

TO: Chairman John Helms
Jackson Demonstration State Forest Advisory Group

FROM: Jere Melo

SUBJECT: Economics Committee Meeting Report
July 14, 2009

DATE: July 20, 2009

The committee met on July 14, 2009, at 0900, JDSF conference room. Attending were Forest Tilley, Peter Braudrick, Vince Taylor, Marc Jameson and Jere Melo. The meeting concluded at about 1150, after all business items were concluded.

For about the first 15 minutes, the committee just chatted about random items, with the call-in number dialed up on the conference phone. Because no one had called in by 0915, and there was just elevator music and occasional automated announcements, the phone was disconnected and the committee proceeded to discuss its business. All items were assigned by the full JAG at the prior regular meeting.

1. **Discuss a recommendation for a long-term strategy to finance research, demonstration and monitoring.** References for this discussion included: (a) JDSF Staff Time Allocation, Current. (b) Cost estimate for the Camp 3 Sale project. The final recommendation for a "Prudent Reserve", as adopted by JAG at its last meeting was not available. The committee discussion noted that 11.7% of the current JDSF staff allocation is allocated to demonstration and education. The discussion then concentrated on the contrast between research projects that have reasonably constant year-to-year costs, such as Caspar Creek, and those that have high costs to initiate, with variable periodic costs for monitoring, such as the Camp 3 sale project. ***Recommendation #1: The committee recommends that a year-by-year projection of individual research project costs be the base for annual budget allocations as a line item. The projection will be updated periodically.*** The discussion then moved to the types of research projects likely to be considered for JDSF. These boiled down to two categories of origin: (a) JDSF-RFP type projects; and, (b) Other projects initiated by interests outside of the JDSF program. ***Recommendation #2: The committee recommends that JDSF-RFP projects use the above recommendation for annual and future budgets, and that other projects be required to provide a long term projection of costs with assurance from the initiator of budget support.*** The discussion then shifted to a reference to the program presented by Dan Porter at the prior JAG meeting where he indicated that grants in excess of \$2 million per year have been used for the forestry program on the Mill Creek/Rock Creek property in Del Norte County. ***Recommendation #3: The committee recommends that CAL FIRE obtain profession grant-writing support as a way to gather grant funds. CAL FIRE should consider the option of a state-paid position or a contractor position where the contractor earns fees for service from successful grant applications.***
2. **Discuss aspects of the timber sale program that may add value to the state forest program.** References to this discussion included: (a) The Schmidbauer Lumber

appraisal of the North Fork Spur sale and discussion related to presentations by Gary Roach, Chris Baldo and Myles Anderson; and (b) A comparison of cost items, as estimated by JDSF staff, for the 14 Gulch and North Fork Spur sales. The initial discussion began with the Schmidbauer appraisal which demonstrated that the mill conversion capacity has radically changed since 2002, when JDSF went out of the timber sale business. Mills are much more specialized, further apart, and that these factors reduce the net value of logs to JDSF. The appraisal also showed that a potential purchaser has a marketing job to sell logs that do not fit the mill and marketing position, in addition to understanding the timber sale contract costs and provisions.

Recommendation #1: The committee recommends that JDSF change its timber sale process from the sale of stumpage to the sale of delivered logs. This will create several changes, including: (a) JDSF will hire one or more loggers for timber sales; and, (b) JDSF will need to have log purchase orders from several mills, which they prefer to do with staff rather than by contract with a private log sale contractor; and, (c) JDSF must seek a change to current internal policies that require sale to the highest bidder, if qualified to carry out a contract. On this last matter, Marc Jameson was tasked with providing more detail about the changes needed, in advance of the next JAG meeting.

The discussion then moved on to the comparison of costs between the 14 Gulch and North Fork Spur sales. The comparison quickly demonstrated that a direct comparison of sales is not a good measure, as the 14 Gulch sale had just under 1,700 MBF, and the North Fork Spur sale had just over 4,500 MBF. The additional volume in the North Fork Spur sale makes it easier to “spread” costs. The JDSF comparison showed about \$82,000 of THP-related costs and only \$6,600 of non-THP costs for the 14 Gulch sale. However, at least \$50,000 of the \$82,000 would establish a highway encroachment and a road crossing that would serve for future sales and other management on JDSF. For the North Fork Spur sale, about \$57,000 was THP-related, and \$45,000 of that was an option for dust abatement. On North Fork Spur, only \$3,000 was non-THP related. Marc Jameson indicated that JDSF budgeting has been somewhat revised in that capital items, such as those loaded on to the 14 Gulch sale, may now be assigned to new budget for basic infrastructure. ***Recommendation #2: The committee recommends capital support for basic infrastructure to serve all or major portions of JDSF become separate from the direct operation of an individual timber sale.*** There was then a short discussion about the contrast in log haul to the various destinations in the Schmidbauer appraisal. There was also a note that JDSF staff has been participating in the local discussions supported by the City of Fort Bragg and Mendocino County to establish a biomass power plant and sawmill near Fort Bragg. ***Recommendation #3: The committee recommends that JDSF continue to support local utilization of material produced in nearby forest and sawmill operations to reduce transportation costs and raise net values for sales. This would have a supporting role for the local communities.*** The discussion then changed to the fact that the “interim period” of three years is about half over. The “interim period” sales of timber are by plan intended to offer mostly small, low value logs to market. A way to add value is to anticipate the end of the interim period and plan to offer more valuable logs to market. Marc Jameson indicated that the plan anticipates a 5-years projection of timber sales, updated periodically. ***Recommendation #4: The committee recommends that JDSF staff create a new 5-years update for timber sales, and that areas outside the locations of “interim period sales” be included. The committee also notes that JAG***

must quickly make the land allocations recommendations as a way to ensure that JDSF staff has the information to create a new 5-years timber sale plan.

3. **Discuss the role of JDSF to support the local communities in Mendocino County.**

This turned to a much more general discussion between economic and non-economic uses or activities on JDSF. For economic activities, the sale of timber is the most important. Direct wages and the sale of supplies, plus multipliers, add to community wealth. JDSF currently pays land in-lieu property taxes, and local governments and schools would benefit from yield taxes. Recreation, research and education can add to local community economies if destinations are designated. For example, if the waterfall and Redwood grove at the top of Chamberlain Creek had enough publicity to become a recreation destination, that would add some benefit. Caspar Creek guided tours are a current example of a destination that adds value. Participation in the City of Fort Bragg planned Science and Education Center at the redeveloping mill site would add a destination for recreation and education, and add to the prestige of the JDSF research programs. Under non-economic contributions, the current recreation opportunities for local persons are a good example, and adding back a firewood cutting program will add to community support. *The committee has no particular recommendation, and offers these points for discussion.*

4. **Other Matters from Committee Members.** Forest Tilley led a discussion of which he was aware. JDSF is actually under two lines of reporting and authority. One is a direct reporting line to the Mendocino Unit of CAL FIRE, and the second is a direct and/or dotted line of authority and reporting to the Resource Management Unit at the CAL FIRE headquarters in Sacramento. The line through the Mendocino Unit is necessarily a fire control and response emphasis, and the second is a resource management emphasis. Hon. Tilley described the current structure as “disjointed-at-times”. *Recommendation: The committee recommends that the actual structure of JDSF reporting be reviewed, allocation of equipment and personnel be revised as appropriate, and that JDSF staff report directly to the Resource Management staff.*