
Minutes

Board of Natural Resources Meeting

January 18, 2019

Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

The Honorable Hilary Franz, Washington State Commissioner of Public Lands

The Honorable Bill Peach, Commissioner, Clallam County

JT Austin, Designee for the Honorable Jay Inslee, Washington State Governor - *via conference call, intermittent attendance due to meeting conflicts.*

Dan Brown, Director, School of Environmental and Forest Sciences, University of Washington

André-Denis Wright, Dean, College of Agricultural, Human, and Natural Resource Sciences, Washington State University - *via conference call*

BOARD MEMBERS ABSENT

The Honorable Chris Reykdal, Superintendent of Public Instruction

1 CALL TO ORDER

2 Chair Franz called the meeting to order at 9:00 AM.

3
4 All Board members introduced themselves. Chair Franz noted there was a quorum for the
5 meeting.

6 7 SAFETY REVIEW

8 Ms. Kellogg gave a safety overview and instruction on evacuating the building during an
9 emergency.

10 11 APPROVAL OF MINUTES

12 Chair Franz called for approval of the minutes for the December 4, 2018, Regular Board of
13 Natural Resources Meeting.

14
15 MOTION: Dean Wright moved to approve the minutes.

16
17 SECOND: Commissioner Peach seconded the motion.

18
19 ACTION: The motion carried unanimously.
20
21

1 **PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST**

2 Joe Beavers, citizen of Goldbar, WA, spoke about the Singletary timber sale and that the delay of
3 the sale, which also resulted in the delay of revenue to the beneficiaries and recreation
4 enhancements. He asked about the next steps and stated that since Snohomish County rescinded
5 their request for a reconveyance, the timber sale should proceed.
6

7 Mike Town, Chairman of State Forest Committee, Sierra Club, spoke about forest issues and
8 impacts to local communities and the environment. He shared that he looks forward to the
9 working with and being an asset for the Department.
10

11 Linda Lorenz, citizen of Clark County, spoke about the Michigan trotter timber sale, unit 1 and
12 asked for the removal of the 25 acres from the timber sale due to her concerns with the steep
13 slope.
14

15 Lily Longshore, citizen of Clark County, spoke about Michigan trotter and accessibility by
16 wheelchair. She shared her concern that debris and mud from the timber sale harvest could
17 hamper her access on the trail.
18

19 Cheryl Heywood, Library Director Timberland Regional Library, spoke about the need for
20 timber-generated revenue and a new service offered by the library called High School 21 Plus.
21

22 Wendy McCullough, citizen of Livingston Mountain, invited Commissioner Franz to visit with
23 the residents of Livingston Mountain to hear their concerns.
24

25 Erin Allee, president of Proebstel Neighborhood Association, Clark County, spoke about
26 Livingston Mountain and asked for more communication on current transactions taking place in
27 Livingston Mountain area.
28

29 Tom Lannen, Skamania County Commissioner, thanked the DNR for timber harvest revenue and
30 expressed support for the encumbered lands project.
31

32 Emily Waters, resident of Battle Ground, WA and member of the Sierra Club, spoke about the
33 Michigan trotter timber sale and preservation of the Hantwick trail. She asked that 25 acres be
34 included with the 200-acre trust land transfer to the county.
35

36 Fred Suter, Sierra Club member, spoke about the Michigan trotter timber sale, unit 1. He asked
37 that 25 acres be included with the 200-acre trust land transfer to the county.
38

39 Alice Perry Linker, Sierra Club Member, spoke about the Michigan trotter timber sale and asked
40 that 25 acres be included with the 200-acre trust land transfer to the county.
41

42 Cindy Kelly, WSSDA, spoke about the encumbered lands project and stated that she is looking
43 forward to hearing the briefing.
44

45 Virginia Nugent, citizen of Moulton Falls, spoke about the Hantwick trail and its preservation, as
46 it is one of 12 ADA trails in Clark County.
47

1 **PUBLIC COMMENTS FOR TIMBER SALE ACTION ITEMS**

2 Joe Monks, Chairman WHC, spoke about the upcoming timber sales and expressed support for
3 the hardwood sales in the proposed packet.
4

5 Miguel Perez-Gibson, representing WEC and MM Coalition, spoke about marbled murrelet
6 habitat identified in the RDEIS that is in the timber sales proposed today and asked the DNR to
7 replace the 64 acres of MM habitat elsewhere. He referenced WACs that limit Department
8 actions while under SEPA consideration. He spoke about the timber sales in question and a ratio
9 of deferred v. harvest.
10

11 Matt Comisky, Washington Manager, AFRC, spoke about the upcoming timber sales
12 presentation. He encouraged staff to continue their diligence and pro-activeness in dealing with
13 appraisals to minimize no bids.
14

15 **TIMBER SALES (Action Item)**

16 **Proposed Timber Sales for February 2019 | 3 handouts, including the presentation**

17 Koshare Eagle, Assistant Division Manager, Product Sales & Leasing Division
18

19 Ms. Eagle shared the results of the December 2018 auctions with the Board. She stated that the
20 Department offered 13 sales totaling 57.8 mmbf. Of those, eight sales sold totaling \$11.6 million
21 for an average of \$340 per mbf with 1.6 bidders per sale on average.
22

23 Ms. Eagle asked the Board for questions regarding the December 2018 auction results.
24 Commissioner Peach asked if there was anything the Board could do to provide extra flexibility
25 to the Department in order to value sales accordingly and adapt more quickly to market changes.
26 Ms. Eagle advised there would be more on this topic later in the presentation.
27

28 Ms. Eagle then presented the auction results for current fiscal year 2019 based on planned sales.
29 She stated that the Department has sold 173 mmbf so far in fiscal year 2019, which is 84 percent
30 of the planned volume for the first two quarters. She shared a graph that displayed what was
31 planned and sold in each quarter, with sale volume only displayed in the planned section the first
32 time it was offered and the sold section once sold. For example, the volume shown as planned in
33 the 2nd quarter that did not sell will still show as planned in the 2nd quarter, but will show as sold
34 in the 3rd or 4th quarter. Based on the current plan of 510 mmbf, there is still 304 mmbf left to be
35 offered this fiscal year, not including reoffered volume.
36

37 Ms. Eagle then gave a short presentation on how the Department appraises timber sales and a
38 market outlook. She stated that the Department uses a cruiser and appraiser who contacts mills
39 through a log price survey in order to obtain current market values. This appraiser compares new
40 data with previous values that shows trends in timber markets. She displayed a graph
41 demonstrating market trends using average delivered log prices that is just what the mill pays.
42

43 Ms. Eagle noted four species that are the most prominent in DNR sales; Douglas-fir at 63
44 percent, western red cedar at 2 percent, red alder at 5 percent, and white woods, primarily
45 western hemlock at 30 percent. Douglas-fir prices were up by 20 percent in fiscal year 2018, but
46 have been down 26 percent in fiscal year 2019.
47

1 Ms. Eagle mentioned the Department utilizes multiple sources to track future market trends
2 including the appraisers and Department economists. She said that markets are dipping, but
3 projected to rebound in 2019 and into 2020 though not to the levels seen in 2018. Ms. Eagle
4 shared that constraints on homebuilders will lower market increase expectations and that the
5 outlook for 2020 is pointing towards what was seen in fiscal year 2017.
6

7 Ms. Eagle then provided the Board with details regarding the Department's Record of Decision
8 process. This process allows the Department, through Board Resolution, to reappraise sales after
9 the Board has approved a minimum value. There are two separate resolutions, 1301 and 1304.
10 Resolution 1301 applies to unsold contract harvest sort sales and allows the Department to
11 reappraise quickly and reoffer unsold sort sales in order to keep projects viable. Resolution 1304
12 applies to all Board approved sales and transfers appraising authority to the Department
13 Supervisor. The Department looks at sales between Board approval of minimum value and
14 auction to determine if the prices are still appropriate given current market conditions.
15

16 She added that Resolution 1304 also applies to offered, but unsold sales; this process allows for
17 the reappraisal and reoffering of unsold sales, which is why sales do not come back to the Board
18 if unsold. Other reasons for reappraising sales would be changes to sale design or estimated
19 costs.
20

21 Commissioner Peach stated that not following a plan of sales could create an arrearage if those
22 sold sales did not meet a price expectation. Commissioner Peach also noted that sometimes the
23 set minimum may be the appropriate value even if there are no offers made and that a steady
24 flow of sale volume is beneficial to both mills and beneficiaries. Commissioner Peach then asked
25 whether the Department has the authority, within a seven-day window, to reappraise sales
26 approved by the Board as well as what gives that authority and who approves the new value(s).
27 Ms. Eagle responded there is a ten-day window, authorized through resolution 1304 with
28 Department Supervisor approval.
29

30 Ms. Eagle added that the Department analyzes no-bid sales to determine the most appropriate
31 month of reoffer, which is why unsold sales do not appear in the month following first offer.
32 Commissioner Peach asked whether the Department is able to negotiate value due to no bids or
33 whether the Department only reoffers sales. Ms. Eagle responded that it is only a competitive bid
34 process.
35

36 Ms. Eagle then presented proposed sales for upcoming auctions to the Board.
37

38 Commissioner Franz asked the Board for questions regarding the proposed sales.
39

40 Commissioner Peach asked whether the Department looks at lumber prices, in addition to log
41 prices, when appraising market values. Ms. Eagle responded with the affirmative.
42

43 Hearing no other questions, Ms. Eagle asked for approval of the proposed sales as presented.
44

45 MOTION: Commissioner Peach moved to approve the proposed sales.
46

47 SECOND: Dean Wright seconded the motion.

1
2 ACTION: The motion carried unanimously.
3

4 **PUBLIC COMMENTS FOR CHAIR REPORT**

5 Russ Pfeifer-Hoyt, WSSDA, Chair TLAC, noted the letter of support sent to the Governor's
6 office regarding select budget items of DNR for requests of best benefit to trust revenue. He also
7 spoke about common school trust lands to trade for encumbered lands and the 28.3 encumbered
8 lands request.
9

10 Rod Fleck, Forks City Attorney, spoke about the encumbered lands, reduced harvest on DNR
11 lands, and that the proposed SHC will set an annual harvest level at the lowest harvest level in
12 the last half-century. He suggests that, as the Board explores the proposed LTCS and SHC, they
13 look at the impacts to the junior taxing districts.
14

15 Matt Comisky, WA Manager, AFRC, spoke about the encumbered lands proposal and his
16 general support of the concept. He shared concerns of young plantations in non-habitat areas that
17 are considered encumbered due to the use of alternative H during the process. He reminded the
18 Board that the encumbered lands project is a pilot project and we still have the same challenges
19 to provide volume to the market place.
20

21 **CHAIR REPORT**

22 **Encumbered Lands Update**

23 Lenny Young, Strategic Advisor to the Deputy Supervisor for State Uplands
24

25 Mr. Young briefed the Board on work the Department has been doing surrounding encumbered
26 lands for the past year and a half. He explained that encumbered lands are trust lands where a
27 variable retention timber harvest is no longer possible solely due to Endangered Species Act
28 obligations that are part of DNR's Final Habitat Conservation Plan. He stated that following the
29 Legislature's direction, the Department's work has been specific to Pacific, Wahkiakum, and
30 Skamania counties, adding that more than 16,000 acres of encumbered lands remain in the three
31 counties, and represent an estimated total encumbrance of \$285 million. He stated that marbled
32 murrelet encumbrances occur in Pacific and Wahkiakum counties, and northern spotted owl
33 encumbrances occur in Skamania County.
34

35 Mr. Young shared that in the 2018 Capital Budget, the Legislature directed DNR to assess
36 options to replace timber trust revenue lost to these encumbrances as an alternative to continuing
37 State Forest Land Replacement appropriations. Additionally, the Department received direction
38 to consult with the three counties and stakeholders, and report its findings and recommendations
39 to the Legislature. To this end, the DNR convened an Encumbered Lands Steering Committee.
40 The Committee and DNR narrowed a wide range of solution possibilities to four possible
41 approaches. Two of these received most of the Committee's attention going forward.
42

43 He further explained that the first major approach is to transfer unencumbered Common School
44 Trust lands to the counties and acquire superior replacement assets for the Common School
45 Trust. With the necessary legislative appropriations, this approach appears to represent a
46 complete solution for Pacific and Wahkiakum counties, and a partial solution for Skamania
47 County. Mr. Young shared that the benefits to the counties are restoration of timber revenue and

1 support for their economies and that the benefits to the Common School Trust are diversification
2 of the trust's asset portfolio and improved overall rate of return, and that all encumbered lands
3 will remain in conservation status. The total estimated need for this inter-trust land transfer and
4 asset replacement process is \$107 million. The second major approach is to increase revenue to
5 Skamania County from Gifford Pinchot National Forest. DNR and the Committee have
6 identified several early ideas on how to accomplish this and are planning to engage USDA Forest
7 Service (USFS) leadership to explore these possibilities and other opportunities.
8

9 DNR has submitted its report to the Legislature. The following recommendations are included in
10 the report: 1) conduct a \$28.3 million proof-of-concept Trust Land Reinvestment Pilot project.
11 This will give effect to the inter-trust land transfer and asset replacement process; 2) enter into a
12 collaborative effort with USFS aimed at implementing new, creative approaches to improve
13 Skamania County revenue and the county's economy. and 3) continue biennial State Forest Land
14 Replacement appropriations that provide funds to the three counties until long-term solutions are
15 in place. The Department also intends to advance discussions with trust beneficiaries and
16 stakeholders, and to seek synergies with regional working lands and conservation initiatives such
17 as the Solutions Table, the Rural Communities Partnership Initiative, and the Pacific Northwest
18 Coast Landscape Conservation Design.
19

20 Commissioner Peach shared that other counties are interested in the outcome of this process. He
21 spoke about the process of future cash flows and the disposition of properties and noted items to
22 consider; change in land use and the discount rate that drives the rate and then asked if the rate is
23 that same as the entire state and if not, why does the variance exist? He also asked about the
24 future cash flow in relation to taxes, and direct distribution of cash. He referenced the PSF, and
25 the role the Board plays in the process, suggesting that there could be possible improvements to
26 the document or its execution. He also asked if we are adequately replacing the cash distribution
27 at the junior taxing district level.
28

29 Mr. Brodie replied that the Department has not done an analysis in terms of tax revenues. He
30 explained that he understood that the process is that private lands reverted to the county due to
31 tax delinquencies and the county then asked the State to manage them. The revenue generated is
32 to replace tax revenues that the county would have earned if the lands had stayed in private
33 ownership. He explained that assumptions are as if the lands are in productive status, without the
34 encumbrance, in order to get equal value for the exchange. In regards to the interest rate, we are
35 attempting to ensure internal alignment between our strategic use of interest rates under
36 sustainable harvest and land valuations. He stated that the Department does use the concept of
37 future expectation values or rent values when estimating values for future cash flows. This helps
38 to calculate timber values and land values for those properties and comparison of other lands
39 values in the regions are used. He stated the Department has not explored the impact to the junior
40 taxing districts.
41

42 At the conclusion of the Chair Report on Encumbered Lands, Ms. Eagle provided a correction to
43 information given during her timber sales presentation regarding the 10-day window. She
44 clarified that Resolution 1304 states that for sales that have not been to auction yet, the
45 Department has flexibility to reduce the minimum bid up to auction. She also stated that sales
46 already offered do need to abide by the advertising window established for the sale of natural

1 resources per RCW 79.15.080, which is 10 days for values under \$250,000 and 28 days for
2 values above \$250,000.

3
4 **2019 Legislative Session Update**

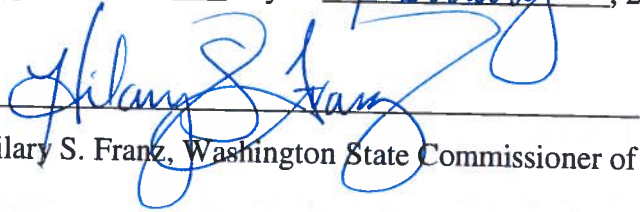
5 Angus Brodie, Deputy Supervisor for State Uplands

6
7 Mr. Brodie provided a high-level overview of the Department's 2019 legislative budget requests.
8 He shared that there are three focus areas: 1) wildfire and forest health with a request of \$55
9 million, \$38 million towards the operating budget, and \$17 million for the capital budget. He
10 stated that the main components are to add 30 full-time fire fighters, increase community
11 engagement in wildfire prevention, increase aerial response time, amplify forest health initiatives
12 and increase landowner assistance. 2) Environment and Resiliency with a \$90 million ask, \$28
13 million towards the operating budget, \$68 million for the capital budget. He stated that the main
14 components are to restore and strengthen habitat for salmon; protect rare and endangered
15 species; help small landowners sustain their forests; and remove legacy toxic for aquatic
16 environments, reduce sediment loads into fish-bearing streams and improve the quality of storm
17 water run in urban areas. 3) Rural Communities and Trust Health, with a \$34 million ask, \$9.4
18 million towards the operating budget, \$24 million for the capital budget. He noted there is more
19 capital requests for state lands and then shared that the main components for this request are to
20 increase revenue for trust, expand successful sectors of DNR's portfolio, capitalize on
21 commercial real estate opportunities, pursue and develop clean energy projects, and support the
22 recreation industry.

23
24 Commissioner Peach asked about funding for fieldwork, such as timber sale preparation, and
25 suggested that could be an area of investment. Mr. Brodie replied that more aspects will be
26 covered during the upcoming State of the State Lands Report.

27
28 Meeting adjourned at 10:58 AM.

Approved this 5th day of February, 2019



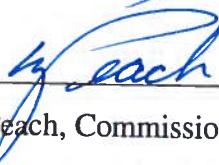
Hilary S. Franz, Washington State Commissioner of Public Lands

Absent

JT Austin, Designee for Governor Jay Inslee



Chris Reykdal, Superintendent of Public Instruction



Bill Peach, Commissioner, Clallam County

Absent

André-Denis Wright, Dean, College of Agricultural, Human, and Natural Resource Sciences,
Washington State University

approved via conference line

Dan Brown, Director, School of Environmental and Forest Sciences,
University of Washington

Attest:



Tami Kellogg, Board Coordinator