

---

# Minutes

## Board of Natural Resources Meeting

December 1, 2020  
Webinar, 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

Jim Cahill, Designee for the Honorable Jay Inslee, Washington State Governor

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

André-Denis Wright, Dean, College of Agricultural, Human, and Natural Resource Sciences,  
Washington State University

---

### 1 CALL TO ORDER

2 Chair Franz called the meeting to order at 9:04 AM.

3

4 All Board members introduced themselves. A meeting quorum was attained.

5

### 6 WEBINAR FORMAT BRIEFING

7 Ms. Tami Kellogg provided an overview for participating in a Webinar meeting.

8

9 *Superintendent Reykdal joined the meeting.*

10

### 11 APPROVAL OF MINUTES

12 Chair Franz called for approval of the minutes for the November 3, 2020 Regular Board of  
13 Natural Resources meeting.

14

15 MOTION: Director Brown moved to approve the minutes.

16

17 SECOND: Commissioner Peach seconded the motion.

18

19 ACTION: The motion carried unanimously.

20

### 21 LIGHTING TALK

22 **How the Programming Unit Supports DNR Using Stereo Imagery**

23 Caleb Maki, Photogrammetry Supervisor

24

1 Mr. Maki provided an overview of the Photogrammetry Unit supported by Tony Aulds and John  
2 Klenke, Senior Photogrammetrists, and Ben Johnson, Photogrammetric Technician. The Unit is  
3 responsible for digitization and preservation of the DNR Historic Aerial Film archive;  
4 responding to requests from within DNR, other state agencies, and the public for historic aerial  
5 imagery; and creation of Digital Surface Model (DSM) Data to support DNR Forest Inventory  
6 and DNR Wildfire, as well as external entities.  
7

8 Photogrammetry is a process using light to measure an object on the ground using aerial imagery  
9 requiring two overlapping images. The ground area covered by overlapping images is the stereo  
10 image. Sources of stereo imagery includes DNR's Historical Aerial Film Archive of over two  
11 million aerial film negatives captured from the late 1950s to 2008, modern digital orthophoto  
12 projects acquired through other state, federal, and private entities, and digital surface modeling  
13 from stereo imagery using photogrammetric software. Products produced include digital  
14 orthophotos similar to Google earth maps and digital surface modeling providing elevational  
15 images. DNR's forest inventory utilizes products from the Photogrammetry Unit. Other uses are  
16 before and after comparisons. DNR Wildfire utilizes the data to assess before and after fire  
17 severity.  
18

#### 19 **PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST**

20 **James Stoffer**, Director, Sequim School Board, representing the WSSDA Trust Lands Advisory  
21 Committee, said he looks forward to the presentation on the Trust Land Performance Assessment  
22 to inform community discussions by 87 school districts receiving state forest revenue. He asked  
23 the Board for its continued support of existing WACs enabling school districts to receive state  
24 forest revenue. The assessment will hopefully provide a clearer understanding of the program.  
25

26 **Reed Blanchard** spoke to the issue of clearcutting and various reasons so many people are  
27 opposed to the practice. The primary issue is how to adequately fund schools and local  
28 governments. He suggested ending the false choice between clearcutting forests and funding  
29 programs, as it is an old system that should be revised. He asked DNR to increase public  
30 participation in the process and develop some new ideas, such as funding pilot and experimental  
31 projects to examine alternative ways to harvest forest as opposed to clearcutting.  
32

33 **Ed Bowen**, resident of Clallam County, expressed appreciation for the switch to the Zoom  
34 platform for meetings. He cited the lack of two no-bids for the November auction sales for  
35 Olympic Experimental State Forest (OESF) that will severely impact several junior taxing  
36 districts. He asked how DNR plans to address the arrearage if DNR continues to utilize similar  
37 logic to address arrearage in Clallam County. He inquired about the availability of the Trust  
38 Land Performance Assessment Report because the presentation lacks adequate details. The  
39 reference to engagement and outreach should not be similar to the process pursued by the  
40 Solutions Table. He participated, provided comments, and offered solutions that were never  
41 addressed.  
42

43 Commissioner Franz advised that the Trust Land Performance Assessment Report is scheduled  
44 to be published at the end of December following submittal to the Legislature.  
45  
46  
47

1 **PUBLIC COMMENTS FOR TIMBER SALE ACTION ITEMS**

2 **Matt Comisky**, Washington Manager, American Forest Resource Council, commented on the  
3 importance of the timber sales program and continued interest in the marketplace to address  
4 impacts from COVID-19 that created some fluctuations in lumber prices. Log prices have  
5 increased because of high demand. A good example is the outcome of the Middle May auction at  
6 nearly \$900,000 over the minimum bid. He cited revenue some school districts will receive from  
7 the Middle May sale and thanked staff for their efforts in completing the timber sales.

8  
9 **Miguel Perez-Gibson**, representing Washington Environmental Council, referred to the Bronco  
10 timber sale. The Bronco sale represents opportunities to expand DNR’s marbled murrelet long-  
11 term conservation strategy similar to other sales. He spoke of the managing priorities for both  
12 habitat conservation and supporting local communities and the challenges that brings. It is  
13 important to acknowledge that the Northwest Region does a good job of managing both  
14 priorities. The Bronco sale includes old growth remnants. Many of the larger diameter trees were  
15 set aside to enable support of ecological functions. A nearby occupied site will also be buffered.  
16 The existing strategy for mitigating marbled murrelets speaks to the importance of the Board  
17 becoming aware of the schedule of sales as they move forward. He encouraged all regions to  
18 provide guidance to the Board when considering a “lighter touch” as it helps mitigate impacts  
19 caused by logging during the interim while solutions are considered to enable treatment of the  
20 sales differently to help maintain ecological functions each site provide.

21  
22 **TIMBER SALES (Action Item)**

23 **Auction Results for November 2020 & Proposed Timber Sales for January 2021| 3**  
24 **handouts, including the presentation**

25 Koshare Eagle, Assistant Division Manager, Product Sales & Leasing Division

26  
27 Ms. Eagle presented the results of the November 2020 auctions. The Department offered 12 sales  
28 totaling 62.7 mmbf. Nine of the sales sold totaled \$19 million for an average of \$398 per mbf  
29 with 1.67 bidders per sale on average.

30  
31 Ms. Eagle invited questions from the Board.

32  
33 Commissioner Peach asked about the timeline for reoffering the two sales in the Olympic  
34 Region. Ms. Eagle said the sales would be offered soon. She offered to follow-up after the  
35 meeting to confirm the new sales date.

36  
37 Ms. Eagle presented 11 sales for consideration. The sales total 53.7 mmbf with minimum bids  
38 totaling \$20.8 million. Two of the sales are delivered log sales (sort). The prices include logging  
39 and hauling costs. Revenue from the sales will benefit Clallam, Mason, Skagit, and Whatcom  
40 Counties, Common School Construction account, King County Water Pollution Control Board,  
41 and the funds for Agriculture, University, Scientific Schools, and Schools.

42  
43 Ms. Eagle invited questions from the Board.

44  
45 Superintendent Reykdal inquired about the average retail value per board foot across all timber  
46 products. Ms. Eagle said the amount varies based on the retail products, such as building  
47 materials, plywood, construction lumber, cabinets, and furniture. She offered to follow-up with

1 more detailed information at the next meeting; however, in terms of market demand, sales are  
2 dependent on the species and the quality. Veneer, building materials, and beams are  
3 manufactured from high quality wood, while maple and alder are used for cabinetry.

4  
5 Ms. Eagle requested approval of the proposed sales as presented.

6  
7 MOTION: Commissioner Peach moved to approve the proposed sales.

8  
9 SECOND: Director Brown seconded the motion.

10  
11 ACTION: The motion was approved unanimously.

12  
13 **PUBLIC COMMENTS FOR LAND TRANSACTIONS ACTION ITEMS**

14 **Matt Comisky**, Washington Manager, American Forest Resource Council, spoke about the  
15 Middle Fork Snoqualmie transaction and said that the proposal reflects a land value of \$302 per  
16 acre, which is insufficient to replace the asset.

17  
18 He also shared his concerns with the Trust Land Performance Assessment and the Trust Land  
19 Transfer program. He noted that in terms of the ecological perspective, there are no solutions to  
20 trade-offs as trust land transfers are not analyzed ecologically. A good example is the forest  
21 health crisis on federal lands, especially for those not managed or have limited management. He  
22 questioned whether DNR wants to import wood products that can be grown and manufactured in  
23 the state under a strict regulatory environment rather than importing from places that might have  
24 less stringent regulations. He questioned the current and future impacts on non-managed lands on  
25 the environment, adding that any trust manager needs a tool to reposition underperforming  
26 assets.

27  
28 He believes that the Trust Land Transfer Program is broken and has failed its beneficiaries and  
29 its customers. He asked the Board to consider his comments when they receive the presentation  
30 on the Trust Land Performance Assessment later in the meeting. He looks forward to working  
31 with DNR and the beneficiaries to find an effective model.

32  
33 **Russ Pfeiffer-Hoyt**, Chair, Trust Lands Advisory Committee, Washington State School  
34 Directors' Association (WSSDA), spoke to the proposed Bow Hill and Middle Forks  
35 Snoqualmie transfers. Bow Hill is a 526-acre parcel close to I-5. Information indicates the  
36 property is not suited for timber management. DNR is a trust management agency and not just a  
37 timber management agency. Timber has been, is, and will be the core of Trust revenue  
38 generation. Future development land is a scarce but a valuable resource for the Trust. DNR  
39 should consider retaining the property for a zoning change.

40  
41 The proposed value of \$1,232 per acre of land close to I-5 appears to be too low for an area that  
42 is rapidly developing. Selling the property at public auction would reveal whether the evaluation  
43 is accurate. The Middle Forks Snoqualmie parcel is located close to I-90 and not far from the  
44 wealthiest area of the state. If the parcel was sold at public auction, it is difficult to believe that it  
45 would not receive a bid greater than the proposed transfer of approximately \$309 an acre. He is  
46 concerned about preserving and increasing the assets of the Trust. Careful management of  
47 transition land within the Puget Sound corridor is vital to increasing the Trust value.

1  
2 **Cynthia Wilkerson**, Lands Division Manager, Washington Department of Fish and Wildlife  
3 (WDFW), testified in support of the Big Bend Land transfer. She represents the partnership and  
4 collaboration between WDFW, DNR, and RCO as the funding source. She asked the Board for  
5 its support of the proposed transaction. WDFW acknowledges and appreciates the work by  
6 Robin Hammill on the transaction proposal.

7  
8 **LAND TRANSACTIONS (Action Items)**

9 **Bow Hill Land Transfer, No. 02-099591, Resolution #1570**

10 Robin Hammill, Projects Manager, Conservation, Recreation, and Transactions Division

11  
12 Ms. Hammill reported the Bow Hill property is located in Skagit County approximately five  
13 miles north of Burlington and a mile from Interstate 5. The property is approximately 526 acres  
14 in size and is designated as a DNR Transition Land. This property would be transferred to the  
15 Upper Skagit Indian Tribe that owns adjacent property. The property is encumbered by an oil  
16 pipeline through the middle of the parcel and three county roads. The site had been subject to  
17 two recent timber sales, one in 2010, and another in 2013. The property is zoned Rural Resource  
18 with a Mineral overlay although no valuable material exist on site. The property was appraised at  
19 \$648,000 and all proceeds will be placed into the Real Property Replacement Account for future  
20 acquisitions for the Common School Trust.

21  
22 Scott Schuyler, Natural Resources Director of the Upper Skagit Indian Tribe, spoke of the  
23 property's history and cultural significance to the Tribe. The Tribe inhabited the uplands of the  
24 Sammamish River Basin including Bow Hill. His ancestor signed the treaty with the United  
25 States on January 22, 1855 reserving the Tribe's rights in the Bow Hill area. Many of the lands  
26 adjacent to the Bow Hill area have been held by Upper Skagit members of the Tribe for decades.  
27 Most of the area is undeveloped as the area has many wetlands. Upper Skagit Chairman, Bow  
28 Hill, who resided in the Friday Creek area in the 1940s, serves as a distinct and historical  
29 affiliation with the area. The lands provide value to the Tribe to preserve and protect the cultural  
30 affiliation. He asked for the Board's approval of the transfer with the understanding that the  
31 Tribe will continue to be responsible stewards of the land.

32  
33 Commissioner Franz thanked Mr. Schuyler for his comments. She invited questions from the  
34 Board.

35  
36 Commissioner Peach expressed support of the Tribe's involvement to manage the property. His  
37 question centers on the valuation of the property; specifically, present net worth (PNW)  
38 calculation of the land value and whether it includes future distribution of funds to schools. It is  
39 common for a PNW analysis to include future cash flow of transactions for the landowner. He  
40 asked whether the calculation considered future cash flows for beneficiaries.

41  
42 Commissioner Franz noted that the transfer is part of a larger focus on underperforming lands  
43 and opportunities to use funds to invest in lands generating a higher rate of return.

44  
45 Brock Milliern, Division Manager, Conservation, Recreation, and Transactions Division, added  
46 that the parcel is wet and difficult to manage. He described efforts on researching the possibility  
47 of rezoning the land or positioning the property for a different use. All harvestable wood has

1 been removed from the property and staff does not anticipate generating revenue from the land  
2 for 40 years or longer. The timing is right to reposition the asset and enable DNR to invest in  
3 other land with a potential to yield higher revenue.

4  
5 Commissioner Franz described how DNR has identified assets within the portfolio which were  
6 shared with the Board at a prior meeting that are low-performing assets. The goal is increasing  
7 the amount of funds to purchase more strategic parcels. The proposal aligns with the Trust Land  
8 Performance Assessment and diversification, as well as strategic positioning of land for  
9 management and revenue generation.

10  
11 Commissioner Peach thanked staff for the information. He has no issues with the disposition to  
12 the Upper Skagit Tribe and supports the transaction.

13  
14 Commissioner Franz requested a motion to approve the requested action.

15  
16 MOTION: Commissioner Peach moved to approve the proposed land transaction.

17  
18 SECOND: Director Brown seconded the motion.

19  
20 ACTION: The motion was approved unanimously.

21  
22 **Big Bend Land Transfer, No. 02-100486, Resolution #1571**

23 Robin Hammill, Project Manager, Conservation, Recreation, and Transactions Division

24  
25 Ms. Hammill reported the Big Bend transaction is a direct transfer of four DNR parcels located  
26 in Douglas County, approximately 10 miles north of the Grand Coulee Dam to the Washington  
27 Department of Fish and Wildlife (WDFW). The parcels comprise 1,360 acres of shrub-steppe  
28 habitat located within or adjacent to the Big Bend Wildlife Area. The parcels have limited or no  
29 legal access and three parcels are leased for grazing and would be assumed by WDFW as part of  
30 the transaction. The transaction is funded through the 2016 Mid-Columbia WWRP grant awarded  
31 to WDFW from the Washington State Recreation and Conservation Office (RCO). This is the  
32 third and final grant to WDFW to acquire the 20,500-acre Big Bend Wildlife Area. The  
33 appraised fair market value of the four parcels is \$331,000 and all proceeds will be placed into  
34 the Real Property Replacement Account for future acquisitions for the Common School Trust.

35  
36 Ms. Hammill invited questions from the Board.

37  
38 Commissioner Peach referred to his prior question on whether the present net worth calculation  
39 of the property included not only the cash flow associated with timber harvest, but cash flows  
40 beneficiaries receive. He asked whether the additional requirement for appraisers included future  
41 cash flow to beneficiaries within the calculation. Ms. Hammill said she is uncertain other than  
42 the appraisers reviewed the impact of the leasing potential. The average rent is \$2 per acre,  
43 which would take time for DNR to recoup the cost against the sale of the property. She does not  
44 believe the calculation was part of the appraisal process with RCO. She offered to review the  
45 appraisal and follow-up with more information. Commissioner Peach said his question serves to  
46 bring to the Board's attention the present net worth of cash flows to beneficiaries.

1 Mr. Milliern noted the transaction is based on a sales comparison similar to what other acreage is  
2 selling for in the area. Some of the properties are encumbered with low rental rates or are land  
3 locked preventing a future leasing opportunity. Commissioner Peach responded that he is  
4 familiar with comparative sales analysis and appreciates that it was considered. He asked  
5 whether there was any consideration to offer the parcel for a public bid. Mr. Milliern replied that  
6 because of its location and WDFW's request to work with DNR on the parcel, staff did not  
7 pursue options for offering the property through a public bid.

8  
9 Ms. Hammill added that public auctions of DNR land are limited to no more than 160 acres.  
10 Because some of the parcels are larger than 160 acres, DNR would be required to subplat the  
11 parcel prior to offering the land for public auction.

12  
13 Mr. Milliern noted that in order for DNR to move the parcels to public auction versus working  
14 with WDFW, some steps are necessary requiring time and money. Sales from the parcels offered  
15 during a public auction require DNR to access those funds through a land bank creating more  
16 hurdles that often outweigh the value of offering the land through a public auction, particularly  
17 parcels similar to the Big Bend parcels and landlocked parcels. Commissioner Peach said he  
18 does not consider access an issue in terms of affecting the value as there are laws governing  
19 ingress and egress. The comment on the constraint criteria that is relative to the size of the  
20 transaction is interesting and warrants more information as to whether it is a DNR policy or an  
21 RCW. Ms. Hammill said she believes the size of transactions is governed by a RCW. Further  
22 discussion disclosed that the size limitation is governed by the state's constitution.

23  
24 Commissioner Franz said the issue pertains to the Trust Land Performance Assessment in terms  
25 of DNR as a government agency having many constraints imposed by law. Other constraints  
26 include limitations on length of leases, market offerings, and products subject to offering in the  
27 market.

28  
29 Commissioner Franz requested a motion to approve the requested action.

30  
31 MOTION: Commissioner Peach moved to approve the proposed land transaction.

32  
33 SECOND: Director Brown seconded the motion.

34  
35 ACTION: The motion was approved unanimously.

36  
37 **Middle Fork Snoqualmie TLT, No. 02-099528, Resolution #1572**

38 Bob Winslow, Project Manager, Conservation, Recreation, and Transactions Division

39  
40 Mr. Winslow briefed the Board on the Trust Land Transfer (TLT) process and shared  
41 background information on the 2019-2021 biennium. Funding for the transaction is provided by  
42 the Legislature as part of the capital budget for the Trust Land Transfer program.

43  
44 The Middle Fork Snoqualmie Trust Land Transfer (TLT) property is located in King County  
45 approximately 2.5 miles east of North Bend. The property is forested and is 25.88 acres in size  
46 and is located near the Middle Fork Snoqualmie River. The property would be transferred into  
47 the Middle Fork Snoqualmie Natural Area and perpetually dedicated to natural areas

1 management. The property appraisal is \$140,000. DNR recommends transferring the timber  
2 value of \$132,000 into the Common School Construction Account and \$8,000 appraised land  
3 value transferred to the Real Property Replacement Account for the benefit of future Common  
4 School Trust purchases.

5  
6 Mr. Winslow invited questions regarding the proposal.

7  
8 Mr. Winslow addressed questions on the volume of harvestable timber (8-9 acres), the valuation  
9 process associated with future cash flow to beneficiaries, and the lease encumbrance on the  
10 property.

11  
12 Commissioner Franz requested a motion to approve the requested action.

13  
14 MOTION: Commissioner Peach moved to approve the proposed land transaction.

15  
16 SECOND: Dean Wright seconded the motion.

17  
18 ACTION: The motion was approved unanimously.

19  
20 **PUBLIC COMMENTS FOR CHAIR REPORTS**

21 **Rod Fleck, Attorney, Forks**, spoke about the Trust Land Performance Assessment and  
22 emphasized that most of the lands cited in the Chair's Report are located in rural communities.  
23 He noted several areas in the presentation that cause him concern, and implied that a copy of the  
24 report materials provided to the Board was not provided to the public.

25  
26 He shared that trust land transfer issues continue to be troubling, as well as the outreach program  
27 and the strategy for avoiding an urban-centric delivery base on land policies that have ripple  
28 impacts on small rural communities, such as those in the West End. He is interested in learning  
29 more about the legislative proposals and is hopeful that the materials provided to the Board are  
30 available to the public. As the Board discussions continue, he is interested in the rollout of how a  
31 broader group of the public is engaged in the discussions, especially in rural communities and  
32 counties, similar to the Commissioner's table meeting several years ago.

33  
34 **Matt Comisky**, Washington Manager, American Forest Resource Council, noted that the  
35 comments pertain to the presentation as the public has not had an opportunity to review the Trust  
36 Lands Performance Assessment Report. The chair report identifies what many have known for  
37 some time as the need to improve DNR business practices. He cautioned the Board and others  
38 when comparing net revenue values with the non-market or pseudo-GDP analysis for ecosystem  
39 services and recreation. Non-market values reflect current management practices and policies are  
40 producing positive outcomes. He cautioned everyone on any conclusions as to how those directly  
41 benefit the beneficiaries.

42  
43 Mr. Comisky cited work on 2018 data reflecting how recreation and tourism does not benefit  
44 junior taxing districts. Other concerns are the Trust mandate, fiscal obligations, examining the  
45 entire timber program, possibly shifting to easier managed assets rather than forestry, TLT, and  
46 community forest management. He wants to identify processes that strengthen the program for



1 the beneficiaries, customers, and the communities that benefit from the public services and jobs  
2 provided by the assets.

3  
4 **Miguel Perez-Gibson**, representing Washington Environmental Council, said he is hopeful the  
5 assessment will provide new information on how to meet the needs of the current economic,  
6 social, and climate realities while moving from the platform of “business as usual” to developing  
7 new ways of considering management of the forests. He is hopeful the Board can move beyond  
8 considering only volume and refocus on how more value can be captured by increasing the ratio  
9 of value to volume.

10  
11 He cited some recent successful timber sales and how high value sales will necessitate investing  
12 in DNR staff to assist DNR in identifying more creative ways of maximizing the value of timber.  
13 Lumber prices have increased because of increased residential construction, low mortgage rates,  
14 and more residential building. He questioned how much of that value DNR is able to capture or  
15 whether DNR could have captured more.

16  
17 In terms of Trust land transfers, generational changes will change the view on how lands are  
18 managed. Logging every tree will only back DNR into a political corner and not benefit the  
19 forest or the industry.

## 20 21 **CHAIR REPORT**

### 22 **Trust Land Performance Assessment Updates and Key Findings**

23 Angus Brodie, Deputy Supervisor, State Uplands

24 Kristen Ohlson-Kiehn, Projects and Planning Section Assistant Division Manager

25  
26 Commissioner Franz provided introductory comments on the importance of the report providing  
27 information on the full scale value of DNR’s assets as well as how those assets function today  
28 and in the future. COVID-19 has changed the landscape in terms of where people will work and  
29 live. The production of the report was funded partially by the Legislature. The report provides a  
30 roadmap for meeting future fiduciary and stewardship responsibilities of public lands. She  
31 stressed the importance of soliciting stakeholder feedback. Following the release of the report to  
32 the Legislature, the report will be available to the public. Staff plans to reach out to the  
33 community and to legislators to receive feedback on potential policy and statutory changes to  
34 assist and improve DNR’s management of assets on behalf of the state of Washington and  
35 beneficiaries.

36  
37 Mr. Brodie reviewed the presentation agenda and introduced Kristen Ohlson-Kiehn.

38  
39 Ms. Ohlson-Kiehn’s presentation covered the background, analyses and findings, challenges and  
40 opportunities, initial recommendations, and next steps. DNR manages 2.9 million acres of State  
41 Trust Lands. DNR’s fiduciary responsibilities include:

- 42  
43
- 44 • Generate revenue and other benefits for each trust, in perpetuity
  - 45 • Preserve the corpus of the trust
  - 46 • Exercise reasonable care and skill
  - 47 • Act prudently to reduce the risk of loss for the trusts
  - Maintain undivided loyalty to beneficiaries

- 1       • Act impartially with respect to current and future beneficiaries

2 Major Trusts include Normal School, Scientific School, Capital Building, University, Charitable,  
3 Educations, Penal, and Reformatory Institutions, and Agricultural School. Trust land assets  
4 include: timber, grazing, other resource lands, agriculture, mining, commercial real estate, and  
5 communications.

6  
7 Commissioner Franz’s priorities center on modernizing state trust lands through reforms and  
8 enhancing revenue programs to promote immediate growth in renewable energy and commercial  
9 real estate, and optimizing near- and long-term performance for current and future generations.  
10 DNR identified key issues of achieving revenues, balancing costs, problems with sufficient and  
11 reliable revenue, increasing conflicts with revenue generating activities, a lack of tools to take  
12 advantage of Trust business opportunities, and the employment of inefficient business processes  
13 to comply with outdated statutes. In 2018, DNR and the Legislature partnered to share funding to  
14 conduct a comprehensive assessment of all asset classes, asset valuation of trust land, conduct an  
15 estimate of fair market value, determine gross and net income by asset class, identify the value of  
16 ecosystem services and recreation, and provide recommendations for improvements. DNR  
17 contracted with Deloitte Transactions and Business Analytics to conduct the trust portfolio  
18 valuation. Deloitte subcontracted with Earth Economics to assess the non-market environmental  
19 benefits and values provided by state trust lands. DNR will summarize the findings along with  
20 other studies completed by DNR and analyses to identify challenges and opportunities facing the  
21 trust land portfolio and to provide initial recommendations.

22  
23 Ms. Ohlson-Kiehn invited questions.

24  
25 Commissioner Peach expressed interest in the report’s recommendations for the Board. Many  
26 Board members interface frequently with legislators and he would appreciate receiving a copy of  
27 the original report as soon as possible.

28  
29 Director Brown asked how the original framing of the study considered non-market values and  
30 ecosystem services in terms of DNR’s policies. Mr. Brodie advised that the assessment of state  
31 trust lands did not question the trust status or the fiduciary purpose of the lands. Deloitte framed  
32 the report for beneficiaries with the question of how well DNR is managing as the trust manager.  
33 Connecting non-market values was of interest to the agency and the Board with respect to  
34 sustainable forests as it covers the main focus of revenue-generating activities while considering  
35 ecosystem values and protecting and conserving those values.

36  
37 Ms. Ohlson-Kiehn described the basis of the valuation performed by Deloitte Transactions and  
38 Business Analytics and summarized the findings of the trust land portfolio valuation. The  
39 valuation identified beneficiaries as the audience, was based on FY 2018 revenue, identified and  
40 defined “Trust Value,” and used revenue as the preferred metric for performance. Deloitte’s  
41 valuation approach varied by each asset. Cash flow to the beneficiaries should be of focus by  
42 DNR and the Legislature as the preferred metric for both performance and management  
43 competence. The results serve as a benchmark for future comparisons moving forward.

44  
45 Mr. Brodie added that Deloitte utilized two approaches with the second using the discounted  
46 cash flow approach that addresses Commissioner Peach’s previous questions.

47

1 Ms. Ohlson-Kiehn invited questions.

2

3 Commissioner Peach asked about the results compared to other states that manage similar assets.

4 Mr. Brodie said the analysis factored other states and their respective processes for evaluating

5 assets. Because of different approaches in accounting and completing evaluations, the most

6 similar approach was from the State of Idaho, which was conducted by investment managers

7 using income that was similar to the approach used by Deloitte to define the trust value.

8 Typically, the rate of return over net income divided by the trust value represents the cap rates.

9 Idaho has comparative timber as an asset class and experienced a lower level of return largely

10 because of the forest base and selection of cap rates. It is not possible to provide a comparative

11 analysis because of accounting and appraisal differences. Commissioner Peach asked Mr. Brodie

12 to follow up with him on several other questions after the meeting.

13

14 Ms. Ohlson-Kiehn summarized the analysis by Earth Economics to estimate the value of

15 ecosystem services and recreational benefits for asset classes producing those benefits, as well as

16 assessing carbon storage. Ecosystem services were identified as forests, watersheds, mountains,

17 and shorelines representing natural capital assets. The assets contain multiple ecosystems

18 performing a variety of ecosystem functions. The results reflect that state trust lands provide over

19 \$1.4 million in annual ecosystem services. Information was also included on the one-time social

20 cost of carbon, a term used in carbon analysis as defined by the EPA as a comprehensive

21 estimate of climate change damages that includes changes in net agricultural productivity, human

22 health, property damages from increased flood risks, and changes in energy system costs. The

23 economic value of outdoor recreation on state trust land in 2018 was valued at \$990 million

24 annually. Because those benefits cannot be bought or sold in markets, they lack market prices

25 and the estimates do not represent revenue available to beneficiaries but should be explored as

26 there might be opportunities to monetize the benefits as new markets emerge.

27

28 Mr. Brodie reviewed the analysis completed by DNR that factored statutory, constitutional,

29 operational, and social factors to improve rates of return, increase revenue reliability, and present

30 and explain factors that either define, constrict, or define and constrict DNR's management

31 practices and revenue production. The analysis reviewed differences in net revenue between

32 1995 and 2018. Between 1995 and 2018, DNR experienced a decline of 35% in net revenue for

33 timber assets with the values adjusted for inflation.

34

35 Responding to a question from Superintendent Reykdal Mr. Brodie offered to follow up on the

36 inflation rates used in the adjustment.

37

38 Mr. Brodie reported the decline in timber revenue was attributed to two main factors of a

39 decrease in stumpage prices over time (35% decline over the study period) and the operating

40 base. Revenue reliability continues to be a challenge for DNR creating an opportunity to address.

41 The analysis identified four areas of opportunities:

42

43 • Update Business Model

44 • Increase access to capital

45 • Greater ability to transact lands

46 • Expand responses to societal expectations

1 Commissioner Peach asked whether other agencies or organizations have the ability to access  
2 capital in the state. Mr. Brodie advised that it is possible some of the port districts have access to  
3 capital outside the port system. The opportunity for accessing capital will be explored as one of  
4 the report's recommendations. Superintendent Reykdal pointed out that school districts also  
5 access capital through debt instruments. He asked about DNR's business model for funding the  
6 agency. Mr. Brodie explained that the current model retains some of the gross revenues to fund  
7 the agency; however, it is dependent upon the trusts that are managed. For federally granted  
8 trusts, it is generally 31% of revenue and for state forest lands, the amount varies between 25%  
9 and 50% of gross revenues. Deloitte has recommended the agency explore options for funding  
10 the agency as the rate should relate to the direct costs or by asset class.

11  
12 To frame the work moving forward, DNR needs to increase the amount and reliability of the  
13 revenue it generates through the assets it manages on state trust lands into perpetuity by  
14 modernizing state trust land management through: legislative proposals to increase amount and  
15 reliability of revenue; changes to Board of Natural Resources Policies to improve trust asset  
16 performance; and update operational business practices to increase efficiency and effectiveness  
17

18 Objectives established for evaluating proposals include:

- 19
- 20 1. Increase amount and reliability of revenue
- 21 2. Sustain natural resource lands, while seeking opportunities to diversify
- 22 3. Maintain or enhance the social, environmental, and cultural benefits of state trust lands  
23 consistent with revenue generating purposes of the land
- 24 4. Feasible solutions

25 *Director Brown disconnected from the meeting at 11:20 a.m.*

26  
27 Superintendent Reykdal inquired about the potential of adding members on the Board  
28 representing recreation to represent conservation and other viewpoints that could provide  
29 different perspectives to the conversations. Ms. Ohlson-Kiehn replied that the option could be  
30 considered and structured around the conversation on governance and structure. The public is  
31 represented by the Governor's designee. Mr. Brodie added that membership of the Board is  
32 established by statute with members representing beneficiaries.

33  
34 Mr. Brodie and Ms. Ohlson-Kiehn reviewed a series of initial recommendations for each of the  
35 four areas of opportunities:

- 36
- 37 • **Update Business Model** – Incorporate for-profit-enterprise business practices; identify  
38 new operational funding models; consider single investment manager, create reliability  
39 fund for beneficiaries
- 40 • **Increase Access to Capital** – Expand borrowing authority; smoothing revenue through  
41 loans, monetize ecosystem services; retaining earnings for capital investment
- 42 • **Greater Ability to Transact Land** – Public auction requirements; parcel size limitations  
43 on federally granted lands; plat requirements prior to sale; land bank acreage limitations;  
44 sale of State Forest Land; updating asset management policies, specifically for transition  
45 lands

- 1 • **Expand Responses to Societal Expectations** – Funding sources for recreation;  
2 Community Forest Trust; Trust Land Transfer; Trust Land Replacement Program

3 Mr. Brodie summarized next steps:

- 4
- 5 • Legislative proposals
- 6 • Board policy changes
- 7 • Operational updates
- 8 • Outreach strategy - outreach and consensus building.

9 Initial proposals will be submitted during the 2021 legislative session. From April 2021 through  
10 December, DNR will work with the Legislature, beneficiaries, and stakeholders to jointly  
11 explore and build consensus solutions. Proposals for trust modernization would be submitted  
12 during the 2022 legislative session.

13  
14 Commissioner Franz invited comments and questions from the Board.

15  
16 Commissioner Peach asked whether staff has identified the measure for performance within the  
17 report. Mr. Brodie responded that the major metric recommended by Deloitte for measuring  
18 performance is revenue and cash flow to the beneficiaries. However, the Board may want to  
19 consider another measure for performance that could be incorporated within the policy changes  
20 and reflected in the asset management discussions.

21  
22 Commissioner Franz shared information on processes established by DNR to help inform the  
23 agency's work on the sustainable harvest calculation, as well as plans to develop other advisory  
24 councils to review ideas and suggestions from the Board, the Legislature, beneficiaries, and other  
25 stakeholders to develop recommendations for consideration by the Board.

26  
27 Superintendent Reykdal commented on the source of investments for different beneficiaries and  
28 whether there might be the potential of a higher and better use of those investments. It is likely  
29 the Legislature will consider revenue sources that are more progressive, sustainable, and more  
30 aligned with the way revenue is generated for education that ultimately benefit labor, which  
31 might mean a higher tax burden. Revenue has been focused in rural communities but those  
32 communities are not receiving the benefit. He plans to continue to question the best place for  
33 investments and who benefits.

34  
35 Closing comments by the Board included appreciation for the presentation of the information,  
36 optimism on some of the proposals while others will be more difficult, and interest in pursuing  
37 next steps surrounding issues on the rate of return for each fund.

38  
39 Commissioner Franz thanked the Board for its commitment and leadership during the year to the  
40 people and students of Washington State and to staff for their efforts in supporting the agency.

41  
42 **ADJOURNMNET**

43 Commissioner Franz adjourned the meeting at 11:56 a.m.

44

Approved this 5th day of January, 2021

DocuSigned by:  
  
903456C1CB0C405...

Hilary S. Franz, Washington State Commissioner of Public Lands

Approved via Webinar

Jim Cahill, Designee for Governor Jay Inslee

Approved via Webinar

Chris Reykdal, Superintendent of Public Instruction

Approved via Webinar

Bill Peach, Commissioner, Clallam County

Approved via Webinar

André-Denis Wright, Dean, College of Agricultural, Human, and Natural Resource Sciences,  
Washington State University

Approved via Webinar

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

Attest:

  
\_\_\_\_\_

Tami Kellogg, Board Coordinator

Prepared by Puget Sound Meeting Services, [psmsoly@earthlink.net](mailto:psmsoly@earthlink.net)