FTLAC Revenue Distribution Subcommittee  
Oregon Department of Forestry  
March 21, 2014

Sub-committee members: Tim Josi, Tillamook County Commissioner; Faye Stewart, Lane County Commissioner; Senator; Scott Lee, Clatsop County Commissioner; Craig Pope, Polk County Commissioner

Other attendees: Betsy Johnson; Scott Somers, Clatsop County Manager; Peter Huhtala, Clatsop County Commissioner; Brett Brownscombe, Governor’s Natural Resource Advisor; Mark Rasmussen, Mason Bruce and Girard

Department staff: Doug Decker, State Forester; Paul Bell, Deputy State Forester; Ed Deblander, Asset Manager State Forests; Liz Dent, Deputy State Forests Chief; Mike Bordelon, State Forests Division Chief; Josh Barnard, Project Leader State Forests

Discussion
The sub-committee met to consider potential changes in the county revenue distribution formula. Commissioner Josi stated that the goal is for the trust counties to concur on a revenue distribution approach. He commented that his is aware that currently at least one Linn County Commissioner does not support the pooled revenue concept.

Brett Brownscombe commented that the Governor wants to consider the concept of pooled revenue because it opens opportunities for a variety of different assets. He asked the subcommittee to consider the broad objectives stakeholders and the agency are working to accomplish within the Alternative Forest Management Plan. He said that this is an evolving conversation that will take considerable discussion beyond this subcommittee meeting and the CFTLC meeting on April 4.

Senator Johnson asked for clarity on what the overall pros and cons of the pooled revenue concept are. Commissioner Josi responded that 1) there is a potential for increased revenue because of efficiencies and 2) there is a sharing of risk from ESA litigation.

State Forester Decker reminded the subcommittee that the FMP alternatives considered will likely be a mix of “building blocks” taken from several of the proposed options.

Action: Commissioner Pope requested that at the April 4, 2014 CFTLC meeting an educational packet about the risks and benefits of the options be provided.

AGENDA TOPICS
Discuss what a successful pooled revenue distribution formula would look like. What are the barriers to Understanding, Acceptance, and Support by the counties. Develop a statement of what the success criteria are.

Success Criteria Developed by the Subcommittee  (Noted: there is currently a lack of sufficient information to fully establish success criteria)

- Each county would continue to receive a percent of total revenue generated (in each county) over the past “x” years; counties would receive the same percentage of total revenue they would have received historically.
• Counties would receive a more even, dependable, and predictable flow of revenue over time.
• There would be equitable sharing of risks across counties.
• Counties would understand the ecological risk of management in their counties.
• There would be appropriate management of legal risks.
  o Consider exploring whether there is a way to leverage with environmental groups to reach agreement that would lessen litigation risks.

Discussion
Commissioner Stewart commented that it appears increased harvest is the only way to increase revenues. He said that this may not be reasonable given that there could be a reduction in harvest due to environmental regulations. He suggested that the approach should include meaningful environmental considerations because, in his opinion, the environmental community will not agree to conservation areas in only certain parts of the broader landscape.

Commissioner Josi responded that there are some nuances in the ability to litigate (the state) regarding environmental regulations. If the state follows administrative rules there is some protection, and though the state is required to “avoid take” it is not required to recover species.

Liz Dent said another distinction is that the agency manages for habitat rather than species. In answer to “what is the likelihood revenue can be increased without increasing harvest?”, Ms. Dent responded that a very careful analysis will be done to determine what can be gained by managing across district and county boundaries. It is anticipated that using a landscape approach would result in an incremental increase in volume without changing any current strategies. It was noted that the Board of Forestry has directed that both revenue and conservation need to be increased.

Mike Bordelon said that a basic question to ask is “do the counties want a pooled risk approach or a risk approach inherent within each individual county?”

There was discussion about specific counties’ risks (for instance, more timber initially being harvested in Clatsop county, lower age timber being harvested in Lane county). Ed Deblander referred the committee to the “July 2013 Revenue Projection County Share of Revenue” chart and said that harvest levels would rotate across the counties over time.

Action: More analysis is needed on how broader landscape management would affect risk and revenue, with an overlay of the Species of Concern approach and an HCP approach for individual districts. Mike Bordelon stated that a more detailed comparative analysis will be done but the agency is months away from its completion.

Commissioner Stewart asked if the state would be able to maintain a certain level of conservation values with an approach using different management styles on different lands?

Liz Dent answered that the intention would be to keep the shifting mosaic management model that is currently within the FMP but to do it more efficiently across a landscape. Mike Bordelon added that smaller districts could be managed differently than larger districts, which could leverage enhancement of conservation values.
Senator Johnson asked if there would be some way to leverage certainty with environmental interests regarding the risk of litigation. Discussion followed. Liz Dent commented that part of alternative forest management planning process is a rigorous external scientific review; science is not a barrier for litigation but it supports good scientific practices that make litigation more difficult.

There was discussion about whether each county would have discretion as an independent county regarding litigation if lines were “blurred” by using a landscape approach. The counties will have to seek legal advice to answer this question.

Ed Deblander noted that if the final recommendation becomes a legislative concept it would have to be drafted in the 2015 session. Brett Brownscombe said the deadline for legislative concepts would be July 2014. He further said that the concept could be held as a placeholder and the Governor’s Office could carry it, legislative member(s) could carry it, or another party such as the counties could carry it.

*Review work done to date on the revenue distribution formula, which culminated in the Version 2 approach based on revenue history.*

Ed Deblander said this question was covered in above discussions.

**Does the Version 2 approach (revenue history) meet the success criteria?**

**Decision:** Move forward with Version 2 for discussion at the April 4 2014 meeting.

**Discussion**

Senator Johnson said it would be helpful to see what the delta is across those counties that would suffer economic loss if the formula shifted to a percentage of the revenue. She said that in the short term the legislature may play a role in filling that financial gap for counties and the agency. Commissioner Josi said that he didn’t think that it was a good idea to fund the agency in this way in the long term. Mike Bordelon commented that the agency would be interested in short term funding as a bridge to cover the gap or to bridge business practice changes such as increased recreation fees or different methods of selling logs.

Josh Barnard clarified that the gap is an annual budget shortfall of $4.6 mil for programs/projects that aren’t being funded, such as young stand management, recreation, education and interpretation, and research and monitoring. The other $1 mil is the average projected amount that the Department is spending over what it is bringing in to conduct current programs and projects.

The committee agreed that Version 2 was a good starting point. Version 1 had been rejected earlier because it resulted in half of the counties receiving more revenue than they had historically received and the other half of the counties receiving less revenue than they had historically received.

Mark Rasmussen said there are three ways to formulate revenue in this case:

1. Acres – Problem: there’s variability within acres
2. Appraised value (O & C counties did this) – Problem: present value reflects what was done in the last year
3. Historic revenues – Seems to be the most reasonable, fair method
If necessary, explore ideas for other revenue distribution methodologies to analyze that might meet the success criteria.

**Decision**: There were no other suggestions about changing the formula but the subcommittee emphasized the importance of fairness within county revenue distribution.

**Review the analyses done for the subcommittee review. These include the Risk Matrix and the revenue distribution options matrix showing the results of using a range of basis years from 5 to 27. (The Risk Matrix would apply to any pooled revenue approach. The revenue distribution options matrix only applies to the revenue history approach.)**

**Decision**: The subcommittee didn’t decide whether a historical revenue approach would be best, but agreed that the success criteria to make this decision is that the formula be “fair”.

**Action**: Ed Deblander and Mark Rasmussen will meet to explore a fair revenue distribution matrix.

**REVENUE DISTRIBUTION PERCENT**

**Action**: Highlight the highest percentage for each county and re-send the document to the subcommittee.

Mark Rasmussen suggested that inflation be factored because the market value has changed over time. Mr. Rasmussen also suggested that adding the caveat to re-evaluate the formula as needed could be a sideboard that would make parties more comfortable with agreement on a revenue distribution percentage.

There was discussion about whether the cost of management would increase as timber harvest increases, hence the agency would need more capacity and funding to manage.

Scott Lee asked several questions about how project work costs are split between the agency, the state and counties.

**Action**: Ed Deblander will research where ODF’s authorization to handle project work cost comes from.

**RISK MATRIX**

**Decision/Action**: More analysis needs to be done before the subcommittee can decide whether the risks listed meet the success criteria.

The values of “high”, “medium” and “low” were reached by familiarity with listings, familiarity with landscape, data analysis, and professional judgment.

**Action**: Ed Deblander will consider adding a column of “likelihood” to the risk chart.

**Plan for the subcommittee to report/make recommendation at the April 4 meeting**

- Add to agenda: A brief report from the subcommittee.
- Add to agenda: Legal opinion pertaining to counties, specifically whether there are legal implications if the revenue formula changes.
• A key goal of the April 4 meeting is for the commissioners to evaluate and give feedback on the stakeholder committee products.
• The April 4 meeting will not be opportunity to delve into details of revenue pooling, though agency staff will have that information available at the meeting.

Action: Craig Pope, Tim Josi and Brett Brownscombe will consider how to work through the April 4 agenda to set ground rules that foster a collaborative, successful meeting.

Attachments
Attachment 1: Age Class Distribution of North Coast Districts (ODF)
Attachment 2: Draft County Risk Matrix (ODF)
Attachment 3: Revenue Distribution Percentage (ODF Chart)
Attachment 4: Draft – Responses to Clatsop County questions from March 12, 2014 letter (ODF)
Attachment 6: July 2013 Revenue Projection, County Share of Revenue FY 2014 through FY 2019 (ODF)
Attachment 7: Preliminary Discussion Draft Example – county revenue based on revenue History, 2/11/14 (ODF)