

With logging contract expiring, officials wonder: What's next?

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JOHN DAY — The 10-year stewardship contract between the Malheur National Forest and Iron Triangle is widely credited with saving John Day's last surviving lumber mill, creating hundreds of jobs and improving forest health.

But it has also prompted criticism from some who feel the John Day-based logging company has profited at the expense of smaller rivals.

Now, with the contract set to expire early next year, federal forest managers are trying to decide what form stewardship contracting on the forest should take in the future.

A different approach

Stewardship contracts are fundamentally different from traditional timber sale contracts.

According to Roy Walker, a program manager with the Forest Service, the federal agency awards timber contracts by identifying an area with commercially marketable trees, marking the boundaries of the proposed timber sale and estimating the amount of merchantable wood in the sale area. Then, he said, the agency evaluates the fair market value of the timber and opens up a bidding process to companies that can meet bonding and other requirements.

As the Forest Service expanded its forest restoration, fuels reduction and thinning activities, Walker said, it melded forest management work, which often lacks commercial value, with timber sales.

Stewardship brings the two together, allowing the Forest Service to award the commercial value that loggers would ordinarily bid on to finance restoration work on national forest land.

In 2013, faced with the imminent closure of Malheur Lumber, Grant County's lone sawmill and largest private employer, due to an inconsistent and unreliable supply of timber, Malheur National Forest officials decided to award a long-term stewardship contract to a single operator in a bid to stabilize the situation.

The 10-year, \$69 million contract went to Iron Triangle, the winner in a competitive bidding process. The contract, which was significantly more long-term and broader in scope than most stewardship deals, accelerated timber sales and increased the pace of restoration work on the Malheur.

Universally regarded as a success in stabilizing the local economy, the unusual contract has won praise at the national level. Its overarching goals were to promote ecological restoration and reduce wildfire risk on 180,000 to 500,000 acres of forest land while improving economic vitality in Grant and Harney counties.



Richard Hanners/Blue Mountain Eagle, File
Raw logs ready to be milled at Iron Triangle's post and pole plant in Seneca. The plant is one example of investments made by the company to carry out its 10-year stewardship contract with the Malheur National Forest.



Richard Hanners/Blue Mountain Eagle, File
Finished product ready to be shipped at Iron Triangle's post and pole plant in Seneca.

Current contract

The Iron Triangle contract expires in March 2023, and, just like last time, any new contract will be awarded through a competitive bidding process open to all qualified operators.

But even though a decision is still a year out, Malheur National Forest Supervisor Craig Trulock said he's already contemplating some changes in the next stewardship deal. While he is leaning toward awarding another long-term contract, there will be less timber to go around this time. The agency expects a lower annual timber harvest target — down from 75 million board feet to between 50 and 55 million board feet per year.

Trulock said the next stewardship contract will likely have a lower percentage of the Malheur National Forest's commercial timber volume. Instead of the current guaranteed 70%, he expects to decrease the share to between 30% and 50%, with allowances for annual adjustments.

Pros and cons

Iron Triangle's current deal is what's known as an integrated resource service contract, a mechanism that Trulock said has both pluses and minuses. For instance, Trulock said, the Malheur is required to commit appropriate dollars up front at the

appraised price of timber for the duration of the contract.

With 70% of the total volume of timber sales off the Malheur going to the program, Trulock said, that provides a high level of predictability for the contractor while also guaranteeing a steady supply of logs for Malheur Lumber's John Day sawmill. But it could also create a problem for Malheur officials. With so much of their discretionary timber revenue committed to the stewardship contract, they could find themselves strapped for funds if unexpected circumstances arose, such as congressional budget cuts.

The contract's long time span and financial guarantees have also made it possible for Iron Triangle to invest in infrastructure, equipment and workforce development. That benefits the company in obvious ways, but it also provides assurance to Forest Service officials that the company will be able to fulfill its contractual obligations to meet stewardship goals such as reducing fuel loads in the forest, preventing soil erosion and maintaining roads.

When the Forest Service put the 10-year stewardship contract out for bid in 2013, it was looking for something it couldn't get out of an old-fashioned, straightforward timber sale contract: It was looking for a partner that

could get the cut out, do the stewardship work and deliver a steady stream of logs to Malheur Lumber.

Zach Williams of King Inc., a subcontractor of Iron Triangle who works in operations, summed up the situation this way: "The government said, 'We want to induce investment.' There was a reason for that, and that hasn't changed. They've made timber sales (the old-fashioned way) for 100 years, and that's why Malheur was going to close down."

Perception of monopoly

There is a social dynamic that goes along with the long-term contract, one that has created the perception of winners and losers.

While he was not the supervisor when Iron Triangle won the contract, Trulock said people occasionally tell him that the Forest Service created a monopoly in the community with the deal — even though the bidding process was open to anyone who met the criteria.

And Iron Triangle is not the only company making money on the Malheur National Forest.

Since September 2013, Williams noted, the forest has sold 405 million board feet of timber. Of that total, 231 million board feet was sold to Iron Triangle through the stewardship contract, and

STEWARDSHIP BY THE NUMBERS

Since winning a 10-year contract with the Malheur National Forest in 2013, Iron Triangle has completed stewardship projects on more than 150,000 acres of forest. The work includes:

- 12,000 acres of pre-commercial thinning.
- 10,000 acres of slash piled.
- 1,000 acres of aspen treatment.
- 2,000 acres of soil stability treatment.
- 3,000 acres of mastication, a fuel reduction process to reduce the risk of wildfire.
- 1,100 miles of road maintenance.
- 1.2 million tons of total biomass removed.

ment the scope and scale of work — the arrangement begins to make sense.

One of the things that came up in the contract negotiations, Daucsavage recalled, was that Malheur Lumber would need to spend \$5 million to upgrade the sawmill but would need to see a return on that investment within a limited window of time.

Iron Triangle and its subcontractors, he said, had the technical expertise, the capacity and the equipment to carry out the work that would ensure the reliable timber supply the mill needed to survive. That is not to say a smaller company could not have fulfilled the criteria to get the contract, Daucsavage added, but it would have been a stretch.

In fact, it was a stretch for Iron Triangle at the time.

Owner Russ Young said the projects included in the contract were beyond the scope of anything the company had done in the past and required reliable equipment that would allow them to ramp up and produce on landscapes where the harvest was upward of 7 million board feet of timber on a single task order with hard deadlines.

"We were on the hook from day one that says if you shall not perform, you will be in breach of contract," Young said.

Iron Triangle declined to disclose how much money it has spent to fulfill the terms of the 10-year stewardship contract, but some of its investments are on full display. One recent example is the company's post and pole plant in Seneca, built to process small-diameter logs cut to reduce fuel loads on the forest. The plant has 25 full-time employees.

Altogether, according to information from the Malheur National Forest, the stewardship contract has created or sustained a total of 268 jobs at Iron Triangle, its subcontractors and the national forest.

What now?

In Trulock's view, the 10-year stewardship contract has achieved the objectives it strived for by all metrics that the Forest Service has reviewed over the past eight years. But that doesn't mean the next stewardship contract has to be a carbon copy.

"We stabilized the community, stabilized the mill," Trulock said. "I can't think of any way that I would say this was not a success. Would you repeat that, if the intent is to grow a community? Would you do it exactly the same way to grow a community, and grow new businesses? I don't know. But I think that's the conversation we need to be having."

Malheur National Forest officials plan to hold an informational meeting sometime in the next few months to explain how stewardship works and discuss ideas for future stewardship contracts.



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