

FOREST MANAGEMENT COMMITTEE MEETING MINUTES

Wednesday September 27, 2023

1. Call to Order
2. Public Comments: **NONE**
3. Approval of August 31 Meeting Synopsis: **APPROVED**
4. Briefing by Finance Committee on Operations – Financial Planning. **FOLLOWS**
5. Update on RFP Process
 - a. A bid for Project Management and a bid for Road Contract Management was received from Mason Bruce and Gerard. Each of those bids had a section omitted which has now been received.

These bids are under evaluation subject to the RFP requirements and the below items.
 - b. We are now exploring getting a single bid from a road contractor for the entire \$500,000 of road work, rather than multiple bids for different parts of the work (which was the original thought). Business Oregon has approved us contracting for a not to exceed amount with time and materials billing. We have reached out for legal assistance with public procurement and contracting for \$500,000 of public improvement (roads).

This is now the critical path activity and we are waiting to hear from legal counsel – if he has time to do it, what will be the steps and how long it will take.
 - c. We are also considering if/how the requirements of a Roads Contract Manager may change with the bidding for and use of a single contractor rather than multiple contractors.

Final decision in this regard depends upon what we hear from legal counsel.
6. Set next meeting date: **TO BE SCHEDULED**
7. Public Comments: **NONE**
8. Adjourn

Arch Cape Forest-Watershed



Near and Long Range Planning: Operational Needs and Financing Options

Briefing to Arch Cape Forest Management Committee
by Watershed Finance Committee
September 27, 2023

09-27 Discussion notes / changes are
highlighted in green

Objectives of this Presentation

- **Purpose:** The Arch Cape Water District and its rate payers are financially responsible for the ongoing operations costs of the Watershed into perpetuity. This briefing, which is an assessment of what we currently know about costs and payment options, is the first step in engaging the community in defining the approach forward for paying these costs. Each payment option has a decision point. The first decision point is January – February 2025.
- **Context:** Our assessment of operational needs is rooted in the assumption that the purchase of the watershed was for protection of source water, with visual aesthetics being a secondary objective to a large segment of the Arch Cape Community.
- **Inform/Educate:** Provide the Board and the Community of Arch Cape rate payers and lot owners with the following information:
 - Best-estimate projections of what activities / services will be required to manage the forest and what it will cost
 - 3 possible options for paying the operations costs
- **Begin a Discussion:** Start a Community conversation to enrich everyone’s understanding of the issues and implications so that, over the next year, we can get informed community input on which financial strategy to pursue to pay for the Forest-Watershed:

Topics to be Covered

- **One-Time Projects:** A synopsis of the one-time projects to improve the Watershed that are being paid primarily by the ARPA grant.
- **Ongoing – Operations:** Plan for operating and paying for the Watershed
 - Identify the key assumptions that we used to develop the plan
 - List the ongoing costs to operate the Watershed
 - Outline 3 options for paying for the Watershed
 - Discuss the impact of alternative revenue sources

One-Time Projects

- These are the planning, management and implementation of Business Oregon approved infrastructure improvements, primarily roads.
- To be paid by already awarded grant funding, primarily ARPA (COVID)
- Work must be contracted by 12-31-2024, substantially completed by 09-01-26 and last invoice payable until 12-31-2026

One – Time Projects: Costs & Funding

FUNDING			REMAINING
ARPA - Unspent / Uncontracted			\$ 876,490
Drinking Water Fund			\$ 30,000
Hollis			\$ 15,000
TOTAL			\$ 921,490
COST ESTIMATES	SPENT	CONTRACT REMAINING	PROJECTED
Project Mgmt	\$ (47,429)	\$ -	\$ (143,253) *
Roads Contract Management			\$ (75,000) *
Finance Mgmt	\$ (6,000)		\$ (21,000)
Construction - Brushing / Main	\$ (22,663)	\$ (61,316)	\$ (26,535) For 2024 & 2025
Construction - 5 projects			\$ (265,577) *
Decommissioning - Red Roads			\$ (184,117) *
Decommissioning - Yellow Roads			\$ (112,766) *
Rock in DWSA			\$ (30,000)
Legal Fees			\$ (7,500)
Forestry Consultant	\$ (55,019)	\$ (42,981)	\$ (10,000)
Land Acquisition	\$ (940,000)		\$ -
Land Maint + Repair (PCT)	\$ (46,549)	\$ (38,679)	\$ -
Conservation Planning	\$ (5,850)		\$ -
TOTAL	\$ (1,123,510)	\$ (142,976)	\$ (875,748)
			\$ -
NET			\$ 45,742

\$75,000 into endowment fund

Review of contracts and easements prior to any road decommissioning taking place.

- Some padding to cover actual costs if greater than expected
- Any excess cannot be applied to operating costs. If we don't use this money, we lose it.

* Pending review of one project with Cannon Beach Fire (substantial change possible) & actual bids from contractors



Assumptions about Ongoing Operations

- Forest Management Services & Activities
- Administrative Services & Activities
- Revenue Options

Ongoing Operations – Forest Management

May not be appropriate. Will be decided later

Cost	Harvest Event Yrs	No Harvest Yrs.	Comment
Property Manager	Harvest – 3 year window (pre, harvest, post) 16 hrs/month @ \$58 / hr	8 hrs / month @ \$58.00 / hr	Assumes District St
Consulting Forester	Harvest – 3 year window (pre, harvest, post) 12 hrs / month @ \$125/hr	3 hrs / month @ \$125/ hr	
Replanting Survey	If single harvest, survey 5 years later by Forester: Change 4 to 8 hrs @ \$125/hr	N.A.	If single harvest, cost included within Forester cost above
Precommercial Thinning	If any harvest anticipated, 112 acres in 2030 – to improve volume growth and windfirmness (resistance to blowing over If ongoing harvest, then 12 years after each harvest. All @ \$240/acre	If no harvest anticipated, 53 acres in 2030 @ \$240/acre - more diverse stands will stratify on their own and would not need PCT (volume growth doesn't matter as much).	There are some acres that are questionable for whether they need PCT- they have high species diversity and will "stratify" on their own eventually.
Inventory / Stands Exam	1 day year/ by included in Consulting Forester cost above.	1 day year/ by included in Consulting Forester cost above.	Walk through stand exam of 50% of the property each year.
FSC Certification	5 years before and 2 yr after. \$2300 yr . (no final decision if will de done)	N.A.	Not required if harvest outside source water protect area
Targeted Invasive Plant Mitigation	\$100 / exposed acre (20% of harvest area)	Tree growth shade will mitigate	no herbicide – manual treatment for slashing.
Brushing and Road Maintenance	\$13,000 yr – (Average cost every 5 years) If heavy scenario (year 10), decommissioning of roads will be done after the harvest with operating funds. (\$184,000)	\$13,000/yr. – (Average cost every 5 years) Decommissioning of roads will be done with ARPA funds	Roads brushed on 5 yr cycle with contingency for failed culverts, slumps, etc. on an annual basis. Years 2023-2025 will be paid with ARPA funds

Costs without inflation



Ongoing- Operations – Administrative Services

Cost	Average Annual Costs
Insurance	Included in District Policy
ODF Fire Assessment	\$ 2,450
Finance and Management	\$ 9,000 / \$5,400
Grant Writer / Manager	TBD
Legal / Marketing Research for Levy	TBD
Project Mgmt	Will be considered in phase II of Finance Committee Process
Legal	\$ 1,500 / \$1,000
Audit	\$ 2,000
Mgmt Plan Updates (per FLP contract)	\$ 12,000 /every 10 yrs
Signs/ Miscellaneous	\$ 1,000 in yrs 1&2 the \$500
Contingency	TBD
Inflation Rate on Costs	3% (currently 3.18%)

Harvest Years / Non-Harvest Years


This is likely to have significant impact on costs and should be highlighted as such at community forum

Harvest Years / Non-Harvest Years



- Average Cost is per year (unless otherwise indicated) without inflation.

Ongoing Operations - Revenue Options

Revenue Option	Assumption
Current "Endowment" Fund	<ul style="list-style-type: none"> \$400,000-ish from prior donations with \$200,000 required for working capital until 2026. Interest only calculated on \$200,000 until 2026. Hollis Fund Principle of \$75,000 Interest rate of 3%
	DF - \$428.50. GF - \$301.75. RA - \$245. RC - \$1115. SF - \$314.75. SS - \$100. WH - \$339.25
Stumpage Pricing	Assume use these prices and escalate them at 2.8%
Payment from NCLC for Road Usage per Easement	Nothing factored into the model yet 
Harvest Revenue Future Discount Factor	3%
Local Option Levy	TBD
Grants	TBD
Donations	TBD
Rate increases	Included as one of the payment options to follow
Carbon Sequestration	A future consideration (https://landyield.com/)



A conversation with NCLC is suggested before community educational forum

Anticipated Financial Impact of Ongoing Operations

Annual Operating Expenses – if no logging

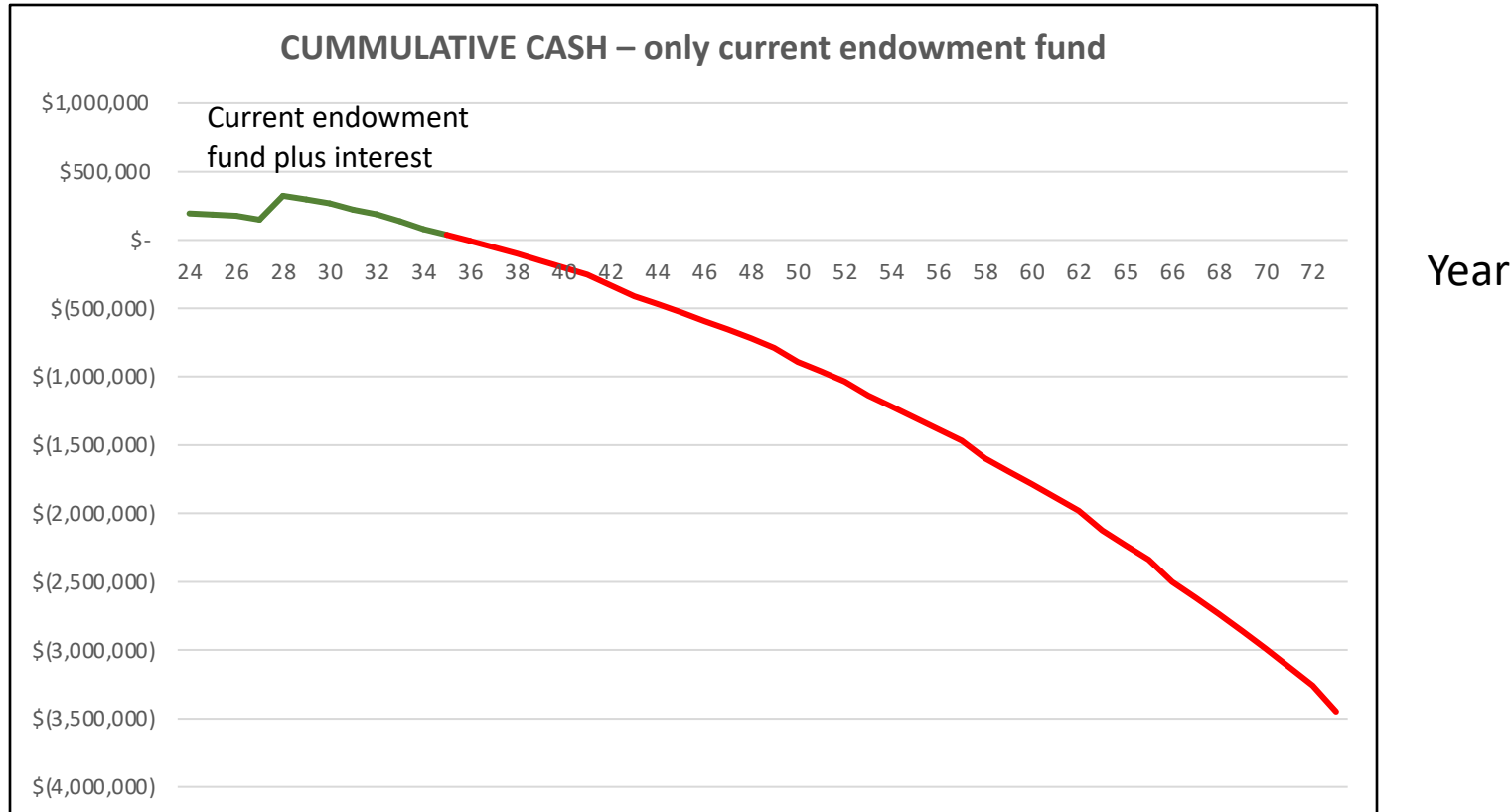
OPERATING EXPENSES	Annual Avg.
Insurance	-
ODF Fire Assessment	(2,450)
Property Manager	(5,568)
Consulting Forester	(4,410)
Finance / Admin / Management	(5,076)
Project Mgmt	TBD
Legal	(970)
Audit	(2,000)
Replanting Survey	
Inventory / Stands exam	-
Mgmt Planning	(1,200)
Certification	-
Road Maintenance	(13,060)
Road Decommissioning	-
Pre-Commercial Thinning	(254)
Invasive Species Mitigation	-
Materials - Supplies	(520)
Grant Writer / Manager	
Levy: Legal & Marketing	
Contingency	
TOTAL EXPENSES	(35,508)



Per the easement, NCLC is responsible for their usage share of these costs. A monitoring/ recording process would need to be put in place.

Average Annual Cost without inflation

Cumulative Operating Cash If no logging and no additional revenue



Options for Financing Ongoing Operations

Options for Paying for Operating Costs

- **Option 1 - Ecological Harvest (Year 10 / Year 30):** Light harvest in years 10 & 30 across the Watershed - inside and outside of the source water protection area. 5 acre patch cuts and thinning. (Thinning only used where windthrow risk is lower, i.e. more protected sites and stands that received PCT.) Ben will draft different language to describe the actual practice that will be used and what this will “look like”
 - Year 10 – 20% of 97 acres harvested for 3,143 Million Board Feet (MBF)
 - Year 30 – 20% of 67 acres harvested for 3,050 Million Board Feet (MBF)
- **Option 2 - Harvest to pay operating costs: Optimized Harvest (Year 10 & Year 30):** “Clear cut” harvest in years 10 and 30 – only outside the source water protection area to maximize revenue
 - Year 10 – 263 acres harvested for 2,644 Million Board Feet (MBF)
 - Year 30 – 149 acres harvested for 4,067 Million Board Feet (MBF)

Note: Timber in these stands is currently of significantly less quality and density than in those stands targeted above. In year 30 there is more mature timber to harvest per acre than there is in Year 10.
- **Option 3 - Raise water rates to pay operating costs:** No harvest projected

Note: Harvest events are not fixed to a specific year - but to a timeframe when logging will be required for financial reasons and when pricing will be optimal

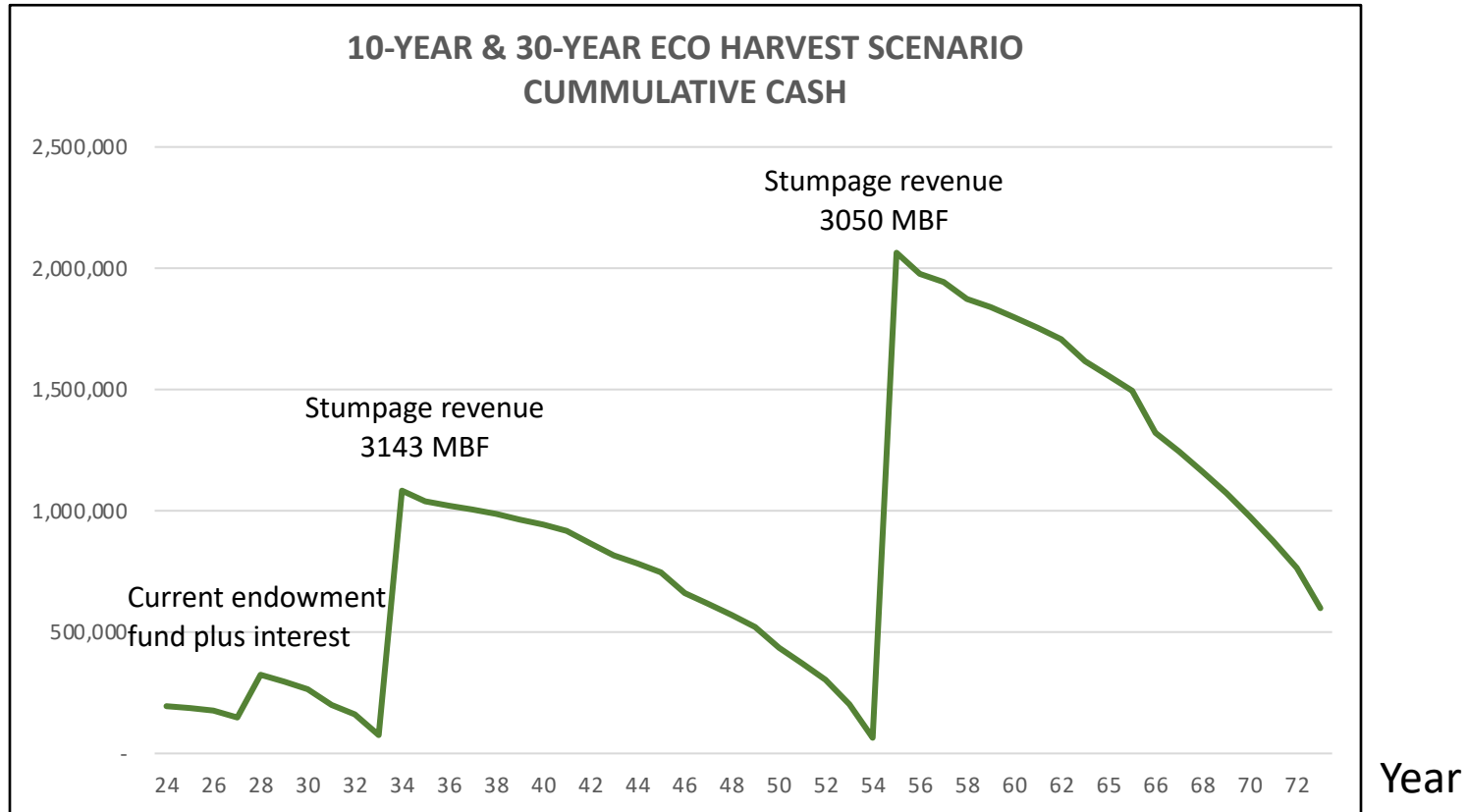
09-27 Discussion Notes

- Quality of water is primarily impacted by sedimentation which has two primary sources
 - Logging in the drinking water source area. This can be mitigated by appropriate buffers away away from streams
 - Road creation, aging and use. This has a significant contribution to sedimentation and is the reason for the planned road work

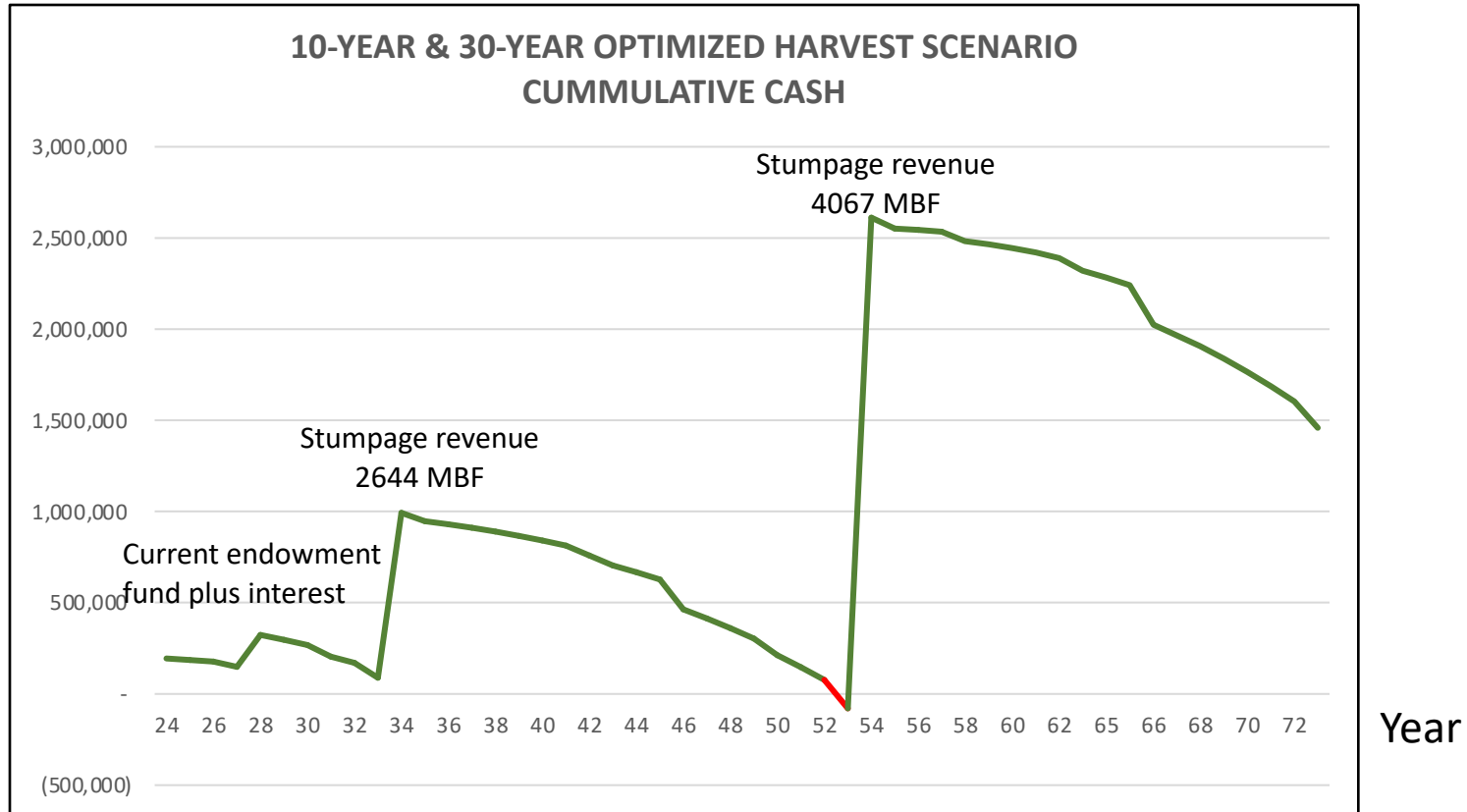
This should be incorporated into the board / community presentation

- Quantity of water – which is more complicated and needs to be considered in terms of total quantity over the year and timing (seasonal) over the year

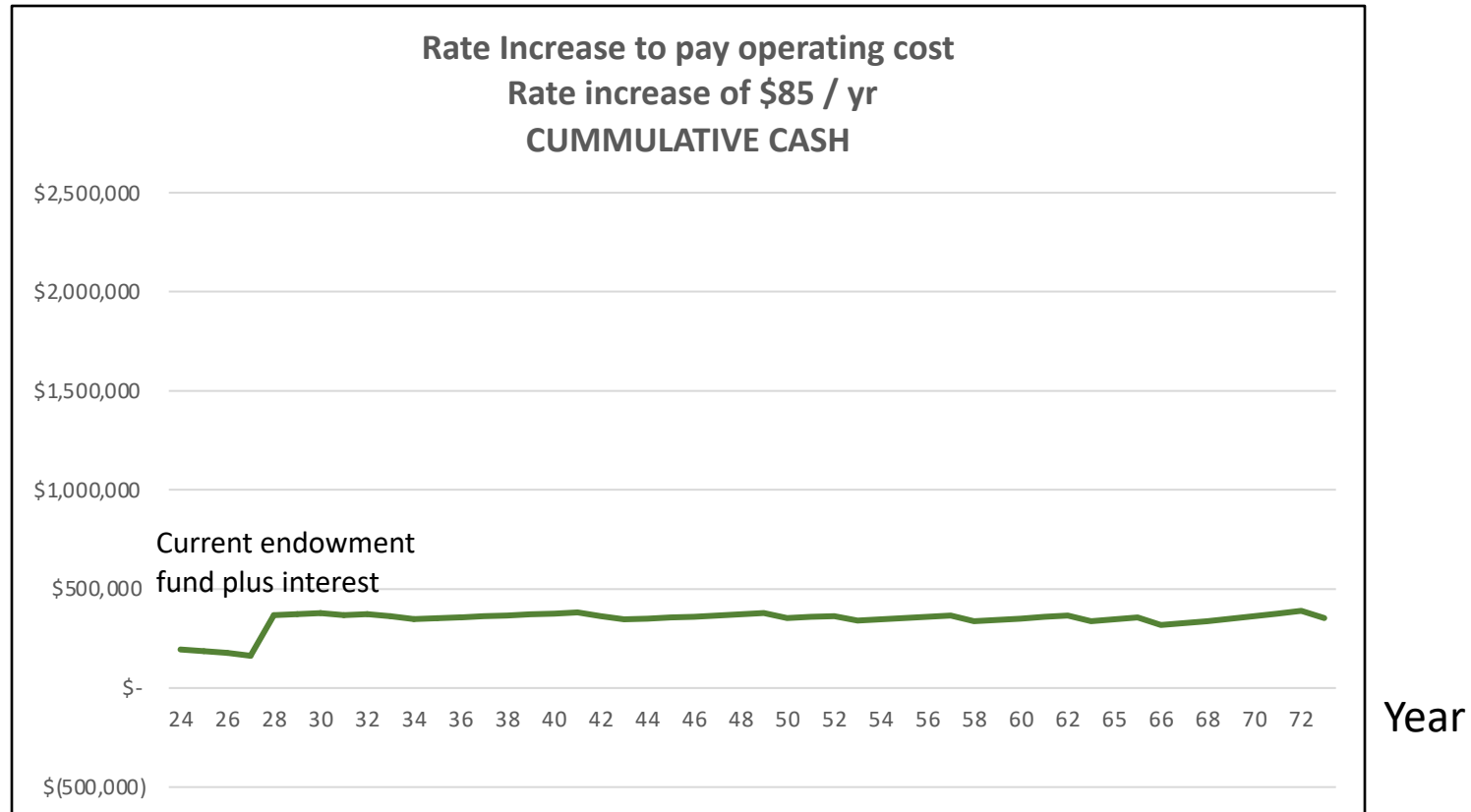
Option 1: Harvest to pay operating costs
Ecological Harvest (Year 10 / Year 30) across Watershed
Cumulative Operating Cash



Option 2: Harvest to pay operating costs
Optimized Harvest (Year 10 / Year 30) outside SWPA
Cumulative Operating Cash



Option 3: Rate Increase to pay operating costs
Rate increase of \$85 / year starting in July 2025
Cummulative Operating Cash



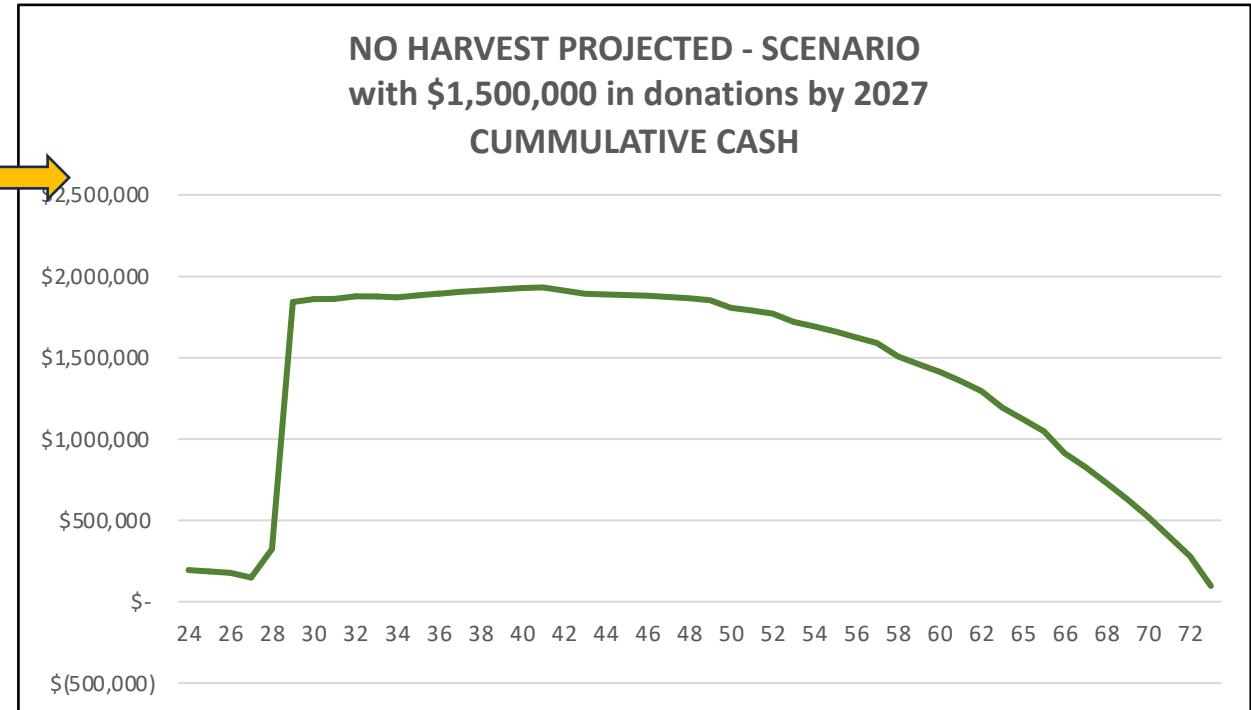
- Rate increases start in July 2025 with 306 hookups
- Hookups increase by 2 each year (per ACWD long range budget)
- 3% annual inflation in rate amount
- NCLC is not charged for their share of Roads Maintenance Costs (@ 40% would be about \$5,500 per year – inflated at 3%)

Ongoing Operations – Alternative Revenues

Donations: To the extent that donations are received, they push out the need to log / raise rates --- or they could eliminate those needs entirely. People will be required to run a donations campaign.

Grants: It may be possible to get grants, however our general understanding is that grants do not typically cover operating costs. Likely would require some amount of work to be done – like thinning of roads. There would be additional costs to research, apply for and manage grants.

Levys: A levy is an alternative to rate increases, but the effect on rate payers and lor owners will be about the same. If the levy doesn't pass, then rate increases will be required. There are also costs to get a levy on the ballot.



Discussion

1. These projections are based on the best information that we have at this time. The plan should be updated every year based on new information that is available.
 - a. As projected costs increase or decrease, so does the need for more or less revenue from logging/ rates.
 - b. If one-time projects exceed the \$45,000 buffer, those expenses will need to be paid with operating funds, which will impact logging / rate increase options. If any ARPA money is left over, it goes back to Federal Treasury.
 - c. Costs, stumpage pricing, inflation and interest rates all subject to change
 - d. Per the easement, NCLC are to pay their share of Ongoing Road Maintenance Costs, based on usage. This will significantly lower annual operating costs. A monitoring process would need to be put in place in order to charge NCLC.
 - e. A phase II directive for the Finance Committee is to explore the costs of “outsourcing” the management of the Watershed, so it is not dependent on Board members, contractors and District Staff. Outsourcing will likely impact cost projections.
2. Variations of the basic options to pay operating costs can also be considered
 - a. Combining/blending lower rate increases with less intense harvesting
 - b. Donations will lower rate increases and/or lessen intensity of harvest
3. Community needs to weigh in on their preference(s) for a financing option, assuming no donations. To the extent that donations are made, the community’s preference can be adjusted.
4. If donations are to be pursued, the Community needs to put a process in place to raise them.

Appendix

Explanation of Forest Management Line items Detail



Line Item	Discussion - Detail
Property Manager	Responsibilities: <i>In non- harvest years:</i> 1) 24/7 response to events that might occur. Get contractors involved if/as necessary and monitor them 2) Be the emergency point of contact for fire response and contractors working in the Forest. 3) Manage the keys to the Watershed gates and track who is on the property, including but not limited to contractors', in accordance with District Policy. 4) Determine, in conjunction with the consulting Forester, when the Watershed property should be closed. <i>In harvest years:</i> Same responsibilities, getting, more intense plus working with Forester on contracting.
Consulting Forester	Responsibilities: <i>During harvest events,</i> deal with all contracting / sale of the timber sales, as well as reforestation, pre-commercial thinning, road work, etc. This estimate is based on what we charge similar scale and type of public watershed landowners in NW Oregon and SW Washington for A) base "on-call" services and B) an estimate of the cost for harvest associated expenses. <i>In non- harvest years:</i> "on-call" for consultation as needed and periodic visit, if no significant active mgmt. Do stands exam / inventory. Part of their cost is also covered in the mgmt plan updates.
Replanting Survey	This is a post harvest event: <i>If on-going harvests:</i> There would be a 1 year and a 5 year survey of harvested area to ensure ODF required tree growth. This cost is included as part of the harvest event costs of Consulting Forester. <i>If single 10 yr harvest event:</i> a separate cost as the Forester has no scheduled activities on site.
Inventory / Stands Exam	<i>If single 10 yr harvest event:</i> High accuracy inventory to establish value to stands to be harvested <i>If ongoing harvests:</i> Moderate accuracy inventory to Monitor / Assess growth for future stands to be harvested <i>If no harvest:</i> low accuracy inventory to monitor forest health issues, invasive plants, potential fire issues, habitat metrics, etc. As well as keeping track of inventory in case it becomes absolutely necessary to harvest for operating expenses.
FSC Certification	<i>Rationale for:</i> Provides an independent audit that forest management and logging is done to an accepted high standard (social license). When multiple foresters are involved over time, provides a common understanding of forest management objectives. May open up certain markets, that may be closed to non-certified logging. Certification would be done 5 years before and 2 years after the logging event <i>Rationale against:</i> Since the District will be selling stumpage and not individual logs, certification is not likely to have any appreciable effect on markets. Legislation, practice standards and our management plan already set a high standard for forestry and logging. With a small area to be logged, the necessary level of control can be achieved internally. The District may not want restrictions on the tree stock that can be planted.
Targeted Invasive Plant Mitigation	Harvest events will leave open area in which invasive species can grow as there is plenty of light. In the current harvest plan, 20% of total area to be harvested would be exposed and require invasive species mitigation. A decision about use of herbicide or manual mitigation would need to be made.
Brushing and Road Maintenance	Level of road work will depend on intensity and breath of harvesting. If ongoing harvesting, more road work is required,. Costs will be paid for via stumpage arrangement. If a heavy harvest is anticipated, then decommissioning of associated roads would be done after the harvest. (\$184,000 is estimated). This cost would need to be paid out of operating funds. Per Section 7 page 3/12 of the easement – ‘Maintenance; Repair’, NCLC is responsible for their share of usage. The District would need to put a process in place to track and record usage.

Explanation of Cost and Revenue Assumptions

Costs

Line Item	Discussion
Inflation Rate on Costs	<p>A change in the Fed’s monetary policy over time is generally credited in part for the higher inflation rates earlier in that time span. As the Fed’s target inflation rate was pegged lower, at 2%, average actual inflation has been lower. Looking at that , in combination with the Fed’s 30-year inflation forecast, was the basis for bringing our number closer to 3% rather than the 50-year average of 3.69 which is skewed by early monetary policy.</p> <p>“Two commonly accepted measures of anticipated inflation are (a) the spreads between nominal and real yields on US government deb, and (b) regular surveys conducted by the Federal Reserve Bank on anticipated inflation. As of this writing, the former implies 2.2% inflation, and the later 2.0% inflation. As a result, our forecasts build in some degree on conservatism”.</p>



Revenue

Line Item	Discussion
“Endowment” Fund	<p>The account has \$475,00 ish in working capital, including \$75,000 in Hollis Grant funding. Cash from the account is used to pay for One-Time Projects expenses and Operating expenses until ARPA reimburses for One Time Project expenses. Until 2026, \$200,000 should always be available to pay One-Time Expenses. Hollis Funds (the principle) can only be spent on Roads. Those funds are likely to be spent by 2029.. If NCLC pays their share of usage, those funds will last longer.</p>
Stumpage Pricing	<p>Prices:</p> <ul style="list-style-type: none"> • Are net revenue. Contractor will pay for all costs. • Includes some level of non-intensive slash abatement by contractor. (Need to confirm the level of work to be done and that it is appropriate) • Include \$15/thousand board feet for separate replanting contract where District can select stock
Harvest Revenue Future Discount Factor	<p>This discount factor is to account for risks to future revenues. Risks include, but are not limited to, fire / wind damage, extensive disease, more restricting legislation that impact harvest volumes, growth does not align with model</p>
Local Option Levy	<p><u>Revenue:</u> Duration is 5 years. Cap is whatever tax payers will tolerate within the allowed \$10 / \$1000 property valuation</p> <p><u>Costs:</u> Legal work to research and prepare, market research to best determine amount, and work of political action committee to organize and mount a campaign. (Costs associated with campaign cannot be paid by the District)</p>

