

BOARD ISSUES WORK PLAN

Issue #3: Forest Vitality

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Background

Time is of the essence. Oregon, particularly some areas of eastern Oregon, faces deteriorating forest health, disinvestment in forestland ownership, and eroding manufacturing capacity. For example, declining timber harvesting in eastern Oregon has affected rural community stability. Total eastern Oregon harvests in 2008 were 17 percent of those in 1986. Federal timber harvests were 7 percent of 1986 harvest levels while private harvests declined to 45 percent of 1986 harvests. The reduction in harvesting forced a decrease in the number of operating forest

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products mills in eastern Oregon – from 68 in 1980 to just 15 in 2009. This number could drop further in the next 5 years.

This has resulted in the erosion of high-paying mill jobs and jobs in local communities supplying these mills and their employees.

Recovery from these losses will be very difficult. While improving demand for lumber and other wood products could result in some increase in timber harvest levels, lack of mature timber on private lands, legal constraints on federal forestland, and lack of mills to cost-effectively process logs could keep timber harvests in eastern Oregon at relatively low levels for decades.

Family forestland owners are particularly affected. As nearby mills close, log transportation costs increase, stumpage prices decline, and the value of their timber goes down as a result. Alternative investments become more attractive. The incentive to actively invest and manage their lands as working forests begins to evaporate and the probability of conversion to other uses increases.

The *Forestry Program for Oregon* highlights the importance of Oregon's diverse forest ownerships and their varied management objectives as potential assets to help ensure the environmental, economic, and social values Oregonians want from our public and private forests are sustainable. Keys to sustaining these benefits are maintaining and enhancing productive and healthy forests and by creating a social and economic environment where public and private landowners are willing to invest in their forestlands and retain them in forest uses.

The Board of Forestry approved its first Forest Vitality Work Plan on November 21, 2005. At that time, Board members endorsed the concept of "bundling" five major policy topics into a single Work Plan, recognizing their strong linkages and understanding that success was needed on each of the five topics or there was potential to be successful at none. Bundling also increased the relative importance of these five topics compared to other issues coming before the Board. In the past five years, significant progress has been made on all five objectives of the original Forest Vitality Work Plan.

This updated Forest Vitality Work Plan is designed to focus on the most urgent short-term Board actions for promoting the continued vitality of our forests, forest landowners, and the forest products cluster. Some of the challenges and barriers have been decades in the making. They will require long-term solutions and may take years to resolve. Some of the solutions proposed are not new but have been stymied in the past by a lack of political and public consensus or a lack of institutional capacity.

Recent national and international economic downturns are examples of external factors beyond the control of Oregonians that will continue to impact our forest resources and forest-based economy. There are also new issues to be resolved and new opportunities that need to be explored, many emanating from beyond Oregon's borders.

Closely related to the Forest Vitality Work Plan, Sustainable Northwest and its partners are embarking on a five-year Dry Forest Investment Zone Project to increase the health of forested

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landscapes and the vitality of the rural communities, businesses and entrepreneurs. The project encompasses 12 counties of eastern and southwestern Oregon and will develop a regional model to increase the viability of sustainable forest stewardship in which rural communities participate and prosper. Sustainable Northwest sees the Dry Forest Investment Zone Project as a strategic opportunity to link conservation with economic development. The project hinges around five “roadmaps” that link to the Board’s Forest Vitality Work Plan:

- 1) Create multiple value streams that support sustainable forest stewardship (Work Plan Intermediate Board Issues #1, #3, #5);
- 2) Develop integrated woody biomass utilization and renewable energy infrastructure (Work Plan Intermediate Board Issue #4);
- 3) Build community, business and organizational capacity (Work Plan Intermediate Board Issues #2, #4);
- 4) Affect public and market-based policy (Work Plan Intermediate Board Issues #1, #2, #4); and
- 5) Document and disseminate lessons through monitoring, learning, and communication.

More background information can be found in the 2003 and pending 2011 editions of the *Forestry Program for Oregon* and the 2010 *Oregon Statewide Forest Assessment*.

Primary Board Issue

How will the Board of Forestry encourage public and private landowners to continue to willingly make investments to create economically and environmentally healthy forests? (Based on Board of Forestry Vision Statement #2.)

Intermediate Board Issue 1: How will the Board of Forestry develop and promote forest policies that ensure the sustainability of Oregon's forest resources while improving the forest cluster's long-term contribution to national, state, and local economies?

Related Draft 2011 Forestry Program for Oregon Objectives

- The Board will support a comprehensive State of Oregon forest cluster¹ economic development strategy and work to build and maintain state government resources needed to successfully implement the strategy.
- The Board will promote employment, economic activity, and revenue contributions from management of forestlands throughout the state to support appropriate state and local government social services, such as health care and education.
- The Board will promote long-term strategic investments to support Oregon's forest industry, to maintain Oregon's competitive advantage in a diversity of forest products and markets, and to remain a net exporter of wood products. The Board will also encourage work to strengthen relationships between Oregon's forest cluster and green building cluster.
- The Board will widely communicate Oregon forest health and forest cluster and rural community economic vitality as priorities of the State of Oregon and will work with other organizations to revitalize the economy and social fabric of rural communities and to promote that the values they provide to all Oregonians are maintained and compensated. The Board will consider the social effects on rural communities from forest management policies and practices.
- The Board will encourage greater consumer awareness of the environmental advantages of using Oregon forest products.

Additional Background

Oregon's forest cluster is starting a slow rebound from a decades-long decline. Forest sector employment and income has fallen since the late 1980s, coincident with large declines in federal harvest levels, improvements in mill efficiency, weak domestic and foreign markets and, for the last several years, the greatest national economic decline since the Great Depression. Timber harvest on all Oregon's forestlands fell from 8.7 billion board feet in 1986 to 4.5 billion board feet in 2004 and to an estimated 2.7 billion board feet in 2009, which is the lowest since 1934. In the current economic downturn forest sector production and employment have fallen dramatically, direct covered employment falling from 67,418 in 2005 to 48,758 in September of 2009 (last period for which data is available).

¹ "Forest cluster" means firms and organizations that support production of and benefits from primary and secondary wood products and forestry services and includes geographically concentrated and interconnected economic activities and linkages to customers and suppliers. Organizations engaged in forest resource management, education, and research are also considered part of the forest cluster.

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Oregon's forest products industry remains highly competitive and could enhance its contribution to national, state, and local economies. Oregon's strengths include its highly productive forests, an effective timber tax system, strong industry infrastructure in western Oregon, proximity to rapidly growing markets, excellent forestry research and teaching institutions (notably the US Forest Service Pacific Northwest Research Station and the Oregon State University College of Forestry), a stable forestland base, and effective laws regulating land use and forest practices.

Barriers to a rebound in the vitality of Oregon's forest cluster remain, but national and international markets show positive signs that bode well for the cluster. There is still a large inventory of homes for sale that is holding the housing recovery back and commercial construction remains weak. Record levels of foreclosures continue to dampen the recovery in housing markets. However, if a national economic recovery can reverse the decline in employment, mortgage delinquencies will fall and excesses in housing inventories will evaporate. In addition, Northwest lumber and plywood prices and log prices have been volatile. Although mills are not yet putting on extra shifts, they are to date remaining open.

Overseas markets are cooperating in this recovery as well. In the short-term, the February 2010 devastating earthquake in Chile, the rebuilding of the Panama Canal and other international markets have increased demand for Oregon's wood products, perhaps lasting until the end of the year. A renewed weakening in the US dollar, changing building codes in China, increases in Russia's log export taxes, and recent legislation in the US, the European Union, and Japan requiring that imported wood products be produced from legally harvested logs hold long-term potential for increasing the international competitiveness of Oregon's forest products. The most recent export data from the Center for International Trade in Forest Products shows US lumber exports to China up dramatically.

National housing start levels, the primary leading indicator of demand for Oregon's forest products, are slowly rebounding from historically low levels. However, return to what has been considered historically sustainable national housing start levels of 1.5-1.7 billion is not forecasted until 2013. Oregon's forest sector continues to rely primarily on production of lumber, plywood, and paper products. Although there has been development of new engineered wood products and other innovative technologies, growth in knowledge-based industries, which includes many secondary-manufacturing enterprises, remains well below its potential. With continued strong international competition and new products continually coming into the market, with continued weak nonresidential construction, and with a potentially soft housing market recovery, there remains concern about the future competitiveness of the state's forest cluster.

It is also uncertain whether family forest landowners will be able to increase their contribution to timber supply in Oregon. With the decline in federal timber sales and the resulting decline in the volume of unharvested wood under contract on federal lands, the family forest landowner has become the default supplier of additional raw materials to Oregon's lumber and plywood mills when wood product markets are strong. Forest industry lands and State Forests are already being harvested to capacity for their particular goals and objectives. It is not certain whether family forest landowners can supply enough wood to meet increased demands for their timber, or with a

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decreased number of mills in some parts of the state, whether they can effectively market and receive fair prices for their wood.

Five years ago, Oregon lacked a coordinated policy on the role of wood-products industries in the overall economy. Now there is better coordination among state and federal agencies focusing on improving the health of Oregon forest cluster. The Oregon Department of Forestry, Oregon Business Development Department (formally the Oregon Economic and Community Development Department), Oregon Forest Resources Institute, the Wood Innovation Center at Oregon State University, Oregon Department of Energy, Oregon Business Council, Oregon Forest Industries Council, and others have worked together as an Oregon Forest Cluster Economic Development Strategy Project Team to develop a consistent statewide approach to improving the vitality of Oregon's forest cluster. This approach has included the outreach to federal partners and private companies and associations representing them.

Board Products

1. The Board will charter an ad hoc Forest Cluster Working Group consisting of private forest cluster company representatives to look at how laws, policies, education, financing programs, and agency responsibilities might be changed to better assist economic development of Oregon's forest cluster industries and businesses. The Work Group should be comprised of representatives of
 - a. Large and small businesses
 - b. Primary and secondary wood products businesses,
 - c. Forest resource managers,
 - d. Forestry education and research specialists,
 - e. Other traditional and non-traditional wood products businesses and forestry services.
2. The Board will receive a Working Group report on what is necessary to remove barriers and take advantage of opportunities to improve the vitality of Oregon's forest cluster. Specific areas of focus in the report will include financing and improving traded sector domestic and international exports. The Work Group's emphasis should be on increasing the net economic value generated by the forest cluster, which may or may not equate to maximizing harvested timber volume.
3. Based on Working Group recommendations, the Board may propose legislative concepts for necessary changes in laws, policies, education, agency responsibilities, industry financing, and other factors.
4. The Board may advise the Governor's Office on forest cluster economic development strategies and priorities.
5. The Board may propose policy option packages to appropriately staff and fund the Department of Forestry to fulfill its responsibilities in promoting Oregon forest sector economic development and vitality.

6. The Board may work to revise, suspend, or add other parties to its existing Joint Resolution on forest cluster economic development originally signed November 1, 2007 by the Board Chair. Other parties to the existing resolution are the Chair of the Oregon Economic and Community Development Commission (now Oregon Business Development Commission), Chair of the Oregon Forest Resources Council Board, and the Dean of the OSU College of Forestry.

Research and Information Gathering

1. As needed, the Board will coordinate with the Forest Cluster Working Group, the Forest Cluster Economic Development Strategy Project Team, and others to:
 - a. Ensure information necessary to make changes in laws and policies needed improve the economic and social contribution of Oregon Forest cluster is available. This includes ensuring completion of Oregon mill studies, completion of assessments of secondary wood products industries and raw material flows, determining how to implement “one-stop” information networks for wood product companies interested in locating in Oregon or expanding their products or production, and enhancing basic industry research.
 - b. Ensure that Oregon becomes the country’s leader for forestry research, science, technology, and marketing and that potential synergies between the wood products sector and other sectors of Oregon’s economy are utilized.
 - c. Remove wood products market barriers and take advantage of opportunities as they are encountered.
 - d. Develop strategies to improve the vitality of existing forest cluster firms and to increase production and domestic and international export of value-added and specialty wood products.
 - e. Provide a single set of recommendations on forest cluster economic development to the Governor elected in 2010.
2. The Forest Cluster Working Group, supported by the Forest Cluster Economic Development Strategy Project Team, will present a white paper summarizing and evaluating their recommendations. Recommendations may include:
 - a. Strategies for revitalizing forest products industries in rural areas by integrating mills with woody biomass² energy, bio-fuel, plastic-composite, and other product production;
 - b. Direction for development of the Oregon Wood Innovation Center at OSU to develop and improve markets, products, and forest products industry business practices;
 - c. Suggestions for minimizing regulatory costs for cluster firms and improving regulatory benefits through innovative and targeted research programs such as the ongoing work at Hinkle Creek;
 - d. Development of enhanced programs for boosting long-term forest productivity and value through programs such as OSU’s Center for Planted Forest Productivity and Value Enhancement;

² Woody biomass” means material from trees and woody plants, including limbs, tops, needles, leaves and other woody parts, grown in a forest, woodland, farm, rangeland or wildland-urban interface environment that is the by-product of forest management, ecosystem restoration or hazardous fuel reduction treatments.

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- e. Incentives to promote development of markets for public benefits and environmental services delivered by forests such as water, biodiversity, carbon sequestration, recreation, and tourism.
- f. Development of mechanisms for providing adequate financing for viable firms in the forest cluster.
- g. Incentives to help promote domestic and international exports of value-added and specialty wood products.

The Department of Forestry will continue work with the Department of Energy and other partners to promote developing policies encouraging wood-based bio-energy and biochemical products.

Stakeholder/Public Involvement

The Forest Cluster Working Group will include the Oregon Forest Industries Council Manufacturers Committee, secondary wood products firms, and other private forest cluster participants and will be supported by selected state agency members of the Forest Cluster Economic Development Strategy Project Team. The Working Group charter will call for an assessment of the strengths, weaknesses, barriers, opportunities, and likely behavior of current and prospective competitors and cooperators to Oregon's forest industries.

The Board may wish to interact directly with the Oregon Business Development Commission and the Oregon Forest Resources Institute Board through joint meetings and/or tours focusing on forest cluster economic development.

The Board will continue to work through Department programs and the Committee for Family Forestlands, and use other methods to help family forestland owners improve their ability to manage and market their timber and other forest products.

Timeframe with Milestones

November 2010	Charter and form the Forest Cluster Working Group and begin joint meetings to develop the information needed to support the Board products for this Intermediate Board Issue.
April 2011	Progress report to the Board.
September 2011	Working Group report and recommendations to the Board.
March 2012	Coordinated Department of Forestry and Oregon Business Development Departments' staff development of legislative concepts and policy option packages needed to address recommendations.
April 2012	Board approval of legislative concepts and policy option packages.
June 2012	Board decision regarding the status of the Joint Resolution.

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Ongoing Coordination with Forest Cluster Working Group members to remove barriers and take advantage of opportunities as they are encountered.

Resources Required

Short-term staff work can be completed with existing resources within the Forest Resources Planning Program. However, long-term implementation of an Oregon forest sector economic development strategy will require dedicated organizational capacity with the Department of Forestry and/or Oregon Business Development Department of at least two FTE.

Monitoring Achievement of Addressing This Intermediate Board Issue

Department staff will report to the Board on progress in completing the milestones for this Intermediate Board Issue. Staff will also use Oregon Progress Board benchmarks and Oregon Indicators of Sustainable Forest Management to measure progress in achieving objectives for this issue. Where necessary, other performance measures may be used. Staff will document progress in removing barriers and taking advantage of opportunities identified by the Forest Cluster Working Group.

Intermediate Board Issue 2: How will the Board of Forestry promote and implement a unified vision of how federal forestlands should contribute to the environmental, economic, and social sustainability of all Oregon forest resources?

Related Draft 2011 Forestry Program for Oregon Objectives

- Active federal forestland management is very important to sustainable forestry in Oregon. The Board will consider national, state, and local opportunities to promote federal forest policies and management that are consistent with advancing the recommendations in its January 2009 report, *Achieving Oregon's Vision for Federal Forestlands*. These opportunities may include influencing federal national forest policies and budgets, interagency cooperative efforts, and local collaborative groups.
- The Board will continue to assess the unique challenges and opportunities facing federal, state, local government, tribal, industrial, investment, and family forest landowners and promote policies that result in economic returns sufficient to encourage continued retention of, and investment in, forestlands in each of these ownership groups.
- The Board will encourage the federal government land management agencies to achieve their statutory objectives by actively managing federal forestlands, including the use of commercial timber harvests and stewardship contracts where appropriate.
- The Board will encourage forest landowners to manage their forests in a manner that is consistent with a goal of long-term wood volume growth in Oregon equaling or exceeding rates of timber harvest and mortality across all ownerships.
- The Board will promote forest management that perpetuates the ecological processes—including disturbance dynamics—that contribute to desired aquatic habitat and water quality using a landscape level approach.
- The Board will advocate that local collaborative groups define and delineate the amount and characteristics of older forests that should be conserved and re-established on federal lands to maintain ecological sustainability and resiliency as part of their landscape assessment.
- The Board will implement a policy to encourage wildfire suppression actions in all of Oregon's forests reflect the following protection priorities: (1) human lives, (2) forest resources, (3) dwellings and other developments.
- The Board will promote integration of climate change mitigation and adaptation strategies into planning, decision-making, management, restoration, and public information efforts.
- The Board will promote resilient forest landscape conditions and management practices that will lead to reductions in the adverse impacts from forest insects and diseases.

- The Board will advocate for public and private forestland biomass to be considered on an equal basis with other renewable energy sources and as key component of Oregon’s strategy for meeting state greenhouse gas reduction and renewable energy portfolio standard policy goals.

Additional Background

Forest health and sound stewardship are critical to Oregon’s current and future well-being. Healthy federal forests are needed to sustain social, environmental, and economic values, but in the current system of governance, Oregonians have relatively little direct influence on how these forests are managed and used. Federal agencies manage 60 percent of the total forestland in the state, and Oregon cannot chart a sustainable, productive future for its forests without considering federal forestlands. Governor Kulongoski directed the Board of Forestry to “create a unified vision of how federal lands should contribute” to sustainability, and to “make that vision action-oriented and comprehensive – following through to the last step, including implementation.”

In cooperation with the Federal Forestlands Advisory Committee (FFAC), the Board adopted a report titled, *Achieving Oregon’s Vision For Federal Forestlands* in January 2009 (referred to below as the FFAC Report). In the report, the Board:

- Articulated a vision for federal forestlands:
Federal forestlands in Oregon are a legacy, a refuge, and a resource; loved and celebrated by our citizens; inhabited by healthy populations of fish and wildlife; and managed with humility, wisdom, and innovation to sustain the economic, environmental, social, and cultural well-being of our rural and urban communities.
- Identified the most pressing problems on federal lands including (summarized below):
 - Problems of place
 - Forest health and resiliency have declined – overstocked forest, uncharacteristic fire, insects and disease, watershed issues
 - Reduced timber harvest - decline in forest industry infrastructure, with unintended economic and social losses
 - desired amount of older forests on federal forestlands needs to be established and protected
 - Overarching problems affect our ability to address the problems of place
 - laws, policies, and court decisions have led to a collection of discordant goals and mandates that often work at cross purposes
 - a lack of trust
 - governments lack an effective process to coordinate policy decisions and achieve landscape-scale objectives
 - Funding is not adequate
- Created a set of recommended solutions at the state and local levels and the national level to address the issues:

State and Local Recommendations:

1. The Governor and the State Legislature should create a Federal Forestland Liaison Program to facilitate and support federal agency and local community efforts to improve forest health on federal forestlands.
2. The Governor and the State Legislature should assist federal agencies in providing administrative, financial, and technical resources to local collaborative partnerships to build trust and help identify scientifically informed and socially acceptable forest management projects to improve forest health. State funds should be managed by the Oregon Department of Forestry as one element of the Federal Forestland Liaison Program. We recommend that state and federal funding be sufficient to create three new collaborative processes annually and provide ongoing support for existing collaborations.
3. Local collaborative groups in cooperation with state and federal agencies should first assess forest health conditions and then plan projects at the landscape scale to address high priority needs. By planning at the landscape scale, treatments can be designed to improve the ecological effectiveness and efficiency of actions taken. To address the scale of the problem, it is our recommendation that these collaboratives convene around a geographic area of at least 100,000 acres.
4. Collaborative groups should define and delineate the amount and characteristics of older forests that should be conserved and re-established to maintain ecological sustainability and resiliency as part of their landscape assessment.
5. Leaders from state and federal agencies, county and tribal governments, and private forestland owners should meet on a regular basis to discuss and coordinate policies that affect forest health issues and the recommendations in this report.

National Recommendations

1. Congress should develop legislation that creates an overarching federal forest policy for sustainable forests. This legislation should be on a par with the federal Farm Bill or Energy Bill, and establish a comprehensive framework for reviewing forest conditions and making decisions. Legislation could create a renewed national commitment and social contract to understand, enhance, and protect the health, productivity, and sustainability of America's forests.
2. Congress should develop comprehensive Forest Restoration Legislation that makes restoring healthy forest conditions a top priority, removes barriers to implementing restoration treatments, appropriates funding to support local communities engaged in forest restoration, and recognizes new scientific knowledge and contemporary stewardship goals that promote all environmental services provided by forests.
3. Congress should increase funding for forest management activities. This should be accomplished through a combination of increased appropriations, efficiencies, revenue generation, decoupling fire-fighting costs from agency budgets, and leveraging of federal dollars through partnerships at the state and local level.

The first two recommendations in the FFAC Report are to create and fund a new state program to assist federal agencies in providing administrative, financial, and technical resources to local collaborative partnerships working on forest health issues. The Department of Forestry

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submitted a Federal Forest Program Option Package for the 2009 – 2011 Biennium, which was not funded because of the economic recession and state budget shortfall.

In the absence of state funding, the Governor's Natural Resources Office has convened an ad hoc Work Group to help implement the State and Local Recommendations in the FFAC Report. The Work Group members have developed a Declaration of Cooperation (http://www.orsolutions.org/docs/DOC_FFAC_FINAL_4-09.pdf) and agreed to work together to implement the recommendations of the FFAC Report. The Work Group will:

- Encourage the formation of local collaborative partnerships.
- Provide a neutral forum to work directly with local partnerships in facilitating their formation and implementation.
- Provide administrative, financial, and technical resources to local collaborative partnerships.
- Support the leveraging of resources needed for implementation of the collaboratives and other recommendations of the FFAC Report.
- Support the development of, and advocate for, projects that improve forest health and resiliency.
- Provide technical assistance to the BLM and Forest Service in support of local collaborative processes.
- Link local collaborative partnerships to outside technical expertise as needed.
- Organize regularly scheduled meetings of the chief executives from state and federal agencies with forestland management responsibilities to discuss and coordinate policies that affect forest health issues and the recommendations of the FFAC report.

Senator Wyden's staff attended two of the FFAC Working Group meetings and the Work Group discussed and provided input on the Oregon Eastside Forest Restoration, Old Growth Protection and Jobs Act of 2009. Many of the concepts in the proposed legislation are consistent with the FFAC recommendations and may have resulted partly from the FFAC report. Governor Kulongoski's Office also offered testimony on the proposed legislation, using the FFAC report as a framework for the comments.

Board Products

No additional Board decisions or products are expected in calendar years 2010 and 2011. Department of Forestry staff will continue to participate with the ad hoc Work Group to help implement the FFAC Report's recommendations and to build Oregon Congressional Delegation support for these recommendations. Staff will also participate in the federal agency planning processes at multiple levels; review federal legislation, particularly the proposed [Oregon Eastside Forests Restoration, Old Growth Protection and Jobs Act](#); and participate in other federal projects to support proposed 2011 *Forestry Program for Oregon* objectives and Federal Forests Advisory Committee recommendations.

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Research and Information Gathering

No additional Board decisions or products are expected in calendar years 2010 and 2011.

Updates will be provided to the Board as new information becomes available on implementation of the Federal Forests Advisory Committee recommendations and other relevant topics.

Information gained by the Board from the adaptive management of State Forests may be valuable in demonstrating the adaptive management the Board would like to see implemented on Oregon's federal forests.

Stakeholder/Public Involvement

Department staff will continue supporting the ad hoc Work Group to help implement the state and local recommendations in the FFAC Report. The Work Group includes (but is not limited to): the Governor's Office, The Nature Conservancy, Associated Oregon Counties, The Policy Consensus Center, Sustainable Northwest, Oregon Forest Resources Institute, the Oregon Business Council, Bureau of Land Management, Oregon Department of Fish and Wildlife, Department of Environmental Quality, USDA Forest Service, and the Crag Law Center.

Timeframe with Milestones

No additional Board decisions or products are expected in calendar years 2010 and 2011.

Updates on the Work Group process will be provided to the Board as new information becomes available.

Resources Required

The Department continues to seek additional staff resources for a Federal Forests Program consistent with the recommendations of the Federal Forests Advisory Committee report.

Monitoring Achievement of Addressing This Intermediate Board Issue

The Board is currently working with the federal agencies and other partners to implement the Oregon Indicators of Sustainable Forest Management for use in assessing the sustainability of forests across the state. Coordinating the collection and use of the indicators will benefit the Forest Service, BLM, state agencies, and others. These indicators will also monitor implementation of the *Forestry Program for Oregon*.

Intermediate Board Issue 3: How will the Board of Forestry develop and promote forest policies that keep working forests³ working?

Related Draft 2011 Forestry Program for Oregon Objectives

- The Board will continue to assess the unique challenges and opportunities facing federal, state, local government, tribal, industrial, investment, and family forest landowners and promote policies that result in economic returns sufficient to encourage continued retention of, and investment in, forestlands in each of these ownership groups.
- The Board will support land-use planning and policies to promote a stable forestland base, to encourage long-term investments in forestland, and to keep working forests working.
- The Board will encourage forest landowners to manage their forests in a manner that is consistent with a goal of long-term wood volume growth in Oregon equaling or exceeding rates of timber harvest and mortality across all ownerships.
- The Board will consider the acquisition of forestland as a tool for retaining Oregon's forest land base.
- The Board will promote a variety of tools and approaches for public and private landowners to conserve and/or acquire forestlands at risk of passing out of forestland use. These tools include the development and creative use of conservation and working forest easements; access to federal funding; carbon offset credit funding that can be applied to acquisition; use of Community Forestry Authority bonding; use of conventional bonding mechanisms for acquisition; partnership building among local, state and federal agencies and organizations.

Additional Background

New forces are reshaping Oregon's forests in ways more significant than any wildfire, windstorm, or disease outbreak. Fueled by factors including development pressures, population growth, depleted merchantable timber inventories, changing private landowners' financial objectives, and changes in the forest products and real estate markets, forestland is being threatened by conversion to non-forest uses.

This is not just an urban or rural problem. It affects Oregon's largest cities and smallest communities, and some of our most prized forested landscapes.

Consider the following facts about population, land use change and Oregon's forest landbase:

1. Since the early 1970s, areas the amount on non-federal land in Western Oregon in residential and urban land uses have increased markedly (46 percent and 42 percent, respectively) while areas in forestland use classification have decreased by two percent.⁴

³ In this Work Plan, "working forest" means private or public forestlands that are actively managed for goods or services having monetary value in the market place such as timber and recreation.

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2. The Department of Forestry projects that under current policies an estimated 200,000 acres, or about two percent of the state's non-federal will be converted to low-density residential or urban uses during the next 50 years.
3. Statewide, another 2 million acres of private wildland forest exist within one mile of residential or urban areas.
4. Oregon's population base has become predominantly urban, shifting from a 58 percent rural/42 percent urban ratio in 1910 to a 79 percent urban/21 percent ratio today. Since 1990, Oregon has been among the leading states in population growth.
5. Nationwide, 1 million acres of private forests are being developed every year, according to a study by the U.S. Department of Agriculture. An additional 44 million acres are expected to be developed by 2030.

Unaddressed, these forces stand to change Oregon's environmental, social and economic quality of life. Consider the following consequences:

1. The presence of development in forested areas changes everything about wildfire—placing homes at risk, making firefighting more complicated, and increasing firefighting costs.
2. Fragmentation and parcelization of forests, combined with the development of roads and residences, can degrade the “green infrastructure” of a forested watershed, including clean water, the diversity of fish and wildlife species, and their habitat.
3. Conversion from forest use dramatically changes the way the surrounding landscape is managed, limiting the range of traditional forestry practices. In many areas, the notion of producing a timber value from the lands—even in the context of sustainable forestry practices—is no longer acceptable to new nearby residents or landowners.
4. When formerly productive timberlands are converted to non-forest uses, surrounding economies and supporting industries are affected as forest products-related jobs and infrastructure are no longer viable. Harvest taxes are no longer available to support local government services and education. With no workable return for their investment in forest management, some landowners sell the land for development or other non-forest land use, perpetuating the problem.

Public Acquisition of Forestlands

In February 2010, the Board of Forestry approved the purchase of 43,000 acres of the former Gilchrist tract forestland in central Oregon as a first step in a long-range effort to conserve nearly 100,000 acres of at-risk forestland in the region. The Department of Forestry's interest in acquiring these lands grew out of the concern that they would be subdivided and lost as working forests: The company that owned the lands had indicated its willingness to divide the property into hundreds of minimum parcels.

Population growth, changing real estate values, and contraction of the conventional timber industry, particularly east of the Cascades, have produced increasing incentives for owners of large working forests to divide and sell them. This trend continues to affect lands throughout the state.

⁴ Lettman Gary J. (coord). 2009. *Forests, Farms, and People: Land Use Change on Non-Federal Land in Oregon 1973-2005*. Oregon Department of Forestry, Salem. Table B1, Page 65.

Public acquisition is one mechanism to conserve forestlands and to prevent them from going out of forest use. House Bill 2216, passed during the 2009 Legislature, freshened the Board of Forestry's land acquisition authorities and mechanisms, enabling the 2010 purchase of the Gilchrist tract, and opening the way to potential future acquisitions. In 2009, the Board expressed its interest in exploring a broader forest acquisition strategy, which is being addressed through its State Forests Work Plan.

Other authorities, including the community forestry authority passed in 2005, provide opportunities for any Oregon city or county government to create a community forestry authority that may issue revenue bonds or other revenue obligations to fund acquisition. Funding sources such as the federal Forest Legacy Program, and the Land and Water Conservation Fund, may also be able to assist with acquisition-related funding. Other funding strategies and partnership opportunities exist and should be explored to facilitate the conservation-by-acquisition of at risk forestland.

The Department of Forestry's experience with the Tillamook, Clatsop, Santiam, and Sun Pass State Forests shows that public acquisition of "worthless" or at-risk lands can provide significant social, economic and environmental benefits over the long term. Inherent with these significant benefits is the recognition that up-front acquisition costs and mechanisms need to be addressed, as well as longer-term forest management planning and activities, and the funding to carry out those activities.

Private Conservation of Working Forests

In addition to economic and policy incentive mechanisms to keep forestland viable that are explored elsewhere in this document—and in addition to public acquisition mentioned above—other strategies exist to keep forestland as forestland that involve working forest easements, conservation easements and acquisition by non-profit land conservancies.

Board Products

1. The Board may direct the State Forests Division, working under the auspices of the Board's State Forest Work Plan, to develop an acquisition strategy that specifically contemplates state acquisition as a mechanism to prevent the conversion of forest lands to non-forest uses. Elements of this strategy could include establishing criteria for evaluating potential lands; collaborating with other state agencies to pool financial resources and expertise; developing a workgroup of interested parties and stakeholders.
2. The Board may provide educational opportunities and tools to inform the public, community leaders and potential cooperators about forest conversion trends, and about the variety of tools available to prevent the loss of working forests.
3. The Board may advocate with the Oregon Legislature and with the Congressional Delegation about the importance of the federal Forest Legacy program as an important tool to address the conservation of working forests; and seek to increase Forest Legacy investment in

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Oregon forests. As part of this effort, the Board may also direct further collaboration between the State Forests Program and Private Forests Program to bolster efforts relating to a greater Oregon participation in the Forest Legacy program.

4. The Board may direct that the Private Forests Program and State Forests Program collaborate on development of an Oregon Department of Forestry easement-holding program that would encourage the agency to facilitate and manage working forest easements and conservation easements aimed at conserving working forest lands.
5. The Board may recommend or endorse other statutory or policy changes, or the development of additional funding mechanisms, which could contribute to the conservation of working forests.

Research and Information Gathering

Updates will be provided to the Board as new information becomes available.

Stakeholder/Public Involvement

The Board may direct that an education and outreach effort be made to raise consciousness across the stakeholder community about conversion trends, and strategies/tools to prevent the loss of working forests.

Timeframe with Milestones

No specific timeframes and milestone for Board decisions or products have been identified.

Resources Required

Depending on the Board's interest in pursuing actions included in this Work Plan, additional staff resources may need to be identified.

Monitoring Achievement of Addressing This Intermediate Board Issue

Oregon Indicators of Sustainable Forest Management track the area of non-federal forestland and development trends. Department staff will provide periodic updates to the Board regarding forest conversion trends, and specific initiatives or tools planned or completed to address keeping working forests working.

Intermediate Board Issue 4: How will the Board of Forestry promote incentives for sound sustainable forest health restoration practices, including the development of market-based solutions to reduce the risk of catastrophic wildfires and insect and disease outbreaks?

Related Draft 2011 Forestry Program for Oregon Objectives

- The Board will promote active fuels and vegetation management, along with aggressive wildfire suppression on public and private forestlands as key tools to promote forest landscape conditions that are resilient to natural disturbances.
- The Board will promote wildfire risk reduction and forest ecosystem enhancement through policies, technology, and liability relief for increased prescribed fire use and mechanical treatments where appropriate at the landscape scale in fire-dependent ecosystems. Direct State of Oregon participation in the use of thinning and prescribed fire on fire-prone dry federal forests will also be encouraged.
- The Board will promote resilient forest landscape conditions and management practices that will lead to reductions in the adverse impacts from forest insects and diseases.
- The Board will advocate for public and private forestland biomass to be considered on an equal basis with other renewable energy sources and as key component of Oregon's strategy for meeting state greenhouse gas reduction and renewable energy portfolio standard policy goals.
- The Board will continue to support research and develop policies and incentives that will drive the growth of the biomass/ bio-energy/ bio-based products industry in the state.

Additional Background

Over 21 million acres of Oregon's forestland, primarily in drier forest types, are overstocked and present a serious threat to the health of these forests and adjacent communities. These risks threaten a range of values including air and water quality, fish and wildlife habitat, and the stabilities of local economies related to a sustainable supply of wood to support Oregon's forest cluster mills. Throughout the dry forest types of Oregon, comprehensive and integrated efforts are underway with the goals of forest health restoration, reduction of threat from catastrophic wildfires, and sustainability of the forest ecosystem and surrounding human communities. These efforts involve several strategies and techniques to address the issues and consequences of degraded forest health and past management practices. The scope of these efforts is limited by the ability to capture economic value for the residues of fuel reduction and forest health treatments.

Forest residues, because of their low economic value, are often burned on-site or left to naturally degrade. Open burning of these fuels can have adverse impacts on air quality and presents

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opportunities for the fire to escape control. Leaving the residues onsite and untreated can also result in more severe burning conditions if a fire enters the area. Additionally, more stringent air quality standards are resulting from increased emphasis on alternatives to burning and are reducing opportunities for prescribed burning.

A potential solution addressing both the need to increase the economic value for small diameter forest residues to support needed treatment and the potentially vast quantities of the waste stream from forest health restoration practices, is to convert these residues into energy, posts and poles, or other products. Creating the circumstances in which forest biomass can be economically converted to energy also addresses directly or indirectly many social, economic, and ecological issues associated with the forest ecosystem and surrounding communities.

There is potentially sufficient biomass from forests and other sources for a sustainable supply from all regions within the state. A wide range of capacities and types of processing facilities can be built to appropriate scales based these supplies. Some regions may only be able to supply small power and heat generating facilities that heat and provide power to schools, universities, or other institutional buildings, while other areas can provide a sustainable supply of waste products to support large capacity power plants (10-50 megawatts).

Development of a biomass-fueled energy industry would benefit Oregonians on several levels. The value of forest residues would increase, which could help fuel reduction and forest health projects become profitable. With expanding restoration work comes healthier ecosystems that are more resilient to natural and human-caused disturbances. Converting these fuels to energy under controlled conditions lessens the release of greenhouse gasses and other pollutants. Also, other biomass waste streams (e.g., urban and agricultural) could be diverted from landfills and used in common energy facilities.

The National Renewable Energy Laboratory reports the economic benefits of biomass utilization can be substantial and include creation and retention of local jobs in a rural economy. For biomass power systems, it is estimated that five full-time jobs are created for each megawatt of installed capacity. This does not include jobs involved in fuel processing and delivery

Beyond electric energy production, other potential uses of small diameter forest biomass also need to be examined. Understanding market barriers to expand thermal heat applications and produce composite products, oriented strand board, transportation fuels, and other value-added products here in Oregon should be looked at. However, in terms of addressing the catastrophic fire issue, biomass to electric energy appears to be a strong option that deals with enough quantity of waste stream material to be a viable solution. With advances in technology this will also be true for production of transportation fuels.

The cost of producing electric energy from forest biomass is currently not competitive with other energy alternatives. This is largely due to relatively inexpensive hydro-power. However, the supply of hydro-power is fixed and price will increase with increasing demand. Other sources of energy such as wind, solar, and geothermal are considered "renewable" and thus eligible for grants, tax credits, and/or low interest loans, while bio-energy has limited access to these tools under some of the same policies. The true economic and social values and environmental

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benefits resulting from the use of renewable biomass energy are not included when this source of energy is compared to others. More inclusive economic thinking can show biomass energy to be economically competitive.

Laws and policies are already changing to promote forest restoration and biomass use. Senate Bill 1072, signed into law following the 2005 Legislative Session, provides direction for greater state government involvement in promoting forest biomass utilization. A state Forest Biomass Working Group, comprised of public and private partners, has been formed for this purpose. In 2007 the Oregon Legislature successfully passed significant renewable energy legislation including a Renewable Portfolio Standard (RPS) and a biomass energy producer/collector tax credit. On the heels of this action, Congress extended the Federal Production Tax credit and we seemed poised to make great gains in renewable energy development in Oregon. However, the economic collapse experienced around the world significantly tightened money available for lending.

In the 2009 Legislature we saw continuance of a modified Business Energy Tax Credit even in tight economic times, and greater recognition of biomass as a renewable energy source in the 2010 Legislature when pre-1995 plants were recognized under RPS with bankable credits until 2026. It seems we are slowly emerging from this downturn and the renewable energy community is alive with proposed biomass plant projects and projects that were on the shelf are once again moving forward. In addition the federal new Biomass Crop Assistance Program has added incentive to grow and transport biomass for energy nationwide.

Board Products

1. The Board may consider directing the Private Forests Program along with the Forest Biomass Work Group to examine available information and evaluate the best management practices and regulations under the Oregon Forest Practices Act to proactively consider if any changes are needed to ensure continued forest resource protection as woody biomass utilization operations increase across Oregon.
2. The Board may develop position statements supporting federal legislation and policies which advance the development of a biomass energy industry in Oregon. The position statements will be communicated to the Governor and the state's Congressional Delegation as needed.
3. The Board may also provide educational opportunities for members of Congress and their staffs on the environmental, economic, and social benefits of biomass energy.
4. The Board may recommend or endorse other statutory and or policy changes.

Research and Information Gathering

1. As funding and other work priorities allow, Department field personnel will participate in the federal planning process at the local level to identify opportunities for biomass recovery and utilization concurrent with proposed forest health restoration projects.

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2. Department staff will participate on the Forest Biomass Working Group, a subgroup of the state Biomass Coordinating Group. One of the key tasks of the Forest Biomass Working Group is to identify social and economic barriers to biomass utilization and propose specific solutions to remove these barriers. The Oregon Forest Resources Institute published a report as did the Forest Biomass Work Group and together these reports identify many of the economic barriers. Helping communities understand biomass utilization opportunities is an ongoing education and communication outreach of this group.
3. Department staff, independently and through participation on the state Forest Biomass Workgroup, will collect and present information on the current status of biomass energy in Oregon and other parts of the country, and will include barriers to expansion and opportunities to overcome them. This work will be done concurrently and in cooperation with similar efforts of the Oregon Forest Resources Institute and will likely include possible recommendations for policy changes and legislative concepts for the 2013 Legislative Assembly.
4. Department staff will produce the State Forester's second report to the Governor and the Legislature on the effect of woody biomass collection and conversion on the plant and wildlife resources and on the air, water, and soil quality of this state. This second report will also address the appropriate spatial and temporal scales of forest biomass removal and "right-sizing" of the infrastructure needed to utilize this material.
5. Department staff will continue to monitor developments in federal energy legislation and impacts on biomass energy development in Oregon. Staff will present recommendations on positions the Board may adopt to influence efforts at the federal level.
6. As new information becomes available, updates will be provided to the Board on:
 - The work of the Oregon Forest Biomass Work Group,
 - Processes affecting legislation benefitting forest biomass utilization
 - Related efforts in other states

Stakeholder/Public Involvement

Department staff will provide leadership and support to the Oregon Forest Biomass Working Group. Participants include representatives from local, state, and federal government, academia, non-governmental organizations, and the forest products and energy industries. Primary communications between the Board and the working group will be through staff reports, as needed. There may be occasions when other working group members are asked to present information to the Board.

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Timeframe with Milestones

Ongoing	Periodic status reports from the Forest Biomass Work Group. As needed, staff reports and recommendations for potential Board policy statements on pending federal legislation or other policy actions.
November 2011	Submission of the State Forester's second report to the Governor and the Legislature on the effect of woody biomass collection and conversion on the plant and wildlife resources and on the air and water quality of this state.
March 2012	Board discussion and decision regarding any needed review and revision of the regulations under the Oregon Forest Practices Act to address resource protection during forest biomass utilization operations.

Resources Required

One and one-half Department of Forestry FTE are dedicated to coordinating Department technical and policy work on forest biomass issues and representing the agency in forums with public and private partners.

Monitoring Achievement of Addressing This Intermediate Board Issue

Department staff will prepare a report every three years utilizing, to the greatest extent practicable, data collected from state and federal sources that specify the effect of woody biomass collection and conversion on the plant and wildlife resources and on the air and water quality of this state. The report will identify any changes that the State Forester determines are necessary to encourage woody biomass collection and conversion and to avoid negative effects on the environment from woody biomass collection and conversion. The next report will be submitted to the Governor and the Oregon Legislature in the fall of 2011.

Oregon Indicators of Sustainable Forest Management address forest fuel conditions and trends related to wildfire risks. The Department of Forestry also coordinates with the Department of Energy in annually reporting the amount of forest biomass used to generate bio-fuels, electricity, or steam.

Intermediate Board Issue 5: How will the Board promote valuation of forest ecosystem services and the development of forest ecosystem service markets as incentives for managing forests and maintaining the forestland base?

Related Draft 2011 Forestry Program for Oregon Objectives

- The Board will promote the understanding, development, monetizing, and support of non-timber markets, such as biomass, carbon sequestration, and other ecosystem services that reward landowners for maintaining their lands as forests.
- The Board will promote the continued refinement of tools to predict how forest management and wildfire affect carbon pools and calculate the amount of carbon stored in these pools and the development of principles and standards relating to the creation, measurement, accounting, marketing, verifying, registering, transferring, and selling of forestry carbon offsets from nonfederal forestlands.
- The Board will promote climate change mitigation through forest carbon-offset markets and ecosystem services markets and provide landowners information on participating in these markets.

Additional Background

Ecosystem services provide very important social and economic benefits such as: clean air and water; fish and wildlife habitat; spiritual spaces; and scenery. These benefits are not part of a traditional economic market but remain critical to meeting Oregonian's environmental, social and economic needs. Frameworks for comprehensively and credibly valuing ecosystem services and products and for understanding tradeoffs do not exist. Efforts to begin valuing and developing markets for these benefits are underway at the regional, national and international levels. The Department has undertaken work that would support not only our understanding of the potential of these markets but also to begin developing our own metrics for use in decision-making.

Forest ecosystem services are an emerging concept that recognizes there are social and economic benefits derived from commodity forest goods and services not sold in traditional markets. These natural resource-based contributions are sometimes overlooked in public, corporate, and private landowner decision-making because they are not directly traded in the marketplace and a direct revenue stream is absent from the financial balance sheet. Often, they are indirectly addressed by regulation, purchase of easements and other mechanisms outside of markets. While they currently may not be monetized as a social and/or economic asset, they would cost significant amounts of money to replace or restore. By recognizing these forest resource outputs and benefits as assets with high social and potential economic value, policy makers and forest managers would begin to better integrate them in their decision-making.

Work to-date has been to support the development and implementation of the Oregon Indicators of Sustainable Forest Management and State Forests Division performance measures. During the

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summer of 2006, the Forest Resources Planning Program initiated work to develop an indicator: *Forest ecosystem services contributions to society*. The State Forests Division has been developing performance measures as a tool to evaluate management of Board of Forestry-owned forestlands. These performance measures will help determine if outcomes from these forestlands are meeting greatest permanent value.

One common aspect to these initiatives for both Forest Resources Planning and State Forests is the desire to be able to measure the social and economic benefits that Oregon's forests and natural resources provide all Oregonians. Specifically, the Programs are looking to include a way to assess contributions from ecosystem services derived from Oregon's forests.

Current constraints to the development of ecosystem markets include limited information, a lack of standardized metrics, lack of infrastructure for transactions, and a lack of liquidity of financing instruments.

Board Products

1. The Board will evaluate and, when appropriate, endorse viable ecosystem services market mechanisms, or in the absence of markets, endorse other ways to value forest ecosystem services.
2. The Board may also examine the regulatory frameworks imposed on forest landowners versus other land uses to address inequities that affect determinations of relative baseline conditions and "additionality" in ecosystem services value calculations.

Research and Information Gathering

1. Information will come from further fundamental research, from experiences in other regions of the country and other land use sectors, and from current policy development processes such as the SB 513 Ecosystems Services Markets Working Group.
2. Lessons learned from the process for potentially securing carbon credits for future state management of the Gilchrist State Forest will also provide valuable information.
3. Department staff will also provide recommendations for adding a new metric to Oregon Indicator of Sustainable Forest Management: *Forest ecosystem services contributions to society* that considers Oregon forest conservation easement trends and values.
4. Continue gathering information on other Oregon Indicators of Sustainable Forest Management to measure the health and viability of the Oregon forest ecosystems that provide ecosystems services.

Stakeholder/Public Involvement

The Oregon Watershed Enhancement Board is convening and staffing the Ecosystem Services Markets Working Group (Working Group) created as part of Senate Bill 513 (SB 513). The

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Working Group is comprised of individuals who are knowledgeable about and active in improving the ecological effectiveness of ecosystem services markets. It is charged with developing policy recommendations intended to advance the achievement of ecosystem protection and restoration policy goals through the development of integrated ecosystem services markets in Oregon across all land uses. The Department of Forestry is represented in the Working Group. In addition to the Working Group, an Ad Hoc Group has been convened to advise and help frame policy issues to be addressed by the Working Group. The Board of Forestry has been represented on the Ad Hoc Group.

To date the Working Group has developed a vision statement and completed review of several case studies offered by group members that demonstrate impediments to an ecosystem marketplace that currently exist and areas where agencies and ecosystem marketplace practitioners are making progress. Priority policy areas have been identified to guide the Working Group's deliberations and recommendations; these areas include:

1. Overarching ecological, economic, and integration goals to guide the development of integrated ecosystem services markets in Oregon;
2. Agency processes and interactions to address appropriate roles at local, regional, state
3. and national scales;
4. Public/private financing issues; and
5. Private and government roles in developing standards, methodologies, metrics and tools.

Small subgroups have been formed around each of these policy areas. The subgroups will build upon the case-study experiences and "best practices" information compiled by the Institute for Natural Resources to focus on specific issues that have limited progress toward developing integrated markets. They will articulate opportunities and solutions to address these challenges, including suggestions for policy recommendations, administrative changes and other actions that will be undertaken over the short, medium, and long term.

The Working Group has requested that the Oregon Watershed Enhancement Board submit a 2011 legislative concept placeholder on behalf of the group. While there is uncertainty as to whether this vehicle for advancing policy recommendations from the SB 513 process will be necessary, the Working Group prefers to preserve the option in the event that it is appropriate.

The Roundtable for Sustainable Forests may be consulted by Department of Forestry staff as it develops recommendations for additions or changes to the metrics for Indicator B.c.: *Forest ecosystem contributions to society*

Timeframe with Milestones

- | | |
|--------------|---|
| January 2011 | The Board will receive the SB 513 Working Group final report. |
| July 2011 | The Board will receive a staff update on any new state legislation affecting forest ecosystem services. |

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November 2011 The Board will receive staff recommendations for changes to the metrics for Indicator B.c.: *Forest ecosystem contributions to society*.

Resources Required

Continued active participation in the SB 513 Working Group and Ad Hoc Group by Department of Forestry staff and Board of Forestry members, respectively, will be needed. Ecosystems services policy development will require coordinated staff support from the Forest Resources Planning, Private Forests, and State Forests Programs.

Monitoring Achievement of Addressing This Intermediate Board Issue

The Board has established Oregon Indicator of Sustainable Forest Management B.c.: *Forest ecosystem contributions to society*. Department staff will report indicator updates when new data become available. The Board will be provided updates on the effectiveness of ecosystem services market mechanisms and other ways to value forest ecosystem services as information becomes available.