

THE PACIFIC FOREST TRUST



2 0 0 2 A N N U A L R E P O R T

PRESERVING PRODUCTIVE FORESTLANDS

The Pacific Forest Trust, a nonprofit, 501(c)(3) organization, was founded in 1993 to preserve, enhance and restore America's private, productive forests. A collaborative, problem-solving organization, PFT works with landowners, forest managers, public agencies, local communities and others to sustain private forestlands for the wealth of public benefits they provide.

Our efforts to increase awareness of the threats to America's private forests, encourage innovations in stewardship forestry via education and research, and promote incentives for long-term forest stewardship and conservation via policy reforms are aimed at forest stakeholders nationwide. In our role as a specialized land trust for working forestlands, PFT's primary focus is on direct conservation in California, Oregon and Washington.

*Productive: Providing a full range of goods and services—both economic and environmental—from wood products to fish and wildlife habitat, recreation, inspiration, cleaner water and a more stable global climate.

CULTIVATING THE FUTURE

Annual reports usually look backward. This one is about the future.

We're extremely proud of all we accomplished last year, of course, and we're eager to tell you about it. But like a majestic redwood in a stand of thriving Douglas firs, one achievement rises above the rest.

As our ninth year came to a close, PFT's board of directors approved a new strategic plan that will guide our work during the next four years, likely to be critical ones for both private forests and PFT. Today, on the eve of our second decade of existence, the need to "work smart"—to see the big picture, and leverage scarce funds for maximum impact—is greater than ever before. We're confident we will meet that challenge.

This is a pivotal moment for America's private forests. The threats remain daunting, with roughly a million acres—an area the size of Delaware—being lost each year to development. On the other hand, the opportunities for protecting them have never been greater.

PFT helped create those opportunities. Our success in raising awareness of the threats to America's private forests—and of innovative tools for preserving them—spurred the development of markets for "ecosystem services" provided by healthy, well-managed forests. That explains why conservation acquisitions of forestland are now the fastest-growing segment of private forest ownership.



Just as important, we've begun to convince policy-makers that the fate of private forests is a matter of urgent public interest. For proof, we need look no further than last year's passage of California SB 812, the first law in the nation to recognize the vital role forests can play in curbing global warming. PFT was the major force behind the bill's passage, and is a leader in crafting guidelines for what is becoming a model for states across the U.S.

Details of these and other achievements follow. As you read about our 2002 accomplishments, however, we hope you'll view them as we do—as the culmination of nearly a decade devoted to sowing the seeds of a healthier forest ecosystem. And as a prelude to bigger things still to come.

For PFT, too, this is a pivotal moment. After nine years of planting, our task now is to harvest the exciting new opportunities for preserving and restoring America's private forests. For the sake of our forests—and with your continued support—we will.

Handwritten signature of Walter Sedgwick.

Walter Sedgwick, Chair

Handwritten signature of Constance Best.

Constance Best, Co-Founder and Managing Director

Handwritten signature of Laurie A. Wayburn.

Laurie A. Wayburn, Co-Founder and President

Forest Conservation Services

Conservation Easements on Managed Forestlands

By curbing development, protecting significant environmental values and supporting sustainable economic uses, conservation easements on working forests give property owners an invaluable tool for improving stewardship of their land, while permanently ensuring the public the myriad benefits of a healthy forest ecosystem.

In the summer of 2002, PFT completed the acquisition of a model conservation easement that permanently protects the 3,640-acre Howe Creek Ranch near Rio Dell, Calif., in the heart of the state's coastal redwood country. PFT also began active forest management last year on 9,200 acres of forestland in California and Oregon preserved in perpetuity under existing PFT easements.

In addition, PFT conducted successful negotiations on three conservation easements that would come to fruition in early 2003: the 600-acre Royal Redwood Ranch in Mendocino County, Calif.; the 120-acre Wilke property in Oregon's Willamette Valley; and the 200-acre Blake property in California's Sierra Valley, the largest alpine valley in the Sierra Nevada. (For details, please see the Spring 2003 issue of our newsletter, *Pacific Forests*.)

A Role Model for Working Landscapes Thirteen miles of high-quality salmon streams flow through the Howe Creek Ranch in Humboldt County, Calif. The ranch, owned and cared for by the Hackett family for five generations, features lush redwoods and Douglas firs, and is home to black bear, mountain lions, golden eagles, goshawks and the threatened northern spotted owl.



MICHAEL M. HENTZ

One ranch, indivisible: For the Hacketts of Humboldt County, Calif.—whose 3,640-acre Howe Creek Ranch has been in the family for five generations—good stewardship is good business.

PFT's acquisition of a conservation easement on the property in 2002 offered a prime example of the benefits of cooperation among the private, public and nonprofit sectors. Three-fifths of the \$3.25 million easement was purchased with state funds, with the remainder generously donated by the Hackett family. A low-cost bridge loan from PFT's Strategic Opportunities Conservation Fund enabled the family to pay off existing debt while PFT worked with state agencies to secure the bulk of the purchase price.

The easement ensures that the ranch will never be subdivided and that its abundant fish and wildlife are protected, while sustainable grazing and timber management continue.

"The conservation of Howe Creek Ranch should demonstrate to others that the future of resource lands along the coast does not have to be one of depletion and development," said state Sen. Wesley Chesbro in applauding the agreement. "Conservation and restoration can and should be part of a new business model to sustain our working landscapes."

Keyword: Management In 2001, the estate of Fred van Eck granted conservation easements to PFT on properties in two states: 7,200 acres of coastal Douglas fir forest in Lincoln County, Ore., and 2,000 acres of redwood land in Humboldt County, Calif. A financier who headed van Eck Global Investments in New York, van Eck looked to PFT to demonstrate the potential for synergy between economic and ecological interests.

PFT began working on both properties last year, developing forestry plans to fulfill the management objectives of the conservation easements. The goals are to restore and maintain complex, mature native forests; protect fish and wildlife habitat; and ensure sustainable, commercial forest management. During 2002, PFT prepared long-term forest management plans, and directed timber harvests aimed at restoring the forests' biological diversity.

Policy Initiatives: Creating Incentives for Forest Stewardship

PFT's accomplishments in 2002 further enhanced its reputation as a pioneer in forest-based carbon trading—first concluding a landmark international sale, then helping to forge a new market for the services provided by well-managed forests in fighting global warming.

On the heels of an earlier transaction with Green Mountain Energy Company, PFT sold 7,500 tons of carbon offsets to London-based Future Forests Ltd., which intends to resell them to European clients seeking to voluntarily offset their carbon dioxide emissions under the Kyoto Protocol. The offsets were secured by conservation easements on 5,000 acres of privately owned forestland in California on which PFT owns carbon rights.

The sale—the first international investment in U.S.

forest conservation and management—won praise from Andrea Tuttle, director of the California Department of Forestry and Fire Protection. “The Pacific Forest Trust’s continuing leadership and vision,” she said, “help make California an international leader in efforts to protect the environment and address the growing problem of global climate change.”

PFT also served as the lead organization in the development, passage and implementation of California SB 812, the first state law in the nation to combat global warming through the conservation and long-term stewardship of native forests. For details, see page 5.

Conservation and Stewardship Outreach

As in previous years, PFT actively spread the word in 2002 about the importance of private forests, the threats they face and the opportunities for conserving them.

America's Private Forests: Status and Stewardship, by PFT co-founders Constance Best and Laurie A. Wayburn, continued to reap accolades a year after its publication, earning positive reviews from periodicals ranging from *American Forests* to the national newsletter of Earthjustice. PFT-authored articles appeared in a number of forest-related publications, including *Ecoforestry* and the *Journal of Forestry*.

Demand for PFT speakers remained high in 2002, with staff members making presentations throughout the year in California, Oregon and Washington. These included keynote addresses by Wayburn and Best, respectively, at the Discovery Seminar Series at Oregon State University and the Washington Farm Forestry Association's spring meeting.

LOOKING AHEAD, BOOSTING OUR IMPACT

America's private forests face mounting pressures. The strains are impossible to ignore: booming population growth, encroaching development, soaring real estate prices, aging owners, corporate sales of huge tracts of timberland. The result is the loss of 1 million acres of private forest each year, and the fragmentation of another 2 million forest acres—rates that have accelerated over the past decade.

Less apparent are the opportunities for reversing this dangerous trend. In many ways, support for an incentive-based approach to conservation has never been stronger. From land trusts and government agencies to family ranchers and industrial timber firms, the notion that private stewardship yields vital public benefits has taken root.

This is due in no small measure to the work of PFT, which, from its founding in 1993, has pioneered forest management options that reward landowners for long-term stewardship. This, we believe, offers the best hope for the future of America's forest ecosystems. In addition, more property owners need to be made aware of their options—and more policy-makers need to be made aware of the threats to private forests and the public benefits they provide.

PFT's staff and board of directors had these considerations in mind as they mapped a course for the organization on the brink of its second decade. Our new, four-year strategic plan calls for PFT to marshal its conservation resources as never before on behalf of high-impact projects. These are defined as:

- Projects with a landscape impact due to scale, ecological values, proximity to other protected areas, and importance to the surrounding ecosystem.
- Projects that can serve as models of managed private

forest conservation, either regionally or nationally.

PFT already has several such projects in development in the Klamath-Cascades region of California and Oregon. In general, we plan to pursue projects for which there is near-term public funding for acquisition of conservation easements, with an emphasis on properties larger than 15,000 acres. We will also aggressively utilize our \$6 million Strategic Opportunities Conservation Fund to leverage private and public dollars to achieve conservation on a large scale.

Success in completing high-impact conservation projects will help us achieve another prime objective: raising the visibility of private, productive forests.

Key goals of PFT's 2003–2006 strategic plan:

- Build the constituency for private forests. Employing a communications strategy that includes media, publications and public education, help create a wider understanding of the importance of private forests, the threats they face, and the most effective ways to preserve them.
- Expand benefits derived from public values of private forests. Identify and develop new revenue streams and other benefits (regulatory streamlining, for example) to private forest owners based on the conservation and enhancement of public values—including achieving the goals of the Endangered Species Act—with a particular focus on the emerging carbon market.

Over the next decade, PFT's work holds the potential to catalyze millions of acres of private forest conservation across the United States. Our strategic plan puts forth an ambitious agenda, and calls upon all of us—board, staff and supporters alike—to ensure its success. Working together, we *can* preserve America's private forests.

THE CUTTING EDGE OF CONSERVATION

The year 2002 was a historic one for both PFT and private forests. For the first time, a U.S. state not only recognized the vital role of forests in slowing global warming, but enacted a law that explicitly promotes forest conservation and management as a means to combat it.

The fact that the state was California—and that the law is certain to be a model for policy-makers across the U.S.—only adds to its importance.

PFT was the principal organization in developing and passing this landmark legislation. After Gov. Gray Davis signed SB 812 in September, Andrea Tuttle, the state's forestry director, publicly thanked PFT for our “forward-thinking leadership and action.” Now, PFT is leading efforts to make the law work as intended.

SB 812 expands the scope of the state's Climate Action Registry, created in 2000 to encourage carbon dioxide producers to voluntarily reduce their greenhouse gas emissions.

By recognizing emissions from forest loss and disturbance, and reductions from forest carbon sequestration, the new law gives producers of greenhouse gases a clear financial incentive to conserve forests. The bill also requires that the registration of carbon stored and released by forests meet rigorous accounting standards.

As the designated facilitator of the effort to craft guidelines for forest carbon registration in the Golden State, PFT is working to write these core principles, now required by SB 812, into the state's carbon registry protocols:

- To achieve real and additional reductions of CO₂, forest practices must clearly exceed “business as usual.”
- To ensure lasting improvements in global warming and conservation, carbon benefits must be secured in



BLUD MCCARY

Forests forever: PFT is developing guidelines to ensure that California's voluntary carbon registry brings lasting forest conservation as it curbs global warming.

perpetuity by conservation easements.

- To ensure the conservation and restoration of native California forests—and avoid the environmental harm that could result from the planting of non-native species—activities must promote and maintain native forests, and eligible forestlands must undertake natural forest management practices.

“Again, California is on the international cutting edge in creating the instruments we need to address climate change and conserve forestland,” said Tuttle.

And PFT—again—is helping to make sure that cutting edge is aimed in the right direction.

THE PACIFIC FOREST TRUST

Audited Financial Statements

December 31, 2002

Statement of Financial Position

ASSETS

CURRENT ASSETS

| | |
|---------------------------|------------|
| Cash and cash equivalents | \$ 826,041 |
| Investments | 3,384,555 |
| Accounts receivable | 58,783 |
| Grants receivable | 95,000 |
| Bond Interest receivable | 4,158 |
| Prepaid expenses | 12,046 |
| <hr/> | |
| Total current assets | 4,380,583 |

| | |
|---|----------|
| Property, equipment and leasehold improvements | \$26,514 |
| Deposits | 7,741 |
| <hr/> | |

Total assets **\$4,414,838**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|------------------|-----------|
| Accounts payable | \$ 87,960 |
| Accrued expenses | 22,300 |
| Line of credit | 2,401 |
| <hr/> | |

Total current liabilities 112,661

Net assets

| | |
|------------------------|------------|
| Unrestricted | \$ 181,244 |
| Temporarily restricted | 4,120,933 |
| <hr/> | |

Total liabilities and net assets **\$4,414,838**

A copy of the complete audited financial statements and independent auditor's report is available on request.

THE PACIFIC FOREST TRUST

Audited Financial Statements

December 31, 2002

Statement of Activities and Changes in Net Assets

| | <i>Unrestricted</i> | <i>Temporarily Restricted</i> | <i>Total</i> |
|---------------------------------------|---------------------|-----------------------------------|--------------|
| SUPPORT AND REVENUE | | | |
| Foundation grants | \$ 49,337 | \$ 453,000 | \$ 502,337 |
| Government grants | 0 | 2,107,760 | 2,107,760 |
| Corporate contracts and grants | 10,418 | — | 10,418 |
| Individual contributions | 154,716 | — | 154,716 |
| Stewardship endowment | 100,000 | — | 100,000 |
| Fees for services | 149,684 | 20,000 | 169,684 |
| Sales and miscellaneous revenue | 13,351 | — | 13,351 |
| Interest and dividend income | 6,139 | 168,039 | 174,178 |
| Loss on sale of investments | (12,697) | (23,746) | (36,443) |
| Unrealized gain of investments | 300 | 91,997 | 92,297 |
| Net assets released from restrictions | 2,806,500 | (2,806,500) | 0 |
| Total support and revenue | 3,277,748 | 10,550 | 3,288,298 |
| EXPENSES | | | |
| Direct program expenses: | | | |
| General program | 185,011 | — | 185,011 |
| Communications | 93,678 | — | 93,678 |
| Land trust services | 2,722,388 | — | 2,722,388 |
| Stewardship forestry | 103,643 | — | 103,643 |
| Policy | 155,418 | — | 155,418 |
| General and administrative | 67,396 | — | 67,396 |
| Fundraising | 139,346 | — | 139,346 |
| Total expenses | 3,466,880 | — | 3,466,880 |
| Change in net assets | (189,132) | 10,550 | (178,582) |
| Net assets at beginning of year | 370,376 | 4,110,383 | 4,480,759 |
| Net assets at end of year | 181,244 | 4,120,933 | 4,302,177 |

DONORS AND CLIENTS

We are grateful to the following foundations, individuals and companies who made generous grants and donations to PFT in 2002.

\$10,000 and above

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