Minutes
Board of Natural Resources Meeting
January 5, 2018
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT
The Honorable Hilary Franz, Washington State Commissioner of Public Lands
The Honorable Bill Peach, Commissioner, Clallam County
The Honorable Chris Reykdal, Superintendent of Public Instruction
Dan Brown, Director, School of Environmental and Forest Sciences, University of Washington – via conference call

BOARD MEMBERS ABSENT
JT Austin, Designee for the Honorable Jay Inslee, Washington State Governor
Ron C. Mittelhammer, Dean, College of Agricultural, Human, and Natural Resource Sciences,
Washington State University

CALL TO ORDER
Chair Franz called the meeting to order at 9:00 AM.

All Board members introduced themselves. Chair Franz noted there was a quorum for the meeting.

SAFETY REVIEW
Ms. Kellogg gave a safety overview and instruction on evacuating the building in case of an emergency.

APPROVAL OF MINUTES
Chair Franz called for approval of the minutes for the December 5, 2018 Regular Board of Natural Resources Meeting.

MOTION: Superintendent Reykdal moved to approve the minutes.
SECOND: Commissioner Peach seconded the motion.
ACTION: The motion was approved unanimously.
PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

Connie Beauvais, Port of Port Angeles, spoke about the Marbled Murrelet preferred alternative and her concerns with the details of the selected preferred alternative. She asked the Board to consider Alternative B as the preferred alternative and that since the arrearage acres have been agreed to by the Board, those acres should be immediately put back on line to schedule for harvest. She also asked that difference in acres between the selected alternative and acres set aside under alternative F be released from their set aside designation.

Carol Johnson, Executive Director, NOTAC, spoke about the Sustainable Harvest Calculation, adding that her comments are mostly relative to Clallam County lands. She stated most of Clallam County lands, per her pie chart provided at a previous meeting, 52% of lands are off base or highly restricted. She requests that a financial analysis of the lands preserved in those categories from harvest be completed so the beneficiaries know what the value of the lost opportunity is and how long the DNR plans have the lands reserved. She would like to see documented effort of not repeating the arrearage issue and that DNR give the beneficiaries notification if the arrearage issue re-occurs.

Matt Comisky, Washington Manager, AFRC, spoke to the selection of the preferred alternative for arrearage at the November meeting. Mr. Comisky questioned the volume of trust land transfers, and that there seems to be an inter-generational equities problem. He noted several other concerns and plans to add more at a later meeting.

Rod Fleck, City Attorney, Forks, commented on the selection of the Marbled Murrelet Long Term Conservation Strategy and how it would occur on the ground. Mr. Fleck shared documents from 2001 and notes the change in trust land acres managed by DNR, asking for clarification from DNR staff.

PUBLIC COMMENTS FOR TIMBER SALE ACTION ITEMS

Miguel Perez-Gibson, WEC, spoke about how timber sales are managed and the value and volume of sales coming up this year.

TIMBER SALES (Action Item)

Proposed Timber Sales for February 2018 | 3 handouts, including the presentation

Tom Heller, Acting Assistant Division Manager, Product Sales & Leasing Division

Mr. Heller began by discussing current timber market conditions, stating that factors have changed for the positive providing the DNR with significant high bids. Recent department log surveys have shown a 10% increase in log prices where 1-3% increases are common. Mr. Heller also noted that current log supplies are low, which has led to increases in prices.

The results of the December auction was presented to the Board by Mr. Heller. The Department offered 19 sales totaling 73.6 mmbf in December. All sales sold totaling $37.1 million for an average of $503 per mbf with 2.7 bidders per sale on average. Mr. Heller noted that this was the first time in the past 12 years where the Department averaged over $500/mbf.

Mr. Heller then discussed the current fiscal year 2018 planned versus sold volume graph. The baseline for this graph is what was scheduled as planned in December 2017. Mr. Heller
discussed the small difference shown between the planned and sold 2nd quarter volumes as being due to a sale which received no bids; the referenced no id sale is currently scheduled in the 3rd quarter.

Mr. Heller asked for questions on the December 2017 results and current fiscal year volumes. Commissioner Peach mentioned potentially looking at Random Lengths historical data to see when prices were as comparatively high as the Department’s December auction results and price survey. Commissioner Peach then asked the viability of moving timber sales into the 3rd quarter to capture value in the current market. Mr. Heller responded that this would be difficult because two months of the 3rd quarter are already solidified leaving only March in which to attempt to add more sales. This also means that any sale, which could be moved, would need to be through all applicable permitting processes. Mr. Heller did note that the Department has been actively looking at moving sales forward.

Commissioner Peach followed up by asking how much more revenue is the Department able to produce to beneficiaries under such positive market conditions. Mr. Heller responded that the extra amount is significant.

Commissioner Peach also asked how the Department was producing in regards to price versus what was projected for the fiscal year and what was the Department’s budgeted revenue target for fiscal year 2018. Mr. Heller responded that the Department could provide the price information in a future presentation and that a revenue forecast is produced quarterly and prices are currently well above the current forecasted revenue numbers.

Commissioner Franz mentioned that she has recommended to staff to show both volume and value on future graphs to display where the Department is relative to where projections were. Commissioner Peach mentioned that junior taxing districts are aware of the higher values being obtained by current timber sales and are asking if more revenue to the trusts should be expected.

Mr. Heller noted that the pre mbf price is shown on the Department’s auction results report as $469/mbf and that the current forecast was for $370/mbf. Commissioner Franz recommended that the value results could potentially be more effective if presented graphically.

Mr. Heller then presented proposed sales to be offered in February 2018 to the Board.

Commissioner Franz asked the Board for questions on the proposed sales.

Hearing no questions, Mr. Heller asked for approval of the proposed sales as presented.

**MOTION:** Commissioner Peach moved to approve the proposed sales.

**SECOND:** Superintendent Reykdal seconded the motion.

**ACTION:** The motion was approved unanimously.

**PUBLIC COMMENTS FOR LAND TRANSACTION ACTION ITEMS**

No comments.
AQUATIC/LAND TRANSACTION (Action Items)

Oroville-Tonasket Irrigation District Direct Transfer, No. 02-096120; Resolution 1512
Kyle Murphy, Assistant Division Manager, Aquatic Resources Division
Robin Hammill, Program Manager, Aquatic Resources Division

Mr. Murphy presented the proposed direct transfer of the Lake Osoyoos property in Okanogan County, located near the Canadian border and near the town of Oroville, to the Oroville-Tonasket Irrigation District. The 2.97 acre parcel generates no revenue and DNR is prohibited from effectively leasing or developing the property due to deed and site restrictions. The revenue from this transfer will be deposited into the Real Replacement Property Account for future acquisitions of aquatic land.

The appraised value and price is $74,000.

Mr. Murphy concluded by asking the Board to approve Resolution 1512.

MOTION: Superintendent Reykdal moved to approve Resolution 1512.
SECOND: Commissioner Peach seconded the motion.
ACTION: The motion was approved unanimously.

South Ebey Auction Property Transfer, No. 02-095872; Resolution 1513
Bob Winslow, Conservation, Recreation, and Transactions Division

Mr. Winslow presented the South Ebey auction property, which is located in Snohomish County northeast of the City of Arlington. The property is a small parcel of Common School Trust land that would be sold at public auction. DNR desires to sell the 0.29 +/- acre property to acquire replacement property for the Common School Trust at a future date. This small parcel is not economic to harvest due to size and costs to survey, is not adjacent to other trust land, and is a source of on-going costs associated with easement grant requests from the public.

The property is not a legal lot and the zoning density is 1 house per 20 acres. The property includes a few trees, Ebey Mountain road and a portion of a driveway. A neighbor has provided DNR with a $7,500 Administrative Fee payment to cover DNR costs to bring this property to auction. The appraised value and recommended minimum auction bid price for the property is $2,200.

During the question period it was noted that the tree volume is too low to make a timber sale economical as the cost of the property line surveying and the timber sales preparation costs would exceed the stumpage value.

Mr. Winslow recommended approval of Resolution 1513.

MOTION: Commissioner Peach moved to approve Resolution 1513.
SECOND: Superintendent Reykdal seconded the motion.

ACTION: The motion was approved unanimously.

Tukes Reservoir Direct Transfer, No. 02-093907; Resolution 1514
Deborah Whitney, Program Manager, Conservation, Recreation, and Transactions Division

Ms. Whitney presented the Tukes Reservoir Direct Transfer Transaction. She described the parcel location as adjacent to the city limits for the City of Battle Ground, in Clark County, Washington, and is about 18 miles northeast of Vancouver. Ms. Whitney stated that the property is being purchased by the City of Battle Ground, who holds an easement for water reservoirs on 1.2 acres of the property and that the City wishes to expand their facility and add more towers. The revenue from this transfer will be deposited into the Real Property Replacement Account to purchase replacement property for the Common School Trust.

The appraised value and price is $175,000.

Ms. Whitney recommended approval of Resolution 1514.

MOTION: Commissioner Peach moved to approve Resolution 1514.

SECOND: Superintendent Reykdal seconded the motion.

ACTION: The motion was approved unanimously.

PUBLIC COMMENTS FOR CHAIR REPORT
Miguel Perez Gibson, WEC, spoke about Forest Health and shared his appreciation of the DNR moving the Forest Health program forward.

CHAIR REPORT
State Lands Forest Health Implementation Briefing-Part 1
Darin Cramer, Division Manager, Product Sales and Leasing

Mr. Cramer provided a briefing of the forest health issue in Washington State to the Board. He stated that declining forest health has been partially responsible for the extreme fire behavior for the past few years leading to a heightened awareness of forest health issues. He went on to state that the Department has been actively trying to manage forest health for a number of years; however the problem and costs are large and has limited the Department’s ability to treat large areas in a short period of time.

The legislature has been heavily involved in this issue over the past couple years and in 2017, the legislature passed House Bill (HB) 1711, which provided new direction for State Lands to treat forest health issues.

He went on to explain that in Eastern Washington, the forest health issue can be categorized as a density management issue and directed the Board’s attention to two images of the same forested ridge taken roughly 75 years apart where the slopes have filled in over that time period. He stated
that many decades of heavy fire suppression have led to the issue of over-stocked stands, which can lead to greater mortality and pests creating a feedback loop with forest fire frequency and severity.

Mr. Cramer then provided statistical information, noting that in 2014 the Department estimated that 2.7 million acres of Washington were in need of forest health treatments and that State Lands accounted for roughly 257 thousand acres (10%) of that total. He explained that the Department manages about 780 thousand forested acres, of which about 90 thousand is in NRCAs, NAPs, and Community Forests. He stated that forest health treatments have been occurring every year and since 2014, the Department has treated approximately 40 thousand acres meaning there are roughly 200 thousand acres remaining to be treated.

Mr. Cramer then showed a map of Eastern Washington displaying areas treated for forest health as well as large fire areas. The map shows varying levels of tree mortality of which there are more large areas. The map also indicated some decreases in the rate of tree mortality over the years. Commissioner Peach asked if the mortality was due to beetles to which Mr. Cramer responded yes among other factors.

Mr. Cramer then expanded on what State Lands has been doing stating that in 2004, the Department received legislature approval to begin conducting forest improvement treatments (FIT) utilizing the contract harvest revolving fund. He explained that the account allows for the use of contract harvesting to deliver logs directly to purchasers and that money can be spent from this account with the proceeds coming back in. He stated that once a sale is complete, disbursements to beneficiaries are made. It was a key benefit to use the revolving fund for FIT projects due to these projects being high cost/low value work and many forest health projects would not occur if there was not this type of funding mechanism available.

Commissioner Peach asked if the cash flow from these projects goes to the beneficiaries or Department. Mr. Cramer responded that it does. The revolving account has a minimum balance in it to cover project costs and conducting the project. At the end of each sale there is a positive cash balance that is dispersed to beneficiaries.

There are still constraints on conducting forest health treatments using the revolving account. A project has to be at least at a break even value if not a positive value. There is also competition for the money in the account. Commissioner Peach asked whether the competition is internal to DNR. Mr. Cramer responded that it is. Commissioner Peach than clarified that this mechanism is in place to avoid negative cash flow sales. Mr. Cramer agreed.

Mr. Cramer informed the Board that the Department has also been successful at acquiring capitol dollars to complete projects. The Department has received capitol budgeting for the past eight years; roughly 1.7 million per biennium which has allowed some of the break even or negative value projects to move forward. Capitoll dollars can be used to supplement the revolving account to ensure the revolving account does not go into a negative balance. This has also allowed activities such as commercial and pre-commercial thinning to occur.

In 2007, the legislature amended existing law regarding forest health which provides for the Commissioner of Public Lands (CPL) to be the lead on forest health issues. The amended law
resulted in a tiered system where tier 1 is a stated policy objective that forests should be managed
or maintained forest ecosystems so that forest disturbance agents exist at non-epidemic levels;
tier 2 allows the CPL to designate hazard warning areas; tier 3 is the ability to issue orders when
there is an emergency which requires landowners to act. Mr. Cramer showed a map of two areas
with significant forest health issues as designated by Commissioner Goldmark.

Additional legislation was approved in 2016 directing the department to develop a 20-year
strategic plan. This plan was completed in 2017 with five goals:
1. Conduct 1.25 million acres of sound landscape scale cross-boundary management and
restoration treatments in priority watersheds to increase forest and watershed resiliency
by 2037.
2. Reduce risk of uncharacteristic wildfire and other disturbance to protect communities,
properties, ecosystems, assets, and working forests.
3. Enhance economic development through implementation of forest restoration
management strategies that maintain and attract private sector investment and
employment in rural communities.
4. Plan and implement coordinated landscape-scale restoration and management treatments
in a manner that integrates landowner objectives and responsibilities.
5. Develop and implement a monitoring program that establishes criteria, tools, and
processes to monitor conditions over time and reassess strategies as necessary.

In 2017, the legislature passed two significant pieces of legislation; Senate Bill (SB) 5546 and
HB 1711. SB 5546 represents the next stage of the 20-year strategic plan and it establishes an
advisory committee which directs the Department to develop and assess treatment framework to
address the forest health issues. This bill also requires that 1 million acres be treated by 2033
across all ownerships. HB 1711 was specifically for State Lands and required the Department to
develop a policy for prioritizing investments on State Lands to reduce hazards and losses, reduce
disease and insect infestation, and achieve forest health and resiliency at a landscape level.

Mr. Cramer went on to inform the Board that during 2017, the Department worked with the US
Forest Service under the Good Neighbor Authority to assist them with conducting forest health
treatments on federal land. The first project under this agreement is coming up shortly this spring
in the Colville area. The shift has gone to landscape levels over the past couple years rather than
a stand by stand focus.

He explained that State Lands has been working on developing a framework to meet the
objectives of HB 1711 and that a plan should be completed within a month that will address
planning based on a number of factors including an economic development landscape plan. HB
1711 also established a new revolving account for this work. The new account is similar to the
previous revolving account except the new one is dedicated to forest health work, eliminating
competition for the money. There is also a higher fund balance cap and proceeds from the fund
can be used across the landscape as opposed to having to track sale by sale. There is a still the
required dispersal of funds.

Commissioner Peach clarified that if one project is negative and another is positive, the negative
is eliminated by the positive project allowing more acres to be treated overall. Mr. Cramer
agreed and noted that this was a key component necessary to be successful.
Mr. Cramer then discussed what has actually occurred as far as forest health treatments ranging from 2006 to 2017. Treatments have ranged from pre-commercial thins, commercial thins, and FITs and this relays to about 70 thousand acres of commercial harvest and 50 thousand FITs, and 40 thousand acres of pre-commercial thins. He stated that roughly 90 thousand acres of forest health treatments have utilized the revolving account with some capital funding.

At the Department’s current pace of about 14 thousand acres treated per year, meeting the goal of another 200 thousand acres treated within the allotted time frame in the 20-year strategic plan is obtainable. There will be some requirements to revisit previously treated stands, which is not accounted for in the previous statistics. Commissioner Peach asked if the thinning treatment were a thin to waste treatment or are logs being created to generate value. Mr. Cramer stated that the Department is generating commercial logs from these projects, not including pre-commercial thinning.

Moving forward, the Department will plan and conduct treatments consistent with the 20-year strategic plan using the account from HB 1711. Procedures will need to be developed for managing the new account based on landscape management. The Board has oversight of the new revolving account and the Board will receive reports regarding account activity. The Department must also report progress and plans to the legislature every other year. The Department is working on prioritizing landscapes within the next biennium.

Mr. Cramer finished by covering what was discussed during the presentation and what is still to come in the next month. Mr. Cramer then asked the Board for questions.

Superintendent Reykdal requested to see what response, containment, and cash flow look like for fires on Federal, State or Tribal land because when we handle forest health better, we can avoid more fires. What happens and what kind of timber harvest occur after fire. Commissioner Franz responded that much of that data would come from the Department’s Wildfire Division. Mr. Cramer also noted that the Department can provide information on State Lands’ response following disturbance.

Commissioner Franz also noted that it would be valuable to have a presentation on where the Department is in restoring lands burned during the catastrophic fires of 2014 and 2015 as well as where those costs go.

Mr. Cramer agreed and noted that between 2011 and 2016, approximately 2.1 million acres burned including about 90 thousand forested acres. The Department attempts to go in following fires to salvage value, but it is very difficult given the current business model to make projects pencil out. Of the roughly 90 thousand acres, it is possible the Department has salvaged approximately 2 thousand acres.

Commissioner Peach asked about replanting of burned and salvaged lands. Mr. Cramer responded that the Department has a reforestation obligation when a harvest activity has occurred. If there is no entry into a burned area for salvage operations then there is no reforestation activity. Mr. Cramer noted that there was a specific request in the most recent budget specifically for reforestation.
Commissioner Franz emphasized the importance of the Department obtaining funds specifically for reforested burned areas. Commissioner Franz also noted that this work is a partnership with the legislature because funding is required to treat the large amount of land affected by forest health issues. The hope is, that by successfully utilizing capital funding to treat forest health issues and being accountable to the legislature by treating what was planned, additional funding will become available.

Commissioner Franz briefly discussed the Good Neighbor Authority with the US Forest Service where a number of projects are in the pipeline already.

Commissioner Peach asked if the Department was receiving $1.7 million per year for forest health. Mr. Cramer responded in the affirmative with the exception of the previous year where no budget was passed.

Commissioner Franz followed up stating that money was secured in the budget and should become available once a budget is passed. Also, the Department is hoping to treat 70 thousand acres per year which will require much more than the current allocated budget.

Meeting adjourned at 10:30 AM.
Approved this 16th day of February, 2018

Hilary S. Franz, Washington State Commissioner of Public Lands

J K Austin, Designee for Governor Jay Inslee

Chris Reykdal, Superintendent of Public Instruction

Bill Peach, Commissioner, Clallam County

Ron Mittelhammer, Dean, College of Agricultural, Human, and Natural Resource Sciences, Washington State University

Dan Brown, Director, School of Environmental and Forest Sciences, University of Washington

Attest:

Tami Kellogg, Board Coordinator