

1. Opening Comments – Dean Kinnee

Dean Kinnee conducted roll call and introduced Matt Diaz who has replaced George Gentry as the Board of Forestry representative. At the request of Mike Doyich, Matt gave a brief synopsis of his background, leading up to his current position of Acting Executive Officer with the Board of Forestry.

2. Approval of the May 7, 2015 Meeting Minutes

Dean Kinnee then asked if everyone had reviewed the minutes from the previous meeting. With no errors or omissions heard, Mike Mallory motioned to approve the minutes from the May 7th meeting as submitted. Len Linstrand seconded the motion, which passed with all in favor.

3. General Marketing Trends – Mike Doyich

Dean Kinnee introduced Timber Tax Senior Forest Property Appraiser Mike Doyich, who gave a summary of market trends and conditions created by the numerous wildfires from 2013 through 2015. He also discussed some of impacts from the ongoing drought, the dwindling export market due to the economic conditions in China, and he mentioned that the softwood lumber agreement with Canada expired on October 12, 2015.

4. Harvest Value Discussion for Period of January 1, 2016 – June 30, 2016

Mike Doyich began the discussion on TAC Harvest Value Summary - 1H16 suggested timber harvest values with some introductory comments. The market is still active this year, although not as robust as the previous couple of years. Numerous catastrophic wildfires devastated the state once again this year and this has flooded the market with an overabundance of low value fire killed timber, especially blue-stained pine. Sawmills are having problems finding the storage capacity to deal with the oversupply of logs. Although it is slowing down, it is fortunate there still is an export market, as this is the only marketing outlet for small private ownerships in many parts of the state.

a) Table G - Green Timber Harvest Values

Mike Doyich continued with a brief listing of proposed values and the supporting sales data. In general, the number of green sales is down in the inland areas. The large number of wildfires has moved most of the volume into the modified salvage category. Lower species values in the inland regions is directly attributable to the oversupply of fire salvage and the decrease in volume harvested is probably indicative of large amounts of green timber not

being offered to the market due to depressed marketing conditions. On the coast, values have been adversely impacted due to the drying up of the export market and California Redwood Company closing its mill and becoming a seller rather than a buyer of logs. Values continue trending downward, ranging from \$10 to \$60 per thousand board feet, with the exception of redwood. Redwood is up \$10 to \$20 per thousand with the exception of Size Code 2 redwood in TVA 2, which dropped \$30/MBF.

Marty Olhiser raised the question of how RG2 in TVA 2 could be down \$30/MBF when all other redwood values were up \$10 to \$30 per thousand. This issue was discussed at length with staff explaining the driving force behind the recommended number was overwhelming sales data. There were more sales and greater volumes in TVA 2 for RG2, than for any other TVA Size Code 2 species. It was suggested the lower value could be partly due to the overall high haul costs for the region, as many areas in TVA 2 are far from sawmill locations. Also, camp run sales that were near the break between RG2 and RG3 could lower the value.

Leslie Morgan asked why the suggested value may vary either higher or lower in comparison to the weighted average number. Art Tenneson explained that staff gives more weight to the more current sales compared to older numbers regardless of whether they are either higher or lower than the 3-year average.

Mike Doyich asked Susan Ranochak if she had concerns about the suggested RG2 value as she is the Mendocino County Assessor. She said “no” and that she understood the problem with haul cost due to the distances and road conditions in TVA 2. Mike Doyich also mentioned that a portion of the values from TVA 2 come from Sonoma County which also has long haul distances. Marty Olhiser asked if all the sales were from THP’s. Staff explained the majority of sales are from THP’s and NTMP’s, with a small number of log deck sales. Dean Kinnee called for a motion to approve Table G. Lennart Lindstrand, Jr. moved for approval followed by a second from Charles Leonhardt. The motion passed with all in favor except for Marty Olhiser, casting the only dissenting vote.

b) Table S – Salvage Timber Harvest Values

With the exception of TVA 9, all of the suggested salvage values are 75% of green values. This is because the vast majority of sales of salvage timber are from the abundant number of large wildfires, and those sales are used to develop the modified schedules. The ownership make up in TVA 9 is rather unique, in that the majority of the timberlands are under U.S. Forest Service ownership. The sales currently being used for TVA 9 salvage are a more balanced mix of USFS fire salvage and insect and drought killed timber from private ownerships. Matt Diaz asked about use of the 75% of the green value for salvage values and Mike Doyich explained there have been several studies conducted by Timber Tax Staff that support this relationship.

A motion to approve Table S values as proposed was made by Mike Mallory and was seconded by Leslie Morgan. Without objection, the motion carried.

c) Table 1 – Miscellaneous Forest Products Harvest Values

Mike Doyich discussed the addition of shavings products to the HW category of miscellaneous forest products. Some of the overabundance of low value blue-stained pine that is not being absorbed by the sawlog market is now being converted to shavings for use in livestock pens. Len Lindstrand asked about the \$20/MBF increase in the SSM value and Art Tenneson responded the increase is attributable the higher value and large percentage of Douglas-fir in the Klamath and Shasta Trinity National Forests timber sales.

A motion to approve Table 1 values as proposed was made by Mike Mallory and was seconded by Leslie Morgan. Without objection, the motion carried.

5. Other Business

4Q15 and 1Q16 Modified Fire Schedules

Mike Doyich discussed the impact of the large number of sales from the large catastrophic wildfires that are used in producing the modified schedules. Art Tenneson discussed the unusual situation we are faced with having more information in modified sales than in green sales and how this is impacting the markets. An extended discussion followed on the logistics of producing the modified value schedules, and some of the stumbling blocks involved. For example, some of the reasons for the length of time it takes USFS sales to reach the market, and then generally with unreasonably low values, the risk involved with bidding on USFS sales, and the problems caused by having two or more catastrophic wildfires in different parts of the same TVA with significantly different values, due to sawmill locations and haul distances.

With all of these considerations in mind, staff is hoping that market conditions will soon allow for using salvage sales to prepare the regular salvage value schedule and that the modified schedules can be discontinued for the time being. By definition, a modified value schedule is only warranted when a large catastrophic event materially changes the market. Historically, modified schedules were only generated once every 10 years or so. Matt Dias pointed out that the vastly increased mortality due to drought and related insect mortality will be also contributing to the salvage sales data base.

Ken Thompson recommended that staff study the salvage situation and develop a proposal for the committee's consideration at the spring 2016 meeting regarding the criteria for future modified value schedules.

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A motion for staff to prepare a recommendation on modified value schedule criteria for TAC to consider was made by Leslie Morgan and was seconded by Mike Mallory. Without objection, the motion carried unanimously.

A motion to approve the Modified Value Schedules for 4Q15 and 1Q16 was made by Charles Leonhardt and was seconded by Lennart Lindstrand, Jr. Without objection, the motion carried unanimously.

6. New Business

Tentative date for the next meeting

The date for the next TAC meeting was agreed to be on Thursday morning May 5, 2016 at 9:30 AM, in the same location and room.

7. Adjourn

Dean Kinnee adjourned the meeting at 10:50 am with a thank you to the Timber Tax Staff for their preparation and presentation of TAC Harvest Value Summary - 1H16 suggested timber harvest values.