



The Trust Lands Performance Assessment Project

Charting a Course for the Future



Upon arriving in office in 2017, Commissioner of Public Lands Hilary Franz set a clear agenda for transforming state trust lands management to achieve a prosperous, sustainable future for trust beneficiaries and the people of Washington. The non-tax revenue generated on state trust lands funds vital infrastructure and services throughout the state.

As a first step to transformation, she worked with the Washington State Legislature to support a comprehensive assessment of state trust lands management. The result was a budget proviso (ESSB 6095, Section 7105) that required a valuation of state trust lands, an assessment of their ecosystem services and recreation benefits, and an analysis of the challenges and opportunities of managing these lands into the future. This work was completed by Deloitte Transactions and Business Analytics (Deloitte), Earth Economics, and DNR, respectively.

What We Learned

DTBA calculated the “trust value” of state trust lands, in which the value of the land is based on the income it produces. State trust lands have a combined trust value of **\$2.6 billion**. Below are the results for each of seven asset classes of state trust lands.

Asset class	Gross income	Net operating income ²	Trust value	Net operating income/trust value ³
Timber	\$171.7 million	\$123.6 million	\$2,136 million	5.79%
Agricultural	\$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 sites	\$ 4.8 million	\$3.4 million	\$41.2 million	8.16%
Other resources ¹	\$3.2 million	\$2.2 million	\$20.3 million	11.03%
Mining	\$1.9 million	\$1.3 million	\$16.6 million	7.99%
Grazing	\$1 million	\$0.7 million	\$10.5 million	7.00%
Total	\$216.4 million	\$155.1 million	\$2,558.6 million	6.07%

¹ Includes clean energy; special uses such as archery clubs, underground storage, golf courses, and research agreements; right-of-way access; and special forest products such as floral greens and boughs.

² Net operating income is the income DNR provides to trust beneficiaries (gross revenue minus the revenue that DNR retains for the management of state trust lands).

³ This column represents the rate of return.

The Transformation Agenda

- Optimize policies, statutes, and operational business practices to improve efficiency and performance, make trust revenue more reliable on a year-to-year basis, and increase state trust lands portfolio performance.
- Invest in working forests and agricultural lands while improving and expanding other components of the state trust lands portfolio that show promise for immediate and continued growth.
- Rethink existing state trust lands portfolio management tools while developing new tools that will help increase the revenue-generating potential of state trust lands and safeguard the natural resources that make Washington the beautiful place that we love.



Earth Economics estimated the total economic value of outdoor recreation on state trust lands at **\$990 million per year**, the total social value of carbon at **\$18.7 billion**, and the total value of all other ecosystem services at **\$1.4 billion per year**, all of which are achieved in conjunction with DNR’s sustainable revenue-generation programs. These benefits demonstrate that maintaining state trust lands as working forests and agricultural lands creates value far beyond the revenue they generate. The following table shows results by asset class.

Asset class	Asset acres	Annual ecosystem service value	Social cost (value) of carbon
Forested	2,170,070	\$1,231.6 million	\$16.6 billion
Cultivated	301,807	\$84.5 million	\$0.7 billion
Grazing	366,240	\$46.2 million	\$1.0 billion
Other	124,969	\$37.7 million	\$0.4 billion
Total	2,963,086	\$1,400.0 million	\$18.7 billion

DNR identified the two primary challenges for state trust land management as the amount and reliability of revenue provided to trust beneficiaries. In real dollars (adjusted for inflation), total net revenue has declined 35 percent in the past 25 years, which has been coupled with challenges to the steady and reliable delivery of revenue. Timber, the largest asset class in the portfolio, has decreased 45 percent in real revenue over the same time period, due to falling log prices and resource protection measures to meet environmental regulations. To address these challenges, DNR identified four major opportunities, each of are described in DNR’s report to the legislature:

- **Update DNR’s business model to improve state trust land portfolio growth and performance, while establishing modern business practices and accountability.** For example, create a reliability fund to increase revenue and make that revenue more reliable on a year-to-year basis and explore ways to increase timber revenue.
- **Increase access to capital.** Additional capital will enable DNR to make investments in land and infrastructure that will increase revenue in the future.
- **Ease statutory limits on land transactions** to enable DNR to diversify its portfolio. Diversification can increase the amount and reliability of revenue.
- **Provide DNR the portfolio management tools it needs** to be an active and constructive partner with communities. For example, enhance the Trust Land Transfer and Community Forest programs.

Next Steps

In the 2021 legislative session, DNR is bringing forward legislative proposals for improving the timber sale process and extending commercial real estate leases which will have zero fiscal impact in light of current state budget challenges and impacts of COVID-19. DNR also will bring forth a number of capital funding requests to facilitate much-needed replacement of outdated leasing data systems and investments in forests inventory, silviculture, and forest health to increase revenue from the timber asset class while also creating jobs.

Over the coming year, DNR will work with the legislature, beneficiaries, tribes, stakeholders, and advisory councils in a collaborative process. The goal is to develop and implement significant, consequential, innovative, and multifaceted solutions that will maximize the potential value of state trust lands today and in the future for beneficiaries and the state of Washington.

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