

# Arch Cape Watershed Finance Committee Minutes - September 11, 2023

- A. Public Comment: None
  
- B. Work Done Since Last Meeting
  
- C. Updated Assumptions
  - One-Time Projects
  - Costs: Forest Operations & Administrative
  - Revenue
  
- D. Scenarios
  
- E. Discussion
  
- F. Meeting Schedule & Objectives. Set next meeting date
  
- G. Public Comment: None

## Work Done Since Last Meeting

- Clark reviewed current trends in timber pricing and recommended using current stumpage pricing and inflate with the 2.8% pricing trend over the past 20 years.
- Mike W and Beth M will researched and recommended a 3% interest rate to be used for modeling the Stewardship Fund.
- ~~Ben will create an additional scenario for prudently maximizing harvests outside of the Watershed. (this scenario is anticipated to have higher harvest yield than Stewardship Moderate but less than Optimized.~~ *Not required at this time.*
- \$90,000 Hollis Grant was received. Can only be used for one-time road projects by end of 2024.
- Timber revenue projections used for 2021 planning was significantly understated. We are researching to understand why.

# One – Time Projects: Funding & Costs

ONE TIME			
FUNDING			
ARPA - Unspent / Uncontracted			\$ 876,490
Drinking Water Fund			\$ 30,000
Hollis			\$ 90,000
TOTAL			\$ 996,490
COST ESTIMATES	SPENT	CONTRACT REMAINING	PROJECTED
Project Mgmt	\$ (47,429)	\$ -	\$ (143,253) *
Roads Contract Management			\$ (75,000) *
Finance Mgmt	\$ (6,000)		\$ (21,000)
Construction - Brushing / Main	\$ (22,663)	\$ (61,316)	
Construction - 5 projects			\$ (265,577) *
Decommissioning - Red Roads			\$ (184,117) *
Decommissioning - Yellow Roads			\$ (112,766) *
Rock in DWSA			\$ (30,000)
Legal Fees			\$ (7,500)
Forestry Consultant	\$ (55,019)	\$ (42,981)	\$ (10,000)
Land Acquisition	\$ (940,000)		
Land Maint + Repair (PCT)	\$ (46,549)	\$ (38,679)	
Conservation Planning	\$ (5,850)		
TOTAL	\$ (1,123,510)	\$ (142,976)	\$ (849,213)
NET			\$ 147,277


\* Pending review of one project with Cannon Beach Fire (substantial change possible) & actual bids from contractors

# Cost Assumptions – Forest Operations

Cost	Harvest Event Yrs	No Harvest Yrs.	Comment
Property Manager	Harvest – 3 year window (pre, harvest, post) 16 hrs/month @ \$58 / hr	8 hrs / month @ \$58.00 / hr	Assumes District Staff
Consulting Forester	Harvest – 3 year window (pre, harvest, post) 12 hrs / month @ \$125/hr	3 hrs / month @ \$125/ hr	
Replanting Survey	If single harvest, survey 5 years later by Forester: 4 hrs @\$125/hr	N.A.	If multiple harvest, cost included within Forester cost above
Precommercial Thinning	If any harvest, 112 acres in 2030. If ongoing harvest, then every 5 years. All @ \$240/acre	If no harvest, 53 acres in 2030 @ \$240/acre.	
Commercial Thinning	Done as part of the Stewardship scenario harvesting.	Not Done	
Inventory / <b>Stands Exam</b>	<del>If harvest at 10 year and then every 5 year interval, inventory pre harvest @ \$ 25,000</del>	\$14,000/10yr	<del>If only 10 yr harvest, inventory cost included as Forester cost above</del> <b>1 day year/ by included in Consulting Forester cost above.</b>
FSC Certification	If single 10 yr harvest - 5 years before and 2 yr after. \$2350 yr . ( <b>no final decision</b> )	N.A.	<b>FMC – not required if harvest outside source water protect area</b>
Targeted Invasive Plant Mitigation	\$100 / exposed acre (20% of harvest area)	Tree growth shade will mitigate	
Brushing and Road Maintenance	<b>In 10 yr - heavy, decommission roads after the harvest. (\$184,000)</b>	\$13,000/yr <b>for all scenarios</b>	In other scenarios, decommissioning will take place with ARPA funds

- Costs without inflation

# Cost Assumptions – Administrative

Cost	Average Annual Costs
Insurance	Included in District Policy
ODF Fire Assessment	\$ <del>2,335</del> . \$ 2,421
Finance and Management	\$ <del>6,000</del> \$9,000 / \$5,400
Grant Writer / Manager	TBD
Legal / Marketing Research for Levy	TBD
Project Mgmt	\$ 0
Legal	\$ <del>1,500</del> . \$1,500 / \$1,000
Audit	\$ <del>3,200</del> . \$2,000
Mgmt Planning (per FLP)	\$ 12,000 /every 10 yrs
Signs/ Miscellaneous	\$ 500. (\$1,000 in yrs 1&2)
Contingency	TBD
Inflation Rate on Costs	3% (currently 3.18%) 

“Two commonly accepted measures of anticipated inflation are (a) the spreads between nominal and real yields on US government deb, and (b) regular surveys conducted by the Federal Reserve Bank on anticipated inflation. As of this writing, the former implies 2.2% inflation, and the later 2.0% inflation. As a result, our forecasts build in some degree on conservatism”.

- Average Cost is per year (unless otherwise indicated) without inflation. Costs to be confirmed

# Revenue Assumptions

Revenue	Assumption
Stumpage Pricing	DF - \$428.50. GF - \$301.75. RA - \$245 RC - \$1115. SF - \$314.75. SS - \$100. WH - \$339.25  Use these prices. <del>for 10 year harvest and inflate them at 3% after that.</del> <b>Escalate them at 2.8%</b>
Harvest Revenue Future Discount Factor	3%
Stewardship Fund	Principle available through 2026 \$200,000. Then \$400,000. <b>Interest rate of 3%</b>
Local Option Levy	TBD (see considerations)
Grants	TBD
Donations	TBD
New Levy	TBD
Rate increases	TBD
Carbon Sequestration	A future consideration ( <a href="https://landyield.com/">https://landyield.com/</a> )



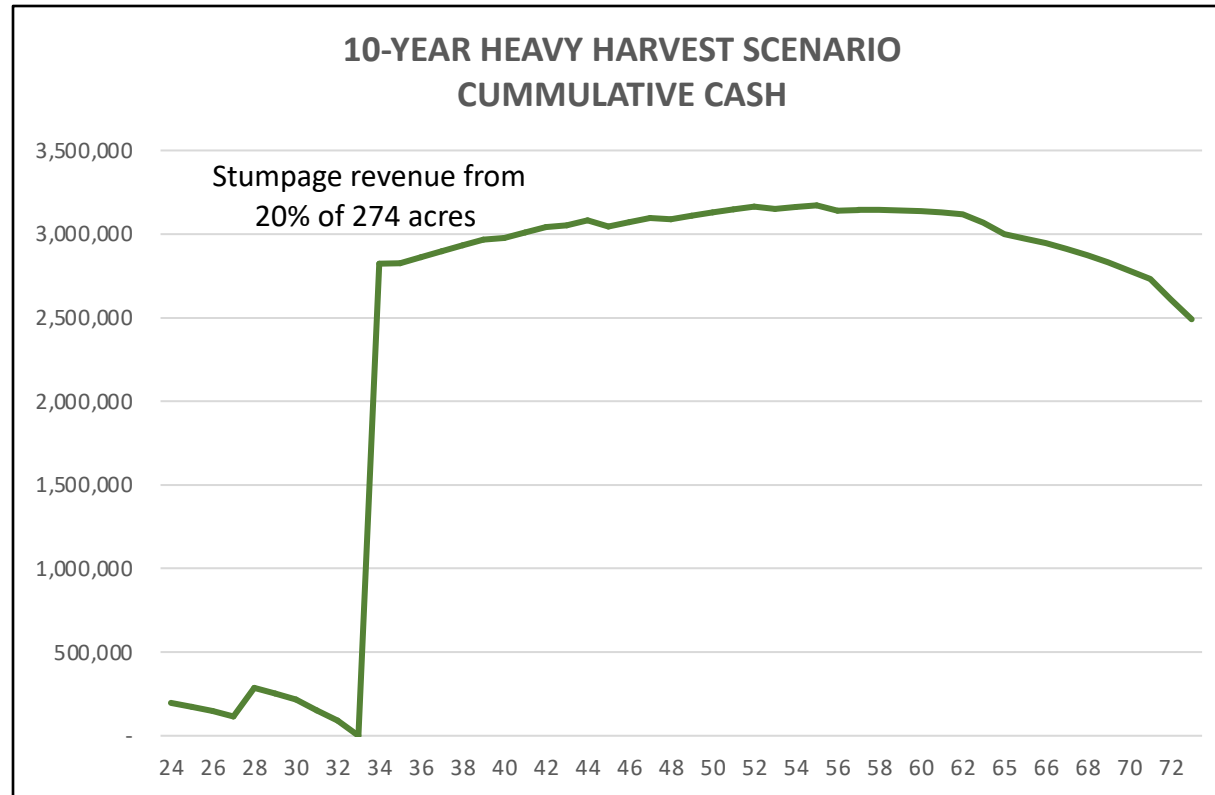
Quarterly pricing from 3Q2003 – Q22023

# Scenario Assumptions

- **Heavy Harvest (Year 10):** Optimized harvest inside and outside the source water protection area (20% of 274 acres). Maximizes revenue.
- **Lite Harvest (Year 10 / Year 30):** Light harvest in years 10 & 30 outside of source water protection area.
  - Year 10 – 20% of 97 acres harvested
  - Year 30 – 20% of 67 acres harvested
- **No Harvest Projected:** Alternative revenues (e.g. rate increases / levy, donations, grants, etc.) will need to be considered to pay for operating costs.

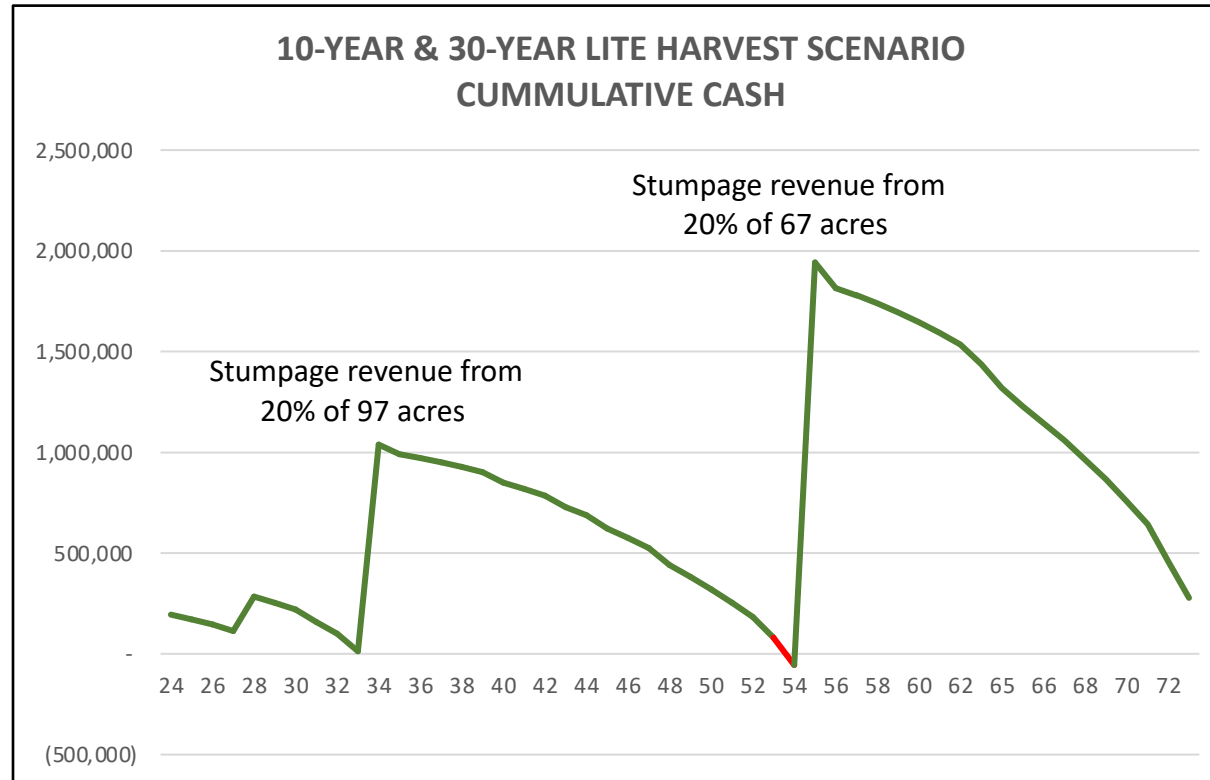
# Heavy Harvest (Year 10) - Scenario

## Cumulative Cash



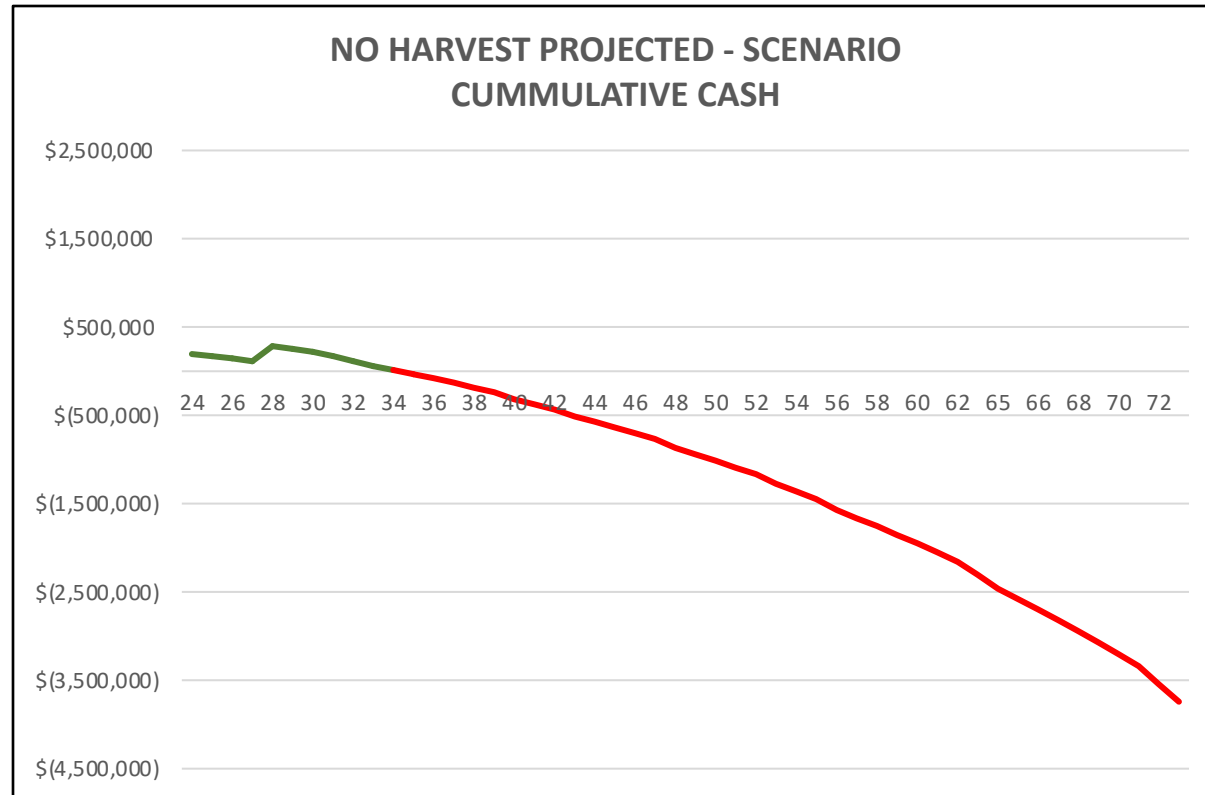


# Lite Harvest (Year 10 / Year 30) - Scenario Cummulative Cash

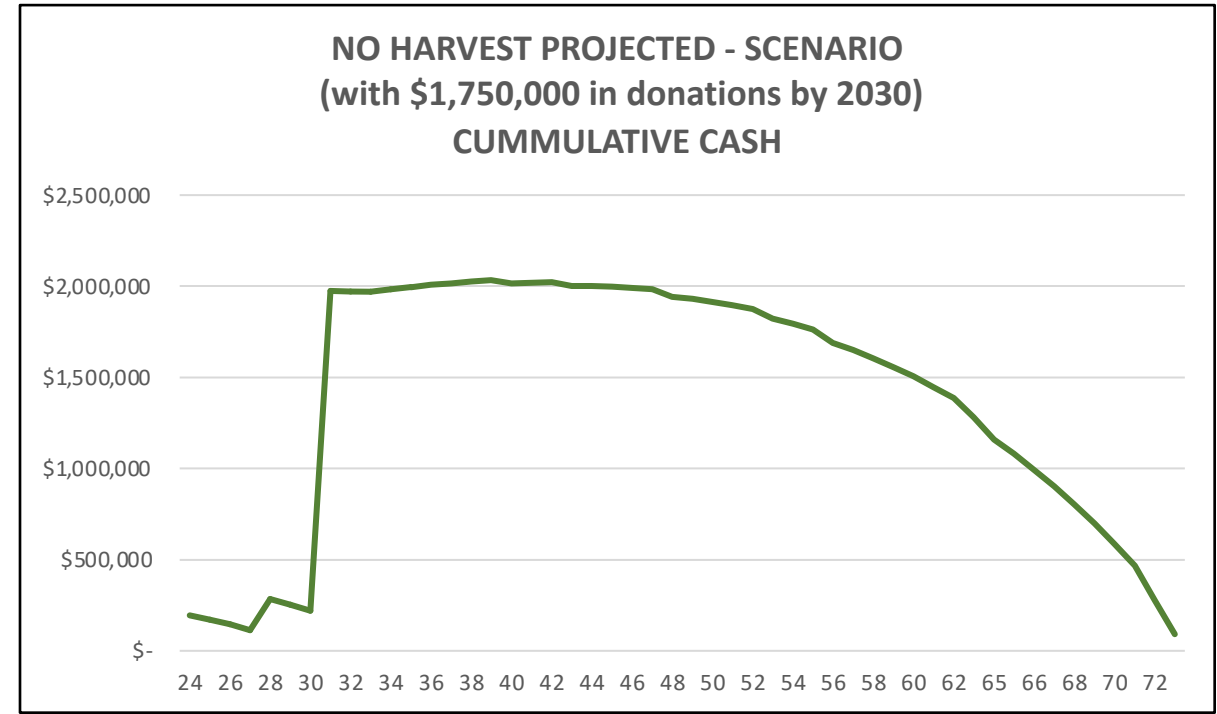
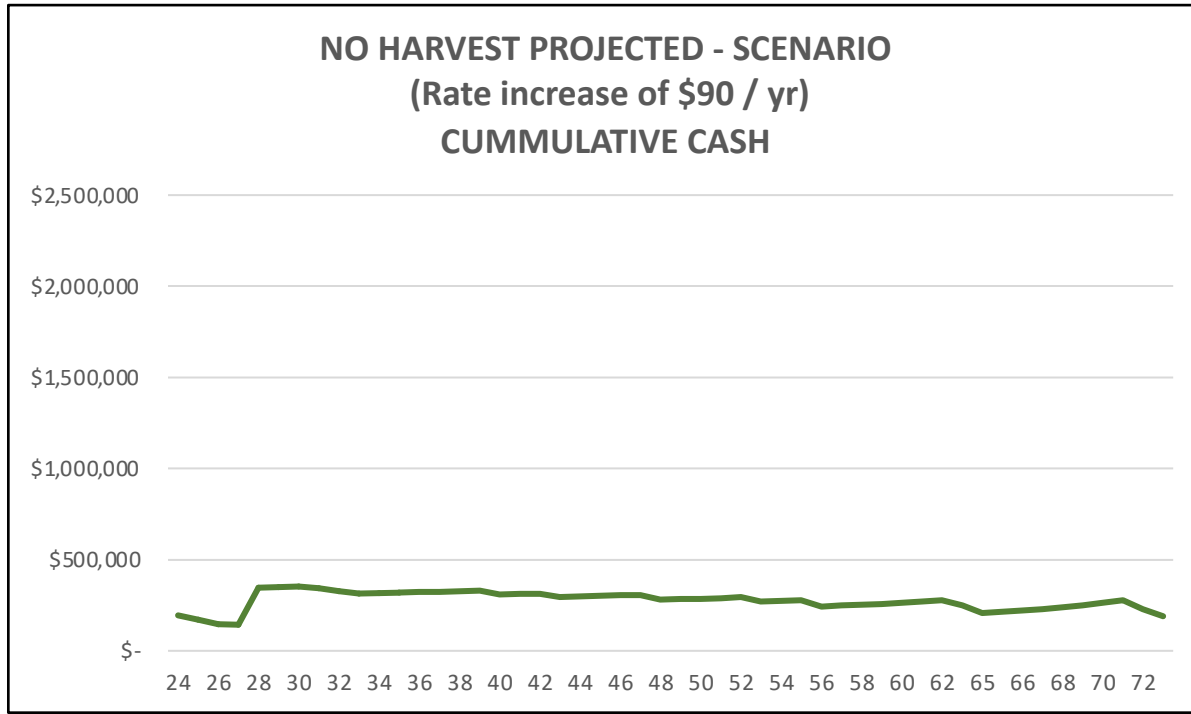


- Baseline: No inclusion of grants, donations &/or levys / rate increases
- Alternate scenarios: TBD – to move harvests further into future, reduce number of harvests or eliminate need entirely

# No Harvest Projected - Scenario Cumulative Cash



# No Harvest Projected – Scenario Alternative Revenue Options Cummulative Cash



- Rate increases start in 2025 with 306 hookups
- Hookups increase by 2 each year (per ACWD long range budget)
- 3% annual inflation in rate amount

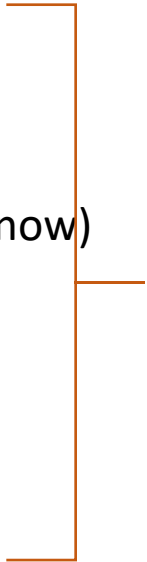
# Discussion

- Agreed on assumptions
- Agreed on baseline scenario(s)
  - Moderate Harvest (Optimized Harvest outside of Drinking Water Protection Area (DWPA\_
  - Lite Harvest (Year 10 / Year 30) Scenario
  - No Harvest Projected – Rate Increase Scenario
- Plan for alternative revenues
  - Donations: None at this time. Dependent on community interest and participation
  - Grants / Levy's: None at this time. Costs would be incurred for research and undertakings
- Presentation of Findings to Forest Management Committee; 3 scenarios with objective of each. The need for harvesting or rate increases could be offset / mitigated to the extent that donations are received.

## Action Items

1. Mike and Casey will research and recommend the appropriate interest rate to use for a public sector agency like the Arch Cape Water District. This rate could significantly affect viability of one or more scenarios.
2. Ben and Bill will develop a third scenario that optimizes yield outside the drinking water protection area (DWPA). This scenario is anticipated to have higher harvest yield than than the Lite Harvest Scenario.
3. Important elements to include in board / community education
  - a. Clear definition of the operational expenses
  - b. Logging scenarios are not fixed to a specific year - but to a timeframe when logging will be required and when pricing will be optimal
  - c. Objective of purchasing the watershed was for protection of source water. Visual aesthetics is also important to the community.
  - d. Outline 3 scenarios to illustrate 3 financial strategies (levers that can be pulled). The objective is to get community input on which financial strategy to pursue:
    - i. Maximize harvest outside of DWPA to pay for operations and decrease rates
    - ii. Minimize harvest outside of DWPA to pay for operations
    - iii. Raise rates to pay for operations – so no harvesting will be required
  - e. Donations will be presented as way to reduce or eliminate the need to harvesting or rate increases, and not as an alternative financial strategy

## Meeting Schedule & Objectives (For Phase 1 of Scope)

- **September 27<sup>th</sup> 3:00-5:00. Meeting.** – Review / Refine Findings with Forest Management Committee
  - **October 10<sup>th</sup> 3:00-5:00 Meeting:** Prepare Preliminary Findings for Board Presentation and Community Outreach
  - **October 19<sup>th</sup>:** Present Preliminary Findings to the Board
  - **November 4<sup>th</sup>:** Present Preliminary Findings to Community. (Start scheduling a meeting now)
  - **November 6-8 Meeting:** Prepare Recommendation for Next Steps re Financial Plan
  - **November 16<sup>th</sup> :** Present Next Steps Recommendations to the Board
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- Finance Committee will **meet** for Phase 2 of scope