Agenda

• Recap of Project Timeline
• Outreach Process
• Review of Draft Scope
• Summary of Comments
• Recap Initial Ideas
• Summary of Comments
• Next Steps
2021 Work Plan

Quarter 1: January - March
- Share Key Findings
- Collect input on:
  - Project scope
  - Ideas for change
- Host Public Webinar

Quarter 2: April - June
- Continue to collect input on:
  - Project scope
  - Ideas for change
- Host Public Webinar
- Seek BNR support for project scope
- Develop potential proposals (e.g.):
  - Form Advisory Committee(s) and/or Work Group(s)

Quarter 3: July - September
- Seek BNR support for project scope
- Develop potential proposals (e.g.):
  - Form Advisory Committee(s) and/or Work Group(s)

Quarter 4: October - December
- Continue to develop proposals
- Collect input on proposals

June 2021 Draft - Subject to change
Today’s Update

Quarter 2

Formal update to Board on comments

Staff recommendation on scope
## Beneficiary & Stakeholder Outreach

**November through May**

**~25 Separate Meetings**

<table>
<thead>
<tr>
<th>Beneficiary &amp; Stakeholder</th>
<th>Outreach</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Forest Resource Council &amp; Forest Products Industry</td>
<td>Washington Hardwoods Commission</td>
</tr>
<tr>
<td>Clallam Community</td>
<td>Washington State Office of Financial Management</td>
</tr>
<tr>
<td>Conservation Northwest</td>
<td>Washington Office of Superintendent of Public Instruction</td>
</tr>
<tr>
<td>Library Directors</td>
<td>Washington School Directors’ Association</td>
</tr>
<tr>
<td>Olympic Forest Coalition</td>
<td>Washington State Association of Counties</td>
</tr>
<tr>
<td>University of Washington</td>
<td>Washington State Department of Social and Health Services</td>
</tr>
<tr>
<td>Washington Cattleman’s Association</td>
<td>Washington State Investment Board</td>
</tr>
<tr>
<td>Washington Environmental Council</td>
<td>Washington State Legislative Staff</td>
</tr>
<tr>
<td>Washington Forest Law Center</td>
<td>Washington State University</td>
</tr>
<tr>
<td>Washington Forest Protection Association</td>
<td></td>
</tr>
</tbody>
</table>
Public Webinar Outreach

- 50+ Attendees
- Public comments collected through a survey
- April 28th - May 12th
- 19 Commenters
Outreach Feedback and Comments

Today’s presentation:

Brief summaries highlighting themes and diverse ideas

TLPA Comment Summary
DRAFT Scope

Need
DNR needs to increase the amount and reliability of the revenue it generates through the assets it manages on state trust lands into perpetuity.

Purpose
DNR will transform state trust land management:
1) Legislative proposals to increase amount and reliability of revenue
2) Changes to Board of Natural Resources policies to improve trust asset performance
3) Updated operational business practices to increase efficiency and effectiveness
DRAFT Scope

Objectives

1. Increase amount and reliability of revenue

2. Sustain the natural resource lands, while seeking opportunities to diversify

3. Maintain or enhance the social, environmental, and cultural benefits of state trust lands consistent with revenue generating purposes of the land

4. Feasible solutions
Comment Summaries by Topic and/or Subtopic
General Scope

Public expectations and DNR’s legal responsibilities often conflict

Scope should reflect there may be different goals for different trust beneficiaries; in particular do not conflate federally-granted lands with those created by statute

Include diversification and exploration of new and existing revenue sources

Amend terminology to “maximize revenue” throughout scope
General Scope

Should include equal consideration for ‘multiple values’ associated with the asset classes, primarily timber, but also agriculture and others (e.g. carbon sequestration, wildlife, recreation, tribal interests, watershed, etc.)

Should account for context of Climate Change

Recognize the real value is in ecological systems and health

June 2021 Draft - Subject to change
Revenue implies “gross revenue”, consider replacing with “net cash flow” or “net income”.

Change ‘increase revenue’ to ‘optimize revenue’
-> increased returns also increases risk

Include the following concepts:

• Ecological and societal goals
• Intergenerational equity
• Long-term resilience
• ‘Multiple values’ of state forestlands
## Purpose

<table>
<thead>
<tr>
<th>Purpose Statement #</th>
<th>Suggestion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Include diversity of revenue to improve performance</td>
</tr>
<tr>
<td>2</td>
<td>Include updating BNR policy to respond to societal needs including climate change and population growth</td>
</tr>
<tr>
<td>3</td>
<td>Include ‘update marketing’ as well as business practices</td>
</tr>
<tr>
<td>Objective Statement #</td>
<td>Suggestion</td>
</tr>
<tr>
<td>------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>All</td>
<td>Include language about accountability to environmental and social concerns and intergenerational equity</td>
</tr>
<tr>
<td>All</td>
<td>DNR shouldn’t drift away from core areas of expertise; it puts customers and socio-economic well-being of small communities at risk</td>
</tr>
<tr>
<td>2</td>
<td>Include enhancing lands for multiple values, not just sustaining</td>
</tr>
<tr>
<td>2</td>
<td>Support sustaining natural resources, including legacy trees and forests</td>
</tr>
<tr>
<td>2</td>
<td>Diversification of portfolio should focus on natural resource land investments which support rural economies</td>
</tr>
<tr>
<td>3</td>
<td>Remove the “consistent with revenue generation” phrase.</td>
</tr>
</tbody>
</table>
Project Scope – Staff Proposal

See Board Meeting Materials for June 2021

www.dnr.wa.gov/bnr
## Summary of Initial Ideas Presented

<table>
<thead>
<tr>
<th>Idea</th>
<th>Summary</th>
<th>Who?</th>
<th>Where?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Improve financial systems to incorporate for-profit-enterprise practices</td>
<td>Deloitte</td>
<td>GI 1-4</td>
</tr>
<tr>
<td>2</td>
<td>Reliability Fund</td>
<td>Deloitte</td>
<td>GI 10</td>
</tr>
<tr>
<td>3</td>
<td>Smooth Revenue Distribution through Loans</td>
<td>Deloitte</td>
<td>GI 14</td>
</tr>
<tr>
<td>4</td>
<td>Fund studies to compare DNR’s approach to the Endangered Species Act compliance with others</td>
<td>Deloitte</td>
<td>T5</td>
</tr>
<tr>
<td>5</td>
<td>Compare services DNR provides to those of an external manager</td>
<td>Deloitte</td>
<td>T6</td>
</tr>
<tr>
<td>6</td>
<td>Pursue ways to monetize Ecosystem Services</td>
<td>DNR</td>
<td>p. 39</td>
</tr>
<tr>
<td>7</td>
<td>Borrowing authority</td>
<td>DNR</td>
<td>p. 37</td>
</tr>
<tr>
<td>8</td>
<td>Capital expenditure funding options examples</td>
<td>Deloitte</td>
<td>GI 8</td>
</tr>
<tr>
<td>9</td>
<td>Change trust land management and investments funding</td>
<td>Deloitte</td>
<td>GI 5</td>
</tr>
<tr>
<td>10</td>
<td>Statutory, Constitutional, or Enabling Act improvements</td>
<td>Deloitte</td>
<td>GI 11</td>
</tr>
<tr>
<td>11</td>
<td>Funding sources for non-trust expenses</td>
<td>Deloitte</td>
<td>GI 12</td>
</tr>
<tr>
<td>12</td>
<td>Trust Land Transfer</td>
<td>DNR</td>
<td>p. 38</td>
</tr>
<tr>
<td>13</td>
<td>Trust Land Replacement Program</td>
<td>DNR</td>
<td>p. 38</td>
</tr>
</tbody>
</table>
Opportunities

- Improve Business Model and Systems
- Increase Access to Capital
- Greater Ability to Transact Lands
- New or Revitalized Management Tools

June 2021 Draft - Subject to change
# Initial Ideas - General

<table>
<thead>
<tr>
<th>Concerned about unintended consequences of some ideas – be thorough and transparent in outreach and involvement</th>
<th>Work with citizens to develop creative and effective solutions to meet multiple values symbiotically</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust principles should be criteria for any changes</td>
<td>Ideas/tools/policies should respond to societal expectations and pressures</td>
</tr>
</tbody>
</table>
Any change needs to include consideration of county and taxing district impacts and the effect on the local economies

- This includes any potential statutory changes to sell state forestlands
- Diversification of state forestlands should be explored for interested counties

Board should keep in mind the upcoming Supreme Court decision as it moves forward on ideas.

- Potential change to land management responsibilities and goals
Initial Ideas – Business Model and Systems

Updating of business model needs to include impacts to local communities and counties

Support for updated and transparent financial systems and accounting

Improved business models should explore carbon offsets and values of different forest stands

Need to research business models that include local decision making and allow for ecological and community-based opportunities.
Initial Ideas - Reliability Fund

Several beneficiaries interested in further exploration

Need stakeholder involvement and communication

Impacts to all beneficiaries need to be included
  (e.g. local and rural communities)

Concern over complexities of developing and initial funding
Initial Ideas:
Smooth revenue distribution through loans

Hesitant to explore smoothing revenue distribution through loans

• Could ultimately result in less revenue to beneficiaries
Initial Ideas: Monetizing Ecosystem Services

Interested in exploring monetizing ecosystem services

Need to understand impacts to beneficiaries

Pursue only if it doesn’t compromise revenue distribution
Initial Ideas:
Borrowing Authority and Access to Capital

Increased access to capital is a key component in successful business

Could be interesting to consider a small line of credit (borrowing authority)

Legislature should maintain oversight and fund additional investments in properties
Initial Ideas:

**Compare services to external manager**

- Should compare administrative costs against other states managing forests
- Suggestion for a Pilot (after appropriate financial systems in place)

**Funding of non-trust activities**

- Concern about amount of money spent on recreation and timber being taken out of production
  - Logging should be part of the educational experience on DNR lands
- Better accounting systems will allow more accurate costing of impacts of recreation
Initial Ideas: Trust Land management funding

- Need to look at all income, especially if it gets distributed to beneficiaries
  - Excise taxes (and other relevant taxes and fees collected)
  - Access Road Revolving Fund
  - Value of road improvements on land
Initial Ideas: Trust Land Transfer

Support for transitioning under-performing lands out of portfolio and replacing with high-performing

Trust Land Transfer should include a 3rd party review and 120-day comment period

Also include an analysis of the local economic impacts

Believe this program has eroded the corpus of the trust

Support for continuing the Trust Land Transfer Program
Suggestions related to the Policy for Sustainable Forests

• Amend the economic performance section
• New or more fully utilize existing policies

Think entrepreneurially and be cognizant of unintended consequences

Look for public-private partnership opportunities
Other Ideas

- Be open to taking on increased risk for increased profit
- Increase flexibility for beneficiaries to participate in decision making
- Suggestion for addressing recreation and tribal interests in board membership
- Policy tools need to be responsive to social concerns
Policy change shouldn’t result in negative environmental or conservation impacts

Deloitte’s report missed analysis of DNR’s impacts on local economies

Other Ideas

Highest and Best Use could result in higher returns

Concern about relying too much on Deloitte for ideas
Other Ideas

Do not support privatization of any aspect of state lands

Near- and Long-term performance objectives could be mutually exclusive - need to reconcile this

Should rely less on logging
Analysis Gaps

• It does not appear that DNR has evaluated the impacts of increased regulations and DNR requirements on stumpage price

• Need analysis of the impact of the export ban on DNR stumpage prices

• Industry product mix changes at the mills
Still to come

• Tribal Outreach
• Report from WSAC
• More follow-up conversations
  (i.e., on specific ideas)
2021 Work Plan

Quarter 1: January - March
• Share Key Findings
• Collect input on:
  o Project scope
  o Ideas for change
• Host Public Webinar

Quarter 2: April - June
• Continue to collect input on:
  o Project scope
  o Ideas for change
• Host Public Webinar

Quarter 3: July - September
• Seek BNR support for project scope
• Develop potential proposals (e.g.):
  o Form Advisory Committee(s) and/or Work Group(s)

Quarter 4: October - December
• Continue to develop proposals
• Collect input on proposals

June 2021 Draft - Subject to change