



Oregon

Theodore R. Kulongoski, Governor

Department of State Lands

775 Summer Street NE, Suite 100

Salem, OR 97301-1279

(503) 378-3805

FAX (503) 378-4844

www.oregonstatelands.us.

State Land Board

Theodore R. Kulongoski

Governor

Bill Bradbury

Secretary of State

Randall Edwards

State Treasurer

MEMORANDUM

February 12, 2008

To: The Honorable Theodore R. Kulongoski, Governor
The Honorable Bill Bradbury, Secretary of State
The Honorable Randall Edwards, State Treasurer

From: Louise Solliday, Director

Subject: Annual Report on Land Asset Management for 2006-2007 (FY07)

The Department's Strategic Plan and the Board's Asset Management Plan call for the Department of State Lands (DSL) to make an annual report to the Land Board concerning a broad range of land management activities (land assets) including leases, easements, licenses, property management activities and issues. Annual revenues and expenditures are also to be reported. This annual report is designed to provide the Board a compilation of land management activities for the past fiscal year (July 1, 2006 to June 30, 2007 or FY07).

Land Asset Classes

During the development of the first Asset Management Plan (AMP) in 1994, DSL began to classify real estate holdings into land asset classes. The current classes include: Forestlands; Agricultural Lands; Rangelands; Industrial, Commercial, Residential (ICR) Lands; Mineral and Energy Resource Lands; Waterways; and Special Stewardship Lands. As of June 30, 2007, DSL managed approximately 2.3 million acres within the following land asset classes:

Forestlands	106,496 acres
Agricultural Lands	5,856 acres
Rangelands	628,496 acres
Industrial/Commercial/Residential	4,957 acres
Mineral and Energy Resource	753,000 acres ¹
Waterways	800,000 acres
Special Stewardship Lands	38,816 acres

¹ The 753,000 acres indicated above occur in "split estates" in which DSL owns the mineral rights but not the land surface associated with those rights. In addition to this acreage, DSL also manages 410,000 acres of mineral rights underlying DSL land (which are included in other land asset classifications) and 2.1 million acres of mineral rights underlying surface acreage owned by other state agencies such as the Department of Forestry.

As of June 30, 2007, DSL had 3,770 active authorizations on these lands compared to 3,160 in the prior year. Appendix A provides more detail concerning these authorizations and land sales by land asset class.

Overview of Revenues and Expenditures by Land Asset Class

Based on the best available data, DSL received \$16,295,499 from land management authorizations during the past fiscal year (including timber sale payments and excluding land sales and land sale applications). This represents a 25% increase in gross revenues (without land sales) over the past year. In addition, another \$153,726 was received from Common School Fund land sales and deposited in the Land Sale Revolving Fund for future land improvements and acquisitions (See Appendix C). Direct expenditures by the Department's Land Management Division for this same period totaled \$6,251,133; a 10.5% reduction over FY06. The total net operating income for FY07 was \$10,024,084.

Appendix B provides information concerning the revenue and expenditures by land asset class. During this past fiscal year, revenues from timber sales increased from the prior year (\$9,674,481 to \$12,590,076); revenues from forestlands represent 77% of the total annual revenues from land management. The second greatest source of revenue comes from waterway lands where this year's revenues were up slightly from last year. FY07 waterway revenue totaled \$1,968,603 compared to \$1,862,344 for FY06, an increase of 5.7%.

Asset Management Performance Measures and Targets

The AMP identified four different financial performance standards and targets:

(1) Return on Asset Value (ROAV) 3% to 5%.

The FY07 ROAV for all land classes, except waterways, special stewardship and mineral and energy resources was 1.3% to 1.6%. The range is based upon the adjusted land values from the AMP (Table 2). This is an improvement over the ROAV reported in the AMP of 0.68% to 0.83%.

(2) Annual Increase in Net Operating Income (NOI) 3% to 5%

The FY07 NOI (without land sales and applications) for all land classes was \$10,024,084. This is an increase from the prior year of 70% or an increase of \$4,145,609; well in excess of the target.

(3) Annual Increase in Gross Annual Revenue (AR) 5% to 7%

The FY07 AR for all land classes, including land sale and applications, was \$16,661,690. This is an increase of \$2,799,949 or 20% over FY06, well in excess of the target.

(4) Annual Land Value Appreciation (LVA) 3% to 5%

This measure was not tabulated in FY07 due to the cost of re-appraising all property.

Two of the four performance targets were exceeded in FY07 (NOI and AR); ROAV is below the target but improvement has been made over past performance; and the fourth, LVA was not tabulated for FY07.

Summary of Major Land Management Activities

General

- DSL issued 362 authorizations for new uses or activities on state-owned land, mostly within waterways.
- The agency continues efforts towards authorizing new or previously unauthorized uses. Though the pace of new authorizations has slowed from last year, significant progress on waterway registrations was made during the past year.² As a result of this effort, DSL was able to put another 298 structures under registration this year.
- Numerous requests were processed to amend, assign or transfer authorizations, as well as release mineral rights.
- Staff worked with holders of authorizations to answer questions concerning the terms and conditions of agreements.
- Staff resolved conflicts between the holders of authorizations and the public regarding public use of DSL-managed lands. Bringing resolution to these “good neighbor” issues often requires considerable staff involvement and usually results in little, if any, revenue to the Common School Fund.

Rangeland/Agricultural Lands

The Eastern Region staff, assisted by seasonal range technicians, inventoried the condition of the range on 30,000 acres. Working with grazing lessees, eight miles of fence line and 4.5 miles of waterline were constructed. Noxious weed control was conducted on 1,070 acres and juniper thinning on another 270 acres. Noxious weed infestations were mapped on 1,000 acres.

Waterways

- ***New Carissa Removal***

DSL entered into a contract totaling \$16,428,500 with Titan Maritime LLC for the removal of remaining portions of the New Carissa. The contract requires Titan to remove the remnants of the ship by October 2008, unless the state and Titan agree that it is technically or physically impossible to complete the operation.

² Uses subject to registration include any non-commercial, private use dock, float and/or boat house of 2,500 square feet or less in size, floating recreational cabin of 1,500 square feet or less and, under certain circumstances, water sport structures.

Such an alternative removal plan will require written consent of the Department. Titan is responsible for obtaining all permits associated with the work and has been making efforts to obtain them.

- ***Portland Harbor Superfund Site and Other Cleanup Projects***

DSL is involved in the Lower Willamette Superfund site cleanup efforts at the Port of Portland's T-4, NW Natural's GASCO, McCormick and Baxter, and other sites. In addition, staff is working with landowners along the Columbia Slough and at Young's Bay (Clatsop County) to address clean up issues. See Appendix D for a more detailed summary of DSL's involvement.

- ***Waterway Structure Inventory***

The Eastern Region has been very active in inventorying structures and uses (418) on Klamath Lake and on the Snake River from Nyssa to Ontario.

ICR Lands

Efforts during FY07 have been focused on three properties: the Stevens Road Tract; the Ward Road Parcel; and the South Redmond Tract, all in Deschutes County.

This past summer, the City of Bend initiated the public process to expand the Urban Growth Boundary (UGB). Since then, staff began to work closely with city and county staff and other stakeholders to ensure that the Stevens Road Tract is included in the final UGB. Also, a Phase I Environmental Site Review was conducted at Stevens Road in order to pinpoint the extent of the abandoned county landfill area.

The Ward Road parcel is a 40-acre property that was evaluated for rural residential homesite development. A thorough feasibility analysis revealed a strong financial return if the property is to be developed under a cluster development concept.

The South Redmond Tract, 945 acres, south of the Redmond Airport and Deschutes County Fair and Exposition Center was transferred from the Bureau of Land Management (BLM) to the Land Board last April as an in-lieu selection. With the help of city and county stakeholders, a Land Use and Management Plan has been underway for over a year.

Land Sales/Exchanges

DSL began negotiations with the Oregon Parks and Recreation Department (OPRD) for the sale of the Eight Dollar Mountain Tract, Winchester Bay Tract and other properties.

24 parcels located in Baker, Umatilla, Union and Wallowa Counties totaling 1,668.70 acres have been evaluated for disposal and approved for sale or exchange.

A joint DSL/Oregon Department of Forestry (ODF) plan for exchange or sale of forestland in the Western Oregon District, managed by ODF, has been approved by the Oregon Board of Forestry.

Land Records

DSL is the land record keeper and mineral resources manager for all state agencies. Under ORS 273.099, all real property conveyance documents are sent from the originating agency to DSL for cataloging and storage. During FY07, DSL received, catalogued and stored 510 documents from five agencies (ODOT, ODF, Aviation, OPRD and Military).

During the course of checking parcels for possible land disposal, DSL has discovered that many parcels do not reflect the correct ownership or acreage. Many of the problems stem from land transfers from the federal government to the state of Oregon that may not have been recorded with the various counties. Out of the 24 counties checked so far, only six did not have ownership questions. Most, if not all, had to have DSL's address either updated or added. It is important for DSL to update the contact information to reflect our current address and the change from "Division" to **Department of State Lands**. This update assures that DSL receives information on changes affecting the Land Board's holdings, such as zoning. It will also allow persons interested in DSL lands to contact the correct state agency. Thirty-five parcels were questioned as to their ownership between DSL and other state agencies. Of the 35, eight were sold and one has been confirmed as belonging to ODOT. Additionally, staff has pursued an audit and verification of acres for fire protection assessment by the Oregon Department of Forestry. This work is continuing.

Navigability Studies

Land Management staff has also been involved in conducting a navigability determination of an 89-mile segment of the Rogue River from Grave Creek (RM 68.5) to Lost Creek Dam (RM 157.5). The Department has completed the first draft of its navigability study, and held a public hearing in Grants Pass to obtain input concerning the accuracy of the content of the study. The second draft of this study should be available to the public for review in February. A public hearing before the State Land Board is set for March. The Land Board is expected to consider DSL's recommendations and conclusions and determine if an assertion of navigability/state-ownership is warranted at its regularly scheduled meeting in June 2008.

Rulemaking

The Land Management Division initiated a number of rulemaking efforts during FY07. Rules were re-drafted, some have been reviewed by stakeholders and the Department of Justice and prepared for public review and hearing. The administrative rules included in this effort were:

Amend Division 14 - Rules of Administrative Procedure for Audit of Sand and Gravel Leases: Amendments required due to legislative changes and to streamline the rules.

Amend Division 67 – Rules Governing the Sale, Exchange and Purchase of Land: Amendments required to update and revise land sale and exchange procedures.

Amend Division 88 - Public Recreational Use of State-Owned Property: Amendments required to authorize closing areas to public use during and following environmental remediation activities.

Amend Division 110 - Rules Governing Management And Leasing on Rangeland Forage: Amendments required to implement recommendations of Grazing Fee Advisory Committee.

Amend Division 122 - Rules for Granting Easements on Trust and Non-Trust Land: Amendments required due to legislative changes.

Amend Division 125 - Administrative Rules for Authorizing Special Uses on State-Owned Land. Amendments required for renewable energy projects.

In addition to these rules, the Land Management Division also received Land Board approval to develop new administrative rules governing the placement of ocean energy conversion devices in the territorial sea (Division 14).

During FY 2007-2008, the Department intends to complete the above rulemaking efforts, and initiate review of the Rules Governing the Management of, and Issuing of Leases, Licenses, Temporary Use Permits And Registrations For Structures on State-Owned Submerged and Submersible Land (Division 82). It is expected that the required amendments to these rules will be completed in early FY 2008-2009.

Projected Land Management Issues (FY 07-08)

During FY 07-08 staff will address the following land management-related issues:

Rangeland/Agricultural Land

- Resolve various trespass issues.
- Continue rangeland condition surveys (30,000 acres).
- Complete revisions to Rangeland Management Plans (2).
- Initiate Stockade Block Area Management Plan.
- Continue noxious weed control (1,000 acres).
- Continue rangeland improvement projects: juniper control (200 acres); fire rehabilitation (re-seeding); fencing; pipelines and stock tanks.

Industrial/Commercial/Residential (ICR) Land

- Continue to pursue inclusion of Stevens Road Tract in the Bend Urban Growth Boundary.
- Continue investigation of landfill site at Stevens Road Tract.
- Complete in-lieu land selections (Central Oregon).
- Implement South Redmond Tract Land Use and Management Plan.
- Initiate Central Oregon Area Management Plan.
- Develop and market Ward Road Parcel near Bend.
- Maintenance and improvements to the Salem headquarters building including:
 - Replacement of HVAC controls;
 - Carpet replacement in portions of the building;
 - Office reorganization to accommodate new staff and tenants; and
 - Replacing Halon fire protection in the vaults.

Waterways

- Manage state-owned lands involved in Portland Harbor Cleanup and other clean-up sites.
- Complete the removal of the New Carissa.
- Manage the placement and sales of Columbia River dredge materials.
- Continue efforts to bring unauthorized uses under lease, registration, license or easement and resolve filled-land claims.
- Resolve recreation user conflicts with adjacent waterfront property owners.
- Work cooperatively with other agencies and the public to manage public use and resolve issues on state-owned land.
- Continue to work with the BLM and other agencies and interests on the Sandy and John Day River recreation use management programs.
- Administrative rules for the placement of wave energy facilities within the territorial sea were adopted in October 2007.
- Work with Ocean Policy Advisory Committee on territorial sea issues including the investigation of Marine Reserves.
- Complete waterway inventory on Snake River and initiate inventory update on various western Oregon estuaries/rivers/lakes.

Forestland

- Complete Elliott Forest Management Plan/Habitat Conservation Plan process.
- Implement the work plans identified in the Memorandum of Agreement between the State Forester, Land Board and DSL for forestland management.

Mineral and Energy Resources

- Process new mineral leasing requests (oil and gas).
- Investigate potential wind and solar energy sites and process new wind and solar energy leases.
- Inventory gravel mining potential on Eastern Oregon lands.

Land Sales

- Complete sale of Eight Dollar Mountain Tract to OPRD.
- Complete sales of 10 to 20 parcels in Baker, Umatilla, Union and Wallowa Counties totaling about 1,000 acres.
- Complete land disposal evaluations of scattered forestland parcels in Coos, Curry, Douglas, Jackson, Josephine and Lane Counties.

Other

- Improve revenue and expenditure accounting by asset class.
- Initiate revision to Sustainability Plan.

APPENDIX A

Comparison of 05-06 and 06-07 Asset Management Activities and Revenues

Land Asset by Class and Authorization Type

	05-06 Revenue	06-07 Revenue
<u>Agricultural Lands</u>	\$150,700	\$185,508
Agricultural Leases	\$150,700	\$185,508
<u>Forestlands</u>	\$9,674,481	\$12,595,218
Easements	\$6,561	
Oil & Gas Leases	\$15	
Communication Site Leases	\$11,312	\$4,612
Timber sales	\$9,656,593	\$12,590,076
Special Use Permit		\$530
Not included in total revenue for Forestlands		
Land Sales/Applications	[\$99,986]	
<u>Industrial/Commercial/Residential Lands (ICR)</u>	\$626,850	\$704,043
Special use leases	\$53,931	\$65,595
Cabin site leases	\$2,240	\$4,032
DSL building tenants	\$570,679	\$621,137
Easements		\$12,102
Forage Lease		\$1,177
<u>Mineral and Energy Resource Lands</u>	\$230,426	\$409,608
Upland Quarry /Hard Mineral Leases	\$230,327	\$377,848
<u>For 2006-07 Upland Quarry \$18,047 + Hard Mineral \$212,280</u>		
Oil & Gas Leases	\$99	\$31,260
Oil & Gas Lease Applications		\$500
Not included in total revenue for Minerals		
Release of Mineral Rights	[\$2,795]	[\$1,465]
<u>Rangelands</u>	\$467,604	\$412,237
Forage Leases	\$418,162	\$394,223
Easements	\$2,520	\$125
Communication site leases	\$30,934	\$17,189
Special use permit/lease	\$14,488	\$600
Temporary use permits	\$1,500	\$100
Not included in total revenue for Rangelands		
Land Sales/Applications	[\$299,522]	[\$153,726]

	05-06 Revenue	06-07 Revenue
Special Stewardship Lands	No Data	\$20,282
Forage Lease		\$9,686
Easement		\$487
Communication Site Lease		\$8,930
Oil and Gas Lease		\$1,179
Waterways	\$1,862,344	\$1,968,603
Waterway Leases	\$1,307,096	\$1,521,460
Dock Registrations	\$63,159	\$79,217
Easements/Rights-of-Way	\$13,411	\$44,430
Public Facility Licenses	\$1,000	\$500
Temporary Use Permits	\$20,298	\$15,695
Sand & Gravel Licenses	\$445,443	\$280,759
Oil & Gas Leases	\$11,937	\$10,847
License		\$15,195
Special Use Lease		\$500
Not included in total revenue for Waterways		
Land Sales/Applications	[\$22,500]	[\$211,000]
Revenue Subtotal (w/o Land Sales/Applications)	\$13,012,405	\$16,295,499
Grand Total (w/Land Sales/Applications)	\$13,861,741	\$16,661,690

APPENDIX B

2006-2007 REVENUE AND EXPENDITURES BY LAND ASSET CLASS

This appendix contains a brief discussion of the uses under authorization within each land asset class and the estimated revenue and expenditures.

Agricultural Land

Agricultural lands are either Trust or Non-Trust Lands that possess a combination of factors such as, but not limited to, Class I-IV soils (as identified by National Resource Conservation Service's Soil Capability Classification System) and favorable precipitation, growing season and water availability. The lands may be developed (e.g. cultivated, irrigated, fenced, etc.) for the production of all types of agriculture commodities.

Agricultural land is managed primarily for the production of agricultural commodities. Secondary uses (for example, communication sites or pipeline easements) are allowed as long as they do not substantially interfere with the primary use.

All of DSL's agricultural leases are in eastern Oregon. The crops grown within these leaseholds include hybrid poplar trees, alfalfa, barley, oat and wheat.

<u>Total acres:</u>	5,856
<u>Total number of active authorizations:</u>	11
Types of authorizations: agricultural leases; easements	
<u>2006-2007 Gross Annual Revenue:</u>	\$185,508
<u>2006-2007 Annual Expenditures:</u>	\$21,203
<u>2006-2007 Net Operating Income:</u>	\$164,305

Rangeland

Rangeland is land used primarily for the grazing of livestock. Located mainly in arid or semi-arid climate zones of eastern Oregon, the land generally receives insufficient rainfall to support commercial agricultural production or growth of forest products. Rangeland, however, will typically be zoned as agriculture or forest in local comprehensive plans. The native vegetation is predominately grasses, grass-like plants, forbs or shrubs, suitable for grazing.

Rangeland is managed according to approved grazing management plans. Alternative uses (e.g. agriculture; forestry; mineral and geothermal exploration and development; and commercial uses) may be allowed if they are not specifically prohibited by existing leases and are compatible with uses authorized through a lease.

DSL's rangeland leases are located in eastern Oregon primarily in Lake, Harney and Malheur Counties. Forty-three of these leases (551,266 acres) are on large blocked parcels of land of more than 1,000 acres each; the remaining 101 leases (69,963 acres) are on smaller, often "isolated" parcels; a total of 621,229 acres are leased for grazing. Together, the leases provide

for about 62,800 animal unit months (AUMs). The annual rental rate for 2007 is \$5.80 per AUM. The remaining acres are unleased and are considered prime candidates for disposal.

<u>Total acres:</u>	628,496
<u>Total number of active authorizations:</u>	191
Types of authorizations: forage lease; easement; communication site lease; special use lease.	
<u>2006-2007 Gross Annual Revenue:</u>	\$412,237 (w/o land sales)
Forage lease	\$394,223
Easement	\$125
Communication site lease	\$17,189
Special use lease	\$600
Temporary use permit	\$100
Land sales/application	\$153,726
<u>2006-2007 Annual Expenditures:</u>	\$213,646 (w/o capital outlay)
<u>2006-2007 Net Operating Income:</u>	\$198,591 (w/o land sales)

Industrial/Commercial/Residential

Urban and rural lands not having any significant resource value are classified as Industrial/Commercial/Residential (ICR) Land. Such land will usually be close to service infrastructure (e.g. sewer, water and roads) and be zoned for industrial, commercial or residential uses or be in the "path of progress." Rural land within Urban Reserve, Urban Unincorporated Communities or zoned to allow rural homesite or commercial development is also classified as ICR.

The 2006-2016 Asset Management Plan classified about 30 parcels and tracts as ICR lands. About 4,039 acres in the Central Oregon area of Bend/Redmond/Prineville/Sisters are designated as ICR lands. Prominent among the ICR lands are properties in the Astoria/Warrenton area; South and North Tongue Point in Clatsop County; four cabin sites on Lake Owhyee; the agency's headquarters' building in Salem; the Stevens Road Tract; and the Ward Road Parcel in Bend.

The 945-acre South Redmond Tract was acquired from the federal government (Bureau of Land Management) as an in-lieu selection in April 2007. It will likely be classified as ICR land as it is in Redmond's "path of progress." It will not be "officially" included in the 4,957 acres of ICR lands until the current planning process has been completed.

Revenues for these properties from sales and leases are expected to increase in the coming years as planning and development efforts begin to pay off. Costs associated with these activities are likely to increase as investment in value-added developments and entitlement efforts continue.

Maintenance costs for the DSL headquarters' building continue to run high as HVAC, roofing and carpet have needed replacement or repair.

<u>Total acres:</u>	4,957
<u>Total number of active authorizations:</u>	32
Types of authorizations: special use leases; cabin site leases; easements; building tenants.	
<u>2006-2007 Gross Annual Revenue:</u>	\$704,043
Cabin sites lease	\$4,032
DSL building rent	\$621,137
Special use lease	\$65,595
Forage lease	\$1,177
Easement	\$12,102
<u>2006-2007 Annual Expenditures:</u>	\$613,549 (w/o capital outlay)
<u>2006-2007 Net Operating Income:</u>	\$90,494 (w/o land sales)

Forestlands

Forestland possesses a dominance of commercially marketable tree species with few restrictions to harvest and forest management. The tree cover may be in various stages of maturation; species composition may vary between western Oregon and eastern Oregon. Douglas fir dominates the westside forests while ponderosa pine or mixed conifer stands dominate eastside forests. Developments are usually limited to access roads. Eastside land may be developed with fences and cattle guards; grazing may also occur on this land (e.g. Yainax Butte). Most DSL forestland is managed under contract with the Oregon Department of Forestry (ODF). Fire protection on forestlands is provided by ODF.

Forestland is managed primarily to produce merchantable timber for periodic harvest and sale according to a specific plan developed by forest managers. Secondary uses (e.g. communication sites, grazing, pipeline easements, public recreation, road rights-of-way) are allowed as long as they do not substantially interfere with the primary use.

Of the approximately 130,760 acres of forested land held by the Land Board, approximately 86,000 acres are located in the Elliott State Forest in Coos and Douglas Counties. The remainder is in the Sun Pass State Forest (6,403 acres) in Klamath County and small tracts scattered throughout Oregon (about 40,000 acres). All forestland is Trust Land and the growth and harvest of timber from this land is managed by the Oregon Department of Forestry under a contract with DSL.

In accordance with the 2006-2016 Asset Management Plan, about 25,000 acres of the Board's forested properties have been classified as Special Stewardship Lands in recognition of their special natural resource values (e.g. aquatic and riparian area, transmission line corridors). As a result, about 106,496 acres are classified as forestlands. Limited timber harvest continues to occur on some of these lands. Revenues and costs for forested special stewardship lands and forestlands are reported together for 06-07.

<u>Total acres:</u>	106,496
<u>Total number of active authorizations:</u>	61

Types of authorizations: communication site lease; special use lease

<u>2006-2007 Gross Annual Revenue:</u>	\$12,595,218 (w/o land sales)
Timber sales	\$12,590,076
Communication site lease	\$4,612
Special Use lease	\$530
<u>2006-2007 Annual Expenditures:</u>	\$4,337,631 (incl some capital outlay)
<u>2006-2007 Net Operating Income:</u>	\$8,257,587

Waterways

The waterway classification is applied to the territorial sea and other navigable waters owned by the State of Oregon. State-owned waterways include the tidelands and beds and banks of all navigable rivers, lakes, bays and estuaries along with the Pacific Ocean to three miles offshore.

Currently, the state has asserted an ownership claim to the bed and banks of 12 waterways in Oregon. These claims include all, or segments, of the John Day, Chetco, Columbia, Coos, Coquille, Klamath, McKenzie, Rogue, Sandy, Snake, Umpqua and Willamette Rivers as well as a number of lakes, among which are Klamath and the major coastal lakes such as Devils, Siltcoos, Tahkenitch and North and South Tenmile Lakes.

Total acres of waterways: 800,000 +/-

Total number of active authorizations: 3,463

Types of authorizations: waterway lease; dock registration; easement/right of way; public facility license; temporary use permit; sand & gravel license; oil & gas lease.

Note: does not include "old" easements that are currently being added to the Department's Land Administration System database.

<u>2006-2007 Gross Annual Revenue:</u>	\$1,968,603 (w/o land sales)
Waterway lease	\$1,521,460
Dock registration	\$79,217
Public facility license	\$500
Easement	\$44,430
Sand & gravel license	\$280,759
Oil and gas lease	\$10,847
Temporary use permit	\$15,695
Other license	\$15,195
Special use lease	\$500
Land sales/application	\$211,000
<u>2006-2007 Annual Expenditures:</u>	\$1,005,066
<u>2006-2007 Net Operating Income:</u>	\$963,537 (w/o land sales)

Mineral and Energy Resources

The mineral and energy resources classification is applied to all state-owned parcels with surface or subsurface mineral ownership interest where mineral development activity is the dominant use or DSL's property or management interest is limited to the mineral estate.

<u>Total acres of mineral rights</u> (refer to footnote 1):	753,000
<u>Total number of active authorizations:</u>	4
Types of authorizations: oil & gas leases; hard mineral leases; upland quarry leases.	
<u>2006-2007 Annual Revenue:</u>	\$409,608 (w/o mineral releases)
Hard mineral/upland quarry lease	\$377,848
Oil and gas lease/application	\$31,760
Mineral release	\$1,465
<u>2006-2007 Annual Expenditures:</u>	\$60,038
<u>2006-2007 Net Operating Income:</u>	\$349,570 (w/o mineral releases)

Special Stewardship

About 38,816 acres are classified as Special Stewardship (SS) lands and are managed primarily to ensure the protection of scenic, natural resource, cultural, educational or recreational values. The class includes both Trust and Non-Trust lands. Properties classified as SS include department lands such as: South Slough National Estuarine Research Reserve (4,800 acres), lands within state Scenic Waterway and federal Wild and Scenic River, properties registered on the Oregon State Register of Natural Heritage Resources and forested lands designated in forest management plans as special stewardship (e.g. riparian areas or special wildlife habitat areas). The majority of the lands classified SS are forestlands (24,380 acres). The data shown below does not include revenue or expenses for FY07 for South Slough National Estuarine Research Reserve.

<u>Total acres:</u>	38,816
<u>Total number of active authorizations:</u>	8
Types of authorizations: communication site lease; forage lease; easement; oil and gas lease.	
<u>2006-2007 Gross Annual Revenue:</u>	\$20,282
Forage Lease	\$9,686
Easement	\$487
Communication Site Lease	\$8,930
Oil and Gas Lease	\$1,179
<u>2006-2007 Annual Expenditures:</u>	FY07 expenditures are combined with other classes (e.g. Forestlands)
<u>2006-2007 Net Operating Income:</u>	\$20,282

APPENDIX C

2006-2007 LAND and MINERAL RIGHTS SALES

Land Sale Applications **\$1,250**

Waterways: 3 applications	\$1,000
Rangelands: 1 application	\$250

Land Sales **\$363,476**

Waterways: 2 sales (2.36 acres)	\$210,000
Rangeland: 1 sale (480 acres)	\$153,476

Sale of Mineral Rights **\$1,465**

Release of Mineral Rights for Other Agencies: 2 Releases \$1,465

Subtotal Land Sale/Application Revenue
Deposited into the Land Revolving Fund **\$153,476**

(Note: Only proceeds from the sale of Common School Fund lands or interests are deposited in the Land Revolving Fund)

Total Land Sale and Application Revenue **\$366,191**

APPENDIX D

Portland Harbor Superfund Site and Other Cleanup Projects

1. Portland Harbor Superfund Site

The EPA listed a six-mile reach of the Lower Willamette River between Sauvie Island and Swan Island on the National Priority List (NPL, aka Superfund list) in December 2000. The listing was due to sediment contamination in the river. A group of 10 potentially responsible parties, known as the Lower Willamette Group (LWG), is conducting a remedial investigation/feasibility study (RI/FS) in Portland Harbor to determine the nature and extent of contamination in the river; the risk that contamination poses to human health and the environment; and to identify and evaluate cleanup remedies. EPA is the lead agency overseeing the LWG's in-water work, and DEQ is the support agency. DEQ is the lead agency overseeing investigation and cleanup in upland areas surrounding Portland Harbor. EPA supports DEQ in our upland work.

In many instances, the contaminated sediments lie on submerged and submersible lands owned by the State of Oregon and managed for the benefit of the people of Oregon by the State Land Board through the Department of State Lands (DSL). The Land Board has the constitutional responsibility to protect the collective rights of the public to enjoy these submerged and submersible lands for commerce, navigation, fishing and recreation.

The LWG, EPA and DEQ are currently working to complete the RI/FS portion of the project in the winter of 2009. That includes identifying and evaluating possible remedies. EPA is then scheduled to select the final remedy for Portland Harbor in a Record of Decision (ROD) in the fall of 2010. It is anticipated that several limited choices that exist for sediment cleanups will be evaluated. Those choices fall into three broad categories: dredging, capping and monitored natural recovery.

Early Actions

Portland Harbor Early Actions are in-water interim remedial action measures taken before EPA selects the Final Remedy in the ROD. Early Actions are typically undertaken because contamination poses an imminent and significant threat or because of the Responsible Party's (RP) desire to address the contamination sooner rather than later. Generally, the RP enters into a Consent Order with EPA to conduct the Early Action. Each Early Action alternative must meet the threshold requirement of protection of human health and the environment. Protective alternatives are evaluated on factors such as effectiveness, implement ability and cost. Currently, three Early Actions have started in Portland Harbor.

Port of Portland's Terminal 4 (T4) Early Action

T4 has been an active shipping and storage terminal for nearly 100 years. T4 sediment is contaminated with metals and organic chemicals, particularly coal tar. The Port signed an Administrative Order with EPA in 2003 to conduct an in-

water Early Action removal. The Port identified four alternatives for cleaning up contaminated sediment at T4.

In May 2005, after considering the four alternatives provided by the Port, EPA selected the alternative which includes a combination of dredging, capping, monitored natural recovery and the construction of an on-site confined disposal facility (CDF). A CDF is essentially a landfill adjacent to a water body that is separated from the water body by a berm. Only certain types of contaminated sediment should be placed in a CDF, specifically, those that do not have the ability to leach back into the water body. The proposed T4 CDF will have excess capacity to potentially accept other Portland Harbor dredged material.

Some of the advantages the Port identifies for the CDF are: minimal handling and transport; little impact on the community; capacity to accept other dredged material, and cost effectiveness. Some of the disadvantages include need for long-term monitoring and some community opposition. The Port has submitted to EPA for review, its 60% design report. Due to unresolved issues on the design of the CDF, the Port and EPA are currently in an Informal Dispute Resolution process. Also due to a two-year delay in the issuance of an overall ROD for the Portland Harbor, the Port has asked for a delay in construction of the CDF so it may coincide with the overall harbor cleanup.

The Terminal 4 site has historically been the subject of several episodes of filling. The boundary line delineating state ownership had become clouded and the Department of State Lands and the Port settled the disputed ownership at Terminal 4 through the issuance and receipt of Quit Claim deeds in 1987 and 1988. Pursuant to the Department's waterway leasing rules (OAR 141-082), the Port has registered their wharves and they have a lease in affect covering the area directly south of the remediation site.

In the draft Engineering Evaluation and Cost Analysis (EE/CA) document submitted to EPA in May 2005, the proposed preferred alternative for the remediation of Terminal 4 contaminated sediments involves 10.9 acres of monitored natural recovery, 8.7 acres of sediment capping, 10.2 acres of sediment dredging and 15.3 acres devoted to a Confined Disposal Facility (CDF). Of this, about 6.5 acres of the CDF would be on state-owned submerged lands and much of the capping will occur on state-owned submerged lands.

Pursuant to law, the Land Board has the constitutional responsibility to manage the lands under its jurisdiction for the benefit of the Common School Fund and to ensure the collective rights of the public to fully use and enjoy this resource. The EPA selected, alternative action for remediation will affect DSL's ability to derive revenue from the state-owned lands fronting Terminal 4 and will restrict the ability of the public to use the area.

As with the Rhodia site and the McCormick and Baxter site, DSL and the Board will need to examine the benefits and consequences of selling the parcels being considered for remediation, or issuing an easement of either a long-term or permanent nature. There is the question of liability for the State of Oregon as a responsible party, dependent upon which action the Land Board selects. Also to be determined is the affect of leasing, selling or issuing a permanent easement on the collective rights of the public to enjoy these state-owned submerged and submersible lands for commerce, navigation, fishing and recreation. There will be a loss. Will the impact be offset by the benefits of remediation of the contamination?

NW Natural's GASCO Early Action

GASCO (a precursor to NW Natural) built and operated an oil gasification plant on the site between 1913 and 1956. A large portion of the GASCO site was sold in 1972 and subsequently redeveloped into the Wacker Siltronics plant. Upland and in-water portions of the GASCO site are severely contaminated with gasification wastes mainly in the form of coal tars and volatile organic compounds. NW Natural signed an Administrative Order with EPA in April 2004 to conduct an in-water Early Action removal of a coal tar deposit.

NW Natural removed approximately 15,300 cubic yards of material by dredging and hauled it to Arlington for disposal. NW Natural placed a temporary pilot cap over the dredged area to limit future releases. NW Natural is currently monitoring the site and considering more sediment sampling along the shoreline fronting both the GASCO site and the Siltronic site directly north of GASCO.

Pursuant to the Department's waterway leasing rules (OAR 141-082), NW Natural has registered their wharf. DSL has provided NW Natural with an Access Agreement to allow the remedial actions to take place on state-owned submerged and submersible lands in concert with the Early Action. Future actions, such as a permanent cap on the site, would require the Land Board to consider issues, benefits and risks similar to the Port of Portland T-4 Early Action.

Arkema Early Action

A variety of chemicals (such as chlorates, DDT, acids) were manufactured on the Arkema site since it was first developed in 1941. Upland and in-water portions of the Arkema site are severely contaminated with pesticides, metals and perchlorate. Arkema signed an Administrative Order (AOC) with EPA in June 2005 to conduct an in-water Early Action. Arkema entered the dispute resolution phase of the AOC, which was resolved in the fall of 2006 with EPA taking over the revision and preparation of the Engineering Evaluation and Cost Analysis Report (EE/CA). As was done with the two other Early Actions, various alternatives will be evaluated and proposed for the Arkema site in the final EE/CA.

Pursuant to the Department's waterway leasing rules (OAR 141-082), Arkema has two leases on state-owned submerged lands fronting the Arkema site. DSL has provided Arkema with an Access Agreement to allow the remedial investigation to take place on state-owned submerged lands in concert with the Early Action. Future actions, such as a permanent cap on the site, would require the Land Board to consider issues, benefits and risks similar to the Port of Portland T-4 Early Action.

2. McCormick and Baxter

McCormick and Baxter is a federally listed DEQ led Superfund site on the banks of the Willamette River, within the boundaries of the larger Portland Harbor Superfund site. DEQ is on track to complete the construction of all cleanup remedies by the end of this year. Construction of a \$12 million sediment cap was completed last fall, covering 23 acres of contaminated sediments and six acres of riverbank. In 2007, DEQ constructed a 43-acre upland soil cap to prevent the infiltration of rainwater through the most highly contaminated subsurface soils that remain at the site. The upland cap is composed of impermeable materials covered by two feet of clean topsoil and planted with native grasses.

Department of State Lands Involvement

The Department of State Lands first issued a waterway lease to McCormick & Baxter for the tie-up of barges and workboats. In 1990, the lease was renewed for ten years to include 2.48 acres fronting the McCormick & Baxter site, for the purpose of boat and barge moorage.

DEQ proposed to encapsulate approximately 22 acres of river sediments fronting the McCormick and Baxter site and an adjoining property. The property fronting the site in the Willamette River belongs to the State of Oregon. This encompasses the majority of the area proposed for encapsulation. With Land Board approval, DSL issued a permanent easement to DEQ for those lands owned by the State to be occupied by the sediment cap. DEQ has full responsibility for maintaining the integrity of the sediment cap, including monitoring and repair. The Land Board passed a rule (OAR 141-088-0070) effective June 11, 2004, to temporarily close the site to public use during construction of the sediment cap. The easement requires DEQ to take all measures reasonably necessary to close or restrict use of the sediment cap area to maintain its integrity. The placement of the sediment cap along with the proposed restrictive use of the area precludes DSL from earning any revenue for the Common School Fund from this site.

3. Access Agreements for other work in the Harbor

DSL has entered into several Access Agreements with other facilities in the Portland Harbor. These agreements authorize the responsible parties to enter onto state-owned submerged and submersible lands to conduct sediment sampling, water quality monitoring or other remedial actions. The following facilities have applied for and received Access Agreements:

Lower Willamette Group – sampling for the Superfund site
BP West Coast Products – Linnton Terminal
Siltronic Corporation
Oregon Steel Mills
Chevron/Texaco and ConocoPhillips – Willbridge Terminal
Port of Portland for the Mar Com site

DSL has received inquiries about access agreements from the following facilities in the Portland Harbor:

Gunderson
Langley St. Johns parcels, lying next to Mar Com
Linnton Plywood
University of Portland – Triangle Park site

The three Portland Harbor Early Actions and McCormick and Baxter demonstrate the range of possibilities for sediment cleanup that are and will be implemented in Portland Harbor. EPA, as lead agency, has the legal authority to waive most or all local, state and federal permits when Superfund actions are taken. All substantive requirements of permits must be met, but the actual permit can be waived. This is true for the siting of any disposal site within Portland Harbor for the handling of Portland Harbor waste. One major challenge for cleaning up Portland Harbor is the siting of a disposal facility for dredged material. EPA, the State and the LWG will continue to work on disposal of dredged material with extensive public input.

4. PacifiCorp – Young's Bay Sediment Cap

The PacifiCorp Astoria site is located on the north shore of Young's Bay, about 400 yards west of the U.S. Business Highway 101 bridge that crosses Young's Bay near the mouth of Young's River. A manufactured gas plant and a hog fuel powered electrical and steam-generating facility historically operated on the site. Waste tars and lampblack were placed onsite and discharged into Young's Bay creating a tar body that extends out into the Bay. In 2005, PacifiCorp implemented an interim action to partially remove and cap the tar body. The upland portion of the site is currently vacant but development options are being evaluated as part of a City of Astoria Brownfield Grant. Under a DEQ Record of Decision issued in February 2005, approximately 300 cubic yards of tar were excavated from the intertidal offshore area and disposed of in the Arlington hazardous waste landfill. A composite cap, consisting of an articulated concrete layer covered by sand was placed over approximately two acres where the tar body lay.

Approximately 0.55 acres of the sediment cap lies on state-owned submerged land. Because this was determined at a very late date, PacifiCorp entered into a lease with DSL allowing the placement of the sediment cap on state lands with the stipulation that PacifiCorp would purchase the land from the State of Oregon. Currently, DSL and PacifiCorp are in the process of identifying the exact extent of lands to be purchased and working with the City of Astoria to resolve land use issues and tax lot boundary realignments.

5. Columbia Slough, Multnomah County

The DEQ Cleanup Program is initiating an area-wide sediment investigation for the Columbia Slough segment that intersects I-5 & the Columbia Blvd. interchange. DEQ initiated discussions earlier in the spring of 2007 with RPs for cleanup sites located in the project area. Five of the 11 parties invited to the first meeting have expressed an interest in pursuing a "cash out" settlement option rather than directly participating in the RI/FS and cleanup. The settlement could involve releases of liability and contribution protection from the State. As such, DEQ will need to be careful not to prejudice DSL in any future claim concerning Slough liability.

Department of State Lands Involvement

DSL has reviewed draft documents prepared by DEQ and provided comment and concerns about the settlement. DSL and DEQ are working together to resolve the issues at hand. As part of DSL's involvement in the cleanup program, DSL would be expected to issue Access Agreements to the parties involved or DEQ, to allow access to state-owned lands for the purpose of conducting remedial investigations and possible actions to remediate the contaminated sediments in Columbia Slough.

DSL has already been involved in several cleanup actions in Columbia Slough and issued Access Agreements for the following sites:

Nu Way Oil
Pacific Carbide
Pacific Meat