

Trust Land Transfer Proviso Workgroup Meeting 2 July 28, 2021 8am-12pm

Member	Attendance
Randy Newman	Present
Heidi Eisenhour	Present
Ron Gelder	Absent
Jim Freeburg	Present
Justin Allegro	Present
Matt Comisky	Present
Cynthia Wilkerson	Present
Peter Herzog	Absent
Angus Brodie	Present
Russ Pfeiffer-Hoyt	Present
Randy Johnson	Present

Workgroup Business

- Timeline Review and Notes
 - Workgroup members agreed to have the entire meeting be recorded.
 - Notes: Workgroup members approved the meeting notes that were sent to them. The notes will be posted to the DNR-TLT website.
- Charter and Proviso
 - Revised Charter Language
 - DNR staff gave an overview of proposed revised language to the workgroup charter.
 - Workgroup members approved the revised language in the charter without objection.
 - Proviso Language
 - DNR staff gave an overview of the legislative proviso language and highlighted the DNR tasks required by the proviso.
- DNR-Managed Lands Overview
 - DNR staff gave an overview of DNR-managed trust lands.
 - A workgroup member asked if State Forest Land Recipients have an expectation of regular funding every year, or if they receive a lump-sum of funding every year. They also asked how beneficiaries account for what may be an unreliable funding stream.

- DNR staff said DNR tries to create projections so that taxing districts can know what to expect, but it can be difficult. The revenue from state forest lands may not be a reliable source of revenue because of the changing markets for timber and forestry.
- A workgroup member said junior taxing districts can range from fire districts to hospital districts and pool districts. They said counties try to break out expected funding for each of their junior taxing districts and send information out to them so they have something to use for budget planning. They said junior taxing districts rely on the funding from state forests.
- The workgroup member asked if counties get at least a little bit of timber money in timber-heavy district. The previous workgroup member said their county sees revenue every year from timber since their county has a lot of timber land. About 13%-14% of that funding goes to the county's general fund and about the same amount goes to the public works department for infrastructure. For some other counties, especially smaller timber-dependent counties, the funding from DNR-managed timberland makes up a significant portion of their general fund.
- The workgroup member asked if DNR had data on how much revenue from DNR-managed timberland makes up of counties' budgets. DNR staff responded that they have some data on that and would look for it. There are some counties that put the revenue directly into their general funds. DNR staff added that the funding may vary not only by county but also by junior taxing district, with what may seem like a small amount of money making up a significant portion of their budgets.
- A workgroup member asked if there are counties who have invested in an endowment using the revenue from state forest lands to create more stable revenue sources. They also asked if state statutes or local statutes prevent investment in endowment funds by beneficiaries.
 - DNR staff said the Deloitte report included a recommendation to create endowment accounts accounts. Several counties have considered this option, and have included opinions on the creation of an endowment fund in a report submitted to DNR. Counties would need to understand what exactly that would look like and how it would work before that option could be pursued or supported. The idea is very conceptual right now.
 - A workgroup member said there is not likely to be a unanimous opinion among all timber counties on this issue. They said some junior taxing districts don't have the ability to think about an endowment account because they may not be able to regularly set aside a reserve as they rely on all of the revenue received from state forest lands.
 - Another workgroup member said their junior taxing district has developed internal budgeting tools to manage the different amounts of revenue received from state forest lands. They are still working out the details of this. The WA State School Directors Association supports the creation of

a voluntary investment account so they could predict and increase their revenue over time. His taxing district receives about \$0.5M-\$1.5M annually, and has a total budget of about \$30M.

- Another workgroup member said junior taxing districts also receive a timber excise tax on timber sales on all trust lands (state and federally granted) within their boundaries, which generates additional revenue that many of them rely on.
- A workgroup member asked where revenue generated from community forests goes. DNR staff responded that this revenue would go back to support the community forests program. As of right now, no revenue has been generated from community forests.
- A workgroup member asked if any revenue generated by natural or conservation areas goes back to the natural areas. DNR staff responded that some areas have Discover Pass requirements, and the funding from this is distributed for natural areas program and recreation. Sometimes there are fees for natural areas, which are put into a Natural Resources Stewardship account. As conservation lands, these lands are generally not set up to generate revenue. There is one parcel that has a communications site, and the revenue from that site is used to restore the site.
- If workgroup members want additional information about trust lands, DNR staff can meet privately with them to provide more information or answer any questions.

Land Transactions Overview

- DNR staff gave a presentation that provided information about land transactions.
- A workgroup member asked why the Trust Land Transfer tool doesn't exist for acquisitions and disposal.
 - DNR staff said the TLT tool is thought of as a way to dispose of lands that are hard to manage, have significant societal pressures, or have significant cultural value. The money that is generated from the land value in the TLT process goes to the replacement account, but DNR doesn't have an internal tool that links the money earned from the specific TLT transfer to the specific replacement purchase transaction parcel(s). DNR does account for trust beneficiaries funding received in the Real Property Replacement Account (RPRA) and all of the purchases/expenditures from the RPRA by state trust beneficiaries.
- The workgroup member said the State Forest Lands have a link to county trust lands, so it seems like that program could be seen as a county trust land program instead of a state trust land program. He asked if there is an expectation that funds from the trust land transfers are used to acquire county trust lands. DNR staff said the trust land transfer program is tied to specific trusts. They said the presentation may have more information on this issue, and suggested they come back to the question later in the presentation.
- Another workgroup member said it would be helpful to get more information on the real property replacement account and other accounts tied to trust land transfers. DNR staff said they would walk through each of the accounts tied to TLT. DNR staff also said the

state forest replacement program has statutes that restrict or constrain the acquisition component part of the program. It's only applicable to counties of a certain size and there is an idea that replacement land should be bought in those counties or can be bought in any of the three counties that participate in the program to create a land pool. Trust land transfer has no restrictions except that once the money is acquired from the legislature, the money must go into the Real Property Replacement Account, and land must be acquired that is in the best interest of the trust. DNR staff also said there is a nomenclature issue between the State Forestland Replacement Account, which is about county trust lands, and the Real Property Replacement Account, which is for state trust lands. This causes some confusion between the two accounts and programs.

- A workgroup member asked for an update on the funding status of what the State Forestland Replacement Program has requested from the legislature.
 - DNR staff said the committee that has been working on this issue has an encumbered lands pilot project proposal that didn't move forward last year as a capital request. DNR is processing the proposal, which includes about \$28.3M in funding, and may submit it to the legislature again in the future.
 - A workgroup member said that to-date, the legislature has funded the State Forest Replacement program at about \$4.5M, with the money being split between three counties. They also noted that money is appropriated out of the capital budget, so bonded dollars are used to fund county operations. Under the current program, only a small amount of money is used to acquire replacement lands, which presents another issue. They said the encumbered lands group is still pushing to get the pilot project funded.
 - DNR staff said there are a couple differences between the State Forest Replacement program and the Trust Land Transfer tool. The State Forest Replacement program is established in statute and does have some statutory guidance around it, which TLT does not. While both programs are funded with capital dollars, the State Forest Replacement program's funding is going to county operations using bonded dollars. Part of the funding for TLT for the timber value goes to the Common School Construction Account (CSCA) fund, which is used for capital construction projects, while the land value for TLT goes into the Real Property Replacement Account (RPRA) to purchase replacement trust land.
 - A workgroup member said the committee worked hard to come forward with a pilot project that addressed many of the concerns about TLT and the State Forest Replacement Program and tried to distinguish between the two programs. The committee has been meeting for several years.
- A workgroup member asked if RCW 79.22 guides the acquisitions through the real property replacement account. They asked what the statutes are for the Real Property Replacement Account.
 - DNR staff said RCW 79.22 is the state forest land chapter. The statute that guides the Real Property Replacement Account is RCW 79.17, which deals with exchanges and federally granted trust lands. Some RCWs in 79.11 also limit DNR's ability to transact lands, like the requirement to use auctions. DNR staff said the funds in the Real Property Replacement Account are treated as liquid

trust assets, and therefore fall under all the statutes and rules related to how trust assets are managed.

- The workgroup member said if 20% of any appropriations from the legislation is used to acquire new lands or keep the value of the trust whole, then that program should not be defined as a disposal program as there is a meaningful component of the program that is designated to find replacement lands. DNR staff said part of the funds received from the legislature are used to reinvest in the trust, and the question becomes whether or not restrictions are placed on how that reinvestment is used.

Round Robin

- DNR staff asked the workgroup members if there was any information presented today that really stood out or was surprising to them.
 - Several workgroup members responded that all of the information was interesting, but nothing surprising.
 - Another workgroup member said the information reinforces what he has experienced over time working with trust lands.
 - Another workgroup member said there had been some interesting questions and discussions. They were interested in how the information is being received by everyone and what is important to everyone.
 - Another workgroup member said they were interested to learn about the scale of the funding for beneficiaries.

TLT-Additional Information

- Case Study #1: Morning Star
 - DNR staff gave an overview of the Morning Star TLT project.
 - A workgroup member mentioned in the Zoom chat that there have been several TLT proposals related to the Morning Star NRCA.
 - A workgroup member asked if the appraisal of the timber and land value was close to the DNR estimate.
 - DNR staff said in this case the timber value was higher than DNR had estimated, so the footprint of the project had to be adapted in order to make the funding line-up. A workgroup member asked how it was adapted. DNR staff the project was reduced in size in order to fit the funding ratios of how much money was supposed to go to the Common School Construction Account and the Real Property Replacement Account.
 - A workgroup member asked if the legislative appropriation is a single dollar amount that DNR decides how to split up based on the values, or if the legislature designates how much of the funding should go to replacement property and how much should go to the Common School Construction Fund.
 - DNR staff said the amount appropriated by the Legislature is for all the parcels in the package approved by the Legislature. The amount that is appropriated for timber value is due to the Common School Construction account by the end of the day. Sometimes the appraisals for projects don't line up with the amount appropriated for them, and sometimes

- projects on the list can't be completed because their real value doesn't fit the funding structure. These parcels can be candidates for the next round of TLT requests.
- Another workgroup member asked if the TLT process involves DNR submitting the proposed parcels to the Legislature with the estimated values for each parcel and a total, but the final projects are based on the appraisals conducted after the Legislature appropriates funding.
 - DNR staff said that is correct. Sometimes the list of projects submitted to the Legislature comes back approved with a different list of projects. Not all projects nominated by DNR come back on the list approved by the Legislature. The workgroup member asked how the other TLT projects not submitted by DNR are valued. DNR staff said the valuation of the projects can be tricky and sometimes the values don't line-up perfectly.
 - A workgroup member said DNR does the appraisal for TLT projects and not external stakeholders. DNR staff said that this is correct, and there are statutes that require DNR to secure the appraisal, but that partners can't rely on the DNR appraisal. The workgroup member said the external partners clarified that all project estimated values have to go through DNR before they are submitted for consideration by the Legislature.
 - DNR staff said the value estimates for timber and land are informed estimates, but they are not approved appraisals. DNR does its best to come up with informed estimates that are as close to reality as possible, but sometimes those estimates differ from the actual value of the land. DNR staff clarified that the list submitted to the Legislature is an estimate and not an appraisal. DNR does not do an appraisal of every project submitted to the Legislature as it does not have the capacity or funding to conduct appraisals for every project. DNR conducts appraisals for property and submits values to the Board of Natural Resources who legally acts as the chief appraiser for TLT projects, so it is part of the BNR's authority to accept, reject or modify the values proposed by DNR staff.
 - A workgroup member asked for a deeper dive into the estimate and appraisal process because they are integral to preserving the corpus of the trusts. They said they may consider a different valuation process as part of the workgroup's proposal.
 - Inter-Trust Exchange
 - A workgroup asked what the definition of "value" is, and whether or not that includes just the appraised current value or the future revenue earnings?
 - DNR staff said the value means the appraised land value for highest and best use of the parcel at the time of the appraisal. The highest and best use is typically forest land, but some land (for instance a parcel that may be converted to commercial real estate) may be valued for another purpose if that is determined to be the highest and best use of the land.

- A workgroup member asked how lands are identified for exchanges. DNR staff said that the lands for TLT are identified through a variety of ways. DNR, special interest groups, or any person can nominate parcels for inclusion in the TLT process. Once a property that is not Common School Trust is placed on the Legislature-approved TLT list, then Common School Trust property must be identified and an intertrust exchange to occur. DNR looks at the Common School properties in the vicinity of the TLT property and considers what property may be appropriate for an intertrust exchange. Public hearings are conducted where anyone can give input on the possible exchange. Sometimes the property identified is rejected for a variety of reasons, in which case DNR needs to continue finding an appropriate parcel for the exchange.
- A workgroup member said there are other considerations in inter-trust exchanges for county commissioners and how inter-trust exchanges affect junior taxing districts and associated revenue. DNR staff said it could occur that a non-Common School Trust property is nominated but the exchange receives significant public backlash and the project is then pulled from consideration. If a project is unable to be exchanged or completed, all of the funding that was appropriated from the legislature is transferred to the common school construction account regardless at the end of the biennium.
- Case Study #2: Blanchard
 - DNR staff gave an overview of the Blanchard project.
 - A workgroup member asked if the revenue generated by the Common School Trust land that was exchanged and became State Forest Lands would go to junior taxing districts that are in the Blanchard working forest. DNR staff said special legislation was passed that gave the county the discretion to distribute the revenue to junior taxing districts within the boundary of the parcel. A workgroup member clarified that the special legislation is now expired so the county no longer has the ability to distribute the revenue. They also added that transferring revenue from one junior taxing district to another becomes very difficult to track for county treasurers.
 - A workgroup member said the key takeaway from this project should be that if there is public support for a project, then a solution can be found for it even if it is complex.
 - DNR staff said solutions have been found in the past to make complex projects work, but DNR has been asked about whether these exchanges are in the best interest of the Common School Trust as the land exchanged was not an unproductive parcel.
 - A workgroup member said the Common School Trust is served best when the TLT projects are parcels that are unproductive. Productive parcels complicate the process because there is a chance that productive value may be lost through the process.
 - A workgroup member asked how DNR found appropriate replacement land for the TLT transaction.

- DNR staff said the Blanchard project was very unique. The value of the forest was determined in previous legislation when the Blanchard plan was established. That legislation anchored how much Common School replacement funding was necessary to complete the transaction. When TLT was suggested as a solution to accomplish the goals of the Blanchard plan, DNR had to adapt and find a way to make the process work. The only way to make it work was to go through an inter-trust exchange. DNR approached the value of the land, the value of the candidate Common School Properties in the county, and had a public hearing and tried to choose the best combination of school properties that added up to the value of the Blanchard land value.
 - A workgroup member asked how much money was generated for the Real Property Replacement Account and what types of land were bought with those funds.
 - DNR staff said they could find the amount of land value that was determined for the project and how much property was purchased with the replacement funds since that transaction occurred. They said all of the funds have not been spent yet and DNR is still actively finding replacement properties. DNR must find willing sellers and compete against other buyers when purchasing replacement lands, which results in a longer process to purchase replacement lands.
 - DNR staff said they could find the amount of replacement land value that was determined for the Blanchard TLT project for the replacement of Common School Trust property, which is a total of \$626,000. There is not a direct link between the \$626,000 of Blanchard TLT land replacement funds (RPRA) received on October 1, 2019, and what is purchased by DNR for replacement lands for the Common School trust, however two Common School Trust purchases between October 2019 and August 2021 are close to this amount and include the following:

Name	Acres	Price	Purchase Date
Lake Merwin	160 acres	\$600,000	Dec 2020
Jorstad	38.38 acres	\$56,000	July 2020

- A workgroup member asked what kind of criteria DNR uses when looking for replacement lands. They said that in the 1990s the goal was to purchase replacement lands that would generate 3-5% more than the lands they replaced.
 - DNR staff responded that location was a big factor. Parcels that are adjacent to DNR-managed lands are probably the strongest category as it makes managing those lands more efficient. Other factors considered include timber production and soil types.
 - Another workgroup member asked if there were any documents detailing the goal of generating 3-5% more from replacement lands. The workgroup member said the Nature Conservancy had documents with this goal, but they would have to go back to the people they worked with

and the Nature Conservancy to find the documents and how those amounts were generated. DNR staff said they had seen a progression of the lands that had been nominated and transferred through TLT from a lot of lands starting as unproductive lands or having a high conservation or recreation value and over time the properties proposed have higher and better use values.

- The workgroup member asked if there was a way to assess how replacement lands have affected the corpus of the trust. DNR staff said they only have anecdotal data right now, and said the replacement properties are very promising. They said they have experience of many examples where opportunities came up for replacement land to be purchased that benefited the trust through securing adjacent land, or access roads that allow for easier management of trust lands.
- A workgroup member said they had looked at many trust maps and had noticed that there are many small-acre parcels. They said they've wondered if there is a way to consolidate these parcels because they assume that managing the isolated parcels is costly and difficult, offsetting the benefit to the trusts.
 - DNR staff said they have been aware that consolidating parcels has been a prime strategy as it is better than managing several small, isolated parcels.
- A workgroup member asked what kind of return the trusts get on funds sitting in the Real Property Replacement Account before the funds are used to purchase replacement property.
 - DNR staff said the interest for those funds is earned at the state rate, which then grows the asset amount in that fund.
- A workgroup member said the difference between revenue stream type and unrealized capital appreciation for land that could be sold in the future should also be considered in land values.

Summary and Next Steps

- DNR staff gave an overview on information requested from workgroup members at the previous meeting, including:
 - the amount request and approved for TLT projects
 - the historical funding from 1989-2019 from TLT projects to the Common School Construction Account and the Real Property Replacement Account
 - the distribution of TLT acres and which recipients have received lands
- A workgroup member said the funding amount of money that has been spent on replacement lands is different from the amount deposited into the Real Property Replacement Account. DNR staff said the difference is made up of the interest generated from those funds while they were in the account.
- Another workgroup member said it would be interesting to see the annual revenue coming from replacement lands based on land/use-type instead of just the land value. DNR staff said that sort of data isn't usually kept and would be difficult to develop, but

the Trust Land Performance Assessment shows the returns on trust lands based on the use-type.

- Next Steps:
 - DNR staff gave an overview of the upcoming meeting dates.
 - Workgroup members will be asked to give a 10-15 minute presentation at Meeting #3 to give their perspective on Trust Land Transfer, their values and organizational values related to TLT, why TLT is important to them, what issues they have with TLT, and what opportunities they see for the program.

Parking Lot

- A workgroup member asked for DNR data on how much revenue from state forest lands makes up of total county budgets (revenue is x% of the county's budget). DNR staff said there may be some data available with this.
- Another workgroup member asked for more information on the DNR land value estimate process and the land appraisal process.
- Another workgroup member said it would be interesting to see the annual revenue coming from replacement lands based on land/use-type instead of just the land value. DNR staff said that sort of data isn't usually kept and would be difficult to develop, but the Trust Land Performance Assessment shows the returns on trust lands based on the use-type.