

# Board of Forestry Meeting ~ April 2, 2014

## Kingsmill Resort in Williamsburg Virginia

**BOARD OF FORESTRY MEMBERS PRESENT:** Tommy Barnes, Anne Beals, Ervin Bielmyer, Don Bright, John Burke, Joel Cathey, Thomas Evelyn, Ken Morgan, Franklin Myers, Greg Scheerer, David Smith, Glen Worrell.

**Absent With Cause:** Nadine Block.

**VDOF:** Rob Farrell, Ron Jenkins, Dean Cumbia, Todd Groh, Becky Woodson.

**Guests:** Andrew Smith-Virginia Farm Bureau, Susan Jennings-VFPA, Susan Seward-VFPA; Katie Frazier, VA AgriBusiness Council, Paul Howe-VFA.

The meeting was called to order at 11:00 by Chairman Scheerer, followed by roll call by Becky Woodson. Dr. Smith moved to approve the agenda as presented and Ms. Beals seconded the motion to adopt the agenda.

**Hearing of Citizens:** There were no citizens present; there were no comments from invited guests mentioned above.

**Approval of February Meeting Minutes:** Dr. Smith made a motion to accept the February meeting minutes as presented, motion was seconded by Mr. Burke. The motion passed with no opposition.

### **State Forester's Report and Agency Overview (Acting State Forester Rob Farrell)**

There has been progress made in filling open VDOF positions.

The seedling sales have gone very well this year. We have sold the majority of pine seedlings and still have more hardwood seedlings available.

Mr. Morgan asked if there was acreage that was not planted because of lack of seedlings. Mr. Farrell mentioned a contractor had ordered 1.5 million and needs 2 million trees. We are in the process of trying to find another ½ million of trees to meet the contractor's needs. Mr. Morgan also asked if the Department is tracking the annual trends or using a model to determine how many trees on an average will be needed. Mr. Farrell said we are projecting that demand for seedlings will only increase and are planting more trees each year. Next year we are planning on having 4 million more loblolly pine seedlings available. Both VA and NC rank the productivity of the seedlings and next year the Department anticipates having a greater number of elite or higher ranked seedlings available for landowners. VDOF had a greater number of seeds that were small this year, which made for smaller seedlings.

Mr. Burke says there is a lot of logging in his area which indicates that more seedlings will be needed for replanting. Mr. Bielmyer asked about using site prep spraying to cushion for lack of seedlings. Mr. Cumbia suggested that planting is down in one of the VDOF work areas because they are already holding over tracts for site prep. Dr. Smith mentioned the 2007-2011 FIA report and asked how this is tied to the economy and that it gives a false impression about what is happening. Although the information is accurate, it does not reflect current data. Mr. Morgan says that dated information could lead to wrong decisions that could do harm to the

Department. Chairman Scheerer suggests using the mandatory logging notification system to estimate harvest acres and tie this number to the number of seedlings that will be needed for future planting.

**State Forester Search Update (Chairman Scheerer):** Interviews for the State Forester position took place on Tuesday April 1, 2014 and are complete. There were four candidates interviewed and Secretary Haymore has a short time frame to make appointment.

**Legislative and Budget Update (Mr. Jenkins):**

Governor McAuliffe submitted his budget and has signed off on the Caboose budget bill which is the document that represents the current bi-ennium. This has been approved.

The Forestry budget received minor tweaks (technical adjustments). The primary adjustment was with the RT Program and accounts receivable program software development that had been approved by the previous administration. While progressing, the project will not be completed this fiscal year. The technical adjustment was made to insure the money will be available next year. VDOF also received the authority for continuation of the appropriations to purchase lands from the funds that were received from wetland stream mitigation.

The next biennium seems to be tough one. However, the VDOF operations budget appears to be intact. The current debate consists of two versions, with Delegate Jones and Senator Colgan. The forestry language and figures are exactly what we had when Governor McDonnell announced the budget in December. The RT language is the same and will advance towards the 1:1 match in the first year of the next biennium and reach the fully matched amount in the second year. The equipment appropriations submitted by Governor McDonnell also remained intact and replace a portion of the current equipment. Included in the 2014-16 capital outlay appropriations is funding for multiple tractor garages. VDOF will see a significant increase in maintenance reserve funds, which is needed for deferred facility maintenance over several years. This is a three-fold increase over what we currently have for maintenance and facilities.

**Thoughts for Budget Session 2015 Presented to the Secretary's Office:**

1. Several areas of IT needs: boost server space and IT positions. The Secretary's office has received a brief notification about this need and is willing to review the need in greater detail. VDOF is developing its justification and cost estimates now.
2. VDOF feels it can justify a request for additional funding for vacant positions and is preparing its justification.
3. Salary compression for state employees is a well documented issue across the Commonwealth of Virginia that developed as a result of the combination of no salary increases and new hire with higher starting salaries. The situation creates a number of problems for organizations as the span in salaries begin to narrow. VDOF will develop a request based on its workforce plan and market data.
4. Equipment – VDOF has shifted its current tractor rotation of 25 years replacement schedule to 20 year rotation. The shorted rotation is more desirable for equipment operation and operator safety, and now in line with rotation schedules across the country.

**Legislative Ideas:** 1) hardwood incentive program; 2) expand authorities of the State Forester to outline in the Code that the State Forester has authority to waive access/permit fees on State Forest; and 3) amendments to the Forest Products Tax Act and Reforestation of Timberlands Act.

Chairman Scheerer asked for specifics and clarity on VDOF positions by the next meeting. Mr. Farrell has asked Regional Foresters to look at the 23 work areas and see where we are missing productivity. They will look at criteria such as number of landowners, number of forested acres and number of harvests.

Mr. Morgan says an alarm has gone up as far as growth to removal ratio in southside and southern piedmont and suggested that VDOF aggressively look at and focus on this area. Mr. Scheerer suggests having more physical locations of VDOF in southside to improve visibility of VDOF and link to landowners. The average forest landowner is not young and technically savvy to adapt to Going Mobile model. Mr. Worrell suggested that there is a perception of less involvement and less activity in a county with the VDOF Going Mobile. He asked if the VDOF has critiqued the Going Mobile initiative and asked which facilities have been sold and which are for sale. Mr. Farrell responded that one facility is under contract to be sold and there are no more facilities planned to sell. Mr. Myers agrees that VDOF needs to have a presence in these areas.

Mr. Farrell noted that VDOF has achieved \$2 million dollars in nursery sales. We planned to have 24M loblolly pine available this season but only had 23M due to the seed problem. We plan to grow 28M seedlings next year. We have capacity in the fields to plant 30M. We are also trying to do some loblolly planting at Augusta Forestry Center to provide a buffer. The question was asked about opening New Kent back up and Mr. Farrell said it is always an option. Garland Gray Forestry Center has a lot of capacity. We have had a significant decline in demand for hardwood seedlings because we are doing less mine land reclamation.

### **Proposed RT Rates (Todd Groh)**

*Project Accomplishment:* Mr. Groh referred the Board members to the RT spreadsheets in their meeting packets that currently showed over 1,000 projects for 43,000 acres for FY2014, so far. Practice 1 (planting loblolly pine) and Practice 6 (release) are still the most utilized practices. Practice 5 (herbicide and plant) has increased over the years as well.

*Regional Allocations Interim Report* as of 3-29-14: at the last meeting (February), the report showed the remaining balance of \$473,864 and it is now down to \$262,528. The funding obligation totals have gone from 74 to 85 percent obligated to landowners based on these reports. Since the last Board meeting, Mr. Groh has been in contact with the Regions on a weekly basis to make sure the program is being promoted and the obligate funding updated. The statewide remaining balance based on these weekly reports, as of 3-31-2014, was \$121,000. The VDOF anticipates having more “real-time” obligation reports when the new fiscal IT system is in place.

The VDOF has put a lot of emphasis on letting our partners know we have funds available. Mr. Cumbia put this information out to VFPA, consultants, and VFA. A newspaper article was prepared and ready to go but then we started hearing about seedling shortages and didn't want to over promote the program if seedlings weren't available. As it happens every year, the VDOF anticipates that there will be some RT project cancellations toward the end of the season. Mr. Groh also mentioned that some additional Farm Bill EQIP money is coming in to the state and NRCS will be making additional project pre-approvals on April 21, which may result in a few RT cancellations.

*Forest Products Tax 3<sup>rd</sup> Quarter Report:* Mr. Groh referred the Board members to the two Forest Products Tax (FPT) revenue charts in their packets and mentioned that the FPT collections continue to be strong. Although the first quarter collections were down from the 2013 quarterly collection; the 2<sup>nd</sup> and 3<sup>rd</sup> quarters are above the 2013 quarterly collections. Currently, the FY 2014 FPT collection is at 89 percent of what was projected with

another full quarter of collections to be made. Mr. Groh referred the Board to the second chart which shows a brief history of the FPT projection versus the actual FPT collection from 2007 to the present.

Mr. Bright referenced the anticipated 1:1 FPT match in 2016 and asked if the match will be based on the estimated 1.4 million collection or the actual amount collected? Mr. Jenkins said that the General Assembly is using the 1.6 million projected amount, and it will not increase based on the actual FPT collected. The FPT collect could be higher by 2016 and Mr. Bright suggests harvests will be up 15 percent next year which would be a large increase in the forest products tax collection. Mr. Scheerer would like to have harvest acreage from Matt Poirot available at the next meeting. Mr. Farrell says harvest acreage is an estimate from the required logging notification system and the VDOF will need to rely on IFRIS to break out thinning acres from clearcut acres.

### **Projected RT Project Rates and Acreage Caps (Todd Groh)**

Mr. Groh showed a PowerPoint presentation to communicate the FY 2015 proposed RT rates to the Board. The RT Program Goals are: 1) utilize RT funding to increase pine volume on planted acres, and 2) increase the proportion of harvested tracts that are reforested. VDOF is developing an RT program fact sheet that will be available by May 1 to go out to landowners with logging notification letters letting them know there is a program available to help reforest their land.

*Projected Incentive Funding Increase:* In FY 13, there was \$1,290,734 available to landowners; in FY14, this amount was increased by 29 percent to \$1,661,963; in FY15, the FY 13 amount will be increased by 43 percent to \$1,844,174, and finally in FY16, the FY 13 amount will be increased by 80 percent to \$2,321,385 with the full General Fund match.

*Existing Projects:* Project #1 planting loblolly will not change; Project #2 will change to plant shortleaf, white, longleaf, pitch-lob pine; Projects #3 mechanical site prep., #4 herbicide site prep. and #5 prescribe burning site prep will change to site prep only projects; and projects #6 herbicide release of loblolly pine, #7 herbicide release of all other pines and #8 ground herbicide release of all pines will stay the same. Landowners will be able to sign up for multiple projects based on the VDOF forester's observations and recommendations.

*Proposed Rate Changes:* Project #1 increase to \$25/acre; Project #2 unchanged at \$48/ac; Project #3 new rate of \$60/acre; Project #4 new rate of \$70/ac; Project #5 new rate of \$35/acre; Project #6 increase to \$22/acre; Project #7 increase to \$45/acre; and Project #8 increase to \$45/acre. Projects are independent of each other. Mr. Scheerer suggests having different price for landowner who opts to plant higher level of seedlings. Mr. Groh stated that this would add a higher complexity to the fiscal side of the program, but that he would look into the option. The new RT software will accept more than the current nine practices, so it may be an option in the future, but this proposed change will likely not make it in the FY 2015 program year.

Mr. Morgan likes the proposed changes. Has VDOF asked landowners why they haven't replanted? We need to educate landowners about reforestation. We need to get cutover land back to an appealing state as soon as reasonable and the VDOF needs a strong public relations program. One potential reason that a Board member provided for a landowner not replanting is that the landowner says they will not be around to reap the benefits. Mr. Cathey suggests explaining that a five-year old pine plantation is worth more than a cutover.

Mr. Farrell asked how many people are planting without RT. Mr. Farrell suggests VDOF needs to be proactive with landowners and not wait for landowners to call or come to them. Mr. Bielmeyer asks how comfortable field staff is about being more proactive. Mr. Farrell noted that VDOF field staff is committed to getting every

potential acre planted. Mr. Morgan would like to see something to draw the landowner in – advertise the rates to get landowner interest; have a fact sheet with simple bullet points for VDOF foresters to give to landowners. Mr. Bielmyer suggests that VDOF foresters have “show me” cases for landowners. Mr. Worrell agrees to show landowners the financials of growing trees with regard to site prep and to sell on the financial side of things.

*RT Acreage Cap:* the current acreage cap is 100 acres per landowner or tax entity. Based on early Board discussions, the VDOF proposed to increase the cap to 200 acres on the footprint. Historically, only 7-8 percent of the RT tracts have been in the 100-200 acre range. The fear of raising the cap to 300 acres is that larger landowners may get the majority of the funding while smaller landowners won't get any. Mr. Cathey suggested approving 100 acres per landowner initially and wait to see if more funding become available later in the year. Mr. Bielmyer suggests 100 acres at 100 percent of the cost share rate and 50 percent of the cost share rate on the next 100 acres. Mr. Cathey suggested increasing the cap to 150 acres in FY2015, then revisit the acreage cap in FY2016 after evaluating the difference in use and then possibly raising the cap in FY2016 if there is funding available. Mr. Evelyn agreed to this suggestion. Mr. Morgan made a motion to approve change to 150 acres rather than 200 acres and Dr. Smith seconded. All were in favor.

### **Hardwood Management Cost-Share (Ron Jenkins)**

Delegate James Edmunds has an interest in hardwood management and sees a need for discussion about this. He tied this to the RT Program for incentives for better hardwood management. Delegate Edmunds has a stakeholder who is also interested in hardwood management. Delegate Edmunds would be a potential patron for a bill. The Secretary's office is in agreement with VDOF looking at this and VDOF will be a convener.

Mr. Cumbia said there is good background information in the FIA report. Virginia is a hardwood state with 79% (12.5 million acres) of forest acreage is mixed hardwood-pine and is 82% of timber volume. Virginia ranks in the top ten nationally in hardwood production. Exports have increased 28% in two years, approximately \$325 million in 2013.

*Forest Types:* Upland hardwoods stand types are the biggest category with 61%. Stand data goes back to the first Forest Inventory Analysis survey done in 1940. Oaks lead in volume at 32% and Yellow Poplar is the highest volume species with 16%. Red maple is the most abundant tree. Other leaders in volume include Red Maple (7%); Hickories (5%); and Sweetgum (3%). We keep on adding volume in Virginia. Dr. Smith pointed out those stands were cut between 1890 and 1920 and what we're seeing is a normal restocking of a very large age class.

*Age Class Ranges:* going to have another industrial revolution like 1890's; direct result of usage; setting up another bell curve in 100 years.

*Trends in Hardwood:* overall volume is increasing with poplar and maple accounting for 32% of volume. The stand age is increasing and quality is improving slightly. There has also been a rise in invasive species.

*Size:* Over the last twenty year, the sawtimber volume on private lands has increased while pole timber and sapling size trees are decreasing.

*Hardwood by Age Class:* Over the past 100+ years there is an increase in older trees on the National Forests. There are very few younger stands on National Forest due to a decrease in harvesting. The age classes are skewed to older stands. Mr. John Burke asked what foresters view as an optimum hardwood age or ratio of

young to old trees. Dr. Smith suggests that age classes should be graphed as a straight line, having nearly an equal amount of trees in each age class as the preferred option

*Areas of Concern, Challenge:* there appears to be a species composition shift – the percentage of oak has dropped from 43% to 38% since 1992. Overall quality has shown a modest improvement but it is not keeping pace with the volume increase; high-grading; lack of emphasis on hardwood management; and investment (long period for returns) are all contributing to the problem.

*Opportunities:* logging contractor development; new and existing market development; education efforts with loggers, landowners, foresters and general public; increase demand for small diameter wood.

*Do we need incentives?* It is necessary to overcome long investment period to encourage landowners to begin management work in hardwood stands. Existing incentives could be further enhanced and developed to encourage landowners. Can or will the free market provide incentive for hardwood improvement and would incentive produce sufficient benefits?

**Existing/Current Programs:**

- USDA-NRCS EQIP: Forest Stand Improvement – 2013 rate of \$64 to \$95/acre
- Hardwood planting USDA CRP-CREP and EQIP for hardwood stream buffer planting – 2,000 to 3,000 acres planted per year.
- Current work by consulting foresters, landowners, etc.
- VDOF – USFS grant pending – “Robust Hardwood Forests for VA and TN” - \$175,000
- VDOF – portion of USFS grant – “Providing for Healthier Forests” –two-three demonstration intermediate harvests planned

**Potential Benefits/Actions:**

- Better resource management through better planning and implementation
- Remove low quality residual trees to allow for high quality regeneration
- Intermediate improvement harvesting/treatment
- Control/management of invasive species

**Discussion on Hardwood Management and Incentives:** Mr. Scheerer would like to talk with Delegate Edmunds for the specifics of his interest in hardwood management. Mr. Barnes says there are three ways to manage hardwood: 1) plant hardwood; 2) allow growth of a mixture of poplar and pine; 3) crop tree release method. Mr. Barnes is not familiar with any other methods which might work. Dr. Smith says the method of hardwood management will vary by region and that the focus for hardwood would be west of the Blue Ridge.

Mr. Bright asked if Delegate Edmunds would be interested in giving a tax break for managing a hardwood forest. Mr. Jenkins thinks Delegate Edmunds is open to different ideas. Mr. Burke asked if VDOF could address how much of the tax revenue money comes from pine harvesting and from hardwood harvesting, rate applied to volume. We collected \$1.6 million and \$400,000 was put into the operations and most of that was from the tax on harvested hardwood. The majority of the forest products tax currently goes toward pine incentives with 20% or less to operations fund.

Mr. Morgan is supportive of having an active reforestation for hardwood; give the landowner an option for hardwood or pine incentive. He would like a bullet page provided to interested landowners showing average return on investment. Mr. Cathey said that managing hardwood is more difficult than managing pine. The site and species requirements for all of the species of hardwoods are so much more variable than putting pine seedlings in the ground. Dr. Smith thinks this will be looked at altogether different than planting pine. Hardwood stand improvement should be the focus as that is where the return will be. Mr. Evelyn said we need to balance healthy forests and diversity and be concerned about diseases. Mr. Burke said that Mother Nature will grow our hardwoods and we should be good stewards and improve stands that Mother Nature produces. Mr. Scheerer mentioned the very successful commercial thinning and crop tree release on the former MWV land in West Virginia that has now been sold to Plum Creek.

Mr. Bright asked about increasing hardwood rate. The money could be held in RT fund but don't call it RT. Mr. Burke said that if we had money and landowners that he thinks people would do the work. The support should be for timber stand improvement, not reforestation with hardwood. Mr. Evelyn is interested in providing a tax incentive to keep land in hardwood production. Mr. Bielmyer asks about adding yellow poplar into planting rotation. Several members emphasized that yellow poplar is very site specific.

VDOF will develop a list of potential options to include tax incentives or cost share assistance for hardwood improvement / management. VDOF will also research what other states are doing. Mr. Burke suggested coming up with a balanced approach with regional reality; look at improvement practices that would be most beneficial to hardwood and then show where the money will come from.

Mr. Evelyn made a motion to form a subcommittee to work with VDOF to help develop the rationality. The motion was seconded by Ms. Beals. Mr. Burke suggests the Chair appoint the subcommittee and include member associations in this effort (VFA, VFPA, VFB, VLA, VA AgriBusiness Council). All Board members were in favor to form the committee with no opposition.

#### **Old Business:**

RT Code Changes from 2011: The former RT Board made recommended changes to the Code after a special meeting in July 2011. Mr. Scheerer suggests there is no reason to recreate the wheel. We need to remove the portions in the Code that refer to the RT Board.

Mr. Scheerer believes one of the largest issues of the Code goes back to the issue of where primary processing takes place. The way the Code is currently written an "in woods" chipping operation is considered a primary processor and by the Code the logger who does the chipping should be paying this tax. There are probably not a high percentage of loggers paying this tax. In some cases the receiving facilities are paying even though they are not required to pay the tax. Mr. Scheerer believes the Code needs to be changed to reflect that the receiving mill should pay the tax, not the logger.

Mr. Jenkins has a number of examples and knowledge of several examples where it appears that a company paid the forest products tax on behalf of a logger. If these facts are correct, the Tax Department is taking a hostile position against the logger and saying they are going back six years to collect taxes.

When we went out with the changes that the RT Board suggested, we went to those who would be impacted by the change where in the future the tax would be owed by the person, company or entity that first changed on the stump. Potentially, the power company that receives the wood and converts to chips is responsible for paying the tax and they were opposed to this. If the company buys the chips, they would also be responsible to pay the

tax. The change would be in that it is first severed and processed in the first form and the taxable entity would be those who consumed that product which would make the power companies responsible for paying the tax.

Another problem Mr. Cumbia mentioned that right now the Code says pine or hardwood, but if you're grinding up chips and putting them in a van and you have a blended product, there was not a good answer to come up with an appropriate rate for the blended product. We made a blended price for pulp tree chipping rate.

Mr. Bielmyer asked does Dominion know the purpose of the Forest Products Tax. How do we lobby or convince power companies to pay the tax? We should involve Secretary Haymore in the lobbying/convincing. All Board members are in agreement that the consumer of in-woods chipping should be paying the forest products tax.

Mr. Worrell asked if the Code needs to be changed with regard to hardwood. Mr. Morgan understands that opening up the Code could be complicated and said we need to look far into the future and be diligent about thoughts going into the changes that the Board would recommend. Mr. Barnes made motion to table this until the next meeting and Mr. Bright seconded.

The Board supports making change in the definition of taxable product and taxable forest products entity but stopped short of recommending approval of a suggested amendment until further research on the hardwood issue. Mr. Jenkins will let the Secretary's office know that the Board is 100% behind this idea. VDOF would encourage the Secretary's support for VDOF to start talking to entities that would be impacted in the future. The time frame to incorporate legislature and budgetary amendments in order to have a draft to the Governor is August.

**New Business: Goals for the Board of Forestry for 2014:** changes to Code regarding forest product tax and hardwood management incentive.

Mr. Morgan believes the Board need to place a continued emphasis on public relations and both the Department and the Board, in conjunction with staff and the State Forester, need to determine the best avenues to go about this. The Board is not at the level they should be considering what significant entity forestry and forest products are in the state. Mr. Myers suggests that VDOF needs to establish a presence in high activity areas, such as Southside. He suggests holding meetings with landowners once a month, etc.

**VDOF Orientation:** It is suggested to visit nurseries; maybe have a multi-day event. Mr. Burke believes the orientation would be beneficial to all Board members.

The next Board meeting will be in June at the VDOF Headquarters in Charlottesville. A poll will be conducted to the best date for everyone.

**Board of Forestry Terms:** Dr. Smith, Mr. Worrell, Mr. Myers and Mr. Burke have been appointed until 2017. Mr. Morgan, Ms. Block and Mr. Evelyn have agreed to serve another term, with second term ending in 2018.

The Board of Forestry meeting adjourned at 3:30 p.m.

Respectfully Submitted by: Becky Woodson, Acting Secretary.