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To: Regional Managers
All Holders of the Coast Appraisal Manual

From: Andrew Petter
Minister

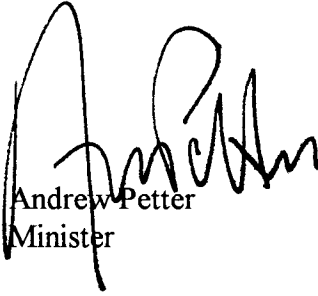
Re: Coast Appraisal Manual Amendment No. 1

I approve this amendment to the *Coast Appraisal Manual*, effective May 1, 1994. The following sections are amended:

<u>Section</u>	<u>Nature of Amendment</u>
1.6	This section now references Section 6.4.
5.3	The term 'general' has been revised to 'quarterly'.
5.4	The target rate calculation methodology has been revised.
6.1	The term 'general' has been revised to 'quarterly'.
6.2	The process for extending District Value Index rates is dealt with in Section 2.4 c).
6.4	Timber sale licences advertised or awarded prior to May 1, 1994 under Section 16 or 16.1 of the <i>Forest Act</i> may have stumpage rates fixed at the April 30, 1994 level for a specified period.

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This letter also authorizes a stumpage adjustment effective May 1, 1994. For the May 1, 1994 adjustment the April 1, 1994 quarterly stumpage adjustment parameters will be used with the exception of the base rate and target rate. The May 1, 1994 target rate and base rate will be recalculated according to this amendment and will be distributed by the Director, Valuation Branch.



Andrew Petter
Minister

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1.6 Stumpage Adjustments

Unless a cutting authority or the application and tender for a timber sale licence, specifies that stumpage rates are fixed for a specified period or for the full term of the cutting authority, the stumpage rates are adjusted quarterly on January 1, April 1, July 1, and October 1 of each year, subject to Section 6.4. The new stumpage rates reflect any changes in estimated selling prices (as authorized in this manual since the previous adjustment) and the operating cost trended to the quarterly adjustment date. In addition, the adjustment reflects changes to the Statistics Canada Softwood Lumber Index for the Coast, the Coast Base Rate and the Coast Mean Value Index.

Stumpage Rate Determination

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5.1 Indicated Stumpage Rate

The Indicated Stumpage Rate is determined by comparing the Value Index of the stand being appraised to the Value Index of other stands, as explained in the following sections.

5.2 Value Index

The stumpage rate charged on each cutting authority is keyed to the estimated Value Index of the stand to be harvested. The Value Index is defined as the Selling Price less the Operating Cost, both of which are estimates expected for an average operator in that stand. The formula to be used is:

$$VI = SP - OC$$

Where:

- VI = Value Index for the cutting authority.
- SP = estimated stand Selling Price determined in accordance with Chapter 3.
- OC = estimated Operating Cost applicable to the timber being appraised, and determined in accordance with Chapter 4.

5.3 Mean Value Index

The Coast Mean Value Index (MVI) is the benchmark against which individual stands of timber are compared. The Coast Mean Value Index is recalculated and published by Valuation Branch at the time of each quarterly stumpage adjustment. When distributed it becomes an integral part of this manual.

5.4 Market Value Indexing

At the times specified in Section 1.6, stumpage rates are adjusted upwards or downwards to reflect changes in the value of softwood lumber as indicated by the new Statistics Canada British Columbia Softwood Lumber Index (INDEX) for the Coast, number D693601.

New Coast Target Rate Calculation:

- | | |
|---|---|
| i) If the INDEX is less than or equal to 160 then, | $TR = \frac{INDEX}{138.5} * 10.59$ |
| ii) If the INDEX is greater than 160, but less than or equal to 185 then, | $TR = 12.23 + \left[\frac{(INDEX - 160)}{25} * 9.73 \right]$ |
| iii) If the INDEX is greater than 185 then, | $TR = 21.96 + \left[\frac{(INDEX - 185)}{49} * 7.45 \right]$ |

Where: TR = New Target Rate (\$/m³)

Quarterly Stumpage Rate Adjustment Date

January 1
April 1
July 1
October 1

New Statistics Canada Index based on index values for the months of:

Preceding August, September, October
Preceding November, December, January
Preceding February, March, April
Preceding May, June, July

The applicable Statistics Canada Index is published by Valuation Branch at the time of each quarterly stumpage adjustment. When distributed it becomes an integral part of this manual.

5.5 Base Rate

The Coast Base Rate is redetermined and published by Valuation Branch at the time of each quarterly stumpage rate adjustment. When distributed it becomes an integral part of this manual.

5.6 Calculation of Stumpage Rate

5.6.1 Calculation of Indicated Stumpage Rate

The Indicated Stumpage Rate for a cutting authority is defined as:

$$IR = BR + (VI - MVI)$$

Where:

- IR = Indicated Rate
- BR = Base Rate as defined in Section 5.5
- VI = Value Index for the cutting authority as defined in Section 5.2
- MVI = Mean Value Index, as defined in Section 5.3

5.6.2 Prescribed Minimum Stumpage Rate

The Minimum Stumpage Rate is prescribed by the *Minimum Stumpage Rate Regulation* (B.C. Reg. 354/87). The current Minimum Stumpage Rate is \$0.25 per cubic metre.

5.6.3 Reserve Stumpage Rate

For each cutting authority, the Reserve Stumpage Rate is the greater of its Indicated Stumpage Rate or the prescribed Minimum Stumpage Rate.

5.6.4 Upset Stumpage Rate

The Upset Stumpage Rate is the total of the Reserve Stumpage Rate plus any silviculture and development levies which may be charged as defined in Section 6.5.

5.6.5 Total Stumpage Rate

The Total Stumpage Rate is the Upset Stumpage Rate plus any Bonus Bid.

Misc. Timber Pricing Policies

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6.1 Value Indexes by District and Species

A new table of Value Indexes by District and Species is prepared at the time of each quarterly stumpage adjustment and becomes an integral part of this manual at that time. This table may be used by the Regional Manager to determine the Value Index for cutting authorities of less than 2,000 m³, as explained in Section 6.2.

6.2 Cutting Authorities With 5 000 m³ or Less Volume

A. Total Volume of less than 2 000 m³

An indicated stumpage rate may be determined by estimating the species volumes, prorating the appropriate Average Value Indexes by District and Species according to those volumes, and then using the resulting stand value index in the stumpage rate formula as described under Section 5.6. For cutting authorities where the licensee is not required to establish a free growing crop of trees, the Value Indexes must be adjusted by adding a basic silviculture cost estimate. (District Average Value Indexes are based on full appraisals of areas requiring basic silviculture.) The total stumpage rate is fixed for the term of the cutting authority. For extensions see Section 2.4 c).

Alternatively, an indicated stumpage rate may be determined through a full appraisal. The stand data may be site-specific or obtained from one or more comparable cutting authorities (e.g. similar stand and terrain characteristics, etc.). The total stumpage rate is adjustable for the term of the cutting authority, except as provided in Section 6.4.

Each full appraisal is made as described in Chapters 3, 4 and 5.

B. Total Volume of 2 000 to 5 000 m³

An indicated stumpage rate is determined on the basis of full appraisal data. The data may be site-specific or the data may be obtained from comparable cutting authorities, as determined by the Regional Manager.

Each appraisal is made as described in Chapters 3 and 4.

These sales are cruised if specified by the Regional Manager in accordance with Section 4.2 of this manual.

The total stumpage rate is adjustable for the term of the cutting authority, except as provided in Section 6.4.

6.3 Partially Harvested Timber

In the case of decked timber, or timber which has been felled and bucked, such as on rights-of-way, and where the stumpage value is over \$3,000 or volume exceeds 300 m³, a full cost estimate appraisal is completed upon an "as is , where is" basis.

6.4 Small Business Forest Enterprise Program (SBFEP) Sales

For appraisal purposes, the SBFEP includes:

- ALL TIMBER SALE LICENCES issued under the *Forest Act, Sections 16 and 16.1*.
- All TSLs issued under the Forest Act, Section 18 except 18 (1)(b) and 18(1)(c).

Fixed/Adjustable Stumpage Rates for SBFEP Cutting Authorities

The adjustable rate option can be provided to a licensee only if the upset rate has been determined by means of a full appraisal. The data may be site-specific or may be obtained from one or more comparable cutting authorities. If the District Value Index method is used, the upset and hence the total stumpage rate is fixed for the term of the cutting authority and all extensions.

During the term of the cutting authority, a licensee's election of fixed stumpage rates also precludes any correction to the upset stumpage rate determination that would otherwise be warranted because of an error in the appraisal.

A licensee who holds a timber sale licence issued under section 16 of the Forest Act that was advertised or awarded prior to May 1, 1994 may elect to have the stumpage rate on that licence fixed at the April 30, 1994 level for the term and all extensions. The election must be made prior to July 1, 1994.

The following option is available only until June 30, 1994 and if chosen, the stumpage rate will be fixed at the April 30, 1994 level until April 30, 1996.

For a timber sale licence issued under Section 16.1 of the *Forest Act*, the licensee may elect to have the stumpage rate fixed on a timber mark issued under that licence if:

- the timber sale licence was advertised or awarded prior to May 1, 1994, and
- the timber mark was issued prior to May 1, 1994.

6.5 Levies

The amount of any levy may be redetermined at reappraisals only.

i) Basic Silviculture Levy:

A basic silviculture cost estimate is made for every cutting authority that will require basic silviculture, including those with a volume of less than 2000m³.

A basic silviculture levy may be added to the Reserve Stumpage Rate. The levy is \$0.00/m³ if no Crown expenditures are anticipated for basic silviculture, or the District Manager may set the levy at \$0.00/m³ if the sale is offered under the *Forest Act, Section 16*, and the District Manager is satisfied that there will be competition for the sale. Otherwise the silviculture levy is equal to the appraisal estimate of basic silviculture costs (trended at the time of the appraisal).

ii) Development Levy:

A development levy may be added to the Reserve Stumpage Rate. The levy is \$0.00/m³ if no Crown expenditures are anticipated for road construction and other services, or the District Manager may set the levy at \$0.00/m³ if the sale is offered under the *Forest Act, Section 16*, and the District Manager is satisfied that there will be competition for the sale. Otherwise, the development levy is equal to the appraisal cost estimate of road construction and other extraordinary services provided by the Crown as determined by the Regional Manager (trended at the time of the appraisal).