



**DEPARTMENT OF  
NATURAL RESOURCES**

**OFFICE OF THE COMMISSIONER OF PUBLIC  
LANDS**

1111 WASHINGTON ST SE MS  
47001  
OLYMPIA, WA 98504-7001

December 1st, 2021

The Honorable Bernard Dean  
Chief Clerk of the House  
338B Legislative Building  
Olympia, WA 98504

The Honorable Brad Hendrickson  
Secretary of the Senate  
412 Legislative Building  
Olympia, WA 98504

Dear Chief Clerk Dean and Secretary Hendrickson:

Please accept the enclosed report, submitted on behalf of Department of Natural Resources (department), as directed by the Legislature in the Sec. 310 (30) of the 2021-2023 Operating Budget (ESSB 5092, Chapter 334, Laws of 2021). The bill as passed directed the department to report to the appropriate fiscal committees of the Legislature by December 1, 2021 with recommendations on ways the forest products industry could help cover costs of the new forest practices online system.

Should you have any questions, please contact me at 360-486-3469 or [Brian.Considine@dnr.wa.gov](mailto:Brian.Considine@dnr.wa.gov)

Sincerely,

Brian Considine  
Legislative Director  
Office of the Commissioner of Public Lands

Enclosure: Legislative Report - Funding Alternatives for the Forest Practices “fpOnline” Application and Information System

cc:

Members of the House Appropriations Committee  
Members of the Senate Ways & Means Committee

# Funding Alternatives for the Forest Practices “fpOnline” Application and Information System

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A Recommendation for Ways to Help Cover the Cost of the New Forest Practices Online System

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Prepared by  
Washington State Department  
of Natural Resources

Office of the Commissioner of Public Lands, Hilary Franz  
Joseph Shramek, Forest Regulation Division Manager  
November 14, 2021



WASHINGTON STATE DEPARTMENT OF  
**NATURAL RESOURCES**

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# Executive Summary

This report provides a recommendation for ways to help cover of the cost of the Washington State Department of Natural Resources' (DNR) new forest practice online system. As requested by the Legislature, the recommendation includes proposed changes to the fees paid for Forest Practices Applications and Notifications (FPAs), and provides a description and table illustrating the operating costs of the program and how those costs are covered by different funding sources, including fees.

This report was requested through a proviso within the 2021-23 biennial operating budget, [Engrossed Substitute Senate Bill 5092](#) Section 310 (30), which states:

(30) \$1,765,000 of the general fund-state appropriation for fiscal year 2023 is provided solely for the department to:

(a) Replace the statewide forest practices permit database system. Funding is subject to the conditions, limitations, and review requirements of section 701 of this act; and

(b) **Provide a recommendation for ways that the forest products industry could help cover the cost of the new forest practice online system. The recommendation must include proposed changes to the fees that are paid for forest practice applications and notifications, as well as a description and table that illustrates the operating costs of the program and how those costs are covered by fund source including fee revenue.** The recommendation must be reported to the fiscal committees of the legislature by December 1, 2021, and may be included in a decision package to the office of financial management for consideration in the governor's proposed 2022 supplemental operating budget. **(Emphasis added)**

## Forest Practices Program Operating Costs and Fee Revenue

The Legislature asked DNR to provide “*a description and table that illustrates the operating costs of the program and how those costs are covered by fund source including fee revenue.*” Forest Practices Program operating costs for the 21-23 biennium are \$45.6 million, coming from four primary funding sources (Tables 1 and 2; Figure 1). FPA application fees amount to about 2.2 percent of the total program operating budget, but that percentage increases to 25.6 percent when revenues are included from a [business and occupation tax surcharge](#) (B&O surcharge) paid by timber and wood products manufacturers, extractors, and wholesalers.

## Why is fpOnline Needed and What Will it Cost?

During the 2021 legislative session, DNR requested \$3.68 million for one-time expenses to replace an aging but essential statewide forest practices permit database system with one that would enable modern electronic business and improve program functionality, efficiency and customer service.

The current statewide Forest Practices Application Reporting System (FPARS) is more than 20 years old and is subject to systematic outages, creating a risk of failure to meet statutory requirements for decision timeframes and providing notifications. FPARS requires staff to manually scan and complete permits, forms, maps, signatures, and payment, and the COVID-19 pandemic showed that this is problematic for safety, efficiency, and ease of use.

*One-time* expenses of about \$3.68 million are needed to build the system. The Legislature partially funded this need in 2021, providing about \$1.76 million of GF-S funding to be used in FY 2023. This funding is sufficient to complete the first phase of the three-phase development project that was designed to be accomplished over a two-year period. About \$1.92 million more is required to complete the system's one-

time construction.<sup>1</sup> After the system is built, *ongoing expenses* of about \$1.06 million per biennium will be incurred to maintain and license the system.<sup>2</sup>

When it appropriated \$1.76 million for FY2023 to begin constructing a modern replacement system, the Legislature directed DNR to provide this report to help determine how (or whether) to appropriate the additional funding to: (a) pay for the remainder of the one-time costs to complete the development of the system in FY2024 (\$1.92 million); and (b) fund new ongoing system maintenance and licensing expenses in FY2025 (\$0.53 million in FY2025 and \$1.06 million per biennium thereafter).

### **Options to Help Cover the Costs of the new fpOnline System**

The Legislature requested DNR to provide a recommendation for a narrow purpose: “*ways that the forest products industry could help cover the cost of the new forest practice online system.*” This report includes a set of five alternatives prepared to help the Legislature decide how the remaining one-time costs to develop the system and the ongoing costs to maintain the system should be allocated between increased FPA application fee revenues and the state general fund (see Tables 3 and 4), and provides specific FPA fees for each alternate (Table 5).

The alternatives differ based on two main variables:

- What proportion of the new costs for fpOnline should be paid from increased fees and what proportion should be paid from the state general fund?
- Should fees to be paid for all FPAs, or kept as-is? In current law, only FPAs for activities that produce timber harvest revenue require a fee.<sup>3</sup> A policy decision to change the law to include all FPAs would reduce by 19-20 percent the magnitude of the fee otherwise needed to produce a desired amount of revenue.

### **Recommendation**

We recommend that the Legislature make at least two changes to [RCW 76.09.065](#):

- Change the law so that fees are paid on all FPAs, not just those that generate revenue through commercial timber harvest. Applications such as those for aerial applications of herbicides and forest road construction require no less review and compliance effort by DNR regulatory staff than applications that generate revenue through timber harvest, and so these kinds of applications should contribute toward sustaining adequate regulatory staff capacity and expertise. This will provide more equity of cost among applicants. Additionally and specific to the subject of this report, a decision charge fees for all FPAs would reduce by 19-20 percent the size of the FPA fee that would otherwise be needed to produce a desired amount of revenue to pay for all or some of the costs of the new fpOnline system.
- Change the law to include an automated fee adjustment based on the Consumer Price Index to cause fees to be updated once every two years and be in place on July 1 of the following biennium. The law currently has no means for periodic fee adjustments to maintain the real buying power of fee revenues over time. The result is that fees pay for increasingly less of the Forest Practices Program’s overall expenses in real terms as inflation occurs and other cost increases take place over time. Making this adjustment would diminish the need to periodically legislate FPA fee adjustments.

DNR has provided five alternatives to the Legislature in this report for financing fpOnline, including four options for changing RCW 76.09.065 to adjust existing FPA fees to pay for all or some of the remaining

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<sup>1</sup> Year 2 includes Phases B (systems integration) and C (mapping tool integration) at a cost of \$1.918 million. This funding has not yet been appropriated.

<sup>2</sup> This expense is for two IT positions to maintain the system, along with licensing fees, data storage, and system maintenance costs.

<sup>3</sup> Examples of forest practices activities that currently don’t pay a fee are forest road construction and pesticide applications.

one-time and on-going costs for the new fpOnline system. As illustrated in Table 4, the policy choices for generating the \$2.45 million needed during the 23-25 biennium range from complete reliance on FPA fee revenues to complete dependence on state general fund, with three alternatives that fall in-between.

- Selection of Alternative 1 would result in complete reliance on increased FPA fees to generate the \$2.45 million needed in the 23-25 biennium; it would require increasing fees by 174 percent to \$410 and \$275 per application for large and small forest landowners, respectively<sup>4</sup> (Table 5). This is the greatest increase in the FPA fee among the five alternatives.
- Selection of Alternative 5 would depend solely on new state general fund monies to pay for the \$2.45 million needed in the 23-25 biennium. Therefore, there would be no FPA fee increase under this alternative. This is the only alternative that has no associated FPA fee increase.
- The proportion of the new fpOnline costs that would be paid through increased FPA fee revenues versus the proportion that would be paid from state general fund determines the size of the FPA fee increases provided for Alternatives 2, 3 and 4 (see Tables 4 and 5).
- Except for the state general fund alternative (Alternative 5), each alternative would pay for on-going fpOnline maintenance and licensing costs exclusively through increased FPA fee revenue. Regarding the remaining one-time construction costs, Alternatives 1 and 4 would pay for the entire one-time cost (over one and two biennia, respectively), and Alternatives 2 and 3 would pay for portions of the remaining construction costs during the 23-25 biennium.

As noted in Table 3, the FPA fees that would initially be established to pay for the one-time costs under Alternatives 1, 2 and 4 would eventually produce more revenue than needed to cover the on-going fpOnline maintenance and licensing expenses. To avoid this, the initial fees shown in Table 5 for these alternatives would need to be reduced to those provided for Alternative 3 (\$245 and \$165 for large and small landowners, respectively) before the start of the 25-27 biennium for Alternatives 1 and 2 and before the 27-29 biennium for Alternative 4. The reduced fees would be sufficient to continue to fund the on-going system maintenance and licensing expenses. Therefore, if the Legislature selects Alternatives 1, 2 or 4, we recommend that the law, when modified, explicitly establish that the initial fees be reduced before the start of the appropriate future biennium after the objective of paying for all or part of the remaining one-time costs to construct the fpOnline system has been accomplished. In keeping with the Legislature's intent expressed in the proviso, this will avoid generating new revenue through FPA fees that is not needed to pay for costs associated with the new fpOnline system.

DNR looks forward to the opportunity to assist the Legislature in its deliberations. The characteristics of DNR's intended funding decision package for the 23-25 biennium to pay for the remainder of the one-time fpOnline construction expenses and on-going system maintenance and licensing costs will be consistent with any decision that the Legislature makes.

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<sup>4</sup> Percentages and fee values used in this Executive Summary section assume the Legislature will, as recommended, change the law to require fees be paid for all FPAs beginning July 1, 2023. If that recommendation is not enacted, the higher *status quo* values provided in Table 5 would be substituted.

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# The Forest Practices Program Budget by Fund Source

In May 2021, Gov. Jay Inslee signed the 2021-2023 biennial operating budget bill ([ESSB 5092](#)), which provided approximately \$45.6 million across four major funding sources for the Forest Practices Program: General Fund-State (GF-S), Model Toxics Control Operating Account (MTCOA), Forests and Fish Support Account (FFSA), and Forest Practices Application Account (FPAA).

Over one-half of the Forest Practices Program’s 21-23 biennium operating budget funding comes from GF-S, and about one-third of it may be used only for specific purposes (Table 1 and Figure 1). Another 23 percent of the operating funding comes from Forests and Fish Support Account, of which 52 percent is allocated solely to fund participation of tribes in the Forest Practices Program.<sup>5</sup> Nearly 19 percent is MTCOA funds; 2 percent comes from the Forest Practices Application Account and 0.3 percent is GF-Federal.<sup>6</sup>

## Fee Revenue

The Forest Practices Program is partially funded through:

- fees charged to forest practices applicants (the Forest Practices Application Account); and,
- a B&O surcharge paid by timber and wood products manufacturers, extractors, and wholesalers (the Forests and Fish Support Account).

Collectively, monies from these sources account for a little over one-quarter of the program’s total operating funding (25.6 percent) (Table 1; Figure 1).

Forest practices application fees go into the Forest Practices Application Account. This money is to be used “for the purposes of implementing [[chapter 76.09 RCW](#)], [chapter 76.13 RCW](#) and [Title 222 WAC](#)” (RCW [76.09.065\(3\)](#)). Forest Practices Application Account revenues amount to about 2.2 percent of the program’s operating budget for the current biennium (Table 1 and Figure 1).

The Legislature created the Forest Practices Application Account in 2012 when it passed [2ESSB 6406](#) to streamline permitting by shifting the responsibility for approving all hydraulic projects on forestlands to DNR.<sup>7</sup> At that time, fees previously enacted in RCW [76.09.065](#) were increased to pay for DNR’s costs to carry out its new responsibilities regarding hydraulic projects. The changes from 2ESSB 6046 were as follows:

- FPA fees for which the land was to remain in forestry were increased from \$50 to \$150;
- For small forest landowners, the new fee was \$100 for small forest landowners harvesting on a single, contiguous ownership.
- Class IV-General applications involving conversion-related activities were increased from \$500 to \$1,500.

The FPA fee structure has not been changed since 2012.

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<sup>5</sup> [ESSB 5092](#) Section 310(9) requires that \$5.5 million from the forest and fish support account be provided to tribes for participation in the forest practices program during the 21-23 biennium.

<sup>6</sup> The GF-Federal funding is a one-time, three-year grant; otherwise, no federal funding supports the Forest Practices Program in the 21-23 biennium.

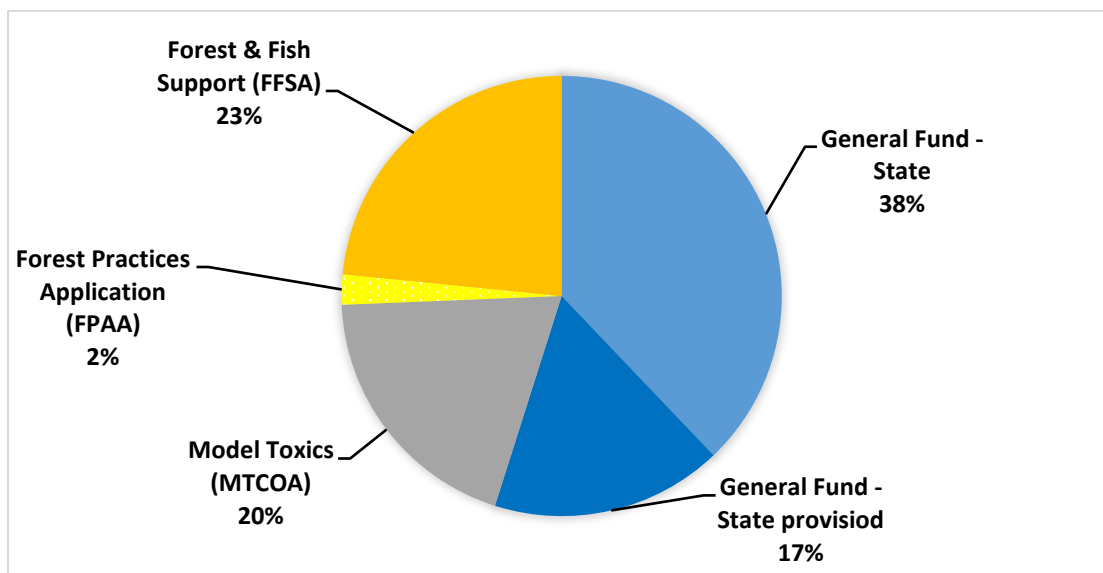
<sup>7</sup> Hydraulic projects are activities carried out in and around water, such as the construction, removal, or replacement of culverts and bridges.

Forest Practices Application Account revenues have averaged about \$680,000 per fiscal year over the nine years that followed the 2012 fee change. Forest Practices Application Account funding amounts to 2.2 percent of the Forest Practices Program’s overall funding for the 21-23 biennium (Table 1).

**Table 1: 21-23 Biennium DNR Forest Practices Program Operating Budget by Fund Source and Sub-Program (All values reported in dollars).**

Functional Sub-Program or Activity	GF-State	GF-State Provisos	GF-Federal	Model Toxics Control Account (MTCOA)	Forests & Fish Support Account (FFSA)	Forest Practices Application Account (FPAA)	TOTAL
Forest Practices Act & Rules	15,512,100	1,671,000	114,600	6,290,300	221,800	1,007,500	24,817,300
Adaptive Management Program	375,600	3,982,000		1,266,800	4,944,900		10,569,300
Tribal Forest Practices Participation (proviso)					5,500,000		5,500,000
Small Forest Landowner Office	1,352,300	1,690,200		140,200			3,182,700
Program Development		407,000		1,167,900			1,574,900
<b>TOTAL</b>	<b>17,240,000</b>	<b>7,750,200</b>	<b>114,600</b>	<b>8,865,200</b>	<b>10,666,700</b>	<b>1,007,500</b>	<b>45,644,200</b>

**Figure 1: 2021-23 DNR Forest Practices Program Operating Budget by Fund Source.**



Forest and Fish Support Account. [Substitute Senate Bill 6874](#) established the FFSA in 2006, creating in [Chapter 82.04 RCW](#) a B&O surcharge on timber and wood products manufacturers, extractors, and wholesalers. The account itself was established in [RCW 76.09.405](#). The Legislature’s intent for this funding is to support “activities pursuant to the state’s implementation of the forests and fish report ... and related activities including, but not limited to, adaptive management, monitoring and participation grants to tribes, state and local agencies, and not-for-profit public interest organizations.”

Funds from the B&O surcharge go into the Forest and Fish Support Account. This is the main fund that



supports the forest practices Adaptive Management Program, as well as tribal participation in the overall Forest Practices Program. This fund source accounts for 23.3 percent of the Forest Practices Program 21-23 biennium operating budget and funds about 65 percent of the Adaptive Management Program (Table 1). As is required through an operating budget proviso, tribal participation grants total \$5.5 million.

*Forest Practices Functional Sub-Programs and Operating Fund Sources*

The Forest Practices Program is organized into four functional sub-programs or activities (Table 2), with funding coming from varying mixtures of the four main sources. The Forest Practices Act and Rules (Operations) sub-program is the largest, accounting for 54 percent of the overall program budget (Tables 1 and 2). This sub-program consists mainly of activities related to evaluating, approving or disapproving, and complying FPAs (including activities that support this, such as training, information technology tools, and so forth). It is carried out by a combination of program staff in the six upland DNR Regions across the state and the Division headquarters in Olympia. State general fund provides 69 percent of the Act and Rules sub-program operating budget, followed by MTCOA (25 percent), and Forest Practices Application Account (fees) (2 percent); other fund sources in combination make up the remainder (Tables 1 and 2). This sub-program will include the fpOnline application and information system when it is completed.

The Adaptive Management Program is the second-largest sub-program, accounting for 35 percent of the overall Forest Practices Program budget.<sup>8</sup> For the 21-23 biennium, the sub-program is funded using a combination of Forest and Fish Support Account (65 percent), GF-S (27 percent) and MTCOA (8 percent) (Tables 1 and 2).

**Table 2: Forest Practices Program Functional Activities and Funding Sources.**

Functional Sub-Program	Activity Components	Operating Fund Source
<b>Forest Practices Act &amp; Rules (Operations)</b>	Application review, decisions, compliance and enforcement; rules compliance monitoring, Road Maintenance and Abandonment Plans, IT/GIS Development & Support, training	GF-State, MTCOA, and GF-Federal
	Department of Archaeology and Historic Preservation interagency agreement for GIS/spatial data on FPAs with cultural resources	FFSA
	FPAs with activities carried out in water, such as the construction, removal, or replacement of culverts or bridges. Department of Fish and Wildlife interagency agreement for consultation on forest practices hydraulic projects	FPAA
<b>Adaptive Management</b>	Adaptive management research and monitoring projects, research project management staff, administration, and	FFSA, GF-State, MTCOA

<sup>8</sup> This percentage includes *all* tribal participation funding; because some of that funding is used by tribes to participate in the forest practices act and rules sub-program as well as the Adaptive Management Program, this means that the AMP's actual proportion as a part of the overall Forest Practices Program is overstated.

<b>Program</b>	procurement staff	
	Participation grants to tribes and tribal organizations; participation grants to nonprofits; interagency agreements with departments of Ecology and Fish and Wildlife	FFSA
<b>Small Forest Landowner Office</b>	SFLO Program Operations	GF-State and MTCOA
<b>Program Development</b>	Forest Practices Board; rule making and Board Manual; Forest Practices Habitat Conservation Plan; Clean Water Act assurances.	MTCOA, GF-S

The Small Forest Landowner Office sub-program (SFLO) accounts for about 7 percent of the overall Forest Practices Program operating budget for the 21-23 biennium (Table 1). The SFLO helps small forest landowners prepare to conduct forest practices activities on their forestland ([RCW 76.13.110](#)). Its staff help small forest landowners understand and apply the forest practices rules, including small forest landowner alternate plan, 20-acre exempt harvest activities, forest road evaluations including fish passage barrier assessments, and other forest practices rule-related issues.<sup>9</sup> Funding for the SFLO comes nearly entirely from GF-S (Table 1).

The Program Development sub-program is the smallest of the four sub-programs, accounting for about 3 percent of the Forest Practices Program’s overall 21-23 biennium funding (Table 1). This sub-program mainly provides staff support to the Forest Practices Board (for example, rule-making and technical manual guidance development, participation on Board committees, and so forth) and serves as liaison with the United States Fish and Wildlife Service and the National Marine Fisheries Service for annual reporting on implementation of the programmatic Forest Practices Habitat Conservation Plan. For the 21-23 biennium, the sub-program is funded using MTCOA (74 percent) and GF-S (26 percent) (Tables 1 and 2).

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# Options to Help Cover the Costs of the New Online System

## Introduction

### *Overview of fpOnline system and costs*

After conducting extensive “discovery” efforts in 2017 and 2019, as well as a feasibility study, DNR chose to develop fpOnline through the Salesforce platform. Project costs include both one-time software customization and development of the information system (including training and change management) and ongoing expenses to maintain the system and pay for the Salesforce platform and other license fees. DNR submitted a decision package for the 2021 legislative session that the Office of the Chief Information Officer (OCIO) evaluated and ranked, as required (Appendix 1).<sup>10</sup>

*One-time* expenses of about \$3.68 million are needed to build the system. The Legislature partially funded this, providing \$1.765 million of GF-S funding to be used in FY 2023. This funding is sufficient to complete the first phase of the three-phase development project that was designed to be accomplished over a two-year period. About \$1.9 million more is required to complete the system’s construction, presumably in FY

<sup>9</sup> Additionally, the SFLO administers three landowner financial assistance and conservation programs funded through the capital budget that are excluded from the scope of this report.

<sup>10</sup> Appendix 1 provides a detailed description of the fpOnline system, including background on how the proposal was developed and a detailed description of the phased development approach. This comes in the form of DNR’s 21-23 biennium decision package and the associated information technology addendum.

2024.<sup>11</sup> After the system is built, *ongoing expenses* of about \$1.06 million per biennium will be incurred to maintain and license the system.<sup>12</sup>

Unless the Legislature provides alternative direction, DNR intends to request the needed additional funding in a decision package for the 23-25 biennium.

*FPA fees are established by law*

Applicants for forest practices related to commercial harvest of timber are required by law to pay an applicable fee ([RCW 76.09.065](#)), which for forest practices that do not involve a conversion to another land use are \$150 for large landowners and \$100 for small forest landowners for new applications and notifications and renewals.<sup>13</sup> Any change to the fees requires Legislative action.

Current law requires no fees to be paid for FPAs unrelated to commercial harvesting of timber. Forest practices that fit into this category include application of pesticides and construction of forest roads not associated with a commercial harvest of timber. There has been an average of about 830 of these each year (fiscal years 2013-2021), or about one in six of the total number of FPAs received.

The law includes no means for periodic fee adjustments aimed at maintaining the real buying power of fee revenues over time. The result is that fees pay for increasingly less of the Forest Practices Program's overall expenses in real terms as inflation occurs and other cost increases are incurred over time. To address this in other circumstances, an index such as the [Consumer Price Index](#) (CPI) is sometimes used to make automatic adjustments intended to keep up with inflation. Applied here, this would diminish the need to periodically legislate FPA fee adjustments.

## **Legislative Alternatives to Finance the New Online System**

Funding needed in the 23-25 biennium to complete the construction of the fpOnline system in fiscal year 2024 and then fund one year of on-going system maintenance and licensing expenses in FY 2025 totals \$2.45 million. In subsequent biennia, \$1.06 million per biennium will be needed to maintain and license the system on an on-going basis. As potential approaches to pay for some or all of these expenses, DNR has developed a suite of five alternatives for the Legislature's consideration.<sup>14</sup>

The alternatives vary based on two main variables that determine by how much FPA fees would be increased:

- What proportion of the new costs should be paid from increased fees, and what proportion should be paid through state general fund? The magnitude of the resulting FPA fee increase depends upon this policy decision.
- Are fees to be paid for all FPAs, or kept as-is? In current law, only FPAs for activities that produce

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<sup>11</sup> Year 2 includes Phases B (systems integration) and C (mapping tool integration) at a cost of \$1.918 million. This funding has not yet been appropriated.

<sup>12</sup> This expense is for two IT positions to maintain the system, along with licensing fees, data storage, and system maintenance costs.

<sup>13</sup> The fee for a FPA in which the applicant intends to convert existing forest to another land use is \$1,500 ([RCW 76.09.065 \[C\]](#)).

<sup>14</sup> Each alternative relies upon the same set of underlying assumptions:

- New fees will maintain the same 3:2 differential by which fees for large landowners are currently greater than those for small forest landowners.
- The fee for conversion FPAs will be unchanged at \$1,500.
- Future numbers of FPAs submitted, and the proportion of those coming from large and small forest owners, will be the same as the nine-year average for fiscal years 2013-2021 (inclusive).
- Any fee increase would be effective on July 1, 2023, following legislative changes to RCW 76.09.065.

Implementation of any alternative will require a change to RCW 76.09.065. Current fees are \$150 for large landowners, \$100 for small forest landowners and \$1,500 for conversions to a non-forest use.

timber harvest revenue require a fee.<sup>15</sup> A policy decision to change the law to include all FPAs would reduce the size of the fee needed to be collected to produce a desired amount of revenue, all other things being equal. A result of a decision to charge fees on all FPAs would be that new FPA fees would be about 19-20 percent lower than otherwise would be needed to generate the same amount of revenue.

Tables 3 and indicate how much revenue would be expected from increased FPA fees under each alternative to pay for all or some of the \$2.45 million needed in the 23-35 biennium to pay for the remainder of the one-time fpOnline constructions costs and the first year of on-going system maintenance and licensing expenses.

Alternative 1 would generate the entire \$2.45 million needed in the 23-25 biennium through increased fee revenues, and would set new FPA fees high enough to do that. As summarized in Table 4, each of the other alternatives would generate less than \$2.45 million in the 23-25 biennium from increased FPA fee revenue and therefore would require GF-S funding to make up the difference. They would also require FPA fee increases less than what would be required under Alternative 1. Note that although Alternative 4 would require GF-S funding in the 23-25 biennium, that amount would be recouped in the 25-27 biennium (Table 4).

**Table 3. Description of alternative approaches for paying for all or some of the new costs for the fpOnline system**

<b>Alternative</b>	<b>Description</b>
1	Increase FPA fees to generate an additional \$2.45 million in the 23-25 biennium to recover the full cost of remainder of fpOnline build (\$1.92 million in FY2024) over two years and pay for the first year of ongoing maintenance and licensing expenses (\$0.53 million in FY2025); <i>fees should be reduced to those shown for #3 beginning in the 25-27 biennium.</i>
2	Increase FPA fees to generate an additional \$1.92 million in the 23-25 biennium to partially pay for the remainder of the build and for the first year of ongoing maintenance and licensing expenses; <i>fees should be reduced to those shown for #3 beginning in the 25-27 biennium.</i>
3	Increase FPA fees to generate an additional \$1.06 million in the 23-25 biennium to partially pay for the remainder of the build and fund the first year of on-going maintenance and licensing expenses ( <i>this is the ongoing amount that will be needed in the 25-27 biennium and thereafter.</i> )
4	Increase FPA fees to generate an additional \$1.75 million in the 23-25 biennium and \$1.75 million in the 25-27 biennium to pay for the full cost of remainder of build over four years while paying for ongoing maintenance and licensing expenses; <i>fees should be reduced to those shown for #3 beginning in the 27-29 biennium.</i>
5	Request \$2.45 million GF-S to pay for full cost of remainder of build (\$1.92 million) in FY24 and pay for the first year of ongoing maintenance in FY25 (\$0.53 million); <i>beginning in the 25-27 biennium, \$1.06 million/biennium would be needed for ongoing maintenance and licensing costs.</i>

**Table 4. Estimated funding expected to come from increased fee revenue and the amount needed from state general fund by Alternative and biennium**

<sup>15</sup> Examples of such forest practice activities that don't pay an application fee are forest road construction and pesticide applications.

Alternative	23-25 biennium		25-27 biennium		27-29 biennium	
	revenue expected from increased fees	state general fund need	revenue expected from increased fees	state general fund need	revenue expected from increased fees	state general fund need
	All values in millions of dollars					
1	\$2.45	\$0.00	\$1.06	\$0.00	\$1.06	\$0.00
2	\$1.92	\$0.53	\$1.06	\$0.00	\$1.06	\$0.00
3	\$1.06	\$1.39	\$1.06	\$0.00	\$1.06	\$0.00
4	\$1.75	\$0.70	\$1.75	-\$0.70	\$1.06	\$0.00
5	\$0.00	\$2.45	\$0.00	\$1.06	\$0.00	\$1.06

Note: \$2.45 million is needed in the 23-25 biennium to pay for the remaining \$1.92 million system construction cost and one-year of system maintenance (\$0.53 million). In the 25-27 biennium and beyond, \$1.06 million will be needed for system maintenance and licensing.

Only Alternative 5 would not increase FPA fees to pay for all or some of the remaining \$1.92 million one-time fpOnline construction costs; Alternatives 1 and 4 would pay for the entire one-time cost (over one and two biennia, respectively), and Alternatives 2 and 3 would pay for portions of the remaining construction costs in the 23-25 biennium. As noted in Table 3, the higher FPA fees that would be established to accomplish this would eventually produce more revenue than required to cover the on-going maintenance and licensing expenses. To avoid this, fees would need to be reduced to those provided for Alternative 3 before the 25-27 biennium for Alternatives 1 and 2, and before the 27-29 biennium for Alternative 4.

After the 23-25 biennium, increased revenues from higher FPA fees would pay for all on-going system maintenance and licensing expenses under each alternative other than Alternative 5 (the state general fund option).

#### *How Much Would the New FPA Fees Be?*

Table 5 provides the FPA fees that would be charged under each alternative to generate the sought-after increased fee revenue. For each alternative, fees are presented under two options: (a) the current law by which fees are not paid for some FPAs; and, (b) under an assumption that RCW 76.09.065 is changed so that fees are paid for all FPAs.

Using the data presented in Table 5, it is apparent that a policy decision to require fees be paid for all FPAs would lessen the magnitude of the fee increase that would otherwise be required by about 19-20 percent. For example, under current circumstances the new fee for large landowners under Alternative 3 would be \$305 per application, whereas that same fee would be \$245 per application if fees were charged on all FPAs; the difference, \$60, is 20 percent of \$305.

**Table 5. New FPA fees that would be established under alternates for paying for all or some of the costs of the new fpOnline system**

Alternative	Option A: New fees as in current law (fees are not charged on some FPAs)			Option B: New fees based on charging fees on all FPAs		
	Large landowner fee	Small landowner fee	Average percent fee increase	Large landowner fee	Small landowner fee	Average percent fee increase
Current <sup>1</sup>	\$150	\$100	N/A	N/A	N/A	N/A
1	\$510	\$340	240%	\$410	\$275	174%
2	\$430	\$285	186%	\$350	\$235	134%
3	\$305	\$205	104%	\$245	\$165	64%
4	\$410	\$270	171%	\$325	\$215	116%
5	\$150	\$100	0%	\$150	\$100	0%

<sup>1</sup>Current FPA fees as established in RCW 76.09.065 for non-conversion FPAs.

Only Alternative 5 would not require an FPA fee increase, and that this because that alternative relies solely on state general fund for financial support. Among the other alternatives, the size of the fees are directly and positively related to how much of the remaining one-time fpOnline construction and on-going maintenance and licensing costs is to be paid through increased fee revenue versus how much is to be paid from state general fund. For example, Alternative 1 would rely on increased fee revenues to pay for all of the remaining \$1.92 million of one-time costs during the 23-25 biennium as well as on-going costs (\$0.53 million in the 23-25 biennium and \$1.06 million in subsequent biennia), and therefore has the highest FPA fees. On the other hand, Alternative 5 would rely on state general fund to pay for those same expenses, and therefore would result in no FPA fee increase. The other three alternatives fall between these ends of the spectrum.

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# Recommendation

We recommend that the Legislature make at least two changes to [RCW 76.09.065](#) during 2022 legislative session to go into effect on July 1, 2023:

- Change the law so that fees are paid on all FPAs, not just those that generate revenue through commercial timber harvest. Applications such as those for aerial applications of herbicides and forest road construction require no less review and compliance effort by DNR regulatory staff than applications that generate revenue, and so these kinds of applications should contribute toward sustaining adequate regulatory staff capacity and expertise. Additionally and specific to the subject of this report, a policy decision to change the law to include all FPAs would reduce by 19-20 percent the size of the FPA fee that would otherwise be needed to produce a desired amount of revenue to pay for all or some of the costs of the new fpOnline system.
- Change the law to include an automated fee adjustment based on the Consumer Price Index to cause fees to be updated once every two years and be in place on July 1 of the following biennium. The law currently has no means for periodic fee adjustments to maintain the real buying power of fee revenues over time. The result is that fees pay for increasingly less of the Forest Practices Program's overall expenses in real terms as inflation occurs and other cost increases take place over time. Making this adjustment would diminish the need to periodically legislate FPA fee adjustments.

We defer to the Legislature to determine what it believes to be most appropriate regarding changing RCW 76.09.065 to adjust FPA fees to pay for all or some of the remaining one-time and on-going costs for the new fpOnline system. The alternatives included in this report are intended to help inform those deliberations. As illustrated in Table 4, the policy choices for generating the \$2.45 million needed during the 23-25 biennium range from complete reliance on FPA fee revenues to complete dependence on state general fund, with three alternatives that fall in-between.

- Selection of Alternative 1 would result in complete reliance on increased FPA fees to generate the \$2.45 million needed in the 23-25 biennium; it would require increasing fees by 174 percent to \$410 and \$275 per application for large and small forest landowners, respectively<sup>16</sup> (Table 5). This is the greatest FPA fee increase among the five alternatives.
- Selection of Alternative 5 would depend entirely on new state general fund monies to pay for the \$2.45 million needed in the 23-25 biennium. Therefore, there would be no FPA fee increase under this alternative. This is the only alternative that has no associated FPA fee increase.
- The proportion of the new fpOnline costs that would be paid through increased FPA fee revenues versus the proportion that would be paid from state general fund determines the size of the FPA fee increases associated Alternatives 2, 3 and 4 (see Tables 4 and 5).
- Except for the state general fund alternative (Alternative 5), each alternative would pay for on-going fpOnline maintenance and licensing costs exclusively through increased FPA fee revenue. Regarding the remaining one-time construction costs, Alternatives 1 and 4 would pay for the entire one-time cost (over one and two biennia, respectively), and Alternatives 2 and 3 would pay for portions of the remaining construction costs during the 23-25 biennium.

As noted in Table 3, the FPA fees that would initially be established to pay for the one-time costs under Alternatives 1, 2 and 4 would eventually produce more revenue than required to cover the on-going fpOnline maintenance and licensing expenses. To avoid this, the initial fees shown in Table 5 for these alternatives would need to be reduced to those provided for Alternative 3 (\$245 and \$165 for large and small landowners, respectively) before the start of the 25-27 biennium for Alternatives 1 and 2 or before the 27-29

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<sup>16</sup> Percentages and fee values used in this Recommendation section assume the Legislature will, as recommended, change the law to require fees be paid for all FPAs beginning July 1, 2023. If that recommendation is not enacted, the higher *status quo* values provided in Table 5 would be substituted.

biennium for Alternative 4.

The reduced fees would be sufficient to continue to fund the on-going system maintenance and licensing expenses. Therefore, if the Legislature selects Alternatives 1, 2 or 4, we recommend that RCW 76.09.065, when modified, explicitly establish that the initial fees be reduced at the start of the appropriate future biennium after the objective of paying for all or part of the remaining one-time costs to construct the fpOnline system has been accomplished. In keeping with the Legislature's intent expressed in the proviso, this will avoid generating new revenue through fees that is not needed to pay for costs associated with the new fpOnline system.