Common School Forest Land Annual Report

FISCAL YEAR 2013

Prepared by the Oregon Department of Forestry

December 2013

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Annual Report Located at:
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Executive Summary

DATE: December 2013

TO: Governor John A. Kitzhaber, M.D.
Secretary of State Kate Brown
State Treasurer Ted Wheeler

FROM: Doug Decker, Oregon State Forester

SUBJECT: Fiscal Year 2013 Report on the Status of Common School Forest Land Management

The Oregon Department of Forestry (ODF) manages 118,728 acres of Common School Forest Land (CSFL), the majority of which (87,760 acres) are on the Coos District which includes the Elliott State Forest. These lands are managed under a 2005 agreement with the State Land Board (Land Board) and the Department of State Lands (DSL). As trustee for the Common School Forest Land, the primary obligation of the Land Board is to manage lands with the objective of obtaining the greatest benefit for the people of this state, consistent with the conservation of this resource under sound techniques of land management. The DSL Asset Management Plan calls for these lands to be managed to provide a sustained, even flow of timber harvest. ODF achieves this by implementing goal-driven strategies contained in forest management plans approved by both the Board of Forestry and the Land Board. Net revenues generated from Common School Forest Land are dedicated to the state's Common School Fund (CSF).

The agreement between ODF, DSL and the Land Board requires ODF to provide a written annual report on the management of Common School Forest Land. The status report includes information about timber management (volume and value of harvested, sold and planned timber sales), actual fiscal year operating costs, revenue transferred to the Common School Fund, reforestation, intensive management accomplishments and costs, and any other information affecting Common School Forest Land management.

On May 31, 2012 Cascadia Wildlands, The Center for Biological Diversity, and Portland Audubon filed suit against officials of the Board of Forestry and the Oregon Department of Forestry alleging violation of the federal Endangered Species Act (ESA) through "take" of marbled murrelets. As a result timber sale activity was down considerably (approximately 70% reduction in volume as compared to previous years on the Elliott) with 15 voluntarily deferred timber sales and an estimated value of $15,086,025.

Fiscal Year 2013 Harvest and Revenue

While the national economy continued to struggle during Fiscal Year (FY) 2013, timber market conditions improved somewhat and provided incremental increases in average stumpage prices for timber sales. As noted above, the major influence over revenue performance is the ongoing *Cascadia* litigation which had a significant influence on forest management activities and revenues generated on CSFL.

1. CSFL Harvest Volume:

   a. 11.1 MMBF (4.5 MMBF from the Elliott Forest)
   b. 65 percent decrease from FY 2012

2. Revenue Transfers to CSF:
   a. $2.1 million
   b. 81 percent decrease from FY 2012

3. Net Operating Income (NOI): NOI is the total revenue transfers to the CSF minus ODF management costs. It is influenced by the same factors that affect volume and value, as well as management expenses.
   a. -$2.3 million
   b. 137 percent decrease from FY 2012

4. CSFL Management costs:
   a. $4.4 million.
   b. 6 percent decrease from FY 2012.

5. CSFL sales sold in FY 2013
   a. 8.1 MMBF
   b. Approximately $2.6 million.

Other Forest Management Activities

Reforestation and young stand management are integral parts of forest activities that insure sustainable flow of wood and development of habitat in the future. On CSFL these activities were implemented on 2,739 acres during FY 2013.

Forest management operations on CSFL supported investments in stream restoration. The Elliott State Forest continues to collaborate with local watershed associations and the Oregon Department of Fish and Wildlife to design and implement wood placement projects to improve fish habitat.

The following annual report to DSL and SLB summarizes management of CSFL from July 1, 2012 through June 30, 2013. In general there was a serious decline in the two State Land Board performance measures (Net Operating Income and Revenue). This is largely related to the significant interruption in forest management as we work through legal issues associated with the *Cascadia* lawsuit. The State is keeping close track of costs in relation to workload, and is working with DSL to adjust budgets as necessary. For example, a major adjustment came towards the end of FY 2013 when nine positions were cut from the Elliott forest management staff.

Looking forward, we anticipate significant challenges to produce adequate revenue from the Elliott State Forest given the impact on timber harvest. ODF is exploring and implementing alternative timber sales for FY14 that can partially substitute for those that were deferred or enjoined because of the lawsuit. ODF will continue to work closely with Director Abrams and her staff to evaluate and implement options and strategies that mitigate these litigation impacts.

Financial and Asset Management

Overview

This report is intended to focus on FY 2013 (July 1, 2012 through June 30, 2013). However, in the business of forest management, it is important to look at the trend in revenues and costs over the past few biennia (i.e., sales approved in one year's operating plan may be harvested over one to three subsequent years). Revenue transferred to the CSF from management of CSFL has varied over the past 10 years from $2.1 to $19.1 million on an annual basis.

The primary factors influencing revenue and revenue fluctuations include: housing starts, lumber prices, harvest timing, individual sale volumes and value, changing ratios between harvests on CSFL and Board of Forestry lands (BOFL), and uncertainty and constraints associated with litigation.

State Land Board Performance Measures

Performance Measures and targets provide a tool for measuring progress towards meeting established goals. Department of State Lands (DSL) established performance measures in the Asset Management Plan approved by the State Land Board (SLB) in 2012. These Asset Management Plan measures are used to evaluate management actions, inform decision-making on land reclassifications, and guide decisions on investment, retention and disposal of lands. The SLB has established four separate measures it will use to assess performance of the CSFL.

Net Operating Income (NOI)

NOI for CSFL for FY 2013 was negative $2.3 million. Net Operating Income is calculated by subtracting all costs from revenue. Since 2009, NOI ranged from negative $2.3 to $8.7 million for CSFL.

Table 1: Net Operating Income	
FY2013	**-$2,353,775**
FY2012	$6,299,086
FY2011	$4,542,687
FY2010	$5,771,493
FY2009	$8,677,216

Annual Revenue

Annual revenue is reported in many sections of this report with the underlying factors that influence this indicator of financial performance.

Land Value Appreciation (LVA) and Return on Asset Value (ROAV)

ODF does not calculate LVA or ROAV for CSFL.

Fiscal Year 2013 Revenue and Investment Costs

During FY 2013, $2,096,838 in revenue was transferred to DSL (Table 2). Total charges for managing the CSFL totaled $4.4 million during FY 2013 (Table 2). During FY 2013, $3.4 million of the $4.4 million in costs were related directly to operational expenditures for managing the Elliott. The expenditures include State Forests Division personnel in Salem, three regional areas, and nine districts. The responsibilities of these units include timber sale contract development and compliance, reforestation and intensive management activities, Endangered Species Act compliance, research and monitoring, forest planning, and overall program management.

Other charges to the CSF referred to as —Net Revenue Transfers, were $675,980 in FY 2013 (Table 3). This is approximately 15 percent of the overall costs. The revenue transfers out include: a portion of capital improvement projects, debt service on capital investments through the use of certificate of participations (COPs), and seed orchard management. The COP interest and principal is used to fund capital construction debt service for facility development and improvement to the Salem compound. J.E. Schroeder Seed Orchard costs for FY 2013 were $15,493. This money was used to produce genetically improved seed (superior growth, wood quality, and disease tolerance characteristics as identified through traditional breeding and selection methods) appropriate for reforesting state forestlands. The ODF Fire Protection Division invoiced DSL $372,404.

The revenue transfers out also include a portion of overall agency administration prorate which totaled $574,769. It is ODF's goal to ensure that allocation of agency administrative costs accurately reflects the work performed by administrative and managerial staff, and that each program pays their appropriate share of administrative costs. The appropriate administrative cost distribution is calculated from work studies performed each biennium by ODF. The work studies represent the percent of time a specific service area (e.g., Human Resources) performs work for the benefit of an operating program (e.g., management of CSFL). Administrative funds support the following services:

- Human Resources (Personnel, Labor Relations, Safety, and Training)
- Financial Services (accounting and reporting services)
- Internal Auditing, Quality Control, and Risk Management
- Information Technology support and infrastructure to ODF staff and field offices
- Oversight and management of Facilities, Property Control, and Procurement activities (contracting and physical assets)
- Payroll administration
- Biennial Budget development and implementation
- Agency Affairs (public information, education, and legislative coordination)
- Resource analysis and technical studies
- Executive-level policy and administrative oversight (State Land Board, Board of Forestry (BOF), Executive Team and Administrative Services Program Directors)

Table 2: Expenditures, Transfers, and Revenue

BREAKDOWN OF COSTS					
COSTS	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**
All District Expenditures	$2,906,002	$2,621,788	$2,828,108	$3,146,191	$2,758,290
T & E Surveys	$474,377	$400,773	$418,090	$498,013	$441,933
Salem Expenditures	$1,201,665	$833,617	$865,528	$922,108	$1,016,343
Revenue Transfers Out Including Admin Prorate	$1,110,316	$386,303	$467,796	$680,947	$675,980

ALL EXPENDITURES AND TRANSFERS PRORATED BY DISTRICT ACRES					
DISTRICT	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**
51 - Tillamook District	$162,307	$97,854	$112,180	$117,014	$123,478
52 - Astoria District	$60,723	$49,314	$59,421	$53,852	$54,796
53 - Forest Grove District	$18,851	$14,593	$14,221	$15,782	$17,717
55 - West Oregon District	$417,822	$253,312	$266,225	$287,446	$284,525
58N - North Cascade District	$44,715	$24,784	$27,898	$34,015	$36,424
71 - SW Oregon District	$261,559	$223,012	$245,931	$286,613	$253,857
74 - Coos District / Elliott	**$3,917,785**	**$2,980,645**	**$3,246,162**	**$3,792,574**	**$3,441,723**
78 - West Lane District	$75,062	$25,981	$21,380	$20,758	$37,560
98 - Klamath-Lake District	$259,161	$172,212	$168,015	$141,193	$200,532
TOTAL (EXP + TRNS)	**$5,217,983**	**$3,841,708**	**$4,161,432**	**$4,749,246**	**$4,450,613**

REVENUE					
DISTRICT	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**
51 - Tillamook District	$73,011	$73,127	$258,491	$0	$4,663
52 - Astoria District	$444,077	$83,801	$25,300	$60,830	$2,701
53 - Forest Grove District	$2,440	$5,510	$17,707	$448	$19
55 - West Oregon District	$1,001,668	$1,312,798	$169,155	$564,292	$473,367
58N - North Cascade District	$126,416	$0	$0	$0	$532,833
71 - SW Oregon District	$0	$1,000	$71,840	$491,402	$669,026
74 - Coos District / Elliott	**$9,842,564**	**$8,132,142**	**$8,094,846**	**$9,598,688**	**$409,509**
78 - West Lane District	$2,744,095	$83,013	$78,260	$0	$87,260
98 - Klamath / Lake District	$144,603	$593,096	$50,645	$52,999	$150,653
[1]TOTAL CSL PAYMENTS BY DISTRICT	**$14,378,874**	**$10,284,487**	**$8,766,244**	**$10,768,659**	**$2,330,031**
[1]REVENUE TRANSFER TO DSL	**$13,569,087**	**$9,646,062**	**$8,704,304**	**$11,048,329**	**$2,096,838**

[1] The difference in payments and transfers is a timing issue.

Financial Administration and Reporting

The current 2005 CSFL Management Agreement, and 2010 sub-agreement, between ODF and DSL provide operational and administrative guidance for the management of CSFL to ensure fiscal accountability and appropriate exchange of information between sister agencies. DSL and ODF have continued to work closely during the past several years to improve communication and understanding of fiscal reports and budgeting. While not reflected in this reporting period, significant reductions in personnel (nine positions) were made towards the end of FY2013 to adjust to decreases in revenue.

Future Market Trends

Demand and prices for timber have improved due to a still healthy export market and an increase in domestic demand. Estimates of housing starts from the beginning of 2013 are now being tempered as evidence suggests a more conservative estimate is necessary. IHS Global had projected approximately 1.5 million starts in 2013. However, a recent survey via Random Lengths (Vol. 69, Issue 28) suggests that 1 million may be a better number. This lower estimate is the result of a still large standing inventory of homes, a slow decrease in unemployment and uncertainty in the future of interest rates.

Table 5: Common School Forest Land Historical Timber Harvest Value, Volume and Average Stumpage Price Fiscal Years 2004 through 2013			
Fiscal Year	**[1] Timber Sales Value of Timber Removed**	**Timber Harvest Volume (MMBF) Removed**	**Average Sold Sale Stumpage Price/MBF**
2013 Elliott State Forest	$1,606,932	4.51	$288
2013 Other CSFL	$1,992,098	6.56	$328
Total 2013	**$3,599,030**	**11.08**	**$308**
2012 Elliott State Forest	$10,939,550	28.54	$313
2012 Other CSFL	$1,064,931	3.71	$314
Total 2012	**$12,004,481**	**32.25**	**$313**
2011 Elliott State Forest	$10,650,015	27.87	$339
2011 Other CSFL	$919,890	4.24	$296
Total 2011	**$11,569,905**	**32.12**	**$317**
2010 Elliott State Forest	$6,394,984	16.05	$340
2010 Other CSFL	$1,827,014	8.77	$185
Total 2010	**$8,221,998**	**24.81**	**$263**
2009	$12,419,783	29.29	$232
2008	$11,988,895	22.97	$421
2007	$12,760,992	27.08	$485
2006	$7,609,658	17.83	$492
2005	$20,080,172	42.11	$537
2004	$14,260,450	32.52	$439
Last 5 Year Average	$9,563,039	25.91	$287
10 Year Average	$11,451,536	27.21	$381

[1] Timber Sale Value is gross timber sale's value before project work credits have been subtracted

Forest Land Management

ODF manages a total of 819,730 acres, of which 118,728 acres are CSFL (Table 6). The majority of the CSFL are on the Coos District (87,760 acres). Activities conducted on CSFL managed by ODF include: timber harvest, reforestation and intensive management, and road construction and maintenance. These lands are composed of two DSL Asset Management Plan classifications: Special Stewardship and Forest Lands. The Special Stewardship acres are approximately 25% of the total and the Forest Lands acres are approximately 75%.

Table 6: Common School Forest Lands Managed by ODF

COUNTY	CSL ACRES
BENTON	563
CLACKAMAS	113
CLATSOP	2,060
COLUMBIA	80
COOS	53,757
CURRY	1,352
DOUGLAS	34,526
JACKSON	1,621
JOSEPHINE	3,961
KLAMATH	6,827
LANE	907
LINCOLN	4,546
LINN	90
MARION	720
POLK	1,690
TILLAMOOK	5,584
WASHINGTON	250
YAMHILL	80
GRAND TOTAL:	118,728

Timber Management Activities

There were 18 active sales harvested in FY 2013 which produced 11.1 mmbf with a value of $3.6 million. This equates to a 70 percent decrease in overall value from the FY 2012 harvest. Of these, 4.5 mmbf were harvested on The Elliott State Forest. In addition, there were 10 sales sold in FY 2013 which produced approximately 8.1 mmbf.

Timber sale activity was down considerably in 2013 on the Elliott State Forest pending resolution of the *Cascadia Wildlands et al vs. Kitzhaber* et al lawsuit. Cascadia Wildlands, Center for Biological Diversity, and the Portland Audubon filed suit on May 31, 2012 against officials with the Board of Forestry and the Oregon Department of Forestry. Cascadia claims violation of the federal Endangered Species Act through alleged “take” of marbled murrelets. This had an immediate effect on timber harvest due to a preliminary injunction that stopped 15 sales with an estimated volume of 45.9 mmbf and an estimated value of $15,086,025.

Timber Sales Sold During FY 2013

Table 7. Common School Forest Lands Timber Sales Sold in Fiscal Year 2013										
Sale Name	ODF District	CSFL % of Sale	Total Sale Volume (mbf)	CSFL Volume (mbf)	CSFL Acres Partial Cut	CSFL Acres Regen.	Total Project Costs	CSFL Project Costs	Net Sale Value (BOF + CSL)	Net CSFL Value
Elk Ridge Split	Coos	100%	1,823	1823	0	93	$27,280	$27,280	$545,440	**$545,440**
Purdy Slim	Coos	100%	233	233	0	13	$2,310	$2,310	$47,227	**$47,227**
Double C	Klamath-Lake	100%	1,495	1495	230	0	$25,486	$25,486	$255,574	**$255,574**
Air Abiqua	North Cascade	100%	1,433	1,433	37	0	$27,185	$27,185	$669,821	**$669,821**
Cottonwood Creek Thin	SW Oregon	100%	399	399	82	0	$29,752	$29,752	$70,248	**$70,248**
Fish Ridge	Western Lane	100%	2,017	2,017	0	64	$31,313	$31,313	$872,604	**$872,604**
Rock Fish	West Oregon	22%	499	110	0	14	$18,056	$3,972	$111,684	**$24,570**
Green Spill	West Oregon	20%	1,399	280	304	0	$79,677	$15,935	$82,719	**$16,544**
Cole Turkey	Astoria	3%	5,473	164	0	4	$449,110	$13,473	$2,097,942	**$62,938**
Cougar Camp	Tillamook	2%	10,771	215	666	3	$489,640	$9,793	$1,487,759	**$29,755**
		TOTALS:	**25,542**	**8,169**	**1319**	**191**	**$1,179,809**	**$186,500**	**$6,241,018**	**$2,594,722**

This data is produced from an ODF sale plan database. All dollar amounts were rounded to the nearest whole dollar.

Activity Summary for FY 2013[1]

Table 8. Active Timber Sales on Common School Forest Lands Volume and Value, Fiscal Year 2013					
Sale Name	District	Sale No.	%CSL	MMBF Harvested	Value CSL
Southern exposure	West Oregon	111017	7.0%	0.01	$821.44
Black goat	West Oregon	111074	37.0%	0.35	$117,358.26
Beaver slide	West Oregon	112034	94.0%	0.84	$334,307.56
Rock fish	West Oregon	113071	22.0%	0.04	$9,260.11
Air abiqua	North Cascade	113015	100.0%	1.06	$516,176.50
Puma punch	Astoria	111008	8.0%	0.01	$2,388.45
Stone soup	Astoria	111010	1.0%	0.01	$5,056.86
Cole turkey	Astoria	113051	3.0%	0.01	$2,442.95
Puma chunks	Astoria	213390	8.0%	0.00	$1.45
South kelly ridge	Coos	110033	100.0%	2.07	$636,511.00
Flying fish	Coos	111051	100.0%	2.11	$924,224.41
Millicoma lookout	Coos	111059	100.0%	0.13	$46,196.52
Dean mountain	Coos	112027	100.0%	0.21	$65,613.85
Raspberry mountain	Grants Pass	111060	100.0%	0.38	$141,160.77
Coleman thin	Grants Pass	111078	100.0%	1.00	$266,651.60
Quines run no 2	Grants Pass	112073	100.0%	1.08	$306,317.43
Cottonwood creek	Grants Pass	113082	100.0%	0.02	$6,670.88
Boondoggle	Klamath-Lake	111025	100.0%	1.75	$217,869.74
				11.08	**$3,599,030**

[1] Due to the on-going litigation, operations were halted on two timber sales and ODF refunded $550,880 previously paid by the purchaser of the Comados timber sale, and $1,085,599 for the Double Fish timber sale, for a total refund of $1,636,479. This reduced the amount of revenue transferred to DSL for FY 2013.

Planned Timber Sales for FY 2014

Table 9: Annual Operation Plan
Timber Sales Planned On CSFL in FY 2014

Sale Name	ODF District	CSFL Percent of Sale	Timber Sale Volume	CSFL Volume (MBF)	CSFL Acres Regen Cut	CSFL Acres Partial Cut	Total Sale Value	CSFL Project Costs	Net CSF Value
Bergsvik 13	Astoria	1%	4,858	49	0	6	$1,255,625	$2,660	$9,896
Ash Valley Overlook	Coos	100%	4,551	4,551	120	0	$1,770,863	$38,745	$1,732,118
Dean Scholfield	Coos	62%	2,000	1,240	32	0	$709,800	$46,500	$393,576
Eleven Creek No. 3	Coos	100%	800	800	42	0	$207,900	$10,000	$197,900
Harry Otter	Coos	100%	600	600	34	0	$168,300	$15,000	$153,300
Little Salander Headwaters	Coos	100%	800	800	41	0	$225,500	$35,000	$190,500
Shake-N-Baker	Coos	100%	1,313	1,313	58	0	$428,790	$18,216	$410,574
Bale Out Thin	West Oregon	55%	1,200	660	0	134	$122,200	$8,800	$58,410
Lake Ridge Thin	West Oregon	11%	600	66	0	11	$71,070	$3,850	$3,968
SS Johnson Combo	West Oregon	28%	3,800	1,064	13	11	$1,108,800	$17,640	$292,824
		Elliot Sub-Total	10,064	9,304	327	0	$3,511,153	$163,461	$3,077,968
		Total	**20,522**	**11,143**	**341**	**162**	**$6,068,848**	**$196,411**	**$3,443,066**

Reforestation and Intensive Management

Table 10a: Intensive Management Activities On CSFL - FY 2013

Management Activity	Acres Planned	Acres Completed	Total Cost
Initial Planting*	624	497	$149,749
Interplanting*	388	245	$26,974
Invasive Plant Control	4	8	$933
Precommercial Thinning	0	0	$0
Pruning	4	0	$0
Release-Chemical- Aerial	106	40	$3,282
Release-Chemical-Hand**	130	0	$0
Release-Mechanical-Hand	164	253	$11,954
Site Prep –Mechanical	6	6	$922
Site Prep -Slash Burning	11	12	$874
Site Prep-Chemical- Aerial	520	373	$18,322
Site Prep-Chemical- Hand**	24	30	$5,057
Surveys - Invasive Plants	0	0	$0
Surveys – Reforestation	227	94	$713
Tree Protection-Barriers	59	40	$2,080
Tree Protection-Direct Control	1,233	1,135	$42,514
Underplanting*	0	6	$1,168
Total	**3,500**	**2,739**	**$264,543**

*Planting costs include all costs including seedlings & seed.
** Some districts used inmate labor. South Fork crew costs are not covered in this table.

Table 10b: American Recovery and Reinvestment Act Funded Activities On CSFL - FY 2013			
Management Activity	**Acres Planned**	**Acres Completed**	**Total Cost**
Invasive Plant Control	0	1	$16
Invasive Plant Surveys	0	8	$129
Fuels Reduction	0	259	$148,791
Pile Burning	150	536	$18,088
Total	**150**	**804**	**$167,024**

Road Management Activities

Table 11: FY 2013 Annual Road Work – CSFL								
District & County	**Aggregate/Paved Surface (miles)**			**Dirt Surface (miles)**			**Bridge**	**Fish Pipes**
	Constructed	**Improved**	**Vacated**	**Constructed**	**Improved**	**Vacated**	**Installed**	**Installed**
Astoria/Clatsop		0.8						
Coos/Douglas				0.7	0.2			
North Cascade/Marion	0.3							
SWO/Douglas		0.1						
West Oregon/Benton	0.1							
West Oregon/Lincoln					1.0			
West Oregon/Polk				0.2				
Western Lane/Lane				0.7	0.2			
Totals	**0.4**	**0.9**		**1.5**	**1.5**			

Links To More Information

Stand Level Inventory

Forest Inventory Report covers the fiscal year-end stand level inventory estimates on Board of Forestry and Common School Land for each district.

Stream and Watershed Restoration

Restoration reports summarize all restoration activity reported to OWEB by State Forest Districts since 1995. Additional Elliott State Forest restoration project reports are also here.

Research and Monitoring

R&M Webpage lists recent research and monitoring reports.

Forest Health

- Aerial Survey Summary Reports by ODF Area
- Forest Health Highlights Report -Joint Publications of Oregon Department of Forestry and USDA Forest Service, Pacific Northwest Region