

Forest Products Modernization

Appraisals Issue Paper

A strategic effort designed to better align our culture, policies, and procedures with current and future forest restoration needs in order increase the pace and scale of restoration, improve forest conditions, and improve efficiency of forest product delivery.

Introduction

Working with agency leaders and employees across the country, the Forest Products Modernization team has identified several needs that must be addressed to move toward our long-term goal of aligning our practices, policies, and guidance to be more agile, flexible, and adaptable to better meet current and future forest improvement goals. The team is examining training, policy reform, technological efficiencies, systems changes, and business changes. One area of focus is appraising forest products removed through land management activities.

The USDA Forest Service is required to appraise timber and other forest products to determine fair market value prior to offering them for sale. The Forest Products Modernization effort will: 1) determine whether to eliminate, change, or streamline appraisal policies and procedures to increase efficiency and effectiveness; and 2) review transaction evidence appraisal system policies and procedures to determine the accuracy of appraisals for low-value forest products.

Where are we now?

The regulations at 36 CFR 223.60 set forth the valid methods for appraisal of National Forest System (NFS) timber. Two policies establish direction for appraising the value of timber and forest products: 1) Forest Service Manual (FSM) 2400 Chapter 2420 – Timber Appraisal; and 2) Forest Service Handbook (FSH) 2409.18 Chapter 40 – Sale Plan Implementation (Gate 3) and Appraisal.

Timber and forest products appraisals are designed to:

1. Estimate fair market value of NFS timber and forest products offered for sale.
2. Set an advertised rate that encourages sufficient competition for NFS timber and forest products.
3. Bring advertised values close to bid values.
4. Ensure that appraisals are sensitive to changes in the market for timber and forest products.
5. Re-determine stumpage values during the term of contracts lasting more than seven years to ensure the Forest Service receives fair market value.

Currently, the Forest Service, with the exception of the Alaska Region, uses the Transaction Evidence Appraisal (TEA) method.

In response to a charter by the national director of forest management to re-engineer the Forest Service appraisal system, new approaches to the appraisal process need to be evaluated, selected, and implemented. The Forest Products Modernization team will consider three areas in particular:

- A new approach to establishing the TEA Base Period Price that is based on open-source market

data and transactions. The Forest Products Laboratory published a General Technical Report (GTR)¹ that discusses the research for a new approach.

- Appraisal factors that should be revised or eliminated.
- Compilation of an appraisal that considers the complexity or risk of a project.

Testing and evaluation of the new appraisal method for determining Base Period Price is underway. Researchers are working nationally with select national forests to test the ability to set prices based on the principals in the research paper.

A select team of regional and national appraisal experts convened to determine ways to streamline or revamp the calculation process. Templates of possible alternatives have been created and are being tested at the regional level.

Where do we want to go?

We want to have an appraisal system that can respond quickly to market condition changes, accommodate new products, and reduce the incidence of no-bid sales.

How do we get there?

We recommend the following steps in introducing, evaluating, and determining whether to adopt the new appraisal approach:

* Based on a recommendation from the Forest Management Director, a team was formed to develop a simple appraisal process making use of the new base price

¹ Haynes, Richard W.; Skog, Kenneth E.; Aubuchon, Richard. 2016. A process to establish and use base period prices for National Forest System transaction evidence timber appraisal. General Technical Report

FPL-GTR-242. Madison, WI: U.S. Department of Agriculture, Forest Service, Forest Products Laboratory. 43 p.

system being piloted, along with other ideas. This team has a proposal in place with the intent of having it ready for leadership's review by the end of calendar year 2018.

* Authors of the GTR will obtain feedback on the publication from Forest Service regional appraisers, technical experts, and researchers. Authors will continue to refine various aspects of the new approach based upon current information and feedback.

* Continue testing the new appraisal method in Region 4. Expand to other Regions as needed.

* Engage with Resource Planning Act Assessment staff to explore future research regarding projections of wood product markets that would inform and support new appraisal systems.

* Develop measures to evaluate performance (e.g., consistency between advertised rates and bids; availability and reliability of open source market data) and success of new appraisal systems.

DRAFT