



Trust Land Performance: Charting a Course for the Future



Public Webinar
April 28, 2021

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Agenda

- Part 1 –State Trust Land Background Information
- Part 2 - Valuation Findings
 - Group Questions on Parts 1 and 2
- Part 3 – Initial Ideas for Moving Forward and Next Steps
 - Group Questions



Department of Natural Resources

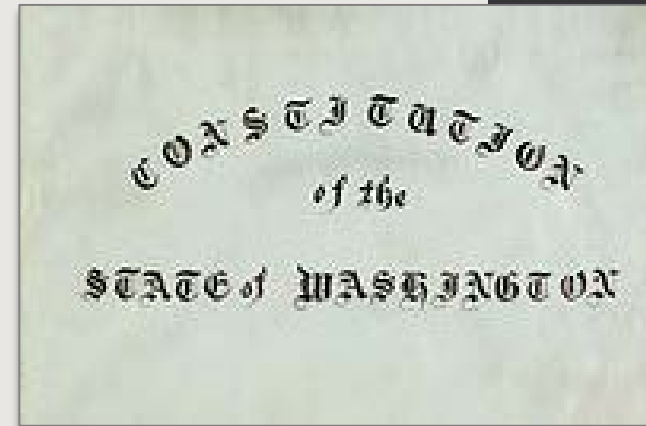
Trust Manager
~2.9 million acres
of
State Trust Lands
in Washington



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



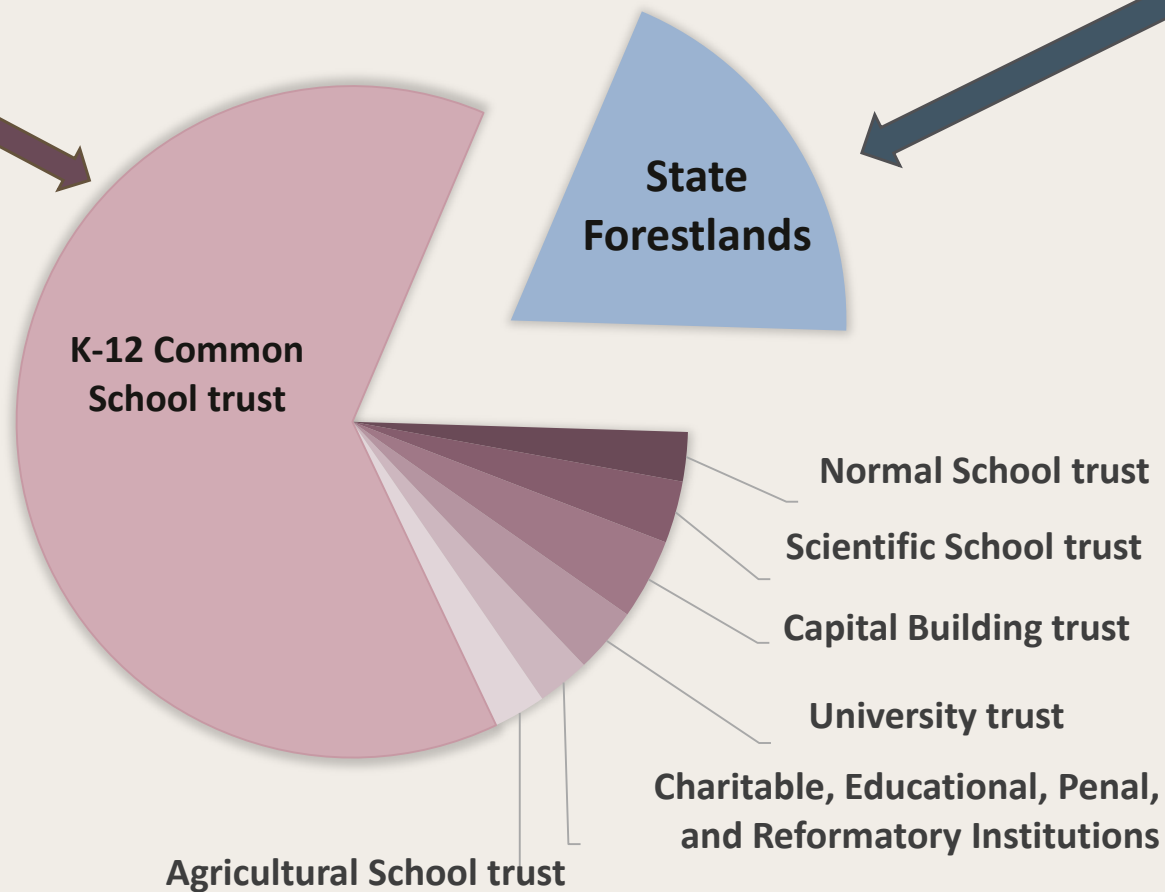
State Trust Lands

~2.9 Million Acres of 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



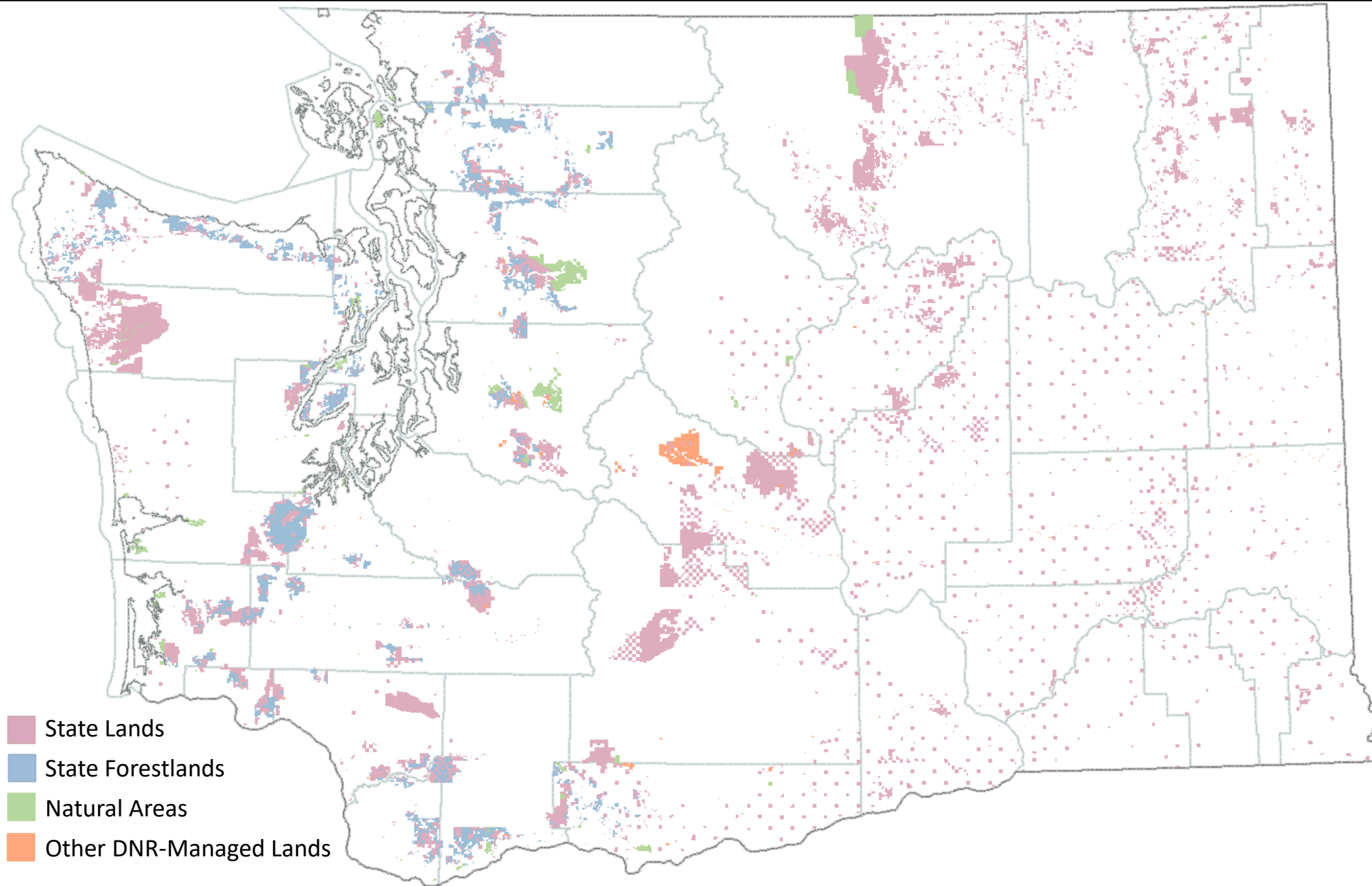
State Forestlands

- 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



DNR-Managed Lands Across Washington State

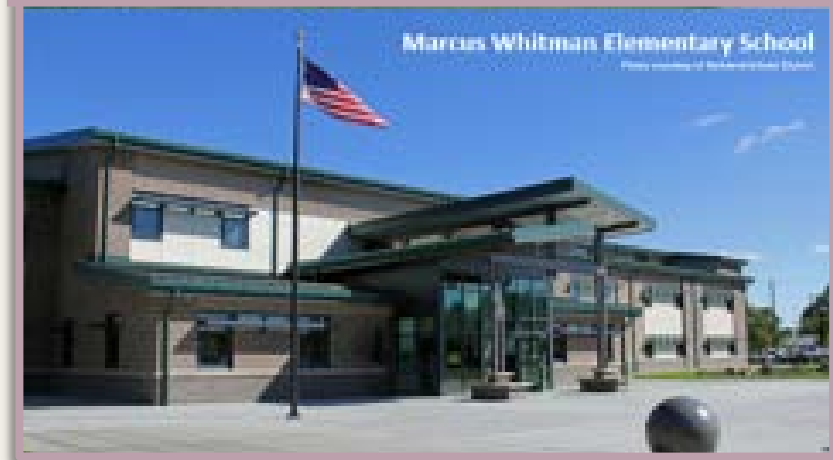


Common School

Federally Granted Trust Lands (Created in Enabling Act and Constitution)

- Present in all counties
- Revenue is generated from a variety of asset classes
- Revenue distribution is not linked with location generated
- ~1.79* million acres statewide

Income from these state grant lands supports construction of state public kindergarten through 12th grade schools



*Includes Common School, Indemnity and Escheat.

State Forestlands

Created in Washington Statute

- 21 Counties-mostly in western Washington
- Revenue generated is primarily from the timber asset class
- Revenue distribution is tied to geographic locations
- Over 617,000 acres*
(from Deloitte Report)



Typical Recipients of Funding

- County Services
- School Districts
- County Roads
- Ports
- Library Districts
- Fire Districts
- Hospitals
- EMS

Board of Natural Resources

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.)

Part 2 - Valuation Findings



- Budget Proviso



- Assessments



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*

Trust Lands Assessment Project

DNR partnered with the Legislature

(Proviso: ESSB 6095, Section 7015 in 2018)

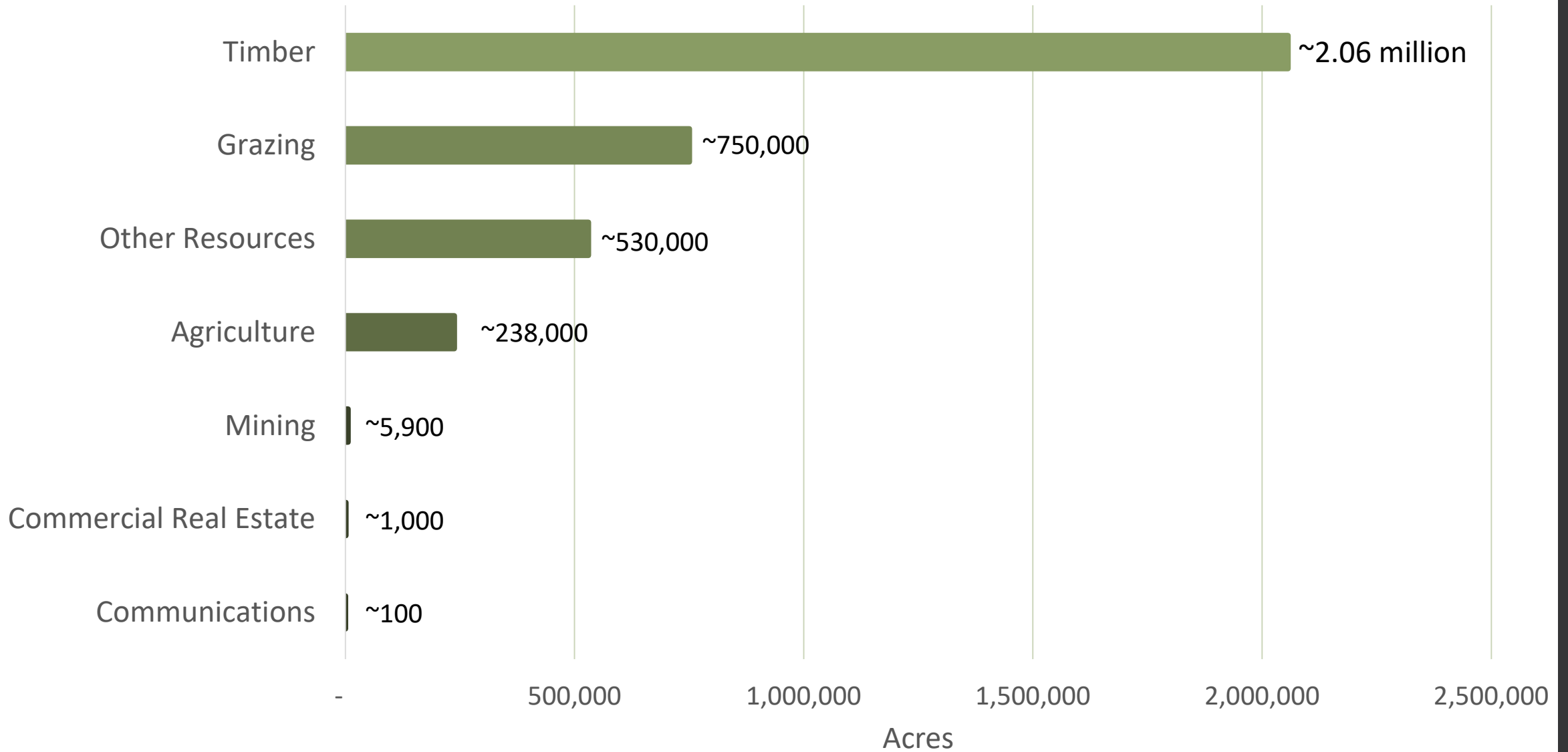
Shared funding for a comprehensive assessment of trust lands to include:

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



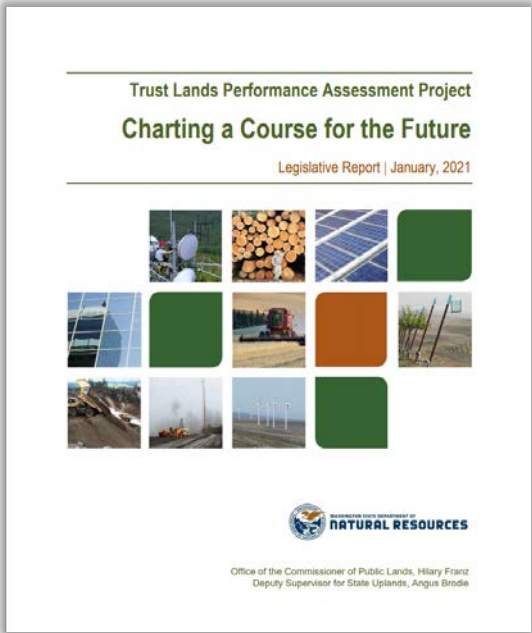
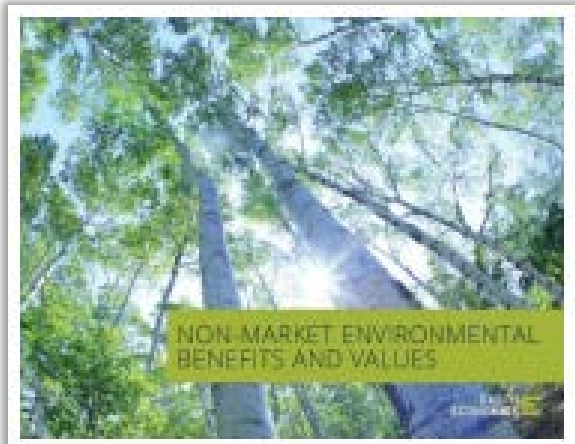
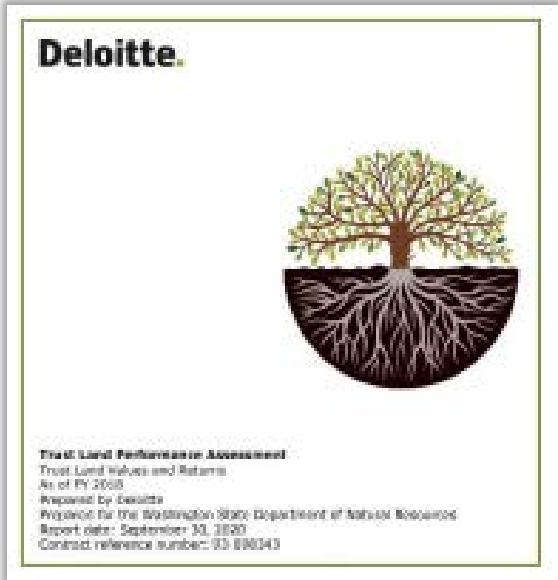
Other Resources: Wind Energy, Special Uses, Special Forest Products, Rights-of-Way

Acres may overlap into more than one asset class

Trust Land Performance Assessments

3

Reports



www.dnr.wa.gov/tlpa

Trust Land Portfolio Valuation Summary

Valuation performed by Deloitte Transactions and Business Analytics



- Beneficiaries are the audience

- Deloitte answers two key questions:



- How much is the land worth?

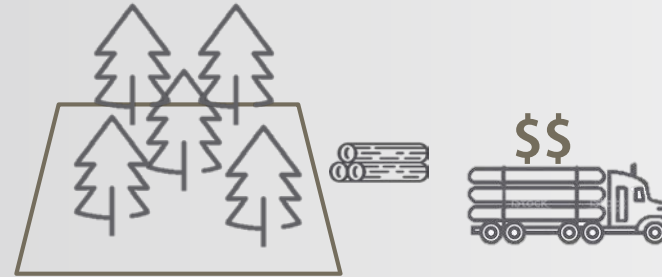
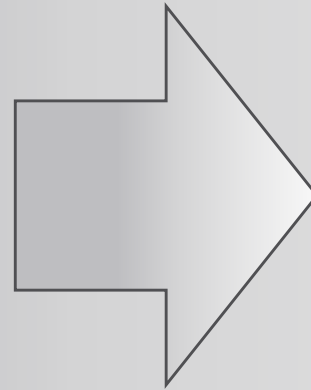


- What is the value of the revenue generated off the land?

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*)

Deloitte Concept: Trust Value

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:

Rate of Return vs. Cash Flow

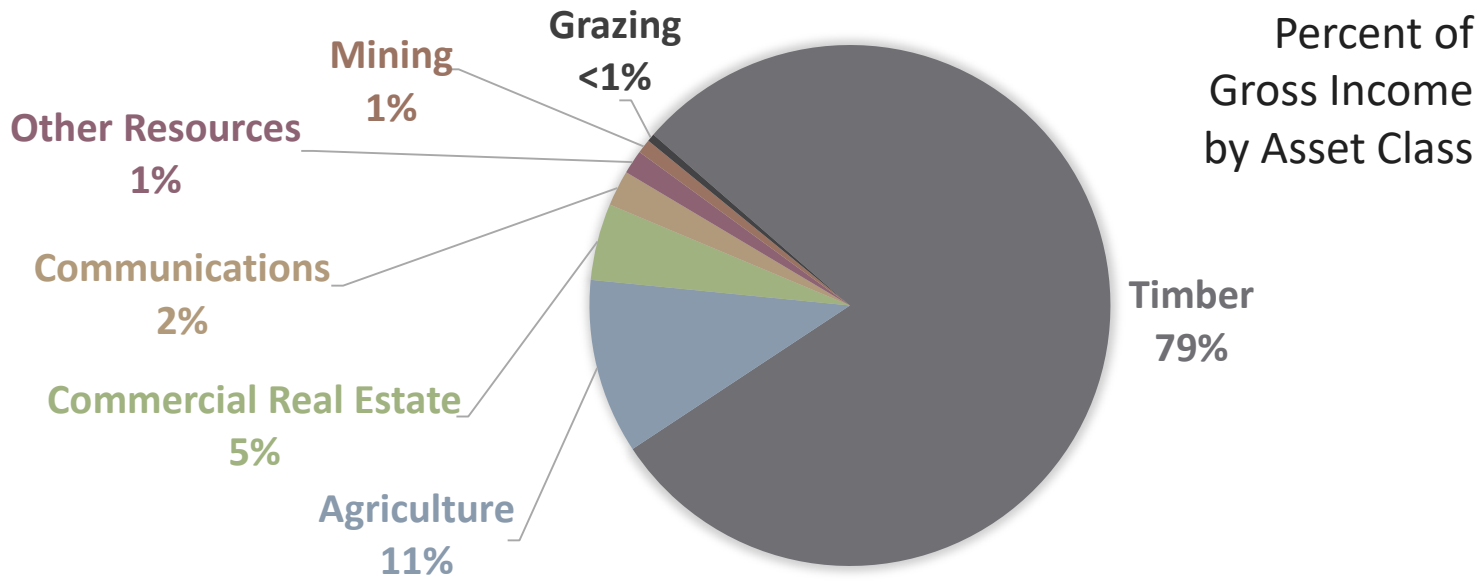


Rate of return has *very little utility* for the trust lands portfolio because:

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.



Trust Land Portfolio Valuation Findings

*See Deloitte's report, Appendix D for State Forestland Trust Values

Summary of 2018 Asset Class Income and Trust Value*

Asset Class	Gross Income	Net Operating Income	Trust Value	Net Operating Income/Trust Value
Timber	\$171.7 million	\$123.6 million	\$2,136 million	5.79%
Agricultural Resources	\$23.5 million	\$16.7 million	\$238.3 million	7.00%
Commercial Real Estate	\$10.3 million	\$7.2 million	\$95.7 million	7.53%
Communication Resources	\$ 4.8 million	\$3.4 million	\$41.2 million	8.16%
Other Resources	\$3.2 million	\$2.2 million	\$20.3 million	11.03%
Mining Resources	\$1.9 million	\$1.3 million	\$16.6 million	7.99%
Grazing Resources	\$1 million	\$0.7 million	\$10.5 million	7.00%
Total	\$216.4 million	\$155.1 million	\$2,558.6 million	6.07%

Non-Market Benefits Valuation Findings

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

Averaged by Land Cover and Asset Class (2018)

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

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

Activities	Annual Value
All Recreational Activities	\$990 million

DNR Analysis

ESSB 6095
SL, p. 152

Options to:

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

Define



Constrict



Define &
Constrict



**Factors considered
include:**
Statutory
Constitutional
Operational
Social

the department's management practices and revenue production

DNR Analysis

Challenge:
Decrease in Revenue

Differences in Net Revenue Between 1995 and 2018

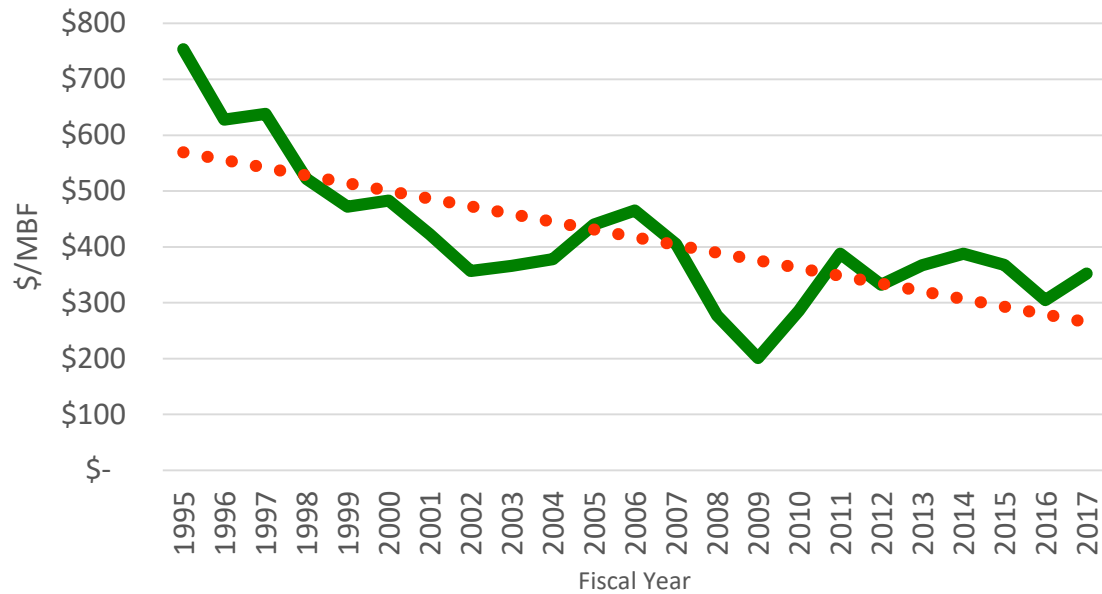
Asset Class	FY 1995 Net Revenue	FY 1995 Net Revenue in 2018 dollars	FY 2018 Net Revenue	Percent Change
Timber	\$139.83 million	\$224.34 million	\$123.62 million	-45%
Agriculture	\$3.9 million	\$6.3 million	\$16.68 million	166%
Commercial Real Estate	\$2.3 million	\$3.6 million	\$7.2 million	99%
Grazing	\$386 thousand	\$619 thousand	\$735 thousand	19%
Communication Resources	\$1.1 million	\$1.8 million	\$3.4 million	90%
Mining	\$1.1 million	\$1.7 million	\$1.3 million	-23%
Other Resources	n/a	n/a	\$2.2 million	n/a
TOTALS	\$148.56 million	\$238.36 million	\$155.18 million	-35%

All numbers are rounded

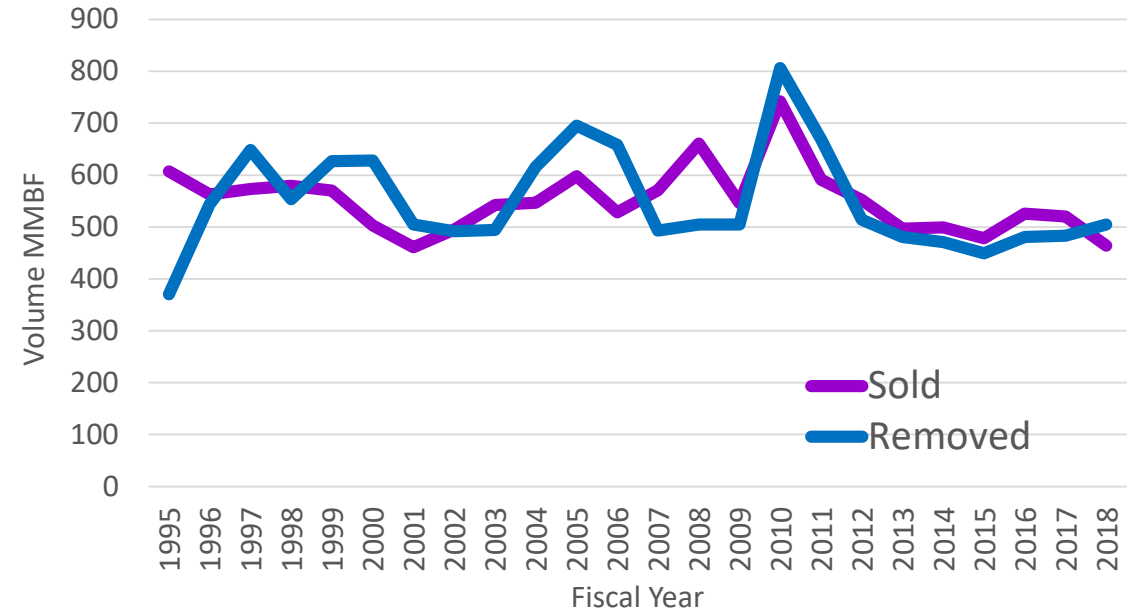
Draft - Subject to Change April 2021

DNR Analysis - Timber Revenue

Stumpage prices for state trust lands



Sold and removed volume from state trust lands

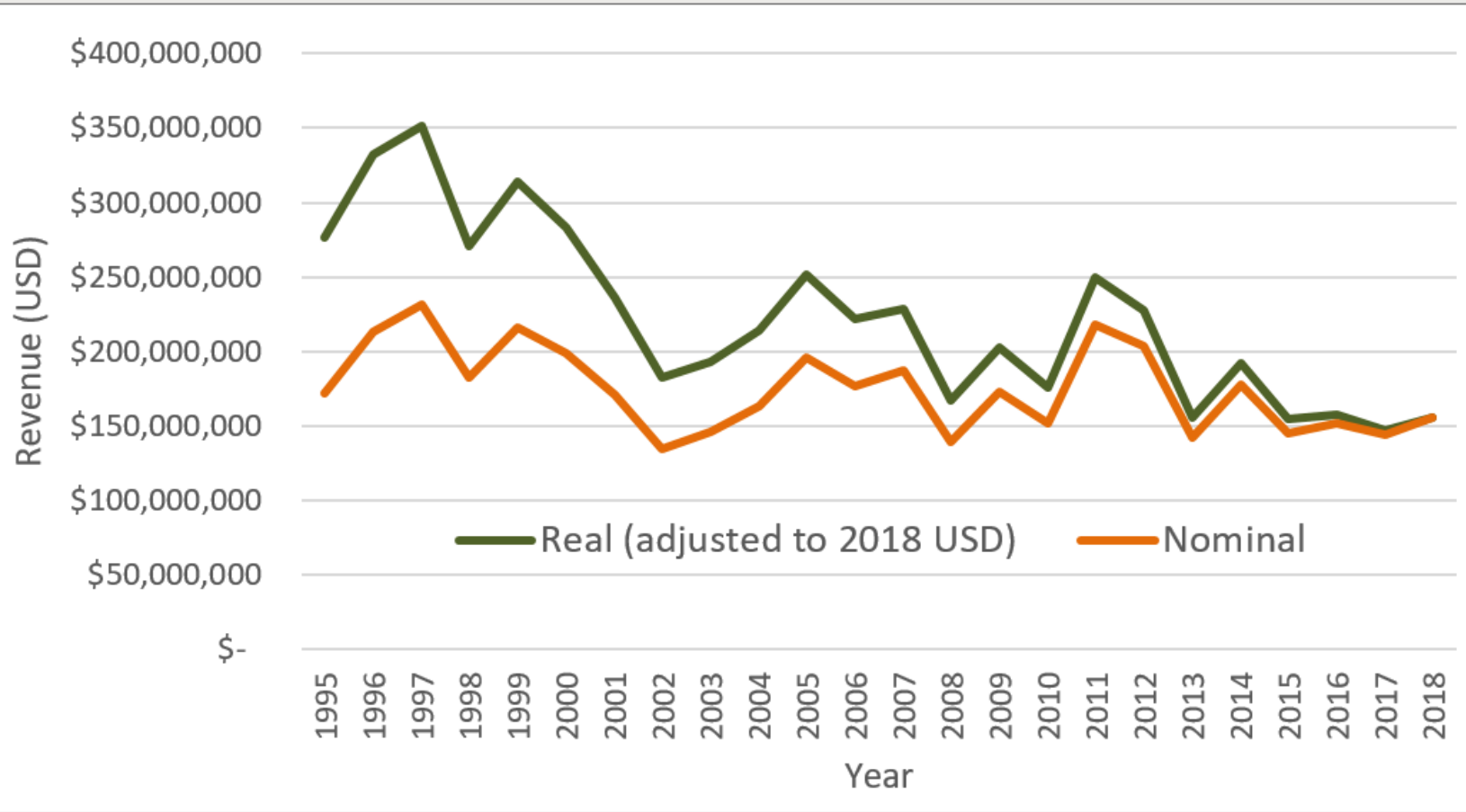


WHY?

1. Decline in stumpage price
2. Decline in operating base

DNR Analysis

Total Net Revenue Generated from State Trust Lands FY 1995-2018



Challenge:
Revenue
reliability

Group Questions



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

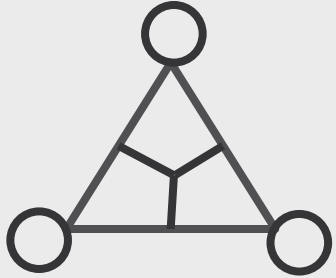
Scope



Objectives

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

Opportunities



Improve Business Model and Systems



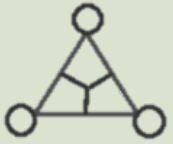
Increase Access to Capital



Greater Ability to Transact Lands



New or Revitalized Management Tools

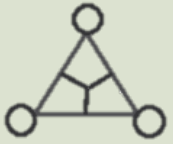


Improve Business Model and Systems

Initial Ideas

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

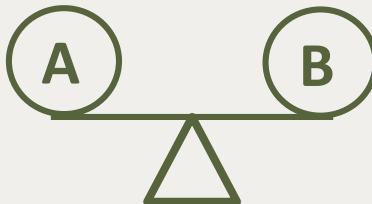




Improve Business Model and Systems

Initial Ideas

Idea	Summary	For more information
4	Fund studies to compare DNR's approach to the Endangered Species Act compliance with others	•Deloitte Asset Class: Timber - T5
5	Compare services DNR provides to those of an external manager	•Deloitte Asset Class: Timber - T6
6	Pursue ways to monetize Ecosystem Services for Timber Asset Class	•DNR Leg Report, page 39





Increase Access to Capital

Initial Ideas

Idea	Summary	For more information
7	Borrowing authority	•DNR Leg Report, page 37
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

Initial Ideas

Idea	Summary	For more information
10	Statutory, Constitutional, or Enabling Act Improvements	<ul style="list-style-type: none">•Deloitte General Item 11•DNR Leg Report, page 38





New or Revitalized Management Tools

Initial Ideas

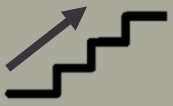
Idea	Summary	For more information
11	Funding sources for non-trust expenses	<ul style="list-style-type: none"> •Deloitte General Item 12 •DNR Leg Report, page 38
12	Trust Land Transfer	<ul style="list-style-type: none"> •DNR Leg Report, page 38
13	Trust Land Replacement Program	<ul style="list-style-type: none"> •DNR Leg Report, page 38



Summary of Initial Ideas Presented

Initial Ideas

Idea	Summary	Who?	Where?
1	Improve financial systems to incorporate for-profit-enterprise practices	Deloitte	GI 1-4
2	Reliability Fund	Deloitte	GI 10
3	Smooth Revenue Distribution through Loans	Deloitte	GI 14
4	Fund studies to compare DNR's approach to the Endangered Species Act compliance with others	Deloitte	T5
5	Compare services DNR provides to those of an external manager	Deloitte	T6
6	Pursue ways to monetize Ecosystem Services	DNR	p. 39
7	Borrowing authority	DNR	p. 37
8	Capital expenditure funding options examples	Deloitte	GI 8
9	Change trust land management and investments funding	Deloitte	GI 5
10	Statutory, Constitutional, or Enabling Act improvements	Deloitte	GI 11
11	Funding sources for non-trust expenses	Deloitte	GI 12
12	Trust Land Transfer	DNR	p. 38
13	Trust Land Replacement Program	DNR	p. 38



Next Steps - 2021 Work Plan



Quarter 1:
January - March

Quarter 2:
April - June

Quarter 3:
July - September

Quarter 4:
October - December



- Share Key Findings
- Collect input on:
 - Project scope
 - Ideas for change

- Continue to collect input on:
 - Project scope
 - Ideas for change
- Host public webinar

- Seek BNR support for project scope
- Develop potential proposals (e.g.):
 - Form Advisory Committee(s) and/or Work Group(s)

- Continue to develop proposals
- Collect input on proposals

More Information?

Trust Lands Performance Assessment Project

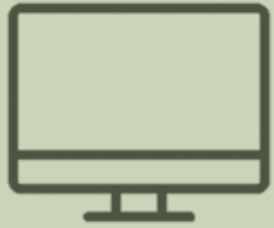


www.dnr.wa.gov/tlpa



- DNR Annual Reports
- County Quarterly Income Reports
- State Forest Trust Lands within School Districts
- State Trust Lands Map

www.dnr.wa.gov/beneficiaries



Webinar Comments



If you'd like to submit comments online,

please go to:

www.dnr.wa.gov/tlpa

April 28 – May 12, 2021

Group Questions

