EQC STUDY SUBCOMMITTE
MEETING DATE: 3/16/06
EXHIBIT 24

EQC Subcommittee Meeting on Contract Harvesting

State Capitol, Room 137
Thursday, March 16, 2006
Timeslot: 3:15 –3:45 pm

The Trust Land Management Division (TLMD) of the Department of Natural Resources and Conservation (DNRC) currently manages approximately 5.2 million surface acres of trust land with 730,000 acres being forested. TLMD is required to manage these trust lands "*to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land.*" More specifically, the Forest Management Bureau's (FMB) mission is to "*sustainably manage Montana's forested trust lands to maximize long-term revenue while promoting healthy and diverse forests.*"

<u>Current Method – Selling Timber Stumpage</u>

Stumpage income from the sale of timber is the main revenue source from these forested trust lands. The amount of timber that can be sold each year is based on a sustainable harvest level which was calculated in 2004 to be 53.2 MMBF with an estimated stumpage value of approximately $12 million dollars.

DNRC is currently authorized to sell timber stumpage through a competitive bid or negotiated process. Through this method, the logger awarded the timber sale pays the state an accepted bid rate per ton or thousand board feet. This bid rate reflects the logger's road building, harvesting, sorting, transportation, and other costs and market trends. The logger then markets the sawlogs and other products to various mills for the best delivered price. Profit = ((mill delivered price – (stumpage price + logging costs))

<u>Contract Logging Approach – Washington DNR</u>

Some states, such as the Washington DNR, have shown that contract logging and direct marketing of sawlogs can expand the customer bidding pool for state timber and yield an additional 12-20% in revenue to the state compared to the traditional method of selling timber stumpage. Washington's forest management program is currently authorized to sell up to 10% of their sustained yield (50-60 MMBF) through contract logging.

In addition to potential revenue increases to trust beneficiaries, this non-traditional approach of contract logging and direct marketing of sawlogs provides other benefits such as additional flexibility, control, and more predictable results where limited markets exist and in environmentally sensitive situations.

Given DNRC's mission statement and the fiduciary and stewardship responsibilities associated with managing these trust lands, contract logging has the potential to provide DNRC more flexibility in meeting environmental requirements and to more fully market and capture both short and long-term values for the trust beneficiaries.

History

- January, 2005 – Senate Bill (SB) 96 was introduced in the 2005 Legislative Session.

- March, 2005 – After passing the Senate on a 48-2 vote, it then went to the House of Representatives where a joint resolution (HJR 33) of the Senate and House directed DNRC and interested parties to conduct an interim study of issues related to contract harvesting of timber from school trust lands.

- August 17, 2005 – Interim Study Committee formed with broad representation to identify and review contract logging issues and to conduct study. The end product of the Interim Study Committee was the production of the white paper.

Summary of White Paper

- Individual section reports were prepared by interim study committee members and submitted to EQC for compilation into the white paper. Individual reports were completed in January, 2006.

- Issues examined in each of the individual section reports included similar programs in other states, standards for log quality, accounting practices, standards for hiring loggers, stewardship contracting, marketing, and economic impacts to logging industry.

- Washington State has a similar program and has shown that their contract logging/direct marketing approach has, on average, yielded an additional 12-20% in net revenue to the trust beneficiaries. This approach may also provide additional flexibility, control and more predictable results where limited markets exist and in addressing and managing environmentally sensitive areas.

Proposed Legislation

The intent of this draft bill is to define terms associated with contract logging and to authorize the Department of Natural Resources and Conservation (DNRC) to contract with firms and individuals for the harvesting, sorting, and transportation of forest products from state lands and to directly market those forest products to forest product purchasers up to 10% of its annual sustained yield. This bill would also authorize the Department to conduct rulemaking to implement this program.

What are the potential benefits of contract logging?

- Capture additional revenue to trust beneficiaries through proper timing, sorting, and marketing of product sorts. Ability to adjust sorts as markets change to capture higher values.
- Provides additional tool and flexibility in marketing forest products in various market conditions and in some limited access situations.

- Provides additional management flexibility and control in achieving predictable harvesting results in addressing forest health concerns and where sensitive environmental conditions may exist. (HCP, SFLMP, SMZ, etc.)
- May reduce operational timeframes for completion of sales.
- Attract highly competent logging contractors and expand customer bidding pool while obtaining a higher value for product sorts.
- Can make a marginally commercial timber sale more economical.
- No impact on local communities and does not displace local jobs. The amount of volume being considered under this method amounts to about 5 MMBF which represents approximately 0.7% of the total statewide volume (~700 MMBF) harvested in the state of Montana from all ownerships.
- Purchaser only buys sorts they want. Does not require mills to buy and handle less desirable or unwanted products.

What are the possible drawbacks?

- Creates added contract administration, data handling, and tracking needs.
- Limited in-house expertise to effectively develop sort criteria and market products.
- Potentially viewed as competing with private sector and cutting into mill profit margin, especially for mills with active secondary marketing programs where they resell unwanted sorts and/or barter for desirable sorts from other mills.
- Shifts more liability to the State in terms of product specifications, sorting and marketing of products.

How would harvesting costs be paid for?

A new account, called the Contract Harvesting Revolving Account, would be created to deposit gross revenues and to pay for expenditures associated with contract logging sales. Net revenues would then be distributed to the appropriate trust. The initial account balance of $500,000 in the Contract Harvesting Revolving Account would be created by transferring this amount of money from the existing Forest Improvement Account.

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