Minutes
Board of Natural Resources Meeting
May 6, 2014
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT
The Honorable Peter Goldmark, Washington State Commissioner of Public Lands
The Honorable F. Lee Grose, Commissioner, Lewis County
Thomas H. DeLuca, Director, School of Environmental and Forest Sciences, University of Washington
The Honorable Randy Dorn, Superintendent of Public Instruction
Ron C. Mittelhammer, Interim Dean, College of Agricultural, Human, and Natural Resource Sciences, Washington State University

BOARD MEMBERS ABSENT
JT Austin, Designee for the Honorable Jay Inslee, Washington State Governor

CALL TO ORDER
Chair Goldmark called the meeting to order at 9:00 AM. All board members introduced themselves. Chair Goldmark noted there is a quorum for this meeting.

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

APPROVAL OF MINUTES
Chair Goldmark called for approval of the minutes for the April 1, 2014 Regular Board of Natural Resources Meeting.

MOTION: Director DeLuca moved to approve the minutes.
SECOND: Dean Mittelhammer seconded the motion.
ACTION: The motion was approved unanimously.

PUBLIC COMMENTS FOR TIMBER SALE ACTION ITEMS
No comments

TIMBER SALES (Action Item)
Proposed Timber Sales for June 2014| 3 handouts, including the presentation

Paul Bialkowski, Assistant Division Manager, Product Sales & Leasing Division

The results of the April auctions were presented to the board by Mr. Bialkowski. The Department offered 13 sales totaling 54.9 MMBF in April. Of those, 11 sales sold totaling $17.6 million for an average of $385 per MBF.

Mr. Bialkowski noted that the 2 sales that did not sell were contract harvest sales that had minor sorts, but that the majority of the sorts were sold. Those minor sorts will be reoffered in the coming week and are expected to sell.

Mr. Bialkowski remarked that bidder interest remains high, but is declining as private timber harvest increases the supply of logs in the marketplace.

Chair Goldmark asked Mr. Bialkowski how many sorts were in each of the two pending contract harvest sales and Mr. Bialkowski replied that one sale had 2 of 13 sorts that did not sell and the other had 1 sort of 13 that did not sell. Mr. Bialkowski further stated that although the majority of the sorts did sell the program does not award the project until all sorts are sold.

The proposed June sales were then presented to the Board.

Director DeLuca noted that the Board had received public comments on the Good Spread timber sale and asked for some clarification as to the objectives of the proposed thinning.

Mr. Bialkowski stated that the stands in question are overstocked and will be thinned to reduce the number of trees per acre to improve the productivity of the stands and to improve habitat within small portions of the buffer of the marbled murrelet habitat.

Mr. Bialkowski asked for approval of the proposed June sales.

MOTION: Commissioner Grose moved to approve the proposed June 2014 sales.

SECOND: Dean Mittelhammer seconded his motion.

ACTION: The motion was approved unanimously.

PUBLIC COMMENTS FOR LAND TRANSACTION ACTION ITEMS

John Austin, Commissioner of Jefferson County, spoke in favor of the land transaction involving regeneration cuts. He stated that during a public hearing the public was strongly in favor of this transaction.

LAND TRANSACTIONS (Action Item) | 1 Handout

Mount Si Trust Land Transfer, File No. 02-090367, Resolution 1422

Bob Winslow, Property and Acquisition Specialist, Conservation, Recreation and Transactions Division.
Mr. Winslow gave a brief overview of the 2013-15 Trust Land Transfer (TLT) Program and shared that the Mount Si Trust Land Transfer (02-909367) project is the first TLT project to be presented to the Board during this biennium.

Mount Si TLT is located in King County near the town of North Bend, Washington. This property is 163.4 acres in size and will be transferred into the Mount Si Natural Resource Conservation Area managed by DNR. The total appraised value of this property is $1,154,000 with the land valued at $430,000 ($2,632/acre) and the timber valued at $724,000. Mr. Winslow stated that the timber value will be placed into the Common School Construction Account and the land value will go into the Real Property Replacement Account.

Mr. Winslow asked for approval of Resolution 1422.

MOTION: Director DeLuca moved to approve Resolution 1422.

SECOND: Dean Mittelhammer seconded the motion.

ACTION: The motion was approved unanimously.

Beausite Lake Inter-Trust Exchange, File No. 86-090570; Resolution 1423
Beausite Lake Trust Land Transfer, File No. 02-090358; Resolution 1424

Bob Winslow, Property and Acquisition Specialist, Conservation, Recreation and Transactions Division

Mr. Winslow presented the Beausite Lake Inter-Trust Land Exchange (#86-090570) located on the Olympic Peninsula in eastern Jefferson County near the community of Chumacum, Washington. DNR is exchanging 319 acres of Common School Trust for 305 acres of State Forest Land Trust. This exchange is an equal value exchange with each property having an equivalent value of $1,753,000.

Mr. Winslow expressed that this exchange will benefit the Common School Trust by making the Beausite Lake Trust Land Transfer parcel become Common School Trust, thus making it eligible for transfer. The State Forest Land Trust will benefit by further consolidating their forest lands in eastern Jefferson County.

Mr. Winslow also presented the Beausite Lake Trust Land Transfer (02-090358) property located on the Olympic Peninsula in eastern Jefferson County near the community of Chumacum, Washington. DNR is transferring 305 acres to Jefferson County that is located between two current Jefferson County Parks (Gibbs Lake, Beausite Lake). This property became Common School Trust through the Beausite Lake Inter-Trust Land Exchange. This property has a total value of $1,753,000 with the land valued at $523,000 ($1,714/acre) and the timber valued at $1,230,000. The timber value will be placed into the Common School Construction Account and the land value will go into the Real Property Replacement Account.

Mr. Winslow asked the Board to approve Resolution 1423 and Resolution 1424.

MOTION: Commissioner Grose moved to approve Resolution 1423 and Resolution 1424.
SECOND: Dean Mittelhammer seconded the motion.

ACTION: The motion was approved unanimously.

DERELICT VESSEL REMOVAL PROGRAM (Action Item)
Kristin Swenddal, Aquatic Resources Division Manager
Lisa Randlette, Environmental Planner

Ms. Swenddal and Ms. Randlette briefed the Board on the final proposed rules necessary to implement ESHB 1245, which was passed during the 2013 legislative session. Ms. Swenddal explained that the legislation requires vessels greater than 40 years of age and longer than 65 feet to obtain a survey before the vessel is sold or transferred, and that DNR must adopt rules to specify what the survey must include.

Ms. Swenddal noted that the legislation requires the seller to provide the inspection to the buyer and to DNR before sale or transfer, DNR must maintain the records, and DNR may seek cost recovery from the seller if: no inspection survey was provided prior to sale or transfer; if the vessel subsequently becomes derelict DNR must respond; and, the current owner cannot be located or held financially responsible. The statute says the rule will be effective July 1, 2014.

Ms. Swenddal then summarized the rule making process; she noted that staff began outreach in the summer of 2013, met with affected stakeholders, developed a draft rule and then held public hearings in late March on the draft. Comments from the public hearings were then incorporated into the proposed rule and are reflected in the proposal before the Board.

Ms. Randlette presented a summary of the proposed rule, which includes a clarification on the administrative appeal process and also adds 3 new sections: when and to whom the rule applies, what inspection information is needed, and how to file the inspection documents. She noted that the term "seaworthy" is defined in the proposed rule as it is used in ESHB 1245 and staff felt it was important to identify what it means for the purposes of implementing the DNR rule.

Ms. Swenddal then summarized, telling the Board that staff have complied with the APA process in developing the rule, held public hearings, and integrated public comments in the final proposal.

Ms. Swenddal asked the Board to approve Resolution 1425.

MOTION: Commissioner Grose moved to approve Resolution 1425.
SECOND: Dean Mittelhammer seconded the motion.
ACTION: The motion was approved unanimously.

PUBLIC COMMENTS FOR SUSTAINABLE HARVEST CALCULATION CHAIR
REPORT
Matt Comisky, Washington Manager for American Forest Resource Council, stated that AFRC feels that the statues are pretty clear in the process of dealing with arrearage. First, the Department needs to determine if there is one. Second, the Department needs to do an analysis of the alternatives to deal with the arrearage to determine which provides the greatest return to the trust beneficiaries based on current and future economic conditions as well as environmental impacts. Lastly, if the greatest return is determined to sell the volume, then it should be offered in addition to the sustainable harvest volume for the new decade over a period that is likely to provide the greatest return to the trust. Mr. Comisky added that the assumption that all of the foregone riparian volume lied in the under harvested trusts is not sound. Mr. Comisky urged the Board to move forward in the process to ask staff for the detailed analysis and information needed to make a sound and defensible decision.

Mark Bosetti, Log Resources Manager for Sierra Pacific Industries (SPI), conveyed that SPI relies on timber sold from the trust lands managed by DNR. SPI depends on a sustainable and dependable level of timber harvest. Any disruption to the sale of timber from trust lands will have a significant adverse effect on their operations. Mr. Bosetti urged the Board to carefully consider the information provided by the Department to date on the sustainable harvest calculation. It should then chart a course that is transparent and engages all parties with an interest in the outcome, to insure DNR has all the information needed to arrive to a decision that fulfills its obligation to the trust beneficiaries.

Dave Ivanoff, Vice President of Resources for Hampton Lumber, stated that their company is heavily dependent on all sources of raw materials, especially on DNR timber sale outputs. As the Board makes decisions around the sustainable harvest calculation it should note that many in the Washington family-owned forest products manufacturing sector are struggling with inadequate availability of raw materials. DNR purchasers need a steady and consistent flow of timber. Mr. Ivanoff stated that maintaining a strong customer base is important to DNR and its trust beneficiaries in order to maximize revenue flow not only now, but into the future.

Russ Pfeiffer-Hoyt, Chair of the Washington State School Directors Association Trust Land Task Force, urged the Board to take sufficient time to understand what the actual arrearage amount is and what option we need to go forward. Mr. Pfeiffer-Hoyt again urged the Board to do that in conjunction with the sustainable harvest calculation, therefore part of the same process.

**CHAIR REPORT | 1 Handout**

**Western Washington Sustainable Harvest Calculation**

Kyle Blum, Deput Supervisor for State Uplands
Angus Brodie, Forest Resources Division Manager

Mr. Blum introduced the chair report, stating that the purpose of the report was to discuss and focus on an arrearage number and transactions. Mr. Blum began the presentation by recapping the discussion from the previous meetings and introduced the topic of the May meeting of choices around an arrearage number decision and reviewing information around land transactions.

The Board was presented with the statue, definitions, and Board policies that explain the options of how the Department is directed to proceed when an arrearage exists. The Board is directed to
select an option of how to proceed with the arrearage analysis that is in the best interest of the
trusts.

Mr. Blum explained the two options presented to the Board regarding the arrearage number. The
first option outlined is based on the RCW Definitions and a Board adopted resolution. This
option takes the total expected harvest volume for the decade and subtracts what the Department
actually sold over the decade. This results in an arrearage number of 454 MMBF.

The second option incorporates Policy for Sustainable Forests into the arrearage number by
looking at performance of each sustainable harvest unit. The sustainable harvest units that were
under the expected target resulted in an arrearage number of 736 MMBF.

Commissioner Grose asked how the arrearage number influences the next decades harvest
volume number. Mr. Blum replied that our land base is a certain amount inventory available, and
that includes acres that were not harvested as part of the arrearage. When you make a decision
around an arrearage number, that decision will influence the amount of inventory that is
available for the upcoming decadal harvest volume level.

Director DeLuca asked for an explanation of why sustainable harvest units are under or over
their previous decades expected harvest levels. Mr. Blum replied that one of major drivers that
contributed to this arrearage were related to the economic conditions in 2009-2011, which led the
Department to harvest stands in areas that were close to markets that would produce revenue for
the Department in poor market conditions.

Dean Mittelhammer asked if the Department is expecting that conditions are now in a place so
that it won’t be in a situation of an arrearage in the future. Mr. Blum replied that markets are in a
much better place than they were in the past.

Commissioner Goldmark asked how the Board has handled an arrearage decision in the past. Mr.
Brodie explained that there was an arrearage present in 2004. In the past, the Board has
incorporated the arrearage number into the next decadal harvest volume number.
Mr. Brodie explained that when making a decision on the arrearage number, the Board has a
series of options to consider about when to sell the arrearage. Mr. Brodie presented three options
for the arrearage analysis. The first option is to consider a virtual harvest of land transactions and
offer the remaining volume for sale in the next five years. The second is to sell the arrearage in
the next decade. The third option is to keep the arrearage in the inventory for the next decadal
harvest volume level.

Mr. Brodie explained how the trust land transfer program can influence the harvest volume level.
In the 2004 Sustainable Harvest Calculation, the Department placed 353 MMBF in a harvest
deferral status in anticipation of transferring them. Over the past decade the Department actually
transferred approximately 656 MMBF. The Department didn’t anticipate transferring 300
MMBF; land that would have been harvested in the past decade. Essentially this was a virtual
harvest of timber value, as the value of the transfer volume was compensated to common school
trusts. Another transfer of land that occurs is reconveyances. A large reconveyance, the Lake
Whatcom reconveyance, occurred in the past decade that would have contributed 145 MMBF to
the past decades sustainable harvest volume level. The first option in the arrearage analysis
would consider exploring transactions that occurred in the past decade as a virtual harvest, ranging between 300-450 MMBF.

Commissioner Grose stated he would proceed with the 454 MMBF in arrearage, and try to get that number harvested in the first five years of the next decade.

Director DeLuca stated that he would like to follow how the RCW Definitions define the arrearage.

Superintendent Dorn stated that he would like to ensure that we are getting the most revenue possible for the common school trust.

Dean Mittelhammer stated he would like more analysis and information before making a decision around the arrearage number.

Chair Goldmark stated that he would favor the 454 MMBF number, as the larger number is not realistic as the events from 2004 to today have significantly impaired our ability to harvest and process that volume and contributed to this arrearage.

Mr. Blum explained that we would be presenting key modeling assumptions and policy decisions for the Board to discuss at the June meeting. Subsequent to that discussion we will bring more arrearage analysis.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

No comments

Meeting adjourned at 10:44 AM
Approved this 3rd day of June, 2014

Peter Goldmark, Washington State Commissioner of Public Lands

JT Austin, Designee for Governor Jay Inslee

Randy Dorn, Superintendent of Public Instruction

F. Lee Grose, Commissioner, Lewis County

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

via conference call

Thomas H. DeLuca, Director, School of Environmental and Forest Sciences, University of Washington

Attest:

Sarah Vansot, Board Coordinator