

**MINUTES**  
**MICHIGAN FOREST FINANCE AUTHORITY (MFFA or AUTHORITY)**  
**Board of Director's Meeting**  
**Wednesday, March 12, 2008**  
**Michigan State University, East Lansing, Michigan**  
**2:00 p.m.**

**AUTHORITY BOARD OF DIRECTORS PRESENT**

Mr. Joseph Fielek, Michigan Department of Treasury (representing the State Treasurer as Chairman)  
Director Rebecca A. Humphries, Vice-Chair, Department of Natural Resources (DNR)  
Mr. Kelvin Smyth, New Page Corporation  
Mr. Shawn Hagan, the Forestland Group  
Dr. Paul Eisele, Masco Corporation  
Mr. Martin Gibbs, Department of Labor and Economic Growth (representing Keith Cooley)  
Ms. Mindy Koch, Resource Management Deputy, DNR  
Mr. Garrett Johnson, the Nature Conservancy  
Mr. Warren Suchovsky, Suchovsky Logging  
Dr. Karen Potter-Witter, Michigan State University (MSU)

**MICHIGAN FOREST FINANCE AUTHORITY OTHERS PRESENT**

Dr. Donna LaCourt, Executive Director, State Forest, DNR  
Mr. Ronald Murray, DNR  
Mr. Terrence P. Grady, Office of the Attorney General  
Ms. Cara Boucher, DNR  
Mr. David Neumann, DNR  
Mr. Sam Radcliffe, Prentiss & Carlisle  
Ms. Lynne Boyd, Chief, Forest, Mineral and Fire Management, DNR  
Ms. Kim Korbecki, DNR  
Mr. Mike Vasievich, Tessa Systems

**WELCOME/INTRODUCTIONS**

**Acting Chair Fielek** called the meeting of the Michigan Forest Finance Authority Board of Directors to order at 2:10 p.m. He announced there was a quorum present.

**Acting Chair Fielek** reported to the Authority the recent reappointments: **Dr. Eisele, Mr. Hagan, Mr. Garrett and Mr. Suchovsky.**

**APPROVAL OF AGENDA**

**Acting Chair Fielek** reviewed the agenda and asked for comments; none. Agenda was approved as printed.

**ADOPTION OF MINUTES/DECEMBER 12, 2007**

**Acting Chair Fielek** asked the Authority for comments; correction on Page 1, Adoption of Minutes/September 11, 2007, MOTION; “;” changed to “:”; Page 3, Forest Market Assessment, “Assessment” changed to “Assessment”; Page 5, BONDING, add “in conjunction with the Financial Advisor.”.

**MOTION:** **Mr. Suchovsky** moved for adoption of the December 12, 2007 MFFA meeting minutes, as corrected; seconded by **Director Humphries.**  
Motion carried.

## **PUBLIC COMMENTARY**

None.

## **INFORMATION**

### **Michigan Market Assessment (Mr. Sam Radcliffe, Prentiss & Carlisle)**

**Acting Chair Fielek** introduced **Mr. Radcliffe** who presented a "Michigan Timber Market Analysis" Power Point to the Authority, and provided a final written report as well.

- The scope of research involves two subject areas: (1) the market position of Michigan's forest products industry relative to its counterparts outside of the state, and; (2) the comparative cost of wood in Michigan relative to other major U.S. and global forest regions.
- The market position occupied by Michigan's current forest products industry was analyzed for the following eight product groups: pulp and paper; lumber; oriented strand board; other wood products; furniture and kitchen cabinets; and wood-based biofuels.
- Michigan's average delivered wood costs were benchmarked against the following domestic and international regions: U.S. northeast; U.S. south; U.S. pacific northwest; Brazil; Russia; New Zealand; Finland, Sweden; and Ontario.
- Market profiles covered primary or secondary products; commodity of specialty products; product life cycle; end uses; overcapacity problems; import competition, price trends, and Michigan's rank among other states.

**Mr. Radcliffe** explained that "primary" is industries that create products from all wood, while "secondary" uses products made from "primary". Most products are in maturity stage. Wood-based biofuels are in a pilot stage as they have not been commercially proven to-date. **Dr. LaCourt** informed the Authority that woody biomass for heat and cogeneration were not a part of this particular project. Most traditional forest products tie closely to housing; 78% of the market depends on residential housing.

U.S. hardwood lumber end uses are not directly dependent on housing construction. Furniture used to be second largest use for hardwood lumber; the result of the loss of domestic household furniture industry has caused that to change. Pallet and crating has also dropped off because, despite the economy increasing in manufacturing and shipping, recycling has increased. Also, overcapacity for the past twenty or more years has contributed to the decline. Softwood lumber has also been declining due to overcapacity, including the number of mills now operating.

**Mr. Radcliffe** stated there were no statistical data on hardwood and the hardwood lumber industry; thousands of small mills and lumber companies opened during the early 1990s and into 2000. Mills are beginning to drop; in Michigan a 27% increase per mill production has caused smaller mills to close. Even though the number of mills is decreasing, the production of mills is increasing.

- OSB capacity is moving elsewhere; over the past fifteen years, capacity has been increasing drastically except for the Lake States. The biggest increase has been in the South (U.S.). In the next few years three or four new plants will come on-line in the south, which puts pressure on older plants in the country.
- Import competition shows the greatest competition from Canada. Particularly, softwood lumber has been a contentious issue for the past twenty years, at the present time due to the weak U.S. dollar, and import competition.
- Wood household furniture has been the biggest competition; imports have increased by one-third in a three-to-four year period. About 80% of these imports are coming out of China. The predictions show imports are going to completely overtake household furniture in the next few years. In addition, exports of hardwood lumber to China are increasing.

- In price trends, in almost every industry prices are flat or falling, a by-product of the poor housing market. The exception is pulp and paper, which could be increasing over the next few years; global economics is still fairly strong and the industry is dominated by large corporations that have been consolidating.
- In lumber price trends, softwood lumber is declining, again related to housing. The long trend is relatively stable. Hardwood has not dropped off as much as softwood; the trend being so stable reflects a large component of lower grade volumes.
- OSB price trend and projection is way down, but is always volatile; a slight recovery is expected over the next few years, dependent on the improvement of the housing market and closing of capacity.
- Real prices of E85 Ethanol and gasoline; shows real prices of gasoline stable at worst with a possible slight decline because conservation efforts are going to slow. Michigan is ranked tenth in the country in this category.
- In the primary forest products industry, Michigan ranks in the middle; Georgia and Wisconsin are very large paper industries, with Wisconsin utilizing a significant amount of market pulp.
- Hardwood plywood/veneer plants; Michigan is average in range, with North Carolina still being a big state in this category.
- Michigan is a leader in wood office furniture manufacturing, with California being the leader. Michigan is behind in kitchen cabinet establishment.
- The long-term prediction is for strong U.S. and global economies; overcapacity could become a real threat in Michigan (pulp/paper and OSB).

Wood cost benchmarking included Michigan vs. several U.S. and international regions. The benchmark regions produce about 60% of the world's timber, with a big portion being Canada. Most regions are softwood oriented. Michigan is more dominated by hardwoods, based on annual harvest numbers.

- Sources of variability and uncertainty; stumpage is the most variable component. Most other regions don't have hardwood. In areas where small private landowners are dominant, stumpage prices tend to be higher.
- Harvest and transport costs are less variable. In Michigan the cut-to-length system is quite popular; this is high-cost but suited to forest conditions in Michigan.
- Softwood pulpwood shows Michigan costs are under the total average; softwood pulp in Michigan is in range, or lower than, other benchmarked regions. Hardwood pulpwood shows only two areas lower than Michigan.
- Softwood sawtimber shows Michigan is not nearly as big as some benchmarked regions, although Michigan is competitive with most other areas.
- Analysis shows Finland, Sweden, Russia, Ontario has the highest cost, while the U.S. south is the lowest cost region. Michigan's cost appears to be within a reasonable range of most other benchmarked states.

**Mr. Suchovsky** questioned the significance is softwood when most of it comes from around the world; **Mr. Radcliffe** responded he thinks there is some significance, but eventually we'll see certification and environmental conditions will play a bigger part. Due to certification, some pulp mills are paying a significant amount for FSC certified wood. Certification could create short-term opportunities for price premiums or opportunities to place product in the market, but eventually may become a cost of doing business.

**Dr. Vasievich** questioned cost structure; **Mr. Radcliffe** responded the cost structure in stumpage shows in the longer-term private ownerships will become increasingly fragmented. **Dr. Vasievich** asked if most timber makes it to market eventually in some form; **Mr. Radcliffe** responded that is not the case as some property owners are not interested in harvesting.

**Dr. Eisele** asked what trends **Mr. Radcliffe** would suggest looking at in this report, and where the Authority should go in the future; **Mr. Radcliffe** responded hardwood and quality should be looked at in Michigan. From a marketing standpoint, the focus needs to be on strength. Products will not be faded-out by electronics; reconstituted products have potential to replace solid wood products. Managing forests should be considered to do what is best strategically in relation to growing what grows best in which areas.

**Mr. Suchovsky** questioned management of junk wood; **Mr. Radcliffe** stated this is a key concern. We need to ask where pulp and OSB is going in Michigan. With gas prices as they are at the present time its hard to imagine the ability to harvest wood to transport to convert into . He has seen a couple of pulp mills close in Wisconsin in the last year.

**Dr. LaCourt** indicated that there was a small unused portion of the current contract with Prentiss and Carlisle, and asked if it was the pleasure of the Authority to expand the study to included woody biomass heat and electricity market. If the amount required to address this market exceeded the remainder on this component would have to bid out. Discussion ensued.

**Acting Chair Fielek** asked **Dr. LaCourt** if she wanted to put this up for action; discussion ensued. **Mr. Radcliffe** stated he felt it would be worthwhile for the Authority to think about what questions they want answers for, before committing to a new resolution. **Acting Chair Fielek** thanked **Mr. Radcliffe** for his presentation.

#### **CURRENT PROJECT UPDATES**

**Acting Chair Fielek** asked **Dr. LaCourt** for project updates.

#### **IFMAP STATE I AND STAGE II DATA SOFTWARE DEVELOPMENT**

**Dr. LaCourt** reported they resolved at the last meeting to move forward with DIT. They have determined that a software product on the current DNR handheld can probably be used as an interface for downloading data; further testing is under way that will verify this functionality and provide an estimated cost; if current program works, the DNR is now moving towards a lower-cost option.

#### **STATE FOREST INVENTORY AND SITE POTENTIAL DATABASE COMPLETION**

**Dr. LaCourt** reported the project is moving forward; there are four positions currently advertised. The plan is to have them on the job by April 1; two located in Gaylord and two in Lansing. **Director Humphries** questioned the ability to have them on the job by April 1; **Dr. LaCourt** corrected that to sometime in April.

#### **FOREST CULTURAL RESOURCE MANAGEMENT PILOT PROJECT**

**Dr. LaCourt** reported that the Department of History, Arts and Libraries have filled a project manager (starting March 24) and project technician (March 3) and plan to fill a seasonal worker position this spring.

#### **RED PINE PROJECT**

**Dr. LaCourt** reported the DNR moved the first sales through the public review process; 877 acres have been marked on the ground and will be advertised for sale starting in May. An additional 697 acres will be advertised for contract marking in mid-April. On March 13 an open house for 4,000 acres was conducted. By this month 6,000 acres will have moved through public review; with the remaining 2,500 acres going through scheduled compartment reviews at the end of the year. **Dr. LaCourt** stated the DNR will have the project completed over the next two years.

### **WOODY BIOMASS GUIDELINES**

**Dr. LaCourt** reported the DNR is doing the preliminary work literature search. A technical committee is being formed; **Ms. Boucher** will be the project leader, and the plan is to have a more aggressive timeline to complete the guidelines by October 2008.

### **APPROACH TO IMPLEMENTATION OF VEGETATIVE MANAGEMENT REGIMES**

**Dr. LaCourt** reported the committee had been asked at prior meetings to develop a proposal that would implement the opportunities defined in the Vasievich report related to vegetative management regimes.

**Dr. LaCourt** introduced **Mr. Neumann**.

**Mr. Neumann** stated there are two proposals (northern hardwood and oak), both focused on gathering data and developing information that we don't currently have. The purpose of obtaining this information is to speed up the prescription process.

One proposal was for northern hardwood. Using OI data and other current inventory data, it's designed to give extensive data on stand structure, quality, species distribution and other specific variables related to stand quality and value. In the past, the DNR collected data on these variables, but due to cost and time demands, they were forced to stop in the 1980s. This proposal is asking for funding to contract for system design and data collection. The proposal could use private contractors to inventory all stands, or a smaller subset of northern hardwood; there are three scales to choose from. Included is cost for consulting for design system so the data can be used for more than just expediting the prescription process. If it is a random sample system, the data could also be used more readily for research..

The end product of these proposals would be a written guidance document that would sort sample stands, and analyze the data and create guidance to speed up the projects. Discussion ensued.

**Mr. Suchovsky** questioned whether high quality wood for market is being considered. **Mr. Neumann** responded that one of the items the DNR hopes to identify is stands that have high quality sawtimber and high quality sites. The hope is to also distinguish productivity and quality differences. At this time, the DNR does not know geographically where these stands are; they are not spatially referenced at this time.

**Dr. LaCourt** commented collecting the data is important. The focus of the Authority on opportunities to put wood on the market, while having to balance with wildlife and other habitat situations, is important. She reported **Mr. Murray** and **Mr. Neumann** are both working with the silviculture regeneration team to try to achieve this.

**Mr. Murray** stated that these are the most complicated cover types to manage, and the DNR managers require real specific knowledge to do it correctly. This cannot be done without data to base decisions on. The data collected in this proposal would be a starting point to identify opportunities and problem areas, accelerated or intensified management, potential biomass markets, research questions, and is important to timber and wildlife values.

**Mr. Johnson** left the meeting at 4:15 p.m.

**Mr. Neumann** commented the DNR may be able to use data from both proposals to create time savings for field staff when inventorying. **Mr. Hagan** questioned if the data will fit into IFMAP Stage II; **Mr. Neumann** responded all data would be uploaded directly into IFMAP and be saved as plot data. A manager could look at the polygon, run the processor and get an instant report on characteristics of individual stands. **Mr. Hagan** then questioned if this project was specific to northern hardwood and oak; **Mr. Neumann** answered yes, that DNR staff would collect a full-sweep and get the most comprehensive data possible, more so than IFMAP Stage II. Parallel with this proposal, work is already happening in IFMAP Stage II, also.

**Dr. Eisele** asked if the Authority wanted to consider moving to the next step; he would recommend completion steps be added to the proposals. He commented an excellent job has been done to-date, and appreciated the DNR stepping up timelines on projects and coming in under budget.

**Mr. Hagan** suggested the DNR prioritize acres to be looked at, and treat those that have not been treated in quite awhile; these should be high priority. **Dr. Potter-Witter** suggested option 3. **Mr. Neumann** stated the DNR can add stands that have not been treated for the past ten years. **Mr. Smyth** suggested going with option 2 or 3, questioning besides net acres, what would the Authority lose from not going with option 1? **Mr. Neumann** stated one advantage of option 1 would be stands actually sampled won't have to be revisited right away in order to make a prescription within the next few years. With the other options, a staff person would still have to visit and inventory or sample each non-sampled stand at some limited level to verify if the stand matches one of the strata described by the focused inventory report before a prescription could be made-- unless the DNR limited expedited treatments only to the directly sampled stands. Inventorying (all northern hardwood and all medium-quality oak stands) would create a scenario where treatments could be prescribed sooner and to larger number of stands than a focused sampling of these cover types, or a focused inventory of a subset of each cover type.

**Mr. Suchovsky** commented there had been a lot of discussion for managing for timber quality, but felt there are advantages for wildlife to look at stands that have been looked at more recently. **Dr. Humphries** stated the DNR would like opportunities to look at everything, but realistically looking at stands further out would accomplish it, also.

**Mr. Neumann** stated one of the measures that would be taken would be to characterize coarse woody debris, and looking for tree species that have historically diminished in these cover types, to identify locations where we can augment those habitat features.

**Dr. Potter-Witter** questioned if it was possible to amend the proposals to indicate the scale would focus on stands not treated in the past ten years; **Ms. Boyd** responded an amendment to the proposal could be moved for motion at the current meeting.

**Dr. Eisele** commented he would prefer a new resolution and asked the DNR to develop a resolution recognizing the changes that were discussed at this meeting to present for action at the June 11 Authority meeting. **Mr. Hagan** stated he would be willing to work with the DNR to modify the resolution prior to the next meeting.

**Dr. LaCourt** suggested another option to consider would be to reconvene again before June to present for action. **Ms. Boyd** asked if there would be that much difference between one to three months time; what would be the reason for reconvening prior to the regularly scheduled meeting. Discussion ensued.

**Acting Chair Fielek** stated the resolution could be re-presented at the June Authority meeting, to reflect the modifications. **Director Humphries** agreed there was no need to reconvene prior to the June meeting

**Mr. Neumann** commented the second project would take one field season if done on the 2<sup>nd</sup> scale and if the study was focused on only half of the medium quality oak stands. The resolution would have to be modified to reflect different acreage numbers. **Dr. Eisele** suggested modifying this resolution to reflect the 2<sup>nd</sup> scale, and re-presenting for action at the June Authority meeting. **Ms. Boyd** stated a resolution could be prepared to the scale the Authority has requested.

**Dr. LaCourt** questioned whether the proposal should cover more years of entry; **Mr. Neumann** responded it should cover more years (currently 2012-2016). For the oak proposal, examining stands that have been recently treated may catch understory composition problems. **Dr. Potter-Witter** asked if

a query is available to get the same information regarding regeneration; **Mr. Neumann** responded not without researching all oak stands. **Dr. LaCourt** stated the department would commit to put a proposal together reflecting less than 114,000 acres, for the June Authority meeting.

**Mr. Murray discussed a draft proposal to deploy a permanent sample plot system and** so that a series or pattern of plots would be in place to measure periodically to research trends and measure growth typically over a ten-year period. This would give the DNR the ability to make reasonably good growth projections. The same thing could be done over an even larger scale, including more than just uneven age stands. In early 1970s Continuous Forest Inventory (CFI) was a feature of the DNR inventory, but the DNR discontinued this practice because of staffing and budget problems. The DNR would like to re-implement this method of continuous forest inventory. The system would integrate with current Operations Inventory (OI), IFMAP and the Forest Inventory Analysis (FIA) conducted by the USDA-FS to collect similar information on a national scale.

**Mr. Murray** reported at this time the DNR would like to put out an RFP for up to \$50,000, proposing to engage a contractor to design an efficient system to pick-up CFI –like data, across the State Forest System. The DNR could use this to help characterize cover types, changes that have taken place, growth, etc. Re-measurement of plots could possibly be completed within the regular inventory process which would give the DNR the ability to do growth and yield.

**Dr. LaCourt** stated this relates to the vegetative management program and includes all vegetative regimes. **Mr. Murray** commented if the three proposals were to be combined it would create synergy. Discussion ensued.

**MOTION:** **Dr. Eisele** moved to authorize the Phase I process, for “not to exceed \$50,000; supported by **Mr. Smyth**.

**VOTE:** **Ayes:** Humphries, LaCourt, Smyth, Hagan, Eisele, Gibbs, Koch, Suchovsky, and Potter-Witter  
**Nays:** None  
Motion passed unanimously.

#### **ADJOURNMENT**

**Next meeting: June 11, 2008**

**Agenda Items:**

**Acting Chair Fielek** called for adjournment.

**MOTION:** **Dr. Eisele** moved to adjourn; supported by **Mr. Smyth**  
Motion passed

Meeting adjourned at 4:58 p.m.