

Updates to Merchantability and Valuation of Forest Products

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What does this work respond to?

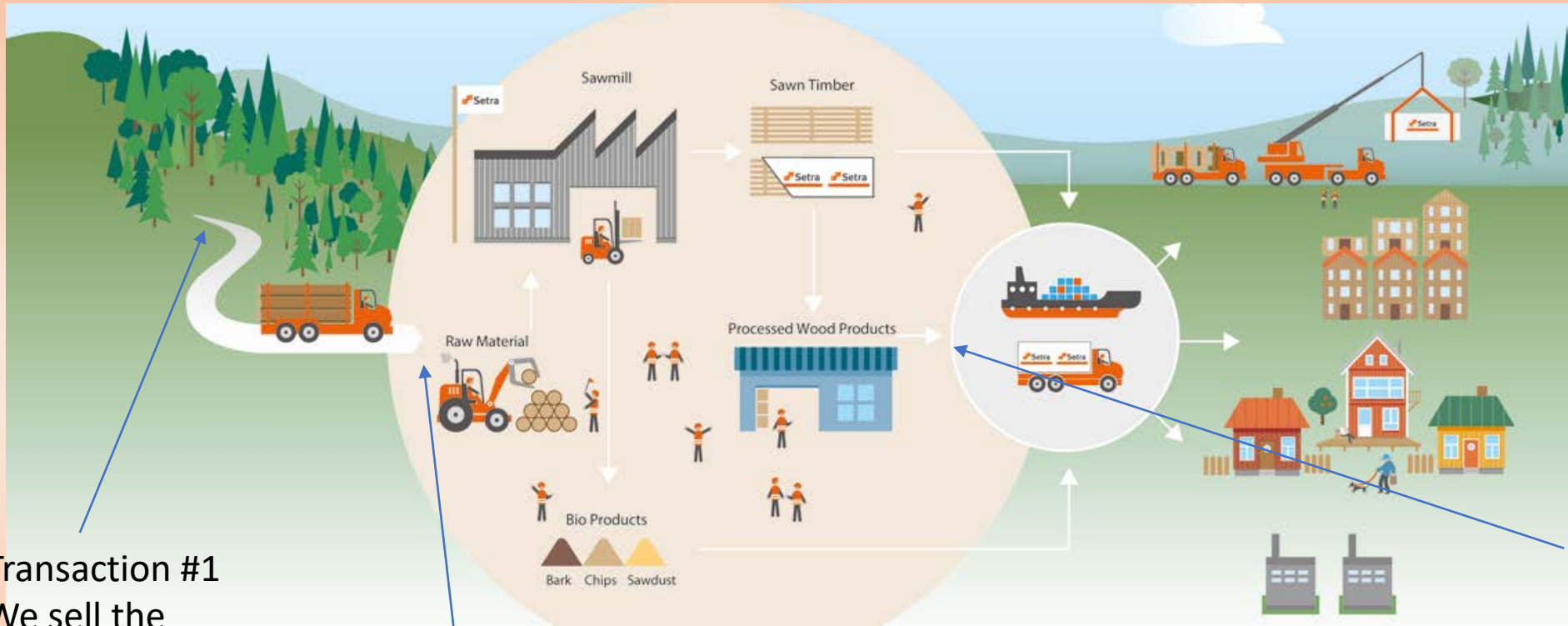
- One of the nine action items identified at the 2017 Accelerating Restoration Implementation Workshop.
- Local Forest Products Utilization and Available Markets
- Better align local industry needs with the wood products specifications we offer.

What was done?

- Survey regional industry to gather current utilization specifications for forest products manufacture
- Updated the FSM 2400 R3 Supplement 2430
- Updated the Regional FSH 2409.12 Chapter 10 Trees Merchantability Specifications
- Regional Forester Approval letter

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The wood products supply chain



Transaction #1
We sell the trees to the logger

Transaction #2
The logger sells the trees to the mill

Transaction #3
The mill sells the trees (finished goods) to the consumer

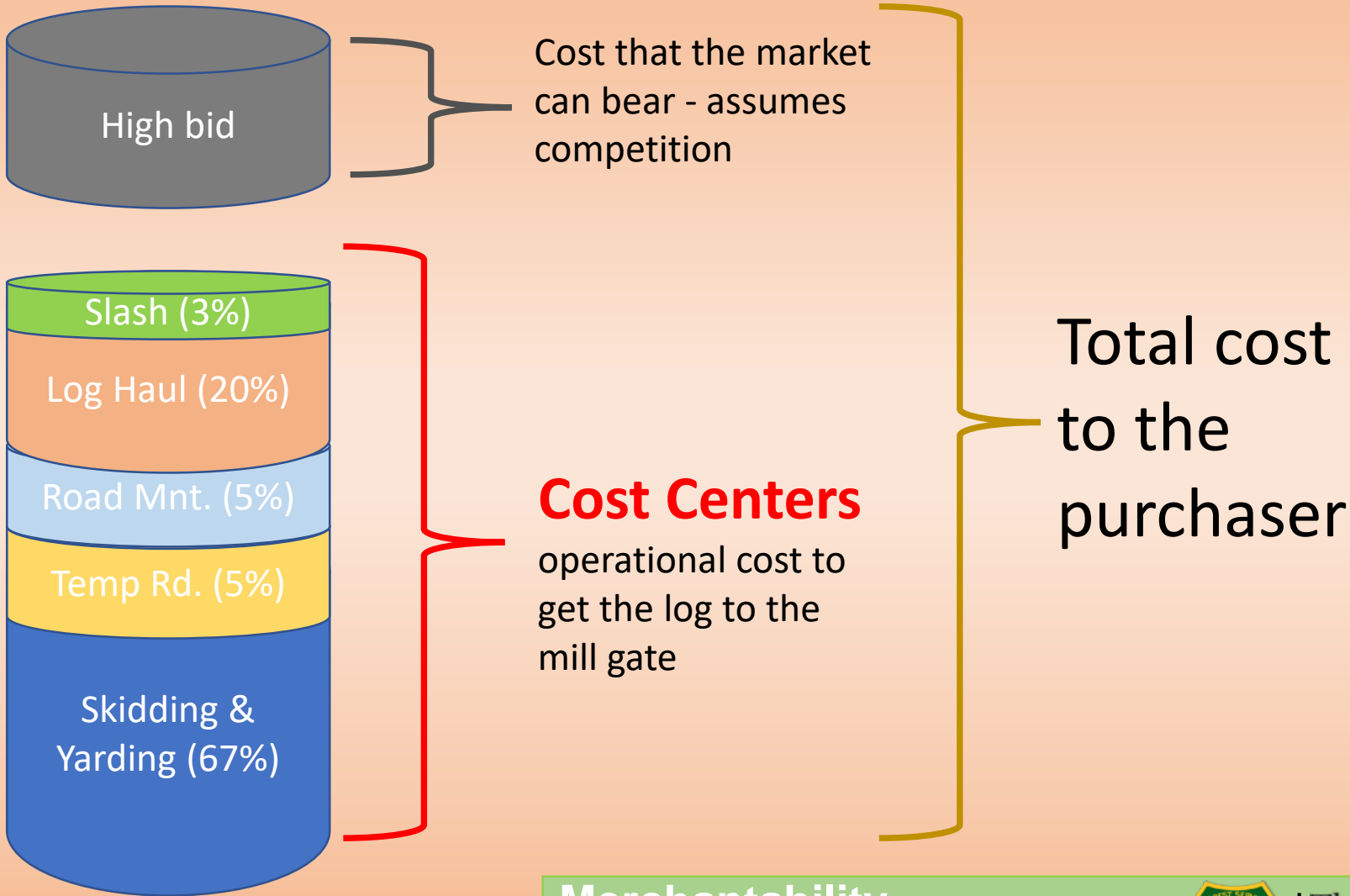
Merchantability
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Main TEA Components

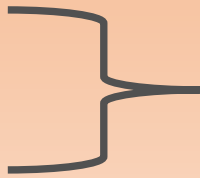
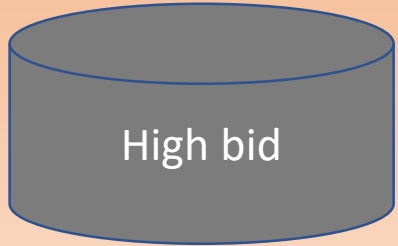


Merchantability Standards

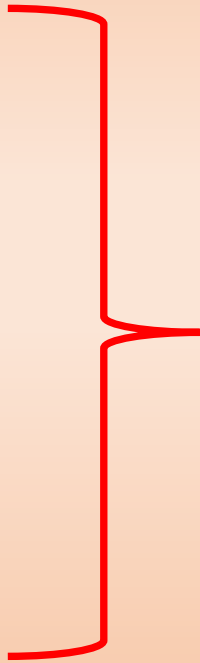
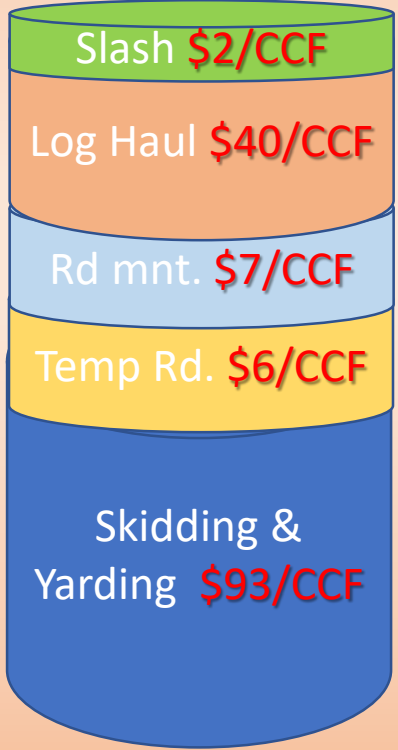
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TEA Sample Calculation

total cost to purchaser at the mill gate
\$170/CCF



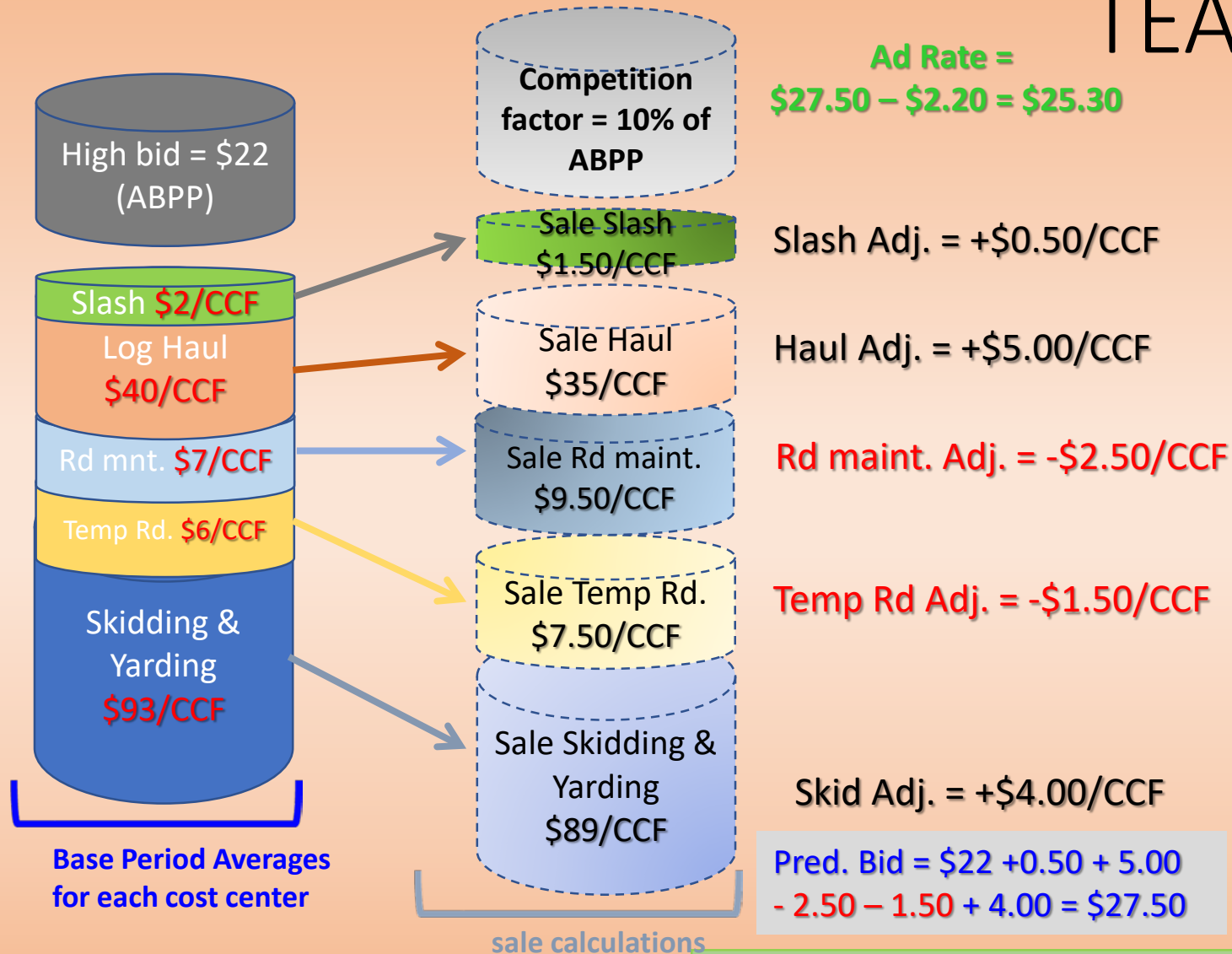
High bid = \$22/CCF
(evidence)



Cost Centers
\$148/CCF (\$296/mbf)
(implied "evidence")

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TEA Adjustment Process



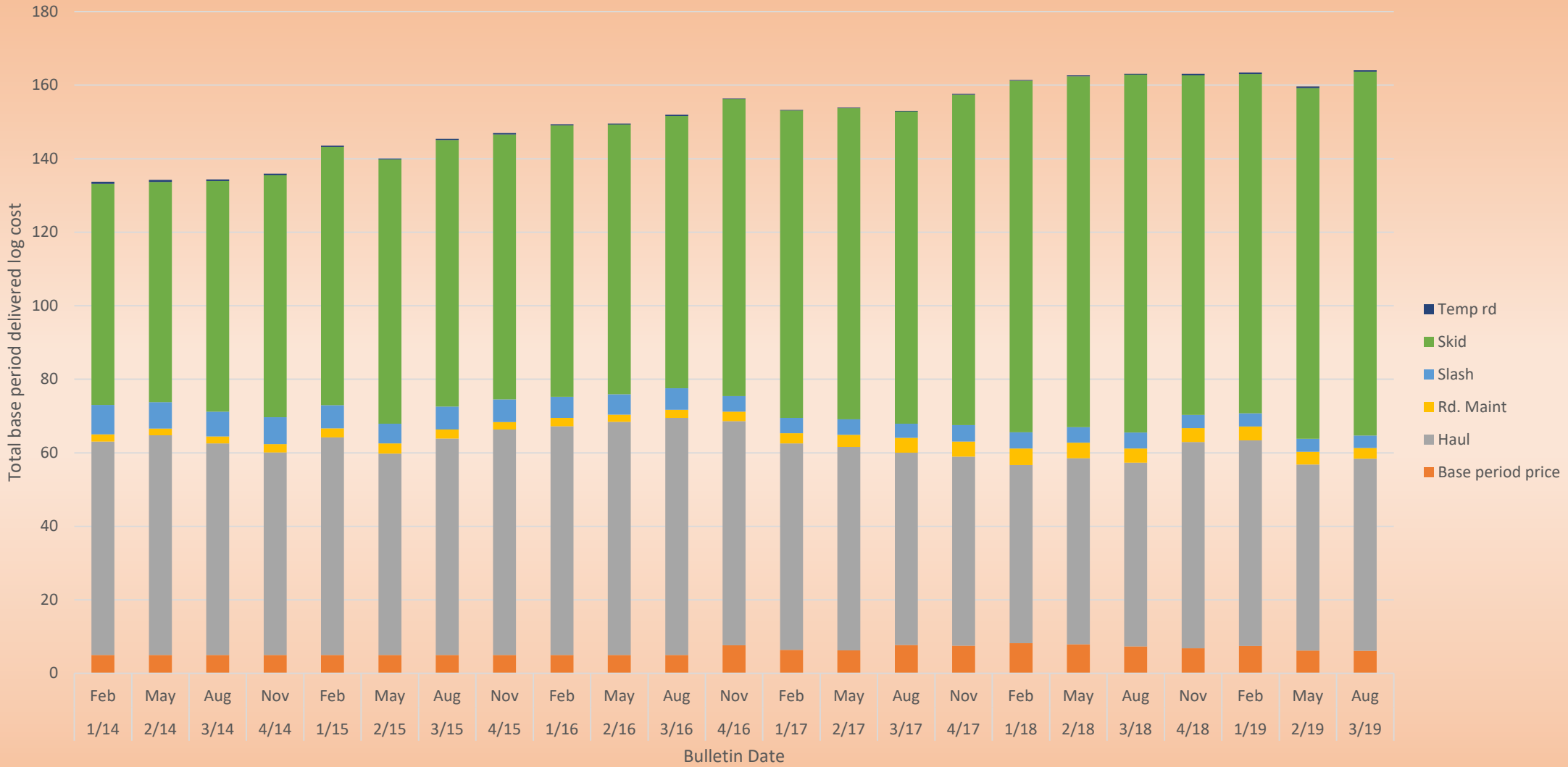
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Key points to consider at this point

- TEA is an adjustment process. While individual variables that compose the delivered log cost will change from sale to sale, the total delivered log cost is constant for all sales in a base period
- The current base period values are derived from past sale specific costs on a volume weighted average basis
- If the purchaser's delivered log cost is greater than the revenue generated for a load of delivered logs, even if the stumpage price is \$0.25/ccf....(complete the sentence)

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Base period data over time for large diameter sawtimber



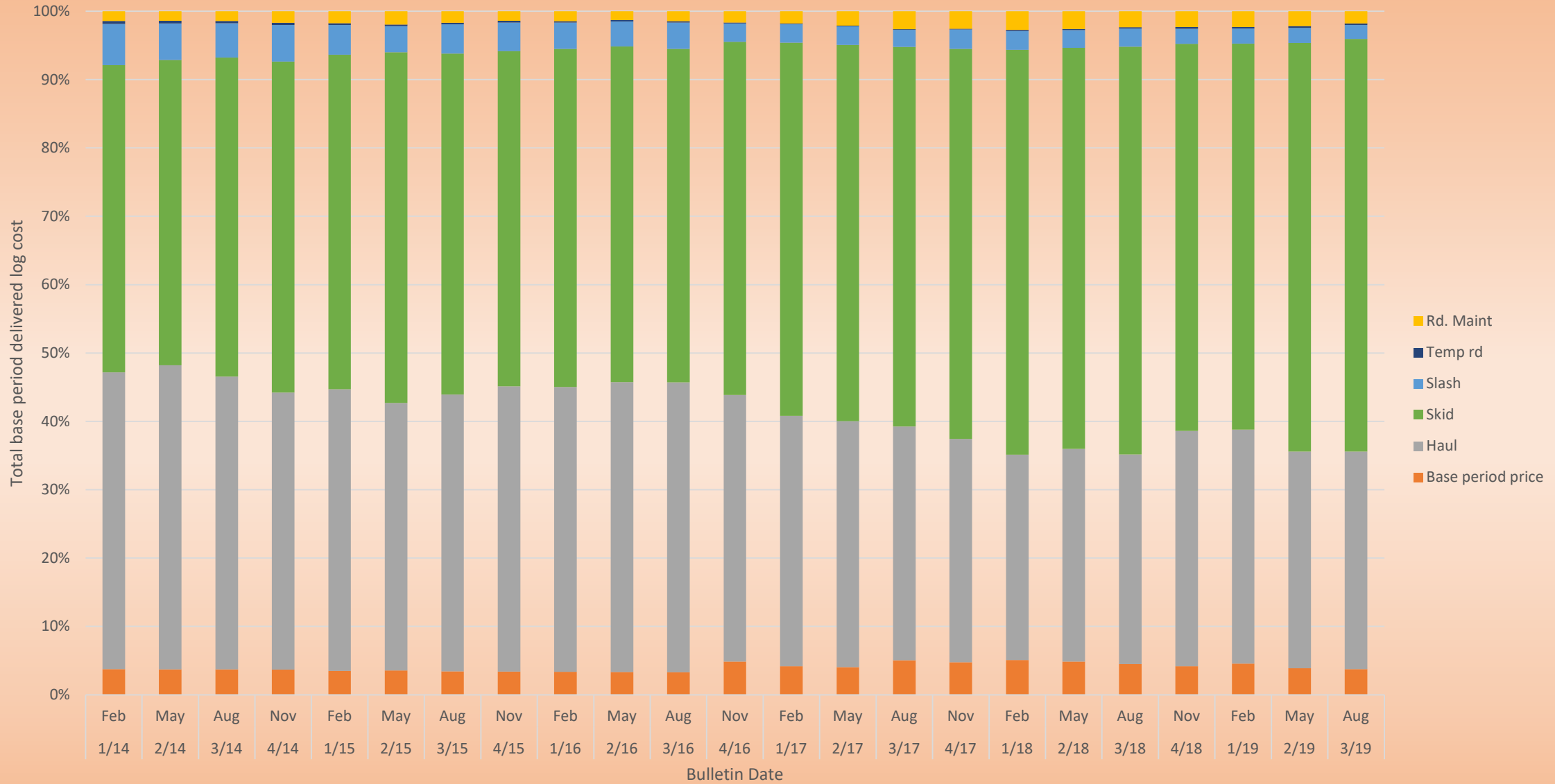
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Base period data over time for large diameter sawtimber



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[Minimum Rates](#). The lowest rate at which the Forest Service may sell timber (FSM 2431.31). Minimum rates can only be applied if a detailed appraisal is completed and the appraised value is deficit.

[Base Rates](#). The lowest rates of payment for timber that are authorized by the contract. Base rates are the higher of either: a. The minimum rates; or b. The K-V deposits for essential reforestation, plus timber property value, plus \$0.25 per hundred cubic feet (CCF).

[Standard Rates](#). The lowest rates at which the Forest Service may sell timber without a supporting appraisal calculation (FSM 2431.33). Based on fair market value.

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2431.31 - Minimum Rates

R3 Utilization and Valuation Groups				
Tree DBH Class ²	Products, Value-Class			
	Commercial Firewood ¹ Biddable ³	Biomass ¹ Biddable ³	Non-Sawtimber ¹ Biddable ³	Sawtimber ¹ Biddable
	\$.20/cord	\$.10/green ton	\$.25/ccf	\$.25/ccf
2.0-8.9	Mandatory	Mandatory	Optional	No
9.0-13.9 (all Species)	Mandatory	No	Mandatory	Optional
14.0+ (all Species)	Mandatory	No	No	Mandatory

Notes

- 1 Merchantability specifications (FSH 2409.12 ch. 10)
- 2 Product does not have to include the entire DBH Class range
- 3 Can be sold at fixed rate (not biddable) if desired. Sawtimber must be biddable.

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2431.33 – Standard Rates

Standard Rates for Convertible Products Not Appraised with Transaction Evidence Appraisal System					
Tree DBH Class ²	Products, Value-Class				
	Commercial Firewood ¹ Biddable ³	Biomass ¹ Biddable ³	Non-Sawtimber ¹ Biddable ³	Sawtimber ¹ Biddable	Dead or Salvage All Species Biddable ³
	\$2.00/cord	\$10/green ton	\$1.00/CCF	\$3.00/CCF	
2.0-8.9	Mandatory	Mandatory	Optional ⁴	No	\$0.25/CCF Mandatory
9.0-13.9 (all Species)	Mandatory	No	Mandatory	Optional	\$0.25/CCF Mandatory
14.0+ (all Species)	Mandatory	No	No	Mandatory	\$1.00/CCF Mandatory

Notes

- 1 Merchantability specifications (FSH 2409.12 ch. 10).
- 2 Product does not have to include the entire DBH Class range
- 3 Can be sold at fixed rate (not biddable) if desired. Sawtimber must be biddable.
4. Minimum DBH 6.0"

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Current v. New R3 Utilization Specifications

	Product	Min. DBH	Length	Dib
Current	01 Sawtimber	9.0	8.0	6.0
New	01 Sawtimber	14.0	10.0	6.0
Current	02 Pulpwood	9.0	10.0	4.0
New	08 Non-sawtimber	9.0	10.0	6.0
Current	02 Pulpwood	5.0	10.0	4.0
New	20 Biomass	6.0	10.0	4.0
New	20 Biomass	2.0	Variable	1.0

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Volume (Net CCF) From the Park West Cruise

Current Utilization Specifications				New Utilization Specifications			
Product Code	Size Class DBH	Estimated Trees	Net CCF	Product Code	Size Class DBH	Estimated Trees	Net CCF
01	12.0"+	138,438	34,110	01	14.0"+	86,685	26,724
01	9.0-11.9"	75,041	4,896	08	9.0 - 13.9"	126,794	13,585
		Sub Total	39,006			Sub Total	40,309
02	5.0-8.9"	87,979	2,143	20	6.0 – 8.9"	87,979	2,043
		Total Net CCF	41,149			Total Net CCF	42,352

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Rate Comparison

Total Sale Value	
Current Utilization Specs at Current Standard Rates	\$187,381
Current Utilization Specs at New Standard Rates	\$107,761.75
New Utilization Specs at New Standard Rates	\$94,267.75
Current Utilization Specs at New National Minimum Rates	\$10,287.25
New Utilization Specs at New National Minimum Rates	\$10,588.00

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