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# 3. State Forests

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**Oregon Department of Forestry  
2011-13 Ways and Means Presentation  
April 2011**

# State Forests

## A. Overview

### Mission

The State Forests Division's mission is to manage Board of Forestry lands to achieve greatest permanent value (healthy, productive, and sustainable forest ecosystems that over time and across the landscape provide a full range of social, economic and environmental benefits to the people of Oregon), and to manage Common School Fund forestlands to maximize revenues over the long term in a manner that is consistent with sound techniques of land management.

The division manages about 821,000 acres of forestland in Oregon, which accounts for 3 percent of Oregon's forestland base. There are six state forests: the Tillamook, Clatsop, Santiam, Sun Pass, Elliott and Gilchrist, plus scattered tracts. Approximately 85 percent of the state forestlands are owned by the Board of Forestry (Board); the remaining 15 percent are Common School Forest Lands (CSFL) owned by the State Land Board.

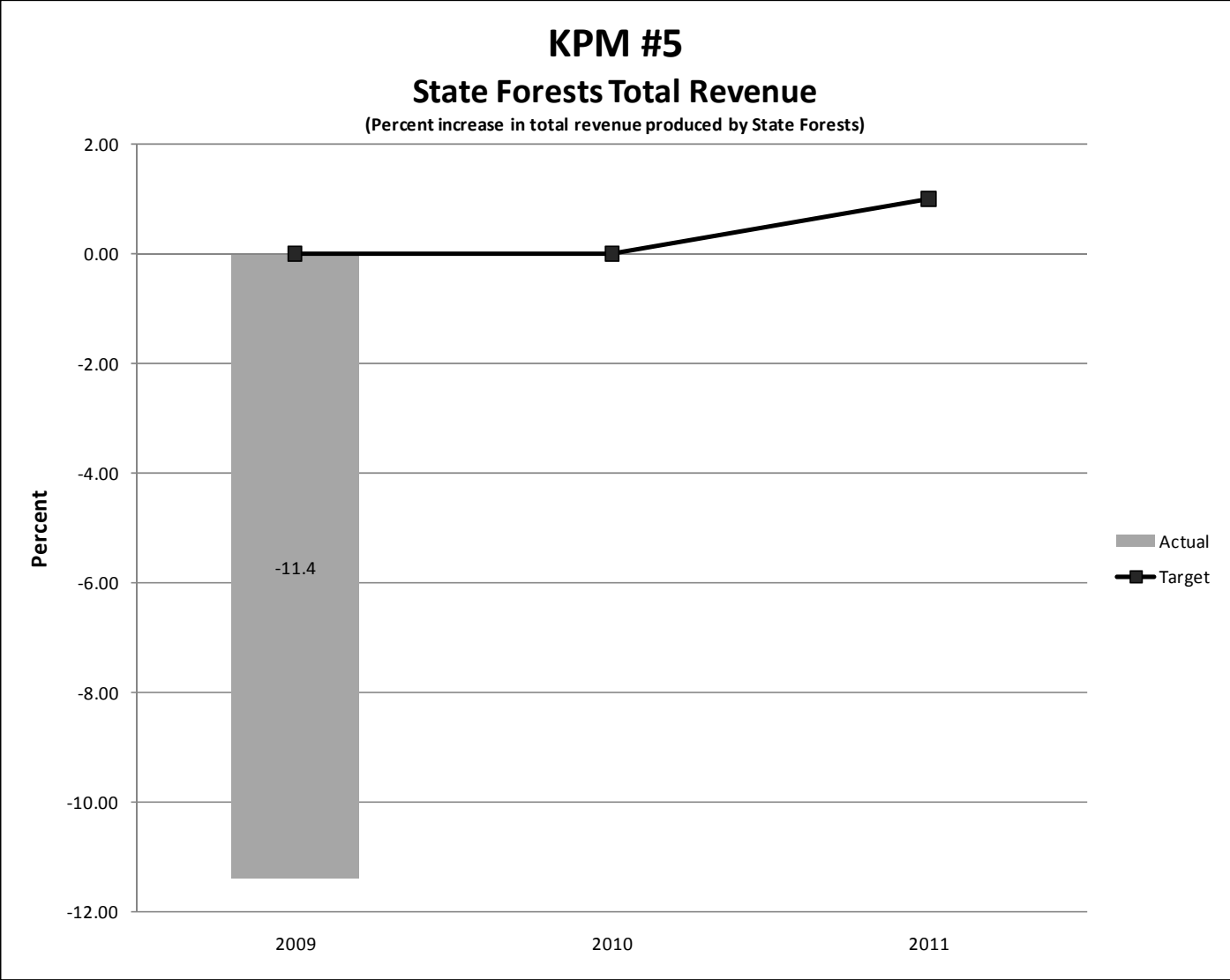
### Purpose

The division achieves its purposes through its three sub-programs:

- **Management of Board of Forestry Lands** — to achieve healthy, productive and sustainable forest ecosystems that over time and across the landscape provide a full range of social, economic and environmental benefits to the people of Oregon. Board lands are actively managed in a sound environmental manner to provide for sustainable timber harvest and revenue to the state and local taxing districts. 63.75 percent of revenue derived from these lands is distributed to the counties, which in turn distribute the majority to local taxing districts, including K-12 schools. The remaining revenue pays for the management of the Board lands.
- **Management of Common School Forest Lands** — to maximize income to the Common School Fund (CSF) over the long term, consistent with the conservation of this resource under sound techniques of land management. The Department manages the Common School Forest Lands under the CSFL Management Agreement with the State Land Board and the Department of State Lands. Revenues from these lands are dedicated to the State's CSF. Common School lands generate the greatest amount of long-term revenue for the CSF.
- **Tree Improvement** — to conserve the genetic quality of forests on state and private lands, and to increase the yield and quality of forest products by developing genetically improved seed sources for reforestation. Emphasis is placed on providing diverse and site-adapted sources of seed at the J.E. Schroeder Seed Orchard.

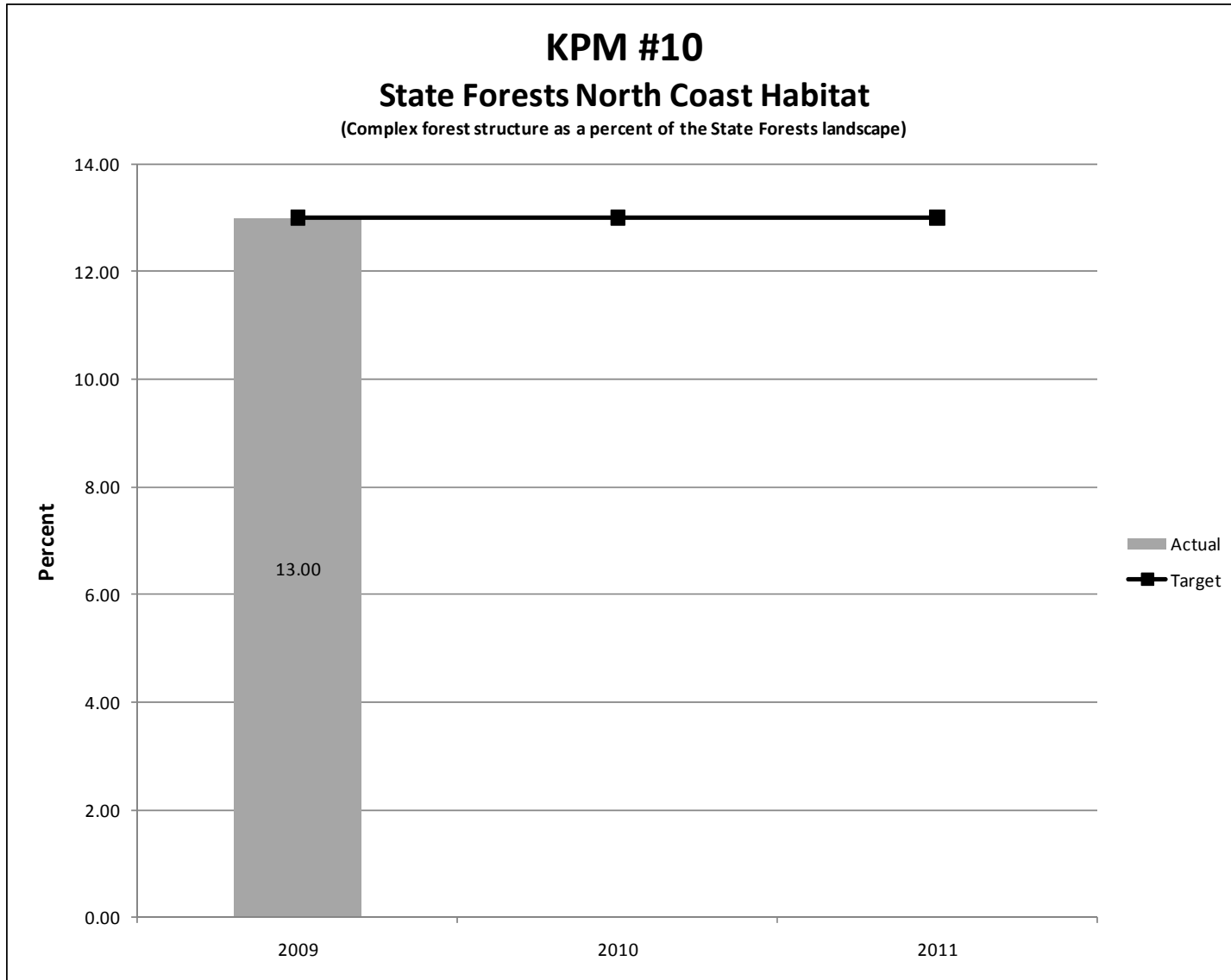
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**B. Key Performance Measures**



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## B. Key Performance Measures (Cont.)



## State Forests

### **C. Key Budget Drivers and Major Issues**

#### **POLICY DRIVEN**

- 1. Review of the Greatest Permanent Value rule** — Oregon Revised Statute 530.050 directs that Board lands be managed “to secure the greatest permanent value” to the state of Oregon, but does not specifically define this term. The Board has adopted administrative rules that define Greatest Permanent Value (GPV) as “healthy, productive, and sustainable forest ecosystems that over time and across the landscape provide a full range of social, economic, and environmental benefits to the people of Oregon...” The rule goes on to articulate the benefits and gives direction on how those benefits are to be provided (OAR 629-035-0020).

In 2001, the Board adopted the Northwest and Southwest Forest Management Plans (FMPs). In 2010 the Board revised the FMPs to better balance the expected benefits. The Board also decided to revisit the foundational policy framework (the GPV rule and other related planning rules), upon which the plans were built. This review continues in 2011 and will likely be completed in 2012.

- 2. Financial Performance of Common School Forest Lands** — In 2006 the State Land Board adopted an updated 10-year Asset Management Plan that includes the goal of a “return on asset value” (ROAV) of 3 to 5 percent for CSFL. These forestlands make up about 124,000 of the 821,000 acres of state-owned forestland managed by ODF. The estimated ROAV for the roughly 85,000 acres of CSFL that are part of the Elliott State Forest is under 3 percent.

The Department of Forestry, in cooperation with the Department of State Lands, is working to increase the ROAV. A draft Forest Management Plan has been developed that is expected to increase the ROAV to approximately 4 percent. This draft has undergone public review and is planned for the administrative rule process in the spring/summer of 2011. This draft follows a 2008 draft forest management plan that relied on a federal habitat conservation plan for compliance with the Endangered Species Act. During 2010 the state worked with the federal agencies to secure approval of this habitat conservation plan. Agreement was reached with the U.S. Fish and Wildlife Service, however the state and the National Marine Fisheries Service did not come to agreement on Elliott aquatic/riparian. Therefore, the new plan will not use a habitat conservation plan to meet requirements of the Endangered Species Act and instead will use surveys for endangered species, which will be protected as individual resources. This approach is known as “Take Avoidance”.

- 3. Securing sufficient revenues for sustainable forest management that provides a balance of social, economic and environmental benefits** — In the past year, prices for sawmill-grade logs, the primary product marketed by division, have been volatile. National housing starts and the slow economic recovery have not yet improved domestic markets for lumber. However, international markets for logs have picked up, leading to increased exports from private forest lands. This, in turn, has driven up prices for all logs, and consequently for stumpage marketed by ODF. This trend is still relatively new, and it is unclear if it will provide sustained, substantial financial relief to the Department. Domestic housing starts, historically the driver behind log prices, remain stagnant, although a gradual increase is still expected. In the meantime and over the long term, securing sufficient revenues to fund management activities is a key policy issue for the Board and the State Land Board.

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### C. Key Budget Drivers and Major Issues (Cont.)

#### POLICY DRIVEN (Cont.)

- 4. Conserving working forests** — The 2009 Oregon legislature authorized the Department of Forestry to use \$15 million in Lottery Bonds toward acquisitions of forestlands owned by Fidelity National Timber Resources Inc., located in the Gilchrist area of Central Oregon. The purchase of 43,000 acres was completed in early 2010. Acquisition of these lands was supported by the Governor's Office, legislative leadership, and the Klamath County Commission. In June, the forest was dedicated as the Gilchrist State Forest, the first new state-owned forest created in almost 70 years. The Conservation Fund is actively working toward acquiring an additional 26,000 acres adjacent to the state forest, with the intent that the state would eventually be able to purchase and manage these lands as part of the Gilchrist State Forest.

The primary driver for this acquisition is to conserve working forests. Today, they are at risk of being parcelized: divided up into minimum lots and sold for development. When large blocks of forestland are fragmented into smaller ownerships, especially when low-density homes are introduced — which studies indicate is likely to happen here — major challenges emerge, and forest values are lost. There is more potential for human-caused fires, compounded by more costly and complex fire protection needs. It's less likely the land will be managed for timber production. Public access is lost, and wildlife habitat is fragmented. Keeping these forest lands as forest lands is in the best interest of all Oregonians. The Department has a tradition of restoring healthy forests on lands that have been devastated due to fires and heavy harvest activity. Managed like a similar state forest just 50 miles to the south, the Sun Pass State Forest, these lands could one day provide revenue to the county, excellent wildlife habitat, recreation for locals and visitors, and many other important forest values.

- 5. State Forest management as a potential model for federal forestlands** — State-owned Board lands are actively managed in a sound environmental manner to provide sustainable timber harvest and revenues to the state, counties, and local taxing districts. This is achieved within a broader context that provides for other forest resources, including properly functioning aquatic habitats for salmonids, native wildlife habitats, high water quality, and diverse recreation. While only making up about 3 percent of Oregon's forestlands, compared to 60 percent in federal ownership, state-owned forestlands have produced 75 percent to more than 100 percent of the amount of timber harvested from federal forestlands in recent years. At the federal level, debate continues over how to manage forestlands. The continued success of the active management of state-owned forestlands, consistent with statutory mandates, can serve as an example for active management on portions of the federal forestland base in the future.

#### CAPACITY DRIVEN

- 1. Increased workload associated with increased management complexity** — State-owned forests were generally acquired when the stands were young and immature. As these forests have aged, management opportunities and revenue-generating potential have increased. Complexity of management has continued to increase due to evolving public values and growing demands for both timber and non-timber outputs (e.g. recreation; diverse wildlife habitat). Supporting these increased demands has produced corresponding growth (cost of management) within the division. As highlighted above, the division is challenged to fund management activities that provide a balance of social, economic and environmental benefits. Current revenues are insufficient to fully implement the forest management plans for state forests, and the economic outlook remains uncertain at the global, national, regional and state levels.

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### C. Key Budget Drivers and Major Issues (Cont.)

#### CAPACITY DRIVEN (Cont.)

2. **Uncertainty in revenue projections** — Timber sale prices are difficult to predict with any certainty. Currently, sale prices, and the revenues they produce, are not expected to recover in 2011 – 2013 biennium, and only a very slow recovery is predicted after that. Other factors also have negative implications for division revenue. These include: sold sales are at risk of default if the markets changes, and planned sales are no longer viable due to low prices.
3. **Compromised management capacity** — Current and projected revenues, along with management costs, affect the Forest Development Fund (FDF) balance. This balance is projected to drop below zero in 2014 or 2015. Staff and expenditures were reduced in 2009 to bring expenses in line with projected income, and we continue to closely monitor the financial health of the division. At the current operating level, the division is striving to complete harvest objectives, to assist in fire suppression efforts, and to provide expected benefits from state forests at minimal levels. The division will continue to provide as many services as possible within our revenue constraints. Other revenue streams are being pursued, including payments for ecosystem services such as carbon sequestration.

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### **D. Revenue Sources and Relationships**

The division is entirely self-financed from timber sales and the sale of special forest products. The Department retains 36.25 percent of timber sale revenues for management of the state-owned county trust lands. The remaining 63.75 percent is distributed to the counties and local taxing districts where the forestland is located. The state's projected share of timber sales for 2011-13 is \$48 million. The agency is reimbursed for Common School Fund land management costs, and the remaining revenue goes to the Common School Fund. These management costs are approved by both the Board of Forestry and the State Land Board. State-owned lands are expected to generate \$77 million for counties and local taxing districts during the 2011-13 biennium; timber sales from Common School Fund lands are forecasted to generate approximately \$30 million in revenue during the 2011-13 biennium. Management costs on the Common School Fund lands are proposed in the budget at slightly over \$11.3 million for the 2011-13 biennium.

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### **E. 2011-13 Governor's Balanced Budget**

The Governor's Balanced Budget maintains the current level of services for State Forests.