DIRECTOR'S OFFICE
300 N 6th Street Suite 103
PO Box 83720
Boise ID 83720-0050
Phone (208) 334-0200
Fax (208) 334-5342

IDAHO DEPARTMENT OF LANDS

DUSTIN T. MILLER, DIRECTOR
EQUAL OPPORTUNITY EMPLOYER

To: Reinvestment Subcommittee

From: Dustin Miller, Director

Date: January 3, 2020

At the last Reinvestment Subcommittee meeting on November 13, 2019, Governor Little asked the following question: "**What Fire Costs are included in IDL's Discounted Cash Flow (DCF) Analysis for Timberland Acquisitions and are they different from private buyers?**"

Below is the response to the Governor's question in preparation for the next Reinvestment Subcommittee meeting.

Short Answer: Like all other industrial timberland buyers, IDL includes both the fire assessment costs ($0.60/ac) and the average annual fire suppression costs for all negligent fires started by IDL (i.e. – escaped prescribed fire) in the DCF analysis when evaluating possible timberland acquisitions. There are no differences between the fire costs included in a DCF Analysis for evaluating possible timberland acquisitions by IDL or a private buyer and IDL's methodology comports with the industry standard for DCF analysis for acquisitions.

Fire suppression costs expended by IDL for all fires within IDL protection areas, regardless of ownership, are paid out of deficiency warrants (general fund) as per Idaho Code 38-131. Private timberland owners do not pay for these fire suppression costs unless they are responsible for starting the fire. Therefore, suppression costs paid out of the general fund have no relevance to a DCF analysis.

Background Information: Like all private forest landowners, the Endowments pay the fire assessment each year ($0.60/ac/year) on about 1 million acres of endowment timberland (~$600,000/year). The fire assessment goes to support IDL's fire preparedness budget and is appropriated through the normal budgeting process. IDL's fire preparedness budget supports the hiring of permanent and seasonal fire staff, fire training costs, purchase of equipment and supplies, support of interagency dispatch centers, and all other expenses not associated with fire suppression.

Actual fire suppression costs for all fires, regardless of ownership, are paid out of deficiency warrants (general fund) as per Idaho Code 38-131. The Endowments and all other private landowners are billed for actual fire suppression costs if the start of a fire is determined to be a result of negligence (i.e. – escaped prescribed fire). In other words, if IDL starts a negligent fire on Endowment lands, the Endowments are billed and pay the fire suppression costs similar to a private landowner. Thus in calculating the DCF for an acquisition it would not be appropriate to consider the money appropriated by the legislature for the deficiency warrant account every year, but rather only that portion that can be reasonably anticipated to be paid out of pocket by a landowner as reimbursement for a negligently caused fire. Therefore, like all industrial timberland buyers, negligent fire suppression costs are included in every IDL DCF analysis as part of the average annual operating costs.

In sum, both the negligent fire suppression costs and the annual fire assessment costs paid by the Endowments are included in any and all DCF analysis when evaluating potential timberland acquisitions. This is the same approach industry would use to evaluate a possible timberland acquisition. All other suppression costs paid out of the general fund have no bearing or relevance to a DCF analysis whether by the Endowments or a private buyer.