"Stewards of the land... for generations to come."

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State of Washington Forest Practices Board
Natural Resources Building
MS 47000
Olympia, WA 98504

Re: Review of the Final Preliminary Cost Benefit Analysis of the Proposed Type Np Buffer Rule prepared by Industrial Economics Incorporated

Members of the Forest Practices Board:

I am writing to inform you of the results of my review of the Final Preliminary Cost Benefit Analysis of the Proposed Type Np Buffer Rule prepared by Industrial Economics Incorporated (IEc). In their analysis IEc estimated quantifiable costs that the new rule will incur for the forest land owners of western Washington and qualitative benefits. At the start of their work IEc was required to follow the Washington statute RCW 34.05.328 (d) in completing their cost benefit analysis. IEc stated that this RCW did not require that they calculate a cost benefit ratio, however this statute does specifically state that both qualitative and quantitative benefits and costs will be taken into account. I researched back to the legislative intent in 1995 of writing this paragraph and it is apparent that both a qualitative and a quantitative analysis were intended in arriving at a conclusive CBA analysis.

In their February 21, 2025 Draft Preliminary Cost Benefit Analysis, IEc arrived at an estimate of stream length that resulted in a range of additional buffered acres roughly in the ballpark of an estimate made by the University of Washington Natural Resources Spatial Information Group. In their final report IEc made an adjustment to the stream length suggested by the Department of Ecology that shortened the length approximately 36% which resulted in 40% less total buffered acres. At the same time IEc repeatedly rejected data furnished by WFFA that showed the market derived discount rate being used in forest land appraisals at the time of their valuation was 4% instead of the 4.5% that they used. Using a 4% DR would have resulted in a roughly one third increase in the costs associated with the new rule. IEc also consistently ignored suggestions on how to properly adjust the market value of land for stocking differences.

IEc used quantitative analysis entirely in arriving at their estimate of the total costs to all landowners of the rule. For the benefits of the new rule, IEc relied entirely on qualitative analysis. They estimated there would be major reductions in stream temperatures, major improvements to stream habitat for all riparian wildlife, that tribal culture would benefit from the rule and major improvements would accrue to fish habitat downstream of all type Np waters. Nevertheless they conclude that the benefits far outweigh the costs.

In addition throughout the report IEc makes statements that seem to indicate a bias towards reaching their conclusion in favor of the qualitative analysis by saying things such as “In other words, of the Np streams miles that require buffers under the proposed rule, 40 percent of them could be harvested all of the way to the streams absent the proposed rule.” This followed a statement on page 22 of their report that already correctly stated: “Another Key finding of our analysis of the Four Peaks data is that, across the rule scenarios, approximately 40 percent of the miles in the SSN do not have any riparian buffer requirements under the current rule; these areas would require buffers under the proposed rule.”

In summarizing the costs of the proposed new rule, IEc estimates that the annualized cost of the loss in land value at a 2% discount rate ranges from $11 million to $35 million and at a 4.5% discount rate from $17 million to $54 million. In

summarizing the benefits of the proposed new rule, IEc does attempt to quantify values for the benefits by estimating the present value of all benefits at $210 million over ten years at a 2% discount rate and $190 million at a 4.5% discount rate. Those numbers would work out to approximately an average of $21 million per year at 2% and $19 million per year at 4.5%.

Using the reported annualized costs and my annual calculation of their benefits at a 2% DR, I have derived a series of cost benefit ratios as follows:

$21,000,000 / $11,000,000 = 1.91; $21,000,000 / $35,000,000 = 0.60

At an average of the estimated annualized costs equal to $23 million, the ratio would be:

$21,000,000 / $23,000,000 = 0.91

Using the reported annualized costs and my annual calculation of their benefits at a 4.5% DR, I have derived a series of cost benefit ratios as follows:

$19,000,000 / $17,000,000 = 1.12; $19,000,000 / $54,000,000 = 0.35

At an average of the estimated annualized costs to $36 million, the ratio would be:

$19,000,000 / $36,000,000 = 0.53

Since the above calculations show that most of the values in the ranges calculated by IEc for both the costs and the benefits would result in a cost benefit ratio of less than one, then under all normal economic principles for a CBA analysis the proposed rule provides no meaningful benefit. It is therefore very presumptuous of IEc to conclude that their qualitative benefits outweigh their costs. With all of the above in mind I can only conclude that this cost benefit analysis prepared by IEc is at its best inconclusive and at its worst must be characterized as biased.

Accordingly, the Forest Practices Board cannot move forward with rulemaking for the proposed type NP rule because the cost benefit analysis is flawed and state statutes require that a proper analysis be completed. An alternative would be to have the Department of Natural Resources hire a more reputable firm to complete another cost benefit analysis. I would be happy to recommend several nationwide consulting forestry firms that would be qualified to do such work.

Sincerely,

Victor P. Musselman

Past President WFFA
Retired Forest Appraiser and Economic Analyst

CC:
Elaine Oneil, WFFA
Ken Miller, WFFA
Dave Roberts, WFFA