



Solutions Table Report

2019

For the Washington State Legislature, as Required by Engrossed
Substitute House Bill 2285 (RCW 43.30.582)



WASHINGTON STATE DEPARTMENT OF
NATURAL RESOURCES

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Acronyms

1997 HCP	DNR 1997 State Trust Lands Habitat Conservation Plan
DNR	Washington Department of Natural Resources
ESA	Endangered Species Act
ESHB	Engrossed Substitute House Bill
ESSB	Engrossed Substitute Senate Bill
FEIS	Final Environmental Impact Statement
GNA	Good Neighbor Agreement
SHC	Sustainable Harvest Calculation
USFS	USDA Forest Service
USFWS	United States Fish and Wildlife Service

Executive Summary

This report is an update to a similar report, prepared in 2018, to fulfill the requirements of Engrossed Substitute House Bill (ESHB) 2285. The 2018 report contained an economic analysis of potential losses or gains from the then proposed marbled murrelet long-term conservation strategy, provided context for the analysis results, and described the Solutions Table process to date. This report updates the economic analysis with additional information on specific impacts to taxing districts and provides an update on the work of the Solutions Table.

The Solutions Table includes three caucuses (beneficiary, conservation, economic/jobs), with three representatives of each caucus plus the Commissioner of Public Lands. The Table has regular meetings and is considering draft recommendations in the following topic areas: asset acquisition and financing, portfolio management, federal lands, small forest landowners, DNR forest management, additional murrelet habitat conservation, ecosystem services markets, preventing forest conversion, and value-added wood processing/manufacturing. Specifically, recommendations are under consideration that would:

- Improve revenue for state trust land beneficiaries.
- Increase timber volume and timber jobs.
- Provide additional marbled murrelet habitat conservation.
- Fund acquisition of replacement and new assets through, for example: permanent endowments, Certificates of Participation (Office of the State Treasurer), green bonds, Washington State Investment Board responsible investment, and ecosystem services revenue.
- Support the Department of Natural Resources' (DNR) and USDA Forest Service's (USFS) Good Neighbor Agreement (GNA) to carry out projects aimed at improving forest health, restoring forest ecosystems, and increasing resilience on USFS lands.
- Better support small forest landowners, thereby reducing the loss of working forestlands and incentivizing active forest management for both timber and conservation goals.
- Improve the ways DNR manages forested state trust lands to increase trust revenue, reduce management costs, or increase timber volume.

Introduction

As required under its 1997 Habitat Conservation Plan (HCP), the Washington State Board of Natural Resources has adopted a long-term conservation strategy for the marbled murrelet on forested state trust lands. As it is implemented, this strategy will have significant economic and environmental consequences in parts of our state. Rural jobs, schools, local government services, and some currently suitable murrelet habitat will be affected.

In recognition of these effects and the need for bold, new strategies to develop shared success outside of the HCP process, Commissioner of Public Lands Hilary Franz convened a “Solutions Table”, a forum for state trust land beneficiaries, conservationists, and economic development organizations to come together and create innovative new strategies. Commissioner Franz worked with stakeholders, local governments, beneficiaries, and the legislature to pass ESHB 2285 that underpins the work of the Solutions Table.

This is the Washington State Department of Natural Resources’ (DNR) second report to fulfill the requirements of ESHB 2285. This report contains a financial analysis of potential losses or gains from the marbled murrelet long-term conservation strategy as well as recommendations for the following issues per the language from ESHB 2285:

- (a) Actions that support maintaining or increasing family-wage timber and related jobs in the affected rural communities, taking into account, as appropriate, the role of other market factors;
- (b) Strategies to ensure no net loss of revenues to the trust beneficiaries due to the implementation of additional marbled murrelet conservation measures;
- (c) Additional means of financing county services; and
- (d) Additional reasonable, incentive-based, non-regulatory conservation measures for the marbled murrelet that also provide economic benefits to rural communities.

This report is the work of DNR. A draft report was submitted to the chair and ranking members of the House and Senate Natural Resources Committee in September 2019 for their comments and feedback before final submission in January 2020.

The Solutions Table Process

The Solutions Table includes three caucuses (beneficiaries, conservation, economic/jobs) with three representatives of each caucus plus the Commissioner of Public Lands. They have met twenty times since convening in July 2018: twelve all-day, in-person meetings and eight shorter

full-group conference calls. To date, in-person meetings have taken place in Aberdeen, Forks, Olympia, Port Townsend, Quilcene, Raymond, and Skamokawa.

Meetings are structured to provide Solutions Table members with an environment in which to share their ideas and candidly and constructively develop solutions. Agendas and meeting summaries are available on <https://www.dnr.wa.gov/SolutionsTable>. In addition to full-group meetings, Solutions Table members have met between meetings to work together in smaller groups to develop and advance potential solutions to the full Table.

The Solutions Table did not meet during the 2019 Legislative Session due to scheduling conflicts. When the Legislative Session concluded, Solutions Table members had a series of one-on-one meetings with the Commissioner of Public Lands to reassess their priorities for the Solutions Table work and consider how best to move forward. In support of these meetings, and in response to Solutions Table member requests for more specific information made late in 2018, DNR staff prepared seven specific topic papers exploring ideas and potential solutions developed by the Table during their initial meetings. These papers cover: acquisition financing, additional marbled murrelet conservation, asset acquisition, DNR forest management, ecosystem services markets, federal lands, prevention of forest conversion, and value-added wood processing/manufacturing.

In their one-on-one meetings and in the full Table meetings in 2019, Solutions Table members are working together to turn ideas about solutions into reality. The specific ideas under consideration at this time are described more fully later in this report.

Principles of the Solutions Table

Commissioner Franz, in partnership with the legislature, outlined clear goals to guide the work of the Solutions Table. Members were tasked with developing complex solutions, collaborative engagement and statewide resources to (1) create new economic opportunities in resource-dependent communities, (2) maintain revenue to trust beneficiaries, and (3) support additional conservation measures for the marbled murrelet.

The challenges on each of these fronts are significant. An immediate task of the Solutions Table was to understand the complexity of each of these issues, as follows:

Family Wage Timber and Related Jobs: Employment in forestry related jobs in rural counties has declined from approximately 39,000 jobs in 1990 to approximately 21,000 jobs in 2017. While the direct causes of this decline are complex and often interrelated, some of the dominant themes that emerged at the Solutions Table included automation of tasks in mills, listing of the northern spotted owl and marbled murrelet under the ESA, changes in international wood

markets, conversion of working forests, and the Great Recession, among others. While at a regional scale, the differences in harvest volumes between the current, interim strategy and the proposed long-term strategy as reported in the Revised Draft Environmental Impact Statement are less than -1.5 to 0.2 percent (see [2018 Final Report to Legislature on HB 2285](#)), at the county and various taxing district (schools, fire, emergency services, hospitals, libraries, etc.) levels these changes can be meaningful. Some counties are projected to see a decrease in the harvest volume as a result of the adoption of the long-term conservation strategy, and others see an increase.

Decline of the Murrelet: The marbled murrelet is a small seabird that feeds in the ocean and nests on the large branches of older, mature trees within 55 miles of marine waters. It was federally listed as threatened in Washington, Oregon, and California in 1992 "due to the high rate of nesting habitat loss and fragmentation, and mortality associated with net fisheries and oil spills."¹ The Washington murrelet population has declined by 3.9 percent *per year* since 2001.² While cause-and-effect relationships have not yet been established, loss and fragmentation of nesting habitat and nest depredation by corvids (jays and crows) appear to be primary factors.³ Changes in the marine environment affecting availability and quality of prey (fish) may also be influencing murrelet populations.³ Increasing the amount of suitable murrelet habitat in contiguous blocks is considered an essential action to reverse murrelet population declines.³

Revenue Impacts to Beneficiaries: The state trust land portfolio is diverse in both land and revenue source. At more than three million acres, the portfolio encompasses sustainable forest products production (~2.1 million acres), commercial property leasing (39 properties), communication sites (~380 leases), irrigated agriculture (~50,000 acres), wheat and grain production (~136,000 acres), grazing and range land (~800,000 acres), and green energy development (solar and wind). These revenues provide for essential county and state public services. Solutions developed by the Table must provide for any potential revenue impact to beneficiaries and ideally create new opportunities for portfolio growth.

Solutions Table members have expressed a mutual commitment to owning one another's challenges throughout this process. Members are working toward a balanced package of

¹ U.S. Fish and Wildlife Service. 1997. Recovery plan for the threatened marbled murrelet (*Brachyramphus marmoratus*) in Washington, Oregon, and California. U.S. Fish Wildl. Serv., Portland, Ore. 203 p.

² McIver, W., J. Baldwin, M.M. Lance, S.F. Pearson, C. Strong, N. Johnson, D. Lynch, M.G. Raphael, R. Young, T. Lorenz, and K. Nelson. 2019. Marbled murrelet effectiveness monitoring, Northwest Forest Plan: 2018 summary report. 22 p.

³ Raphael, M.G., G.A. Falxa, and A.E. Burger. 2018. Chapter 5: marbled murrelet. Pages 301-350 in T.A. Spies, P.A. Stine, R. Gravenmier, J.W. Long, and M.J. Reilly, tech. coords. Synthesis of science to inform land management within the Northwest Forest Plan area. Gen. Tech. Rep. PNW-GTR-966. U.S. Dep Agric., For. Serv., Portland, Ore.

actions—both legislative and within agency authority—to strengthen all three “legs of the stool”—trust revenue, rural economies, and murrelet conservation.

State Forestland Taxing District Analysis Summary

DNR manages state trust lands to generate revenue for specific beneficiaries including the State Forest Purchase Lands and the State Forest Transfer Lands, which are collectively referred to as State Forestlands.

In September 2019, DNR released the Long-term Conservation Strategy for the Marbled Murrelet Final Environmental Impact Statement (FEIS) to amend the [DNR 1997 State Trust Lands Habitat Conservation Plan](#) (1997 HCP). Subsequently, in November 2019, USFWS issued DNR an Incidental Take Permit for the final HCP Amendment submitted by DNR to USFWS. In December 2019, the Board of Natural Resources adopted the HCP Amendment along with the associated permit, thereby directing DNR staff to begin implementation of the HCP Amendment for the marbled murrelet. The adopted HCP amendment replaced the interim marbled murrelet conservation strategy with a long-term conservation strategy, which changed the lands conserved for the marbled murrelet to more effectively minimize and mitigate incidental take as defined in the federal Endangered Species Act.

In the FEIS, DNR analyzed the change in acres available for harvest as an objective method to evaluate potential impacts to the revenue trust beneficiaries receive from timber harvests on state trust lands⁴. The Revised Taxing District Analysis, published in Appendix R of the FEIS, is focused on examining the potential impacts to operable acres at the taxing district level for both the State Forest Transfer Lands and the State Forest Purchase Lands in each county.

Data provided in the analysis

The analysis of the State Forest Transfer Lands and State Forest Purchase Lands provides both total acres and operable acres⁵ in each taxing district under Alternative A (the no action alternative). The data presented also provides the potential percent change in operable acres for each taxing district in each county under the HCP Amendment. For clarity, those taxing districts that have the same boundaries are grouped together in the analysis results tables.

⁴ This analysis appeared in FEIS Chapter 4, Section 11 – Socioeconomics, beginning on page 4-113.

⁵ Operable acres are calculated by weighing operability potential for each acre based on its management objectives under DNR policies, including the 1997 Habitat Conservation Plan, Policy for Sustainable Forests, and all relevant laws. See Revised Appendix R of the Long-term Conservation Strategy for the Marbled Murrelet FEIS (October 2019) for more information on operable acres.

Data not provided in the analysis

The analysis uses changes in operable acres between Alternative A and the HCP Amendment to provide potential impacts on the revenue received by beneficiaries from timber harvests on State Forestlands. In reality, revenue is generated from operable acres only when those acres are included in timber sales.

The analysis does not include information regarding tax code areas and/or tax distribution rates, as those are determined and managed by the counties. While most of the taxing districts listed on the tables receive revenue from State Forestlands, in some cases taxing districts included in the tables may not receive revenue distributions. In addition, the taxing district data was retrieved from the Department of Revenue in July 2019 and does not reflect any updates or changes since that time, and any changes and distributions that may occur in the future.

The complete analysis can be found in Appendix A or on the DNR website (<https://www.dnr.wa.gov/mmltcs>). Additional information on taxing district impacts will be forthcoming from an assessment that Washington State Association of Counties is getting underway.

Figure 1. FEIS Revised Appendix R - State Forest Transfer Lands Taxing Districts: Change in Operable Acres from Alternative A under the HCP Amendment.

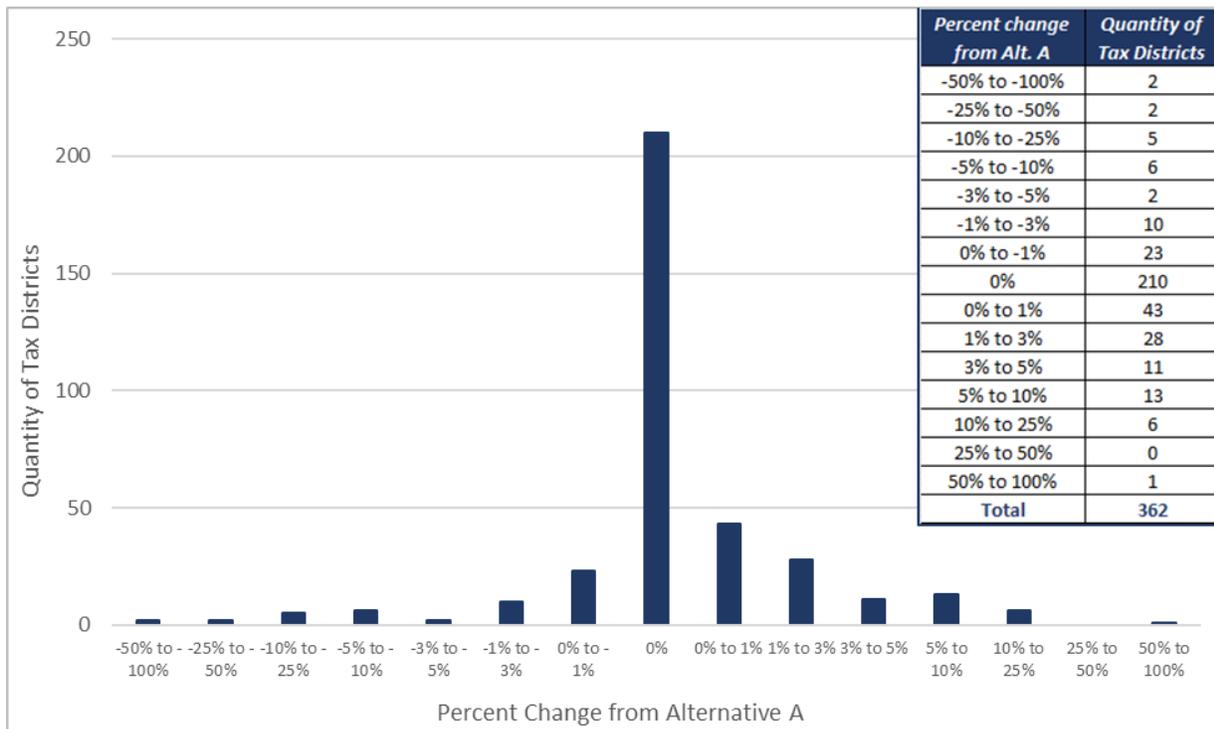
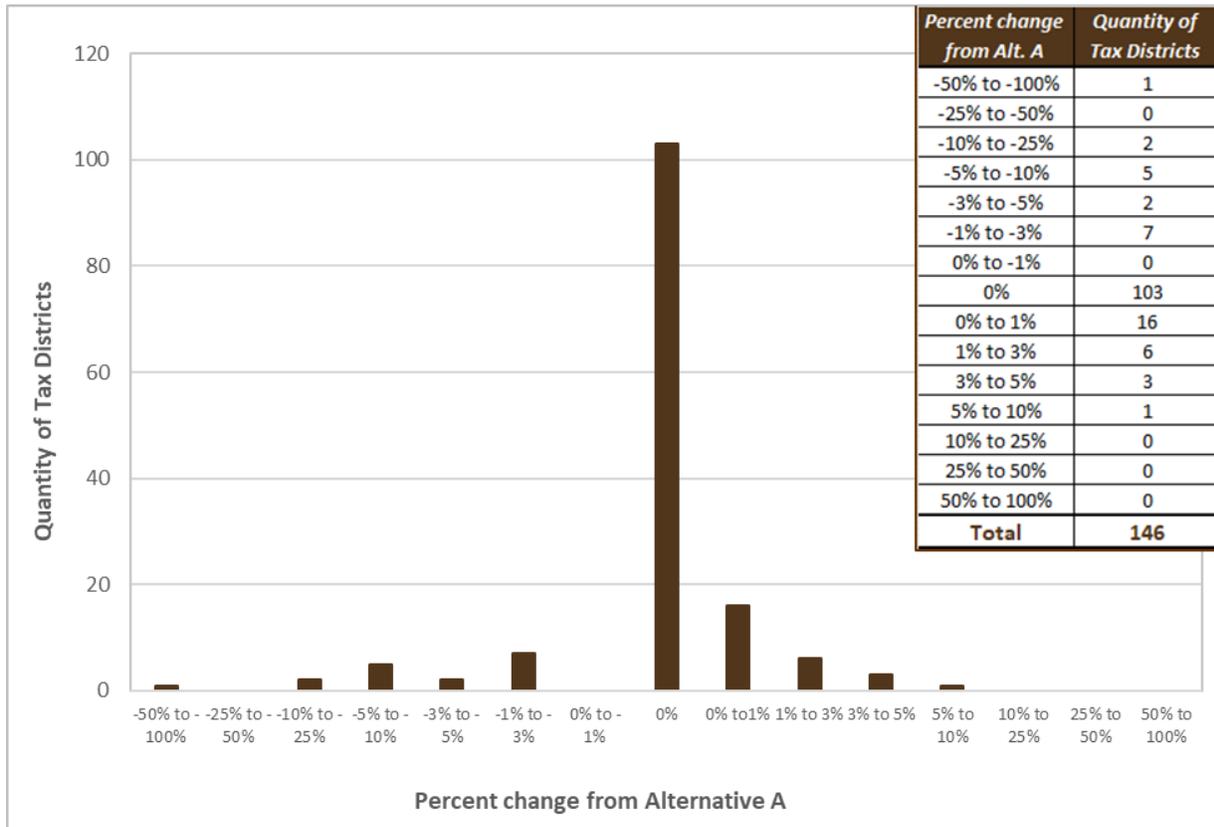


Figure 2. FEIS Revised Appendix R - State Forest Purchase Lands Taxing Districts: Change in Operable Acres from Alternative A under the HCP Amendment.



Overview of Solution Areas Being Explored

Building on the Solutions Table's discussions during fall and winter 2018, as well as conversations with caucuses represented at the Table, DNR staff developed a series of nine discussion papers to help crystalize possible solutions for the Solutions Table's consideration. These papers covered: acquisition and revenue financing, additional murrelet habitat conservation, asset acquisition, DNR forest management, ecosystem services markets, federal lands, preventing forest conversion, small forest landowner-related ideas, and value-added wood processing/manufacturing.

The Solutions Table discussed, modified, re-organized, and prioritized the possibilities presented in these papers at its May 30, 2019 meeting in Quilcene. Following the Quilcene meeting, sub-groups of Table members, assisted by DNR staff, are actively exploring possibilities in the following areas:

Asset Acquisition

The asset acquisition sub-group's work encompasses trust revenue, murrelet conservation, and sustainable flow of timber volume goals. Three major scenarios are being considered: 1) acquisition of new trust assets to replace revenue formerly earned from forestlands placed into

conservation status; 2) acquisition of forestlands and other asset types to create a new trust benefitting counties whose economies have been heavily impacted by murrelet habitat conservation; and 3) acquisition by nonprofits, local governments, or DNR of working forest lands that are at risk of conversion out of forestry. The asset acquisition sub-group is exploring potential structures and processes for carrying out such acquisitions and potential sources of funding. Specific funding sources that the sub-group is exploring include:

- permanent endowments,
- Certificates of Participation (Office of the State Treasurer),
- green or other types of bonds,
- Washington State Investment Board responsible investment, and
- ecosystem services, particularly carbon sequestration and clean water.

Portfolio Management

The portfolio management sub-group is exploring approaches that would help DNR move toward a more nimble, "modern" portfolio management posture. The sub-group is working to identify barriers to optimal portfolio management and is considering potential approaches for removing those barriers. Specifically, the sub-group is:

- reviewing the different asset categories that comprise the trust asset portfolio, including return on investment and risks;
- working to identify legal barriers that impede DNR's ability to carry out asset transactions that would improve the trust asset portfolio;

The portfolio management sub-group is interfacing with DNR's ongoing Trust Land Performance Assessment.

Federal Lands

The federal lands sub-group is focused on supporting DNR's and USDA Forest Service's (USFS) application of their Good Neighbor Agreement (GNA) to carry out projects aimed at improving forest health, restoring forest ecosystems, and increasing resilience on USFS lands. GNA activities will result in modest, site-specific improvements in environmental conditions and increases in timber volume and may help develop future murrelet habitat. The sub-group is also exploring the potential for non-governmental organizations to partner with USFS and carry out similar restoration and resilience activities.

Small Forest Landowners

The small forest landowner sub-group is exploring ideas that could better support small forest landowners, thereby reducing the loss of working forestlands and incentivizing active forest management for both timber and conservation goals, including conservation and restoration of murrelet habitat. The group is aware of and coordinating with other efforts designed to benefit small forest landowners such as the activities directed by ESSB 5330 (2019). Specific topics that the sub-group is exploring include:

- demonstrating appreciation for small forest landowners and recognizing their important contributions to rural economies and habitat conservation;
- improving small forest landowners' social license to actively manage their forestlands;

- helping build strong, mutually supportive working relationships among small forest landowners, regulatory agencies, and non-governmental organizations;
- reducing the volume and complexity of regulations to which small forest landowners are subject;
- providing needed technical assistance and education;
- improving and adequately funding financial incentive and assistance programs; and
- developing new revenue sources for small forest landowners such as entry into ecosystem services markets.

DNR Forest Management

The DNR forest management sub-group is working to identify ways in which DNR could make changes to the way it manages the forested trust lands that increase trust revenue, reduce management costs, or increase timber volume. Specific topics with which the sub-group is engaged include:

- supporting region timber sales and operational timber harvest planning;
- supporting the creation of an expert panel to advise DNR on the SHC model and planning process;
- improving riparian management;
- restoring silviculture budget capacity (to adequately fund site preparation, planting, vegetation management, pre-commercial and commercial thinning) to needed levels; and
- supporting DNR's work to accurately update forest inventory information.

Next Steps

This report is being submitted prior to consensus at the Table about specific next steps. DNR anticipates working with Solutions Table members to refine and clarify opportunities that are currently being discussed and identify important near-term areas of action.

Acknowledgments

Solutions Table

Beneficiary Caucus

Dan Cothren, Wahkiakum County
Paul Jewell, Washington State Association of Counties
Brian Sims, Washington State School Directors' Association

Conservation Caucus

Patricia Jones, Olympic Forest Coalition
Lisa Remlinger, Washington Environmental Council
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Economic/Jobs Caucus

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Appendix A