





Charting a Course *for the* Future

DNR's Trust Lands Performance Assessment Project

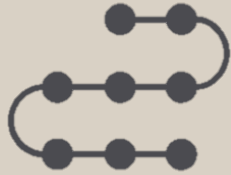


Board of Natural Resources

Kristen Ohlson-Kiehn

June 1, 2021

Agenda



- Recap of Project Timeline



- Outreach Process



- Review of Draft Scope

- Summary of Comments

- Recap Initial Ideas

- Summary of Comments



- Next Steps





2021 Work Plan



Quarter 1:
January - March

- Share Key Findings
- Collect input on:
 - Project scope
 - Ideas for change



Quarter 2:
April - June

- Continue to collect input on:
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 - Ideas for change
- Host Public Webinar

Quarter 3:
July - September

- Seek BNR support for project scope
- Develop potential proposals (e.g.):
 - Form Advisory Committee(s) and/or Work Group(s)

Quarter 4:
October - December

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- Collect input on proposals

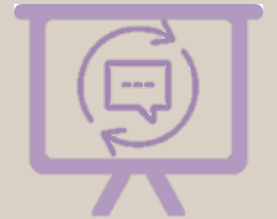


Today's Update

Quarter 2



Formal update to Board on comments



Staff recommendation on scope



Beneficiary & Stakeholder Outreach

November through May
~25 Separate Meetings

- American Forest Resource Council & Forest Products Industry
- Clallam Community
- Conservation Northwest
- Library Directors
- Olympic Forest Coalition
- University of Washington
- Washington Cattleman's Association
- Washington Environmental Council
- Washington Forest Law Center
- Washington Forest Protection Association
- Washington Hardwoods Commission
- Washington State Office of Financial Management
- Washington Office of Superintendent of Public Instruction
- Washington School Directors' Association
- Washington State Association of Counties
- Washington State Department of Social and Health Services
- Washington State Investment Board
- Washington State Legislative Staff
- Washington State University

Public Webinar Outreach



2021

- 50+ Attendees
- Public comments collected through a survey
- April 28th - May 12th
- 19 Commenters



Outreach Feedback and Comments

Today's presentation:

Brief summaries highlighting themes and diverse ideas

TLPA Comment Summary



DRAFT Scope

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 transform 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

DRAFT Scope



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

Comment Summaries by Topic and/or Subtopic



General Scope

Public expectations and DNR's legal responsibilities often conflict

Scope should reflect there may be different goals for different trust beneficiaries; in particular do not conflate federally-granted lands with those created by statute

Include diversification and exploration of new and existing revenue sources

Amend terminology to “maximize revenue” throughout scope

General Scope

Should include equal consideration for '*multiple values*' associated with the asset classes, primarily timber, but also agriculture and others (e.g. carbon sequestration, wildlife, recreation, tribal interests, watershed, etc.)

Should account for context of Climate Change

Recognize the real value is in ecological systems and health

Need

Revenue implies “gross revenue”, consider replacing with
“net cash flow” or “net income”



Change ‘increase revenue’ to ‘optimize revenue’
-> increased returns also increases risk



Include the following concepts:

- Ecological and societal goals
- Long-term resilience
- Intergenerational equity
- ‘*Multiple values*’ of state forestlands

Purpose

Purpose Statement #	Suggestion
1	Include diversity of revenue to improve performance
2	Include updating BNR policy to respond to societal needs including climate change and population growth
3	Include 'update marketing' as well as business practices

Objectives

Objective Statement #	Suggestion
All	Include language about accountability to environmental and social concerns and intergenerational equity
All	DNR shouldn't drift away from core areas of expertise; it puts customers and socio-economic well-being of small communities at risk
2	Include enhancing lands for multiple values, not just sustaining
2	Support sustaining natural resources, including legacy trees and forests
2	Diversification of portfolio should focus on natural resource land investments which support rural economies
3	Remove the “consistent with revenue generation” phrase.

Project Scope – Staff Proposal

See Board Meeting Materials for June 2021



www.dnr.wa.gov/bnr

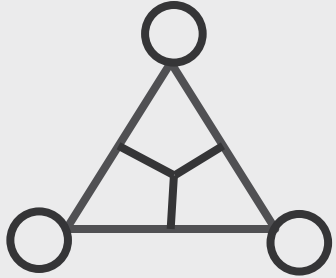


Summary of Initial Ideas Presented

Initial
Ideas

Idea	Summary	Who?	Where?
1	Improve financial systems to incorporate for-profit-enterprise practices	Deloitte	GI 1-4
2	Reliability Fund	Deloitte	GI 10
3	Smooth Revenue Distribution through Loans	Deloitte	GI 14
4	Fund studies to compare DNR's approach to the Endangered Species Act compliance with others	Deloitte	T5
5	Compare services DNR provides to those of an external manager	Deloitte	T6
6	Pursue ways to monetize Ecosystem Services	DNR	p. 39
7	Borrowing authority	DNR	p. 37
8	Capital expenditure funding options examples	Deloitte	GI 8
9	Change trust land management and investments funding	Deloitte	GI 5
10	Statutory, Constitutional, or Enabling Act improvements	Deloitte	GI 11
11	Funding sources for non-trust expenses	Deloitte	GI 12
12	Trust Land Transfer	DNR	p. 38
13	Trust Land Replacement Program	DNR	p. 38

Opportunities



Improve Business Model and Systems



Increase Access to Capital



Greater Ability to Transact Lands



New or Revitalized Management Tools

Initial Ideas - General

Concerned about unintended consequences of some ideas – be thorough and transparent in outreach and involvement

Work with citizens to develop creative and effective solutions to meet multiple values symbiotically

Trust principles should be criteria for any changes

Ideas/tools/policies should respond to societal expectations and pressures

Initial Ideas – General

Any change needs to include consideration of county and taxing district impacts and the effect on the local economies

- This includes any potential statutory changes to sell state forestlands
- Diversification of state forestlands should be explored for interested counties

Board should keep in mind the upcoming Supreme Court decision as it moves forward on ideas.

- Potential change to land management responsibilities and goals

Initial Ideas – Business Model and Systems



Updating of business model needs to include impacts to local communities and counties



Support for updated and transparent financial systems and accounting



Improved business models should explore carbon offsets and values of different forest stands



Need to research business models that include local decision making and allow for ecological and community-based opportunities.

Initial Ideas- Reliability Fund

Several beneficiaries interested in further exploration

Need stakeholder involvement and communication

Impacts to all beneficiaries need to be included
(e.g. local and rural communities)

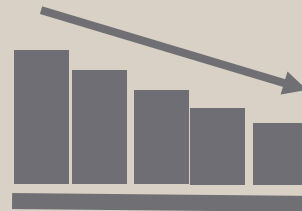
Concern over complexities of developing and initial funding

Initial Ideas:

Smooth revenue distribution through loans

Hesitant to explore smoothing revenue distribution through loans

- Could ultimately result in less revenue to beneficiaries



Initial Ideas: Monetizing Ecosystem Services

Interested in exploring monetizing ecosystem services



Need to understand impacts to beneficiaries



Pursue only if it doesn't compromise revenue distribution



Initial Ideas:

Borrowing Authority and Access to Capital

Increased access to capital is a key component in successful business

Could be interesting to consider a small line of credit (borrowing authority)

Legislature should maintain oversight and fund additional investments in properties



Initial Ideas:

Compare services to external manager

- Should compare administrative costs against other states managing forests
- Suggestion for a Pilot (after appropriate financial systems in place)

Funding of non-trust activities

- Concern about amount of money spent on recreation and timber being taken out of production
 - Logging should be part of the educational experience on DNR lands
- Better accounting systems will allow more accurate costing of impacts of recreation

Initial Ideas: Trust Land management funding



- Need to look at all income, especially if it gets distributed to beneficiaries
 - Excise taxes (and other relevant taxes and fees collected)
 - Access Road Revolving Fund
 - Value of road improvements on land

Initial Ideas: Trust Land Transfer

Support for transitioning under-performing lands out of portfolio and replacing with high-performing



Trust Land Transfer should include a 3rd party review and 120-day comment period



Also include an analysis of the local economic impacts



Believe this program has eroded the corpus of the trust



Support for continuing the Trust Land Transfer Program



Suggestions related to the Policy for Sustainable Forests

- Amend the economic performance section
- New or more fully utilize existing policies

Other Ideas

Think entrepreneurially and be cognizant of unintended consequences

Look for public-private partnership opportunities



Be open to taking
on increased risk
for increased profit

Increase flexibility
for beneficiaries to
participate in
decision making



Other Ideas

Suggestion for
addressing recreation
and tribal interests in
board membership

Policy tools need
to be responsive to
social concerns

Policy change shouldn't result in negative environmental or conservation impacts

Deloitte's report missed analysis of DNR's impacts on local economies

Other Ideas

Highest and Best Use could result in higher returns

Concern about relying too much on Deloitte for ideas

Other Ideas

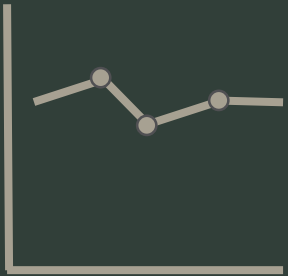
Do not support privatization of any aspect of state lands

Near- and Long-term performance objectives could be mutually exclusive - need to reconcile this

Should rely less on logging



Analysis Gaps



- It does not appear that DNR has evaluated the impacts of increased regulations and DNR requirements on stumpage price
- Need analysis of the impact of the export ban on DNR stumpage prices
- Industry product mix changes at the mills



Still to come

- Tribal Outreach



- Report from WSAC



- More follow-up conversations
(i.e., on specific ideas)



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