps has served its purpose and is no longer necessary because they contend that there is an ample supply of reforestation seedlings available from private nurseries that are willing and able to supply the reforestation needs of Oregon. At their urging, the State Legislature has asked ODF and OAN (Oregon Association of Nurseries) to investigate and present their findings to the January 2005 E-Board.

The D. L. Phipps Nursery has been a fixture of Oregon's reforestation efforts since 1927, when it was first established near Corvallis. It is a government enterprise program funded solely by the revenue from its seedling sales. It receives no tax funds from the State General Fund. For the last 47 years it has been serving Oregonians from its site on the Umpqua River near Elkton. It is the oldest reforestation nursery in Oregon as well as the Northwest. Its mission has changed over the years to reflect the changing needs of Oregon.

By ensuring that Phipps be self-supporting, lawmakers provided for the protection of private nurseries from perceived unfair competition of a "subsidized" state nursery operation. Today, Phipps must sell its products and services in a

fully occupied, highly competitive market. Its niche is a high quality bare root seedling with replacement warrantee for small woodland owners; low density (large caliper), fall transplants for contract customers. If it can't occupy this niche successfully, sales will fall too low to cover expenses eventually causing operations and production to cease. Other, more efficient nurseries will gradually take over supplying the needs of former Phipps customers. This is the natural process present in a free market providing an orderly transition from the present situation to a presently unknown future without the disruption to customer reforestation plans resulting from abrupt and arbitrary political solutions.

The path to future viability of Phipps is explained in its 2004 business plan (now available on the ODF website) which outlines a realistic road map to overcome the freeze losses sustained in 2002 and to return the Nursery to profitability by 2007. The future success of Phipps depends on its ability to reduce expenses and increase sales revenue. Reducing permanent staff by 30% and increasing the efficiency of the field operations has reduced expenses in the last two years. Increasing orders from small woodland owners, BLM, industry and ODF Districts (sales expected to reach 7 million by 2007) will raise future revenue.

This is my first and last annual report on the D.L. Phipps Nursery. I am retiring effective April 1. I have spent the last 18 years of my work life here, first as grower, then assistant manager and now as manager. I have had the privilege to work with some wonderful people, both customers and employees, while at Phipps and ODF and hate to leave during this time of uncertainty about Phipps's future. But I leave Phipps knowing that it is in the hands of extremely competent employees and in the best shape financially that it has been for many years. Many of the employees here have been here much longer than I and take great pride in their product. What I will remember most is their willingness to listen to me.

Growing Operations

The 2002-03 Douglas fir harvest crop was a disappointment to us and to our customers. The trouble began on October 31, 2002, when temperatures during the nights reached all time record lows of 16° and 17° F. three nights in a row. Up until then, as long as temperature records have been kept, the lowest temperature ever recorded in October had been 25°. Surprisingly, just a few miles down river and on nearby ridge tops temperatures only reached as low as 32°. The Nursery had the bad luck to be located in an area with a temperature inversion that kept cold night air right at the surface. It also did not have the capacity to frost irrigate because irrigation pipe had been pulled from the harvest crop in preparation for harvest and, in addition, the irrigation system did not have the capacity to irrigate the at risk seedlings.

Because the freeze occurred so early in the year, the Douglas-fir portion of the crop had not had the requisite chilling hours to allow it to withstand temperatures as cold as these. Many seedlings were killed outright or damaged beyond recovery. These dead and damaged seedlings could not be distinguished from live ones during grading because the damage was hidden under the main stem bark in the cambium layer and there was no outward signs of damage. Consequently, we made the difficult and disheartening decision not to sell any DF seedlings for fear of saddling our customers with dead trees. Other species such as pine and true fir were not affected. Insurance covered the monetary losses but not the loss of customer confidence in our ability to supply seedlings.



The 2003 growing season was a rebuilding year for Phipps and turned out to be much more successful than the previous year. There was another freeze on Halloween, but this time the temperature “only” got down to 21° F. (would have been a record if not for the year before). This time we were ready with an upgraded irrigation system which allowed us to irrigate all of the at-risk stock types and damage was kept to a minimum.

The 2002 freeze hit all Oregon nurseries very hard reducing 2003 sales and causing hidden damage to sold seedlings destined for outplanting. If the hidden damage were severe enough, field mortality would be higher than normal resulting in higher seedling demand in 2004 and subsequent years. Because of these factors, seedling sales at Phipps for the 2003-04 harvest season ending March 2004 were higher than anticipated. Many of Phipps’s freeze damaged one year old seedlings were able to recover from the 2002 freeze damage making it possible for 2003-04 sales to reach 4.5 million seedling - 500,000 more than originally estimated. Insurance coverage of crop losses made up the lost revenue and projections show that Phipps should break-even for the 2003-04 fiscal year.

Seedling Sales

Small Woodland Owners

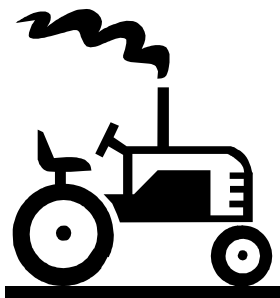
The Nursery had 3,551,539 seedlings available for Non-Industrial Private Forestland Owners this year and sold 2,963,769. Species choices included 29 conifer, 7 hardwood, and 9 shrubs and small tree varieties. This year 1,024 small woodland customer's planting needs were met, with 1,726 orders for reforestation and 51 orders for riparian/conservation plantings. In addition, the Nursery donated seedlings for Arbor Week and Earth Day educational events.

Refrigerated storage facilities at Forest Grove, Medford, John Day and La Grande distributed a total of 325,860 seedlings for 228 customers. Transportation and refrigerated storage are services offered to landowners and contribute to the success of their reforestation projects.

In November the Nursery hosted the Annual ODF Stewardship Forester meeting. The Nursery sponsors this annual meeting for the ODF Stewardship Foresters to preview the year's seedling crop, provide information on current Nursery programs and respond to questions from field foresters relating to reforestation concerns of small woodland owners.

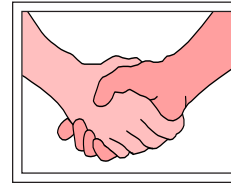
Contract Seedlings Sales

The Nursery continues to be a grower of choice for forest industry, ODF State Forests and the Bureau of Land Management. This year's contract production was 1,654,344, which included 774,683 for forest industry; 667,504 for State Forests; and 212,157 for the Bureau of Land Management. Custom contract growing offers industrial forest landowners as well as small woodland owners the opportunity to be involved in developing a target seedling for harvest. Customers growing under contract have a more "hands on" role during the growing process and are offered services which help them tailor their seedlings to the requirements of their outplanting sites.



Out-reach programs to small woodland owners this year included:

Tree Day at Happy Valley in Lebanon, OR – August 2003
 Tree School in Clackamas, OR– March 2004
 OSWA's Oregon Family Forest Fair in Salem, OR – March 2004
 Reforestation presentations were given at the ODF
 Stewardship Forester Training and OSWA's Oregon Family Forest Fair.



Customer Surveys

Annual customer surveys were mailed in April to 1,024 non-contract and 26 contract customers. Through the years, Phipps's annual questionnaire has shown that 92% of our customers are satisfied with our seedlings and services. Results for 2003 will be published in July in our Annual Seedling Catalog and summaries mailed to all customer groups. This year, as in the past, the Nursery staff will contact customers on survey comments. The customer survey was expanded this year to include questions that would give us more insight into who our customers are and what their current and future planting needs may be to help us with long range sowing plans. Our main survey goal is to answer the question "How are We Doing"? Survey responses help us evaluate how successful we are in meeting customer expectations and where we need to make improvements.

Goal of the Nursery

Producing healthy, high-quality seedlings for land owners continues to be a top priority for the Nursery. Nursery staff strives to provide professional assistance to landowners helping them with selecting the proper species, seed zone, and elevation for the planting site. D. L. Phipps Nursery is dedicated to the healthy reforestation of Oregon's forestlands and takes great pride in its ability to meet customer reforestation needs.

The Nursery stands by the following principles:

- Be open and honest with customers
- Maintain as high a level of trust with customers as possible.
- Do not risk a customer planting "dead" trees or trees that will not survive.
- In the event of problems with seedlings, try to minimize the impact on the customer to the extent we are able.

D.L. Phipps Forest Nursery Organization Chart

