STATE LAND BOARD

April 9, 2019
10:00 am – 12:00 pm
Oregon Department of State Lands
Land Board Room
775 Summer St NE
Salem, Oregon

AGENDA

Consent Items

1. Request for approval of the minutes of the February 5, 2019, State Land Board Meeting.

Informational Items

2. Annual Report on Common School Fund Investments & Distributions for fiscal year 2018

3. Annual Report on Common School Fund Real Property program for fiscal year 2018

Action Items

4. Request for approval to initiate due diligence for the sale and possible partition of North Tongue Point in Clatsop County

5. Request for approval to sell surface and subsurface mineral and geothermal rights of the Bear Creek property in Wallowa County – **THIS ITEM HAS BEEN POSTPONED**

6. Request for approval to initiate rulemaking to impose restrictions on the public recreational use of state-owned land in Lane County

7. Other

Continued on next page
Livestream available at: https://www.youtube.com/channel/UCQA7FHTWwl-gjJkQeYPJ11A

This meeting will be held in a facility that is accessible for persons with disabilities. If you need assistance to participate in this meeting due to a disability, please notify Arin Smith at (503) 986-5224 or arin.n.smith@state.or.us at least two working days prior to the meeting.

Visitors are NOT permitted to bring backpacks, bags, or large purses into the DSL building prior to, during, or immediately following Land Board meetings.

Purses, medical bags, and diaper bags are permitted, but may be subject to inspection by OSP.

Public Testimony - The State Land Board places great value on information received from the public. The Board accepts both oral and written comments on consent and action agenda items only.

When providing testimony, please:
- Provide written summaries of lengthy, detailed information
- Recognize that substance, not length, determines the value of testimony or written information
- Endorse rather than repeat the testimony of others

Written comments may be submitted before or during the meeting for consideration by the Board. To speak at the meeting, you must sign in on the sheet provided at the information table located near the meeting room's entrance. The standard time limit is three minutes for each individual. The Board cannot accept testimony on a topic for which a public hearing has been held and the comment period has closed.
The State Land Board (Land Board) met in regular session on February 5, 2019, in the Land Board Room at the Department of State Lands (DSL), 775 Summer Street NE, Salem, Oregon.

Present were:
Kate Brown  Governor
Leslie Cummings  Deputy Secretary of State
Tobias Read  State Treasurer

Land Board Assistants
Jason Miner  Governor’s Office
Steve Elzinga  Secretary of State’s Office
Ryan Mann  State Treasurer’s Office

Department Staff
Vicki Walker  Bill Ryan  Jean Straight  Ali Hansen  Chris Castelli
Arin Smith  Anne Friend  Lee Hullinger  Eric Metz

Department of Justice
Matt DeVore

Governor Brown called the meeting to order at 10:04 a.m. The topics discussed, and the results of those discussions are listed below. To view the Land Board (Board) meeting in its entirety, please visit our YouTube page: https://www.youtube.com/watch?v=HEqDswf-o0

Consent Items

1. Minutes

Treasurer Read made a motion to approve the minutes for the December 18, 2018, State Land Board meeting.
Chair moved approval of the minutes.
There were no objections to this motion.
The item was approved at 10:05 a.m.

2. ODOT Bridge Easement – Umpqua River

Request from the Oregon Department of Transportation for a permanent easement to build, operate and maintain a replacement bridge crossing of the Umpqua River by State Highway 38 near Scottsburg, Oregon.

Treasurer Read made a motion to approve agenda Item 2.
There were no objections to the motion.
The action item was approved at 10:09 a.m.
**Action Items**

3. **Port of Port Orford Potential Land Sale**

   The Department recommends that the State Land Board authorize the direct sale of the two tracts of new lands totaling 1.66 acres in Curry County to the Port of Port Orford for $12,130.

   Treasurer Read made a motion to approve agenda Item 3. There were no objections to the motion. The action item was approved at 10:14 a.m.

4. **South Tongue Point Potential Land Sale**

   Director Walker and Deputy Director Ryan briefly described the agenda item and answered questions from the Land Board.

   Treasurer Read made a motion to approve agenda Item 4. There were no objections to this motion. The action item was approved at 10:24 a.m.

**Informational Items**

5. **Elliott State Forest Updates**
   10:25 a.m.

   Director Walker gave a report on the progress that has been made by DSL, working with OSU and Oregon Consensus, in developing a plan to turn the Elliott State Forest into a research forest and developing a Habitat Conservation Plan (HCP).

6. **Aquatic Resource Management (ARM) Annual Report**
   10:43 a.m.

   Deputy Director Ryan went over the highlights of the annual report which provides summary information regarding the management of state-owned waterways for the 2018 Fiscal Year and fulfills the annual report requirements in the state’s removal-fill law ORS 196-885.

   Questions and comments were taken from the Land Board.

7. **Oregon Dept. of Forestry Annual Report on Common School Forest Lands**
   10:55 a.m.

   Director Walker introduced Director Peter Daugherty and Liz Dent with Oregon Department of Forestry to present the annual report for Fiscal Year 2018 on the performance and management of state land they manage for DSL and the Land Board.

   Questions and comments were taken from the Land Board.
8. South Slough National Estuarine Research Reserve (SSNERR) Summary
11:06 a.m.

Director Walker introduced Bree Yednock, Reserve Manager of the South Slough National Estuarine Research Reserve (SSNERR). Bree gave an overview of SSNERR and their work on climate change.

Director Walker then discussed alternative funding options for SSNERR.

9. Other
11:29 a.m.

- **Staff recognitions**
  Director Walker recognized Anne Friend for her work on the Jordan Cove public hearings. She then recognized Bree Yednock for her leadership of the SSNERR and efforts in identifying alternative funding options for the reserve.

- **Jordan Cove Update**
  Director Walker gave a brief update on the Jordan Cove Energy Project application status, the public comment process and next steps.

- **Oregon Ocean Science Trust (OOST) Update**

- **Steven’s Road Update**

Governor Brown then opened the floor for Public Testimony.

Public testimony was taken from several residents of Tierra del Mar regarding a permit issue.

Governor Brown adjourned the meeting at 12:11 p.m.

________________________________________
Kate Brown, Governor

________________________________________
Vicki L. Walker, Director
Purpose
Provide the State Land Board with an update on the Common School Fund (CSF) for the period ended December 31, 2018.

Background
The act of Congress admitting Oregon to the Union in 1859 granted sections 16 and 36 in every township "for the use of schools." The provision of land for educational purposes was a practical solution for the developing nation that was "land rich, but cash poor."

In Oregon, Congress granted roughly six percent of the new state’s land -- nearly 3.4 million acres -- for the support of schools. Due to various circumstances, about 700,000 acres remain in state ownership today. These lands and their mineral and timber resources, as well as other resources under the State Land Board’s jurisdiction (including the submerged and submersible lands underlying the state’s tidal and navigable waterways) are managed "with the object of obtaining the greatest benefit for the people of this state, consistent with the conservation of this resource under sound techniques of land management."

- **Rangelands** are leased to ranchers for grazing sheep and cattle.
- **Forestlands** are managed for timber production.
- **Industrial, commercial, residential** properties are managed to generate rents and to maximize value for future sale.
- **Waterways** are leased for uses such as sand and gravel extraction, houseboats, marinas and log rafts. The rents and royalties received from these activities are deposited in the Common School Fund, a trust fund for the benefit of Oregon’s K-12 public schools.

Other sources of money contributing to the Common School Fund include the following:

- **Escheats** -- property reverting to the state on an individual’s death because no heir or will exists or can be found;
- **Unclaimed property**, while the agency searches for the rightful owner;
- **Gifts** to the state not designated for some other purpose;
- **Tax revenues** from the production, storage, use, sale or distribution of oil and natural gas; and
- **5% of the proceeds** from the sale of federal lands.

**CSF Asset Allocation**
The objective of the CSF, outlined in **OIC INV 901 - Common School Fund: Asset Classes, Asset Allocation, and Reporting Requirements**, is to, on behalf of the Department of State Lands, optimize long-term investment returns and distributions, while enabling the CSF asset base to grow in real terms.

At the September 20, 2017 Board meeting, the Oregon Investment Council (OIC or the Council) approved the following asset allocation targets, benchmarks, and ranges (Exhibit 1) for the CSF. This OIC-approved asset allocation resulted in a 10 percent target allocation to both Real Assets and Alternatives, which produced an improvement in ex ante returns while simultaneously decreasing expected risk.
The OIC-approved asset allocation was informed by Callan Associates’ CSF Distribution Study, which was presented to the Department of State Lands Board in April 2017. That study concluded that a 4% annual distribution was the maximum rate compatible with future CSF value stability in real (i.e., inflation-adjusted) terms. Important elements of the CSF asset allocation policy are its expected return and risk statistics. Specifically, minimum return and maximum risk boundaries are necessary to maintain the long-run feasibility of the CSF distribution policy.

### Exhibit 1 – Asset Allocation Policy

<table>
<thead>
<tr>
<th>Common School Fund</th>
<th>Benchmark</th>
<th>Prior Allocation</th>
<th>Approved Allocation</th>
<th>Approved Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>MSCI ACWI IMI Net</td>
<td>60%</td>
<td>45%</td>
<td>40% - 50%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>Russell 3000 + 300 bps</td>
<td>10%</td>
<td>10%</td>
<td>8% - 12%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>Bloomberg U.S. Aggregate Bond Index</td>
<td>30%</td>
<td>25%</td>
<td>20% - 30%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>NCREIF ODCE QTR LAG (net)</td>
<td>0%</td>
<td>10%</td>
<td>8% - 12%</td>
</tr>
<tr>
<td>Alternatives</td>
<td>CPI + 4%</td>
<td>0%</td>
<td>10%</td>
<td>8% - 12%</td>
</tr>
<tr>
<td>Cash</td>
<td>Cash</td>
<td>0%</td>
<td>0%</td>
<td>0% - 3%</td>
</tr>
</tbody>
</table>

| 10-Year Expected Return (Geometric Mean) | 6.5% | 6.6% |
| Projected Standard Deviation           | 14.5% | 13.2% |

Source: Updated using Callan 2018 Capital Market Assumptions.

### CSF Performance

For the year ended December 31, 2018, the CSF posted a -3.89 percent return, underperforming its policy benchmark by 2.45 percent (Exhibit 2). For the three-, five-, and ten-year periods ended December 31, 2018, CSF returns fell short of the policy benchmark by 1.61 percent, 0.59 percent and 0.22 percent, respectively.

### Exhibit 2 – Total Fund Performance

<table>
<thead>
<tr>
<th>Period Ending 12/31/18</th>
<th>Market Value</th>
<th>3 Months</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common School Fund Returns</td>
<td>$1,571,792,000</td>
<td>-5.87%</td>
<td>-3.89%</td>
<td>6.13%</td>
<td>5.07%</td>
<td>8.27%</td>
</tr>
<tr>
<td>CSF Policy Benchmark</td>
<td>-4.66%</td>
<td>-1.44%</td>
<td>7.74%</td>
<td>5.66%</td>
<td>8.49%</td>
<td></td>
</tr>
<tr>
<td>Excess Return</td>
<td>-1.21%</td>
<td>-2.45%</td>
<td>-1.61%</td>
<td>-0.59%</td>
<td>-0.22%</td>
<td></td>
</tr>
</tbody>
</table>

Source: State Street

All asset classes realized underperformance (Exhibit 3) during CY2018. According to Antti Ilmanen, a principal at AQR, 2018 “was one of only three years in the U.S. since 1926 where stocks, government bonds, corporate bonds, and commodities all did worse than cash (the others were 1981 and 1931).”

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**Exhibit 3**

<table>
<thead>
<tr>
<th>Period Ending 12/31/18</th>
<th>Market Value</th>
<th>3 Months</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common School Fund Public Equity Returns</td>
<td>$ 672,619,000</td>
<td>-13.93%</td>
<td>-11.35%</td>
<td>5.72%</td>
<td>4.24%</td>
<td>10.60%</td>
</tr>
<tr>
<td>MSCI ACWI IMI Net</td>
<td></td>
<td>-13.28%</td>
<td>-10.08%</td>
<td>6.49%</td>
<td>4.17%</td>
<td>9.74%</td>
</tr>
<tr>
<td>Excess Return</td>
<td></td>
<td>-0.65%</td>
<td>-1.27%</td>
<td>-0.77%</td>
<td>0.07%</td>
<td>0.86%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period Ending 12/31/18</th>
<th>Market Value</th>
<th>3 Months</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common School Fund Fixed Income Returns</td>
<td>$ 440,001,000</td>
<td>0.66%</td>
<td>-0.71%</td>
<td>2.74%</td>
<td>2.85%</td>
<td>5.77%</td>
</tr>
<tr>
<td>Bloomberg Barclays US Aggregate</td>
<td></td>
<td>1.64%</td>
<td>0.01%</td>
<td>2.17%</td>
<td>2.49%</td>
<td>3.94%</td>
</tr>
<tr>
<td>Excess Return</td>
<td></td>
<td>-0.98%</td>
<td>-0.72%</td>
<td>0.57%</td>
<td>0.36%</td>
<td>1.83%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period Ending 9/30/18</th>
<th>Market Value</th>
<th>3 Months</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common School Fund Private Equity Returns</td>
<td>$ 214,537,000</td>
<td>3.27%</td>
<td>15.15%</td>
<td>12.76%</td>
<td>13.25%</td>
<td>11.98%</td>
</tr>
<tr>
<td>Russell 3000 + 300 Bps Qtr Lag</td>
<td></td>
<td>7.90%</td>
<td>21.06%</td>
<td>20.54%</td>
<td>16.83%</td>
<td>15.66%</td>
</tr>
<tr>
<td>Excess Return</td>
<td></td>
<td>-4.63%</td>
<td>-5.91%</td>
<td>-7.78%</td>
<td>-3.58%</td>
<td>-3.68%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period Ending 12/31/18</th>
<th>Market Value</th>
<th>3 Months</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common School Fund Alternatives Returns</td>
<td>$ 89,446,000</td>
<td>0.18%</td>
<td>-10.55%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>CPI + 400 Bps</td>
<td></td>
<td>0.50%</td>
<td>5.98%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Excess Return</td>
<td></td>
<td>-0.32%</td>
<td>-16.53%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period Ending 9/30/18</th>
<th>Market Value</th>
<th>3 Months</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common School Fund Real Estate Returns</td>
<td>$ 105,759,000</td>
<td>0.56%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>NCREIF ODCE (Custom Adj)</td>
<td></td>
<td>1.87%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Excess Return</td>
<td></td>
<td>-1.31%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

In dollar terms, CSF lost approximately $39MM relative to its benchmark. On a dollar-weighted basis, 30 percent of the fund’s underperformance last year is attributed to public markets ($8.5mm to Public Equity and $3mm to Fixed Income). The residual 70 percent of the relative, dollar-weighted underperformance is attributed to Private Markets ($12.7mm to Private Equity and $14.8mm to Alternatives).

Within public equity, the majority of the relative underperformance is attributable to one mandate, Dimensional Fund Advisors U.S. Large Cap Core Strategy. This mandate’s methodology includes deliberate factor tilts (Value, Size, and Profitability) that are supported by robust empirical evidence as persistent and pervasive sources of excess returns. Funded in November 2017, this mandate underperformed its benchmark (the Russell 1000 Index) by 390 basis points over calendar year 2018. Although unfortunate, this underperformance is consistent with expectations given the large performance differentials between value and growth stocks last year. In fact, the CY2018 performance spread between the Russell 1000 Value index (-8.27 percent) and Russell 1000 growth index (-1.51 percent) was 6.76 percent. This deviation between value and growth was even more pronounced in calendar year 2017 (when the DFA mandate was initially funded), when the differences between the Russell 1000 Value index (13.66 percent) and the Russell 1000 Growth index (30.21 percent) was 16.55 percent. From a historical perspective, a U.S. growth/value performance gap is the largest and most sustained since the 1930’s (Exhibit 4).

**Exhibit 4 – Historical Observations of Value Five-Year Premiums**

Source: Dimensional Fund Advisors
Underperformance among CSF’s alternative investments (e.g., the JP Morgan Systematic fund and BlackRock Style Advantage fund, both funded in January 2018) is also attributed to common factor tilts. Although differentiated from the DFA public equity strategy by investments in event-driven and managed futures, both of these alternative strategies underperformed due to their long/short value exposures which reached relative value nadirs comparable in magnitude to levels plumbed during the early 2000 tech stock bubble.

An allocation to private equity was first added to the CSF in 2007. Last year, CSF’s private equity portfolio underperformed as a result of the following: 1) poor manager selection; and 2) adverse vintage year concentrations (see Exhibit 5). Regarding the latter, approximately 45 percent of CSF’s total private equity fund commitments were made in 2007 and 2008. Accordingly, CSF private equity performance has been dominated by adverse vintage year concentrations and poor (e.g., 3rd quartile) manager selection. A second wave of fund commitments occurred between 2013 and 2015, now accounting for 48 percent of CSF’s total private equity allocation.

Today, more than 90 percent of all CSF fund commitments are concentrated in 5 of the last 12 vintage years, with half of these investments in 3rd quartile funds. Going forward, staff is applying a more systematic vintage year pacing discipline, which should result in improved private equity performance for CSF going forward.

### Exhibit 5

<table>
<thead>
<tr>
<th>Vintage</th>
<th>Fund</th>
<th>Commitment</th>
<th>Unfunded Commit</th>
<th>Contributions</th>
<th>Distributions</th>
<th>TVPI</th>
<th>Net IRR</th>
<th>Cambridge Assoc. Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Warburg Pincus PE X</td>
<td>$25,000,000</td>
<td>$25,214,323</td>
<td>$28,856,311</td>
<td>1.61X</td>
<td>8.6%</td>
<td>3rd</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>Oak Hill Capital Part III</td>
<td>$25,000,000</td>
<td>$30,189,059</td>
<td>$41,715,827</td>
<td>1.5X</td>
<td>8.9%</td>
<td>3rd</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>Apollo Invest Fund VII</td>
<td>$25,000,000</td>
<td>$30,092,816</td>
<td>$46,945,151</td>
<td>2.05X</td>
<td>23.1%</td>
<td>1st</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>TPG Partners VI</td>
<td>$25,000,000</td>
<td>$27,095,272</td>
<td>$31,317,640</td>
<td>1.64X</td>
<td>11.2%</td>
<td>3rd</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>PEG Venture Cap IV</td>
<td>$20,000,000</td>
<td>$24,434,184</td>
<td>$27,186,631</td>
<td>1.41X</td>
<td>13.7%</td>
<td>3rd</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>Oaktree Opp Fund VIII</td>
<td>$12,500,000</td>
<td>$17,178,520</td>
<td>$20,340,392</td>
<td>1.46X</td>
<td>9.2%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>Oaktree Opp Fund VIIIb</td>
<td>$12,500,000</td>
<td>$17,480,383</td>
<td>$20,738,925</td>
<td>1.33X</td>
<td>20.8%</td>
<td>3rd</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Oaktree Opp Fund IX</td>
<td>$20,000,000</td>
<td>$21,600,865</td>
<td>$21,600,865</td>
<td>1.37X</td>
<td>14.6%</td>
<td>3rd</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>KKR Asian Fund II</td>
<td>$25,000,000</td>
<td>$21,385,953</td>
<td>$21,385,953</td>
<td>1.14X</td>
<td>3.2%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Apollo Invest Fund VIII</td>
<td>$25,000,000</td>
<td>$21,600,865</td>
<td>$21,600,865</td>
<td>1.37X</td>
<td>14.6%</td>
<td>3rd</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>PEG Venture Cap V</td>
<td>$25,000,000</td>
<td>$20,162,332</td>
<td>$20,162,332</td>
<td>1.22X</td>
<td>NM</td>
<td>NM</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>Francisco Partners IV</td>
<td>$15,000,000</td>
<td>$14,617,500</td>
<td>$15,525,500</td>
<td>1.58X</td>
<td>26.0%</td>
<td>1st</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>Oaktree Opp Fund X</td>
<td>$25,000,000</td>
<td>$20,000,000</td>
<td>$2,809,830</td>
<td>1.33X</td>
<td>20.8%</td>
<td>NM</td>
<td></td>
</tr>
</tbody>
</table>

Source: Torrey Cove

Although positive relative returns relative to the CSF private equity benchmark (Russell 3000 + 300 bps) have not been achieved, CSF’s private equity allocation has generated the Fund’s highest, relative returns over all trailing time periods, thereby contributing to the Fund’s primary objectives of optimizing long-term investment returns and distributions while enabling CSF corpus growth in real terms.
Rebalancing Activity
At the April 2017 OIC meeting, staff recommended, and the OIC approved, updated CSF policies for Public Equity, Fixed Income and Private Equity that align with the asset class policies used for the Oregon Public Employees Retirement Fund (OPERF). In addition to harmonizing CSF’s asset class policies with those governing OPERF, the Council also approved staff’s ability to exercise retention, termination and rebalancing discretion as part of its daily CSF management activities. These updated policies also endowed staff with the ability to implement in CSF any private equity manager/strategy previously approved by the Council on behalf of OPERF.

Subsequently, at the June 2017 OIC meeting, staff recommended, and the OIC approved, new policies for the CSF, INV 906: Real Estate and INV 907: Alternatives. These new policies further align CSF and OPERF by granting staff discretion to implement in CSF any real estate manager/strategy or alternatives manager/strategy previously approved by the Council on behalf of OPERF.

Using this authority, the following rebalance actions (Exhibit 6) were implemented: Exhibit 6 - Rebalancing Activity

<table>
<thead>
<tr>
<th>Date(s)</th>
<th>Manager</th>
<th>Sub-Asset Class</th>
<th>Market Value</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-18</td>
<td>JP Morgan Systematic</td>
<td>Alternatives</td>
<td>$50,000,000</td>
<td>Initial Funding</td>
</tr>
<tr>
<td>Jan-18</td>
<td>BlackRock ACWI IMI</td>
<td>Global Equity</td>
<td>($50,000,000)</td>
<td>Rebalance - Cash Raise</td>
</tr>
<tr>
<td>Feb-18</td>
<td>BlackRock Style Advantage</td>
<td>Alternatives</td>
<td>$50,000,000</td>
<td>Initial Funding</td>
</tr>
<tr>
<td>Apr-18</td>
<td>Blackrock</td>
<td>Global Equity</td>
<td>($16,103,682)</td>
<td>Termination/Cash Raise</td>
</tr>
<tr>
<td>Apr-18</td>
<td>RREEF</td>
<td>Real Estate</td>
<td>$9,000,000</td>
<td>Initial Funding</td>
</tr>
<tr>
<td>Jun-18</td>
<td>Clearbridge</td>
<td>US Mid Cap</td>
<td>($34,882,281)</td>
<td>Termination/Cash Raise</td>
</tr>
<tr>
<td>Jun-18</td>
<td>Arrowstreet</td>
<td>Global X-US Equity</td>
<td>($10,000,000)</td>
<td>Cash Raise</td>
</tr>
<tr>
<td>Jun-18</td>
<td>Fidelity</td>
<td>Developed X-US Equity</td>
<td>($8,000,000)</td>
<td>Cash Raise</td>
</tr>
<tr>
<td>Jun-18</td>
<td>Western Asset Management</td>
<td>Core Fixed Income</td>
<td>($15,000,000)</td>
<td>Cash Raise</td>
</tr>
<tr>
<td>Jun-18</td>
<td>BlackRock</td>
<td>US Large Cap</td>
<td>($30,000,000)</td>
<td>Cash Raise</td>
</tr>
<tr>
<td>Jun-18</td>
<td>N/A</td>
<td>N/A</td>
<td>$30,000,000</td>
<td>DSL Distribution</td>
</tr>
<tr>
<td>Jun-18</td>
<td>RREEF</td>
<td>Real Estate</td>
<td>$21,000,000</td>
<td>Additional Funding</td>
</tr>
<tr>
<td>Jun-18</td>
<td>Morgan Stanley Prime Fund</td>
<td>Real Estate</td>
<td>$30,000,000</td>
<td>Initial Funding</td>
</tr>
<tr>
<td>Sep-18</td>
<td>Morgan Stanley Prime Fund</td>
<td>Real Estate</td>
<td>$30,000,000</td>
<td>Additional Funding</td>
</tr>
<tr>
<td>Oct-18</td>
<td>RREEF</td>
<td>Real Estate</td>
<td>$15,000,000</td>
<td>Additional Funding</td>
</tr>
<tr>
<td>Jan-19</td>
<td>RREEF</td>
<td>Real Estate</td>
<td>$15,000,000</td>
<td>Additional Funding</td>
</tr>
</tbody>
</table>

Source: State Street

Portfolio Construction Update
As of December 31, 2018, the CSF’s actual asset allocation relative to recently established policy targets is near completion (Exhibit 7). As shown in Exhibit 5, staff allocated $100MM to two separate Alternatives mandates in Q1 2018, while new Real Estate investments were executed in last year’s second half. Staff is currently working on two new alternative investments, one new real estate investment, and two new private equity commitments all of which should fund this year. Accordingly, staff expects to reach the OIC-approved target allocations for CSF by mid- to late-2019.

Exhibit 7 - Portfolio Construction as of December 31, 2018

<table>
<thead>
<tr>
<th>Common School Fund</th>
<th>Benchmark</th>
<th>Market Value</th>
<th>Current Allocation</th>
<th>Target Allocation</th>
<th>Approved Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>MSCI ACWI IMI Net</td>
<td>$672,619,000.00</td>
<td>42.8%</td>
<td>45%</td>
<td>40% - 50%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>Russell 3000 + 300 bps</td>
<td>$214,537,000.00</td>
<td>13.6%</td>
<td>10%</td>
<td>8% - 12%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>Bloomberg U.S. Aggregate Bond Index</td>
<td>$440,001,000.00</td>
<td>28.0%</td>
<td>25%</td>
<td>20% - 30%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>NCREIF ODCIE QTR LAG (net)</td>
<td>$105,759,000.00</td>
<td>6.7%</td>
<td>10%</td>
<td>8% - 12%</td>
</tr>
<tr>
<td>Alternatives</td>
<td>CPI + 4%</td>
<td>$89,446,000.00</td>
<td>5.7%</td>
<td>10%</td>
<td>8% - 12%</td>
</tr>
<tr>
<td>Cash</td>
<td>Cash</td>
<td>$49,433,000.00</td>
<td>3.1%</td>
<td>0%</td>
<td>0% - 3%</td>
</tr>
</tbody>
</table>

$1,571,795,000.00
M E M O R A N D U M

Date: April 9, 2019

To: Governor Kate Brown
    Secretary of State Bev Clarno
    State Treasurer Tobias Read

From: Vicki L. Walker, Director


The primary purpose of this report is to provide the State Land Board a year-end summary of the financial performance of the Common School Fund (CSF) trust lands under the Department of State Lands’ oversight. Included in the summary are the overall revenues and expenditures associated with these lands, which are the result of a broad range of real property management activities including leases, easements, licenses, special uses, and land sales and exchanges. This annual report presents outcomes from the 2018 fiscal year (July 1, 2017 to June 30, 2018), and includes discussion of future real property management direction and priorities.

Status of Real Property Asset Classes

Under the direction of the 2012 Real Estate Asset Management Plan, the Department of State Lands (DSL) manages approximately 2.8 million acres of state-owned lands, which includes both “trust” and “statutory” lands. These lands are further categorized into seven different real property land classifications: Forestlands; Agricultural Lands; Rangelands; Industrial, Commercial, Residential (ICR) Lands; Mineral and Energy Resource Lands; Waterways; and Special Stewardship Lands (Appendix A shows a map of the distribution of these across the state).
Table 1. Summary of total acres of state land ownership administered by DSL, by land classification and land type (trust vs. statutory lands)

<table>
<thead>
<tr>
<th></th>
<th>Trust Lands (acres)</th>
<th>Statutory Lands (acres)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forestlands</td>
<td>120,960</td>
<td>119</td>
<td>121,080</td>
</tr>
<tr>
<td>Agricultural Lands</td>
<td>7,848</td>
<td>111</td>
<td>7,959</td>
</tr>
<tr>
<td>Rangelands</td>
<td>596,387</td>
<td>23,569</td>
<td>619,957</td>
</tr>
<tr>
<td>Industrial/Commercial/Residential</td>
<td>6,438</td>
<td>369</td>
<td>6,809</td>
</tr>
<tr>
<td>Mineral and Energy Resources</td>
<td>766,983</td>
<td></td>
<td>766,983</td>
</tr>
<tr>
<td>Waterways</td>
<td></td>
<td>1,264,549</td>
<td>1,264,549</td>
</tr>
<tr>
<td>Special Stewardship Lands</td>
<td>5,480</td>
<td>7,686</td>
<td>13,166</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,504,096</strong></td>
<td><strong>1,296,403</strong></td>
<td><strong>2,800,500</strong></td>
</tr>
</tbody>
</table>

**Trust Lands**

Trust lands (Table 1) are those lands granted by the federal government to Oregon “for the use of schools” upon its admission into the Union – also known as “Admission Act” lands. Trust lands make up 98% of all the uplands managed by DSL for the Land Board, and also include sub-surface minerals and energy resources. The Land Board is directed by Oregon’s Constitution to manage these lands for the primary purpose of generating revenues for K-12 public education. This mandate places a trust obligation on the Board to maximize revenue to benefit multiple generations of K-12 students, and requires obtaining market value from the sale, rental or use of Admission Act lands.

**Statutory Lands**

Statutory lands (Table 1) – also referred to as “non-trust” lands – include 1,296,403 acres of State-owned waterways (navigable waters, tidally influenced waters, and the territorial sea). These lands are held and managed by the Land Board for the greatest benefit of all Oregonians. The state’s management of these waterways is conducted to avoid unreasonable interference with public navigation, recreation, fisheries and commerce¹. The Land Board has considerably more latitude in managing statutory lands than it does in managing trust lands. Neither the Oregon Constitution nor statutes require that statutory lands be managed principally for generating revenue for the Common School Fund. Revenues produced from statutory lands, however, are used to protect the public trust values on these lands, in accordance with the Oregon Public Use Doctrine. In addition, there are 23,569 acres of statutory land acquired through the Swamp Land Act of 1949. These lands are managed by the Real Property program with the Trust Lands and are classified as statutory rangelands. Swamp Act lands are not managed under the Oregon Public Use Doctrine, but rather are managed similarly to Trust Lands.

¹ DSL’s Aquatic Resource Management Program is responsible for managing all authorizations in the “statutory” category of state-owned lands except Swamp Act Lands, and for updating the State Land Board regarding activities on these lands separate from this report.
FY2018 Revenue and Expenditures by Land Class from Authorizations

Appendix B includes a summary of revenues and expenditures organized by land classification for Fiscal Year 2018 (FY2018).

FY2018 Land Sales and Exchanges

In FY2018, the Department completed two land sales and no land exchanges. A total of 117.8 acres of trust land were sold, including 71.8 acres of forestland and 46.0 acres of subsurface mineral ownership. Total income received on these sales was $254,515.

2012 REAMP Asset Management Performance Measures

Summarized below are the four different financial performance measures identified in the 2012 Real Estate Asset Management Plan (REAMP). The stated aim of the REAMP is to show improvement in these measures over the ten-year timeframe of the plan. The REAMP anticipates that year-to-year fluctuations will likely occur that may deviate from a long-term positive trend for these measures:

1. **Return on Asset Value (ROAV)**
   Appendix C includes an estimate (by land class) of total asset value for the Common School trust lands. Market value estimates allow for a Return on Asset Value (ROAV) calculation for four trust land classes (forestlands, agricultural lands, rangelands, and ICR lands), and for these land classes combined. In FY2018, the ROAV for all trust lands averaged 0.22%. This measure was primarily influenced this year by continued expenses on the Elliott State Forest.

2. **Annual Change in Net Operating Income (NOI)**
   The total NOI for FY2018 was $804,680, a decrease of about $265,000 (or 25%) from FY2017. This was largely due to increased expenditures on the Elliott State Forest with no timber sales to offset the expenses. When considering land classifications other than forestland, the total NOI for FY2018 was about $1.5 million, a $236,359 increase from FY2017. (Appendix B)

3. **Annual Change in Gross Annual Revenue (AR)**
   The FY2018 Gross Annual Revenue was approximately $4.9 million, a decrease of about $1.6 million (or 24%) as compared to FY2017. Approximately $1.5 million of the decrease can be attributed to less timber income. When considering land classifications other than forestlands, the FY2018 AR was down $65,322, or 2.2%. (Appendix B)
4. Annual Land Value Appreciation (LVA)
The FY2018 real property market value is estimated at $547.8 million. This is an overall
increase in land value of 0.64% across all land classifications compared to the FY2017
value of $544.3 million. The approximate market value is based on best professional
judgement by staff. (Appendix C)

2012 Real Estate Asset Management Plan (REAMP) Implementation

Information on the general implementation categories defined in the 2012 REAMP and
the distribution of the trust lands across these categories is summarized in Table 2
(excludes waterways and sub-surface mineral rights). The 2012 REAMP Implementation
Outcomes include “a rebalanced portfolio through acquisition of assets with high
performance potential and the strategic disposal of selected non- or lower-performing
assets.” DSL will continue to evaluate these non-performing lands in the “none/minimal”
category for potential divestment. Net proceeds from trust land sales are deposited into
the land revolving account (a sub-account within the Common School Fund), unless
otherwise directed by the State Land Board.

Table 2. Summary of revenue potential for lands managed by DSL, by land classification and asset
performance category (APC), excluding mineral and energy resources and waterways ownership.

<table>
<thead>
<tr>
<th>LAND CLASSIFICATION</th>
<th>PROPERTY REVENUE POTENTIAL (acres)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long-term¹ Potential</td>
</tr>
<tr>
<td>Forestlands</td>
<td>120</td>
</tr>
<tr>
<td>Agricultural Lands</td>
<td>275</td>
</tr>
<tr>
<td>Rangelands⁵</td>
<td>3,508</td>
</tr>
<tr>
<td>Industrial/Commercial/</td>
<td>1,258</td>
</tr>
<tr>
<td>Residential</td>
<td></td>
</tr>
<tr>
<td>Special Stewardship Lands</td>
<td>278</td>
</tr>
<tr>
<td></td>
<td>Total Acres</td>
</tr>
</tbody>
</table>

¹ Not currently producing revenue, but with strong potential to produce revenue within 10 years.
² A strong potential to produce revenue within two years, but not presently generating revenue.
³ Currently producing annual revenues for the Common School Fund.
⁴ Generating minimal or no annual revenue, and low potential for generating revenue in the future.
⁵ Included here are the statutory rangelands (see Table 1), managed by the Real Property program with the trust lands.

Approximately 118,000 acres of trust lands (or 15%) are currently not generating
positive revenues for the Common School Fund, and it is estimated these acres make
up about 60% of the total asset value of the Common School Fund trust lands.
Approximately 82,500 of those acres are forestlands that were previously managed for
DSL by the Oregon Department of Forestry within the Elliott State Forest.
The Elliott State Forest is the primary factor affecting the reduced performance on
forestlands (see Appendix B) due to reduced timber harvest. Continuing maintenance
costs and work to create a Habitat Conservation Plan on the Elliott State Forest have kept expenses high with no offsetting timber sales.

About 9,200 acres across all five upland land classes are currently classified as having either short- or long-term potential to generate revenues. DSL will continue to actively evaluate potential opportunities to manage those lands in the future to improve revenue performance. If at a future point in time it’s determined these acres are unlikely to be able to generate revenues, these would then be reclassified as “none/minimal” category lands and shifted into the pool of acres to be evaluated for possible divestment.

The balance of the remaining lands – about 643,000 acres – are currently generating revenue, and DSL will continue to manage these lands accordingly (see Appendix B showing three-year average net revenues). DSL will look for opportunities to increase revenues and decrease expenditures from these lands, consistent with the REAMP. DSL will continuously re-evaluate the entire portfolio of trust lands to ensure the revenue generating status is properly categorized (Table 2). The Real Property program will make on-going adjustments as needed to reflect changes in our knowledge of the lands, any physical changes to the lands (ex. infrastructure investments), and any changes to potential revenue-generating opportunities.

Current and Future Real Property Management Priorities

The Department will continue implementing the 2012 REAMP’s General Management Principles, which include the following (pp.17-18):

1. The Land Board and Department will continue to meet their obligations on trust lands.

2. The Land Board and Department will continue to manage CSF lands to create a sustained and consistent stream of revenue to assist in building the principal of the CSF, thereby increasing annual distributions to schools.

3. The plan balances revenue enhancement and resource stewardship.

4. Consistent with the legacy of the Admission Act, the Land Board will maintain a real property asset portfolio of CSF lands. The allocation of land among land classifications may change over time based on management, reinvestment and disposal (i.e. divestment) strategies.

5. The Land Board and Department will actively strive to increase the total annual revenues from the real property asset portion of the CSF portfolio through the disposal of trust lands that are not actively managed or are low revenue producers.

DSL is currently engaged in a process to decouple the Elliott State Forest from the Common School Trust Lands revenue generation mandate and to develop a Habitat Conservation Plan with the U.S. Fish and Wildlife Service and National Oceanic and
Atmospheric Administration that will allow long-term sustainable timber harvest from the Forest. The legislature authorized $100 million in bonding to relieve a portion of the Department’s obligation to contribute revenue from the Elliott State Forest to the CSF. The Department is also pursuing the potential opportunity of transferring the Elliott State Forest to Oregon State University to become the “Elliott State Research Forest”.

The Department continues to work through finding a resolution to the revenue challenges associated with managing trust land within the Elliott State Forest as well as across all its forestland classified properties. The recent hire of a Forester will facilitate this effort. Opportunities will be pursued on rangelands through noxious weed treatment and removal of juniper trees.

The Department is focusing on planning efforts for development or sale of its Industrial, Commercial and Residential (ICR) properties. Recent planning efforts on ICR properties adjacent to/within the Urban Growth Boundaries of the Cities of Bend and Redmond have been successfully moving forward. These activities will result in increased value for the properties which in turn results in the potential for higher future revenue. The Department will continue to focus on identification of low revenue-producing properties for transferring out of the Common School Fund portfolio, and where possible improve the potential for revenues to be generated from those lands that are retained.

**Summary**

The Common School Fund trust land property portfolio, with an estimated value of approximately $547.8 million (Appendix C), is a substantial asset of the Common School Fund as a whole. This $547.8 million value is equivalent to about one-third of the Common School Fund investment holdings, currently valued at approximately $1.62 billion.

Common School trust lands hold a unique position with the primary role of providing revenue for Oregon’s public schools. A key element of meeting this mandate is maintaining an accurate and comprehensive inventory of all real property assets and asset values, and continually evaluating their current and potential revenue-generating status. The primary framework for this will be the regular asset performance category (APC) review as discussed in the previous section of this report. These reviews are intended to further fine-tune the evaluation of the various APCs for these lands over time.

**APPENDICES**

A. Map of all lands under the authority of the Department of State Lands, by Land Use Class
B. FY2016 – 2018 Real Property Revenue, Expenditures, and Net Operating Income by Land Class
C. FY2018 Financial Performance by Land Class
## FY2016-FY2018 Real Property Revenues, Expenditures (Direct only) and Net Operating Income by Land Class

(Does not include land sales/exchanges, South Slough expenditures/revenues, or capital expenditures.)

<table>
<thead>
<tr>
<th>Land Classification</th>
<th>Gross Revenue ($)</th>
<th>Expenditures ($)</th>
<th>Net Operating Income ($)</th>
<th>Gross Revenue ($)</th>
<th>Expenditures ($)</th>
<th>Net Operating Income ($)</th>
<th>Gross Revenue ($)</th>
<th>Expenditures ($)</th>
<th>Net Operating Income ($)</th>
<th>3-Year Avg. Annual Net Operating Income ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agricultural Land</strong></td>
<td>$242,752</td>
<td>$127,449</td>
<td>$115,303</td>
<td>$241,801</td>
<td>$143,418</td>
<td>$98,383</td>
<td>$345,453</td>
<td>$134,164</td>
<td>$211,289</td>
<td>$141,658</td>
</tr>
<tr>
<td><strong>Rangeland</strong></td>
<td>$919,624</td>
<td>$2,165,581</td>
<td>$(1,245,957)</td>
<td>$1,240,266</td>
<td>$593,234</td>
<td>$647,032</td>
<td>$1,033,755</td>
<td>$391,561</td>
<td>$642,194</td>
<td>$14,423</td>
</tr>
<tr>
<td><strong>ICR</strong></td>
<td>$1,112,497</td>
<td>$865,370</td>
<td>$247,127</td>
<td>$1,139,925</td>
<td>$933,889</td>
<td>$206,036</td>
<td>$1,296,932</td>
<td>$860,264</td>
<td>$436,668</td>
<td>$296,610</td>
</tr>
<tr>
<td><strong>Forestland</strong></td>
<td>$6,499,393</td>
<td>$4,037,200</td>
<td>$2,462,193</td>
<td>$3,522,486</td>
<td>$3,726,462</td>
<td>$(203,976)</td>
<td>$2,015,192</td>
<td>$2,720,507</td>
<td>$(705,315)</td>
<td>$517,634</td>
</tr>
<tr>
<td><strong>Special Stewardship</strong></td>
<td>$14,172</td>
<td>$374</td>
<td>$13,798</td>
<td>$15,954</td>
<td>-</td>
<td>$15,954</td>
<td>$22,178</td>
<td>$73</td>
<td>$22,105</td>
<td>$17,286</td>
</tr>
</tbody>
</table>

Revenues do not include land sales or mineral releases.

| Totals | 9,131,007 | 7,226,655 | 1,904,352 | 6,529,033 | 5,459,373 | 1,069,660 | 4,956,417 | 4,151,737 | 804,680 | $763,676 |
| Totals without Forestlands | 2,631,614 | 3,189,455 | $(557,841) | 3,006,547 | 1,732,911 | 1,273,636 | 2,941,225 | 1,431,230 | 1,509,995 | $1,278,614 |
### Appendix C: FY 2018 Market Value and Performance by Land Class

<table>
<thead>
<tr>
<th>Land Classification</th>
<th>Total Acres</th>
<th>Approximate Market Value (millions)</th>
<th>% of Total Market Value</th>
<th>Annual Net Operating Income (NOI)</th>
<th>Return on Asset Value (ROAV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forestlands: Elliott State Forest</td>
<td>82,500</td>
<td>$220.8&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>40.3%</td>
<td>($882,030)</td>
<td>(0.4%)</td>
</tr>
<tr>
<td>Forestlands: Other than Elliott SF</td>
<td>38,600</td>
<td>$103.3 – 113.9&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>19.8%</td>
<td>$176,715</td>
<td>0.48%</td>
</tr>
<tr>
<td>Agricultural Lands</td>
<td>8,000</td>
<td>$19.5-20.6&lt;sup&gt;(3)&lt;/sup&gt;</td>
<td>3.5%</td>
<td>$211,289</td>
<td>1.05%</td>
</tr>
<tr>
<td>Rangelands</td>
<td>620,000</td>
<td>$122.8 – 141.4&lt;sup&gt;(4)&lt;/sup&gt;</td>
<td>24.1%</td>
<td>$642,194</td>
<td>0.49%</td>
</tr>
<tr>
<td>ICR Lands</td>
<td>6,800</td>
<td>$64.0-68.5&lt;sup&gt;(5)&lt;/sup&gt;</td>
<td>12.1%</td>
<td>$436,668</td>
<td>0.7%</td>
</tr>
<tr>
<td>Special Stewardship Lands</td>
<td>13,100</td>
<td>(6)</td>
<td>-</td>
<td>$22,105</td>
<td></td>
</tr>
<tr>
<td>Mineral and Energy Resources</td>
<td>767,000</td>
<td>(6)</td>
<td>-</td>
<td>$197,739</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>1,536,000</td>
<td>$547.8</td>
<td>100%</td>
<td>$804,680</td>
<td>0.22%&lt;sup&gt;(7)&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Notes:

1. Final appraised value as determined by a Department-contracted appraisal process in 2016.
2. Values reported in the FY 2011 Annual Report, using the per-acre equivalent. These are the most recent estimated values.
3. Value estimate is based on figures provided by USDA’s report on land sales of Oregon’s farm land. The 2018 average price per acre for Oregon’s farm land is $2,370 as determined by USDA which collects land sales information. This includes all types of farming from dry farming to irrigated produce farming which is very lucrative. Irrigated farm land sales reflect values of $2,500 to $7,000 per acre in the areas in which DSL owns agricultural land. Most of DSL’s agricultural land has water rights but does not own the irrigation equipment so the USDA average value has been adjusted from $2,300 to $2,800 per acre for the range of values.
4. Rangeland values have started to level off after a decade of increasing values. Blocked ranch values per acre have stabilized ($450-$500 per acre for ranches over 3,000 acres with recreational appeal is typical) but can take years to market successfully with a very limited number of these selling annually. Individual properties with smaller acreage average around $200 to $300 per acre. An average individual tract value was designated for each county. DSL’s rangeland ownership would take over 50 years to sell and would depress rangeland values because of the large supply. To reflect this, a discount of 30% to 35% has been used to create the value range. The values in the DSL database reflect a more individual tract value.
5. Each property was valued individually through research of comparable sales properties.
6. Data not available.
7. Special Stewardship lands cover a wide spectrum of land types that typically have endangered plant species or an unusually well-preserved type of property that are difficult to value. Similarly, valuation of subsurface minerals and energy resources are very difficult to value and much of the subsurface minerals are also tied to DSL-owned surface rights. For these reasons, the return on asset value has not been reported for these categories.
SUBJECT

Request for approval to initiate due diligence for the sale and possible partition of a 15.23 acres tract at the south end of North Tongue Point in Clatsop County, located at Township 8 North, Range 9 West, Section 11, Tax Lot 5800.

ISSUE

Whether the Land Board should authorize the initial due diligence for the sale and possible partition of DSL land on North Tongue Point. (Appendix A).

AUTHORITY

Oregon Constitution, Article VIII, Sections 2 and 5; pertaining to the Common School Fund and land management responsibilities of the State Land Board.

ORS 273.055; relating to the power to acquire and dispose of real property.
ORS 273.171; relating to the duties and authority of the Director.
OAR 141-067; relating to the sale, exchange and purchase of state land.
Real Estate Asset Management Plan (REAMP), adopted by the Land Board; February 2012.
SUMMARY

The North Tongue Point property is on the deep-water channel of the Columbia River at the eastern end of Astoria. This tract is adjacent to a former U.S. Naval base at North Tongue Point which includes long shipping piers.

In the mid-1980’s, DSL purchased this 15.23-acre tract, plus the former 33.9-acre Naval base that operated during World War II, and 130 acres at South Tongue Point for $2 million.

On September 20, 2000, DSL sold the former 33.9-acre Naval base for $4 million to Cresmont, Inc.

In February 2019, the State Land Board approved selling the north 21.78 acres of South Tongue Point to Clatsop Community College in a direct sale for $826,500.

For the past ten years, DEQ and the U.S. Corps of Engineers (Corps) have worked cooperatively to clean up and monitor the southern 8 acres of the 15.23 acres tract proposed for sale. The tract had a landfill that has been capped and monitored for the past ten years. The earthen cap requires periodic inspection and maintenance by the Corps in perpetuity. A fence has been installed around the impacted area and is only accessible to the Corps.

DSL received an application from Bergerson Construction, Inc. to purchase the northern portion of the property. Bergerson Construction, Inc. currently leases space from Hyak Maritime, the current owner of the former Naval base, and has found it needs additional space for material storage.

DSL asks to perform due diligence studies on the sale of this 15.23-acre tract, and to possibly partition the northern portion of the property for the sale if it appears to be more lucrative than selling the entire parcel. An open, competitive sale process will be pursued for this property.

RECOMMENDATION

The Department recommends that the State Land Board authorize the Department to initiate due diligence studies for a sale and to potentially partition the property located at Township 8N, Range 9W, Section 11, Tax Lot 5800.

APPENDIX

A. Map of Property
Appendix A

61596-LS  South Tongue Point  T08N, R09W Secs. 12 & 13  Clatsop County

North Tongue Point Approval for Due Diligence
North Tongue Point (Sold 1980)
South Tongue Point

This product is for informational purposes only and has not been prepared for, nor is suitable for legal, engineering, or surveying purposes. Users of this information should review or consult the primary data and information sources to ascertain the usability of the information.
SUBJECT

Request for approval to initiate rulemaking to impose restrictions on the public recreational use of state-owned land in Lane County.

ISSUE

Whether the State Land Board should initiate rulemaking to impose restrictions on the public recreation use of state-owned banks and islands on the Willamette River within the City of Eugene.

AUTHORITY

Oregon Constitution, Article VIII, Section 5, specifies that the State Land Board is responsible for managing lands of this state under their jurisdiction with the object of obtaining the greatest benefit for the people of this state, consistent with the conservation of this resource under sound techniques of land management.

ORS 274.025; describing state jurisdiction over submersible and submerged lands generally.

ORS 273.041 to 273.071; authorizing the Department of State lands to exercise the administrative functions of the State Land Board; relating to the general powers and duties of department and board.

OAR 141-088-0000; relating to the purpose and applicability of public recreational use of state-owned property.

OAR 141-088-0004; relating to restriction of the use of state-owned lands that pose a significant risk of harm or damage to the natural resources of the land or to the public.
SUMMARY

The City of Eugene currently manages most of the riverfront properties along the Willamette River, where it flows through the City limits. Actions include patrolling areas for illicit activities (camping, dumping, trash, graffiti) and the posting of occupied encampments for removal. Camping is not permitted on City property, and when active camps are encountered on parkland, a posting is left notifying campers that the area is scheduled for cleanup. The City conducts these cleanup activities along the Willamette River in the interest of protecting riparian habitat and water quality.

The City has previously cleaned up camps and dumping on islands in the Willamette River as they had assumed it was City property and therefore their responsibility. However, these islands were formed after statehood and through accretion, making them state-owned. In a typical month, the City of Eugene posts approximately 100 camps for cleanup throughout the City, approximately one third of which are along the Willamette River. Between January 1, 2017 and July 18, 2018, the City Parks Division posted and cleaned up 44 camps on islands in the Willamette River.

Since July 2018, the Department has been monitoring these state-owned lands with the assistance of Eugene Parks Division staff, the Eugene Police Department and the Oregon State Police. The City has documented illegal or nuisance activity on state-owned land. These activities include, but are not limited to:

- Offensive littering and dumping;
- Reckless burning and open fires;
- Damage to riparian vegetation and wildlife habitat;
- Interference with property; and
- Damage to property.

Attached you will find photo documentation collected by Parks and Recreation staff (Appendix B). Some of the illegal activities occur at night and are difficult for the Department and law enforcement to monitor. The repeated accumulation of garbage and human waste is a concern to wildlife habitat and water quality. Based on the ongoing issues, it is recommended that the Department engage in rulemaking to consider a permanent recreational restriction on all state-owned lands identified in Appendix A.
Below is draft rule language that the Department has proposed to use as an initial draft for this rulemaking effort.

OAR 141-088-

RESTRICTIONS FOR STATE-OWNED BANKS AND ISLANDS OF THE WILLAMETTE RIVER WITHIN THE CITY OF EUGENE
(Willamette River)

All state-owned land that is under the jurisdiction of the Department between the line of ordinary high water and the line of ordinary low water along the Willamette River, including all islands between these areas, between River Mile 178 and River Mile 184, between the Randy Pape Beltline Road Bridge and the Interstate 5 Bridge, located in Sections 18, 29, 30, 32 and 33, Township 17 South, Range 3 West, and Sections 13, 24 and 25, Township 17 South, Range 4 West, Willamette Meridian, in Lane County, Oregon is closed to:

(1) All uses between 10 p.m. and 5 a.m.
(2) The establishment of a campsite at any time. For purposes of this section, “campsite” means any place where any bedding, sleeping bag or other material used for bedding purposes, or any stove is placed, established or maintained for the purpose of maintaining a temporary place to live, whether such a place incorporates the use of any tent, lean-to, shack or any other structure.
(3) Fires at any time.

Excepted from this restriction are Government personnel on official business, public and private employees performing company business, vehicles and persons involved in rescue or emergency activities, and Department authorized persons and adjacent landowners inspecting or maintaining property.

The draft rule language is consistent with existing recreational restrictions in OAR 141-088, will protect state-owned lands from damage, and will assist the City in the posting of occupied encampments for removal.

Upon approval to initiate rulemaking by the Board, the Department may convene a Rulemaking Advisory Committee (RAC) to review and provide input on the proposed rules, the "Notice of Proposed Rulemaking Hearing" and the "Statement of Need and Fiscal Impact." The Department will solicit input on the proposed rules through a public comment period and will hold at least one public hearing on the proposed rules in Lane County.

The Department will take into consideration public comment, input from the RAC and other local and state agencies and affected stakeholders to determine the appropriate final proposed restrictions in accordance with OAR 141-088-0006.
Pursuant to OAR 141-088-0007(1), the Director is imposing an emergency closure of the state-lands in question while the Department works through the rulemaking process. The emergency closure will be in place for no longer than one year, as the Department intends to enact the proposed rule changes by Jan 1, 2020. Moreover, the emergency closure will help the City of Eugene address occupied encampments during the rulemaking process as well as illegal and nuisance activity.

Specific language of OAR 141-088-0007:

“Restrictions or Closures Imposed by the Director to Address an Emergency
(1) The Director may impose a restriction or closure in the event s/he determines that the restriction or closure is necessary to address an emergency.
(2) Restrictions or closures imposed by the Director to address an emergency will be as limited in area, duration and scope as necessary to address the identified need for the restriction or closure.
(3) If the Director imposes a restriction or closure, the Department will:
(a) Notify affected local, state and federal government agencies and tribal governments, as well as other interested persons or groups that the Department believes might be affected by the imposition of restrictions or a closure, or that have indicated that they want to be notified of such actions; and
(b) Post a notice of such proposed public use restrictions or closure:
(A) One time in the Public Notices Section of The Oregonian and, if the Director deems appropriate, in another newspaper serving the general area of the subject restriction or closure within two weeks after the restrictions or closure take effect; and
(B) On the Department’s website upon imposition of the restrictions or closure at http://www.oregon.gov/DSL
Statutory/Other Authority: ORS 183, 273 & 274”

RECOMMENDATION

The Department recommends the State Land Board authorize the Department of State Lands to initiate rulemaking to impose restrictions on the public recreational use of state-owned banks and islands on the Willamette River within the city limits of the City of Eugene.

APPENDICES

A. Site map of state-owned banks and islands.
B. Photo documentation of occupied encampments.
Appendix A: Knickerbocker to Frohnemayer
Willamette River Islands
T17S, R03W, Section 32 & 33
Willamette River, Lane County

Affected Islands

2017 Aerial Photo

This map depicts the approximate location and extent of a Department of State Lands Proprietary authorization for use. This product is for informational purposes only and may not have been prepared for, or be suitable for legal, engineering, or surveying purposes. Users of this information should review or consult the primary data and information sources to ascertain the usability of the information.
Appendix A-2: Frohnmayer to Skinners Butte
Willamette River Islands
T17S, R03W, Section 29, 30 & 32
Willamette River, Lane County

Affected Islands

2017 Aerial Photo
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Appendix A-3: Delta Ponds
Willamette River Islands
T17S, R03W, Section 30
T17S, R04W, Sections 24 & 25
Willamette River, Lane County

- Affected Islands

2017 Aerial Photo

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Appendix A-4: Delta Ponds to Owosso Bridge
Willamette River Islands
T17S, R04W, Sections 13 & 24
Willamette River, Lane County

Affected Islands

2017 Aerial Photo

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