



STATE OF MICHIGAN

DEPARTMENT OF NATURAL RESOURCES

LANSING

JENNIFER M. GRANHOLM
GOVERNOR

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March 13, 2007

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 344 of 2006, a combined report of the Department of Natural Resources' (DNR) timber treatments during the first quarter of Fiscal Year 2006-2007 and limiting factors during Fiscal Year 2005-2006 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
Mr. Dennis Fedewa, Chief Deputy, DNR
Ms. Arminda Koch, Resource Management Deputy, DNR
Mr. Dennis Fox, Chief of Staff, DNR
Mr. Rodney Stokes, Legislative Liaison, DNR
Mr. Dan Eichinger, DNR
Ms. Lynne Boyd, DNR
Ms. Jane Schultz, DNR

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**Department of Natural Resources
Timber Report
First Quarter Fiscal Year 2006-2007**

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.

First Quarter FY 06-07 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 based on decisions made two years prior during the compartment review process.

The Fiscal Year 2006-2007 plan of work identifies 58,709 acres for timber sale preparation that were approved through the compartment review process. Managers have developed work plans to put up for sale 50,181 acres. Timber sale preparation is done by Department staff and through timber marking contracts with private consultants.

Timber sale preparation-marking contracts were awarded for 6,375 acres at a cost of \$257,274.52 in the first quarter of Fiscal Year 2006-2007. Due to expected budget shortfalls, no additional dollars or acres will be prepared using outside contracts this fiscal year.¹

The Department submitted 440 acres of timber sales (with FY07 proposal dates) in the first quarter. Typically, fewer acres are prepared for sale² during the first quarter of the fiscal year than during subsequent quarters due to seasonal management activities, such as wildlife management during deer season. Forest certification activities, notably the mandatory annual surveillance audit, had an impact on timber sales preparation during this period.

Poor market demand for timber stumpage in the first quarter resulted in a significant number of no bid timber sales. Twenty-nine (29) of 105 sales offered were not sold. Forest management staff focused efforts on revising appraisal and no bid sale processes to be more responsive to market declines.

Mill closures, full timber yards, high transportation and operating costs and other factors have sharply reduced timber demand and prices.

¹ In Fiscal Year 2006 managers allocated \$600,000 to accomplish 16,600 acres

² With an assigned timber sale proposal date from October 1, 2006 to December 31, 2006.

**Department of Natural Resources
Annual Fiscal Year 2005-2006 Timber Report
Year-End Summary**

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.

FY 05-06 Timber Treatments

State forest 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 based on decisions made two years prior during the compartment review process.

The Fiscal Year 2005-2006 plan of work addressed prescriptions on 58,176 acres available for timber sale preparation. Timber managers developed work plans to put up for sale all prescribed acres. Timber sale preparation was accomplished using Department staff and timber marking contracts with private consultants.

The Department submitted 52,057 acres¹ for timber sales by the end of the fiscal year.² The 52,057 timber sale acres have an estimated 815,399 cords of timber identified for harvest. Timber sale prescribed acres that are not finished by the end of the fiscal year will be carried over for completion in FY 2006-2007.

In addition, standing inventory of timber sold from state forests and on open contracts remained stable, increasing slightly to 950,000 cords.

In contrast to robust open market timber sales in FY 04-05, market demand for timber stumpage declined significantly by the end of FY 05-06, with approximately 13% of state timber sales going 'no bid' at the initial offer. No bid means no one submitted a bid for the timber at the bidding deadline; therefore, it was not sold. More than half of the no bid

¹ Acres on timber sale proposals correlate to approximately 57,260 prescribed acres. Planning uses 'rough' acre estimates whereas timber sale contracts use more precise measures. The difference is comprised of minor acreage adjustments such as stand boundary changes, and other physical and biological conditions.

² Timber sales with assigned proposal dates from October 1, 2005 to September 30, 2006.

sales occurred in the last quarter of the fiscal year. No bid sales have and will continue to be re-offered with reduced prices if the no bid is believed to be related to market price changes. Markets for jack pine stumpage declined sharply in the last quarter and are expected to stay low. Inventory in most mills and yards has remained high with some mills cutting back on purchases. In addition there were some mill closures.

Each year timber harvest treatments are prescribed for both softwood (coniferous) and hardwood (deciduous) tree species. Although hardwood and softwood trees often grow together, forest stands are typically coded by the predominant tree species present. The table below reports by Year of Entry (YOE) hardwood³ forest stands prescribed for treatment.

Year of Entry (YOE)	Hardwood acres prescribed
2003	33,304
2004	40,129
2005	37,615
2006	34,178

FY 05-06 Limiting Factors

Conditions Limiting Timber Management

Although there may be a primary barrier to commercially harvesting a forest stand, there are typically multiple conditions to be resolved before a commercial harvest treatment may occur. Some factors are temporary, while others are more permanent. For example, age and size diversity refers to maintaining a balanced range of forest types in all stages of growth. This provides a sustainable even flow of forest benefits, particularly timber and wildlife habitat, and a diversity of forest covers over time. A forest stand that is not cut in one ten-year cycle may be cut in the next ten-year cycle to maintain forest diversity. These decisions are made through the established compartment review process based on silvicultural criteria. The conditions most often cited as limiting timber harvest are:

- Too wet
- Delayed treatment for age/size class diversity
- Potential or designated old growth
- Inadequate volume due to low stocking/diameter
- Retention of stand for regeneration purposes

Plans and Efforts to Address Site Conditions (Limiting Factors)

The Department has taken several steps to review and address factors limiting timber availability including:

³ Hardwood cover types include aspen, birch, mixed northern hardwoods, oak, and lowland hardwood.

- Hired two Site Condition foresters to focus on timber management activities. Foresters resolved site condition concerns and are preparing timber sales for 2,600 acres. They began work on an additional 1,700 acres.
- Conducted two training sessions in conjunction with forest industry to demonstrate equipment technology and challenges working in wet areas.
- Established a statewide Biodiversity Team to develop an old growth and biodiversity stewardship strategy.
- Established a Special Conservation Area public recommendation process to comply with forest certification requirements.
- Continued work on revising silvicultural guidelines and assessing cervid impacts on forest regeneration.
- Worked with the Forest Management Advisory Committee on key topics related to economic uses, social issues, and environmental protection of state forestlands.

The Department will continue to identify and mitigate site conditions that affect timber management in compliance with Sustainable Forestry on State Forestlands, Part 525, PA 451, 1994 as amended and SFI and FSC principles.