STATE LAND BOARD

April 10, 2018
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 13, 2018, State Land Board meeting.

Informational Items


Action Items

3. Request for approval to sell 2.78-acre Helvetia property

4. Request for approval to sell 159-acre Millican Road property

5. Request for approval to initiate budget limitation requests at the 2018 May and September Emergency Board meetings.

6. Other

*The Board may meet in executive session pursuant to ORS 192.660(2)(h), for the purpose of conferring with legal counsel regarding the Board’s rights and duties related to current litigation likely to be filed. The Board will not be making any decisions in executive session.

Continued on next page
Livestream available at: https://www.youtube.com/channel/UCQA7FHTWwl-gjJkQeYPJ1IA

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.

**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 met in regular session on February 13, 2018, in the Land Board Room at the Department of State Lands, 775 Summer Street NE, Salem, Oregon.

Present were:
Kate Brown, Governor
Dennis Richardson, 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
Jim Paul, Bill Ryan, Cyndi Wickham, Julie Curtis
Chris Castelli, Arin Smith, Sabrina Foward, Anne Friend

Department of Justice
Matt DeVore

Governor Brown called the meeting to order at 10:00 a.m. The topics discussed, and the results of those discussions are listed below. To view the Land Board meeting in its entirety, please visit our YouTube page: https://www.youtube.com/watch?v=tyYtufuxT7c

The Board presented retiring Deputy Director Cyndi Wickham with a letter of appreciation for her years of service to the Board and the State of Oregon.

**CONSENT AGENDA**

1. Request for approval of the minutes of the October 17, 2017 State Land Board meeting.

2. Request for approval of a perpetual easement for the bridge crossing on Highway 34, over McKinney Slough in the Northwest ¼ of Section 20 of Township 13 South, Range 11 West of Willamette Meridian in Lincoln County, Oregon.
10:03 a.m.
Director Jim Paul briefly described the items on the consent agenda.

10:04 a.m.
The Governor opened the floor for public comment. The public comment received related to Action Agenda Item 8, and the appointment of the Interim Director of the Department of State Lands.

Treasurer Read made a motion to approve the consent agenda.

Secretary Richardson seconded that motion.

There were no objections to this motion. The consent agenda was approved at 10:13 a.m.

**Informational Items**

3. **Annual Aquatic Resource Management Program Report**

10:16 a.m.
Director Paul asked Deputy Director Bill Ryan to assist him in presenting this report. This report provides summary information regarding the management of state-owned waterways for the 2017 fiscal year and fulfills the annual report requirements in the state’s removal-fill law ORS 196-885.

4. **Oregon Dept. of Forestry Annual Report on Common School Fund Forest Lands**

10:25 a.m.
Director Paul introduced Michael Wilson with Oregon Department of Forestry to present the annual report for fiscal year 2017 on the performance and management of state land they manage for DSL and the Land Board.

5. **Real Property Annual Report**

10:37 a.m.
Director Paul asked Deputy Director Bill Ryan to assist him in presenting this report. The primary purpose of this report is to provide the Board with a year-end summary for fiscal year 2017 on the financial performance of Common School Fund trust lands overall.

Jim Paul and Bill Ryan answered questions from the Board regarding the report.

6. **Elliott Update**

10:54 a.m.
Director Paul gave an update on the Elliott State Forest Public Ownership Project. The January 2018 public update was used to update the Land Board regarding the decoupling work and the development of a Habitat Conservation Plan.
**Action Items**

7. **Request for approval to proceed with drafting legislative concepts for submittal to the Department of Administrative Services for the 2019 Legislative Session.**

   11:05 a.m.
   Director Paul reviewed the legislative concepts for the 2019 Legislative Session. There are three legislative concepts that need approval from the Board to move forward. The agency deadline for submitting these legislative concepts to the Department of Administrative Services before the next scheduled Land Board meeting in June.
   Secretary Richardson moved to approve proceeding with drafting legislative concepts for submittal to DAS for the 2019 Legislative Session.

   Treasurer Read Seconded the motion.

   There were no objections to this motion. The item was approved at 11:10 a.m.

8. **Appointment of the Interim Director**

   11:11 a.m.
   The Governor first thanked Director Jim Paul for his years of service with the Department of State Lands and the Land Board as he moves on to his new role with the Department of Corrections.

   The three Land Board Assistants provided the Board with an overview of the process of selecting an Interim Director for the agency. The unanimous recommendation from the Land Board Assistants was to select Vicki Walker to serve as Interim Director for up to 18 months, and until a recruitment for a permanent director can be completed.

   Treasurer Read made a motion to accept the Land Board Assistants recommendation that the Land Board appoint Vicki Walker as the Interim Director of the Department of State Lands effective March 1, 2018.

   Secretary Richardson seconded the motion.

   There were no objections to this motion. The item was approved at 11:22 a.m.

9. **Other**

   Governor Brown adjourned the meeting at 11:23 a.m.

______________________________________________________________
Kate Brown, Governor

______________________________________________________________
Vicki L. Walker, Director
State Land Board  
Common School Fund  
Annual Portfolio Review

Purpose
To provide the State Land Board an update on the asset allocation, performance, and rebalancing activity within the Common School Fund for the period ended December 31, 2017.

CSF Asset Allocation
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 Common School Fund (CSF). The OIC-approved asset allocation resulted in a 10 percent target allocation to both Real Assets and Diversifying Strategies, which improved ex ante returns without a commensurate increase in expected risk.

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. The OIC-approved asset allocation was informed by Callan Associates’ recent 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>Diversifying Strategies</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 Yr Expected Return (Geo Mean) | 6.5% | 6.6%
Projected Standard Deviation | 14.5% | 13.2%

Source: Callan 2017 Capital Market Assumptions

CSF Performance
For the quarter ended December 31, 2017, the CSF posted a 3.82 percent return, under-performing the MSCI ACWI IMI by 0.22 percent (Exhibit 2). For the three-, five-, and ten- year periods ended December 31, 2017, net excess returns from CSF’s public equity portfolio were -0.21 percent, 0.25 percent and 0.18 percent, respectively.

Exhibit 2 – Total Fund Performance

<table>
<thead>
<tr>
<th>Period Ending 12/31/2017</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>CSF Returns</td>
<td>$ 1,676,023,000</td>
<td>3.82%</td>
<td>17.24%</td>
<td>7.71%</td>
<td>9.46%</td>
<td>5.88%</td>
</tr>
<tr>
<td>CSF Policy Benchmark</td>
<td>4.04%</td>
<td>17.47%</td>
<td>7.92%</td>
<td>9.21%</td>
<td>5.70%</td>
<td></td>
</tr>
<tr>
<td>Excess Return</td>
<td>-0.22%</td>
<td>-0.23%</td>
<td>-0.21%</td>
<td>0.25%</td>
<td>0.18%</td>
<td></td>
</tr>
</tbody>
</table>

Source: State Street
Although total fund returns for CSF across all trailing periods were not remarkably different from the CSF Policy Benchmark, at the asset class level, relative returns were mixed. Public Equity and Fixed Income posted strong excess returns across all trailing time periods, while Private Equity suffered headwinds, under-performing its benchmark across all time periods (Exhibit 3).

**Exhibit 3 – Asset Class Performance**

<table>
<thead>
<tr>
<th>Period Ending 12/31/2017</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>CSF Global Equity Returns</td>
<td>$ 952,075,000</td>
<td>5.85%</td>
<td>24.83%</td>
<td>9.85%</td>
<td>12.02%</td>
<td>6.23%</td>
</tr>
<tr>
<td>MSCI ACWI IMI Net</td>
<td></td>
<td>5.72%</td>
<td>23.95%</td>
<td>9.52%</td>
<td>11.00%</td>
<td>4.97%</td>
</tr>
<tr>
<td>Excess Return</td>
<td></td>
<td>0.13%</td>
<td>0.88%</td>
<td>0.33%</td>
<td>1.02%</td>
<td>1.26%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period Ending 12/31/2017</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>CSF Fixed Income Returns</td>
<td>$ 446,205,000</td>
<td>0.50%</td>
<td>4.94%</td>
<td>2.97%</td>
<td>2.84%</td>
<td>5.02%</td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. Aggregate</td>
<td></td>
<td>0.39%</td>
<td>3.54%</td>
<td>2.32%</td>
<td>2.21%</td>
<td>4.18%</td>
</tr>
<tr>
<td>Excess Return</td>
<td></td>
<td>0.11%</td>
<td>1.40%</td>
<td>0.65%</td>
<td>0.63%</td>
<td>0.84%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period Ending 12/31/2017</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>CSF Private Equity Returns</td>
<td>$ 200,352,000</td>
<td>4.11%</td>
<td>15.31%</td>
<td>10.17%</td>
<td>14.04%</td>
<td>7.62%</td>
</tr>
<tr>
<td>Russell 3000 + 300 Bps Qtr Lag</td>
<td></td>
<td>5.34%</td>
<td>22.22%</td>
<td>14.03%</td>
<td>17.61%</td>
<td>11.23%</td>
</tr>
<tr>
<td>Excess Return</td>
<td></td>
<td>-1.23%</td>
<td>-6.91%</td>
<td>-3.86%</td>
<td>-3.57%</td>
<td>-3.61%</td>
</tr>
</tbody>
</table>

Source: State Street

**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, which align with the asset class policies used for the Oregon Public Employees Retirement Fund (OPERF). In addition to the alignment of asset class policies, the Council also approved staff’s ability to exercise retention, termination and rebalancing discretion. 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 4) were implemented:

**Exhibit 4 - 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>October-17</td>
<td>MFS Institutional</td>
<td>U.S. Large Cap Value</td>
<td>$(114,672,000)</td>
<td>Termination</td>
</tr>
<tr>
<td>October-17</td>
<td>Jackson Square Partners</td>
<td>U.S. Large Cap Growth</td>
<td>$(114,038,000)</td>
<td>Termination</td>
</tr>
<tr>
<td>November-17</td>
<td>Dimensional Fund Advisors</td>
<td>U.S. Large Cap</td>
<td>$ 228,710,000</td>
<td>Initial Funding</td>
</tr>
<tr>
<td>December-17</td>
<td>BlackRock ACWI IMI</td>
<td>Global Equity</td>
<td>$(50,000,000)</td>
<td>Rebalance - Cash Raise</td>
</tr>
<tr>
<td>January-18</td>
<td>JP Morgan Systematic</td>
<td>Alternatives</td>
<td>$ 50,000,000</td>
<td>Initial Funding</td>
</tr>
<tr>
<td>January-18</td>
<td>BlackRock ACWI IMI</td>
<td>Global Equity</td>
<td>$(50,000,000)</td>
<td>Rebalance - Cash Raise</td>
</tr>
<tr>
<td>February-18</td>
<td>BlackRock Style Advantage</td>
<td>Alternatives</td>
<td>$ 50,000,000</td>
<td>Initial Funding</td>
</tr>
</tbody>
</table>

Source: State Street
**Portfolio Construction Update**

As of January 31, 2018, the CSF’s actual allocation relative to the newly established policy targets still reflects residual exposures from the prior targets (Exhibit 5). As shown in Exhibit 4, staff allocated $100MM to two separate Alternatives mandates in Q1 2018. OST Staff is currently working on two real estate mandates which are expected to fund in Q3 2018. Staff expects to reach the revised, OIC-approved target allocations by mid-2019.

**Exhibit 5 - Portfolio Construction as of January 31, 2018**

<table>
<thead>
<tr>
<th>Common School Fund</th>
<th>Prior Allocation</th>
<th>Target Allocation</th>
<th>Range</th>
<th>Market Value</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>60%</td>
<td>45%</td>
<td>40% - 50%</td>
<td>$950,810,000</td>
<td>55%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>10%</td>
<td>10%</td>
<td>8% - 12%</td>
<td>$203,346,000</td>
<td>12%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>30%</td>
<td>25%</td>
<td>20% - 30%</td>
<td>$443,668,000</td>
<td>26%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>0%</td>
<td>10%</td>
<td>8% - 12%</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Diversifying Strategies</td>
<td>0%</td>
<td>10%</td>
<td>8% - 12%</td>
<td>$100,000,000</td>
<td>6%</td>
</tr>
<tr>
<td>Cash (Oregon Short Term Fund)</td>
<td>0%</td>
<td>0%</td>
<td>0% - 3%</td>
<td>$20,783,000</td>
<td>1%</td>
</tr>
</tbody>
</table>

$1,718,607,000

**CSF Net Asset Value (NAV) and Annual Distributions**

The fund hit its low of $678 million in February 2009 and has since realized a steady and sustained upward trend. Net of contributions and distributions, the fund grew by 14.4 percent over the past year, from $1.46 billion at the end of December 2016 to $1.67 billion at year end 2017 (Exhibit 6).

**Exhibit 6**

![CSF NAV graph](image)

Annual distributions over the past 15 years are as follows:
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$32.3 million</td>
</tr>
<tr>
<td>2003</td>
<td>$13.0 million</td>
</tr>
<tr>
<td>2004</td>
<td>$21.6 million</td>
</tr>
<tr>
<td>2005</td>
<td>$40.8 million</td>
</tr>
<tr>
<td>2006</td>
<td>$45.4 million</td>
</tr>
<tr>
<td>2007</td>
<td>$48.5 million</td>
</tr>
<tr>
<td>2008</td>
<td>$55.4 million</td>
</tr>
<tr>
<td>2009</td>
<td>$40.4 million</td>
</tr>
<tr>
<td>2010</td>
<td>$50.5 million</td>
</tr>
<tr>
<td>2011</td>
<td>$48.8 million</td>
</tr>
<tr>
<td>2012</td>
<td>$48.0 million</td>
</tr>
<tr>
<td>2013</td>
<td>$53.1 million</td>
</tr>
<tr>
<td>2014</td>
<td>$50.8 million</td>
</tr>
<tr>
<td>2015</td>
<td>$54.1 million</td>
</tr>
<tr>
<td>2016</td>
<td>$66.2 million</td>
</tr>
<tr>
<td>2017</td>
<td>$70.3 million</td>
</tr>
</tbody>
</table>
SUBJECT
Request for approval to sell the Helvetia property, a 2.78-acre parcel located at 6103-6199 NW Casper Court (Township 1 North, Range 2 West, Sec 15CC, Tax Lot 100) in Hillsboro.

ISSUE
Whether the Land Board should authorize the sale of the Helvetia property in Hillsboro through either a public auction or brokered sale (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.
Central Oregon Area Management Plan (COAMP), adopted by the Land Board; October 2011
Real Estate Asset Management Plan (REAMP), adopted by the Land Board; February 2012

SUMMARY
The Department purchased the Helvetia property in 2012 as part of an effort to reposition the land portfolio to generate greater returns to the Common School Fund
(Appendix B). This property was purchased consistent with the direction of the State Land Board's 2012 Real Estate Asset Management Plan (REAMP):

A key purpose of the REAMP is to reposition the land portfolio to generate greater returns to the Common School Fund. The minimum return on property investment is to meet or exceed the ten-year average of the Fund (currently about 7%), with a targeted return of 8%, including appreciation.

Since 2012, the Department has made some improvements to the property to improve its desirability for lease and revenue to the Common School Fund. It is currently leased at full capacity with three tenants for a variety of light industrial uses. On September 18, 2017, the Department received a request to purchase the property from Pacific NW Properties (Appendix C).

Considering the purchase price of the property, the net operating income and the projected sale price of the property over the time the property has been owned, the property has an internal rate of return of 8.12%. This meets the goal of an 8% return when the property was purchased.

The property has posed some challenges for the Department. This type of property has relatively short leases of three to five years with each new tenant typically requiring tenant-specific improvements. Tenant-specific improvements reduce the return on investment for the property and are a drain on the Department’s limited staff resources. The Department’s Real Property Program staff are not always available to nimbly address requested construction improvements. Several prospective tenants couldn’t wait the length of time needed for funding approval and hiring of contractors.

The building is fully leased, and the local market for industrial flex properties has a low vacancy rate, so it is likely a good time to market the property. The Department received approval to perform due diligence for potential sale of the property at the October 17, 2017 Land Board meeting.

Notice was sent to the adjacent landowners to inform them of the potential sale of the parcel. Local, state and federal agencies and tribal interests were also notified and given the opportunity to offer information concerning their areas of interest. Other than a letter from the land purchase applicant, Pacific Northwest Properties (Appendix D), confirming it was still very interested in the property, the Department received no public comments.
RECOMMENDATION

The Department recommends that the State Land Board authorize the sale of the Helvetia property, a 2.78-acre parcel located at Township 1N, Range 2W, Section 15, Tax Lot 100 in Washington County at public auction or using a broker.

APPENDICES

A. Map of Property
B. October 2012 State Land Board Agenda Item #8
C. Offer to Purchase
D. Letter from Pacific Northwest Properties
EXHIBIT A

Helvatia Property
PSI Business Park

T10N, R02W, Section 15
Tax Lot 100
Washington County

DSL Property Boundary
CONFIDENTIAL

State Land Board

Regular Meeting
October 9, 2012
Agenda Item 8

SUBJECT

Request for authorization to purchase property located at 6103 NW Casper Place, in Hillsboro for $2,912,287.

ISSUE

Whether the Land Board should give approval for the Director to complete an acquisition of 2 light industrial/commercial office buildings (6103 NW Casper Place), located at the northeast corner of the interchange of Oregon Highway 26 and Helvetia Road for $2,912,287. The buildings total 31,155 square feet and the property is 2.78 acres.

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 in February 2012.

SUMMARY

This proposed purchase is the first significant acquisition towards implementation of the Real Estate Asset Management Plan (REAMP). The REAMP specifically addresses acquisition of properties in the ICR land class (Industrial, Commercial and Residential),
and includes specific guidelines to better inform staff in conducting due diligence on potential acquisitions. This building is light industrial/flex office space.

**REAMP Investment Guidelines**

The REAMP guidelines for Commercial Office Buildings (REAMP, p. 27-29) include:

<table>
<thead>
<tr>
<th>REAMP Guidelines – Industrial/ Flex Buildings</th>
<th>6103 Casper Place Conformance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Type</strong></td>
<td>The property consists of two buildings. One is about 5,155 s.f. and the other is about 26,000 s.f. on 2.78 acres. Each are one-story low rise buildings with high ceilings, 6 drive-in doors and 4 drive-in doors in each tenant space and ample parking. There are 6 store fronts on the buildings between the two buildings.</td>
</tr>
<tr>
<td>- Concrete tilt with 3/1,000 s.f. parking, with multiple tenants.</td>
<td></td>
</tr>
<tr>
<td><strong>Tenant type</strong></td>
<td>The buildings are about 3 years old. Property inspection indicates no problems with high quality construction. No environmental issues discovered. It is located in an office/ light industrial park type setting.</td>
</tr>
<tr>
<td>- preference for high-grade, multi-tenant buildings in an industrial park setting. 3-5 year average term for multi-tenant buildings with staggered rent roll. Preference given to office park setting.</td>
<td></td>
</tr>
<tr>
<td><strong>Lease Term</strong></td>
<td>The buildings are fully leased with four tenants that have varying lease terms of 2-6 years.</td>
</tr>
<tr>
<td>- Core:+/- five-year average</td>
<td></td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>The buildings, located in Hillsboro, are 2-3 miles from the Hillsboro Airport, Genentech, Solar World and the Intel Ronler Acres Campus. The property is on an interchange with US 26 and Helvetia, at the edge of the urban growth boundary that is recommended for expansion. It is a high growth employment area.</td>
</tr>
<tr>
<td>- Areas with significant economic generators. Area must have an efficient infrastructure. Job infrastructure is important.</td>
<td></td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td>The buildings are concrete tilt up buildings.</td>
</tr>
<tr>
<td>- Concrete tilt up, masonry, or pre-cast.</td>
<td></td>
</tr>
<tr>
<td><strong>Physical Amenities – Design Type</strong></td>
<td>The buildings are modern light industrial and 100% leased, with 4 tenants.</td>
</tr>
<tr>
<td>- Modern light industrial; preference for multi-tenant.</td>
<td></td>
</tr>
<tr>
<td><strong>Physical Amenities – Loading: Dock/semi-dock/grade level</strong></td>
<td>The buildings have 6 garage doors at grade and four loading dock doors for semi-trailers in the large building.</td>
</tr>
<tr>
<td><strong>Physical Amenities – Bay depth: 100 – 200 feet.</strong></td>
<td>The large building is 100 feet deep and the small building is 50 feet deep and is set up for office and small warehouse space.</td>
</tr>
<tr>
<td><strong>Physical Amenities – Clear ceiling height.</strong></td>
<td>The minimum clear ceiling height is over 18 feet.</td>
</tr>
</tbody>
</table>
Physical Amenities – Parking Ratio: 2.5/1,000 s.f. - The buildings have 66 parking spaces; about 2.13 spaces/1,000 s.f. If looking at parking for the predominant industrial uses, the property exceeds the industrial standard of 1.5 spaces/1,000 s.f.

Physical amenities – Office Finish: 70% or less. - Approximately half of the smaller building is finished for office use. The large building is in light industrial finishes.

Physical Amenities: Site Coverage: Less than 50%. - The buildings contain about 31,000 s.f. on 2.78 acres; about 26% site coverage.

Amenities: - Code compliant sprinkler system - Attractive landscaping - ADA compliant - Signage - NNN (triple net) leases - The buildings meets all of the amenity guidelines.

Minimum Size: 20,000 s.f., $2,000,000 The buildings total about 31,000 s.f. and the price is $2,912,287.

Financial Returns
A key purpose of the REAMP is to reposition the land portfolio in order to generate greater land-based returns to the Common School Fund. Thus, lower performing lands are being evaluated for disposal and higher performing lands are being targeted for acquisition; specifically commercial and industrial properties. In evaluating land for acquisition, the REAMP targets lands with immediate or near-term, rather than potential long-term, returns. The minimum return on property investment is to meet or exceed the ten-year average of the CSF (currently about 6.4%), with a targeted return of 8%, including appreciation. Staff believes that significant appreciation is likely for this property due to the quality construction and the location.

In analyzing returns for this property, relatively conservative assumptions were used. The estimated 15-year net operating income annual average, after deducting capital costs and reserves (assumes $37,500 accumulated over the first five years), is $235,513. Based on a final sale price of $2,912,287, the projected 15-year average return on the property, assuming 50% tenant turnover and excluding maintenance reserves and investments, is 8.09%. This meets and exceeds the targeted return in the REAMP without including any assumptions for appreciation of the property.

Physical and Environmental Inspections
A building condition assessment was conducted by Tim Rippey Consulting Engineers of Portland. The report on the buildings addressed structural, mechanical, electrical systems and the roof. No areas of concerns with the buildings were noted in the report. A Phase 1 environmental analysis was also completed for the property. No recommended environmental conditions were identified.
Property Management
If the Land Board approves the purchase of the property, staff will immediately initiate a Request for Proposal process for professional property management services. The estimated costs of property management are included in the assumptions of returns on the property.

Appraisal
The appraised value of the property is $2,915,000. The appraiser used a combination of the sales comparison and income capitalization approaches to derive this property value.

Land Revolving Fund
The Land Revolving Fund is the source for acquiring land. Revenues from sales of trust lands are placed in the Revolving Fund for this purpose. The balance of the Revolving Fund as of September 19 is $13,261,668.

Analysis
As the first ICR property acquisition to implement the REAMP, staff carefully evaluated the property prior to negotiating its purchase. The buildings are about 3 years old and in excellent shape, with no concerns reported from inspections. The buildings are also located in a current and anticipated future high employment growth area, with high visibility from Highway 26 at the interchange with Helvetia Road. These factors lead staff to believe that significant appreciation in value is likely in future years. In addition to appreciation, the building cash flow is projected to provide an average return of 8.09% over a 15-year period.

RECOMMENDATION
The Department recommends that the Land Board give approval for the Director to complete the acquisition of 6103 NW Casper Place, in Hillsboro.

APPENDICES
A. Map of property location
B. Photos of property
C. Site plan
LOI Offer to Purchase

9.18.17

PSI Business Park
Hillsboro, Oregon
September 18, 2017

Mr. Charles Safley  
Capital Markets | Advisory & Transaction Services  
CB Richard Ellis  
1300 SW 5th Avenue, Suite 3000  
Portland, OR 97201

RE: Letter of Intent (LOI) to Purchase – PSI Business Park

Charles:

Pacific NW Properties, LP (Pacific) (“Buyer”) has sincere interest in acquiring PSI Business Park from Oregon Department of State Lands (“Seller”).

WHO WE ARE

Pacific NW Properties, LP is a family-owned, privately held real estate development, investment and property management company that started in 1990, with approximately 3,500,000 square feet of multi-tenant business parks in the Portland Metro Area under ownership and management. We have over 500 quality tenants in our PNWP portfolio with the “bread and butter” of it made up of small, light industrial customers (just like PSI Business Park). More info about the Buyer at www.pnwprop.com. I’ve enclosed a map showing our other properties in the Portland Metro Area as a reference. You’ll notice that we own several projects very close in proximity to the subject site on Casper Place.

RECENT ACQUISITIONS AND PERFORMANCE CREDIBILITY

In the past few years Pacific has acquired over $70 Million worth of properties in Portland/SW Washington, including (closing next month) I-84 Corporate Center in Troutdale (135,000 SF), Twin Oaks Business Park in Beaverton (166,000 SF), Milwaukie Business Park (101,000 SF) and several others. We are proud to share that we have successfully closed the last ten (10) properties we’ve tied up. As the Portland market knows, if the Seller chooses to work with PNWP, we are apt to perform and close.

WHY WE LIKE THIS SITE

- We designed these buildings as part of our (directly adjacent) Sunset Highway Business Park development, before selling the plans to the Sackhoff family (previous owners).
- We know the neighborhood, and this asset fits in nicely with our other holdings in the Sunset Corridor.
- Due to the fact that we own approximately 108,000 SF next door, we can justify “stretching” to pay the premium appraised value price, which we don’t think others could do (came in higher than expected).

OUR COMMITMENT

We commit to working hard to successfully consummate this transaction, working in good faith, and doing what we say we’re going to do. We’re excited for the opportunity.
We are hopeful that the Oregon Department of State Lands engages with Pacific and moves toward a successful disposition under the following terms:

1. **Buyer:** Pacific NW Properties, LP and/or assigns

2. **Seller:** Oregon Department of State Lands (official entity to be inserted into PSA)

3. **Property:** PSI Business Park, an approximate 31,155 SF multi-tenant industrial park situated on approximately 2.78 acres.

4. **Price:** Three Million, Seven Hundred Thousand and no/100 dollars ($3,700,000.00) cash.

5. **Earnest Money Deposit:** One Hundred Thousand and no/100 dollars ($100,000.00) promissory note converted to a nonrefundable cash deposit and held in Escrow upon written removal of contingencies.

6. **Due Diligence Period:** This acquisition will be our TOP PRIORITY. In fact, we will complete our due diligence in just 10 days following PSA execution and receipt of pertinent Seller Documents.

7. **Closing:** Within five (5) business days of Seller approval (at December 2017 board meeting), (assuming contingencies have been removed). Or sooner, if State of Oregon approval can be secured prior to December 2017. Please note, Buyer is willing to Close in 2017 OR early 2018, whichever is best for State of Oregon.

8. **Broker:** Charles Safley and Scott Weigel of CB Richard Ellis represent the Seller and are the only brokers involved. Seller shall pay entirety of brokerage fee pursuant to a separate agreement at Closing.

9. **Title Company:** Our preference would be Fidelity National Title, attention Shawnda Reszel - 900 SW 5th Avenue - Lobby Level, Portland, OR 97204

10. **PSA:** Upon acceptance of these terms, Seller shall prepare the Purchase and Sale Agreement.

*(signature block on following page)*
Charles, please discuss this non-binding offer with your client and get back to us as soon as possible to put an action plan in place.

With appreciation,

[Signature]

Evan Bernstein  
Director of Acquisitions, Partner  
Pacific NW Properties, LP

Cc: Clara Taylor, State  
Cc: Tom Stern, PNWP  
Cc: Scott Weigel, CBRE

If these terms and conditions are acceptable, please sign and return to me via email at evan.bernstein@pnwprop.com

AGREED AND ACCEPTED: SELLER

By: ________________  
Title: ________________  
Date: ________________

AGREED AND ACCEPTED: BUYER

By: ________________  
Title: Director of Acquisitions, Partner  
Date: 9.18.17
EXHIBIT A
Properties Owned & Managed by PNWP
EXHIBIT B
PNWP Holdings in the Sunset Corridor

We’d love to add PSI Business Park to our portfolio!
February 8, 2018

Oregon Department of State Lands
Real Property Section-Public Comments
1645 NE Forbes, Suite 112
Bend, Oregon 97701

RE: Response to Notice of Proposed Land Sale in Washington County 60691-LS (Helvetia Property, Washington County, 6103-6199 NW Casper Ct., Hillsboro, OR (PSI Business Park)

Dear Governor Brown, Secretary Richardson and Treasurer Read:

I am writing this letter as an “Interested Party” with regards to your contemplated disposition of PSI Business Park in Hillsboro, Oregon (further described above).

Per several conversations with Clara Taylor on the phone and via email, as well our twice-submitted offer to purchase at the appraised value, along with formal application and fee, our company name and interest level shouldn’t be “new” to the Department.

Pacific NW Properties is a Beaverton-based, family owned commercial real estate development, investment and property management company. We actually designed PSI Business Park, before selling to the previous owner (Sackhoff Family). We own the project directly next door (Sunset Highway Business Park), as well as 5 other projects in the sunset corridor. More on our company at www.pnwprop.com.

Here is a summary of steps we’ve taken to date to be in a position to acquire this property:

- Letter of Intent Offer to Purchase PSI Business Park - Submitted 9/18/17
- Letter to Clara Taylor with Application to Purchase Land and Application Fee – Submitted 10/30/17
- Response to Notice of Proposed Land Sale – Submitted 2/8/18

As the logical buyers of PSI Business Park, we sincerely hope that we get the opportunity to purchase this property.

Please call me with any questions. (503) 626-3500.

With appreciation,

Evan Bernstein
Partner, Pacific NW Properties
evan.bernstein@pnwprop.com

Cc: Clara Taylor, Oregon Department of State Lands
SUBJECT

Request for approval to sell the Millican Road parcel, a 159-acre parcel located at Township 15S Range 15E, Section 14, Tax Lot 2300 in Crook County.

ISSUE

Whether the Land Board should authorize the Department to sell the Millican Road parcel in Crook County through a broker or sealed bid auction.

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
Central Oregon Area Management Plan (COAMP), adopted by the Land Board; October 2011
Real Estate Asset Management Plan (REAMP), adopted by the Land Board; February 2012

SUMMARY

The Millican Road parcel is located on the west side of the City of Prineville, south of the Prineville airport (Appendix A). The site was slated for conversion to industrial use
in the Central Oregon Area Management Plan (COAMP) adopted by the Land Board in October 2011. On June 12, 2012, the Land Board authorized an equal exchange of land with Premier Bank, the adjacent property owner (Appendix B). The due diligence conducted for that exchange also included altering the boundaries of both properties from long narrow parcels to square parcels, and gave DSL road access to the reconfigured Millican Road parcel. This was done to improve the marketability of both parcels for future commercial and industrial development and use.

As part of the exchange agreement, the City of Prineville agreed to annex the DSL parcel as an industrial parcel. Upon the completion of the exchange the parcel was annexed to the city and became certified as a “Shovel Ready” site under Business Oregon’s Certified Industrial Site identification process. The property reconfiguration enabled by the land exchange, annexation by the City, and certification as “Shovel Ready” all support the recommendation from the COAMP to increase the value of the property by preparing it for industrial use. The property was actively marketed in 2012 and 2013 under a joint marketing agreement with the Premier Bank property but received no offers.

Recently DSL received an application to purchase the property by one of the neighbors, Legacy Ranches. Through the Public Review Process, the City of Redmond and Economic Development for Central Oregon expressed support to sell the parcel due to the interest in developing manufacturing jobs within the community.

After conducting various due diligence studies (i.e. environmental review, broker opinion of value, appraisal reviews) DSL has determined that a land sale is in the best interest of the state of Oregon and the Common School Fund.

**RECOMMENDATION**

The Department recommends that the State Land Board authorize the Department to dispose of the Millican Road parcel, a 159-acre parcel located at Township 15S Range 15E, Section 14, Tax Lot 2300 in Crook County. The Department recommends this property be disposed of through a broker or by a sealed bid process conducted by the Department.

**APPENDIX**

A. Map of Property
B. June 2012 State Land Board Agenda Item 3
SUBJECT

Request for authorization to sign a Land Exchange Agreement for an equal area land exchange between PremierWest Bank, an Oregon banking corporation, and the State Land Board.

ISSUE

Whether the Land Board should give approval for the Director to sign a Land Exchange Agreement for an equal area land exchange (approximately 80 acres) between PremierWest Bank (PWB) and the State Land Board for the following properties:

- Lands to be acquired by PWB from the Land Board
  - Approximately 80 acres (the north half) of DSL’s 160-acre Millican Road parcel (T15S-R15E-14; TL 2300), which is vacant, currently landlocked without legal or physical road access, located south of Highway 126 and west of the PWB property. Millican Road and the Les Schwab distribution facility are near to the site, which is adjacent to, but outside of the Prineville Urban Growth Boundary (UGB) and city limits, in Crook County, Oregon. This DSL property is zoned Exclusive Farm Use (EFU).

- Lands to be acquired by the Land Board from PWB
  - Approximately 80 acres (the south half) of PWB’s 160-acre LivingWaters Industrial Site (T15S-R15E-14; TL 1224), which is vacant, located immediately east of DSL’s Millican Road parcel, south of Highway 126 and abutting Millican Road. The PWB site is directly across Millican Road from Les Schwab, inside the Prineville UGB and city limits, in Crook County, Oregon. The PWB property is zoned Industrial and is a Business Oregon Certified Industrial Site with urban services.

These properties are located on the west side of Prineville, south of the airport. The UGB and city limits will be adjusted to retain Industrial urban zoning for the reconfigured PWB site (square - the north half of TLs 2300 and 1224).
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 270.010; pertaining to the sale of state surplus property
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
ORS 273.316 and .321; relating to the exchange of state lands
OAR 141-067; relating to the sale, exchange and purchase of state land
Central Oregon Area Management Plan (COAMP), adopted by the Land Board; October 2011
Real Estate Asset Management Plan (REAMP), adopted by the Land Board; February 2012

SUMMARY

This proposed land exchange is being undertaken to reconfigure two adjacent, long, rectangular parcels (1/4 mile by 1 mile) into square parcel configurations (1/2 mile by 1/2 mile) that are more easily developed and thus more attractive to prospective industrial site selectors. Both properties benefit from this equal area land exchange including the DSL property which will become developable and marketable with direct road access and inclusion in the UGB and city limits. This initiative is very strongly supported by Prineville and Crook County who are taking the lead to adjust the Prineville UGB and city limits to retain the reconfigured PWB property within the UGB and city limits. This local UGB adjustment initiative is viewed as helping the community provide marketable industrial sites creating local employment opportunities.

Prineville’s recent successes in attracting data centers (i.e. Facebook and Apple) has both consumed available land supply and generated national interest from other such industries seeking building sites. The proposed land exchange and boundary adjustments will aid Prineville/Crook County in industrial recruitment efforts by availing needed industrial sites sought by such industries including real-time, current inquiries.

PWB representatives and DSL staff, along with Prineville and Crook County staff, have met with Department of Land Conservation and Development and Oregon Department of Transportation staff to identify appropriate UGB adjustment procedures and transportation issues. No major obstacles were identified. Additionally, such discussions have also included plans to bring the reconfigured DSL Millican Road site into Prineville’s UGB and city limits as industrial property. This is the identified highest and best use recommendation of the October 2011 Land Board adopted Central Oregon Area Management Plan (COAMP) for this site and is considered by Prineville
and Crook County as replenishment of the industrial land supply recently consumed to support data center development. Prior planning activities undertaken by the city and county have greatly facilitated readying the sites for development, including recent adoption of a Highway Corridor Plan for State Highway 126, which serves these properties.

The proposed agreement is a simple equal area land exchange. Recognizing the joint effort between PWB and DSL, additional “side agreements” addressing issues such as land use entitlement actions, order of sale, marketing and brokerage will be negotiated that will facilitate the future sale of the property. The goal by both parties will be to sell the two parcels to one buyer, but that is not assured. PWB has retained the project manager and real estate broker who were involved in bringing Facebook to Prineville, and DSL will benefit from this prior experience. The exchange agreement is included as Appendix A.

**Conditions of Exchange**

It is proposed that DSL and PWB will exchange subsurface mineral rights (after DOGAMI review) concurrent with transfer of surface ownership. Industrial buyers would be very concerned with purchasing only surface rights to a site of this nature.

**Agency and Public Review**

The Oregon Department of Administrative Services has been informed of this proposed land exchange and sent out the required Surplus Property Notification to state agencies in April – no replies have been received to date. In addition, staff sent broader notices to other local, state and federal agencies, abutting property owners and members of the public who have previously expressed interest in being notified of land sales.

The effects of the land exchange proposal with PWB will facilitate the implementation of the recommendations found in the COAMP for this site, which have been reviewed by the agencies and the public (in public meetings in Prineville and Redmond, and at the special Land Board Meeting in Bend in September 2011) as part of the COAMP process. COAMP was adopted by the Land Board in October 2011.

**RECOMMENDATION**

The Department recommends that the Land Board give approval for the Director to sign a Land Exchange Agreement providing final authorization for a land exchange, including a transfer of mineral rights (pending DOGAMI evaluation), between PWB and the State Land Board. (Appendix A).

**APPENDICES**

A. Land Exchange Agreement  
B. Map of DSL and PWB properties
EXCHANGE AGREEMENT

BETWEEN: PREMIERWEST BANCORP, an Oregon corporation ("PWB")

AND: STATE OF OREGON acting by and through the Oregon State Land Board on behalf of the Oregon Department of State Lands ("DSL")

RECITALS

A. PremierWest Bank “PWB” is the record owner of certain real property located in Crook County, Oregon that is known as Township 15 South, Range 15 East, Section 14, Tax Lot 1224 (“PWB Property”). The PWB Property is close to 160 acres in size. A legal description of the Property is attached hereto as Exhibit A. PWB is currently in the process of sales and marketing efforts to sell this parcel of land. The current zoning of the PWB Property is M1, Light Industrial. PWB has acquired Enterprise zone status, State site certifications and a power easement agreement that support development of a medium to large data center project on the PWB Property.

B. The PWB Property is configured in a long, rectangular shape. This shape makes it difficult for larger industrial users to make efficient use of the property.

C. STATE OF OREGON acting by and through the Oregon State Land Board on behalf of the Oregon Department of State Lands “DSL” is the record owner of certain real property located in Crook County, Oregon, that is known as Township 15 South, Range 15 East, Section 14, Tax Lot 2300 (“DSL Property”). The DSL Property is approximately 160 acres in size. A more particular description of the DSL Property is attached hereto as Exhibit B. The DSL Property is configured in the same approximate size and shape as the PWB Property. Additionally, the DSL Property lacks the industrial zone and plan designation, road frontage, power easements, enterprise zone and certified site status typically needed to develop its property for industrial uses.

D. PWB and DSL wish to reconfigure the properties so that each property will have a square shape that is better suited for the marketplace. Both parties will benefit from this exchange. Upon completion of the conditions precedent and subsequent entitlement actions for the DSL Property the reconfiguration will create two parcels of approximately equal size and value. PWB and DSL also wish to make their properties available for purchase and development as one unit of land. PWB and DSL agree that the DSL Property should obtain the enterprise zone and certified site status it currently lacks. In addition, the ability to obtain needed utility service and easement should be assured by the PWB and DSL Joint Management Agreement.
AGREEMENT

The parties agree as follows:

1. **Recitals.** The parties acknowledge and agree that the Recitals set forth above are incorporated herein and deemed a material part of this Agreement.

2. **Acquisition and Transfer of Properties.** PWB shall convey to DSL the south one-half of the PWB Property and DSL shall convey to PWB the north half of the DSL Property, on the terms and conditions set forth in this Agreement. The exchange is, also, subject to conditions precedent.

3. **Consideration.** The consideration for this Agreement is the respective properties to be exchanged and, the completion by DSL of the conditions precedent to the exchange.

4. **Conditions Precedent.** The obligation to exchange properties and to proceed to closing is conditioned upon fulfillment of each of the conditions precedent listed in subsections 4.1 through 4.6, below. All of these conditions are for the benefit of PWB and DSL as indicated above. Subsection 4.1 is for the benefit of DSL and may be waived, in whole or in part, only by DSL. Subsection 4.2 is for the benefit of PWB and may be waived, in whole or in part, only by PWB. Subsections 4.3 through 4.6 are for the benefit of both parties and may be waived, in whole or in part, by agreement of DSL and PWB. Any waiver must be in writing. Unless waived, if these conditions are not satisfied by the Closing Date, this Agreement may be terminated only by the party who benefits from the condition. Neither party shall be liable to the other for damages arising from such termination.

4.1 **DSL’s Conditions.**

   a. Approval of the exchange by the Oregon State Land Board;

   b. Approval of the Phase I Environmental Audit of the PWB Property that has been obtained by and paid for by PWB; and

   c. Approval of the appraisals of the values of the DSL Property and the PWB property shown in Exhibit A;

   d. PWB’s performance of all of its obligations under this Agreement, including its obligations under Section 4.3 of this Agreement.

4.2 **PWB’s Conditions.**

   a. Approval of the Phase I Environmental Audit of the DSL Property that shall be obtained by and paid for by DSL; and

   b. DSL shall enter into a mutually acceptable agreement with PWB or, at the election of PWB, an easement in a form suitable for recording with the Crook County Clerk that assures PWB that the Northern Parcel will be served by electric power from Central Electric Cooperative (“CEC”). The general terms of this
agreement or easement are described as the DSL Easement Agreement in Section 4.5, below.

c. Approval of the appraisals of the values of the State Property and the PWB Property shown in Exhibit A;

d. DSL’s performance of all of its obligations under this Agreement, including its obligations under Section 4.3 of this Agreement.

4.3 **Land Use Entitlements and Site Certifications.** The parties agree to jointly submit the following land use applications. The following shall occur prior to Closing of the Exchange:

   a. Step 1. Obtain final approval of a lot line adjustment approval by the City of Prineville and Crook County that approves a reconfiguration of the PWB and DSL Properties as shown on Exhibit C. Two parcels are depicted on the Exhibit C map. One parcel is labeled Parcel 1 and the other is labeled Parcel 2. For purposes of this Exchange Agreement, Parcel 1 is the “Northern Parcel” and Parcel 2 is the “Southern Parcel.”

   b. Step 2. Obtain final approval of an amendment of the Prineville urban growth boundary (“UGB”) that will result in all parts of the Northern Parcel being located inside the UGB and zoned M1 and plan map-designated for industrial development and all of the Southern Parcel being located outside of the UGB. This will result in a net zero change in amount of land inside the UGB and be reviewed by the Department of Land Conservation of Development (“DLCD”) “in the manner of periodic review.”

   c. Step 3. The parties shall jointly seek enterprise zone and site certification approval for the Northern and Southern Parcel. The approval of these designations for the Northern Parcel is a condition precedent to Closing. Approval of these designations for the Southern Parcel is not a condition precedent to Closing.

4.4 **Joint Marketing Agreement.** It is the intent of the parties to jointly market their properties for sale to a large site industrial user. PWB and DSL shall enter into a mutually acceptable joint marketing agreement (“JMA”) prior to the date the properties are to be exchanged that addresses how the properties will prescribe how costs associated with jointly marketing the property and placing the properties in a condition that makes them attractive for sale to an industrial user shall be paid. The JMA will address the following issues:

   a. A second-step land use review and approval to bring the Southern Parcel into the UGB and to apply M1 zoning and an industrial plan map designation to the Southern Parcel.
b. The retention and compensation of a sales agent to jointly market the Northern and Southern Parcels.

c. Cost sharing for costs associated with the JMA and the Exchange Agreement, including, but not limited to, land use application fees, surveys, Environmental Site Assessments, transportation impact analysis, and appraisals. Costs do not include attorney fees or staff time for working on all matters covered by the Exchange Agreement and JMA.

d. Updating the prospector data base (Business Oregon) to reflect the changed status of the DSL Property and PWB Property.

e. A provision that addresses the order of sale of the Northern and Southern Parcels in the event that a buyer (end-user) cannot or will not purchase the entire 320-acre jointly-marketed property.

4.5. Power Easement. PWB has executed a 100'-wide power line and substation easement agreement (“PWB Easement Agreement”) with an adjacent landowner that grants PWB the right to create a utility easement (“PWB Easement”) that will provide power service to the PWB Property. The agreement allows the easement to be assigned to CEC. It is the intent of the parties to make the benefits of the agreement available to a future purchaser of the combined 320-acre property and to the future purchaser of the Northern Parcel. The parties agree that DSL and PWB shall execute a second easement agreement (“DSL Easement Agreement”) that will be recorded in the records of the Crook County Clerk that creates a utility easement (“DSL Easement”) that will provide CEC power to the Northern Parcel.

4.6. Status of Mineral Rights. The conveyance of the PWB Property to DSL must include all mineral and geothermal rights as defined by ORS 273.775. The conveyance of the DSL Property and, if applicable, the conveyance of the Southern Parcel to PWB must include all mineral and geothermal rights as defined by ORS 273.775. DSL shall obtain approval from the State Land Board to transfer its land with mineral rights, as allowed by ORS 273.780(3), and pending a review by the Oregon Department of Geology and Mineral Industries.

5. Closing.

5.1 Escrow Instructions. Upon execution of this Agreement and completion of the conditions precedent described in Section 4, above, the parties shall deposit a copy of this Agreement with Western Title & Escrow, 360 SW Bond Street, Suite 100, Bend, Oregon 97701 (“Escrow Agent”). PWB and Escrow shall execute such reasonable additional and supplementary escrow instructions as may be appropriate to enable Escrow Agent to comply with the terms of this Agreement; provided, however, that in the event of any conflict between the provisions of this Agreement and any supplementary escrow instructions, the terms of this Agreement will control.

5.2 Closing Date and Location. Subject to the satisfaction of all conditions and the obtaining of all approvals described in this Agreement, the closing of the exchange of Properties
(“Closing”) is to be held and delivery of all items to be made at the Closing under the terms of this Agreement are to be made at the offices of Escrow Agent within 60 days of the date the conditions precedent have been met and final approval of the exchange has been granted by the State Land Board (the “Closing Date”) and within one year of the date this Exchange Agreement is signed by both parties. The parties, may, however, agree to extend the Exchange Agreement for one additional period of up to one year. Each party shall proceed with due diligence to remove or satisfy all other conditions and obtain all approvals listed in the Agreement with all reasonable speed, and the parties agree that the time of closing may be extended if reasonably necessary or desirable in order to allow for removal or satisfaction of conditions and for obtaining approvals.

5.3 Closing Costs. The parties shall share the costs of escrow.

5.4 Recording Fees. The parties shall each pay their own recording fees.

5.5 Attorney Fees. The parties shall pay the fees and costs of their own attorneys.

5.6 Prorations. All other costs (real property taxes, utilities if any and costs of closing) are to be prorated as of the Closing Date.

5.7 PWB’s Obligations at Closing. On or before closing, PWB shall deliver to the Escrow Agent and shall execute as necessary the following documents:

a. A bargain and sale deed conveying the southern half of the PWB Property described on Exhibit A to DSL; and

b. PWB’s supplemental escrow instructions, if any; and

c. A certification of non-foreign status; and

d. Any additional documentation required by the Escrow Agent in order to close; and

e. Sufficient funds to close the transaction.

5.8 DSL’s Obligations. On or before closing, DSL shall deliver to the Escrow Agent and shall execute as necessary the following documents:

a. A bargain and sale deed conveying the northern part of the DSL Property to PWB; and

b. A signed and acknowledged acceptance of the conveyance of the DSL Property; and

c. DSL’s supplemental escrow instructions; and

d. Any additional documentation required by the Escrow Agent in order to close; and

6.1 Within 15 business days after execution of this Agreement by both parties, each party shall furnish to the other a preliminary title report showing the condition of title to each Property, together with copies of all exceptions listed in the report ("Title Report").

6.2 Each party will have 20 business days following receipt of the Title Report to review the Title Report and to notify the other party, in writing, of the notifying party's disapproval of any exceptions shown in the Title Report. If a party notifies the other party that it disapproves of any exceptions, the party receiving notice will have 20 business days after receiving the disapproval notice to either: (a) remove the exceptions; or (b) provide the notifying party with reasonable assurances of the manner in which the exceptions will be removed before the transaction closes; or (c) inform the notifying party that the exceptions, or one or more of them, will not be removed.

6.3 If the party that has been notified does not remove the exceptions or provide the notifying party with such assurances, or if a party, in its sole discretion, is dissatisfied with any exception that the other party has said it will not remove, the dissatisfied party may terminate this Agreement by written notice to the other party given within five days after expiration of the 20 day period. If a party does not so terminate this Agreement, any exceptions which the other party has not agreed to remove will be "Permitted Exceptions." Zoning ordinances, building restrictions, taxes due and payable for the current tax year, and reservations in federal patents and state deeds are deemed to be Permitted Exceptions.

6.4 Within 15 business days after completion of the conditions precedent, each party shall furnish to the other an updated preliminary title report showing the condition of title to the Property ("Updated Title Report"). If any exceptions other than the Permitted Exceptions burden the property, they shall be removed by the responsible property owner prior to Closing.

7. Possession. Possession of each Property will pass to the other party upon Closing.

8. Acknowledgment of Condition of Property.

8.1 DSL's Acknowledgment. DSL represents that it has executed this Agreement on the basis of its own examination and personal knowledge of the PWB Property; that PWB has made no representations, warranties or agreements concerning matters relating to the PWB Property other than as set forth herein; that PWB has made no agreement or promise to alter, repair or improve the PWB Property and that DSL takes the PWB Property in the condition, known or unknown, existing at the time of this Agreement. DSL acknowledges that DSL is purchasing the PWB Property "AS IS" and that PWB is making no warranties (except as reflected herein and in the deed to be delivered at Closing) regarding the condition of the PWB Property.

8.2 PWB's Acknowledgment. PWB represents that it has executed this Agreement on the basis of his own examination and personal knowledge of the DSL Property; that DSL has made no representations, warranties or agreements concerning matters relating to the DSL Property other than as set forth herein; that DSL has made no agreement or promise to alter,
repair or improve the DSL Property and that PWB takes the DSL Property in the condition, known or unknown, existing at the time of this Agreement. PWB acknowledges that PWB is purchasing the DSL Property “AS IS” and that DSL is making no warranties (except as reflected herein and in the deed to be provided at Closing) regarding the condition of the DSL Property.

9. **Default Remedies.** If either party fails to perform as required by this Agreement, the other party may (i) bring an action for damages for breach of contract; (ii) file and maintain a suit against the defaulting party for specific performance of this Agreement; or (iii) pursue any other legal remedy against the defaulting party as may be allowed at law or in equity.

10. **Instruments of Further Assurance; Good Faith.** Each of the parties shall, at its own expense, execute and deliver to the other at or after Closing any further instruments and documents as either may reasonably request in order to carry out any of the provisions of this Agreement. PWB and DSL shall act in good faith in all respects relative to the transactions contemplated by this Agreement.

11. **Notices.** Any notice required or permitted by this Agreement must be in writing and will be deemed delivered if personally delivered or five business days after being sent by United States first class mail, postage prepaid, to PWB or DSL at the following addresses:

To PWB: PremierWest Bancorp  
Attn: LeArta Romero, Vice President  
PO Box 40  
Medford, Oregon 97501

To State: Oregon Department of State Lands  
Attn: John Russell  
775 Summer Street NE  
Salem OR 97301

Notices may be addressed to any other person and address as may be specified from time to time by any party by written notice to the other party.

12. **Brokerage.** DSL represents that it has not employed any real estate broker or licensee in negotiating this Agreement. The parties agree that no broker or licensee is entitled to receive a fee or commission from DSL as a result of the exchange of the DSL Property and PWB Property, and any claims for fees or commissions arising from or associated with this Agreement must be paid by PWB.

13. **No Third-Party Benefits.** This Agreement is not intended, and may not be deemed or construed, to confer any rights, power or privileges on any person, firm, partnership, corporation or other entity that is not named as a party to the Agreement.

14. **Time of the Essence.** Time is specifically declared to be of the essence of this Agreement, and of acts required to be done and performed by DSL and PWB.

15. **Governing Law.** This offer is executed and delivered and is to be performed in, and governed by and construed in accordance with the laws of the State of Oregon.

16. **Entire Agreement.** This Agreement constitutes and contains the entire agreement
between PWB and DSL and supersedes any and all prior negotiations, correspondence, understandings, and agreements between the parties respecting the subject matter contained in the Agreement.

17. **Amendment.** This Agreement may be amended only by a writing signed by PWB and by the Director of the Oregon Department of State Lands.

18. **Survival.** Paragraphs 8, 10 and 12 will survive closing.

19. **Statutory Disclaimer.** The property described in this instrument may not be within a fire protection district protecting structures. The property is subject to land use laws and regulations that, in farm or forest zones, may not authorize construction or siting of a residence and that limit lawsuits against farming or forest practices, as defined in ORS 30.930, in all zones. Before signing or accepting this instrument, the person transferring fee title should inquire about the person's rights, if any, under ORS 195.300, 195.301 and 195.305 to 195.336 and sections 5 to 11, chapter 424, Oregon Laws 2007, and sections 2 to 9 and 17, chapter 855, Oregon Laws 2009. Before signing or accepting this instrument, the person acquiring fee title to the property should check with the appropriate city or county planning department to verify that the unit of land being transferred is a lawfully established lot or parcel, as defined in ORS 92.010 or 215.010, to verify the approved uses of the lot or parcel, to verify the existence of fire protection for structures and to inquire about the rights of neighboring property owners, if any, under ORS 195.300, 195.301 and 195.305 to 195.336 and sections 5 to 11, chapter 424, Oregon Laws 2007, and sections 2 to 9 and 17, chapter 855, Oregon Laws 2011.

20. **Counterparts.** This Exchange Agreement may be executed in two or more counterparts, which together will constitute one agreement.
The parties have signed this Agreement and it is effective as of the latest date noted below.

Dated this ___ day of ________, 2012.

DSL:
State of Oregon, acting by and through
the Oregon State Land Board
on behalf of the Oregon Department of State Lands

By: ________________

Its: Director

PWB:

By: ________________

Its: ________________________
EXHIBIT A
PWB Property (known as PWB Property)

Legal Description
Parcel 1 of Partition Plat No. 2004-20 located in the E½ of Section 14, Township 15 South, Range 15 East of the Willamette Meridian, Crook County, Oregon
EXHIBIT B
DSL Property

Legal Description

The East half of the Northwest quarter and the East half of the Southwest quarter of Section Fourteen in Township Fifteen South, of Range Fifteen East of the Willamette Meridian in Crook County, Oregon.
Consolidation - Exhibit C

Page 12 of 12: PWB - DSL Exchange Agreement
The West Half of the East Half of Section 14, Township 15 South, Range 15 East of the Willamette Meridian, Crook County, Oregon, Tax Lot 1224; 158.94 Acres.
DSL CURRENT OWNERSHIP

The West Half of the East Half of Section 14, Township 15 South, Range 15 East of the Willamette Meridian, Crook County, Oregon. Tax Lot 2003; 159.67 Acres.
RECONFIGURED PARCELS (Parcel 1 – PWB, Parcel 2 – DSL)

Consolidation - Exhibit C
SUBJECT

Request for approval to expend limitation received during the 2018 February Legislative session and to initiate budget limitation requests at the 2018 May Emergency Board meeting.

ISSUE

Whether the State Land Board should approve expenditure of limitation received during the 2018 February Legislative session and approve the Department to initiate budget limitation requests for the following projects at the 2018 May Emergency Board meeting.

AUTHORITY

Oregon Constitution, Article VIII, Section 5; specifying the State Land Board is responsible for managing lands under its 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 273.041 to 273.071; authorizing the Department of State Lands to exercise the administrative functions of the State Land Board.

BACKGROUND

DSL seeks authorization to expend funding limitation provided by the Oregon State Legislature in the 2018 session. DSL also has a need to ask the state legislature for additional limitation in order to complete a number of projects and manage lands under its purview.
February 2018 Legislative Session

1. Information Technology Positions for the Land Administration System.
   DSL requests permission to expend limitation received during the 2018 Legislative session. The limitation will allow the Department to adequately respond to the need of upgrading its Land Administration System (LAS) which was created in 1999. The limitation will allow the Department to establish a limited-duration position, a permanent full-time position, and the reclassification of position within the information technology section allowing the Department to effectively manage the LAS upgrade project.
   Total amount: $410,102, Other Funds

May 2018 Emergency Board Items

2. Forester Position
   DSL requests to hire one limited duration, full time Forester position to assist with the management of the Elliott State Forest. This position will be located in Coos Bay to assist with questions from the public, and to work with the Elliott maintenance contractor. This request is all Personal Services.
   Total amount: $182,572, Other Funds

3. Capital Maintenance
   The project comprises replacing the exterior siding at the fourth-floor rooftop of the State Lands Building, located at 775 Summer Street NE, Salem, Oregon. Work will include removing the 3 existing Exterior Insulation Finishing System (EIFS) and replacing with new weather resistive barrier, 4 thermal insulation of equal value to the existing, and new prefinished metal siding, as well as new exterior 5 doors and frames.
   Total amount: $362,748, Other Funds

RECOMMENDATION

DSL recommends the Land Board approve DSL to expend limitation received during February 2018 session and to initiate budget limitation requests for the above referenced projects at the 2018 May Emergency Board meetings.