



MONTANA ASSOCIATION OF LAND TRUSTS

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January 26, 2009

Representative Mike Milburn
Chairman
House Natural Resources Committee

Dear Chairman Milburn:

The Montana Association of Land Trusts, a group of twelve land trusts working throughout the state, voted unanimously at a recent membership meeting to endorse and support the Montana Working Forests Project as embodied in HB 14.

Montana's association of land trusts endorses HB 14 for abundant reasons. HB 14 allows the transfer of roughly 26,000 acres of Plum Creek land in the Potomac area into state ownership, which will help keep forests intact, assist the wood products industry, preserve recreational access, protect wildlife habitat and provide additional income to the state school trust fund.

This Working Forests proposal carried by Rep. Nooney in HB 14 represents a once in a lifetime opportunity to help protect the quality of life in western Montana and to maintain the essence of the core values that make western Montana such a distinct and special place.

There are several reasons to support HB 14, but here are four key reasons why the Montana Association of Land Trusts supports the Working Forests proposal:

* Access to much of these lands could ultimately be in jeopardy unless the Working Forests project is funded and approved.

* Western Montana has a proud wood products history but for a variety of reasons that industry is currently facing serious economic uncertainty. The Working Forests proposal calls for permanent sustainable timber harvest levels for lands involved, which means forest health plus a foundation of employment and economic opportunity in the wood products industry.

* Throughout the west we are losing intact landscapes to fragmentation caused by rural development. When fragmentation of forestland occurs, the forest may cease to provide what a forest should provide – access, wildlife habitat, wood products and others important qualities such as forest health for fire suppression capability. The Working Forests proposal will reduce this fragmentation, which is essential to maintain western Montana's traditional quality of life.

Bitter Root
Land Trust,
Hamilton
406-375-0956

The Clark Fork-
Pend Oreille
Conservancy
Sand Point, ID
208-263-9471

The
Conservation
Fund,
Missoula
541-8555

Five Valleys
Land Trust,
Missoula
549-0755

Flathead
Land Trust,
Kalispell
752-8293

Gallatin Valley
Land Trust,
Bozeman
587-8404

Montana Land
Reliance,
Helena
443-7027

The Nature
Conservancy,
Helena
443-0303

Prickly Pear
Land Trust,
Helena
442-0490

Rocky Mountain
Elk Foundation,
Missoula
523-4533

The Trust
for Public Land,
Bozeman
522-7450

Vital Ground
Foundation,
Missoula
549-8650

* The Working Forests proposal calls for the state to purchase up 26,000 acres of lands for inclusion as state forestland. This addition to the state's forestland will generate income for the school trust fund through sales of timber, subject to state land management rules and sustainable harvest calculations.

Montana's land trusts have been working with landowners for over three decades to conserve private lands, and land trusts and landowners have done an impressive job protecting open lands, agricultural ground, wildlife habitat and more. These land trusts view the Working Forests proposal as a remarkable opportunity to help conserve not only a landscape but a way of life in western Montana.

Montana's land trusts stand in strong support of the Working Forests proposal and are pleased that two members of the Montana Association of Land Trusts – The Nature Conservancy and The Trust for Public Land – have led the effort on this proposal.

Sincerely,

A handwritten signature in cursive script that reads "Glenn Marx".

Glenn Marx
Executive Director
Montana Association of Land Trusts

State Potomac Appraisal review by Dave Skinner
 DNRC claims \$266 per thousand feet price/ \$127 per thousand management cost, leaving \$139 per thousand in net cash flow.
 Figures are Constant Dollar Cash Flow (CDCF) and Discounted Constant Dollars (DCD) value, essentially what future dollars are worth today:

$$R^t / (1 + i)^t$$

R^t is the net cash flow in year t ; i is the interest rate, in this case six percent simple, or

$$R^t / (1.06)^t$$

Expected harvest from Potomac:

Year 5: 5.1 million feet; CDCF \$708,900;	DCD: \$529,731	
Year 10: 5.1 million feet; CDCF \$708,900	DCD: \$395,846	Subtotal: \$925,577
Year 19: 10 million feet; \$1,390,000	DCD: \$459,413	
Year 20: 10 million feet; \$1,390,000	DCD: \$433,408	
Year 21: 10 million feet; \$1,390,000	DCD: \$408,876	Subtotal: \$1,301,697
Year 58: 8 million feet; \$1,112,000	DCD: \$37,876	
Year 59: 8 million feet \$1,112,000	DCD: \$35,732	
Year 60: 8 million feet \$1,112,000	DCD: \$33,709	Subtotal: \$107,457
Grand total of DCD values for Potomac (True Net Present Value):	\$2,334,731	
“ “ “ “ per acre:	\$86.47	

Price Requested:	\$21,500,000
NPV of income over time:	\$2,334,731

Cash net loss over time:	\$19,165,269
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Grazing rights revenue, annual constant dollars: \$7,120 for 844 AUMs
 Grazing rights revenue, constant dollars/acre: \$3.79

If, instead of buying Potomac, Montana put \$21.5 million cash into a 6 percent simple bond, Montana would be \$19 million better off.
 If Montana pays \$2,334,731 for Potomac, and there are no fires, no bugs, and the timber market stays flat in constant dollars, Montana breaks even.
 But even the \$2,334,731 “breakeven” is too high, for two reasons:

One, the \$266 per thousand is based on normal DNRC sales, of better, larger wood, not the wood that currently stands on the Potomac. Two, cash has no principal and interest obligation to be repaid.

DNRC also uses an equity analysis to boost Potomac's apparent return. But equity is irrelevant here. Why? Equity is what investors realize from investments *after debt service and after sale*. Montana Legacy Project is a "conservation" package, therefore sales for development, and subsequent capture of equity, are not a reasonably-foreseeable outcome. As the state's own FY 2007 *Return on Assets* report clearly states: "Increased land value contribute to the revenue of the trusts only after they are captured through sale or increased rental or lease rates." Equity is a completely inappropriate basis for determining the present net worth of these lands.

Montana Legacy Project has also claimed, in its *State School Trust Forest Land Acquisitions* paper dated September 5, 2008, that the purchase of Montana's allotment of MLP would result in Montana "being able to immediately recognize nearly a \$500 per acre appreciation (based on a purchase price of approximately \$1,000 per acre)." This "appreciation" is apparently expected because the "average value of state school trust forest land is \$1,479 per acre."

Sorry, but the mere fact of state ownership does not create value. Our state trust ground has value for one simple reason: State ground still has trees on it!

State land was, as of 2004, turning out 63 board feet per acre per year. Under MLP's Fiber Supply Agreement, harvest will be only 28.5 board feet per acre a year, less than half DNRC's output, a situation that likely cannot be changed until AFTER a full rotation of the growth cycle has replenished the base. Claiming a paper profit for something that won't happen for at least 60 years is fuzzy math at its worst.

Averaging the FSA claim that MLP ground grows 29 million board feet per year results in a per acre per year growth of 92.9 board feet raises further "fuzzy math" alarm bells. If DNRC's sustainable harvest is 63 feet/acre/year, how can it be that, as Trust for Public Lands spokesman Eric Love has admitted to the *Missoulian*, lands in need of "restoration" are growing nearly 50% more wood? This disparity needs to be reconciled one way or the other before either the Legislature or the Land Board lets a single dime go toward MLP.

DNRC's trees furthermore are of larger diameter and higher quality, which is why DNRC's sales have enjoyed a premium price in the market. That seems to have escaped not only the attention of the person who wrote MLP's document, but of the DNRC staffer who conducted the Potomac appraisal. He incorrectly used DNRC's premium price to calculate his cash flow. Fact is, the Potomac wood is Plum Creek's leftovers: small-diameter, pulpy fiber the company has no long-term interest in harvesting.

77-1-202. Powers and duties of board

(3) When acquiring land for the state, the board shall determine the value of the land after an appraisal by a qualified land appraiser.

Has this been done? How about for the other planned parcels allocated to Montana?

77-1-403. Capability inventory must be done. Has it?

15-44-103. Legislative intent -- value of forest lands -- valuation zones outlines how to value forest lands for tax purposes. Does the state Department of Revenue already have access to value information?

I'd say there's a failure of due diligence here, than needs to be corrected before the matter, AND the money, is out of our hands, forever.

Montana Legacy Project

Cliffs Notes

Montana Legacy Project Price **\$510,000,000**
MLP Total Acres **312,000**
MLP Price Per Acre **\$1,634**
Typical Present Value of Montana Timber Land **\$500 to \$1,000**

Taxes:

Federal Taxes Paid by Trust For Public Land and The Nature Conservancy: **\$0**
IRS tax-credit earmark check to MLP Partners TPL and TNC: **\$250,000,000**

Inventory:

Amount of standing timber needed to service \$30.6 million annual interest on \$510,000,000 bond, at stumpage of 175 to 265 per thousand:
2 to 2.9 billion board feet

Claimed standing inventory by MLP Partners: **Not disclosed**

Rumored standing inventory: **114 million feet**

Rumored Net Present Value of MLP standing inventory: **\$20 million; \$62.30/acre**

Apparent inventory from Fiber Supply Agreement (FSA)

Using 9.2 million annual harvest basis: **153 million feet; \$26.8 million; \$86.02/acre**

Using 29 million foot growth basis: **483 million feet; \$84.5 million; \$270.83/acre**

Present value of 10,000 BF acre harvest after 60 year rotation: **\$53.05**

Amount of timber \$21.5 million would buy on open market: **123 MMBF**

Constant dollar present value of Potomac planned harvest of 44.2 MMBF: **\$2.33 million**

What 44.2 MMBF would be worth if harvested today: **\$7.73 million**

Jobs:

FSA expected share of recent annual Montana Timber Supply: **1.5 percent**

Number of primary forest jobs from MLP listed on "montanaworkingforests.org" website owned by TPL: **Not specified**

MLP Jobs expected using FSA as basis: **About 50**

MLP Price per FSA job: **\$10.2 million**

Jobs expected from 110,000 acres of Montana "share:" **16**

Jobs expected from Potomac parcel given DNRC appraisal data: **4.05**

Price per Potomac job: **\$6.67 million each**

Return on Investment:

Usual Rate of Return of typical \$510,000,000 bond investment: **6 percent**

Optimistic Rate of Return of \$510,000,000 "invested" in MLP: **0.31 percent**