

HOUSE BILL REPORT

HB 1245

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

Title: An act relating to the authority of the department of natural resources to contract for the harvest of timber from state trust lands.

Brief Description: Establishing contract harvesting of timber on state trust lands.

Sponsors: Representatives Linville, Schoesler, Rockefeller, Sump, Orcutt, Eickmeyer and Quall; by request of Commissioner of Public Lands.

Brief History:

Committee Activity:

Agriculture & Natural Resources: 1/31/03 [DPS];
Appropriations: 2/18/03, 2/25/03 [DP2S(w/o sub AGNR)].

Brief Summary of Second Substitute Bill

- Authorizes the Department of Natural Resources to sell up to 10 percent of the total annual volume of timber offered for sale from state forest lands through a contract harvesting process.
- Creates the Contract Harvesting Revolving Account to handle receipts from contract harvesting sales.

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 Linville, Chair; Rockefeller, Vice Chair; Schoesler, Ranking Minority Member; Holmquist, Assistant Ranking Minority Member; Kristiansen, Assistant Ranking Minority Member; Chandler, Eickmeyer, Grant, Hunt, McDermott, Orcutt, Quall and Sump.

Staff: Jason Callahan (786-7117).

Background:

The Department of Natural Resources (DNR) sells timber from state forest lands by

putting tracts of timber up for bid. The DNR will establish an appraised value for the timber, and this value becomes the minimum bid for the timber sale. The successful bidder who is awarded the contract generally has three years to harvest the timber from the sale.

The DNR is authorized to sell standing timber, which is harvested and sorted by the winning bidder. The DNR is not authorized to contract with a third party to harvest and process the timber so that the DNR can sell sorted logs.

Summary of Substitute Bill:

The DNR has the authority to directly contract for the removal of up to 10 percent of the total annual volume of timber offered for sale from state forest lands. All contracts entered into must be compatible with the Office of Financial Management's guide to public service contracts.

The Board of Natural Resources (Board) is directed to determine if any special appraisal practices are necessary for logs sold under the contract harvesting authority. This process must consider procedures for rapidly marketing any logs that fail to receive a bid at auction. The Board must also provide for a list of approved certified contract harvesters from which the DNR can contract. Any harvester not appearing on the list of approved harvesters must be allowed to appeal his or her exclusion from the list.

The Contract Harvesting Revolving Account (Account) is created to receive all receipts from the gross proceeds of logs that are harvested under the contract harvesting program. The funds in the Account can only be used to pay harvesting costs incurred on contract harvesting sales, and may only be authorized by the Commissioner of Public Lands or his or her designee. The Board has oversight of the Account, and no legislative appropriation is needed for expenditures from the Account. All interest created by the Account is deposited into the Account, but the Account may not exceed \$1 million. Moneys in excess of \$1 million must be disbursed to the trust beneficiaries in accordance with existing procedures.

After the gross proceeds from the sale of logs that were harvested under contract are deposited into the contract harvesting revolving account, the harvesting costs are deducted from the gross proceeds and kept in the Account. The final receipt of gross proceeds on a contract sale must be kept in the Account until all required costs for that sale are paid. The net proceeds from the sale are paid to the State Treasurer for distribution in the appropriate trust accounts after the authorized deductions are made.

The DNR must provide a report to the Legislature by December 31, 2006, that summarizes the costs and effectiveness of the contract harvesting program.

Substitute Bill Compared to Original Bill:

The substitute bill authorizes the Contract Harvesting Revolving Account to be a part of the investment income account instead of the treasury income account.

Appropriation: \$250,000 is appropriated from the Resource Management Cost Account, and \$250,000 is appropriated from the Forest Development Account to the Contract Harvesting Revolving Account.

Fiscal Note: Available.

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

Testimony For: This bill creates a new mechanism for the sale of timber that benefits the state's trust beneficiaries. The DNR could contract for the harvest of timber and sell the sorted logs to the highest bidder. Currently, the DNR does not have a mechanism that would ensure a log buyer that payment will be delivered.

All harvests will be done in compliance with existing forest practice rules, and the harvesters will have to undergo a selection process by the Board of Natural Resources. The bill creates a limited program so that the state will take slow steps into a new market.

The details have been worked out with stakeholders as the bill was being developed.

Testimony Against: None.

Testified: Howard Thronson, Washington State Department of Natural Resources.

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 Agriculture & Natural Resources. Signed by 26 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Sehlin, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Alexander, Boldt, Buck, Clements, Cody, Conway, Cox, DeBolt, Dunshee, Grant, Hunter, Kagi, Kessler, Linville, McDonald, McIntire, Miloscia, Pflug, Ruderman, Schual-Berke, Sump and Talcott.

Staff: Patricia Linehan (786-7178).

Summary of Recommendation of Committee On Appropriations Compared to

Recommendation of Committee On Agriculture & Natural Resources:

The second substitute bill removes the \$250,000 appropriation from the Resource Management Cost Account, and the \$250,000 appropriation from the Forest Development Account.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This agency request legislation allows the Department of Natural Resources, for up to 10 percent of the agency's timber sales, to contract directly with harvesters and have more direct control over the process. Rather than auctioning a stand of trees for harvest, contract harvesting allows the DNR to contract with a third party to log the timber and sort the log products based on size, species, grade, etc. Several purchasers may then bid on specific species and sizes of cut timber. This legislation may increase annual revenues by \$2 million to \$3 million.

Testimony Against: None.

Testified: Bruce Mackey, Department of Natural Resources.