

SB

32

<TARGET><BILL>SB 32</BILL><SUBJECT>SB
32</SUBJECT><COMM>SFIN29</COMM></TARGET>

STATE CAPITOL
P.O. Box 110001
Juneau, AK 99811-0001
907-465-3500
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Governor Bill Walker
STATE OF ALASKA

January 28, 2015

The Honorable Kevin Meyer
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Meyer:

Under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill relating to the sale of timber on State land. The bill would amend AS 38.05.110 and 38.05.118 to expand the authority of the Commissioner of Natural Resources to negotiate the sale of timber at appraised value.

The Department of Natural Resources (DNR) may offer timber sales either through competitive bid or through negotiation. Currently under AS 38.05.118, the Commissioner of Natural Resources may negotiate the sale of timber to a local manufacturer at appraised value. However, negotiated sales larger than 500,000 board feet may only be offered in areas of 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. The proposed bill would provide that, in addition to sales to local manufacturers of wood products, sales may also be negotiated with users of wood fiber. This change clarifies that negotiated sales may be used to support wood energy production as well as traditional products. In addition, the bill would eliminate the current limitations that negotiated timber sales be based on a finding that in the area of the sale there is a high level of unemployment, an underutilized manufacturing capacity, and an underutilized supply of timber that will lose value if not cut. The requirement that all three conditions be met substantially limits the Commissioner of Natural Resources' authority and flexibility to approve negotiated sales that would be in the best interest of the State.

Competitively 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 of Alaska is a small landowner compared to the Tongass National Forest, and the State of Alaska's full allowable cut is a critical source of logs for the remaining sawmills.

The Honorable Kevin Meyer
Bill Transmittal
January 28, 2015
Page 2

The provisions in the bill would enable the Commissioner of Natural Resources to better respond to the economic and geographic realities of the forest products sector in our state's economy. All timber sales, including negotiated sales, must comply with the constitutional requirement to manage State timber for sustained yield.

I urge prompt and favorable action on this measure.

Sincerely,

A handwritten signature in cursive script that reads "Bill Walker".

Bill Walker
Governor

Enclosure



**Sectional Analysis
SB32 CS(RES)**

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

This bill would expand the conditions under which the state could offer negotiated timber sales under AS 38.05.110 and .118. Under the existing statutes, the Department of Natural Resources (DNR) may not offer negotiated timber greater than 500 thousand board feet unless the sale area has high unemployment, underutilized manufacturing capacity, and an underutilized timber supply that will lose value due to insects, disease, fire, or conversion to non-forest uses. 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.

Section 1 – New Subsection

Amends 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.

Section 2 – Amendment to (a).

Amends AS 38.05.118 to clarify that negotiated timber sales under this section do not have to comply with the restrictions on negotiated sales in AS 38.05.115 and the timber sale procedures for competitive sales in AS 38.05.120, but they do have to 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 exempts sales under .118 from limits on size and duration up to 25 years, but ensures that large negotiated sales are developed with adequate notice to the industry and general public, and necessary site-specific design. This section also clarifies that DNR may negotiate sales to wood fiber users, including biomass energy producers, in addition to wood product manufacturers.

Section 3 – Repeals (c).

Repeals AS 38.05.118(c) which restricted negotiated timber sales under .118 to areas with high unemployment, underutilized manufacturing capacity, and either an underutilized allowable cut, damaged trees, or land to be converted to non-forest use. This change enables DNR to negotiate timber sales in all areas of the state. All timber sales are still subject to the constitutional requirement for sustained yield management.

Section 4 – Applicability.

The uncodified state law of the State of Alaska is amended to clarify that the negotiated timber sale provisions (Sections 1, 2, and 3) apply to sales that occur after the effective date of the bill.

Section 5- Effective Date.

This section establishes an immediate effective date for the negotiated timber sale provisions (Sections 1, 2, and 3).



THE STATE
of **ALASKA**

GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION/OFF FORESTRY

550 W. 7th Avenue
Anchorage, AK 99501
Main: 907.269-8463
Fax: 907.269-8931

March 24, 2015

Senator Cathy Giessel, Chair
Senate Resources Committee
State Capitol Room 427
Juneau AK, 99801

Dear Senator Giessel

The Alaska Board of Forestry is pleased to convey its support for CSSB 32 (RES) to broaden the Department of Natural Resources (DNR) authority for negotiated timber sales. The Board of Forestry provides a forum to discuss and resolve issues on forest practices and management of forests on state land (AS 41.17.047(b)). Board members represent diverse constituencies – the timber, fishing, and mining industries, Native corporations, professional foresters and fish and wildlife biologists, and environmental and recreational organizations.

The Board has repeatedly discussed the DNR authorities for timber sales in the context of timber industry needs in southeast Alaska, as well as the demand for long-term sales for biomass energy in the interior. In general, we strongly support use of competitive timber sales to ensure equal access to resources by all parts of the timber industry. However, we recognize that negotiated sales may be a valuable tool in specific cases, particularly to retain wood processing jobs in local communities under economic stress. The Board unanimously supports the proposed changes that provide DNR with the flexibility to use negotiated sales statewide when appropriate, subject to a best interest finding, and the requirements for Forest Land Use Plans and Five-year Schedules for Timber Sales.

Sincerely,

Handwritten signature of John "Chris" Maisch.

John "Chris" Maisch, State Forester
Chair, Alaska Board of Forestry

Cc:

Senate Resources Committee

Vice Chair	Senator Mia Costello
Member	Senator John Coghill
Member	Senator Peter Micciche
Member	Senator Bert Stedman
Member	Senator Bill Stoltze
Member	Senator Bill Wielechowski

House Resources Committee

Co-Chair Representative Benjamin Nageak
Co-Chair Representative David Talerico
Vice Chair Representative Mike Hawker
Member Representative Bob Herron
Member Representative Craig Johnson
Member Representative Kurt Olson
Member Representative Paul Seaton
Member Representative Andy Josephson
Member Representative Geran Tarr

Alaska Board of Forestry

Ron Wolfe, Alaska Native Corporations
Eric Nichols, Forest Industry Trade Association
Wayne Nicolls, Non-governmental Professional Forester
Chris Stark, Environmental Organization
Erin McLarnon, Recreation Organization
Mark Vinsel, Commercial Fisherman's Organization
Denise Herzog, Mining Organization
Matt Cronin, Non-governmental Professional Fish/Wildlife Biologist

SENATE FINANCE COMMITTEE REPORT

DATE: 2/27/15

FURTHER:

DATE TURNED
IN TO OFFICE: _____

Finance Committee considered SENATE BILL NO. 32

SB 32-TIMBER SALES

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

and recommends:

- be replaced with CS _____ (_____) Same Title New Title
- adopt previous CS SB 32 (RES) Same Title New Title
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
DNR			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Mucciche			✓	
	Bishop	✓			
	Dunleavy	✓			
	Orsola			✓	
	Hoffman	✓			
CO-CHAIR:	Kelly	✓			
CO-CHAIR:	Mackinnon	✓			

Fiscal Note

State of Alaska
2015 Legislative Session

Bill Version:	SB 32
Fiscal Note Number:	1
(S) Publish Date:	1/30/2015

Identifier: LL 0022-DNR-DOF-1-15-15
 Title: TIMBER SALES
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: Governor

Department: Department of Natural Resources
 Appropriation: Land & Water Resources
 Allocation: Forest Management & Development
 OMB Component Number: 435

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2016	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2016 Request	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
OPERATING EXPENDITURES	FY 2016	FY 2016					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2015) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2016) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
 If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By:	John 'Chris' Maisch, Director	Phone:	(907)451-2660
Division:	Division of Forestry	Date:	01/15/2015 12:00 AM
Approved By:	Mark Myers, Commissioner	Date:	01/16/15
Agency:	Department of Natural Resources		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2015 LEGISLATIVE SESSION

Analysis

This bill would expand the conditions under which the state could offer negotiated timber sales under AS 38.05.110 and .118. Under the existing statutes, the Department of Natural Resources (DNR) may not offer negotiated timber greater than 500,000 board feet unless the sale area has high unemployment, underutilized manufacturing capacity, and an underutilized timber supply that will lose value due to insects, disease, fire, or conversion to nonforest uses. 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 would allow DNR to offer negotiated sales statewide within the limits of the sustained yield supply, and subject to a best interest finding under AS 38.05.035.

While it is anticipated that for most timber sales, a competitive bid process will continue to be in the best interest of the state, this bill would enable DNR to better respond to the economic realities and geographic variability in the forest products sector in Alaska.

There are no short-term impacts on revenue, but over time, revenues should increase as the industry diversifies to address energy needs and demand for locally sourced wood products for communities. This legislation will not place any additional demands on the current operating budget and thus the zero fiscal note.



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Natural Resources

DIVISION/OFF FORESTRY

550 W. 7th Avenue
Anchorage, AK 99501
Main: 907.269-8463
Fax: 907.269-8931

March 24, 2015

Senator Cathy Giessel, Chair
Senate Resources Committee
State Capitol Room 427
Juneau AK, 99801

Dear Senator Giessel

The Alaska Board of Forestry is pleased to convey its support for CSSB 32 (RES) to broaden the Department of Natural Resources (DNR) authority for negotiated timber sales. The Board of Forestry provides a forum to discuss and resolve issues on forest practices and management of forests on state land (AS 41.17.047(b)). Board members represent diverse constituencies – the timber, fishing, and mining industries, Native corporations, professional foresters and fish and wildlife biologists, and environmental and recreational organizations.

The Board has repeatedly discussed the DNR authorities for timber sales in the context of timber industry needs in southeast Alaska, as well as the demand for long-term sales for biomass energy in the interior. In general, we strongly support use of competitive timber sales to ensure equal access to resources by all parts of the timber industry. However, we recognize that negotiated sales may be a valuable tool in specific cases, particularly to retain wood processing jobs in local communities under economic stress. The Board unanimously supports the proposed changes that provide DNR with the flexibility to use negotiated sales statewide when appropriate, subject to a best interest finding, and the requirements for Forest Land Use Plans and Five-year Schedules for Timber Sales.

Sincerely,

A handwritten signature in cursive script, appearing to read "John C. Maisch".

John "Chris" Maisch, State Forester
Chair, Alaska Board of Forestry

Cc:

Senate Resources Committee

Vice Chair	Senator Mia Costello
Member	Senator John Coghill
Member	Senator Peter Micciche
Member	Senator Bert Stedman
Member	Senator Bill Stoltze
Member	Senator Bill Wielechowski

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Erin McLarnon, Recreation Organization
Mark Vinsel, Commercial Fisherman's Organization
Denise Herzog, Mining Organization
Matt Cronin, Non-governmental Professional Fish/Wildlife Biologist



MEMORANDUM
Department of Natural Resources

STATE OF ALASKA
Office of the Commissioner

TO: The Honorable Pete Kelly, Co-Chair
The Honorable Anna MacKinnon, Co-Chair
Senate Finance Committee
State Capitol Room 516
Juneau, AK 99801

DATE: February 27, 2015

TELEPHONE: 269-8431

FROM: Director of Forestry, Chris Maisch
550 W. 7th Ave. Suite 1450
Anchorage, AK 99501-3566

SUBJECT: CS for Senate Bill 32

This document summarizes the changes for SB 32.

Section 1, line 6, is amended by adding a new subsection to read:

(c) If a sale of timber may be offered under multiple provisions of AS 38.05.123, the commissioner shall determine the applicable provisions under which to offer the timber.

The wording "consistent with the best interest of the state." was deleted from the end of this sentence to remove any confusion about the need for a Best Interest Finding per our discussion in Committee during the first hearing of this Bill.

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.

REVIEW 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).

VIKING LUMBER COMPANY, INC



Mile 6 Craig-Klawock Hwy, P.O. Box 670

Craig, Alaska 99921

P (907) 755-8880 - F (907) 755-8888

vikinglumber@aptalaska.net

February 9, 2015

Dear Members of the Senate Resources Committee,

I am writing in support of SB32 I have read the DNR briefing paper and the bill and I believe the proposed changes could be very important to the remaining timber industry in Alaska. Viking Lumber Company has been continuously operating on Prince of Wales Island for twenty years.

With the failure of the United States Forest Service to provide an adequate supply of timber, the state DNR has been extremely important in providing timber in critical times, some of which has been through negotiated sales. The passing of SB32 would help ensure that Viking Lumber Company would have a continuous supply of timber to keep the sawmill operating well into the future.

Sincerely,

A handwritten signature in cursive script that reads "Kirk Dahlstrom".

Kirk Dahlstrom

Secretary

Viking Lumber Company



RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

Founded 1975

Executive Director

Rick Rogers

2014-2015 Executive Committee

Ralph Samuels, President

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Mike Satre

Joe Schierhorn

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Phil Steyer

John Sturgeon

Casey Sullivan

Jan Trigg

Doug Ward

Sinclair Wilt

Ex-Officio Members

Senator Lisa Murkowski

Senator Dan Sullivan

Congressman Don Young

Governor Bill Walker

February 6, 2015

Senator Cathy Giessel, Chair
Senate Resources Committee
State Capitol
Juneau, AK 99801

RE: SB 32, Timber Sales

Dear Senator Giessel,

I am writing on behalf of the Resource Development Council of Alaska (RDC) to support passage of SB 32 "An Act relating to the sale of timber on state land; and providing for an effective date."

RDC is a statewide business association representing forestry, oil and gas, mining, tourism, and fishing industries. Our mission is to grow Alaska through responsible resource development. RDC supports policies aimed at ensuring a reliable and economical long-term State and federal timber supply.

In the decades since the State's timber sale authorizing statutes were last amended, the demand for wood fiber from State lands for energy purposes has increased significantly in response to escalating fuel oil costs and State capital investment through the renewable energy capital grant program. As a result wood fiber for biomass energy has grown into an important component of forest products from State timber sales.

What has also changed over the past decades is the dependence of our remaining Southeast Alaska mills on timber sales from State lands. In some circumstances negotiated State timber sales are essential in keeping what is left of our remaining manufacturing capacity operating.

RDC agrees with the administration, as articulated in Governor Walker's transmittal letter, that competitive timber sales are the preferred means of selling timber under most conditions. However some circumstances warrant the flexibility of offering negotiated sales at appraised fair market value in order to ensure a reliable supply of raw material to mills. The Department of Natural Resources (DNR) has a good track record of limiting its negotiated sales to those circumstances where it is clearly in the State's best interest, and the added flexibility afforded to the DNR Commissioner

by this surgical statutory revision will provide needed flexibility required by today's realities of timber supply and markets.

By giving the DNR Commissioner added flexibility in offering negotiated sales and clarifying that users of wood fiber are also eligible for negotiated sales, the State will have tools appropriate to conditions that frankly were not part of the timber supply landscape when State's timber sale statutes were last revised.

These amendments support recommendations of the 2012 Alaska Timber Jobs Task Force. The task force recommendations were developed with input from leaders in the timber industry and have been endorsed by the Alaska Board of Forestry.

RDC encourages the passage of SB 32 from committee.

Respectfully,

A handwritten signature in black ink, appearing to read "Rick Rogers", with a long horizontal line extending to the right.

Rick Rogers
Executive Director

Tanana Valley State Forest Citizen's Advisory Committee
PO Box 83783
Fairbanks, Alaska 99708

February 12, 2015

House Resource Committee
Senate Resource Committee

The Tanana Valley State Forest Citizen's Advisory Committee (TVSFCAC) supports passage of HB87 / SB32. This legislation will provide the mechanism for the Department of Natural Resources to respond more appropriately to changes and trends in forest products markets without violating our State Constitution regarding management of State lands on a sustained yield basis.

The TVSFCAC agrees with Governor Walker's statement: "Competitively bid timber sales are the preferred sale method under most conditions." However, negotiated sales provide another valuable option for State timber sale program managers. With passage of this bill, the DNR Commissioner will be allowed to offer longer term timber sale contracts and/or develop sales directed at specific clients when the terms of the sale are determined to be in the best interest of the State of Alaska.

This legislation will also eliminate the somewhat ambiguous criteria for high-volume negotiated timber sales. For example, the qualification of terms such as: "high local unemployment", "underutilized manufacturing capacity", and "underutilized timber supply" have been a source of administrative distraction when DNR has attempted to efficiently address the needs and concerns of the forest products industry in Alaska.

The TVSF Citizen's Advisory Committee strongly urges our Legislators to pass HB 87 and SB 32 in this session.

Sincerely,

Thomas Malone
Chair, TVSFCAC
tmalone@ptialaska.net

CC:

Bill Walker, Governor
Kevin Meyers, Senate President
Senate Resource Committee members
Mike Chenault, Speaker of the House
House Resource Committee members
Mark Myers, DNR Commissioner
Edmund Fogel, DNR Deputy Commissioner
John 'Chris' Maisch, State Forester
Marty Freeman, for the Board of Forestry

Alaska Forest Association



111 Stedman Street
Ketchikan, AK 99901
Phone: 907-225-6114
Fax: 907-225-5920

March 19, 2015

Senator Pete Kelly, Co-chair
Senator Anna MacKinnon, Co-chair
Senate Finance Committee
State Capitol
Juneau, AK 99801

Re: CSSB32 (RES), State Timber Sales

The Alaska Forest Association (AFA) supports Senate Bill CSSB32 (RES)

The AFA is a non-profit business association that was formed in 1957 to represent the interests of the timber industry in Southeast Alaska. The AFA currently manages a pension program, a group health insurance program, a scholarship program for the timber industry and also sponsors the Sustainable Forestry Initiative program for Alaska. Our members businesses and their employee's lives are dependent upon a reliable supply of timber.

We are supporting efforts to significantly increase the size of the State Forests in Southeast Alaska because we have confidence in the States forestry program but meanwhile, our need for State timber sales has never been greater. Over the last twenty years the Forest Service has downsized the federal timber sale program in Southeast Alaska by about 90% and although the State currently manages only about 1% of the timberland in the region, the State timber sale program is very well managed and the State timber sales have allowed at least a few small, and one mid-size sawmill to survive.

The AFA served on the State's Timber Task Force in 2011-2012. The Task Force report included a number of recommendations to enhance the timber industry across the State, including both the 2-million acre State Forest we seek for Southeast Alaska and the changes to the state timber sales authority that are the subject of CSSB 32 (RES). Those changes will allow the State Division of Forestry additional flexibility to manage their timberlands more strategically. The changes will enable the Division of Forestry to negotiate a wider range of timber sales to address specific operator needs. The

changes will help not only operators who are at risk from the decline in federal timber sales, but will provide more options for timber supply for operators across the State.

The proposed changes will not result in any reduction in protections for fish or wildlife habitat, access for recreation and subsistence nor will the changes result in negative financial impacts for the State. For instance, the changes will remove the current requirement that State timber sales can only be negotiated in areas that have:

- (1) a high level of local unemployment;
- (2) an underutilized timber manufacturing capacity; and
- (3) an underutilized allowable cut of state timber, timber that will lose substantial economic value due to insects, disease, or fire, or timber to be cleared for the conversion of land to nonforest uses."

A more flexible timber sale program is better for the State regardless of whether there is high-unemployment, underutilized mills or excess allowable cut, particularly now when the need for additional State revenue has increased.

Please approve this legislation in your committee so that it can be enacted by the full legislature this year.

Thank you,



Owen Graham
Executive Director
Alaska Forest Association



1595 Wescott Drive, North Pole, AK 99705
P.O. Box 82876, Fairbanks, AK 99708
Phone: (907) 488-6055 Fax: (907) 488-6056
superiorpelletfuels@yahoo.com

March 24, 2015

Senator Pete Kelly
State Capitol Room 516
Juneau AK, 99801

Senator Anna MacKinnon
State Capitol Room 516
Juneau AK, 99801

Dear Senator Kelly & Senator MacKinnon,

Superior Pellet Fuels, LLC supports the proposed amendments to AS 38.05.110 and 38.05.118 in regards to expanding the authority of the Commissioner of Natural Resources to negotiate the sale of timber at appraised value.

Currently under AS 38.05.118 the Commissioner of Natural Resources may negotiate timber sales to local manufactures at appraised value but negotiated sales larger than 500,000 board feet may only be offered in areas of high unemployment, excess manufacturing capacity and underutilized allowable cut of timber. As it is written, AS 38.05.118 excludes Fairbanks, because our lower unemployment rate.

Economic access to timber is one of the major constraints on wood manufacturing and raw material industries and this amendment would open up additional resource options. In an area with extreme air quality issues such as Fairbanks and North Pole our clean-burning and lower cost fuel options provide a fantastic alternative. The proposed amendments would open a door of opportunity for manufacturing companies such as Superior Pellet Fuels, LLC.

We encourage immediate action in favor of Senate Bill 32.

Sincerely,

Chad Schumacher
General Manager
Superior Pellet Fuels, LLC

Adopted: 03/17/15

**MATANUSKA-SUSITNA BOROUGH
RESOLUTION SERIAL NO. 15-027**

A RESOLUTION OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY SUPPORTING HOUSE BILL 87 AND SENATE BILL 32, AN ACT RELATING TO THE SALE OF TIMBER ON STATE LAND, AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the Alaska State Department of Natural Resources (DNR) manages over 9.5 million acres of forest land in the Borough and timber harvesting is allowed on 2.1 million acres of this land; and

WHEREAS, House Bill 87 and Senate Bill 32 would clarify that the DNR commissioner may determine which applicable method is in the best interest of the state for each timber sale; and

WHEREAS, the proposed bill would allow the 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 limits them to remote areas; and

WHEREAS, it would specify that negotiated sales must comply with the requirements for Forest Land Use Plans (Alaska Statute 38.05.112) and five-year schedules of timber sales (Alaska Statutes 38.05.113), this ensures that large negotiated sales are developed with adequate notice to the industry, the general public and necessary site-specific design; and

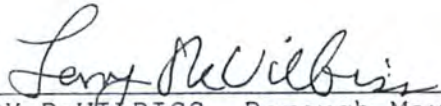
WHEREAS, it would also clarify that DNR may negotiate sales to wood fiber users, including biomass energy producers, in addition to wood product manufacturers; and

WHEREAS, by eliminating some of the criteria, the Division of Forestry would have the ability to use this timber sale authority for future timber sales; and

WHEREAS, the Alaska State Division of Forestry's preferred method of selling timber will be by competitive bids as opposed to negotiation, but sometimes there are good reasons for a negotiated sale and this proposed change would allow them to have that option.

NOW, THEREFORE, BE IT RESOLVED, The Matanuska-Susitna Borough Assembly supports the adoption of House Bill 87 and Senate Bill 22.

ADOPTED by the Matanuska-Susitna Borough Assembly this
17 day of March, 2015.


LARRY DeVLBISS, Borough Mayor

ATTEST:


LONNIE R. KECHNIE, CMC, Borough Clerk
(SEAL)

PASSED UNANIMOUSLY: Sykes, Beck, Arvin, Colligan, Mayfield,
Doty, and Halter

Comments on SB32 - - Timber Sales on State Forests

Rebecca Knight
PO Box 1331
Petersburg, AK 99833
March 24, 2015

Hello Chairperson and Committee Members,

I perceive SB 32 (and its companion HB 87) as largely intended to benefit two timber companies, Viking Lumber and Alcan which both operate in Southeast. Viking operates out of Klawock on Prince of Wales Island. Alcan does not have a mill in Southeast and is mostly an "in the round" timber exporter. Alcan has offices in Ketchikan, Terrace BC, and Aberdeen WA and their parent company is TransPac.:

<http://www.grouptranspac.com/web2/page/forestry.htm>

My perception is based in part on the fact that the interior timber industry does not appear to have any burning issues; it is the SE timber industry, particularly Viking Lumber that has made the biggest fuss regarding timber.

Fiscal Note Inconsistencies

Review of the Fiscal Note for the proposed bill indicates that there will be "no" regulation changes adopted by DNR. However, there will indeed be significant changes:

1. The proposed legislation would outright repeal existing regulations AS 39.05.118(c) to allow DNR to offer negotiated timber sales (instead of by open bidding or auction) for up to 25 years statewide. Currently, per the 118(c) clause, such sales are restricted to areas of high unemployment, excess manufacturing capacity, and excess allowable cut, which limit them to remote areas. This reasonable requirement should not be abandoned. Further, timber would be sold at appraised value instead of to the highest bidder and in many places it may be difficult to get an appraisal that gives the state fair value for the timber.
2. The DNR commissioner would be granted the authority to determine which applicable sale method (competitive or negotiated) is in the best interest of the state for each timber sale. Currently, a sale of timber may not be negotiated by the commissioner under the 118(c) clause. As Tok timber operator, Mr. Stancliff, testified during the March 3 House Resources Committee meeting, this would be a "monumental change of authority".

3. The proposed legislation would allow DNR to negotiate sales to wood fiber users, including biomass energy producers, in addition to wood product manufacturers. Currently, sales to supply a chip biomass operation would not qualify for this type of sale as chips are not a “high value added” product.
4. Most importantly, for large negotiated sales, the legislation makes AS 38.05.118 and .120 “notwithstanding,” and repeals a requirement for “maintenance of the sustained yield principle.” It removes a prohibition on making more than one negotiated timber sale contract with the same purchaser within one year. Also, by removing the provision under 118(c) regarding excess allowable cut a second way of allowing sustained yield principles to be exceeded is provided. I am unaware of a provision that permits the sustainability requirements of our State constitution to be abandoned.

I also find the zero Fiscal Note “Operating Expenditures” to be highly questionable. Certainly, administration of 25 year contracts will require significant fiscal outlays, not to mention the costs of road construction (capital cost) and maintenance, inspection and monitoring to name just a few costs. To claim there will be no additional costs associated with this game changing proposed legislation is completely unrealistic.

Moreover, to hang your fiscally responsible hat on the statement that “revenues *should* increase as the industry diversifies”¹ with absolutely no supporting documentation or figures is irresponsible at best. These timber sales will be a money drain on the State coffers despite the optimistic statement included in the fiscal note.

Finally, it would be imprudent to enter into long term SOA timber contracts given the history of previous long term timber contracts in Southeast Alaska, and especially when there is no assurance that the funds to administer the contracts would be available down the road due to dwindling oil revenues. Contract cancellation and associated compensation costs is a certain risk when the contract runs up against sustained yield limitations - an inevitable situation with a long-term contract. The precautionary principle should be your guiding light regarding any decision to authorize this legislation.

Timber Supply

I remain unconvinced there is a timber supply shortage in Southeast Alaska. The State of Alaska alone is already selling large quantities of exportable timber Statewide. For instance, in southeast 245 million board feet are slated to be cut under the State’s DNR five year operating plan. Additionally, a number of other sales are proposed or underway

¹ HB 32 Fiscal Note p. 2.

on Prince of Wales, Gravina, Kosciusko, Mitkof and other SE Islands. I question the need to award a non-competitive timber contract to a single operator in SE Alaska when so much timber is already being logged on State lands. This does not include University, Mental Health and other private lands or federal timber.

Viking Lumber Employment Figures

During the House Resources Committee meeting on March 3, Kirk Dahlstrom of Viking Lumber asserted during the Alaska State House Resources Committee hearing that, "*We employ about 140 people year 'round.*" I doubt, on the basis of his 2010 declaration in the Tongass NF Logjam timber sale litigation², that he employs nearly that many on the full-time year 'round basis he implied. Of 130 workers he cited then, Viking had only 35 year 'round jobs at the sawmill. The other jobs in logging, trucking and barging are, it would seem, seasonal or occasional. For example, logging usually stops during winter; the 30 longshoremen who load Viking product work only for 3-4 day periods several times per year; and the Boyer Towing barge crew likely was not continually working for Viking. Realistic employment figures are an important consideration, especially when the potential ramifications of 25 year timber contracts could significantly harm other existing uses on a long term and irrevocable scale.

Long Term Contracts and Small Operators

During the March 3 Committee meeting, two individuals from Tok testified that the bill would harm their businesses. I believe those are valid concerns. This includes the fast track nature of the legislation which they and their peers just recently became aware of. They also questioned why, in Governor Walker's new era of transparency, the rush to push through what they termed "monumental" legislation, when the potential impacts are substantial and have not been thoroughly vetted.

Smaller operators' concerns about competition with bigger companies are certainly a valid concern. In Southeast, it is likely that much of the volume will get scooped-up in large 25-year contracts, and when the cut interferes with sustained yield requirements, either through volume limitations or impacts to other multiple uses, the small operators will get the short shrift. This was exactly the situation during the former long-term contracts heyday of yesteryear in Southeast and prompted the now infamous 1983 Reid Brothers lawsuit that resulted in a district court's award

² Available on request.

of \$1,489,881 to the Reids:

<http://openjurist.org/699/12d/1292/reid-brothers-logging-company-v-ketchikan-pulp-company>

The 25-year contracts the bills would authorize would repeat the horrible mistake of the similar long-term pulp mill contracts in Southeast. The problems these 50-year contracts created could not be foretold at the time they were put in place, and the environmental damage and social strife they caused still resound through the region decades later. SB32/ HB87 would repeat the mistake of making a monumental decision that can't be reversed.

Sustained Yield and Allowable Cut

State Forester Chris Maisch also testified during the March 3, House Resources Committee hearing that, *"Just to remind you, the problem in Southeast Alaska is the section that currently requires us to have an excess allowable cut and in Southeast after the next two years we will no longer have that excess allowable cut..."*

His wording was obtuse, but I think the "section" he referred to was the sustained yield mandate:

*"Sec. 41.17.220. Management of state forests. Land within a state forest or within a unit of a state forest shall be managed under (1) the sustained yield principle;"*³

The prohibition on exceeding the allowable cut (sustained yield principle) is managed on a 10-year period. If some years are less than the allowable average, other years can exceed (the "excess") the allowable average so it balances out for the period. If I recall correctly, Governor Parnell allowed DNR to "borrow" timber from the future from within the 10-year period, and now they are in a bind.

Timber Export

Finally, I could find no export prohibition under the "118 authority" (Sec. 38.05.118.) for negotiated sales. Bill sponsors tout that the bill would result in more retention of timber for local processing but this does not seem to be the case. In the absence of an export prohibition, when the smaller operators are unable to handle larger volumes

³ According to AS 38.04.910 (12): "sustained yield" means the achievement and maintenance in perpetuity of a high level annual or regular periodic output of the various renewable resources of the state land consistent with multiple use;".

(another inevitable situation) or are simply not offered volume from the contracted operator,(the “negotiated” purchaser)will export as much as possible. In reality, it will essentially be “business as usual” with the added benefit to the negotiated purchaser of having a guaranteed 25 year, corner on the market. How does this benefit the State?

I respectfully request that your Committee to not allow this flawed bill to advance for all the reasons I cited above.

The bottom line is that SB-32 and HB-87 are not in the best interest of the State of Alaska or its people.

Sincerely,

Rebecca Knight

Rebecca Knight

*cc. Governor Walker
Rep. Kreiss-Tomkins*