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GOVERNOR

STATE OF MICHIGAN

DEPARTMENT OF NATURAL RESOURCES

LANSING



REBECCA A. HUMPHRIES  
DIRECTOR

August 11, 2008

The Honorable Michelle McManus, Chair  
Senate Appropriations Subcommittee  
on Natural Resources  
S-2 Capitol Building  
P.O. Box 30036  
Lansing, Michigan 48909-7536

The Honorable Michael Lahti, Chair  
House Appropriations Subcommittee  
on Natural Resources  
S-1489 House Office Building  
P.O. Box 30014  
Lansing, Michigan 48909-7514

Dear Senator McManus and Representative Lahti:

Pursuant to Section 806, PA 122 of 2007, a report of the Department of Natural Resources' (DNR) timber treatments, during the third quarter of Fiscal Year 2007-08, is attached.

If you have any questions, please feel free to contact me.

Sincerely,

Sharon M. Schafer, Chief  
Budget and Support Services  
517-335-3276

Attachment

cc: Senate Appropriations Subcommittee Members  
House Appropriations Subcommittee Members  
Ms. Jessica Runnels, Senate Fiscal Agency  
Dr. Kirk Lindquist, House Fiscal Agency  
Mr. Robert Emerson, State Budget Director, Department of  
Management and Budget (DMB)  
Mr. Jacques McNeely, DMB  
Ms. Jennifer Harrison, DMB  
Director Rebecca Humphries, DNR  
Ms. Arminda Koch, Resource Management Deputy, DNR  
Mr. Rodney Stokes, Chief of Staff, DNR  
Mr. Daniel Eichinger, Legislative Liaison, DNR  
Ms. Lynne Boyd, DNR  
Ms. Jane Schultz, DNR  
Mr. Joseph Taylor, DNR

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**Department of Natural Resources  
Third Quarter Timber Report  
Fiscal Year 2007- 08**

**Background**

In December 2005, Michigan's state forest system was certified under both the Sustainable Forest Initiative (SFI) and the Forest Stewardship Council (FSC) third party forest certification protocols. Forest certification protocols require public participation in forest management planning and forest operations. Certification is essential in order for primary wood producers in Michigan to have continued access to national and international markets.

The Department of Natural Resources' (Department) investment in forest certification strengthens Michigan's forest products sector. The Department's compartment review process has been audited by both the SFI and the FSC and has been recognized as a key public participation mechanism that meets requirements for forest certification.

**Third Quarter Fiscal Year (FY) 2007-08 Timber Treatments**

State forest planning and activities, including timber treatments, are conducted within the framework of SFI and FSC forest certification principles and standards. Timber treatments in a given year are generally based on decisions made two years prior during the compartment review process.

In addition to the normal plan of work, harvest and regeneration treatments have been approved for the Red Pine Project in FY 2007-08. Funded by the Michigan Forest Finance Authority with a 21<sup>st</sup> Century Jobs Fund allocation, the Red Pine Project is designed to accelerate red pine management treatments and regeneration. Red Pine Project stands were identified and reviewed using a compartment review process in the second quarter of FY 2007-08.

In the third quarter, managers were able to redeploy resources and increase the annual work plan for timber sale preparation to 56,960 acres, which is an increase of just over 8,800 acres from the initial work plan established in the first quarter. In addition, the number of Red Pine Project acres to be prepared for sale in FY 2007-08 is expected to be close to 4,500 acres. Generally, there is an acreage reduction of eight to 12 percent in the process of converting inventory acres to actual on-the-ground sale acres due to minor acreage changes and site condition factors. The third quarter work plan and Red Pine Project acres are anticipated to generate just over 55,300 timber sale acres.

The current work plan is being executed through the use of Department staff and timber marking contracts with private consultants. Timber marking contracts were approved by the Administrative Board in March. Contracts have been awarded to private consultants for 10,209 acres, which includes 6,435 acres from the annual work plan and 3,774 acres from the Red Pine Project. No more marking contracts will be offered this fiscal year.

The Department has prepared 16,519 acres of timber for sale through the end of the third quarter, with an estimated volume of 271,427 cords. This is compared to 9,231 acres prepared for sale through the end of the previous quarter, with an estimated volume of 136,719 cords.

Market demand for timber stumpage has been stable in the third quarter. Of 172 sales, only nine were no-bid on the initial offering. Changes in the appraisal and no-bid sale processes contributed to this improvement, along with offering fewer sales (typical of the third quarter). The first three quarters of FY 2006-07 had 27% of its sales go no-bid compared to 9.5% for the same period in FY 2007-08. The table below summarizes the number and percentage of sale offerings with no bids for FY 2007-08.

| FY 2007-08              | Total Sales Offered in the Quarter <sup>1</sup> | Offerings With No Bids <sup>2</sup> | Percent (%) of Offerings That Were No-Bid |
|-------------------------|---|-------------------------------------|---|
| 1 <sup>st</sup> quarter | 252   | 38                                  | 15%                                       |
| 2 <sup>nd</sup> quarter | 177   | 10                                  | 6%  |
| 3 <sup>rd</sup> quarter | 172   | 9                                   | 5%  |
| <b>Total</b>            | <b>601</b>                                      | <b>57</b>                           | <b>9.5%</b>                               |

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<sup>1</sup> Includes sales that have been modified and re-offered.

<sup>2</sup> Includes sale offerings that went no-bid more than once.