

# **Challenges of Conversion and Valuation**

**Presented by:**

**Sarah Lyngholm**





## Presentation Overview

- Background and History
- SOP for Measurement and Valuation
- Positives vs. Risks
- Future Opportunities



## DNRC Forest Management

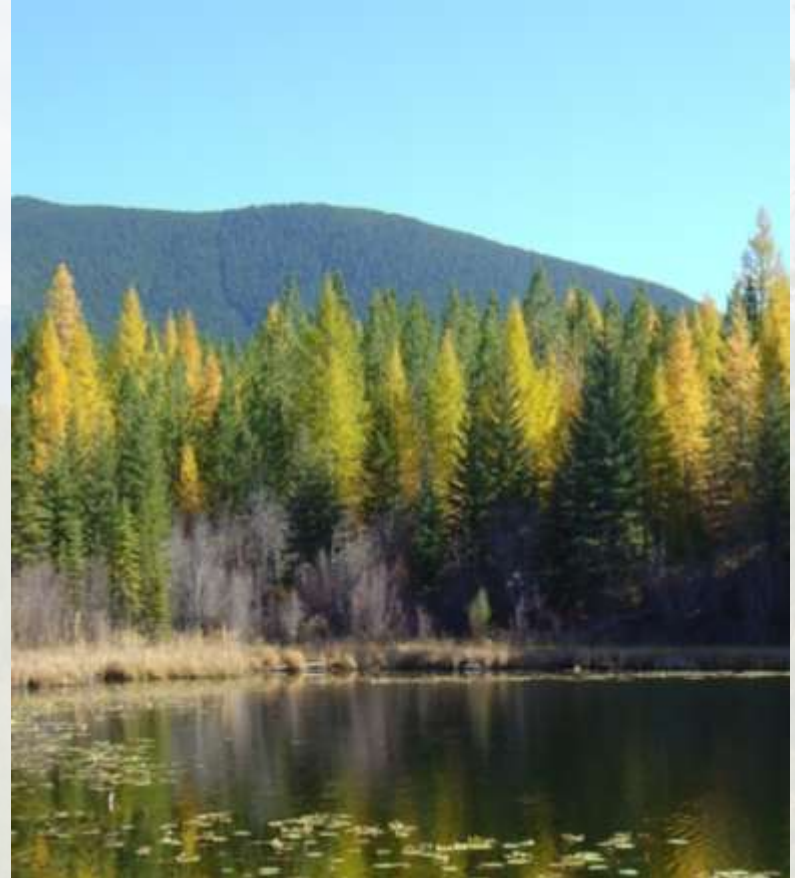
- ~ 730,000 acres of forested School Trust Lands
- Fund education through timber sales
- 57.6 MMBF Annual Sale Target
- ~\$10 million annual revenue





## History

- Sold primarily by MBF
- 1995 Sustainable Yield
- Late 1990s: switched from selling by MBF to tons
  - Consistent metric
  - Small diameter material
  - Simple accounting
  - Save scaling cost



## Cruising

- Standard field procedure
- MT Cruiser
- Champion tariffs
- Ft<sup>3</sup> Volume → Tons
  - Long term averages by species





## Assumptions

- Log weight correlates to volume
- Montana is homogenous
  - Geography
  - Temporal



## Appraisal → Minimum bid price

- Transactions evidence
- Location
- Diameter
- Stand density
- Harvest system
- Index prices
- Costs to purchaser





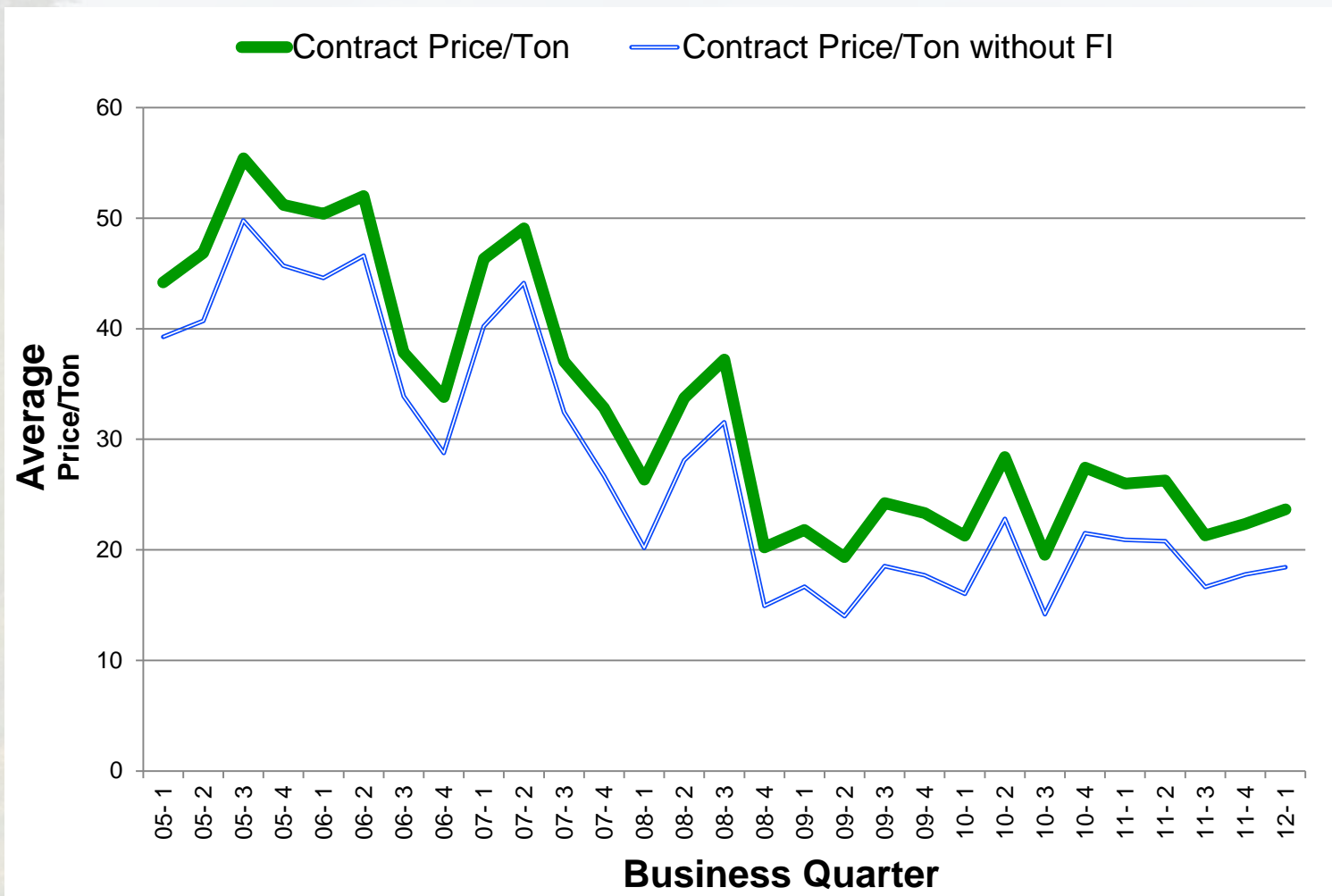
## Bidding

- 30 day ad
- Sealed bids
- Disclaimers
- 1 no-bid sale in 12 months





# Montana DNRC



## Contract

- Specifications
  - Utilization
  - Weight ticket requirements
  - Schedule





## Positives

- Easy measurement
- Easy accounting
- Consistent with industry
- Cost savings



## Positive

- Purchaser pays for everything they haul

## Risk

- Purchaser pays for everything they haul





## Risks

- DNRC
  - Full value from bidders?
- Purchaser
  - Good information from DNRC?





## Challenges with Conversion

- Variation
  - Season
  - Manufacture
  - Age
  - Size
  - Defect



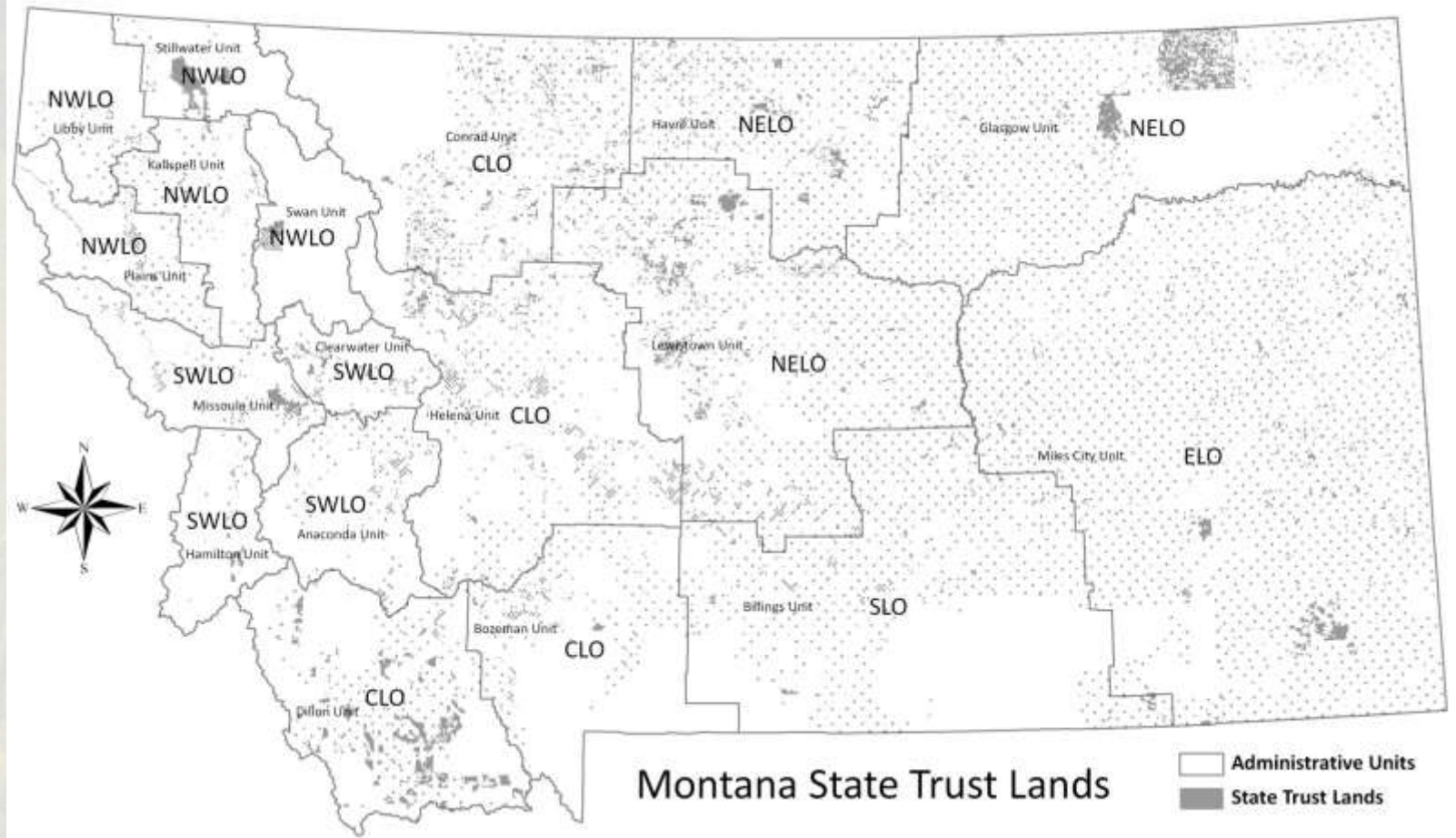


## Challenges

- Salvage
- Climate
- Old growth
- Variation around State



# Montana DNRC





## Challenges

- Small diameters
- Special products





## Challenges

- Utilization
- Administration
- Lost expertise
- Quality





## How are we doing?

- Underrun
  - By tons
  - By MBF?
- Why?
  - Cruising?
  - Utilization?
  - Timber Character?



## Why do we care?

- Sustainable Yield Target
  - \$\$ for the school children
  - Long term growth
- Customers Needs
  - Planning
  - Appraisal
  - Consistency





## Trust Land Revenues by Program

Resource Program	2011 Revenue
Agriculture and Grazing	\$ 20,714,158
Forest Management	\$ 10,496,231
Real Estate Management	\$ 3,245,037
Minerals Management	\$ 41,781,055
Recreational Use	\$ 1,043,707
<b>Land Management Revenue</b>	<b>\$ 77,280,188</b>



## Future Expectations

- Scaling study –  
adjust cruise  
program?
- Sustainable yield
  - $Ft^3$ ?  $M^3$ ?
  - MBF and Tons?
  - Biomass?
- Tailored sales





## Conclusion

- Purchasers prefer consistency over accuracy
- Everyone benefits from shared information
- Changes based on systematic assessment



***Questions?***

