

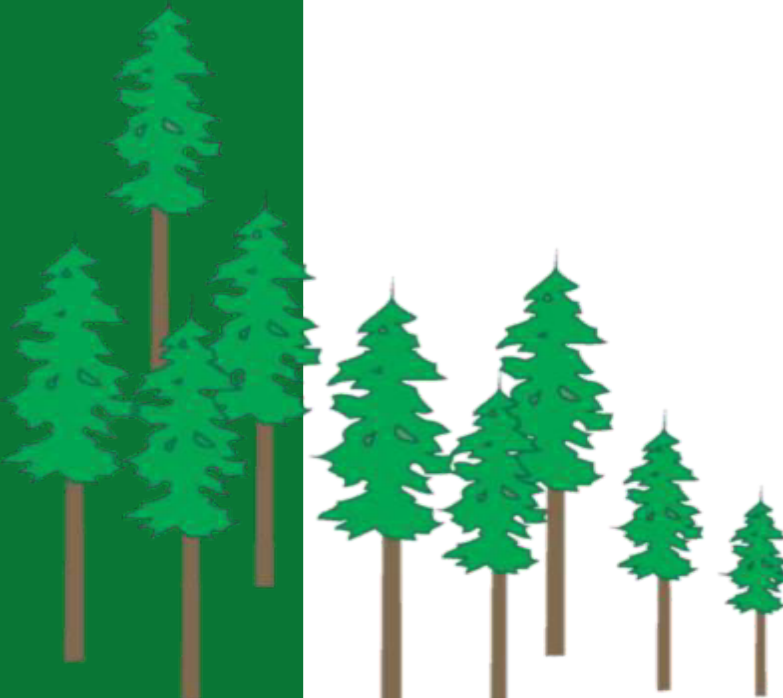


Coast

Appraisal Training

Module 4

Tenure Obligation Adjustment



Coast Area
October 2024



Module 4 – Tenure Obligation Adjustment

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Disclaimer: This document is intended for use during appraisal training activities and as a general guide to appraisals. It is not intended as a basis for legal interpretation of the *Coast Appraisal Manual (CAM)*. If there is any discrepancy between these materials and the *CAM*, the *CAM* in force on the effective date of the cutting authority is correct. The *CAM* posted on Timber Pricing Branch's website is the official version. If there are any questions about a specific appraisal issue, please contact Coast Area appraisal staff at the Coast Area office.

Introduction

In the market pricing system (MPS) it is important that the costs incurred by licensees who hold long-term agreements (long-term tenure holders) fulfilling tenure obligations are recognized.

Licensees with long-term tenures have tenure obligations (for managing the public forest on behalf of the Province of BC) while the market logger (BC Timber Sales agreement holder) may not have similar obligations because the province, through BC Timber Sales (BCTS), manages those forests.

The adjustments to recognize these costs in MPS are done through tenure obligation adjustments (TOA). The list of TOAs in the Coast Appraisal Manual (CAM) may change over time as new obligations occur and are recognized.

Cost data for TOAs are sourced from surveys of BCTS as well as forest industry costs to provide the basis for the TOAs. A cost base is used on annual cost survey data from BCTS and the forest industry.

A “Market Pricing System - Tenure Obligation Adjustment” paper is published periodically when new MPS formula is approved and can be found on the Timber Pricing Branch website.

Forest Planning and Administration

Forest planning and administration costs are those costs directly related to the supervision and administration of the activities listed below. They are costs that the long-term licensee bears, but the market logger does not.

The forest planning and administration cost does not include business-related or discretionary costs such as certain legal fees, corporate aircraft, stumpage payments, director fees and expenses, sales expenses, restructuring costs, etc. unless portions of these costs are directly attributable to the management of the forest.

Costs include, but are not limited to (the Annual Cost Survey package is the source for specific details) the following:

- **Office Operations**
- **Cruising**
- **Consultants Fees**
- **Engineering**
(road layout, a survey including geotechnical surveys, and design, other than those Acceptable in the NDC Procedures.)
- **Assessments and Surveys**
- **Waste and Residue Surveys**
- **Environmental Protection**
- **Foreshore and Other Land Leases**
- **Right-of-Way Easements**
- **Information Systems**

Low Volume Cost

A low volume cost is applied when the tenure agreement has an allowable annual cut (AAC) of not more than 10,000 m³ per year, and when the cutting authority's total net cruise volume is no more than 10,000 m³.

Road Development Cost

Road development costs (or development costs) are for roads, bridges and drainage structures that are required for timber extraction or for a service road to the cutting authority area.

The development costs are either tabular costs as outlined in the CAM or Non-Tabular Development Costs (NDC) as outlined in NDC procedures.

See Module 5 for details and processes for Development Cost.

Road Use Charges

A Road Use Charge may be approved if a road crosses private land or an Indian Reserve, is required for timber extraction and produces the highest stumpage.

- NOTE
- A road use charge is NOT applicable when a licence holder pays a fee to the road permit holder or primary road permit holder. These costs are accounted for by the Road Management TOA.

Under PHARM a Road Use Charge must be approved prior to inclusion in an appraisal data submission. A Road Use Charge that is included in an initial appraisal data submission that is not approved, will delay the issuance of a cutting permit until approval of the Road Use Charge is obtained or removed from the initial appraisal data submission. The reason for this is a Road Use Charge is one of the four required items to be verified by the district prior to issuance of a cutting permit.

Land use charges are not an acceptable TOA on the Coast.

See Module 10 for the process for approval of a Road Use Charge.

Road Management Cost

Where the licensee is obligated to carry out road management, the TOA includes but is not limited to costs for the following activities.

- Grading
- snow plowing
- sanding
- culvert repair
- Culvert replacement (≤ 900 mm)
- Ditch maintenance and repair
- dust control
- brush control
- minor surfacing repairs
- slough removal (confined to ditchline)
- Grass seeding
- deactivation

- NOTE
- **The Road Management TOA also covers road use charges paid to the road permit holder or primary road permit holder. These costs are accounted for by the Road Management TOA.**

Basic Silviculture Cost

Silviculture costs are determined for all cutting authorities where basic silviculture is required.

Basic Silviculture TOA includes all treatment costs that are required to achieve a free to grow stand status on the cutting authority harvested area. As of January 1 2024 this is now determined by the Biological Ecosystem Classification (BEC) zone cost estimates per hectare.

Low Grade Number

The low-grade Number purpose is to account for timber priced at the statutory stumpage rate (\$0.25 per m³) in the development of the cost for TOAs. The costs reported represent the total cost of tenure obligations divided by the total harvest, comprised of all grades of timber. However, from a cost accounting perspective, these tenure obligation costs are properly charged against the sawlog timber.

In other words, the TOA costs are “grossed-up” with estimates of the share of 25 cent grades in the permit so that the higher deduction is applied to the lesser volume (sawlog only), using district averages of utilization of low grade from the previous year.

The low-grade numbers are listed for each species by forest district (natural resource district) in the CAM. The low-grade numbers are based on the fraction of the hemlock & balsam (HemBal) grade U and all species grades X & Y.

Market Logger Cost

Market Logger Cost

The Market Logger Cost (MLC) is calculated from the MPS dataset and is an average of the estimated development costs BCTS licensees will incur.

Bidders for BCTS timber sales build some of the roads required to remove the timber and consequently their average of these costs is already “built-in” to the bids. An adjustment for this is necessary, otherwise, there would be a level of double counting after licensees are already given deductions for 100% of their estimated road costs.

The MLC is an adjustment to account for the development costs that the BCTS timber sale licence holder will incur. It is a per cubic metre cost that is calculated by GAS using the formula detailed in the CAM for the effective date of the cutting authority.

Specific MLC values may be calculated based on the harvest method (i.e., helicopter yarded directly to water), BC Timber Sales Infrastructure, Competitive Timber Sales Specified Operations Adjustment, and Services and the low-grade number.

BC Timber Sales Infrastructure and Services

This is the cost of infrastructure and services provided by BCTS for market loggers (timber sale licence holders) such as, but not limited to, log dumps, tie-up & booming grounds, etc.

It is a per cubic metre amount provided in the CAM for the effective date of the cutting authority and is automatically calculated by GAS in the EWB formula.

Competitive Timber Sales Specified Operations Adjustment

This is the cost of the competitive timber sales specified operation that is already included in the competitive timber sale licences that are in the MPS dataset. This is similar in concept to the MLC and indeed is tacked on to the MLC in the GAS calculation for the sake of convenience.

It is a per cubic metre amount provided in the CAM for the effective date of the cutting authority and is automatically calculated by GAS in the TOA formula.

Return on Forest Management

Return on Forest Management (RFM) recognizes the difference in financing costs incurred by long-term tenure holders. Licensees with long-term tenures incur costs over time (prior to and after harvest) in managing the public forests.

Much of the planning and road development costs, for example, are incurred over several years prior to harvest. The costs of silviculture are mainly incurred after harvest. Since the costs incurred by the long-term tenure holder are not recouped until the time of harvest, the RFM recognizes the cost of capital employed making the pre-harvest (offset by the post-harvest) expenditures.

BCTS licensees do not have these pre- and post-harvest costs.