

Tom Schultz, DNRC, welcomed the attendees and outlined the purpose of the meeting citing issues, funding and developing and managing a contract logging program in Montana similar to the Washington DNR program where 10% of the timber harvest can be contracted out. SB96 is a proposed bill associated with contract logging with the intent to authorize the DNRC to contract with firms and individuals for the harvesting and sorting of timber from state lands. The bill further authorizes the DNRC to sell such product sorts at or above a minimum appraised value to the highest successful bidder. There was concern as to the impact on local mill and logging operations, but the bill is not expected to have any negative impact on local communities or displace local workers. The bill may actually provide more stability to competent logging contractors and ensure local mills have the ability to purchase only those sorts that they can use. Through auction, it would provide for the sale of the cut, sorted and decked sawlogs and pulpwood. Bidders would include sawmills and pulp mills with the highest bidder for each product sort being awarded the wood. The state would make money on the difference between the money paid to the logger for the contract harvesting work and the money received from the various mills for the product sorts. This 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. The proposed bill was meant to provide DNRC more flexibility in meeting environmental requirements and to more fully market and capture both short and long-term values for trust beneficiaries. The proposed bill was pulled from consideration for study. He suggested to first write a paper as a group to incorporate into the study, it would come out and then perhaps some legislation would be required. We would air the issues and explore pros and cons and go to EQC with recommendations. This is not a new issue to Montana, but will it work for Montana? Will we lose dollars, do we have the expertise?

Tom suggested having an oversight team or committee, not made up of just DNRC, to work on issues. Is there any interest?

Ellen Engstedt suggested we wait until the issues are on the table before making committee assignments.

Tom introduced Howard Thronson and Dave Gordon of Washington State Department of Natural Resources. They presented a power point show featuring Washington State's program for logging timber from school trust lands through their contract harvest program. Excerpts from the power point follow.

Legislation was enacted which requires the commissioner of public lands to report to the chairs of the appropriate committees of the legislature every year on progress under this act, including the identification, of any needed statutory changes, policy issues, or funding needs. The act states forest health problems may exist on forest land regardless of ownership, and the state should explore all possible avenues for working in collaboration with the federal government to address common health deficiencies. It found healthy forests benefit not only the economic interests that rely on forest products but also provide environmental benefits, such as improved water quality and habitat for fish and wildlife. The act directed the commissioner to develop a statewide plan for increasing forest resistance and resilience to forest insects, disease, wind, and fire by a certain date. It declares an intent to ensure that trust beneficiaries receive long-term income from timber lands through improved forest conditions and by reducing the threat of forest fire.

Through this legislation, the WADNR is given temporary authority to use its contract harvesting program to conduct silvicultural treatments in specific areas of state forest land where health deficiencies have been identified. All treatments must be tailored to improve the health of the forest stand, and must be in accordance with all applicable forest health plans, laws, and other agreements. When planning for

silvicultural treatments, WADNR is instructed to give priority to fulfilling existing forest plans. A working group was created to study opportunities to improve forest health and to aid the commissioner with the development of a statewide plan for forest health. Directions to the working group include: (1) Evaluating the current forest health laws and other state laws that may be used as models for future forest health legislation; (2) studying incentives for landowners to maintain forest health; (3) developing recommendations for the proper treatment of damaged timber; and (4) recommending if the work group should be extended.

WADNR found that for some timber sales, contract harvesting offers better options for both environmental protection and revenue. In contract harvesting, WADNR contracts with a firm to log the timber and sort it into various log products based on size, species, grade, etc. WADNR then sells the logs through auction to the highest bidder. By contracting directly with the harvester, WADNR has more direct control of the process – road building, selection of trees for removal, and the removal itself. This can provide more flexibility and assurance of meeting the intent of the WADNR's Habitat Conservation Plan and other environmental goals. Contract timber harvesting can also bring in higher revenue. Based on pilot contract harvest sales, WADNR estimates that a carefully selected contract harvest sale can increase net revenue about 15% above a lump sum sale for the same stand of timber.

The program's current legal requirements for distributing money received from state trust land timber sales limit the approaches that WADNR can take with timber harvests and sales. This in turn limits opportunities for revenue for the trusts. Through this program Washington State can sell valuable material, it had mechanisms to do it but none for how to pay the loggers. Legislation was adopted creating a contractor revolving account. The legislature is trustee for the account and allows WADNR access to gross receipts, it is restricted to contractor harvesting and the proceeds are distributed to beneficiaries. It is a self-supporting account for contract harvests. The land management accounts would make an initial contribution into the new account. Expenses for contract harvest sales would be paid from the contract harvesting revolving account, and contract harvesting receipts would replenish the account. The net proceeds from each harvest would be distributed to the trust beneficiaries and management accounts as usual.

For timber sales where contract harvesting is the best method (up to 10% of total annual allowable cut) this bill gives WADNR a viable and valuable tool that can enhance protection of the environment and trust assets, and potentially increase annual revenues by \$2.9 million. Contract harvesting has the potential to increase revenue to the trust beneficiaries and increase environmental protection. The program needs operational flexibility to facilitate complex sales.

Previously, projects with diverse product mix had default on sales, the state got sued but it was determined the legislature must have loyalty to the beneficiaries. So the state went back to lump sales and transferred the risk to the contractor. The ramification was to go 100% to lump sum sales. That's when the state came up with contract harvest sales, but it had to be selective of the sales, for example: use in areas with small bidding pools and challenging market conditions, WADNR only is 13% of timber business in Washington. As they have had more sales, participation has expanded. Some of the things to consider:

- Partial sales:
 - Environmental considerations
 - Try new harvest techniques
 - Forest improvement

It takes up to one year to put the plan together, there is a six month operating window for customer price commitments. WADNR shortened the customary contract sale time. The plan follows statutory guidelines.

- Marketing/Relations:
 - Learn what customers want – volume in and volume out, and customer concerns and track them
 - Be responsible to customers
 - Program tracks values to beneficiaries
 - Program is constantly changing
- Field operations:
 - Have a field contract administrator in the field monitoring logs cut, must monitor and work with harvester (contractor) to ensure a high degree of log quality
 - Must use merchandising techniques, scaling and manufacturing
 - Biggest impact is in the office watching costs and value of logs, tracking costs, payments, acquiring software to take care of the reports
 - The purchasers pay third party scaling fees

WADNR pays for felling, yarding, bucking and hauling.

Mr. Heffernan asked on 100% scale, do you check scaling?

Answer: When we have 100% sales we sell by the ton or smaller.

Mr. Heffernan asked on sample scaling, how does that work with lump sum sales?

Answer: We have whole sales with sample scaling. Pulp and chipping logs rarely sell.

Question: Where are the logs scaled?

Answer: At the destination or the point closest to the sale. All scaling facilities are contractually set up.

Ms. Engstedt asked who pays for the trucking?

Answer: The state pays for it through payment of gross receipts through the contractor harvesting revolving account. The state can withdraw harvest costs. The board has statutory oversight and the DNR is required to report to the legislature what happens to the funds. Weeds, overstocking and insects are issues and the DNR uses marginal values to offset cost. Statutorily we can only sell 10% the first year. The Washington DNR has sold five sales this year.

Washington State's Harvester Selection Process:

The first element of the contract harvest selection process is the selection of a contractor capable of meeting the harvesting and development objectives of the timber sales project. To allow for possible delays, this process should be completed three months prior to the log sales auction date. Selection begins after all pre-sales field work and packet is completed, agreement numbers are assigned, Forest Practices Application is approved, SEPA process is complete, Request for Statement of Qualification documents and harvesting services contract are completed and the region has concluded a preliminary review of the sale. Log sales contracts can be finalized after the harvester selection process is completed.

Prior to the harvester selection process six major steps must be completed and consist of:

1. Develop Request for Statement of Qualifications Packet;
2. Develop Harvesting Service Contract;
3. Advertise and Conduct a Harvester selection Meeting;
4. Selecting Eligible Bidders;
5. Soliciting Final Bids;
6. Determine successful bidder.

The region office will establish a Master Harvesting Contract file. Original documents pertaining to presale documentation are placed in the file. This would include: Harvester Selection Process, harvester and log sales contracts and contract administration. Document all actions taken to select the low bidder in the event there is a protest by a non-selected harvester or a review of fairness of the process. This file will reside in the region office as part of the contracting and log sales audit trail. All harvesters are pre-screened through a qualifying process. Other harvesters not selected can appeal to the land steward through the court, an appeals process. If they meet the minimum qualifications they become bidders.

Ms. Engstedt asked how many FTE's were hired to fulfill the program.

Answer: We didn't hire any initially, but will have to expand as the program grows. We use a timeline, layout on the ground, hire process, costs for the program, and a training mentorship strategy.

Bob Dick said when the log sort sale program was first initiated, there was mixed feelings from industry, fiduciary responsibility to consider by the state and producers. But now most producers seem to go along with the program, even if they don't support it wholeheartedly.

Issues to consider:

1. Look at bonding process (what proper bonds to use)
2. Cutting/bucking specifications are important (no room for error);
3. Delivery timing;
4. Needs clear line that separates agency, purchaser and logger (who has what responsibility);
5. Legislation is critical to create an instrument to allow funds/bonding;
6. Make sure operating issues are resolved (relative with agency, purchaser and harvester is essential);
7. Accepted because DNR is committed with 10% of sales in the program.

Mr. Heffernan said on the bonding issue, its not just on value of products but field performance, payment security is adjusted. What do bonding companies think with legislative comfort level greater? When contractor doesn't perform to specs it's the purchaser has who takes risk for the product.

Answer: We have it contractually to deal with mis-sorts. The contractor is held responsible for log sorts.

Gary Dahlgren, USFS, presented information relative to a project they had in Montana. These were forest stewardship contracts. They sold logs in advance and got quality contractors. It was all hauled by the purchaser. Slash is sold on a per-acre basis, the conversions became confusing for all parties. The USFS used the Best Value Contractor criteria to select contractor, used criteria for capability/experience/safety record. He walked through

Lunch break.

Tom Schultz said the purpose of this afternoon's discussion will be to talk about the study and see if the contents of the study address the issues that are out there. Secondly we will look for commitments from the folks here to participate in airing concerns and issues as well as potentially running further about those issues. In general the contents of this study was pulled from the resolution, the overview of the logging proposal and the aspects. Is there anything else you would like to see included in this white paper other than what is identified?

Someone said one thing I think we need to consider is the way our trust land financing works. The trust land is administered from general funds, the income from the trust fund goes to the recipients of the different trusts and so we need to consider legislation to allow for enough money to pay for the work.

Tom Schultz: Maybe the concept of the revolving account that Washington has should be considered. Just so you know, we are funded like Washington State is, we fund ourselves out of revenues. There has been some debate about that from the University System. Currently we fund ourselves out of revenue so as Washington State does, we have an appropriation for the timber sale program, about \$3.5 million. Out of that \$3.5 million it pays for 70 positions and the cost of doing business as it currently sits. So what we would do is look at some kind of revolving account on this program when we need some seed money. I assume that Washington has some degree of seed money. I hear the Forest Service didn't have enough money and had to ask the forestry group to fund raise for them. So, we'll have to look at either taking from our existing budget if there was not the wherewithal to put seed money into the project so we would basically allocate a portion from the existing budget so we didn't have an increase in expenditures and setting that aside for this program, or seeking additional appropriations as seed money to start the program. There is some discussion involving account. Any other thoughts on contents of the study?

Loren Rose said he'd like to take a step back. And maybe it is going to happen during the content of the study but I am still concerned with the overall feasibility. My concern and I aired it from the gitgo is there is such a tremendous difference between this industry in Washington State and Montana. The product mix is different, the level of mill sophistication is incredibly different, the product mix within the mills is different. Just the four sales that sold at 17 million feet, they generated 11% more revenue. I think that Bill spoke to up to 30% more revenue. The revenue came from cedar poles and we aren't going to have that opportunity, all four sales had peeler logs that generated more revenue, we've got two facilities in this state that use that product. I think the start up costs, a lot of what they experienced we will, it'll be just 10% of the total volume. So I am a little concerned that if we don't look at all those things during the content here, you'll maybe end up working down the road and say is this really feasible.

Tom Schultz said that is a good point. Maybe under revenues and expenses, we have a "sub" there, feasibility analysis is a component we are looking at. That would address start up cost as well as potential revenue and like the Washington DNR they had a scenario where you actually went through and said is this going to make money versus what your cost is. I think a feasibility analysis makes a lot of sense. We can include that under "Sub 5" and make it a component of the white paper.

David Jackson: I was going to say that this could change utilization and that could be good or bad. I think you'd better study that.

Tom Schultz: utilization?

David Jackson: Let me put it this way, I think it will increase the amount of low quality wood coming to the sale and if you guys don't change your cut you're going to reduce your quality. Follow what I'm saying? So I think all it does is end up substituting more poor wood for good wood and you'll have to change the harvest level, I wouldn't be a happy camper from the timber industry's point.

Comment: as I listen to the gentlemen from Washington one thought I had is instead of taking 10% of the sustainable yield we're looking at right now can we add 10% and do forest improvement work that over time is going to bump up the sustained yield we currently have? Maybe that's a totally different topic but that's a place for the legislation to go. Let's add 10% but do it with forest improvement work. The product that comes probably won't be high value but it will be an addition and it may be probably a lot of sawlogs, a lot of house log type material, post and pole material, but we're doing something that needs to get done on the ground and maybe isn't getting done to a high degree now.

Tom Schultz: Let me ask this question, Dave or Howard, how much of the material that you've seen has been high quality material or low quality material? Have you seen more of one than the other on this scenario?

Howard Thronson said it has been a pretty even mix. The sales we've sold to date have been chosen for a spectrum of reasons, not just the high quality reasons, which we thought going into it was one of our main objectives. We sold one sale completely at the request of an environmental organization that was more comfortable with us operating under this standard rather than a traditional sale. That sale had no high quality component. We tried to milk as much as we could out of it and we successfully did that. But it wasn't chosen for the high quality resource. We have another sale going on right now that is for environmental reasons. So those kinds of reasons are creeping into the plus column in our experience. On east side of our state which is where we have forest conditions more similar to what you guys have here, we've increased our bidder pool, we've expanded markets, and treated acres that we would've walked away from. So I think you're on to something with this forest improvement angle, for at least getting started. That has been an unintended benefit, consequence, from this program that we didn't go into it expecting to see. But it's proving to be a very large positive through the implementation of the program.

David Jackson said one of the big differences between the two agencies is that Washington DNR was using lump sum sales and everybody knows that lump sum sales use every incentive in the world to utilize everything that is worth a penny more than the out-of-pocket costs are taking out. You've got scaled sales so you've got the out-of-pocket cost taken out of that, plus the stumpage price. That creates cross incentives for utilizing low quality wood. I think with a logging contract where you're going to pay somebody by the piece for something, you're going to get more of that low quality wood out of the forest and that will meet your sale priority goals if they don't change. That's of course my point. I think you've got to study it. My second point is if you increase the amount of low end wood, it will reduce your average stumpage price because that is a blended price. You may make more money but you can't use price as an indicator of your revenue, you have to look at total revenue which reflects changes in utilization. That makes studying what you want hard. Because you have to look at how its going to change what you use plus what you're selling it for along with your additional cost sales. That is going to be hard to do, real hard. I think there is a lot of potential, but its not a piece of cake. Suppose you ended up with a 20% increase and removals out of a typical sale, that would be wonderful. You better increase your cut by 20% because you're getting that without any additional added acreage. That's of course an important point, and if I were in industry I'd be saying, hey look at that. Because you're doing the same sale design prep and all of a sudden you have a better wind basket coming out of it.

Tom Schultz: Loren, back to your question could we include an option or look at it if we increase the sustained yield by 10% and this was a pilot project that looked at that. A couple things, we can do anything in the study that you want to look at. One, would the Land Board go for that? I don't know. We just had a 26% increase in the sustained yield, under the last calculation that did show that we could've gone up to 57 million feet for quite some time if we didn't have a non-declining even flow. The model

has some degree of non-declining even flow plus or minus 10%. If we did not have that constraint, we could've gone even higher in the sustained yield study. There were people that advocated for the number and some that said it was too high and some said it was too low. Whether we could get legislation, I think it would complicate the issue. I think it would gain industry support if they said hey the sustained yield out there doesn't change, we're going to add 10% to the program. I bet you everybody walks away today and says hey great let's try it. I am not opposed to that but there are people from the Land Board in this room now representing folks I doubt if they want to speak to this issue, but my guess is that would run into some opposition. We talked about having the environmental side support this in Washington. You guys didn't talk about increasing your cut did you?

Howard Thronson said we never used this as a mechanism to increase our cuts. We build it as a tool to increase our margin for profit, it's a tool to increase our flexibility and gain control of on-the-ground operations. Its another tool in our package to help do the job we were already assigned to do.

Loren Rose: But if you're utilizing more of the lower value wood, either the number is going to go up or you'll have to take sales off the table.

Howard Thronson: Our current sale improvement volume does not count in our sustainable harvest calculation.

Loren Rose: That's what I was talking about. Let's just call it forest improvement and head down that direction.

Howard Thronson: Its sorta like pre-forest thinning only where you have a mechanism now to do it.

Tom Schultz: What is your cut off? What constitutes forest improvement volume? Is it based on the volume?

Howard Thronson: The legislation was specific to all this. It targeted about 5,000 acres to be treated rather than volume. So we treated the forest improvement sales really more on an acreage basis treatment. So does that answer your question?

Loren Rose: No. I don't think so. Because you were saying what is the break point between...

Tom Schultz: Yes. What is in the qualified forest improvement sit?

Howard Thronson: We hired staff to go out and do an inventory of acres at risk, crisis, the worst.

Loren Rose: Before that, what is the break even sale?

Dave Gordon: Each region has a profit margin layered. If they came in with a sale and we appraised it and came out at \$80 per 1,000 we wouldn't sell it because the break point for pond at 25%. Since the department is allowed statutorily to receive 25% of the beneficiaries money on gross stumpage to reinvest solely for the purpose of managing the land. We live within that on every single sale as the basement of what the minimum bid will be for a timber sale. If the pond price is \$200 and you take out your logging costs through appraisal and the minimum bid comes out below 25% we don't sell the sale. Contract harvesting changed that. It also has the potential for bringing new business to your state. We're attracting a company that has an operation in Libby, Montana, to the State of Washington because they are looking at the type of stuff that is at risk, low value for engineered wood products. So there may be some other opportunities if you change your product mix and sell it.

Tom Schultz: The concern I would have is let's say maybe its 50% lower value and 50% higher value, the higher value stuff that your selling under contract harvesting you're not calling it forest improvement and making that additional volume through sustained yield.

Howard Thronson: No. We really have two arms of this spread. It started out as contract harvesting. The forest improvement bill and that legislation enabled us to look at those kinds of sales came in a year later. They said well you have this tool now and we want you to start doing this forest improvement sales and we require you to use those tools to do it. So we can't sell our forest improvement sales under a lump sum traditional sale. We are locked into this contract.

Patrick Heffernan: David Jackson brings up a good point. Some things to caution you about when we get into the discussion about what is the allowable sustained yield one of the problems we've dealt with that it is calculated in board-feet log scale. When we start looking at different dimensional products the timber has a ratio of real volume where actual volume changes with log diameter. So we need a little caution here so we don't create gradients. Improved forestry would be getting more forest improvement for it but because of that you would have more raw value percentage of product in the whole mix but that wouldn't scale up to the whole 60 million board feet.

Keith Olson: Let's keep our eyes on the ball here. Frankly, from my perspective, you need this. If you ever enter into a single contract with some contractor to do something, you need this tool. So that your folks out on the ground that are entrusted to be making sure that state forested lands are being managed in a proper style of stewardship. There are a lot of things that you could be doing where you are hamstrung at this point in time by trying to do it under a timber sale contract. That makes no sense. To what extent this program is utilized, I think we need to study that. We need to talk about the feasibility and costs and such. But the people of this state expect you to be stewards of their forests and in order to do that you have to have every tool at your availability. And right now you don't. As I've listened, and I really appreciate these guys coming over from Washington State, and I think they are exactly right as we get into a project opportunities and benefits are going to come out of this and its going to be hard for us to sit around a table and visualize it. Let's don't hamstring ourselves too quickly up front with what's in the best interest of the industry. Because we are not around the table to determine what's in the best interest of industry. We are around this table to determine what's in the best interest of the state forest, the beneficiaries, and without industry that can't be done. Frankly, I am absolutely convinced, even if this doesn't become a major project, that you need this. Your land managers in the field need the ability, especially in small volumes in particular areas where a timber sale is just an unfathomable way to address the issue. Whereas you can contract with a logger and implement your stand improvement or whatever the future desired condition objective of that particular forest will be. You can't do it without this sort of a tool.

Tom Schultz: Back to Loren's point in terms of increasing the volume, maybe what we can do is explore this forest improvement component. Because we do have forest improvement right now. If we make the case that we treat a stand we are leaving stuff behind that is stuff that is not economical to bring out or we're not going into some stands because they are fault(????) stands or because even though they may be at risk from insect or disease, or potential fire damage, we're avoiding those stands because of below cost sale issues. This gives us an opportunity to look at those and I think we should explore that. What I would be reluctant to do is say that if we are going to do a pilot project all we do is target low value stands. I think that would hamper us and the criticism would be "state enacts below cost timber sale program." I see that as being a headline that not any of us wants. The dual capacity we're trying to see is what's in the best interest of the trust and the forest. In treating some of those stands we are walking away from now because of the economics, if this was an opportunity to look at some of this, that is great. The

question then is does it affect the sustained yield? I think we can legitimately say if those are stands that we didn't include in the sustained yield study, that we walked away from because of the economics, yet it was low value stuff that we think is in the interest of the forest, I think we can make the case to the Board to examine that and look at it as part of the study. I think that is reasonable to look at. I would hate to say that... I think if we go in touting this as another way to increase the harvest, you know the way things get spun, I think we're going to be in trouble. We are looking at ways to... just like Dave and Howard said, two components one is can we improve the bottom line a little bit and do we have more flexibility to treat these sensitive areas in a way that maybe we've walked away from. The Board walked away from some of the forest health issues because it is costly.

Pat Connell: If we've walked away from sensitive areas because of public concern, I make the observation that industry or the contractor working for industry never was in control of those areas to begin with. We had a timber sale contract with an agency that mandated an end result that you expected and also the means by which to achieve that end result. So, I understand what you're trying for and I am sympathetic emotionally towards that but to say that that's going to get more projects up onto the bid board clashes with my experience.

Tom Schultz: That is a good point. We talked about this a lot internally. The SMZ law being a big one, BMPs and so forth. My goal under the HCP is to have bright lines that not only that we've set on the table in Montana to say what the standard should be we actually have buy in from the FWS. Because for the most part, we are fairly conservative in our timber management practices near the streams. And a lot of folks will say it takes 80% of the time to manage 20% of the forest, so we walk away from that. First of all, the time issue and then if the concern of our folks is that no one bid at a timber sale no one buys it, we have no idea who the log contractors will be. If we have more control over the logging contractor based on a pre-qualification process that our folks have worked with folks, and some contractors are better than other contractors and if we have more confidence in that as a process and we have the HCP with assurance that we have buy in and agreement on how we manage those areas not just the Montana State law, I think you're going to see more active management appearing on the landscape. I am not saying any one thing unto itself, but I wouldn't disagree that we've been fairly conservative in terms of how we manage a lot of those areas because of uncertainty. It's a risk analysis. And I see this whole thing as a risk. I am up for trying something. Like most things we do, we could put a sunset on this, we could cap it, we could even talk about treating only certain amounts of, maybe we're back to the acres issue like the forest improvement thing in Washington where they target so many acres a year of at-risk stands and you put an acreage number or something and say this is a tool to treat those acres. In addition we could look at something other than low value stuff to a limited degree. I think we are all in agreement here that this is in its infancy even for Washington. They haven't been doing this very long. And I wouldn't say the verdict is in 100% that this is the way to do business. I think what they are saying is in some limited instances it might make sense. But even they are talking 10%. Now 10% of 600 million is a lot different than 10% of 53 million. So again, our average sale size right now is 2-3 million. We could even limit the sale size. There are all kinds of ways to address concerns. Some of the new things in the contents, I think this issue of utilization is a good one. Does it mean we start to bringing in more of the low value product? I think the feasibility analysis is a great idea and wrapping in some of that "go/no go" stuff that Washington has, this issue of the revolving account that was brought up. Are there any other issues we don't have on here?

Senator Kelly Gebhardt: One other thing we might consider is the fact that Bill had one of these sales in Kalispell and one in Miles City and one in Lewistown. So you're going to have sales out of different offices and the expertise over a period of time, it is going to be a struggle for your department to develop the expertise in each land office you have. You might have an internal thing that could vary considerably from one end of the state to the other.

Tom Schultz: The concern again was expertise. And we heard folks from Washington speak about an intern program. The reality is most of our timber is on the west side of the state. We would have more expertise generated within the NW Land Office (Kalispell) than it would be in Miles City. We have one forester in Miles City. So, if we are going to try this in Miles City it would necessitate cross training and someone from Kalispell deploying them in Miles City for a period of time. We were talking at lunch if we were to go down this road, and it's a big IF, I could see sending a contingent of Montana foresters to Washington for a period of time to work along side those folks, side by side, observe what's going on, and get the on-the-ground experience and then if we ever got doing this reciprocate and have them come to Montana have them walk along side us. I've talked to Idaho, they are interested in doing this too, don't think they're not. They've got the same mission with industry there, they haven't pushed the issue but they are very interested in doing this. So I can see out growth not just in Washington but Idaho and Montana dabbling in this if there was the wherewithal to do it on a limited scale.

Ellen Engstedt: I've never been one to say what other states are doing this. Is Washington the only one that has this kind of program?

Tom Schultz: In terms of states that manage timber....

Howard Thronson: Oregon. We had a similar kind of meeting with them at the beginning of the summer. Their state is much like Montana.

Tom Schultz: California has no forested state lands.

David Jackson: The Nez Perce do, and I think they are pleased with what they do. I have not heard any detail but they actually did it before the Washington DNR. I think the Alaska native corporations do it too. Of course they do it all over Europe. What they tend to do in Europe is forest cut logging within the federal land agency. What they tend to do mistakenly is log the same limit in irrespective markets and then end up with drying rotting wood in the forest. I've seen that in Switzerland. You have to be careful and be sensible and not get too carried away with that too. I think it is a real European tradition in a lot of the countries.

Jason Todhunter: One thing I didn't see on the list here and its been touched on a few times, the state is going to be taking on a little bit more liability. The mill is kind of one of the buffer zones between the state and whatnot. The insurance requirements along with the bonding issues is something all the sawmills are going to be looking at.

Jim Kranz: To follow up on expertise, the spin off of that I think would be empowerment and trying to keep decision making on an operational basis as close to the ground as possible because you have the state out there managing logging contractors you're going to want that state administrator to be able to be a decision maker through most things on the ground to keep production going without encumbering the operation. He will need to answer operational questions. So, some kind of empowerment factor there and it might be an internal thing and not an operating thing. I see that as indicating an important element with this approach. Washington handled that with sale administration and on-the-ground decisions.

Howard Thronson: The (Contract Administrator) CA is the focal point between the harvester and the state. The CA has free access to higher authority decision makers but it goes both ways. When I get calls daily on operational questions we feed that back through the chain of command through the CA so we don't have four state foresters telling the harvester four different ways to do the same thing. We definitely route it through our CA because he is on the ground.

Tom Schultz: To summarize, we've heard feasibility analysis, utilization discussion, funding issues, revolving accounts, liability issues being safety, insurance, bonding, etc. Is there anything else we may want to include as a component of this?

Patrick Heffernan: Are you going to explore the concept of best value or just going to limit it to the situation ...

Tom Schultz: I am looking at #3 on our agenda, Hiring Standards for Loggers. I would like to touch on a little bit of that as part of the discussion. I think there are a couple of ways to look at that. I like the way Washington did it where you had a pre-qualification stage, vetted some of that out, and then once you had your list of preferred contractors you went ahead and did a bidding process. But we could explore the different options you heard the Forest Service say, the best value issue, the Washington model, or directly open up to everybody and don't have any kind of standards. We talked about accreditation, those kinds of things, but we would flush that out for sure within the report as options and we can't say one way is the best way at this point but just look at how we could potentially do that.

Chuck Roady: Would you be willing to look at other things besides actual scaling? We don't have the third party scaling available this far east like they have the bureaus in Washington and it could lead to a huge cost to have a third party coming over.

Tom Schultz: Yes. We will talk about that. We go by ton for the most part. Much as other folks have done we have gotten away from scaling. We do almost exclusively ton sales. Somebody raised an issue about factoring, and you're right, it is based on diameter. Even depending upon which mill you go to you could have a different factor in terms of a conversion from ton to board feet. I think on average we look at 6.5 being the conversion factor but realizing it can be 5 – 8 depending upon what you're talking about – species and diameter. We would probably remain with ton. Again we're not talking telephone poles for the most part, the bigger the trees the better the value and scaling might make sense but I don't know that we would want to pursue a wholesale conversion. I'm not saying we can't look at some scaling. We have done a couple of scale sales, probably less than five scaled sales in the last four years. I don't want to create a monster that is not out there. I would say leave it as an option. I don't think we would try to mandate scaled sales.

Chuck Roady: I polled some companies in Washington, and the NE Washington companies to a "T" every one of them mentioned that they discounted their bids because of the cost of that third party scaling.

Tom Schultz: We could look at that, I wouldn't want to mandate scaling.

Todd Everts: Howard mentioned there would be a report in December to the Washington State Legislature regarding this program. Is that correct?

Howard Thronson: In December 2006 we are required to give the full report on all the sales we've done, all the work, all the good things, and they will then determine in the 2007 session whether to extend the authority or end the authority.

Todd Everts: Okay. The timing is a little bit off for our legislative process. When do you figure on starting that report, is it in the fall?

Howard Thronson: We are working on it now, gathering information.

Todd Everts: I guess the reason I bring that up is the Montana legislature would I think want that type of information given the infancy of your program. That could be extremely valuable information but it sounds like it may be a little bit off for the 2007 session.

Dave Gordon: We can provide you with anything we have right now for your committees to review. We can pull it together and we can be the conduit to you and then you can pass it on.

Tom Schultz: I was looking at the joint resolution (HJR 33), it says we have until September 2006 to get this pulled together, so we've got some time and my guess is if you have a report you're going to have done by December you will have a draft of it long before then so we could look at that draft and evaluate it as a component of this analysis too. Our session would be going when your session is in January. I'd like to review it a little bit in terms of the contents. Just flush out a couple of these issues and see if there are any sub issues.

Log quality standards. Tom Schultz: I know when we met with folks during the session this was a big issue. What I can tell you in seeing how Washington started and how the Forest Service started is I think this was a big issue for those folks when it started. The Forest Service had at one of their sales a log deck and they couldn't sell them. They had them bucked and crafted and no one actually bought them. In terms of log quality do we need to examine some sub issues other than the broad category of log quality?

Pat Connell: I think method of log handling can be a crucial issue. I am not sure that utility poles are even sorted any more in the state. But 35 years ago I started off my career working for McFarland. Now, working at a house log firm I'll tell you what, on a standard basis I walk into any logging operation and say either plate that heel rack on your damn loader or you're fired. Because the serrated teeth on a heel rack on a loader just raises hell with dry house logs. So, that and a dangle head with thumbs or knurls turns good house logs into pulp. So that would be an issue from our standpoint.

Tom Schultz: Anybody else in terms of accountability other than methods of log handling? Are there other issues we should look at?

Bob Dick: one of the things that Washington DNR and that you may want to think about is preparing one of these log sales. They go out and query those in the vicinity of the sale and find out what they want. That gives DNR a very good idea of the type of bucking information, etc. that the people in the vicinity want.

Howard Thronson: I forgot to mention that earlier just for the industry folks, what the staff did basically was a mill survey from Northern California to Oregon, Idaho, Washington, and Montana. We sent out a survey and said what type of wood do you want from us. For your quality standards, for your sorts, for your diameters, length, preferred species, when do you like the wood delivered when don't you like the wood delivered, what is your capacity, would you be interested in purchasing a state timber sale if you'd never purchased one before? So we created a bidding pool from that. We also mapped it out based upon the information of when people buy in a certain area and when they don't buy in a certain area. What they buy and what they don't buy. And then as Bob said the critical thing before we try to do one of these things is we go back and touch base so we know what's going on. We reaffirm the information they have given us previously.

Dave Gordon: We also hold a purchaser's meeting and a harvester's meeting before each of the projects. It serves two purposes, the harvester's meeting is we talk to potential harvesters and any questions they might have about the project and also learn about what it is going to take to harvest and extract from the

land that we're eyeing, the value, what we're gaining. The purchaser's meeting is just another extension of what Howard was saying, we reaffirm what the lengths are, what the market is doing, what the buying temperatures are, the timing and we line up all of those variables to optimize when we actually make the project go.

Tom Schultz: So, maybe the idea as a component of this is, two other components, whole quality is one and just looking at the survey potential, I'll say mills in Montana to keep it less controversial. But maybe reviewing the survey Washington did several years ago and then doing our own survey as a component of this and seeing what do folks want, what do they want to buy, and what are the specs as a component of this whole quality issue and see what demand is out there. And then the other issue is polling local purchasers before you set up a sale makes a lot of sense, talking to folks on the ground, what are you looking for, in addition to a survey but when we actually get on the ground looking at something.

Loren Rose: For saw log purchasers everything you're selling is by the ton scaled to some frequency and there needs to be some discussion or language and arbitration of when we get something and scale it and its not to spec because loggers, even the best loggers, when it is on the ton basis can get a little sloppy and to be sure all the mills scale some percentage of those logs.

Tom Schultz: If you have gate wood you're buying and there are other issues like that I am assuming, Plum Creek when you bought the forest service sales by the ton, how do you deal typically with the arbitration issues? I assume there is something already out there that occurs on the market.

Jim Kranz: The mill just reduces your price and that's it.

Keith Olson: Years ago we used to run a penalty but we don't now. What we try to do is just keep the intensity of the sale administration up so there are not those kinds of problems. We do scale and we do quality control and there is probably 10-15 quality control items generally that you're looking for but the two most important ones are the lengths and the top sizes, and varying degrees after that. So we work with our producers to make sure they understand so we can avoid the issues of arbitration through effective contract administration to begin with. Just as a parameter we keep track on a log count basis whether the log is a good log or it is not. One that meets our preferred criteria or if it doesn't meet the preferred, is it still acceptable or is it not acceptable, cut it wrong, totally wrong length for some reason, it is a QC issue. We try to make sure the logs coming into our facilities are at least 95% acceptable or better and we maintain that kind of level and don't feel there is an issue with arbitration.

Chuck Roady: You're talking about such a small volume and so few sales. Quality control belongs in the woods like Jim said, not at the mill yard and certainly not at the scale yard. But in this day and age with technology and experience of the timber harvesters you just put in penalty clauses. If the logger screws it up the purchaser shouldn't pay the price and neither should the beneficiaries.

Pat Connell: I did poll these companies in Washington and two of the things they said on the QC part was (1) as they got closer to the expiration date of the sale they noticed their log quality went down and (2) was the timeframe getting information back to the state. By the time they got to the state and the state got to the logger they'd already had twenty loads a day for the next five days of the same bad lengths but its just something you need to get a handle on that and you put a penalty in it.

Tom Schultz: Which the log contractor would be responsible, we'd put a risk on that when negotiating or arbitrating with the mill.

Pat Connell: In your appraisal of having bad lengths then that would necessitate some sort of, you'd have to develop some technique to establish that there is failure to comply to your quality standards and how do you adjudicate that over the entire purchase?

Tom Schultz: Washington talked about some of that.

Dave Gordon: There is a contractual mechanism for the purchaser to request for adjustment of the price. We use a 3% threshold for price so the burden of proof is on them. If we are not delivering up to the specification within the specs of the sort, we sure hope and expect them to talk to us and we can make adjustments. In the sales we've sold so far we've had one price adjustment we've granted to a purchaser and it was \$900. It enabled us to meet that 3% threshold.

Howard Thronson: For example, when you have twenty log sort purchasers that said today we're sending mis sorts there is a mis sort problem. Our CA's also check with the log buyer to find out and say, okay are the truck loads coming in right? We are maintaining that relationship.

Dave Gordon: The software we have gives us next day reports on these log lengths, so we know exactly what percentage of deliveries that day were within specs or not.

Log Quality Standards:

Tom Schultz: To recap, log quality, look at maybe a survey, look at log handling issues, look at potential for disputes, what kind of standards-you talk about 3%, and we would have different issues if we were not scaling we're doing ton sales, we may not have as up-to-date information as you guys have, as well as looking at the downside of requiring scaling sales in terms of the cost. In terms of log quality issues we talked about is there somebody that wants to take a lead on that issue and kind of develop some of that? Is there interest?

Chuck Roady: I'd certainly help.

Loren Rose: I can too. Either Gordy, I or Pam.

Tom Schultz: For purposes here, Chuck you'll have the lead, maybe Loren or Gordy can work with you on that and if you can put something together addressing those issues we will send it out to the group for review and ultimately get it to Todd and pull it together to make this report flow.

Accounting Practices:

Tom Schultz: We talked about the software Washington has been using. Are there any issues specific to accounting that folks are concerned about?

David Jackson: Are you including in the idea of accounting and administrative costs?

Tom Schultz: I think that revenue and expenses may be tied to some of the costs but I was thinking more of issues raised what you were saying, the next day you had information about the size, lengths, and those kinds of things and currently we are not set up to do those kinds of things so we'd have to prepare...

Patrick Heffernan: You would get that information from the purchaser, there could be a way because they are going to scale things in a certain frequency anyway.

Tom Schultz: How about if the department takes this on because it would probably be an internal accounting mechanism. Roger (Ziesak), you could work on this and talk to Washington and talk to folks

about what other accounting procedures are out there that we could explore. We have our own data base system and what it would take to revamp our system versus using a system like Washington has and we could get that out and into Todd.

Jim Kranz: Just a thought, since these are delivered logs, these are like a stumpage thing. Where the stumpage process is set up on the state basically sets the pay period basis, Now, the delivered log basis each mill or company has a payroll period so you'd want the process to be flexible enough to fit with your purchaser's payroll system. If its not, it becomes real onerous for the company to try to go out of a payroll period to process for a particular customer.

Dave Gordon: In the department what we have to be aware of and have control over is what our harvester payments. Being aware that they have general outflow and their staff payrolls. That is on a twice a month schedule.

Jim Kranz: With that data feedback you can pay the harvester.

Dave Gordon: Well actually we pay them real close to what you think of as the work performed for that pay period and then reconcile it at the end of the process.

Jason Todhunter: One of the things you might find, Tom, is that while we may have an idea for necessity for wrapping around on the payment of our contractor for dealing with log purchasers most state agencies have a centralized accounts payable/receivable and sometimes on bills it sits in somebody's in-box and they think we're on a once a month cycle when we're not. So we have to keep close tabs on all the agencies to make sure they pay the bills on time.

Hiring Standards for Loggers:

Tom Schultz: Keith (Olson) I was thinking you and Jason (Todhunter) on this one to flush out some ideas and talk to Washington contractor's association. Would you be comfortable with something like that?

Keith Olson: Oh yeah. They have done all the homework. I think in terms of minimum standards that you're going to be establishing we pretty well have the vast majority covered in terms of Streamside Management Zone and Best Management Practices, safety elements. The rest of that is pretty well covered, whatever isn't covered wouldn't be hard to incorporate into part of our continuing education program. Now, you guys are probably going to have to get something developed, there are some good loggers out there that have elected not to participate in our ALF program for one reason or another whereas you're not going to use ALF as a standard for the same reason that Washington has alluded to. So you may need to as an agency develop some sort of training program for those folks that aren't participating. From what I've seen, like Washington has done.

Tom Schultz: So you and Jason will take the lead on that one.

Jim Simpson: I'll help.

Loren Rose: One thing you'll want to address under hiring standards is insurance. Especially when they begin hiring subs and the subs start hiring subs.

Tom Schultz: That's a good point. Jason you raised the issue of liability, safety, bonding, and insurance. Maybe we can roll the issue into that so under hiring standards we can also talk about liability issues as a component of that.

Keith Olson: We have that rolled into an unofficial portion of our accreditation program already on the insurance standards. One thing I'd mention, there was some discussion about the liability. Frankly, when somebody gets hurt on a logging job out there the attorney is going to sue everybody including God.

Tom Schultz: Regardless of the system you're using.

Keith Olson: It doesn't matter if it is federal timber land, private timber land, state timber land, there is a non-delegable duty risk. It is a responsibility to have recognized. Everybody is going to be a player when somebody gets hurt.

Loren Rose: Not really. The way it is set up now, Pyramid buys a state timber sale if one of our guys gets hurt, the state has no..they don't go to the state they come to us. It is a little different.

Tom Schultz: There are probably two issues here. One, in reality what some folks are saying is everybody is getting sued in the state regardless of who is on the hook for the liability because the state is the deep pocket, the federal government has the deep pocket. So, even though we may not be on the hook, let's say you buy one of our sales and somebody dies more than likely we'll still get named even though you're technically on the hook we will still be drug into the litigation. And whether we will have to pay or not I don't know. Under this very rule the contractor is on the hook.

Keith Olson: It brings up an interesting perspective. There may be certain arms length protection there. In this state I wouldn't bet against the courts.

Patrick Heffernan: Just a comment on that issue. What the issue is in the case of the forest service if the agency is providing specific direction to the contractor, which trees to cut versus others, etc., i.e., they are marked, depending upon how the contract reads, those are all the things that commit to a great deal of liability. There are ways to over come it. You can decide that in this.

Bob Dick: If Montana has a timber lien law like Washington does the agency will want to have a strategy for dealing with that issue.

Pat Connell: It means a sub-contractor not being paid can slap a worker's lien on the logs and no money will transfer.

Howard Thronson: We had that happen on one of our first sales where you can have a pot of money and our wood sat on the land. We could not haul it, we could not merchandize it, we lost money. We had to come up out of our operating budget to pay off the sub-contractor to break the lien. We have a mechanism on our contracts now to deal with that. We had to learn the hard way.

Tom Schultz: Maybe through the discussion on accounting we will touch on means and how we might address that. Roger you got that one. Any other issues on hiring standards for loggers?

Stewardship Contracting:

Tom Schultz: We heard the Forest Service talk about this, they talked about the increased benefits maybe in environmentally sensitive areas. We also talked about if we're treating acres that we may have walked away from before because of cost effectiveness due to forest health, I think this is all wrapped up in this discussion. There are a lot of pieces here. Is anybody interested in taking the lead on stewardship contracting?

Pat Connell: This is so multi-faceted and it could provide so many benefits to the agency on things other than direct revenue, I think it should probably be in-house.

Tom Schultz: Ok, we'll be on that one. In terms of components we need to look at, I think one is the notion of forest improvement or forest health issues. I think there is an issue of sustained yield along this, should that or should it not be a component of sustained yield. There is an issue of below cost sales. Is it okay to sell sales at below cost if we're doing work of forest health and flushing out some of those issues. Maybe treating stands we would have never treated before.

Pat Connell: You're talking about the wooley stands the Forest Service is having to deal with.

Tom Schultz: Yes, even before we had the fires in 2000 in Sula we had a sale down there that actually burned up. There was a lot of pulp in the sale and we were contemplating how we would treat the stand when it burned. It wasn't an issue. But we've struggled with some of these issues and some of the stands we have. We have to be conscious of our fiduciary responsibilities and also make sure we're not losing sight of our stewardship responsibilities and trying to balance those two. We may be flushing that discussion out here. We don't have, like Washington, they talked about not having a below cost sale under a 25% margin, that is probably an internal decision. There is nothing in statute...

Dave Gordon: It is a statutory requirement. Every dollar that comes off of the revenue from a timber sale.

Tom Schultz: It is statutory! It is paying salaries, but my point is if you had below cost sale you would still eat that somewhere else. It doesn't prohibit you from doing it, you made a policy decision not to do a sale that when you're a go/no-go but you could still do it theoretically and you just eat the cost.

Pat Connell: That might simply require a longer term benefit cost analysis for that sale for the stewardship aspect. It still is ultimately going to generate your revenue as a result of improvements.

Tom Schultz: That is a good point. We have these discussions a lot when you look at forest improvement activities, buying access, putting in bridges, upgrading roads. Its long term expenses for infrastructure but it's ultimately improving the forest and how do you account for that. You can show it all as a cost in year one or you will run it over 50 years and it looks like a benefit. We can look at some of those issues. Dave, if you'll be interested in working with this, maybe we could tie in some of that utilization into this discussion. You talked about utilization as a component of stewardship contracting.

Dave Jackson: I think that is part of revenue. And I'd be happy to do revenue.

Tom Schultz: Okay. We have it flushed out then, the forest health issues, sustained yield issues, and this issue of treating low value stands in this below cost sale issue as a component of this. The department will take the lead on this.

Revenues and Expenses:

David Jackson: I'll work on that.

Tom Schultz: A couple of things, I think we need to look at what Washington has done. When we asked the Forest Service they didn't seem to have a real good accounting of the revenue side. Like somebody said, this isn't a panacea and I would agree with that and trying to project out delivered log price versus stumpage and all the costs. Any specific components when we look at as a piece of this, the revenues and expenses, anybody have anything in particular?

Pat Connell: I would expect that the legislature would be looking forward to some pretty tight accounting analysis of cost for DNRC for handling these. That's out of my purview. But they will ultimately ask was this a good system and if it was, show us how and that tends to usually require dollar signs. You're not going to just roll it into your other accounting functions you already have.

Tom Schultz: What I am envisioning is if we do get some authority it would be limited and it would be a pilot project. We would have something that we would account for this project independent of the other sales we are doing.

David Jackson: What DNR said is that it certainly didn't say administrative cost. It was more to set one of these up, so I think it can't be completely unexpected and it would be prudent to look at that carefully, the pilot, with the idea that once you've done it a few times you'll be faster on your feet. But I think it would be prudent to have a component of that in the expenses.

Tom Schultz: Washington did it without an FTE not that they didn't need it or didn't want it but this thing last session we were not going to ask for an FTE but we were all conscious of the funding issues. But for the purposes of this analysis we should be realistic and say okay, do it with another administrative staff person who can train other outside sources.

David Jackson: I was also noticing they said the first two weeks of the timber sale was hectic and demanding. That has to impact personnel time and cost. I have done some stuff on your east side sales years ago for the tax assessment and I am sure it would be really hard to do this in a place where we had to have a forester in the middle of Eastern Montana for two weeks straight. You might as well build them a travel trailer.

Tom Schultz: You'd be amazed what our foresters do. They carry their tents on their backs and their bows in the backs of their pickups.

David Jackson: I just think it would be really smart to lay that stuff out because if I were, and I don't know what it is like to be a legislator, but if I was I'd sure ask about that stuff.

Tom Schultz: If we do get legislation, we'd have to do a fiscal note. Ideally the fiscal note would flow from this discussion. We don't want to have any surprises for anybody, we need to be realistic and honest with what the pros and cons are.

Ellen Engstedt: Another issue under that and I don't know if it comes under revenues and expenses or not is you go back to your study resolution and one of your whereas' the one out of the four that I spoke on during the committee hearing is the one that the department is saying that you can get 30% or you can get it by using traditional timber sales. Someone is going to raise that issue.

Tom Schultz: Yes, that was some of the initial feedback we got from Washington, was up to 30%, and that's why that is in there. But we'll have to, just as Loren talked about some kind of feasibility analysis, we'll have to look at as a component of revenues and expenses, include feasibility as a component then.

Ellen Engstedt: That's where I have it, under feasibility analysis. I assumed that's where you would put it.

Tom Schultz: Did you catch that, Dave? Loren had talked about doing a feasibility analysis and including that discussion under revenues and expenses. Is this feasible? And realistically what can we expect as a bottom-line.

David Jackson: I think that should be the focus of the revenue expenses.

Economic Impacts to Industry:

Tom Schultz: We've got a lot of industry folks, who would like to explore that?

Pat Connell: I think Ellen could be the clearinghouse for that.

Tom Schultz: Great. And I know Chuck Keegan wanted to come here today but he couldn't make it. You could talk to Chuck, as he is interested in participating. Between Ellen and Chuck we can have you work with that, and Chuck did the study on mills in Montana we could wrap some of that in.

Comment: Let's put Gordy under Stewardship Contracting.

Ellen Engstedt: He's under four categories now.

Marketing:

Tom Schultz: Somebody had contacted Roger about marketing. Are there specific issues under marketing we need to look at?

Comment: I think we've covered them. They have been all inclusive and there are several categories.

Kelly Gebhardt: I think one thing you need to consider, looking at the State of Montana's low grade wood, fifteen miles out of Missoula is worth a lot more than it is fifteen miles out of Miles City. So, I think that is going to be an issue. That is something that needs to be explored in marketing, what is feasible to do.

Comment: My point was the other end of the spectrum. We don't have a lot of areas of cedar poles or high value white pine or things like that that you see on the coast. We just don't have that. So, not only on the low end value but on the high end value there would probably be lesser times that we'd use this tool for that.

Pat Connell: When the Washington folks talked about marketing, didn't you talk about your folks having a better understanding of the mills and all the end users?

Dave Gordon: We gained from legislation.

Keith Olson: I think you could handle this internally because you're going to get a lot of feedback from all the rest of us anyway.

Tom Schultz: How about if we do this, Dave as a component of revenue and expenses you could touch on marketing and if folks have issues or comments or ideas on marketing we can include that. Obviously, transportation costs, those kinds of things if we're talking Eastern Montana issues, but we also thought at some point if you have in Eastern Montana a logger that wants to do something it doesn't require we be in the Western part of the state. Again, it was interesting that Washington initially thought it was going to be tied to these high value trees, but you said your experience was that it was 50% high-50% lower valued

stuff and you've actually seen some markets improve in terms of competition where you maybe not would have gone into before.

Dave Gordon: We had a sale in Eastern Washington of low valued material and we tried to sell it as a lump sum sale twice but we couldn't get anybody to come to the table. We tried to reduce some of it to a scale sale and nobody bought that thing, and then we finally sold it as a contract sale. We divided all the components the best we could and we sold it for way more than we could from our original offer by dividing these little bits up and recruiting the smaller loggers that are willing to shake off all the other requirements of a lump sum sale.

Howard Thronson: That is the value of a mill survey and the log buyer contact, knowing what they will take and what they won't.

Shawn Thomas: What is the idea with the marketing aspect of this close relationship with your customers. Do you have people doing that at each individual area office? Do you have one person coordinating that statewide?

Howard Thronson: We're trying to instill that philosophy down to our grassroots foresters. Everybody is talking more and more about being more in tune with what is out there on a daily, weekly, monthly basis. It is spearheaded from headquarters in Olympia, we have a team of people that are the brain child behind the marketing. They are doing those surveys and are gathering that information, attending meetings with the community and just being open and receptive.

Shawn Thomas: Is that just an extension of your forest product sales department? They are just taking on this additional tasks?

Howard Thronson: Yes.

Tom Schultz: Roger, since you're doing our marketing work with Dave you can solicit feedback from folks on this.

Roger Ziesak: I'd like to.

Jim Simpson: Would it make sense to somehow tie marketing and log quality standards together? If you're going to do a survey of mills and ask them what their log quality standards are, you're also going to solicit what a log means to them and that will help you. It could be part of this too.

Tom Schultz: I wasn't looking for a survey necessarily as a component of this paper. I think this paper explores the option of doing a survey. If we do go down this road and think that we're actually going to get some legislation may be that would drive a survey to see about implementing this.

Ellen Engstedt: Someone else who might be able to help with the marketing part of things is Roy Anderson.

Tom Schultz: So, maybe we'll tie marketing to low quality and revenue and expenses. Dave, Roger, Chuck, and maybe Roy taking a look at some of the issues.

Howard Thronson: One of the things we did was we got a US Forest Service fuels reduction grant for state lands and turned around and contracted with the University of Washington's rural technology institute to survey the potential for expansion of mills and commodity selling on small, primary small,

wood in Eastern Washington. There is the possibility the State of Montana may be able to apply to the Forest Service to get a fuels reduction grant to contract with the forest economics side at the University to conduct something very similar.

Tom Schultz: Roger, you can follow up the powerline issue and see if we might be able to do something similar, at least explore that.

Keith Olson: A key portion of marketing is just the duration of some of these contracts. What is your length of a standard contract on one of these sales?

Howard Thronson: On a contract harvesting sale, six months to a year. With one operator. It depends upon when we sell it. When we look at how much volume it is, the operating season and when the sale is offered for auction or when we think we can go to work so we don't cut ourselves short. Our standard scale sales and lump sum sales run anywhere between 16 months and 36 months. We're shortening up dates on operating season and want to control cash flow into the beneficiaries.

Tom Schultz: So as a component of marketing maybe look at this issue of field gauging as well as term of contract.

Keith Olson: What they said absolutely makes sense in terms of operating.

Kathy Bramer: One issue that came up before is implications from the sustained yield. I think it will be another one to factor in here.

Tom Schultz: I was thinking under forest improvement discussion we will talk about that and call it stewardship contracting and in that discussion we'll talk about sustained yield.

Bob Dick: One thing you may want to think about in terms of legislation strategy is today you talked about contract harvesting, it is very complex, you talked about stewardship contracting you may want to separate out gaining the authorities to accomplish the contract harvesting from the others.

Tom Schultz: That is a great idea. What I was actually thinking is looking at the initial Washington legislation, it is pretty simple to give us authority to do this and give us authority for an account. And then the legislation can direct rulemaking. In rulemaking we can address both of these issues. The last thing I want to do is tackle ten issues in statute. Just getting the authority is confusing enough. A lot of this stuff is good for the white paper and if we did go ahead and there was consensus and we did get legislation and we did do rulemaking two or three years from now, this white paper would not be out of date, it would provide a lot of the foundation for doing rulemaking and we would have confidence that all of us participated in this and would buy into the study, that this paper would not sit on a shelf. But that's what I would envision, keep it relatively simple if we did get to the legislative state. One of the things I was thinking was relationships and opportunities for learning. I am big into seeing all this grow but the idea that the Washington foresters are having more fun in their jobs maybe that is helping recruitment, retention, and that's a big deal in state government – recruiting and retaining good people, providing follow up career understanding, broadening, and maybe making our folks more marketable to work in industry. If you hire a forester out there from the state you might think they don't have the expertise but if we're doing some of this you might say gee, now I have a state forester that can do X, Y, Z, I could hire him tomorrow. As another offshoot we can increase communications, have better relationships which ultimately helps everybody. That is what I'm hearing from you guys, that wasn't your goal going in but that is a big thing coming out. There is a lot of information regarding things, relationships are getting better I see that being a positive.

Dave Gordon: We felt our non-contractor has knowledge in many ways too, that knowledge is wrapping over into our non-contractor program to the purchaser's survey and our knowledge about the buying proceeds, hauling distance, and their turf. We are able now to where the State of Washington is standing potential sales every month because we put out e-mails. We categorize them based on the ability to buy a certain size or in a certain locality.

Tom Schultz: Maybe some of that we can just take a look at and explore and talk with Washington as a component summary of unintended consequences. Is there anything else folks want to look at as a piece of this? I think Roy Anderson was a good idea. Is there anybody we're missing? I invited Anne Hedges (MEIC) and Steve Thompson and Janet Ellis (Audubon) but nobody could make it. It is unfortunate because I know Washington had a report from the conservation community on this and I think we need rapport in a bipartisan fashion we need to have those folks at the table and understanding what we are going, and gaining support and understanding their concerns.

Kathy Bramer: I think Jane Adams is a key person on this.

Loren Rose: John Gatchell is here in Helena he might be someone to invite.

Tom Schultz: At the beginning we talked about process. I am glad we have some folks to work on this, my thought would be as stuff comes in we circulate it to everybody, Todd you are ultimately the repository for this. We will have to have someone edit this and format it in the end and make it sound somewhat uniform and understandable. Todd, I look to you for some direction on process.

Todd Everts: Thanks, Tom.

Kevin Olson: Starting with your e-mail address.

Todd Everts: I'll get it to you guys. This is a legislative branch study and you folks have graciously come to the table and volunteered your time. So we will reciprocate. We will act as the depository, we have professional editors on staff. The other component of this process that hasn't been brought up is this is a legislative study. There is a legislative committee that all this stuff has to go through and that is the Environmental Quality Council (EQC). They have set up a sub-committee which this study has been assigned to, so in setting up a timeline and how this is going to proceed, the things you guys are doing will have to fit into the timeline of that legislative sub-committee and ultimately the EQC. September 15th 2006, is the date and having said that the EQC already has an interim work plan timeline and any draft report or study and legislation has to be completed by mid-May 2006. The reason for that is any study that the EQC produces or any legislation goes out for a 30-day public comment period in June and then they can modify that and then they finally decide or make a decision on their reports and legislation in September. That is the type of thing you guys are up against in terms of a timeline. There will need to be periodic reports to the EQC on the status of this process.

Ellen Engstedt: Todd, which sub-committee?

Todd Everts: It's called the assigned study sub-committee and I actually have the membership, Walt McNutt chairs it, he is a Representative out of Sidney, Senator Bob Storey is on this committee, Buzz Matelin who is a public member out of Culbertson, Montana, and he can vote, Greg Lind and Sue Dickson is on this committee. These folks will be the initial sounding board and we will take what you guys put together. They may have suggestions and/or recommendations as well. But again, it has to go

through the full EQC, a seventeen-member council, made up of legislators and public members and a Governor's representative. They are a standing interim committee, basically, for the legislature.

Kathy Bramer: When is the sub-committee scheduled to meet?

Todd Everts: The next time is the 15th of September, 2005.

Loren Rose: It's probably going to be worthwhile, we've all been taking notes at this meeting but maybe if you could disseminate the formal notes that may have been taken.

Tom Schultz: That's why Patty is here, she's been taping the whole thing and we will get minutes out and disseminate them to you.

Loren Rose: It would be worthwhile to add names and e-mail addresses so we can correspond.

Tom Schultz: Let me ask you this question: Todd, it sounds like we not are shooting for September we are shooting for mid-May as a completion date if we are going to do something. Ideally EQC could decide to act or it could decide not to act on legislation or it could be department legislation or it could go nowhere. It could be outside the whole process. Somebody here might say this is a good idea, it would depend on the department or something else. If this group is to make a consensus recommendation and EQC is to accept it we would have to have a report done by mid-May. So if we are going to work backwards from mid-May as a deadline and the assignments we talked about here, what is realistic to get some kind of rough, rough first draft out that folks should be looking at? We are in August, maybe say by November 1st have something drafted regarding the topics we talked about, does that seem realistic?

Loren Rose: Initial reports? That seems realistic.

Tom Schultz: So maybe just by November 1, the stuff we talked about, have that compiled and sent to Todd and Todd will be the repository for this. Todd can ship it back out and maybe compile it into a document and ship it out for everybody to review but as an initial rough draft to Todd by November 1.

Ellen Engstedt: When is the next EQC meeting after the September one?

Todd Everts: Not until January (2006) or potentially during the Special Session that might be coming.

Tom Schultz: My understanding is for something to be on the EQC agenda it has to be submitted a month in advance, or two weeks in advance?

Todd Everts: Yes. We send out our agendas two weeks in advance, so we usually try to get it nailed down a month in advance.

Tom Schultz: If we were to make a presentation, maybe we will talk again about do we have a sub-committee, to the EQC we would be looking at it in January if there is a Special Session we would want to have something done and a presentable draft by mid-December at the latest. So this November 1st seems realistic. Let me ask this question as a follow up. We talked about do we have some kind of oversight committee or project team, is there interest? We've parceled out some assignments and I don't know if this group will get together again but as issues come up, do we want further to examine them, is there a further desire to have a smaller group of folks that are interested in this and can commit more time as we review this? Maybe would even make a presentation to the EQC in January, a group of 4-5 stands up and says we are a representative sub-committee of the group that has met.

Comment: What about one person from each of these aspects that we've done?

Tom Schultz: How about if we just go through it? One person from DNRC (we can discuss it internally), Loren, between you and Gordy, how about somebody from Pyramid? Keith you can be on it or Jason, so that would be three. Dave what about you? Would you be interested?

David Jackson: Yes, the only problem I have is the time frame. February would not be good.

Tom Schultz: It sounds like January we're talking about. Dave is there anybody else? We talked about somebody from Pyramid, we have Keith, DNRC, Dave...Kathy are you interested? Yes. Is there anybody else who has an interest in being on this group? Chuck, how about you?

Chuck Roady: Yes.

Tom Schultz: So we have Chuck (Roady), Loren (Rose), Roger (Ziesak), Kathy (Bramer), Dave (Jackson), and Keith (Olson). The purpose of this smaller group will be the sounding board for now as we move forward. They will speak to the EQC and if we have follow up discussions someone to take the lead in this group would be good.

Ellen Engstedt: Why don't you add me to this group too.

Tom Schultz: Okay. Ideally we need someone from the conservation community too. It would be an important part of that group. David, any thoughts on oversight versus this group and maybe this group can be our oversight committee and our sounding board group and go from there.

David Groeschl: I talked to Howard about making a trip over to Washington if there is additional information we need to gather and talk to them and maybe talk to some producers and purchasers over there. If folks would be interested if we do line something like that up, if some folks were interested in going over there and meeting with their folks we'll let you know if we line something like that up and find out who wants to participate.

Howard Thronson: As preparation five years ago we did a couple of things within staff to explain the ideas. We broke it out, and you may have done this because you had a bill that went part way through, the first question we asked was to our attorneys: is there anything legally that would prohibit us from doing this? Constitutionally, in statute, or case law, that would prohibit us as trust managers from engaging in this type of activity. So we answered that question first. We have a common law trust duty to attempt to do some of these things. Then we broke into what obstacles present themselves that can be dealt with statutorily, rule change or policy change. That set the framework. Then we started the discussion with industry, contract loggers, purchasers, and the thing that became very apparent is not everyone agrees with it. So everything we told people, told the legislature, told the Board of Natural Resources is not everybody agrees with us. What we did get was an agreement to disagree and have it be very amicable and business related. There were business reasons why some people disagreed and business reasons why some people agreed. And that has kept dialogue open and that has allowed us to do what we have been able to do and identify things.

Tom Schultz: Let me ask this question, the department's perspective is to seek reauthorization to continue this, do you expect full opposition or a gentlemen's agreement that we don't all agree but we won't oppose it. What are your expectations for the next session?

Howard Thronson: Its like predicting weather. However, I do not believe industry is going to actively oppose it because they didn't before. As long as we're not screwing up as a trust manager, as long as we're not making massive bad business decisions, I feel the trustees are going to listen to the manager's recommendation and keep it as a tool and maybe still cap it at 10%. I can live with it. We have an internal capacity within the agency that we probably can't yield the 10% with staff, we are on cost restraints and I don't believe they will take the revolving account away because I don't believe we mismanaged it.

Bob Dick: I would volunteer if anyone wants to talk to a purchaser I will be more than happy to talk with them.

Tom Schultz: We have it covered. We will keep in touch and shoot for that November 1st timeframe.

COMMITTEES

Log Quality Standards

Chuck Roady, Loren Rose

Accounting Practices

Roger Ziesak, DNRC

Hiring Standards for Loggers

Keith Olson, Jason Todhunter, Jim Simpson

Stewardship Contracting

DNRC, Gordy

Revenue and Expenses (feasibility analysis & Forest improvement funds)

David Jackson

Economic Impacts to Local Industry

Ellen Engstedt, Chuck Eagan

Marketing

DNRC, David Jackson, Roger Ziesak, Roy Anderson

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