



Trust Land Performance Assessment

Scope and discussion



Business lines

Forest Products



- Timber and log sales
- Special forest products

Agriculture



- Irrigated
- Dryland
- Grazing

Commercial



- Large box stores
- Small family businesses
- Wind power

Communication



- Typically mountain top sites
- Diverse group of lessees

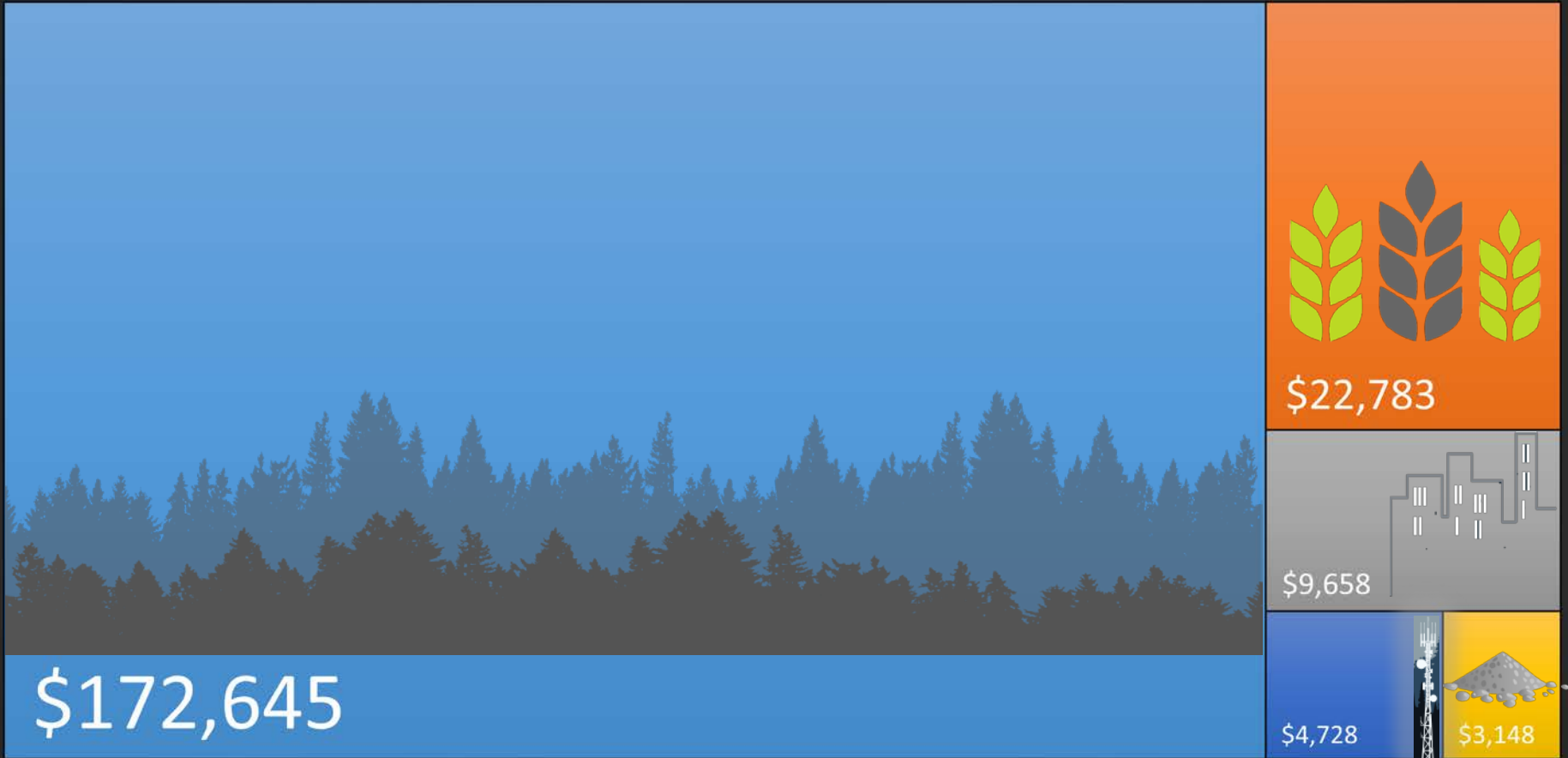
Mineral



- Aggregate
- Sand
- Basalt



Revenue by Asset Class (2017)



■ Timber Sales ■ Agriculture ■ Commercial Real Estate ■ Mineral ■ Communications sites

* 2017 annual report, dollars (\$) reported in thousands



Business reviews

- ✓ 1996 Deloitte and Touche Valuation
- ✓ 2000 Trust Performance Measurement (Western States Land Commissioners Association)
- ✓ 2002 Options for increasing revenues to the trusts: comparison of returns from investing in real property and in permanent funds
- ✓ 2004 Independent Review Committee, Trust land management review
- ✓ 2006 Commercial Lands program review
- ✓ 2014 State Trust Land Inventory Evaluation (TLT)



Trust Land Performance Assessment

ESSB 6095, 2018

- Five (5) main sections
- Three (3) reporting deadlines
- \$550,000 provided for phase 1 with additional requests as contract estimates are received



Proviso

Quick Review

- . ESSB 6095, 2018
- . Five (5) main parts
- . Three (3) reporting deadlines
- . \$550,000 awarded to get the work done

Section 1

(1) The department of natural resources must conduct an asset valuation of state lands and state forestlands held in trust and managed by the department. The analysis required in subsections (3) and (4) of this section may be provided through contracted services.



Proviso

Quick Review

- . ESSB 6095, 2018
- . Five (5) main parts
- . Three (3) reporting deadlines
- . \$550,000 awarded to get the work done

Section 2

(2) The department must describe all trust lands, by trust, including timber lands, agricultural lands, commercial lands, and other lands, and identify revenues from leases or other sources for those lands. The department must briefly describe the income from these trust lands, and potential enhancements to income, including intergenerational income, from the asset bases of these trusts.



Proviso

Section 3

Quick Review

- . ESSB 6095, 2018
- . Five (5) main parts
- . Three (3) reporting deadlines
- . \$550,000 awarded to get the work done

(3) The analysis must estimate the current fair market value of these lands for each trust beneficiary, including the separate beneficiaries of state lands as defined in RCW 79.02.010, and the beneficiaries of state forestlands as specified in chapter 79.22 RCW. The estimation of current fair market values must specify the values by the various asset classes including, but not limited to, the following asset classes: Timber lands; irrigated agriculture; dryland agriculture, including grazing lands; commercial real estate; mining; and other income production. The analysis must also estimate the value of ecosystem services and recreation benefits for asset classes that produce these benefits. The legislature encourages the department and its contractors to develop methods and tools to allow tracking of the estimated fair market values over time.



Proviso

Quick Review

- . ESSB 6095, 2018
- . Five (5) main parts
- . Three (3) reporting deadlines
- . \$550,000 awarded to get the work done

Section 4

(4) For each of the different asset classes and for each of the various trusts, the analysis must calculate the average annual gross and net income as a percentage of estimated current asset value.



Proviso

Section 5

Quick Review

- . ESSB 6095, 2018
- . Five (5) main parts
- . Three (3) reporting deadlines
- . \$550,000 awarded to get the work done

(5) The department must provide a progress report to the legislature by December 1, 2018. A follow up progress report is expected to be provided by December 1, 2019, and may include any initial recommendations. The final report is expected to be submitted by June 30, 2020, and must include options to:

- Improve the net rates of return on different classes of assets;
- Increase the reliability of, and enhance if possible, revenue for trust beneficiaries; and
- Present and explain factors that either (i) define, (ii) constrict, or (iii) define and constrict the department's management practices and revenue production.

The factors to be considered include, but are not limited to, statutory, constitutional, operational, and social factors.



Examples from past efforts

Constraints to Growth

The growth and scale of the CLP is constrained by several key factors:

1. Initial potential proceeds available to the CLP are fully dependent on DNR's determination of underperforming land/property holdings across the overall DNR portfolio. If, in any one period, the DNR determines that no land is to be exchanged or sold out of the overall portfolio, then the Land Bank will receive no assets to potentially transition to the CLP or other supplementary programs.
2. The Land Bank is only allowed to hold a limited amount of land at any one time. RCW 79.66 limits Land Bank holdings to 1,500 acres.¹⁶ While there is reasonable rationale for imposing this limit, once this constraint is reached, no additional exchanges can take place through the Land Bank to raise additional proceeds for the CLP or other supplementary programs until all or a portion of the Land Bank's assets are redeployed or transferred elsewhere.
3. The State Constitution limits the size of land sales to a maximum of 160 acres.¹⁷ At the margin, it is very likely this limitation constrains the State from packaging larger land parcels that might prove more attractive to potential buyers. Loosening this constraint would potentially accelerate the amount of proceeds/exchanges accessible by the Land Bank for later use.

*2006 Commercial lands review



Examples from past efforts

Exhibit 2-38
Direct Trust Returns on 6/30/94 Trust Investment (\$ millions)

<< Asset Class	Trust Investment Estimated "Trust Investment" Value @ 6/30/94	Trust Value Current "Trust Value" @ 6/30/95	Trust Dist. Inc. Direct Market "Trust Distribution Income" Benefit, After Distribution Factor Adjustment (6/30/94-6/30/95)	Tr. Cap. Appr. Trust Capital Appreciation (6/30/94 - 6/30/95)	Tr. Total Income Trust Total Income (Distribution Income + Capital Appreciation) (6/30/94-6/30/95)	Income ROI Direct Market "Trust Income ROI"	Appr. ROI Direct Market "Trust Capital Appreciation ROI"	Total ROI Direct Market "Trust Total ROI" Including Trust Distribution Income and Trust Capital Appreciation
Agricultural Resources	\$82.4	\$84.1	\$3.9	\$1.65	\$5.55	4.7%	2.0%	6.7%
Commercial Real Estate	\$142.0	\$146.2	\$2.3	\$4.26	\$6.53	1.6%	3.0%	4.6%
Communication Resources	\$8.8	\$9.0	\$1.1	\$0.26	\$1.33	12.2%	3.0%	15.2%
Forest Resources	\$5,550.0	\$5,883.0	\$139.8	\$333.00	\$472.80	2.5%	6.0%	8.5%
Grazing Lands	\$97.7	\$99.6	\$0.4	\$1.95	\$2.34	0.4%	2.0%	2.4%
Monetary Assets	\$468.2	\$512.9	\$29.6	\$29.80	\$59.40	6.3%	6.4%	12.7%
Mineral Resources	\$9.2	\$9.5	\$1.1	\$0.28	\$1.34	11.5%	3.0%	14.5%
TOTAL VALUE/BENEFITS	\$6,358.2	\$6,744.3	\$178.1	\$371.20	\$549.29	2.8%	5.8%	8.6%

Source: Deloitte & Touche LLP

Note:

Monetary (Perm. Fund) Assets are managed by the Washington State Investment Board.

The Commercial Real Estate asset class includes land areas which are not currently income-producing and have a Trust Value greater than 50% of the asset class. This results in the reported Return on Investment for the class not being representative of the income returns associated with only the income-producing lands.

*Deloitte & Touche Valuation, 1996



Outreach

- Fifty (50) plus stakeholder groups
- Online survey

Contract

- Request for proposals (RFP) process
- Two qualified bidders and proposals ranged from \$500,000- \$3,000,000
- Deloitte Transactions and Business Analytics selected



Trust land performance assessment	Sept. 2018	Oct.	Nov.	Dec.	Jan. 2019	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan. 2020
Develop RFP																	
Release RFP		Complete															
Select applicant pool and finalize contractor			Complete	Complete													
Award contract				Complete													
Contractor working on valuation and performance assessment					Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active
Internal Work																	
Develop data requirements, assemble data packages; GIS, expenditures	Complete	Complete	Complete	Complete													
Writing, reporting, summary of trends, review								Active	Active	Active	Active	Active	Active	Active	Active	Active	Active
Researching new revenue generating opportunities	Complete	Complete	Complete	Complete	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active
Outreach																	
Stakeholders Initial brainstorming on the project	Complete	Complete	Complete														
Ongoing work with stakeholders				Complete	Complete	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active
Legislative members	Complete	Complete	Complete	Complete	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active

- Complete
- Not started
- Active



