

HOUSE BILL REPORT

HB 1825

As Reported By House Committee On:

Natural Resources
Appropriations

Title: An act relating to the forest development account.

Brief Description: Concerning the funding of the forest development account.

Sponsors: Representatives Sump, Thompson, Pennington, Sheldon, DeBolt, Kessler and Hatfield.

Brief History:

Committee Activity:

Natural Resources: 2/26/97, 3/4/97 [DPS];
Appropriations: 3/7/97 [DP2S(w/o sub NR)].

HOUSE COMMITTEE ON NATURAL RESOURCES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Buck, Chairman; Sump, Vice Chairman; Thompson, Vice Chairman; Butler, Assistant Ranking Minority Member; Alexander; Anderson; Chandler; Hatfield; Pennington and Sheldon.

Minority Report: Without recommendation. Signed by 1 member: Representative Regala, Ranking Minority Member.

Staff: Linda Byers (786-7129).

Background: The Department of Natural Resources (DNR) manages forest board transfer lands on behalf of 21 counties. The department may deduct a maximum of 25 percent from the proceeds derived from timber sales and other revenue-generating activities on the lands, using these moneys for administration, reforestation, and protection of the forest lands. The management moneys are deposited in the forest development account. The balance of the proceeds go to the respective counties and are distributed to various funds in the same manner as general tax dollars are distributed.

Until recently, the department has been deducting the maximum 25 percent allowed under statute. In February 1997, the Board of Natural Resources determined that the

funds in the forest development account exceed what is needed to cover the current operating expenses and projected needs of the department for managing these forest lands. The board reduced the percentage from 25 percent to 22 percent, with the lower rate remaining in place so long as the fund balance in the forest development account is equal to six months' operating expenses.

Interest earned on moneys in the forest development account is deposited into the state general fund.

Summary of Substitute Bill: The maximum percentage that the Department of Natural Resources may charge for administration, reforestation, and protection of the county forest board transfer lands is reduced from 25 percent to 20 percent. At the beginning of each fiscal year, the Board of Natural Resources must establish the percentage and a budget for the year in such a manner that the balance in the account does not exceed the amount necessary for six months of operating expenses. The board must set the level of the balance of the account in cooperation with the forest board land counties.

If the terms of a lease or sale of forest or other products from these forest lands include any special fees or charges that the lessee or buyer must pay to the state, then those fees or charges will be included in the calculation of the 20 percent management expense. This includes any charges the department imposes for the use of roads.

Interest earned on moneys in the forest development account is to be deposited into that account rather than into the state general fund.

Substitute Bill Compared to Original Bill: The substitute bill amends the statute on the distribution of revenues from the county forest board transfer lands. The substitute bill also provides that any fees or charges paid to the state by the lessee or purchaser must be included in the calculation of the 20 percent management expense.

Appropriation: None.

Fiscal Note: State treasurer note available. Requested on substitute bill from DNR on March 4, 1997.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect on June 30, 1997.

Testimony For: Private sector managers charge a lower percentage rate still, so this still leaves DNR a margin. This will return to the counties some of the money they have been missing. This will increase county revenues and keep counties from raising taxes. Counties need help with making DNR look out after their interests. Because the state receives 30 percent of the county revenues, this will put more

money into the state general fund. The DNR charges additional fees to bidders, and these fees are deducted from the bid, so counties are not getting their full 75 percent now. These extra fees and surcharges could be part of the management fee. Putting the interest back into the account will help lower the management fee. The counties supported the recent action by the board. These revenues are very important to the timber counties.

Testimony Against: The bill assumes that it only takes 20 percent to manage these lands. In the past, it has taken more, with loans required from other funds. This bill underestimates the volatility of the timber market where revenues decline and rebound. Removing the board's flexibility may jeopardize ongoing management activities or investment opportunities. For its county trust lands, Oregon retains more than 36 percent of revenues from timber sales.

Testified: Pat Hamilton, Pacific County Commissioner; Glenn Aldrich, Lewis County Commissioner; Phil Kitchel, Clallam County Commissioner; and Bill Vogler, Washington State Association of Counties (all in favor); and Kaleen Cottingham, Department of Natural Resources (opposed).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Natural Resources. Signed by 29 members: Representatives Huff, Chairman; Alexander, Vice Chairman; Clements, Vice Chairman; Wensman, Ranking Minority Member; H. Sommers, Ranking Minority Member; Doumit, Assistant Ranking Minority Member; Gombosky, Assistant Ranking Minority Member; Benson; Carlson; Chopp; Cody; Cooke; Crouse; Dyer; Grant; Keiser; Kenney; Kessler; Linville; Lisk; Mastin; McMorris; Parlette; Regala; D. Schmidt; Sehlin; Sheahan; Talcott and Tokuda.

Staff: Nancy Stevenson (786-7137).

Summary of Recommendation of Committee on Appropriations Compared to Recommendation of Committee on Natural Resources: The maximum percentage that the Department of Natural Resources (DNR) can charge for administration, reforestation, and protection when managing forest board lands is changed to 22 percent. Interest earnings are maintained in the state general fund.

Appropriation: None.

Fiscal Note: Available.

Effective Date Ninety days after adjournment of session in which bill is passed.

Testimony For: It's okay to raise the management percentage to 22 percent. Allowing the interest to go back to the management account will help lower the management fee. Private industry charges about 14 to 16 percent for management. The DNR charges additional fees to bidders, and these fees are deducted from the bid. It makes sense to have these fees as part of the DNR's management expenses. The counties are not getting their full 75 percent.

Testimony Against: None.

Testified: Representative Sump, prime sponsor; and Phil Kitchel, Clallam County Commissioner.