MANAGING SCHOOL LANDS
Real Property Program, Annual Report
Fiscal Year 2021

OREGON DEPARTMENT OF STATE LANDS
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Introduction

Oregon’s school lands have been supporting public education since the state was admitted to the Union in 1859. Upon statehood, Congress granted Oregon nearly 3.4 million acres of land to help fund schools. The State Land Board was tasked with overseeing these lands and their assets, the revenue from which would contribute to public education through Oregon’s Common School Fund.

About 775,000 acres of school lands are in state ownership today, along with an additional 768,000 acres of subsurface mineral lands. The Department of State Lands works on behalf of the State Land Board to manage these lands, which include trust lands and statutory lands.

- **Trust lands** were granted by the federal government to Oregon “for the use of schools” upon its admission into the Union. Approximately 98% of all school lands managed by the Department are trust lands, 736,960 acres of which are surface lands, while 764,931 acres are subsurface mineral lands. The Land Board is directed by Oregon’s Constitution to manage these lands for the primary purpose of generating revenue for K-12 education.

- **Statutory lands** were dedicated to the state through the Swamp Lands Act of 1859. There are approximately 25,530 acres of statutory lands, the majority of which are classified as rangeland and managed through grazing leases.

The Department’s Real Property Program provides crucial services that benefit K-12 schools and communities throughout Oregon. These include:

- **Management and stewardship of lands for the benefit of the Common School Fund.** The Real Property Program follows best management and stewardship practices to maximize revenue generated for the Common School Fund, while protecting school lands and their resources to benefit future generations. Much of the revenue from school lands is generated through land leases and authorizations. The Real Property Program also strategically sells and exchanges low-performing lands, while acquiring and sometimes initiating planning on parcels with the potential to contribute revenue over the long-term to the Common School Fund. In Fiscal Year 2021 (FY21), school land management activities added $22.8 million to the Fund.

- **Supporting other state agencies and maintaining records of land ownership.** The Real Property Program processes sales of subsurface lands (mineral releases) on behalf of other state agencies. The Program also maintains a registry of land transactions and mineral and geothermal ownership for all state agencies and manages a database of all lands owned by state agencies.

The following report provides a review of Real Property Program activities, land management, and the financial performance of school lands during FY21. The report also discusses upcoming Real Property Program management priorities.

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1 School lands discussed in the following report only include assets managed by the Real Property Program, and do not include the beds and banks of navigable waterways, which are overseen by DSL’s Aquatic Resource Management Program.
Program Planning

The Real Property Program is guided by DSL’s Strategic Plan and the Program’s Real Estate Asset Management Plan (REAMP). The Strategic Plan is a five-year document that sets the foundation for the DSL’s work, while providing a framework and Department-wide goals that are supported by program-level projects. Some of the Real Property Program initiatives included in the 2022-2025 Strategic Plan include:

- Conducting a renewable energy market analysis to assess opportunities for renewable energy authorizations.
- Updating leasing rules for communications sites, as well as leasing rules and fee structures for special use authorizations.
- Improving the performance of forestlands.

The REAMP is a ten-year planning document that provides essential policy guidance for the strategic and day-to-day management of the entire property portfolio – including lands, buildings, and waterways. The REAMP also establishes strategies and procedures for managing school lands for the benefit of the Common School Fund, as well as metrics to analyze the valuation and performance of school lands. These metrics are reported in the Financial Performance of School Lands and Assets portion of this report. The most current version of the REAMP was adopted in 2012 and is set to expire in 2022. The Department will soon begin the process of updating the REAMP.

Land Classifications

School lands owned by the Department are classified as follows: forestlands, agricultural lands, rangelands, industrial/commercial/residential lands, mineral and energy resource lands, and special stewardship lands. Table 1 shows the number of school land acres within each classification. Appendix A shows a map of the distribution of these lands across the state.

**Forestlands.** Forestlands are areas capable of growing and sustaining forest cover. DSL forestlands include certified forests, non-certified forests, and the Elliott State Forest.

- **Certified forests** make up 33,000 acres of DSL’s forestlands. Primarily located in the western portion of the state, these forests tend to be highly productive and are sustainably harvested, contributing to the Common School Fund. Certified forests are managed and harvested by the Oregon Department of Forestry on behalf of DSL.

- **Non-certified forests** are typically slow-growing sites that produce minimal income from timber harvest. About 8,500 acres of DSL forests are non-certified. These lands are mainly located east of the Cascade Range and are managed by DSL. Non-certified forests typically benefit the Common School Fund through land authorizations, such as grazing leases.

- **The Elliott State Forest** contains 82,500 acres of forestlands located in the Coast Range northeast of Coos Bay. Currently managed by DSL, the Elliott generates no revenue for the Common School Fund. It is not harvested for timber, and the costs of management outweigh income received from permitted activities – like firewood cutting.

**Agricultural lands.** Agricultural lands are areas where the native vegetation has been removed for the purpose of crop production. DSL agricultural lands may be irrigated or non-irrigated. To be classified
as agriculture lands the parcel must currently be under lease for agriculture or in the process of being converted to agriculture.

**Rangelands.** Rangelands have arid or semi-arid soils and dominant sagebrush or juniper vegetation. They are primarily suitable for grazing. Rangelands make up the largest surface ownership managed by the Department with the greatest number of leases in the Real Property Program. Some lands have been leased for grazing for 100 years or more.

**Industrial/Commercial/Residential lands (ICR lands).** ICR lands are parcels located within or adjacent to urban growth boundaries or urban reserves. These lands are currently zoned or likely to be zoned for industrial, commercial, or residential uses. ICR lands are managed for the express purpose of being sold for future development.

**Mineral and Energy Resource Lands.** Surface or subsurface lands may contain mineral or energy resources:

- **Mineral Resources** are subsurface lands that may be used for mineral resource development or exploration.
- **Energy Resources** are lands primarily used for renewable energy (wind, solar, geothermal).

**Special Stewardship Lands.** Special stewardship lands are managed to ensure the protection of scenic, natural resource, cultural, educational, and recreational values. They typically have uses other than income production (for example, they may serve as habitat for threatened or endangered species). Approximately 6,681 acres of special stewardship lands are managed by South Slough National Estuarine Research Reserve for recreation and coastal research, education, and training.

**Table 1. School land acres organized by land classification and ownership type.**

<table>
<thead>
<tr>
<th>Land Classification</th>
<th>Trust Lands (acres)</th>
<th>Statutory Lands (acres)</th>
<th>Total Acres</th>
<th>Portion of all School Lands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forestlands</td>
<td>122,177</td>
<td>182</td>
<td>122,359</td>
<td>7.9%</td>
</tr>
<tr>
<td>Agricultural Lands</td>
<td>7,822</td>
<td>109</td>
<td>7,931</td>
<td>.5%</td>
</tr>
<tr>
<td>Rangelands</td>
<td>595,851</td>
<td>25,534</td>
<td>621,385</td>
<td>40.3%</td>
</tr>
<tr>
<td>Industrial/Commercial/Residential</td>
<td>5,924</td>
<td>466</td>
<td>6,390</td>
<td>.4%</td>
</tr>
<tr>
<td>Mineral and Energy Resources</td>
<td>768,618</td>
<td>502</td>
<td>769,120</td>
<td>49.9%</td>
</tr>
<tr>
<td>*Special Stewardship Lands</td>
<td>5,185</td>
<td>8,362</td>
<td>13,547</td>
<td>.9%</td>
</tr>
<tr>
<td>Total</td>
<td>1,505,577</td>
<td>35,155</td>
<td>1,540,732</td>
<td>100%</td>
</tr>
</tbody>
</table>
Categorizing Lands by Revenue Production

The Real Property Program uses the following categories to assess current and potential revenue generated by school lands. The breakdown of categories across all land classifications is presented in Table 2, excluding mineral and energy resource lands, the beds and banks of state-owned waterways, and South Slough Reserve lands. Appendix B, attached to this report, shows the three-year average net revenues across all land classifications.

Long-Term Potential. Properties with strong potential to produce revenue over the long term (e.g., 10+ years). About .6% of school lands have long-term potential.

Near-Term Potential. Properties with strong potential to produce revenue in the near-term, defined as five years or less. Approximately .6% of school lands have near-term potential.

Current Income Production. Properties currently producing revenue for the Common School Fund, primarily through the issuance of authorizations, as described in the next section of this report. About 86.6% of school lands are currently producing income for the Fund.

Minimal/No Income Production. Properties that produce little or no annual income and have low likelihood of producing future income. Approximately 12.2% of school lands managed by the Department, excluding mineral and energy resource lands, are not currently generating revenue for the Common School Fund, 10.8% of which is attributed to the Elliott State Forest.

Table 2.

<table>
<thead>
<tr>
<th>Land Classification</th>
<th>Property Revenue Production (acres)</th>
<th>Total Acres</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long-Term</td>
<td>Short-Term</td>
</tr>
<tr>
<td>Forestlands</td>
<td>654</td>
<td>777</td>
</tr>
<tr>
<td>Agricultural Lands</td>
<td>-</td>
<td>38</td>
</tr>
<tr>
<td>Ranglands</td>
<td>2,622</td>
<td>2,618</td>
</tr>
<tr>
<td>Industrial/Commercial/Residential</td>
<td>1,336</td>
<td>1,505</td>
</tr>
<tr>
<td>Special Stewardship Lands</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Acres</strong></td>
<td>4,612</td>
<td>4,938</td>
</tr>
</tbody>
</table>

Note: Table excludes mineral and energy resource lands, waterways ownership, and South Slough Reserve lands.

2 Excluding mineral and energy resource lands, the beds and banks of state-owned waterways, and South Slough Reserve lands.

Cattle on rangeland in Malheur County
Land Use Authorizations

The Real Property Program oversees leases, licenses, and easements – land use authorizations that often support rural businesses, like cattle ranchers, and generate revenue for the Common School Fund. Authorization types are based on the intended land use, rather than the land classification; there may be grazing on forestlands, and communication sites placed on rangelands.

Leases

The Department currently has 151 active forage leases, managed in partnership with leaseholders who graze cattle and ranch horses on rangelands or forestlands. In FY21, forage leases accounted for $647,934, or 49.6% of the Real Property Program’s income from authorizations.

A mix of different school land classifications also accommodate special use leases – authorizations that span a variety of uses. Currently these uses include agriculture, renewable energy (solar, wind, geothermal), communication sites, upland quarries, the collection of small products (gems, petrified wood, small forest products), and scientific research. Combined, all special uses accounted for $635,359, about 48.6%, of income generated from authorizations in FY21.

Communication leases make up the majority of special use leases (see Table 3). Communication leases allow utilities to place facilities on state lands that can support cell phone service, internet service, emergency communications (911 or State police), as well as cable broadcast, radio broadcast and local radio users. The two-dozen DSL communication leases are clustered in five locations, two of which are in Harney County. The Department is currently working on rulemaking that would establish separate administrative rules for communications leases to allow for more efficient management.

Currently, agricultural leases, a type of special use lease, generate the greatest income per acre for the Department compared to other leases. While agricultural lands account for a small fraction of school lands (~1 percent), agricultural leases made up 25% of the Real Property authorization revenue in FY21. Most of these lands are located in eastern Oregon and leased for alfalfa and row crops that are rotated with corn. Agricultural lands are typically the product of conversions from rangelands; however, conversions are limited and infrequent. The Department prefers to keep agriculture lands in areas that already have agriculture present so as not to add unnecessary fragmentation to high quality rangelands. The holding of water rights by the Department is a limiting factor in agriculture conversions.

Easements

The Department also issues easements, which allow an authorized person or entity to access a specific property for a particular use. Easements may be issued for a wide variety of uses. The most common easement uses are for utilities, such as powerlines and fiber optic cables; roads or trails; and easements for the use of water rights. While the Department has approved hundreds of easements
over time, there are only a handful of new easements issued on school lands every year. There are currently 332 active upland easements in the Department’s management; only four of those were newly issued in FY21.

**Small Value Permits**

The Department administers a number of permits for small products and gravel removal. These permits, which provide little to no contribution to the CSF, allow for activities such as firewood cutting or the removal of small amounts of gravel. There is also an authorization with no fees for accessing DSL land called a short term access agreement. Short term access agreements apply to activities including educational or research projects, races and events, and collection of mineral or plant samples. These small value permits require significantly less effort to issue than leases, licenses, and easements.

Table 3. Authorization total revenues in FY21

<table>
<thead>
<tr>
<th>Authorization Type</th>
<th>Land Use</th>
<th>Number of Authorizations</th>
<th>Total Acres</th>
<th>Total Revenue</th>
<th>Percentage Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grazing Leases</td>
<td>Grazing</td>
<td>151</td>
<td>622,053</td>
<td>$647,933</td>
<td>49.6%</td>
</tr>
<tr>
<td>Special Use Leases</td>
<td>Agriculture</td>
<td>12</td>
<td>4,984</td>
<td>$333,706</td>
<td>25.5%</td>
</tr>
<tr>
<td></td>
<td>ICR</td>
<td>2</td>
<td>402</td>
<td>$158,003</td>
<td>12.1%</td>
</tr>
<tr>
<td></td>
<td>Communications</td>
<td>24</td>
<td>nominal</td>
<td>$123,555</td>
<td>9.5%</td>
</tr>
<tr>
<td></td>
<td>Geothermal</td>
<td>1</td>
<td>4,438</td>
<td>$0**</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Hard Mineral</td>
<td>1</td>
<td>640</td>
<td>$0***</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Upland Quarry</td>
<td>2</td>
<td>10</td>
<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Recreation</td>
<td>6</td>
<td>80.8</td>
<td>4,845</td>
<td>.4%</td>
</tr>
<tr>
<td></td>
<td>Solar</td>
<td>2</td>
<td>1,080</td>
<td>$11,500</td>
<td>.9%</td>
</tr>
<tr>
<td></td>
<td>Miscellaneous</td>
<td>8</td>
<td>465.7</td>
<td>$3,750</td>
<td>.3%</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>-</td>
<td>-</td>
<td>$1,101</td>
<td>.1%</td>
</tr>
<tr>
<td>Easements</td>
<td>Easements</td>
<td>4</td>
<td>4.43</td>
<td>$14,350</td>
<td>1.1%</td>
</tr>
<tr>
<td>Permits</td>
<td>Small Products, Gravel Removal &amp; Hauling Permits</td>
<td>25</td>
<td>N/A</td>
<td>$7,610.15</td>
<td>.5%</td>
</tr>
</tbody>
</table>

*This total is for authorizations issued by the Real Property Team. It does not include income from the leasing of space in the Department’s Salem building.

** The Department has not received payment for a geothermal authorization, worth approximately $22,000 in revenue. The lease renewal is currently being negotiated.

*** Approximately $92,000 was paid for a hard mineral authorization, due in FY21, but paid in FY22.
Forestlands

The Department’s 33,000 acres of **certified forests** are managed and sustainably harvested by the Oregon Department of Forestry (ODF) on behalf of DSL. In FY21, ODF reported total revenue from timber sales totaled $2.57 million, with $1 million in net revenue. ODF is currently working through the final stages of the “**Western Oregon State Forests Habitat Conservation Plan**,” a management plan that will enable ODF to comply with the federal Endangered Species Act, while managing state forests for economic, environmental, and social benefits. The management plan will cover all ODF and DSL forestlands west of the Cascades, excluding the Elliott State Forest, which has its own HCP.

DSL manages its 8,500 acres of **non-certified forest lands**. While these lands contribute minimal revenue through timber production, the Department issues some authorizations for land use, including grazing, special use leases, easements, short term access agreements, hauling permits and firewood cutting permits. Non-certified forests are maintained to improve wildfire resiliency, forest health, wildlife habitat, or grazing opportunities. In FY21, non-certified forests had a net loss of about $39,500, most of which was due to annual fire protection costs paid to ODF.

The 82,500-acre **Elliott State Forest** generates no revenue for the Common School Fund. Timber harvests, which had previously sent income to the Fund, were halted in 2012, following a lawsuit concerned with compliance with the Federal Endangered Species Act. Costs associated with forest management include ongoing road maintenance and reforestation expenses, and efforts to create an Elliott State Research Forest, including development of a Habitat Conservation Plan. As a result of these expenses and a lack of income generated, the Elliott cost the Common School Fund $1.4 million in FY21, reducing the overall financial performance of forestlands. In 2019, the legislature authorized $100 million in bonding to relieve a portion of the Department’s obligation to contribute revenue from the Elliott State Forest to the CSF.

Following the directive of the State Land Board, DSL is currently working with Oregon State University, stakeholders, and the public to transform the Elliott into a publicly owned state research forest. The future of the Elliott as the Elliott State Research Forest was affirmed by the State Land Board in December 2020. The State Land Board’s vision for the forest calls for decoupling the Elliott from the CSF and compensating the CSF for the forest. The newly created Elliott State Research Forest would be publicly owned and provide multiple forest benefits, including recreation, education, and working forest research. The Land Board has directed DSL to develop a Habitat Conservation Plan in coordination with federal agencies to establish clear boundaries for management and harvest in the forest, while complying with the federal Endangered Species Act and conserving at-risk species.

Beyond the Elliott, the Department continues to explore options to address the revenue challenges associated with managing forestlands. Part of this work includes analyzing options to reduce costs and increase revenue on certified forestlands, which is discussed further in the Future Projects and Priorities section of this report.
Land Transactions

The Department sells and exchanges lands and rights to mineral resources, thereby adding income to the CSF. DSL invests in some lands that have the potential to be developed for industrial, commercial, or residential (ICR) use – planning the land and improving it for eventual sale. Non-ICR lands are sometimes sold or exchanged when parcels have minimal or no potential to produce income for the Common School Fund or when an individual or entity approaches DSL to request the transaction. In such cases, following a due diligence review, the Land Board will determine whether to approve the sale. The Department will also process requests to release rights to mineral resources for certain other agencies identified in statute, the income from which is also directed to the Common School Fund. Income from land sales and mineral releases can range from just a few hundred dollars to millions of dollars for prime ICR land.

The proceeds from all land sales are deposited in an account within the Common School Fund called the Land Sale Revolving Fund (per ORS 273.413). These funds are then used to acquire additional lands or other suitable investments, as directed by the State Land Board in consultation with the Oregon Investment Council. Per statute, funds may only be drawn from the Land Sale Revolving Fund for acquisitions, so, at this time, most land sale expenses such as operating costs and improvement and maintenance spending are deducted from the land classification ICR. This skews the income and expenditures for the ICR classification.

Industrial, Commercial, and Residential Transactions

The Department acquires ICR properties with a high probability of generating income over the long term for the Common School Fund. ICR properties are wholly or partially developed, with added improvements, like roads or utilities, and planned for eventual sale. ICR sales often bring important community benefits – providing land for housing, economic development, and emergency services.

Planning and development of two ICR properties in Deschutes County is helping to add a mix of housing and economic opportunities to Central Oregon. DSL previously acquired the Stevens Road Tract and South Redmond Tract in Deschutes County from the Bureau of Land Management. The acquisition of these acres partially satisfied the federal government’s obligation to provide Oregon with approximately 5,200 acres of federal land owed in-lieu of school lands not granted at statehood.

**Stevens Road** was originally a 642-acre tract located near the Bend urban growth boundary. In 2016, a 382-acre parcel of the property was incorporated into the City of Bend’s urban growth boundary. The parcel was later sold to Lands Bend Corp in November 2020 for $22 million, allowing the development of a mix of housing, businesses, and other uses. Approximately 261 acres remain in state ownership, with the potential to be added into Bend’s urban growth boundary and developed in the future.
The **South Redmond Tract** is a 945-acre parcel that is fully incorporated into the City of Redmond urban growth boundary as a “large lot industrial” zoned property. The large lot industrial zoning allows for industrial development on a parcel that is 200 acres or larger. To date the Department has contracted for engineering, design, and construction of utilities and of a portion of SW 19th street to prepare the property for development. In April 2021, a 20-acre parcel of the tract was sold to the Oregon Military Department for $1.6 million. The military department is developing a readiness center on this property, which will serve as a training facility for the National Guard and emergency center for events like natural disasters. The Department is also under contract with Deschutes County to exchange a portion of the property, which will allow the County to expand its fairgrounds. No further transactions will occur on the property until the Department has fulfilled its obligation to the large lot industrial zoning and has contracted and sold a parcel 200 acres or larger.

**Non-ICR Sales and Exchanges**

There were four non-ICR parcels sold in FY21, three of which were mineral rights sales.

A 158-acre surface and mineral rights parcel surrounded by the Wallowa Whitman National Forest was sold for $105,000 to the Rocky Mountain Elk Foundation on behalf of the U.S. Forest Service.

Two mineral rights sales helped facilitate federal land grants for land conservation. One was sold to the North Coast Land Conservancy to protect salmon habitat in Tillamook County and the other was sold to Oak Basin LLC to protect native oak savanna habitat in Linn County for the endangered Fender’s Blue Butterfly.

The Department also facilitated a mineral rights sale on behalf of the Oregon Department of Veterans Affairs. This mineral sale, which totaled $4,605, will enable the re-development of the former Hillcrest Correctional Youth facility near Salem.

An exchange of quitclaim deeds was also completed with Raptor Ag LLC in Benton County to clear title on former Willamette River channel farmland. The farmland was created when the river channel moved and left the land with no clear title. The exchange cleared title for Raptor Ag and enabled the company to sell their hazelnut orchard.
Financial Performance of School Lands and Assets

The Real Property Program reports on four measures used to assess the financial performance of school lands and assets. Those measures, prescribed by the REAMP plan, are: total annual revenue, return on asset value, annual change in net operating income, and annual land value appreciation.

The income generated from the sale of school lands is not factored in when calculating these performance measures, because land sale proceeds are deposited into the Land Sale Revolving Fund to use for future land or investment acquisitions. Due to this, land sale profits are not acknowledged in the total annual revenue, reducing return on asset value and net operating income.

**Total Annual Revenue.** Annual revenue measures earnings obtained from Real Property Program management activities, excluding land sales. In FY21, the total annual revenue was approximately $4.85 million, which is about $327,000 less than reported in FY20.

This measurement does not include land sales, which would have added approximately $23.8 million to the revenue in FY21 due primarily to two ICR land sales. A portion of the Stevens Road Tract within the City of Bend’s urban growth boundary sold for $22 million. Additionally, a parcel from the South Redmond Tract was sold to the Oregon Military Department for $1.6 million. These types of land sales, which are unusually high value for school lands, are the result of years of strategic planning by the Real Property team.

**Return on Asset Value.** Return on asset value measures return compared to land value. This measurement is calculated based on market values, annual operating expenditures\(^1\), and total annual revenues generated. Appendix C shows the estimated market value for forestlands, agricultural lands, rangelands, and ICR lands managed by the Real Property team, as well as these land classifications combined. In FY21, the return on asset value for all land classifications averaged -.008%, not including land transactions. The Program also tracks change in return on asset value over the past ten years, anticipating fluctuations in measures over time. Appendix D shows the fluctuations in ROAV for the last ten years. Since 2017, the return on asset value has remained generally steady, increasing or decreasing by one-half to one percent.

**Annual Change in Net Operating Income.** Net operating income measures total revenue minus operating expenditures\(^1\). In FY21, the overall net operating income increased by $150,270, but, remained in the negative due to several contributing factors:

- A $160,000 bill for fire suppression paid to the Bureau of Land Management from the 2019 fire seasons was attributed to FY21 rangeland expenditures.
- Rangelands also saw a slight decrease in net operating income due to a decrease in grazing fees compared to FY20.
- Approximately $16,700 worth of operating expenditures toward ICR land sales were accumulated throughout FY21. Since annual revenue does not get to reap the benefits of the income from the

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1 Operating cost totals do not include expenses for maintenance and improvements to school lands, since these expenditures preserve or increase the value of the land.
land sales, the net operating income can end up slightly skewed low.

- Mineral and energy resource authorizations also impacted overall net operating income. There is one hard mineral lease that pays royalties, and the payment of $92,000 did not come in until the first day of FY22. Additionally, a lease renewal is currently being negotiated for a geothermal authorization, which left the mineral category another $22,000 short.

- While certified forestlands performed well in this past year, the Elliott State Forest has continued to be a draw on the Common School Fund. In FY21, the net operating income for forestlands actually increased about $515,118 but was still overall in the negative by $423,800 in net operating income.

**Annual Land Value Appreciation.** Annual land value appreciation measures the change in land value over the past year. The total asset value of school lands is estimated to be $595.9 million across all six land classifications. This is approximately a 1.8% increase from FY20, or about $10.8 million increase in value. The greatest increase in value in FY21 was observed in the rangeland and agriculture classifications, both of which saw a 7.1% increase in value. Rangelands increased by approximately $34.4 million, while agricultural lands increased by $1.25 million. ICR lands experienced a $5 million decrease in total asset value, due to the sale of high value ICR lands which contributed $24 million to the Common School Fund.
Future Projects and Priorities

The Real Property Program continues to manage Oregon’s school lands, with a commitment to growing long-term revenue directed to Oregon’s schools through the Common School Fund. With the update to the DSL Strategic Plan, the Program has identified the following priority projects that will benefit the Fund in the long-term.

Updating the Real Estate Asset Management Plan. The 10-year 2012 REAMP is set to expire at the end of 2022. Efforts to update the REAMP were previously paused, due to COVID-related economic unpredictability and changing markets. Creating a renewed REAMP will allow DSL to identify effective strategies and procedures for ongoing management and stewardship of school lands over the next decade. The planning process will build in a timeline that, among other things, ensures meaningful engagement with stakeholders and the public. The Department anticipates presenting an informational item to the Land Board in June that will include a final performance report on the previous plan, as well as an overview of the proposed approach, process, and timeline for developing the new plan.

Planning High-Yield Industrial, Commercial, and Residential Projects. The Real Property Program will continue work to improve and sell several existing ICR properties.

- There are 778 remaining acres of the South Redmond Tract available for sale in a large lot industrial zone that has the potential to aid economic development in Central Oregon. The Department is currently focused on fulfilling its large lot industrial zoning obligation and contracting to sell a parcel 200 acres or larger.
- Approximately 261 acres of the Stevens Road Tract near the Bend urban growth boundary remain in state ownership. DSL continues to coordinate with the City of Bend as the city works through a process to incorporate the remaining acres into Bend’s urban growth boundary, meeting the requirements laid out by House Bill 3318 (2021), which include designating lands for affordable housing.
- The Department is also seeking a buyer for Millican Road, a 159-acre industrial property located on the western edge of the City of Prineville.

Rulemaking for Communication Leases. Currently communication leases are authorized through DSL’s special use administrative rules (Division 125). Communication leases are a unique subset of leases that have generated a large workload for the program. Having a set of rules to specifically address communication leases will provide a more streamlined process and help modernize the lease fees. The Department expects to finalize the new Division 126 Administrative Rules for Authorizing Communication Site Facilities on State-owned Land in early 2022, which will improve lease contributions to the Common School Fund. As a result of this rulemaking, over the course of the next 20 years we expect the Department will see approximately a 26% increase in revenue from communication lease fees.

Rulemaking for Special Use Leases. Following the completion of the Division 126 rules, the Real Property team will then turn their focus to updating Division 125 rules for special use leases. Updates will modernize compensation fees and create a rule structure outside of a short-term access agreement to address smaller uses with appropriate fees. In addition to updating the main body of Division 125, the changes will also create a new set of rules specific to renewable energy leasing. Since Division 125
is a large set of rules covering a variety of topics, the update will require many DSL staff to participate, including staff from the Department’s Aquatic Resource Management Program.

**Identifying Opportunities for Revenue Generation.** Approximately 1.25 percent of school lands are classified as having short-term or long-term potential to generate revenue through future authorizations. The Real Property team will continue to actively evaluate future opportunities to manage those lands and improve revenue performance. During this examination, parcels deemed unlikely to yield funds for the Common School Fund will be reclassified as having minimal or no revenue potential and shifted into the pool of acres to be evaluated for possible sale or exchange.

**In-Lieu Selections with Bureau of Land Management.** The federal government still owes the state of Oregon approximately 1,400 remaining acres of federal in-lieu lands not granted upon admission into the Union. In a Memorandum of Understanding with the Bureau of Land Management, the Department has identified forestlands or ICR lands as priority in-lieu acquisitions. The Department has submitted applications for parcels totaling more than the remaining 1,400 acres, with the expectation that some of the parcels will become unavailable or may have less potential for Common School Fund revenue generation upon closer review. Currently the Real Property Team is working closely with BLM to identify the value of the base lands still owed to the Department, which will help narrow down the Department’s preferences.

**Establish the Elliott State Research Forest.** DSL continues to work toward creating the Elliott State Research Forest with Oregon State University, the Elliott State Research Forest Advisory Committee, stakeholders, and the public. A legislative concept for the 2022 legislative session was collaboratively developed with the advisory committee. As proposed, the legislation establishes an independent public entity, overseen by a board of directors, to carry out the research forest's mission.

**Evaluation of Certified Forestlands.** Identifying opportunities to improve the financial performance of certified forestlands remains a priority for the Department. In 2019, DSL hired a forester who has begun the process of evaluating management costs of high priority forestlands. To date DSL’s forester has reviewed and submitted a report to executive management on the management costs of all certified forestlands.

**Adapative Management of Rangelands.** Drought conditions are expected to continue throughout much of Central and Eastern Oregon in 2022. DSL will be implementing a 25% reduction in carrying capacity of animals grazing on all blocked leaseholds. Grazing during growing season will also be discouraged or reduced significantly to allow forage grasses to reproduce.
### Appendix B

**Revenues by Land Type:**

<table>
<thead>
<tr>
<th>Year</th>
<th>County Land</th>
<th>Military Base</th>
<th>Recreational Land</th>
<th>Commercial Land</th>
<th>Industrial Land</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2019</td>
<td>$634,122</td>
<td>$1,245,789</td>
<td>$234,567</td>
<td>$123,456</td>
<td>$43,210</td>
</tr>
<tr>
<td>FY2020</td>
<td>$667,890</td>
<td>$1,321,456</td>
<td>$256,789</td>
<td>$134,567</td>
<td>$45,678</td>
</tr>
<tr>
<td>FY2021</td>
<td>$700,123</td>
<td>$1,389,876</td>
<td>$278,965</td>
<td>$145,678</td>
<td>$47,890</td>
</tr>
</tbody>
</table>

**Operating Expenses:**

<table>
<thead>
<tr>
<th>Year</th>
<th>County Land</th>
<th>Military Base</th>
<th>Recreational Land</th>
<th>Commercial Land</th>
<th>Industrial Land</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2019</td>
<td>$345,678</td>
<td>$789,012</td>
<td>$156,789</td>
<td>$104,567</td>
<td>$32,100</td>
</tr>
<tr>
<td>FY2020</td>
<td>$332,123</td>
<td>$746,567</td>
<td>$148,965</td>
<td>$116,578</td>
<td>$33,210</td>
</tr>
<tr>
<td>FY2021</td>
<td>$354,789</td>
<td>$765,123</td>
<td>$160,789</td>
<td>$128,567</td>
<td>$34,100</td>
</tr>
</tbody>
</table>

**Net Income:**

<table>
<thead>
<tr>
<th>Year</th>
<th>County Land</th>
<th>Military Base</th>
<th>Recreational Land</th>
<th>Commercial Land</th>
<th>Industrial Land</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2019</td>
<td>$288,493</td>
<td>$453,528</td>
<td>$109,800</td>
<td>$13,993</td>
<td>$10,110</td>
</tr>
<tr>
<td>FY2020</td>
<td>$323,554</td>
<td>$442,925</td>
<td>$110,965</td>
<td>$14,987</td>
<td>$11,010</td>
</tr>
<tr>
<td>FY2021</td>
<td>$319,434</td>
<td>$440,531</td>
<td>$111,789</td>
<td>$15,978</td>
<td>$11,910</td>
</tr>
</tbody>
</table>

**Footnotes:**

- Revenues do not include land sales or mineral rights.
- Special assessments include
  - MIC & FRC
  - Other fees
  - Royalties
  - Refunds
  - Medically Irate
  - Revenue from
  - County Land
  - Military Base
  - Recreational Land
  - Commercial Land
  - Industrial Land

**Sources for Income:**

- Land Classifications
  - Direct only
  - Net Operating Income by Land Class
## Appendix C

### FY 2021 Market Value and Performance by Land Class

<table>
<thead>
<tr>
<th>Land Classification</th>
<th>Total Acres</th>
<th>Approximate Market Value (millions)</th>
<th>Percentage of Total Market Value</th>
<th>Annual Net Operating Income</th>
<th>Return on Asset Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forestlands: Certified Forest</td>
<td>31,500</td>
<td>$87.3 - 96.0 (2)</td>
<td>15.4%</td>
<td>$1,022,248</td>
<td>1.12%</td>
</tr>
<tr>
<td>Forestlands: Non-Certified Forest</td>
<td>8,500</td>
<td>$18.5 - 20.4 (2)</td>
<td>3.3%</td>
<td>($39,467)</td>
<td>(0.2%)</td>
</tr>
<tr>
<td>Forestlands: Elliott State Forest</td>
<td>82,500</td>
<td>$220.8 (1)</td>
<td>37.0%</td>
<td>($1,406,618)</td>
<td>(0.64%)</td>
</tr>
<tr>
<td>Agricultural Lands</td>
<td>8,000</td>
<td>$16.9 - 18.8 (3)</td>
<td>3.0%</td>
<td>$210,411</td>
<td>1.18%</td>
</tr>
<tr>
<td>Rangelands</td>
<td>621,000</td>
<td>$166.7 - 185.2 (4)</td>
<td>29.5%</td>
<td>$97,213</td>
<td>0.06%</td>
</tr>
<tr>
<td>ICR Lands</td>
<td>6,400</td>
<td>$66.8 - 73.5 (5)</td>
<td>11.8%</td>
<td>$60,827</td>
<td>0.09%</td>
</tr>
<tr>
<td>Special Stewardship Lands</td>
<td>13,500</td>
<td>(6)</td>
<td>-</td>
<td>$32,684</td>
<td></td>
</tr>
<tr>
<td>Mineral and Energy Resources</td>
<td>769,000</td>
<td>(6)</td>
<td>-</td>
<td>($24,856)</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>1,541,000</td>
<td>$595.9</td>
<td>100%</td>
<td>($47,315)</td>
<td>(0.008%) (7)</td>
</tr>
<tr>
<td>Totals with Land Sales</td>
<td>1,541,000</td>
<td>100%</td>
<td>$22,809,886</td>
<td>3.83%</td>
<td></td>
</tr>
</tbody>
</table>

### Notes:

1. Final appraised value as determined by a Department-contracted appraisal process in 2016.
2. Values are based on recent comparable sales of forestlands in various market areas.
3. Value estimate is based on figures provided by USDA’s report on land sales of Oregon’s farmland. The 2021 average price for Oregon’s farmland is $2790 per acre as determined by USDA which collects land sales information. This includes all types of farming from dry farming to irrigated produce farming which is very lucrative. Irrigated farmland sales reflect values of $3,000 to $10,000 per acre in the areas in which DSL owns agricultural land. DSL’s agricultural land has water rights but does not own the irrigation equipment, so the USDA average value has been adjusted from $2,500 to $3,600 per acre for the irrigated land values.
4. Rangeland values rose dramatically this year after a much more moderate increase last year. Blocked ranch values per acre rose this year ($500-$800 per acre for ranches over 3,000 acres with recreational appeal is typical) but can take years to market successfully with a very limited number of these selling annually. Individual properties with smaller acreage average around $220 to $500 per acre. An average individual tract value was designated for each county. DSL’s rangeland ownership would take over 50 years to sell and would depress rangeland values because of the large supply. To reflect this, a discount of 30% to 35% has been used to create the value range.
5. Each property was valued individually through research of comparable sales properties.
6. Data not available.
7. Special Stewardship lands cover a wide spectrum of land types that typically have endangered plant species or an unusually well-preserved type of property that are difficult to value. Similarly, valuation of subsurface minerals and energy resources are very difficult to value and much of the subsurface minerals are also tied to DSL-owned surface rights. For these reasons, the return on asset value has not been reported for these categories.
Appendix D

Appendix D-1: Ten Year Return on Asset Value by Land Classification

Appendix D-2: Six and Ten Year Return on Asset Value For Forestland Types