

# CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

## Study Session Worksheet

**Presentation Date:** July 24, 2012 **Approx. Start Time:** 2:30 PM **Approx. Length:** 60 minutes

**Presentation Title:** County Parks & Forest – Portfolio Management & Harvest Rates

**Department:** Business & Community Services

**Presenters:** Gary Barth, Director; Jeroen Kok, Manager; Dan Green, County Forester

**Other Invitees:** Members of the County Forest Advisory Board

### **WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?**

Discuss the opportunity to save approximately \$1 million in interest payments by prepaying the debt on the Stone Creek Golf Course from an accelerated timber harvest program. In addition to interest savings, early defeasement of the Stone Creek debt will result in an increase in the net operating revenue from the golf course. The net revenue is transferred annually to County Parks for ongoing operations and maintenance, thereby providing a more predictable year-over-year revenue stream than that provided by the Timber Trust Fund.

### **EXECUTIVE SUMMARY:**

**Financial Situation:** County Parks is currently operating under an annual budget shortfall. Timber revenue to support County Parks operations has proven to be somewhat unpredictable and volatile. Annual debt service on the Stone Creek Golf Course bonds is approximately \$450,000, of which approximately \$100,000 is interest.

**Goal:** Provide increase financial stability to County Parks by moving toward a more balanced revenue and expense operating model and increasing year-to-year revenue certainty.

**Opportunity:** The County possesses a significant inventory of harvestable timber that is older than the target age class. The Stone Creek Golf Course Bond payments are eligible for repayment beginning in September 2013. Early repayment will save the County money.

**Proposal:** Accelerate timber harvests to generate approximately \$4 million in cash over a 2-3 year period to defease the Stone Creek bond debt.

**Result:** Save approximately \$1 million in bond interest debt payments (paying off in 2014 instead of payments to maturity in 2024). Achieve a better balance in timber age classes. Generate a short-term increase in timber sales which will support local logging, trucking and milling jobs.

**Challenge:** Board may be asked to withstand a certain amount of protest to timber sales on a small percentage of the land that will be actively managed to produce the desired income.

### **FINANCIAL IMPLICATIONS (current year and ongoing):**

Currently, County Parks are operating at an annual deficit of approximately \$400,000, despite the fact that county timber sales have generated approximately \$710,000 in average annual revenue over the past ten years.

### **LEGAL/POLICY REQUIREMENTS:**

An accelerated harvest program will result in a departure from the historic harvest levels called for in the County Forest Management Plan. The County has been harvesting timber at the rate of growth – an average of 55 acres/year. The accelerated harvest being proposed would increase harvests on approximately 450 acres over a two year period in order to defease the golf course debt, at which point harvest levels will be reduced to 40-45 acres/year, reflecting the new rate of growth.



**PUBLIC/GOVERNMENTAL PARTICIPATION:**

The County's Forest Advisory Board considered the proposal at a recent meeting and supports the staff recommendation to pursue accelerated harvests. In addition, the Parks Advisory Board is aware of the effort to stabilize the County Parks budget, and supports efforts to utilize forest resources to save debt payments. As is currently the case, all timber sales will follow-up a public process that involves notification to neighboring property owners, a public tour of the proposed timber sale, and an advertised public meeting of the Timber Sale Advisory Committee.

**OPTIONS:**

Clackamas County can continue to harvest at current rates which has generated an average of \$710,000 annually to support County parks operations. However, the County has the opportunity to accelerate harvests to produce income to defease the Stone Creek Golf Club debt, thereby saving approximately \$1 million in interest over the remaining life of the loan. Future Stone Creek revenue will no longer be required to pay debt, thereby increasing the amount of net operating revenue to support County Parks. Accelerated harvests will reduce future annual timber revenues, but that will be offset by golf revenue. While a significant impact, defeasing the golf course debt does not entirely close the budget gap in County Parks. Additional work will be needed to increase revenues to support County Parks, which will include an analysis of non-producing timber lands.

**RECOMMENDATION:**

BCS staff and the County Forest Advisory Board recommend that the Board instruct staff to pursue the accelerated harvest options in a manner that provides sufficient cash flow to defease the Stone Creek Golf Course bond debt by June 30, 2014. This strategy will: (A) help save the County approximately \$1 million in bond debt interest payments over the remaining life of the golf course loan by paying off the loan 10 years sooner than anticipated, thereby shifting the majority of golf course revenue from debt payment to operational income for County Parks, (B) provide for increased stability of year-to-year revenue to the Parks Department, (C) provide economic stimulus to local timber and mill operators by providing an influx of timber sales and raw materials, (D) help to reduce the imbalance in forest age class inventory by reducing the percentage of timber in the +55 year old category.

It is estimated that 80-85% of the timber necessary to achieve the goals of the accelerated timber harvest program can be implemented on county-owned lands that have not historically been controversial to operate (Wildcat, Dooghee and Elwood). 15-20% of the anticipated harvest may have to occur on properties which may solicit some objections from neighboring property owners and others due their proximity to residential properties and scenic areas. Forest staff feels that potential concerns can largely be addressed. If the accelerated harvest option is not implemented, County Parks will continue to struggle with significant swings in year-to-year revenue for operations and will lose an opportunity to save approximately \$1 million in interest payments over the final 10 years of the Stone Creek bonds (pay-off in 2024).

**ATTACHMENTS:**

Staff has prepared a PowerPoint presentation to explain the proposal and help answer questions regarding the recommendation.

**SUBMITTED BY:**

Division Director/Head Approval \_\_\_\_\_

Department Director/Head Approval \_\_\_\_\_

County Administrator Approval LSK \_\_\_\_\_



## Fiscal Impact Form – Instructions

**RESOURCES:**

Is this item in your current work plan and budget?

- YES  
 NO

**START-UP EXPENSES AND STAFFING (if applicable):**

The County's Forest Program is currently managed according to an adopted Forest Management Plan and is staffed by a County Forester, one full-time and one part-time assistant.

**ONGOING OPERATING EXPENSES/SAVINGS AND STAFFING (if applicable):**

County timber operations are (and have been) managed on a sustainable yield basis, whereby annual harvests are roughly equivalent to annual growth (based on a 55-year rotation). Over the past ten years, this level of harvest has yielded an average of \$710,000 (although year-to-year revenue has varied significantly). The proposed accelerated harvest program will generate approximately \$4 million to pay-off the Stone Creek construction bonds, thereby saving approximately \$1 million in debt service over the remaining 10 years of the loan, and diverting 100% of the more predictable golf course net operating revenue to support County Parks. As a result, the size of future timber harvests will be reduced, from the current average of approximately 55 acres, to 40-45 acres per year. Average annual timber revenue will decline to approximately \$450,000.

**ANTICIPATED RESULTS:**

An accelerated harvest program will save Clackamas County approximately \$1 million in interest payments over the remaining life of the Stone Creek debt service. As a result, golf course revenues will be fully dedicated to supporting County Park operations over the next ten years, providing a more predictable flow of operating revenue.

**COSTS & BENEFITS:**

An accelerated harvest program is unlikely to require additional staffing, anticipated timber sales can be managed by existing staff.

<b>Costs:</b>							
	Item	Hours	Start-up Capital	Other Start-up	Annual Operations	Annual Capital	TOTAL
	Capital purchase						
	Office infrastructure						
	Training						
	<b>Total Start-up Costs</b>						
	<b>Ongoing Annual Costs</b>						
<b>Benefits/Savings:</b>							
	Item	Hours	Start-up Capital	Other Start-up	Annual Operations	Annual Capital	TOTAL
	Debt Service Savings						\$1,000,000
	<b>Total Benefit/Savings</b>						<b>\$1,000,000</b>



Clackamas County Parks & Forest  
BCC Study Session  
July 24, 2012

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Portfolio Management  
& Harvest Rates



# Purpose of Study Session

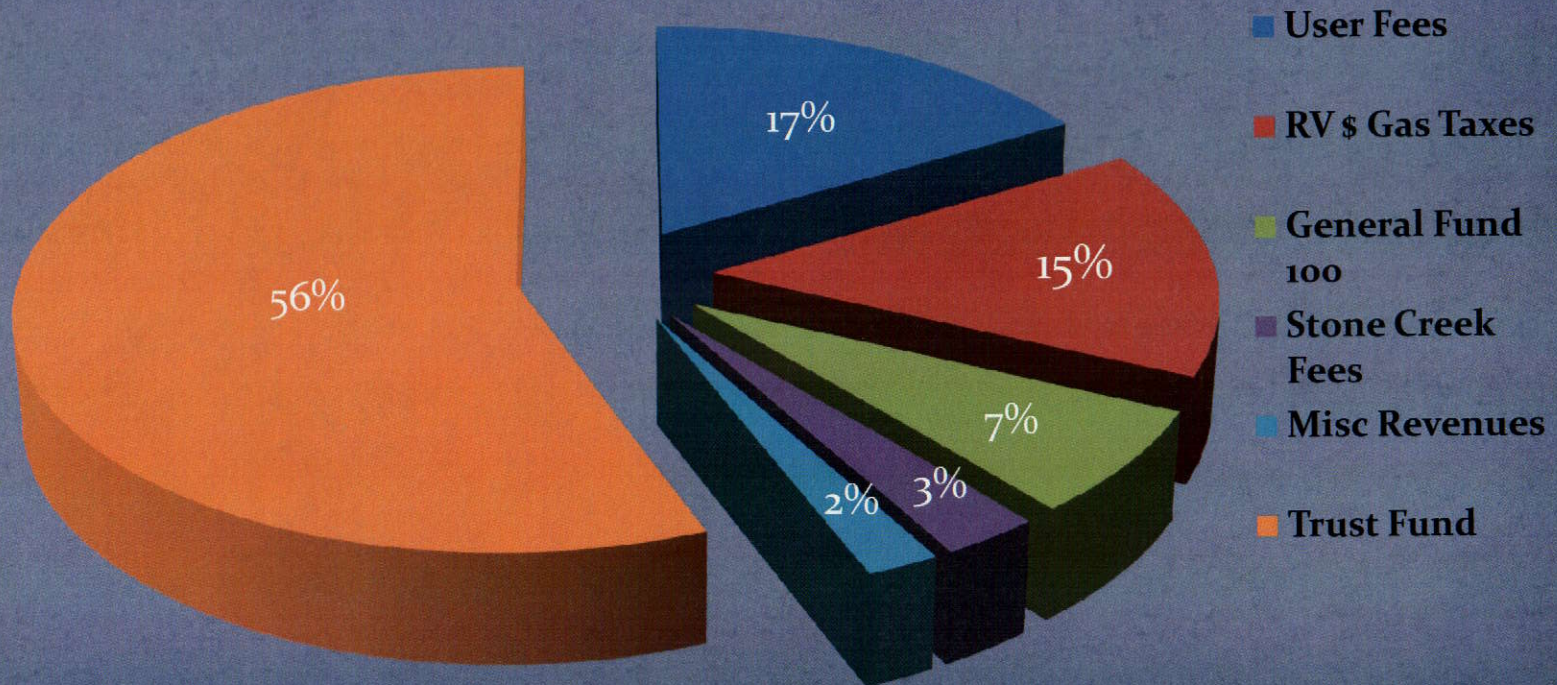
1. Describe Parks and Forest Division current financial situation.
2. Present an opportunity to increase timber revenues in order to pre-pay the construction loan for Stone Creek Golf Course.



# The Financial Situation – Budget Gap

- Timber sale revenue is a significant contributor to the Parks and Forest operations budget (which is \$2.0 million for 2013).
- General Fund support is 7% of the budget and half of what it was in 2002.

2009-2012 Operating Revenue





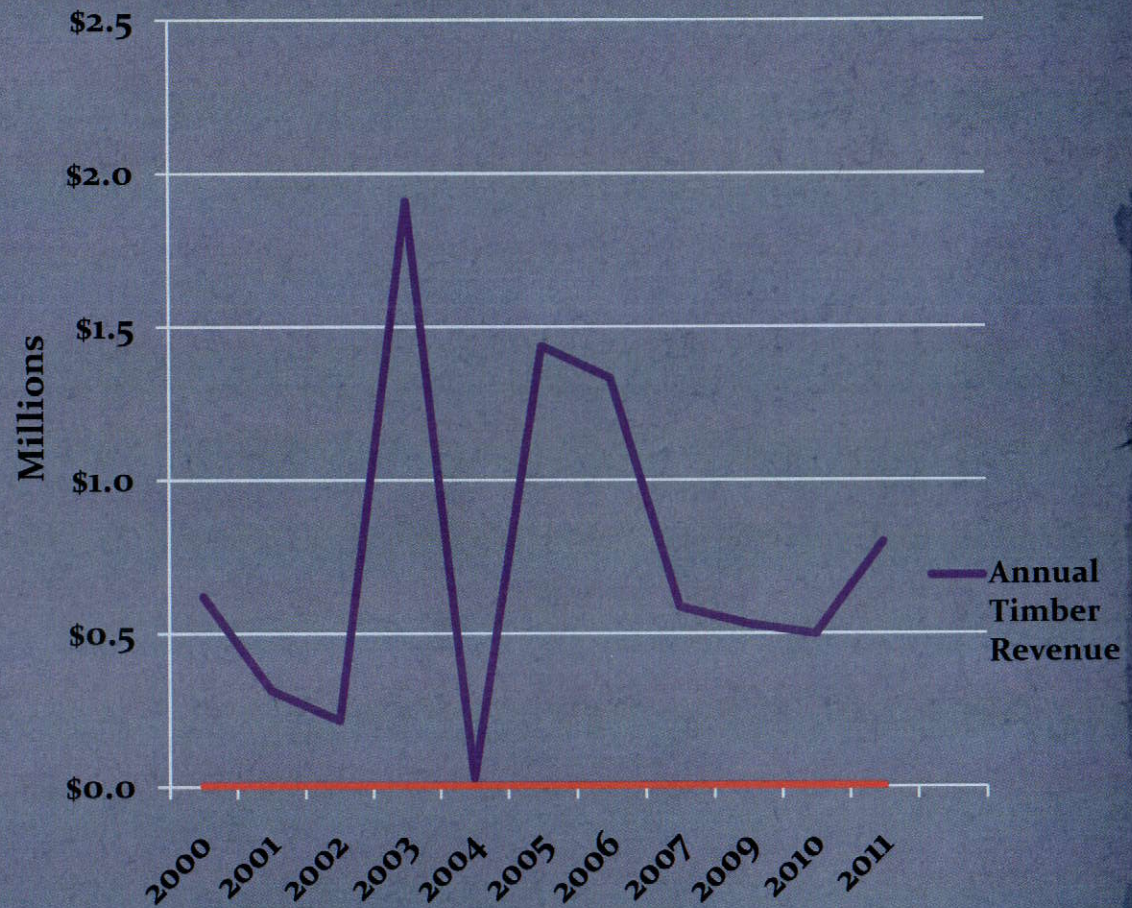
# The Financial Situation – Budget Gap

- Over half of the \$2 million annual operating revenue - \$1.1 million – has come from the timber trust fund but there is only an average of \$710,000 being added to the fund each year. That is obviously not sustainable.
- Our operations budget, even after significant reductions, requires \$400,000 more in revenue than current sources provide.



# The Financial Situation – Revenue Volatility

- Timber harvest provides certainty of revenue over time but can vary significantly on an annual basis.
- Over the past decade we have generated on average of about \$710,000 per year from timber revenue.





# The Financial Situation – Revenue Volatility

- Revenue from Stone Creek Golf Course is more predictable and less volatile than timber harvest revenue.
- Net Operating Revenue from Stone Creek Golf Course is transferred annually to County Parks to assist in funding ongoing operations and maintenance.





# The Financial Situation – Stone Creek Golf Course Debt

- The current loan balance of Stone Creek Golf Course is about \$4.3 million.
- The annual payment is currently about \$470,000.
- The loan has a maturity date of June 2024.
- Beginning September 1, 2013 we can pay off the loan early to save interest payments.
- Pre-paying the loan in the fall of 2014 would save approximately \$1 million in interest payments, thereby providing a source of new operating revenue for Parks and Forest.



# The Goal

- Provide increased financial stability to County Parks by moving toward a more sustainable and balanced revenue and expense operating model.



# The Opportunity

- The County possesses a significant inventory of harvestable timber that is older than the target age class called for in the County Timber Management Plan.
- The Stone Creek Golf Course Bond payments are eligible for repayment beginning in September 2013. Early repayment will save the County approximately \$1 million in interest payments.
- The County has the opportunity to accelerate the rate of timber harvest in our older age classes to raise enough revenue to pay off the Stone Creek Golf Course debt in 2014.



# Forest Management Plan

Our forest management plan requires that we:

- Meet or exceed Oregon Forest Practices Act standards
- Protect streams and unique natural areas
- Harvest at a level equal to annual growth over 10 years
- Reforest promptly
- Maintain roads
- Conduct a new inventory at least every 10 years

The most current inventory– 2006--showed the same volume of timber as did our 1998 inventory – 58 million board feet.

- Our proposal will only change the harvest rate (bullet #3)



# Current Holdings and Rate of Harvest

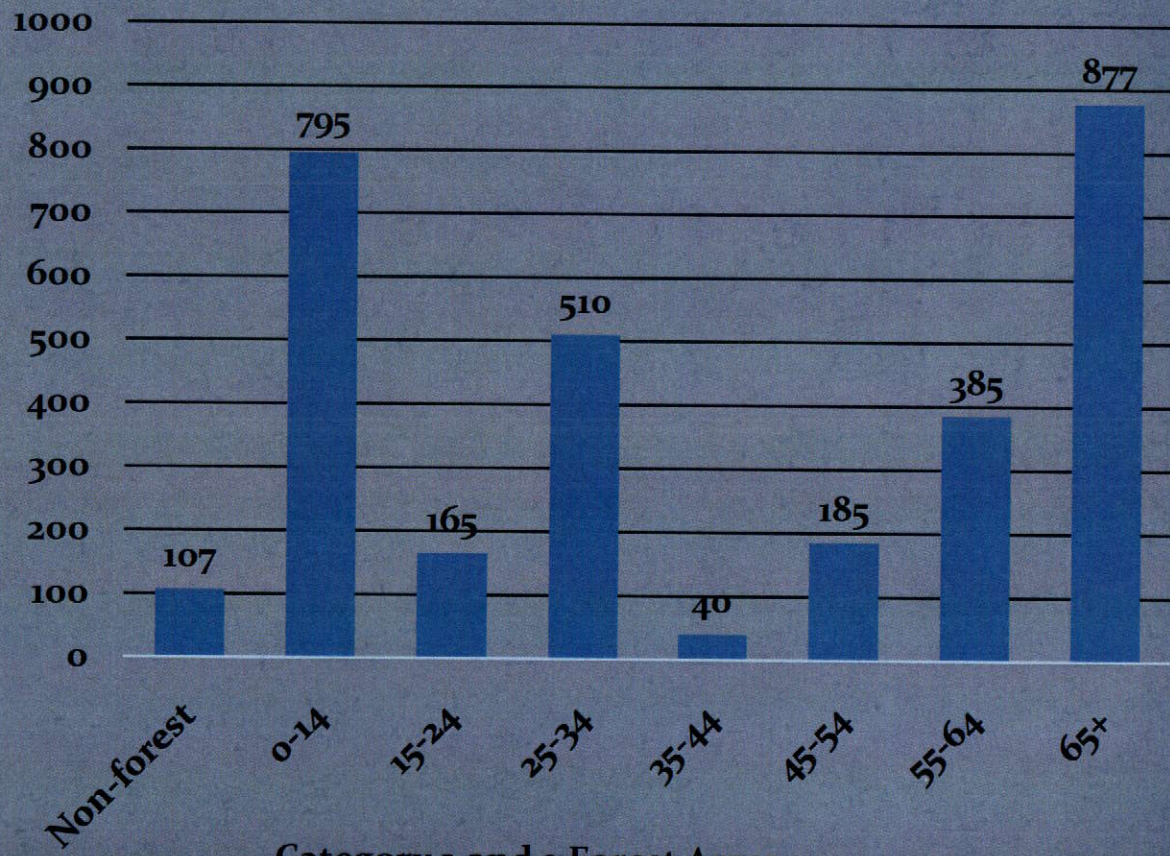
- Of the County's 4,000 acres:
  - Roughly 1,000 acres are in County Parks and special use areas. Timber harvesting is rare in these areas.
  - Roughly 3,000 acres are in managed forests where sustainable timber harvests are scheduled.
- Our forest management plan directs harvesting an amount equal to the annual growth on the 3,000 acres – roughly 2 million board feet from about 55 acres each year.
- Our harvest rotation age has been set at 55 years.
- Over the last ten years, harvest has averaged 1.9 million board feet annually worth approximately \$710,000.



# Age of our Forests

- 41 % of our forests are over 55 years old.
- 29% of our forests are over 65 years old.

Acres by Age Class  
as of end of 2012



Category 2 and 3 Forest Acres



# The Proposal - Accelerated Harvest

- If we were to harvest about  $\frac{1}{3}$  of the 55+ year-old timber (roughly 450 acres) over the next two years, we would generate enough revenue to pay off the Stone Creek debt.
- Future harvests would have to be reduced from about 55 acres per year to 40 acres per year to meet our sustainability objectives.
- 80-85% of the accelerated harvest would come from our Wildcat, Elwood, and Dhooghe properties.



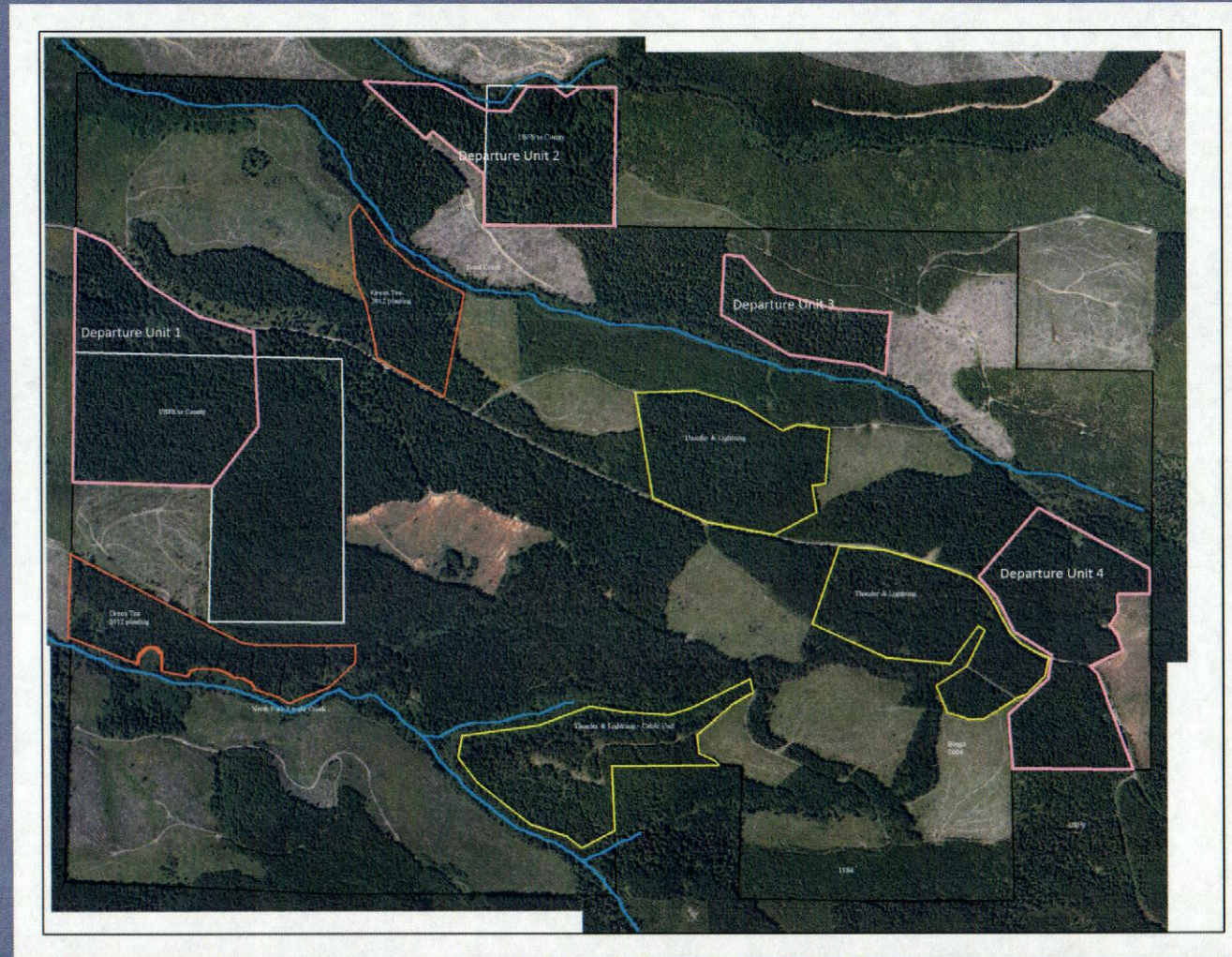
# The Proposal – Accelerated Harvest

- Accelerated harvest would result in four recently harvested areas at Wildcat that would be larger than the 60 acre or less harvest unit size to which we have held. Openings would remain smaller than the 120 acre opening size allowed by the Oregon Forest Properties Act.
- All other properties would continue to have openings less than 60 acres in size.
- Under this proposal, staff estimates that about 15-20% of the accelerated harvest would come from Parrott Creek and/or properties in the Hoodland area.



# Accelerated Harvest Proposal at Wildcat

Harvest area boundaries are approximate





# Results of Accelerated Harvest Proposal

1. **\$1 Million of New Revenue** – The amount of interest saved by paying off the golf course would become additional operating revenue for Clackamas County Parks and Forest.
2. **Reduce Revenue Volatility** - Substituting some timber sale revenue for increased golf course revenue would reduce the overall volatility of revenue streams.
3. **Economic Stimulation** – An accelerated harvest would create more jobs in the local timber and trucking industry at a time when family-wage jobs are needed. It would also help to preserve remaining skilled labor and equipment needed to support future logging and forest products activities.
4. **Benefit to Local Mills** - There would be a benefit to local mills of smaller average log sizes now and in the future, increasing the chances of logs being processed by mills within Clackamas County.
5. **Age Class Balance** – The result of harvesting more of the older age class timber will result in a more balanced forest age class inventory.



# Results of Accelerated Harvest Proposal

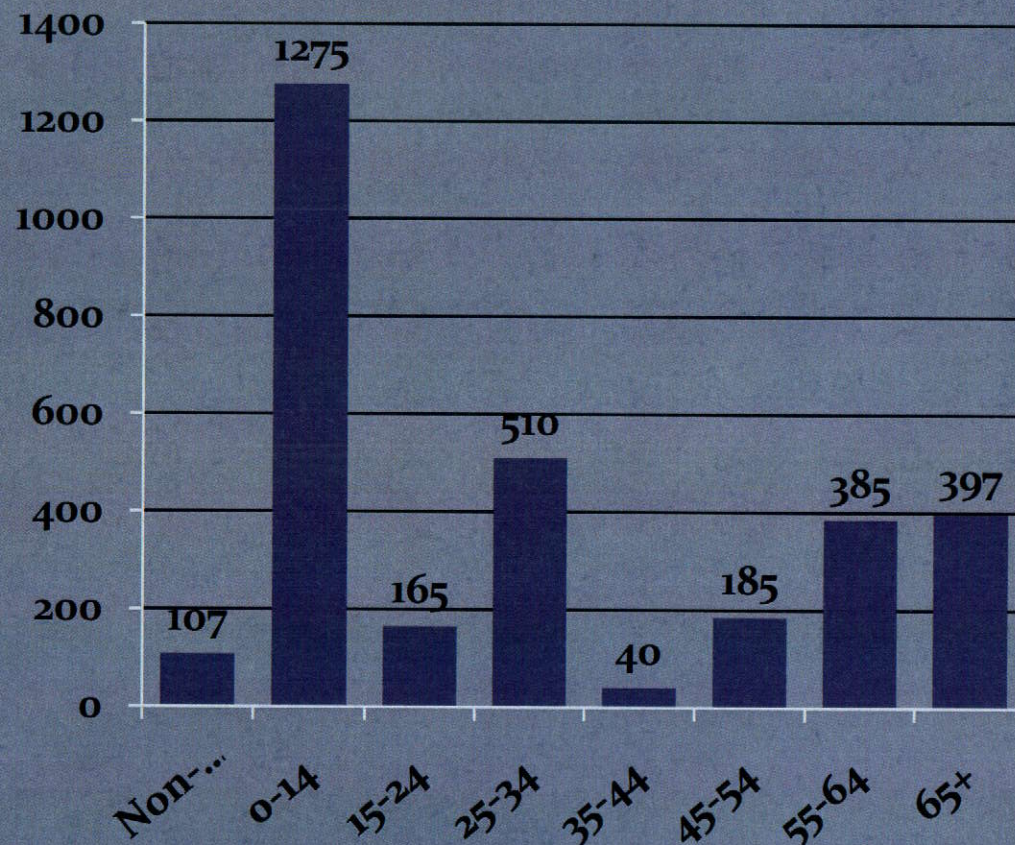
\$710,000	Current average annual timber revenue
<u>\$0</u>	Current annual Stone Creek revenue (all debt pmts)
\$710,000	Total current combined revenue for Parks
<u>\$450,000</u>	Future average annual timber revenue
<u>\$450,000</u>	Future annual Stone Creek revenue
\$900,000	Total future combined revenue for Parks
\$400,000	Current County Parks budget gap
<u>\$190,000</u>	Increase in future revenue
\$210,000	Annual revenue gap remaining



# Results of Accelerated Harvest Proposal

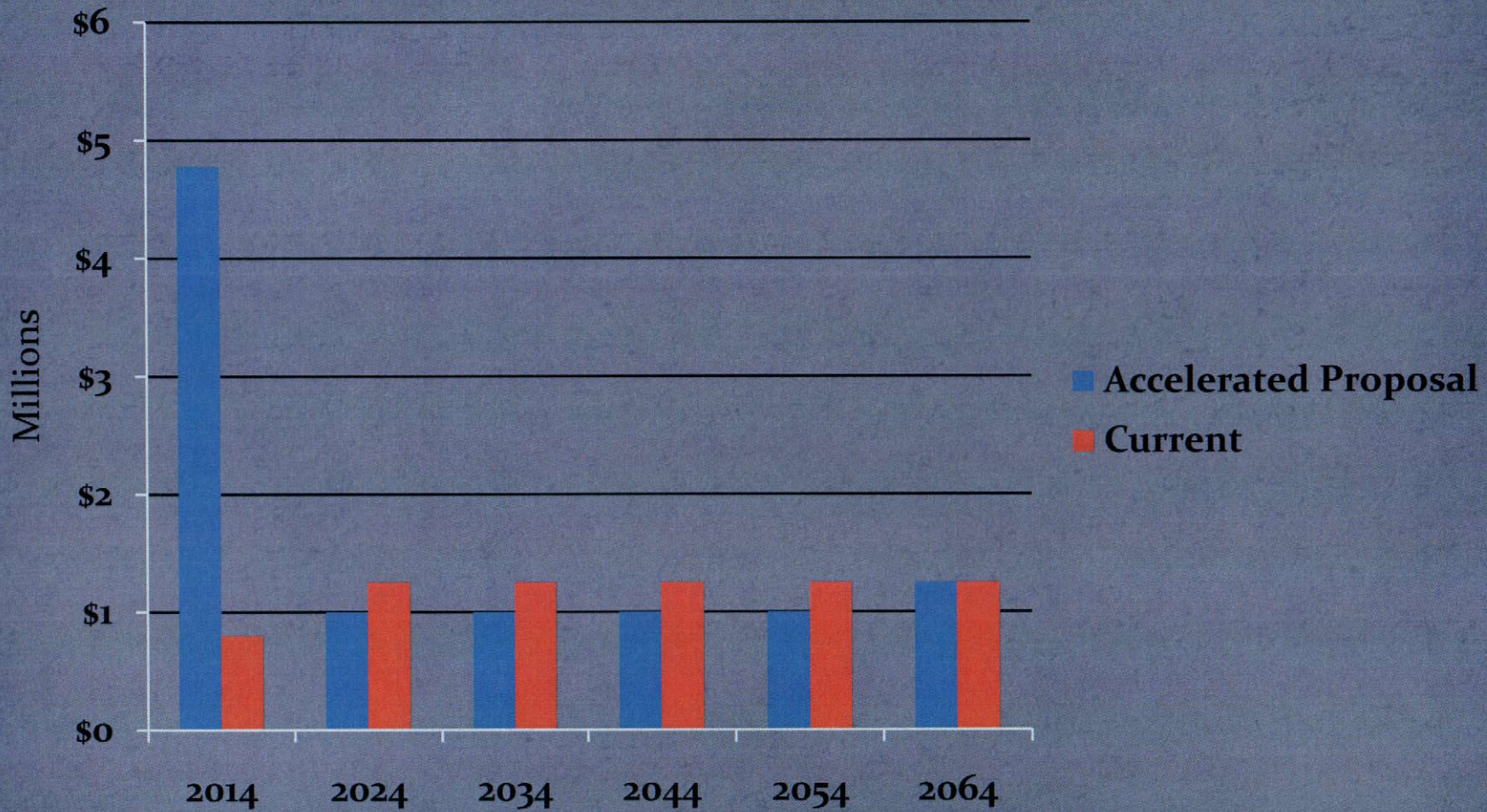
- About 26% of our managed forests would be in the older age classes.
- Most of the 1,000 acres of forests in county parks are in older age classes.

Acres by Age Class  
as of end of 2014





# Results of Accelerated Harvest Proposal Golf & Timber Income Over Time





# Challenges of Accelerated Harvest

- Sensitivity - Harvesting on a small portion (15-20%) of our forest properties has, from time to time, generated some level of concern from citizens. Increased harvest activities could generate concern from some neighboring property owners and others. Staff will work to minimize concerns by providing information, answering questions and addressing concerns.
- Future Timber Revenue – Future annual timber revenue will decline; additional work will be needed to increase revenue to support County Parks.



# Staff and FAB Respectfully Recommend

- Increase the harvest and pay off the Stone Creek debt.
- Harvest mostly from Wildcat, Elwood and Dhooghe.
- Harvest, if needed, from Parrot Creek then from Hoodland properties.
- Further evaluation and consideration of forest properties which are not producing revenue – asset reallocation.
- Continue to look at opportunities to generate additional revenue to support ongoing operations and maintenance, as well as capital needs.