



Trust Land Performance Assessment





Washington State Department of Natural Resources

Asset Classes

June 2019



Purpose

Today's Meeting

- . Review the draft valuation methods
- ..Review the initial idea list from stakeholders

Board Tour

- . A story in transition
- ..House keeping for the tour



The team

Deloitte Transaction and Business Analytics

Profile of the team

- vast industry experience
- certified appraisers with extensive credentials
- dedicated and excited about the unique opportunity
- several have institutional knowledge of the 1996 work as they were part of the team



Proviso

Section 1

(1) The department of natural resources must conduct an asset valuation of state lands and state forestlands held in trust and managed by the department. The analysis required in subsections (3) and (4) of this section may be provided through contracted services.



Trust Value



Methods

Forest

Income

Direct Capitalization. Revenue based on analysis of prior 10 years of revenue and volume. $\text{Volume} \times \text{Rate} = \text{Revenue}$. Expense based on analysis of prior 10 years. Direct capitalization of net income to an indication of value. Capitalization Rate used will be adjusted to reflect appropriate regulatory mandates.

Direct sales Comparison

Land Value Plus Retail Timber Value less adjustments for legal limitations and other attributes. Analysis will segregate the acreage by geography (East/West), Soil Class, and Topography Type. Corresponding timber will be allocated by species and age. Stand size and/or valuation unit size to be determined.



Methods

Irrigated perennials, Irrigated annuals, Dryland

Income

Direct Capitalization based on existing contract base. Revenue based on analysis of prior 10 years of revenue. Existing Leases plus adjustments = Revenue. Expense based on analysis of prior 10 years. Valuation unit size to be determined.

Direct sales Comparison

Analysis will segregate the acreage by factors that can be identified and valued in bulk. Land Value based on comparable data less adjustments, including adjustments for differences in net income from Ag production, regulatory mandates and other relevant factors. Valuation unit size to be determined.



Methods

Communication sites, Solar, Wind

Income

Direct Capitalization based on existing income streams. Expense based on analysis of prior 10 years. Direct capitalization of net income to an indication of value. Capitalization Rate used will be adjusted to reflect appropriate regulatory mandates.

Direct sales Comparison

Land Value based on comparable data less adjustments, including adjustments for differences in net income, regulatory mandates and other relevant factors.



Methods

Commercial- leased land, land and buildings

Income

Direct Capitalization based on existing contract. Capitalization Rate used will be adjusted to reflect appropriate regulatory mandates.

Direct sales Comparison

Land Value based on comparable data less adjustments, including adjustments for differences in net income, regulatory mandates and other relevant factors.



Methods

Undeveloped urban enhanced, urban unimproved, rural transitional land

Income

Approach not used

Direct sales Comparison

Land Value based on comparable data less adjustments, including adjustments for differences in net income, regulatory mandates and other relevant factors.



Ideas

Purpose of these notes: This is a collection of ideas from internal DNR staff, stakeholders and revenue generating opportunities. The outcomes of the project are set in proviso language and DNR sees them address adequate funding across the asset classes, and 3.) increase the reliability and equity of revenue to the state.

- Note the author took the utmost care in listening to suggestions and capturing them in this document how

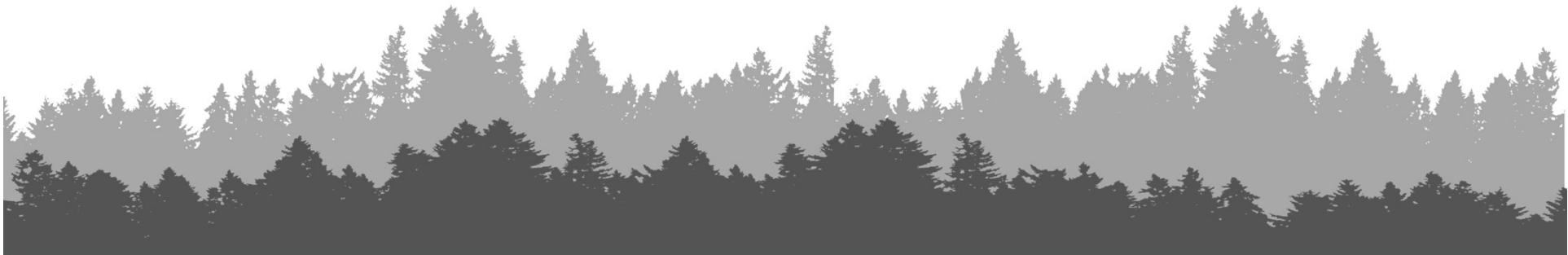
Suggestion	Constraint
Divest from trust lands and put the funds into alternative investment	
Harvest target should be expressed as monetary targets rather than translated to volume	
Update the riparian restoration strategy to increase riparian harvest set against out to date desired future condition targets	
Update the HCP to have specific blocks that are managed to Forest Practices standards (industry) and for blocks that have a conservation objective	
Hire a person to explore/develop ideas for new/non-traditional revenue. The position should be temporary and can be let go if monetary performance is not improved	

-Over 40 ideas from stakeholders

-Excellent internal suggestions

-Suggestions hint at process improvements and statutory constrictions

-Vast range of ideas



Trust land performance assessment	Sept. 2018	Oct.	Nov.	Dec.	Jan. 2019	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan. 2020
Develop RFP																	
Release RFP		Complete															
Select applicant pool and finalize contractor			Complete	Complete													
Award contract				Complete													
Contractor working on valuation and performance assessment					Complete	Complete	Complete	Complete	Active	Active	Not started	Not started	Not started	Not started	Not started	Not started	Not started
Internal Work																	
Develop data requirements, assemble data packages; GIS, expenditures	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Active								
Writing, reporting, summary of trends, review										Not started	Not started	Not started	Not started	Not started	Not started	Not started	Not started
Researching new revenue generating opportunities	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Active	Active	Active	Active	Active	Active	Active	Active	Active
Outreach																	
Stakeholders Initial brainstorming on the project	Complete	Complete	Complete	Complete													
Ongoing work with stakeholders					Complete	Complete	Complete	Complete	Active	Active	Not started	Not started	Not started	Not started	Not started	Not started	Not started
Legislative members	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Complete	Active	Active	Active	Active	Active	Active	Active	Active	Active

Complete

 Not started

 Active

Interim report due to Legislature
December 1



On tour

- Your safety is the utmost priority
- If you need something, ask

Remember

- Open Public Meeting Act requirements
- The tour is for you so ask questions
- Staff work tirelessly so when you have a chance make sure you thank them

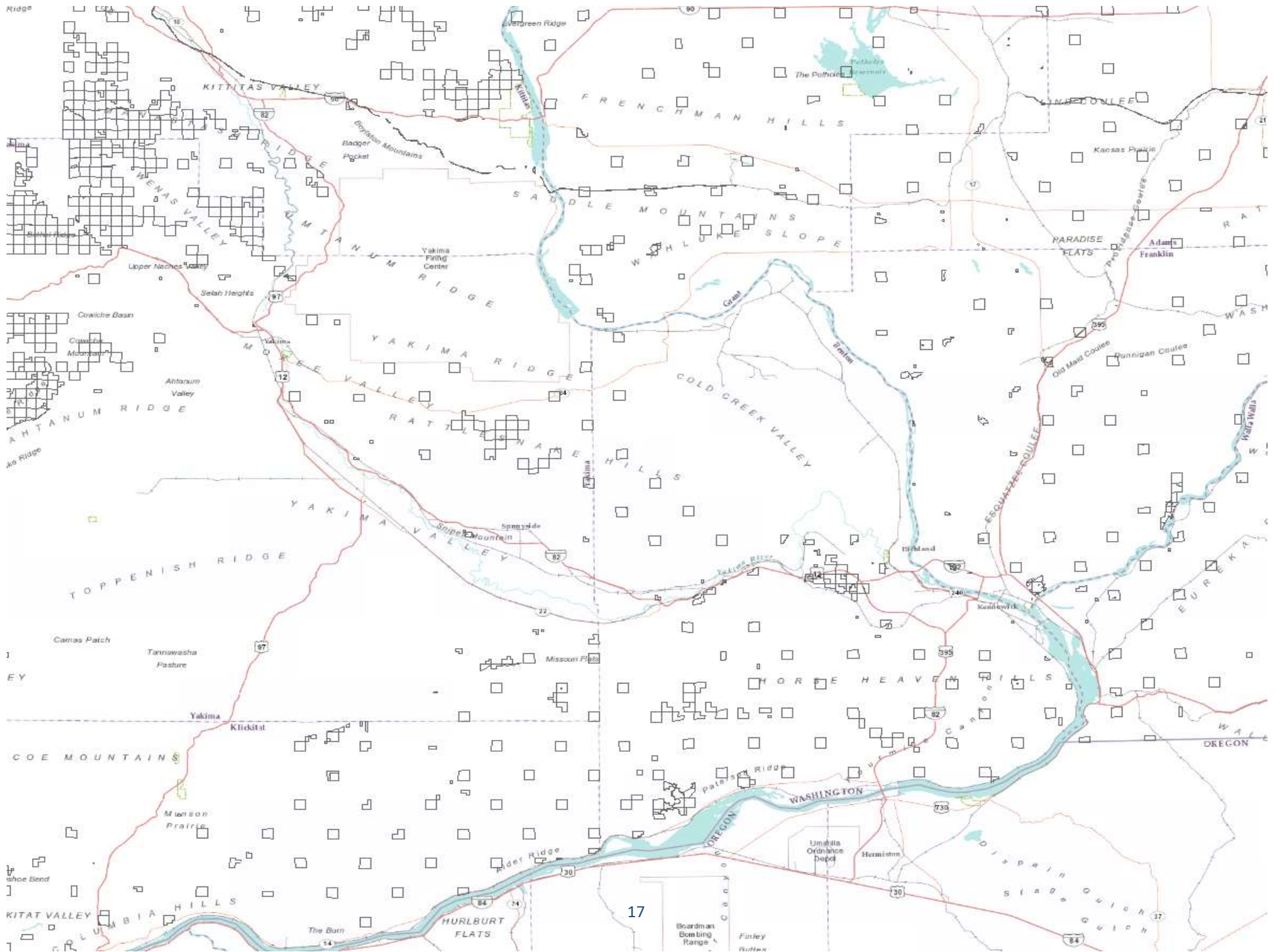


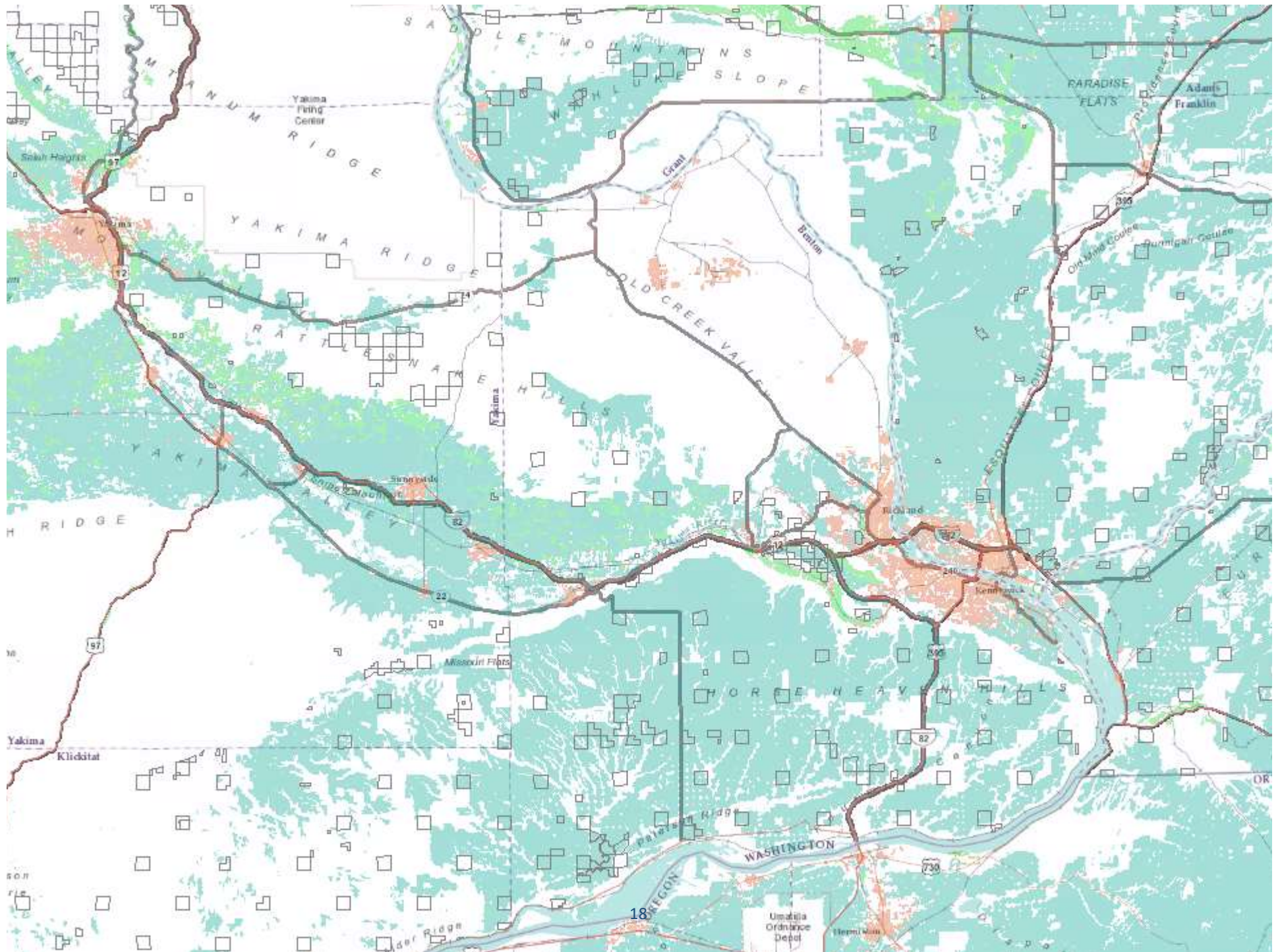
Story of Transition

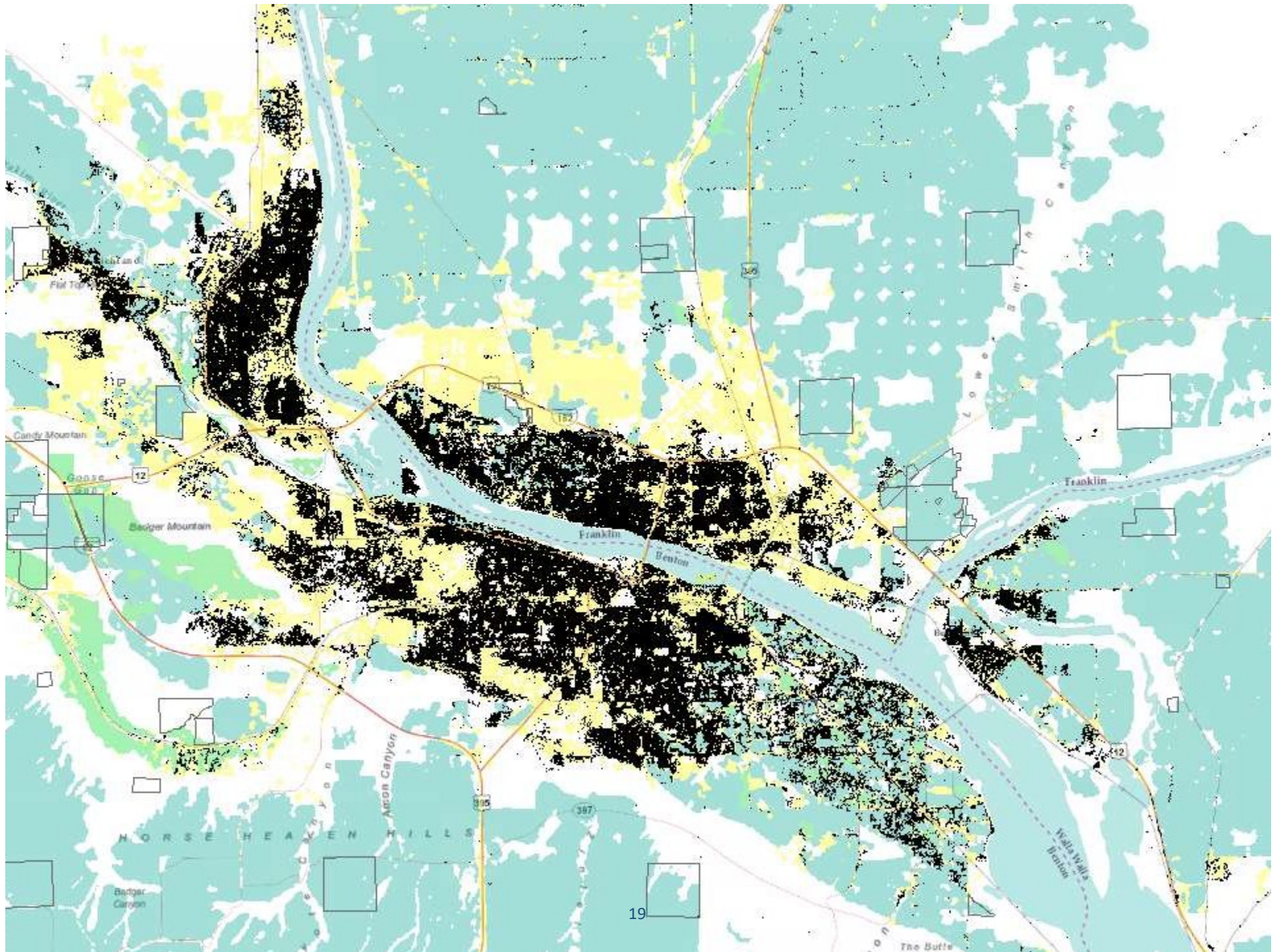


The Basin







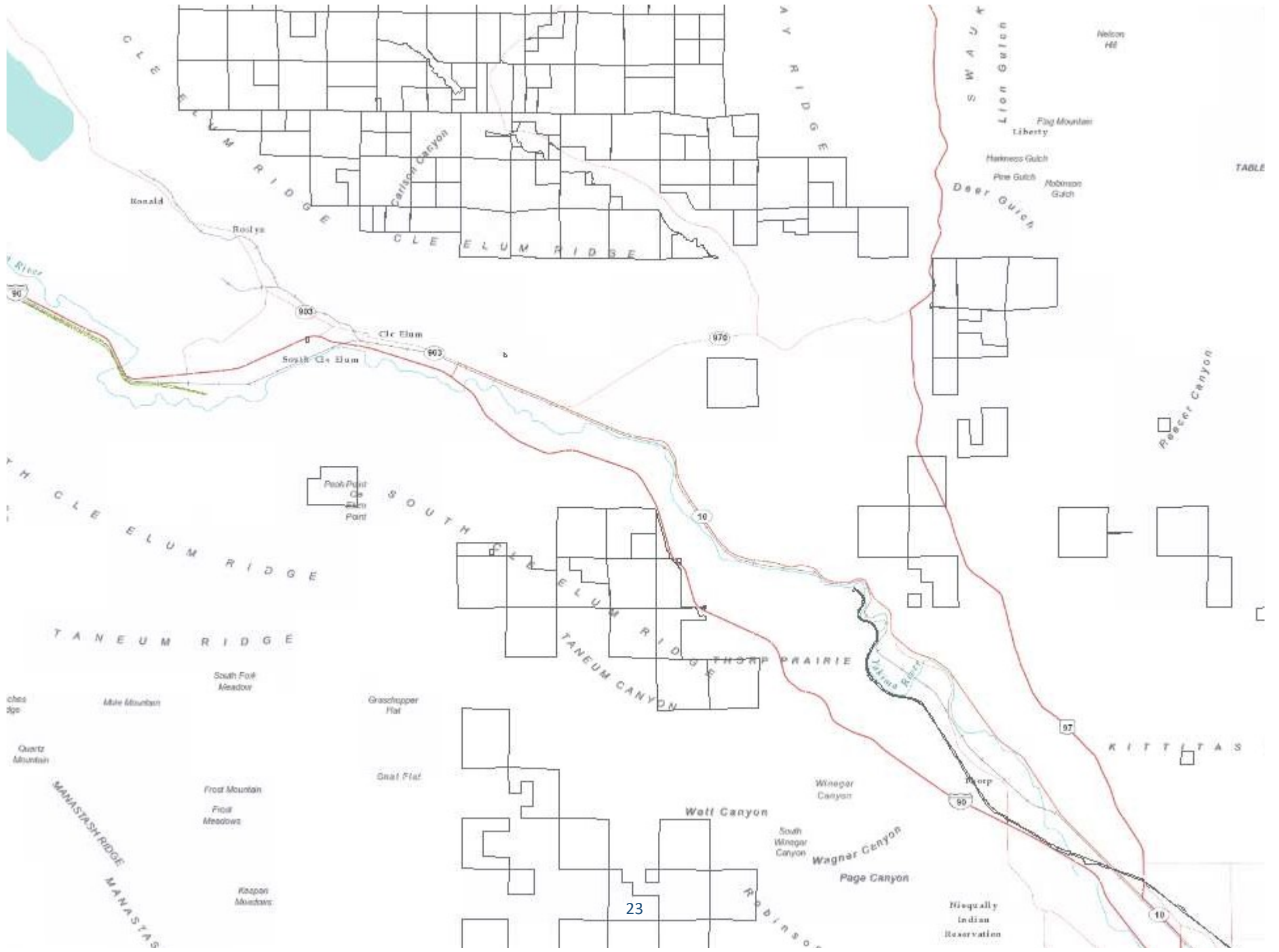


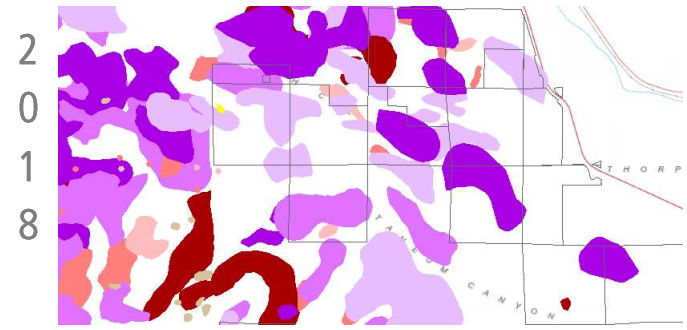
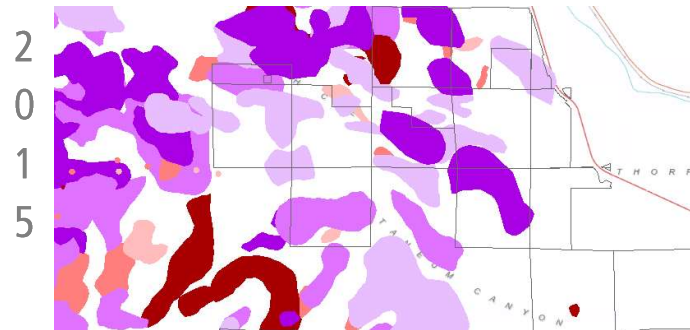
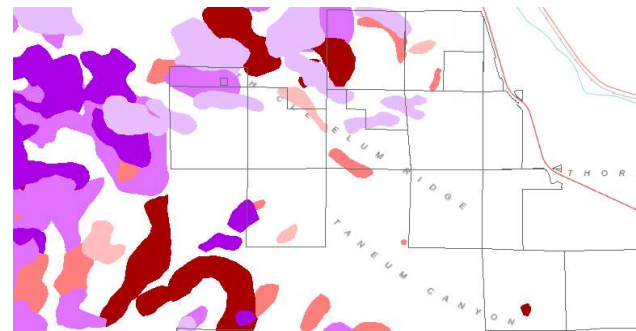
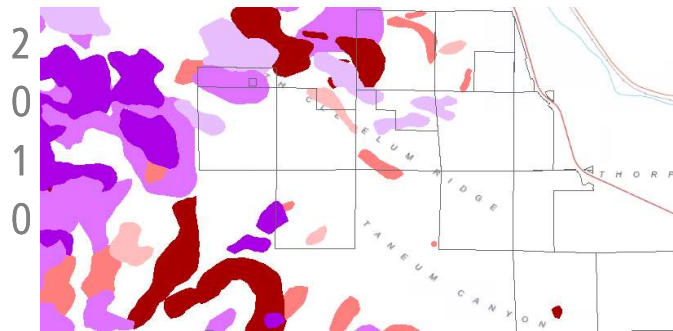
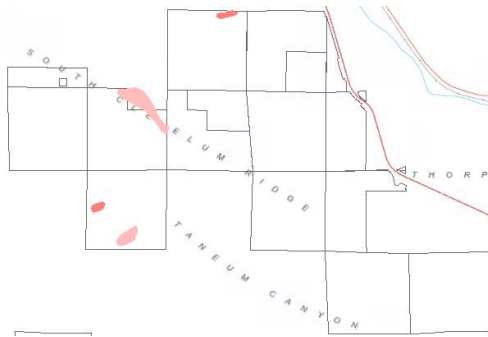
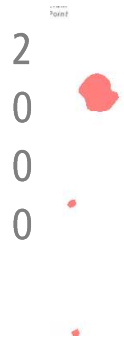




The Forest







Our Job



Ask

- What can the Board do to help
- What resources are needed

Contemplate

- Our policy framework
- Our funding model
- Our duty to the trusts
- Our asset portfolio



62



