

MICHIGAN FOREST FINANCE AUTHORITY

BOARD MEETING MINUTES

December 8, 2005

A special Board meeting of the Michigan Forest Finance Authority ("Authority") was held on December 8, 2005, at 2:00 p.m. at the 6th Floor Conference Room, Stevens T. Mason Building, Lansing, Michigan 48909.

MEMBERS PRESENT: Jay Rising, State Treasurer
Rebecca Humphries, Director-Department of Natural Resources
James Smiertka (representing David Hollister)
Paul Eisele
Garrett Johnson
Karen Potter-Witter
Kelvin Smyth
Warren Suchovsky

MEMBERS ABSENT: Shawn Hagan

OTHERS PRESENT:

Terrence P. Grady	Attorney General's Office
Lisa Hagan	Attorney General's Office
Dr. Runsheng Yin	Professor, M.S.U.
Lynne Boyd	Chief, FMFM, DNR

CALL TO ORDER

Jay Rising called the Board meeting of the Authority to order at 2 p.m. Mr. Rising welcomed members to the meeting.

APPROVAL OF MINUTES OF AUGUST 24, 2005 MEETING

There were no comments, additions, or deletions to the draft minutes of the August 24, 2005 meeting.

Motion: It was moved by James Smiertka, supported by Rebecca Humphries to approve the minutes of the August 24, 2005 meeting as presented. All in favor by voice vote.

RESOLUTION 2005-1 APPROVING QUARTERLY MEETING SCHEDULE

Ronald Murray was recognized for a presentation of a resolution approving the quarterly schedule of regular meetings.

Motion: It was moved by Paul Eisele, supported by James Smiertka to adopt Resolution 2005-1. All in favor by voice vote.

GLOBAL TIMBER TRENDS PRESENTATION

Dr. Runsheng Yin from Michigan State University discussed Global Timber Trends. Major global trends include deforestation, reversion and stabilization, movement from old growth to timber cropping, integration of tree growing with agriculture, implementation of community based management, expansion of protected areas, and forests as an agent to mitigate climate change.

Outlooks as we look ahead to the year 2020 include a decrease in the deforestation rate; a decrease in natural forest offset by an increase in tree cover brought about through plantations; total forested areas will stabilize with an increase in forest area in industrialized countries offset by a decrease in others making conservation of natural forests a concern for protection of biological diversity; plantations will become the dominant source of wood fiber; prices will stabilize in general while prices for specialty products increase; global climate change is the great wild card; and sustainable forest management depends on institution building.

The wood products trade comprises 3% of total world trade and is led by roundwood which is more than half fuelwood and charcoal with slightly less than half being industrial roundwood. Wood products move from the under-developed nations to the more industrialized nations for the most part. Comparative advantage and cost competitiveness are major factors influencing world movement of wood products. Emerging players in globalization of wood products are nations in the Southern Hemisphere, Russia, the Baltic States, and China. Southeast Asian nations are shifting from primary to secondary products. International trade agreements and blocs are also impacting international wood movement.

China is an emerging wood importer on the international scene. Logs and lumber account for the largest portion of imports. Imports are typically of less processed products and exports are more processed. Sharp increases have been seen recently in imports of pulp.

Copies of this powerpoint presentation are attached. (attachment 2)

TIMBER SUPPLY AND DEMAND IN MICHIGAN

Lynne Boyd, Chief of the Forest, Mineral, and Fire Management Division of the Michigan Department of Natural Resources (DNR) presented a brief overview of the George Banzhaf & Company report on this topic prepared for the Michigan Forest Products Council in May, 2005. Executive summaries were distributed to members of the Board and other parties present.

The study addressed five aspects of the timber situation in Michigan:

- Timber supply potential
- Timber demand
- Timber prices and trends
- Timber imports and exports
- Benchmarking against other states

Supply should be viewed as a three-legged stool in that to be available timber harvest has to be legal, profitable, and permitted. The report found that "overall growth is about 3 percent of inventory, and harvest is only about 1/3 of growth." It was pointed out that the study did not account for mortality within the analysis of supply available for harvest. As the largest single forest landowner in Michigan, the State harvests a higher percentage of growth than on any other ownership group. Across the state, there is a growth "surplus" of 8 million cords most being found in the Northern Lower Peninsula. The single largest barrier to availability is unwillingness by the landowner to harvest. State Forest lands have the highest ratio of supply to harvest, harvesting 40% of growth with Federal lands harvesting only 20% of growth. The

challenge is to motivate private landowners who hold 5/8 of the timberland in Michigan to manage and harvest their lands.

It was suggested in the discussion following this presentation that this information should be placed on the websites for Forest Mineral and Fire Management as well as the Michigan Forest Finance Authority and made available to the public.

POTENTIAL FUNDING FOR THE AUTHORITY

Chairman Rising and Assistant Attorney General Terry Grady briefly discussed the \$26,000,000.00 grant from the Strategic Fund to the Authority from tobacco settlement money. It is a grant that doesn't require repayment. It is intended as "seed money" for the Authority with a desire to create jobs both immediately and long-term. It is the Authority's challenge to decide how to wisely spend these funds. Mr. Rising suggested that a subcommittee of the Board be appointed to consider and bring back to the Board recommendations on projects on which the funds should be expended. Mr. Murray made the point that under present conditions, it could take up to several years to appropriately expend these funds. Others felt that funding could be expended rather quickly, but pointed out that it was important for it to be properly and strategically disbursed. A question was raised about the possibility of providing grants to various industries to "jump start" efficient utilization. The potential for purchasing lands for use in producing forest products was also questioned. Mr. Grady said that such projects would have to be evaluated on an individual case-by-case basis, but that in general, the funds were not for purchasing land.

WORKING FORESTS FOR THE 21ST CENTURY

Ron Murray presented a concept developed by the DNR entitled, "Working Forests for the 21st Century." Working forests produce products, sustain wildlife, support biodiversity, protect soil, air and water quality, and provide recreation opportunities for people. They are part of the Michigan's natural resource heritage and a keystone for its future. Investments in the working forest today will reap both economic and environmental benefits for decades. These investments can provide a combination of short and long term environmental and economic benefits.

A list of potential projects (attachment 3), still under analysis by the DNR, was presented for the Board's information. These projects total \$53.5 million and were designed for implementation in the next decade. It was pointed out that some of the projects could use Authority funding to leverage Federal funds and research funds provided by DNR and other interested parties.

POTENTIAL SUBCOMMITTEES

A number of suggestions were made by Board members relative to the establishment of one to three subcommittees to study the disbursement of grant funds. The Board ultimately focused on the establishment of two subcommittees. Paul Eisle moved and James Smiertka supported the following proposal:

1) That a subcommittee be established to study projects related to timber supply and demand and access to markets. This committee would be composed of Paul Eisle, as chair, Karen Potter-Witter, and Kelvin Smyth.

2) That a subcommittee be established to study opportunities related to asset protection and research. This committee would be composed of Garret Johnson, as chair, Shawn Hagan and Warren Suchovsky.

All in favor by voice vote. Having passed the motion, further discussion ensued. Warren Suchovsky pointed out that the committees should keep in mind that more intensive management of some forest lands may be needed to offset acres set aside from management for environmental or social reasons. He also noted that anticipation of markets was important in forestry operations since the changes that may be needed to supply market demands could be quite time consuming to accomplish. Hence, he supported giving strong consideration to research in this area. Jim Smiertka expressed a desire that the committees research possibilities for funding within their assigned focus and bring back recommendations to the Board regarding disbursement of the available funds at the next meeting in March.

PUBLIC COMMENTS

There were no public comments.

NEXT MEETING

The next meeting of the Authority is schedule for March 8, 2006 from 2:00 p.m. to 5:00 p.m. at the 6th Floor Conference Room, Stevens T. Mason Building, Lansing, Michigan 48909.

Adjournment

It was moved by Chairman Rising and supported by Rebecca Humphries to adjourn the meeting of the Authority. All in favor by voice vote. The meeting was adjourned at 4:15 p.m.