

Board Of Natural Resources Chair Report

Trust Lands Performance Assessment Update and Key Findings

December 1, 2020

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and

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Agenda



- Background



- Analyses and Findings



- Challenges and Opportunities



- Initial Recommendations



- Next Steps

Department of Natural Resources

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



December 1, 2020

Draft - Subject to Change



Trust Responsibilities

As manager of state trust lands, DNR has legal fiduciary responsibilities to:

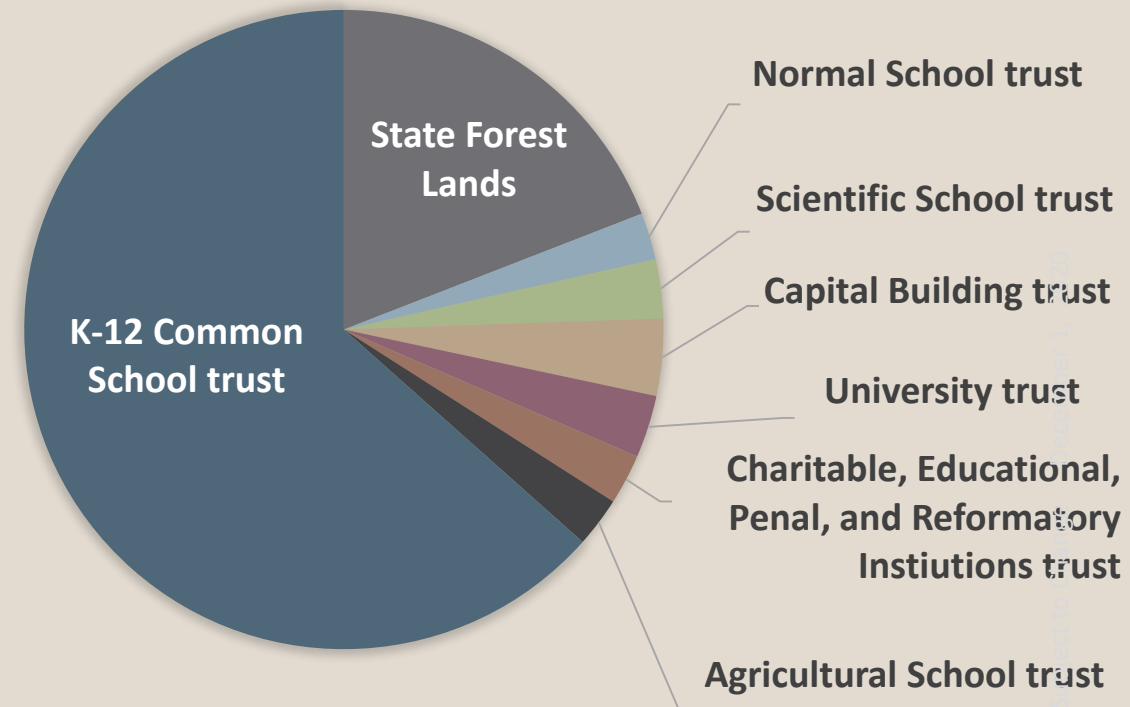
- Generate revenue and other benefits for each trust, in perpetuity
- Preserve the corpus of the trust
- Exercise reasonable care and skill
- Act prudently to reduce the risk of loss for the trusts
- Maintain undivided loyalty to beneficiaries
- Act impartially with respect to current and future beneficiaries



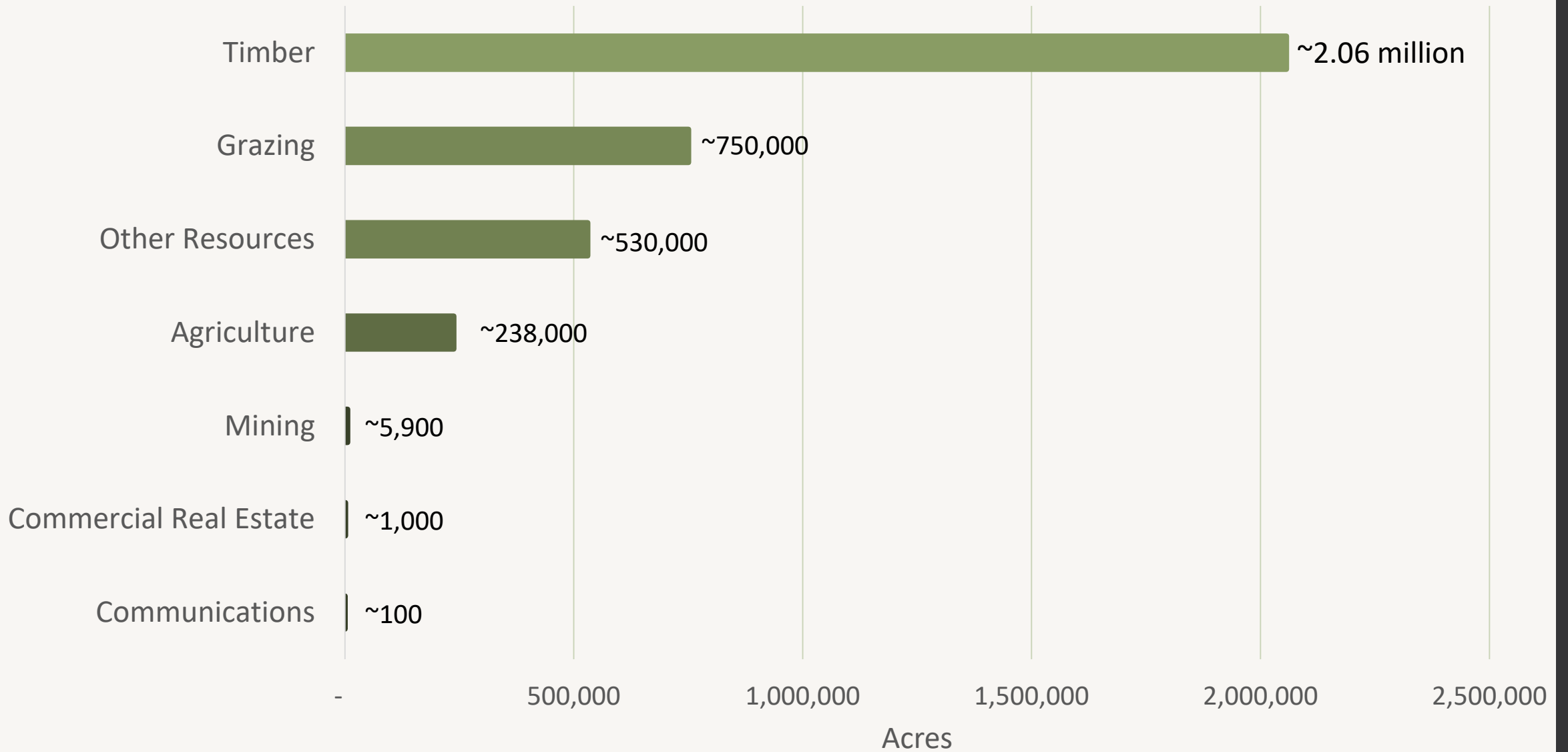
Major Trusts

~2.9 Million Acres of State Trust Lands

	Trust	Acres	Purpose
Federally Granted	Common School Trust	1,787,047	Construction of K-12 Schools
	Capital Building Trust	109,510	State government office buildings
	University Trust	89,051	University of Washington
	Scientific School Trust	84,177	Washington State University
	Charitable, Educational, Penal and Reformatory Institutions (CEP&RI) Trust	71,624	Institutions such as Department of Social and Health Services, Department of Corrections, and University of Washington
	Agricultural School Trust	71,148	Washington State University
	Normal School Trust	66,786	Eastern Washington University Central Washington University Western Washington University The Evergreen State College
State Forest	State Forest Transfer Lands	538,015	Acquired by 21 counties in the 1920s & 1930s through tax foreclosures. Transferred to the state and placed in trust status
	State Forest Purchase Lands	79,384	Purchased by the state, or acquired as a gift



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

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

DNR partnered with the Legislature

(Proviso: ESSB 6095, Section 7105 in 2018)

Shared funding for a comprehensive assessment:

1. Asset valuation of trust lands
2. Estimate fair market value
3. Gross & net income by asset class
4. Value ecosystem services & recreation
5. 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 Lands Assessment Products

1

Trust Portfolio Valuation

An assessment of the asset classes

2

Non-Market Environmental Benefits & Values Assessment

Valuation for ecosystem services, recreation, and carbon storage

3

DNR's Legislative Report

A summary of analyses, findings, challenges, opportunities and initial recommendations

Trust Land Portfolio Valuation Summary

Valuation performed by Deloitte Transactions and Business Analytics



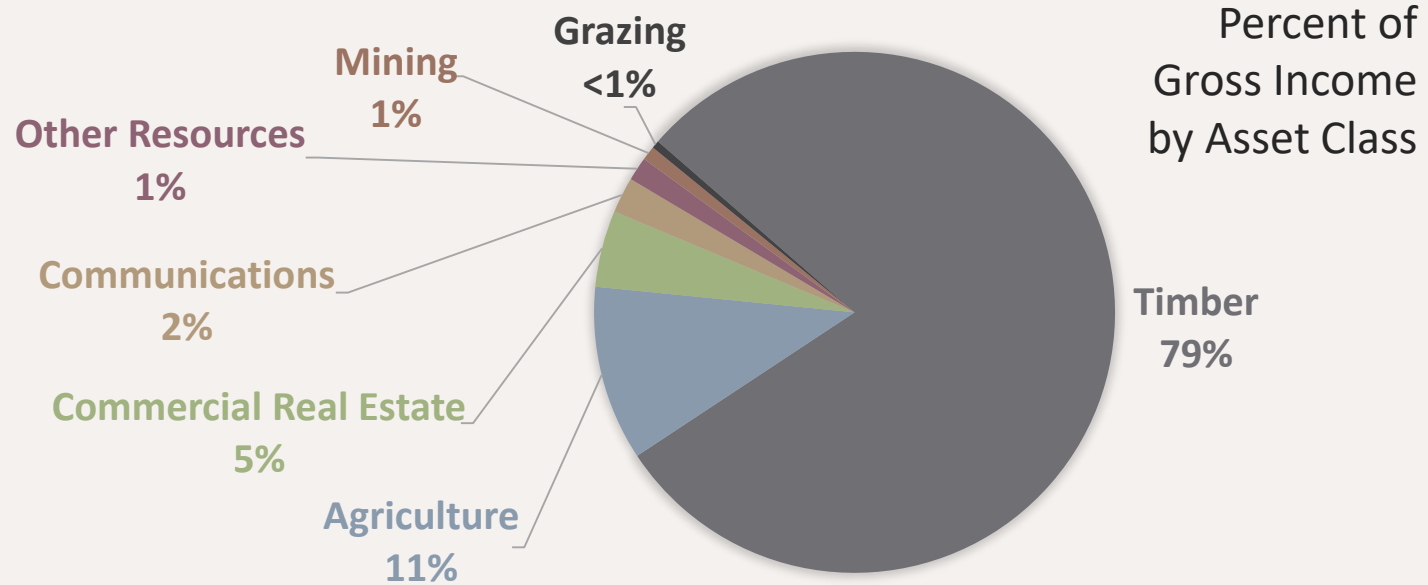
- Beneficiaries are the audience



- Based on FY 2018 revenue



- “Trust Value” identified and defined
- Revenue is the preferred metric for performance



Trust Land Portfolio Valuation Findings

* See Deloitte's report

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 Service 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
- Increased 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

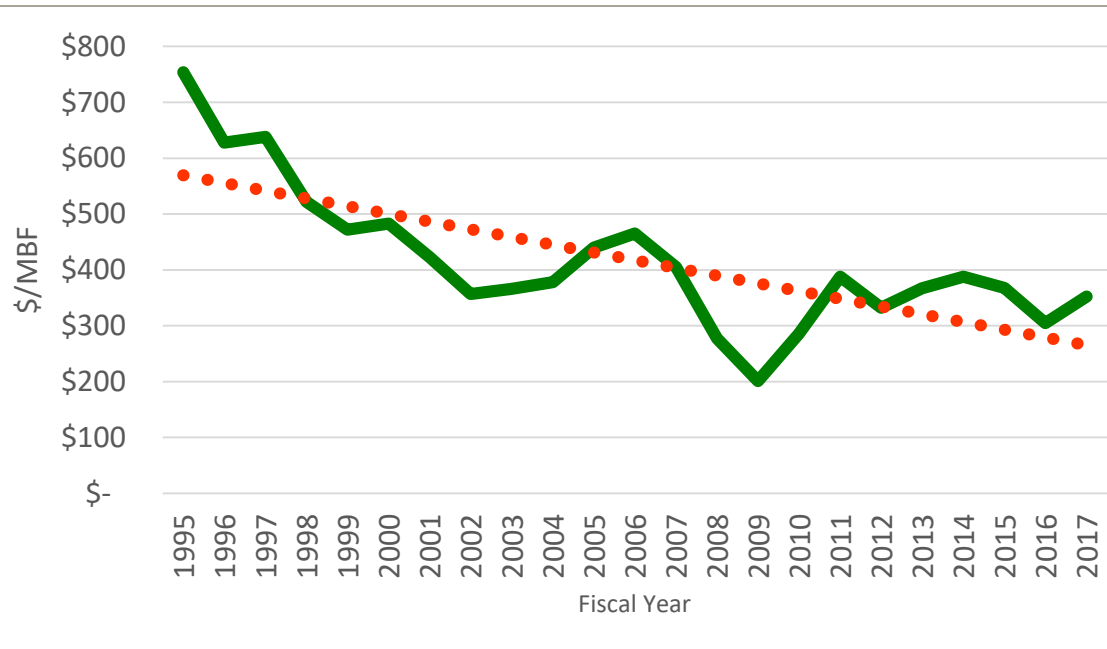
Differences in Net Revenue Between 1995 and 2018

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%

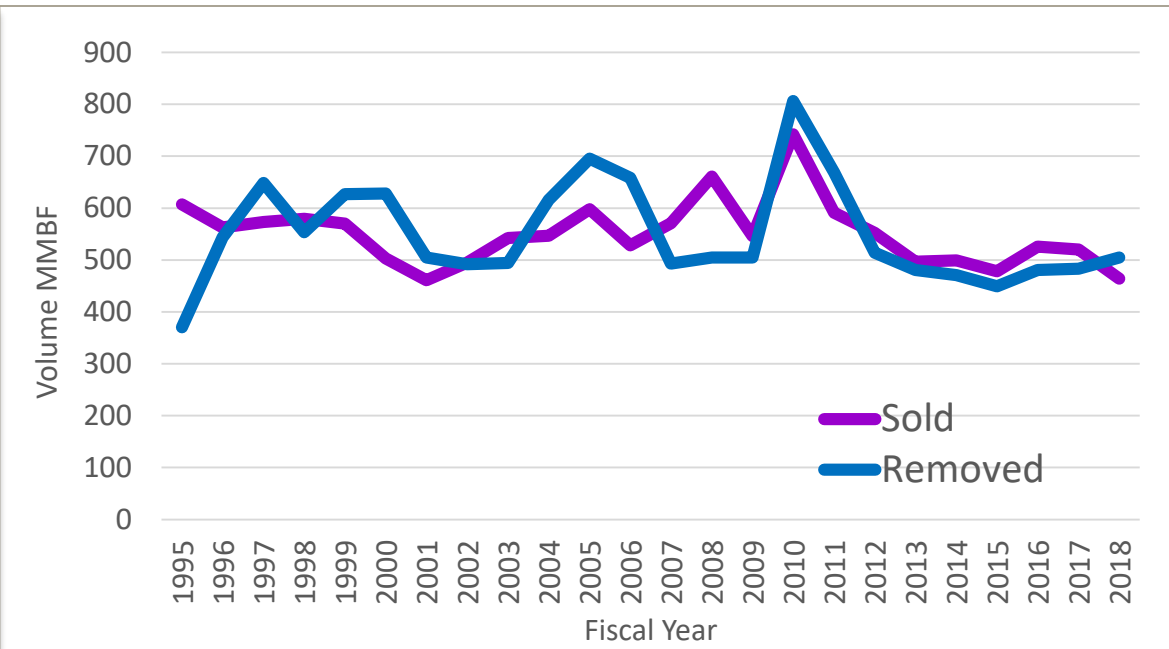
All numbers are rounded

DNR Analysis - Timber Revenue

Stumpage prices for state trust lands



Sold and removed volume from state trust lands

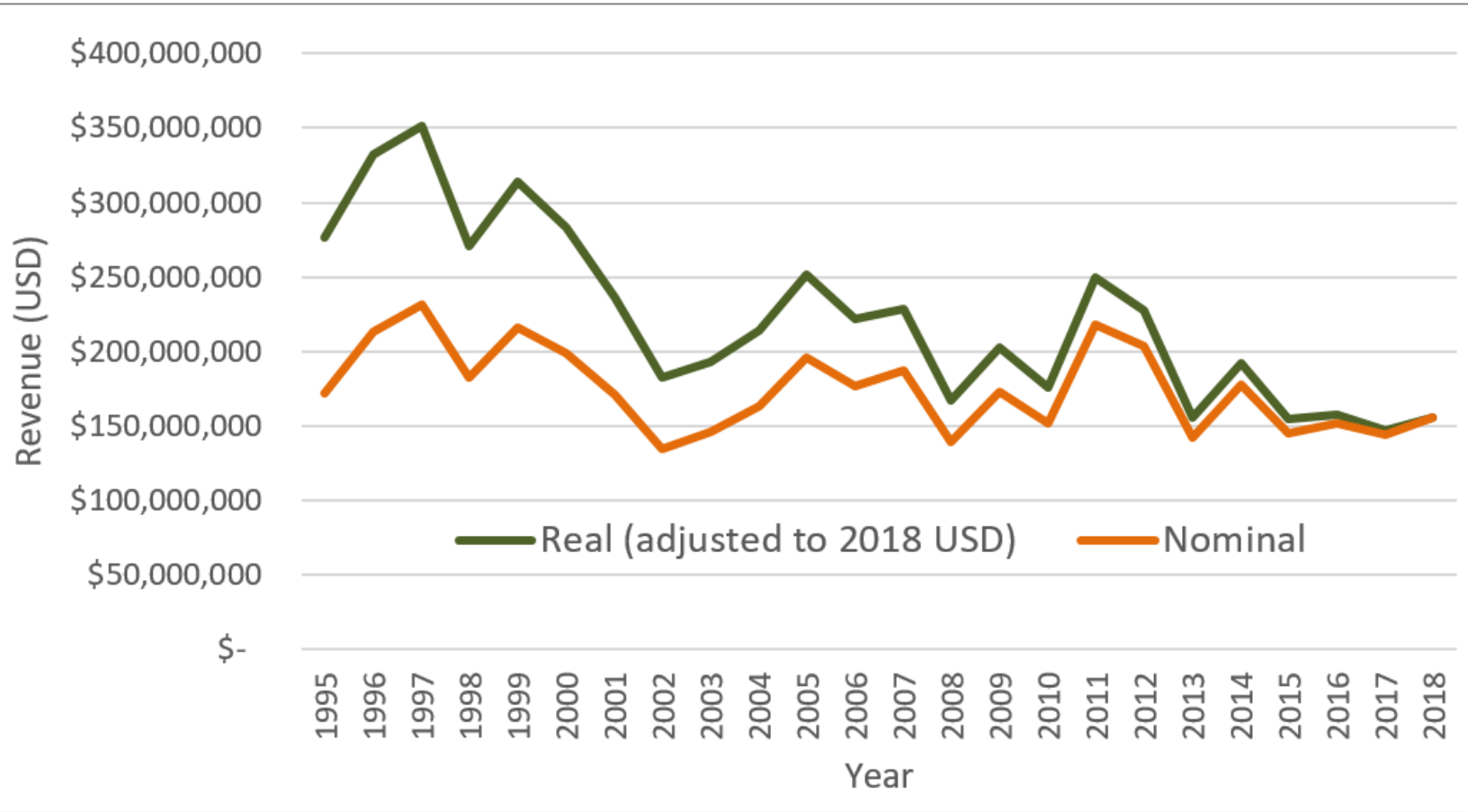


WHY?

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

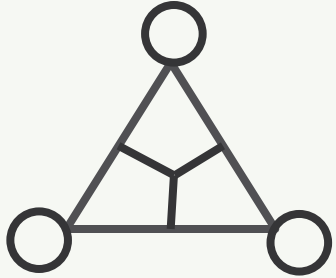
DNR Analysis

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



Challenge:
Revenue
reliability

Opportunities



Update Business Model



Increase Access to Capital



Greater Ability to Transact Lands



Expand Responses to Societal Expectations

Going Forward

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 modernize 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

Going Forward



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



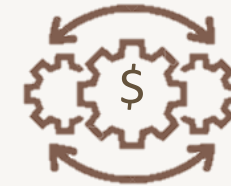
Update Business Model

Initial
Recommendations

Incorporate for-profit-enterprise business practices



New operational funding models



Single investment manager



Reliability fund for beneficiaries





Increase Access to Capital

Initial
Recommendations



Borrowing authority



Smoothing revenue through loans



Monetize ecosystem services



Retaining earnings for capital investment



Greater Ability to Transact Lands

Initial
Recommendations

Public auction requirements

Parcel size limitations on federally granted lands



Plat requirements prior to sale

Land bank acreage limitations



Sale of State Forest Land

Updating asset management policies, specifically for transition lands



Expand Responses to Societal Expectations

Initial Recommendations



Funding sources for recreation



Community Forest Trust



Trust Land Transfer



Trust Land Replacement Program

Modernization Of DNR

- Legislative proposals
- Board policy changes
- Operational updates

Outreach Strategy – Building Solutions

Outreach and
Consensus-building

- **2021 Legislative Session:** Initial proposals
- **2021 April → December:** DNR works with legislature, beneficiaries, and stakeholders to jointly explore and build consensus solutions
- **2022 Legislative Session:** Proposals for trust modernization

Questions?