MANAGING A TIMBER SALE: FINANCIAL ASPECTS/LOG MARKETING

Rick Helman
In spite of heroic efforts to practice “good forestry,” sometimes things just don’t go according to plan.
Managing the Timber Sale Process

• Logger selection
• Negotiate rates and Contract
• Secure Purchase Agreements with Log Buyers.
• Monitor compliance
• Closeout (Taxes, planting, roads)
LOG ACCOUNTABILITY

- Load Tickets
- Production reports
- Mill receipts
**Production Report**

**LOAD TALLY SHEET**

<table>
<thead>
<tr>
<th>DATE</th>
<th>TICKET NO.</th>
<th>SORT</th>
<th>DESTINATION</th>
<th>TRUCKER</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-14-15</td>
<td>2144/8145</td>
<td>Pulp</td>
<td>DaPaul</td>
<td>TRK+Pulp B-2</td>
</tr>
<tr>
<td>7-14-15</td>
<td>2146/2147</td>
<td>Pulp</td>
<td>DaPaul</td>
<td>TRK+Pulp B-2</td>
</tr>
<tr>
<td>7-15-15</td>
<td>2148/2148</td>
<td>Studs</td>
<td>Mantee</td>
<td>TRK+Pulp B-2</td>
</tr>
<tr>
<td>7-15-15</td>
<td>2150/2151</td>
<td>P Rockefeller</td>
<td>Rainier Veneer</td>
<td>TRK+Pulp B-2</td>
</tr>
<tr>
<td>7-15-15</td>
<td>2152/2153</td>
<td>Pulp</td>
<td>DaPaul</td>
<td>TRK+Pulp B-2</td>
</tr>
<tr>
<td>7-15-15</td>
<td>2154/2155</td>
<td>Studs</td>
<td>Munke</td>
<td>TRK+Pulp B-2</td>
</tr>
<tr>
<td>7-16-15</td>
<td>2156/2157</td>
<td>Poodles</td>
<td>R.U.</td>
<td>TRK+Pulp B-2</td>
</tr>
<tr>
<td>7-16-15</td>
<td>2158/2159</td>
<td>Pulp</td>
<td>DaPaul</td>
<td>TRK+Pulp B-2</td>
</tr>
</tbody>
</table>
TIMBER SALE CONTRACTS
TYPE OF TIMBER SALE

- STUMPAGE SALE – LUMP SUM OR SCALE SALE
- NEGOTIATED WITH CONTRACTOR – PERCENTAGE OR PER UNIT VOLUME (TON, MBF)
- Special cases (hourly)
ELEMENTS OF A LOGGING CONTRACT

- Description of Sale Area
- Payment Terms
- Period
- Boundaries and Lines
- Compliance with Laws and Ordinances
- Insurance
- Subcontracting
- Logging requirements
What work is included?

• Slash treatment (piling, windrow, lop & scatter, burning?)

• Road grading

• Water bars on yarding roads
INSURANCE REQUIREMENTS

• Logger’s Broad Form

• Landowner named as additional insured

• Insurance from subcontractors (Log Truckers)
ACORD CERTIFICATE OF LIABILITY INSURANCE

PRODUCER
Insurance Agent
Street Address
City, State Zip

INSURED:
Insured Name
Insured Address

INSURER A: Liability Insurance Company
INSURER B: Auto Insurance Company
INSURER C:
INSURER D:
INSURER E:

COVERAGE

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. AGGREGATE LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

<table>
<thead>
<tr>
<th>LETTER</th>
<th>TYPE OF INSURANCE</th>
<th>POLICY NUMBER</th>
<th>POLICY EFFECTIVE</th>
<th>POLICY EXPIRATION</th>
<th>LIMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>GENERAL LIABILITY</td>
<td>123456789</td>
<td>01/01/06</td>
<td>01/01/07</td>
<td></td>
</tr>
</tbody>
</table>

   | Each Occurrence | 500,000 |
   | Fire Damage (Any one fire) | 100,000 |
   | Med Exp (Any one person) | 5,000 |
   | Personal & Adv Injury | 500,000 |
   | General Aggregate | 1,000,000 |
   | Products - Comp/Op Agg | 1,000,000 |

   General Liability should show “Occurrence”.

   Logger’s Broad Form PD

B

   | AUTOBONILE LIABILITY |
   | ANY AUTO |
   | ALL OWNED AUTOS |
   | SCHEDULED AUTOS |
   | HIRED AUTOS |
   | NON-OWNED AUTOS |

   | Garmin Liability |
   | ANY AUTO |

   | Excess Liability |
   | Occur |
   | Claims Made |

   | Deductible |
   | Retention 5 |

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/EXCLUSIONS ADDED BY ENDORSEMENT/SPECIAL PROVISIONS

Port Blakely Tree Farms is named additional insured as respects operations of the named insured per attached endorsement. This insurance is deemed primary and non-contributory with any of Port Blakely’s insurance policies.

CERTIFICATE HOLDER
ADDITIONAL INSURED; INSURER

CANCELLATION

Certificate holder must be listed in this section

Additional Insured wording as per Certificate Request

ACORD 25-S (7197)
© ACORD CORPORATION 1988
...and all that time Wendy was lying to me about her age...
LOGGING COSTS
What do they consist of?
EQUIPMENT MOVE-IN
(MOBILIZATION)
LOGGING COSTS

- FALLING-BUCKING-LIMBING
- YARDING-SORTING-LOADING
- RIGHT-OF-WAY
- ROAD CONSTRUCTION/MAINT
- SLASH TREATMENT
- OTHER THINGS
Logging costs are based on production
High Production
- Final Harvest (Clearcut)
- 10 truckloads per day
- Base Logging Costs $18 - $22 per ton (on the truck)
- $126 - $154 per MBF
- 23% - 28%

Low Production
- Selective Harvest (Thinning)
- 2 truckloads per day
- Base Logging Costs $32 - $35 per ton (on the truck)
- $224 - $245 per MBF
- 41% - 45%
PERMITS

- FPA
- LONG TERM FPA
- COHP
- CONVERSION
- FEES
- COST OF REQUIRED SPECIALIST STUDIES (GEOLOGIST, BIOLOGIST)
DEVELOPMENT MORATORIUM

• No development activity for 6 years
• Counties apply differently
• Options: COHP, conversion, lifting
SO - HOW MUCH TO REMOVE THIS UGLY OLD TREE?

$1,750.

IT'S NOT THAT UGLY.
CONSULTANT FEES

• HOURLY
• PORTAL TO PORTAL
• ONE WAY TRAVEL
• DIFFERENT RATES FOR TRAVEL AND WORK
• PERCENTAGE
HAULING COSTS
RULE OF THUMB ESTIMATES

- Conventional Truck
- Self Loader
- Mule Train, Super Train
HISTORICAL LOG MARKET

Figure 2.10: Lumber, Log, and Stumpage Prices in Washington
(nominal)

Note: The two scales reflect the fact that, on average, one Board foot Scribner log scale yields about two board feet lumber scale.
HISTORIC PRICE TRENDS

Export vs Domestic

Delivered Cost fob port ($/MBF)

- Domestic
- Export
MARKET OUTLOOK & INDUSTRY DEVELOPMENTS

• Global log markets forecasted to improve but at a slow pace through 2017.
• Decreasing harvest levels in Canada. No net increase after 2018.
• Predicted supply imbalance by 2018-2019.
• Mill closures and consolidations.
• Softwood Lumber Agreement expiration.
• India?
SOURCES FOR CURRENT LOG MARKET INFORMATION

• Washington DNR survey prices for delivered logs.


• Northwest Forestry Services (WA/OR Prices) nwforestryservices.com
LOG MARKETING
CHARACTERISTICS OF HIGH QUALITY TIMBER

• KNOTS: SMALL AND WELL SCATTERED IF PRESENT.

• RING COUNT: 6 TO 8 RINGS PER INCH AVERAGE IN THE OUTER INCH OR OUTER 1/3 OF LOG.

• CENTERED HEART.

• SMOOTH AND STRAIGHT
COMMON DOMESTIC AND EXPORT LOG SORTS

• DOMESTIC: UTILITY POLES, VENEER, VARIOUS TYPES OF SAWLOGS, CHIP AND SAW, PULP

• EXPORT: JAPAN, CHINA, KOREA, TEMPLE POLES,
DOMESTIC PRICE/SPEC SHEET

DOUGLAS FIR:
24"&UP, SM&BTR, NO DEFECT-ROT, PITCH ETC. CALL FOR LENGTHS ............................................. $750M/$125 PER TON
36' & LONGER, 12" TOPS & LARGER, #2 TYPE SAW & BTR, 6 TON MBF ............................................. $475M/$79 PER TON
32' & 34', 12" TOPS & LARGER, #2 TYPE SAW & BTR, 6 TON MBF ..................................................... $450M/$75 PER TON
26' ONLY, 12" TOPS & LARGER, #2 TYPE SAW & BTR, 5.7 TON PER MBF ........................................ $425M/$75 PER TON
18' TO 24', 12" TOPS AND LARGER, #2 TYPE SAW & BTR, 5.7 TON PER MBF ................................ $400M/$70 PER TON
36' & LONGER, 12" TOPS & LARGER, #3 TYPE SAW, 6 TON PER MBF ................................................ $200M/$33 PER TON
ALL OTHER 12" & UP, #3 PAID BY TON MINUS DEDUCTIONS IF NECESSARY ...................................... $200M/$34 PER TON
32' & LONGER, 8'-11" TOPS, #2 TYPE SAW & BTR, 7 TON MBF ......................................................... $600M/$86 PER TON
32' & LONGER, 6" & UP CNS (32' REQUIRED LENGTH AVERAGE) ......................................................... $75 PER TON
16' & 24' & LONGER, 6" & UP (NO 18', 20', 22' & NO PULP) ............................................................... $70 PER TON
CUT TO LENGTH FIR (12, 16 & 20, IF STRAIGHT) ** ................................................................. $65 PER TON

HEMLOCK AND WHITE FIR:
32' & LONGER, 12" TOPS & LARGER, #2 TYPE SAW & BTR, 6.5 TON PER MBF ....................................... $350M/$54 PER TON
20' TO 30', 12" TOPS & LARGER, #2 TYPE SAW & BTR, 6.3 TON PER MBF ........................................ $250M/$40 PER TON
5" AND UP, 12' & LONGER ................................................................. $30 PER TON

PINE AND SPRUCE:
ALL DIAMETERS AND LENGTHS, 5" MINIMUM TOP ................................................................. $25 PER TON

CEDAR:
ALL DIAMETERS AND LENGTHS 5" MINIMUM TOP .......................................................................... $70 PER TON
WORMY CEDAR WILL BE CULLED. ALL LOGS CONTAINING METAL WILL BE CULLED.

PAY SCHEDULE: ONE WEEK AFTER DELIVERY, WEEK ENDING FRIDAY
REQUIRED LOG LENGTHS: 24' & longer must have 11" trim; 20' & shorter must have 6" trim.
 Butt Sizes: No Minimum or Maximum Butt Size
Hemlock & White Fir Logs containing Freezbreak will be culled if determined by scaler to be pulp.

ALL LOGS ARE ASSUMED TO BE BUCKED PROPERLY AND REASONABLY FREE OF DEFECT. IF NOT, IT MAY NECESSARY TO MAKE DEDUCTIONS. LOGS 26" AND SHORTER THAT MUST BE CUT IN TWO BEFORE PROCESSING WILL BE PAID AT LOWER PRICES. LOGS NOT SUITABLE FOR THE MANUFACTURE OF MARKETABLE LUMBER WILL BE REJECTED. BUTTS MUST BE WITHIN 1" OF SQUARE. NO BUTT SHOT, NO PISTOL BUTTS. UNDERCUTS MUST BE REMOVED FROM STUMP PORTION OF TREE. LOGS CONTAINING METAL WILL BE CULLED. IN ORDER TO MAKE PRICE SEPARATIONS ON MIXED SPECIES AND MIXED DIAMETERS IN GIVEN LOADS, THE SELLER HAS THE OPTION OF MUTUAL AGREEMENT ON AN ESTIMATE OR PIECE SCALING, OR A COMBINATION OF AN ESTIMATE AND PIECE SCALING. ON PARTIALLY SCALED LOAD, FOR REASON OF PRICE SEPARATION, SCALED FOOTAGE WILL BE CONVERTED TO WEIGHT BY THE ABOVE FIELD-TESTED GENERALLY ACCURATE RATIOS. THE SELLER HAS THE OPTION OF USING PACIFIC RIM SCALING BUREAU. PRICES APPLY TO FRESH CUT TIMBER, AND SUBJECT TO CHANGE WITHOUT NOTICE.

HIGHER QUALITY LOGS CAN BE DELIVERED TO SUMNER. PRIOR APPROVAL IS NEEDED.

The vendor agrees that by completing the load slip the logs delivered do not originate from a controversial source as defined in PEFC ST 2002:2013. As Manke Lumber Company maintains a Chain of Custody all vendors are required to sign a self-declaration indentifying the origin of the logs sold to Manke Lumber Company.

LOG BUYER:
GARY ORR
(360) 490-1081 Cell

TACOMA SCALES:
(253) 572-9029
MONDAY - FRIDAY TAM-5 PM

SELF LOADER:
CHRIS COLEMAN
(360)470-6124 Cell
DISPATCH 6 PM-8 PM
SUN-THURS: 360-427-8904
“Roll-out” Scale VS. Truck Scale
RED ALDER MARKETS

- Veneer/Slicers
- Sawlogs 6”+
- Resort Yard - Defiance
Special Markets
FIGURED BIGLEAF MAPLE

• Curly

• Quilted

• Fiddleback
Musical Wood
'CONGRATULATIONS ON YOUR INHERITANCE. YOUR TAX LIABILITY IS 40%—
WOULD YOU PREFER TO KEEP THE TOP OR BOTTOM 60% OF EACH TREE?'
TIMBER TAXES

• Forest Excise Tax (5% or 4.2%)
• Federal Tax (Capital Gain?)
• Maybe Real Estate excise tax.
ASK THE FORESTER