

The State Land Board met in regular session on June 13, 2006 in the Land Board Room of the State Lands Building, 775 Summer Street NE, Salem, Oregon 97301-1279.

Present were:

Bill Bradbury	Secretary of State
Randall Edwards	State Treasurer

Assistants
Jesse Cornett
Inga Deckert

Staff
Louise Solliday
Kevin Moynahan
Steve Purchase
John Lilly
Nancy Pustis
Nicole Kielsmeier

Dept. of Justice
Richard Whitman

The Secretary of State called the meeting to order at 10:02 A.M. The topics discussed and the results of those discussions are listed as follows. Further details of the discussions may be obtained in the written transcript of the meeting available at the Department of State Lands, 775 Summer Street NE, Suite 100, Salem, Oregon 97301-1279, (phone: (503) 378-3805, ext. 224).

Consent Items

- 1a. Request for approval of minutes of the April 11, 2006 State Land Board meeting.**
- b. Request for approval of minutes of the April 26, 2006 State Land Board special meeting.**
- c. Request for approval of minutes of the May 23, 2006 State Land Board special meeting.**

- d. Request by Central Electric Cooperative, Inc. to acquire a permanent easement over and upon State Trust Lands to construct an electrical substation to service existing and future customers.**

Director Solliday reviewed the items on the Consent Agenda. State Treasurer Edwards moved the Consent Agenda be approved. Secretary of State Bradbury seconded. The motion passed.

Action Agenda

- 2. Request for approval to submit the Department of State Lands' proposed 2007-2009 agency budget request to the Department of Administrative Services and to transfer the Unclaimed Property Program to the Office of the State Treasurer.**

Director Solliday said DSL included 17 program option packages in its 2007-2009 budget proposal. One group of option packages seeks to continue funding limited duration positions. DSL currently has 22 limited duration positions funded through grant monies or approved by the Emergency Board. The second group of option packages is to improve the Land Management Division's staff capacity to implement the revised Asset Management Plan. The third group of option packages is intended to improve internal administrative and financial operations. The fourth is an e-commerce option package to improve information technology services, including improving the Land Administration System database, GIS systems and moving toward a paperless system. There is also an option package related to DSL's activities for Portland Harbor superfund cleanup efforts.

Director Solliday stated DSL is also requesting approval for the transfer of the Unclaimed Property Program to the Office of the State Treasurer.

State Treasurer Edwards asked if DSL had been laying groundwork and talking with the Legislature regarding the Asset Management Plan. Director Solliday stated she is currently setting up a series of meetings with legislators to discuss activities at DSL. She said there have been previous discussions with legislators, including during the 2005 Legislative Session. In the 2005 Session, the legislators approved two new positions to help implement the revised Asset Management Plan.

State Treasurer Edwards asked if DSL would be looking for a candidate who is a Certified Public Accountant for the internal audit position requested in one policy option package. Director Solliday replied that the person is intended for fiscal and CPA type functions. DSL has auditor positions for the Unclaimed Property Section and is seeking the additional position to audit internal fiscal operations.

State Treasurer Edwards asked if DSL had anticipated the time that transferring data from paper to paperless would consume. Director Solliday stated staff have been researching the issue.

State Treasurer Edwards stated that DSL's policy option list would be a fairly large expense. He noted the requested list includes \$2.2 million for Full Time Employees (FTE). He stated the Land Board would continue to work with DSL to prioritize the list and obtain as many policy option packages as possible.

State Treasurer Edwards stated he appreciated the support of the Land Board members for moving Unclaimed Property from DSL to the Office of State Treasurer. He said there is a national trend of having state unclaimed property programs within state treasurer offices. He said that having Unclaimed Property with the State Treasurer would be beneficial financially and to the owners of unclaimed property.

Secretary of State Bradbury said he shared the view that moving Unclaimed Property to the Office of State Treasurer was a good move.

State Treasurer Edwards moved the staff recommendation be approved and Secretary of State Bradbury seconded. The motion passed.

3. Request for approval to submit the Department of Forestry's proposed 2007-2009 Common School Fund budget request to the Department of Administrative Services.

Director Solliday introduced the agenda item. She explained that each biennium the Department of Forestry comes before the State Land Board to request approval for their portion of the Common School Fund budget. DSL contracts with ODF for ODF to manage the state forest lands that are a part of the Common School Fund real estate portfolio. The request this year is for \$10.7 million to cover the cost of

managing all Common School Fund forest lands which ODF is under contract with DSL to manage. This request is about \$100,000 less than in the current biennium, and is based on an estimated revenue base of \$22.9 million projected for the 2007-2009 biennium. She stated there are several tasks that would be carried out in the contract between ODF and DSL, including harvest of timber from the Elliott State Forest and other Common School Fund lands; continued work on development of a Habitat Conservation Plan for the Elliott State Forest; and a number of silviculture activities on state forest lands. She introduced Steve Thomas, Assistant State Forester.

State Treasurer Edwards stated he was concerned that the budget estimated be as accurate and as close as possible to what will be needed. He said that in the past their estimated amount request and the actual amount needed have varied. He asked why there has been a gap and if there was a way to tighten the gap.

Mr. Thomas stated that during the last biennial budget ODF did narrow the difference between the amount requested and the actual expenditure and will continue to narrow that gap. They will continue to refine their budget process. He stated the department hopes to implement a new plan for the Elliott State Forest, which should increase revenue.

Secretary of State Bradbury said he acknowledged ODF faces complicated issues when assembling a budget due to many different sources of funds that pay for various activities. He said he shared Treasurer Edwards' concern about the difference between what is requested in the budget and what is spent or needed.

State Treasurer Edwards said that getting the amount budgeted for and amount spent closer will enhance ODF's credibility. Secretary of State Bradbury said he and Treasurer Edwards felt very positive about the progress ODF has made with the budget and wanted to encourage them to narrow the difference even further.

Secretary of State Bradbury and State Treasurer Edwards also congratulated Mr. Thomas on his upcoming retirement and expressed their thanks for his years of service to Oregon.

State Treasurer Edwards moved the staff recommendation be approved. He stated he wanted to put a caveat to continue to better understand and work with the Department of Forestry to manage costs

and to better understand those costs. Secretary of State Bradbury seconded. The motion passed.

4. Review of the Director's response to the recommendations of the 2004-2006 Grazing Fee Advisory Committee Final Report and request for authority to initiate rulemaking to amend the rules governing management of rangelands including changes to forage lease rates to reflect the recommendations of the Advisory Committee.

Director Solliday summarized the agenda item. She stated that in 2004 the Secretary of State's Audit Division completed an audit on DSL's grazing fees. The audit included three recommendations. The first recommendation was that DSL look at ways to increase revenues from rangelands through either the sale of lands that may not be especially productive in terms of revenue to the state or the Common School Fund, through the exchange of those lands, or through revising grazing fees to reflect more accurately private market rates for similar lands in Oregon. Non-irrigated rangelands are the type DSL manages as part of the Common School Fund real estate portfolio.

Director Solliday stated that as part of a response to that recommendation, former DSL director Ann Hanus formed a Grazing Fee Advisory Committee in 2004. The committee met several times in 2004 and 2005, studying the formula in detail. The committee reviewed fees used in other western states and information that the U.S. Department of Agriculture provides annually to states about private, market rates for non-irrigated rangeland.

Director Solliday said the committee's report included seven recommendations. The recommendations included retaining the current formula while trying to obtain additional information about the factors used in the formula to prepare for a revisit of those formula rates in 2008. They also recommended attempting to compile private land leasing data for the same southeast Oregon counties with DSL-managed Common School Fund rangelands to ensure there is an accurate data set on private land lease rates that are comparable in the State of Oregon in the same counties DSL holds.

She stated the committee also recommended looking at other alternatives for raising revenues from rangelands, including activities

such as a fee for hunts, fee for guided hunting and opportunities to produce energy.

State Treasurer Edwards asked if the committee was unanimous in its recommendation regarding alternative uses.

Director Solliday stated the entire report is a consensus report from the committee. Individual informal votes were taken on some issues. There was a split vote on whether or not minimum grazing lease fees should be adjusted to better match data or the private market rates.

State Treasurer Edwards stated he knows there is sensitivity about these grazing lands and the historic use of them. He asked if adding other uses to the lands would be allowable given the contracts with lessees.

Director Solliday stated that other uses would be allowable if they were compatible with the leases already in place. She said other uses may be limited because of how isolated the lands are. However, limited opportunities for other uses could be researched.

Director Solliday advised that the fourth recommendation in the report was to establish a floor—which DSL has not previously done—for grazing fees at \$4.25. In 2004, the fee was \$4.32, and it is currently \$5.60. A big driver in the current grazing fee formula is the price of cattle. Establishing a floor for the fee is one of the two issues that would require rulemaking. State Treasurer Edwards asked if the federal government has a floor. Director Solliday stated the federal government does not have a floor, and their formula is different.

Director Solliday stated the fifth recommendation was to raise the minimum grazing fee on our small lessees to cover the costs of managing those leases. DSL currently charges a flat fee of \$100 per year for small lessees. To better cover costs for operating those leases, DSL may look at increasing the fee somewhere between \$200 and \$250. State Treasurer Edwards asked if there was any discussion to try to index the cost to operate the small leases. Director Solliday replied that the Grazing Fee Advisory Committee did not discuss indexing.

Director Solliday stated the sixth recommendation was to establish a range manager position as permanent, and add seasonal positions as

needed. She said DSL has implemented this recommendation with an Emergency Board request and the 2005 budget.

She said the seventh recommendation was to form a committee for the next review in 2008 and use a neutral facilitator to ensure balanced representation on that committee.

Director Solliday stated that in comparing the grazing fee rates that have been charged in other western states the last few years, Oregon's position has stayed fairly constant. Out of nine western states, Oregon is ranked fifth. She said Oregon has a relatively small land base compared with other states.

Director Solliday stated that the Grazing Fee Advisory Committee and its report is just one part of DSL's response to the 2004 audit. She advised DSL's work on the revised Asset Management Plan is also intended to address recommendations in the audit. She said the audit also recommended DSL ensure compliance with the administrative rule to review the grazing fee every three years, and DSL is committed to that recommendation.

Director Solliday stated the audit recommended DSL study whether or not the agency had adequate staffing resources to manage the rangelands. She said the 2007-09 budget request includes a package for additional staff to inventory the rangelands. She stated that following today's Land Board meeting, DSL would send to Chuck Hibner, Secretary of State's Audit Division, a letter detailing DSL's response to the 2004 audit.

Secretary of State Bradbury stated that his policy advisor, Jesse Cornett, had spoken with Mr. Hibner and inquired if DSL's response had addressed the findings in the audit. Mr. Hibner advised Mr. Cornett that DSL had taken the right steps in the right direction and been very responsive to the audit.

Treasurer Edwards stated that managing these lands can be challenging because of their history, remote location, and lessees who have been leasing these lands for years and even generations. He expressed his appreciation for the committee's work on the grazing fee report. Secretary of State Bradbury stated he shared that sentiment.

State Treasurer Edwards State Treasurer Edwards moved the staff recommendation be approved and Secretary of State Bradbury seconded. The motion passed.

Informational Agenda

5. Status Report on the Asset Management Plan.

Director Solliday stated DSL and the Land Board have been involved in the revising and updating of the Asset Management Plan. The Asset Management Plan directs the agency work related to the real estate portfolio within the Common School Fund. DSL issued a draft, revised plan earlier this year, held four public hearings around the state and accepted public comments through May 26. DSL received input from the public both at the public meetings and in written form through letters and electronic mail. She said public comments fell into several categories.

Director Solliday stated that the largest number of comments received were related to the selection of the Deschutes Market Road property in Deschutes County through the U.S. Bureau of Land Management in-lieu land selection process. She stated that while in-lieu selection is not per se a part of the Asset Management Plan, the Plan does refer to the in-lieu selections. There is a separate process through the BLM for the in-lieu selection discussions and DSL is aware of the concerns that citizens have raised about that parcel.

Director Solliday said a second group of comments raised concerns about a parcel in Douglas County near the Umpqua lighthouse that is surrounded on three sides by State Park lands. DSL previously classified the parcel as forest lands; the Asset Management Plan recommends changing the classification to industrial, commercial, residential. Some residents in the area expressed concerns about changing that classification within the Asset Management Plan.

Director Solliday said other comments ranged from recommending DSL not sell any lands to selling all lands. She said today's Land Board meeting was the final opportunity to provide public comment on the Asset Management Plan before DSL staff prepare the final plan. Staff will make revisions to the draft plan in response to public comment and the direction of the Land Board. The final plan will be presented to the Land Board at the October 10 meeting for adoption.

Secretary of State Bradbury welcomed the two persons who came to provide testimony: John Charles of the Cascade Policy Institute and Danielle Mathews, citizen.

John Charles stated he is president of the Cascade Policy Institute, which is a small research and public policy center in Portland. He said he has followed the asset management issue for 11 years and commented on the 1995 Asset Management Plan. He provided copies of his testimony and explained the charts and graphs included in it. Mr. Charles stated the Asset Management Plan should clarify how it will maximize revenue over the long term. He stated the AMP needed to have a scenario for disposition of lands. He recommended selling rangelands that don't appear to be paying for themselves management wise. He also recommended that DSL sell the Elliott State Forest after the lawsuit regarding the federal delisting of the marbled murrelet is resolved.

State Treasurer Edwards thanked Mr. Charles for his testimony. Edwards stated that the rangelands and Elliott Forest have a history and tradition and public value to the lands that must be considered in balance with maximizing revenue. The lands are part of a diverse portfolio.

Danielle Mathews introduced herself. She stated she is a Salem resident and fifth generation Oregonian. She said her grandfather worked for the Parks department and that her family enjoys Oregon's many recreational resources. She said Oregon's assets represent what she considered Oregonians' heritage, and that their use should represent not only current financial needs but also the needs of future generations for the spiritual value of land. She stated she thought the Asset Management Plan has many good ideas but work remains to be done on it. She said she felt compelled to speak today as an Oregonian about how valuable the character of Oregon is and that the value cannot be measured in dollars and cents.

Secretary of State Bradbury and State Treasurer Edwards thanked Ms. Mathews for her testimony.

State Treasurer Edwards thanked DSL staff for gathering public input about the Asset Management Plan. He stated part of Land Board's job is to strike a balance between the need to grow the Common School

Fund monies through a diverse portfolio and to recognize that land value isn't always just about money.

Secretary of State Bradbury stated he thought the two people who testified represented the two positions of, on one hand, maximizing financial return, and on the other hand, recognizing the other values that exists in our resources.

6. Biennial Report on Common School Fund Investments and Distributions.

Director Solliday introduced Mike Mueller, the assistant director of investments at the Oregon State Treasury. Mr. Mueller presented an annual review of the Common School Fund Investments and Distributions. He said that during the five year period that ended in April 2006, the fund increased over 35 percent. He said that at the end of June 2006, a distribution of \$22.6 million would be made to the schools.

Secretary of State Bradbury asked if there was a certain size, such as the \$1 billion the Common School Fund recently reached, at which a fund would be managed at a slightly higher risk. Mr. Mueller stated there was not a specific size but that the investment portfolio needs to be diversified.

Treasurer Edwards stated there was not a magic amount but that he thought the Common School Fund had reached a point where some investments with a little higher risk could be explored.

Director Solliday stated that the Land Board's current policy on distribution of Common School Funds to the schools has been on a sliding scale from two to five percent, depending on how well the Common School Fund does. She said that during the past 2003-2005 biennium \$53.5 million was distributed to schools. For the 2005-2007 biennium the distribution to schools is expected to be \$93.9 million.

7. Status Report on Permit Streamlining Efforts.

Director Solliday stated that DSL began implementing a Statewide Programmatic General Permit issued by the U.S. Army Corps of Engineers and the DSL in January 2006. The SPGP was an effort to

bring in federal authorizations through the DSL permit, including federal authorizations under Section 401 of the Clean Water Act, the Coastal Zone Management Act that DLCD administers and the Endangered Species Act that the National Marine Fishery Service and U.S. Fish and Wildlife Service administer, and Section 404 of the Corps' regulatory program. About 20 permits that qualified under the SPGP have been issued.

Director Solliday stated there have been some initial problems with implementing SPGP, and DSL and the Corps are working to resolve some of the issues that have arisen in the context of implementing SPGP. The SPGP is a two year pilot program. She stated the two-year pilot period will be used to learn how things are working and to talk to consultants and applicants to learn how the program is working for them and ensure the program is providing the kind of customer service DSL wants to provide over the long term.

Director Solliday said that as a result of a legislative budget note included in several natural resource agency budgets in 2005, DSL is participating in the Water Related Permit Process Improvement Team. WRPPIT has been meeting for almost a year and is looking at how state agencies can better coordinate permitting processes for applicants who seek to engage in activities that involve the waters of the state. She said DSL will utilize experience with SPGP for the WRPPIT process. She said DSL might be used as an information base for other natural resource agencies' authorizations or permits. The other agencies would continue to do their authorizations and permits, but through the DSL process.

Secretary of State Bradbury asked what some customers were disliking about the SPGP process. Director Solliday stated that under the SPGP system information customers must provide is frontloaded—they must provide all necessary information initially rather than as it is needed during the application process—in order for DSL to be able to make a decision. She said determining which sets of conditions apply to their projects from the start can be difficult for some customers. There have been some conflicts and contradictions in requirements between agencies involved in parts of the SPGP.

Secretary of State Bradbury asked how the Corps dealt with those contradictions and challenges. Director Solliday stated that from an applicant's perspective DSL's process used to be simple, and the

Corps' was challenge. Because DSL has included the Corps' process in DSL's process, DSL's process now looks cumbersome to an applicant.

Secretary of State Bradbury asked if a customer must go to the Corps after the customer receives approval from DSL. Director Solliday replied that DSL has covered all the authorizations and permits that the customer would need on the federal side to obtain approval.

8. Land Exchange Report.

Director Solliday reported DSL is in the first step of a three step process involving a three-way land exchange with Frank Conte and the U.S. Fish and Wildlife in a section of the Willamette River in Lane County. She said that over time the river has moved; Frank Conte has a deed declaring he owns the river and DSL has a deed that says DSL owns some of Frank Conte's private land. The U.S. Fish and Wildlife Service is working with DSL and Mr. Conte to facilitate the exchange to return the river ownership to the State of Oregon and give the parcel that is now private land back to the private owner, Mr. Conte.

State Treasurer Edwards asked how the change in the river and land ownership was determined.

Mr. Steve Purchase, DSL Assistant Director for the Land Management Division, stated that in the 1970s DSL conducted extensive research in the changes in the Willamette River. DSL researched whether the changes were due to avulsion or accretions and identified a number of places along the Willamette River where the river has moved naturally or the Corps of Engineers channeled off the existing bed and bank, creating a whole new channel of the Willamette River. Mr. Purchase stated that the exchange process has been lengthy because the private landowner wanted some money in exchange for the land. U.S. Fish and Wildlife has brought some monies, which will help facilitate the exchange. U.S. Fish and Wildlife wants to buy part of the private landowner's land to place into a conservation area. Mr. Conte is favorable to exchange.

The meeting was adjourned at 11:28 A.M.

Bill Bradbury, Secretary of State

Louise Solliday, Director