

**Forest Resource Trust Advisory Committee  
Meeting Minutes  
March 6, 2008**

Members Present:

John Breese, Ken Everett, Rick Fletcher, Mike Haasken, Mike Heath, Sara Vickerman, Mike Atkinson, Douglass Fitting, Jim Johnson and Tom Stoops.

Members absent:

Matt Delaney

ODF staff present:

Jim Cathcart, Linda Price and Steve Vaught.

Guests present:

Kevin Bergquist, Wells Fargo Bank, and Gary Vrooman, Department of Justice.

**Agenda Items**

1. Call to Order / Introductions / Welcome Attending Public
2. Review / Approval of January 17, 2008 Meeting Minutes
3. Draft Administrative Rules
  - Cost-Share Program – Review, Discuss and Modify as needed
  - Final Review of General Provisions and Loan Program Rules
  - Decision – Recommendation to Board of Forestry to Initiate Formal Rule-Making
4. Developing a Fund Raising Strategy for the Forest Resource Trust – Discussion
5. Member Roundtable – Announcements / Information Sharing
6. Next Meeting

**Meeting:**

**1. Call to Order / Introductions / Welcome Attending Public:**

- Mike Heath, Interim Chairman, called to order the meeting of the Forest Resource Trust Advisory Committee at 10 a.m. on March 6, 2008 in the Oregon Department of Forestry's Santiam Room, Building D, 2600 State Street, Salem, Oregon.
- Jim Cathcart welcomed guests Gary Vrooman, Department of Justice legal counsel for ODF and Kevin Bergquist, Wells Fargo Bank, Forest Products Specialist.
- There were no members of the general public present.

**2. Review / Approval of January 17, 2008 Meeting Minutes:** The committee approved the minutes.

**3. Draft Administrative Rules:** The committee had a chance to review the rules which were sent by e-mail earlier. Recommendations made today will be incorporated and the revised rules will be forwarded to the Board of Forestry for approval at their meeting in April or June.

- **Cost Share Program – Review, Discuss and Modify:** Jim Cathcart began with a brief overview of the bill and the new cost-share program rules. Discussion by the committee included:

**(a) 629-022-xx30 “Practice Plan and Other Landowner Obligations” (page 2 of handout)**

1. Tom Stoops asked “Is the practice plan described here a contract?” He has found in his experience with the Energy Siting Council that terms need to be defined or there are problems with interpretation by the public and agencies. If a practice is not specified, the public won’t do it. Tom said to make sure a program performs as intended achievements need to be captured. Discussion of using a conservation registry to track accomplishments followed but will not be part of the rules.
2. Ken Everett asked who will write the practice plans for the cost share program. Steve Vaught said although Stewardship Foresters may write the plans, consultant foresters may implement the plans for landowners. Consultant fees are eligible costs under the cost share program and are included in the rules. Cost share rates include consultant fees as part of the reimbursement rates.
3. Ken asked what the priority of projects is. Priority of projects for both the Loan Program and the Cost Share Program is found in the General Provisions section of the rules under 629-022-xxxx “Project Criteria” (page 5 separate handout).

**(b) 629-022-xx10 “Scope” (page 1 handout)**

1. Paragraph (1) Sara said need to clarify that practices required by the Forest Practices Act are not eligible for cost share payments in these rules. Jim Cathcart suggested 629-022-0110 (3) (d) “Eligible Landowners and Land” (page 9 of separate handout), be revised to delete the word “reforestation”. The committee agreed to this revision.
2. Eligibility and Priority of Projects were discussed:
  - Jim asked Sara how she would rate a project that planted more trees per acre than required by the FPA. Sara said she would give low priority to funding such a project.
  - Jim asked Sara how about if more basal area was left in a riparian area – would that be eligible? Sara mentioned payments under the Farm Bill where owners are paid for not doing something. She was thinking of the

requirements of the FPA for establishment of forest stands and not for other purposes like wildlife enhancement. Jim doesn't want to preclude projects qualifying that go above and beyond the FPA minimum requirements.

- Steve Vaught mentioned the federal program EQIP that pays owners to do more than required.
- Rick Fletcher said he was present with the original group that created the Trust. It is important to talk about the "Scope" of the Trust as it was created in light of the Tillamook Forest rehabilitation and the importance of reforesting abandoned forestlands. We need to be careful which projects are eligible for the Trust. Have we changed the focus of the Trust? Don't want it to be too broad and lose its original focus. There are other programs available for other purposes.
- Jim prefers the rules remain broad even if the Trust does not have funds available for other kinds of practices. Look at the statutes and see the purposes of the Trust are broad and include forest stand improvement and wildlife enhancement. Only stand establishment program has been implemented until now. With the new cost share program, broader practices can be included. We are adopting a tried and true mechanism (the current cost share program) for payments to landowners to improve their lands.
- Sara suggested adding the word "fish" to last sentence of this paragraph.
- Paragraph (4) Sara asked will projects already in progress, be eligible for cost share. Steve Vaught assured Sara that projects that have ongoing management like control of invasive species would be eligible for cost share payments. Steve also said that owners are agreeing to maintain the project for 10 years whether or not additional costs share funds are available. Jim added that the cost share program would not pay for past practices but it can pay for owner labor (unlike the Loan program).
- Paragraph (3) refers to the Trust having the authority by statute to receive funds for practices. Jim said that the funding source will drive which projects are eligible. Rick said we still need to focus on the types of funds to search for and he believes the focus is still to convert lands to active management of forest land for purposes of other than timber management. Plans should meet the owner's management objectives for their land and not just timber production.
- Sara suggested targeting owners of lands we know need rehabbing instead of passively waiting for the owners to apply.
- In response to a discussion regarding whether practices that stand a reasonable chance of receiving ecosystem services payments should be

eligible for the cost-share program, the committee suggested adding a paragraph to this section and Jim made the revision adding paragraph (5) which reads “Practices, Consulting Services or Environmental Restoration that are likely to result in Ecosystem Services that have a reasonable chance of securing a net economic benefit from payments for these services within the maintenance period for the effectiveness of the practice as defined in OAR 629-022-xx30 (8) are not eligible for cost-share reimbursement payments.”

- Mike Haasken asked for clarification on what the “maintenance period” is. Jim said that is found in 629-022-xx30 Paragraph (8) (page 3 of handout) and it is a 10 years period after the cost share payment is received. To make the maintenance period clear, Jim added a reference to that rule in this rule (underlined portion above).
  - Prioritizing projects needs to be more thoroughly explained in Guidance. It is a judgment call by ODF staff. Need to decide case by case which projects are funded and meet selection criteria. Always are using a good faith estimate of what will happen in the future. Need to maintain some flexibility in selection of projects.
- (c) Discussion of whether the owner retains the carbon credits on projects funded by cost share.
1. Sara said some other programs do not allow owners to sell credits or get mitigation payments because it is considered “double-dipping”, however the Forest Service allows owners to retain credits or get mitigation payments on projects paid for by their programs.
  2. Jim said except for Klamath Cogeneration Project funds, carbon credits can be retained by the owner and in fact the statute says the State Forester shall assist the owners sell their credits. Rick agrees the Trust should not be paying owners for doing mitigation. Sara said right now this is probably a nonissue since the Trust is such a small program but if it gets big it would be more of an issue.
  3. Jim said these rules do not preclude owners from “double-dipping” and if this committee disagrees with that, we need to discuss. Jim said improved net public benefit – owners are allowed to market and sell the benefits – it is a double win not double-dipping.
  4. Developers who pay the Trust for mitigation benefits were also discussed. We should require higher than 1:1 ratios which only maintain status quo. Should get 1:2 or higher ratios for projects. For example, for a loss of one acre of resource value, the developer provides funds for the maintenance or restoration of two acres of resource value.
  5. Don’t want conservation easements on projects. May want to add language to the rules to say the Trust would only pay for the portion above and beyond the required minimum for mitigation.

6. Gary V. said the statute says the Trust can accept money with strings attached, but it is somewhat inconsistent. He suggested the rules could prioritize projects according to likelihood of repayment of funds and funnel projects to the Loan program that would likely be repaid. For projects where it is unlikely funds would be repaid, they would be more appropriate for the cost share program. However it is appropriate to fund projects under the loan program when the likelihood of repayment is low. If there is no cutting, the loan is not repaid and the obligation ends after 200 years passes.
  7. There are other considerations for one program or another such as owners who want to pay half the costs and who may not like the Loan program structure. Currently, it is a judgment call by ODF staff which program is more appropriate. Steve said currently projects are funded by cost share that have adjacent stands that make money and this requires keeping accounting separately for each portion.
  8. John Breese said right now there are so many unknowns especially in Eastern Oregon that people are wary of cost share programs. He sees the Trust priority mostly for forest establishment.
  9. Rick mentioned that there is a group of private forestland owners in Michigan who are being paid \$4 per ton (\$8-10 per acre) for carbon credits for environmental mitigation. Beginning of carbon credit payments. Jerry Grossman is the consultant on these projects in Michigan.
- (d) **629-022-xx50 “Special Circumstances” (page 3 of handout):** Paragraph (1) and (2) Kevin suggested removing these from this rule and adding them to a new rule “Breach of Practice Plan”. Jim made the revision as suggested.

End of the review of the Cost Share Program Rules. The committee agreed that the Cost Share rules can go to the Board for approval.

- **Final Review of General Provisions and Loan Program Rules** (separate handout). All changes to these rules were approved by the committee previously.
  - (a) **629-022-0040 “Definitions” (page 2 of handout)** – Jim added a definition for “Ecosystem Services”.
  - (b) **629-022-xxxx “Carbon Offsets” (page 7 of handout)** Rick asked why the State Forester shouldn’t establish other rights besides the rights to carbon offsets. Discussion included:
    1. Jim reminded the group that the HB2293 workgroup (both small landowners and conservationists) said rights to other ecosystem services and benefits belong to the landowners unlike carbon offsets which can be voluntarily transferred to the State. The question of whether the Trust should continue to finance practices that stand to receive payments from ecosystem service markets can be deferred until such time that situation is a real possibility. However it does raise an issue of consistency -- treatment of carbon offsets vs. treatment of credits for other ecosystem services.

2. Sara doesn't want ecosystem markets strangled but encourage them to develop. Too much detail and agency specificity about this hurts market development.
3. Jim said we could still accept funds but would not agree to retain other credits for the funding entity. We could not handle the commodity accounting like we do for carbon. We could do the implementing of the practice and then point landowners to ecosystem markets should they wish to pursue ecosystem service payments.

(c) **629-022-xxxx “Donations to the Trust Fund” Paragraph (2) (page 5 of handout)** Mike Haasken suggested adding “Environmental Restoration” after “Practices” in order to make it broader. Jim made the revision suggested. He also said to look at these terms in the “Definitions” rule (page 2 and 4 of handout).

(d) **629-022-xxxx “Project Criteria” Paragraph (2) (a) (page 5 of handout)** John suggested adding “based on the region in which they occur” after “productivity” in order to minimize the bias towards Western Oregon projects. That would mean Site IV in Eastern Oregon would be equal to Site I in Western Oregon in terms of productivity. Jim made the revision as suggested. The committee discussed but decided not to add numbers of acres to the rule.

(e) **629-022-0300 “Repaying Trust Funds” Paragraph (3) (page 13 of handout)** Kevin asked about payments for partial harvests. Jim said this particular rule was changed one year ago and it isn't being revised this time. Also the committee previously agreed that some rules would not be written until something occurred to cause a problem requiring a fix. Rick said we also don't want to discourage practices like thinning which improve the stand and later produce more revenue from the stand. The committee decided not to change this rule.

(f) **629-022-0200 “Implementing the Project Plan; Payments” Paragraph (3) (page 13 of handout)** Jim said he removed “payable to both the landowner and the provider of the services or supplies” from the rule so that two-party payments are no longer required by the rule. However, in practice, payments will still be two-party payments to conform to State Procurement Rules which require using the RFP process for payments over \$5,000. There are still circumstances when single party payments may be issued and we will continue to work with ODF's Procurement Unit for appropriate guidance in this regard.

- **Decision – Recommendation to Board of Forestry to Initiate Formal Rule-Making –** Mike Heath asked the committee to approve the rules as amended today go to the BOF. Approved. Jim said hopefully by October or November we would have the rules in place.

4. **Developing a Fund Raising Strategy for the Forest Resource Trust – Discussion.** Currently the only funds the Trust has are for the Stand Establishment Program (Loan Program). Jim said he needs help to develop a fund raising plan so as be able to implement the Cost Share Program and as well as expanding the scope of the loan program. The committee decided to discuss this topic at the next meeting. Things to consider include:

- Not sure if KCP funds can be used for cost share projects. Tom said we need to be careful changing what is in the MOU with KCP. Sara said with the small amount of funds (\$390,000) remaining from KCP, we should focus on securing new funds instead. Jim agrees especially since we are seeking more consultants to market the existing program and if that is successful all the KCP funds will be spoken for.
- Jim may do another economic analysis using current stumpage values to help market Stand Establishment component of the Loan Program. However, most owners who enter the program are not interested the economics of the program but are interested in establishing forests. Generous interest rate now (4% simple) makes this a marketable program even with low log prices and Site IV ground. Repayment only when there is a net profit from timber harvest. ODF is not concerned with not being repaid if not harvested.

## 5. Member Roundtable – Announcements/Information Sharing

- Sara asked for an update on a letter sent by Mike Heath, interim chair of this committee, to the Western Climate Initiative (WCI) Advisory Group as discussed at our previous meeting. That letter is attached to the January 17, 2008 minutes (approved at today's meeting). This committee is not aware of a response to that letter.
- Sara and Jim attend meetings of the WCI's Forest Carbon Working Group, which industrial owners asked the Governor to convene. Jim attends as a technical expert for ODF and Sara is a member of the group representing conservation groups. Sara gave some background information about the Forest Carbon Working Group:
  - (a) Participation was expanded to include conservation groups;
  - (b) Meets every 2 weeks, about 20 folks attend, to coordinate Oregon's response to WCI;
  - (c) Tight timeline for response, difficult issues to reach agreement and slim chance of agreement;
  - (d) Everyone wants there to be a carbon program which would generate payments to landowners. ODF should be involved. Beyond that there is not much agreement;
  - (e) Mike Schnee is moderating the group;
  - (f) Small landowners still not fairly represented although Mike Gaudern (OSWA director) is a member of this workgroup. Difficult to find owners who have time or interest to deal with this complicated and controversial issue;
  - (g) Carbon buyers want complicated accounting system to assure carbon credits etc.
- Comments from the committee on this topic included:

(a) Jim said the stakeholder group is working hard so that the first response to WCI sends a positive, can-do, message about the role forests can play.

(b) Tom doesn't see carbon as a long-term market. Owners interested in being paid for carbon need to act now before the buyers are no longer interested or available.

**6. Next Meeting:** Thursday, May 15, 2008, from 10-12:30 p.m., here at Salem Headquarters, Bldg. D, Santiam Room. Lunch will not be provided. Meeting Adjourned.