



Mount Si Natural Resources Conservation Area *Source: WA STATE DNR*

## **Appendix C** Past Recommendations

# Past Recommendations

## SUMMARY OF PAST RECOMMENDATIONS MADE TO THE TRUST MANAGER

Over the past two decades, the Washington State Department of Natural Resources (“Trust Manager”, “DNR” or “Department”) has had substantial business reviews completed for the state lands business lines. These reviews typically have highlighted constraints to the business and in some cases have outlined recommendations. The following narrative presents the constraints highlighted in the major studies, the suggested recommendations, and information regarding whether or not that recommendation was implemented as available.

### Report to the Legislature, Transition Lands Program (1981)

**Constraints:** This report inventoried transition lands and developed three new categories, urban 10, rural, and special use. This report focused on ‘urban 10’ lands, which were expected to be converted to commercial, residential, or industrial use within 10 years. The lands were primarily Common School and some were State Forest Transfer. Roughly 75 percent were only appropriate for residential development.

**Recommendations:** The following highlight the findings and suggestions associated with this report.

- Urban 10 lands are typically sold by federal agencies and private companies and are nearly impossible to lease for residential use.
- The parcels would be unlikely to be exchanged for timberlands.

- Outright selling of the urban 10 lands would result in the money going into the Permanent Fund which has a lower earning capacity.
- The Board of Natural Resources should adopt a policy that encourages exchanging them through a revolving account in which the proceeds could be used to buy replacement lands that could be leased.
- Lands shouldn’t be sold all at once; rather they should be sold under optimal market conditions.
- Certain properties, decided on a parcel by parcel basis, should have marginal investments for planning, zoning, platting, and off-site infrastructure to increase returns

*Report Outcome:* DNR developed a policy that was approved by the Board of Natural Resources (Transition Lands Policy 1984) and built a Commercial Real Estate program. DNR subsequently authored an Asset Stewardship Plan 1998.

### **Forest Board Transfer Lands, Report 96-5 (1996)**

**Constraints:** This report was completed by the State of Washington Joint Legislative Audit and Review Committee to assess the policies and economic elements of DNR's management of Forest Board Transfer Lands. This included an assessment of specific issues related to reconveyance of transfer lands back to the counties and an examination of the potential repurchase of timber cutting rights that had been transferred from forest board lands to the federal grant lands.

**Recommendations:** This report included a review of the 1996 Deloitte and Touche Economic Analysis and several recommendations for statutory or operational changes. Key relevant recommendations include:

- Legislative change to the FDA fund where interest earning would accrue back to the fund and distribution to the beneficiaries rather than the general fund. This would be consistent with the RMCA fund.
- DNR should look at shortening the harvest rotation to 40-50 years and increase economic value of timber. Revenue generated from increase in harvest could be reinvested on behalf of future beneficiaries, maintaining intergenerational equity.
- The legislature should consider imposing various conditions related to the reconveyance of transfer lands back to the counties, including setting time limits to choose reconveyance, the distribution of revenue from reconveyance, setting limitations on the use of the land, and maintaining public access.

**Report Outcome:** *The Board adopted the Policy for Sustainable Forests in 2006. Within that broader framework are policies on economic performance, sustainability, and general silviculture strategies. In addition, the statutes governing reconveyance of transfer lands back to the counties have been updated in 2003 and 2004 and address the factors listed above.*

### **Timber Efficiency Study prepared for State of Washington Department of Natural Resources (1996)**

**Constraints:** This report was prepared by Mason, Bruce & Girard, Inc. to provide recommendations for improving the efficiency of DNR's timber sale program.

**Recommendations:** This report provided recommendations and several aspects of the timber sale program. Key recommendations include:

- Test and select a commercially available timber sale cruise programs that contractors must use.
- DNR should modifying the sustainable harvest level, rather than once a decade, consider doing two a year and create region-based planning teams with and advisory group.
- Ask the Board to approve an annual sale program rather than individual sales and set monthly sale targets and streamline document preparation strategies.
- Increase ability to market sales for quick sale by developing procedures for board approval of sales without full Board meetings, or potentially increasing dollar amount of sales that do not need board approval or eliminating Board approval.

- Switch from lump sum to scaled sales and from stumpage to delivered log sales to increase timber income but give regions and districts authority to decide.

**Report Outcome:** *The board has authorized the department to re-appraise the minimum bid values for sales approved by the board prior to auction, authorized the department to appraise and auction sales with values less than \$250,000, and the department worked with the legislature to create a Contract Harvest program to offer delivered log sales in addition to lump sum and scale sales.*

### **Options for Increasing Revenues to the Trusts: Comparison of Returns from Investing in Real Property and in Permanent Funds (2003)**

**Constraints:** The main question addressed in this report focuses on how to increase the amount of revenues distributed to the Trusts.

**Recommendations:** The following recommendations represent the potential suggestions highlighted in the report. Notes in italics reflect additional narrative as available describing whether or not the recommendation was implemented and the reasoning.

- Funding be made available to determine the current value of all trust assets.
  - Valuation be used as a base for trust asset performance.
  - Valuations serve as a basis for measurement, guidance, and performance of asset diversification plans for each trust.
- Department should update the valuations periodically, once every two to four years.
- Funding be made available to evaluate the economic, social, and environmental returns to citizens of the state from the multiple use benefits of state trust lands that occur collaterally to the returns to the financial beneficiaries.
- Develop a prudent asset diversification plan for each trust that will increase expected financial returns while reducing risk.
  - The Department and beneficiaries should develop diversification goals and strategies to present to the Board of Natural Resources.
  - Develop a tracking mechanism to monitor these diversification plans for approval by the Board of Natural Resources.
  - The Board of Natural Resources should insure that all trusts are treated equitably in the diversification plans and that no asset should be disposed of or acquired unless to do so is in the best interest of the effected trust(s).
- Evaluate the constitutional mandate which restricts the size limit for land sales to 160 acres to determine whether this limit or any other acreage limit unnecessarily restricts appropriate diversification of the trust assets; or whether this or other size limits protect the trusts from diminution as a result of large parcel discounts on sales.
  - *This has not been implemented due to reluctance to open up the state constitution.*

- Engage in a multiparty facilitated land exchange and grouped land transactions to accelerate the rate of diversification and reduce cost where to do so is in the best interest of effected trusts.
  - *This has been partially implemented as there were several large exchanges of land in the mid-2000's. DNR continues to look at exchanges and sales.*
- Funding made available to investigate a wide array of potential future markets for trust assets that could increase revenues included but not limited to:
  - Markets for carbon credits.
    - *Carbon markets have been evaluated several times and are determined to not be in the best interest of the trusts.*
  - Development of transition and urban trust lands independently or as a joint venture.
    - *This continues to occur albeit at a slow pace*
  - Authorize the department to enter the field of value-added wood processing such as sort yards and wood processing.
    - *The contract harvest program has been created to mirror sort yards from the landing which has been a positive program for the department. However, the program is limited to 20 percent of the total volume by statute.*
  - Develop alternative renewable energy sources such as wind generation.
    - *The department actively began pursuing wind energy development in the 2000's*

*resulting in millions of dollars in revenue and is currently pursuing solar opportunities.*

### **State Trust Lands Management: An Evaluation of Effectiveness and Efficiency (2004)**

**Constraints:** The main constraint highlighted in this report questions the effectiveness and efficiency in the Department's managing of state trust lands and if reasonably stable cash flows of income are being provided to the trust accounts through economic cycles.

**Recommendations:** The following recommendations represent the potential suggestions highlighted in the document. Notes in italics reflect additional narrative as available describing whether or not the recommendation was implemented and the reasoning.

- Increase the management fee by 5% to 8% to meet the Sustainable Harvest Calculation (2004)
  - *This was not implemented.*
- Examine the mixes of timber being marketed as well as the nature of the competition.
  - *This was implemented. The Product Sales group routinely evaluates product mix with sale combinations and market conditions.*
- Plan to bring more volume to market during high times and less during low times.
  - *This is partially implemented. Constraints from stakeholders, policy, or economic conditions can limit this ability. Additionally, the Sustainable Harvest Calculation sets the appropriate volume of timber through a planning decade.*

- Evaluate the niche market for the Red Cedar and Red Alder timber species types.
  - *This was implemented. DNR is invested in alder research cooperatives.*
- Engage in a sustained effort to benchmark both forest measurement and total cost to ascertain if costs can be reduced.
  - Compare unit costs as a percentage of gross revenue.
  - Include a zero-budgeting approach.
  - Evaluate benchmark data for production and environmental compliance costs found within public/private sectors.
  - Include benchmark comparisons in annual reports made by the Department.
    - *Several bench marking efforts have occurred. Typically, these types of projects lose energy as comparison to private sector companies is difficult relative to DNR policy and stakeholder constraints.*
- Convene a broad-based task for reviewing DNR field procedures for the purpose of reducing cost and improving revenue, including private forestry practices.
  - *Convening with an external review committee has occurred several times in the last three decades (e.g., 1996, 2004, 2015). At times this can be useful; however, there is a large amount of work to educate external groups with the amount of detail required to make fair recommendations.*
- Identify one or two additional independent forecasting services to help forecast the longer-term timber prices for the region.
  - *This has been implemented. The Budget and Economics office and Product Sales use several forecasting subscriptions to assist with internal forecasting.*
- Aggressively pursue asset reposition and asset diversification.
  - Increase non-timber revenue through exchange or sale of small/isolated parcels.
    - *Several large exchanges in the mid 2000's. DNR continues to look at exchanges and sales. Additionally, a strong push to increase agriculture revenues occurred in the late 2000's.*
  - Develop a multi-year plan with clear goals.
  - Plan should include an internal organization that is solely dedicated to asset repositioning and funded at levels substantially in excess of current levels.
- Explore partnerships/joint ventures in land development in order to increase revenue. Coordinate with local, state and federal economic development councils to reduce costs.
  - *This has been partially implemented. The commercial lands program actively works with counties and planning districts where DNR parcels can be zoned appropriately to maximize potential return.*
- Seek to streamline the processes for all land transactions.
  - *Some elements have been streamlined, but many of the statutory or constitutional constraints remain.*

- Seek legislative authority for:
  - Non-appropriated status for accounts into which revenue from trust land transactions is deposited for reinvestment.
  - Significantly higher appropriation authority to accommodate revenue from trust land transactions
- Markets for wind power, mitigation banking, communication sites, and carbon sequestration should be aggressively pursued, alone or through public/private partnerships or public/private/nonprofit avenues with a developed multi-year plan.
  - *This has been partially implemented as DNR actively pursued wind energy development in the 2000's resulting in millions of dollars of revenue. Additional opportunities are assessed as they come along such as solar opportunities.*
- A number of RCWs and WACS create excessive cost and it is recommended that the Department analyze cost of certain legal requirements and recommend legislative changes.
  - *Many of the constraints recognized remain today.*

### **A Review of the Department of Natural Resources Commercial Lands Program (2006)**

**Constraints:** The following is a list of specific constraints made in this report which focuses on the Commercial Lands Program (CLP).

- Initial proceeds available to the CLP are fully dependent upon determination of underperforming land/property holdings across the overall DNR portfolio.
- The land bank is only allowed to hold a limited amount of land at any one time. RCW 79.66 limits land bank to 1,500 acres.
- The state constitution limits the size of land sales to a maximum of 160 acres. This constrains packaging of larger land parcels that might be more attractive for certain transactions.
- The state legislature's limits associated with the CLP's ability to purchase constrain the CLP both in the number and size of transactions it can pursue over the course of its planning period.
- The state requires state-owned land to be sold only through public auction. This is in sharp contrast to industry standards or negotiated real estate transactions.
- The CLP and agriculture diversification are too small and create a marginal diversification impact.
- There is a lack of adequate funding for a fluid/nimble process to operate due to policy legal constraints.

**Recommendations:** The following recommendations represent the potential suggestions highlighted in the document. Notes in italics reflect additional narrative as available describing whether or not the recommendation was implemented and the reasoning.

- CLP and agriculture components should be larger (10 percent each at a minimum level of increase). Increase in this magnitude would impact a pattern of revenue and require dedicated governance structures and investment platforms to manage the assets.
- Enhance the CLP by developing a more discretionary governance platform for the CLP. The CLP is not designed as an explicit investment program; rather, DNR operates in its decision-making process to manage the CLP portfolio. It is critical that the CLP is supported by a decision-making process that is as nimble as possible. The concept is to create an investment approach that is more investment advisory in nature. Create governance specific to the CLP; DNR decision makers delegate budget. Operational, transactional decision to CLP; DNR retains authority to approve/revise. CLP investment policies; senior CLP staff develop objectives and strategies; transaction size limits delegate to CLP (i.e. under \$15 million).
  - *This proposal did not move forward.*
- Potential alternatives to the program were recommended including:
  - Loosening certain statutory constraints that limit the CLP investment activities which would allow the CLP to be nimble.
    - *The CLP was deemed to be managed professionally and reasonably set against the numerous constraints and unique mandates. No constraints changed.*
  - Calculating total returns for the CLP portfolio consistent with National Council of Real Estate Investment Fiduciaries (NCREIF) standards. This benchmarking tool allows comparison to regional incomes and agency net operating income. Allows valuation that provides important strategic signals about whether certain holdings should be held or sold.
    - *Nothing implemented at the time. The cost to implement this alternative outweighs the potential benefit to the program.*



- Ensuring that all property management functions are executed by independent third parties which ensures there is not a conflict of interest between the staff who should be investment management staff and delivering property management services on its properties on behalf of the beneficiaries.
  - *Three properties currently have third party management agreements. The program likes single tenant, long-term deals where possible. The program may implement third party management agreements for other commercial assets as necessary.*
- Develop a CLP continuity plan which creates specialized or junior level positions for staff akin to the private sector.
- Transition the CLP to external parties— either private market investment advisor or utilizing the State Investment Board expertise.
  - *This was not implemented. The 2006 report noted its approach would require significant statutory and policy changes to allow for efficient implementation otherwise external managers would face the same challenges as department staff.*

**Study 5: An Assessment of the Expected Rate of Return from State Granted Lands Based on Separate Findings Contained in the Future of Washington Forests Report (2007)**

**Constraints:** This study compared different approaches for calculating the expected rate of return on state trust lands. It noted that land and timber values change over time and periodic reassessments are important. The study also remarked that state trust lands have a lower rate of return than industrial acres since they are managed differently, with multiple objectives; and for that reason, tend to have higher rotation ages and more standing volume per acre. The challenge is to define the ecological and social criteria that can be used to measure the success in meeting these complex and seemingly conflicting lands management objectives.

**Recommendations:** Establish monetary values for environmental and social gains that would be in excess of those gained by similar, private landowner.

**Report Outcome:** *Unless we find a market for these externalities, not possible for trust manager to charge public for social values.*

### **Potential School Sites State Trust Land Study (2008)**

**Constraints:** This study identified high-growth school districts, state trust lands that could be suitable for school sites in those districts, and options for helping school districts acquire state trust lands for school sites.

**Recommendations:** The Work Group identified 90 suitable tax parcels in 24 high-growth school districts, of which 14 school districts indicated interest. Ideas included:

- DNR could purchase private lands with trust land replacement accounts and lease the land to the districts (though only with forestland threatened by conversion).
- A school district could purchase land but not the timber. DNR could harvest the timber and the proceeds would go to the beneficiary. Either the school district or DNR would need to bear the costs of the appraisal and transactions, which might require additional funds for the school district.
- DNR is required by RCW 43.17.400 to notify legislative authorities (which DNR interprets to include school districts) of intent to dispose of lands at least 60 days prior to entering into a disposal agreement. DNR could discuss with school districts earlier than 60 days, which would give school districts more time to consider.

**Report Outcome:** *DNR has transferred some parcels highlighted in this study to schools since this study completed. Most recently, DNR transferred a parcel to the Camas school district in 2016. DNR works closely with school districts across the state, and in many instances disposes of land to districts to help with growing demand—including those that were highlighted in the study and in other places as well. DNR will continue to work with both urban and rural school districts, where applicable and legal, to meet the growing demand.*

### **The Potential Implications of the Washington Department of Natural Resources Switching from Crop Share to Cash Leasing of Farmland (2011)**

**Constraints:** The main question addressed in this report is how the Department could benefit by switching all agricultural leasing to be negotiated on a cash rent basis as opposed to crop share:

**Recommendations:** The economists from Washington State University evaluated the best type of contracting mechanisms for agricultural leasing that DNR could use to increase the long-term benefits to the trusts. Advantages and disadvantages were found for both crop share and cash rents; however, the recommendation was made to transition all crop share contracting to cash rent leases as the advantages of switching to cash leases outweigh the disadvantages.

**Report Outcome:** *DNR has made some progress implementing this recommendation as the total number of leases with crop share agreements has decreased for Irrigated Annual and Irrigated Perennial agriculture leases. However, the number of Dryland agriculture leases with crop share agreements has increased over the years.*

### **State Trust Land Inventory Evaluation, Report to the Legislature (2014)**

**Constraints:** This report provided history and context of the Trust Land Transfer (TLT) Program, as well as the outcomes over the 25 years prior to the report. TLT Program was initiated as a tool for the legislature, through DNR, to address the trust land management needs of the Common School Trusts, including transferring out underperforming lands and replacing them with lands with higher income producing potential. This study used computer modeling to estimate what lands might be eligible for the TLT program for the next 30 years.

**Recommendations:** The report proposed the following recommendations:

1. The TLT Program should continue as long as it serves a useful tool in DNR's trust asset management.
2. The TLT Program should continue periodic review to monitor and assess continued value, utility, and effectiveness.
3. The program should be codified to increase predictability and manageability. Because it is governed through biennial capital budget bills, program goals and criteria have changed over time, making planning difficult. Codification would facilitate more effective use of the TLT Program as an asset management tool.

**Report Outcome:** *TLT is a valuable tool that has been utilized for over 30 years to help reposition Trust lands, while also achieving conservation outcomes and adding parks and open space around the state—including some of our state's most treasured areas. However, in recent years there has been increased scrutiny on TLT by*

*beneficiaries, stakeholders, and legislators. It is vital to develop TLT 2.0 so that DNR can continue the great work started back in 1989.*