
Asset Acquisition

1. Organizing Question

Can the DNR purchase replacement forestland or increase the forestland base through afforestation to mitigate for lands impacted by the HCP amendment to provide conservation benefits to the marbled murrelet on existing trust land while maintaining timber volume, associated forest-industry jobs and trust revenue?

2. Background and Context

Placing lands into reserve status for marbled murrelet conservation under the Habitat Conservation Plan (HCP) will reduce the number of acres available for harvest over the life of the HCP. These lands span multiple trusts and impact beneficiaries to varying degrees. The vast majority of timber on these lands is mature and would have the potential to provide near-term volume to the marketplace.

The forest products industry in Washington is one of the largest employers in the state¹ and the direct and indirect jobs they support are a significant contributor to the state's overall economy. The timber volume produced by the department, while not a majority of the market, is a significant contributor to the overall wood supply. Local decreases in that supply are felt most readily in the working circle of individual mills and the contractors, sub-contractors and support industries within that working circle.

Purchasing replacement lands to offset loss of lands available for harvest under the proposed amendment to the HCP could provide revenue to the trusts and provide volume to the marketplace.

The department is limited in its ability to purchase replacement lands due to the amount of funding available for that purpose. The Real Property Replacement Account, created under RCW 79.17.210, currently has a fund balance of \$9.4 million, while the RMCA Land Bank has a fund balance of \$6.4 million (April 2019). Each fund is further restricted by the underlying trusts those funds support.

The current Trust Land Transfer (TLT) model heavily influences this situation. Only 20% of the land value that DNR receives through TLT is actually spent on replacement land. The other 80% is spent on the valuable materials on that land (for which DNR does not receive any funds through TLT). Further, when lands are purchased to replace the transferred land, only a portion of that purchase price is for the land itself, as almost all purchased land has some planted trees with value. In short, far less than 20% of the original TLT funding is actually reinvested in the replacement land. This is not sufficient to compete acre-for-acre in the market place for land. If the TLT split was changed to emphasize asset replacement, DNR would be a more competitive land buyer.

¹ The Future of Washington's Forests and Forest Industries Final Report July 31, 2007 – [Study 3: Economic Contribution](#)

3. Potential Opportunities

The main opportunities associated asset acquisition financing are related to growing the DNR forest land base in order to conduct future revenue-generating timber harvest. Potential goals could include:

- Purchasing sufficient replacement forested acreage to increase the volume of timber harvested, thereby offsetting volume that is set aside for Endangered Species Act encumbrances. Volume of harvest would depend on acreage of land acquired, and the maturity of the timber on that land.
- Purchasing and afforesting lands currently in agriculture, increasing the forested land base managed by the department.

Volume harvested by the department from replacement lands would maintain or possibly increase timber jobs while simultaneously maintaining habitat currently in conservation status. Purchasing and afforesting lands currently in agriculture or other use would eventually increase the volume harvested by the department, with a corresponding increase in forestry related jobs.

Investigating opportunities for asset acquisition will:

- Increase understanding of the opportunities and constraints in increasing DNRs forest land transactions
- Identify which markets DNR can best compete in
- Identify the potential benefits and challenges afforestation poses

An additional area for investigation would be acquiring commercial properties or other special use lease assets that would earn a higher rate of return for the trusts.

4. Challenges/Uncertainties

Real Estate Market for Land. Competition for commercial forestland among large REITs, TIMOs and even tribal entities is high. The DNR often cannot compete for large tracts of land with its current levels of funding and existing statutory/constitutional constraints on its ability to buy and sell land. These constraints include restricting the sale of land to 160 acres per transaction, the requirement to buy and sell land at public auction, and the requirement to buy land before selling an equivalent amount of land to maintain the corpus of the trust.

Opportunities exist for purchase of smaller tracts of land, but these are often in areas that are being encroached by development pressure, which results in operational and political challenges. These tracts are sought after by land conservation organizations and have the potential to be managed as community forests. The increased competition for this mid-sized acquisition market may increase values beyond what would be an economically practical investment.

Differences in Volume. Large industrial landowners often harvest at higher levels than the department. Many industrial landowners utilize shorter rotation ages and retain the minimum five leave-trees per acre required under the Forest Practice rules. DNR's Policy for Sustainable Forest requires longer rotation ages in some instances, and the Habitat Conservation Plan requires an average of eight leave

trees per acre. Therefore, overall market timber volumes have the potential to incrementally decrease, at least in the short term, if the department successfully outbids a large industrial landowner for these properties. Riparian buffer widths are also less restrictive under Forest Practice rules and have the potential for higher volume to be harvested on private land in these areas.

Legal Framework. The legal framework for acquiring new State Forest Transfer land is unclear. Would newly acquired land be considered State Forest Purchase Land, with a corresponding revenue distribution, or would legislative action be required to designate the newly acquired lands as State Forest Transfer? Acquiring new lands in a different tax code area would not mitigate for impacts at the junior taxing level absent new legislation to account for this.

Uncertainty of Afforestation. Afforestation of former agricultural lands is often expensive and labor intensive. Planting failure is high as animal damage², competing vegetation, climate change and decades of agricultural use have changed site conditions³. Agricultural lands tend to be located in or near the urban-rural interface which raises the development (or Highest and Best Use) value to a point that makes purchasing for afforestation impractical. Afforestation in western Washington is rare, except when used to restore riparian function. Research on the potential impacts of wide-scale afforestation in western Washington is limited but general research indicates a number of potential concerns with afforestation efforts including impacts to biodiversity and declines in water supply⁴.

Funding. Finally, funding of these acquisitions would be problematic for the department without a legislative appropriation, bonding authority or some new funding mechanism not currently available.⁵

5. Potential Next Steps

Further inquiry in a number of areas are needed to actively seek replacement land at a scale that would offset the decline in volume associated with HCP commitments. Those areas are:

Research & Data Analysis

Volume and Acreage Analysis. Data analysis of the acreage required to offset volumes encumbered by the HCP must be undertaken to fully understand the potential for new acquisitions to maintain or increase volume decreases.

Legal Review. A legal review the RCWs relating to DNR land purchases and sale needs to be undertaken to determine whether State Forest Transfer land can be increased or whether the newly acquired land would be designated State Forest Purchase land. State Forest Transfer Land revenue is distributed differently from State Forest Purchase land. A final possibility is the creation of a new land category

² Determining the Factors Associated With Seedling Herbivory on Afforested Carbon Sequestration Sites in the Lower Mississippi Alluvial Valley: Preliminary Results - Daniel C. Sumerall et. al.

³ Afforestation, restoration and regeneration — Not all trees are created equal

⁴ Afforestation Increases Water Supply – But Only with These Considerations – Hakyung Lee & Lulu Zhang

⁵ See Acquisition Financing Solutions Table Paper

designed to benefit a custom set of beneficiaries, say the counties or taxing districts most heavily impacted by the implementation of the HCP amendment.

Analyze Funding Mechanisms. (See Asset Acquisition Financing)

Market Analysis. Perform a market analysis of timberland investment opportunities to determine within which markets DNR can effectively participate, and what current opportunities exist in those markets.

Afforestation effectiveness. Perform an in-depth literature review of the effectiveness of afforestation and, if research is lacking, assist in studying the ecological and economic challenges and opportunities in this area. This would include a Return on Investment analysis of the costs of successful large-scale afforestation.

Stakeholder and Community Outreach

Trust Distribution Change. Acquiring new lands in a different tax code area would not mitigate for impacts at the taxing district level absent new regulatory language to account for this. Outreach to beneficiaries, stakeholders and the Legislature on the potential to create a new distribution method for revenue generated on replacement lands would indicate whether a new approach is feasible.

Commercial Properties. Focusing some effort on diversifying the portfolio of the State Forest Transfer and State Forest Purchase Trusts to a mix of forestry and commercial/industrial business areas has the potential to increase revenues for those beneficiaries while creating non-forestry jobs in areas traditionally dependent on natural resource based employment. Outreach to beneficiaries, the legislature, and stakeholders on the benefits of increasing DNR's activity in this business area, which is seen by some as incongruent with the purpose of a natural resource agency, would be needed in order for this idea to succeed.

Other

The legislature has shown a willingness to invest in forestland for multiple benefits for the people of Washington. The acquisition of the Teanaway and Klickitat Canyon Community Forests, the Encumbered Lands legislation, and the Trust Land Transfer program have allowed the state to reposition areas of special ecological concern. The direct purchase of working forestland seems an obvious evolution of that process.

In the near term, focusing efforts on updating the Trust Land Transfer model from a strict bare land/valuable materials value split to one that emphasizes full asset replacement would allow the department to be a more competitive buyer.