Oregon Department of State Lands

Fiscal Year 2019

<u>Common School Fund Distributions</u>

- ***Department of Education – Distribution to State School Districts***
- ***PERS – Distribution to the State School Districts' Unfunded Liability Fund (Senate Bill 1566)***

Prepared By: Lee Hullinger, Fiscal Manager
Star Thomson, CPA

December 10, 2018

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Executive Summary

In Fiscal Year 2019, the Department of State Lands (DSL) will make its normal distribution from the Common School Fund to the Department of Education to provide funding for the state's school districts. The annual distribution is calculated and then split into two equal semi-annual payments: the first payment in December and the second payment in June of each fiscal year.

In Fiscal Year 2019, DSL will also make a new Common School Fund distribution to the Public Employees Retirement System (PERS) to provide funding for the state school districts' unfunded liability fund per Senate Bill (SB) 1566 that became law during the 79th Oregon Legislative Assembly – 2018 Regular Session.

The purpose of this report is to assemble internal documentation of the Common School Fund distributions, explain the respective calculations, and provide supporting source documentation to (1) serve as a high-level summary of the CSF distributions for executives, and (2) provide a roadmap for accounting and financial staff regarding the procedural steps in computing the new SB 1566 calculation. As will be noted later in the report, the SB 1566 calculation for PERS is much more complex than the Department of Education calculation.

Hopefully, this report will serve as a good resource for executives, managers, staff and Assistant Attorney General (AAG) counsel for DSL - now and in the future.

This report will be authored in December of each fiscal year to provide clarity regarding the Common School Fund distributions that will be made in the remainder of that fiscal year.

Common School Fund Distributions – Fiscal Year 2019

The distributions noted below will be made in Fiscal Year 2019 to the following parties, in the following amounts, and on the following dates:

Department of Education:	$ 30,431,494 – on 12/20/2018
	30,431,493 – on 06/20/2019
	$ 60,862,987 - Total Dept. of Education
PERS (SB 1566):	**$ 11,539,471** – on 01/10/2019

Total CSF Distributions: **$ 72,402,458**
(In Fiscal Year 2019)

Common School Fund Distribution – Department of Education

The Common School Fund (CSF) distribution to the Department of Education is a regularly calculated amount at each calendar year-end to be paid during the next fiscal year.

As noted on the "One-Pager" on page 3, the calculation is based on a 3-year rolling average of the calendar year-end market value of the CSF portfolio (not including unrealized gains or losses) and is based on a certain distribution rate as determined by the State Land Board.

Historical distribution rates have varied over the past several years and on occasion, the State Land Board approved "extra" distributions to be paid. (see bottom of pages 3 and 4)

Since 2009, the policy has been that the distribution rate would be 4% unless the 3-year rolling average market value increased 11% or more than the previous measurement date. If the 3-year rolling average increased 11% or more, then the distribution rate would be 5% percent.

In June 2018, the State Land Board approved the maximum distribution rate to be 3.5% percent. This new rate will be used in the calculation at the December 31, 2018 (i.e. Fiscal Year 2019) measurement date of the 3-year rolling average market value of the CSF portfolio for distribution in Fiscal Year 2020.

The following pages provide additional information and supporting documentation:

Common School Fund Distribution to Department of Education

When Measured and Calculated?	At calendar year-end, December 31st
What is Calculated?	The annual distribution amount to be paid for the next fiscal year
How is it Paid?	The annual distribution is split into two parts; 1/2 paid in December the following year; and the remaining 1/2 in June of the year following the first payment
What is the Calculation Methodology?	A percentage of the 3-year rolling average of the year-end net market value of the CSF portfolio
What is a 3-year Rolling Average?	The mathematical average of the year-end market value of the CSF portfolio for the most recent 3 years

Example:

	(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**
	Measurement Date	**Market Value of CSF Portfolio**	**3-year Rolling Average**	**Distribution Rate Percentage**	**Annual Distribution Amount**	**Payment Schedule**
1	December 31, 2016	$1.4 billion				
2	December 31, 2017	$1.6 billion				
3	December 31, 2018	$1.8 billion	$1.6 billion	3.50%	$56 million	$28 million paid December 2019 $28 million paid June 2020
Calculations			*(1b + 2b + 3b) divided by 3*		*(c) times (d)*	*(e) divided by 2*

Historic Distribution Policies

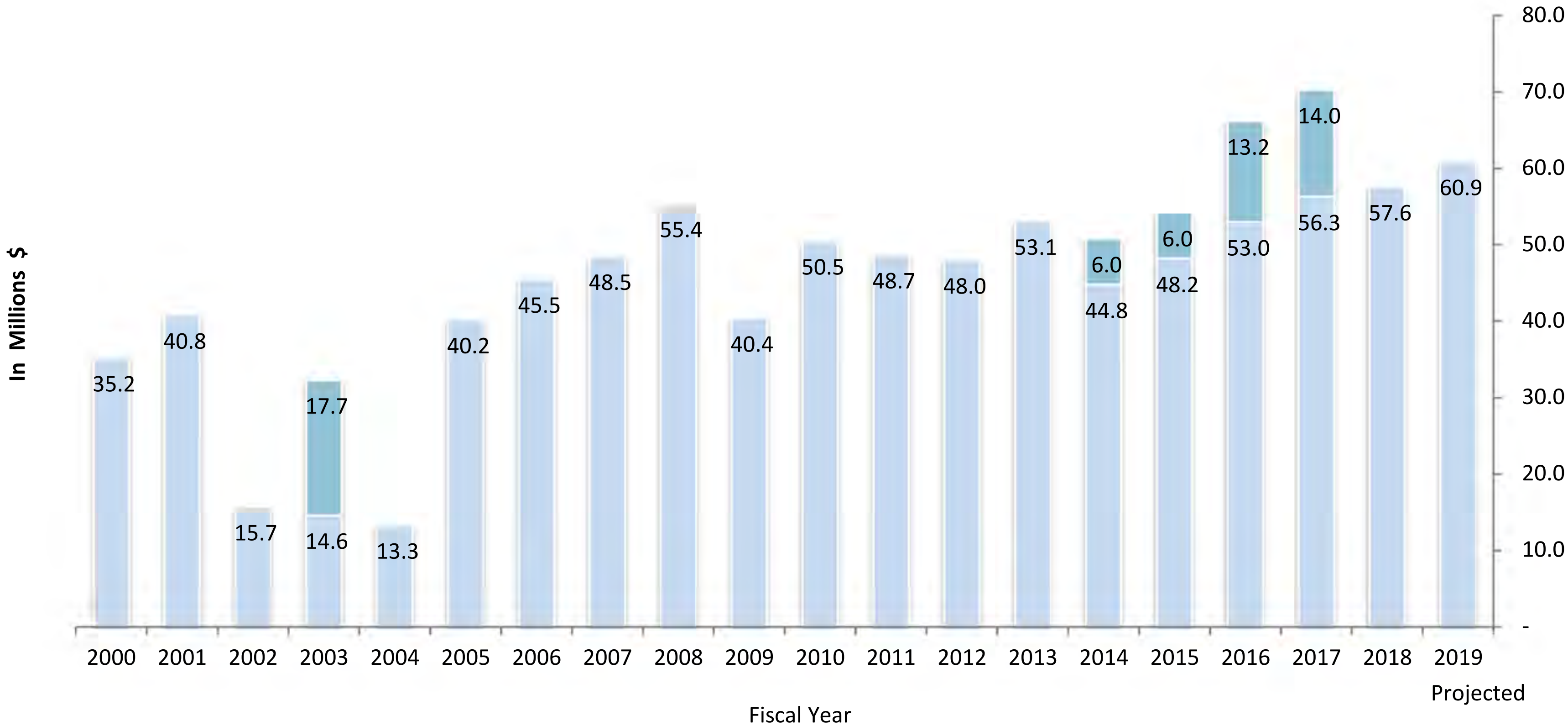
Since 2009, the policy has been that the distribution rate would be 4% unless the 3-year rolling average increased 11% or more than the previous measurement date
If the 3-year rolling average increased 11% or greater, then the distribution rate would be 5% percent

In June 2018, the State Land Board approved the maximum distribution rate to be 3.5%; thus, this rate will be used in the calculation at the December 31, 2018 market value of the CSF portfolio for distribution in Fiscal Year 2020.

Note: "extra" distributions ranging from $6 - $14 million per year were approved by the State Land Board in Fiscal Years 2014 through 2017 above the calculation per policy

Prepared by: Lee Hullinger 10.12.2018

Common School Fund
Distribution to Schools



* A special one-time distribution of accumulated statutory revenues

Common School Fund Investment Balance
Distribution To Dept of Ed Calculation
Prepared for Agency Requested Budget August 2018

4.19%	11 year average 2002-2012
6.03%	10 year average 2005-2014
4.17%	10 year average 2007-2016
5.21%	10 year average 2008-2017

Distribution FY	MV Invest Measuremt Date	December 31 Mkt Value	% Annual Change	3 Yr Rolling Avg	Rolling Average % Change	Rolling Average Distribution Calc Amount	% Distr Calc	Method	Actual Distribution	Actual Dist %	Dist FY			
2009	12/31/2007	1,153,371,000	4.03%	1,077,663,667	8.11%	40,367,985	3.5%	YE MV	40,367,985	3.5%	FY09	95,802,385	AY 09	
2010	12/31/2008	764,943,000	-33.68%	1,009,000,667	-6.37%	50,450,033	5.0%	3 Yr Avg	50,450,033	5.0%	FY10			
2011	12/31/2009	1,006,386,000	31.56%	974,900,000	-3.38%	48,745,000	5.0%	3 Yr Avg	48,745,000	5.0%	FY11	99,195,033	AY11	
2012	12/31/2010	1,107,856,000	10.08%	959,728,333	-1.56%	47,986,417	5.0%	3 Yr Avg	47,986,417	5.0%	FY12			
2013	12/31/2011	1,071,762,000	-3.26%	1,062,001,333	10.66%	53,100,067	5.0%	3 Yr Avg	53,100,067	5.0%	FY13	101,086,484	Biennial Dist 13-15 were increased by a total of $12million:	
2014	12/31/2012	1,178,826,000	9.99%	1,119,481,333	5.41%	44,779,253	4.0%	3 Yr Avg	50,779,253	4.5%	FY14		*	Plus $6 mil = $ 50,779,253
2015	12/31/2013	1,362,190,000	15.55%	1,204,259,333	7.57%	48,170,373	4.0%	3 Yr Avg	54,170,373	4.5%	FY15	104,949,626	*	Plus $6 mil = $ 54,170,373
2016	12/31/2014	1,433,677,000	5.25%	1,324,897,667	10.02%	52,995,907	4.0%	3 Yr Avg	66,244,883	5.0%	FY16		calculated	*plus $13,248,976 add'l 1% distributed = 66,244,883
2017	12/31/2015	1,424,195,000	-0.66%	1,406,687,333	6.17%	56,267,493	4.0%	3 Yr Avg	70,334,366	5.0%	FY17	136,579,249	calculated	*plus $14,066,873 add'l 1% distributed = 70,334,366
2018	12/31/2016	1,464,506,000	2.83%	1,440,792,667	2.42%	57,631,707	4.0%	3 Yr Avg	57,631,708	4.0%	FY18		calculated	
2019	12/31/2017	1,676,023,000	14.44%	1,521,574,667	5.61%	60,862,987	4.0%	3 Yr Avg	60,862,988	4.0%	FY19	118,494,696	calculated	
2020		1,696,023,000	1.19%	1,612,184,000	5.95%	56,426,440	3.5%	3 Yr Avg					estimated	New Land Board Policy distribution at 3.5%
2021	12/31/2019	1,768,951,989	4.30%	1,713,665,996	6.29%	59,978,310	3.5%	3 Yr Avg			AY21	116,404,750	estimated	
2022		1,845,016,925	4.30%	1,769,997,305	3.29%	61,949,906	3.5%	3 Yr Avg					estimated	
2023	12/31/2021	1,924,352,652	4.30%	1,846,107,189	4.30%	64,613,752	3.5%	3 Yr Avg			AY23	126,563,658	estimated	
2024		2,007,099,816	4.30%	1,925,489,798	4.30%	67,392,143	3.5%	3 Yr Avg					estimated	
2025	12/31/2023	2,093,405,108	4.30%	2,008,285,859	4.30%	70,290,005	3.5%	3 Yr Avg			AY25	137,682,148	estimated	
2026		2,183,421,528	4.30%	2,094,642,151	4.30%	73,312,475	3.5%	3 Yr Avg					estimated	
2027	12/31/2025	2,277,308,654	4.30%	2,184,711,763	4.30%	76,464,912	3.5%	3 Yr Avg			AY27	149,777,387	estimated	

Assumptions:

Distribution policy is 4% of three year rolling average market value through June 2019
Beginning 7/1/19, distribution policy is 3.5% of the three year rolling average market value
SB 1566 distribution to PERS will impact CSF investment balance beginning Jan. 2019. Amount is undetermined and not included in above estimate.

John D. Skjervem
Chief Investment Officer
Investment Division

PHONE 503 431 7900

State of Oregon
Office of the State Treasurer
350 Winter Street NE, Suite 100
Salem, Oregon 97301-3896

State Land Board
Common School Fund
2018 Distribution Study

Purpose

To provide the State Land Board with an updated Distribution Study subsequent to the passage of SB 1566.

CSF Distribution Study Background

Oregon State Treasury staff and Callan Consulting presented a distribution study to the State Land Board in April 2017. That study concluded that a 4% annual distribution was the maximum rate compatible with future Common School Fund (CSF) value stability in real (i.e., inflation-adjusted) terms. The recommended 4% distribution rate also, in effect, sunset the 2009 State Land Board distribution policy "that distributes 4 percent of the average balance of the preceding three years. If the average balance of the fund has increased by 11 percent or more, the distribution shall be 5 percent of the average balance of the preceding three years."

In light of the February 2018 passage of Senate Bill 1566, which calls for annual transfers from the Common School Fund to the School Districts Unfunded Liability Fund, Treasury staff requested an updated distribution study from Callan Consulting. The updated distribution study uses the following inputs/assumptions:

1) Callan's 10-year capital market expectations;
2) CSF market value of $1.68 BB as of December 31, 2017;
3) Target asset allocation of 45% public equity, 25% fixed income, 10% private equity, 10% real estate, 10% alternatives;
4) Student population growth of 0.7% over next 35 years versus national average of 0.2%;
5) Net unclaimed property inflows of $32.5 million with expected growth of 2.5% per year; and
6) Unclaimed property cannot be distributed.

CSF Distribution Study Recommendation

The updated distribution policy concludes that a 3.5% annual distribution is the maximum rate to maintain a relatively stable real asset value (i.e. inflation-adjusted). The updated 3.5% distribution rate sunsets the 2009 State Land Board distribution policy "that distributes 4 percent of the average balance of the preceding three years. If the average balance of the fund has increased by 11 percent or more, the distribution shall be 5 percent of the average balance of the preceding three years."

Oregon

Kate Brown, Governor

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State Land Board

Kate Brown
Governor

Dennis Richardson
Secretary of State

Tobias Read
State Treasurer

M E M O R A N D U M

Date: October 16, 2018

To: Governor Kate Brown
Secretary of State Dennis Richardson
State Treasurer Tobias Read

From: Vicki L. Walker
Director

Subject: Clarification of the June 14, 2018 Land Board Decision

At the June 14, 2018 Land Board meeting Senior Investment staff from the Oregon State Treasurer's Office and Callan Consultants presented the annual Common School Fund Distribution report. The report recommended that the maximum distribution be updated to 3.5%. After the Board approved this recommendation, questions were raised by stakeholders if this distribution amount included the SB 1566 amount.

Considering the confusion, Department staff reached out to Callan to clarify this issue. Attached is the letter from Janet Becker-Wold, Senior Vice President & Manager for Callan. This memo clearly indicates that the 3.5% does not include the SB 1566 amount.

Callan

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September 24, 2018

Ms. Jean Straight
Deputy Director, Administrative Services
Oregon Department of Lands
775 Summer Street NE #100
Salem, OR 97301-1279

Dear Ms. Straight

I am responding to your request for clarification on the Oregon Common School Fund distribution rate recommendation presented at the State Land Board meeting June 2018.

The summary conclusions stated that a 3.5% distribution rate is sustainable when incorporating the projected SB 1566 transfers. Meaning the SB 1566 transfer is not included in the 3.5% rate

Let me know if you need anything else

Thank you,

Janet Becker-Wold

Janet Becker-Wold
Senior Vice President & Manager

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Agenda Item 6: Clarification of Callan Annual Report

<u>MOTION</u>:

With the intent to clarify a previous motion and approval by the State Land Board at the June 12, 2018 meeting, I move that the State Land Board set the maximum distribution rate of 3.5% for the Common School Fund Distribution, and does not include the Senate Bill 1566 distribution to PERS.

Callan

June 12, 2018

Oregon Common School Fund

Asset Allocation and Distribution Study: 2018 Update

Janet Becker-Wold, CFA
Senior Vice President

Julia Moriarty, CFA
Senior Vice President

Uvan Tseng, CFA
Senior Vice President

Goal of the Study

Focus is on the Distribution and Investment Policies

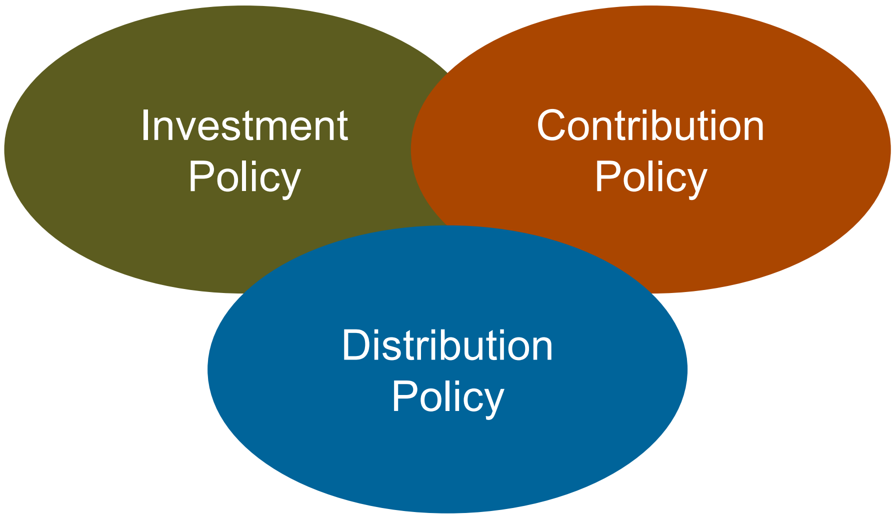
- The goal of this asset allocation and distribution study is to identify appropriate long-term distribution and investment policies for the Oregon Common School Fund.
  - This presentation focuses on the distribution rate in light of the passage of Senate Bill 1566 which calls for annual transfers from the Common School Fund to the School Districts Unfunded Liability Fund.
- The distribution and investment policies are two of the three key components of a fund (along with the contribution policy).
- Well-engineered distribution and investment policies consider:
  - The Fund's investment objectives
  - All appropriate asset classes for inclusion
  - Liquidity needs, asset class limitations, implementation challenges, administrative and legal burdens, size or capacity constraints
  - Rebalancing discipline
- The appropriate distribution and investment policies should strike a balance between growth in the corpus and sustainable, stable distributions that result in intergenerational equity for beneficiaries.
- The appropriate distribution and investment policies will vary by each fund's unique circumstances, preferences, and priorities.
  - No "one-size-fits-all" solution exists.

Three Key Policies

We evaluate the interaction of the three key policies that govern the Fund with the goal of establishing the best distribution and investment policies.

Investment Policy

- How will the assets supporting distributions be invested?
- What risk and return objectives?
- How to manage cash flows?



Contribution Policy

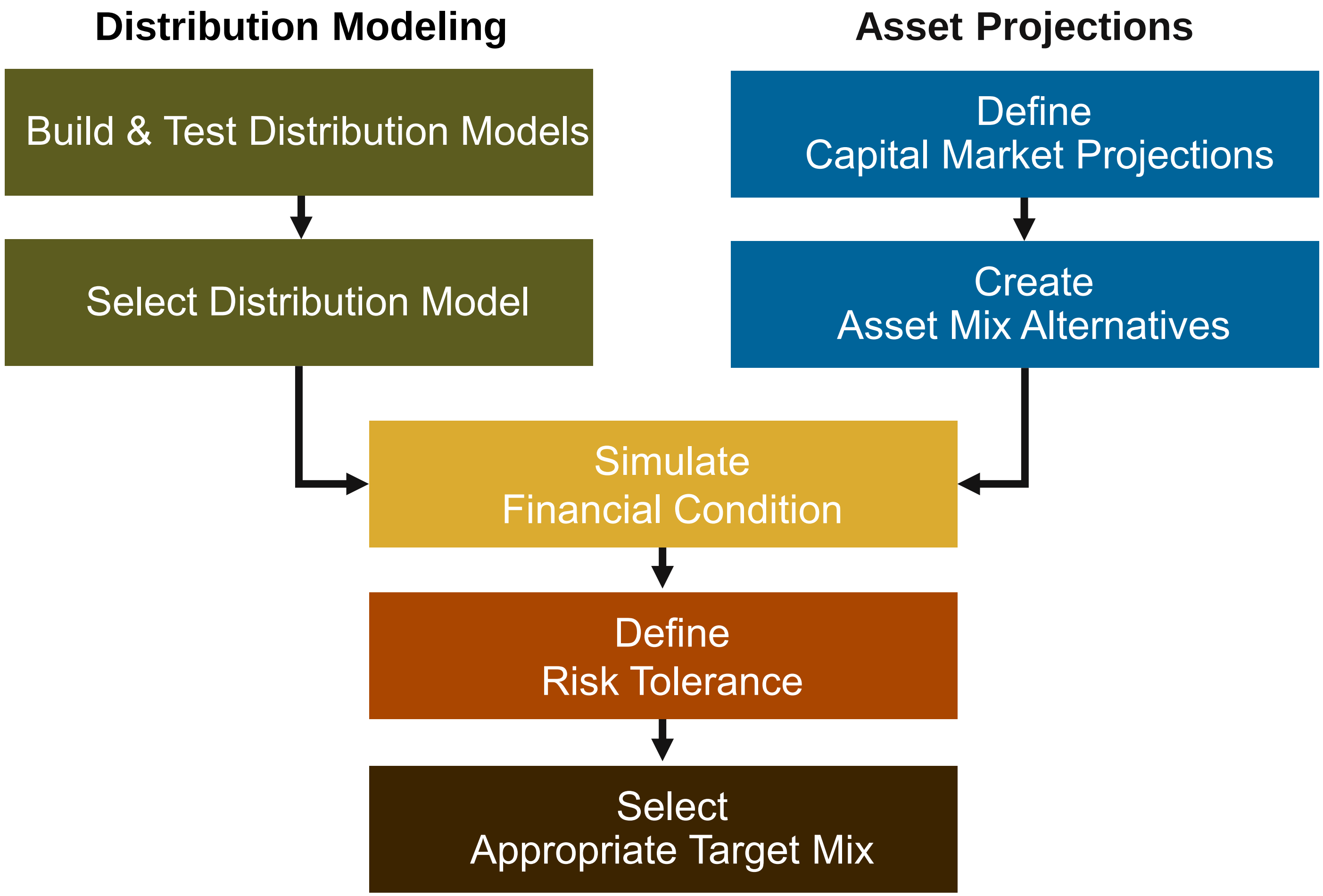
- What is the source of contributions?
- What level of contributions can be expected?

Distribution Policy

- What type of distribution policy?
- What level of distributions?

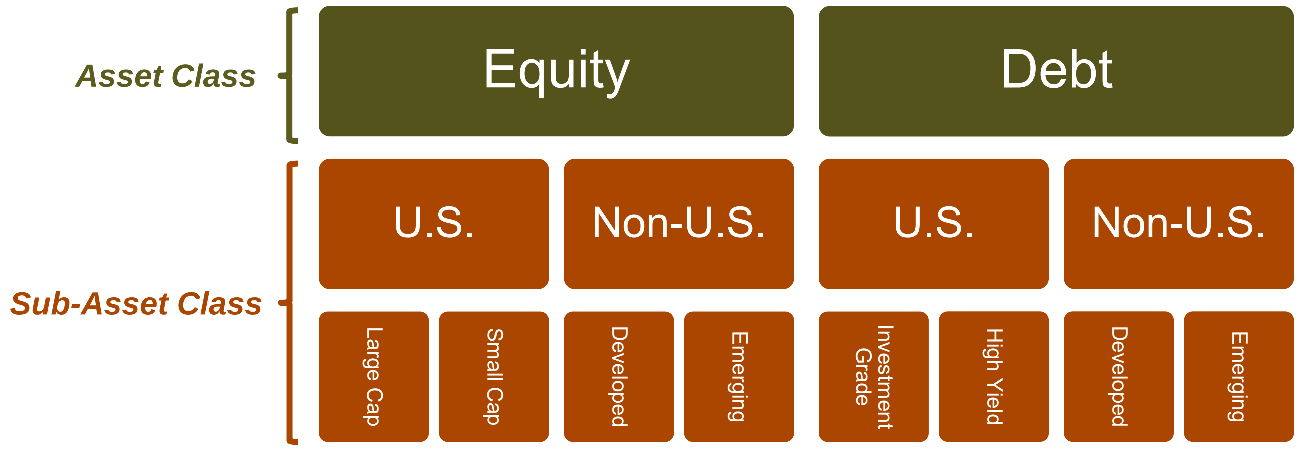
Asset Allocation and Distribution Process

- Distributions and assets are evaluated and tested separately, then integrated into a single model.



The Focus is on Broad Asset Classes

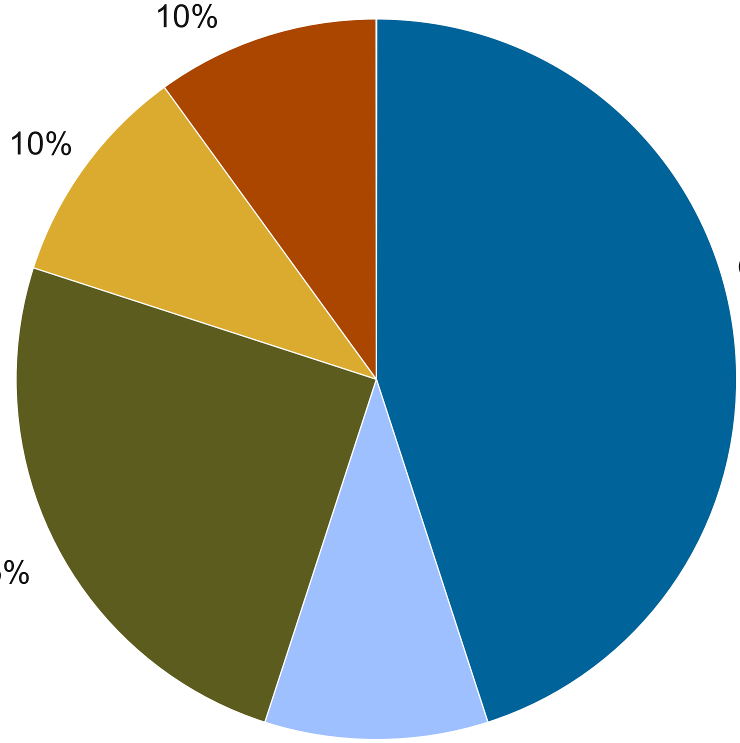
- Breakdowns between investment styles within asset classes (growth vs. value, large cap vs. small cap) are best addressed in a manager structure analysis.
  - Asset allocation assumes a net-of-fee investment in the relevant index fund (passive management).
  - Manager structure reflects the investor's decision about the use of active and/or passive management within an asset class; the number of different mandates within the asset class; the styles within the asset class; and whether or not to implement "tilts" that differ from the broad asset class benchmark.
- Primary asset classes and important sub-asset classes include:
  - U.S. stocks
  - U.S. bonds
  - Non-U.S. stocks
  - Non-U.S. bonds
  - Alternative investments
    - *Real estate*
    - *Private equity*
    - *Hedge funds*
  - Cash



Current Situation and Assumptions

- The Fund has approximately $1.676 billion in assets as of December 31, 2017.
- The Target asset allocation is 55% equity (45% public and 10% private), 25% fixed income, 10% real estate, and 10% diversifying strategies.
- Distributions in recent years have equaled 4-5% of the three-year average market value.
- Oregon student population growth is projected to grow at an annualized rate of 0.7% over the next 35 years versus approximately 0.2% for the nation as a whole.
- Net unclaimed property inflows are expected to be $32.5 million in 2018 and grow by 2.5% per year.
- Outflows beyond the distribution policy include investment and operating expenses and the annual transfer to the School Districts Unfunded Liability Fund.

Target Allocation



Expected Return = 6.5%
Expected Risk = 13.4%

Current Distribution Policy

Overview

- The current policy distributes 4% of the 3-year average market value if the annual percentage growth in the 3-year average market value is less than 11%.
- If the annual percentage growth in the 3-year average market value is 11% or more the Fund will distribute 5% of the 3-year average market value.
  - The distribution rate mechanism is tied to the change in the 3-year average market which is influenced not only by investment performance but by contributions and distributions.
- Below is an ***example*** of the distribution calculation for fiscal year 2017.

FY17 Distribution					
December 31	Market Value	3 Year Avg MV	Change in 3 Yr Avg MV	4%	5%
2012	1,178,826,000	1,119,481,333	5.41%	44,779,253	55,974,067
2013	1,362,190,000	1,204,259,333	7.57%	48,170,373	60,212,967
2014	1,433,677,000	1,324,897,667	10.02%	52,995,907	66,244,883
2015	1,424,195,000	1,406,687,333	6.17%	56,267,493	70,334,367

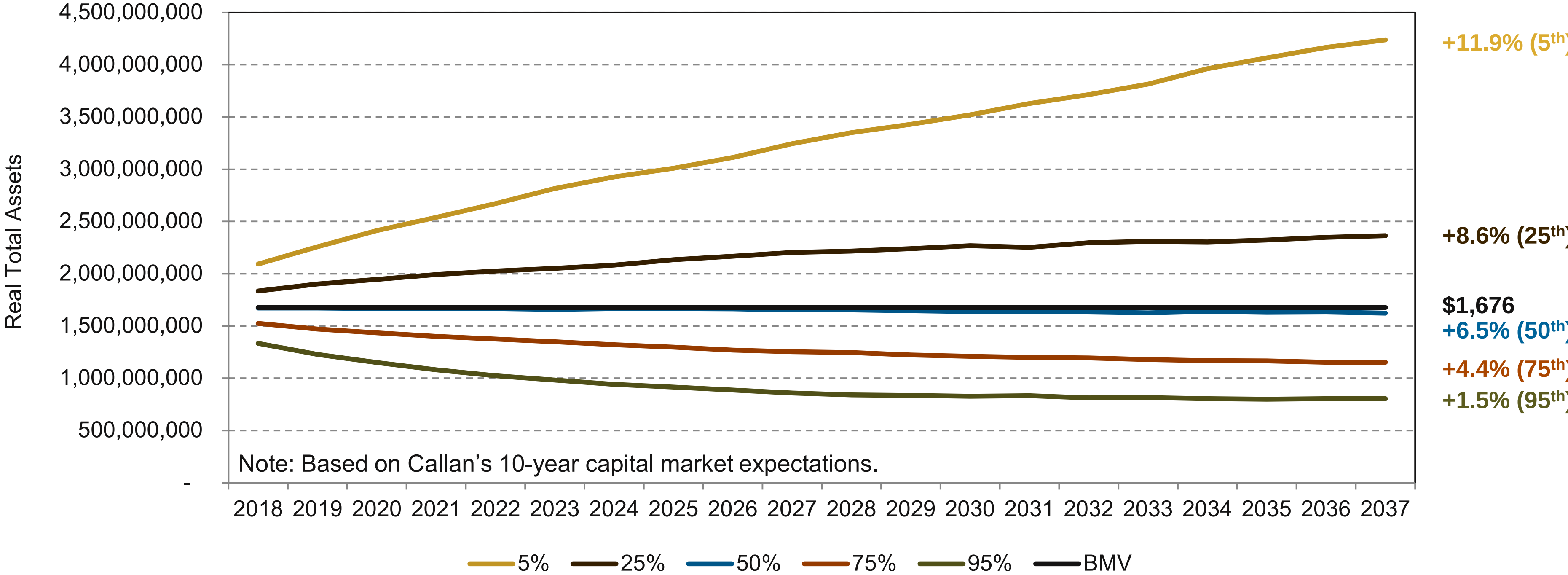
Senate Bill 1566

Overview

- Senate Bill 1566 was passed on March 3, 2018.
- Section 22 of the bill outlines the procedure for annual transfers from the Common School Fund to the School Districts Unfunded Liability Fund:
  - (1) On January 1 of each year, the Department of State Lands shall transfer from the Common School Fund Account to the School Districts Unfunded Liability Fund established in section 24 of this 2018 Act all or part of the interest earned in the previous calendar year from the cumulative unclaimed property deposited in the Common School Fund Account under ORS 98.386 to which the state has not taken title, as described in subsection (2) of this section.
  - (2) The amount made available under subsection (1) of this section may not exceed an amount equal to the proceeds from unclaimed property received by the department in the previous calendar year, minus: (a) The amount paid for unclaimed property claims under ORS 98.396 in the previous calendar year; (b) The department's investment expenses related to the Common School Fund for the previous calendar year; and (c) Operating expenses that the department is entitled to recover for the previous calendar year.
- These new outflows have been factored into the analysis that follows in order to determine their impact on setting an appropriate distribution rate.

Real Assets

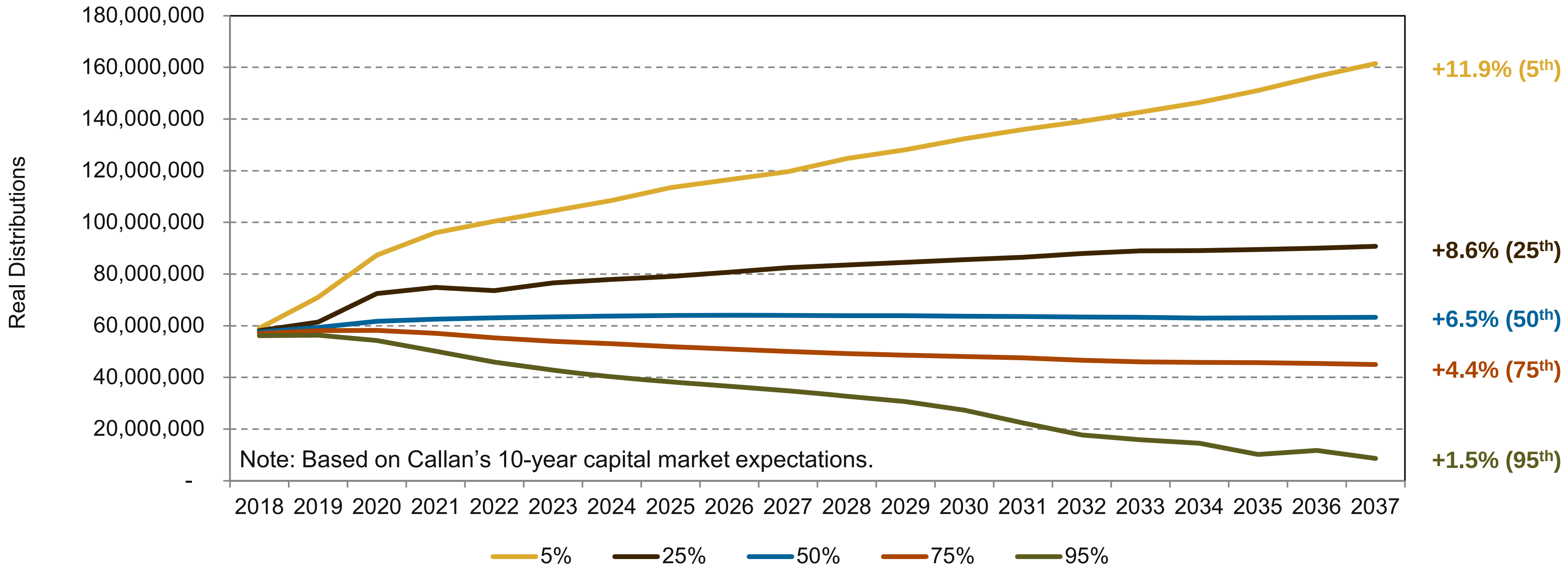
Current Distribution Policy and Target Asset Allocation



- The graph above discounts nominal values by price inflation and student population growth.
  - Callan's price inflation (CPI-U) forecast is 2.25%.
  - Oregon student population growth is projected to grow at an annualized rate of 0.7% over the next 35 years versus approximately 0.2% for the nation as a whole.
- The real value of the corpus is expected (median-case outcome) to decline gradually over the next 20 years given the passage of Senate Bill 1566.

Real Distributions

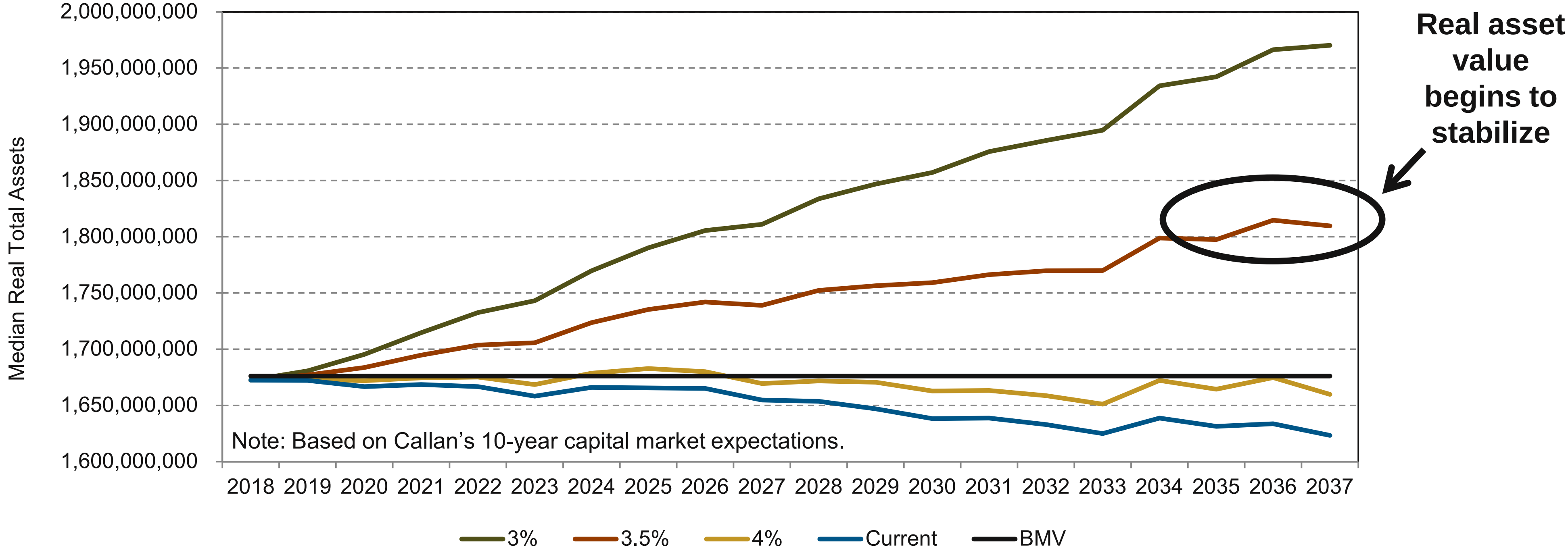
Current Distribution Policy and Target Asset Allocation



- The graph above discounts nominal values by price inflation (2.25%) and student population growth (0.70%).
- Given the expected decline in the real value of the corpus, it's not surprising that annual real distributions are also expected to gradually decline over time.

Median Real Assets

Various Distribution Policies and Target Asset Allocation



- The current distribution policy distributes 4% of the 3-year average market value unless the annual percentage growth in the 3-year average market value is 11% or more in which case the Fund distributes 5% of the 3-year average market value.
- Both the current distribution policy and a flat 4% distribution rate (also applied to the 3-year average market value) result in declining real asset values.
- A 3.5% distribution rate (applied to the 3-year average market value) was found to maintain a relatively stable real asset value over time, while a 3% distribution rate resulted in rising real asset values.

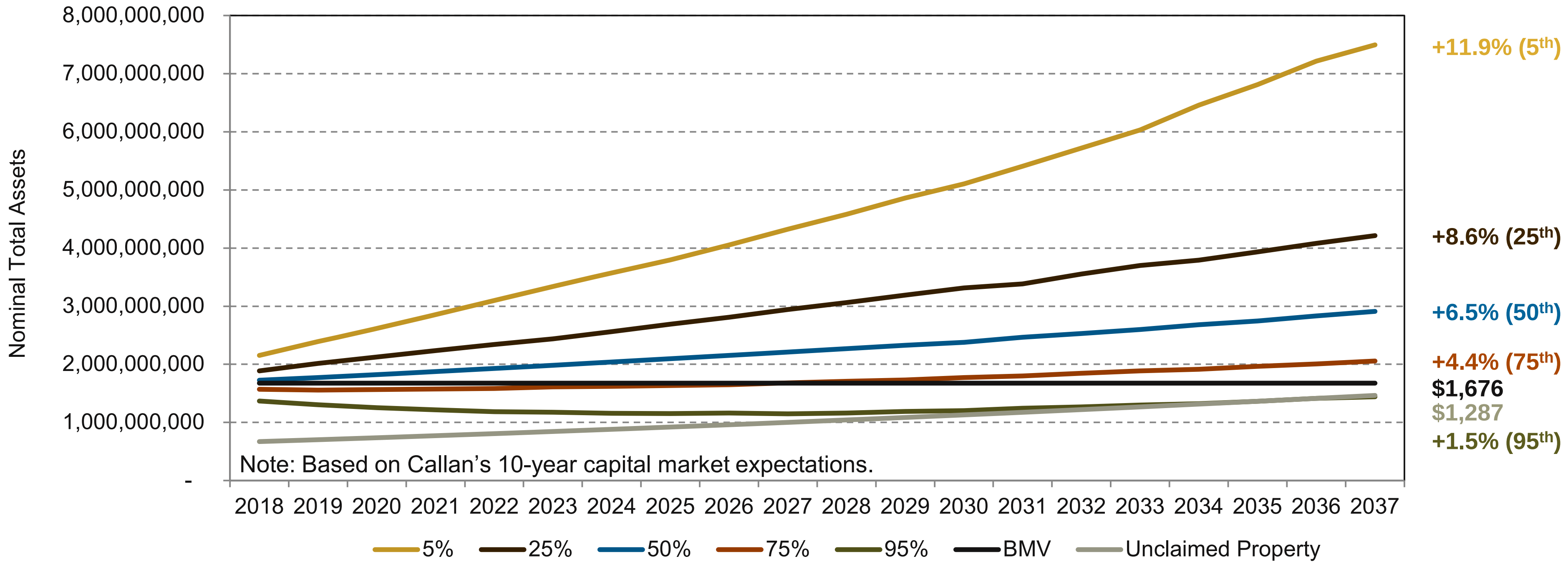
Summary Conclusions

- With the passage of Senate Bill 1566, the real value of the Fund is expected (median-case outcome) to gradually decline over the next 20 years under the current distribution policy and under a flat 4% distribution rate (applied to the 3-year average market value).
- Projections indicate that 3.5% would be the maximum distribution rate to maintain a relatively stable real asset value over time.
- Note that Callan's 10-year expectations were utilized for the entire projection period.

Appendix

Nominal Assets (Millions)

Current Distribution Policy



- The above chart compares the nominal value of the Fund to the value of unclaimed property.
  - Unclaimed property grows from $637 million at December 31, 2017 to $1.467 billion at December 31, 2037.
- Unclaimed property cannot be distributed.
- Distributions would be limited or curtailed in the event the value of the Fund neared or fell below the value of unclaimed property.
- Unclaimed property and the value of the Fund at the 95th percentile merge in 2035.

How are Capital Market Projections Constructed?

Guiding Objectives and Process

- Projections consist of return and two measures that contribute to portfolio volatility: standard deviation and correlation.
- Projections cover most broad asset classes and inflation.
- Underlying beliefs guide the development of the projections:
  - An initial bias toward long-run averages
  - A conservative bias
  - An awareness of risk premiums
  - A presumption that markets ultimately clear and are rational
- Reflect our beliefs that long-term equilibrium relationships between the capital markets and lasting trends in global economic growth are key drivers to setting capital market expectations.
- Long-term compensated risk premiums represent “beta”—exposure to each broad market, whether traditional or “exotic,” with limited dependence on successful realization of alpha.
- The projection process is built around several key building blocks:
  - Advanced modeling at the individual asset class level (for example, a detailed bond model, an equity model)
  - A path for interest rates and inflation
  - A cohesive economic outlook
  - A framework that encompasses Callan beliefs about the long-term operation and efficiencies of the capital markets

2018 Capital Market Projections

Return and Risk

- The basis for asset allocation are the long-term expected characteristics of each asset class and how they interact with one another.
- Public market expectations represent passive exposure (beta only).
- Return expectations for private market investments such as real estate and private equity reflect active management premiums.
- All return expectations are net of fees.

Summary of Callan's Long-Term Capital Market Projections (2018 - 2027)

Asset Class	Index	Projected Return*	Projected Risk
Equities			
Broad Domestic Equity	Russell 3000	6.85%	18.25%
Large Cap	S&P 500	6.75%	17.40%
Small/Mid Cap	Russell 2500	7.00%	22.60%
Global ex-US Equity	MSCI ACWI ex USA	7.00%	21.00%
International Equity	MSCI World ex USA	6.75%	19.70%
Emerging Markets Equity	MSCI Emerging Markets	7.00%	27.45%
Fixed Income			
Short Duration	Bloomberg Barclays 1-3 Yr G/C	2.60%	2.10%
Domestic Fixed	Bloomberg Barclays Aggregate	3.00%	3.75%
Long Duration	Bloomberg Barclays Long G/C	3.00%	10.95%
TIPS	Bloomberg Barclays TIPS	3.00%	5.25%
High Yield	Bloomberg Barclays High Yield	4.75%	10.35%
Non-US Fixed	Bloomberg Barclays Glbl Agg xUSD	1.40%	9.20%
Emerging Market Debt	EMBI Global Diversified	4.50%	9.60%
Other			
Real Estate	Callan Real Estate Database	5.75%	16.35%
Private Equity	TR Post Venture Capital	7.35%	32.90%
Hedge Funds	Callan Hedge FoF Database	5.05%	9.15%
Commodities	Bloomberg Commodity	2.65%	18.30%
Cash Equivalents	90-Day T-Bill	2.25%	0.90%
Inflation	CPI-U	2.25%	1.50%

** Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).*

2018 Capital Market Expectations

Correlations

Summary of Callan's Long-Term Capital Market Projections (2018 - 2027)

	Correlation Matrix	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	Broad Domestic Equity	1.00																		
2	Large Cap	1.00	1.00																	
3	Small/Mid Cap	0.97	0.94	1.00																
4	Global ex-US Equity	0.87	0.87	0.84	1.00															
5	International Equity	0.84	0.84	0.80	0.99	1.00														
6	Emerging Markets Equity	0.87	0.86	0.85	0.94	0.87	1.00													
7	Short Duration	-0.25	-0.24	-0.27	-0.27	-0.25	-0.29	1.00												
8	Domestic Fixed	-0.11	-0.10	-0.14	-0.13	-0.11	-0.16	0.87	1.00											
9	Long Duration	0.11	0.11	0.10	0.08	0.09	0.04	0.74	0.93	1.00										
10	TIPS	-0.05	-0.05	-0.08	-0.05	-0.03	-0.09	0.53	0.60	0.53	1.00									
11	High Yield	0.64	0.64	0.61	0.63	0.61	0.62	-0.14	0.02	0.19	0.06	1.00								
12	Non-US Fixed	0.01	0.05	-0.10	0.01	0.06	-0.09	0.48	0.51	0.54	0.34	0.12	1.00							
13	EMD	0.57	0.57	0.56	0.58	0.55	0.58	-0.04	0.10	0.14	0.18	0.60	0.01	1.00						
14	Real Estate	0.73	0.73	0.71	0.68	0.66	0.65	-0.17	-0.03	0.17	0.00	0.56	-0.05	0.44	1.00					
15	Private Equity	0.95	0.95	0.92	0.93	0.90	0.91	-0.26	-0.20	0.00	-0.11	0.64	-0.06	0.57	0.72	1.00				
16	Hedge Funds	0.80	0.80	0.77	0.76	0.73	0.76	-0.13	0.08	0.29	0.08	0.57	-0.08	0.54	0.61	0.78	1.00			
17	Commodities	0.15	0.15	0.15	0.16	0.16	0.16	-0.22	-0.10	-0.04	0.12	0.10	0.05	0.19	0.20	0.18	0.21	1.00		
18	Cash Equivalents	-0.04	-0.03	-0.08	-0.04	-0.01	-0.10	0.30	0.10	-0.04	0.07	-0.11	-0.09	-0.07	-0.06	0.00	-0.07	0.07	1.00	
19	Inflation	-0.01	-0.02	0.02	0.01	0.00	0.03	-0.20	-0.28	-0.29	0.18	0.07	-0.15	0.00	0.10	0.06	0.20	0.40	0.00	1.00

- "Correlations" measure relationships between asset classes.
- These relationships will have a significant impact on the generation of efficient asset mixes using mean-variance optimization.
- Correlations are what define the diversification benefit – or lack thereof – of asset combinations.

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Internal Memorandum

To: Vicki L. Walker, Jean Straight, Bill Ryan, Star Thomson

From: Lee Hullinger

Date: May 15, 2018

RE: Opinion & Recommendations; Callan Distribution Study for CSF; June 2018

Objective:

Callan authored the *Oregon Common School Fund (CSF) Asset Allocation and Distribution Study: 2018 Update* that was provided to the Oregon Department of State Lands (DSL) on May 11, 2018. This memorandum is written to provide my opinions regarding the Callan Distribution Study and related Senate Bill (SB) 1566, provide financial modeling scenarios, and then provide a recommendation for a sustainable annual distribution rate from the CSF, and rationale supporting that recommendation.

Approach:

The approach taken in this memorandum is from an actuarial point of view with an overriding reminder of the mission statement of DSL, *"to ensure a Common School Fund legacy through sound management of our trust responsibilities and the protection of waters of the state."* When I speak of an actuarial point of view, I mean that the financial modeling scenarios in this analysis are very similar to that of pricing property and casualty insurance in the private sector where a company has an investment portfolio and expected returns, daily operating expenses to cover, obligations to fund a "reserve" to pay for future claims, and ultimately price insurance policies (on a competitive basis) to cover all costs and obligations, provide a return to stockholders, and still ensure the company has a positive margin at the end of the day to fund growth and ensure sustainability.

Senate Bill 1566:

Opinion: I understand the intent of Enrolled SB 1566 and the purpose of the bill. Callan does an excellent job in outlining the bill, it's impact on CSF distributions, and providing their personal overview. That being said, there is some ambiguity in the language of the bill that I highly recommend needs revised.

Specifically, SB 1566 states in Section 22. (1): On January 1 of each year, the Department of State Lands shall transfer from the Common School Fund Account to the School Districts Unfunded Liability Fund established in section 24 of this 2018 Act all or part of the interest earned in the previous calendar year from the cumulative unclaimed property deposited in the Common School Fund Account under ORS.98.386 to which the state has not taken title, as described in subsection (2) of this section.

While the intention of SB 1556 is clear and understood, it is not feasible or realistic to have a 1-day turnaround time for calculations of interest earned in the previous calendar year, and then paid out the next day on January 1st.

Recommendation: Revise the language of SB 1566 to state, "On January 1 of each year, the Department of State Lands shall transfer from the Common School Fund……….all or part of the interest earned in the previous fiscal year (i.e. June 30th financial close). The fiscal year end measurement date will provide a 6-month turnaround time to make the fund transfer, provide alignment with audited financial statement calculations, and allow DSL the feasibility in complying with SB 1566.

Callan's Oregon Common School Fund (CSF) Asset Allocation and Distribution Study; 2018 Update:

As Callan states in its study, "the goal of this asset allocation and distribution study is to identify appropriate long-term distribution and investment policies for the Oregon Common School Fund. This presentation focuses on the distribution rate in light of passage of Senate Bill 1566 which calls for annual transfers from the Common School Fund to the School Districts Unfunded Liability Fund."

Current Distribution Policy: the current policy distributes 4% of the 3-year average market value if the annual growth in the 3-year average market value is less than 11%. If the annual percentage growth in the 3-year average market value is 11% or more, the Fund will distribute 5% of the 3-year average market value.

Per Callan, "the real value of the corpus is expected (median-case outcome) to decline gradually over the next 20 years given the passage of Senate Bill 1566. Both the current distribution policy and a flat 4% distribution rate result in a declining real asset values."

Callan continues, "A 3.5% distribution rate (applied to the 3-year average market value) was found to maintain a relatively stable real asset value over time, while a 3% distribution rate resulted in rising real asset values."

Callan Summary Conclusion & Recommendation: "Projections indicate that 3.5% would be the maximum distribution rate to maintain a relatively stable real asset value over time."

Opinion:

The passage of SB 1566 essentially provides another bucket to fill from the CSF for benefit of Oregon's Department of Education. So, the traditional CSF annual distribution bucket now has a companion SB 1566 bucket that both need to be funded for annual distributions to benefit the State's Schools. Simply put, the traditional 4% distribution rate must be compared to the combination of (1) the newly recommended CSF distribution rate, PLUS (2) the CSF distribution rate for PERS contributions resulting from SB 1566.

Comparative Analysis:

Current 4% CSF Distribution Rate	***versus***	**Newly Recommended CSF Distribution Rate**
		PLUS
		CSF Distribution Rate for SB 1566 (State's School Unfunded Liability Fund)

In running several different simulations of various CSF distribution rates (3.0%, 3.25%, 3.5%) with different annual contributions ($20 million per year, $25 million per year) ear-marked for SB 1566, the following confidence levels and recommended CSF distribution rate resulted.

Confidence Level Intervals & Recommended CSF Distribution Rate:

In my opinion, the following CSF distribution rates are provided with respective confidence levels of that rate being sustainable and the CSF corpus remaining intact during the tenure of SB 1566 (set to sunset January 2, 2027).

CSF Annual Distribution Rate	Confidence Level Rate is Sustainable; CSF Corpus Intact
3.50 %	75%
3.25 %	85%
3.00 % * recommended	95%

Pricing Scenarios and Analysis:

SB 1566 Impact: The first step taken in the analysis of pricing scenarios was to look at the impact of SB 1566 as an expected percentage "add-on" to the CSF annual distribution rate. DSL did a hypothetical "look back" scenario over the past four (4) fiscal years 2014, 2015, 2016, and 2017 and modeled an "if-then" scenario to measure the impact of SB 1566 had it been in effect at those times.

Note: the estimated transfer to PERS for benefit of the State School Unfunded Liabilities Fund is the lessor of (1) the total Unclaimed Property Net Investment Earnings (Losses), and (2) the Net Inflow of Unclaimed Property less investment expenses and operating expenses. The following table provides the results of the "look back" scenarios for fiscal years 2014 through 2017:

	Fiscal Year-Ending			
	2017	**2016**	**2015**	**2014**
Estimated Transfer to PERS:	$26,853,344	$ 0	$23,360,252	$38,271,450

4-year Average: $22,121,261

Based on the 4-year average of $22.1 million for the estimated transfer to PERS each year, the following two levels of annual CSF contributions were analyzed in the pricing scenarios attributable to the passage of SB 1566:

- $20 million per year
- $25 million per year

Pricing Scenario 1: Annual CSF Distribution Rate of 3.5% (as recommended by Callan); $20m PERS

The same projected market values for CSF balances and rolling 3-year rolling averages were used in all of the following scenarios to provide an apples-to-apples comparison of the various CSF distribution rates and projected PERS distributions of $20 million per year for the State's School Unfunded Liability Fund.

Projected Common School Fund
(3-year Rolling Average Base) **Delta = net amount or net change**

Dec. 31st	Market Value	3.5% CSF Distribution	PERS SSF	Total Dist.	%	"Delta" over 4%
2018	1,629,540,330	57,033,912	20,000,000	77,033,912	4.73%	11,852,298

2019	1,742,171,645	60,976,008	20,000,000	80,976,008	4.65%	11,289,142
2020	1,803,178,359	63,111,243	20,000,000	83,111,243	4.61%	10,984,108
2021	1,859,855,028	65,094,926	20,000,000	85,094,926	4.58%	10,700,725
2022	1,918,968,794	67,163,908	20,000,000	87,163,908	4.54%	10,405,156
2023	1,980,624,452	69,321,856	20,000,000	89,321,856	4.51%	10,096,878
2024	2,044,931,304	71,572,596	20,000,000	91,572,596	4.48%	9,775,343
2025	2,112,003,350	73,920,117	20,000,000	93,920,117	4.45%	9,439,983
					Total	**$ 84,543,634**

Pricing Scenario 2: Annual CSF Distribution Rate of 3.25%; $20m PERS

Projected Common School Fund
(3-year Rolling Average Base)

Delta = net amount or net change

Dec. 31st	Market Value	3.25% CSF Distribution	PERS SSF	Total Dist.	%	"Delta" over 4%
2018	1,629,540,330	52,960,061	20,000,000	72,960,061	4.48%	7,778,448
2019	1,742,171,645	56,620,578	20,000,000	76,620,578	4.40%	6,933,713
2020	1,803,178,359	58,603,297	20,000,000	78,603,297	4.36%	6,476,162
2021	1,859,855,028	60,445,288	20,000,000	80,445,288	4.33%	6,051,087
2022	1,918,968,794	62,366,486	20,000,000	82,366,486	4.29%	5,607,734
2023	1,980,624,452	64,370,295	20,000,000	84,370,295	4.26%	5,145,317
2024	2,044,931,304	66,460,267	20,000,000	86,460,267	4.23%	4,663,015
2025	2,112,003,350	68,640,109	20,000,000	88,640,109	4.20%	4,159,975
					Total	**$ 46,815,451**

Pricing Scenario 3: Annual CSF Distribution Rate of 3.00%; $20m PERS

Projected Common School Fund
(3-year Rolling Average Base)

Delta = net amount or net change

Dec. 31st	Market Value	3.00% CSF Distribution	PERS SSF	Total Dist.	%	"Delta" over 4%
2018	1,629,540,330	48,886,210	20,000,000	68,886,210	4.23%	3,704,597
2019	1,742,171,645	52,265,149	20,000,000	72,265,149	4.15%	2,578,284
2020	1,803,178,359	54,095,351	20,000,000	74,095,351	4.11%	1,968,216
2021	1,859,855,028	55,795,651	20,000,000	75,795,651	4.08%	1,401,450
2022	1,918,968,794	57,569,064	20,000,000	77,569,064	4.04%	810,312
2023	1,980,624,452	59,418,734	20,000,000	79,418,734	4.01%	193,755
2024	2,044,931,304	61,347,939	20,000,000	81,347,939	3.98%	(449,313)
2025	2,112,003,350	63,360,100	20,000,000	83,360,100	3.95%	(1,120,033)
					Total	**$ 9,087,267**

Pricing Scenario 4: Annual CSF Distribution Rate of 3.5% (as recommended by Callan); $25m PERS

The same projected market values for CSF balances and rolling 3-year rolling averages were used in all of the following scenarios to provide an apples-to-apples comparison of the various CSF distribution rates and projected PERS distributions of $25 million per year for the State's School Unfunded Liability Fund.

Projected Common School Fund
(3-year Rolling Average Base) **Delta = net amount or net change**

Dec. 31st	Market Value	3.5% CSF Distribution	PERS SSF	Total Dist.	%	"Delta" over 4%
2018	1,629,540,330	57,033,912	25,000,000	82,033,912	5.03%	16,852,298
2019	1,740,433,311	60,915,166	25,000,000	85,915,166	4.94%	16,297,833
2020	1,797,888,610	62,926,101	25,000,000	87,926,101	4.89%	16,010,557
2021	1,849,122,820	64,719,299	25,000,000	89,719,299	4.85%	15,754,386
2022	1,902,560,102	66,589,604	25,000,000	91,589,604	4.81%	15,487,199
2023	1,958,295,186	68,540,332	25,000,000	93,540,332	4.78%	15,208,524
2024	2,016,426,879	70,574,941	25,000,000	95,574,941	4.74%	14,917,866
2025	2,077,058,235	73,920,117	25,000,000	98,920,117	4.70%	14,614,709
					Total	**$ 125,143,373**

Pricing Scenario 5: Annual CSF Distribution Rate of 3.25%; $25m PERS

Projected Common School Fund
(3-year Rolling Average Base) **Delta = net amount or net change**

Dec. 31st	Market Value	3.25% CSF Distribution	PERS SSF	Total Dist.	%	"Delta" over 4%
2018	1,629,540,330	52,960,061	25,000,000	77,960,061	4.78%	12,778,448
2019	1,740,433,311	56,564,083	25,000,000	81,564,083	4.69%	11,946,750
2020	1,797,888,610	58,431,380	25,000,000	83,431,380	4.64%	11,515,835
2021	1,849,122,820	60,096,492	25,000,000	85,096,492	4.60%	11,131,579
2022	1,902,560,102	61,833,203	25,000,000	86,833,203	4.56%	10,730,799
2023	1,958,295,186	63,644,594	25,000,000	88,644,594	4.53%	10,312,786
2024	2,016,426,879	65,533,874	25,000,000	90,533,874	4.49%	9,876,798
2025	2,077,058,235	67,504,393	25,000,000	92,504,393	4.45%	9,422,063
					Total	**$ 87,715,059**

Pricing Scenario 6: Annual CSF Distribution Rate of 3.00%; $25m PERS

Projected Common School Fund
(3-year Rolling Average Base) **Delta = net amount or net change**

Dec. 31st	Market Value	3.00% CSF Distribution	PERS SSF	Total Dist.	%	"Delta" over 4%
2018	1,629,540,330	48,886,210	25,000,000	73,886,210	4.53%	8,704,597
2019	1,740,433,311	52,212,999	25,000,000	77,212,999	4.44%	7,595,667
2020	1,797,888,610	53,936,658	25,000,000	78,936,658	4.39%	7,021,114
2021	1,849,122,820	55,473,685	25,000,000	80,473,685	4.35%	6,508,772

2022	1,902,560,102	57,076,803	25,000,000	82,076,803	4.31%	5,974,399
2023	1,958,295,186	58,748,856	25,000,000	83,748,856	4.28%	5,417,048
2024	2,016,426,879	60,492,806	25,000,000	85,492,806	4.24%	4,835,731
2025	2,077,058,235	62,311,747	25,000,000	87,311,747	4.20%	4,229,418
					Total	**$ 50,286,745**

Summary Recommendations & Rationale:

When one compares the total distribution rate (CSF distribution rate plus the CSF distribution for PERS benefiting the State's School Districts Unfunded Liability Fund) on a percentage basis versus the current policy of 4%, the recommendation from Callan for a 3.50% distribution rate with the PERS distributions stemming from SB 1566 puts the total distribution rate from 4.45% - 5.03% each year which I consider on the risky side and unsustainable for the long term. Just my opinion.

Rather, a CSF distribution rate of 3.00% along with the PERS distributions for SB 1566 puts a total distribution rate from 3.95% - 4.53% more closely in line to the current policy of 4% and a rate that I believe to be financially sound and keeping the CSF on track with current policy and in alignment with the mission of DSL. Again, just my opinion.

Here is a summary table of the total distribution rates for the respective pricing scenarios over the life of SB 1566 (scheduled to sunset on January 2, 2027):

CSF Dist. Rate	SB 1566 PERS Dist. Annually	Projected Total CSF Distribution Rate Range
3.50 %	$ 20 million	4.45% - 4.73%
3.25 %	$ 20 million	4.20% - 4.48%
3.00 % *	$ 20 million	3.95% - 4.23%
3.50 %	$ 25 million	4.70% - 5.03%
3.25 %	$ 25 million	4.45% - 4.78%
3.00 % *	$ 25 million	4.20% - 4.53%

* recommended CSF distribution rate of 3.00%

Recommendation 1:

I recommend that DSL recommend to the Oregon State Land Board a CSF annual distribution rate of 3.00 % in addition to the PERS distributions for the State's School Districts Unfunded Liability Fund to keep the CSF on track with current policy, ensure compliance with Senate Bill 1566, and keeping the CSF in alignment with the mission of DSL serving as fiduciary of the CSF.

Recommendation 2:

I recommend that DSL pursue a revision to the language of SB 1566 to read, "On January 1 of each year, the Department of State Lands shall transfer from the Common School Fund……….all or part of the interest earned in the previous fiscal year (i.e. June 30th financial close)." The fiscal year end measurement date will provide a 6-month turnaround time to make the fund transfer, provide alignment with audited financial statement calculations, and allow DSL the feasibility to comply with SB 1566.

Lee Hullinger
Finance & Budget

Common School Fund Distribution – PERS

The Common School Fund (CSF) distribution to PERS is a new distribution beginning in January 2019 and the full amount will be paid once per calendar year. ***Please note:*** under certain scenarios, the calculated amount of the CSF distribution may be zero whereas no distribution would be made to PERS for that calendar year.

The CSF distribution to PERS results from SB 1566 which became law in the 79th Oregon Legislative Assembly – 2018 Regular Session that directs DSL to provide a CSF distribution to PERS for deposit into the state school districts' unfunded liability fund if an amount is determined to be owed per a structured calculation as noted in SB 1566.

As seen on the "One-Pager" on page 35, the calculation for the CSF distribution to PERS is more complex than the distribution for the Department of Education as documented in earlier sections of this report.

The "One-Pager" highlights the calculation of this distribution as the ***lessor*** of two separate computations:

Section A – ***Unclaimed Property Net Investment Earnings***

or

Section B – *Unclaimed Property Net Cash Inflows*

less *CSF statutory expenses net of statutory revenue*

less *CSF investment expenses*

= ***Unclaimed Property Net Inflows less expenses***

The following pages provide additional information and supporting documentation:

Page 35 – Common School Fund Distribution to PERS (SB 1566) "One-Pager"

Page 36 – PERS Distribution (SB 1566) Calculation - $11,539,471

Pages 37 thru 43 – Senate Bill 1566

Page 44 thru 51 – Common School Fund Investment Statement and Internal Work Papers Highlighting Source Documents for all numbers utilized in the PERS Distribution (SB 1566) calculation

Common School Fund Distribution to PERS; Senate Bill 1566

When Measured and Calculated?	At conclusion of fiscal year-end (June 30th) audited financial statements for the Common School Fund (CSF)
What is Calculated?	The annual distribution amount to be paid in January of the next year
How is it Paid?	The annual distribution amount is paid to PERS in January of the next year
What is the Calculation Methodology?	**The lessor of (a) or (b):** **(a)** investment earnings of Unclaimed Property's (U/P) pro-rata share of the CSF market portfolio (**b**) Unclaimed Property's Net Inflows less statutory operating expenses less CSF investment expenses

Example:

	(a)	
1	**U/P's pro-rata share of CSF investment portfolio**	**$600 million**
2	**Investment Rate of Return**	**4%**
3	**Investment Earnings**	**$24 million**
	Calculations	*1a times 2a = 3a*

or

	(b)		
4	**U/P Inflows (receipts)**		**$60 million**
5	**U/P Outflows (claims)**	minus	**$32 million**
6	**U/P Net Inflows**	=	**$28 million**
7	**CSF Operating Expenses (statutory expenses net of statutory revenue)**	minus	**$8 million**
8	**CSF Investment Expenses**	minus	**$5 million**
9	**U/P Net Inflows less expenses**	=	**$15 million** *
	Calculations		*4b minus 5b = 6b* *6b minus 7b minus 8b = 9b*

* **Since $15 million is less than $24 million, the Senate Bill 1566 payment would be $15 million in this example**

Distribution Policy

In March 2018, the Oregon Legislative Assembly passed Senate Bill 1566 which is a new CSF distribution to be paid to PERS on behalf of the School Districts' Unfunded Liability Fund; first distribution in January 2019

Prepared by: Lee Hullinger 10.12.2018

Department of State Lands
PERS Distribution Calculation
Senate Bill 1566

		Fiscal Year Ending June 30, 2018
CSF Investment Balances		
Investment Balance, CSF Corpus (Net Asset Value)		1,466,899,672
Investment Balance, Unclaimed Property		628,741,034
Unclaimed Property Percent Share of CSF Corpus		***42.86%***
CSF Investment Earnings		
Investment Earnings, CSF Corpus		128,651,773
Investment Earnings, Unclaimed Property	42.86% of CSF Corpus	55,142,591
CSF Investment Expenses		
Investment Expenses, CSF Corpus		8,432,751

Calculation of the PERS Distribution - SB 1566
- the lessor of Section A or Section B

Section A

Unclaimed Property Investment Earnings		55,142,591
Total Section A		**55,142,591**

Section B

Unclaimed Property Inflows (Receipts)		67,586,263
Unclaimed Property Outflows (Claims)	less	32,474,399
Unclaimed Property Net Inflows	=	**35,111,864**
Investment Expenses, CSF Corpus	less	**8,432,751**
CSF Statutory Operating Expenses Net of Statutory Revenue		
Unclaimed Property Administration		1,726,276
South Slough NERR Operations transfer out		950,000
Portland Harbor Superfund		2,675,644
Goble Derelict Vessel Removal		9,077,769
All Other Statutory Programs Expenses Net of Revenue		709,953
Total Statutory Expenses Net of Revenue	less	**15,139,642**
Total Section B	=	**11,539,471**

Transfer to PERS - as Section B is the lessor	**11,539,471**

Prepared By:
Lee Hullinger, Fiscal Manager
Star Thomson, CPA
Department of State Lands - 12/10/2018

Enrolled
Senate Bill 1566

Printed pursuant to Senate Interim Rule 213.28 by order of the President of the Senate in conformance with presession filing rules, indicating neither advocacy nor opposition on the part of the President (at the request of Governor Kate Brown)

CHAPTER ....

AN ACT

Relating to employer contributions to the Public Employees Retirement System; creating new provisions; amending section 31, chapter ___, Oregon Laws 2018 (Enrolled Senate Bill 1529); repealing sections 31a and 31b, chapter ___, Oregon Laws 2018 (Enrolled Senate Bill 1529); and prescribing an effective date.

Be It Enacted by the People of the State of Oregon:

EMPLOYER INCENTIVE FUND

SECTION 1. (1) The Employer Incentive Fund is established in the State Treasury, separate and distinct from the General Fund. Interest earned by the Employer Incentive Fund shall be credited to the fund, but interest earned may not be used under section 2 of this 2018 Act to match lump sum payments made under ORS 238.229.

(2) Moneys in the fund are continuously appropriated to the Public Employees Retirement Board for the purposes described in sections 2 and 26 of this 2018 Act.

SECTION 2. (1)(a) The Public Employees Retirement Board shall establish a process for distributing the moneys in the Employer Incentive Fund established under section 1 of this 2018 Act.

(b) The process must allow a participating public employer to apply to reserve matching amounts in the Employer Incentive Fund by committing to make a qualifying lump sum payment of at least $25,000 to an account established under ORS 238.229.

(2) The board shall adopt rules establishing:

(a) The percentage of a lump sum payment that may be matched by distributions from the fund, not to exceed 25 percent of a qualifying lump sum payment.

(b) The maximum matching amount that may be reserved by a participating public employer, not to exceed the greater of:

(A) Five percent of the unfunded actuarial liability attributable to the employer, as determined in the most recent report prepared under ORS 238.605; or

(B) $300,000.

(c) The qualifications for lump sum payments that may be matched under this section. The qualifications must include the following requirements:

(A) The participating public employer must apply to reserve matching funds no later than December 31, 2019.

(B) The participating public employer must make the qualifying lump sum payment no later than July 1, 2023.

(C) A qualifying lump sum payment may not be a payment from moneys borrowed by the employer.

(d) A requirement that the participating public employer participate in the Unfunded Actuarial Liability Resolution Program to develop a plan under section 26 of this 2018 Act.

(3)(a) The board may begin accepting applications under subsection (1) of this section on the date on which the board determines that there are sufficient moneys in the Employer Incentive Fund.

(b) For 180 days after the board begins accepting applications under subsection (1) of this section, a participating public employer may apply to reserve matching amounts from the Employer Incentive Fund under subsection (1) of this section only if the unfunded actuarial liability attributable to the employer, as determined in the most recent report prepared under ORS 238.605, is more than 200 percent of the employer's payroll for members of the Public Employees Retirement System.

(c) After the 180-day period described in paragraph (b) of this subsection, any participating public employer may apply to reserve matching funds from the Employer Incentive Fund under subsection (1) of this section.

(4) The board shall approve applications that meet the qualifications established under subsection (2) of this section in the order in which the applications are submitted. The board shall continue approving applications as long as moneys in the Employer Incentive Fund are available.

(5) The board shall transfer matching amounts approved under subsection (4) of this section from the Employer Incentive Fund to the approved employers' accounts established under ORS 238.229.

(6) The board may transfer moneys from the Employer Incentive Fund to the Public Employees Retirement Fund established under ORS 238.660 for crediting to the reserves for pension accounts and annuities as provided in ORS 238.670 (2).

(7) The board may use moneys in the Employer Incentive Fund for reasonable administrative costs incurred under this section.

<u>SECTION 3.</u> (1) Section 2 of this 2018 Act is repealed January 2, 2025.

(2)(a) The Employer Incentive Fund established under section 1 of this 2018 Act is abolished on January 2, 2025.

(b) The unexpended moneys remaining in the Employer Incentive Fund on January 2, 2025, shall be transferred to the General Fund.

AMORTIZATION PERIOD FOR LUMP SUM PAYMENTS

<u>SECTION 3a.</u> Section 3b of this 2018 Act is added to and made a part of ORS chapter 238.

<u>SECTION 3b.</u> If a participating public employer makes a lump sum payment from moneys not borrowed by the employer to an account established under ORS 238.229 in an amount equal to or greater than $10 million, the Public Employees Retirement Board shall allow the participating public employer to choose an amortization period of six years, 10 years, 16 years or 20 years for the use of the lump sum payment to offset contributions to the system that the public employer would otherwise be required to make for the liabilities against which the lump sum payment is applied.

<u>NOTE:</u> Sections 4 through 11 were deleted by amendment. Subsequent sections were not renumbered.

PROCEEDS FROM DEBT COLLECTION

SECTION 12. **(1) Not later than January 31 of each year, the Oregon Department of Administrative Services shall calculate:**

(a) The average amount per fiscal year collected by or on behalf of state agencies required to report under ORS 293.229 for liquidated and delinquent accounts owed to the General Fund during the three fiscal years preceding the immediately preceding fiscal year; and

(b) The amount collected by or on behalf of state agencies required to report under ORS 293.229 for liquidated and delinquent accounts owed to the General Fund during the immediately preceding fiscal year, as reported under ORS 293.229.

(2) If the amount calculated under subsection (1)(b) of this section exceeds the average calculated under subsection (1)(a) of this section, the department shall coordinate the transfer from the General Fund of an amount equal to the excess, less any amount required to be returned to taxpayers under ORS 291.349, to the School Districts Unfunded Liability Fund established in section 24 of this 2018 Act. The department shall coordinate the transfer of amounts required under this section at least once in each biennium.

SECTION 12a. **(1) The Oregon Department of Administrative Services shall make the first calculation under section 12 (1)(a) of this 2018 Act no later than January 31, 2019, for the three fiscal years beginning July 1, 2014.**

(2) Notwithstanding section 12 (2) of this 2018 Act, the department shall coordinate the first transfer of amounts required under section 12 (2) of this 2018 Act no later than January 31, 2020.

SECTION 12b. **Section 12 of this 2018 Act is repealed on December 31, 2024.**

PROCEEDS FROM CAPITAL GAINS TAX

SECTION 13. **(1) Not earlier than July 1 and not later than October 1 of the years 2019, 2021 and 2023, the division of the Oregon Department of Administrative Services that serves as office of economic analysis shall:**

(a) Calculate the rate of change in the tax liability from personal income taxes on taxable capital gains during the five preceding biennia; and

(b) Use the rate of change calculated under paragraph (a) of this subsection to forecast the tax liability from personal income taxes on taxable capital gains for the biennium beginning on July 1 of the year in which the calculation is made.

(2) Not later than November 1 of the odd-numbered year following each calculation under subsection (1) of this section, the Oregon Department of Administrative Services, in consultation with the Department of Revenue, shall estimate the tax liability from personal income taxes on taxable capital gains for the previous biennium.

(3) Not later than November 30 of the odd-numbered year in which the estimate is made under subsection (2) of this section, the Oregon Department of Administrative Services, in consultation with the Department of Revenue, shall determine whether the tax liability from personal income taxes on capital gains estimated under subsection (2) of this section, less any amount required to be returned to taxpayers under ORS 291.349, exceeds the tax liability from personal income taxes on taxable capital gains forecasted under subsection (1) of this section.

(4) Except as provided in subsection (5) of this section, the Department of Revenue shall transfer an amount equal to 25 percent of any excess calculated under subsection (3) of this section to the School Districts Unfunded Liability Fund established in section 24 of this 2018 Act.

(5) The Department of Revenue may not make a transfer under subsection (4) of this section if:

(a) The Legislative Assembly has appropriated moneys from the Oregon Rainy Day Fund under ORS 293.144 on or after the effective date of this 2018 Act; or

(b) The Public Employees Retirement System is more than 90 percent funded as determined in accordance with rules adopted by the Public Employees Retirement Board.

(6) The Department of Revenue shall retain unreceipted revenue from the tax imposed under ORS chapter 316 in an amount necessary to make the transfer required under subsection (4) of this section. The department shall make the transfer out of the unreceipted revenue in lieu of paying the revenue over to the State Treasurer for deposit in the General Fund.

SECTION 14. The division of the Oregon Department of Administrative Services that serves as office of economic analysis shall make the first calculation required under section 13 (1) of this 2018 Act not later than October 1, 2019. The calculation shall be for the five biennia beginning July 1, 2009.

PROCEEDS FROM ESTATE TAXES

SECTION 15. (1) Not earlier than July 1 and not later than October 1 of the years 2019, 2021 and 2023, the division of the Oregon Department of Administrative Services that serves as office of economic analysis shall:

(a) Calculate the rate of change in collections from estate taxes during the five preceding biennia; and

(b) Use the rate of change calculated under paragraph (a) of this subsection to forecast the collections from estate taxes for the biennium beginning on July 1 of the year in which the calculation is made.

(2) Not later than November 1 of the odd-numbered year following each calculation under subsection (1) of this section, the Oregon Department of Administrative Services, in consultation with the Department of Revenue, shall estimate the collections from estate taxes for the previous biennium.

(3) Not later than November 30 of the odd-numbered year in which the estimate is made under subsection (2) of this section, the Oregon Department of Administrative Services, in consultation with the Department of Revenue, shall determine whether the collections from estate taxes estimated under subsection (2) of this section exceed the collections from estate taxes forecasted under subsection (1) of this section.

(4) The Department of Revenue shall transfer an amount equal to the amount of any excess calculated under subsection (3) of this section, less any amount required to be returned to taxpayers under ORS 291.349, to the School Districts Unfunded Liability Fund established in section 24 of this 2018 Act.

(5) The Department of Revenue shall retain unreceipted revenue from estate taxes imposed under ORS 118.005 to 118.540 in an amount necessary to make the transfer required under subsection (4) of this section. The department shall make the transfer out of the unreceipted revenue in lieu of paying the revenue over to the State Treasurer for deposit in the General Fund.

SECTION 16. The division of the Oregon Department of Administrative Services that serves as office of economic analysis shall make the first calculation required under section 15 (1) of this 2018 Act not later than October 1, 2019. The calculation shall be for the five biennia beginning January 1, 2009.

NOTE: Sections 17 through 21 were deleted by amendment. Subsequent sections were not renumbered.

INTEREST FROM UNCLAIMED PROPERTY

SECTION 22. (1) On January 1 of each year, the Department of State Lands shall transfer from the Common School Fund Account to the School Districts Unfunded Liability Fund established in section 24 of this 2018 Act all or part of the interest earned in the previous cal-

endar year from the cumulative unclaimed property deposited in the Common School Fund Account under ORS 98.386 to which the state has not taken title, as described in subsection (2) of this section.

(2) The amount made available under subsection (1) of this section may not exceed an amount equal to the proceeds from unclaimed property received by the department in the previous calendar year, minus:

(a) The amount paid for unclaimed property claims under ORS 98.396 in the previous calendar year;

(b) The department's investment expenses related to the Common School Fund for the previous calendar year; and

(c) Operating expenses that the department is entitled to recover for the previous calendar year.

SECTION 23. Section 22 of this 2018 Act is repealed on January 2, 2027.

SCHOOL DISTRICTS UNFUNDED LIABILITY FUND

SECTION 24. (1) The School Districts Unfunded Liability Fund is established in the State Treasury, separate and distinct from the General Fund. Interest earned by the School Districts Unfunded Liability Fund shall be credited to the fund. The fund consists of moneys transferred to the fund under sections 12, 13, 15 and 22 of this 2018 Act and other moneys transferred, allocated or appropriated to the fund.

(2) Moneys in the fund are continuously appropriated to the Public Employees Retirement Board for the purpose of establishing and funding a pooled account to be applied against the liabilities of participating public employers, as defined in ORS 238.005, that are school districts.

(3) The board shall establish an account in the Public Employees Retirement Fund for the moneys in the School Districts Unfunded Liability Fund.

(4) The board shall adopt rules providing for:

(a) Proportional distribution to school districts of the moneys in the account established under subsection (3) of this section;

(b) Amortization of the moneys distributed; and

(c) Administration of the account established under subsection (3) of this section in the same manner as accounts established under ORS 238.229 (2).

(5) No later than February 1 of each odd-numbered year, the board shall report to the Oregon Department of Administrative Services and the Legislative Fiscal Officer an estimate of how moneys will be distributed under this section in the following biennium.

UNFUNDED ACTUARIAL LIABILITY RESOLUTION PROGRAM

SECTION 25. Section 26 of this 2018 Act is added to and made a part of ORS chapter 238.

SECTION 26. (1) The Public Employees Retirement Board shall establish an Unfunded Actuarial Liability Resolution Program. Under the program, the board shall provide technical expertise to participating public employers in developing plans to improve the employers' funded status and to manage projected employer contribution rate changes. Participating public employers are not required to participate in the program.

(2) The board may use moneys in the Employer Incentive Fund established in section 1 of this 2018 Act for reasonable administrative costs incurred under this section.

REPORTING BY PUBLIC EMPLOYEES RETIREMENT BOARD

SECTION 27. Section 28 of this 2018 Act is added to and made a part of ORS chapter 238.

SECTION 28. During each regular session of the Legislative Assembly, the Public Employees Retirement Board shall report to the Joint Committee on Ways and Means on the status of the Employer Incentive Fund established in section 1 of this 2018 Act, the School Districts Unfunded Liability Fund established in section 24 of this 2018 Act and the Unfunded Actuarial Liability Resolution Program established under section 26 of this 2018 Act.

SECTION 29. Section 28 of this 2018 Act is repealed on January 2, 2027.

STUDY BY STATE TREASURER

SECTION 30. (1) The State Treasurer shall study the feasibility and prudence of borrowing moneys currently deposited by state agencies and other state entities into the Oregon Short Term Fund created by ORS 293.728 to be redeployed by the Oregon Investment Council into investments in the Public Employees Retirement Fund created in ORS 238.660, that would generate a higher rate of return sufficient to repay the borrowing and make supplemental deposits targeted at reducing the unfunded actuarial liability of the Public Employees Retirement System. The study must include an examination of recent similar actions in other states.

(2) The State Treasurer shall report to the Legislative Assembly in the manner provided in ORS 192.245 on the results of the study performed under subsection (1) of this section no later than September 30, 2019.

REVIEW BY SUPREME COURT

SECTION 31. (1) Jurisdiction is conferred upon the Supreme Court to determine in the manner provided by this section whether this 2018 Act violates any provision of the Oregon Constitution or of the United States Constitution.

(2) A person who is adversely affected by this 2018 Act or who will be adversely affected by this 2018 Act may institute a proceeding for review by filing with the Supreme Court a petition that meets the following requirements:

(a) The petition must be filed within 60 days after the effective date of this 2018 Act.

(b) The petition must include the following:

(A) A statement of the basis of the challenge; and

(B) A statement and supporting affidavit showing how the petitioner is adversely affected.

(3) The petitioner shall serve a copy of the petition by registered or certified mail upon the Public Employees Retirement Board, the Attorney General and the Governor.

(4) Proceedings for review under this section shall be given priority over all other matters before the Supreme Court.

(5) The Supreme Court shall allow public employers participating in the Public Employees Retirement System to intervene in any proceeding under this section.

(6)(a) The Supreme Court shall allow members of the Legislative Assembly to intervene in any proceeding relating to this 2018 Act. After a member intervenes in a proceeding relating to this 2018 Act, the member has standing to participate in the proceeding even if the member ceases to be a member of the Legislative Assembly.

(b) A member of the Senate or the House of Representatives who intervenes in or participates in a proceeding under this subsection may not use public funds to pay legal expenses incurred in intervening in or participating in the proceeding.

(7) In the event the Supreme Court determines that there are factual issues in the petition, the Supreme Court may appoint a special master to hear evidence and to prepare recommended findings of fact.

(8) The Supreme Court may not award attorney fees to a petitioner in a proceeding under this section.

RECONCILIATION WITH ENROLLED SENATE BILL 1529

SECTION 32. Section 31, chapter ___, Oregon Laws 2018 (Enrolled Senate Bill 1529), is amended to read:

Sec. 31. On or before July 1, 2021, the Department of Revenue shall:

(1) Estimate the increase, if any, of corporate tax revenue received by the department and attributable to the treatment of post-1986 deferred foreign income under An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (P.L. 115-97); and

(2) Notwithstanding ORS 317.853, distribute an amount equal to the estimate required under subsection (1) of this section as follows:

(a) 18 percent shall be transferred to the Employer Incentive Fund established under [*section 31a of this 2018 Act*] **section 1 of this 2018 Act**.

(b) 82 percent shall be transferred to the School Districts Unfunded Liability Fund established under [*section 31b of this 2018 Act*] **section 24 of this 2018 Act**.

SECTION 33. Sections 31a and 31b, chapter ___, Oregon Laws 2018 (Enrolled Senate Bill 1529), are repealed.

CAPTIONS

SECTION 34. The unit captions used in this 2018 Act are provided only for the convenience of the reader and do not become part of the statutory law of this state or express any legislative intent in the enactment of this 2018 Act.

EFFECTIVE DATE

SECTION 35. This 2018 Act takes effect on the 91st day after the date on which the 2018 regular session of the Seventy-ninth Legislative Assembly adjourns sine die.

Passed by Senate March 3, 2018

....
Lori L. Brocker, Secretary of Senate

....
Peter Courtney, President of Senate

Passed by House March 3, 2018

....
Tina Kotek, Speaker of House

Received by Governor:

........................M.,..., 2018

Approved:

........................M.,..., 2018

....
Kate Brown, Governor

Filed in Office of Secretary of State:

........................M.,..., 2018

....
Dennis Richardson, Secretary of State

Department of State Lands
PERS Distribution Calculation
Senate Bill 1566

		Fiscal Year Ending June 30, 2018	
CSF Investment Balances			
Investment Balance, CSF Corpus (Net Asset Value)		1,466,899,672	1
Investment Balance, Unclaimed Property		628,741,034	2
Unclaimed Property Percent Share of CSF Corpus		***42.86%***	3 = 2 DIVIDED BY 1
CSF Investment Earnings			
Investment Earnings, CSF Corpus		128,651,773	4
Investment Earnings, Unclaimed Property	42.86% of CSF Corpus	55,142,591	5 = 4 TIMES 3
CSF Investment Expenses			
Investment Expenses, CSF Corpus		8,432,751	6

Calculation of the PERS Distribution - SB 1566
- the lessor of Section A or Section B

Section A

Unclaimed Property Net Investment Earnings		55,142,591	= 5
Total Section A		**55,142,591**	

Section B

Unclaimed Property Inflows (Receipts)		67,586,263	7
Unclaimed Property Outflows (Claims)	less	32,474,399	8
Unclaimed Property Net Inflows	=	**35,111,864**	9 = 7 MINUS 8
Investment Expenses, CSF Corpus	less	**8,432,751**	= 6
CSF Statutory Operating Expenses Net of Statutory Revenue			
Unclaimed Property Administration		1,726,276	10
South Slough NERR Operations transfer out		950,000	11
Portland Harbor Superfund		2,675,644	12
Goble Derelict Vessel Removal		9,077,769	13
All Other Statutory Programs Expenses Net of Revenue		709,953	14
Total Statutory Expenses Net of Revenue	less	**15,139,642**	15
Total Section B	=	**11,539,471**	16 *

Transfer to PERS - as Section B is the lessor	**11,539,471**

Prepared By:
Lee Hullinger, Fiscal Manager
Star Thomson, CPA
Department of State Lands - 12/10/2018

* 16 = 9 MINUS 6 MINUS 15

Working Trial Balance - Composite

Basis: A

June 1, 2018 to June 30, 2018 *View Date:* *July 20, 2018*

STATE STREET

Base Currency: USD - US DOLLAR	Starting Balance	Debits	Credits	Ending Balance
CAPITAL				
PRIOR YEARS NAV AT COST................	1,268,564,844.22	0.00	0.00	1,268,564,844.22
NET INCOME - CURRENT YEAR..............	36,675,057.94	5,880,856.22	10,623,706.25	41,417,907.97
CONTRIBUTIONS..........................	0.00	0.00	0.00	0.00
BENEFIT PAYMENTS.......................	0.00	0.00	0.00	0.00
RETURN OF BENEFIT PAYMENTS.............	0.00	0.00	0.00	0.00
ASSET TRANSFERS IN.....................	-2,134,158.36	42,244,787.48	84,480,089.71	40,101,143.87
UNITS PURCHASED - ASSET TRANSFER IN.....	0.00	0.00	0.00	0.00
UNITS SOLD - ASSET TRANSFER OUT.........	0.00	0.00	0.00	0.00
TRANSFERS IN...........................	147,243,495.08	0.00	29,998,909.62	177,242,404.70
TRANSFERS OUT..........................	-151,023,927.96	103,763,174.08	0.00	-254,787,102.04
INTERLEDGER TRANSFERS IN-CLOSE	1,281,748,803.99	0.00	268,326,437.52	1,550,075,241.51
INTERLEDGER TRANSFERS OUT-CLOSE	-1,281,748,803.99	268,326,437.52	0.00	-1,550,075,241.51
NET INTERLEDER TRANSFERS............	0.00	268,326,437.52	268,326,437.52	0.00
IDENTIFIED SECURITY GAIN/LOSS..........	157,934,275.27	3,644,836.45	36,274,975.38	190,564,414.20
ADJ TO URR GAIN DUE TO OPTIONS LINK	4,847,627.68	1,370,737.03	319,168.31	3,796,058.96
ST CURRENCY G/L - OPTIONS..............	0.00	0.00	0.00	0.00
SWAP - GAIN / LOSS.....................	0.00	0.00	0.00	0.00
MARGIN CASH ADJUSTMENT.................	0.00	0.00	0.00	0.00
MARGIN CURRENCY GN/LS..................	0.00	0.00	0.00	0.00
NET IDENTIFIED GAIN LOSS............	162,781,902.95	5,015,573.48	36,594,143.69	194,360,473.16
WITHDRAWALS............................	0.00	0.00	0.00	0.00
OTHER CAPITAL..........................	0.00	0.00	0.00	0.00
TOTAL CAPITAL	1,462,107,213.87	425,230,828.78	430,023,286.79	1,466,899,671.88 ①
UNREALIZED APP/DEP.....................	201,561,409.57	1,530,218.45	-42,275,281.00	157,755,910.12
NET CAPITAL AT MARKET	1,663,668,623.44	426,761,047.23	387,748,005.79	1,624,655,582.00

COMMON SCHOOL FUND PRINCIPAL, DISTRIBUTIONS, AND NET EARNINGS ANALYIS

	Updated 9/21/17	Updated 12/01/17	Updated 12/01/17	Updated 11/13/18	
	Per 6/30/16 Audit FY 2016	*Per 6/30/17 Audit* FY 2017	*Audited Data* AY 2017	*Audited Data* FY 2018	
s:					
State Street Bank Working Trial Balance - Composite at June 30					
Net Asset Value at Cost	1,217,562,448.72	1,268,564,844.22	1,268,564,844.22	1,466,899,672.00	* Use this Value ①
Unrealized Appreciation/Depreciation	192,881,802.28	275,803,876.38	275,803,876.38	157,755,910.00	
Net Asset Value at Market (Cost + Accum Appr/Depr)	1,410,444,251.00	1,544,368,720.60	1,544,368,720.60	1,624,655,582.00	
DAFR 6620 - Balance Sheet					
Fund 4390 - UP Revolving Fund Cash Balance	562,042,726.60	593,239,011.05	593,239,011.05	628,741,034.00	Statutory F/Bal ②
Fund 4400 - Escheats Cash Balance	6,655,753.36	6,549,074.41	6,549,074.41	8,797,236.00	no F/Bal
CSF Portion of Principal Balance	648,863,968.76	668,776,758.76	668,776,758.76	829,361,402.00	Constitutional F/Bal
Total CSF & Estate portion of Corpus	655,519,722.12	675,325,833.17	675,325,833.17	838,158,638.00	
Total Principal Balance	1,217,562,448.72	1,268,564,844.22	1,268,564,844.22	1,466,899,672.00	
Total Distributable Income Acct					
Total Corpus	1,217,562,448.72	1,268,564,844.22	1,268,564,844.22	1,466,899,672.00	
Audited Financial Statements - CSF	1 year	1 year	2 years	1 year	
Investment Earnings	(5,086,670.00)	191,074,774.00	185,988,104.00	128,651,773.00	④
Investment Expense	(5,675,959.00)	(6,361,403.00)	(12,037,362.00)	(8,432,751.00)	⑥
Net Investment Earnings	(10,762,629.00)	184,713,371.00	173,950,742.00	120,219,022.00	
Revenues, Total	17,132,527.00	212,359,147.00		149,415,809.00	
Less: Investment Earnings, above	5,086,670.00	(191,074,774.00)		(128,651,773.00)	
Other Financing Sources					
Transfers In From Other Funds (Forestry)	6,521,195.00	3,553,853.00		7,027,052.00	
Insurance Recoveries (PDX Harbor)	3,635,847.00	2,754,003.00		1,197,018.00	
Operating Revenue	32,376,239.00	27,592,029.00	59,968,268.00	28,988,106.00	
Expenditures, Total	(25,511,976.00)	(24,982,351.00)		(36,080,700.00)	
Less: Investment Expenses, above	5,675,959.00	6,361,403.00		8,432,751.00	
Other Financing Uses					
Transfers to Other Funds	(71,285,556.00)	(75,248,292.00)		(60,883,475.00)	
Less: Distribution to Dept of Education, below	66,244,883.00	70,334,366.00		57,631,708.00	
Operating Expense	(24,876,690.00)	(23,532,874.00)	(48,409,564.00)	(30,899,716.00)	
Net Operating Earnings	7,499,549.00	4,059,155.00	11,558,704.00	(1,911,610.00)	
Net Earnings	(3,263,080.00)	188,772,526.00	185,509,446.00	118,307,412.00	
Net Change in Fund Balance	(69,507,963.00)	118,438,160.00		60,675,704.00	
Revenues Over Expenses	(8,379,449.00)	187,376,796.00		113,335,109.00	
Other Financing Sources/Uses	(61,128,514.00)	(68,938,636.00)		(52,659,405.00)	
Net Change in Fund Balance	(69,507,963.00)	118,438,160.00		60,675,704.00	
Hyperion Query					
Distribution to Department of Education	66,244,883.00	70,334,366.00	136,579,249.00	57,631,708.00	
Excess/(Deficiency) of Earnings Over Distribution	(69,507,963.00)	118,438,160.00	48,930,197.00	60,675,704.00	

Summary of Common School Fund Balances

	Dec 31 2013	Dec 31 2014	Dec 31 2015	Dec 31 2016	June 30 2017	Dec 31 2017	June 30 2018		
Unclaimed Property	454,291,542	522,267,896	562,770,272	599,633,316	593,239,011	636,752,359	628,741,034	4390 Cash balances (approx = deposit liability)	2
Escheatable Property	4,547,020	7,416,683	6,588,065	6,514,658	6,549,074	8,267,063	8,797,236	4400 Cash balances (approx = deposit liability)	
CSF Corpus	666,079,330	662,217,350	672,215,350	651,951,149	668,776,759	764,722,341	829,361,402	NAV less cash balances of UP and Escheat Prop	
Total Net Asset Value	1,124,917,892	1,191,901,928	1,241,573,687	1,258,099,123	1,268,564,844	1,409,741,763	1,466,899,672	SSB Working Trial Balance Net Assets - Excluding Market	1
Unrealized Gain/(Loss)	237,272,583	241,774,715	182,621,019	206,407,236	275,803,876	266,281,505	157,755,910	Mkt Value less NAV = Unrealized G/L	
Total CSF at Market	1,362,190,475	1,433,676,643	1,424,194,705	1,464,506,359	1,544,368,720	1,676,023,268	1,624,655,582	SSB Working Trial Balance Total Net Assets at Market	
CSF Distributions		27,085,187	26,497,954	35,167,183	35,167,183	28,815,854	28,815,854	Hyperion Query/Actual payment to DOEd	
Document Number		BT014819	BT015219	BT015679	BT015996	BT016244	BT016476		

Unclaimed Property (Stat)	454,291,542	40%	522,267,896	44%	562,770,272	45%	599,633,316	48%	593,239,011	636,752,359	45%	628,741,034	43%
CSF Corpus + Escheats (Const)	670,626,350	60%	669,634,032	56%	678,803,415	55%	658,465,807	52%	675,325,833	772,989,404	55%	838,158,638	57%
Cost Basis	1,124,917,892		1,191,901,928		1,241,573,687		1,258,099,123		1,268,564,844	1,409,741,763		1,466,899,672	
Unrealized Gain/Loss	237,272,583	21%	241,774,715	20%	182,621,019	15%	206,407,236	16%	275,803,876	266,281,505	19%	157,755,910	11%
Market Value	1,362,190,475		1,433,676,643		1,424,194,705		1,464,506,359		1,544,368,720	1,676,023,268		1,624,655,582	

Statutory Funds 4355, 4366, 4370
Revenue / Expense Analysis
FY 2018

Gl Acct
Govt Gaap Obj

Fiscal Year	Program Code	Program Code Title	Pca	Pca Title (Govt Gaap Obj Ttl)	Fund	Total Revenue	Total Expense (Sfms Trans Amt)	Revenue Less Expense	**Other Statutory Programs' Revenue Less Expense (Not Already Itemized in PERS Report)**	
2018	1220	POLICY AND PLANNING	12200	PERMITTING, POLICY & PLANNING	4355		234,826.67	(234,826.67)		
2018	1220	POLICY AND PLANNING	12201	JURIS DETERMINATION & WETLANDS PLANNING	4355		231,683.90	(231,683.90)		
2018	1220	POLICY AND PLANNING	12202	PROPRIETARY WATERWAYS	4355		13,698.27	(13,698.27)		
2018	1220	POLICY AND PLANNING	12203	HISTORICAL FILLED LANDS SB-912	4355		158,425.31	(158,425.31)		
		POLICY AND PLANNING Total				-	638,634.15	(638,634.15)	(638,634.15)	
2018	1222	WETLANDS	12220	JURISDICTIONAL DETERMINATION	4355	133,564.00	244,729.76	(111,165.76)		
2018	1222	WETLANDS	12229	EPA MATCH, AQ RESOURCE MITIGN PRGM 17-19	4355		28,650.15	(28,650.15)		
2018	1222	WETLANDS	12901	COMPL AQUATIC RESOURCE MITIGATION MATCH	4355		149,442.05	(149,442.05)		
		WETLANDS Total				133,564.00	422,821.96	(289,257.96)	(289,257.96)	
2018	1223	PERMITS	12230	PERMITTING-OTHER FUNDS	4355	347,927.28	642,608.96	(294,681.68)		
2018	1223	PERMITS	12231	ODOT RELATED COSTS	4355	84,955.00	77,091.73	7,863.27		
2018	1223	PERMITS	12234	COST SHARE ODE ENERGY FAC SITING EFSC.NO	4355	3,270.84	3,701.38	(430.54)		
		PERMITS Total				436,153.12	723,402.07	(287,248.95)	(287,248.95)	
2018	1224	ENFORCEMENT	12240	ENFORCEMENT, NORTHERN	4355	55,966.00	186,544.58	(130,578.58)		
		ENFORCEMENT Total				55,966.00	186,544.58	(130,578.58)	(130,578.58)	
2018	1225	PROPRIETARY WATERWAYS	12250	WATERWAYS PROPRIETARY, NORTH	4355	2,982,832.02	858,943.47	2,123,888.55		
2018	1225	PROPRIETARY WATERWAYS	12251	GOBLE DERELICT VESSEL REMOVAL	4355		9,077,769.30	(9,077,769.30)		13
2018	1225	PROPRIETARY WATERWAYS	12251	DERELICT VESSEL REMOVAL, NORTH	4355	10,000.00	220,000.00	(210,000.00)		
2018	1225	PROPRIETARY WATERWAYS	12252	WW DIVISION 145 REMEDIAL ACTION	4355	1,000.00		1,000.00		
2018	1225	PROPRIETARY WATERWAYS	12254	WATERWAYS TERRITORIAL SEA, NORTH	4355	14,025.00	12,077.64	1,947.36		
2018	1225	PROPRIETARY WATERWAYS	12255	WATERWAYS-NAVIGABILITY-STAT	4355		122,554.26	(122,554.26)		
		PROPRIETARY WATERWAYS Total				3,007,857.02	10,291,344.67	(7,283,487.65)	1,794,281.65	
2018	1226	ARM EASTERN REGION	12260	PERMITTING-EASTERN REGION	4355		105,648.79	(105,648.79)		
2018	1226	ARM EASTERN REGION	12261	ENFORCEMENT-EASTERN REGION	4355		15,383.09	(15,383.09)		
2018	1226	ARM EASTERN REGION	12262	PROPRIETARY WATERWAYS-EASTERN REGION	4355		16,644.42	(16,644.42)		
2018	1226	ARM EASTERN REGION	12264	ARM-EASTERN REGION ADMIN	4355		84,021.02	(84,021.02)		
		ARM EASTERN REGION Total				-	221,697.32	(221,697.32)	(221,697.32)	
2018	1227	ARM SOUTHERN REGION	12271	JURIS DETERMIN & WETLANDS PLANNING-SO	4355		3.75	(3.75)		
2018	1227	ARM SOUTHERN REGION	12272	JURIS DETERMINATION, SOUTHERN	4355		213,063.85	(213,063.85)		
2018	1227	ARM SOUTHERN REGION	12273	PERMITTING-OTHER FUNDS SOUTHERN	4355		458,570.08	(458,570.08)		
2018	1227	ARM SOUTHERN REGION	12275	ENFORCEMENT, SOUTHERN	4355		122,717.06	(122,717.06)		
2018	1227	ARM SOUTHERN REGION	12276	WATERWAYS PROPRIETARY, SOUTHERN	4355		211,513.51	(211,513.51)		
2018	1227	ARM SOUTHERN REGION	12278	WATERWAYS TERRITORIAL SEA, SOUTHERN	4355		562.26	(562.26)		
		ARM SOUTHERN REGION Total				-	1,006,430.51	(1,006,430.51)	(1,006,430.51)	
2018	1321	UNCLAIMED PROPERTY	13210	UNCLAIMED PROPERTY-OPERATING	4355	720,702.11	1,039,119.58	(318,417.47)		
2018	1321	UNCLAIMED PROPERTY	13212	CSF FINDERS FEES	4370	-	1,407,858.56	(1,407,858.56)		
		UNCLAIMED PROPERTY Total				720,702.11	2,446,978.14	(1,726,276.03)		10
2018	1340	CSF REAL PROPERTY	13404	STATUTORY LANDS SALES	4355	1,500.00	4,616.43	(3,116.43)		
		CSF REAL PROPERTY Total				1,500.00	4,616.43	(3,116.43)	(3,116.43)	
2018	1352	RANGELAND	13513	RANGELANDS-LEASES-STAT	4355	73,779.14	1,049.70	72,729.44		
		RANGELAND Total				73,779.14	1,049.70	72,729.44	72,729.44	
		Grand Total				4,429,521.39	15,943,519.53	**(11,513,998.14)**		
				Other Statutory Programs' Revenue Less Expense (Carving Out Itemized Line Items in PERS Report)					**(709,952.81)**	14

Excluded in above total:

Fiscal Year	Program Code	Program Code Title	Pca	Pca Title	Fund	Total Revenue	Total Expense	Revenue Less Expense		
2018	1225	PROPRIETARY WATERWAYS	10101	GENERAL FUND OPERATIONS & TRANSFER	0100	-	5,000,000.00	(5,000,000.00)	Transfer Out	
2018	1225	PROPRIETARY WATERWAYS	12253	PORTLAND HARBOR SUPERFUND	4355	-	2,574,826.62	(2,574,826.62)		
2018	1225	PROPRIETARY WATERWAYS	12256	PORTLAND HARBOR CLEAN-UP SB 5530	4366	5,060,636.09	161,453.90	4,899,182.19	Transfer In	
		PORTLAND HARBOR SUPERFUND				**5,060,636.09**	**7,736,280.52**	**(2,675,644.43)**		12
		Grand Total (including PDX Harbor Superfund)				**9,490,157.48**	**23,679,800.05**	**(14,189,642.57)**		
				Transfer to SSNERR				**(950,000.00)**		11
				Total Statutory Net Expenses Net of Statutory Revenue				**(15,139,642.57)**		15

Statement of Revenues, Expenditures, and Changes in Fund Balances

REVENUES		
Licenses and fees	$	849,538
Federal		410,715
Charges for Services		325,959
Rebates and Recoveries		1,572
Fines, Forfeitures, and Penalties		87,245
Rents and Royalties		5,566,421
Investment Income		128,651,773 (4)
Sales		10,513
Unclaimed and Escheat Property Revenue		13,257,980
Other		254,093
Total Revenues		149,415,809
EXPENDITURES		
Personal Services		9,114,277
Services and Supplies		18,317,378
Capital Improvements		216,294
Investment Expenditures		8,432,751 (6)
Total Expenditures		36,080,700
Excess (Deficiency) of Revenues Over (Under) Expenditures		113,335,109
OTHER FINANCING SOURCES (USES)		
Transfers From Other Funds		7,027,052
Transfers to Other Funds		(60,833,475)
Insurance Recoveries		1,197,018
Total Other Financing Sources (Uses)		(52,609,405)
Net Change in Fund Balances		60,725,704
Fund Balances - Beginning		1,293,015,364
Fund Balances - Ending	$	1,353,741,068

The notes to the financial statements are an integral part of this statement.

Year ending June 30,	Payments
2019	$ 129,040
2020	123,772
2021	55,323
Total future minimum rental payments	$ 308,135

B – LEASE RECEIVABLES

The Department receives rental income from land and property leased to non-state entities. For the year ended June 30, 2018 the Department received rental income of $265,299 on leased assets with a fair market value of $5,540,000. The leased assets are considered investments of the Department of which the fair market value includes net appreciation of $655,087 over the cost of the leased assets. Future minimum lease revenues for non-cancelable operating leases as of June 30, 2018:

Year ending June 30,	Amount
2019	$ 229,869
2020	110,500
2021	29,542
Total future minimum rental revenues	$ 369,911

NOTE 6 – POLLUTION REMEDIATION OBLIGATION

Pollution remediation obligations address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, including pre-cleanup activities, cleanup activities, governmental oversight and enforcement-related activities and post remediation monitoring. Excluded from pollution remediation obligations are obligations for pollution prevention and control activities, fines and penalties, landfill closure and post closure care, and other future remediation activities required upon retirement of an asset.

The Common School Fund recognizes a pollution remediation obligation when it can reasonably estimate the range of expected cash outlays. As of June 30, 2018, the Department is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of contamination in the Portland Harbor Superfund site. There are over 200 parties, private and public, that may eventually bear a share of the costs. It is too early in the Environmental Protection Agency's remedial action process to estimate the total cleanup costs that may be shared by the liable parties and what portion of that, if any, will be assessed against the Common School Fund. The Portland Harbor Superfund site is discussed in greater detail in note 12.

On June 1, 2017 the Department initiated a clean-up project and assessment to remove multiple derelict vessels on the Columbia River near Goble, Oregon. Many of the vessels contained environmentally hazardous materials including fuel, oil, lead paint, asbestos, and household waste. Derelict vessel removal and clean-up costs for the Goble site were $9.08 million for the year ended June 30, 2018 and are reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance as services and supplies expenditure. The vessel removal and clean-up project is expected to be completed by December 31, 2018. 13

The remaining pollution remediation obligation of $2.93 million for the Goble clean-up site is recorded in the State of Oregon Comprehensive Annual Financial Report for the year ended June 30, 2018 Statement of Net Position.

Trust Property Section Report to Land Board
Unclaimed Property Refunds and Claims

Fiscal Year	UP Receipts		UP Claims Paid		Escheated Revenue
2018	67,586,263	7	32,474,399	8	174,491
2017	59,094,477		27,780,173		449,452
2016	68,997,263		25,473,461		494,195
2015	51,383,351		21,915,881		332,729
2014	62,805,064		23,183,404		923,470
2013	52,875,643		25,244,140		
2012	48,254,377		23,189,286		
2011	49,315,615		19,356,030		
2010	52,418,026		18,127,753		
2009	52,294,040		14,579,850		
2008	51,761,847		11,701,300		
2007	45,085,530		6,729,000		
2006	33,186,955		9,027,413		
2005	38,349,274		10,582,867		