

SENATE BILL REPORT

ESB 6166

As Passed Senate, April 22, 2009

Title: An act relating to the sale of timber from state trust lands.

Brief Description: Concerning the sale of timber from state trust lands.

Sponsors: Senators Hargrove, Ranker, Rockefeller, Jacobsen and Morton.

Brief History:

Committee Activity: Ways & Means: 4/18/09 [DP, DNP, w/oRec].

Passed Senate: 4/22/09, 32-17.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Tom, Vice Chair, Operating Budget; Fairley, Hobbs, Keiser, Kline, Kohl-Welles, McDermott, Murray, Pridemore, Regala, Rockefeller and Schoesler.

Minority Report: Do not pass.

Signed by Senators Honeyford and Parlette.

Minority Report: That it be referred without recommendation.

Signed by Senator Carrell.

Staff: Maria Hovde (786-7710)

Background: The Department of Natural Resources (DNR) sells the majority of timber from state forest lands by putting tracts of timber up for bid. The DNR establishes 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.

In current law, the DNR has the authority to directly contract for the harvest of up to 10 percent of the total annual volume of timber offered for sale from state forest lands. All receipts from the gross proceeds of logs that are harvested under the contract harvesting program are deposited into the Contract Harvest Revolving Account (Account). The funds in the Account can only be used to pay harvesting costs incurred on contract harvesting sales.

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.

The Board of Natural Resources 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 at the end of each fiscal year. Monies in excess of \$1 million must be disbursed to the trust beneficiaries in accordance with existing procedures.

Summary of Engrossed Bill: The DNR is given the authority to directly contract for the harvest of up to 20 percent of the total annual volume of timber offered for sale from state forest lands. When establishing a final appraisal value for a sale, the DNR must base this amount on current market prices. The Account balance 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. The DNR must report to the Legislature by December 1, 2013, on the effectiveness of the 20 percent contract harvesting program. The report must include a comparison of the revenues generated compared to other sale processes and must provide recommendations regarding the contract harvesting program and the contract harvest volume limit.

To the extent possible under current law, the DNR is directed to consider requests from purchasers for timber sale extensions and to provide flexibility in timber sale contract administration to mitigate against the potential for contract default. By December 1, 2009, the DNR must report to the Legislature on the status of existing contracts, contract extensions, contract defaults, and must provide a timber market forecast for 2010 and 2011.

This act expires January 1, 2014.

Appropriation: None.

Fiscal Note: Requested on April 15, 2009.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: This bill allows DNR to maximize revenue for the state. Typically, timber is sold through a wholesale bidding process. This bill would allow DNR to sell more timber on the retail market. Recently, as a result of the declining timber market, only 20 million board feet of the original 70 million board feet of timber placed up for bid were sold. Through the contract harvesting program, DNR has been able to sell all of the timber being offered for sale.

CON: We purchase timber from DNR to sell to other manufacturers. This bill would take timber volume away from the market, which will displace a strong pool of bidders who won't bid on contract harvest sales. There was concern back in 2004 when the Legislature first considered granting DNR the authority to directly contract for harvest, thus the original 10 percent cap. DNR has not yet approached that cap so doubling the cap seems premature. Currently, the timber market is lousy because the housing and finished wood products markets are lousy. DNR is not nimble enough to ensure that their minimum bid price reflects

the market. If you price the timber too high, the timber won't sell even with contract harvesting.

Persons Testifying: PRO: Heath Packard, DNR.

CON: David Stroble, Merrill, Ring Forest Products; Tim Boyd, Boise Cascade, Vaagen Brothers.