HOUSE BILL REPORT
HB 1045

As Reported by House Committee On:
Agriculture & Natural Resources
Appropriations

Title: An act relating to maintaining deductions from proceeds of transactions authorized on state lands as determined by the board of natural resources.

Brief Description: Maintaining the ability of the board of natural resources to determine the deduction of proceeds from transactions on state lands managed by the department of natural resources.

Sponsors: Representatives B. Sullivan, McCoy, Eickmeyer and Kretz.

Brief History:
Committee Activity:
Agriculture & Natural Resources: 1/10/07, 1/17/07 [DPS];
Appropriations: 1/31/07 [DPS(AGNR)].

Brief Summary of Substitute Bill

- Extends for 10 years the ability of the Board of Natural Resources to retain up to 30 percent of the proceeds earned from transactions on state lands.

HOUSE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives B. Sullivan, Chair; Blake, Vice Chair; Kretz, Ranking Minority Member; Dickerson, Eickmeyer, Grant, Hailey, Kagi, Lantz, McCoy, Newhouse, Strow and VanDeWege.

Minority Report: Do not pass. Signed by 1 member: Representative Orcutt.

Staff: Jason Callahan (786-7117).

Background:

The Board of Natural Resources (Board) has been delegated the responsibility to direct the management of state lands that are held in trust for identified trust beneficiaries. Beneficiaries

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of these land trusts include the state's public schools and higher education institutions. Revenue earned through land management activities conducted by the Department of Natural Resources (DNR) benefits the identified trust beneficiary for the land.

Historically, the Board was entitled to deduct up to 25 percent of the revenue earned from trust land activities. This deduction was transferred to the Resource Management Cost Account (RMCA) and used to defray costs incurred by the DNR in managing and administering the trust lands. The remainder of the revenue was made available to the identified trust beneficiary.

For the 2005-2007 fiscal biennium only, the Board was given the authority to deduct up to 30 percent of revenue generated from state lands. This authority did not extend to aquatic lands managed by the DNR or to uplands that are managed by the DNR in trust for counties.

The authority to deduct up to 30 percent from state trust land revenues expires with the end of the 2007 fiscal year. The Board's maximum allowed deduction will return to 25 percent with the start of Fiscal Year 2008.

Summary of Substitute Bill:

The temporary authority for the Board to deduct an additional 5 percent of revenues generated from state trust lands for the RMCA is extended an additional 10 years. The Board's maximum allowable RMCA deduction remains at 30 percent and will not be reduced to 25 percent until the end of Fiscal Year 2017.

Each biennium the DNR must submit a report to the Legislature summarizing all actions to adjust the deduction percentage.

Substitute Bill Compared to Original Bill:

The original bill authorized the Board to set state land revenue deductions up to 30 percent on a permanent basis as opposed to limiting the authority to just 10 years.

Appropriation: None.

Fiscal Note: Requested on January 5, 2007.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In Support) This bill has been negotiated over a long time and agreed to by many stakeholders. The recommendation to increase the management fee came from an independent evaluation of the DNR's finances and its forest management program. The recommendations reflect trust in the job that the DNR does in managing their financial resources.

The increased management fee would provide the tools necessary to manage trust land into the future. The future management of a sustainable harvest on state forests is contingent on having sufficient funds to invest. A successful sustainable harvest allows the DNR to balance its economic, social, and environmental responsibilities. The 25 percent level is insufficient to pay for a sustainable harvest into the future. Even with the increased fee, the trust beneficiaries will receive more money from the increased level of harvest than if the DNR received a lower fee, since the lower fee would mean reduced harvest activities by the DNR.

The Board's fiduciary duty to the trust beneficiaries requires it to manage forests with intergenerational equity in mind, maximizing revenue both today and into the future. Schools rely on this management to provide important matching funds for school construction.

The Board has the authority to manage the fee between 0 and 30 percent, and will not necessarily default to the 30 percent level. The 25 percent cap was established in 1972, and has been set below the maximum level many times over the years. Timber prices will fluctuate, and giving the Board some flexibility over the management fee will help mitigate the effect of those fluctuations on trust revenues. The Board is comprised of trust beneficiaries that will require the DNR to justify any increases in the management fee that are requested.

Although the management fee increase applies only to portions of the DNR's land holdings, it will allow those lands to be managed in a way that improves forest health across the landscape. Forest health issues ignore ownership boundaries, so improved forest health on a portion of the DNR's land will help improve health on all neighboring lands. The increased management fee will also allow the DNR to maximize their environmental stewardship of the lands under their control.

(Opposed) None.

Persons Testifying: Representative B. Sullivan, prime sponsor; Bonnie Bunning, Department of Natural Resources; Brenda Hood, Office of the Superintendent of Public Instruction; Russ Pfeiffer-Hoyt, Washington State School Director's Association, Trustlands Task Force; Eric Johnson, Washington State Association of Counties; and Miguel Perez-Gibson, Audubon Washington and Washington Environmental Council.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill by Committee on Agriculture & Natural Resources be substituted therefor and the substitute bill do pass. Signed by 34 members: Representatives Sommers, Chair; Dunshee, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Haler, Assistant Ranking Minority Member; Anderson, Buri, Chandler, Cody, Conway, Darneille, Dunn, Ericks, Fromhold, Grant, Haigh, Hinkle, Hunt, Hunter, Kagi, Kenney, Kessler, Kretz, Linville, McDermott, McDonald, McIntire, Morrell, Pettigrew, Priest, Schual-Berke, Seaquist, P. Sullivan and Walsh.

Staff: Alicia Dunkin (786-7178).

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

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) We brought the request to increase the allowable deduction for the Resource Management Cost Account (RMCA) before you last year as a budget proviso, which was provided, and now ask that you extend it for a 10 year period. We will increase sales from 400 million board feet to 600 million board feet and to accomplish this we need the staff to bring sales to the Board of Natural Resources; this bill will allow us the resources to do so. Timber prices have varied by 30 percent or more and if there is a decrease in timber prices then we will not meet our management goals or maintain the fund balance to the RMCA. Sixty percent of the revenue from trust lands benefits common schools and the harvest yield supports our fiduciary responsibility to the schools as well as taking into account the social and environmental issues. We are in support of paying 30 cents on the dollar to manage the trust more intensely but want this amount to be reviewed periodically. An increase in the management cost will also increase revenue to beneficiaries due to the Department of Natural Resources' level of harvest.

(Opposed) None.

Persons Testifying: Doug Sutherland, Commissioner of Public Lands; Bruce Mackey, Department of Natural Resources; Terry Bergeson, Superintendent of Public Instruction; and Russ Pfeiffer-Hoyt, Washington State School Directors' Association.

Persons Signed In To Testify But Not Testifying: None.