

HOUSE BILL REPORT

HB 1313

As Reported By House Committee On:

Natural Resources
Capital Budget

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: 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].

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).

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 State Auditor conducts a financial audit and an audit of legal compliance of the Department of Natural Resources each year. The department pays for this service out of a number of different accounts.

Summary of Substitute Bill: The Legislature finds that an independent review of the management performance of the Department of Natural Resources is necessary and appropriate. The State Forest Land Management Review Committee is created to conduct such a review. The review committee consists of five members: the State Auditor, a representative for counties with forest board lands, two representatives of school districts, and one representative for higher education. A method is provided for selecting the review committee members.

The State Forest Land Management Review Committee is directed to conduct a review of the financial results of the department's management policies and policy implementation. In conducting its review, the review committee is to evaluate the department's overall financial performance in comparison with the financial performance of private forest landowners in the state. Specifically, the review committee is to:

- Determine the overall rate of return based on asset value and individual rates of return on specific capital investments;
- Evaluate the results of the department's forest management policies;
- Evaluate the relative efficiency of the department's timber sales planning process and the reasons for declines in timber sales;
- Evaluate the department's sustainable harvest calculations;
- Evaluate the effectiveness of the department's strategies and actions in addressing regulatory impacts;
- Evaluate the relative efficiency of the department's expenses to income ratio; and
- Evaluate the effectiveness of the department's fiduciary control system.

After completing its review, the review committee is to prepare a report identifying the major positive and negative aspects of the department's management of state forest lands and recommend any measures to correct or improve present or future financial performance. The review committee is to submit a progress report on its efforts to a number of specified entities by January 1, 1996, and a final report by July 1, 1996. In addition, the review committee is to identify information that the department is to provide on a biennial basis to allow trust beneficiaries and other interested parties to assess the department's management of trust assets.

The State Auditor is to chair the review committee, and the State Auditor's Office is to assist and support the review committee's efforts. It is expected that the review committee will employ outside consultants in conducting the review. Any consultant

firm selected must have significant recent experience and demonstrated expertise in the management of large forest land holdings in Washington. An appropriation of \$300,000 is appropriated to the State Auditor through the Auditing Services Revolving Account from the Department of Natural Resources' Resource Management Cost Account and Forest Development Account.

Substitute Bill Compared to Original Bill: The substitute bill makes changes in the requirements for consultants hired for the review. The substitute bill also assigns the review committee the additional task of identifying information which the Department of Natural Resources is to provide on a biennial basis to assess the department's management of the trusts, and makes technical changes.

Appropriation: \$300,000 is appropriated to the State Auditor through the Auditing Services Revolving Account from the Department of Natural Resources' Resource Management Cost Account and Forest Development Account.

Fiscal Note: Requested on January 26, 1995.

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

Testimony For: 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.

Testimony Against: 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.

Testified: 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).

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).

New Background: 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 Recommendation of Committee on Capital Budget Compared to Recommendation of Committee on Natural Resources: The Legislative Budget Committee is directed to conduct the financial review, rather than the review committee established in the bill. The review committee is changed to a review panel to assist and advise the LBC in conducting the review. The State Auditor's participation on the review panel and responsibility to support the review are eliminated. The other four members, representing counties, schools, and state universities, are retained on the panel. Provisions related to the hiring and qualifications on consultants to assist in conducting the review are eliminated. The process for identifying information that the Department of Natural Resources (DNR)

should report biennially to trust beneficiaries is changed. The LBC must recommend to the Legislature information that should be reported by DNR. The \$300,000 appropriation to the State Auditor is eliminated.

Appropriation: None.

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

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

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