

HOUSE BILL REPORT

HB 1407

As Reported by House Committee On:
Agriculture & Natural Resources
Capital Budget

Title: An act relating to expiration dates affecting the department of natural resources' contract harvesting program.

Brief Description: Concerning expiration dates affecting the department of natural resources' contract harvesting program.

Sponsors: Representatives Blake, Buys, Dent, Orcutt and Fitzgibbon; by request of Department of Natural Resources.

Brief History:

Committee Activity:

Agriculture & Natural Resources: 1/31/17, 2/7/17 [DP];
Capital Budget: 2/17/17, 2/23/17 [DP].

Brief Summary of Bill

- Removes expiration dates for various elements of the Department of Natural Resources' (DNR) contract harvesting program.
- Retains the ability for the DNR to harvest up to 20 percent of their annual volume of timber, hold up to \$5 million in the Contract Harvest Revolving Account, and for the Board of Natural Resources to set timber prices at current market value rather than appraised value.

HOUSE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

Majority Report: Do pass. Signed by 12 members: Representatives Blake, Chair; Chapman, Vice Chair; Buys, Ranking Minority Member; Dent, Assistant Ranking Minority Member; Fitzgibbon, Kretz, Orcutt, Pettigrew, Robinson, Schmick, Stanford and J. Walsh.

Staff: Rebecca Lewis (786-7339).

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Contract Harvesting.

The Department of Natural Resources (DNR) sells the majority of timber from state forestlands by putting tracts of timber up for bid. However, the DNR has the authority to conduct some of their timber bids through contract harvesting. Under this method, the DNR directly contracts for the harvest of a tract and retains ownership of the harvested logs. These logs are sorted into groupings of like species and size, called "lots," and then sold according to their lot. The purchaser of the logs only buys the species and size included in a specific lot.

Until the end of 2018 the Board of Natural Resources (Board) must use the current market value of timber as the minimum bid price. Beginning in 2019 the Board must establish an appraised value for the timber and use that value as the minimum bid for the timber sale. In most instances, the bidder awarded a contract from the DNR secures the right to harvest and sell all of the timber comprising the sale, regardless of species and size. The successful bidder is responsible for harvesting the timber, generally within three years, and either using or selling the harvested logs.

Except for forest health operations, the authority for the DNR to engage in contract harvesting is limited. Until the end of 2018 the DNR may use contract harvesting for up to 20 percent of the total annual volume of timber offered for sale from state forestlands. Starting in 2019 that cap is reduced to 10 percent.

All receipts from the gross proceeds of logs that are harvested under the contract harvesting program are deposited into the Contract Harvest Revolving Account (Revolving Account). The funds in the Revolving Account may only be used to pay harvesting costs incurred on contract harvesting sales.

The Board has oversight of the Revolving Account, and no legislative appropriation is required for expenditures from the Revolving Account. All interest created by the Revolving Account is deposited into the Revolving Account, but, until the end of 2018, the Revolving Account may not exceed \$5 million at the end of each calendar year. Monies in excess of \$5 million must be disbursed to the trust beneficiaries in accordance with existing procedures. Beginning in 2019 the maximum total amount of money allowed to be held in the Revolving Account prior to distribution will decrease to \$1 million at the end of any fiscal year, as opposed to calendar year, which is the current standard.

Provisions Relating to Other Timber Sales.

The DNR must consider requests from timber purchasers for timber sale extensions or other flexible options in the execution of a timber sale contract designed to avoid a contract default. However, the DNR may not allow flexibility in contracts if the purchaser's request would not be consistent with the DNR's trust management mandates. This authority is set to expire on January 1, 2019. The DNR was required, by December 1, 2009, to report to the Legislature on the status of contracts, including defaults and extensions, and provide a timber market forecast for 2010 and 2011.

Summary of Bill:

Expiration dates for the following provisions related to contract harvesting and valuable material appraisals that expire on January 1, 2019, are removed:

- the ability for the DNR to harvest up to 20 percent of the total annual volume of timber offered for sale through the contract harvesting process, instead of reverting back to 10 percent;
- the allowance of the Revolving Account to hold up to \$5 million at any one time, instead of reverting back to \$1 million; and
- the ability for the Board to set auction prices at the current market prices, as opposed to the appraised value.

The expiration date that applies to the DNR's ability to consider requests for sale extensions or other flexible options from timber purchasers that do not conflict with the DNR's trust management mandates remains January 1, 2019.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This has been a popular program that has brought value back to the DNR, and is worthy to continue. The contract harvesting portion of the timber sale program has been implemented for more than 12 years. Contract harvesting is a tool that provides multiple benefits including a higher level of oversight in sensitive areas or when non-standard harvesting practices are used. There has been about a 10 percent price premium over lump sum sales, which has been turned around more quickly to trust beneficiaries. Contract harvesting is used extensively in area-specific forest health treatments, particularly in eastern Washington. Contract harvesting also helps with the recruitment and retention of foresters. The DNR has had a hard time retaining entry-level foresters, and contract harvesting provides additional professional growth opportunities.

(Opposed) None.

Persons Testifying: Representative Blake, prime sponsor; and Darin Cramer, Department of Natural Resources.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass. Signed by 19 members: Representatives Tharinger, Chair; Doglio, Vice Chair; Peterson, Vice Chair; DeBolt, Ranking Minority Member; Smith,

Assistant Ranking Minority Member; Dye, Johnson, Koster, Kraft, MacEwen, Macri, Morris, Reeves, Riccelli, Ryu, Sells, Steele, Stonier and J. Walsh.

Staff: Christine Thomas (786-7142).

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

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The timber contract harvesting program has been in existence for more than 12 years and provides multiple benefits as a valuable tool in managing timber sales. Timber sold through contract harvesting sells for approximately 10 percent more than timber sold through other sales methods, as timber buyers will pay higher prices for specific timber, in specific areas, at specific times. The increased revenue from the higher prices returns to the trust beneficiaries more quickly than using other sales methods of timber. Other benefits of timber contract harvesting for the Department of Natural Resources include maintaining high levels of oversight in sensitive areas, if needed, and providing professional growth opportunities for staff.

(Opposed) None.

Persons Testifying: Darin Cramer, Department of Natural Resources.

Persons Signed In To Testify But Not Testifying: None.