

Elliott State Research Forest Update

BACKGROUND

The OSU Board of Trustees was last briefed at its August 2023 meeting about the establishment of the Elliott State Research Forest (ESRF) by the State of Oregon. Since that meeting, staff have continued working with the Department of State Lands (DSL) and the prospective ESRF Authority Board (ESRFA) to facilitate the ESRFA's formal establishment date of January 1, 2024, the date indicated in Senate Bill 1546 when the ESRFA takes management responsibility for the ESRF from DSL. Senate Bill 1546, as amended by Senate Bill 161, calls out six actions that must be completed on or before December 31, 2023, for the act to become operational. One of these actions is the requirement that the OSU Board of Trustees authorize the university to participate in the management of the Elliott State Research Forest.

Staff is providing this update for discussion purposes and in anticipation of the Board's vote in early to-mid December 2023.

STATUS OF HABITAT CONSERVATION PLAN

Because there are three known endangered species on the ESRF (marbled murrelet, Northern spotted owl, and Coho Salmon), a Habitat Conservation Plan (HCP) is needed to secure necessary federal permits. The Department of State Lands (DSL) is leading development of the HCP, with OSU staff providing technical assistance. Public drafts of the HCP and an associated Environmental Impact Statement (EIS) were released in November 2022 and a public comment period closed on January 10, 2023. In January, the US Fish and Wildlife Service identified that adjustments may need to be made to the HCP to reduce impacts on marbled murrelet birds. OSU staff are advising on those adjustments, as well as on protections and management for aquatic and riparian systems. Initially, DSL anticipated that adjustments to the HCP would be determined by June 15, 2023. However, work on adjustments continued through the summer, and OSU received an updated draft HCP with specific edits and adjusted language on September 10, 2023. This has compressed the time available to finalize the Forest Management Plan and gather public input.

FOREST MANAGEMENT PLAN

The OSU team is nearing completion of a draft of the Forest Management Plan (FMP), including chapter revisions, edits based on the adjusted HCP, updated analyses, and inclusion of supporting materials. OSU staff are working with researchers, Tribes, forestry consultants, DSL, members of the prospective ESRFA Board of Directors, and others on the FMP. Now that changes to the HCP have finalized, edits to relevant areas of the FMP are being incorporated. OSU held two virtual public listening sessions in August and September. A public comment period is planned for October 2023 before development of the final FMP draft. OSU will continue to incorporate input, including public and the ESRFA Prospective Board feedback, in developing the final FMP.

FINANCIAL VIABILITY

Start-Up Funding. Start-up funding from the state is necessary for the forest to be financially viable. Currently estimated at \$58M, this funding includes support for necessary infrastructure and equipment as well as for the annual costs until reliable timber revenue begins in year four of operations (\$31.9M of the total is attributable to infrastructure costs, and \$26.1M of the total is

attributable to operation costs). OSU has received a \$3.5M federal earmark in FY23 for research equipment and installation and DSL has also secured \$4.1M in State funds to support operations over the first 18 months. This leaves a remaining funding gap of approximately \$18.5M for operations.

DSL has taken possession of the former Shutter Creek Correctional Institution for redevelopment as a headquarters site for the Elliott State Research Forest Authority, OSU, and other partners. DSL estimates the redevelopment cost at \$31.9M, of which \$4M has been secured by DSL through a Federal HUD grant. This leaves a remaining funding gap of approximately \$27.9M. Planning for the redevelopment will be led by the Oregon Department of Administrative Services (DAS). OSU has provided our facilities needs and is ready to engage with DAS in planning and design.

The state is pursuing additional funds along several avenues. OSU has communicated to state leaders that the university would not be in a position to manage the forest without appropriate start-up funding, as hiring and operations are dependent on the support.

Operating Budget. Budget scenarios have been developed and are continuing to be refined that cover research forest operations, ESRFA expenses, and commitments in the HCP. OSU and DSL are coordinating on these scenarios, with DSL leading the agency budget and OSU leading on the research operations budget. The scenarios envision different annual research operations budgets, ranging from \$6.14M (for a fully staffed research operations program) to \$4.73M (for a program that supports core research management, monitoring, and staffing costs but has limited research personnel). The scenarios include annual contributions to a contingency fund that is expected to build over time. In addition, an ESRFA budget of \$475,000 estimated by DSL outlines costs for agency staff and supporting services for the authority itself. Attachment 1 provides organizational charts and high-level budgets aligning with high and low operations budget scenarios.

Revenue. OSU is continuing to work with forestry consultant Farm Unlimited to refine a range of revenue projections based on current data, vetted model assumptions, adjustments in the draft HCP, guidance in the FMP and input from members of the ESRFA prospective board. Modeling is based on estimated log prices, stand growth, silvicultural and logging costs, and operational assumptions. The projections are informed by sensitivity analyses on prices and stand growth around a “base case,” as well as harvest scenarios consistent with the HCP and FMP. Due to the existing age class distribution (age of trees) on the forest, revenue from timber harvests will decline in several decades (timing dependent on the scenario, see figures 1 and 2) before increasing again in following decades. It will be important for the ESRFA to bank reserve funds (which are built into the budget) in anticipation of this projected dip in timber revenue, and further funding sources will also likely be needed. Additional revenue sources are anticipated, including grants, potential foundation support, and possibly carbon, but these sources have not been included in current revenue projections due to uncertainties about timing, scope and amount of funds.

Two harvest scenarios with differing types of harvest have been developed for financial analysis and are displayed in the figures below on a decadal basis. Scenario 1 allocates some younger stands to intensive treatments (figure 1), while Scenario 2 allocates those same stands to extensive treatments (figure 2). Scenario 1 and Scenario 2 have a base case average log price (\$775 per thousand board feet (mbf) and an assumed per-acre harvest volume of 37 mbf per acre and 14 mbf per acre for regeneration harvest and for thinning, respectively. These harvest volumes have been validated by recent timber cruise data from the ESRF collected by crews

from Farm Unlimited, and in-house analysis of Oregon Department of Forestry (ODF) data from past timber harvests in second-growth stands on the Elliott State Forest.

High-value estimates reflect a 10% increase from both the base log price and the base harvest volume described above, and low-value estimates reflect a 10% decrease from the base log price and the base harvest volume. The Scenario 1 baseline has positive cumulative cash reserves for the 80 years analyzed using the lowest budget scenario and assuming that all of the contingency funds built in earlier decades are used to offset revenue shortfalls in other decades. The Scenario 2 baseline has positive cumulative cash reserves in years 1-34 and 64-80 with negative cash reserves in years 35-63 using the lowest budget scenario. This again assumes that all of the contingency funds built in earlier decades are used to offset revenue shortfalls in other decades, but in this scenario the contingency fund does not fully cover projected shortfalls. Projected positive and negative annual cash flows are shown in figures 1 and 2.



While the low estimate lines do not generate positive cash flow, this is considered an unlikely worst case. Highs and lows with variation around the mean will occur over the course of 80 years. In reality, harvest operations will reflect a mix of outcomes that are in between Scenarios 1 and 2.

There are uncertainties and risks reflected in this analysis, with a reasonable expectation of positive cash flow in the first few decades and greater uncertainty in later decades. Preservation of the contingency funds from timber harvest and/or funds from other potential sources will be essential to address periods of reduced revenue as well as unforeseen circumstances.

Figure 1.

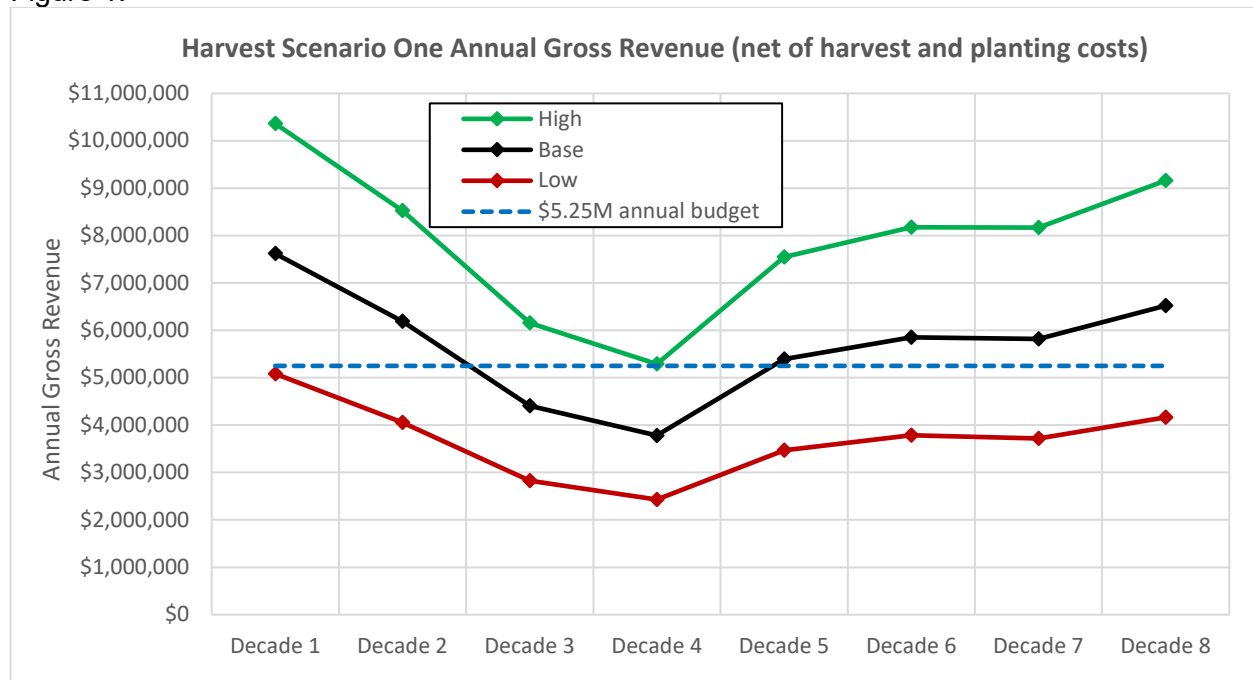
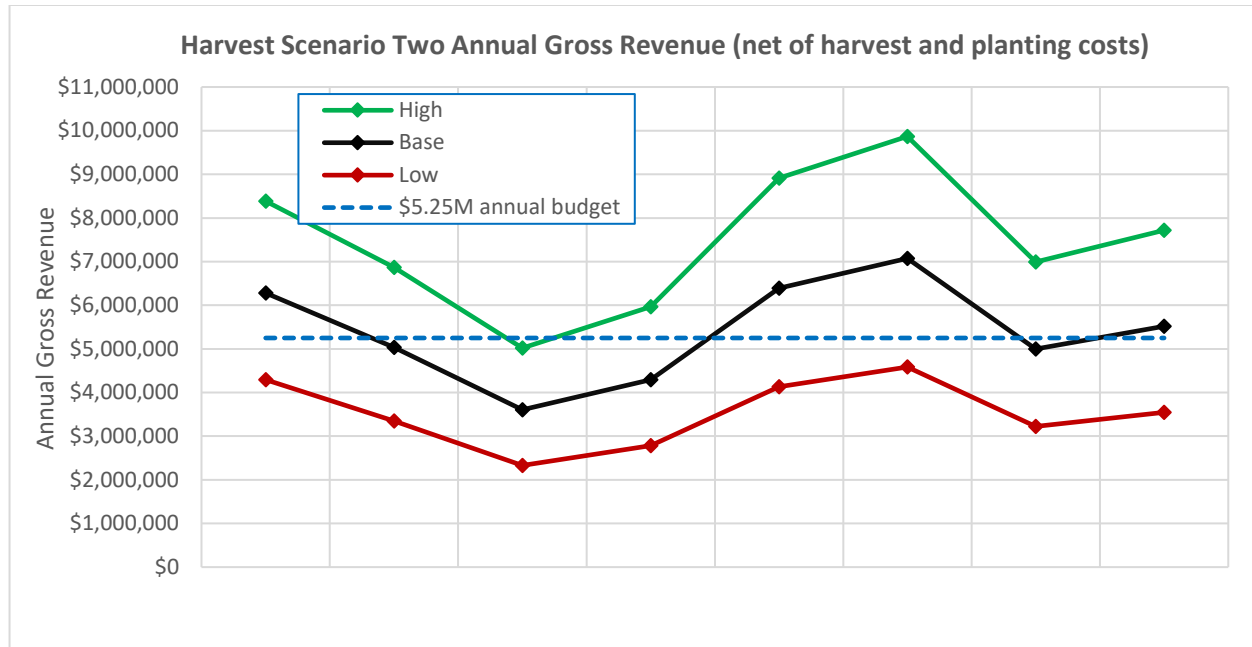


Figure 2.



CARBON

DSL has contracted with a consulting firm to conduct an inventory and assess the possibility of entering portions of the forest into the carbon market. Results are expected in October 2023. The contract also provides the option to move forward with a sale, and DSL has indicated it is considering the potential of using such sale proceeds for startup funding.

OSU has communicated to state leadership that the sale of forest carbon would limit or eliminate the ability to conduct meaningful research that is critical to addressing important sustainable management questions, specifically related to carbon sequestration, carbon storage maximization, and the development of new models for offsetting carbon through voluntary efforts. Such research, conducted as part of the FMP and research plan, would not be possible if large tracts of the forest are rendered unavailable because they've been set aside under long-term (100-year) commitments. The university has also signaled that entering the carbon market as part of a carbon-based research project could be valuable in the future. However, doing so should follow—not precede—careful consideration and discussion between the ESRFA and OSU, so that the effort can inform research. To do so in the early stages of forest operations precludes a deliberate, research-informed approach that can inform sustainable management practices and subverts the intent of the enabling legislation.

MANAGEMENT AGREEMENT

Staff has continued to work with DSL and the Department of Justice (“DOJ”) on the terms of a draft management agreement/contract to be established between the ESRFA and OSU for operation of the ESRF. OSU created a draft term sheet based on the discussions between the parties in October of 2022. OSU thereafter produced a draft management agreement based on feedback received by DSL and DOJ. OSU presented this draft to the prospective ESRFA Board of Directors at its June meeting and is currently waiting for the prospective Board to establish positions and engage in negotiations on key sections. While the agreement cannot be executed

until after the ESRFA establishment date of January 1, 2024, the terms need to be agreed in principle to inform the OSU Board of Trustees' decision.

TIMELINE

If all elements of the sunset clause are met by December 31, 2023, the Elliott State Research Forest and ESRFA Board of Directors will become officially operational on January 1, 2024.

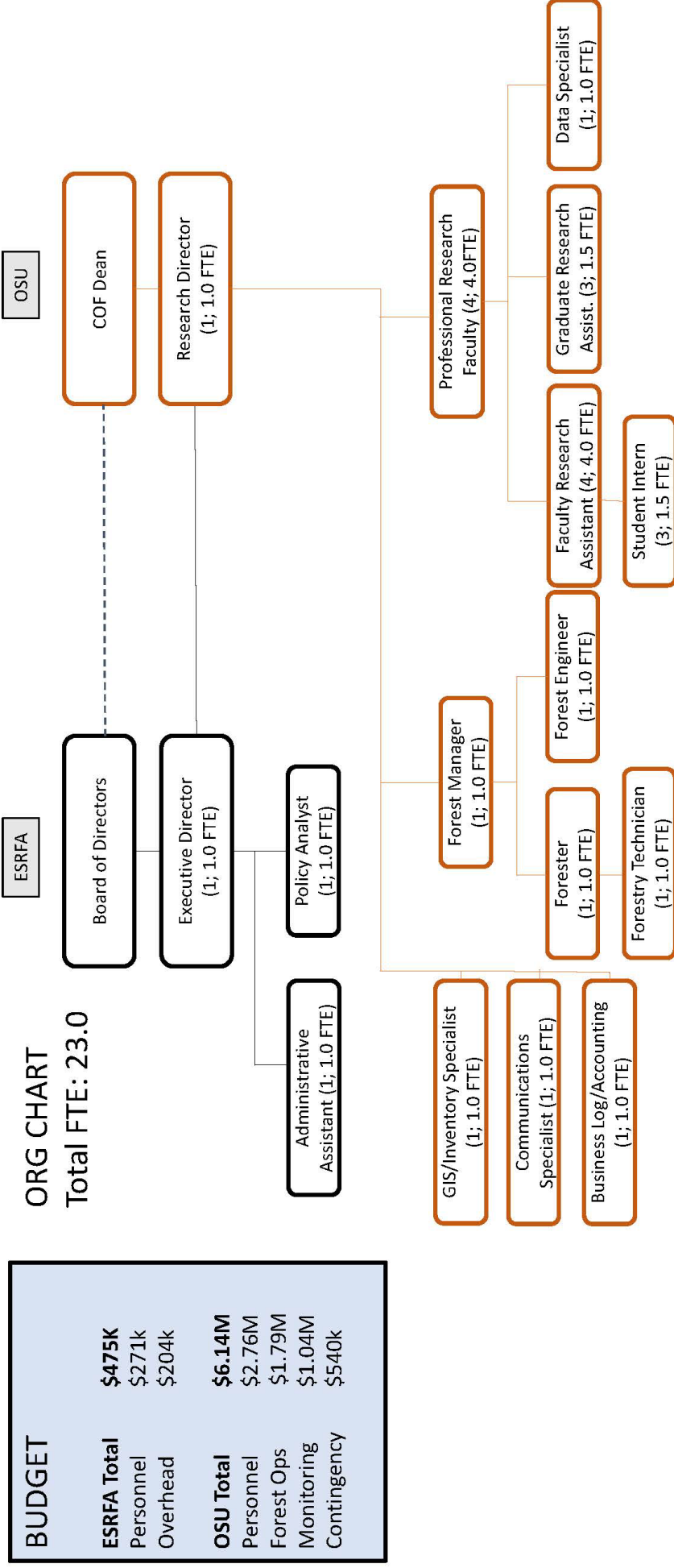
Based on the December 31, 2023 timeline, the final FMP and supporting materials will be presented to the State Land Board at its December 2023 meeting. The final HCP and EIS documents are anticipated for publication in the Federal Register and a Record of Decision (ROD) issued in Spring 2024. The forest would operate under a take avoidance (harvesting only in areas where there is no threat to the three endangered species mentioned above) strategy from January 1, 2024 until the Record of Decision on the HCP is published by the Services.

The OSU Board of Trustees decision will be informed by 1) acceptable management agreement terms, 2) the financial viability analysis, and 3) a research forest management plan.

NEXT STEPS

Staff will provide final materials and a recommendation to the board regarding OSU's participation in the management of the ESRF at a special board meeting in December 2023.

OPERATING BUDGET SCENARIO (Full)



OPERATING BUDGET SCENARIO (Reduced)

