

Trust Land Performance Assessment

Report to the Board of Natural Resources: Summary of Comments Collected to Date
(UPDATED: June, 2021)

July 6, 2021

An earlier version of this report was provided to the Board of Natural Resources at their June, 2021 meeting. This report has been updated to include additional comments received during the month of June. Updated information has been included in the main body of the document in bold and an appendix has been added.

Upon arriving in office in 2017, Commissioner of Public Lands Hilary Franz set a clear agenda for transforming state trust lands management to achieve a prosperous, sustainable future for trust beneficiaries and the people of Washington. This agenda includes optimizing policies, statutes, and operational business practices; investing in working forests and agricultural lands while improving and expanding other components of the state trust lands portfolio that show promise for immediate and continued growth; and rethinking existing state trust lands portfolio management tools while developing new tools that will help increase the revenue-generating potential of state trust lands and safeguard the natural resources that make Washington the beautiful place that we love.

To help set the Board of Natural Resources and the Washington Department of Natural Resources (DNR) on a course toward this future, the Commissioner worked with the Legislature on ESSB 6095, Section 7105 in 2018. ESSB 6095 required a comprehensive assessment of the state trust lands portfolio and its management (not inclusive of the Washington State Investment Board's management of public market assets [stocks and bonds] on behalf of the permanent funds). This assessment was conducted by Deloitte Transactions and Business Analytics (Deloitte), Earth Economics, and DNR.

The findings of the assessment are available in the following documents:

- *Trust Land Performance Assessment: Trust Land Values and Returns as of FY 2018* (Deloitte 2020);
- *Trust Land Performance Assessment: Non-Market Environmental Benefits and Values* (Earth Economics 2020)
- *Trust Lands Performance Assessment Project: Charting a Course for the Future* (DNR 2021)

Just prior to publishing these reports, DNR began conducting outreach on the findings and gathering feedback and ideas from trust land beneficiaries and other stakeholders on recommendations and ideas for moving forward with transforming state trust lands management.

Beginning in November, 2020, DNR staff have held approximately 25 informational meetings with beneficiaries, and/or stakeholders, some multiple times, listed below:

- American Forest Resource Council and 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

DNR staff have also met with individual Board of Natural Resources (Board) members and will give a presentation to the Board at their June, 2021 meeting. On April 28, 2021 DNR held a public webinar and initiated a public survey via Survey Monkey that was open for two weeks. In all, DNR staff have met with approximately 100 people to date, 49 people attended the webinar, and 19 people completed the Survey Monkey survey.

This document contains a summary of comments collected by DNR staff during the presentations and the comments collected from Survey Monkey. Going forward, DNR staff plan to continue to meet with interested beneficiaries and stakeholders, including interested tribes, and will work with the Board to finalize the project scope and begin developing a plan for transforming state trust land management.

This document has been update to include summaries of written comments received during June, 2021 from the Port of Port Angeles and Washington State Association of Counties.

General Comment

Stress the importance of the forest products industry in general and products from DNR-managed lands to Clallam County and to the Port of Port Angeles. The forest products industry provides both direct and indirect jobs, revenue to the County, and revenue to the Port.

Comments on Project Need Statement

During beneficiary and stakeholder meetings, there was broad support expressed for increasing the amount and reliability of revenue as part of the project need. There were also several comments that the need statement should recognize different needs of different beneficiaries and provide for intergenerational equity. Commenters also suggested giving more consideration to rural counties that may be more reliant on revenue from state trust lands.

Many commenters expressed concern that the need statement is too narrowly focused and should incorporate more than increasing revenue. There were many comments about recognizing and managing for the multiple values that forested trust lands provide, including carbon storage to reduce

impacts of climate change, protecting natural resources, providing recreational opportunities, and for DNR to be a model for the nation on the use of state forests to combat climate change.

Commenters made specific suggestions to change the focus from “increasing revenue” to “optimizing the return of the revenue earned”, “maximizing revenue and cash flow”, and “maintaining or increasing revenue and increasing ecosystem services.” The need statement should also consider the long-term well-being of the beneficiaries of state trust lands.

Commenter believes the need statement moves DNR in the correct direction, however they expressed the following concerns:

- **Commenter agrees with the need to increase reliability of revenue, however they are concerned that this may be interpreted as supporting a unitary trust which they do not support, believing this would result in loss of accountability, transparency, and engagement by trust beneficiaries.**
- **Commenter is encouraged by the emphasis on increasing revenue into perpetuity and supports moving quickly to improve financial reporting and data systems.**
- **Commenter suggest changing the need statement to read:**

“DNR needs to increase the amount of the revenue it generates through the assets it manages on state trust lands into perpetuity, provide reliable predictions of harvests, and increase transparency with beneficiaries and stakeholders.”

[Comments on the Purpose Statement](#)

Commenter is unclear what DNR means by “transforming” state trust land management but recognizes the importance of improving management in general and encourages a transparent and deliberative process to build on DNR’s core competencies.

The commenter warns against portraying providing ecosystem services and revenue generating activities as a choice, stating that both are currently being achieved and can continue to do so. Citing the amount of DNR-managed land already set aside for conservation, the commenter recognizes the TLPA process as providing an opportunity to explore options to balance management more effectively.

Comments on the purpose statement include that, as written, it is not a statement of purpose but rather a list of implementing steps. Also, the purpose focuses too much on revenue and not enough on ecosystem services.

Another commenter stated that the purpose statement reads more like a “how” statement than a “why” statement. The purpose statement should include increasing the diversity of revenue, in addition to the amount and reliability. The purpose statement should also require that changes to department policies not have negative environmental or conservation consequences and that it should include updated marketing strategies and business practices.

Commenters stated that the purpose statement does not fully anticipate changing societal expectations for state trust lands and forests, and should recognize climate change and public demands for recreation.

Commenters also expressed concern that changes to DNR’s management portfolio might cause changes in management practices, and question whether grazing would still be part of the portfolio. Another concern is that potential reductions in logging in eastern Washington may impact forest management aimed at reducing wildfire risks.

Another commenter stated that the scope and the purpose should include identification of ways to generate reliable revenue using new knowledge, such as practices responsible to the environment, wildlife, neighbors, and the community, along with the trusts, and meet multiple values symbiotically.

There was also a comment about the goal of transforming trust land management being large and ambitious, with a caution that DNR should not rush into any changes in management. The commenter agrees that many of the ideas presented would be transformational, and that some, such as extended lease terms or cedar salvage, could be implemented relatively easily.

Comments on the Objectives

General comments on the objectives included that presenting the objectives in a numbered list implies they are hierarchical, with revenue generation being the primary objectives and the remainder being subject to the first objective. All objectives should be equally important.

There was also a suggestion to include language about accountability to environmental and social concerns and intergenerational equity.

One commenter expressed agreement that the objectives align with DNR’s trust obligations, but caution against drifting away from core areas of expertise in managing working forests and agricultural lands. The commenter expressed concern that reductions in DNR’s core business could risk the ability of its customers to provide value to the trust assets and risk the socio-economic well-being of communities that rely on jobs and revenue from these lands. In particular, the commenter was concerned with proposals that could decouple beneficiaries from the local economic benefits derived from state trust lands.

Commenter agrees with the objectives, stating they address concerns about balancing management for ecosystem services and trust revenue.

Commenter highlighted the following comment in the previous presentation to the Board:

“DNR should not drift away from core areas of expertise; it puts customers and the socio-economic well-being of small communities at risk.”

And state that this should be a core principle that guides the Board and DNR through the remainder of the TLPA process.

Comments about specific objectives follow.

Objective 1: Increase amount and reliability of revenue

During beneficiary and stakeholder meetings, there was broad support expressed for increasing the amount and reliability of revenue. Commenters suggested that beneficiaries participate in asset

allocations, including their ability to transfer assets (land and others) within, between, or out of trust status. Commenters also noted that tools to respond to social pressures are limited.

Another commenter suggests that when assessing cash flow and revenue to beneficiaries, excise taxes should be credited to the asset classes if they are ultimately distributed to the beneficiaries and revenue reported should include funds that are applied to Access Road Revolving Fund (ARRF), which should have been included in the operating capital of the timber asset class.

Similar to comments on the need statement, some commenters felt this objective should be more nuanced and include the multiple values of state trust lands. This objective should include diversification of revenue generation, including payments for ecosystem services, and should be entrepreneurial, focusing on new revenue streams, including public/private partnerships. Another commenter stated that increasing revenue is an inappropriate objective, and higher priority should be placed on respecting treaties, addressing climate change, protecting wildlife, and providing recreational opportunities.

Objective 2: Sustain the natural resource lands, while seeking opportunities to diversify

Commenters stated that sustaining natural resource lands is not adequate and the objective should include enhancing the health of natural lands, providing ecosystem services, and climate mitigation, adaptation, and resilience. Another commenter stated that revenue has been lost because of a lack in diversity of the product DNR offers, particularly reduction in cedar salvage. There was a comment that this objective is unclear.

Objective 3: Maintain or enhance the social, environmental, and cultural benefits of state trust lands consistent with revenue generating purposes of the land

Commenters were concerned that making other values consistent with revenue generation could limit the social, environmental, and cultural values DNR could provide; that use of the term “consistent with” subsumes all other objectives. Some advised removing the term “consistent with” and that all of the objectives should be given equal importance. Commenters suggest that recognition of cultural acceptance and long-term-social license are also important to consider. Another commenter suggests forming study or task groups of beneficiaries and stakeholders, including someone with constitutional expertise, for decision making.

Objective 4: Feasible solutions

Commenters noted that this should include more than just revenue, and include accountability to environmental and social concerns, as well as intergenerational equity.

Comments on Four Opportunity Areas

Four opportunity areas were presented during meetings and the webinar. General comments on the four areas were that there needs to be a lot of thought put into the process and next steps; revenue and ecosystem services should be balanced.

In the Survey Monkey survey, responders were asked to identify the top idea they thought the Commissioner, Board, and DNR should focus on. Sixteen people replied to this question, with priorities as follows:

- New or Revitalized Management Tools – 9 (56%)
- Improve Business Model and Systems – 5 (32%)
- Increase access to capital – 1 (6%)
- Greater ability to transact lands - (6%)

Respondents were then asked to explain why they selected each as a top priority.

Below is a summary of the comments collected during the meetings and from Survey Monkey on each of the four opportunity areas.

New or Revitalized Management Tools.

Several commenters focused on Trust Land Transfer as an important tool that should be further developed. This tool could be used to address public concerns such as carbon sequestration, recreation, and habitat protection. Commenters stated this program should be adequately funded, that DNR prioritize forests as carbon sinks, and use the trust land transfer program to promote a carbon reserve.

Improve Business Model and Systems

Commenters felt DNR should rely less on logging, should explore carbon offsets, and recognize that different forest stands have different values, for example legacy forests compared to second growth plantations.

Increase Access to Capital

The commenter stated that “this is the key component in any business model for long-term success and strategic planning” and then went on to say that none of the ideas suggested are top priorities, and once the top priorities (realizing the multiple values of state trust lands) are identified, management tools such as increased access to capital can be applied.

Greater Ability to Transact Lands

The commenter supports DNR having greater ability to transact lands out of under-performing assets, and supports use of the trust land transfer program to accomplish this.

Improve Forestry Practices

Although not one of the opportunity areas provided in the presentation or survey, one commenter wrote in that they support improving forestry practices through regeneration of forest lands, selective tree harvest, and mitigating climate change.

Comments on 13 Ideas

During the presentations and the webinar, 13 initial ideas for transforming state trust lands were presented. Several comments were received on these ideas during the beneficiary and stakeholder meetings, and there was a specific question about the ideas in the Survey Monkey survey. All nineteen respondents to the Survey Monkey survey responded to this question, where they were asked to rank the top three in order of importance. The results are as follows, with the total number of times an idea was selected also given.

1. Improve financial systems to incorporate for-profit-enterprise practices (1)
2. Reliability fund (1)
3. Smooth revenue distribution through loans (0)
4. Fund studies to compare DNR's ESA compliance with others (5)
5. Compare services DNR provides to those of an external manager (2)
6. Pursue ways to monetize ecosystem services (11)
7. Borrowing authority (2)
8. Capital expenditure funding options examples (0)
9. Change trust land management and investments funding (6)
10. Statutory, constitutional, or Enabling Act improvements (5)
11. Funding sources for non-trust expenses (2)
12. Trust Land Transfer (11)
13. Trust Land Replacement Program (4)

1. Improve financial systems to incorporate for-profit-enterprise practices (Deloitte GI 1-4).

One commenter expressed support for updated, transparent accounting and financial systems, particularly a capital account to pay for expenditures such as silviculture. Another commenter identified this idea as critical before making any significant changes to management processes, policies, RCW's, or the State Constitution. They also stated that "the ability to better track and account for staff time and costs, provide current economic performance and forecasts to the beneficiaries, and better track the expenditures of the Department by asset class is critical to developing new management concepts to meet the Need, Purpose, and Objectives of this effort."

2. Reliability fund (Deloitte GI 10)

Several commenters expressed interest and support for investigating this idea further, with stakeholder communication and involvement. Some concerns expressed include impacts to all beneficiaries, including taxing districts and local/rural communities, and concern about the complexities and funds required to implement this idea.

3. Smooth Revenue Distribution through Loans (Deloitte GI 14)

During beneficiary and stakeholder meetings, there was concern and hesitancy expressed about engaging in loans and bonds.

4. Fund studies to compare DNR's approach to the Endangered Species Act compliance with others (Deloitte T5)

A commenter suggested DNR fund studies of DNR's endangered species act compliance in comparison to other public land agencies.

5. Compare services DNR provides to those of an external manager (Deloitte T6)

A commenter suggested a pilot project be used to compare DNR services with an external manager, once an appropriate accounting system is in place. Other commenters stated that it would be unfair to

compare DNR to private land management. There was also support for updating DNR's business model as long as the impact to local communities and counties was understood.

6. Pursue ways to monetize Ecosystem Services (DNR p. 39)

Commenters expressed interest in this idea but had concerns about how it could impact revenue to beneficiaries. Another cautioned that monetizing ecosystem services should only be pursued if it does not compromise revenue generating activities. Others expressed concern about capturing non-market benefits locally, suggesting these benefits be quantified at the local level.

A commenter identified this idea as one of the most important for preparing DNR and state trust lands for the needs of the future, for example climate change and societal expectations for use of state lands. Another stated that the real value of forested state trust lands is in the services that intact forests contribute to society and expressed opposition to continued logging on public lands. Commenters stated that DNR needs to rely less on logging and change their mindset to be less of a tree-farm approach, and recognize the multiple values forests provide.

7. Borrowing authority (DNR p. 37)

Some commenters thought it might be interesting to consider a small line of credit, while others expressed concerns that loans would lead to reduced revenue to beneficiaries and increased management costs. A commenter identified this idea as one of the most important for preparing DNR and state trust lands for the needs of the future, for example climate change and societal expectations for use of state lands. Another commenter stated that borrowing money and utilizing capital is a cornerstone for a successful business, adding that "the cash model" is too restrictive.

8. Capital expenditure funding options examples (Deloitte GI 8)

One commenter stated that the legislature should maintain oversight and fund additional investment properties.

9. Change trust land management and investments funding (Deloitte GI 5)

One commenter cautioned that DNR consider all income, such as excise taxes, ARRF, and the value of road improvements left on the land when investigating this idea. Others questioned how much regulatory change would need to occur to allow DNR to diversify and whether it is worth the cost, while another expressed concern about increases in commercial real estate revenue when it is small part of the portfolio.

There was a suggestion that DNR compare administrative costs against other states managing forest lands. There is also concern that there is too much money spent on recreation and that timber is being taken out of production. This commenter stated that logging should be part of the educational experience on DNR-managed land. There was also concern expressed about the development of ideas and potentially unintended consequences. If this idea is pursued, the process needs to be thorough and transparent, with outreach and public involvement. Commenters suggested forming work groups or committees to help develop this idea.

One commenter stated that for DNR to provide more revenue to the trusts it must diversify its portfolio. Another commenter suggested that DNR needs to recognize the value of the multiple public uses they could provide, for example recreation, interpretation, and living laboratories.

10. Statutory, Constitutional, or Enabling Act improvements (Deloitte GI 11)

A commenter stated that there is currently no consideration given for the local level in DNR decision making emphasizing that any changes made need to consider the local/county level and taxing districts. Impacts to taxing districts should also be considered before any statutory changes are made to DNR's ability to sell state trust lands. Another commenter noted that diversification of state trust lands should be explored for those beneficiaries that may be interested. There was also a comment that the structure of the trust must be addressed to facilitate a transformation in the most positive and beneficial way for the environment, community, and the beneficiaries.

There was a comment that existing laws need to be revised to reflect our time in history, stating that this may take place through a Supreme Court decision, but if not a constitutional amendment should be pursued.

Commenters also voiced support for improvements to capital and changes to RCW's to allow for better business practices.

11. Funding sources for non-trust expenses (Deloitte GI 12)

A commenter noted that better accounting principles would allow DNR to more accurately understand the costs of recreation and impact to the beneficiaries.

12. Trust Land Transfer (DNR p. 38)

Commenters voiced broad support for the trust land transfer (TLT) program and suggested bringing stakeholders together to work on developing recommendations for the report due to the legislature in December 2021. Suggested reforms that commenters thought would be widely acceptable include:

- Sustained commitment from DNR to the program, including requests for capital budget funding.
- Vetting of TLT proposals by all stakeholders.
- Revamping replacement value calculations and considerations for replacement lands.
- Transparency about past, present, and future TLTs.
- Developing guidelines for project selection.
- Being responsive to concerns raised by legislators about public access and maintenance of TLT parcels.

Other commenters requested a third party review and a 120-day comment period before a TLT occurs, along with an analysis of the impacts of the TLT to county gross domestic product.

Commenters suggest that DNR could leverage carbon funding for the legislature and other sources to fund TLT projects that protect high priority wildlife habitats and generating funds to purchase replacement lands. This would help provide long-term protection to the forest land base and trust revenue.

Another commenter suggested a stakeholder group could get started on this idea now, and should explore carbon offsets. A commenter identified this idea as one of the most important for preparing DNR and state trust lands for the needs of the future, for example climate change and societal expectations for use of state lands.

One commenter expressed disagreement with privatization of any aspect of state lands, stating the plan should focus on conservation, preservation, and regeneration of state trust lands.

There was a comment that DNR should shift its focus from providing revenue, and instead use trust land transfer to address the priorities of respecting treaties, addressing climate change, protecting wildlife, and providing recreational opportunities.

Again, commenters expressed that DNR should focus on the multiple values of the trust lands and eliminate harvesting of older trees (greater than 80 years old). The final plan should offer suggestions of how ecosystems service and carbon storage could be utilized to raise revenue through non-timber methods including trust land transfer, carbon credits, and recreation permits.

13. Trust Land Replacement Program (DNR p. 38)

Some commenters opposed this idea because of a concern that this program has eroded the corpus of the trust.

14. Additional ideas

Although not included on the original list of ideas, a commenter voiced support for integrated governance of trust assets (Deloitte GI 9, DNR p. 18). The commenter suggested that the Deloitte report should characterize this as “integrated governance” rather than “divided”, and suggested DNR emphasize that the TLPA analyzes fixed assets, not liquid assets.

Another commenter suggested using the term “single-investment management strategy” rather than “single investment manager”.

Another suggestion was to formally address recreational or tribal interests through Board membership and that the Board should take on more financial oversight of the department.

A commenter also suggested that the Board should address economic performance in the context of the Policy for Sustainable Forests, include adding metrics such as “net income” or “perpetual revenue”, but not “non-declining perpetual revenue” or “perpetual value”.

Ideas DNR Should Avoid

The Survey Monkey survey included a question about which of any of the thirteen ideas presented DNR should avoid, and for commenters to explain why they should be avoided. Nine people responded to this question.

One commenter selected “fund studies to compare ESA protections”, stating that DNR needs to improve protections, not “sink to the lowest common denominator based on what others are doing.” Another commenter cautioned against monetizing ecosystem services, seeing it as bleeding the environment in favor of making money. Another commenter thought that this idea could lead to privatization of

essential ecosystem service, such as access to water. Similarly, a commenter cautioned against managing as a for-profit enterprise, stating that public lands should be “managed for the benefit of the public”, not maximizing profits.

A commenter selected ideas 1, 4, 5, 12, and 13 as all being ideas DNR should avoid. They cautioned that managing for profit would harm the land. They also expressed that a neutral, third party should determine whether species should be listed and to conduct routine monitoring of these species. They opposed idea five because it would result in increased consultant fees. This commenter opposed ideas 12 and 13 because they feel DNR-managed lands should not be bought and sold, but should be transformed into new, innovative revenue sources.

Lastly, a commenter spoke out against trust land transfer and comparing DNR to an external manager, stating adamant opposition to selling public lands. They went on to say that DNR, as a public agency, should operate for the benefit of all Washington citizens, with different objective than those of a private enterprise, and that there is no reason to compare the two.

Comments on the Materials Presented

Comments on the materials presented (the three reports listed on page 1) came largely from the beneficiary and stakeholder presentations. There was not a Survey Monkey question that specifically asked for feedback on these reports. There were the two following multiple choice questions, however:

- Which answer best describes your level of knowledge of state trust lands prior to the webinar?
 - I did not know anything about state trust lands before the webinar
 - I know a little about state trust lands prior to the webinar
 - I know a lot about state trust lands prior to the webinar
 - None of the above
- There are three reports related to this assessment: Deloitte Report, Earth Economics Report, and DNR Legislative Report... How familiar are you with these reports?
 - Very familiar, I have read all three
 - Somewhat familiar, I have skimmed through all three
 - Not very familiar, I looked at them briefly
 - I have not looked at them at all
 - None of the above

All nineteen Survey Monkey respondents answered both questions. Fifteen people answered that they knew a little about trust lands prior to the webinar and four answered that they knew a lot about state trust lands prior to the webinar. On the second question, three people reported being very familiar with all three reports, eight reported being somewhat familiar, four reported being not very familiar, and another four had not looked at them at all.

Deloitte Report

Commenter states the Deloitte Report contains outdated data on harvestable acres. The Deloitte Report predates The Marbled Murrelet Long-term Conservation Strategy amendment to the 1997 HCP, which resulted in an increase in acres available for harvest. This combined in an increase in log prices and timber prices due to the COVID pandemic, should lead to increased revenue. Also, because the value of

lumber has increased, DNR may be able to reduce harvest to meet societal goals while maintaining revenue for the beneficiaries.

Commenters noted that the Deloitte report recommends focusing on cash flow to the beneficiaries and suggest tools that DNR may use to increase cash flow to beneficiaries while operating on fewer acres of second growth forest include:

- Maintain or manage for higher value timber, with an emphasis on western red cedar.
- Increase diameter growth of trees by reducing competing vegetation through grazing leases in western Washington.
- Maintain high value timber by avoiding sensitive areas such as potential landslide areas.
- Sell when the value of lumber is high. This includes harvesting timber and storing it until values are high, rather than selling when prices are low.
- Consider continuous cover forestry, such as practiced in Germany.
- Prevent delays to timber sales caused by the public by allowing access to the sales so the public can effectively comment on them.
- Reduce risk by increasing diversity, for example replant a variety of species including western red cedar, hemlock, alder, and maple.

Commenters also thought the valuation of ecosystem services should include increased property taxes paid by those who live near forests, as well as recreation benefits.

During the presentations, commenters offered suggestions on DNR's analysis of timber markets, including accounting for how the timber asset has changed over time, considering changes in the land base, and analyzing change in board feet harvested per acre per year. There was also a suggestion to analyze the social value to local economies of job creation and the multiplier effects, as well as business taxes.

One commenter felt that DNR was too reliant on Deloitte for ideas on improving business. Another commented that rather than the approach Deloitte took of analyzing value through trust value, DNR could utilize "highest and best use" to generate additional returns through portfolio management.

Earth Economics Report

A commenter stated that the Earth Economics report lacks an analysis of the physical and mental health benefits of forests, and stated that the value of the land to store carbon should be recognized. Another commenter thought the report should include additional analysis of ecosystem service, particularly as they relate to revenue generating activities; and should clarify the difference between ecosystem services and monetary values.

DNR Legislative Report

Commenters thought this report was lacking analysis comparing DNR to the forest products industry as a whole. They suggested changing the timeframe DNR used for the analysis, improving clarity on how environmental considerations affect the amount of timber harvest, and should include an analysis of the

effects of the timber export ban on timber revenue. Commenters suggested that DNR did not look at enough contributing factors affecting the stumpage average.

Comments on Missing Information

During beneficiary and stakeholder meetings, commenters suggested that more research should be conducted around ecosystem services and revenue generation, asked about how beneficiaries could partner on specific ideas and expand their influence, and asked that DNR keep in mind the coming Supreme Court decision as it pursues ideas for change.

Several Survey Monkey respondents also replied to a question about ideas or opportunities they thought the agency should focus on that were either missed or not listed. Responses included placing more emphasis on Trust Land Transfer funding, joining state and national efforts to address climate change, and recognizing the importance of forests for storing carbon.

One commenter suggested that there is a high potential for communities to be involved in forest health work as citizen volunteers, and suggested training in invasive plant removal and tasks to reduce wildfire risk, and funding internships.

Other commenters stress more focus on ecosystems, including looking at how Oregon, California, and British Columbia are conducting research into ecosystems services, and wondered why universities in Washington are behind in this research.

Commenters mentioned carbon management and using existing and future forests to sequester carbon. Others wrote about protecting views along roads when harvesting adjacent to neighborhoods, and the preservation of real estate values and impacts to them from public management activities.

Commenters suggest DNR should focus on biodiversity, and the cultural and environmental values of the forests. Others suggest DNR should focus on the value of the land as it is and should look outside of DNR and seek partnerships with social and environmental groups. There was also a comment suggesting placing more emphasis on recognizing the diverse opportunities for managing state trust lands for more balanced, multiple uses.

One commenter wrote in support of valuing ecosystems services and carbon sequestration above logging, and supports the idea of phasing out logging on state trust lands.

Miscellaneous Comments

Miscellaneous comments received mentioned how much has changed since 1995 and how everything needs to be regrounded. There was also concern about how far some of the ideas go with recreation, how social dollars cannot replace the timber dollars lost, and about this topic being sensitive for beneficiaries.

Lastly, the Survey Monkey survey ended with the question “how did you learn about this webinar?” All nineteen respondents answered, with two providing multiple answers, as follows:

- From a friend 58% (11)
- Social media 6% (1)
- DNR website 10% (2)

- Board of Natural Resources meeting 26% (5)
- Other 10% (2) - Sierra Club and EDC

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Appendix A: Washington State Association of Counties

The Washington State Association of Counties (WSAC) Report is in four parts:

- WSAC's recommendations for their engagement in the ongoing process
- WSAC's evaluation framework containing a list of the recommendations from the Deloitte Report that WSAC evaluated.
- An analysis of the recommendations WSAC evaluated which ranks them by WSAC's position on the recommendation (level of support) and the recommendations priority for WSAC.
- Additional recommendations not included in the Deloitte Report.

Recommendations for Engagement

Commenter lists seven principles that they request DNR agree to, including a commitment to appropriate action, reliable communication, trust building, commitments to long-term improvements, equity for counties and junior taxing districts, adaptability, and an informed and inclusive decision making process.

Commenter also has several requests for DNR to adhere to when designing processes for stakeholder evaluation and decisions. These include that counties be given precedence in decisions that affect state forest transfer or state forest purchase lands; that counties be given equal consideration when other trusts are also affected, that they have the right to appoint county representatives to any decision-making group that is formed, that they be directly engaged in analysis of those topics they have identified as "highest" or "high" priority, that they be allowed to review and provide comment on analysis of those topics they identified as "moderate" priority, and that they be informed on any decision making process for those topics they identified as "low" priority.

Evaluation Framework

The commenter lists those recommendations from the Deloitte Report, Chapter 12 that they selected as having some priority for their group. These are organized by the project objectives, as described in DNR's report to the legislature:

- Revenue generation – increase the total amount of revenue and its reliability (seven recommendations)
- Working lands – Sustain working lands while seeking opportunities to diversity the portfolio (four recommendations)
- Multi-use values – Sustain or enhance multi-use values (one recommendation)
- Maintain accountability, transparency, and flexibility (nine recommendations)

There are a total of 21 recommendations from the Deloitte Report that the commenter analyzed. These are listed and summarized in the following section of this document.

Analysis of Selected Recommendations

There are seven recommendations that were identified as **highest** priority and which the commenter **strongly supports**.

The first is from the “general observations” of the Deloitte report, and addresses project objective 1, revenue generation. This recommendation focuses on cash flow to the beneficiaries. The commenter agrees that, while volume is important, net cash flow should be the primary focus. The commenter caveats this by suggesting local preferences should also be considered, and in some cases aesthetics or ecosystem services may take precedence. The commenter goes on to suggest DNR replace lands that do not contribute to cash flow to the beneficiaries, such as areas that can’t be harvested for physical reasons or that are encumbered by regulation.

The second commenter recommendation also pertains to project objective 1 and is from Deloitte’s set of recommendations under “general items”. Specifically number 7, “data management”, which recommends that the trust manager should work to identify priority questions and develop replacement systems or practices that answer those questions. The commenter states this is essential to achieve consistency in lease data to provide information for making decisions. The commenter states that this should be the first recommendation implemented and the data collected should be useful to operational staff and beneficiaries.

An additional three recommendations that are high priority to the commenter, and which they strongly support, are also from Deloitte’s recommendations on “general items”, and address project objective 44, to maintain accountability, transparency, and flexibility. Specifically, these are recommendations on “general items” 1, 2, and 4.

Under General Item 1 – Accounting and Reporting Systems, the commenter analyzed the recommendation that the trust manager should acquire and use an accounting and financial reporting system comparable to one used by a for-profit business. The commenter states that DNR’s timber managers need better decision-making data and tools in order to understand the complete operations picture of timber sale activities. These tools should include a log accounting system and a financial accounting system and be based on an adequate and accurate inventory. The commenter adds that transparency is also important and that an annual audit should be required. This is important for beneficiaries to be able to plan how to use revenue based on good information.

Under General Item 2 – Asset Class Financial Statement are Inadequate, the commenter analyzed the recommendation that the trust manager should implement an updated and focused enterprise accounting system. The commenter states that this is extremely important to understanding agency viability and for transparency.

Under General Item 4 – Cost Accounting- Asset Management, the commenter analyzed the recommendation that the trust manager should implement a job costing system track where time is spent and allocate expenses to specific properties and/or harvesting opportunities. The commenter strongly supports this, stating it is fundamental to understanding which activities generate profits and

which do not. The commenter recognizes that this may be complicated by other revenue sources not tied to timber sales.

The last two recommendations that the commenter strongly supports and gives highest priority are from the recommendations for the timber asset and address project objective two, sustain working lands while seeking opportunities to diversify the portfolio.

The first of these addresses Asset Class: Timber – T1 Land Management Assessment, and is the recommendation that the trust manager should enact a system to track land revenue and expenses to assess management effectiveness on both revenue producing and non-revenue producing lands. The commenter state that this is fundamental data to collect and maintain and that having this information would help build predictive cost models for the sustainable harvest. The commenter states that unharvestable lands should be replace to improve net revenue to beneficiaries.

The second recommendation in this group addresses Asset Class Timber – T2 Data Extraction System/Timber Appraisals, and is the recommendation that the trust manager should adopt a single system to track all elements relating to the financials of a particular property. The commenter states that comparing actual results to projections would refine DNR’s ability to improve predictions and more accurately plan for the future. This would also improve accountability. The commenter considers this to be elementary and suggest that the system organized at the stand level.

There are two recommendations that the commenter gave **highest priority** and which they **conditionally support**. The first of these addresses project objective two, sustain working lands while seeking opportunities to diversify the portfolio, and was listed in the Deloitte report under General Item 8 – lack of access to capital for investment. This recommendation is that the trust manager should be able to retain capitol to reinvest in the asset classes. The commenter states DNR should have the necessary resources to invest in preserving and maximizing the return from existing investments, such as routine maintenance and silviculture, and that these activities should be prioritized. Implementing this suggestion would provide the needed resources. The commenter goes on to state that there should be a policy that distinguishes between capital invested in existing assets and in acquiring new assets. The commenter does not support using retained earnings to purchase additional forestland.

The second recommendation receiving highest priority and conditional support addresses project objective four, maintain accountability, transparency, and flexibility, , and is listed under General Item 5 -Actual Expenses vs. Operating Cost Percentage Deduction. Specifically, this is the recommendation to use actual costs instead of the operating cost percentage deduction. The commenter states this is critical to identify profitable vs. non-profitable activities quickly in order to improve overall performance and net cash flow. Tracking actual costs will also be useful for planning for maintenance and upkeep activities, including silviculture. Recognizing this is a large change, the commenter suggests phasing this in.

There is one recommendation that the commenter assigned a **high priority** and which the commenter supports. This recommendation addresses project objective one, revenue generation, and is described under Asset Class Timber – T3 Harvest Model Application. This is a recommendation that the trust manager should use any tools available to optimize selling during favorable market conditions. The commenter states that this is a policy that would create the most significant benefit in terms of revenue to beneficiaries and can likely be deployed using DNR’s existing timber sale contracting system. This

would also help DNR manage market fluctuations. The commenter expressed concern that DNR may need to improve its inventory system to meet this recommendation, that this could impact mills which prefer a steady flow of timber, and may increase uncertainty around payments to beneficiaries.

There are two recommendations that the commenter rated at **moderate** priority but which they **strongly support**. The first addresses project objective three, sustain or enhance multi-use values, and is listed under General Item 12 – Recreational Trails on Trust Manager Lands in the Deloitte report. This is the recommendation that the Board develop policy guidance for the establishment, alteration, and use of recreational trails and facilities on state trust lands. The comments suggests DNR should be exploring new sources of income for managing recreational facilities on trust lands, including entering agreements with different groups on how facilities should be managed, particularly those that are essential to rural communities and must be maintained. The commenter recognizes the importance of recreation and multiple uses, however feels that activities that generate revenue for trust beneficiaries should take priority. The commenter supports temporary closures of multiple use areas for logging when the two are not compatible.

The second recommendation with **moderate priority** and **strong support** addresses project objective four, maintain accountability, transparency, and flexibility, and listed under General Items 3 – property (lease) management systems in the Deloitte report. This is the recommendation that there be a renewed effort to appropriately track and actively manage all existing leases. The commenter states that currently available financial accounting software should include contact management components that would implement this recommendation. In addition, the commenter states that long-term leases should be managed to earn a profit and lessees help accountable for ensuring beneficiaries receive market value returns.

There is one recommendation that the commenter gave **moderate priority** and **supports**. This recommendation addresses project objective four, maintain accountability, transparency, and flexibility, and is listed under Asset Class: Timber – T6 TIMO management model project. This recommendation is that the trustee should work with the beneficiaries, stakeholders, and trust manager to design, fund, and implement a study to compare the services provided by the trust manager to those provided by a TIMO. The commenter states that the trust manager should provide similar practices and reporting conducted by TIMOs, but currently does not. Trust beneficiaries should receive the same information TIMO beneficiaries expect and receive. This would help the trust manager better understand the beneficiaries needs and identify areas where efficiencies may be improved and for greater return on investment and enhances revenue. The commenter recognizes that each TIMO is unique and that improving the trust manager's data collection should occur prior to making any comparisons.

There are four recommendations that the commenter assigned **moderate priority** and which they **conditionally support**. Two of these recommendations address project objective one, revenue generation. The first of these two listed under General Items 6 – Peer Assessment, and it recommends that DNR consider preparing reciprocal biannual peer assessments with other state trust land managers. The commenter states that measuring Washington's performance against other, similarly situated, states is appropriate and valuable, recognizing that it would be critical for participating states to agree on deliverables and align data collection processes to ensure accuracy. The commenter feels that doing this every two years may be too often to provide benefit, and that the cost burden of establishing this type of program should be shared.

The second recommendation in this group is listed under Asset Class Timber: T4 Rotational Cycle. It is the recommendation that the trust manager should continue to strive to harvest stands on GEM lands so that a shorter harvest rotation can be employed, allowing increased yields. The commenter states that this would create benefits as long as the shorter rotation aligns with target products. They also see benefit of harvesting younger trees and avoiding conflict with those opposed to harvesting older trees. The commenter cautions that the trust manager should have the ability to delay sales in areas where additional growth would increase revenue. Lastly, the commenter states that harvest decisions should be based on a target product, not stand age.

There is one recommendation that the commenter assigned **moderate priority** and **conditionally approves** which addresses project objective 2, sustain working lands while seeking opportunities diversify the portfolio. This recommendation is listed under General Items 11 – Commercial Real Estate in the Deloitte report and is the recommendation that an evaluation be completed of the benefits and costs of establishing transition lands as a separate asset class, along with analysis of existing direction that inhibits the trust manager’s ability to transact commercial real estate. The commenter states a belief that the amount of transition land will increase with increasing population in the state and thinks a separate asset class makes sense. The commenter expresses concern over conversion of resource land, and the differences between trusts, and stresses the importance of respecting and preserving this. The commenter recommends ongoing education on the importance of managing these lands for counties and junior taxing districts.

Lastly, there is one recommendation from the Deloitte Report that the commenter gave a **moderate priority** and **conditional support**. This recommendation addresses project objective four, maintain accountability, transparency, and flexibility, and is listed under General Item 9 –divided governance of assets. This recommendation is that the trustee should manage all the trust assets collectively, including land assets and equities within the permanent fund, under one governing body. The commenter states this recommendation makes sense overall, and they assume the Board of Natural Resources would be the governing body and feel this would improve revenue to the beneficiaries. The commenter conditions this support upon the retention of a qualified, professional portfolio manager to set the trustee up for success and does not support reorganizing the trusts into one large trust.

There are two recommendations from the Deloitte report that the commenter gives **high priority** and which they **strongly oppose**. The first addresses project objective one, revenue generation, and is listed under General Items 14 – Use of debt to smooth distribution of trust net income. Specifically, this is a recommendation that the trustee explore the establishment of a program to borrow money to distribute to beneficiaries evenly over a period of time, in order to level out cash flow. The commenter appreciates the intent to address payment fluctuations and address concerns of predictability, however there are concerns about DNR’s expertise to manage such a program, other variables that influence DNR’s ability to provide regular revenue, and a wariness over accruing debt.

The second recommendation that received a **high priority** and to which the commenter is **strongly opposed** addresses project objective 4, maintain accountability, transparency, and flexibility and is listed under General Items 13 – Provide reliable cash flow to beneficiaries. This recommendation states that the trustee should undertake a study of the costs and benefits of collapsing several different trusts into a single land trust management and administrative structure. The commenter states that addressing financial concerns of supported recommendations, much of concern addressed by this recommendation

would solve themselves. The commenter is concerned about trust manager accountability to trusts, and that this recommendation does not consider beneficiary opinion. The commenter further states that poor business practices within DNR should be addressed before making such a major change.

There is one recommendation from the Deloitte Report that the commenter gave **moderate priority** and which they oppose. This recommendation addresses project objective one, revenue generation, and is listed under General Items 10 – Inconsistent Revenue Distribution. This recommendation states that the trustee should consider formation of a voluntary permanent fund to allow beneficiaries to retain cash in a similar manner as other state agencies. The commenter expresses appreciation of the intent to level revenue distribution, but cautions that it is not clear who would be responsible for managing this fund or how investment decisions would be made.

There is one recommendation from the Deloitte Report that the commenter assigned a **low priority** and to which they are **neutral**. This recommendation addresses project objective 4, maintain accountability, transparency, and flexibility, and is listed under Asset Class: Timber - T5 Approach to Harvesting Decisions. This is a recommendation to work with beneficiaries and stakeholders, and the legislature as needed, to conduct a cost/benefit study to evaluate the protections in place under the 1997 HCP with other approaches to ESA compliance. The commenter states that while it may be beneficial to revisit the HCP restrictions for species that continue to decline for reasons not related to forest management (citing the northern spotted owl/barred owl issue), but are concerned about whether such a study would result in learning that would lead to change. The commenter questions whether the exercise would be a wise investment of time and resources. It may be sufficient for DNR to consider lessons learned from HCP management to date.

Additional Recommendations

The commenter provided the following additional recommendations:

1. Revenue Generation – Increase the total amount of revenue and its reliability
 - a. Topic: HCP Amendment Creating a Long-Term Conservation Strategy for the Marbled Murrelet

The Trust Manager should work with counties, other interested parties, and the legislature to develop and implement strategies to assure no net loss of revenue to the beneficiaries due to the 2019 HCP Amendment. They should also further fulfill the intent of HB 2285 (2018) and the Solutions Table and develop actions that support maintaining or increasing family-wage timber and related jobs in the affected rural communities, taking into account, as appropriate, the role of other market factors.

2. Maintain Accountability, Transparency, and Flexibility
 - a. Topic: Retaining Resources for Silviculture Investments

The Trust Manager should develop a strategy to fulfill the entire backlog of silviculture investments and to assure a program for implementing timely treatments moving forward. If the system moving forward includes retaining resources for future investments, a management plan must be developed that ensures that any monetary resources retained for future silviculture treatments are trackable and applied to the harvest stands from which the funds were derived. Such resources should be easily visible and reported to the beneficiaries

b. Topic: Replacing Trust Lands

The Trust Manager should work with beneficiaries to develop alternative strategies to address the replacement of non-revenue producing state forestlands that eliminates impacts and benefit all.

c. Forest Inventory

The Trust Manager should employ regular on-the-ground stand-level cruises (at least every ten years) of all timber stands to assess available inventory for harvest more accurately. Cruises will improve the inventory data related to stand density, species mix, and trunk diameter. Forest management teams should develop an inventory system to provide the information needed for the sustainable harvest calculations, more accurate volume estimates, and harvest scheduling. Inventories should also be compared to actual harvest volume for continuing improvement and adaptive management considerations. This information should be provided to district foresters to inform harvest potential better. It should also be made available to beneficiaries.