

**MINUTES**  
**MICHIGAN FOREST FINANCE AUTHORITY (MFFA or AUTHORITY)**  
**Board of Director's Meeting**  
**Wednesday, December 12, 2007**  
**Stevens T. Mason Building**  
**6<sup>th</sup> Floor Conference Room 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)  
Ms. Mindy Koch, Resource Management Deputy, Michigan Department of Natural Resource (DNR) (representing Vice-Chair Rebecca Humphries)  
Mr. Warren Suchovsky, Suchovsky Logging  
Mr. Shawn Hagan, the Forestland Group  
Dr. Paul Eisele, Masco Corporation  
Mr. Kelvin Smyth, New Page Corporation  
Mr. Garrett Johnson, the Nature Conservancy

**MICHIGAN FOREST FINANCE AUTHORITY OTHERS PRESENT**

Mr. Ronald Murray, DNR  
Dr. Donna LaCourt, State Forester, DNR  
Mr. Terrence P. Grady, Office of the Attorney General  
Ms. Lisa Hagan, Office of the Attorney General  
Ms. Lynne Boyd, Chief, Forest, Mineral and Fire Management, DNR  
Mr. George Berghorn, Michigan Forest Products Council  
Ms. Chris Larson, Department of Information Technology, DNR  
Mr. David Neumann, DNR  
Ms. Cara Boucher, DNR  
Mr. Pete Madden, Plum Creek  
Mr. Mark Waterman, Plum Creek

**CALL TO ORDER**

**Acting Chair Fielek** called the Michigan Forest Finance Authority Board of Directors meeting to order at 2:06 p.m. **Acting Chair Fielek** introduced himself and welcomed everyone to the meeting. He asked all attendees to introduce themselves. **Acting Chair Fielek** stated there was a quorum present.

**APPROVAL OF AGENDA**

**Acting Chair Fielek** reviewed the agenda and asked the Board for comments; there were none.

**MOTION:**     **Mr. Suchovsky** moved to adopt the agenda; supported by **Mr. Hagan**.  
Motion carried.

**ADOPTION OF MINUTES/SEPTEMBER 11, 2007**

**Acting Chair Fielek** asked the Board for comments; there were none.

**MOTION;**     **Mr. Smyth** moved for adoption of the September 11, 2007 meeting minutes; supported by **Mr. Suchovsky**.  
Motion carried.

**PUBLIC COMMENTARY**

**Acting Chair Fielek** asked for public comment; there was none.

## **INFORMATION**

### **Harvest Scheduling Presentation, Mark Waterman**

**Mr. Waterman** stated his presentation was to provide an opportunity to talk about ways to approach harvest planning. He told the Board he welcomed comments or questions during the presentation. He reported Plum Creek has adopted quantitative harvest modeling that includes a data intensive/computative intensive process for enhancing decision making processes only.

**Mr. Waterman** reported there are many different methods used; acre age class regulation has been a method used for many years. Their process is based on harvesting and annual growth; annual allowable harvest rate. Focus is being put on growth and yield models.

**Mr. Waterman** gave a Power Point presentation to review their harvest modeling software. Some highlights:

- If ready to begin process, 3 – 4 months; if beginning with idea, 2 + years; now with this software can have a turn-around time of approximately 8 weeks.
- Financial assumptions: discount rate; stumpage prices; silviculture expenses; and inflation. Other considerations may include recreation lease income; administrative expenses; and property taxes.
- Inventory data must be compatible with growth model input.
- Merchantable inventory; product; species group; and DBH/size class data are utilized as well as growing stock estimates.
- Harvest history; silvicultural treatment history; stand establishment; and PCT chemical release and soil/site quality information are utilized.
- Growth and yield models – selected for each forest type: USFS/FVS; university/industry cooperative models; and proprietary versions of all.
- Must develop a number of alternative harvesting options
- Twenty regimes per stand. Regimes include: harvest time; volume harvested; expected net revenue; and discounted cash flow value. Regimes must be generated for replacement stands. Model length is typically one and one half rotations.
- Solution: put all planning units in model and let model sort and pick highest NPV.
- Reasons for constraints: meet periodic revenue or volume targets; manage acres by harvest type; and maintain minimum or maximum acreage by forest type. Can constrain model to modify curve by periods.
- Model helps to choose which stands to clear-cut; and there are unlimited number of ways to get data.

Discussion ensued. **Mr. Suchovsky** asked if the model can include community viability/sustainability; **Mr. Waterman** responded you can tailor the model to reflect specific management needs. **Dr. Eisele** questioned if real estate (investment) is included in the model; **Mr. Waterman** responded Plum creek uses a 15-year model. A 3-year planning window enables the model to respond to short-term market issues. **Dr. LaCourt** reported DNR staff viewed the presentation earlier and it provided an opportunity to see harvesting from a different perspective. She commented that DNR staff concluded this is a tool that can offer many opportunities to work with eco-regional planning, calculation of “opportunity costs” of constraints and would like to explore ways to incorporate components into public forest management. **Mr. Madden** commented the model is also SFI compliant; when forest certification audits take place this model can be used.

**Acting Chair Fielek** thanked **Mr. Waterman** and **Mr. Madden** for their presentation.

### **RED PINE PROJECT UPDATE**

**Acting Chair Fielek** announced the update on the Red Pine Project.

**Mr. Neumann** reported DNR staff has done a good job responding to the goals and implementation guidelines. In late September field staff had already identified over 3,000 acres for public review by March 2008. The remaining 5,000 acres for phase II will go through the normal 2008 compartment review process. Field staff reviewing stands for phase I reached an agreement on 3,100 acres in addition to four units reaching a tentative agreement on the phase II quota also, bringing an additional 2,000 acres that can potentially go through the March 2008 public review. **Mr. Neumann** stated the total acreage is slightly higher than the total commitment required, but the DNR assumes there will be some loss as the actual acres are prepared for harvest. Phase I is 100% identified at this point. Phase II acreage is coming up in January; three units had regular compartment reviews scheduled later than other units. The January reviews will meet the required public comment periods to include the identified red pine acres; the other three units must go through a special review in March 2008. The current implementation schedule is to mark the stands in early March 2008 on some, with the bulk being marked in May 2008. The first sales go up for proposal from July to September 2008. **Mr. Neumann** stated it is likely these proposals will be sold thirty days after posting.

**Dr. LaCourt** commented the Red Pine Project was a collaborative effort with other DNR divisions. There was an oversight team across divisions with clear timelines and a process for answering questions from the field. **Dr. Eisele** asked when the Authority might see the sales/harvest results; **Dr. LaCourt** responded the bulk would be from September to November 2008; contracts typically take one to two years to complete. **Ms. Koch** stated the DNR is currently seeing sales on red pine right now; **Ms. Boucher** added sales on red pine are fairly strong across the state with Cadillac and Traverse City sales being a little weaker. **Dr. LaCourt** thanked **Mr. Neumann** for his leadership and help in keeping the team focused on implementing the project effectively.

### **FOREST CULTURAL RESOURCE MANAGEMENT PROJECT UPDATE**

**Acting Chair Fielek** asked the Board to move on to the next agenda item.

**Dr. LaCourt** stated that they have completed a MOU between the DNR and the History and Libraries Department (HAL) outlining expectations on reporting, billing and project timeline. HAL has submitted the request to hire limited-term workers. The project is to begin January 1, 2008 to complete background and field work in a 9-month timeline.

### **FOREST MARKET ASSESSMENT/BENCHMARKING PROJECT**

**Dr. LaCourt** reported a contractor has been secured; and the contractor has submitted a preliminary outline for the final report. It appears to have all components requested by the Authority. **Dr. LaCourt** will share the details with the Timber Market Subcommittee. Currently the project is on track for delivery of a final report at the end of January 2008, and the contractor will make a presentation to the Authority at the March 12, 2008 Authority meeting.

### **INVENTORY AND SITE POTENTIAL DATABASE PROJECT UPDATE**

**Dr. LaCourt** reported the project was delayed due to the State of Michigan budget situation. A request to hire the necessary limited-term workers is being submitted, with a plan to have the workers in place in March 2008.

### **IMPLEMENTATION OF VEGETATIVE MANAGEMENT REGIMES PROPOSAL**

**Dr. LaCourt** stated the Timber Market Subcommittee requested that several proposals be developed for the Authority, including a proposal for the implementation of vegetative management regimes. She described that there are still several items to work out in order to adequately address incremental harvesting in context with the other values of the forest, much like the red pine guidelines. She was not prepared to present the proposal to the Authority at this meeting but anticipates having the proposal ready for the March 2008 Authority meeting. The proposal will address the potential for incremental harvesting in context with other values of the forest.

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

**Ms. Boucher** reported IFMAP includes a GIS special component, basically in six pieces: data; hardware and equipment; software; quality of data; inventory method; and protocol. She stated the DNR is using the modeling tools the United States Forest Service (USFS) uses. The DNR's operations inventory is based on the forest system.

**Dr. LaCourt** commented the difference from the USFS and Plum Creek is that Plum Creek has a more robust financial component. **Ms. Boucher** stated the tool Plum Creek uses does not address the policies the DNR has to deal with. **Mr. Murray** reported in order to run the DNR system well it must collect data. At this time staff goes out and collects data on field sheets, then enters it into a computer. It would be an improvement and reduce errors for staff to be able to work on hand-held portables to enter data as the work is completed. The proposal being presented to the Authority requests building protocols to meet these problems. **Ms. Chris Larsen**, Department of Information and Technology, was consulted as to how to get the devices to convert to a hand-held system. **Ms. Larsen** stated a software interface for stage I and stage II data needs to be developed. Protocol would be written to upload the data to IFMAP. **Dr. LaCourt** stated the work products are detailed in the proposal. The process would be: research and evaluation to see what is available; develop stage I data entry software and quality control testing in field. Timeframe would be a little less than two years.

The State of Michigan mobile Windows 5.0 platform is compatible with Windows on the DNR PCs. **Dr. LaCourt** stated they would like to present this as a proposal to the Authority for funding. **Mr. Smyth** asked if the DNR was bringing this proposal to the Authority because the normal DNR budget cannot fund it; **Dr. LaCourt** answered the DNR does not have funding available and would like to request funding out of the 21<sup>st</sup> Century Job Fund. **Ms. Hagan** stated the Authority could adopt this resolution today if they would like; a resolution was already prepared for the Authority to review.

**Mr. Hagan** asked if the DNR would consider paring the resolution down to focus on stage I only, and bring a new proposal back to the Authority after stage I is completed. **Mr. Murray** replied that was a possibility, but staff had considered if the two stages are separated they might have to spend more money getting staff back up-to-speed, and also would have to consider the possibility of staff changes.

**Ms. Hagan** passed the resolution around for the Authority to consider, and stated if changes needed to be made, or the Executive Director doesn't approve, the resolution would go back to Ms. Hagan for changes. **Acting Chair Fielek** suggested removing the brackets surrounding number 3. He asked the Authority if there were other questions; discussion ensued. **Acting Chair Fielek** asked the Authority if they wished to take action on this resolution.

**MOTION:** **Dr. Eisele** moved to adopt the Resolution of the Michigan Forest Finance Authority Regarding Request for Funding of a Proposal for IFMAP Stage I and Stage II Data Software Development; seconded by **Mr. Suchovsky**.

**Acting Chair Fielek** asked for discussion. **Mr. Hagan** suggested revising to include buying hardware. **Dr. LaCourt** replied after completing stage I, if required the resolution could be amended to include purchases. **Ms. Koch** stated the resolution is locked in too tight if hardware purchase isn't included. She suggested adding hardware purchase as a possibility in both stage I and II. **Mr. Grady** stated the resolution can be changed to say "and related hardware".

**MOTION:** **Mr. Smyth** moved to adopt an amendment of the resolution to add "and related hardware", and remove brackets from item number 3; seconded by **Dr. Eisele**. Motion passed.

**Acting Chair Fielek** called for a vote on Resolution 2007-05, as amended.

**VOTE:** Ayes: Fielek, Koch, Suchovsky, Hagan, Smyth, Eisele, Johnson  
Nays: None  
Resolution 2007-05 passed.

#### **BONDING**

**Acting Chair Fielek** stated a little over a year ago he gave a presentation to the Authority on bonding. He asked the Authority if they would like a follow-up report or have issues they would like to discuss, and provided the Authority with an informational handout.

**Acting Chair Fielek** reported in order to bond you must have revenue sources, something to base bonding on for security purposes; must have revenue during difficult times. He asked if the Authority had looked at a feasibility study for revenue sources; **Mr. Murray** responded the Authority had looked at the possibility before with the pool of timber sales as revenue source. The Authority also went through bonding agencies and they viewed the prospect as okay.

**Acting Chair Fielek** stated if the Authority wishes to pursue this avenue again they would have to begin at the beginning and must provide evidence to show they can provide adequate cash flow. **Mr. Suchovsky** questioned if items other than forestry can be used, such as minerals; **Mr. Grady** responded it would be limited to timber. **Dr. Eisele** commented in the past the Authority looked at bonding because it had tools available to earn revenue; now the market is different and the cash stream is not as reliable. Discussion ensued.

**Dr. Eisele** questioned the purpose of the Authority; **Ms. Koch** responded the purpose of the Authority is to look at bonding and determine if it should be used as a tool. **Mr. Murray** stated even if the Authority was in a good position it would be looking at thirty to fifty years to repay the bond. **Mr. Johnson** commented when reading the Act it has rather limited language, at times contradicting itself. Disbursing the 21<sup>st</sup> Century Job Fund and the Red Pine Project are the only accomplishments that have been made to help enhance the forest. **Dr. LaCourt** responded the acres defined for the Red Pine Project are incremental and outside normal DNR scheduling; the monies the Authority are using to fund this project will go specifically to those acres. **Ms. Boyd** added the Red Pine Project this year is providing 3,000 acres going up for proposal that normally wouldn't have been presented. The Red Pine Project is more beneficial for the economy than the DNR. **Mr. Smyth** commented some on the Authority hope that as investments are made, the earnings will end up back in with the Authority for future investments. **Ms. Boyd** responded the DNR will have accounting for all funds spent on the Red Pine Project.

**Mr. Suchovsky** commented that the report present by **Dr. Mike Vasievich**, Terra Systems, seemed to indicate the DNR is often too late getting the stands out to get value from them; he felt the DNR should accelerate this process to get into the stands earlier to get the value sooner. **Mr. Johnson** stated financing of these things are commingled with the FDF; perhaps bonding could be suggested. He commented the Act needs to be revised; it needs statutory tools that will be more rigorously defined.

**Ms. Koch** left the meeting at 3:53 p.m.

**Ms. Boyd** stated the monies provided by the Authority from the 21<sup>st</sup> Century Jobs Funds have given it a good foundation and that long-term returns need to be looked at. Investments have already been made in the forest system, but the Authority is current putting tools in place to provide future return. **Mr. Johnson** commented he would prefer the Authority improve the state forest, management and stewardship. He feels the Authority has fallen into a very restrictive definition of what it can do.

**Acting Chair Fielek** asked the Authority if it had any other comments. **Mr. Johnson** asked if there was any merit to revisiting the statute; **Dr. Eisele** responded there had been some discussion about revisiting the statute but thinks it should be done at a future meeting. **Mr. Johnson** stated he would like to take steps to make the Authority investment grade.

**Acting Chair Fielek** asked the Authority to move on to the next agenda item.

## **RESOLUTIONS**

### **Forestland Woody Biomass Harvesting Guidelines**

**Dr. LaCourt** stated at the last meeting there was a substantial discussion reviewing the guidelines from Minnesota and the possibility of using their guidelines as a base for Michigan's guidelines. She commented this is a necessary project at this time; the state is an emerging biomass economy and there is a possibility of utilizing biomass at different levels than is currently happening in our forests. **Dr. LaCourt** reported the DNR received a recommendation at its last certification audit the DNR move forward with guidelines. She commented the DNR would have a targeted team to work on literature review to convert the Minnesota guidelines to Michigan guidelines. The draft would require stakeholder review. The resolution is written with a budget not to exceed \$50,000. The DNR is requesting \$35,000 for salaries and benefits, \$5,000 for the stakeholder review meetings and \$10,000 for production and distribution of materials. **Dr. LaCourt** stated staff has already been identified to work on this assignment, work to take place from January to June 2008. The draft would then be reviewed by the Forest Management Advisory Committee as well as other DNR divisions. She reported the plan is to present the guidelines to the DNR in 2009 and to the public during July and August 2009. **Dr. LaCourt** stated she would like to offer the Resolution to the Authority for consideration.

**MOTION:** **Dr. Eisele** moved for adoption of the Resolution of the Michigan Forest Finance Authority Regarding Request for Funding of a Proposal for Development of Forestland Woody Biomass Harvesting Guidelines; seconded by **Mr. Johnson**.

**Acting Chair Fielek** asked for further discussion. **Mr. Suchovsky** asked if the \$35,000 includes extra personnel and how the funds will be accounted for; **Dr. LaCourt** responded the DNR is dedicating staff to this particular project. **Mr. Smyth** asked if the Authority doesn't adopt this resolution what the staff dedicated to this project would be doing; **Ms. Boyd** responded staff would come off their normal duties for this project. The DNR had checked into contracting but

taking time to get people up-to-speed would be a problem and the DNR felt using its staff would be the most efficient use of staff time. Discussion ensued regarding timelines.

**Acting Chair Fielek** asked for motion in support.

**VOTE:** Ayes Fielek, Koch, Suchovsky, Hagan, Smyth, Eisele, Johnson  
Nays: None  
Resolution 2007-06 passed.

### **ADJOURNMENT**

**Next meeting: March 12, 2008**

#### **Agenda Items:**

Proposal for Implementation of Vegetative Management  
Update on Previous Reports

**Ms. Koch** returned to the meeting at 4:16 p.m.

**Acting Chair Fielek** called for adjournment.

**MOTION:** **Dr. Eisele** moved to adjourn; supported by **Mr. Johnson**  
Motion Carried

Meeting adjourned at 4:17 p.m.