



Trust Land Transfer Proviso
Phase 2 Work Group

Best Interests of the Trusts Analysis

Meeting 4.0 | April 13, 2022



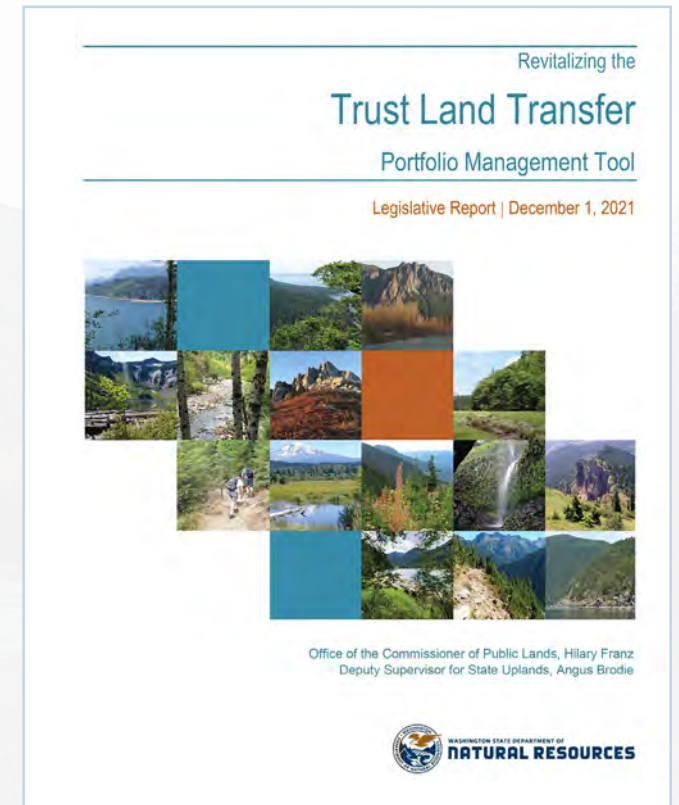
WASHINGTON STATE DEPARTMENT OF
NATURAL RESOURCES

TLT Phase 1 Report



- “Best interests of the trust” language is sprinkled throughout the Phase 1 report 13 times
- Phase 1 report states:

“DNR will evaluate each application to ensure each proposed transfer is in the best interests of the trusts and therefore eligible for TLT. As part of this analysis, DNR will consider the value of the property; the likely, future revenue potential of the proposed transfer; and other factors”
- How has DNR determined “best interest of the trusts” for TLT to date?



Best Interests of the Trusts: Fiduciary Duties



- **Duty of loyalty:** The trustee administers the trust solely in the interest of the beneficiaries.
- **Duty of prudence:** The trustee is held to an objective standard of care in managing the trust property.
- **Subsidiary duties:** The duty of impartiality (no favoritism between classes of beneficiaries), the duty not to commingle trust property and the trustee's personal property, and the duty to inform and account to beneficiaries.



Prudent Person Doctrine:

“A reasonably prudent person is an individual who uses good judgment or common sense in handling practical matters. The actions of a person exercising common sense in a similar situation are the guide in determining whether an individual's actions were reasonable.” WAC 192.100.010

Best Interests of the Trusts: Common Law Duties

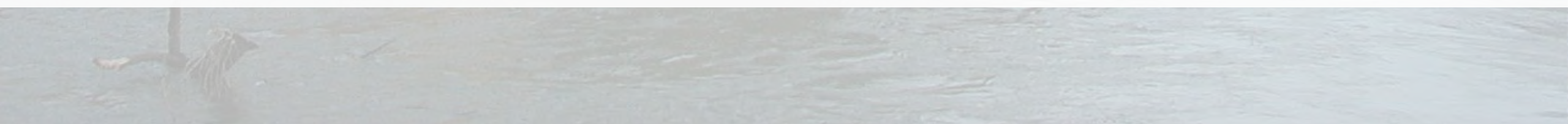


- **Generate revenue and other benefits for each trust by meeting DNR's trust management responsibilities:**
 - Making state trust lands productive
 - Preserving the corpus of the trust
 - Exercising reasonable care and skill in managing the trust
 - Acting prudently with respect to trust assets
 - Acting with undivided loyalty to trust beneficiaries
 - Acting impartially with respect to current and future trust beneficiaries





Current Process

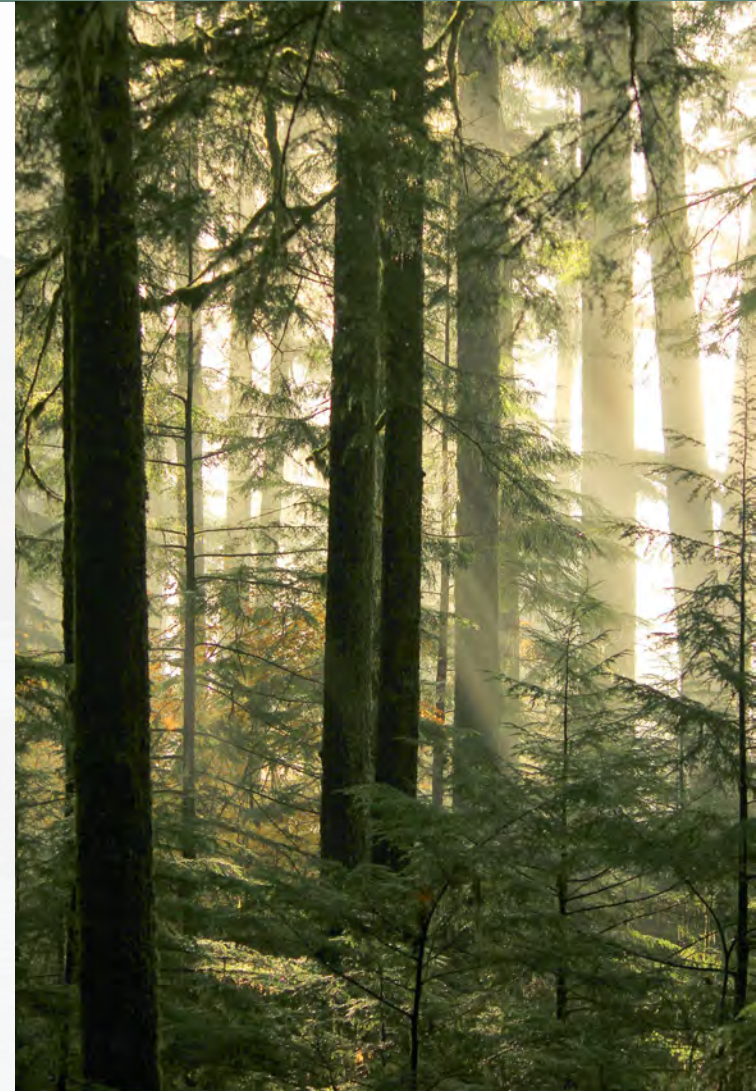


Best Interests of the Trusts: Productivity Assessment



- **Productivity assessment**

- Staff utilizes a **site index map** to assist with measuring site productivity.
- Staff calculate million board feet from soil type and tree species.
- General goal is to determine whether the site is productive, based on growth potential and merchantable timber.



Best Interests of the Trusts : Operability Assessment



- **Operability assessment**
 - Uses an analysis of physical site features, ecological features, and social features to identify operability issues or challenges.
 - General goal is to determine the feasibility/reality of generating revenue from timber harvest.



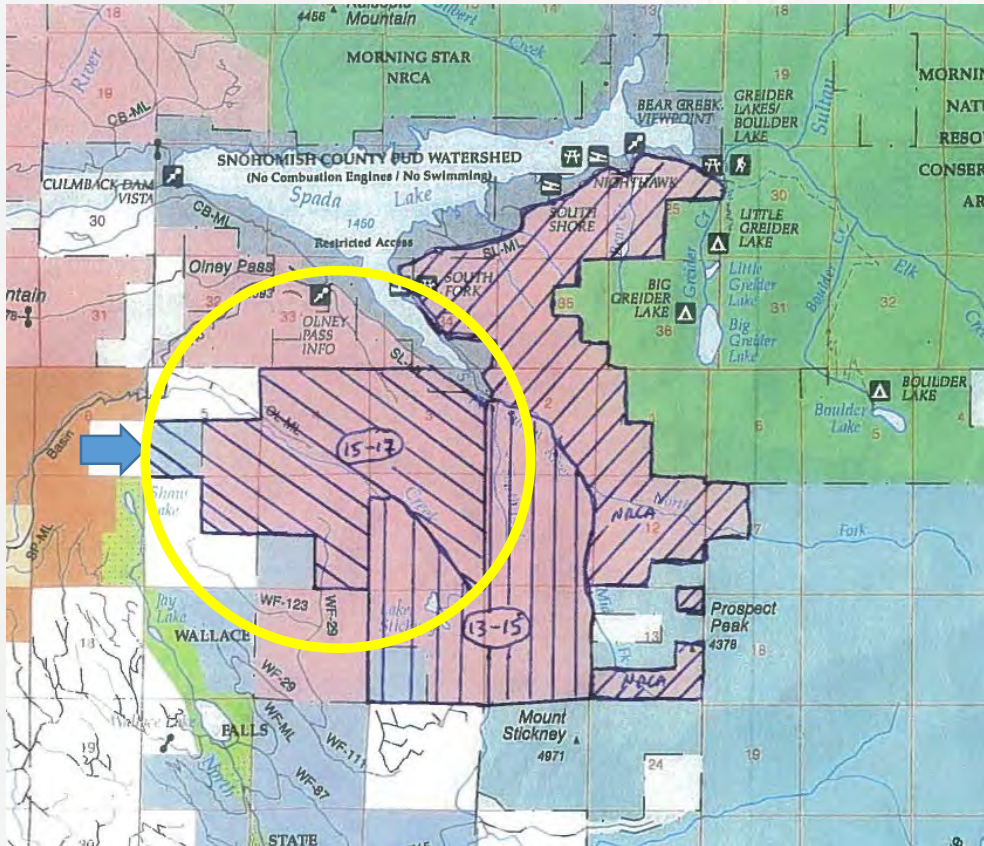
Best Interests of the Trusts : Valuation Assessments



- **Valuation assessment**
 - Pre-valuation assessment
 - Formal valuation
 - General goal is to identify timber value vs. land value to meet 80/20 rule

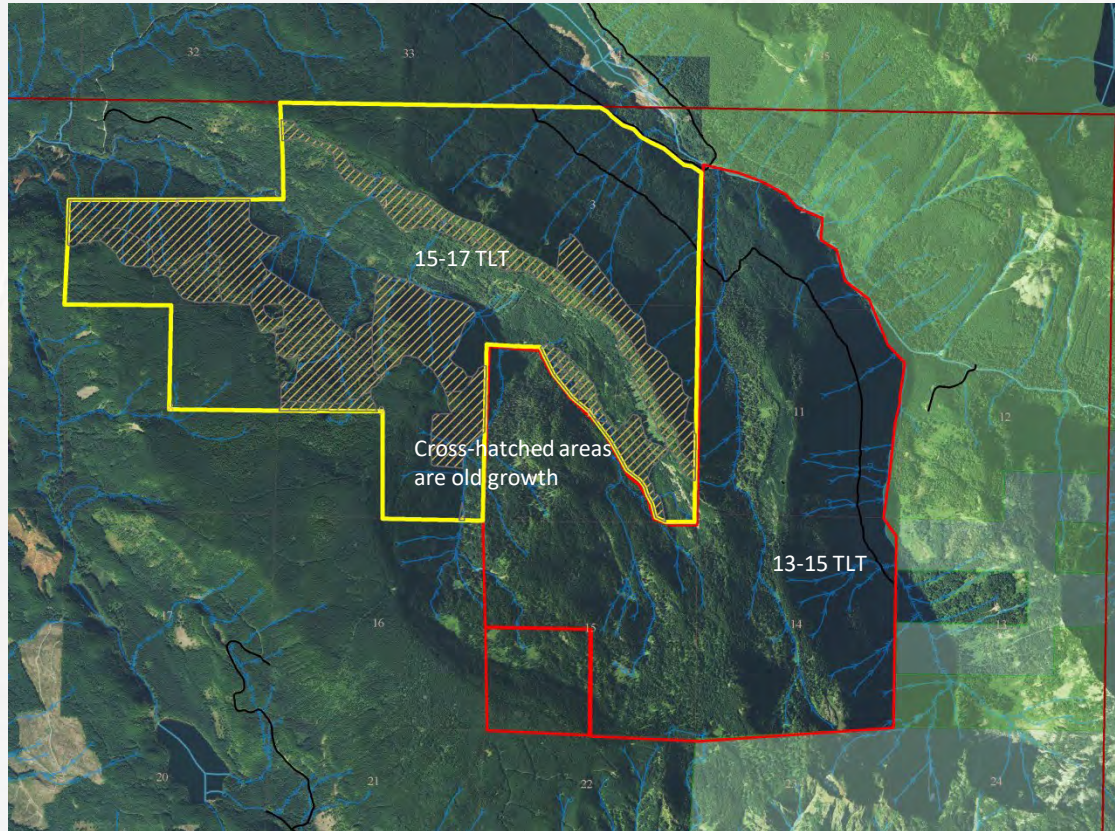


Example 1 | Northwest Region: Morning Star



- **Property information**
 - 2,550 acres
 - NW Region/Snohomish County
 - DNR Natural Resources Conservation Area (NRCA) site expansion
- **Productivity assessment**
 - Western hemlock / Site Class 4 and 5
 - Timber volume 33 million board feet

Example 1 | Northwest Region: Morning Star

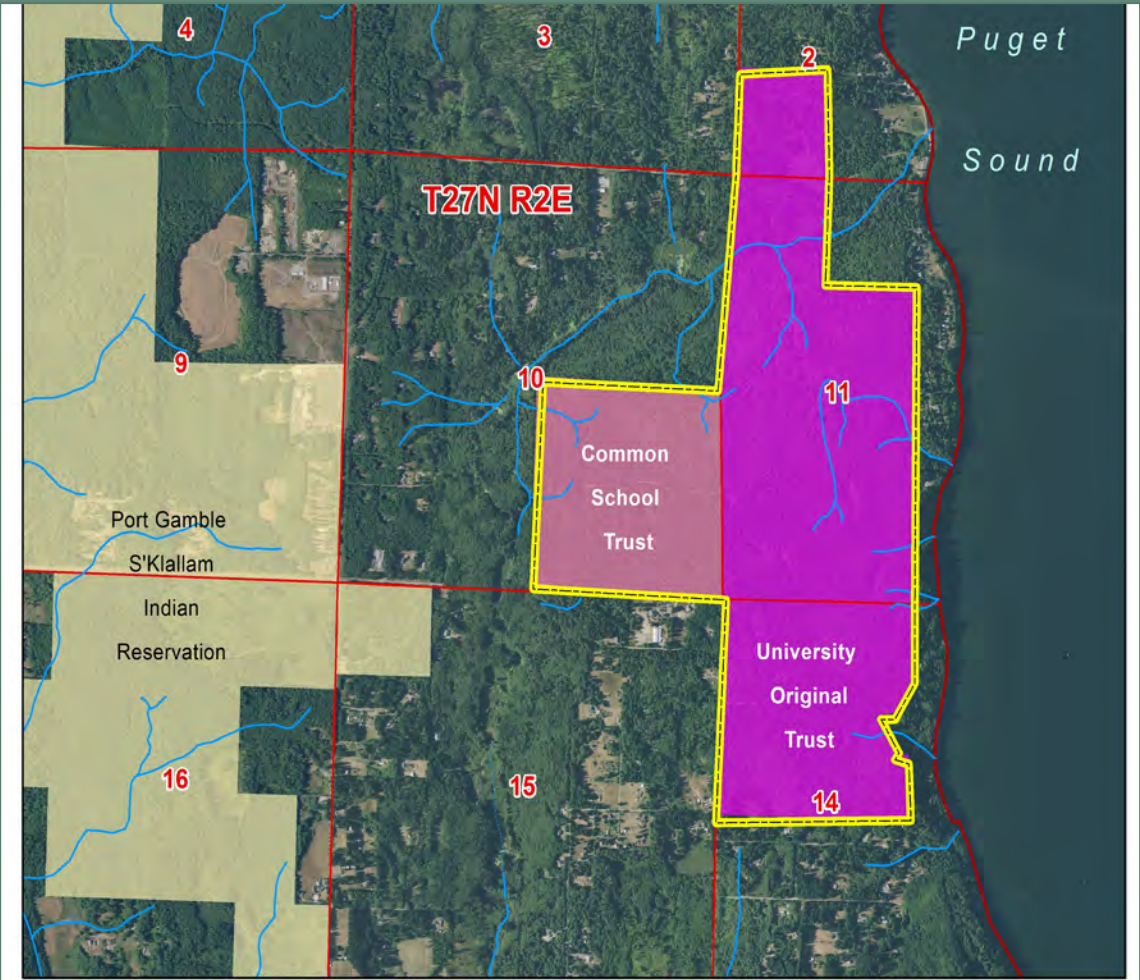


- **Operability assessment**
 - Inoperable areas: old growth, wetland, talus, riparian management zones
 - Management issues
- **Valuation assessment**
 - Timber value \$6,027,000
 - Land value \$1,019,000

Example 2 | South Puget Sound Region: Eglon



- **Property information**
 - 640 acres
 - Located in Kitsap County
- **Productivity assessment**
 - Douglas fir / Site Class 2
 - Timber volume 8.52 million board feet
 - Stand replacement harvest
 - Commercially thinned



Common School (3)	WA Dept of Fish and Wildlife
Agricultural School (4)	Non-DNR State Managed Land
Scientific School (10)	Federally Managed Land

KITSAP COUNTY

State of Washington

Example 2 | South Puget Sound Region: Eglon



- **Operability assessment**
 - Wetland area and potential old growth on north 80 acres
 - Social/political:
 - 2021 TLT Proviso directed DNR not to remove valuable materials
 - Expanded residential development and residential zoning
 - Recreation activity increasing
- **Valuation assessment**
 - Timber value \$2,824,000
 - Land value \$1,280,000
 - **Realized revenue \$0**





Framework for a New Process



Framework for a New Process



“Ensuring the transfer is in the best interests of the trusts is crucial to the success of this tool.”

TLT Phase 1 language:

- DNR will consider the value of the property,
- The future revenue potential of the proposed transfer, and
- Other factors.

What “other factors” would the work group like to explore?

- Quantifiable
 - Counted or measured; “how many,” “how much,” or “how often”
- Qualitative
 - descriptive, expressed in terms of language; “why” or “how”

TLT Work Group Discussion: Process Change Ideas



Productivity assessment (quantifiable)

- Articulate site index information:
 - Identify soil and tree species
 - Identify analysis to be utilized for non-forest lands
 - Identify impact to sustainable harvest
- Factual assumptions based on actual conditions

Operability assessment (qualitative)

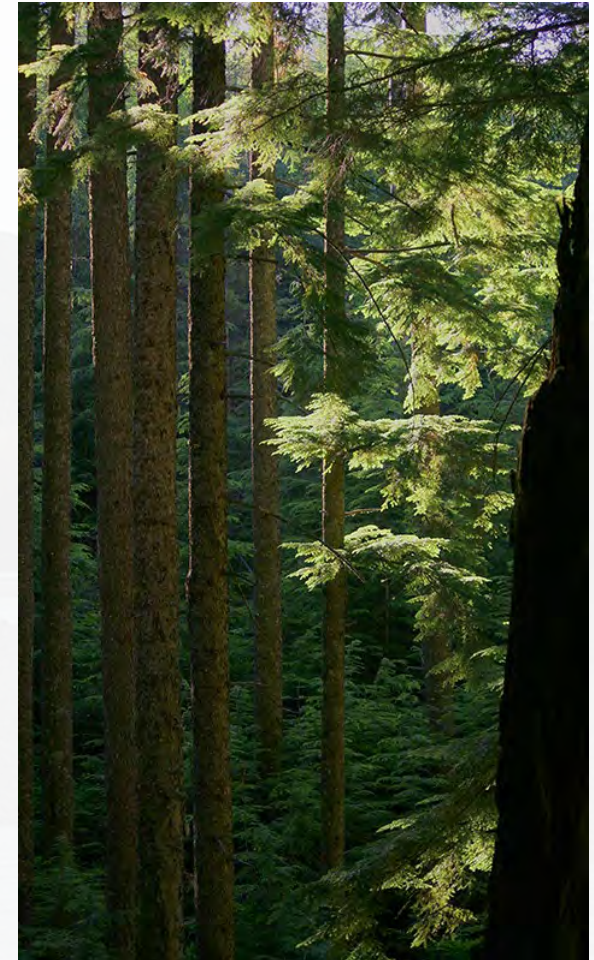
- Articulate site conditions/operational issues
- Qualitative risk analyses: policy risks/landscape risk

TLT Work Group Discussion: Process Change Ideas



Valuation assessment (quantifiable)

- Articulate appraiser analysis
 - Location
 - Asset class/trust
 - Acres
 - Value (land and improvement)
 - Projected cash flow for dispositions and acquisitions
- Identify baseline expected cash flow
- Identify possible obstacles capturing full market value for the trust beneficiary



TLT Work Group Discussion: Process Change Ideas



Valuation assessment (quantifiable)

- Complete an analysis for return-on-investment
- Goal is to open up opportunity to acquire higher value asset, versus retaining an asset that has revenue-generating limitations
- Develop definition for non-performance and under-performance?

