STATE LAND BOARD

June 12, 2018
10:00 am – 12:00 pm
Oregon Department of State Lands
Land Board Room
775 Summer St NE
Salem, Oregon

AGENDA

State Land Board Awards Presentation
The State Land Board will present the 2017 Land Board Awards to:

- Stream Project Award: Willamette Confluence Restoration Project
- Partnership Award: Tenmile Lakes Basin Partnership

Consent Items
1. Request for approval of the minutes of the April 10, 2018 State Land Board meeting.

2. Request for approval to grant a permanent easement for a bridge crossing and associated submerged operations cable crossing Youngs Bay, in Sections 13, 14 and 23 of Township 08 North, Range 10 West of the Willamette Meridian in Clatsop County.

3. Request for approval to determine whether any interest remains vested in the State of Oregon, with respect to historically filled lands on the Chetco River, Curry County.

4. Request for approval to initiate the review and determination of the sale of the Bear Creek property in fee simple, a 158-acre tract in Wallowa County located at Township 1S Range 42E, Section 16, Tax Lot 1101.

Continued on next page
5. Request for approval to amend the Elliott State Forest Reciprocal Easement Agreement, a permanent easement, to add use of a DSL-owned 40-foot-wide Right-of-Way existing as a portion of the Elk Ridge (#1000) Road located on Common School Forest Land in Section 13, Township 23 South, Range 10 West, W.M., Douglas County.

**Action Items**

6. Request for approval of the direct sale of 63.1 acres of subsurface minerals and geothermal rights located in Marion County

7. Oregon Department of Forestry Budget Request

8. Updated Annual Report on Common School Fund investments and distributions

9. Request for approval to submit the Department of State Lands' proposed 2019-21 budget request.

10. Other

Livestream available at: [https://www.youtube.com/channel/UCQA7FHTWwl-gjJkQeYPJ1IA](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.
MEMORANDUM

Date: June 12, 2018

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

From: Vicki Walker
Director

Subject: 2017 Land Board Awards

Background Information
This is the 14th year of presenting State Land Board Awards. Since 2004, the board has given 31 awards for exceptional wetland, stream and partnership projects, and to one exemplary lessee.

The geographic representation of award winners spans the state: Wallowa County, the Central Coast, Charleston/Coos Bay, Wilsonville, Eugene, Klamath County, Brownsville, North Central Oregon, Deschutes County, Astoria, Columbia County, Portland Metro, Mt. Hood National Forest, Corvallis and Oakland, Oregon.

Awards have gone to watershed councils, private landowners, a port, small nonprofits, mitigation bankers, large environmental organizations, cities, and county law enforcement organizations. Most awards honored projects that were supported by an array of partnerships and funding sources.

The awards this year feature the work of Pacific Northwest glass artist Ann Cavanaugh.

We are presenting one Stream Project Award and one Partnership Award for projects completed in 2017.

Stream Project Award: Willamette Confluence Restoration Project
This project, spearheaded by The Nature Conservancy (TNC), restored an area along the Willamette River near Eugene that was historically mined for gravel. The Willamette once supported robust populations of Chinook salmon, winter steelhead and resident trout and chub. The project removed human-constructed barriers, such as rip rap and
revetments, which opened up side channels and restored historic floodplains that provide critical fish habitat. TNC acquired the property in 2010, and to date has completed three main components:

- In 2014, the completion of the 130-acre Pudding Ponds project which included creating off-channel habitat and planting 150,000 trees and shrubs
- In 2016, enhancement of 174 acres and planting on 64 acres of floodplain forest at Coast Fork/Turtle Flats
- In 2017, restoration was completed at Lower Middle Fork, which enhanced 330 acres and included planting on 151 acres of floodplain forest and 39 acres of prairie

While the project team focused on removing barriers and reshaping banks to reconnect the historic floodplain to the river, they also considered ways to reduce both costs and their carbon footprint. No materials for the project were imported – or exported – and the project made creative use of materials recycled onsite:

- 3300 tons of quarry rock was used for channel construction
- 200 logs generated from an onsite restoration project were used in the floodplain restoration
- 2000 cubic yards of salvaged topsoil from previous mining operations were spread for planting
- 4000 cubic yards of wood chips generated from an onsite oak savanna

Overall, the project restored 630 acres of the floodplain and improved 3.5 miles of side channels for a total cost of approximately $6.5 million. The project was supported financially and through in-kind assistance from NOAA Fisheries, the Meyer Memorial Trust, Bonneville Power Administration and Bonneville Environmental Foundation, Oregon Watershed Enhancement Board, Oregon Department of Fish and Wildlife, U.S. Geological Survey, PGE, U.S. Army Corps of Engineers, and other private contributors.

About 250 volunteers from the Friends of Buford Park participated in 15 work parties, totaling more than 2600 hours of volunteer work.

**Partnership Award: Tenmile Lakes Basin Partnership**

Established in 1994, the TLBP has been a major proponent of improving the health of the Tenmile Lakes watershed in Coos and Douglas counties, and a significant partner to the Department of State Lands. DSL's interests in Tenmile Lakes include regulatory (removal-fill), waterway ownership (Tenmile Lakes and Eel Lake) and upland ownership (Elliott State Forest).
As a non-voting member of the Tenmile Lakes board, DSL staff have seen first-hand how the organization implements their mission to “support management of all land and water in a manner that sustains natural resources and that, in turn, will contribute to environmental vitality and community betterment with the Tenmile Lakes basin…..from the farthest reaches of the watershed to the Pacific.” Projects over the years have included streambank restorations, habitat improvement projects, culvert replacements and water quality monitoring.

The TLPB serves as the primary communications conduit for DSL to interact with interested parties, including local landowners, businesses, a homeowners association, local tribes, city of Lakeside staff, fish and wildlife nonprofits, and state agencies involved in the area. TLPB hosts this wide array of stakeholders for informational meetings and discussions about the watershed.

Examples of specific partnership projects include:

- Completing a fencing project along Big Creek within the Elliott State Forest: working with a landowner and DSL, TLPB put in two miles of fencing along the creek to protect it from cattle grazing.
- Taking the lead on communicating, supporting and implementing the Oregon DEQ’s “Total Maximum Daily Load” process for all stakeholders, including DSL.
- Launching a project to collect data on the Pacific lamprey, a little-understood native fish of great importance to tribes.
- In process of developing a pilot project with DEQ, TLPB and DSL to review an arm of the lake to see what is working and not regarding water quality, as it is impacted by recreation, sanitation, vegetation, buildings and removal-fill activities.

Because of TLBP’s communications and coordination efforts, the Department of State Lands enjoys a positive relationship with the many stakeholders in the Tenmile Lakes area. The organization is DSL’s “eyes and ears” on the ground, and they serve as an invaluable partner for much of DSL’s work in the watershed and region.
The State Land Board met in regular session on April 10, 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
Vicki Walker, Bill Ryan, Jean Straight
Julie Curtis, Arin Smith, 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

CONSENT AGENDA

1. Request for approval of the minutes of the February 13, 2018 State Land Board meeting.

10:03 a.m.
Director Vicki Walker briefly described the items on the consent agenda.

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 10:03 a.m.
**Informational Items**

2. **Annual Report on Common School Fund Investments and distributions for fiscal year 2017.**

   **10:04 a.m.**
   Director Walker introduced Michael Viteri and Michael Langdon, Senior Investment Officers with Oregon State Treasury to present this report. The purpose of the report is to provide the Board with a year-end summary.

**Action Items**

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

   **10:26 a.m.**
   Director Walker gave a brief description of the property and noted that the Board approved the due diligence phase for this sale at the February 2018 meeting.

   Governor Brown opened the floor for public comment on this item at 10:31 a.m. A member of the public testified on a matter unrelated to item 3. Governor Brown then advised others signed up to testify on unrelated subject matter to wait until agenda item 6.

   Treasurer Read made a motion to approve the sale of the Helvetia property.

   Secretary Richardson Seconded the motion.

   There were no objections to this motion. The item was approved at 10:34 a.m.

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

   **10:35 a.m.**
   Director Walker gave a brief description of the property and noted that the Board approved the due diligence phase for this sale at the February 2018 meeting.

   Secretary Richardson made a motion to approve the sale of the Millican Road property.

   Treasurer Read seconded the motion.

   There were no objections to this motion. The item was approved at 10:39 a.m.

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

   **10:39 a.m.**
   Director Walker requested approval to expend limitation received during the 2018 Legislative Session, and to initiate budget limitation requests to be presented at the May and September Emergency Board meetings.

   Treasurer Read made a motion to approve.
Secretary Richardson seconded the motion.

There were no objections to this motion. The item was approved at 10:50 a.m.

6. Other

10:50 a.m.
Director Walker gave a brief update on the Elliott State Forest and the progress of the Habitat Conservation Plan (HCP) and the Decoupling process.

She followed with a brief update on the Columbia River Goble site clean-up project.

She also informed the Board that DSL is currently working on getting important agency information translated into Spanish to better serve the public.

11:01 a.m.
The Governor opened the floor for public comment. The public comment received related to the Jordan Cove energy project.

Governor Brown adjourned the meeting at 11:30 a.m.

Executive Session
Immediately following the regular scheduled Land Board meeting, the Land Board met in executive session pursuant to ORS 192.660 (2)(h) and OAR 141-005-0040 to consult with legal counsel concerning current litigation.

Executive sessions are closed to the public.

______________________________
Kate Brown, Governor

______________________________
Vicki L. Walker, Director
STATE LAND BOARD

Regular Meeting
June 12, 2018
Agenda Item 2

SUBJECT

Request approval to grant a perpetual easement for a bridge crossing and associated submerged operations cable crossing Youngs Bay, in Sections 13, 14 and 23 of Township 08 North, Range 10 West of the Willamette Meridian in Clatsop County.

ISSUE

Whether the State Land Board should approve a request from the Oregon Department of Transportation (ODOT) for a perpetual bridge crossing and associated submerged operations cable easement to maintain the bridge crossing the Youngs Bay.

AUTHORITY

Article VIII, Section 5 of the Oregon Constitution; requiring the Land Board to “manage 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 273.171; relating to the duties and authority of the Director.

OAR 141-122-0010 to 141-122-0120; establishing procedures for granting easements and rights-of-way on trust and non-trust lands and requiring Land Board approval of easements granted in perpetuity.
BACKGROUND

ODOT’s New Youngs Bay bridge carries Hwy 101 over Youngs Bay between Astoria and Warrenton in Clatsop county. The bridge needs minor rehabilitation, repairs and modernization improvements. Rehabilitation and repairs will include cathodic protection, seismic retrofit and concrete structure overlay. The project will include maintenance on the portal, as well as raising the portal to accommodate vertical clearance standards and requirements. Repairs are also proposed for the drawbridge section.

The majority of this crossing is within city limits; therefore, pursuant to OAR 141-122-0060(7)(c), a compensatory payment of $100.00 was paid for the easement area.

PUBLIC INVOLVEMENT

The application was circulated to adjoining property owners, various city, state and federal resource and permitting agencies, and tribal entities. No significant comments were received from the circulation.

RECOMMENDATION

The Department of State Lands recommends that the State Land Board approve the perpetual easement 60843 (Appendix A) to the Oregon Department of Transportation for the bridge crossing (Appendix B) and associated submerged operations cable (Appendix C) to maintain and operate the bridge and cables for right of way purposes on, over, under or across the Youngs Bay.

APPENDICES

A. Easement 60843-EA
B. Bridge map
C. OpsCable map
STATE OF OREGON
Department of State Lands

EASEMENT NO. 60843-EA
S&S BRIDGE
S&S POWERLINE
ODOT FILE 9335-001

The STATE OF OREGON, by and through its Department of State Lands, GRANTOR, for and in consideration of $100, hereby grants to GRANTEE,

NAME of GRANTEE: State of Oregon, by and through its Department of Transportation Region 2 Tech Center Right of Way Unit
ADDRESS: 455 Airport Rd SE Bldg A Salem, OR 97301

an easement and right to construct, maintain, operate and replace a Bridge Easement, Right of Way and the Submerged Operations Cable Facilities over, upon, and across the following particularly described property situated in Clatsop County, Oregon, more particularly described as follows:

All state-owned submerged lands within Sections 13, 14 and 23 of Township 08 North, Range 10 West, Willamette Meridian, in Clatsop County, Oregon as further described in the attached Exhibit A and as shown on sheets 1 through 4.

TO HAVE AND TO HOLD the same unto GRANTEE for perpetuity, subject to the following conditions:

1. GRANTOR has the right to grant additional easements within the area authorized by this easement subject to the provisions of the administrative rules governing the granting of easements.

2. GRANTEE shall obtain prior written approval from GRANTOR prior to:
   a) Changing the type of use authorized by this easement;
   b) Expanding the number of authorized developments or uses;
   c) Changing the authorized area; and/or
   d) Permitting other persons to utilize the easement for uses and developments requiring separate written authorization by GRANTOR pursuant to the administrative rules governing the granting of easements or other GRANTOR requirements.

3. The easement area shall remain open to the public for recreational and other non-proprietary uses unless restricted or closed to public entry by the State Land Board or GRANTOR.
4. GRANTOR and/or its authorized representative(s) shall have the right to enter into and upon the easement area at any time for the purposes of inspection or management.

5. Except as expressly authorized in writing by the Department, GRANTEE shall not:
   a) Cut, destroy or remove, or permit to be cut, destroyed or removed any vegetation, or
   b) Remove any sand and gravel, or other mineral resources for commercial use or sale, that occur in the easement area except as expressly authorized in writing by GRANTOR.

   Routine right-of-way maintenance including vegetation trimming shall be allowed.

6. GRANTEE shall compensate GRANTOR for the fair market value of any commercially valuable timber or sand and gravel resources in the easement area that must be removed during or after placement of the authorized use, or which cannot be developed because of the authorized use.

7. GRANTEE shall conduct all operations within the easement area in a manner that conserves fish and wildlife habitat; protects water quality; and does not contribute to soil erosion, or the introduction or spread of noxious weeds or pests. Upon completion of construction, GRANTEE shall reclaim disturbed lands to a condition satisfactory to GRANTOR.

8. GRANTEE shall obtain a surety bond in the amount of $N/A to ensure compliance with the terms and conditions of this easement.

9. The right to use this easement shall automatically terminate if it, or the development authorized by GRANTOR, is not used within five (5) consecutive years of the date this easement was granted, pursuant to the provisions of the administrative rules governing the granting of easements.

10. Unless otherwise approved in writing by GRANTOR, GRANTEE shall remove all cables, pipes, conduits, roads, and other developments placed by GRANTEE on the easement, and shall restore the surface of the easement area to a condition satisfactory to GRANTOR within one (1) year following termination of use or expiration of this easement.

11. GRANTEE shall inspect the condition of the area authorized by this easement and the developments authorized by this easement on a frequency of: N/A.
12. GRANTOR shall have the right to stop operation of the use authorized by this easement for noncompliance with the conditions of this easement, the provisions of the administrative rules governing the granting of easements, and/or any lawful requirement by a regulatory agency of this STATE.

13. If this easement authorizes the use of state-owned submerged and/or submersible land:
   a) Construction in navigable waters shall conform to the standards and specifications set by the U.S. Army Corps of Engineers and the U.S. Coast Guard for the use authorized by this easement.
   b) Any blasting which may be necessary, or in-water placement, maintenance, or repair of the authorized use shall be performed according to the laws of this STATE, including strict adherence to Oregon Department of Fish & Wildlife in-water work windows.

14. GRANTEE shall pay to GRANTOR the current market value, as determined by GRANTOR, for any unnecessary and non-approved damages to state-owned lands caused by construction or maintenance of the easement.

15. GRANTEE shall pay all assessments that may be legally charged on public lands which are levied against the property subject to this easement, whether or not such assessments have been levied against the easement area or STATE by the assessing agency.

16. GRANTEE shall use the authorized easement area only in a manner or for such purposes that assure fair and non-discriminatory treatment of all persons without respect to race, creed, color, religion, handicap, disability, age, gender or national origin.

17. If a crossing listed in this easement is later found to have a valid easement from the GRANTOR, then the easement with the latest expiration date will be the "prevailing easement."

18. This easement is freely transferable. However, no transfer may increase the burden on the easement area or detract from the value of the underlying state-owned land.

This easement does not convey an estate in fee simple of the lands used for a right-of-way. This grant is for an easement only, and title remains in the State of Oregon.
STATE OF OREGON, acting by and through its Department of State Lands

DSL Authorized Signature/Printed Name

STATE OF OREGON

) ss
County of Marion

This foregoing instrument was acknowledged before me this _____day of ___________, 20__, by ________________________, the ______________________ of the Department of State Lands.

________________________________________
Signature
My commission Expires __________, 20__. 
CERTIFICATE OF APPROVAL OF CONVEYANCE
(ORS 93.808)

State of Oregon, by and through its Department of Transportation, Grantee, hereby approves and accepts, pursuant to ORS 93.808, the grant of an interest in real property from State of Oregon, by and through its Department of State Lands, Grantor, as described in the instrument to which this Certificate is attached.

A copy of this Certificate may be affixed to, and recorded with, the instrument described above.

DATED this ___ day of ______________, 20__.

State of Oregon, by and through its
Department of Transportation,
Grantee

By: __________________________

Name: _________________________

Title: __________________________

STATE OF OREGON

County of ________________

On this __________ day of ______________, 20__, before me personally appeared ___________________, who being duly sworn stated that he/she is the ________________ of Oregon Department of Transportation, Grantee, and acknowledged the foregoing instrument to be the voluntary act of said Grantee and that he/she executed the foregoing instrument under authority granted by said Grantee.

NOTARY PUBLIC FOR OREGON
My commission Expires: ____________________
Parcel 1 – Permanent Easement for Highway Right of Way Purposes

A parcel of land lying in Sections 13, 14, & 23, Township 8 North, Range 10 West, W.M., Clatsop County, Oregon; the said parcel being all state-owned submerged and submersible land lying below the line of Mean Low Tide of Youngs Bay and included in a strip of land 300.00 feet in width, 150.00 feet on each side of the center line of the Oregon Coast Highway, which center line is described as follows:

Beginning at Engineer's center line Station 6+96.07, said Station being 287.28 feet South and 11,157.08 feet West of the Northeast corner of Section 17, Township 8 North, Range 9 West, W.M., Clatsop County, Oregon; thence South 36°09'12" West 3,689.06 feet; thence on a spiral curve right (the long chord of which bears South 37°29'12" West 399.91 feet) 400.00 feet; thence on a 2,864.79 foot radius curve right (the long chord of which bears South 47°21'12" West 718.11 feet) 720.00 feet; thence on a spiral curve right (the long chord of which bears South 57°13'13" West 399.91 feet) 400.00 feet; thence South 58°33'12" West 5,066.79 feet; thence on a spiral curve to the left (the long chord of which bears South 57°53'12" West 399.98 feet) 400.00 feet; thence thence on a 5,729.58 foot radius curve to the left (the long chord of which bears South 54°27'12" West 419.91 feet) 420.00 feet; thence on a spiral curve left (the long chord of which bears South 51°01'12" West 399.98 feet) 400.00 feet; thence South 50°21'12" West 308.09 feet to Engineer's center line Station 125+00.00.

Bearings are based upon Oregon Coordinate Reference System (OCRS), Oregon Coast Zone, NAD83(2011), Epoch 2010.

This parcel of land contains 71.13 acres, more or less.
Parcel 2 – Permanent Easement for Bridge, Submerged Operations Cable Facilities

A parcel of land lying in Section 13, Township 8 North, Range 10 West, W.M., Clatsop County, Oregon; the said parcel being all state-owned submerged and submersible land lying below the line of Mean Low Tide of Youngs Bay and included in a strip of land 50.00 feet in width, 25.00 feet on each side of the following described line:

Beginning at a point opposite and 283.89 feet Northwesterly of Engineer’s Station 11+05.38 on the center line of the Oregon Coast Highway; thence Southwesterly in a straight line to a point opposite and 71.53 feet Northwesterly of Engineer’s Station 42+01.44 on said center line.

The center line of the Oregon Coast Highway is described as follows:

Beginning at Engineer’s center line Station 6+96.07, said Station being 287.28 feet South and 11,157.08 feet West of the Northeast corner of Section 17, Township 8 North, Range 9 West, W.M., Clatsop County, Oregon; thence South 36°09’12” West 3,689.06 feet; thence on a spiral curve right (the long chord of which bears South 37°29’12” West 399.91 feet) 400.00 feet; thence on a 2,864.79 foot radius curve right (the long chord of which bears South 47°21’12” West 718.11 feet) 720.00 feet; thence on a spiral curve right (the long chord of which bears South 57°13’13” West 399.91 feet) 400.00 feet; thence South 58°33’12” West 5,066.79 feet; thence on a spiral curve to the left (the long chord of which bears South 57°53’12” West 399.98 feet) 400.00 feet; thence on a 5,729.58 foot radius curve to the left (the long chord of which bears South 54°27’12” West 419.91 feet) 420.00 feet; thence on a spiral curve left (the long chord of which bears South 51°01’12” West 399.98 feet) 400.00 feet; thence South 50°21’12” West 308.09 feet to Engineer’s center line Station 125+00.00.

Bearings are based upon Oregon Coordinate Reference System (OCRS), Oregon Coast Zone, NAD83(2011), Epoch 2010.

This parcel of land contains 3.56 acres, more or less.
Appendix B

60843-EA
T08N, R10W Section 15, 16, 23
Clatsop County

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.

Map Projection:
Oregon Statewide Lambert
Datum NAD83
International Feet

State of Oregon
Department of State Lands
775 Summer St NE, Suite 100
Salem, OR 97301
503-986-5200
www.oregon.gov/DSL
Date: 3/15/2018

Map Producer: dantonson

Document Path: O:\GIS_Projects\LM\Authorizations\MXDs\Perpetual_Easements_black-white.mxd
Appendix C

60843-EA
T08N, R10W Section 15, 16, 23
Clatsop County

Description Points
Description Lines
Authorization Area

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.
SUBJECT

Request for approval to determine whether any interest remains vested in the State of Oregon, with respect to historically filled lands on the Chetco River, Curry County.

ISSUE

Whether the State Land Board should direct the Department to determine whether any interest remains vested in the State of Oregon, with respect to historically filled lands on the Chetco River, from River Mile 0 to RM 11 (about one mile upstream from the mouth of Elk Creek).

AUTHORITY

Oregon Constitution, Article VIII, Section 5. State Land Board; land management.
ORS 274.950. Jurisdiction to assert title to historically filled lands, requirements.
ORS 274.952. Determination of state interest in historically filled lands; study; procedures.

OAR 141-068. Identification, Notification, Sale and Exchange, Clearing Title, or Reservation of Historically Filled Lands, and Approval to Create, Sell, Exchange or Reserve New Lands.
SUMMARY

In 2015, Senate Bill 912 (Appendix A) was enacted and directed the State Land Board to:
“direct the Department of State Lands to determine whether any interest remains or is vested in the State of Oregon with respect to historically filled lands, as defined in ORS 274.905, in:
(A) Waterways of the state subject to tidal influence;
(B) Waterways of this state that have been administratively or judicially determined navigable pursuant to ORS 274.400 to 274.412; and
(C) Waterways in which the state has asserted ownership prior to the enactment of ORS 274.402 on September 9, 1995.”

The State Legislature provided funding for the Department to begin reviewing historically filled lands on state-owned waterways in 2015. The Department has drafted several initial reviews for waterways in western Oregon, including the Chetco River in Curry County.

The Department requests to initiate the determination and notification process for the Chetco River as directed by Senate Bill 912. This will be the first waterway for which the Department will formally initiate the notification and declaration process prescribed in SB 912 and administrative rule. Initial review indicates resolving filled lands ownership in the Chetco River will likely be uncomplicated and will therefore serve well to test the rules and process developed by the Department.

RECOMMENDATION

The Department recommends that the Board direct it to determine whether any interest remains vested in the State of Oregon, with respect to historically filled lands on the Chetco River, Curry County.

APPENDICES

A. SB 912 (2015 Regular Legislative Session)
Enrolled
Senate Bill 912

Sponsored by COMMITTEE ON JUDICIARY

CHAPTER ..................................................

AN ACT

Relating to land that was formerly submerged or submersible land; creating new provisions; amending ORS 274.905, 274.910, 274.915, 274.929 and 274.940; repealing ORS 274.960, 274.963, 274.965, 274.967, 274.970, 274.975, 274.977, 274.980, 274.983 and 274.985; and declaring an emergency.

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

AMENDMENTS TO NEW LANDS STATUTES

SECTION 1. ORS 274.905 is amended to read:

274.905. As used in ORS 274.905 to 274.940, unless the context requires otherwise:

(1)(a) “Historically filled lands” means those lands protruding above the line of ordinary high water, whether or not connected with the adjoining or opposite upland or riparian lands on the same side of the body of water, that were created upon submersible or submerged lands by artificial fill or deposit before May 28, 1963.

(b) “Historically filled lands” does not include bridges, wharves and similar structures constructed upon submersible or submerged lands by other than artificial fill or deposit.

[(1)]

(2)(a) “New lands” means those lands protruding above the line of ordinary high water, whether or not connected with the adjoining or opposite upland or riparian lands on the same side of the body of water, that were created upon submersible or submerged lands by artificial fill or deposit on or after May 28, 1963.

(b) “New lands” does not include bridges, wharves and similar structures constructed upon submersible or submerged lands by other than artificial fill or deposit.

[(2)]

(3) “Public body” means the State of Oregon or any port organized under the laws of this state or any dock commission of any city of this state.

SECTION 2. ORS 274.910 is amended to read:

274.910. (1) ORS 274.905 to 274.940 shall do not apply to submersible, submerged or new lands fronting upon the Pacific Ocean.

[(2) The provisions of ORS 274.905 to 274.940 apply to new lands created before, on or after May 28, 1963.]

[(3)]

(2) Nothing contained in ORS 274.905 to 274.940 shall divest the State of Oregon of its rights to minerals, oil, gas and sulfur.

SECTION 3. ORS 274.915 is amended to read:
274.915. (1) Except as otherwise provided in ORS 274.905 to 274.940, the Department of State Lands may sell, lease or trade submersible or submerged lands owned by the state in the same manner as provided for submersible lands in this chapter or ORS chapter 273.

(2) Except as otherwise provided in ORS 274.905 to 274.940, the department may sell, lease or trade new lands created upon submersible or submerged lands owned by the state in the same manner as provided for lands acquired as an investment for the Common School Fund in ORS 274.085 or ORS chapter 273.

(3) Except as otherwise provided in ORS 274.905 to 274.940 and sections 7 to 10 of this 2015 Act, the State Land Board shall adopt rules under which the department may sell, lease or trade historically filled lands owned by the state.

SECTION 4. ORS 274.929 is amended to read:

274.929. (1) Whenever the United States, while engaged in the promotion of navigation, creates new lands upon submersible or submerged lands owned by the state and the adjoining or opposite upland or riparian land on the same side of the body of water is owned by other than a public body, the nonpublic riparian owner has the right to purchase the new lands as provided in this section.

(2) A nonpublic riparian owner entitled to purchase the new lands under subsection (1) of this section shall pay to the Department of State Lands for the new lands a sum equal to the difference between the value of the tract, consisting of the new lands and the adjoining or opposite upland on the same side of the body of water, and the value of the adjoining or opposite upland before the creation of the new lands and an amount prescribed by the department to pay its administrative costs incurred with respect to the new lands. Such payment shall be made by the nonpublic riparian owner within six months after the date of the receipt by the nonpublic riparian owner of actual official notice by the department of the creation of the new lands, the sum equal to the difference between the value of the tract, consisting of the new lands and the adjoining or opposite upland on the same side of the body of water, and the value of the adjoining or opposite upland before the creation of the new lands and administrative costs incurred by the department with respect to the new lands. If the nonpublic riparian owner fails to make payment for the new lands as provided in this subsection, the department, after the expiration of the six-month period, may dispose of the new lands as provided in ORS 274.915.

(3) If a nonpublic riparian owner and the department cannot agree on the sum to be paid under subsection (2) of this section, the sum to be paid shall be determined by three appraisers, one appointed by the nonpublic riparian owner, one by the department, and the third by the first two, and their determination shall be final. The cost of the third appraiser shall be borne equally by the nonpublic riparian owner and the department.

(4) Notwithstanding ORS 274.910 (2) 274.905 (2), this section applies only to new lands created on or after October 5, 1973.

SECTION 5. ORS 274.940 is amended to read:

274.940. (1) Notwithstanding ORS 274.905, 274.915 to 274.925, 274.929, 274.932 and 274.937 any contrary provision of ORS 274.905 to 274.940, the Department of State Lands may reserve historically filled lands or new lands from sale, transfer or lease where upon notice and hearing [it] the department determines that the public interest requires [such] the lands to be preserved for recreation, conservation of fish and wildlife or the development of navigation facilities. [but in case of such reservation]

(2) If lands are reserved from sale, transfer or lease under this section, the adjoining or opposite upland or riparian owner shall be allowed reasonable access [across such reserved new lands] to navigable water across the reserved historically filled lands or new lands.

(3) A determination that the public interest requires historically filled lands or new lands to be reserved under this section is not a final agency order.

REPEAL OF
FORMERLY SUBMERGED OR SUBMERSIBLE LANDS PROVISIONS
SECTION 6. ORS 274.960, 274.963, 274.965, 274.967, 274.970, 274.977, 274.980, 274.983, and 274.985 are repealed.

IDENTIFICATION AND NOTIFICATION OF STATE'S INTEREST IN HISTORICALLY FILLED LANDS

SECTION 7. (1) Except as provided in subsection (2) of this section, the State Land Board may not in any manner assert title to historically filled lands, as defined in ORS 274.905, unless, prior to December 31, 2025:

(a) The board makes a declaration under section 9 of this 2015 Act that asserts title to the historically filled lands; and

(b) Notice of the board's declaration was given as required under section 10 of this 2015 Act.

(2) Subsection (1) of this section does not apply to:

(a) Historically filled lands, as defined in ORS 274.905, over which the State Land Board asserted title prior to January 1, 2016;

(b) Historically filled lands fronting upon the Pacific Ocean; or

(c) Lands in that portion of the Lower Willamette River that includes the Portland Harbor Superfund Site.

(3) Nothing contained in sections 7 to 10 of this 2015 Act shall divest the State of Oregon of its rights to minerals, oil, gas and sulfur.

SECTION 8. (1)(a) The State Land Board shall direct the Department of State Lands to determine whether any interest remains or is vested in the State of Oregon with respect to historically filled lands, as defined in ORS 274.905, in:

(A) Waterways of the state subject to tidal influence;

(B) Waterways of this state that have been administratively or judicially determined navigable pursuant to ORS 274.400 to 274.412; and

(C) Waterways in which the state has asserted ownership prior to the enactment of ORS 274.402 on September 9, 1995.

(b) Nothing contained in paragraph (a)(C) of this section is intended to affect the ability of a court of competent jurisdiction to make a determination with respect to a private claim to or interest in real property.

(c) In directing a determination by the department under this subsection, the board may designate a specifically described area of land within which the department shall make its determination.

(2) Upon direction by the board under subsection (1) of this section, the department shall conduct a study to make the determination. In completing the study, the department shall comply with the following procedures:

(a) The department shall provide prompt public notice to affected property owners that the department is beginning the study.

(b) Upon completion of a study directed under subsection (1) of this section, the department shall prepare and submit to the board a draft report setting forth the department's findings and conclusions as to whether any historically filled lands, as defined in ORS 274.905, are located within the area under study and, if so, the extent of the State of Oregon's interest in the historically filled lands.

(c) The department shall provide appropriate prior public notice to affected property owners and other interested parties concerning the draft report. The notice shall provide an opportunity for a public hearing in the area of the affected lands and an opportunity for the public to submit written comments on the draft report and to submit testimony or other evidence concerning the presence of historically filled lands, as defined in ORS 274.905, or the State of Oregon's interest in the historically filled lands.
(3) Following the public hearing under subsection (2) of this section, the board may adopt the draft report submitted by the department as final if substantial evidence in the record supports the report's findings and conclusions, or the board may refer the report to the department for further action as determined by the board.

SECTION 9. (1) Upon the adoption of a final report by the State Land Board under section 8 of this 2015 Act, the board shall declare the nature and extent of the state's claim to any interest that remains or is vested in the State of Oregon with respect to historically filled lands described in the report.

(2) A declaration made by the board pursuant to subsection (1) of this section shall be binding upon the State of Oregon with respect to the interest, if any, of the State of Oregon in historically filled lands described in the declaration.

(3) A declaration under this section is not a final order as defined in ORS 183.310.

(4) Nothing contained in this section is intended to affect the ability of a court of competent jurisdiction to make a determination with respect to a private claim to or interest in real property.

SECTION 10. Immediately following a declaration made by the State Land Board pursuant to section 9 of this 2015 Act, the board shall:

(1) Cause reasonable public notice of the declaration to be given to interested parties. The notice shall describe the land or waterway affected and the nature and extent of the state's claim. Notice under this section need not describe the land or waterway in legal terms, but by the use of common descriptions or maps shall be designed to identify the land or waterway in a manner intelligible to the layperson and useful in establishing the exact location of the state claim in relation to existing legal descriptions.

(2) Give notice to each owner of record of land described in the declaration by transmitting by registered mail or by certified mail, return receipt requested, a copy of the declaration made with respect to the land and a statement informing the owner of record of a point of contact at the Department of State Lands, and of options available to the owner of record based on the notice.

NOTE: Section 11 was deleted by amendment. Subsequent sections were not renumbered.

SECTION 12. The Department of State Lands shall submit a report on the department's progress in implementing sections 7 to 10 of this 2015 Act, and may include recommendations for legislation, to the interim committees of the Legislative Assembly related to the environment and natural resources in the manner provided under ORS 192.245 on or before September 15, 2017.

SECTION 13. In addition to and not in lieu of any other appropriation, there is appropriated to the Department of State Lands, out of the General Fund, the amount of $328,228 for the purpose of carrying out the duties, functions and powers conferred on the department by sections 7 to 10 of this 2015 Act. This appropriation is available continuously until expended for the purpose specified in this section. On January 1, 2026, any unobligated balance of the appropriation made by this section reverts to the General Fund.

MISCELLANEOUS

SECTION 14. The unit captions used in this 2015 Act are provided only for the convenience of the reader and do not become part of the statutory law of this state or express any legislative intent in the enactment of this 2015 Act.

SECTION 15. Sections 7 to 13 of this 2015 Act and the amendments to ORS 274.905, 274.910, 274.915, 274.929 and 274.940 by sections 1 to 5 of this 2015 Act become operative on January 1, 2016.

SECTION 16. The Department of State Lands, under the direction of the State Land Board, may take any action before the operative date specified in section 15 of this 2015 Act that is necessary for the department to exercise, on and after the operative date specified
in section 15 of this 2015 Act, all of the duties, functions and powers conferred on the department by sections 7 to 13 of this 2015 Act and the amendments to ORS 274.905, 274.910, 274.915, 274.929 and 274.940 by sections 1 to 5 of this 2015 Act.

EMERGENCY CLAUSE

SECTION 17. This 2015 Act being necessary for the immediate preservation of the public peace, health and safety, an emergency is declared to exist, and this 2015 Act takes effect on its passage.

Passed by Senate July 1, 2015

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

..................................................................................
Peter Courtney, President of Senate

Passed by House July 3, 2015

..................................................................................
Tina Kotek, Speaker of House

Received by Governor:

............................M.,........................................................., 2015

Approved:

............................M.,........................................................., 2015

Kate Brown, Governor

Filed in Office of Secretary of State:

............................M.,........................................................., 2015

Jeanne P. Atkins, Secretary of State
SUBJECT

Request for approval to initiate the review and determination of the sale of the Bear Creek property with its land, subsurface mineral and geothermal rights, a 158-acre tract in Wallowa County.

ISSUE

Whether the Land Board should authorize the Department to initiate the review and determination for the potential land, subsurface mineral and geothermal rights sale of the Bear Creek property in Wallowa County (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.
OAR 141-067-0320; relating to procedures for the sale, exchange, or release and transfer of mineral and geothermal resources.
SUMMARY

On June 1, 2007, the State Land Board approved initial due diligence of the Bear Creek tract along with 23 other isolated tracts in Baker, Union, Umatilla and Wallowa Counties. Some of the isolated tracts were sold at auction but this tract was held as an inholding for the U.S. Forest Service (USFS) as the Wallowa Whitman National Forest surrounds the property. At that time, DSL staff met with USFS staff and were unable to find equivalent exchange land or funding for purchase of the property. The tract is 158.2 acres of steep forestland with limited access.

In 2009, a forest wildfire burned 83 acres of the property. Twenty-one acres had understory damage while 62 acres received damages of between 50-100%. In 2015, DSL filed a claim against the United States Forest Service for the value of the timber. This claim was denied.

In May 2017, the Rocky Mountain Elk Foundation submitted an application to purchase the surface land on behalf of the U.S. Forest Service. In January 2018, the Foundation submitted an application to purchase the subsurface minerals and geothermal rights for the same tract.

The tract is an isolated in-holding within the Wallowa Whitman National Forest that is located next to a USFS campground. The property is steep, has limited access and little potential for generating revenue for the Common School Fund.

RECOMMENDATION

The Department recommends that the State Land Board authorize the Department to initiate the review and determination for the potential sale of the Bear Creek property, with its surface, subsurface and geothermal rights, a 158.2-acre tract in Wallowa County located at Township 1S Range 42E, Section 16, Tax Lot 1101.

APPENDIX

A. Map
APPENDIX A

38229-LS, Bear Creek Parcel
T01S, R42E Sec. 16, Tax Lot 1101
Approx. 158.2 acres
Wallowa County

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.

Map Projection:
Oregon Statewide Lambert
Datum NAD83
International Feet

State of Oregon
Department of State Lands
775 Summer St NE, Suite 100
Salem, OR 97301
503-986-5200
www.oregon.gov/DSL

Date: 4/27/2018

Source: Esri, DigitalGlobe, GeoEye, Earthstar Geographics, CNES/Airbus DS, USDA, USGS, AeroGRID, IGN, and the GIS User Community
SUBJECT

Request for approval to amend the Elliott State Forest Reciprocal Easement Agreement, a permanent easement, to add use of a DSL-owned 40-foot-wide Right-of-Way existing as a portion of the Elk Ridge (#1000) Road located on Common School Forest Land in Section 13, Township 23 South, Range 10 West, W.M., Douglas County.

ISSUE

Whether the State Land Board should approve a request from the State of Oregon, acting by and through its Department of Forestry on behalf of the Board of Forestry to amend the Elliott State Forest Reciprocal Easement Agreement to add a permanent easement to use the portion of the existing Elk Ridge (#1000) Road (Appendix A).

AUTHORITY

Article VIII, Section 5 of the Oregon Constitution; requiring the Land Board to “manage 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 273.171; relating to the duties and authority of the Director.

OAR 141-122-0010 to 141-122-0120; establishing procedures for granting easements and rights-of-way on trust and non-trust lands and requiring Land Board approval of easements granted in perpetuity.
**BACKGROUND**

On March 31, 2016, the Department of State Lands and the Department of Forestry entered into the Elliott State Forest Reciprocal Easement Agreement which grants each party non-exclusive easements over existing roads on State ownership within and adjacent to the Elliott State Forest. The reciprocal easement agreement included portions of the Elk Ridge (1000) Road on State ownership, however, the segments of DSL-Owned Right-of-Way in Section 13, Township 23 South, Range 10 West, W.M., were inadvertently not included in the easement description to the Department of Forestry.

**RECOMMENDATION**

The Department of State Lands recommends that the State Land Board approve an amendment to the Elliott State Forest Reciprocal Easement Agreement to revise the easement description for the Elk Ridge Road (#1000) (Appendix B) to the following (addition shown in **bold**):

**Township 23 South, Range 10 West, Willamette Meridian**

Easement #1: That portion of the Elk Ridge Road (#1000), over, upon and across Common School Forest Lands in Sections 13, 15, 22, 21, 20, 29, 30, 32 and 31, to and for the benefit of Board of Forestry Lands located in Twp. 24S., R. 10W., W. M., Section 6.

**APPENDICES**

A. Map
B. Easement Amendment
APPENDIX A

Elliott State Forest
Reciprocal Easement Agreement Amendment
DSL-Owned 40 Ft. Wide Right-of-Way
T23S, R10W Sec. 13

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.

Map Projection:
Oregon Statewide Lambert
Datum NAD83
International Feet

State of Oregon
Department of State Lands
1645 NE Forbes Rd. Suite 112
Bend, OR 97701
503-986-5200
www.oregon.gov/DSL

Date: 5/4/2018
### AMENDMENT #1

**ELLIOTT STATE FOREST RECIPROCAL EASEMENT AGREEMENT**

This Amendment is between the State of Oregon, acting by and through its Department of State Lands ("DSL") on behalf of the State Land Board, and the State of Oregon, acting by and through its Department of Forestry ("ODF") on behalf of the Board of Forestry, both individually without distinction as “Party” and collectively as the “Parties.”

**RECITALS**

A. DSL and ODF entered into that certain Reciprocal Easement Agreement on March 31, 2016 for the exchange of easements in Coos County (recorded as Instrument No. 2016-09067) and Douglas County (recorded as Instrument No. 2016-017019), Oregon, located within the Elliott State Forest.

B. ODF has identified additional Common School Forest Lands upon which ODF desires to obtain a permanent, appurtenant easement from DSL for ODF to access and actively manage its Board of Forestry Lands.

C. The Parties wish to amend the Reciprocal Easement Agreement to include an additional easement benefitting Board of Forestry Lands, as set forth below.

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AMENDMENT

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree to amend the Reciprocal Easement Agreement as set forth below.

I. EFFECTIVE DATE

This Amendment is effective upon execution by the Parties and receipt of all necessary approvals from the State of Oregon, including legal sufficiency approval from the Oregon Department of Justice.

II. PURPOSE

The purpose of this Amendment is to: (a) modify Exhibit 1-2 (Legal Description of the Common School Forest Lands) to include additional land in Section 13, Township 23 South, Range 10 West of the Willamette Meridian, Douglas County, Oregon; and (b) modify Exhibit 2-1 (Appurtenant access easements granted to ODF) to grant a permanent, non-exclusive easement over a strip of Section 13 to ODF for the benefit of certain Board of Forestry Lands.

III. AMENDED PROVISIONS

This Amendment modifies the Reciprocal Easement Agreement as follows (additions are bolded and underlined):

A. Exhibit 1-2
   (Legal Description of the Common School Forest Lands)

   Township 23 South, Range 10 West of the Willamette Meridian, Douglas County, Oregon

   All of Sections 3, 4, 5, 6, 7, 8, 9, 10, 15, 16, 17, 18, 19, 20, 21, 22, 23, 27, 28, 29, and 30, all in Township 23 South, Range 10 West of the Willamette Meridian, Coos County, Oregon.

   Section 2:

   Lots 1 through 13 and Lots 16 through 21.

   Section 11:

   Lot 1.

   Lot 4, Lot 5, Lot 8, and Lot 9 and the SE 1/4 of the NW 1/4, the E 1/2 of the SW 1/4, and the SE 1/4.

   Section 13:

   A strip of land forty (40) feet in width located in the Northeast quarter of the Northwest quarter (NE<sup>1/4</sup> NW<sup>1/4</sup>), the West half of the Northwest quarter (W½ NW<sup>1/4</sup>), and the
Northwest quarter of the Southwest quarter (NW\(\frac{1}{4}\)SW\(\frac{1}{4}\)) of Section 13, Township 23 South, Range 10 West, Willamette Meridian, said strip of land being along the following described center line:

Beginning at a point in the center of Lake Creek, said point being 823.7 feet South and 1138.2 feet West of the \(\frac{1}{4}\) corner common to Sections 12 and 13, Township 23 South, Range 10 West, Willamette Meridian; thence along the center line of said strip of land North 60° 21' West 112.9 feet; thence along an 80° curve to the left, the long chord of which bears North 89° 27' West 69.6 feet;

thence South 61° 27' West 103.2 feet;
thence South 18° 18' West 214.8 feet;
thence South 33° 12' West 207.4 feet;
thence South 14° 25' East 204.1 feet;
thence South 15° 36' West 223.5 feet;
thence South 79° 33' West 203.8 feet;
thence North 89° 05' West 296.0 feet;
thence South 84° 09' West 228.7 feet;
thence South 70° 03' West 173.5 feet;

thence North 69° 52' West 127.4 feet, more or less to a point on the section line between Sections 13 and 14, township 23 South, Range 10 West, Willamette Meridian, said point being 829.8 feet North 0° 41' 43" West of the \(\frac{1}{4}\) corner common to Sections 13 and 14, Township 23 South, Range 10 West, Willamette Meridian.

Also beginning at a point on the section line between Sections 13 and 14, Township 23 South, Range 10 West, Willamette Meridian, said point being 41.5 feet South of the \(\frac{1}{4}\) corner common to Sections 13 and 14, Township 23 South, Range 10 West, Willamette Meridian; thence along the center line of said strip of land South 32° 45' East 45.5 feet:

thence South 17° 15' East 43.0 feet;
thence South 5° 00' West 98.0 feet;
thence South 10° 30' West 57.0 feet;
thence South 34° 45' West 32.5 feet,

more or less to a point on the section line between Sections 13 and 14, Township 23 South, Range 10 West, Willamette Meridian, said point being 301.2 feet South of the \(\frac{1}{4}\) corner common to Sections 13 and 14, Township 23 South, Range 10 West, Willamette Meridian; all being in Douglas County, Oregon.

Section 14:

N \(\frac{1}{4}\) of the NE \(\frac{1}{4}\) and the NW \(\frac{1}{4}\).

Section 24:
The Northwest quarter of Section 24, Township 23 South, Range 10 West, W.M.

Excepting therefrom, the South 330 feet of the Southwest quarter of the Northwest quarter of Section 24, Township 23 South, Range 10 West, W.M.

Section 26:

The SW 1/4.

Section 31:

Lot 1, Lot 2, Lot 3, Lot 4, and Lot 5 and the NE 1/4, E 1/2 of the NW 1/4, NE 1/4 of the SW 1/4, and the NW 1/4 of the SE 1/4.

That portion of Government Lot 6 of Section 31, Township 23 South, Range 10 West of the Willamette Meridian lying West of the West edge of Elliott State Forest Road No. 1000 (also known as Elk Ridge Road), all in Coos County, Oregon.

Section 32:

The NE 1/4 of the NE 1/4, the W 1/2 of the NE 1/4, the NW 1/4, and the NW 1/4 of the SE 1/4.

Section 33:

The W 1/2 of the NE 1/4, the NW 1/4, and the NW 1/4 of the SW 1/4.

All that portion of the Northwest one-quarter (NW1/4) of the Northeast one-quarter (NE 1/4) of the Northeast one-quarter (NE1/4) of Section 33, Township 23 South, Range 10 West of the Willamette Meridian, lying West of the center of Cedar Creek, all in Coos County, Oregon.

B. Exhibit 2-1
(Appurtenant access easements granted to ODF)

Township 23 South, Range 10 West, Willamette Meridian

Easement #1: That portion of Elk Ridge Road (#1000), over, upon and across Common School Forest Lands in Sections 13, 15, 22, 21, 20, 29, 30, 32 and 31, to and for the benefit of Board of Forestry Lands located in Twp. 24S., R. 10W., W. M., Section 6.

Easement #2: That portion of Road #1850, from its intersection with Loon Lake County Road, over, upon and across Common School Forest Lands in Sections 27 and 22, to its intersection with Elk Ridge Road (#1000), for the benefit of Board of Forestry Lands located in Twp. 24S., R. 10W., W. M., Section 6 and Twp. 24S., R. 11W., W.M., Sections 9, 10, 15, 16, and 22.
**Easement #3:** That portion of Umpcoos Ridge Road (#7000), over, upon and across Common School Forest Lands in Sections 4 and 3, to its intersection with Cougar Pass Road (#7700), for the benefit of Board of Forestry Lands located in Twp. 22S., R. 10W., W.M., Section 35; Twp. 22S., R. 11W., W. M., Sections 15, 16, 22, 23 and 36; and Twp. 23S., R. 12W., W.M., Section 12.

**Easement #4:** That portion of Cougar Pass Road (#7700), from its intersection with Umpcoos Ridge Road (#7000), over, upon and across Common School Forest Lands in Sections 3 and 2, for the benefit of Board of Forestry Lands located in Twp. 22S., R. 10W., W.M., Section 35; Twp. 22S., R. 11W., W. M., Sections 15, 16, 22, 23 and 36; and Twp. 23S., R. 12W., W.M., Section 12.

**IV. CONTINUATION OF RECIPROCAL EASEMENT AGREEMENT TERMS**

Except as specifically provided in this Amendment, all other provisions of the Reciprocal Easement Agreement remain in full force and effect.

**V. COUNTERPARTS:**

This Amendment may be executed in several counterparts, by facsimile or otherwise, all of which when taken together shall constitute one instrument binding on all Parties, notwithstanding that all Parties are not signatories to the same counterpart. Each copy of this Amendment so executed constitutes an original.

Executed this _____ day of ________________, 2018.

DSL: 
STATE OF OREGON, acting by and through its Department of State Lands on behalf of the State Land Board

ODF: 
STATE OF OREGON, acting by and through its Department of Forestry on behalf of the Board of Forestry

Vicki Walker
Director
Oregon Department of State Lands

Elizabeth F. Dent
State Forests Division Chief
Oregon Department of Forestry
ACKNOWLEDGMENTS

STATE OF OREGON  
)  
) ss.  
County of Marion  )  

This instrument was acknowledged before me this ______ day of ______________________., 2018, by Vicki Walker, as the authorized representative of the Oregon Department of State Lands.

________________________
Notary Public for Oregon
My Commission expires: __________

STATE OF OREGON  
)  
) ss.  
County of Marion  )  

This instrument was acknowledged before me this ______ day of ______________________., 2018, by Elizabeth F. Dent, as the authorized representative of the Oregon Department of Forestry.

________________________
Notary Public for Oregon
My Commission expires: __________
SUBJECT

Request for approval of the direct sale of 63.1 acres of subsurface minerals and geothermal rights located in Marion County.

ISSUE

Whether the State Land Board should authorize the direct sale of 63.1 acres of subsurface minerals and geothermal rights in Marion County (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 273.775 – 273.790; Mineral and Geothermal Resource Rights
OAR 141-067-0320; relating to procedures for the sale, exchange, or release and transfer of mineral and geothermal resources.

Real Estate Asset Management Plan (REAMP), adopted by the Land Board; February 2012.

SUMMARY

On October 1, 2015, DSL received an application from Silverton Rock Farm, for the release of approximately 63.1 acres of subsurface mineral and geothermal rights held by the State Land Board (Appendix A) below their surface ownership. The applicant had recently purchased the property along with adjacent parcels for the express
purpose of developing a rock quarry, believing they had purchased all mineral rights as well.

DSL staff became aware of the issue while reviewing land use action notices from Marion County, and informed the landowner of the State’s subsurface ownership. The Department proposed a lease to allow the joint development of the adjacent private and state-owned resources. The landowner refused to lease the property, contending that paying the State royalty rates would make the proposed operation economically unviable. On October 11, 2016, the State Land Board approved due diligence on the property for the potential sale of the subsurface minerals (Appendix B).

It was subsequently determined the State’s mineral ownership was improperly dropped from the land title in the mid 1940’s and a rock quarry was established at approximately the same time with operations continuing until 1996. That operation was confined to a portion of the State owned mineral rights and paid no royalties to the State. The current landowner proposes to reopen that quarry and eventually expand onto the adjoining parcel where the State does not own mineral rights. The Title Company admitted error and settled with the landowner for an undisclosed amount.

The State is not responsible for the error or the damages suffered by the current landowner, nor can the State force the landowner to lease the property. The only avenue to a mutually agreeable solution is for the State to consider a sale of its mineral rights to reunite the current split estate.

ORS 273.780 (3): “Except as provided in ORS 273.787, the mineral and geothermal resource rights shall be retained by the state in the absence of a finding by the State Land Board upon adequate facts presented to it that their sale or exchange is for the purpose of obtaining the greatest benefit for the people of this state, consistent with the conservation of lands under its jurisdiction under sound techniques of land management.” ORS 273.787 does not apply to this circumstance.

The State obtained its own appraisal of the mineral interest of the property indicating a value of $50,000. On April 6, 2018, the property owner agreed to purchase the minerals for this price. The Department believes the direct sale of the mineral interest will provide the greatest benefit for this resource.

**RECOMMENDATION**

The Department recommends the State Land Board approve the direct sale of the subsurface minerals and geothermal rights to the surface owner, located in Marion County at Township 7 South, Range 1 East, Section 7D, Tax Lot 400.
APPENDICES

A. Site Map
B. October 2016 agenda item 1h
APPENDIX A

Mineral Sale Application 58495-LS
T07S, R01E Sec. 7D, Tax Lot 400
63.1 Acres Requested
Marion County

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.

Map Projection:
Oregon Statewide Lambert
Datum NAD83
International Feet

State of Oregon
Department of State Lands
775 Summer St NE, Suite 100
Salem, OR 97301
503-986-5200
www.oregon.gov/DSL

Date: 4/27/2018

DSL Mineral Ownership
Minerals Requested
Tax Lot 400, Applicant - Surface Owner

Section Boundaries
Local Roads

Source: Esri, DigitalGlobe, GeoEye, Earthstar Geographics, CNES/Airbus DS, USDA, USGS, AeroGRID, IGN, and the GIS User Community
SUBJECT

Request for approval to initiate the review and determination of the potential sale of subsurface mineral and geothermal rights on approximately 63.1 acres of property located in Marion County.

ISSUE

Whether the State Land Board should authorize the Department to initiate the review and determination of the sale of approximately 63.1 acres of mineral and geothermal rights held by the State Land Board located in Marion County (Tax Lot 00901, T7S, R1E, W.M., Section 7).

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 273.775 – 273.790; Mineral and Geothermal Resource Rights
OAR 141-067-0320; relating to procedures for the sale, exchange, or release and transfer of mineral and geothermal resources.

SUMMARY

On October 1, 2015, DSL received an application from Silverton Rock Farm for the release of approximately 63.1 acres of mineral and geothermal rights held by the State Land Board (Appendix A) below their surface ownership. The applicant had recently purchased the property along with adjacent parcels for the express purpose of developing a rock quarry, believing they had purchased all mineral rights, as well.
DSL staff became aware of the issue while reviewing land use action notices from Marion County, and informed the landowner of the state’s subsurface ownership. The Department initially proposed a lease to allow the joint development of the adjacent private and state-owned resources. The landowner declined to enter into a lease, contending that paying the state royalty rates would make the proposed operation economically unviable.

It was subsequently determined that the state’s mineral ownership was improperly dropped from the land title in the mid-1940s, and a rock quarry was established at approximately the same time with operations continuing until 1996. The current landowner proposes to reopen that quarry and eventually expand onto the adjoining parcel where the state does not own mineral rights. One avenue to a potentially mutually agreeable outcome for the state-owned property is for the Department to consider a sale of its mineral rights to reunite the current split estate.

**RECOMMENDATION**

The Department recommends that the State Land Board approve the initiation of the review and determination of the sale of mineral and geothermal resources rights for this property located in Marion County (Township 7 South, Range 1 East, Section 7, Tax Lot 00901).

**APPENDICES**

A. Site map
This map depicts the approximate location and extent of a Department of State Lands, Land Management Division 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.

Mineral Sale Application 58495-LS
T07S, R1E Sec. 07, Tax Lot 901
63 Acres
Marion County

Exhibit A

Minerals Requested, TL 901
DSL Mineral Ownership
Sections

State of Oregon
Department of State Lands

APPENDIX A

APPENDIX B

Minerals Requested, TL 901
DSL Mineral Ownership
Sections

This map depicts the approximate location and extent of a Department of State Lands, Land Management Division 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.
REQUEST STATE LAND BOARD APPROVAL OF THE OREGON DEPARTMENT OF FORESTRY’S (ODF’S) PROPOSED 2019-2021 COMMON SCHOOL FUND (CSF) BUDGET.

ISSUE

Whether the State Land Board should approve ODF’s proposed CSF budget for submission to the Department of Administrative Services (DAS).

AUTHORITY

Oregon Constitution, Article VIII, Section 5; specifying that the State Land Board is responsible for managing Common School Fund lands.

ORS 273.041 to 273.071; authorizing the Department of State Lands to exercise the administrative functions of the State Land Board.

ORS 273.135 to 273.155; authorizing the Department of State Lands to enter into written agreements with other government agencies for the performance of technical and professional services.

ORS 530.490 to 530.500; authorizing the State Forester to manage, control, and protect the Common School Forest Lands.
SUMMARY

As required in Section 10.1 of the July 1, 2017 Common School Forest Land Management Agreement, “The Department shall provide a preliminary biennial Department-wide budget to the DSL by August 1 of each even-numbered year.”

DISCUSSION

The Oregon Department of Forestry (ODF) manages 33,073 acres of Common School Forest Land (CSFL) through an agreement among ODF, the State Land Board (SLB), and the Department of State Lands (DSL). ODF’s mission on Common School Forest Lands is to manage and protect these lands for the maximum short and long-term benefit to the people of Oregon. Within this context, these lands are managed to maximize revenue to the state’s Common School Fund (CSF) schools, consistent with sound stewardship, conservation, and business management principles. CSFL are managed in alignment and consistent with the goals and management direction that are described in the 2012 Real Estate Asset Management Plan.

ODF State Forests Agency Request Budget (ARB) for all management costs and statewide fire patrol assessments on CSFL for the 2019-2021 biennium is approximately $4.82 million. This compares to the 2017-2019 ODF Legislatively Approved Budget (LAB) for all management costs of $3.27 million. The ARB includes a Policy Option Package (POP) to restore funding for personal services to assure continued management of these Common School Forest Lands. The Agency Request Budget (ARB), including the POPs, will be completed by August 31, 2018.

Through the planning and administration of timber sales ODF estimates that we will generate $6.76 million in total revenue. This will result in a positive cash flow to the Common School Fund of approximately $2.0 million.

At this time, there are two State Forests Policy Option Packages (POP) for 2019-2021 that could affect CSFL budget authority. In addition, two POPs from other programs within ODF are under development and may have an effect on costs associated with administrative services and debt services for the CSFLs. These potential POPs include the following:
State Forests POPs

1. **Sort Sales Other Funds Limitation Increase.** This concept proposes to increase spending authorization for State Forests. Under the sort sale methodology ODF would contract for logging activities and receive revenue for logs delivered to a mill. The revenue from logs delivered to a mill will offset the costs of these activities and is anticipated to produce higher net revenues over time.

2. **Personal Services Funding Restoration.** This package restores $534,435 in personal services funding that was reduced in the 17-19 biennium. As a result of the 17-19 budget reduction, the 2019-2021 CSL for personal services is $1,339,947 which is insufficient to fund the existing 9.06 FTE. Funding for these positions is necessary to perform CSFL management operations 33,073 acres of Common School Forest Land (CSFL) consistent with the July 1, 2017 Common School Forest Land Management Agreement between the SLB, DSL, and ODF. Management activities conducted and administered by ODF include surveys for threatened and endangered species, forest inventory, and timber sale planning and administration. ODF implements reforestation and young stand management activities to continuously grow healthy, productive, and sustainable forests for future generations. These forests provide a longer-term range of benefits such as wood products, diverse ecosystems and habitats, and clean air and water. ODF conducts this work through a transparent public process seeking review and comment on annual operating plans, 10-year implementation plans, and long-term forest management plans. Revenues generated from these forests cover expenditures associated with land management and provide revenue to the CSF. This POP will restore funding to positions to assure continued management of these Common School Forest Lands.

Other ODF POPs

1. **Protecting Oregonians, Forests, and Communities from Wildfire.** This concept will add agency capacity and training to respond to the wildfire workload and sustain other core businesses while proactively protecting Oregonians, forests and communities from wildfire.

2. **Agency Deferred Maintenance and Capital Improvement.** During the 2017 Legislative Session, Senate Bill 1067 passed requiring the Agency to include at least 2.0% of the current replacement value of the Agency’s buildings and infrastructure for deferred maintenance in the Agency Request Budget.
**Expected Management Outcomes**
CSFL results across the ODF State Forest Division for the 2019-2021 biennium are as follows:

1. Produce an estimated $6.76 million in gross revenues based on ODF’s Fall 2017 revenue projection from all CSFLs, resulting in a projected total net revenue to the Common School Fund of $1.9 million over the biennium. It is important to note that the revenue and expenditure projections have a high degree of uncertainty given challenges with predicting future timber sale volume and timber value.

2. For the 2019-2021 biennium, harvest levels from these parcels are projected to be 13.6 million board feet - again recognizing uncertainties associated with predicting future timber market.

3. Assist Department of State Lands in implementation of the 2012 Real Estate Asset Management Plan.

4. Provide for appropriate recreational opportunities on CSFL throughout the state.

5. Continue to implement cultural resource management strategies on CSFL, including coordination and consultation with tribes.

6. Continue to provide a variety of opportunities for public participation in state forests planning processes.

**RECOMMENDATION**

The Department of Forestry and the Department of State Lands recommend that the State Land Board approve the submission of ODF’s 2019-2021 Current Service Level CSF Budget to the Department of Administrative Services as part of the Department’s total budget, with recognition that there may be policy option packages that will cause an increase to ODF’s Agency Request Budget.

**APPENDICES**

B. Oregon Department of Forestry Memorandum to DSL Director Walker: June 11, 2018 version.

### 2019-21 DSL Agency Request Budget

<table>
<thead>
<tr>
<th>Budget Category</th>
<th>2017-19</th>
<th>2019-21</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Legislatively Adopted Budget</td>
<td>Current Service Level (CSL)</td>
</tr>
<tr>
<td>Common School Lands Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Services</td>
<td>$1,232,484</td>
<td>$1,339,947</td>
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<tr>
<td>Services &amp; Supplies</td>
<td>$937,244</td>
<td>$1,019,441</td>
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<tr>
<td>Capital Outlay (building structures)</td>
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<td>-</td>
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<tr>
<td><strong>Sub-Total</strong></td>
<td>$2,169,728</td>
<td>$2,359,388</td>
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<tr>
<td>Capital Improvement</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital Construction</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td></td>
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<tr>
<td>Personal Services</td>
<td>$313,477</td>
<td>$501,277</td>
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<tr>
<td>Services &amp; Supplies</td>
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<td>Capital Outlay</td>
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<td>Capital Improvement/maintenance</td>
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<td>Debt Service - COP's</td>
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<tr>
<td>Seed Orchard</td>
<td>$50,000</td>
<td>$50,000</td>
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<tr>
<td><strong>Sub-Total</strong></td>
<td>$671,381</td>
<td>$967,904</td>
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<tr>
<td><strong>Sub-Total, Direct and Indirect</strong></td>
<td>$2,841,109</td>
<td>$3,327,292</td>
</tr>
<tr>
<td>Fire Patrol Assessment (Elliot)</td>
<td>-</td>
<td>$622,179</td>
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<tr>
<td>Fire Patrol Assessment (Other)</td>
<td>$425,206</td>
<td>$336,055</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>$3,266,315</td>
<td>$4,285,526</td>
</tr>
<tr>
<td><strong>FTE</strong></td>
<td>9.15</td>
<td>9.06</td>
</tr>
</tbody>
</table>

**DAS Standard Inflation Factor:** 103.700% 103.800% 103.800% 103.800%

**CSLF Debt Service Percentage:** 11.111%

**CSLF Admin Prorate Percentage:** 2.586% 2.352% 0.000% 0.000%
This memo replaces the May 31, 2018 memo addressed to DSL Director Walker. This memo highlights Oregon Department of Forestry’s (ODF) updated Agency Request Budget (ARB) for the 2019-21 biennium of $4,819,961 which includes statewide fire patrol assessments and a Policy Option Package that restores a reduction in personal services from the 2017-2019 Legislatively Approved Budget (LAB). The proposed budget includes personal services and service and supplies for 9.06 FTE to manage approximately 33,073 acres of common school forestland. Through the planning and administration of timber sales, ODF estimates that we will generate $6,760,000 in total revenue. This will result in a positive cash flow to the Common School Fund of approximately $1,940,000. The ARB is provided in ODFs staff report.

2019-2021 Agency Request Budget
The ARB is 47.6% higher than Legislatively Adopted Budget (LAB) for several reasons.

1. The 2017-2019 budget did not include the fire patrol assessment for the Elliott. This was based on the premise that the Elliott State Forest would be sold during the biennium and the new landowner would be responsible to pay for the protection costs. This did not occur, leaving the Department of State Lands responsible to pay for the fire patrol costs. While reflected in ODF’s ARB, the fees are assessed separately and directly billed to DSL from ODF’s Fire Protection Division. This accounts for an increase of $533,028 over the LAB.

2. The 2017-2019 LAB administration costs were artificially low due to an error in the formula split. The 2019-2021 ARB corrects the formula. This accounts for an increase of $296,523 over the LAB.
3. In the 2017-2019 LAB, personal services were reduced resulting in an increase of $641,898 over the LAB. The 2019-2021 ARB includes a Policy Option Package (POP) to restore the personal services budget.

**Draft 2019-2021 Policy Option Package: Personal Services Funding Restoration**

This package restores $534,435 in personal services funding that was reduced in the 17-19 biennium. As a result of the 17-19 budget reduction, the 2019-2021 current service level for personal services is $1,339,947 which is insufficient to fund the existing 9.06 FTE. Funding for these positions is necessary to perform CSFL management operations 33,073 acres of Common School Forest Land (CSFL) consistent with the July 1, 2017 Common School Forest Land Management Agreement between the SLB, DSL, and ODF. Management activities conducted and administered by ODF include surveys for threatened and endangered species, forest inventory, and timber sale planning and administration. ODF implements reforestation and young stand management activities to continuously grow healthy, productive, and sustainable forests for future generations. These forests provide a range of longer-term benefits such as wood products, diverse ecosystems and habitats, and clean air and water. ODF conducts this work through a transparent public process seeking review and comment on annual operating plans, 10-year implementation plans, and longer-term forest management plans. Revenues generated from these forests are used for expenditures associated with land management and provide revenue to the CSF. This POP will restore funding to positions to assure continued management of these Common School Forest Lands.
Purpose
To provide the State Land Board with an updated Distribution Study subsequent to the passage of SB 1566.

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

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

1) CSF market value of $1.68 BB as of December 31, 2017;
2) CSF target asset allocation of 45% public equity, 25% fixed income, 10% private equity, 10% real estate, 10% alternatives used in conjunction with Callan’s 10-year capital market expectations to plot asset growth;
3) Student population growth of 0.7% over next 35 years versus national average of 0.2%;
4) Net unclaimed property inflows of $32.5 million with expected growth of 2.5% per year;
5) SB 1566 – *Section 22 (1) assumptions on future interest earned in the previous calendar year from the unclaimed property portion of the CSF;
6) SB 1566 – *Section 22 (a) (b) (c) assumptions on net proceeds from unclaimed property minus investment and operating expenses;
7) Unclaimed property portion of the CSF cannot be distributed;

*Transfers related to SB 1566 will not occur if interest from the unclaimed property portion of the CSF (approximately $600 million) for the previous calendar year is equal to or less than the combination of investment expenses and operating expenses. Callan examined transfers under the 3.5% distribution rate and forecasted annual SB 1566 transfers of $0.00 approximately 40% of the time given the probability of negative or very low returns in any single year due to the CSF target allocation. If SB 1566 transfers occur, they will not exceed net unclaimed property inflows (currently $32.5 million) minus investment and operating expenses (currently $4.4 million).
CSF Distribution Study Recommendation

The updated distribution policy concludes that a 3.5% annual distribution is the maximum rate to maintain a relatively stable real asset value (i.e. inflation-adjusted). The updated 3.5% distribution rate in effect, sunsets the 2009 State Land Board distribution policy “that distributes 4 percent of the average balance of the preceding three years. If the average balance of the fund has increased by 11 percent or more, the distribution shall be 5 percent of the average balance of the preceding three years.”
Oregon Common School Fund
Asset Allocation and Distribution Study: 2018 Update

Janet Becker-Wold, CFA
Senior Vice President

Julia Moriarty, CFA
Senior Vice President

Uvan Tseng, CFA
Senior Vice President
Goal of the Study

Focus is on the Distribution and Investment Policies

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

- The distribution and investment policies are two of the three key components of a fund (along with the contribution policy).

- Well-engineered distribution and investment policies consider:
  - The Fund’s investment objectives
  - All appropriate asset classes for inclusion
  - Liquidity needs, asset class limitations, implementation challenges, administrative and legal burdens, size or capacity constraints
  - Rebalancing discipline

- The appropriate distribution and investment policies should strike a balance between growth in the corpus and sustainable, stable distributions that result in intergenerational equity for beneficiaries.

- The appropriate distribution and investment policies will vary by each fund’s unique circumstances, preferences, and priorities.
  - No “one-size-fits-all” solution exists.
Three Key Policies

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

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

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

**Distribution Policy**
- What type of distribution policy?
- What level of distributions?
Asset Allocation and Distribution Process

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

Distribution Modeling

- Build & Test Distribution Models
- Select Distribution Model

Asset Projections

- Define Capital Market Projections
- Create Asset Mix Alternatives

Simulate Financial Condition
- Define Risk Tolerance
- Select Appropriate Target Mix
The Focus is on Broad Asset Classes

- Breakdowns between investment styles within asset classes (growth vs. value, large cap vs. small cap) are best addressed in a manager structure analysis.
  - Asset allocation assumes a net-of-fee investment in the relevant index fund (passive management).
  - Manager structure reflects the investor’s decision about the use of active and/or passive management within an asset class; the number of different mandates within the asset class; the styles within the asset class; and whether or not to implement “tilts” that differ from the broad asset class benchmark.

- Primary asset classes and important sub-asset classes include:
  - U.S. stocks
  - U.S. bonds
  - Non-U.S. stocks
  - Non-U.S. bonds
  - Alternative investments
    - Real estate
    - Private equity
    - Hedge funds
  - Cash

### Asset Class

<table>
<thead>
<tr>
<th>Equity</th>
<th>Debt</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>U.S.</td>
</tr>
<tr>
<td>Non-U.S.</td>
<td>Non-U.S.</td>
</tr>
</tbody>
</table>

### Sub-Asset Class

- Large Cap
- Small Cap
- Developed
- Emerging
- Investment Grade
- High Yield
- Developed
- Emerging
Current Situation and Assumptions

- The Fund has approximately $1.676 billion in assets as of December 31, 2017.

- The Target asset allocation is 55% equity (45% public and 10% private), 25% fixed income, 10% real estate, and 10% diversifying strategies.

- Distributions in recent years have equaled 4-5% of the three-year average market value.

- Oregon student population growth is projected to grow at an annualized rate of 0.7% over the next 35 years versus approximately 0.2% for the nation as a whole.

- Net unclaimed property inflows are expected to be $32.5 million in 2018 and grow by 2.5% per year.

- Outflows beyond the distribution policy include investment and operating expenses and the annual transfer to the School Districts Unfunded Liability Fund.

**Expected Return = 6.5%**

**Expected Risk = 13.4%**
Current Distribution Policy

Overview

- The current policy distributes 4% of the 3-year average market value if the annual percentage growth in the 3-year average market value is less than 11%.

- If the annual percentage growth in the 3-year average market value is 11% or more the Fund will distribute 5% of the 3-year average market value.
  - The distribution rate mechanism is tied to the change in the 3-year average market which is influenced not only by investment performance but by contributions and distributions.

- Below is an example of the distribution calculation for fiscal year 2017.

<table>
<thead>
<tr>
<th>FY17 Distribution</th>
<th>December 31</th>
<th>Market Value</th>
<th>3 Year Avg MV</th>
<th>Change in 3 Yr Avg MV</th>
<th>4%</th>
<th>5%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>1,178,826,000</td>
<td>1,119,481,333</td>
<td>5.41%</td>
<td>44,779,253</td>
<td>55,974,067</td>
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<td></td>
<td>2013</td>
<td>1,362,190,000</td>
<td>1,204,259,333</td>
<td>7.57%</td>
<td>48,170,373</td>
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<td></td>
<td>2014</td>
<td>1,433,677,000</td>
<td>1,324,897,667</td>
<td>10.02%</td>
<td>52,995,907</td>
<td>66,244,883</td>
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<tr>
<td></td>
<td>2015</td>
<td>1,424,195,000</td>
<td>1,406,687,333</td>
<td>6.17%</td>
<td>56,267,493</td>
<td>70,334,367</td>
</tr>
</tbody>
</table>
Senate Bill 1566

Overview

- Senate Bill 1566 was passed on March 3, 2018.

- Section 22 of the bill outlines the procedure for annual transfers from the Common School Fund to the School Districts Unfunded Liability Fund:

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

  - (2) The amount made available under subsection (1) of this section may not exceed an amount equal to the proceeds from unclaimed property received by the department in the previous calendar year, minus: (a) The amount paid for unclaimed property claims under ORS 98.396 in the previous calendar year; (b) The department’s investment expenses related to the Common School Fund for the previous calendar year; and (c) Operating expenses that the department is entitled to recover for the previous calendar year.

- These new outflows have been factored into the analysis that follows in order to determine their impact on setting an appropriate distribution rate.
The graph above discounts nominal values by price inflation and student population growth.  
- Callan’s price inflation (CPI-U) forecast is 2.25%.  
- Oregon student population growth is projected to grow at an annualized rate of 0.7% over the next 35 years versus approximately 0.2% for the nation as a whole.

The real value of the corpus is expected (median-case outcome) to decline gradually over the next 20 years given the passage of Senate Bill 1566.
Real Distributions
Current Distribution Policy and Target Asset Allocation

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

Various Distribution Policies and Target Asset Allocation

- The current distribution policy distributes 4% of the 3-year average market value unless the annual percentage growth in the 3-year average market value is 11% or more in which case the Fund distributes 5% of the 3-year average market value.

- Both the current distribution policy and a flat 4% distribution rate (also applied to the 3-year average market value) result in declining real asset values.

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

---

Note: Based on Callan's 10-year capital market expectations.
Summary Conclusions

- With the passage of Senate Bill 1566, the real value of the Fund is expected (median-case outcome) to gradually decline over the next 20 years under the current distribution policy and under a flat 4% distribution rate (applied to the 3-year average market value).

- Projections indicate that 3.5% would be the maximum distribution rate to maintain a relatively stable real asset value over time.

- Note that Callan’s 10-year expectations were utilized for the entire projection period.
The above chart compares the nominal value of the Fund to the value of unclaimed property.
- Unclaimed property grows from $637 million at December 31, 2017 to $1.467 billion at December 31, 2037.

- Unclaimed property cannot be distributed.
- Distributions would be limited or curtailed in the event the value of the Fund neared or fell below the value of unclaimed property.

- Unclaimed property and the value of the Fund at the 95th percentile merge in 2035.
How are Capital Market Projections Constructed?

Guiding Objectives and Process

● Projections consist of return and two measures that contribute to portfolio volatility: standard deviation and correlation.

● Projections cover most broad asset classes and inflation.

● Underlying beliefs guide the development of the projections:
  – An initial bias toward long-run averages
  – A conservative bias
  – An awareness of risk premiums
  – A presumption that markets ultimately clear and are rational

● Reflect our beliefs that long-term equilibrium relationships between the capital markets and lasting trends in global economic growth are key drivers to setting capital market expectations.

● Long-term compensated risk premiums represent “beta”—exposure to each broad market, whether traditional or “exotic,” with limited dependence on successful realization of alpha.

● The projection process is built around several key building blocks:
  – Advanced modeling at the individual asset class level (for example, a detailed bond model, an equity model)
  – A path for interest rates and inflation
  – A cohesive economic outlook
  – A framework that encompasses Callan beliefs about the long-term operation and efficiencies of the capital markets
The basis for asset allocation are the long-term expected characteristics of each asset class and how they interact with one another.

Public market expectations represent passive exposure (beta only).

Return expectations for private market investments such as real estate and private equity reflect active management premiums.

All return expectations are net of fees.

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

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Index</th>
<th>Projected Return</th>
<th>Projected Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broad Domestic Equity</td>
<td>Russell 3000</td>
<td>6.85%</td>
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<tr>
<td>Small/Mid Cap</td>
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<td>Global ex-US Equity</td>
<td>MSCI ACWI ex USA</td>
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<td><strong>Inflation</strong></td>
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* Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).
### 2018 Capital Market Expectations

**Correlations**

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<th>16</th>
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<td>6 Emerging Markets Equity</td>
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<td>0.20</td>
<td>0.40</td>
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- “Correlations” measure relationships between asset classes.
- These relationships will have a significant impact on the generation of efficient asset mixes using mean-variance optimization.
- Correlations are what define the diversification benefit – or lack thereof – of asset combinations.
Disclaimers

This report is for informational purposes only and should not be construed as legal or tax advice on any matter. Any decision you make on the basis of this content is your sole responsibility. You should consult with legal and tax advisers before applying any of this information to your particular situation.

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SUBJECT
Request for approval to submit the Department of State Lands' proposed 2019-21 budget request.

ISSUE
Whether the Land Board should approve the Department's proposed 2019-21 budget request for submission to the Department of Administrative Services (DAS).

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
The Department is preparing its 2019-21 budget request in accordance with the DAS budget development instructions.
Budget Request

The agency’s current budget supports its focus on regional delivery of services by utilizing its resources in a team-based environment. The agency’s proposed budget supports the business model by maintaining current service levels and including requests to improve delivery of service. It also seeks other funds limitation for the continued work on the Portland Harbor Superfund project, the next phase of the historically filled lands project and limitation for the submerged lands enhancement fund. At the request of the Oregon Ocean Science Trust (OOST), the proposed budget request includes a general fund request to support administrative needs of the OOST. The current service level does not include one-time costs (i.e. special projects or grants), nor does it include limited duration positions approved through the current biennium.

The agency is proposing the following policy option packages in its traditional budget document.


This package seeks to continue the Natural Resource Specialist 4 (NRS 4) as limited duration and to fund estimated legal and environmental consulting costs and to continue to ensure the state's interest are protected in the Superfund case. The Oregon Department of Justice provided the Department a range of estimated legal costs, and the total costs noted below reflect the range of legal costs plus the biennial salary and other payroll expenses for the NRS 4 position.

Total amount: $6,660,732 - $7,367,382 Other Funds

Package 102: Waterway Insurance

This package is connected to the agency's legislative concept (LC) that would allow the agency to purchase insurance to protect our interests in property that is leased and pass on the cost of the policy to the lessees. The need arises from the Goble clean-up site on the Columbia River that will cost the Department approximately $12 million. The package would provide limitation to purchase the policy and to cover estimated revenue from the lessees.

Total amount: $N/A - not applicable at this time. The LC has been submitted to DAS for review and consideration. While several different pricing scenarios and analyses have been conducted, it is too early to accurately forecast projected costs, without further guidance and input from DAS.
Package 103: System Replacement Project

There is greater demand from our public customers for information and they expect to have access at their fingertips using the web. To that end, the Department needs to upgrade its Land Administration System (LAS) which was created in 1999. LAS is the database that coordinates all the data related to permits and authorizations on Department lands. Cash receipts, Geographic Information Systems (GIS) mapping, and imaging systems are all linked to the LAS so that files are complete, fees are assessed and collected, and site information is accurate.

This package will continue a limited duration IT project manager (ISS8) and add professional services dollars to continue the work toward developing and implementing the new LAS project.

Total amount: $486,776 Other Funds

Package 104: EPA Grant carry-forward

The Department worked with other state agencies and Tribes to develop a coordinated Oregon Wetland Program Plan (“Plan”) in 2011, supported by funding through EPA’s Wetland Program Development Grant. The Plan, updated in January 2017, provides a strategic framework and direction over a five-year period for the agency and state, federal, and Tribal partners to build, strengthen and improve the state’s ability to better manage aquatic resources. The Plan includes actions to improve regulatory program effectiveness and streamline efforts; improve mitigation success; develop and refine standards and tools to effectively and consistently administer regulatory activities and support decision making; and to promote and assist in development of local government planning solutions and tools. The proposed project supports the goals and addresses action items of the Plan.

This proposal will also build on substantial work already completed by the Department and its federal and local partners to develop wetland and stream functions-based assessment tools and the necessary program policies and practices to implement the Aquatic Resources Mitigation Framework (ARMF). The program is scheduled to launch in February 2019 and will result in an integrated framework for a watershed-scale approach to mitigation for wetlands and streams in Oregon. This package will carry-forward the balance remaining on the EPA Grant to allow DSL to complete the Framework.

Total amount: $113,193 Federal Funds

Package 105: Elliott Forest Management Work

This package will continue a limited duration Forester (NRS3) position to manage the Elliott Forest Management contract and other “on the ground” issues related to
maintenance, timber, reforestation, public relations, and fire protection of the forest. The Forester position will also provide capacity to more actively manage the nearly 39,000 acres of Common School Fund forest lands outside of the Elliott State Forest. Adds limitation for the Titan Kelly management contract for the Elliott State Forest.

Total amount: $2,784,356 Other Funds

Package 106: Filled Lands Positions and Online Mapping Tool
The state legislature through Senate Bill 912 of the 78th Oregon Legislative Assembly (2015 Regular Session) has charged the Department to inventory all historically filled lands and provide notification to the adjacent property owners if any state interest remains in those lands. This package will continue two limited duration positions, a Natural Resource Specialist 4 and an Administrative Specialist 1 to perform the public outreach/notification work. Adds limitation for Filled Lands Professional Services to complete the GIS mapping and analytical research work.

Total amount: $798,813 Other Funds

Package 107: Project Manager for Procurements and Project Management
This package converts a limited duration Project Manager 3 position to a permanent position to provide ongoing project management and procurement expertise for the Elliott State Forest Public Management, Portland Harbor Superfund and other high profile major projects. The Project Manager 3 will also continue to provide ongoing training and mentoring regarding project management procurement principles and policy to Department staff.

Total amount: $277,295 Other Funds

Package 108: South Slough Reserve – GIS/Data Management Position (ISS4)
The South Slough Reserve has a need for a continual staff position related to GIS research, mapping, and management of data. A part-time GIS Technician/Data Manager will provide continuity and stability to the GIS-based projects at the Reserve. The Reserve will continue to pursue external grant funding to support this part-time position, but if continuous grant funding is not obtained, having a permanently established position will both prevent the loss of quality employees and protect the time of permanent staff across transitions between grants.

Total amount: $97,304 Other Funds
Package 109: South Slough Grant Carry-Forward
This package requests other funds grants to be carry-forwarded to the 2019-21 biennium. Carryover funds for South Slough will consist of a NOAA federal construction grant which is funding several facilities upgrades to the South Slough Interpretive Center.

- Total amount: $137,000 Federal Funds
- Total amount: $58,714 Other Funds

Package 110: Seasonal Education Position
This package requests a permanent seasonal position for the education staff of the South Slough Reserve. Historically the education staff has been supplemented during the peak school year and summer months by interns through AmeriCorps. The focus of the AmeriCorps program has changed and it no longer meets the Reserve’s staffing needs, which has led to an unpopular reduction in Reserve education programming. A permanently established position will allow the Reserve to meet the needs of schools and provide the opportunity for a quality, professional-level educator to return each year for seasonal programming. This position would protect the time of permanent staff, by reducing the need for extensive training of inexperienced interns.

- Total amount: $27,231 Other Funds

Package 111: Oregon Ocean Science Trust
This package will allow the Oregon Ocean Science Trust (OOST) to contract for part-time staff to assist the Trust with carrying out its responsibilities and provide funds to establish a program to fund high-priority research and monitoring in Oregon’s nearshore environment. The package also provides funds to pay the costs of the Trust, which are capped at 5% by statute. While much information is known about parts of the ocean off Oregon’s coast, basic information needed to make good informed management decisions is lacking for nearshore areas. A number of state agencies need better nearshore information including the Oregon Fish and Wildlife, Department of State Lands, Department of Environmental Quality, Department of Land Conservation and Development, Oregon Parks and Recreation Department, and Oregon Department of Agriculture. Legislation creating the OOST was initially passed in 2013 with Senate Bill 737 to fill this data and information gap.

- Total amount: $1,000,000 General Fund
Package 112: Oregon Department of Transportation (ODOT) Liaison
This package will add a second, limited duration ODOT Liaison (NRS3) position to help meet the increased workload in the Department’s removal-fill program directly associated with ODOT’s forecasted increase in transportation projects resulting from the passage of House Bill 2017 – the Keep Oregon Moving transportation bill. This position is responsible for representing the regulatory program of the Department for ODOT’s project needs including issuance of removal-fill permits and reviewing jurisdictional delineations. The position is paid for entirely by funding from ODOT.

Total amount: $217,597 Other Funds

Package 113: Unclaimed Property Claims Examiner
This package requests a limited duration Administrative Specialist 1 position for the Department’s Unclaimed Property program to help handle increased workload. The annual claims workload has nearly doubled over the past ten years, while staffing levels in the Unclaimed Property program has remained static. This position will help reduce workload backlogs and provide assistance to help the Department meet its legislative mandate to respond to claims within 120 days. The Department is currently running at an average of 93 days for providing a response. Since June 2017, the Department has had a monthly average ranging from 91 – 114 days in response time to claimants. The average response time fluctuates from a variety of factors including the increased use of social media, creative marketing from outside contractors seeking finder’s fees, and a surge of inquiries following press releases and advertising efforts from the State of Oregon.

Total amount: $118,360 Other Funds

Package 114: Elliott State Forest Public Ownership Project
The 2017 Oregon Legislature approved approximately $1.5 million (HB5006) for work on an updated habitat conservation plan (HCP) and associated planning for the work to retain public ownership of the Elliott State Forest. This request adds limitation for work on an updated habitat conservation plan (HCP), environmental impact statement (EIS), NEPA process; issuance of a 30-year incidental take permit (ITP) and associated planning for the work to retain public ownership through contracted resources from ICF Jones & Stokes and the US Fish and Wildlife Service. The request also includes limitation for examination and recommendation of decoupling options work performed by the Oregon Consensus facilitation contractors.

Total amount: $1,579,059 Other Funds
RECOMMENDATION
The Department of State Lands recommends that the Land Board approve the submission of the DSL budget, including policy option packages 101-114 to the Department of Administrative Services.