Trust Land Performance: Charting a Course for the Future

For Washington State Association of Counties
March 17, 2021

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Lisa Anderson
Angus Brodie
Andy Hayes
Agenda

• Part 1 - State Forestlands Background

• Part 2 - Valuation Findings

• Part 3 – Initial Ideas for Moving Forward and Next Steps
Trust Manager

~2.9 million acres

of

State Trust Lands

in Washington
Trust Responsibilities

As manager of state trust lands, DNR has legal fiduciary responsibilities to:

- Generate revenue and other benefits for each trust, in perpetuity
- Preserve the corpus of the trust
- Exercise reasonable care and skill
- Act prudently to reduce the risk of loss for the trusts
- Maintain undivided loyalty to beneficiaries
- Act impartially with respect to current and future beneficiaries
State Trust Lands

State Lands
Federally granted lands

- Enabling Act (25 U.S. Statutes at Large, c 180 p. 676)
- State Constitution
- Revenue is generated from a variety of sources
- Source of financial support, primarily for public schools and colleges

State Forestlands

~2.9 Million Acres of State Trust Lands

- Two types: Transfer and Purchase
- > 617,000 acres*
- Transfer lands acquired by counties through tax foreclosures.
- Statutory Trusts
- Revenue helps fund county services, state schools, and junior taxing districts
- 21 counties

* Source: Deloitte Report 2020, Appendix D
State Forestlands are FOREST LANDS

a few key points in time*...

- **1923** Present Reforestation Act enacted
  State Forestlands originate in the Reforestation Act

- **1923** State Forest Board was created

- **1923** Forest Board PURCHASE lands were authorized
  State Forest Board could acquire lands that were chiefly valuable for developing and growing timber and designate them as state forest lands

- **1927** State Forest TRANSFER lands established
  Forest lands acquired by counties through tax foreclosure could be offered to the state as forest lands

- **1957** Department of Natural Resources established

- **1969** Reconveyance for parks authorized

- **1971** Changes in distribution of proceeds from the State Forest Board Transfer land (25%)

- **1986** County representative added to the Board of Natural Resources

* Source: DNR- State Forest Board Lands: A Report to the Counties, 1987
Key RCWs related to State Forestlands
<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCW 79.22.010</td>
<td>Acquisition of land for reforestation</td>
</tr>
<tr>
<td>RCW 79.22.020</td>
<td>Acquisition of forestland</td>
</tr>
<tr>
<td>RCW 79.22.040</td>
<td>Deed of County Land to Department</td>
</tr>
</tbody>
</table>
RCW 79.22.050
Sales and Leases of Timber and Timberlands

Except as provided in RCW 79.22.060, State forestland shall be forever reserved from sale.

RCW 79.22.070
Forest and Land Management

RCW 79.22.300
State Forestland Reconveyance
State Forestlands are located in 21 Counties

There are > 617,000* acres of State Forestlands

~538,015* acres of State Forest Transfer Lands

~79,384* acres of State Forest Purchase Lands

NOTE: If you are interested in acres by county see Deloitte Report (Appendix D, page 1)

* Source: Deloitte Report 2019

<table>
<thead>
<tr>
<th>County</th>
<th>State Forest Transfer</th>
<th>State Forest Purchase</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLALLAM</td>
<td>93,052</td>
<td>242</td>
<td>93,293</td>
</tr>
<tr>
<td>SKAGIT</td>
<td>84,628</td>
<td>2</td>
<td>84,630</td>
</tr>
<tr>
<td>SNOHOMISH</td>
<td>62,463</td>
<td>1,681</td>
<td>64,144</td>
</tr>
<tr>
<td>THURSTON</td>
<td>20,024</td>
<td>23,531</td>
<td>43,554</td>
</tr>
<tr>
<td>LEWIS</td>
<td>39,994</td>
<td>3,068</td>
<td>43,063</td>
</tr>
<tr>
<td>SKAMANIA</td>
<td>38,092</td>
<td>4,461</td>
<td>42,553</td>
</tr>
<tr>
<td>GRAYS HARBOR</td>
<td>2,315</td>
<td>29,033</td>
<td>31,348</td>
</tr>
<tr>
<td>CLARK</td>
<td>26,502</td>
<td>3,850</td>
<td>30,352</td>
</tr>
<tr>
<td>WHATCOM</td>
<td>29,240</td>
<td>996</td>
<td>30,236</td>
</tr>
<tr>
<td>MASON</td>
<td>28,344</td>
<td>562</td>
<td>28,905</td>
</tr>
<tr>
<td>PACIFIC</td>
<td>15,063</td>
<td>8,163</td>
<td>23,226</td>
</tr>
<tr>
<td>KING</td>
<td>22,907</td>
<td>0</td>
<td>22,907</td>
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<tr>
<td>Klickitat</td>
<td>20,371</td>
<td>41</td>
<td>20,412</td>
</tr>
<tr>
<td>JEFFERSON</td>
<td>14,688</td>
<td>16</td>
<td>14,704</td>
</tr>
<tr>
<td>WAHKiakum</td>
<td>12,612</td>
<td>0</td>
<td>12,612</td>
</tr>
<tr>
<td>PIERCE</td>
<td>8,880</td>
<td>3,341</td>
<td>12,221</td>
</tr>
<tr>
<td>Cowlitz</td>
<td>11,080</td>
<td>275</td>
<td>11,356</td>
</tr>
<tr>
<td>Kitsap</td>
<td>7,559</td>
<td>79</td>
<td>7,638</td>
</tr>
<tr>
<td>Stevens</td>
<td>160</td>
<td>41</td>
<td>201</td>
</tr>
<tr>
<td>Okanogan</td>
<td>42</td>
<td>0</td>
<td>42</td>
</tr>
<tr>
<td>Kittitas</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>538,015</td>
<td>79,384</td>
<td>617,399</td>
</tr>
</tbody>
</table>
Key policies and other laws related to State Forestlands
Board of Natural Resources shall establish policies ensuring land management is based on sound principles and designed to achieve maximum development and use of lands consistent with applicable laws

(summarized from RCW 43.30.215)
Board Policies and Other Applicable Laws

Policy for Sustainable Forests
(Multiple state and federal laws)
- Economic Performance
- Forest Ecosystem Health and Productivity
- Social and Cultural Benefits
- Implementation

Multiple Use Concept
(Multiples Uses - RCW 79.10.120)

Sustainable Harvest Level
(Sustainable Harvest - RCW 79.10.300-340)

Habitat Conservation Plan
Endangered Species Act
(16 U.S.C. 1531 et seq.)
Habitat Conservation Plan

1997 Agreement with USFWS and NOAA Fisheries under the Endangered Species Act

4 Components
- Northern spotted owl
- Marbled murrelet
- Riparian-dependent species
- Other uncommon habitats

Sustainable Harvest Level

The volume of timber scheduled for sale for a planning decade

Calculated by DNR and approved by the Board of Natural Resources

20 Sustainable Harvest Units in western Washington

Draft - Subject to Change March 2021
## State Forest ‘Transfer’ Lands - **Timber Asset Class Categories**

<table>
<thead>
<tr>
<th>Category</th>
<th>Gross Acres (Forested)</th>
<th>Operable Weighting</th>
<th>Net Acres Restricted from Harvest</th>
<th>Net Acres Available for Harvest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Deferrals</td>
<td>96,273</td>
<td>0%</td>
<td>96,273</td>
<td>0</td>
</tr>
<tr>
<td>Non-Commercial</td>
<td>1,440</td>
<td>0%</td>
<td>1,440</td>
<td>0</td>
</tr>
<tr>
<td>Riparian Management Zones</td>
<td>74,302</td>
<td>2%</td>
<td>72,816</td>
<td>1,486</td>
</tr>
<tr>
<td>Uplands</td>
<td>138,591</td>
<td>55%</td>
<td>62,366</td>
<td>76,225</td>
</tr>
<tr>
<td>General Ecological Management (GEM) Lands</td>
<td>202,299</td>
<td>100%</td>
<td>0</td>
<td>202,299</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>512,905</strong></td>
<td><strong>232,895</strong></td>
<td><strong>280,010</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note: Categories for ‘Gross Acres’ and ‘Net Acres Available for Harvest’ calculated by DNR, based on Deloitte’s numbers, provided for clarity.

[1] Deloitte (2020), Chapter 5, Page 20, Figure 27. [www.dnr.wa.gov/tlpa](http://www.dnr.wa.gov/tlpa)
Revenue from State Forestlands
Timber Sale Timeline - Example
(Lump Sum Sale)

- Year 1: Timber Sale Planning
- Year 2: Timber Sale Layout and Paperwork
- Year 3: Board Review, Approval, Timber Auction, Winning Bid
- Year 4: Contract Period, Road Building, Timber Harvest
- Year 5: Typical Contract Length: 2-3 years
- Year 6: Revenue is collected and distributed as the timber is harvested

Revenue is collected and distributed as the timber is harvested.
State Forestland Revenue Distribution
RCW 79.64.110

Timber harvest on State Forestlands

Gross Revenue

Forest Development Account (FDA)

Net Revenue

Office of the State Treasurer

County Treasurer(s) (where State Forestlands are located)

Treasurer further distributes the revenue to taxing districts within the county in accordance with RCW 79.64.110.
Example – Clallam County Tax Area #503
Data Source: Clallam County Levy Rates Report for 2021

- CLALLAM COUNTY: 10.0%
- HOSPITAL DISTRICT #1 - Forks: 5.2%
- HOSPITAL DISTRICT #1 - EMS: 1.8%
- NORTH OLYMPIC LIBRARY: 3.8%
- FIRE DISTRICT #1: 6.3%
- PORT OF PORT ANGELES: 1.4%
- COUNTY ROADS: 10.3%
- QUILLAYUTE PARK & REC: 4.1%
- SCHOOL DISTRICT #402 (Quillayute Valley): Enrichment 11.9%
- SCHOOL DISTRICT #402 (Quillayute Valley): BOND 17.8%
- STATE SCHOOL LEVY (Part 1): 17.6%
- STATE SCHOOL LEVY (Part 2): 9.5%
- CONSERVATION FUTURES: 0.2%
State Forestlands
Typical Recipients of Funding

- County Services
- School Districts
- County Roads
- Ports

- Library Districts
- Fire Districts
- Hospitals
- EMS
# State Forestlands Revenue from DNR

**State Forestlands Revenue = 95% from Timber**  
*(average from 2015-2019)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Timber Revenue</th>
<th>Non-Timber Revenue</th>
<th>Total Revenue</th>
<th>Timber Revenue % Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$87,259,350</td>
<td>$3,432,249</td>
<td>$90,691,599</td>
<td>96%</td>
</tr>
<tr>
<td>2016</td>
<td>$79,822,528</td>
<td>$3,314,629</td>
<td>$83,137,157</td>
<td>96%</td>
</tr>
<tr>
<td>2017</td>
<td>$80,480,572</td>
<td>$6,968,298</td>
<td>$87,448,870</td>
<td>92%</td>
</tr>
<tr>
<td>2018</td>
<td>$81,051,787</td>
<td>$2,982,762</td>
<td>$84,034,549</td>
<td>96%</td>
</tr>
<tr>
<td>2019</td>
<td>$94,133,991</td>
<td>$7,101,884</td>
<td>$101,235,875</td>
<td>93%</td>
</tr>
</tbody>
</table>

From DNR Annual Reports (based on Fiscal Year)
Management Rates
Agency Management Rates

A percentage of the revenue generated by the Department of Natural Resources is used to fund state lands operations, including direct and indirect costs.

- Federally Granted Trust Lands
- State Forestlands

RMCA

FDA

Management Accounts
Governance

Management rates are regulated by both the Legislature and the Board of Natural Resources

**Legislature**
Establishes the statutory limits for management rate percentages

**Board of Natural Resources**
Approves all changes to management rate percentages

**Current Limits**
RMCA 32%  |  FDA 27%*

*ESHB 1109-S.SL, Section 985 (1.a.i.) in 2019
FDA % refers to Transfer Trust lands

**Current Management Rates Percentages**
RMCA 31%  |  FDA 25%
Management Rate Percentages (2007-2021)

Notes: Management rate is referred to as the Operating Cost Percentage Deduction (OCPD) in the Deloitte Report. FDA refers to State Forest Transfer lands.
Examples of what management rates pay for:

- **Forestry**
  - Growing seedlings
  - Replanting forest stands
  - HCP Implementation (*streams, wetlands, unstable slopes*)
  - Research & monitoring
  - Pre-commercial thinning
  - Managing competing vegetation

- **Product Sales & Leasing**
  - Product sales
  - Acquiring and granting access to trust lands
  - State lands infrastructure
  - Administering agricultural, commercial, communication site, mining, and alternative energy site leases
  - Maintaining wells and water rights

- **Engineering**
  - Resource mapping
  - Road layout & design
  - Title & Records
  - Land surveys

- **Conservation Recreation Land Transactions**
  - Safety
  - Human resources
  - Information technology
  - Financial Management & Budget
  - Facilities Operations

- **Program Administration & Other**
  - Land appraisals
  - Conducting land transactions
  - Public use impacts
  - Recreation
  - Natural heritage
More Information?

- DNR Annual Reports
- County Quarterly Income Reports
- Timber Sale Information
- State Trust Lands Map

www.dnr.wa.gov/beneficiaries
Part 2 - Valuation Findings

• Budget Proviso

• Valuation:

  • Trust Land Performance Assessment – Trust Values and Returns
    Deloitte Transaction and Business Analytics

  • Non Market Environmental Benefits and Values
    Earth Economics

  • Charting a Course for the Future – Legislative Report
    Department of Natural Resources
The Commissioner's Priorities

Modernize state trust lands

Reform and enhance revenue programs with promise for immediate growth (e.g.):

• Renewable energy
• Commercial real estate

Optimize near- and long-term performance for current and future generations
DNR partnered with the Legislature 
*(Proviso: ESSB 6095, Section 7015 in 2018)*

Shared funding for a comprehensive assessment of trust lands to include:

1. Estimate fair market value of the land
2. Gross & net income by asset class
3. Value ecosystem services & recreation
4. Recommendations for improvement

**Asset Classes**

- Timber
- Agriculture
- Grazing
- Commercial Real Estate
- Mining
- Communication Sites
- Other Resources
  
  Includes wind energy, special forest products, rights-of-way, and special uses
Trust Land Acres in each Asset Class

- Timber: ~2.06 million acres
- Grazing: ~750,000 acres
- Other Resources: ~530,000 acres
- Agriculture: ~238,000 acres
- Mining: ~5,900 acres
- Commercial Real Estate: ~1,000 acres
- Communications: ~100 acres

Other Resources: Wind Energy, Special Uses, Special Forest Products, Rights-of-Way

Acres may overlap into more than one asset class.
State Forestlands Total Acres in each Asset Class

- Timber: ~588,900 acres
- Grazing: ~9,500 acres
- Other Resources: ~201,300 acres
- Agriculture: ~85 acres
- Mining: ~60 acres
- Commercial Real Estate: ~5 acres
- Communications: ~35 acres

*Other Resources: Special Uses, Special Forest Products, Rights-of-Way*

*Acres may overlap into more than one asset class*
Trust Land Performance Assessments

www.dnr.wa.gov/tlpa
Beneficiaries are the audience

Deloitte answers two key questions:

- How much is the land worth?
- What is the value of the revenue generated off the land?
**Deloitte Concept:**

**Fair Market Value vs. Trust Value**

**Fair Market Value**
- Proviso - land valuation
- Value-in-exchange method
- Reflects highest and best use of property

**Trust Value**
- Deloitte - land valuation
- Value-in-use method
- Reflects existing use of property *(may or may not be highest and best use)*
How are trust lands different from private lands?

The sale of trust lands is subject to limitations:
- Statutory
- Constitutional
- Enabling Act

Productivity and utilization of the lands subject to:
- Statutes
- Regulations
- Policies
- Management practices

Size of the asset portfolio
Deloitte Concept:
Trust Value

Trust Land Portfolio Valuation based on:

- Under the **ownership and control of the State of Washington**, acting as a **trustee on behalf of defined beneficiaries**

- **Use and control limitations**, such as:
  - Significant **limitations upon sale of the trust lands**, and
  - Statutes, regulations, policies and management practices which are different than otherwise similar, privately-owned lands

*~2.9 million acres*
Deloitte Concept:
Rate of Return vs. Cash Flow

Rate of return has *very little utility* for the trust lands portfolio because:

1. Revenue distribution requirements
2. Restrictions on the sale of lands
3. It is difficult to change the trust manager

Deloitte Recommendation:
Focus on *Cash Flow to the beneficiaries* as the preferred metric of performance rather than rate of return.
<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Gross Income</th>
<th>Net Operating Income</th>
<th>Net Operating Income/Trust Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timber</td>
<td>$171.7 million</td>
<td>$123.6 million</td>
<td>5.79%</td>
</tr>
<tr>
<td>Agricultural Resources</td>
<td>$23.5 million</td>
<td>$16.7 million</td>
<td>7.00%</td>
</tr>
<tr>
<td>Commercial Real Estate</td>
<td>$10.3 million</td>
<td>$7.2 million</td>
<td>7.53%</td>
</tr>
<tr>
<td>Communication Resources</td>
<td>$4.8 million</td>
<td>$3.4 million</td>
<td>8.16%</td>
</tr>
<tr>
<td>Other Resources</td>
<td>$3.2 million</td>
<td>$2.2 million</td>
<td>11.03%</td>
</tr>
<tr>
<td>Mining Resources</td>
<td>$1.9 million</td>
<td>$1.3 million</td>
<td>7.99%</td>
</tr>
<tr>
<td>Grazing Resources</td>
<td>$1 million</td>
<td>$0.7 million</td>
<td>7.00%</td>
</tr>
</tbody>
</table>

**Total**

$216.4 million

$155.1 million

$2,558.6 million

6.07%

---

**Figure 3**

<table>
<thead>
<tr>
<th>County</th>
<th>Allocated Value</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKAGIT</td>
<td>$159,646,000</td>
<td>16.76%</td>
</tr>
<tr>
<td>SNOHOMISH</td>
<td>$122,371,000</td>
<td>12.85%</td>
</tr>
<tr>
<td>CLALLAM</td>
<td>$95,632,000</td>
<td>10.04%</td>
</tr>
<tr>
<td>LEWIS</td>
<td>$93,835,000</td>
<td>9.85%</td>
</tr>
<tr>
<td>CLARK</td>
<td>$88,826,000</td>
<td>9.33%</td>
</tr>
<tr>
<td>MASON</td>
<td>$75,243,000</td>
<td>7.90%</td>
</tr>
<tr>
<td>THURSTON</td>
<td>$64,539,000</td>
<td>6.78%</td>
</tr>
<tr>
<td>WHATCOM</td>
<td>$46,157,000</td>
<td>4.85%</td>
</tr>
<tr>
<td>GRAYS HARBOR</td>
<td>$38,378,000</td>
<td>4.03%</td>
</tr>
<tr>
<td>COWLITZ</td>
<td>$32,421,000</td>
<td>3.40%</td>
</tr>
<tr>
<td>JEFFERSON</td>
<td>$24,140,000</td>
<td>2.53%</td>
</tr>
<tr>
<td>KING</td>
<td>$23,391,000</td>
<td>2.46%</td>
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<tr>
<td>WAHKAUKUM</td>
<td>$22,929,000</td>
<td>2.41%</td>
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<tr>
<td>PACIFIC</td>
<td>$22,668,000</td>
<td>2.38%</td>
</tr>
<tr>
<td>SKAMANIA</td>
<td>$20,866,000</td>
<td>2.19%</td>
</tr>
<tr>
<td>KITSAP</td>
<td>$11,751,000</td>
<td>1.23%</td>
</tr>
<tr>
<td>PIERCE</td>
<td>$7,045,000</td>
<td>0.74%</td>
</tr>
<tr>
<td>KLICKITAT</td>
<td>$2,579,000</td>
<td>0.27%</td>
</tr>
<tr>
<td>STEVENS</td>
<td>$5,000</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

**Total**

$952,422,000

100.00%
## Table 1. Revenue to Counties from State Forest Transfer and Purchase Lands (Calendar Years)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clallam</td>
<td>5,502,033</td>
<td>4,738,336</td>
<td>5,643,329</td>
<td>8,487,731</td>
<td>3,376,060</td>
<td>7,938,764</td>
<td>6,643,420</td>
<td>2,987,754</td>
<td>6,611,511</td>
<td>5,617,183</td>
</tr>
<tr>
<td>Clark</td>
<td>4,601,597</td>
<td>8,528,782</td>
<td>7,191,261</td>
<td>6,388,518</td>
<td>5,846,269</td>
<td>7,491,957</td>
<td>5,192,493</td>
<td>1,486,670</td>
<td>2,577,304</td>
<td>2,605,749</td>
</tr>
<tr>
<td>Cowlitz</td>
<td>1,534,691</td>
<td>1,557,816</td>
<td>1,590,498</td>
<td>1,067,106</td>
<td>4,035,043</td>
<td>1,358,909</td>
<td>1,358,770</td>
<td>1,417,994</td>
<td>68,780</td>
<td>1,706,749</td>
</tr>
<tr>
<td>Grays Harbor</td>
<td>1,991,750</td>
<td>2,168,671</td>
<td>1,075,212</td>
<td>875,087</td>
<td>1,245,311</td>
<td>2,383,170</td>
<td>1,881,541</td>
<td>1,151,469</td>
<td>1,068,663</td>
<td>2,503,031</td>
</tr>
<tr>
<td>Jefferson</td>
<td>3,082,453</td>
<td>740,481</td>
<td>661,568</td>
<td>1,085,477</td>
<td>2,906,981</td>
<td>1,603,428</td>
<td>1,085,544</td>
<td>2,573,648</td>
<td>1,632,243</td>
<td>3,495,847</td>
</tr>
<tr>
<td>King</td>
<td>2,074,997</td>
<td>1,112,153</td>
<td>741,392</td>
<td>2,816,268</td>
<td>952,755</td>
<td>2,397,750</td>
<td>906,021</td>
<td>1,245,122</td>
<td>4,708,952</td>
<td>1,613,241</td>
</tr>
<tr>
<td>Kitsap</td>
<td>55,958</td>
<td>877,589</td>
<td>743,958</td>
<td>293,314</td>
<td>851,597</td>
<td>824,969</td>
<td>1,130,540</td>
<td>556,973</td>
<td>1,586,788</td>
<td>444,968</td>
</tr>
<tr>
<td>Klickitat</td>
<td>209,403</td>
<td>599,355</td>
<td>289,623</td>
<td>215,737</td>
<td>352,380</td>
<td>26,797</td>
<td>25,551</td>
<td>10,947</td>
<td>518</td>
<td>(891)</td>
</tr>
<tr>
<td>Lewis</td>
<td>11,076,482</td>
<td>3,439,911</td>
<td>4,280,541</td>
<td>8,677,045</td>
<td>4,053,711</td>
<td>5,416,025</td>
<td>5,411,157</td>
<td>7,666,065</td>
<td>12,440,060</td>
<td>12,926,965</td>
</tr>
<tr>
<td>Mason</td>
<td>2,616,802</td>
<td>2,024,430</td>
<td>1,337,166</td>
<td>3,067,093</td>
<td>8,005,336</td>
<td>3,621,660</td>
<td>2,810,189</td>
<td>6,970,807</td>
<td>4,512,364</td>
<td>2,476,195</td>
</tr>
<tr>
<td>Pacific</td>
<td>2,547,153</td>
<td>441,369</td>
<td>3,446,724</td>
<td>1,267,286</td>
<td>1,227,526</td>
<td>2,653,344</td>
<td>1,387,737</td>
<td>3,505,380</td>
<td>4,651,968</td>
<td>1,511,182</td>
</tr>
<tr>
<td>Pierce</td>
<td>214,159</td>
<td>178,426</td>
<td>121,558</td>
<td>222,815</td>
<td>32,691</td>
<td>35,489</td>
<td>437,463</td>
<td>1,307,281</td>
<td>767,430</td>
<td>0</td>
</tr>
<tr>
<td>Skagit</td>
<td>11,679,594</td>
<td>9,039,422</td>
<td>5,976,604</td>
<td>7,452,783</td>
<td>7,425,535</td>
<td>8,592,232</td>
<td>14,533,379</td>
<td>15,534,103</td>
<td>11,953,901</td>
<td>8,682,680</td>
</tr>
<tr>
<td>Skamania</td>
<td>747,982</td>
<td>926,532</td>
<td>1,367,876</td>
<td>2,415,852</td>
<td>1,234,445</td>
<td>2,131,536</td>
<td>1,566,271</td>
<td>2,930,483</td>
<td>4,148,517</td>
<td>1,215,912</td>
</tr>
<tr>
<td>Snohomish</td>
<td>13,861,341</td>
<td>5,682,380</td>
<td>11,786,056</td>
<td>9,251,851</td>
<td>7,256,233</td>
<td>5,652,325</td>
<td>7,678,567</td>
<td>6,178,109</td>
<td>7,627,248</td>
<td>8,056,729</td>
</tr>
<tr>
<td>Stevens</td>
<td>59,973</td>
<td>64,654</td>
<td>69,322</td>
<td>70,725</td>
<td>63,533</td>
<td>94,918</td>
<td>90,768</td>
<td>110,709</td>
<td>96,010</td>
<td>103,852</td>
</tr>
<tr>
<td>Thurston</td>
<td>4,200,388</td>
<td>1,660,728</td>
<td>5,017,407</td>
<td>2,999,025</td>
<td>4,368,240</td>
<td>8,747,144</td>
<td>2,947,101</td>
<td>3,065,897</td>
<td>5,787,365</td>
<td>9,220,953</td>
</tr>
<tr>
<td>Whatcom</td>
<td>1,400,872</td>
<td>1,956,441</td>
<td>1,742,003</td>
<td>1,631,697</td>
<td>802,706</td>
<td>2,026,441</td>
<td>1,443,199</td>
<td>3,146,937</td>
<td>2,583,841</td>
<td>1,374,372</td>
</tr>
</tbody>
</table>

**Totals:** $73,579,929 $71,520,698 $50,219,757 $56,853,794 $60,466,140 $58,048,870 $63,113,359 $57,910,371 $77,364,557 $67,327,541

**Note:** Revenue is received daily by the Department of Natural Resources for activities on State Forest lands and deposited daily at the Office of State Treasurer. Effective February 1998 these monies are remitted to each county via wire transfer a minimum of four times per month. Due to the specific date monies are received by the Department and the cutoff dates used by the State Treasurer for wire transfers, the revenue for the current period may be different than actual remittances to date.

**SOURCE:** Table 1, County Quarterly Income Report (https://www.dnr.wa.gov/about/fiscal-reports/county-quarterly-income-reports)
Deloitte Transactions and Business Analytics hired Earth Economics to fulfill a portion of the 2018 proviso direction.

“Estimates the value of ecosystem services and recreational benefits for asset classes that produce these benefits.”
Non-Market Benefits Valuation Findings

### Annual Ecosystem Services Value and Social Cost of Carbon

*a* Averaged by Land Cover and Asset Class *(2018)*

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Asset Acres</th>
<th><strong>Annual Ecosystem Services Value</strong></th>
<th>Social Cost of Carbon <em>(One-Time Cost)</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>Forested</td>
<td>2,170,070</td>
<td>$1,231.64 million</td>
<td>$16.56 billion</td>
</tr>
<tr>
<td>Cultivated</td>
<td>301,807</td>
<td>$84.55 million</td>
<td>$0.74 billion</td>
</tr>
<tr>
<td>Grazing</td>
<td>366,240</td>
<td>$46.20 million</td>
<td>$1.00 billion</td>
</tr>
<tr>
<td>Other</td>
<td>124,969</td>
<td>$37.68 million</td>
<td>$0.44 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,963,086</td>
<td><strong>$1,400.07 million</strong></td>
<td><strong>$18.74 billion</strong></td>
</tr>
</tbody>
</table>

**Economic Value of Outdoor Recreation on State Trust Lands *(2018)***

<table>
<thead>
<tr>
<th>Activities</th>
<th><strong>Annual Value</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>All Recreational Activities</td>
<td><strong>$990 million</strong></td>
</tr>
</tbody>
</table>
DNR Analysis

Options to:

• Improve rates of return
• Increase revenue reliability & possible enhancement
• Present and explain factors that either:

Define

Constrict

Define & Constrict

the department's management practices and revenue production

Factors considered include:
Statutory
Constitutional
Operational
Social

Draft - Subject to Change. March 2021
DNR Analysis

Differences in Net Revenue Between 1995 and 2018

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Timber</td>
<td>$139.83 million</td>
<td>$224.34 million</td>
<td>$123.62 million</td>
<td>-45%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>$3.9 million</td>
<td>$6.3 million</td>
<td>$16.68 million</td>
<td>166%</td>
</tr>
<tr>
<td>Commercial Real Estate</td>
<td>$2.3 million</td>
<td>$3.6 million</td>
<td>$7.2 million</td>
<td>99%</td>
</tr>
<tr>
<td>Grazing</td>
<td>$386 thousand</td>
<td>$619 thousand</td>
<td>$735 thousand</td>
<td>19%</td>
</tr>
<tr>
<td>Communication Resources</td>
<td>$1.1 million</td>
<td>$1.8 million</td>
<td>$3.4 million</td>
<td>90%</td>
</tr>
<tr>
<td>Mining</td>
<td>$1.1 million</td>
<td>$1.7 million</td>
<td>$1.3 million</td>
<td>-23%</td>
</tr>
<tr>
<td>Other Resources</td>
<td>n/a</td>
<td>n/a</td>
<td>$2.2 million</td>
<td>n/a</td>
</tr>
<tr>
<td>TOTALS</td>
<td>$148.56 million</td>
<td>$238.36 million</td>
<td>$155.18 million</td>
<td>-35%</td>
</tr>
</tbody>
</table>
DNR Analysis - Timber Revenue

Stumpage prices for state trust lands

1. Decline in stumpage price
2. Decline in operating base
Total Net Revenue Generated from State Trust Lands FY 1995-2018

Challenge: Revenue reliability
Part 3 - Initial Ideas for Moving Forward

- Project Scope
- Opportunities
- Initial Ideas
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
Scope

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
Developing Solutions

Optimize policies, statutes, and practices

Maintain working forests and agricultural lands

Improve the components of the state forestlands portfolio

Develop new tools or revitalize existing portfolio management tools

More information = DNR’s Legislative Report @ www.dnr.wa.gov/tlpa
Opportunities

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

<table>
<thead>
<tr>
<th>Idea</th>
<th>Summary</th>
<th>For more information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Improve financial systems to incorporate for-profit-enterprise practices</td>
<td>• Deloitte General Items: 1-4</td>
</tr>
<tr>
<td>2</td>
<td>Reliability Fund</td>
<td>• Deloitte General Item: 10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• DNR Leg Report, page 37</td>
</tr>
<tr>
<td>3</td>
<td>Smooth revenue distribution through loans</td>
<td>• Deloitte General Item: 14</td>
</tr>
<tr>
<td></td>
<td>Legislature could develop a program to borrow money to distribute to beneficiaries evenly over a period of time to reduce cash flow volatility</td>
<td>• DNR Leg Report, page 38</td>
</tr>
</tbody>
</table>
## Improve Business Model and Systems

<table>
<thead>
<tr>
<th>Idea</th>
<th>Summary</th>
<th>For more information</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Fund studies to compare DNR’s approach to the Endangered Species Act compliance with others</td>
<td>• Deloitte Asset Class: Timber - T5</td>
</tr>
<tr>
<td>5</td>
<td>Compare services DNR provides to those of an external manager</td>
<td>• Deloitte Asset Class: Timber - T6</td>
</tr>
<tr>
<td>6</td>
<td>Pursue ways to monetize Ecosystem Services for Timber Asset Class</td>
<td>• DNR Leg Report, page 39</td>
</tr>
</tbody>
</table>
# Increase Access to Capital

<table>
<thead>
<tr>
<th>Idea</th>
<th>Summary</th>
<th>For more information</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td><strong>Borrowing authority</strong></td>
<td>• DNR Leg Report, page 37</td>
</tr>
</tbody>
</table>
| 8    | **Capital expenditure funding options examples**  
Increase investments in working forests to increase timber value and volume | • Deloitte General Item 8 |
| 9    | **Change trust land management and investments funding**  
Legislature could reimburse DNR with actual management costs and liabilities instead of percentage set across all asset classes for each trust group | • Deloitte General Item 5  
• DNR Leg Report, page 37 |
### Greater Ability to Transact Lands

<table>
<thead>
<tr>
<th>Idea</th>
<th>Summary</th>
<th>For more information</th>
</tr>
</thead>
</table>
| 10   | **Statutory, Constitutional, or Enabling Act Improvements** | • Deloitte General Item 11  
• DNR Leg Report, page 38 |
<table>
<thead>
<tr>
<th>Idea</th>
<th>Summary</th>
<th>For more information</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Funding sources for non-trust expenses</td>
<td>• Deloitte General Item 12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• DNR Leg Report, page 38</td>
</tr>
<tr>
<td>12</td>
<td>Trust Land Transfer</td>
<td>• DNR Leg Report, page 38</td>
</tr>
<tr>
<td>13</td>
<td>Trust Land Replacement Program</td>
<td>• DNR Leg Report, page 38</td>
</tr>
<tr>
<td>Idea</td>
<td>Summary</td>
<td>Who?</td>
</tr>
<tr>
<td>------</td>
<td>--------------------------------------------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>1</td>
<td>Improve financial systems to incorporate for-profit-enterprise practices</td>
<td>Deloitte</td>
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<tr>
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<td>Reliability Fund</td>
<td>Deloitte</td>
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<tr>
<td>3</td>
<td>Smooth Revenue Distribution through Loans</td>
<td>Deloitte</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>
</tr>
<tr>
<td>5</td>
<td>Compare services DNR provides to those of an external manager</td>
<td>Deloitte</td>
</tr>
<tr>
<td>6</td>
<td>Pursue ways to monetize Ecosystem Services</td>
<td>DNR</td>
</tr>
<tr>
<td>7</td>
<td>Borrowing authority</td>
<td>DNR</td>
</tr>
<tr>
<td>8</td>
<td>Capital expenditure funding options examples</td>
<td>Deloitte</td>
</tr>
<tr>
<td>9</td>
<td>Change trust land management and investments funding</td>
<td>Deloitte</td>
</tr>
<tr>
<td>10</td>
<td>Statutory, Constitutional, or Enabling Act improvements</td>
<td>Deloitte</td>
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<tr>
<td>12</td>
<td>Trust Land Transfer</td>
<td>DNR</td>
</tr>
<tr>
<td>13</td>
<td>Trust Land Replacement Program</td>
<td>DNR</td>
</tr>
</tbody>
</table>
DNR Would Like Your Feedback

• Ideas proposed in all assessment reports
• New ideas
• Opportunities you see
• Concerns
• Gaps
• Recommendations on subject matter experts for advisory committee, with expertise in:
  • revenue generation
  • asset management
  • revenue distribution
What is DNR already doing?

• Improving the timber sale process  
  *SB5201*

  • Extending the duration of commercial real estate leases  
  *HB1430*

  • Replacing the contracts and revenue system (NatureE) for compatibility with One Washington  
  *Operating budget proposal*

  • Creating silviculture jobs  
  *Capital budget proposal*

• Improving the tracking of financial information - chart of accounts
Next Steps

Gather input from Beneficiaries and Stakeholders

Technical review to develop ideas

Public comment

Legislative Session 2022

Write Proposals

Board Review

Additional ideas and proposals

Repeat process - Legislative Session 2023
Find out more by visiting dnr.wa.gov/tlpa

**Trust Lands Performance Assessment**
Charting a Course for the Future (DNR)
Trust Land Values and Returns (Deloitte)
Non-Market Environmental Benefits and Values (Earth Economics)