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SUBSTITUTE HOUSE BILL 1245

State of Washington 58th Legislature 2003 Regular Session

By House Committee on Agriculture & Natural Resources (originally sponsored by Representatives Linville, Schoesler, Rockefeller, Sump, Orcutt, Eickmeyer, Quall and Mielke; by request of Commissioner of Public Lands)

READ FIRST TIME 02/04/03.

AN ACT Relating to the authority of the department of natural 1 2 resources to contract for the harvest of timber from state trust lands; amending RCW 76.12.030, 76.12.120, 79.64.040, 43.85.130, and 84.33.078; 3 reenacting and amending RCW 43.79A.040 and 84.33.035; adding a new 4 5 chapter to Title 79 RCW; creating new sections; and making 6 appropriations.

- 7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:
- NEW SECTION. Sec. 1. 8 The legislature finds that it is in the best 9 interest of the trust beneficiaries to capture additional revenues 10 while providing for additional environmental protection on timber 11 sales. Further, the legislature finds that contract harvesting is one 12 method to achieve these desired outcomes. Therefore, the legislature directs the department of natural resources to establish and implement 13 14 contract harvesting where there exists the ability to increase revenues 15 for the beneficiaries of the trusts while obtaining increases in environmental protection. 16
- NEW SECTION. **Sec. 2.** The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

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1 (1) "Commissioner" means the commissioner of public lands.

- (2) "Contract harvesting" means a timber operation occurring on state forest lands, in which the department contracts with a firm or individual to perform all the necessary harvesting work to process trees into logs sorted by department specifications. The department then sells the individual log sorts.
 - (3) "Department" means the department of natural resources.
- (4) "Harvesting costs" are those expenses related to the production of log sorts from a stand of timber. These expenses typically involve road building, labor for felling, bucking, and yarding, as well as the transporting of sorted logs to the forest product purchasers.
- 12 (5) "Net proceeds" means gross proceeds from a contract harvesting 13 sale less harvesting costs.
- NEW SECTION. Sec. 3. (1) The department may establish a contract harvesting program by directly contracting for the removal of timber and other valuable materials from state lands.
 - (2) The contract requirements must be compatible with the office of financial management's guide to public service contracts.
 - (3) The department may not use contract harvesting for more than ten percent of the total annual volume of timber offered for sale.

NEW SECTION. Sec. 4. The contract harvesting revolving account is created in the custody of the state treasurer. All receipts from the gross proceeds of the sale of logs from a contract harvesting must be deposited into the account. Expenditures from the account may be used only for the payment of harvesting costs incurred on contract harvesting sales. Only the commissioner or the commissioner's designee may authorize expenditures from the account. The board of natural resources has oversight of the account, and the commissioner must periodically report to the board of natural resources as to the status of the account, its disbursement, and receipts. The account is subject to allotment procedures under chapter 43.88 RCW, but an appropriation is not required for expenditures.

When the logs from a contract harvesting sale are sold, the gross proceeds must be deposited into the contract harvesting revolving account. Moneys equal to the harvesting costs must be retained in the account and be deducted from the gross proceeds to determine the net

The net proceeds from the sale of the logs must be distributed in accordance with RCW 43.85.130(1)(b). The final receipt of gross proceeds on a contract harvesting sale must be retained in the contract harvesting revolving account until all required costs for that sale have been paid. The contract harvesting revolving account is an interest-bearing account and the interest must be credited to the account. The account balance may not exceed one million dollars at the end of each fiscal year. Moneys in excess of one million dollars must be disbursed according to RCW 76.12.030, 76.12.120, and 79.64.040. the department permanently discontinues the use of contract harvesting sales, any sums remaining in the contract harvesting revolving account must be returned to the resource management cost account and the forest development account in proportion to each account's contribution to the initial balance of the contract harvesting revolving account.

NEW SECTION. Sec. 5. The board of natural resources must determine whether any special appraisal practices are necessary for logs sold by the contract harvesting processes, and if so, must adopt the special appraisal practices or procedures. In its consideration of special appraisal practices, the board of natural resources must consider and adopt procedures to rapidly market and sell any log sorts that failed to receive the required minimum bid at the original auction, which may include allowing the department to set a new appraised value for the unsold sort.

The board of natural resources must establish and adopt policy and procedures by which the department evaluates and selects certified contract harvesters. The procedures must include a method whereby a certified contract harvester may appeal a decision by the department or board of natural resources to not include the certified contract harvester on the list of approved contract harvesters.

Sec. 6. RCW 76.12.030 and 1997 c 370 s 1 are each amended to read as follows:

If any land acquired by a county through foreclosure of tax liens, or otherwise, comes within the classification of land described in RCW 76.12.020 and can be used as state forest land and if the department deems such land necessary for the purposes of this chapter, the county

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shall, upon demand by the department, deed such land to the department and the land shall become a part of the state forest lands.

Such land shall be held in trust and administered and protected by the department as other state forest lands. Any moneys derived from the lease of such land or from the sale of forest products, oils, gases, coal, minerals, or fossils therefrom, shall be distributed as follows:

- (1) The expense incurred by the state for administration, reforestation, and protection, not to exceed twenty-five percent, which rate of percentage shall be determined by the board of natural resources, shall be returned to the forest development account in the state general fund.
- (2) Any balance remaining shall be paid to the county in which the land is located to be paid, distributed, and prorated, except as hereinafter provided, to the various funds in the same manner as general taxes are paid and distributed during the year of payment: PROVIDED, That any such balance remaining paid to a county with a population of less than sixteen thousand shall first be applied to the reduction of any indebtedness existing in the current expense fund of such county during the year of payment.
- In the event that the department sells logs using the contract harvesting process described in chapter 79.-- RCW (sections 2 through 5 of this act), the moneys derived subject to this section are the net proceeds from the contract harvesting sale.
- **Sec. 7.** RCW 76.12.120 and 2000 c 148 s 2 are each amended to read 26 as follows:

Except as provided in RCW 76.12.125, all land, acquired or designated by the department as state forest land, shall be forever reserved from sale, but the timber and other products thereon may be sold or the land may be leased in the same manner and for the same purposes as is authorized for state granted land if the department finds such sale or lease to be in the best interests of the state and approves the terms and conditions thereof.

Except as provided in RCW 79.12.035, all money derived from the sale of timber or other products, or from lease, or from any other source from the land, except where the Constitution of this state or

1 RCW 76.12.030 requires other disposition, shall be disposed of as follows:

- 3 (1) Fifty percent shall be placed in the forest development 4 account.
- (2) Fifty percent shall be prorated and distributed to the state 5 general fund, to be dedicated for the benefit of the public schools, 6 7 and the county in which the land is located according to the relative proportions of tax levies of all taxing districts in the county. 8 portion to be distributed to the state general fund shall be based on 9 10 the regular school levy rate under RCW 84.52.065 as now or hereafter amended and the levy rate for any maintenance and operation special 11 12 school levies. With regard to the portion to be distributed to the 13 counties, the department shall certify to the state treasurer the 14 amounts to be distributed within seven working days of receipt of the money. The state treasurer shall distribute funds to the counties four 15 16 times per month, with no more than ten days between each payment date. 17 The money distributed to the county shall be paid, distributed, and prorated to the various other funds in the same manner as general taxes 18 are paid and distributed during the year of payment. 19

In the event that the department sells logs using the contract harvesting process described in chapter 79.-- RCW (sections 2 through 5 of this act), the moneys received subject to this section are the net proceeds from the contract harvesting sale.

Sec. 8. RCW 79.64.040 and 2001 c 250 s 16 are each amended to read as follows:

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The board shall determine the amount deemed necessary in order to achieve the purposes of this chapter and shall provide by rule for the deduction of this amount from the moneys received from all leases, sales, contracts, licenses, permits, easements, and rights of way issued by the department and affecting public lands, provided that no deduction shall be made from the proceeds from agricultural college lands. Moneys received as deposits from successful bidders, advance payments, and security under RCW 79.01.132 and 79.01.204 prior to December 1, 1981, which have not been subjected to deduction under this section are not subject to deduction under this section. The deductions authorized under this section shall in no event exceed twenty-five percent of the moneys received by the department in

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connection with any one transaction pertaining to public lands other than second class tide and shore lands and the beds of navigable waters, and fifty percent of the moneys received by the department pertaining to second class tide and shore lands and the beds of

navigable waters.

In the event that the department sells logs using the contract harvesting process described in chapter 79.-- RCW (sections 2 through 5 of this act), the moneys received subject to this section are the net proceeds from the contract harvesting sale.

- **Sec. 9.** RCW 43.85.130 and 1981 2nd ex.s. c 4 s 1 are each amended to read as follows:
- 12 (1) The department shall deposit daily all moneys and fees 13 collected or received by the commissioner of public lands and the 14 department of natural resources in the discharge of official duties as 15 follows:
 - (a) The department shall pay moneys received as advance payments, deposits, and security from successful bidders under RCW 79.01.132 and 79.01.204 to the state treasurer for deposit under subsection (1)(b) of this section. Moneys received from unsuccessful bidders shall be returned as provided in RCW 79.01.204;
 - (b) The department shall pay all moneys received on behalf of a trust fund or account to the state treasurer for deposit in the trust fund or account after making the deduction authorized under RCW 76.12.030, 76.12.120, ((and)) 79.64.040, and section 4 of this act;
 - (c) The natural resources deposit fund is hereby created. The state treasurer is the custodian of the fund. All moneys or sums which remain in the custody of the commissioner of public lands awaiting disposition or where the final disposition is not known shall be deposited into the natural resources deposit fund. Disbursement from the fund shall be on the authorization of the commissioner or the commissioner's designee, without necessity of appropriation;
 - (d) If it is required by law that the department repay moneys disbursed under subsections (1)(a) and (1)(b) of this section the state treasurer shall transfer such moneys, without necessity of appropriation, to the department upon demand by the department from those trusts and accounts originally receiving the moneys.

- 1 (2) Money shall not be deemed to have been paid to the state upon 2 any sale or lease of land until it has been paid to the state 3 treasurer.
 - **Sec. 10.** RCW 43.79A.040 and 2002 c 322 s 5, 2002 c 204 s 7, and 2002 c 61 s 6 are each reenacted and amended to read as follows:

- (1) Money in the treasurer's trust fund may be deposited, invested, and reinvested by the state treasurer in accordance with RCW 43.84.080 in the same manner and to the same extent as if the money were in the state treasury.
- (2) All income received from investment of the treasurer's trust fund shall be set aside in an account in the treasury trust fund to be known as the investment income account.
- (3) The investment income account may be utilized for the payment of purchased banking services on behalf of treasurer's trust funds including, but not limited to, depository, safekeeping, and disbursement functions for the state treasurer or affected state agencies. The investment income account is subject in all respects to chapter 43.88 RCW, but no appropriation is required for payments to financial institutions. Payments shall occur prior to distribution of earnings set forth in subsection (4) of this section.
- (4)(a) Monthly, the state treasurer shall distribute the earnings credited to the investment income account to the state general fund except under (b) and (c) of this subsection.
- (b) The following accounts and funds shall receive their proportionate share of earnings based upon each account's or fund's average daily balance for the period: The Washington promise scholarship account, the college savings program account, the Washington advanced college tuition payment program account, the agricultural local fund, the American Indian scholarship endowment fund, the basic health plan self-insurance reserve account, the Washington state combined fund drive account, the Washington international exchange scholarship endowment fund, the developmental disabilities endowment trust fund, the energy account, the fair fund, the fruit and vegetable inspection account, the game farm alternative account, the grain inspection revolving fund, the juvenile account, the rural rehabilitation account, the stadium and exhibition

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center account, the youth athletic facility account, the self-insurance revolving fund, the sulfur dioxide abatement account, and the children's trust fund. However, the earnings to be distributed shall first be reduced by the allocation to the state treasurer's service fund pursuant to RCW 43.08.190.

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- (c) The following accounts and funds shall receive eighty percent of their proportionate share of earnings based upon each account's or fund's average daily balance for the period: The advanced right of way revolving fund, the advanced environmental mitigation revolving account, the city and county advance right-of-way revolving fund, the federal narcotics asset forfeitures account, the high occupancy vehicle account, the local rail service assistance account, and the miscellaneous transportation programs account.
- 14 (5) In conformance with Article II, section 37 of the state 15 Constitution, no trust accounts or funds shall be allocated earnings 16 without the specific affirmative directive of this section.
- 17 **Sec. 11.** RCW 84.33.078 and 1986 c 65 s 1 are each amended to read 18 as follows:
- 19 When any timber standing on public land, other than federally owned 20 land, is sold separate from the land, the department of natural 21 resources or other governmental unit, as appropriate, shall state in 22 its notice of the sale or prospectus that timber sold separate from the 23 land is subject to property tax and that the amount of the tax paid may 24 be used as a credit against any tax imposed with respect to business of harvesting timber from publicly owned land under RCW 84.33.041. If the 25 26 timber from public land is harvested by the state, its departments and institutions and political subdivisions, or any municipal corporation 27 therein, the governmental unit, or governmental units, that harvest or 28 29 market the timber must provide the harvester purchasing the timber with its harvesting and marketing costs as defined in RCW 84.33.035(7). 30
- 31 **Sec. 12.** RCW 84.33.035 and 2001 c 249 s 1 and 2001 c 97 s 1 are each reenacted and amended to read as follows:
- Unless the context clearly requires otherwise, the definitions in this section apply throughout this chapter.
- 35 (1) "Agricultural methods" means the cultivation of trees that are 36 grown on land prepared by intensive cultivation and tilling, such as

irrigating, plowing, or turning over the soil, and on which all 1 unwanted plant growth is controlled continuously for the exclusive purpose of raising trees such as Christmas trees and short-rotation hardwoods.

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- (2) "Average rate of inflation" means the annual rate of inflation as determined by the department averaged over the period of time as provided in RCW 84.33.220 (1) and (2). This rate shall be published in the state register by the department not later than January 1st of each year for use in that assessment year.
- (3) "Composite property tax rate" for a county means the total amount of property taxes levied upon forest lands by all taxing districts in the county other than the state, divided by the total assessed value of all forest land in the county.
- (4) "Forest land" is synonymous with "designated forest land" and means any parcel of land that is twenty or more acres or multiple parcels of land that are contiguous and total twenty or more acres that is or are devoted primarily to growing and harvesting timber. Designated forest land means the land only and does not include a residential homesite. The term includes land used for incidental uses that are compatible with the growing and harvesting of timber but no more than ten percent of the land may be used for such incidental uses. It also includes the land on which appurtenances necessary for the production, preparation, or sale of the timber products exist in conjunction with land producing these products.
- (5) "Harvested" means the time when in the ordinary course of business the quantity of timber by species is first definitely determined. The amount harvested shall be determined by the Scribner Decimal C Scale or other prevalent measuring practice adjusted to arrive at substantially equivalent measurements, as approved by the department.
- (6) "Harvester" means every person who from the person's own land or from the land of another under a right or license granted by lease or contract, either directly or by contracting with others for the necessary labor or mechanical services, fells, cuts, or takes timber for sale or for commercial or industrial use. When the United States or any instrumentality thereof, the state, including its departments institutions and political subdivisions, or any municipal corporation therein so fells, cuts, or takes timber for sale or for

p. 9 SHB 1245 commercial or industrial use, the harvester is the first person other than the United States or any instrumentality thereof, the state, including its departments and institutions and political subdivisions, or any municipal corporation therein, who acquires title to or a possessory interest in the timber. The term "harvester" does not include persons performing under contract the necessary labor or mechanical services for a harvester.

- (7) "Harvesting and marketing costs" means only those costs directly associated with harvesting the timber from the land and delivering it to the buyer and may include the costs of disposing of logging residues. Any other costs that are not directly and exclusively related to harvesting and marketing of the timber, such as costs of permanent roads or costs of reforesting the land following harvest, are not harvesting and marketing costs.
- (8) "Incidental use" means a use of designated forest land that is compatible with its purpose for growing and harvesting timber. An incidental use may include a gravel pit, a shed or land used to store machinery or equipment used in conjunction with the timber enterprise, and any other use that does not interfere with or indicate that the forest land is no longer primarily being used to grow and harvest timber.
- (9) "Local government" means any city, town, county, water-sewer district, public utility district, port district, irrigation district, flood control district, or any other municipal corporation, quasi-municipal corporation, or other political subdivision authorized to levy special benefit assessments for sanitary or storm sewerage systems, domestic water supply or distribution systems, or road construction or improvement purposes.
- (10) "Local improvement district" means any local improvement district, utility local improvement district, local utility district, road improvement district, or any similar unit created by a local government for the purpose of levying special benefit assessments against property specially benefited by improvements relating to the districts.
- 35 (11) "Owner" means the party or parties having the fee interest in 36 land, except where land is subject to a real estate contract "owner" 37 means the contract vendee.

(12) "Primarily" or "primary use" means the existing use of the land is so prevalent that when the characteristic use of the land is evaluated any other use appears to be conflicting or nonrelated.

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- (13) "Short-rotation hardwoods" means hardwood trees, such as but not limited to hybrid cottonwoods, cultivated by agricultural methods in growing cycles shorter than fifteen years.
- (14) "Small harvester" means every person who from his or her own land or from the land of another under a right or license granted by lease or contract, either directly or by contracting with others for the necessary labor or mechanical services, fells, cuts, or takes timber for sale or for commercial or industrial use in an amount not exceeding two million board feet in a calendar year. When the United States or any instrumentality thereof, the state, including its departments and institutions and political subdivisions, or any municipal corporation therein so fells, cuts, or takes timber for sale or for commercial or industrial use, not exceeding these amounts, the small harvester is the first person other than the United States or any instrumentality thereof, the state, including its departments and institutions and political subdivisions, or any municipal corporation therein, who acquires title to or a possessory interest in the timber. Small harvester does not include persons performing under contract the necessary labor or mechanical services for a harvester, and it does not include the harvesters of Christmas trees or short-rotation hardwoods.
- (15) "Special benefit assessments" means special assessments levied or capable of being levied in any local improvement district or otherwise levied or capable of being levied by a local government to pay for all or part of the costs of a local improvement and which may be levied only for the special benefits to be realized by property by reason of that local improvement.
- (16) "Stumpage value of timber" means the appropriate stumpage value shown on tables prepared by the department under RCW 84.33.091, provided that for timber harvested from public land and sold under a competitive bidding process, stumpage value shall mean the actual amount paid to the seller in cash or other consideration. The stumpage value of timber from public land does not include harvesting and marketing costs if the timber from public land is harvested by, or under contract for, the United States or any instrumentality of the United States, the state, including its departments and institutions

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- 1 and political subdivisions, or any municipal corporation therein.
- 2 Whenever payment for the stumpage includes considerations other than
- 3 cash, the value shall be the fair market value of the other
- 4 consideration. If the other consideration is permanent roads, the
- 5 value of the roads shall be the appraised value as appraised by the
- 6 seller.

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- 7 (17) "Timber" means forest trees, standing or down, on privately or 8 publicly owned land, and except as provided in RCW 84.33.170 includes 9 Christmas trees and short-rotation hardwoods.
- (18) "Timber assessed value" for a county means a value, calculated 10 by the department before October 1st of each year, equal to the total 11 stumpage value of timber harvested from privately owned land in the 12 county during the most recent four calendar quarters for which the 13 information is available multiplied by a ratio. The numerator of the 14 ratio is the rate of tax imposed by the county under RCW 84.33.051 for 15 16 the year of the calculation. The denominator of the ratio is the 17 composite property tax rate for the county for taxes due in the year of the calculation, expressed as a percentage of assessed value. 18
 - (19) "Timber assessed value" for a taxing district means the timber assessed value for the county multiplied by a ratio. The numerator of the ratio is the total assessed value of forest land in the taxing district. The denominator is the total assessed value of forest land in the county. As used in this section, "assessed value of forest land" means the assessed value of forest land for taxes due in the year the timber assessed value for the county is calculated.
 - (20) "Timber management plan" means a plan prepared by a trained forester, or any other person with adequate knowledge of timber management practices, concerning the use of the land to grow and harvest timber. Such a plan includes:
 - (a) A legal description of the forest land;
 - (b) A statement that the forest land is held in contiguous ownership of twenty or more acres and is primarily devoted to and used to grow and harvest timber;
 - (c) A brief description of the timber on the forest land or, if the timber on the land has been harvested, the owner's plan to restock the land with timber;
- 37 (d) A statement about whether the forest land is also used to graze 38 livestock;

- 1 (e) A statement about whether the land has been used in compliance 2 with the restocking, forest management, fire protection, insect and 3 disease control, and forest debris provisions of Title 76 RCW; and
- 4 (f) If the land has been recently harvested or supports a growth of 5 brush and noncommercial type timber, a description of the owner's plan 6 to restock the forest land within three years.
- NEW SECTION. Sec. 13. The department of natural resources must provide a report to the appropriate committees of the legislature concerning the costs and effectiveness of the contract harvesting program. The report must be submitted by December 31, 2006.
- NEW SECTION. Sec. 14. Sections 2 through 5 of this act constitute a new chapter in Title 79 RCW.
- NEW SECTION. **sec. 15.** (1) The sum of two hundred fifty thousand dollars, or as much thereof as may be necessary, is appropriated for the biennium ending June 30, 2005, from the resource management cost account to the contract harvesting revolving account for the purposes of this act.
- 18 (2) The sum of two hundred fifty thousand dollars, or as much 19 thereof as may be necessary, is appropriated for the biennium ending 20 June 30, 2005, from the forest development account to the contract 21 harvesting revolving account for the purposes of this act.
- NEW SECTION. Sec. 16. If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

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