

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

February 13, 2015

1:04 p.m.

**MEMBERS PRESENT**

Representative David Talerico, Co-Chair  
Representative Mike Hawker, Vice Chair  
Representative Kurt Olson  
Representative Paul Seaton  
Representative Andy Josephson  
Representative Geran Tarr

**MEMBERS ABSENT**

Representative Benjamin Nageak, Co-Chair  
Representative Bob Herron  
Representative Craig Johnson

**COMMITTEE CALENDAR**

HOUSE BILL NO. 87

"An Act relating to the sale of timber on state land; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 87

SHORT TITLE: TIMBER SALES

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/30/15	(H)	READ THE FIRST TIME - REFERRALS
01/30/15	(H)	RES
02/13/15	(H)	RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

JOHN "CHRIS" MAISCH, Director & State Forester  
Division of Forestry  
Department of Natural Resources (DNR)  
Fairbanks, Alaska

**POSITION STATEMENT:** On behalf of the administration, introduced HB 87.

RICK ROGERS, Executive Director  
Resource Development Council for Alaska (RDC)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 87.

JASON HOKE, Executive Director  
Copper Valley Development Association  
Glennallen, Alaska

**POSITION STATEMENT:** Testified in support of HB 87 with caveats.

## **ACTION NARRATIVE**

[1:04:45 PM](#)

**CO-CHAIR DAVID TALERICO** called the House Resources Standing Committee meeting to order at 1:04 p.m. Representatives Hawker, Olson, Seaton, Josephson, and Talerico were present at the call to order. Representative Tarr arrived as the meeting was in progress.

### **HB 87-TIMBER SALES**

[1:05:46 PM](#)

CO-CHAIR TALERICO announced that the only order of business is HOUSE BILL NO. 87, "An Act relating to the sale of timber on state land; and providing for an effective date."

[1:06:15 PM](#)

JOHN "CHRIS" MAISCH, Director & State Forester, Division of Forestry, Department of Natural Resources (DNR), began his introduction of HB 87 by reviewing the different authorities under which the Division of Forestry has for selling timber (page 2 of the 2/3/15 Briefing Paper for HB 87 in the committee packet). He said this review will put into context the changes being proposed for the authority under AS 38.05.118. He drew attention to the division's authority for competitive sales under AS 38.05.120 ("120"), explaining that these sales are done either through sealed bid or an oral outcry auction. Oral outcry auctions are used when there are a number of different businesses interested in the wood. The sealed bid method is used in the smaller communities where there are not as many potential purchasers. Competitive sales are used to obtain the best price.

MR. MAISCH said the next three sales methods he will discuss are different variations of negotiated timber sales. Even though the term "negotiated" is in the title, there is still a competitive process in two of these three methods. He explained that AS 38.05.115 ("115") provides the authority for small negotiated sales of less than 500 thousand board feet of timber. Drawing attention to the map of the Alaska Forest Resources and Practices Regions on the last page of the briefing paper, he explained that 500 thousand board feet would be roughly equivalent to 20 acres in Southeast Alaska (Region I), 125 acres in Southcentral (Region II), and 80 acres in the Interior (Region III). Those basically represent the types of forest that grow in each region and their productivity. Only one sale a year can be negotiated under the 115 authority and currently the sale is only good for one year. The division is in the process of changing the regulation that affects the duration so a purchaser would be allowed to have that sale type for up to two years. The purchasers of these sales are very small businesses, often described as "mom and pop" operations or a sole proprietorship.

MR. MAISCH said AS 38.05.123 ("123") provides the authority for negotiated sales for value-added products. These sales can be up to 10 years or less than 10 years in length, can go up to 10 million board feet per year with a cap of 100 million board feet over that 10-year period of time, and the operator purchasing this type of sale must be manufacturing a high value wood product. A high value wood product is defined in statute and in regulation. The types of products that fall under high value-added were recently updated via a regulation change. The other type of product in this authority is just value-added products. A value-added product would be a mill that cuts a board for dimension use but doesn't dry, plane, or grade the board. A high value added board is one that is kiln dried, planed, and graded. Wood pellets were recently added to the high value-added list because there is a wood pellet mill in Interior Alaska near Fairbanks; the division is in the process of doing an AS 38.05.123 sale for that facility.

[1:11:12 PM](#)

MR. MAISCH stated the subject of HB 87 is timber sales under the authority of AS 38.05.118 ("118"). These sales can be up to 25 years in length and have three criteria that must be met in the region in which a 118 sale authority is contemplated. House Bill 87 would drop these three criteria from the 118 authority to make it easier to use this authority statewide. The first

criteria is a high level of unemployment, meaning unemployment must be over 135 percent of the statewide average as calculated by the Department of Labor & Workforce Development and applied to the state's different geographic regions. The Matanuska-Susitna Borough, the Kenai Borough, and the Fairbanks North Star Borough do not exceed that level of unemployment, so the 118 authority currently cannot be used in these geographic regions. The second criteria that must be met is that the geographic area must have an underutilized annual allowable cut. In the Tanana State Forest of Interior Alaska, the division only offers about 10 - 15 percent of its annual allowable cut, so in that part of the state this authority would be usable if there were not the limitations of borough unemployment. The division uses this authority a lot in Southern Southeast Alaska to negotiate sales to sawmills and manufacturers located in southeast communities, as opposed to the logs being sold competitively which would allow most of that material to go into the export market. The export market in the Pacific Rim and the Lower 48 can afford to pay a higher price for the log, so if the division were to use its 120 authority in Southeast Alaska the logs would all move offshore as opposed to being used for supporting jobs and manufacturing in Alaska communities. Mr. Maisch explained that AS 38.05.118 came about because of a situation in the Haines State Forest in the late 1970s/early 1980s when the state tried to regulate the round log trade. A purchaser challenged one of the division's sales and that case went all the way to the "supreme court." The state lost that case because states are not allowed to regulate interstate commerce. The 118 authority was subsequently created by the legislature and the governor at the time to allow the state to have other criteria that it could use besides just price or an outright restriction on log export to direct logs to support local mills. It was referred to as the "Schnabel Act" after the Schnabel Mill that was located in Haines in those days. He said the third criteria is that there must also be an underutilized manufacturing capability at the facility, essentially meaning that a mill could add a second shift or operate year round. House Bill 87 proposes to strike the three criteria from being considerations, making it easier for the Division of Forestry to use the 118 authority statewide.

[1:14:40 PM](#)

MR. MAISCH said another example of where the division tried to utilize the 118 authority was in Tok when Alaska Power and Telephone Company was contemplating investment in a large facility that would produce electricity with the use of wood chips. The company approached the division about a 118 sale

with a 20-year commitment to lock in a reasonable fuel price to ensure the recouping of its investment in an energy facility. As the division went through the best interest finding (BIF) process, it became apparent that there was competitive interest when a second company expressed interest in the same wood. So, the division stopped the BIF, backed up, and offered the sale as a competitive 120 sale. Unfortunately, both companies decided not to bid and that sale is now on the shelf and available, and the division is still hopeful one of those companies will come forward and purchase that timber at some point in the future.

MR. MAISCH maintained that the provisions of HB 87 would not in any way change the division's public process. Best interest findings are required for these larger negotiated sales. Small negotiated sales that fall under 115 do not require a best interest finding. He stated there would still be "two bites at the apple" for the public and others interested in the sales. One is the best interest finding process where the division puts out a preliminary BIF, takes comment, and then modifies and makes a final decision based on that comment. The division does the on-site cruising of the timber, laying it out on the ground, and then puts together a forest land use plan that has specific information learned at the time of the sale layout, and again the public and other interested parties get an opportunity to comment on how the sale is designed and actually brought forward. The division would do notice under the "945 notice clause" for the larger timber sales, while the small 115 sales are exempt from the 945 notice clause.

[1:16:45 PM](#)

MR. MAISCH addressed Section 1 of HB 87, explaining it proposes to add a new subsection, (c), to make it clear that the commissioner would have the authority to determine which of the applicable sale provisions is the most appropriate to use in the sale of timber "consistent with the best interest of the state." He pointed out that this provision of best interest is what the division would refer to as lower case best interest as opposed to upper case Best Interest. This statement of lower case best interest does not mean that best interest findings are required for the authorities under AS 38.05.110 - 38.05.123.

MR. MAISCH explained that Section 2 would add new words [to AS 38.05.118(a)]: "the commissioner may negotiate a sale of timber to a local manufacturer of wood products or a user of wood fiber . . ." The new words "wood fiber" are to make it clear that wood chips are included and can be used for biomass type facilities.

While the division is comfortable it already can do that, this makes it specific that wood fiber is an intended use. He drew attention to the two Alaska Energy Authority maps at the back of the committee packet that display the number of wood biomass projects that are currently being considered, or are already built and operating, around the state. He said the red dots on the first map indicate the communities that are doing pre-feasibility studies to determine whether they have enough wood and the economics make sense for heating projects, but the Tok project is an electrical project. The second map shows where there are operating facilities; the best known one being in Tok, which produces both power and heat for the school and has a greenhouse that produces food for use in the school lunch programs for the whole district. This also occurs in Craig, but the boiler there is a solid wood boiler that heats the school. Craig also has a greenhouse for school lunch programs. The 118 authority is definitely of interest to the larger biomass projects, he said.

[1:19:50 PM](#)

REPRESENTATIVE SEATON recalled a bill was passed several years ago to make peat available as a biomass resource. He inquired about a peat biomass resource as compared to wood biomass.

MR. MAISCH responded that according to the Division of Mining, Land and Water, peat falls under the negotiated materials sales of Title 38, which is AS 38.05.550 - 565. Peat sales fall under AS 38.05.555(f), which allows the negotiation of peat and sets different pricing structure points at different levels of sale quantities. Peat is treated as a material sale product, not a timber product.

[1:21:15 PM](#)

REPRESENTATIVE TARR understood each state forest would have to have a forest management plan and that these plans describe the allowable harvest. She further understood that [under HB 87] all timber sales would still be subject to the constitutional requirement for sustained yield management. She said it sounds like the frequency at which the forest could be cut would be increased. She asked whether this proposed change would allow more board feet to be cut than would have otherwise been cut.

MR. MAISCH replied he thinks the discussion being referenced is the discussion about using the 118 sale authority in Southern Southeast Alaska where traditionally there has been a lot more

wood volume available off the Tongass National Forest, a federal forest. But that is not the case any longer, it is now referred to as a timber famine because not enough wood is available. The division uses this 118 authority to try to direct the limited supply of state wood to the local manufacturers. Right now the division is in the process of doing a "bridge timber program" where the division is offering its surplus allowable cut. The allowable cut is managed on a 10-year average, so in any one year sales might sell up to the allowable cut, which is 13 million feet in the southern Southeast State Forest on Prince of Wales Island. In a year where that full allowable cut is not sold, that unsold volume is essentially put in the bank and can be offered at some point in the future which would result in the allowable cut being exceeded in that given year. For that 10-year period of allowable cut, it must average out to be either right on the money or lower. The proposed changes do not allow the division to sell any more timber than what is allowed under sustained yield and annual allowable cut calculations. What the proposal would do is that in the next two years the division will have offered all of its surplus allowable cut and would then no longer be able to use the 118 provision based on the current requirement that there has to be a surplus of allowable timber to harvest.

[1:24:01 PM](#)

REPRESENTATIVE SEATON requested an explanation for why it is being proposed to repeal the criteria that an area must have underutilized manufacturing capacity.

MR. MAISCH answered that that requirement was in place to ensure that the wood purchased under this kind of a negotiated sale would actually result in creating additional jobs in that facility. So, if a facility theoretically was at full capacity operating three shifts, more volume necessarily wouldn't result in the desired effect of more jobs. So, that is where that term "underutilized capacity" comes from. It also has been interpreted that if a new mill was being built, and it existed within two years of the negotiated sale, that would also be considered as unutilized capacity, but there is a provision in the contracts that allows the division to cancel the contract if the mill is indeed not up and running and cutting wood within that two-year timeframe. The idea is to encourage job creation.

REPRESENTATIVE SEATON understood that the aforementioned criteria is one of three criteria that HB 87 would remove.

MR. MAISCH replied correct.

REPRESENTATIVE SEATON concluded the proposal removes the local jobs portion of this. He further understood that the area must have underutilized manufacturing capacity, not the particular bidder. For example, he asked, if there is not underutilized capacity in Southeast Alaska, "does that mean under current status [the division] couldn't have these sales, and ... removal of that would allow basically export ... of those logs because there wasn't underutilized capacity in the area."

MR. MAISCH responded no. By removing these three criteria it still is going to be 118 authority, which allows the division to do that negotiation. Section 2, subsection (a), of the bill still states "to a local manufacturer", so those words are not being changed. The bill maintains the intent that this is for manufacture, that it is for use in local facilities, and striking the three subsections would make it easier for the division to use this authority statewide and to use it consistently, should the division choose to use it through a best interest finding process. This will still be a relatively rare authority that the division would use, except in Southern Southeast Alaska, as per the earlier discussion on the allowable cut piece of it.

REPRESENTATIVE SEATON understood, then, that the negotiated terms are still going to be for local or regional manufacturing of the product and that elimination of the section for underutilized capacity will not allow these timber sales to be used for export lumber.

MR. MAISCH confirmed that Representative Seaton has stated it correctly and said that would also be his interpretation of this proposed change.

[1:28:17 PM](#)

REPRESENTATIVE TARR addressed Mr. Maisch's previous statement about violating the interstate commerce clause. She surmised that, given the conversation taking place now and the response from one particular mill, this public discussion is for this to be a policy that would advantage a local company at the disadvantage of this export company, and that the Department of Law has said there is no interstate commerce issue there if it is being done with that specific intent.

MR. MAISCH answered yes, this statute was created specifically because of the "supreme court" case on interstate commerce that specifically said states do not have the power to regulate. He expressed his confidence that this is constitutionally allowable under the state's constitution. Potentially, it is choosing winners and losers, he allowed, a position that the division does not like to be in, so that is why the division uses the 120 authority for the majority of its timber sales. It has been the policy of many past administrations, including this current one, to try to use the state's resources to create as many jobs, especially manufacturing jobs, in the state as possible. The lack of wood supply in the Tongass National Forest has reduced the forest products sector in Southeast Alaska from 5,000 employees to 200 - 250. The industry that is left is on the brink of failing because of a lack of wood supply. So, the small amount of wood that the division can bring to the table is very important to the continued existence of these businesses. It is not that the division will not do 120 sales in Southeast Alaska: the division still does that on occasion when the sale is located too far away from the mills that could use it, or it might be right next to a bigger sale of either federal or private timber and so it makes sense to offer that sale at the same time under a 120 authority. It is not a complete "un-use" of that other authority, but it would give the division the ability to direct as much wood as possible to manufacturing.

[1:30:38 PM](#)

REPRESENTATIVE TARR expressed her concern that it is old-growth forest with salmon streams that will be cut. She said the duration of time makes [this proposal] stand out: the competitive sales have no duration limit, but these are up to 25 years. She surmised that because it would be a negotiated sale there would still be public notice so people could comment. Given the appraisal would be every five years, she asked whether there would be an allowable cut over the length of that contract that specifies in what years that will happen. She further asked whether the potential exists for things to be done haphazardly between time zero and five years when a re-appraisal takes place.

MR. MAISCH replied the division has not done a 25-year sale because a lot can happen in that long amount of time, especially in Interior Alaska where wildland fire is a common occurrence. Once terms of the sale are negotiated, the division uses a standard timber sale contract that requires bonding, reappraisal every five years under the 118 authority, and [reappraisal]

every three years under the 123 authority. In reappraisal the division looks at the base rates and the fair market appraisal of the material being sold and can adjust the rates contractually. At that time the division would take into account any major changes to its ownership of timber, such as a large wildland fire. The longest term sales the division has contemplated were the 20-year sales in Tok. Currently the division is doing two five-year sales back-to-back under the 123 authority in Fairbanks. The length of time is critical for a business entity that is going to seek financing in the private sector to build a facility, in which case the business needs a minimum 10-year commitment of raw material to amortize that investment in the private equity sector. The division not exceed its allowable cuts and the re-calculated allowable cuts that are based on changing conditions; there is always a constant adjustment as the division moves forward in time.

[1:33:41 PM](#)

REPRESENTATIVE JOSEPHSON addressed Mr. Maisch's statements about present lack of available timber. He offered his understanding that in a competitive sale, timber is cut as logs in the round and shipped overseas, generally, or the timber is used domestically in a local mill and then perhaps shipped elsewhere. He asked what in that duality speaks to a lack of timber supply. In other words, he continued, if someone failed to bid in a competitive bid to cut and ship as logs in the round, wouldn't, for example, Viking Lumber Company, as the only bidder perhaps in one scenario, receive the timber sale.

MR. MAISCH responded there are more than just two companies that are potentially in play in Southern Southeast Alaska and that is primarily what is being talked about with this proposed change. Two bigger companies are involved in round log export: Viking Lumber Company [of Craig on Prince of Wales Island] is a mid-size mill, and Icy Straits Lumber & Milling, Inc., of Hoonah [on Chichagof Island], which is not near as large and cuts about 5 million board feet a year. Plus there are a number of smaller mills around Southern Southeast Alaska/Prince of Wales. Most state timber is not larger blocks of wood. Sometimes the division sells only 2 or 3 million board feet and sometimes as much as 10 or 15 million board feet in a sale. Depending on where the mill is located, there can often be more than one bidder. It is not just a simple matter of whether an exporter doesn't bid on a sale that it would by default go to Viking. There is actual competitive interest in the wood because there is simply not enough wood available for the capacity that both

the round log exporters have and the milling sector has in Southern Southeast Alaska. About 100 million board feet of wood could probably be utilized in Southern Southeast Alaska in the industries currently located there. In a good year the U.S. Forest Service sells maybe 30-35 million board feet and the division sells a little bit in addition, so the available volume is very short for the current industry.

[1:36:25 PM](#)

REPRESENTATIVE JOSEPHSON asked what the state is giving up in revenue when a decision is made to sell domestically rather than for the overseas market, setting aside the economic impact created by spinoff in places like Thorne Bay and Craig.

MR. MAISCH replied the state would receive a 30 - 50 percent higher price for that log as a stumpage value, depending upon the sale's location and size, quality of wood, and amount of the wood. However, the key point here is that only about 13 million [board] feet of wood are being talked about as being available annually on a sustained yield basis [from state forests]. This doesn't translate to a large number: a few hundred thousand dollars difference in the very best case scenario and just tens of thousands of dollars difference in a worst case scenario. So, the state is forsaking a higher price for the concept of creating jobs and supporting communities.

REPRESENTATIVE JOSEPHSON observed that the sectional analysis for Section 3 states that the [repeal of AS 3.05.118(c)] would enable DNR to negotiate timber sales in all areas [of the state]. He offered his understanding that the current three-pronged test of the 118 authority was designed such that if there is economic hardship a negotiated sale can occur, but if there is not economic hardship the assumption is that there should be some competitiveness. He surmised that if the Interior and Matanuska-Susitna areas are doing better economically, the result would be a competitive bid.

MR. MAISCH answered yes, the 120 sale is the default method under which the division sells the vast majority of its timber sales. The division only uses these other authorities when it finds that it is in the best interest of the state to use those authorities. The division offers a fair number of 115 sales in the Interior, but those are the small negotiated sales that go to very small operators and do not cost the division as much to lay out and administer. Instead of going through all the process of what a larger sale would require, it actually saves

the state money to be able to offer those small sales to those small operators; as well, it saves the small operators a lot of the red tape of the larger sale authorities.

[1:39:33 PM](#)

REPRESENTATIVE TARR, regarding the talk about lack of wood from federal forests, related that timber sales on federal forests have been criticized as money losing operations because it is the federal government that pays for replanting and the building and ripping of roads. She asked who the responsible party is under state timber sales for road building and ripping and reclamation and replanting.

MR. MAISCH replied it is done differently on the state side, with the vast majority of the roads built by the timber purchaser. The division appraises the value of the improvement, be it a bridge or a primary or secondary road, into the sale price. The timber sale contract requires the purchaser to build that piece of infrastructure. If the infrastructure is already in existence, the division appraises in a maintenance cost for the road while the purchaser is using it. Where there is not an active timber sale on segments of roads, it defaults to the state to continue to maintain those roads. The division must maintain them to meet forest practices standards which are focused on fish habitat and water quality issues. Occasionally the division has received capital appropriations for a larger piece of infrastructure, such as a bridge that would not be easy to carry on a timber sale. So, there have been some cases where capital money has been invested in infrastructure, just as is done on all other types of infrastructure in the state. The division is very proud that it has over 500 miles of roads in Alaska, mostly in the Interior. Some of those are winter roads, but those roads are very much multiple-use roads and are how people get out to recreate, hunt, and do subsistence. They are an important piece of life in many of the places where there are state forests or state lands that are classified for forestry use. In regard to reforestation, those costs are sometimes appraised into the sales and other times the division simply uses natural regeneration, which is usually very effective in Southeast Alaska. However, natural regeneration is sometimes not as effective in the Interior and Southcentral Alaska, so the division will supplement that with planting if the regeneration surveys show that that needs to be done. Sometimes the division does receive capital monies, but more often the division has some timber sale receipt authority, about \$850,000 a year, that can be used for infrastructure or reforestation work. The

division actually supports some of its timber sale foresters off of the funds that are earned through the timber sale receipt program. Most years, though, the division returns money to the treasury once that cap is hit.

[1:42:44 PM](#)

REPRESENTATIVE SEATON observed that the 115 sales are approximately 125 acres in size in Southcentral and about 80 acres in the Interior. He asked whether Interior sales are that much more productive than Southcentral sales.

MR. MAISCH confirmed they are, primarily because [the Interior] tends to have better soil types, temperatures, and a lot of spruce stands. Based on the division's inventories, the average volume per acre in the Interior is about 8,000 board feet, whereas in Southcentral it is about 4,800 - 6,000 board feet. Southcentral has much more mixed forest - spruce and usually birch. Interior has some mixed stands, but often the stands are pure spruce, pure birch, or pure aspen, which tend to grow much denser than in Southcentral. Some of the Interior forests rival about 35,000 board feet to the acre, which is equal to some of the average stands in Southeast Alaska.

REPRESENTATIVE SEATON drew attention to page 1, line 6, of the bill which states "offer the timber consistent with the best interest of the state." He then drew attention to page 1, line 9, which would add "the sale is in the best interest of the state". He queried whether these could be read such that the state gets itself into a lawsuit that the commissioner is required to have a best interest finding before there can be a sale in Section 1 under AS 38.05.110 - 38.05.123, given some of those don't require a best interest finding. He said if no one is present from the Department of Law to answer his question then he would like to get a written opinion verifying that that does not require a best interest finding in Section 1.

MR. MAISCH reiterated that he has spoken with the Department of Law, but will get a written finding for Representative Seaton. He said, "The way I read that one in Section 6, as I mentioned we would call that the lower case best interest finding, whereas in Section 9 it's prefaced up there in (a) where it says 'upon a finding that a best [interest of the state]', so that is kind of the big b, for lack of a better word to describe it, and it is a fine legal definition or understanding." He offered his agreement with Representative Seaton that it would be good to be as clear as possible and will get back with an opinion.

[1:46:04 PM](#)

REPRESENTATIVE JOSEPHSON inquired whether the "supreme court" decision regarding the commerce clause was from 1983.

MR. MAISCH responded it was in the late 1970s or early 1980s and that he will get back to the committee with the actual case. He said the parties were the State of Alaska and an attorney who had purchased timber.

[1:46:51 PM](#)

MR. MAISCH, responding to Co-Chair Talerico, explained that one board foot is 12 inches by 12 inches by 1 inch, and a cubic foot is 12 inches by 12 inches by 12 inches.

CO-CHAIR TALERICO asked whether timber sales can be transferred. For example, he is aware of some lumber operations in his district that have changed hands on a regular basis.

MR. MAISCH answered that through the contract process there is the ability to reassign contracts. In some cases an operator can actually re-sell a contract if the operator feels that is in its economic best interest. However, generally, it is through re-assignment and the division does due diligence because the bonds must be reposted and the new party must have the financial ability.

[1:49:07 PM](#)

CO-CHAIR TALERICO opened public testimony on HB 87.

[1:49:48 PM](#)

RICK ROGERS, Executive Director, Resource Development Council for Alaska (RDC), stated that RDC is a statewide, membership funded, trade association representing oil and gas, mining, tourism, fisheries, and forestry. He said RDC is in favor of HB 87 and has submitted a letter for the record. The timber industry is a shadow of its former self, with timber supply being the biggest issue restricting the industry in Alaska. In a small way, HB 87 helps the state adjust the tools that it has to be as effective as possible in providing meaningful timber supply, particularly for manufacturing facilities like Viking Lumber and others in Southeast Alaska that are struggling because of the lack of federal timber. He said RDC agrees with

the administration that the 120 sales, the competitive sales, are the first choice and, all things being equal, the best way to sell timber. However, there are unique circumstances with the competition between exports and the need for the state to help mills struggling with the lack of adequate supply. Given this different climate of timber supply, this is an appropriate adjustment to the statutes since they haven't been changed for several decades. He clarified that wood chips are part of the market basket that can be considered, which makes sense given there is now a biomass energy industry, particularly in the Interior. While the biomass industry is small, it is one additional way to address the high cost of energy in rural Alaska as well as some of the air quality issues that come from burning wood with less advanced technology.

[1:52:59 PM](#)

JASON HOKE, Executive Director, Copper Valley Development Association, stated the Copper Valley is an ocean of biomass with over a million acres of beetle-killed timber, of which 67 percent is on state land. He explained that a board foot is applicable towards timber, whereas tonnage is what is used when discussing biomass. In his area there is a lot more biomass than timber. This biomass needs "to be ground up and processed as chips into what is defined as a higher value-added product." He said the Copper Valley Development Association is in full favor of HB 87 and hopes the committee will push the bill forward. However, he continued, he has two caveats. One is that under the 123 authority, sales to supply a chip operation would not qualify for high value-added. He explained that he is currently working on a deal with a processor and a value-added bio-brick maker and the only way to get a lot of this timber out is to chip it in the woods and haul it to the facility where it will be pressed into bricks. While it is mostly black spruce, which is very small diameter, it still has value if chipped. So, his first caveat is to take a look at AS 38.05.123 in this regard. Further, he noted, under an AS 38.05.123 sale the processing facilities must be operational prior to harvesting timber sold under this authority. But, he pointed out, the aforementioned operation is going to go hand-in-hand because the facility is also going to be the processor - to get the wood out it has to be chipped before it can be made into bio-bricks.

[1:55:42 PM](#)

CO-CHAIR TALERICO held over HB 87 and kept open public testimony.

1:56:05 PM

**ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 1:56 p.m.