

## Board of Forestry Meeting – June 17, 2014 VDOF ~ Charlottesville

The Board of Forestry meeting was called to order at 10:00 by Chairman Scheerer.

**Board of Forestry Members Present** (roll call by Becky Woodson): Tommy Barnes, Anne Beals, Ervin Bielmyer, Don Bright, John Burke III, Joel Cathey, Ken Morgan, Franklin Myers, Greg Scheerer, David Smith, Glen Worrell.

**Members Absent With Cause:** Nadine Block, Thomas Evelyn

**Virginia Department of Forestry Present:** Bettina Ring, Rob Farrell, Ron Jenkins, Dean Cumbia, Todd Groh, Becky Woodson

**Adoption of Agenda:** All present were in favor of adopting the agenda.

**Recognition of Guests and Visitors:** Travis Hill, Deputy Secretary of Agriculture and Forestry; Andrew Smith, Virginia Farm Bureau; Paul Howe, Virginia Forestry Association; Katie Frazier, VA Agri-Business; John Pemberton, Virginia Department of Forestry.

The guests and visitors had no issues to address.

**Approval of April 2, 2014 Minutes:** All present were in favor of approval of minutes.

### **State Forester's Report**

State Forester Bettina Ring said it is an honor to be serving as State Forester. She introduced Deputy Secretary of Agriculture and Forestry Travis Hill. Ms. Ring asked Board members to always ask hard questions and to be as real as possible. She has read minutes of past meetings. Ms. Ring said that relationships are important to her and please don't hesitate to call her. There will be challenges but also opportunities. She is excited about coming events during VVDOF's 100<sup>th</sup> anniversary and mentioned that Board of Forestry will be invited to a reception on August 18 at the Governor's mansion.

There are many things on everyone's mind and certainly sustainability of the resource is at the top of the list. There have been challenges at the federal level in the timeliness of the FIA reports and the level of funding needed. The NASF and SGSF are working closely with the USFS to try to turn that around. Reforestation is extremely important and VDOF is addressing seedling issues to ensure we have the number of seedlings needed. We can't forget the important role private landowners play in sustainability of the resource. The Governor is committed to forest products industry and is interested in land conservation. We need to continue to work closely with our agriculture partners to ensure we have working landscapes across the Commonwealth.

VDOF needs have a strong presence and good customer service across the Commonwealth. VDOF also needs to continue to remain relevant to the communities it serves.

There are opportunities as the Chesapeake Bay Agreement was signed recently. There is much more we can do related to forests and watersheds on private land in Virginia to ensure we have clean water. Water is a common theme and people can relate to that. Ms. Ring looks forward to guidance and advice from the Board of Forestry.

## **Budget Discussion – Ron Jenkins**

Last year we had started the budget process for 2014-16 biennium budget. Mr. Jenkins thanked Deputy Secretary Hill and Secretary Haymore for their support for initiatives we were interested in. Deputy Secretary Hill helped refine some of the language. We received great support from our stakeholders in the budget initiative.

Some of the amendments moved through the process very well. After the May Revenue Report, there was recognition that revenue fell short of projections. This ultimately resulted in an anticipated shortfall of approximately \$1.4 - \$1.5 billion over the next biennium.

We had an increase in RT in the original budget of \$485,000 in the first year; a percentage supports VDOF field foresters and the remainder was to go towards incentives. In addition we had support for our emergency service equipment. We were going to be able take out a loan for \$4.5 million and pay it back over a 10 year period. RT doubled in FY16 – this would be a one to one match. The VDOF retained the tractor shed capital planning money in the budget and also still has \$250,000 from DCR for water quality funding. We also see an increase in maintenance reserve for facilities – this is almost a six fold increase in the maintenance reserve funding.

Due to the projected \$1.5 million shortfall, we lost the anticipated increase in RT funding in FY15 and also lost ½ of the anticipated FY 16 increase to the base budget in RT. We will still have an increase to our base budget in FY16 for RT. It will take creativity in our agency and advice from the Board to come up with plans to help secure a solid budget request.

*Impact on RT Program:* The actual collections from forest products taxes thru May are showing an increase over our projections. We have one month more to collect and June is usually pretty sizeable. We still have our goal to finalize the budget once the budget is finally signed by the Governor. We think that the increase in the FY 2014 collections will almost offset what the RT Program will have lost this year in general funding. Mr. Morgan asked about how much tax we're losing due to products crossing the state lines and not being collected. Mr. Jenkins is not prepared to answer that question today but hopefully after meetings the Dept. of Taxation there will be some answers.

One bill will provide more security that the State Forest Funds will be kept for State Forests operations. We changed the language to state non-reverting. We will collect the interest to the account; this will be a significant contribution. We will have authority to add activities that we can charge fees for but this needs to go through the regulatory process.

Mr. Bright asked what we lacked in RT funding – dollar value in acres: of the \$485,000 increase that was planned in FY15, \$312,000. In the second year the amount would have been about \$970,000; this year this would be about \$165,000 for a couple thousand acres.

Deputy Secretary Hill noted that a large part of the shortfall was due to the fiscal cliff; people were worried about changes in the capital gains and so they sold a lot of stock. The two advisory councils that make forecasts for our budgets did not account for the bulge that moved through capital markets so they forecast that money into the future which did not show up and the revenue cratered. This is not 2008 where saw our economy drop and saw a freefall. The thought was that this was a forecast error; it was not a larger economic problem. Hopefully in mid-December we will have some revenue to fund priorities. Deputy Secretary Hill reassured us that the agency and our stakeholders sent the right message during Session that RT and equipment are important.

Mr. Myers asked how safe the FY16 money is. Deputy Secretary Hill noted that the second year is more flexible and the process of securing RT funding is easier if it is in the Governor's current budget. Mr. Cathey says we need to be optimistic and that a lot of the revenue shortfall will be made up, as the forest products tax has increased. This also says that the demand will increase for cost share and projections do not match the industry match. We need to communicate to legislators that the commercial side is stepping up and everyone is still in the blocks. The Governor has some experience in and with the forest products industry and with people that work in it. Dr. Smith said it is important to recognize this is not economic downturn and that we need to keep a unified voice and maintain partnerships. Mr. Morgan stated that is it imperative to organize a plan and have a strategy going forward to avoid a second cut to the budget. He suggested contacting our legislators and working through Secretary Haymore and Deputy Secretary Hill.

Deputy Secretary Hill stated that there is opportunity under the Chesapeake Bay Agreement to show environmental value as there is a renewed emphasis on forest buffers. We should educate the public that forests are best and highest use for water quality. A piece of the agreement is environmental literacy including understanding the role of forest management in the environment. Mr. Burke stated planting trees is a long term process; we should tell the whole story of forests (not single focused) and include that forests are habitat for wildlife and critically important for recreation. We should encourage good stewardship and good economics. Ms. Beals says that we need to change initial visceral reaction to cutting trees; education is the answer. Mr. Bielmyer stated that his wife is a school teacher and she sees other teachers not teaching sustainability. Mr. Morgan says we need to place emphasis on this issue; we have a responsibility to future generations. Mr. Morgan references an article in *Virginia Forests* stating that Prince William County is the third largest county, population wise, and that is critical to market our message to areas such as Virginia Beach and Northern Virginia. We should plan to highlight this need during the National Forest Products Week in October. Mr. Morgan mentioned the VDOF calendar and the education and value it presented to people. Mr. Morgan mentioned the importance of Project Learning Tree. He said we need to elevate the marketing of VDOF to get the word out.

### **Forest Products Tax Update – Ron Jenkins**

The discussions are continuing with the Virginia Department of Taxation (TAX). We are attempting to look at statutes governing the forest products tax and inconsistencies have evolved. Some concerns that have surfaced are: 1) do in-woods harvesters pay the tax (by definition of current statute, the answer is yes) TAX noted that some mills that receive the chips are paying the tax on behalf of the harvester or chipper; 2) who pays taxes over state lines (statute indicated the shipper pays the tax); current statutes don't fit with current business model.

We've had a breakthrough with the TAX. The VDOF is currently comparing our forest industry database against the TAX database which has the names of companies and the products they are producing. We will be able to turn names into the tax department that are on our list of forest industry producers but not theirs – this is almost in place. We will also be looking at who should and who shouldn't be paying the tax. *The chip issue still has to be decided.*

After two meetings with TAX, they will evaluate the statutes and how changes could elevate current issues they are experiencing. They will hold a stakeholders meeting in July about current statutes. Currently, TAX does not plan to initiate any NEW FPT audits until they have the opportunity to meet with the forest industry. Utility companies will also be invited to this meeting.

The Reforestation of Timberlands Board (RT) reviewed and proposed changes to the Code of Virginia as it pertains to the Forests Product Tax and the administrative procedures in July of 2011. Mr. Groh will resubmit the proposed changes by E-mail that the RT Board had developed to the Board for review. The RT Board

updated the products as there were a lot of old products in the code that were no longer relevant in today's markets.

## **Reforestation of Timberlands Program – Todd Groh and Dean Cumbia**

### ***Regional Reports***

2014 Allocation: Mr. Groh referred Board members to the meeting packet where his standard reports were held. The allocation report is usually an interim report. During the February 3, 2014 BOF meeting, there was \$473,000 remaining out and available to landowner. Since that report, the VDOF has made a concentrated effort to make additional signups and allocate the remaining funds. This has resulted in 75 percent of our allocations being spent. The first allotment goes out before the end of the fiscal year. Today's report shows only \$90,000 is remaining unobligated and these numbers usually lag behind the actual Regional numbers.

Interim FPT Collection: Mr. Groh asked for the members to review the Forest Products Tax (FPT) collection graph that shows that the FPT is very strong again this year. Currently, the FPT collection is above the projected collection with the June amount still outstanding, and June has historically been a strong month for collection of the tax. Right now, the total collection is \$34,000 above what the 2014 budget was based upon.

### **FY 2014 Interim Project Accomplishments**

Interim Project Accomplishments: The report shows that the bulk of the RT projects are Practice 1 (straight planting) followed by Practice 6 (aerial herbicide release). We are beginning to see that the herbicide site preparation project is being used more. Based on the report, there are a total of 1,300 projects on 51,000 acres so far for FY 2014. Mr. Morgan asked have we seen any appreciable planting in acreage of shortleaf. Mr. Cumbia suggests that it is modest; still a pretty small percentage but is one of our focus areas.

Mr. Bielmyer asks if we have a feel if projects for 2014 will exceed 2013. Mr. Groh says he hopes the number of projects will move up. We continue to ask our foresters to promote the program. Mr. Farrell reiterated that he has let the Regional offices know that RT money is available. Chairman Scheerer asks do we work through planting contractors to reach landowners who are planting. Contractors would be good avenues to get the information out about the cost share. Mr. Morgan suggests that rural county newspapers are a good way to get information out as well. Mr. Bright suggests that this is a product of losing the "boots on the ground" and could be a real pitfall if we continue to ask for RT money and not get everything planted. Mr. Farrell will talk to the Regional offices and to John Campbell, VDOF Public Information Officer about getting the word out.

Mr. Bright suggests that we target landowners after harvesting is done. Mr. Jenkins suggests changing the messaging in the notification letter. Senator Watkins asked if we track the number of tracts that receive RT funding; what kinds of products come from the harvest and where those products go. VDOF does not have an audit system in place.

### **Interim Budget**

#### ***RT and EQIP:***

Regarding the Transfer to Tax Dept, Deputy Secretary Hill asks if this is what TAX charges to administer this program (§ 58.1 tax section of the Code). Ms. Frazier also asked how TAX derives these fees.

Mr. Morgan asks if we are having trouble collecting with regard to the 10 year rule: A draft letter goes to landowners under Mr. Groh's signature. Deputy Secretary Hill asked about the feasibility of increasing the 10 year rule to 20-25 years.

*FY2015 Budget:* \$2,884,000 total

Chairman Scheerer asked about increasing 100 to 150 acre limit: he suggested 300 but would be ok with 500. If acreage limit was increased acreage limit to 500 will be it more a first come, first serve basis? Perhaps it should be a sliding scale. Mr. Farrell suggests we look at the harvest jobs to see what the average acreage is. Mr. Myers inquired about changing it back to 100 acres – Mr. Groh said this would be difficult. We need to demonstrate unmet demand – we are asking foresters to continue signups, even if money is out, which will show unmet demand. Mr. Bielmyer asks if landowners know that the documentation of non-funded projects is good ammunition. We will have a draft for introduction to General Assembly in 2015. There was concern about 10 year commitment in RT Program. Mr. Myers said all-inclusive at 10 years. Mr. Cumbia stated that we need to promote that reforestation is good and he discussed the Fact Sheets given to Board members.

Net Present Value (NPV) (Jerre's slide): Chairman Scheerer asks if foresters can explain NPV to landowners. Mr. Cumbia discussed training for VDOF personnel with regard to this. VDOF has no economist on staff but Jerre Creighton does a good job. Mr. Morgan asks about chipping in woods – require less funding.

We are pushing site prep and seeing high demand. There are a lot of tracts that won't need release next year because of site prep this year.

#### **Harvest Data Review – Dean Cumbia**

The VDOF Water Quality Program is one of the best in the nation. Harvest Inspection Forms record what is going on with the harvest and VDOF foresters are on a harvest at least once or twice. The boundaries for the Forest Survey Units map have not been altered since the 40's: Southern Mountains, Northern Mountains, Northern Piedmont, Southern Piedmont, and Coastal Plain

**Broad Forest Type by FIA Unit, 2012:** Coastal Plain is predominantly upland hardwood. Need more pine in the ground in southern Piedmont. Pine is insignificant in southern mountains.

**Timber Harvests in Virginia 1999-2014:** around 5,000 tracts harvested a year on 250,000 acres.

**Total Harvest Acres for FY 2010-2014:** Coastal Plain 450,000 acres; Southern Piedmont 400,000 acres.

**Pine Harvest Type by FIA Region:** What is the difference between biomass and clear cut? Generally bio mass is a chipper on site; biomass could include thinning but this is not well defined. VVDOF is looking at IFRIS database to revise to make this reporting better. Chairman Scheerer asked why is biomass separated. Mr. Worrell suggested defining biomass as unmerchantable. Dr. Smith says to look at terminology-clear cut is wrong word (he suggests using clear fell). Mr. Bielmyer says we used to call biomass unmerchantable but now it is merchantable.

**Virginia's Historic Planting Acres:** Mr. Bielmyer asks if we are we accounting for the difference of the acres what we are planting as to what was cut. Mr. Cumbia says we trying to zero in on this. There were 81,000 acres of pine (25% or more pine) that was harvested in a clearcut and we have accounted for about 61,000 acres planted. Mr. Bright noted there will be higher volume planting in his area (800-850 TPA). Dr. Smith suggests having (super impose) the cumulative volume in the state in the harvest chart. This would show sustainability.

**Hardwood Stands Harvest Type FY 2010-2014:** Dr. Smith suggests that partial cut is high-grading.

#### **Hardwood Discussion Outline – Dean Cumbia**

- *Review of the Resource*
- *Forest Products Tax Data*

- *Examples from Other States*
- *Notes about Economics*
- *Facilitated Discussion*

Virginia is a hardwood state:

- 79% of forest acreage – 12.5 million acres
- 82% of standing timber
- Virginia ranks in top 10 nationally in hardwood production
- Exports have increased 28% in two years, approximately \$325 million in 2013
- 61% in upland hardwoods in 2012

### **Forest Products Tax – 10 year average**

Brunswick and Buckingham are the top two counties of the top 20.

### **Other State Hardwood Programs**

*North Carolina:* mostly a pine program but has hardwood practices: understory release, pre-comm thinning, cull tree removal, crop tree release, prescribed burning. This program is funded similar to RT \$80 to \$200/acres. Wisconsin, Tennessee, Mississippi also have programs.

### **Hardwood Economic Notes**

Manage the best sites, start right with a clean cut, and reduce rotation age, crop tree release

### **Virginia Hardwood Incentives Program**

What would success be for a hardwood incentive program?

- How long are we willing to wait for outcomes?
- How much do we have to accomplish to be successful?
- Would the program be statewide initially?
- Would the program include education for owners, contractors, research?
- Would the program be just for private landowners?

1. How would we structure an incentive program? What are we trying to do? What does success look like for a hardwood incentive program?

- We are trying to improve the quality of hardwood trees; grow better seedlings.
- Focus program where it would be the most effective
- Reduce rotation length
- Make a stand alone program – don't take away from pine and existing programs;
- Increase volume per acre
- Assume hardwood value continues over time
- Keep commercial timberlands economically viable
- Giving landowners options for diversity (wildlife habitat, etc.) – not just pine
- Diversify our managed forests
- Improving natural regeneration; wait to see regeneration – better able to assess chemical site prep delay
- Start with education to change culture of management
- More logs to the mill
- Need to market the program
- Site prep spray-pine and poplar together

2. How much do we have to accomplish to be successful – number of acres, dollar of project?
  - Might improve the education of high-grading
  - After clear cut, wait and watch regeneration before chemical site prep; more balanced management
  - Need to market the program

Chairman Scheerer asks about the amount of money coming into RT from hardwood (\$400,000) and pine-Todd has numbers.

Mr. Bright suggests that landowners need to have a tax incentive for hardwood, stating that pine is more economically viable. Dr Smith said this program could impact invasive species in hardwood stands.

3. How long are we willing to wait for outcome?
4. Would the program have to be statewide; start out statewide initially? Have pilot project.
5. Would program include landowner and/or contractor education and research? Dr. Smith says there is research information available and doesn't need to be incentivized.
6. Is this program just for private landowners? (make similar to RT)
7. What would make a successful incentive practice?
  1. Landowners willing to do it; education first
  2. Available contractors with right skills and equipment
  3. Contractors willing to do it – contractor/crews need education.
  4. Pay the contractor like small pine thinning program
  5. Markets may need to be available.
  6. Need to identify site; have to be enough acres available.
  7. Poplar may be OK to plant but very expensive
  8. Enhance future regeneration
8. What practices should we consider?
  1. Hardwood planting
  2. Crop tree release
  3. Commercial thinning
  4. Silviculture clearcut (John Burke suggests using another term)
  5. Prescribed Burning
  6. Invasive control

Mr. Burke says we will have to build the infrastructure (contractors, etc.) and will need to figure out what to incentivize. Mr. Farrell suggested running the program like Southern Pine Beetle program which pays the contractor.

### **Testing the Water - VDOF-DGIF Forestry**

***Quail Program Practices*** (available in 15 counties, started in 2013 with four pine practices): Dean suggests Quail Program could be a good place to start. The 2014 program will expand to practices in pine or hardwood stands.

- Mid-rotation understory spraying in “managed” forests – pine or hardwood
- Commercial thinning of small acreage stands (pine or hardwood – landowner incentive)
- Non-Commercial thinning (pine or crop tree release in hardwood)
- Prescribed burning in forest stands

- Shortleaf or longleaf pine planting

How to implement the program?

- Where to make it available?
- Who receives the payment?
- Who is eligible to participate?

We should reach out to Delegate Edmunds, Katie Frazier (for taxes), Adam Downing (VCE Madison) and Jason Fisher (VCE-Halifax) for input, technical expertise and design.

BOF Hardwood Subcommittee will meet in South Boston. Chairman Scheerer will send Doodle Poll for dates in July. Mr. Scheerer suggests having Mr. Farrell's presentation at subcommittee meeting. Mr. Jenkins says there may be interest in the subcommittee meeting from outside groups.

## **OLD BUSINESS**

### ***VDOF Orientation***

Ms. Ring asks the Board members what they would like to see regarding Board orientation. Mr. Burke suggests program managers come in and give a brief about VDOF programs – this could be one day or over several days.

Mr. Jenkins is holding meeting for Money Committee members, Department of Planning Budget, House Appropriations Committee, Senate Finance staff, local legislators, at Cumberland State Forest on August 13. The idea is to acquaint them with successes from the State Forests and show them how we use the support from the legislature. We will provide Board members with details of the August 13 meeting.

**Future Board of Forestry Meetings:** Should there be a separate Board of Forestry meeting and/or a tour of nursery? Mr. Jenkins suggests touring Augusta Forestry Center in February or March when there is more activity. Mr. Cumbia suggested visiting McCormick Farm to view hardwood management practices. Mr. Groh suggested having a meeting in the morning and a tour in the afternoon and noted that we are required to have three meetings.

Mr. Myers spoke to closing VDOF offices in each county and said that having a presence and not having an office is not the same. Ms. Ring recognized Mr. Myers' concern and thanked him for bringing it to her attention.

### **Reappointment of Board Members**

Three Board members (Ms. Block, Mr. Evelyn and Mr. Morgan) stand for reappointment. Ms. Woodson will send the link to the Board members to complete online application and then follow up with the Secretary's office.

### **Meeting to Discuss Changes to the Forest Products Section of the Code of Virginia (§58.1-1600)**

The Board of Forestry will tentatively plan on meeting July 24 at the VVDOF office to discuss changes in the Code of Virginia with regard to the Forest Products Tax. The Board will discuss definition of point of origin and the payee. The current statute is based on first process or shipment – suggest changing to the first consumer. Mr. Bielmyer said that the categories need to be identified for the use and that we also need to identify loopholes. *The information needs to be in Richmond by August in order to be incorporated into the Governor's legislative package.* Chairman Scheerer asked about the information the Board came up in July 2011. Mr. Jenkins stated that we took information to the Secretary as a legislative proposal and when it reached the



Secretary's office, we got information that was conveyed to us that Dominion was opposed to the suggestions about the potential that they would become a payer. The Secretary's office sent back that they not ready to carry forth the legislation this year. We will be inviting utility companies such as Dominion and NOVEC to the July meeting with TAX. We need to vet it to all stakeholders and receive more favorable support and come back with information. Mr. Scheerer suggests we share working document with our partners and Mr. Jenkins and Mr. Worrell agree to share the draft with partners

*The next Board of Forestry meeting is scheduled for September 11 in Galax Virginia. There will be a meeting the first part of the day followed by a field trip to the Mathews State Forest. This would require overnight travel on September 10 for some. We will send out hotel details before the meeting.*

The Board of Forestry meeting adjourned at 3:50 p.m

Respectfully Submitted: Becky Woodson, Acting Secretary

APPROVED