Washington State Department of Natural Resources

State Lands Report

Board of Natural Resources:

Duane Emmons
Product Sales & Leasing Division Manager

Brock Milliern
Conservation, Recreation & Transactions Division Manager

Angus Brodie
Deputy Supervisor for State Uplands

June 4, 2019
DNR State Uplands

• In every County
• Fund:
  ▪ School construction
  ▪ Higher education
  ▪ State services
  ▪ Local county services
• Provide:
  ▪ Economic opportunity
  ▪ Diverse recreation in working landscapes
Today’s Conversation

• Overview of DNR managed lands
• Report on revenue generation in each business area
• Describe how we manage these public lands for both their given mandates and for the general public
• Report on fund balances and opportunities for growth
State Uplands

Total area: 3.1 million acres

- Trust Lands 2.9 million acres
- Community Forest Trust 52,000 acres
- Conservation Lands 161,000 acres

6
State Uplands

• Trust Lands
  ▪ Fiduciary duty
  ▪ Multiple use

• Community Forest Trust
  ▪ Non fiduciary
  ▪ Protection of working forests
  ▪ Multiple use

• Conservation Lands
  ▪ Conservation of species, plant communities, and ecosystems
  ▪ Multiple Use
Federal Granted Lands

- Omnibus Enabling Act 1889
- Provided to build schools and state institutions
- 2.28 million acres
State Forestlands

State Forest Transfer
State Forest Purchase
DNR’s Trust Mandate

DNR has legal fiduciary responsibility under the State Enabling Act, State Constitution, and Statues that includes duties to:

• Generate revenue for each trust, in perpetuity
• Preserve the corpus of the trust
• Act prudently to reduce the loss for the trust
• Maintain undivided loyalty to the beneficiaries
• Act impartially with respect to current and future beneficiaries
## 2018 Revenue (in millions)

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Gross Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forestry</td>
<td>$174.4</td>
</tr>
<tr>
<td>Agriculture Leases</td>
<td>$24.4</td>
</tr>
<tr>
<td>Grazing</td>
<td>$1.2</td>
</tr>
<tr>
<td>Commercial</td>
<td>$10.8</td>
</tr>
<tr>
<td>Communication Sites</td>
<td>$4.7</td>
</tr>
<tr>
<td>Property Leases — Including Green Energy</td>
<td>$2.0</td>
</tr>
<tr>
<td>Rock, Sand, &amp; Gravel</td>
<td>$2.1</td>
</tr>
<tr>
<td>Special Forest Products, Rights of Way, Misc.</td>
<td>$1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$220.9</strong></td>
</tr>
</tbody>
</table>
Forestry

2 million forested acres

• Westside
  ▪ 1.38 million acres
  ▪ $166.2 m FY18 revenue

• Eastside
  ▪ 677k acres
  ▪ $8.2 m FY18 revenue
Timber Volume Sold (MMBF)
FY15-FY18 Sold Sales

FY 15  FY 16  FY 17  FY 18
Total Westside
Eastside
## Westside Sustainable Harvest Unit
### Volume Sold (MMBF)
#### FY15-FY17 Sold Sales

<table>
<thead>
<tr>
<th>Sustainable Harvest Unit</th>
<th>FY 15</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
<th>SHU Total</th>
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<tr>
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<td>41</td>
<td>49</td>
<td>54</td>
<td>55</td>
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<tr>
<td>Clallam</td>
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<td>15</td>
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<td>4</td>
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<td>11</td>
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<td>63</td>
<td>61</td>
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<td>1</td>
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<td>38</td>
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<td>10</td>
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<td>4</td>
<td>5</td>
<td>5</td>
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<td>Whatcom</td>
<td>8</td>
<td>6</td>
<td>13</td>
<td>11</td>
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<td><strong>Total Westside</strong></td>
<td><strong>424</strong></td>
<td><strong>480</strong></td>
<td><strong>481</strong></td>
<td><strong>460</strong></td>
<td><strong>1383</strong></td>
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</tbody>
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Agriculture

• 843,000 acres of agricultural lands are leased:
  ▪ Irrigated Row Crops
  ▪ Orchard
  ▪ Vineyard
  ▪ Dryland
  ▪ Grazing

• $25.7 million in FY18 revenue
Orchards & Vineyards

- 18,253 acres
- 103 leases
- $8.5 million in FY18 revenue
Irrigated Row Crops

- 32,340 acres
- 120 leases
- $10.4 million in FY18 revenue
**Dryland**

- 136,343 Acres
- 537 leases
- $5.5 million in FY18 revenue
Grazing

- 538,665 acres
- 739 leases
- Range Permit
- 318,235 Acres
- 41 Permits
- $1.0 million in FY18 revenue
Water

- 300 water rights
- 3,000 claims
- Numerous water service contracts with irrigation districts & US Bureau of Reclamation water in the Odessa/Columbia Basin Project

Positioning portfolio:

- Allow for moving water rights to develop new lands
- Positioning for drought impacts
- Working to get off of declining ground water supplies
Commercial Real Estate

- 29 ground leases
- 10 improved leases
- 9,000 acres
- Rezoning of transition lands to increase value
- $10.8 million in FY18 revenue
Communication Sites

- 104 Communication Sites statewide on fewer than 1,000 acres
- 426 leases including:
  - 40 County EMS/Public Works
  - 60 Federal (DOJ, Military, Coast Guard)
  - 34 Amateur Radio
- $4.7 million in FY 18 revenue
Special Use, Easements, Mining and Minerals

- Renewable Energy
- Special Use Leases
- Mining and Minerals
- Easement Granting
- 375 leases
- Fewer than 1000 acres under exclusive use lease
- 7609 easements
- $5.4 million in FY 18 revenue
# Asset Management

## 2018 Trust Transactions

- 11 Projects
- Disposition of 1,515 Acres ($3.8 m)
- Acquisition of 406 Acres ($1.05 m)

## 2015-18 Trust Transactions (Avg.)

- 17.5 Projects
- Disposition of 3,129 Acres ($15.5 m)
- Acquisition of 1,844 Acres ($10.5 m)

<table>
<thead>
<tr>
<th>Transaction Name</th>
<th>Transaction Type</th>
<th>Asset Class</th>
<th>County</th>
<th>Acres Acquired</th>
<th>Acres Disposed</th>
<th>Value</th>
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<tr>
<td>Porter North</td>
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<td>GRY</td>
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<td>South Ebey</td>
<td>Disposition</td>
<td>Forest</td>
<td>SNO</td>
<td>0</td>
<td>0.29</td>
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<td>Northport Work Center</td>
<td>Disposition</td>
<td>Urban/Rural</td>
<td>STE</td>
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<td>0.33</td>
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<tr>
<td>Odlin South</td>
<td>Disposition</td>
<td>Forest</td>
<td>SAN</td>
<td>0</td>
<td>103</td>
<td>194,000</td>
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<tr>
<td>Porter 33 - Everson</td>
<td>Acquisition</td>
<td>Forest</td>
<td>GRY</td>
<td>33</td>
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<td>Kelleher Road</td>
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<td>SKG</td>
<td>0.9</td>
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<td>Tukes Reservoirs</td>
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<td>Stemilt 2</td>
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<td>SKG</td>
<td>368</td>
<td>0</td>
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**Total**

|                  |                  |             |        | 406.82         | 1,515.45       | $4,916,490 |

**Notes:**
- Transaction data includes acquisition, disposition, and valuation details for various properties.
- Values are in dollars.
Conservation Purchases

2018 Conservation Transactions
- 17,056 acres protected
- 12 projects
  - 9 purchase
  - 3 easement
- $16.5 million

2015-2018 Averages
- 9,115 acres protected
- 17.75 projects
  - 16.25 purchase
  - 1.5 easement
- $17.9 million

<table>
<thead>
<tr>
<th>Transaction Name</th>
<th>Transaction Type</th>
<th>Funding</th>
<th>Grant/SiteName</th>
<th>Acres Acquired</th>
<th>Value</th>
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<tbody>
<tr>
<td>I-90 Phase V - King</td>
<td>Conservation Easement</td>
<td>Federal Grants</td>
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<td>SPS Coastal Forest 2</td>
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<td>Federal Grants</td>
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<td>Scaggs &amp; Flaig</td>
<td>Acquisition</td>
<td>Special Lands</td>
<td>Kennedy Creek</td>
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<tr>
<td>Simonyi</td>
<td>Acquisition</td>
<td>Special Lands</td>
<td>Stavis</td>
<td>5.14</td>
<td>90000</td>
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<tr>
<td>Abner</td>
<td>Acquisition</td>
<td>Special Lands</td>
<td>Schumacher Creek</td>
<td>5.1</td>
<td>77000</td>
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<tr>
<td>McCook</td>
<td>Acquisition</td>
<td>Special Lands</td>
<td>Stavis</td>
<td>30</td>
<td>372500</td>
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<td>Camp Discovery Rd</td>
<td>Acquisition</td>
<td>Special Lands</td>
<td>Dabob Bay</td>
<td>213.78</td>
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<td>Marker, Don</td>
<td>Acquisition</td>
<td>Special Lands</td>
<td>Stavis</td>
<td>19.5</td>
<td>476000</td>
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<tr>
<td>Marker, Jon &amp; Toni</td>
<td>Acquisition</td>
<td>Special Lands</td>
<td>Stavis</td>
<td>23.16</td>
<td>745000</td>
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<td>Weyerhaeuser</td>
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<td>Fiorito</td>
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<table>
<thead>
<tr>
<th>Total Acres Acquired</th>
<th>Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>17056.49</td>
<td>$16,507,500</td>
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</tbody>
</table>
Community Forests

Manage two community forests
  • Klickitat Canyon
  • Teanaway

Recreation Plan
  • ESSB 6095
Recreation

• Trust Mandate and Recreation

• Diverse Opportunities:
  ▪ Horseback riding and pack stock
  ▪ Hiking
  ▪ Mountain biking
  ▪ Camping
  ▪ Fishing/hunting
  ▪ Rock climbing
  ▪ Snow activities
  ▪ 4x4, ORV, and dirt bikes
Explore Washington DNR-managed lands

Navigate to DNR recreation sites by using the various tabs, below. Click on a site for a window with more information. For site status and details, click the "More Info" link in each site's window.

Check it out at dnr.wa.gov/go
2018 Recreation Highlights

• 69,000 hours of volunteer engagement and support in 2018
• Approx. 50 miles of new trail
• Approx. 70 new campsites statewide
• Started Discover Pass library checkout program
• Coordinated with other land managers

Plans for 2019 and beyond
### 2018 Revenue

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Gross Revenue</th>
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</thead>
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<tr>
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<tr>
<td>Commercial</td>
<td>$10.8</td>
</tr>
<tr>
<td>Communication Sites</td>
<td>$4.7</td>
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<tr>
<td>Special Use</td>
<td>$5.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$221.0</strong></td>
</tr>
</tbody>
</table>

(Dollar value in millions)
Expenditures

- Reduced purchasing power
- Increasing costs
- Investment needs to grow

$63 million FY 2018
### Expenses to Revenue

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Acres (thousands)</th>
<th>Expenditure</th>
<th>Revenue</th>
<th>Profit\Loss ($/acre/year)</th>
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</thead>
<tbody>
<tr>
<td>Forestry</td>
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<td>87</td>
<td>60</td>
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<tr>
<td>Commercial</td>
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<td>5,641</td>
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<tr>
<td><strong>Overall</strong></td>
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<td><strong>22</strong></td>
<td><strong>76</strong></td>
<td><strong>54</strong></td>
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</tbody>
</table>

Note: Fiscal 2018 data, includes RMCA, FDA and Ag Trust revenues and expenditures

### Benchmarks

**Forestry - $20^{1-2}$ per acre**

Funding

State Trust Lands funded by revenue generated

- Resource Management Cost Account
  - *RMCA*: *RCW 79.64.040*
- Forest Development Account
  - *FDA*: *RCW 79.64.100* and *RCW 79.64.110*
- Budget provisos
  - RMCA – 32%
  - FDA – 27%
Management Rates

Percentage of Revenue

- RMCA
- FDA

Yearly Data:
- 2007: 30%
- 2008: 30%
- 2009: 25%
- 2010: 25%
- 2011: 30%
- 2012: 30%
- 2013: 30%
- 2014: 30%
- 2015: 30%
- 2016: 30%
- 2017: 30%
- 2018: 30%
# Expenses to Fund Revenue

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Acres (thousands)</th>
<th>Expenditure</th>
<th>Fund Revenue</th>
<th>Profit Loss</th>
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<tbody>
<tr>
<td>Forestry</td>
<td>2,000</td>
<td>27</td>
<td>25</td>
<td>(2)</td>
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<tr>
<td>Agriculture</td>
<td>890</td>
<td>3</td>
<td>9</td>
<td>6</td>
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<tr>
<td>Commercial Leases</td>
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<td>376</td>
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<td>1,442</td>
<td>1,390</td>
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<td>3,581</td>
<td>1,712</td>
<td>(1,870)</td>
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<tr>
<td>Overall</td>
<td>2,900</td>
<td>22</td>
<td>23</td>
<td>1</td>
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</table>

Note: Fiscal 2018 data, includes RMCA, FDA and Ag Trust revenues and expenditures
Combined Funds (RMCA & FDA)
DNR Westside Silviculture Contract Prices and Washington Minimum Wage

- Mean Site Preparation, Tree Planting, & Hand Cutting Contract Costs ($/acre)
- Washington State Minimum Wage ($/hour)
Investment Needs: Silviculture

Full Need Acres vs Estimated Deliverable Acres at Carry Forward Levels for Westside Silviculture Activities in the 19-21 Biennium

<table>
<thead>
<tr>
<th>Activity</th>
<th>Full Need Acres</th>
<th>Carry Forward Funding</th>
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<tbody>
<tr>
<td>Planting</td>
<td>32</td>
<td>29</td>
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<tr>
<td>Site Prep</td>
<td>17</td>
<td>10</td>
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<tr>
<td>Veg Mgmt</td>
<td>23</td>
<td>17</td>
</tr>
<tr>
<td>PCT</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

PCT=Pre-commercial thinning

Funding Level:
- Planting: 91%
- Site Prep: 58%
- Veg Mgmt: 22%
- PCT: 25%
Next Biennium 19-21

- **Goals**
  - Achieve revenue, volume and investment deliverables
  - Achieve 3-month ending fund balances

- **Challenges**
  - Absorb $6 million COLA
  - Invest $1-$2 million to grow revenue
  - Invest $11 million in silviculture needs
  - Pay $1.1 million to complete the Trust Lands Performance project
Next Steps

- Complete 17-19 budget
- Report back
- Recommend Management Rate change
  - Silviculture,
  - Trust Land Performance Project, or
  - Other investments