
Minutes

Board of Natural Resources

January 3, 2006
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands
Bob Nichols for Governor Christine Gregoire
Terry Bergeson, Superintendent of Public Instruction
Bruce Bare, Dean, University of Washington, College of Forest Resources

BOARD MEMBERS PRESENT BY PHONE

Ted Anderson, Commissioner, Skagit County
Daniel J. Bernardo, Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:10 a.m. on January 3, 2006, in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Ms. Bergeson moved to approve the December 6, 2005, Board of Natural Resources Minutes.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

Jeffrey Thomas - Puyallup Tribe

Mr. Thomas talked about the Thun Field exchange and the reasons why the Puyallup Tribe doesn't feel that this exchange would be beneficial for all parties and should be deferred until further implications are looked at. He stated that cultural and ecological resources would be lost if the 320 acres of original statehood trust land were to be exchanged. These lands are located in the Puyallup River Valley and the land contains wetlands and headwaters of Horse Haven Creek. The historic creek is in proximity of a Puyallup Tribal Traditional village. He said the government-to-government consultation between the Puyallup Tribe and DNR, regarding the loss of these state trust lands, hasn't been conducted yet. He felt that a meeting between the Tribe and the Department should take place before the Board approves this transaction.

Chair Sutherland asked Mr. Thomas if the Tribe had been notified about this exchange before this week.

Mr. Thomas said to his knowledge there was no notification and he personally investigated standard process through which the Tribe would have expected to receive notification.

Chair Sutherland asked about the acquisition of some 600 acres and wondered if the tribe had acquired them.

Mr. Thomas said yes and no; there has been some acquisition but that provision has not been brought to closure.

Dan Drake - Private Citizen

Mr. Drake stated that he lives in South Hill (Puyallup), and is a retired school teacher specializing in environmental education. He is concerned about runaway growth in the South Hill area and one of his concerns about the Thun Field Exchange is that it has been used as an outdoor classroom area for students. He stated that it's a unique pocket of land and would be a real loss to many people and wildlife. He urged the Board to delay their decision until further surveying and water quality testing could be done.

Alan Zulauf - SFLO

Mr. Zulauf stated that he resides in Puyallup and is a small forest land owner of 800 acres. He said that he's a strong supporter of the timber, fish and wildlife program. He indicated that with the increasing population in the South Hill area there's going to be an enormous need to protect the public values demonstrated in the Thun Field Exchange. He understands the trust lands obligations but doesn't agree with exchanging forested trust land for asphalt. He urged the Board to reevaluate the entire exchange and think about fish and wildlife and public value.

Ms. Bergeson asked what the delay would do.

Mr. Zulauf said it would allow more time to consider all the public values such as land, water, human and animal.

LAND TRANSACTIONS

Thun Field/Walgreens Exchange -#86-077957 (Handout 1)

Rich Scrivner presented Thun Field explaining that it's a commercial land exchange involving Common School Trust land situated on 320 acres in Southern Pierce County. The exchange would be for a Walgreens store and property in the city of Des Moines, located in King County. He said the proposal is to transfer out of an isolated and landlocked property into coveted and stable revenue generating investment property. He detailed the exchange summary showing the appraised value for the Walgreens property at \$8,000,000. The appraised value for Thun Field is \$6,525,000, in which DNR made a cash payment of \$600,000, resulting in a net benefit of \$875,000. The annual rent for Walgreens is \$481,500, which provides a 6% yield on the property as appraised; DNR's yield as negotiated is 6.76%.

Mr. Scrivner said the last harvest on this property was in 1998 and the leave trees were either on the slope or for buffer purposes.

Mr. Bortz said the buffers left behind on this parcel were in excess of what is required by forest practices.

Mr. Bare asked if the area to the south was forested.

Mr. Scrivner said yes.

Thun Field Property:

- Appraised/Exchange value: \$6,525,000
- Parcel size: 320 acres

- Improvements: None
- History:
 - o Federally granted land ~ Common School Trust
 - o December 1981 designated Transition Land in DNR's report to the legislature
 - o September 1984 designated Urban by Board of Natural Resources
 - o 1998 last merchantable stand of timber harvested
- Features
 - o Within Pierce County's Urban Growth Boundary
 - o Zoned Residential Resource (RR) by Pierce County allows a maximum development density of three units per net developable acre
 - o Net developable acreage estimated at 246 acres (leaving 74 acres for wetlands, wetlands buffers, critical areas and road right-of-ways).
 - o Presently lacks public access and utilities

Walgreens Property:

- Appraised value: \$8,000,000
- Land area: 1.74 acres
- Building size: 14,820 square feet
- Building design: Load bearing concrete block and brick walls, with limestone veneer on reinforced concrete perimeter footings, reinforced concrete slab on grade.
- Lease term: 75 years with right to terminate after 25 years and every 5 years thereafter.
- Lease type: absolute net ~ Tenant responsible for all expenses associated with property
- Rent schedule: \$481,500 annually, flat throughout term
 - o Percentage rent~ required but not a contributing factor

Benefits:

- Asset diversification for a portfolio dominated by investments in growing timber
- Provides stable cash flows with relatively low risk:
 - o Walgreen Company, an Illinois corporation operates over 5,000 stores in 45 states and Puerto Rico.
 - o Ranked 38th on Forbes Platinum list of best performing companies.
 - o Credit Ratings: Moody's rates Aa3, S&P rating A+/Stable/A1
 - o Net worth: \$8.8 billion
- Reposition assets from difficult to manage, non-income generating property (Thun Field), to manageable, improved commercial real estate, producing annual cash flows at market rates of return (Walgreens) consistent with the Transitions Lands Policy Plan.

Mr. Nichols asked how the wetlands and buffers are determined.

Mr. Scrivner explained that it's determined through Pierce County.

Mr. Anderson commented that although he appreciates the concern of citizens he noted that even though property changes hands it doesn't mean all the rules change; the rules could be more restrictive because the parcel is in an urban growth area.

Mr. Nichols asked if there could be any more harvesting on the 320-acre parcel.

Mr. Scrivner said there isn't enough volume to set up another harvest.

Mr. Bortz talked about the review and approval process saying that there were no environmental problems and the property inspection was good. He talked about the testimony from the public hearing saying that it mirrored the comments made earlier during the public comment portion of this meeting.

Mr. Nichols asked if there had been an opportunity for others to purchase this property.

Mr. Scrivner said there were three different ways to transact properties: selling at public auction to the private sector, selling directly to a public agency, or the exchange process.

Chair Sutherland added that if the property went to public auction then the properties would be subdivided because DNR can't sell more than 160 acres at a time.

Mr. Nichols asked if there had been any interest from tribes or public entities in purchasing this parcel.

Mr. Bortz responded that DNR had not received a proposal from anyone regarding purchasing this parcel.

Mr. Nichols asked how DNR would continue consultation with the Puyallup Tribe regarding their concerns with the exchange.

Howard Thronson came forward to talk about his meetings with the Puyallup Tribe. He said that he had a meeting on December 20th with the Tribe but explained that DNR did not specifically contact the Puyallup Tribe when DNR started having discussions about a possible land exchange with a private investment company. He said the Department did not formally contact the Puyallup Tribe to inform them of the possible exchange. However, that information was provided at the public hearing, which Jeffrey Thomas attended. He said that Lee Stilson had walked the site and there would be a final geological report.

Mr. Thronson explained that in the early eighties the legislature asked DNR to identify lands that were likely to convert from natural resource lands to commercial, industrial or residential in ten years. In 1984 the Board of Natural Resources adopted a list of properties and this parcel was included in that list. He said DNR's statutory obligations make it difficult to manage lands in urban areas.

Mr. Nichols wanted to know if the Tribe was concerned with the whole parcel or just part of the parcel near the creek.

Mr. Scrivner said that the Puyallup Tribe seemed to be concerned with the whole parcel related to mitigation and protection of Horse Haven Creek.

Mr. Nichols asked what impacts there would be and how it would affect the Tribe if the Board were to delay this decision until next month.

Mr. Thronson said the exchange agreement expires on February 7, 2006; and the \$8 million deal would be void if it weren't approved by then. In the meantime the geological report could be shared with the Tribe.

MOTION: Bob Nichols deferred resolution #1187 until February 7, 2006.

SECOND: Ms. Bergeson seconded.

ACTION: Motion passed unanimously.

Hatton Water Revision -#02-077905 (Handout 2)

Julie Armbruster came forward to ask the Board for approval on an amendment to the resolution for the Hatton Water Certificate. She explained that the water value had been set at \$250/per acre-foot. The revision would specify that the price would be on a per acre foot basis and the final amount collected from the bidder would be the number of acre feet approved by Department of Ecology.

MOTION: Ms. Bergeson moved to approve Resolution #1188.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

Horse Shoe Falls #08-076803 (Handout 3)

Evert Challstedt came forward to present Horse Shoe Falls. He noted that the property is located in Clark County, 12 miles Northeast of Battleground and 5 miles Southeast of Yacolt. The parcel is 160 acres of forestland. He said the purchase price is \$145,000, which gives the Department a 5% rate of return. The property has been logged and DNR would be purchasing the property and replanting it. Acquisition removes a third party from the DNR owned road system.

MOTION: Ms. Bergeson moved to approve Resolution #1189.

SECOND: Bob Nichols seconded.

ACTION: Motion passed unanimously.

Chair Sutherland asked Mr. Challstedt to put together data showing the amount of forested acres exchanged since 1990.

Mr. Challstedt said DNR would provide that.

Recreation/IAC Presentation

Laura Johnson, Executive Director for the Interagency Committee for Outdoor Recreation, presented. She wanted to thank DNR for their staff effort, which has been a consistent feature, and she thought that perhaps the Board wasn't familiar with that aspect of the Department. She explained that for this year DNR is the #1 ranked project in the state through a specific grant cycle. She stated that it's a project that will help support the enforcement and education activities at the Tahuya and Green Mountain facilities. She wanted to acknowledge DNR staff for their excellence in obtaining these grants. She said DNR had participated in about 385 grants totaling in cash approximately \$112 million dollars worth of investment. She said DNR is an important partner and looks forward to continued work on grants in the future.

TIMBER SALES

Proposed Timber Sales for February 2006 (Handout 4)

Jon Tweedale began with a brief market update:

- Upward pressure on stumpage prices
- Market dynamics are out of sync
- Domestic production is up for 2005, same with imports mostly from off-shore
- 2006 domestic housing market predicted down slightly but stable

December 2005 Sales Results:

9 sales offered & 8 sold; 34.8 mmbf offered & 31.4mmbf sold; \$12.5 million minimum bid offered & \$13.8 million sold; \$359/mbf; \$441/mbf sold; 23% above minimum bid; average number of bidders is 5.1.

Proposed February 2006 Board Sales:

14 sales offered at 63.4 mmbf; \$19.7 million minimum bid; average \$311/mbf.

Mr. Tweedale brought the Board's attention to a timber sale in the Loomis Forest that had received a letter but he stated that the Department is in compliance with that sale. He explained that another sale from Northwest Region was deferred due to some cultural resource issues with the Tulalip Tribe; he expected the sale to come forward in the next month. Mr. Tweedale explained that the 14th sale is located in the Whatcom County Watershed. Commissioner Anderson recused himself from voting on that particular sale.

MOTION: Ms. Bergeson moved to approve the first thirteen sales of the February 2006 Timber Sales.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

Commissioner Anderson recused himself from the discussion and motions for the 14th timber sale.

Mr. Tweedale explained that this sale is the first to be done under the new Lake Whatcom Watershed analysis area. He said the sale had full concurrence from the Interjurisdictional Committee. There were no SEPA letters received regarding this sale.

MOTION: Ms. Bergeson moved to approve the last sale of the February 2006 Timber Sales.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously

CHAIR REPORTS

Change in Distributions from Harbor Area Leases

Fran McNair came forward to ask the Board for approval on an amendment to a rule. She explained that DNR is asking the Board to approve a resolution to change WAC 332-100-040, which is a deduction determination. The proposed rule change would increase the amount distributed from Harbor Area Leases into the Resource Management Cost Account (RMCA), by 5%. Currently the RMCA Aquatics account receives only 20% of the revenue of leases in harbor areas, the lowest percentage from any leasing revenue source, and the only one currently set below the maximum percentage allowed by state law. She explained that the current distribution of harbor area lease revenue was developed in 1967 and set in rule in 1971. At that time funds were distributed from harbor areas leases to improve harbor areas and support capitol improvements; funds from harbor area leases were distributed to Port Districts, which in turn supported improvements in harbor areas. Once Port Management Agreements were put in place they no longer received revenue. She said that over time harbor area leases have become some of the most complex to manage and generally require more staff time than other leases. Ms. McNair said DNR had received one comment from the Washington Public Ports Association and they were concerned about whether this rule would impact the ability for funds to go into the Aquatic Lands Enhancement Account. She said that \$5.1 million dollars would be going into the grant funds, which are now administered by the Interagency Committee for Outdoor Recreation. She said if DNR could put that 5%

into the RMCA then the Department could hire staff that's needed to do the work to bring in additional revenue.

MOTION: Ms. Bergeson moved to approve Resolution #1190.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously

Decision to Review or Decline Appeal Notification for Aquatic Leases

Christa Thompson, Assistant Attorney General for the Board of Natural Resources, came forward to discuss an aquatics rent appeal under WAC 332-30-128. She explained that Lake Union Dry Dock had requested the Board to review a decision by DNR concerning rent for aquatic lands. She informed the Board that their decision today is whether to review the decision by DNR or to decline review. If the Board were to decline to review the rent appeal then the Department's final decision is the decision of the Board. The lessee's remedy would then be to pursue whatever legal remedies they have in a court of law. If the Board votes to review the decision, the next step is for the petitioner and DNR staff to submit written statements to the Board. The Board would be assigned a separate assistant attorney general who has had no contact with DNR staff on this matter. This assures that the Board receives independent analysis and assures fairness to the petitioner.

MOTION: Ms. Bergeson moved to decline review of the Lake Union Dry Dock rent appeal.

SECOND: Mr. Nichols seconded.

ACTION: Motion passed unanimously

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

No Public Comment.

Convene for Executive Session not to exceed 40 minutes.

Executive Session extended 20 minutes.

Chair Sutherland asked if there was anyone else present wishing to make comment before the Board? Seeing none, hearing none.

Meeting adjourned at 12:15 p.m.

Approved this ____ day of _____, 2005

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Christine Gregoire

Bruce Bare, Dean, University of Washington

Daniel J. Bernardo, Dean, Washington State University

Terry Bergeson, Superintendent of Public Instruction

Ted Anderson, Commissioner, Skagit County

Attest:

Sasha Lange, Board Coordinator