

MINUTES

MICHIGAN FOREST FINANCE AUTHORITY (MFFA or Authority)

Board of Director's Meeting

Wednesday, March 14, 2007

Stevens T. Mason Building

6th Floor, Conference Room 6-East

Lansing, Michigan

2:00 p.m.

AUTHORITY BOARD OF DIRECTOR'S PRESENT

Mr. Tom Saxton, Deputy Treasurer, Bureau of Bond Finance, Department of Treasury (Chair)
(Representing State Treasurer Robert Kleine)

Ms. Lynne Boyd, Forest, Mineral and Fire Management (FMFM)/DNR (Representing Vice-Chair
Director Humphries)

Mr. James Smiertka, Department of Labor & Economic Growth (DLEG)

Mr. Paul Eisele, Consultant

Mr. Shawn Hagan, The Forestland Group

Mr. Garret Johnson, The Nature Conservancy

Dr. Karen Potter-Witter, Michigan State University, Department of Forestry

Mr. Kelvin Smyth, New Page Corporation

Mr. Warren Suchovsky, Suchovsky Logging

MICHIGAN FOREST FINANCE AUTHORITY OTHERS PRESENT

Mr. George Berghorn, Michigan Forest Products Council

Mr. Terrence Grady, Office of the Attorney General

Ms. Lisa Hagan, Office of the Attorney General

Mr. Ron Murray, FMFM/DNR

Mr. Mike Vasievich, President, Tessa Systems

Ms. Kim Korbecki, FMFM/DNR

Dr. Donna LaCourt, Executive Director/State Forester

CALL TO ORDER

Chair Saxton called the Michigan Forest Finance Authority Board meeting to order at 2:05 p.m. and welcomed attending board members and public.

Chair Saxton announced **Ms. Lynne Boyd** would be representing Director Humphries as Vice-Chair at this meeting.

Ms. Boyd introduced **Dr. Donna LaCourt** as the new State Forester, as well as Executive Director of the Authority. **Ms. Boyd** also introduced **Ms. Kim Korbecki**, her acting Executive Assistant.

Dr. LaCourt thanked **Mr. Murray** for his assistance with the Authority, and said she looked forward to continuing to work with him.

Chair Saxton thanked **Mr. Murray** and welcomed **Dr. LaCourt** to the Authority.

APPROVAL OF AGENDA

Chair Saxton asked for approval of the meeting Agenda.

MOTION: **Mr. Eisele** moved approval of the Agenda, supported by **Mr. Smyth**.
Motion carried

APPROVAL OF MINUTES

MOTION: **Mr. Suchovsky** moved adoption of the December 12, 2006 minutes, as edited, supported by **Mr. Eisele**.
Motion carried.

PUBLIC COMMENTARY

None

MFFA SUBCOMMITTEES

Timber and Markets: None

Asset Protection and Research: None

PROJECT REPORTS

Economic Assessment of Vegetative Management Regimes

Mr. Mike Vasievich provided the Authority with an Economic Assessment of Vegetative Management Regimes report for review and update. **Mr. Vasievich** discussed the project summary, methods, timber prices, management costs, growth and yield projections, opportunity area, financial analyses, investment options, and gave an overview on various timber products and how each type relates to Michigan economics. He discussed the economic analysis program "Quicksilver" findings from the program since his presentation to the Authority on December 12, 2006, and gave an overview on prioritization and location of future investments.

The Authority had questions regarding the report. The following information was provided: internal rate returns are mathematically difficult to calculate; red pine is the most important commercial conifer in Michigan with Northern Lower Peninsula holding 65% of the market; jack pine for timber values will not create revenue; jack pine could become more profitable if used for other things such as alternative fuel; red pine can be used for alternative uses, also; red oaks and northern hardwoods provide great returns; and recommended the Authority look at marketing carbon credits.

Ms. Boyd suggested working with others for management of private land. **Dr. LaCourt** responded the Department has the opportunity to partner with others.

Chair Saxton thanked **Mr. Vasievich** for his report.

RED PINE PROJECT

Mr. David Neumann, Department of Natural Resources, gave a Power-Point presentation to the Authority. The following information was presented:

1. **Progress to date**; Previous analysis of:
 - Age class distribution; Forest Management Unit age class distribution; Concentration of Red Pine by Forest Management unitsGeneration of stand lists for:
 - YOEs 1999-2005; stands with limiting factors; stands by average size class/age classRecent analysis of:
 - Acres and volume by size/age classes; potential old growth (POG) acreage, rate of designation, distribution; limiting factor stand distribution, acreage, and type; stand regeneration rate and type; rate of conversion of red pine; began analysis of how much RP to maintain via site productivity

2. **RP Availability**
 - 5,000 to 40,000 acres potentially available; stands that average 14 inch DBH are a likely starting point for accelerated harvest; anticipated maximum annual harvest of 1,200 to 1,800 acres; only around 4,000 16 inch DBH stands, which isn't enough
3. **Potential Old Growth:** Designation of additional POG could reduce available acreage by 1% or more
4. **Limiting Factors (LF):** 10.6% of RP acreage in 1999-2005 YOEs is designated LF
 - About 20,000 acres; about 50% of stands meeting silviculture criteria in 1999-2005; stands 80 years old with LF are 7% of 1999-2005 RP acreage; Silviculture criteria = 80+ years and 180 BA; some of LF acreage may become available for harvest
5. **Site Productivity Analysis:**

Off-Site Stands:

 - Constitute 13% to 14% of total acreage (all YOEs); low quality sites are 12% to 13% of 1999-2005 acres; potential to convert to other cover types, i.e., jack pine, aspen, or barrens; potential to convert to mixed pine of pine and hardwood stands
6. **Stand Condition;** Managers will need to decide whether to regenerate stands as:
 - Plantations vs. natural stands; even-aged vs. uneven-aged stands; likely that plantations will produce higher quality products (more utility poles) than natural and uneven aged stands; uneven aged stands constitute about 7% of stands in 1999-2005
7. **Trends in Conversion**
 - No reduction evident in total state forest RP acres over time, 7% of all acres; amount of red pine maintained with an RP management objective via treatments is consistent; only 67% to 78% of regeneration harvests have an RP management objective, i.e., 20-30% conversion rate; managers are converting an equal amount of other cover types to RP
8. **How Much RP to Maintain;** To balance age classes and set an annual allowable harvest target:
 - Have to know how much red pine to maintain; how much to convert to other types; how much of other types to convert to red pine; a ratio of desired stand condition – natural vs. plantation; uneven-aged vs. even-aged
 - Acreage Targets Depend on Assumptions
 - Maintain “core” acreage (225,630 acres)
9. **Future Analysis**
 - Determine annual percent of LF acreage to refine estimates of additional restrictions; Kotar class analysis; evaluate alternative time periods for achieving balanced age distribution and allowable cut levels; evaluate product flow under these scenarios

Conversation ensued. **Ms. Boyd** commented the Department has hired two site condition foresters and they are making progress on acres where site conditions are “less than permanent”.

Mr. Suchovsky asked if the presentation should go before the Forest Management Advisory Committee (FMAC). **Ms. Boyd** and **Dr. LaCourt** both responded that it should be presented to FMAC.

ARCHEOLOGICAL INVENTORY OF STATE FOREST LANDS

Mr. Murray presented the status of the Archeological Inventory of State Forest Lands (Woody Biomass) to the Authority. The funding request was based on one year from the date approved and may need a time extension. **Chair Saxton** asked the Authority if there were any concerns.

Ms. Boyd commented the dollar amount was approved. **Mr. Suchovsky** commented that nine months may not be a realistic time-frame, and the wording may be problematic.

MOTION: **Mr. Eisele** moved approval of an extension of the funding for the Archeological Inventory of State Forest Lands, supported by **Ms. Potter-Witter**.
Motion carried.

SPATIAL INVENTORY AND FOREST HABITAT TYPE

Mr. Murray stated scoping and formatting of the datasets has been completed and the project is ready to move forward. The next step necessary is to hire staff for the project. Funding must be in place before hiring can be conducted.

BIOMASS ASSESSMENT FROM FOREST INVENTORY ANALYSIS (FIA) DATA

Mr. Murray explained to the Authority that data is collected throughout the United States, with Michigan using a triple intensity approach. This is a good starting point for woody biomass (cross-ownership, and other market analyses), but current analyses done by the Department are too comprehensive.. The next step is to further refine the data set to make it a more useful tool to support market analyses and business decisions.

Dr. Potter-Witter said she would like to see the Authority write a news release because there are so many interested parties in the area, and FIA data is definitive data with respect to inventory. She stated she would like to see Forest, Mineral and Fire Management get the development done prior to the next meeting. **Dr. LaCourt** stated there currently is a lot of interest in wood as a potential fiber source for new bioenergy plants and companies have expressed interest having the FIA data in a user-friendly format.

Chair Saxton expressed the need to act sooner than the next scheduled meeting.

Mr. Smyth commented a press release makes sense and asked that the database be developed as quickly as possible. **Chair Saxton** could then make a determination if the Authority should meet sooner than the next regularly scheduled meeting. **Ms. Boyd** stated the Authority needed to go through the resolution process first, and then schedule a meeting to vote on the resolution.

Mr. Eisele stated the subcommittee voted in favor of **Dr. Potter-Witter** representing the subcommittee's interests with various groups, and asked if the Authority should take further action. The Authority designated **Dr. Potter-Witter** as the contact with Renewable Energy Commission and other biofuels groups.

Dr. LaCourt proposed a meeting of the Authority in approximately 6 weeks to vote. She suggested rather than a press release, to try to get the word out that FIA data is available, then consider a press release once it is decided which steps the Authority is going to take.

Mr. Vasievich commented the database is available through the State of Minnesota website.

A decision was made to meet in approximately six weeks to revisit this issue.

INFORMATION:

Forest Development Fund Status Report

Ms. Boyd reported for FY06, \$5.9 million was cut from the forest development fund, or approximately 26%. She stated the Department used staff to prioritize market opportunities and eliminated contracting for 2007 and 2008, rather than reducing staff.

Discussion ensued regarding the forest development fund. **Mr. Eisele** questioned if this meant the forest development fund was 5.9 million in debt. **Ms. Boyd** answered this meant the Division would take a 5.9 million cut this year, if all revenues come in; the fund balance cannot be in the negative. She also stated additional cuts will be needed next year.

Ms. Boyd reported the Red Pine Project authorized hiring two new staff members. The Department is proposing taking two experienced staff (foresters) from working on site conditions to work on the Red Pine Project, rather than hiring new staff.

Mr. Eisele asked if putting two existing staff members from the Department on the project would require them to complete their other duties, also. **Ms. Boyd** responded they would do primarily Red Pine Project work, although there would be some additional duties. They would track the hours spent on the project and be removed from the majority of their regular duties.

Mr. Hagan asked if private consultants could be used. **Ms. Boyd** replied it is doubtful the Department could get the required approvals through the unions, and contracting is not recommended by the State. Consultants can only be hired for work that cannot be done by Department staff.

Market Analysis Resources

Dr. LaCourt reported Resource Information Systems, Incorporated (RISI), was inquiring as to the Authority's interest in working with them for development of a presentation, and suggested this could be an action item for the next Authority meeting. She stated the objective is to put together a more Michigan-specific analysis. A thirty-minute presentation will run from \$1,000 to \$2,000. **Mr. Hagan** asked if there have been any other offers. **Dr. LaCourt** responded there has been no other interest shown in doing this sort of presentation.

Mr. Eisele asked if the presentation would be integrated, and cover secondary market for higher value wood rather than just the pulp and paper industry. **Dr. LaCourt** replied the presentation would not be specific to the paper industry. She stated it is difficult to find one agency where there is a broad view of all markets. Further discussion can be conducted with RISI to be sure the Authority's concerns are addressed. **Chair Saxton** indicated he would like to see a written proposal and asked the Authority to send questions to **Dr. LaCourt**, should they have any.

RESOLUTIONS

Memorandum of Understanding (MOU) between MFFA and Michigan Strategic Fund (MSF) Update

The Attorney General's office is working with staff at the MSF to develop a user friendly MOU. The following information was provided relating to the MOU: the term expires in 2010; MFFA is required to provide updates; monies are subject to audit; Exhibit A (hand-out) detailing breakdown of how funds will be dispersed. It was noted that Exhibit A of the MOU has not received approval by the MSF.

Chair Saxton stated according to the Bylaws, nothing prohibits taking action today on this Resolution giving the Authority the ability to enter into the MOU.

MOTION: **Mr. Eisele** moved to adopt Resolution Memorandum of Understanding between MFFA and Michigan Strategic Fund (to be official once approved by MSF).
 Mr. Smyth supported.
 Motion carried.

MOU between MFFA and the State Agencies

Ms. Boyd reported she and **Ms. Hagan** had met to discuss the interagency MOU. **Ms. Boyd** stated she had given a draft of this MOU to **Dr. Potter-Witter** and **Mr. Suchvosky** to review. The first draft version included all Departments; this version has removed the Office of the Attorney General and Department of Labor and Economic Growth. Separate MOUs will be provided to these Departments. This MOU is between the DNR and the Department of Treasury, and it will be presented to the Authority again, once the workgroup members support the changes.

ADJOURNMENT

MOTION: **Mr. Eisele** moved to adjourn, supported by **Mr. Suchovsky**.
 Motion carried.

Meeting adjourned at 4:30 p.m.