



GETTING THE MOST FROM YOUR FARM WOODLAND

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INTRODUCTION

When was the last time you took a serious look at that woodlot growing on the "back 40" of your farm? Is it being managed wisely, like other enterprises on the farm, to provide additional cash flow? Many farms in Michigan contain tracts of woodlands growing on fairly productive soils that are possible to manage as another crop on the farm. Here are a few of the important points to consider in getting the most from your farm woodland.

LINKING FOREST MANAGEMENT WITH FARM MANAGEMENT

Forestry and farming are similar in that the purpose of both activities is to maximize production of the crop. Consequently, woodlots that receive no management at all are similar to a field of corn or potatoes that is left untended. Therefore, it's important to realize from the start that it will require some knowledge and effort on your part to bring your woodland into peak production (through good forest management). Proper management will not only improve the quality of your woodland but enable it to produce timber crops on a sustained basis.

Fortunately, a woodland, unlike agricultural crops, requires only a minimal amount of input to produce a high value crop.

Moreover, depending on the type of woodlot, cultural practices such as improvement thinning often pay for themselves in the form of fuelwood, pulpwood posts or utility poles. Timber also stores well on the stump when "ripe," which allows a farmer the flexibility to time harvests around other cash flow needs on the farm.

Although your farm woodlot may not produce income every year (unless you own significant acreage), it can be managed to yield additional income periodically (perhaps every 8 to 10 years). Good farm managers should look at their woodlands as an opportunity to generate periodic cash flow, to diversify their operations and to pay for the cost of maintaining the woodlands as part of the farm property.

GETTING STARTED

Once you have made the decision to manage your woodland as another crop, what do you do? Call a logger in to cut down all the "bigger and better" trees and leave you with all the junk still standing? Absolutely not! This practice, known as high-grading, has happened to more than one farm woodlot, but it's a costly mistake and definitely not wise management of that investment. High-grading is comparable to a dairy farmer who sells all his best producing cows and then depends on the poor producers to carry his

dairy operation financially.

So, please don't give in to short-term pressures for cash flow by sacrificing long-term gains in your woodland. Good forest management will give you more dollars in the long run as it yields more income from higher quality timber with each successive harvest.

The farm woodland can best contribute to cash flow and income production when it is producing at or near its true potential. Consequently, the place to start is to see what condition the woodlot is in and what needs to be done to improve it.

For example, are trees young and overcrowded? Then perhaps a thinning operation is needed. If it's a hardwood woodlot, then you can use the thinnings to heat your home or shop or sell them as pulpwood. If the trees are large and approaching maturity, then a carefully planned timber sale might be in order.

Although certain factors such as the size (acreage) of the woodlot and the size, quality and species of the trees influence the value of timber, possibilities for income exist in more woodlots than most people realize. Given Michigan's diverse forest industry, the products that can be produced and marketed from various types of woodlands in Michigan include:

- * Fuelwood
- * Pulpwood
- * Conifer boughs for Christmas wreaths and roping
- * Utility poles
- * Sawtimber and veneer
- * Christmas trees
- * Maple sap or syrup
- * Cedar posts
- * Woodlands can also be leased for hunting

HARVESTING AND LOGGING CONSIDERATIONS

Eventually, the timber in your farm woodland will become mature and be ready for harvest. At this point, time spent planning for the harvest will pay for itself, whether it's timing the sale around other cash flow needs or around timber market conditions. There are other considerations that the farm manager must deliberate in planning for a timber sale.

To begin with, who will decide which trees are ready for harvest? When a selective harvest is planned, it's essential that someone knowledgeable determine which trees should be harvested, on the basis of age, species, condition and future value, not just present size. It's also important that each individual tree to be harvested is clearly marked on the stump and about chest height as a safeguard to the farmer. Some farm managers may trust a logger or timber buyer's judgment, but there are times when a farmer may want to get the help of a professionally trained forester.

Research into past timber sales on privately owned land has shown that timber harvests conducted with the help of a professional forester resulted in more income and more timber left standing than timber sales conducted without the a forester's help. Even if a farm manager has to pay for help, as in the case of a consulting forester, the expense is deductible on your income tax.

Futhermore, in northern lower Michigan, with its abundance of forests, it's not hard to find a professional forester to give you advice about your woodland. Contact your local extension office for a list of foresters (both public and private) in the area.

Another important decision to be made is who will do the harvesting - your crews or an independent logger? Though the temptation might be there to do the logging yourself, that might be a costly proposition in the long run.

For example, logging is dangerous work so you need to be sure that you and your farm workers understand proper felling techniques and are fully covered by your insurance. It's possible that your farm policy may not cover against accidents in the woods. Check it out before sending your crews in to start logging. In addition, for legal reasons, many mills no longer buy timber from anyone who is not fully insured by worker's compensation.

TIMBER SALE GUIDELINES

For these reasons, the farm manager may choose to have several reputable loggers or timber buyers bid on the timber he/she has for sale and have the buyer perform the actual logging. The recommended process to use in marketing timber under this arrangement is a competitive, sealed-bid sale. An announcement is sent to several loggers or mills that buy timber in the area to inform them of your intention to sell timber.

Usually these announcements list names and legal address, a brief description of what type and how much timber is for sale, and other pertinent information. These announcements will also invite buyers to bid on the timber using a sealed bid that will be opened on a certain day or time listed in the announcement.

Using a competitive, sealed-bid approach is the best way to ensure that a farmer gets fair market value for his/her timber. It's a process that is used extensively in the industry, including in state and federally owned timber sales.

The following example underscores the importance of using this approach. Some Michigan-based forestry consultants have stated (through personal conversation with this author) that they have received bids for timber sales that have differed by as much as \$4,000 to \$5,000 for the same tract of timber.

Once a farmer selects a buyer (on the basis of bid price and reputation), then the farm manager and the logger should enter into a timber sales contract. Such a contract is considered essential to protect the interests of both parties. For the farm manager, a well-written contract spells out how, when and what will be done, how payment will be made, dismisses the farmer from any liability should anyone get hurt logging, and covers other important details.

The prudent farm manager should not take a chance on a verbal agreement over a handshake as a substitute for a written timber sales contract. A well-written contract (see the extension bulletin on timber sales contracts) is the best control that a farmer has over how the timber sale will be executed. If problems arise and the logger does not abide by the terms of the contract, the farmer can halt the operation, thus avoiding more damage or further problems.

Once the contract is signed, it may be several months before the logger actually begins the harvest. From the start of the harvest operation, the farmer (or the forester he contracts) should periodically inspect the harvest operation to be sure that all is going according to the terms of the contract.

HARVEST FOLLOW-UP

Once the harvest is completed and the logger has moved his equipment out of the farm woodlot, the operation is still not yet completed. Careful inspection of the

woodland is needed to see if anything else is required to keep the woodlot in good shape for future harvest or recreational activities.

For example, if the logger left the tree tops as part of the sales arrangement, then the farmer might choose to cut them up for firewood for personal use or arrange for a local firewood processor to cut them up along with any cull trees left standing. Inspection should also be made to be sure that no unmarked trees were mistakenly cut or severely damaged by the logger.

In addition, if the logger was not required to grade the skid trails or landing upon completion of the sale, the farmer may wish to do this, leveling off these areas and possibly seeding them to prevent erosion. (Seeding with legumes or clovers can also benefit wildlife.)

From a financial standpoint, all expenses for managing timber, and having a timber sale and the revenue produced from the sale of timber should be carefully recorded in the bookkeeping system that the farmer maintains for income tax and farm management purposes.

For income tax purposes, all revenue from timber sales may qualify for long term capital gains and depletion allowance and many expenses associated with timber management are deductible. Contact your local extension office for further information on marketing timber and handling income taxes arising from timber sales.

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