

HOUSE BILL REPORT

HB 1243

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

Title: An act relating to expiration dates affecting the department of natural resources' timber sale program.

Brief Description: Modifying expiration dates affecting the department of natural resources' timber sale program.

Sponsors: Representatives Haigh, MacEwen, Blake, Sullivan, Orcutt, Ryu, Maxwell, Uptegrove, Lytton, Van De Wege, Kretz and Warnick; by request of Department of Natural Resources.

Brief History:

Committee Activity:

Agriculture & Natural Resources: 1/29/13, 2/14/13 [DP];
Appropriations: 2/21/13, 2/27/13 [DP].

Brief Summary of Bill

- Stays for five years the set decrease in the maximum amount of timber that can be sold by the Department of Natural Resources (DNR) through their contract harvesting program.
- Stays for five years the set decrease in the maximum amount of money that can be held in the Contract Harvest Revolving Account.
- Allows, for five more years, the DNR to set the final appraised value for the purposes of an auction based on the current market prices for the valuable material in question.
- Provides five more years of authority to the DNR to give consideration to requests from timber purchasers when the purchasers request timber sale extensions or other flexible options in the execution of a timber sale contract designed to avoid a contract default.

HOUSE COMMITTEE ON AGRICULTURE & NATURAL RESOURCES

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.

Majority Report: Do pass. Signed by 15 members: Representatives Blake, Chair; Lytton, Vice Chair; Chandler, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Buys, Dunshee, Haigh, Hurst, Kretz, Orcutt, Pettigrew, Schmick, Stanford, Van De Wege and Warnick.

Staff: Jason Callahan (786-7117).

Background:

Contract Harvesting.

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, until the end of 2013, is directed to use the current market value of timber as the minimum bid price (beginning in 2014 the DNR must establish an appraised value for the timber and use that value as the minimum bid for the timber sale). In most instances, the bidder awarded a contract from the DNR secures the right to harvest and sell all of the timber comprising the sale, regardless of species and size. The successful bidder is responsible for harvesting the timber, generally within three years, and either using or selling the harvested logs.

However, the DNR has the authority to conduct some of their timber bids through a process called contract harvesting. Under this method, the DNR directly contracts for the harvest of a tract and retains ownership of the harvested logs. These logs are then sorted into lots, or groupings of like species and size, and then sold according to their lot. Under this method, the purchaser of the logs is only buying the species and size included in a specific lot.

Except for forest health operations, the authority for the DNR to engage in contract harvesting is limited. Until the end of 2013, the DNR may utilize contract harvesting for up to 20 percent of the total annual volume of timber offered for sale from state forest lands. Starting in 2014, that cap is lowered to 10 percent.

All receipts from the gross proceeds of logs that are harvested under the contract harvesting program are deposited into the Contract Harvest Revolving Account (Revolving Account). The funds in the Revolving Account can only be used to pay harvesting costs incurred on contract harvesting sales.

The Board of Natural Resources (Board) has oversight of the Revolving Account, and no legislative appropriation is needed for expenditures from the Revolving Account. All interest created by the Revolving Account is deposited into the Revolving Account, but, until the end of 2013, the Revolving Account 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. Beginning in 2014, the maximum total amount of money allowed to be held in the Revolving Account prior to distribution will decrease to \$1 million at the end of any *fiscal year* (as opposed to *calendar year*; the current standard).

Provisions Relating to Other Timber Sales.

The DNR is directed, until the end of 2013, to give consideration to requests from timber purchasers when the purchasers request timber sale extensions or other flexible options in the execution of a timber sale contract designed to avoid a contract default. However, the DNR

may not allow flexibility in contracts if the purchaser's request would not be consistent with the DNR's trust management mandates. This authority is set to expire on January 1, 2014.

Summary of Bill:

Provisions related to contract harvesting, valuable material appraisals, and buyer's contract flexibility that expire after December 31, 2013, are extended until January 1, 2019. This includes:

- the ability for the DNR to harvest up to 20 percent of the total annual volume of timber offered for sale through the contract harvesting process (instead of reverting back to 10 percent);
 - the allowance of the Revolving Account to hold up to \$5 million at any one time (instead of reverting back to \$1 million);
 - the ability for the Board to set auction prices at the current market prices (as opposed to the appraised value); and
 - the ability for the DNR to give consideration to requests from timber purchasers when the purchasers request timber sale extensions or other flexible options that do not conflict with the DNR's trust management mandates.
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Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This is a benefit to the public school system that relies on money from state trust lands as part of its funding. Contract harvesting results in additional revenue being generated by the DNR. The process allows the DNR to better time the sales market and receive a better price for logs. Contract harvesting also allows the DNR to have better control over harvests that occur in sensitive areas. This helps provide additional certainty over environmental results. Currently the DNR uses contract harvesting for about 15 percent of its harvests.

(Opposed) None.

Persons Testifying: Representative Haigh, prime sponsor; and Kyle Blum, Department of Natural Resources.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass. Signed by 31 members: Representatives Hunter, Chair; Ormsby, Vice Chair; Alexander, Ranking Minority Member; Chandler, Assistant Ranking Minority Member; Wilcox, Assistant Ranking Minority Member; Buys, Carlyle, Cody, Dahlquist, Dunshee, Fagan, Green, Haigh, Haler, Harris, Hudgins, Hunt, Jinkins, Kagi, Maxwell, Morrell, Parker, Pedersen, Pettigrew, Pike, Ross, Schmick, Seaquist, Springer, Sullivan and Taylor.

Staff: Michael Bennion (786-7118).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Agriculture & Natural Resources:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The Contract Harvesting Program generates about a 9 percent premium in revenue to the Department of Natural Resources (DNR) and its beneficiaries. The current level of 16 percent of total annual volume of timber for contract harvesting works at this time, and provides the DNR with the flexibility to control harvest around environmentally sensitive areas and for quicker generation of cash flow when it is the right thing for DNR to do.

(Opposed) None.

Persons Testifying: Representative Haigh, prime sponsor; and Kyle Blum, Department of Natural Resources.

Persons Signed In To Testify But Not Testifying: None.