

HOUSE BILL REPORT

HB 2398

As Reported by House Committee On:

Natural Resources
Appropriations

Title: An act relating to contract harvesting.

Brief Description: Establishing contract harvesting of timber on state trust lands.

Sponsors: Representatives Buck, Doumit, Eickmeyer, Rockefeller, Jackley, Woods, McDermott and Haigh; by request of Department of Natural Resources.

Brief History:

Committee Activity:

Natural Resources: 1/22/02, 2/1/02 [DPS];

Appropriations: 2/6/02, 2/7/02 [DP2S(w/o sub NR)].

Brief Summary of Second Substitute Bill

- Authorizes the Department of Natural Resources (DNR) to sell logs from state forest lands through a contract harvesting process. The amount of contract harvesting cannot exceed 10 percent of the total annual volume of timber offered for sale.
- Requires the DNR to report to the appropriate legislative committees by December 31, 2005 on the operation of the program.
- Creates the contract harvesting account to handle receipts from contract harvesting sales.

HOUSE COMMITTEE ON NATURAL RESOURCES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Doumit, Chair; Rockefeller, Vice Chair; Sump, Ranking Minority Member; Buck, Eickmeyer, Ericksen, Jackley, McDermott, Orcutt, Pearson and Upthegrove.

Staff: Bill Lynch (786-7092).

Background:

The Department of Natural Resources (DNR) sells timber from state forest lands by putting tracts of timber up for bid. The department will cruise the tract, establish an appraised value for the timber, and this value becomes the minimum bid for the timber sale. The successful bidder who is awarded the contract generally has three years to harvest the timber from the sale.

The department is not authorized to contract with someone to harvest and process the timber so that the department can sell sorted logs. It is suggested that the department may be able to take advantage of the timing of sales better, reduce pre-sale costs, and move sales faster if they have this additional authority.

Summary of Substitute Bill:

The DNR is directed to establish and implement contract harvesting when it can increase revenues for the trust beneficiaries and increase environmental protection. "Contract harvesting" is defined as a situation in which the department contracts with an individual to harvest timber on state forest lands and process the timber into logs sorted by department specifications. The department then sells the individual log sorts.

Contract harvesting cannot be used for more than 10 percent of the total annual volume of timber offered for sale. All contracts must be compatible with the Office of Financial Management's (OFM) guide to public service contracts. Contract harvesting is not allowed for an area that is east of the Okanogan River, and north of the Columbia River and main fork of the Spokane River as these rivers flow east of the crest of the Cascade Mountains.

The Board of Natural Resources is directed to determine whether any special appraisal practices are necessary for logs sold by the contract harvesting method, and if so, adopt them. When considering adopting special appraisal practices, the board must consider and adopt procedures to rapidly market and sell log sorts that fail to receive the required minimum bid at auction. The board must also establish policies and procedures for the department to evaluate and select contract harvesters. The procedures must include a method for certified contract harvesters who are excluded from the list of approved contract harvesters to appeal the decision to not include these harvesters on the list to the board.

A government agency that harvests or markets timber must provide the harvester purchasing the timber with its harvesting and marketing costs for tax purposes. Harvesting and marketing costs are excluded from the stumpage value of timber from public land if the timber is harvested by a government agency.

The contract harvesting revolving account is created in the custody of the State Treasurer. Appropriations are not required for expenditures from the account, but the account is subject to allotment procedures. All receipts from the gross proceeds of the sale of logs from contract harvesting must be deposited into this account. Expenditures may only be used for paying the costs of contract harvesting sales, and may only be authorized by the Commissioner of Public Lands or the commissioner's designee. Interest generated by the account must be credited to the account.

After the gross proceeds from the sale of logs from a contract harvesting sale are deposited into the contract harvesting revolving account, the harvesting costs are deducted from the gross proceeds and kept in the account. The final receipt of gross proceeds on a contract sale must be kept in the account until all required costs for that sale are paid. The net proceeds from the sale are paid to the State Treasurer for distribution in the appropriate trust accounts after the authorized deductions are made.

The contract harvesting revolving account cannot exceed \$1 million. Moneys in excess of \$1 million must be disbursed to the trust beneficiaries in accordance with existing procedures. If the department terminates the use of contract harvesting sales, any existing funds in the contract harvesting revolving account must be returned to the resource management account and the forest development account in proportion to each account's initial contribution to the establishment of the contract harvesting revolving account.

The DNR must provide a report to the appropriate legislative committees by December 31, 2005 on the costs and effectiveness of the contract harvesting program.

Substitute Bill Compared to Original Bill:

Language is added to limit contract harvesting to no more than 10 percent of the total annual volume of timber offered for sale. Contracts for contract harvesting must be consistent with OFM's public service contract guide. An area of Eastern Washington is excluded from contract harvesting. An appeal right is added for contract harvesters. Clarifications are added regarding harvesting and marketing costs. The DNR is required to report on the program.

Appropriation: A total of \$500,000 is appropriated to the contract harvesting revolving account for the biennium ending on June 30, 2003. The sum of \$250,000 is taken from the resource management cost account, and \$250,000 is taken from the forest development account.

Fiscal Note: Requested on January 21, 2002.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill

is passed.

Testimony For: The DNR normally sells on a lump sum basis, and this adds another tool to the toolbox. The DNR can do broader marketing, and have better control of operations in sensitive areas. This will be particularly advantageous in stands with mixed species of trees. A five-year pilot program was very successful, and produced a 18 to 22 percent higher return for the sales. There will be pre-sale savings because it isn't as necessary to do as much up-front work when the agency's compliance forester is on the ground. This will increase money for the trust beneficiaries. This will not result in more employees for the DNR. This is better for the loggers because they don't have to respond to different mills when they are working, only to the DNR. A complicated sale in the Capitol Forest went quite well recently. There is less market risk because these are shorter term sales. The bill will allow everyone to see if the benefits are there after a few years.

Testimony Against: None.

Testified: Howard Thronson, Department of Natural Resources; Becky Kelley, Washington Environmental Council; Bill Pickell, Washington Contract Loggers; and Paul Parker, Washington State Association of Counties.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Natural Resources. Signed by 22 members: Representatives Sommers, Chair; Doumit, 1st Vice Chair; Fromhold, 2nd Vice Chair; Sehlin, Ranking Minority Member; Alexander, Boldt, Clements, Cody, Cox, Grant, Kagi, Kenney, Kessler, Linville, Lisk, Mastin, McIntire, Pearson, Pflug, Ruderman, Schual-Berke and Talcott.

Staff: Jeff Olsen (786-7157).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Natural Resources:

The second substitute removes appropriations of \$250,000 from each the Resource Management Cost Account and the Forest Development Account to the newly created Contract Harvesting Revolving Account.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Second Substitute Bill: Ninety days after adjournment of session in

which bill is passed.

Testimony For: Contract harvesting can bring a higher return to the trust beneficiaries. This tool assists DNR manage sales with complex environmental prescriptions and stands that have mixed timber types. The program is capped at 10 percent of annual volume, and most sales will occur on the west side.

Testimony Against: None.

Testified: Bruce Mackey, Land Steward, Department of Natural Resources.