



State of the State Lands Report Part 1

for Fiscal Years 2022 and 2023



A Presentation to the Board of Natural Resources
February 6, 2024

Michael Kearney and Todd Welker

Agenda

- Overview of State Uplands
- Business assets
- Financial statements



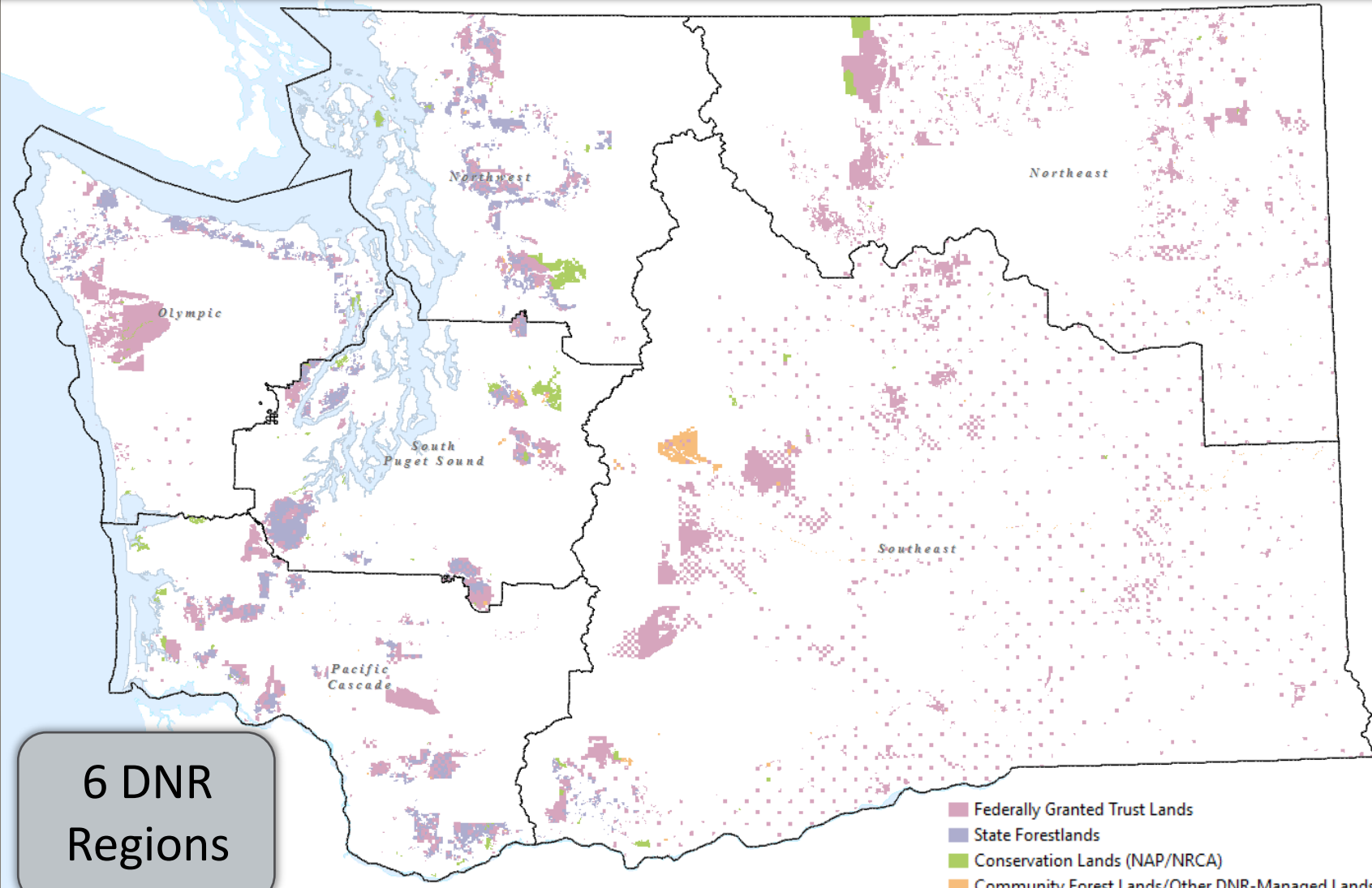
State Uplands

Product Sales & Leasing
Division

Forest Resources
Division

Engineering Division

Recreation and
Conservation Division



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



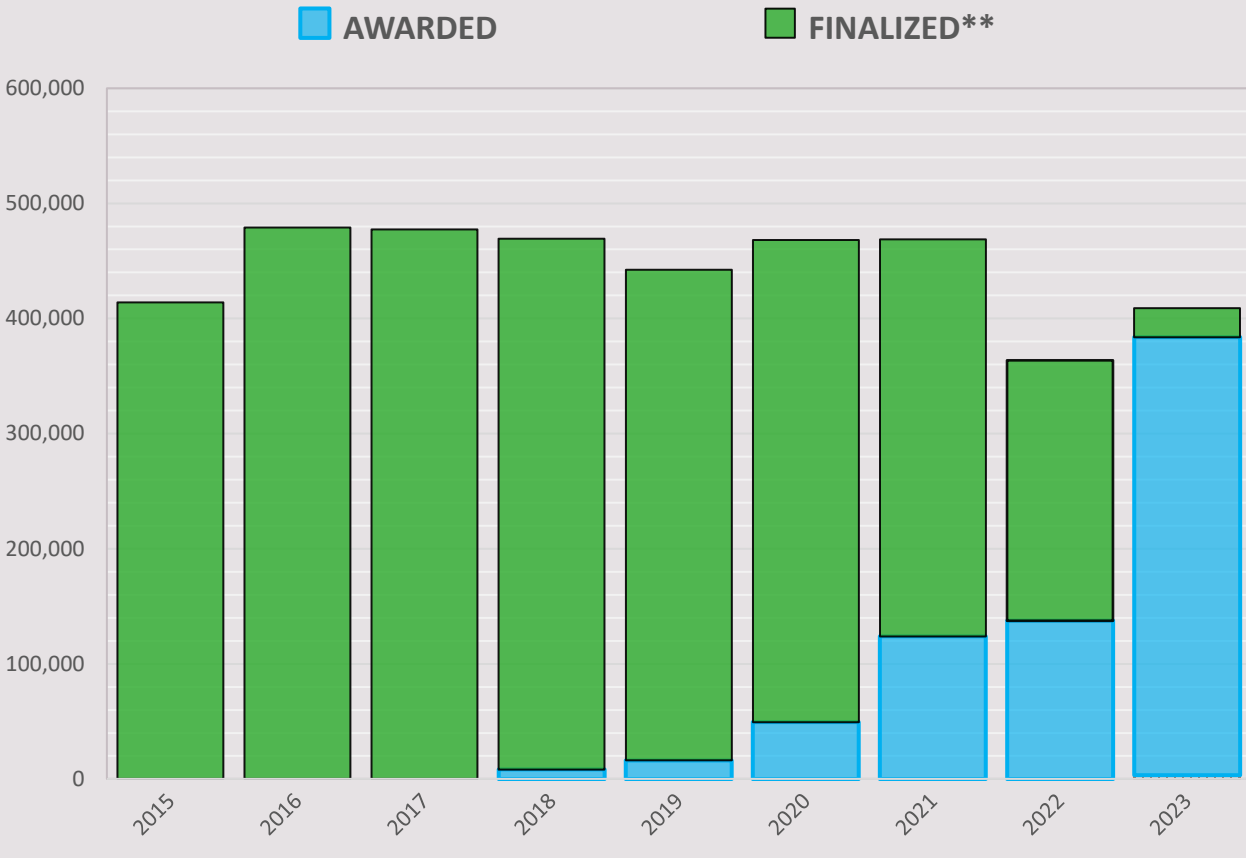
Business Assets

Fiscal Years 2022 & 2023

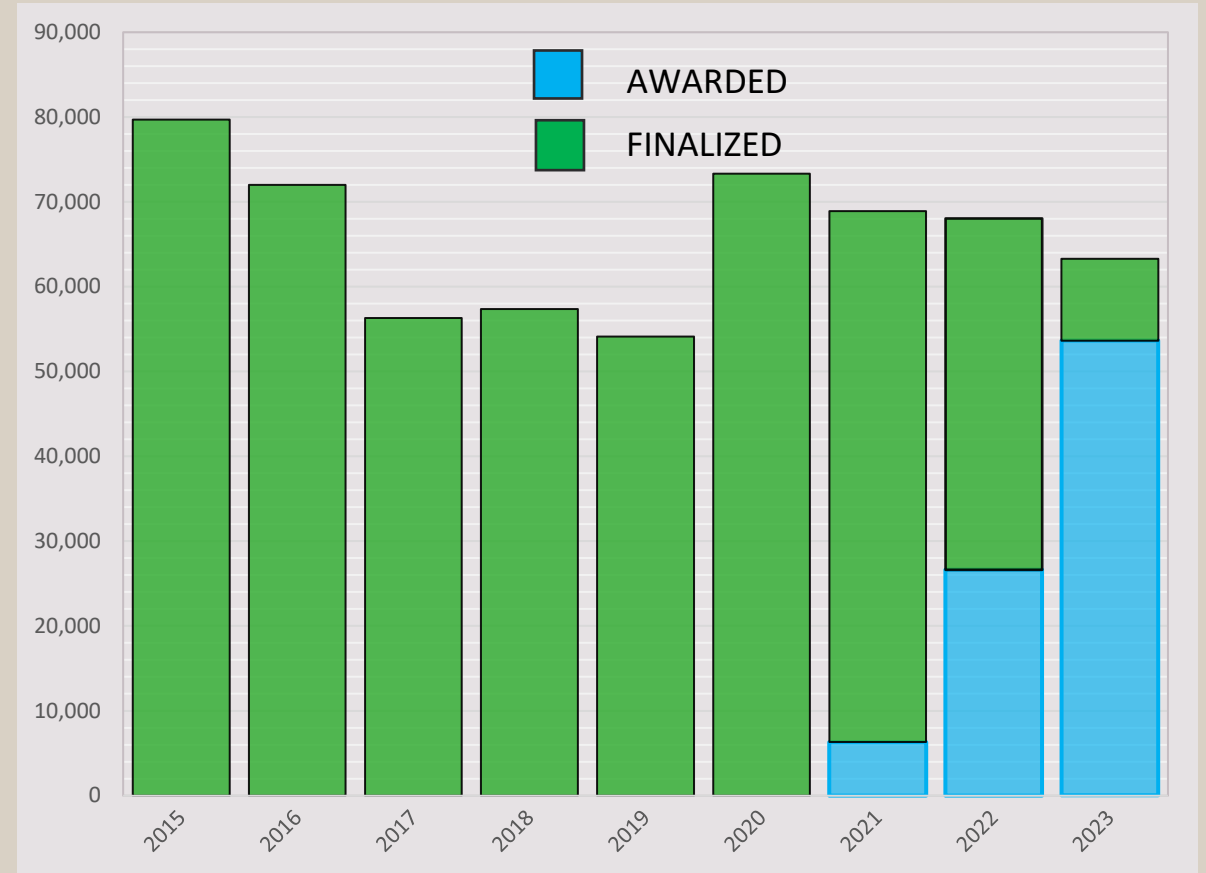


- Forestry
- Agricultural Leasing
- Grazing
- Commercial Leasing
- Communication Sites
- Alternative Energy
- Mining/Minerals
- Special Use Leases/Special Forest Products

Timber Sales Volume

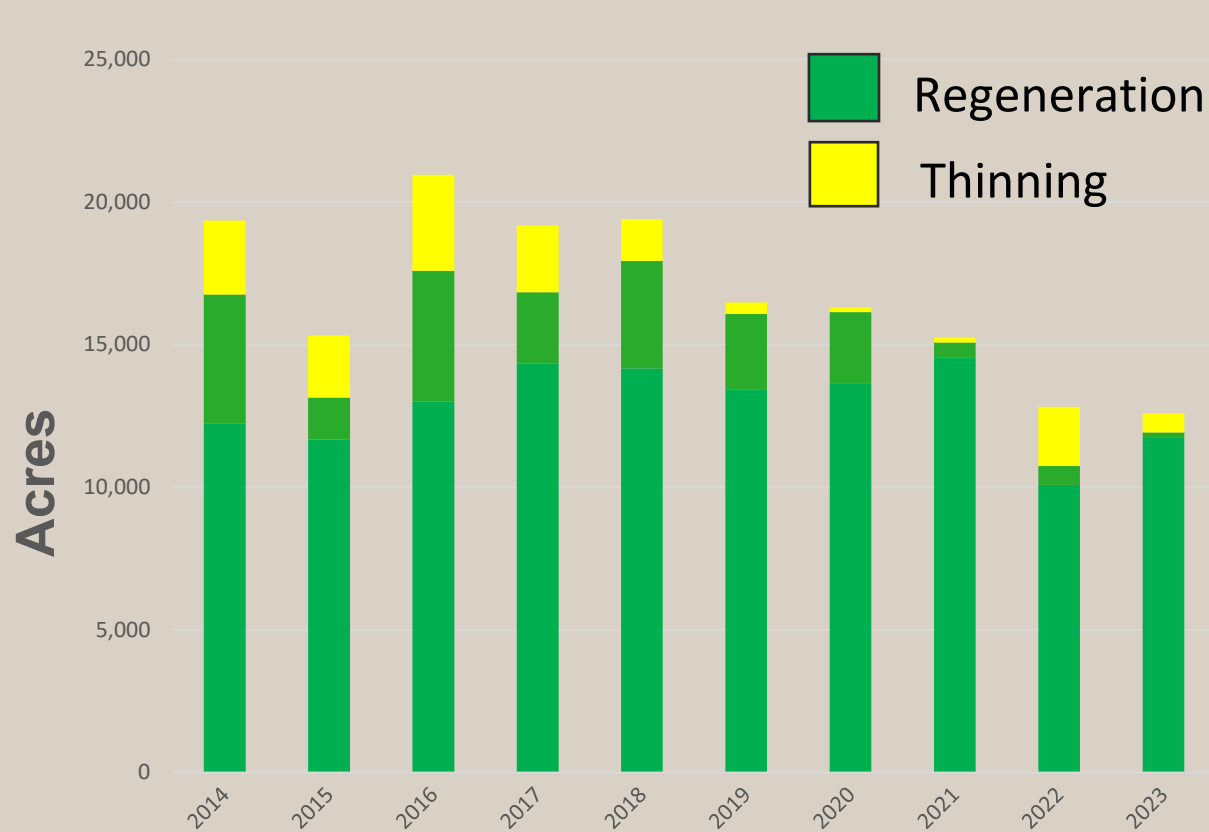


Westside MBF

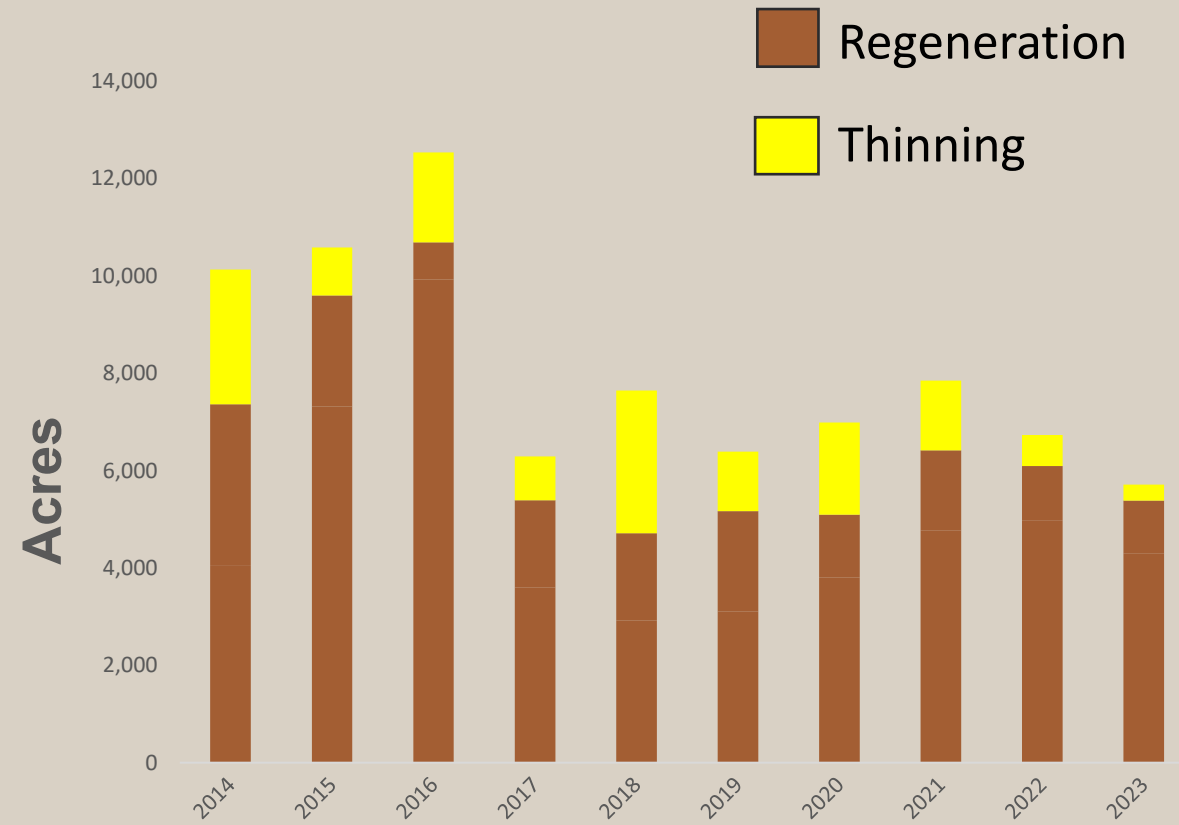


Eastside MBF

Commercial Acres Treated



Western Washington



Eastern Washington



Sustainable Harvest Level for the 2015-2024 Planning Decade

*Awarded and Finalized through FY23

Sustainable Harvest Unit	MBF*	Target MBF	Planned for FY24	Delta	Percentage of goal
Capitol Forest	460,411	529,249	62,150	-6,688	99%
Clallam	151,208	209,659	44,337	-14,114	93%
Clark	78,089	47,879	365	30,575	164%
Cowlitz	25,418	23,321	0	2,097	109%
Federally Granted Trusts and State Forest Purchase	1,656,336	1,876,138	220,160	358	100%
Grays Harbor	4,361	4,679	808	490	110%
Jefferson	49,446	65,220	5,434	-10,340	84%
King	57,666	79,981	1,974	-20,341	75%
Kitsap	16,982	11,935	12	5,059	142%
Lewis	187,777	191,136	15,662	12,303	106%
Mason	87,761	95,046	7,949	664	101%
OESF (Olympic State Forest)	571,706	738,686	55,233	-111,747	85%
Pacific	46,171	40,812	2,543	7,902	119%
Pierce	23,784	28,823	0	-5,039	83%
Skagit	246,922	258,680	7,424	-4,334	98%
Skamania	75,646	100,777	11,469	-13,662	86%
Snohomish	188,680	202,653	16,112	2,139	101%
Thurston	30,226	23,349	0	6,877	129%
Wahkiakum	43,155	58,996	4,537	-11,304	81%
Whatcom	64,639	66,666	1,851	-176	100%
Total MBF	4,066,383	4,653,685	458,020	-197,745	Sum of shortfalls is 4.2%
				-129,282	Overall total MBF

FY22 Profit and Loss

FY22	Forestry split out			Agriculture	Commercial Leases	Communication Sites	Other Leasing	Property Portfolio	Misc.	Grand Total
	Forestry	Mgmt Forestry	Forest Health							
Expenditure										
Operational	\$ (39,597,153)	\$ (31,570,625)	\$ (8,026,529)	\$ (2,395,380)	\$ (317,990)	\$ (863,250)	\$ (916,503)	\$ (4,206,471)		\$ (48,296,747)
Agency Indirect	\$ (13,953,990)	\$ (11,564,896)	\$ (2,389,094)	\$ (963,844)	\$ (106,989)	\$ (282,456)	\$ (380,163)	\$ (1,171,562)		\$ (16,859,004)
<i>Total</i>	<i>\$ (53,551,144)</i>	<i>\$ (43,135,521)</i>	<i>\$ (10,415,623)</i>	<i>\$ (3,359,224)</i>	<i>\$ (424,979)</i>	<i>\$ (1,145,706)</i>	<i>\$ (1,296,666)</i>	<i>\$ (5,378,033)</i>		<i>\$ (65,155,751)</i>
Gross Revenue										
	\$ 178,854,177	\$ 164,463,752	\$ 14,390,425	\$ 23,065,159	\$ 11,212,140	\$ 5,875,606	\$ 5,851,603	\$ 4,638,844	\$ 902,420	\$ 230,399,949
Gross Profit/Loss										
	\$ 125,303,033	\$ 121,328,231	\$ 3,974,802	\$ 19,705,935	\$ 10,787,162	\$ 4,729,900	\$ 4,554,937	\$ (739,189)	\$ 902,420	\$ 165,244,198
Distribution										
	\$ 113,185,501	\$ 113,185,501	\$ -	\$ 15,993,726	\$ 7,732,601	\$ 4,029,409	\$ 4,160,996	\$ 3,268,020	\$ 674,470	\$ 149,044,723
Funds Revenue										
	\$ 63,673,629	\$ 51,278,251	\$ 12,395,378	\$ 7,071,432	\$ 3,479,539	\$ 1,846,196	\$ 1,690,607	\$ 1,370,825	\$ 227,950	\$ 79,360,179
Funds Profit/Loss										
	\$ 12,117,532	\$ 8,142,730	\$ 3,974,802	\$ 3,712,209	\$ 3,054,561	\$ 700,491	\$ 393,941	\$ (4,007,209)	\$ 227,950	\$ 16,199,475
% of gross revenue	75.83%	73.42%	2.41%	11.93%	6.53%	2.86%	2.76%	-0.45%	0.55%	100.00%
% of fund revenue	80.23%	64.61%	15.62%	8.91%	4.38%	2.33%	2.13%	1.73%	0.29%	100.00%



FY23 Profit and Loss

FY23	Forestry split out			Agriculture	Commercial Leases	Communication Sites	Other Leasing	Property Portfolio	Misc.	Grand Total
	Forestry	Mgmt Forestry	Forest Health							
Expenditure										
Operational	\$ (47,471,681)	\$ (35,470,060)	\$ (12,001,621)	\$ (3,185,049)	\$ (452,623.56)	\$ (848,152)	\$ (1,465,942)	\$ (4,214,423)		\$ (57,637,871)
Agency Indirect	\$ (15,626,733)	\$ (12,875,331)	\$ (2,751,402)	\$ (1,112,954)	\$ (154,613)	\$ (327,898)	\$ (380,118)	\$ (1,145,420)		\$ (18,747,737)
Total	\$ (63,098,414)	\$ (48,345,391)	\$ (14,753,024)	\$ (4,298,004)	\$ (607,237)	\$ (1,176,050)	\$ (1,846,059)	\$ (5,359,844)		\$ (76,385,608)
Gross Revenue										
	\$ 200,375,474	\$ 171,538,940	\$ 28,836,534	\$ 25,669,319	\$ 11,060,672	\$ 5,989,273	\$ 5,926,872	\$ 563,854	\$ 660,733	\$ 250,246,197
Gross Profit/Loss										
	\$ 137,277,060	\$ 123,193,550	\$ 14,083,510	\$ 21,371,316	\$ 10,453,436	\$ 4,813,223	\$ 4,080,812	\$ (4,795,990)	\$ 660,733	\$ 173,860,590
Distribution										
	\$133,370,707.80	\$ 118,731,728	\$ 14,638,980	\$ 17,797,415	\$ 7,626,042	\$ 4,119,668	\$ 4,187,388	\$ 216,346	\$ 463,555	\$ 167,781,122
Funds Revenue										
	\$ 62,081,607	\$ 52,807,212	\$ 9,274,395	\$ 7,871,904	\$ 3,434,630	\$ 1,869,605	\$ 1,739,484	\$ 347,508	\$ 197,178	\$ 77,541,917
Funds Profit/Loss										
	\$ 3,906,352	\$ 4,461,822	\$ (555,470)	\$ 3,573,901	\$ 2,827,394	\$ 693,555	\$ (106,575)	\$ (5,012,335)	\$ 197,178	\$ 6,079,468
% of gross revenue	78.96%	70.86%	8.10%	12.29%	6.01%	2.77%	2.35%	-2.76%	0.38%	100.00%
% of fund revenue	80.06%	68.10%	11.96%	10.15%	4.43%	2.41%	2.24%	0.45%	0.25%	100.00%

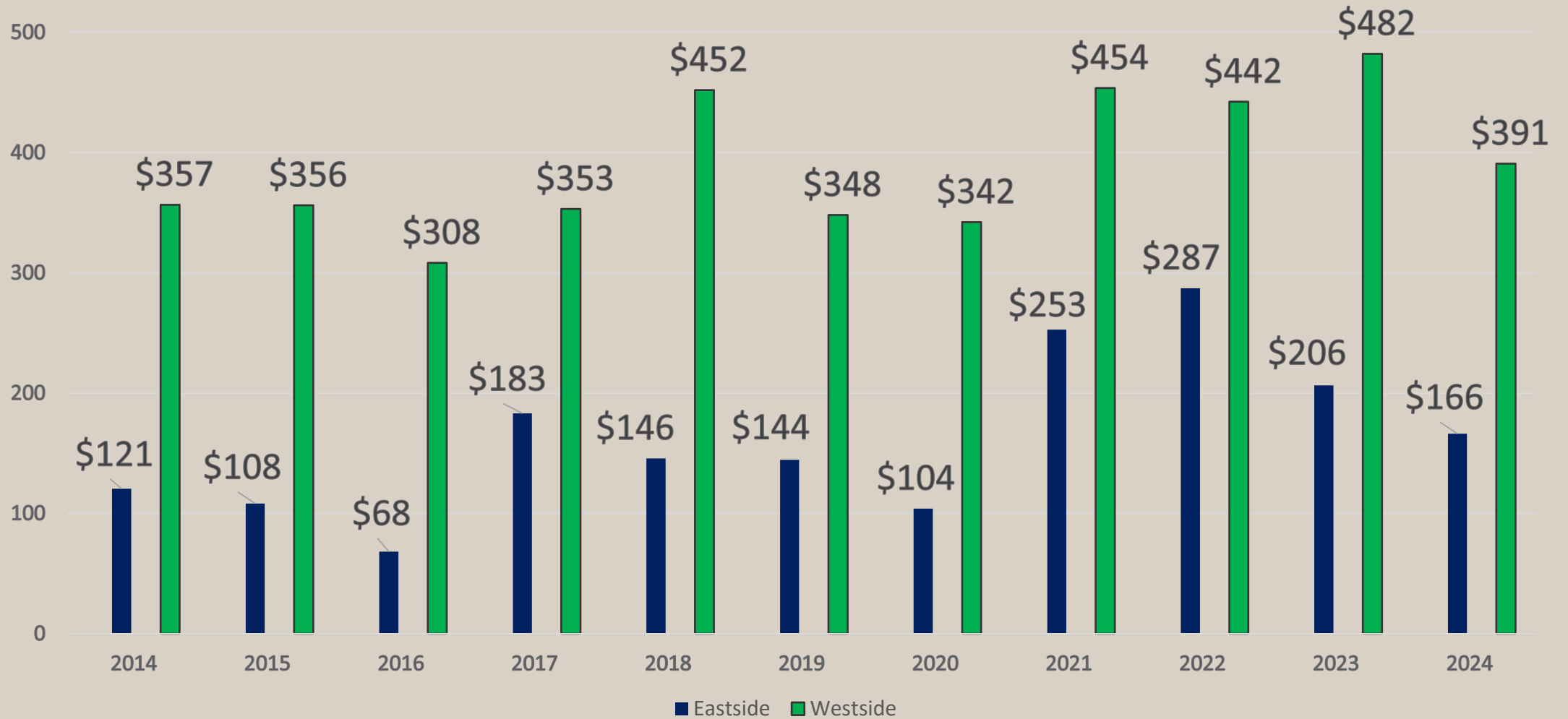
Revenue from Timber Sales



The Forest Health Revolving Account was established in 2018 and has been used for forest health work in Eastern Washington.



Average Stumpage



FY22 Forestry Detail

		Forestry split out	
FY22	Forestry	Management Funds Forestry	Forest Health Account
Expenditures			
Operational	\$ (39,597,153)	\$ (31,570,625)	\$ (8,026,529)
Agency Indirect	\$ (13,953,990)	\$ (11,564,896)	\$ (2,389,094)
<i>Total</i>	\$ (53,551,144)	\$ (43,135,521)	\$ (10,415,623)
Gross Revenue	\$ 178,854,177	\$ 164,463,752	\$ 14,390,425
Gross Profit/Loss	\$ 125,303,033	\$ 121,328,231	\$ 3,974,802
Distribution to beneficiaries	\$ 113,185,501	\$ 113,185,501	\$ -
Funds Revenue	\$ 63,673,629	\$ 51,278,251	\$ 12,395,378
Funds Profit/Loss	\$ 12,117,532	\$ 8,142,730	\$ 3,974,802
% of gross revenue	75.83%	73.42%	2.41%
% of fund revenue	80.23%	64.61%	15.62%



FY23 Forestry Detail

		Forestry split out	
FY23	Forestry	Management Funds Forestry	Forest Health Account
Expenditure			
Operational	\$ (47,471,681)	\$ (35,470,060)	\$ (12,001,621)
Agency Indirect	\$ (15,626,733)	\$ (12,875,331)	\$ (2,751,402)
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Gross Revenue	\$ 200,375,474	\$ 171,538,940	\$ 28,836,534
Gross Profit/Loss	\$ 137,277,060	\$ 123,193,550	\$ 14,083,510
Distribution	\$ 133,370,707.80	\$ 118,731,728	\$ 14,638,980
Funds Revenue	\$ 62,081,607	\$ 52,807,212	\$ 9,274,395
Funds Profit/Loss	\$ 3,906,352	\$ 4,461,822	\$ (555,470)
% of gross revenue	78.96%	70.86%	8.10%
% of fund revenue	80.06%	68.10%	11.96%



Agricultural Leasing

<i>Lease Type</i>	<i>Example crops</i>		<i>Acres</i>	<i>Number of Leases</i>	<i>Gross Revenue</i> <i>(rounded)</i>
Orchards & Vineyards	Grapes, apples, cherries	FY22	19,835	75	\$8,230,320
		FY23	18,195	97	\$9,448,430
Irrigated Agriculture	Onions, potatoes, corn, alfalfa	FY22	33,751	120	\$8,907,120
		FY23	36,290	143	\$9,289,710
Dryland Agriculture	Wheat, lentils, barley	FY22	134,430	705	\$8,230,320
		FY23	134,824	714	\$5,943,722



FY22 Total Revenue \$25.4 million

FY23 Total Revenue \$24.7 million



Grazing Program Gross Revenue



Leases:
Exclusive use of a specific area
712 leases over 465,000 acres



Permits:
Non-exclusive use over a broad geographic area in locations of intermingled land ownership
42 permits over 318,000 acres

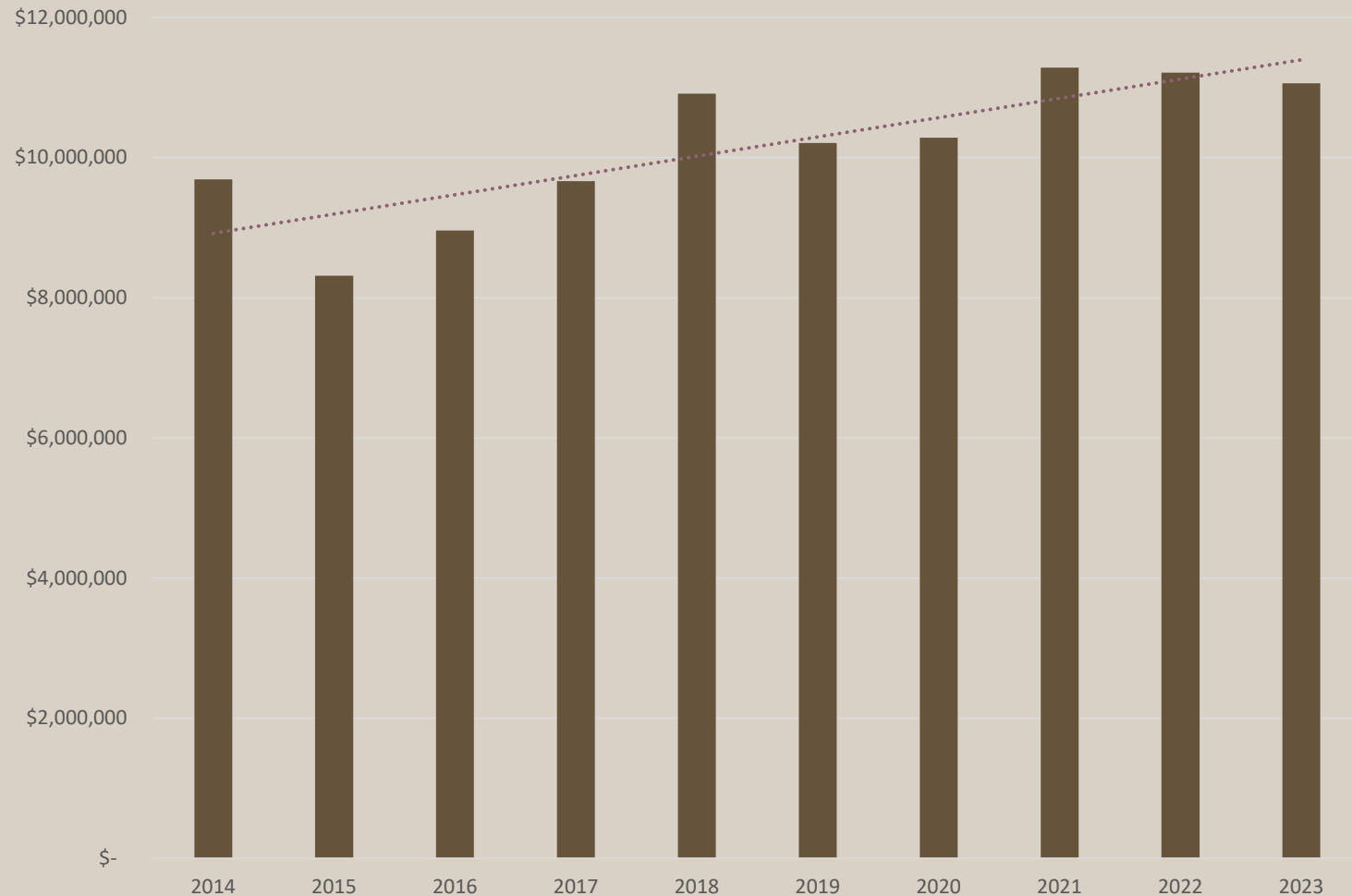
Commercial Real Estate

Improved Property Leases
(DNR owns the land and structures)

Ground Leases
(DNR owns the land;
Lessee owns the structures)

FY 2022:
41 leases at \$11.2 million
12 Improved property leases
29 ground leases

FY 2023:
38 leases at \$11 million
9 Improved property leases
29 ground leases



Commercial Real Estate

Updates

- Clean Buildings Act Compliance
- Currently, there are four active commercial ground leasing applications.

Challenges

- Vacancy building space is 10% of portfolio
- Economic contraction in the real estate market

Opportunities

- Increased interest in ground lease negotiations and transactions.
- Interest in multiple properties for multi-family development.
- Increased commercial transactional opportunities for DNR due to higher loan interest rates affecting private sector refinancing.



Mining & Minerals

Surface Contracts

Public or private companies who extract rock resources.

FY22 18 contracts

FY23 14 contracts



Revenue approximately
\$2 million annually

Subsurface Leases

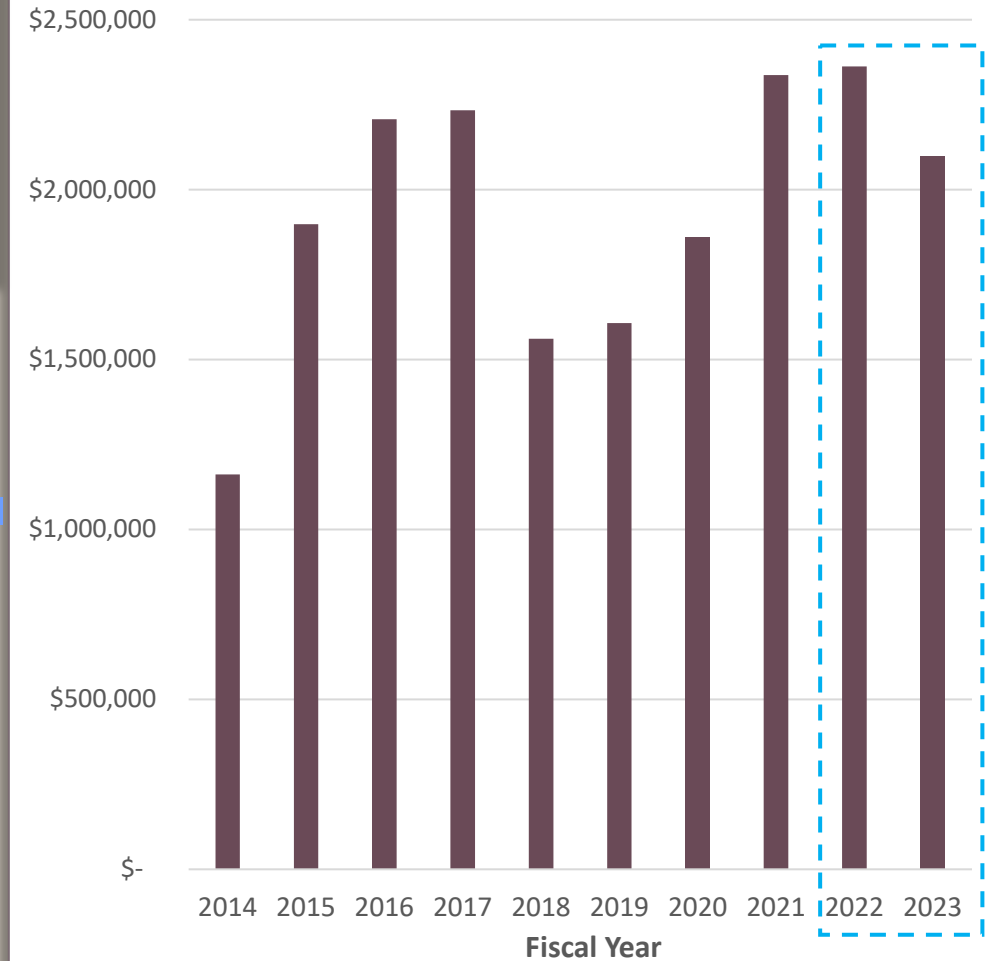
Mineral prospecting

FY22 18 leases at \$13,962.00

FY23 16 leases \$10,143.00

Several mining companies hold contracts for mineral prospecting.

Gross Revenue



Communication Sites

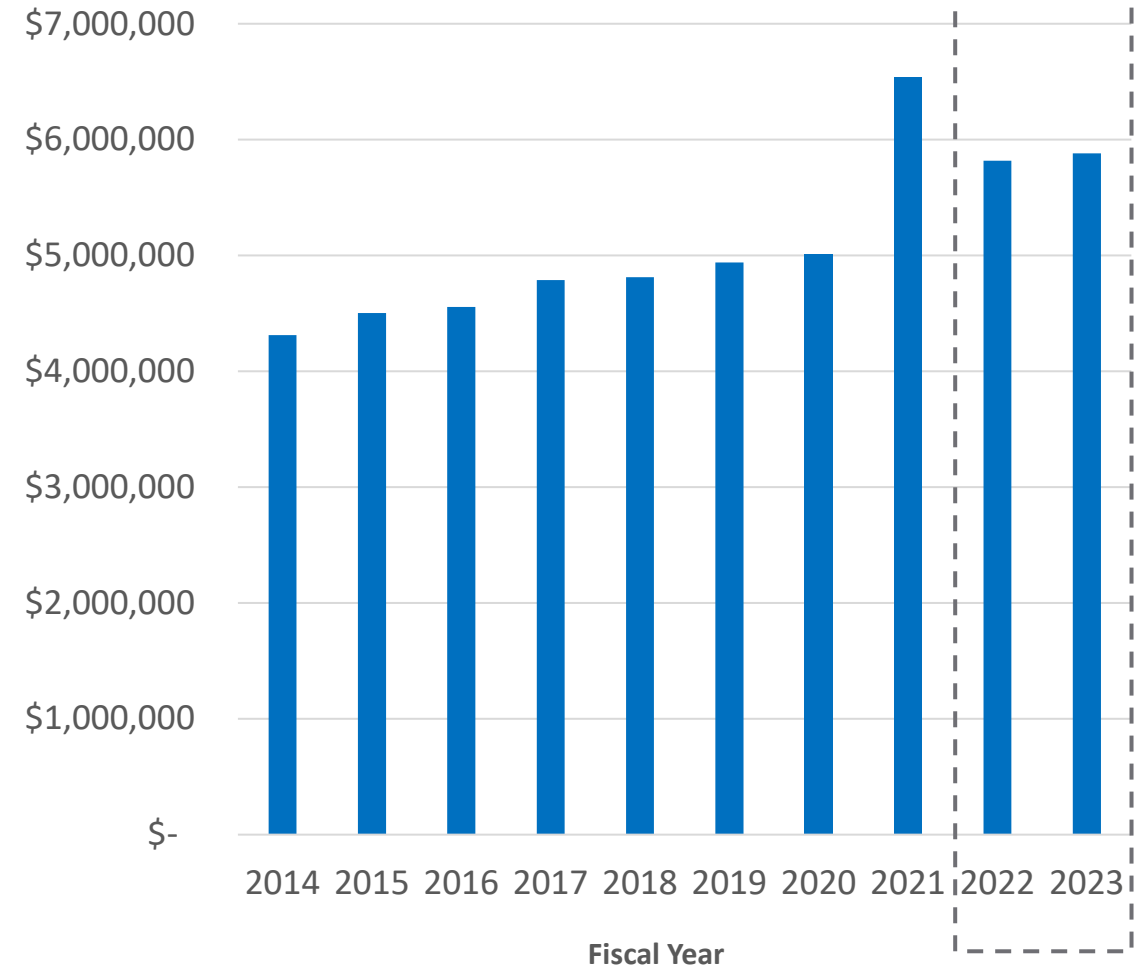
FY 22 and FY23

22 sites: Wireless Telecommunication leases with tenants in agency-owned facilities

79 sites: Land only lease, Tenant-owned structures



Gross Revenue



Alternative Energy

23 Leases in FY22 and FY23

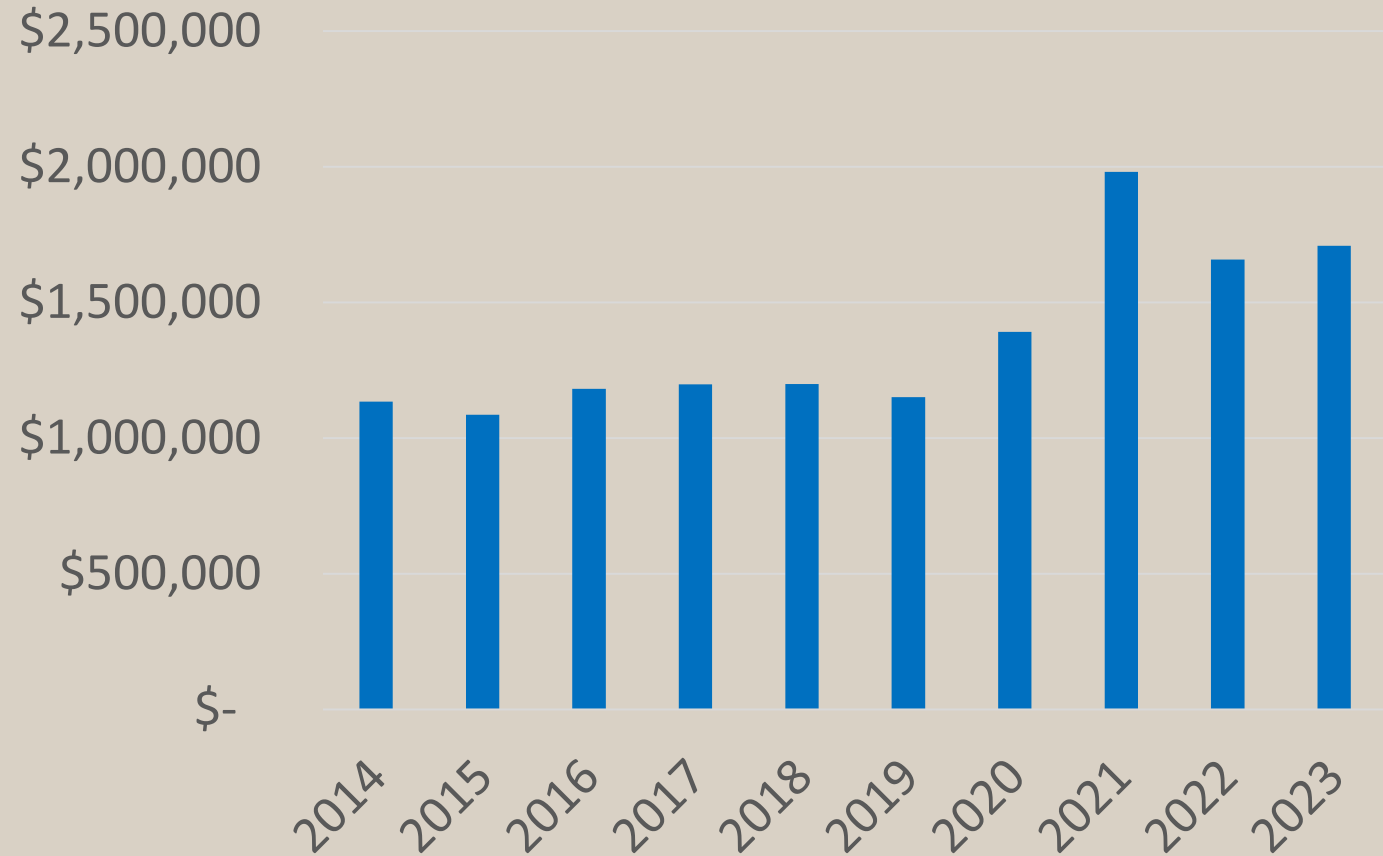
Wind Power 20 leases in production 215 MW

Solar Power 3 leases in production 70MW

Geothermal 1 pending lease in negotiation



Alternative Energy Gross Revenue



Alternative Energy

Updates:

- Alternative Energy Screening Tool went live in January 2023
- Focus on tribal engagement early in the leasing process
- First solar lease went into production February 2023

Challenge:

- Multiple factors from permitting to local jurisdictions moratoria. Stakeholder opposition.
- Backlog of projects undergoing permitting at both EFSEC (Energy Facility Site Evaluation Council) and county or municipal level.

Opportunities:

- Cross-agency collaboration led by Ecology and Commerce to identify least conflict alternative energy siting pathways.

Rights-of-way

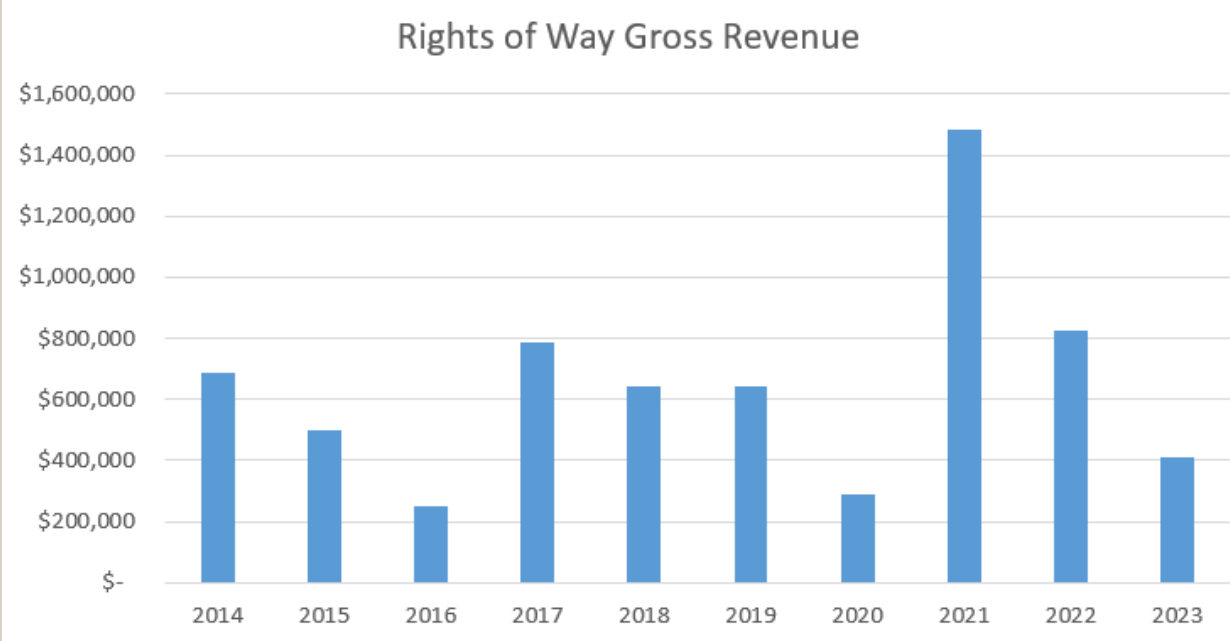


This program grants rights-of-way over state trust lands and works with adjacent landowners to acquire access to state trust lands:

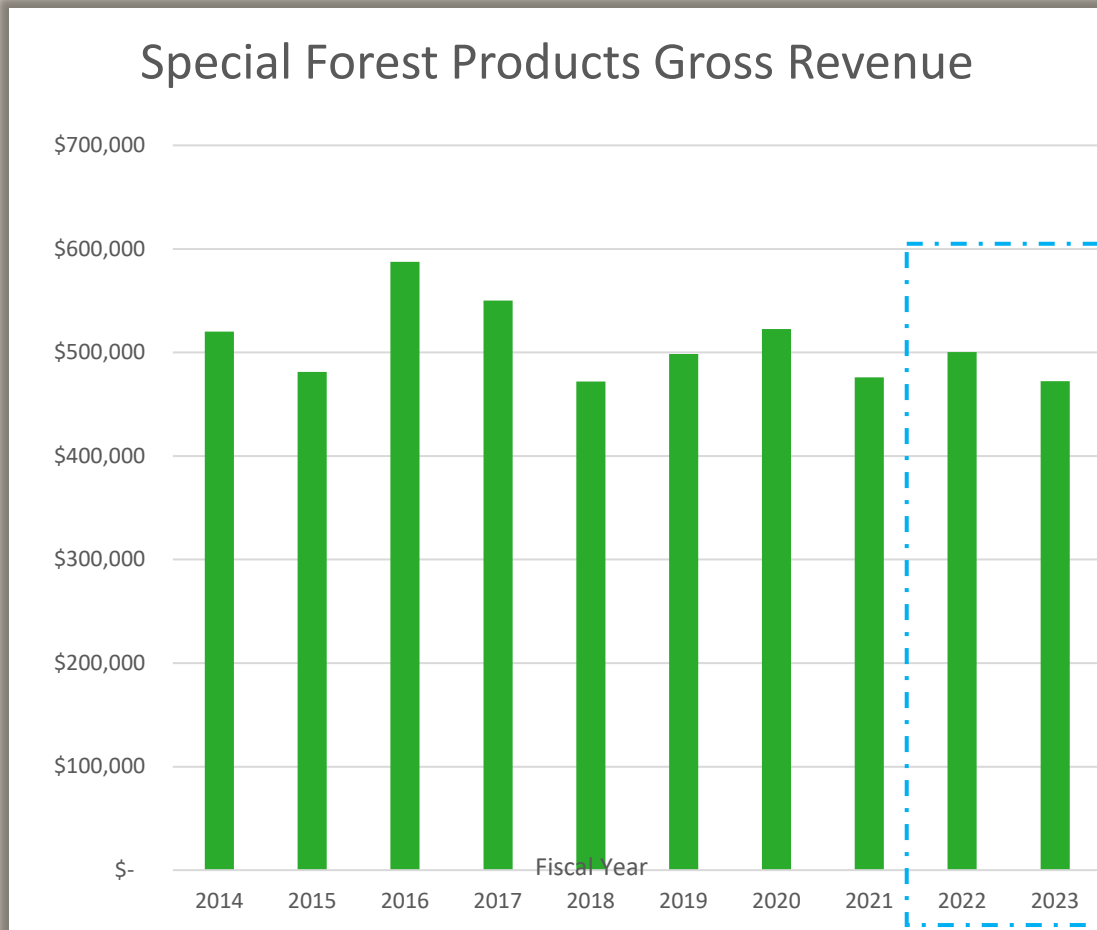
- Road use permits
- Land use licenses
 - Easements

Rights-of-Way easement granting ensures trusts are made whole for use of DNR roads or granting property rights on trust lands.

DNR grants easement across State Trust lands, and per statute we charge full market value whenever easements are granted.



Special Forest Products



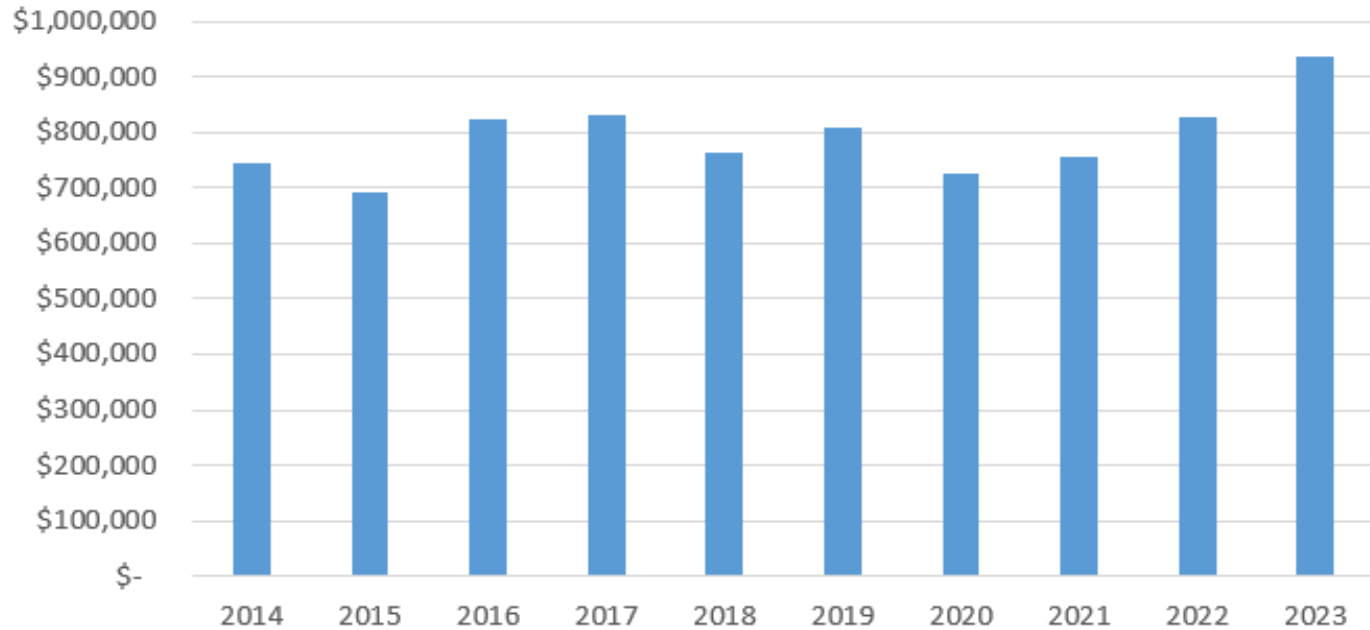
Leases/permits that allow commercial gathering of forest products such as salal, brush, sword ferns, mushrooms, and boughs in DNR-managed forests.

FY 2022 Number of leases/permits/sales = 106

FY 2023 Number of leases/permits/sales = 96

Special Use Property Leases

Special use leases gross revenue



Examples of current leases: government services, community colleges

300 leases in FY22

321 leases in FY23



State of the State Lands Report Part 2 in March

- Management Fund Balances
- Staffing (FTE's)
- Supporting programs
- Any questions?

