

COASTAL CONSERVANCY

Staff Recommendation
June 1, 2023

BIG RIVER/SALMON CREEK FOREST

Project No. 05-106-01
Project Manager: Karyn Gear

RECOMMENDED ACTION: Authorization to amend the Conservancy's revenue sharing agreement with The Conservation Fund related to the Big River/Salmon Creek Forests in Mendocino County.

LOCATION: Big River/Salmon Creek Forests, Mendocino County

EXHIBITS

Exhibit 1: [Project Location Map](#)

Exhibit 2: [June 29, 2006 Staff Recommendation](#)

RESOLUTION AND FINDINGS

Staff recommends that the State Coastal Conservancy adopt the following resolution and findings.

Resolution:

The State Coastal Conservancy hereby authorizes the Executive Officer to amend the Conservancy's revenue sharing agreement with The Conservation Fund ("TCF") for the Big River/Salmon Creek Forests to provide that if TCF pays \$3,125,000 to the Conservancy within twelve months of execution of the amendment, the Conservancy's right to receive a share of any future revenues from the property will terminate.

STAFF RECOMMENDATION

PROJECT BACKGROUND:

Staff recommends the Conservancy amend its current revenue sharing agreement with The Conservation Fund (TCF) related to the Big River/Salmon Creek Forests, formerly known as the Hawthorne Timberlands, in Mendocino County. TCF has proposed to amend the agreement to allow TCF to make a one-time payment of \$3,125,000 to the Conservancy in exchange for termination of the Conservancy's right to receive, over time, 15% of net timber revenues, if any,

from the forests. To date the Conservancy has received no revenue from the property, as all revenue generated has been needed for loan repayment and property management.

In June 2006, the Conservancy authorized a \$7,250,000 grant to TCF to acquire approximately 16,000 acres of timberlands in the Big River and Salmon Creek watersheds of Mendocino County (the “project”). A detailed description of the project and property is in the June 29, 2006 Staff Recommendation, attached as Exhibit 2. This was the second of three grants the Conservancy made to TCF to acquire working forests in northern California, the others being the 24,000-acre Garcia River Forest acquisition in Mendocino County authorized in 2003, and the 19,600-acre Preservation Ranch Property (now known as the Buckeye Forest) in Sonoma County authorized in 2013.

The purpose of the project was to prevent fragmentation of forestlands; protect, restore, and enhance water quality and salmonid habitat; improve forest structure and increase natural diversity; and provide public access where appropriate. The total acquisition cost was \$48,500,000, funded through a \$25,000,000 State Revolving Fund Loan, \$14,500,000 of state grant funds via the Conservancy and Wildlife Conservation Board, a \$5,000,000 Packard Fund Loan, and the remainder provided by TCF through private funds. As a condition of its grant, the Conservancy, whose contribution amounted to 15% of the project acquisition cost, required that TCF enter into a revenue sharing agreement that would remit 15% of net timber revenues (after taxes, property management costs, and loan repayment) to the Conservancy. Due to the large loan repayment costs and anticipated forest management expenses, it was not expected that there would be net revenues to share for many years, if ever. Initially revenues were expected to derive from timber harvest, but the emerging carbon offsets market provided an opportunity for another significant timber revenue source, and TCF went through the arduous process to register the forests as a carbon offset projects, selling carbon credits first in the voluntary market, and then in the compliance market.

Since the acquisition of the Big River/Salmon Creek Forests in 2006, TCF has made significant progress in achieving the objectives of the acquisition including:

Preventing Forest Fragmentation: With the Conservancy and Wildlife Conservation Board deed restrictions, the forests will be maintained as working forests in perpetuity.

Watershed Restoration: Reducing instream sediments, removing barriers to fish passage, and enhancing stream complexity are critical to restoring salmonid populations on the North Coast. TCF has replaced failed culverts, improved drainage, and enhanced stream crossings on more than 79 miles of road, preventing the discharge of more than 37,878 cubic yards of sediments.

The placement of large woody debris (LWD) in streams is also a high priority for salmon habitat restoration. Adding LWD provides refuge from peak winter flows, increases pool complexity, and sorts and collects spawning gravels. TCF has added 299 pieces of LWD to 5.4 miles of Class 1 streams on Big River and 240 pieces of LWD to 3.48 miles of Class 1 streams on Salmon Creek.

Forest Certification: TCF secured and maintained certification under the Forest Stewardship Council and Sustainable Forest Initiative which ensures that all forest management activities

meet rigorous sustainability criteria covering everything from water quality protection and biodiversity conservation to worker training and community involvement.

Forest Management: The principle silvicultural objectives for the Big River/Salmon Creek Forests are to grow large high-quality conifer trees, increase structural complexity and natural diversity, and establish a high level of sustainable timber production through selective harvests.

To date, TCF has used single tree and small group selection to harvest at rates significantly less than growth or allowed under the California Forest Practice Rules. TCF's Long Term Sustained Yield Plan approved by the California Department of Forestry and Fire Protection allows for the harvest of 10,500 million board feet (MBF) per year on the Big River/Salmon Creek Forests. The average annual harvest level over the last 10-year period has been approximately 2,700 MBF. Significantly, under TCF ownership and management, the amount of standing commercial timber volumes on the property have increased from 19.4 MBF per acre to 25 MBF per acre.

The Big River/Salmon Creek Forests are an approved and verified Improved Forest Management Project through the California Air Resources Board (CARB). To date, TCF has verified more than 398,000 CARB Offset Credits, the revenue from which has allowed TCF to more rapidly implement watershed restoration projects while significantly reducing harvest volumes below levels previously contemplated.

Public Access: TCF provides pedestrian and bicycle access in the Big River/Salmon Creek Forests, and equestrian access in the Salmon Creek Forest. These programs were launched in 2007 to provide outdoor recreation, cultivate stewardship, and increase surveillance on the forests. Participants sign a permit to hike or ride for free on logging roads in the forests. In addition, in Big River Forest, TCF provides access to local community members to cut firewood for home use.

Revenue Sharing Agreement

The existing revenue sharing agreement calls for the Conservancy to receive 15% of net timber revenues, after property taxes, loan payment costs, and reasonable property management expenses. As the forests were acquired with significant loans, and the land is in need of restoration due to many decades of industrial timber production, to date there have been no excess revenues to share. In 2022, TCF approached Conservancy staff with a proposal to modify the revenue sharing agreement by providing a one-time payment of \$3,125,000, in exchange for the Conservancy relinquishing the right to receive any future revenues from the property. This proposal is similar to one approved by the Conservancy Board in 2020 for the Garcia River Forest, in which the Conservancy accepted a one-time \$5,000,000 payment from TCF and relinquished its right to future revenues from that property.

TCF provided a financial analysis of future revenues that indicates the project may reach a point of having net shareable revenue in 2028, though the Conservancy's share would be relatively low – approximately \$250,000-\$300,000 per year. However, those predictions are based on assumptions about the continuation of the carbon offsets market, timber harvest values, and

ongoing land management costs that may or may not prove out, and thus there is no guarantee of future revenues.

Staff recommends the Conservancy accept the one-time payment in exchange for giving up the right to 15% net revenues indefinitely because the Conservancy's receipt of revenues under the existing agreement is uncertain. Though the Conservancy could potentially obtain more than the \$3,125,000 offered by TCF over time, it is dependent on the property generating surplus revenues, which is not guaranteed. Thus it is beneficial to the Conservancy to amend the agreement and accept TCF's offer. TCF has made a similar offer to the Wildlife Conservation Board, which has a similar revenue sharing agreement.

The Big River/Salmon Creek Forests are protected for the acquisition purposes by the Conservancy's reversionary interests and the Wildlife Conservation Board's Notice of Unrecorded Grant Agreement. At the time TCF purchased the property, TCF and the Conservancy contemplated TCF's eventual transfer of the property to a private, for-profit entity. If in the future the Conservancy approves TCF's transfer of the property to a private for-profit entity, the Conservancy would remove its reversionary interest, and the property would be protected for the acquisition purposes by a conservation easement held by the Mendocino Land Trust, which would remain in perpetuity with third party beneficiary rights for the Conservancy.

CEQA COMPLIANCE:

The proposed amendment of the Conservancy's revenue sharing agreement does not have the potential to result in a direct, or reasonably foreseeably indirect, physical change in the environment. Accordingly, the proposed amendment is not a "project" as defined under the California Environmental Quality Act (CEQA) and is not subject to CEQA.