

# HOUSE BILL REPORT

## 2SHB 1313

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### As Passed House:

March 10, 1995

**Title:** An act relating to a financial performance review of the management of state forest assets.

**Brief Description:** Reviewing the management of certain state lands.

**Sponsors:** By House Committee on Capital Budget (originally sponsored by Representatives Buck, Pennington, Fuhrman, Benton, Foreman, Sheldon, Honeyford, Johnson, Thompson, Hatfield, Hargrove and Elliot).

### Brief History:

#### Committee Activity:

Natural Resources: 2/1/95, 2/7/95 [DPS];

Capital Budget: 3/3/95, 3/6/95. [DP2S].

#### Floor Activity:

Passed House: 3/10/95, 71-26.

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### HOUSE COMMITTEE ON NATURAL RESOURCES

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Fuhrman, Chairman; Buck, Vice Chairman; Pennington, Vice Chairman; Basich, Ranking Minority Member; Beeksma; Cairnes; Elliot; Sheldon; Stevens; B. Thomas and Thompson.

**Minority Report:** Do not pass. Signed by 4 members: Representatives Regala, Assistant Ranking Minority Member; G. Fisher; Jacobsen and Romero.

**Staff:** Linda Byers (786-7129).

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### HOUSE COMMITTEE ON CAPITAL BUDGET

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass. Signed by 8 members: Representatives Sehlin, Chairman; Honeyford, Vice Chairman; Hankins; McMorris; Mitchell; Pennington; Silver and L. Thomas.

**Minority Report:** Do not pass. Signed by 5 members: Representatives Ogden, Ranking Minority Member; Chopp, Assistant Ranking Minority Member; Costa; Regala and Valle.

**Staff:** Karl Herzog (786-7271).

**Background:** The Department of Natural Resources (DNR) manages some 2.1 million acres of state forest lands. These lands are managed as trust lands. The trust beneficiaries include public schools, the state's universities, other public institutions, and counties with forest board lands.

The Legislative Budget Committee (LBC) is a statutory, joint, bi-partisan committee of the Legislature. The LBC conducts performance audits, fiscal and policy studies, and sunset reviews of state programs.

**Summary of Bill:** The Legislature finds that an independent review of the management performance of the Department of Natural Resources is necessary and appropriate. The Legislative Budget Committee is authorized and directed to conduct a review of the financial results of the department's management policies and policy implementation. In conducting the review, the LBC is to evaluate the department's overall financial performance by comparison to pertinent financial measures, including but not limited to the performance of private landowners in the state. After completing the review, the LBC is to prepare a report identifying the major positive and negative aspects of management during the review period and to recommend measures, if any, to improve the financial performance of these significant assets. The LBC is to submit a progress report to the Governor, the Legislature, and others by January 1, 1996, and a final report by July 1, 1996.

A State Forest Management Review Panel is created to assist and advise the LBC in conducting its review. The review panel is to consist of four members: one member representing counties with forest board lands, two school board members, and one representative of higher education.

In addition to conducting its review, the LBC is also to recommend to the Legislature information that the department should provide on a biennial basis to allow trust beneficiaries and other interested parties to assess the department's management of trust assets.

**Appropriation:** None.

**Fiscal Note:** Requested for second substitute bill on March 6, 1995.

**Effective Date of Bill:** The bill contains an emergency clause and takes effect immediately.

**Testimony For:** (Natural Resources) Trust beneficiaries recently asked questions about trust management and the ability of the trusts to produce income. Beneficiaries have concerns and doubts about the management of these assets. Trust income has fluctuated widely; there is a backlog of unsold timber; there is underharvest of older timber; dead and dying timber in the Loomis Forest is not being harvested; the department is using proposed federal owl guidelines instead of court-approved Forest Practices Board guidelines. A departing Natural Resources Board member asked for an independent review. The review requested in the bill complements the review of past board policies underway now. The review proposed in the bill asks the right questions. The money for the review is not exorbitant. Any prudent business would do this kind of audit. The Washington State School Directors' Association has called for independent review of management by DNR. The board of directors of the Quileute Valley School District were initially enthused by the DNR-proposed review but are now concerned that such review will be too limited. That review will not cover the Habitat Conservation Plan, the Olympic Experimental State Forest, and DNR management practices. The review proposed in the bill will highlight issues missed by error of omission or on purpose in the review underway. School districts have failing bonds while old growth goes unharvested. Silvicultural practices of the department need to be reviewed. Counties are only making 1/2 of 1 percent return on their asset. Counties need a better return on a more consistent basis, or they should have the lands back to manage themselves. There should be an independent review by those who harvest timber for a living.

(Capital Budget) DNR is between 70,000 and 90,000 acres behind in precommercial thinning. This will have a large affect on harvest in the year 2010. DNR is not maximizing financial returns on trust lands. DNR is only earning a 1 and one-half percent rate of return, which compares to 8 to 12 percent in the private sector. Though a government agency may not be able to match the private sector, the study will determine what the appropriate rate of return should be. Sustainable yield should be calculated on an annual basis. DNR has not calculated one since 1983, and has not met the scheduled sales volumes in that calculation. DNR should have undivided loyalties to trust beneficiaries. School districts are threatening lawsuits against the state. The review needs to be conducted by an outside, independent party.

**Testimony Against:** (Natural Resources) A number of reviews have been conducted in the past. Generally DNR has received favorable report cards and constructive recommendations for management of trust lands. A review of management of University of Washington trustlands was recently completed by a private consulting firm. The department would recommend referencing these past studies as a baseline. The Board of Natural Resources has authorized a review of the policies and procedures of the board. The review will include a review of decisions regarding threatened and endangered species as well as other pertinent decisions. The review will also look at the process the board uses to adopt policies, at the request of trust beneficiaries. That review will be completed by June 30 of this year.

(Capital Budget) This review comes at the wrong time, as a review has already been commissioned by the Board of Natural Resources. The review directed in the bill should be conducted after the board's review is complete. Past reviews by trust beneficiaries have been supportive of DNR management practices. The State Auditor conducts routine audits of the department's accounting and financial practices.

**Testified:** (Natural Resources) Bob Dick, Northwest Forestry Association; John Jones, Quileute Valley School District; Phillip Kitchel, Clallam County Commissioner; Pat Hamilton, Pacific County Commissioner (all in favor); and Art Stearns, Department of Natural Resources (opposed).

(Capital Budget) Representative Jim Buck, prime sponsor; Bill Pickell, Washington Contract Loggers Association, (both in favor); and Jennifer Belcher, Commissioner of Public Lands, (opposed).