

Briefing Paper: SB32CS(RES)

Negotiated Timber Sales

March 2, 2015



DEPARTMENT OF NATURAL RESOURCES - DIVISION OF FORESTRY

OVERVIEW: This bill would expand Department of Natural Resources (DNR) authority to offer negotiated timber sales statewide.

Background: The Department of Natural Resources (DNR) may offer timber sales either competitively or through negotiation. However, negotiated sales larger than 500 thousand board feet may only be offered in areas with high unemployment, excess manufacturing capacity, and an underutilized allowable cut of timber. These criteria prohibit larger negotiated timber sales in many areas of the state that are actively managed for forestry, and where there is high demand for wood for timber products and biomass energy. This bill authorizes DNR to offer negotiated timber sales statewide within the limits of the sustained yield supply, and subject to a best interest finding.

Competitive bid timber sales are the preferred sale method under most conditions. However, negotiated sales provide the ability to tailor some sales to the needs of local processors in areas that lack competitive interest, or where there is competition from round log export markets in a region with a constrained timber supply. The latter situation exists in Southern Southeast Alaska where the state is a small landowner compared to the Tongass National Forest and the state's full allowable cut is a critical source of logs for the remaining sawmills. The state has long had a policy of balancing local jobs and manufacturing against the higher monetary returns of export timber sales. Local milling jobs and round log export businesses are both important to the region, but most state timber is currently sold for domestic use. All timber sales, including negotiated sales, must comply with the Constitutional requirement to manage state timber for sustained yield.

Proposed changes to Title 38 timber sale provisions: This bill would...

- Amend AS 38.05.110 to clarify that the commissioner determines which of the applicable sale methods is the most appropriate authority to use for each timber sale.
- Allow DNR to offer negotiated timber sales for up to 25 years statewide. Currently, such sales are restricted to areas of high unemployment, excess manufacturing capacity, and excess allowable cut, which limit them to remote areas.
- Specify that negotiated sales must comply with the requirements for Forest Land Use Plans (AS 38.05.112) and Five-year Schedules of Timber Sales (AS 38.05.113). This ensures that large negotiated sales are developed with adequate notice to the industry and general public, and necessary site-specific design.
- Clarify that DNR may negotiate sales to wood fiber users, including biomass energy producers, in addition to wood product manufacturers.

Review to date: The proposed changes implement recommendations from the final report of the Alaska Timber Jobs Task Force. The Board of Forestry unanimously endorsed the Task Force report with the caveat that any changes in forest management must continue to provide adequate protection for fish habitat and water quality, ensure reforestation of harvested land, and fully comply with the Alaska Forest Resources and Practices Act. The proposed bill complies with the Board's caveat.

ⁱREVIEW OF STATE TIMBER SALE TYPES

- **Competitive sales** (AS 38.05.120)
 - No volume limit within allowable cut
 - No duration limit
 - Requires best interest finding, advertisement, and public notice
 - Price determined by auction, but not less than base price
 - This is the standard sale type. Use of negotiated sales is limited to the specific conditions listed below.

- **Small negotiated sales** (AS 38.05.115)
 - Less than or 500 thousand board feet (This is roughly equivalent to 20 acres in SE, 125 acres in SC and 80 acres in the Interior)
 - Less than or 1 year in duration.
 - No more than one per purchaser each year.
 - No best interest finding, advertisement, or public notice required.
 - Price determined by fair market value appraisal and base price (11 AAC 71.092).

- **Negotiated sales for value added products** (AS 38.05.123)
 - Up to 10 million board feet per year (100 million board feet total over 10 years).
 - Up to 10 years.
 - Requires best interest finding and public notice.
 - Restricted to use for local manufacture that includes “high value-added” wood products. By statute, wood chips are defined as a “value-added” product rather than a “high value-added” product. Therefore, sales to supply a chip operation would not qualify for this type of sale.
 - Operators must submit a business plan/operating plan for their processing facilities prior to negotiating a .123 sale. Processing facilities must be operational prior to harvesting timber sold under this authority.
 - Requires best interest finding and public notice.
 - State typically uses RFP process to select winning proposal, especially where there is competitive interest in state resources.

- **Negotiated sales for areas with high unemployment** (AS 38.05.118)
 - No volume limit.
 - Up to 25 years with reappraisal every five years.
 - Limited to areas with unemployment $\geq 135\%$ of statewide average.
 - ❖ This sale type does not apply in the Mat-Su Borough or Fairbanks North Star Borough because their unemployment rates are close to the statewide average).
 - Area must have underutilized manufacturing capacity.
 - Must have underutilized allowable cut or salvage timber.
 - Requires best interest finding and public notice.
 - Price determined by fair market value appraisal and base price (11 AAC 71.092).

- **Personal use sales** (AS 38.05.850)
 - Not for commercial use.
 - No best interest finding, advertisement, or public notice required.
 - Up to 10 thousand board feet per purchaser per year.
 - Price determined by fair market value appraisal and base price (11 AAC 71.092).