STATE OF OREGON

OREGON DEPARTMENT OF STATE LANDS

ACHIEVEMENTS REPORT

2012-2021 Real Estate Asset Management Plan

PREPARED JUNE 2022

REPORT OVERVIEW

The Real Estate Asset Management Plan (REAMP), a ten-year plan adopted in 2012, established a framework for managing Common School Fund land assets and set metrics for evaluating performance and value of those school lands.

The Plan established management direction for both school lands and Oregon-owned public rivers, lakes, and other waters*, within the State Land Board's constitutional and statutory stewardship responsibilities.

Plan Strategy & Objectives

The Plan's primary strategy was disposing of low-performing lands and acquiring high-performing lands to generate returns – of both income and land value appreciation – that would exceed the 10-year average investment return of the Common School Fund. Specific objectives supporting that primary strategy included:

- **Focus on appreciation and performance.** Objectives were targeting investment in lands with demonstrated appreciation potential such as forestlands, agricultural lands, industrial/commercial/residential lands, and energy lands; and creating reinvestment capital by acquiring assets with higher performance potential and strategically disposing of select assets.
- **Increase school land revenue and value.** Objectives were increasing annual distributions to public schools by growing revenue streams; increasing the value of school lands; assuring investments in owned lands will realize a greater rate of return than the average Common School Fund investment return; and ensuring market value rates for leases and other uses.
- **Develop tools for consistent, accountable management of lands.** Objectives were creating performance measurement tools to monitor returns on school lands and creating a process to evaluate land acquisition and sales to ensure highest and best use and returns to the Common School Fund.

Plan Achievements

This report reviews Plan achievements within the objectives outlined above, with emphasis on:

- Sale of low-performing lands via development and implementation of Area Management Plans.
- Acquisition of high-potential parcels through in-lieu land selections or other industrial/commercial/residential acquisitions.
- Conversion of owned lands into higher value lease types such as agriculture.
- Increase the value of managed lands throughout the ten-year plan period.
- Overall return on asset value achieved during the ten-year plan period.

**Note: While the 2012 REAMP covered Oregon-owned public waterways and associated revenues, waterway oversight and public waterway use program metrics are now part of the Aquatic Resource Management Program's annual report.*

Plan Achievements:
Rebalancing the REAMP Asset Portfolio

Sale of Low-Performing Lands. Three long-term management plans for large blocks of school lands were written during the plan period. The Central Oregon Asset Management Plan (AMP), John Day Area Asset Management Plan, and Stockade Block Management Plan all identified specific parcels of lower-performing lands for disposal.

Table 1. Low performing parcels sales through AMP's

SPECIAL AREA MANAGEMENT PLAN SALES AND EXCHANGES					
	Parcels sold/ exchanged	**Acres sold/ exchanged**	**In-holdings acquired**	**Average parcel sale price**	**Total AMP sale revenue**
John Day AMP Sales	9	400	N/A	$11,956	$107,600
Central Oregon AMP Sales	11	670	N/A	$65,725	$772,977
Stockade Block AMP Exchange	13	1,220	8 parcels, 1,035 acres	N/A	$57,500 payment to DSL
				Total AMP Sales Revenue	**$938,077**

Acquisition of High-Potential Parcels. The REAMP focused on Industrial/Commercial/Residential (ICR) land acquisitions as a means to diversify the portfolio of assets and move towards higher-value land holdings with higher returns.

Five ICR properties realized significant returns or made significant progress during the REAMP period. The Forked Horn Butte Subdivision and Helvetia Business Park purchases yielded returns in line with the 10-year average of Common School Fund returns. Neither acquisition required land use planning to maximize value prior to sale, which resulted in a relatively quick return on investment.

ICR lands typically require land use planning, which can extend timelines but also significantly increase value. The Department acquired two significant ICR properties, the Stevens Road and South Redmond tracts, from the Bureau of Land Management as in-lieu selections. These properties have become high-value assets through land use planning efforts in partnership with the cities of Bend and Redmond. The Department also completed a land exchange on the Millican Road Tract in Prineville to make the tract more appealing to future buyers. This transaction also involved land use planning.

The information below summarizes the status of each of the five major ICR properties acquired with intent to sell when market conditions are favorable. *Additional information about each of these properties is in Appendix A.*

<u>**Sale Complete: Forked Horn Butte Subdivision**</u>

Acquisition of a planned 63-lot subdivision with infrastructure, and a 20-acre undeveloped lot in the City of Redmond.

Timeline of Key Actions

- 2009: Acquired in an exchange of timberland with Giustina Resources
- 2015: Land Board approved phased sale
- 2016: Final payments received

Total Return

- Sale price: $3.34 million
- Sale return: $414,000
- Percent return: 18 percent

Sale Complete: Helvetia Business Park Property

Acquisition of a multi-tenant, flexible occupancy industrial property in Hillsboro.

Timeline of Key Actions

- 2012: Acquired in an exchange of timberland with Giustina Resources for $2.9 million
- 2017: ADA bathrooms installed for $60,000
- 2019: Land Board approved sale

Total Return

- Sale price: $4.2 million
- Sale return: $1.24 million
- Net lease income produced: $1,534,925
- Annual management return: 8.12 percent

In Progress: South Redmond Tract

Acquisition of 940 acres of in-lieu lands located adjacent to the Deschutes County Fairgrounds and Exposition Center, near the Roberts Field-Redmond Municipal Airport in Redmond.

Timeline of Key Actions to Date

- 2007: Acquired from BLM
- 2008: Management plan created
- 2013: The City of Redmond amends comprehensive plan to include large lot industrial zoning
- 2015: DSL land approved by the City of Redmond for large lot industrial zoning designation
- August 2018: Signed annexation agreement with City of Redmond for 945 acres of large lot industrial lands
- August 2019: Annexed property into Redmond city limits; land is officially zoned large lot industrial
- October 2019: Partition approved for sales to Oregon Military Department and Deschutes County
- 2020: Infrastructure improvements initiated
- January 2020: Deed of Declaration for 19th Street, meeting infrastructure requirements
- April 2021: 20-acre parcel sold to Oregon Military Department

- Spring 2022: DSL enters into deferred improvement agreement with City of Redmond for remaining road and utilities infrastructure. The Department has spent $2 million on infrastructure costs to date.
- Summer 2022: Deschutes County land exchange on the path toward completion
- Summer 2022: 200-acre lot partition created for the sale of the first large lot industrial parcel

Returns To Date

- 20-acre parcel sold to the Oregon Military Department
- Sale price: $1.66 million

<u>In Progress: Stevens Road Tract</u>

Acquisition of 640 acres of in-lieu land in Bend.

Timeline of Key Actions to Date

- 1997: Acquired from BLM
- 2007: Conceptual master plan created
- 2016: Accepted into Bend urban growth boundary
- 2020: Western 320 acres sold
- 2021: House Bill 3318 enacted, creating a path to incorporating eastern acres into Bend urban growth boundary (UGB)
- June 2022: City of Bend approves concept plan for development of property, meeting requirements established by HB 3318

Returns to Date

- 320 western acres
- Sale price: $22 million

<u>In Progress: Millican Road Tract</u>

Land use planning of 160 acres of industrial land in Prineville.

Timeline of Key Actions t-o Date

- 2012: realigned parcel through land exchange with Premier West Bank
- 2012: Property added to Prineville urban growth boundary, rezoned for light industrial use
- 2013: Property added to city of Prineville, deemed “shovel ready”
- 2012 - 2013: Marketed for sale
- 2017: Evaluation of income potential from leasing land for solar energy
- April 2018: State Land Board approved brokered sale
- May 2020: Purchase sale agreement signed for $4.5 million
- November 2021: Agreement terminated following $74,000 in payments

Returns To Date

- Purchase sale agreement payments: $74,000

Land Sales Income. The major direction of the REAMP was to dispose of lower performing lands and acquire higher performing lands. Between Fiscal Year 2012 and 2021, the Department completed seven acquisitions, fifteen land and mineral exchanges, and 84 land sales (which includes filled land sales), and 32 mineral releases (mineral releases include DSL-managed lands, as well as lands managed by other state agencies).

Selling school lands when market conditions are favorable has proven to generate significant income for the Department. The Department did not track data from individual sales prior to 2015; however, between FY 2015 and 2021, the Department oversaw school land sales of $37.7 million. The sale of the western portion of the Stevens Road Tract contributed $22 million to that total, in addition to $15 million in sale income from all other sales during that time.

Table 2. Revenue from land sales between FY 2015 and FY 2021

LAND SALES FY 2015 - 2021			
DSL School Land Sales	**Revenue**	**Number of Sales**	**Acres Sold**
Agricultural Land	$0	0	0.00
Rangeland	$475,228	13	436.51
ICR Land	$32,592,362	9	648.74
Forest Land	$4,588,456	4	654.18
Mineral & Energy Resources	$77,913	11	1,400.45
Special Stewardship Land	$0	0	0.00
TOTAL Value of Lands Sold	**$37,733,958**	**37**	**3,139.88**
Filled Lands Sales	$352,356	10	28.54
Mineral Release Other Agency	$4,264	2	427.00
TOTAL Value Sold	**$356,620**	12	456.54

Plan Achievements: Increasing School Land Revenue and Value

Evaluation of Land Classifications. School lands managed through the REAMP are defined by their land type: agriculture, rangelands, industrial/commercial/residential (ICR) lands, forestlands, mineral and energy resources, and special stewardship lands.

As guided by the REAMP, the Department has reevaluated all land parcels for the correct classification as determined by each class definition while considering the highest and best use of each parcel. The classifications were evaluated in 2017, and again in 2021. Many classification changes were due to changing conditions – for example, a moratorium on water rights being issued in certain basins which prevented agricultural conversions, or because the physical site characteristics did not match the class definition in the REAMP. *See Appendix B for a comparison of land classifications in 2012 and 2021.*

The Department also identified gaps in the classification system that should be addressed in the next plan. For example, minerals and energy are a single classification, yet they are separate resources that could either occur above or below ground.

Conversions to Agricultural Land. Agricultural land is identified in the REAMP as desirable property to acquire due to a higher rate of income per acre generated when leased. For most agricultural uses, water rights are a limiting factor that determines if a property is available for cultivation. The Department has partnered on several conversions of rangeland to agricultural land in cases when rangeland has had suitable soil types, appropriate proximity to other development and utilities, and valid water permits or water rights. When converting rangeland to agricultural land, the Department takes ownership of all infrastructure below ground, which may include wells and utilities, and the lessee takes ownership of all above ground structures, such as pivots.

Table 3. Overview of agriculture lease changes over the plan period.

Agriculture Leases	2011	2021
Number of Leases	8	12
Number of Cultivated Acres	3,555	4,949
Dollar Per Acre Lease Value	$43.50	$65.00

Increasing Rangeland Leases. The Department administers 153 active forage leases for cattle grazing throughout southeast Oregon. These leases are categorized as either blocked leases with large contiguous tracts of land, or isolated leases with much smaller acreages that are often surrounded by private ownership.

The below table provides an overview of rangeland lease changes over the plan period. The increase in lease numbers between 2012 and 2021 can be attributed to changes in lease management for blocked parcels. The Department also had success identifying unleased rangelands and advertising them as available for lease. To be agile with lease rates in changing economic conditions, the Department calculates lease rates by the Animal Unit Month (AUM) on an annual basis using a formula based upon the previous year's price of a cow-calf pair.

Table 4. Comparison of number of forage leases from 2012 to 2021.

Forage Leases (For Grazing)	2012	2021
Blocked Leasehold	44	47
Isolated Leasehold	95	106
Total	**139**	**153**
Acres Leased	620,028	622,700
AUM Price	$6.79	$9.84

Stockade Block Land Exchange. As part of the Stockade Block Special Area Management Plan, the Department completed a land exchange in 2015 with the current Tree Top Ranches LP, who is also the adjacent landowner. This land exchange met the objective identified in the REAMP to acquire private inholdings within DSL ownership and transfer DSL inholdings out of private ownership. DSL exchanged 1,220 acres valued at $336,500 of state land, for 1,036.6 acres of private land valued at $279,000. A $57,500 cash payment from Tree Top Ranches LP to DSL at closing resolved the valuation imbalance.

Rangeland Analysis Inventory. In 2018, the Rangeland Analysis Inventory was completed for approximately 500,000 acres of school rangelands. This 18-year project provides the Department with data to evaluate existing leasehold management plans for sustainability, inform and prioritize range improvement projects, and establish a baseline for future data collection efforts to identify ecological trends.

The process to analyze school rangelands was defined with the help of the Natural Resource Conservation Service and became a comprehensive source of information that described rangeland health, as well as carrying capacity. Data collected through rangeland analysis included plant community and ground cover data, watershed health information, soil sampling, and noxious weed mapping. The ultimate goal of the analysis was to define the sustainable carrying capacity in AUMs that could be successfully grazed for decades to come for the benefit of the Common School Fund.

While school rangelands have been managed for grazing since the mid-1900s, having true scientific data on each parcel of land owned and grazed provides the foundation for the design of lease operating plans, pasture rotations, and best management practices that preserve rangeland health. This endeavor epitomizes the Department's commitment to revenue enhancement while balancing stewardship of the resources as identified in the REAMP.

Greater Sage Grouse. In September 2015, DSL and the U.S. Fish and Wildlife Service entered into a Candidate Conservation Agreement with Assurances (CCAA) on 525,000 acres of rangelands in southeast Oregon. Through this CCAA, DSL will have assurances that existing management activities will continue in the event sage grouse becomes federally listed under the Endangered Species Act. DSL has committed to conservation measures, which improve sage grouse habitat including removing juniper, treating annual invasive grasses, marking fences with anti-collision markers, and installing wildlife ramps in stock tanks.

Rangeland Improvement Projects. As a result of a lawsuit in the late 1990s, twelve percent of grazing fees are allocated to the "range improvement fund" to allow the Department to actively manage and enhance leased rangelands. Range improvement projects are completed for a variety of reasons, including increasing livestock distribution through fencing and water improvements, improving hydrologic function and restoring native plant communities by removing juniper, and treating noxious weeds. All projects are designed for long-term protection of sustainable grazing lands while maintaining revenue generation for the Common School Fund. Any improvement projects that require ground-disturbing activities are reviewed for cultural resources impacts through the State Historic Preservation Office.

Table 5. Summary of rangeland improvement projects through the plan period

Rangeland Improvement Projects	2012 - 2021
Juniper Removal – DSL Funded	960 acres
Juniper Removal – Other Funded	7,452 acres
Noxious Weed Spraying – DSL or ODFW Funded	10,398 acres
Waterline Installations	29 miles
Fence Construction	32 miles
Livestock Well Drilling or Repairs	3 wells

Certified Forestland Management Analysis. When the REAMP began in 2012, school forestlands were largely either certified forests, typically west of the Cascades, managed by the Oregon Department of Forestry; or they were noncertified forests, typically east of the Cascades, that were essentially unmanaged except for grazing lease uses. The Department's FY 2017-2021 Strategic Plan identified a need to analyze the management of the certified forestlands to see where there could be cost savings. There was also a need to identify management activities required to reduce wildfire risk and increase forest health for noncertified forestlands. To achieve those aims, DSL hired a forester in 2019. DSL's forester has successfully identified forestlands that could sensibly be decertified in Klamath County which would provide management cost savings of $225,000 a year. The Department will present the decertification proposal to the State Land Board in August 2022 as part of ongoing efforts to reduce costs and increase operating income.

DSL's forester has also started developing a management plan for the noncertified forestlands that will address wildfire resilience and forest health while also contributing income to the Common School Fund. The Department has since completed one thinning project on 107 acres of noncertified forest. The Department has also began working with Hood River County to establish an agreement to help with forestlands management and timber sales adjacent to county ownership.

DSL's forester has contributed much time and expertise to the Elliott State Research Forest project and the Habitat Conservation Plan for the Elliott. During the term of the REAMP, the Elliott State Forest was the subject of lawsuits over endangered species, which ended harvest and resulting revenues. Due to the constitutional mandate of school lands to produce net revenue, the Department decertified the forest and withdrew the 85,000 acres from ODF's management to reduce costs. Since then, many options for the forest were evaluated. The outcome of these efforts, once approved by the Land Board, will be the creation of a public research forest managed by Oregon State University and owned and overseen by a new independent state agency created by the 2023 Legislature in SB 1546.

While revenue from forestlands has decreased substantially with the loss of forest acreage from the Elliott, forestlands remain the highest revenue producing classification, averaging approximately $2.25 million in revenue from 2018 to 2021.

Mineral Potential Analysis and Renewable Energy Advances

During the plan period the Department entered into two new solar leases on rangelands in Lake County and had a three-year license for meteorological towers to research wind energy potential on a large tract of land. Consistent with the REAMP objective of growing the stream of revenue to the Common School Fund, the Department has identified analyzing the renewable energy resource potential of school lands for the eventual marketing for renewable energy uses as a strategic plan priority.

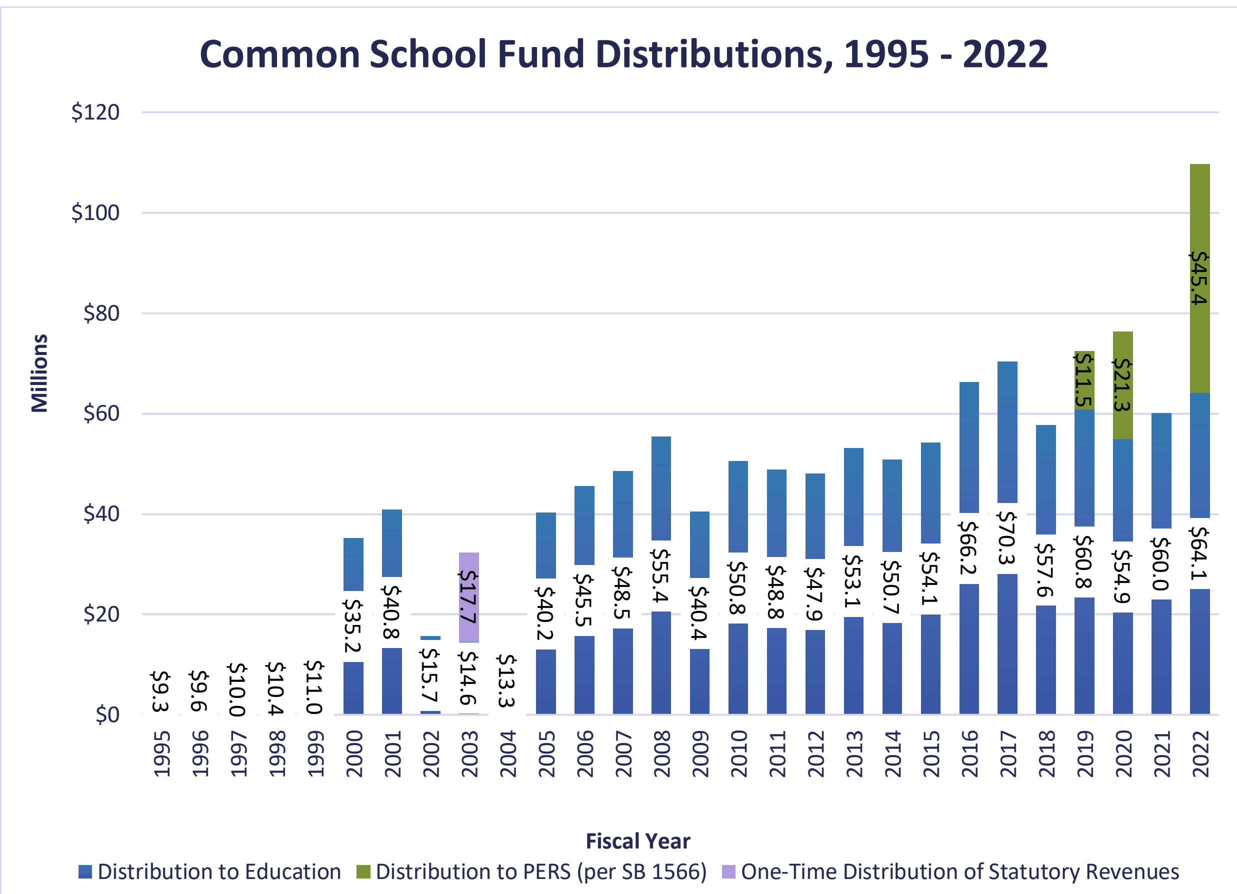
The first phase of a mineral potential analysis has begun, with a partnership stemming from a Department of Defense grant fund obtained by the Oregon Department of Energy for creation of the Oregon Renewable Energy Siting Assessment (ORESA) mapping tool. As of May 2022, the ORESA tool has been completed. The Real Property Program will be able to use this mapping tool to complete the Strategic Plan objective of analyzing the renewable energy potential of school lands.

Renewable energy and mineral uses are high revenue-generating leases with significant potential to increase revenue to the Common School Fund. Mineral and energy revenue makes up 28 percent of the Net Operating Income (NOI) from all land classifications. At this time the Department has two solar leases and two hard mineral leases contributing revenue; the meteorological towers provided significant income for a three-year span. The NOI for the mineral and energy land classification is higher because there are very few expenses incurred.

Contributions of Special Stewardship Lands. Though some special stewardship lands produce revenue for the Common School Fund or add value to the land base – as with recent acquisitions at South Slough National Estuarine Research Reserve – these lands are typically managed for the other benefits they provide to Oregon. Special stewardship lands can often be lands that have endangered species or lands that are National Heritage Sites exhibiting valuable ecosystems. Some school forestlands are also classified as special stewardship to protect certain animals listed as threatened or endangered through the Endangered Species Act.

Contributions to the Common School Fund. The graph below shows Common School Fund distributions to Oregon's K-12 public schools during the 10-year plan period. Though distributions trended upward over the plan period, it's important to note other factors affecting distributions to schools, such as the financial performance of the Common School Fund itself, and legislatively directed contributions to Public Employees Retirement System.

Chart 1. History of annual distributions to Oregon school districts from the Common School Fund



Plan Achievements:
Developing Tools for Consistent, Accountable Management of Lands

Performance Measures Established. The 2012 Plan identified four performance measures to track and analyze school lands performance. These performance measurements supported reporting plan progress and provided data to inform asset management in changing economic environments.

Net Operating Income

The overall NOI was positive during the plan period. The Department has learned the following:

- **Millions in revenue were produced by forestlands prior to the Elliott State Forest harvest restrictions.**
- **The NOI measure does not include income from land sales.** If land sale revenue is included as income, the NOI increases significantly.
- **Industrial/commercial/residential land use planning can greatly increase sale price but also requires significant staff time.** Processes for inclusion within urban growth boundaries and city annexation, rezoning, and partitioning require significant time and dedicated staff attention.
- ORS 273.413 provides authority for the Department to dispose of lands not suitable for long-term management and deposit the proceeds of those sales into a revolving account within the Common School Fund, and to draw from that account for acquisitions or investments approved by the Land Board in conjunction with the Oregon Investment Council. Due to the structure of the land sale revolving account statutes, only eminent land sale costs may be charged to the account. Due to this, staff time costs of processing land sales are not calculated as an expense to the land sale revolving account, but rather counted as an expense within the individual land classification such as ICR or rangelands. Calculating NOI without land sale income does not capture the full picture.

Table 6. Performance measures totals over the 10-year plan period

10 YEAR TOTALS			
	Revenue	**Expenditures**	**Net Operating Income**
Agricultural Land	$2,773,921	$1,267,298	$1,506,623
Rangeland	$7,921,139	$7,711,575	$209,563
ICR	$11,074,427	$8,829,408	$2,245,018
Forest Land	$40,428,328	$38,528,428	$1,899,899
Mineral & Energy	$2,994,437	$644,746	$2,349,690
Special Stewardship	$203,453	$109,039	$94,413
TOTALS	**$65,395,705**	**$57,090,494**	**$8,305,206**

Table 7. Performance measures totals including land sales revenue

LAND SALE REVENUES - ACCRUED TO LAND SALE REVOLVING ACCOUNT			
	Revenue	**Expenditures**	**Net Operating Income**
2015 - 2021	$34,967,844	*$10,833,125	$24,134,719
Total with Operating Revenue with Land Sales	**$100,363,549**	**$67,923,619**	**$32,439,925**

**Data for land sales expenditures does not include FY 2012.*

Chart 2. Annual Net Operating Income by land classification <u>not including</u> revenue from land sales

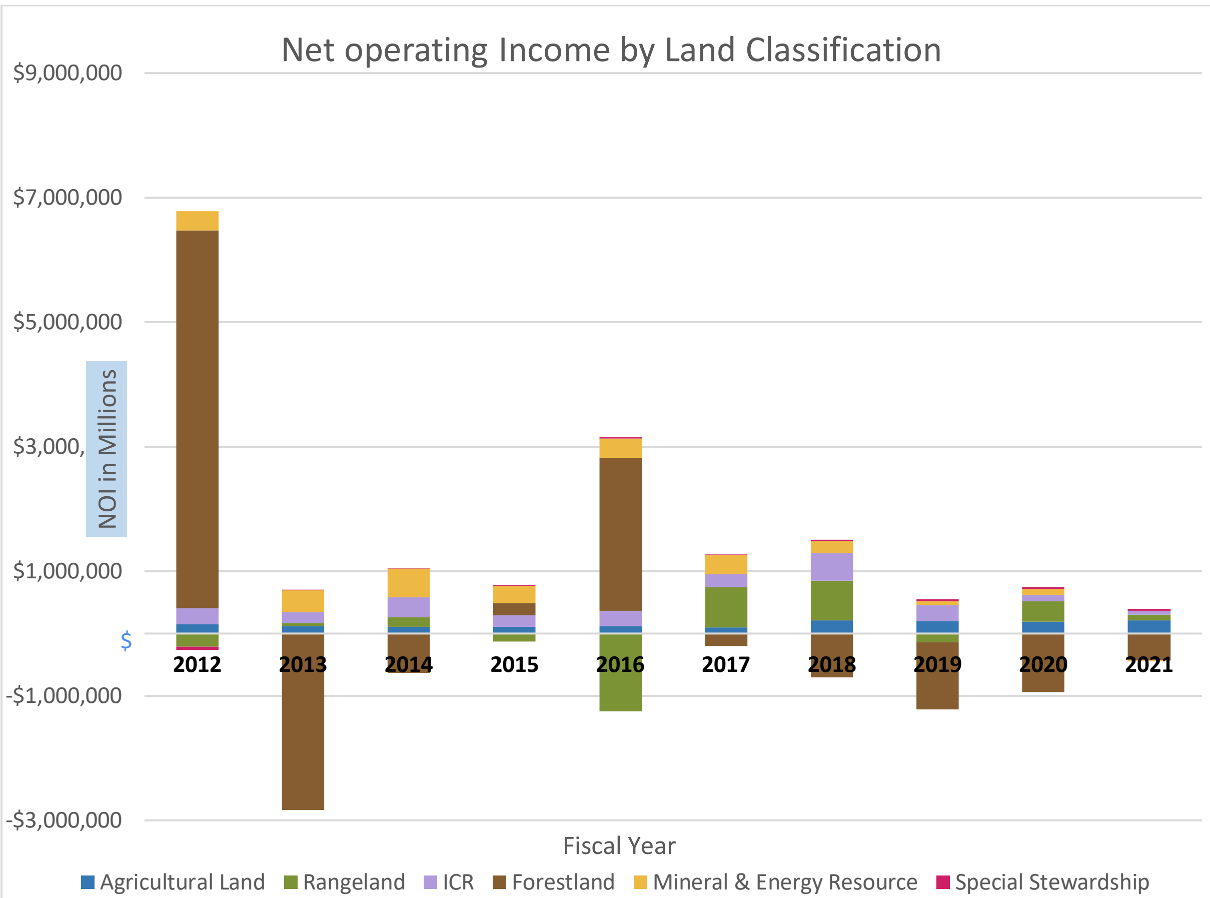
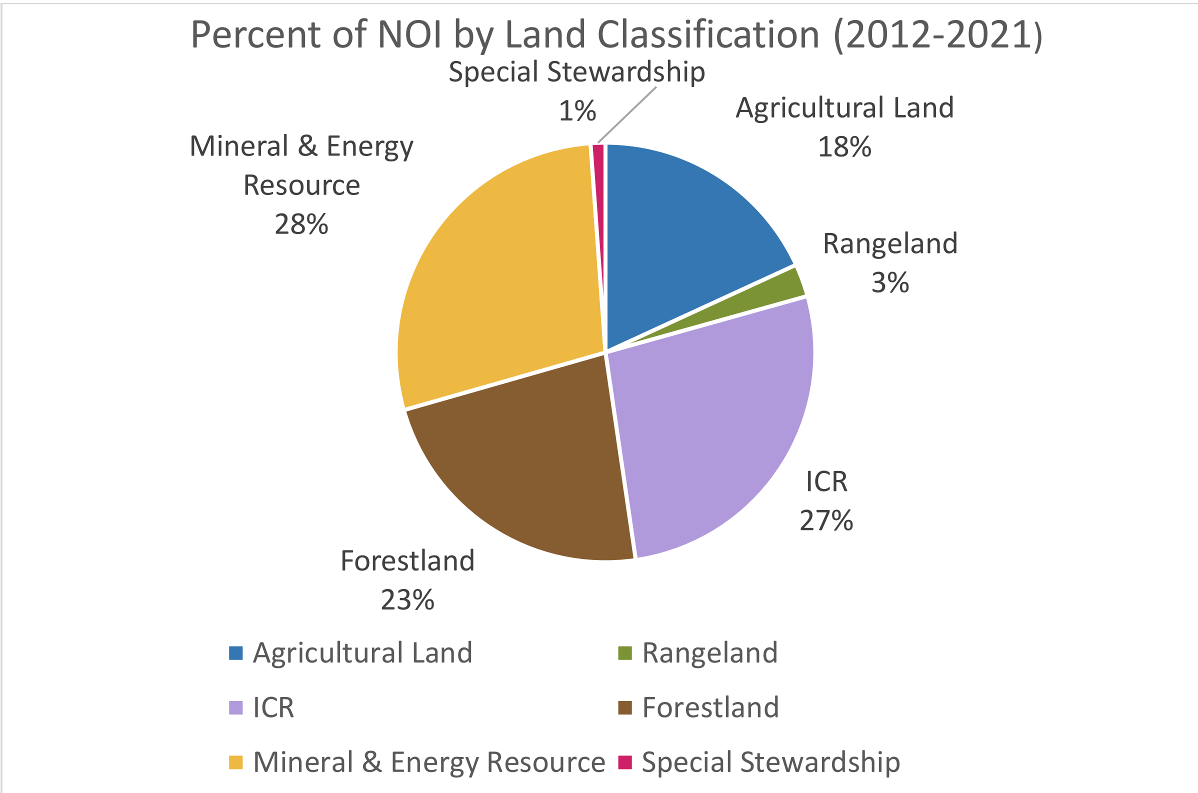


Chart 3. Land classifications percentage of the total 10-year Net Operating Income



Annual Land Value Appreciation

Every year the Real Property Program updates the value of all Department-managed lands. Some specific ICR properties are valued using true Uniform Standard of Professional Appraisal Practice appraisal values. However, most lands are assigned a generalized value per acre based on data available for the county (or portion of the county) they are located in. Due to the number of parcels managed by the Department, individually valuing each property is not feasible. Because land values are generalized by classification, the values for each land classification are reported as a range between a low and a high value. For the information provided in the graphs below, the average of each range of values was used. Since 2012, land value has increased by 8.72% overall, or $52 million dollars.

When looking at the value of forestlands throughout the plan period in Chart 5, the value appears to be static over time. In 2016, the Department had the Elliott State Forest appraised; once that appraised value was established, the value was not changed in the Department's reporting. The Elliott State Forest was the largest portion of the Department's forest ownership and therefore has a disproportionate impact on the overall value of forestlands.

Chart 4. Annual total asset value of all land classifications

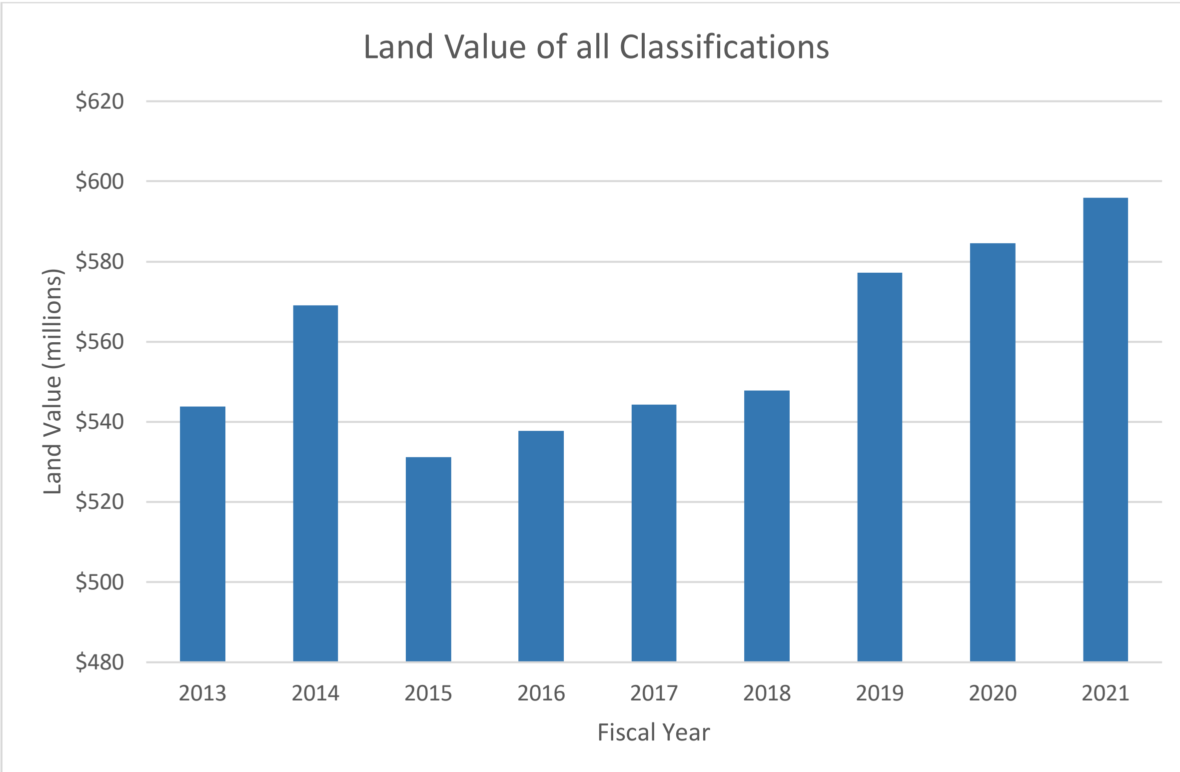
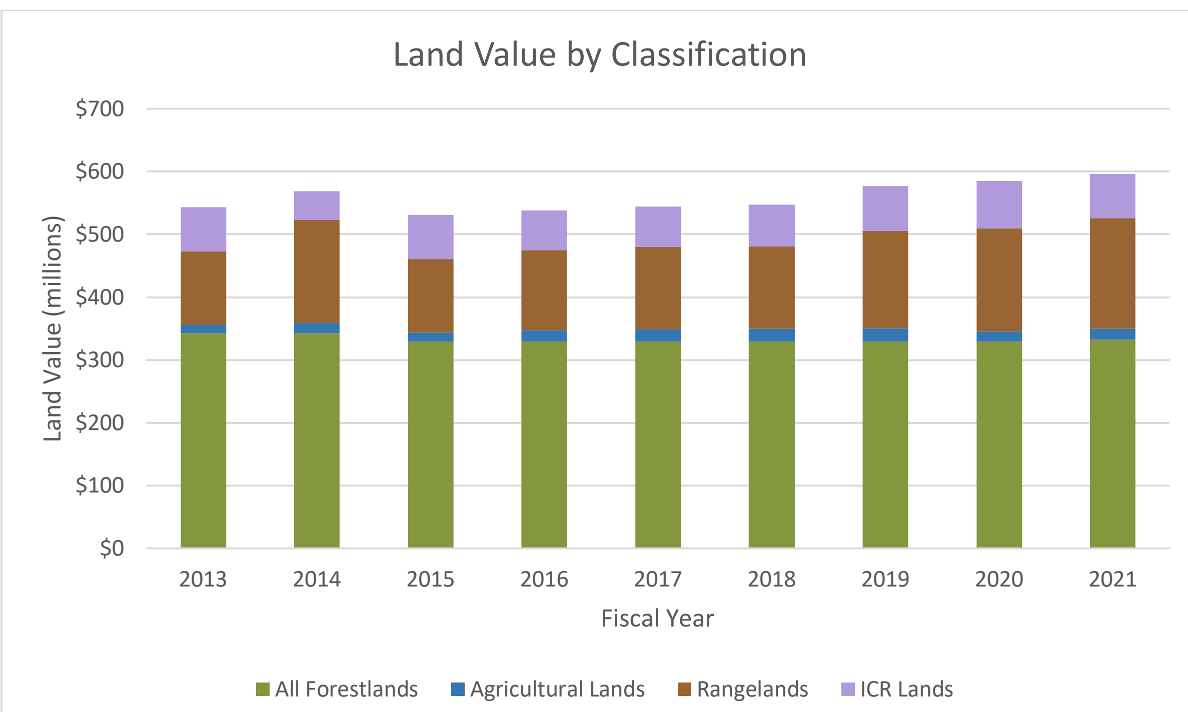


Chart 5. Annual total asset value for by land classification



Return on Asset Value

The REAMP identifies Return on Asset Value (ROAV) as the most common financial performance indicator to measure success of investments when complete data is available, including market appraisal values, and annual expenditures and revenues. ROAV measures return compared to land value and is calculated by the Department as net operating income divided by market value of lands in each classification.

The REAMP does state that ROAV is not a particularly useful measure unless a good benchmark has been established such as an appraised value that can be updated over time. Over the course of the plan period, ROAV has been determined to be an unsuitable metric for evaluating performance of school lands and success of management techniques. For the Department to show a positive ROAV across all land classifications, authorization rates and fees would have to increase at equal-to-or-greater-than the land value appreciation, which in recent years has been very high and has kept ROAV very close to zero. Another reason ROAV may not be accurately providing information on Department revenue success is that income generated from the sale of lands is not included in the total net operating income, and therefore is not added to the ROAV calculation.

In addition, the fiduciary responsibility of school lands is an important component of the Department's management intended to last in perpetuity, but it is not the only consideration of the value of school lands to the people of the state of Oregon. The Department will explore alternatives to ROAV as an indicator of land management success in the next REAMP.

Total Annual Revenue

Chart 6 below displays gross revenue throughout the plan period. The spikes in revenue in 2012 and 2016 are from large timber harvests. In 2012, the forestlands produced $11 million in gross revenue and in 2016 there was $6 million in gross revenue from the remaining timber sales in the Elliott State Forest. As of 2018, the Elliott stopped contributing revenue and the annual school forestland revenue streams have been consistent at approximately $2.25 million over the last four years.

Since hiring a forester, the Department has more capacity to coordinate with ODF on certified forest management and to actively manage noncertified forestlands which has led to more predictable forest income. Rangeland revenues will always have variations because fees are calculated annually based on how economic conditions have affected the cost of a cow-calf pair. Another cause of variation in rangeland revenue is the need for drought reductions on grazing use, which typically reduces use and therefore fees by 25 percent in drought years.

Chart 6. Gross Annual Revue for all land classifications

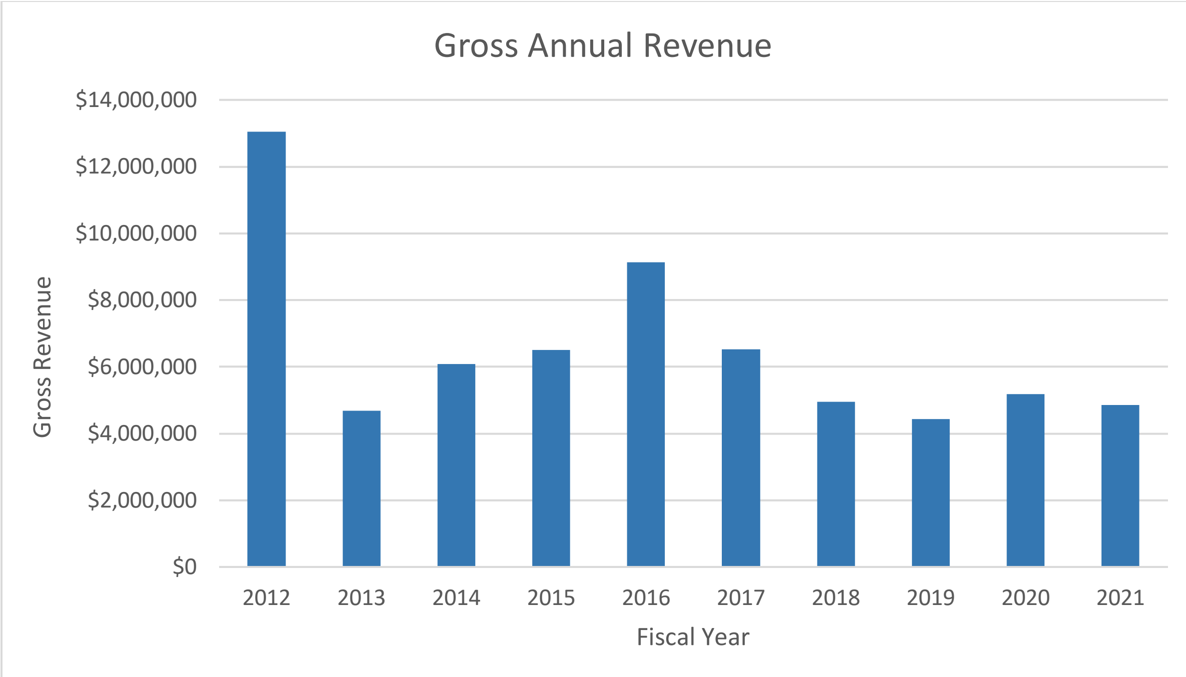
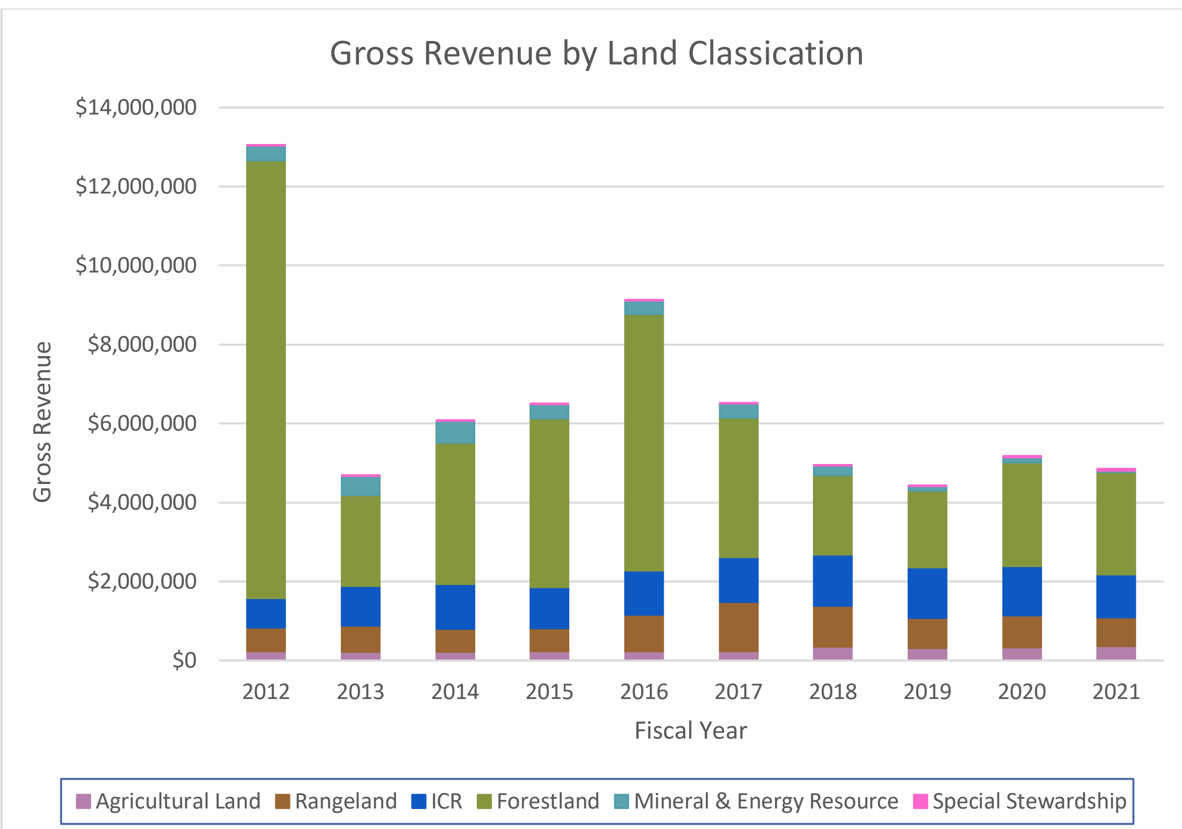


Chart 7. Gross Annual Revenue by land classification



Established Management Priorities. Operating under the REAMP, the Department's 2017-2021 Strategic Plan underscored the Real Property program's overall purpose of ensuring school lands generate long-term sustainable revenues to fund Oregon schools through the maintenance of a land base that meets Common School Fund trust obligations. Strategic Plan priorities that have been completed included a rate study and market analysis for communication site leases; inventory and assessing rangeland ownership for existing and potential improvements and infrastructure; and rulemaking to update fees for easements on trust lands. Priorities still in progress include a market analysis and renewable energy report for school lands, and a forestlands management strategy for currently underperforming forestlands. The Department recently completed a 2022-2026 Strategic Plan; projects overseen by the Real Property Program team will be integrated into the next REAMP.

Looking Ahead: Creating the Next Real Estate Asset Management Plan

This achievements report represents the endpoint of the 2012-2021 Real Estate Asset Management Plan, and the beginning of the planning process for developing the next asset management plan.

The Department anticipates a yearlong development process, with initial focus on engaging the many communities, stakeholders, organizations, agencies, and Tribes who have important and varying perspectives on the management of Oregon's school lands.

These conversations will help shape and frame the next plan, as will the lessons learned as the 2012-2021 REAMP was implemented. Those lessons include:

- **Better performance measures are needed.** Two of the four existing performance measures – net operating income and return on asset value – were insufficient for demonstrating progress on plan objectives and informing management of school lands. While the significant costs associated with land use planning and other preparation of lands for sale is captured in the net operating income calculation, land sale revenue is not, which skews the metric downward. The return on asset value is a metric more suited for investment type properties where firm expenses and revenues can be tracked starting at acquisition. Applying ROAV to lands managed for long-term income will never show a significant increase unless land value decreases, or there is a large increase in revenue which is very hard for agencies with fees fixed in administrative rules.
- **Sale of low-performing lands has little potential to produce significant revenue.** Typically, the costs associated with preparing and marketing low-performing lands exceed the sale revenue generated. The sale of 18 low-performing parcels from the John Day AMP and Central Oregon AMP provided $880,000 in income, and $505,000 of that was one sale. In many cases, selling low-performing lands costs more than retaining them.
- **Undertaking land use planning has great potential to produce significant revenue.** Acquiring in-lieu lands and other lands where land use planning efforts such as incorporation into urban growth boundaries, rezoning, partitioning, and other actions can increase value, has resulted in much higher revenues for the Common School Fund. The Department is focused on acquiring the remaining acreages of In-Lieu lands from the federal government and is aiming for ICR lands

with planning potential. Once the remaining In-Lieu lands have been selected, any further land acquisitions would have to be made through the land revolving account as identified in ORS 273.413.

- **Management of occupied buildings is unlikely to be a good fit for the portfolio.** Management of such buildings takes significant and dedicated expertise, and contracted management services impact profit margins.
- **External factors can significantly affect the Department's ability to maximize land potential and appreciation.** For example, availability of water rights affects conversion of rangelands to agriculture. Wildfire can be an unexpected cost that can negate the net operating income of any given year. Drought can affect the ability to produce revenue from grazing, and houseless camps can incur large cleanup costs.

The Department anticipates presenting an asset management plan to the State Land Board for consideration in summer 2023.

APPENDICES

APPENDIX A: LAND ACQUISITION SUMMARIES

- **Forked Horn Butte Subdivision.** The Department of State Lands participated in an exchange of timberland with Giustina Resources in December 2009 to acquire the Forked Horn Butte Subdivision. This property was a planned 63-lot subdivision with infrastructure, and a 20-acre undeveloped lot. The total value of the subdivision upon acquisition was $2.75 million. In 2015, DSL agreed to, and the Land Board approved, a phased land sale to Palmer Homes, LLC that added $3.34 million to the Common School Fund. The final payments were received, and the property deed was transferred in November 2016. The sale of the Forked Horn Butte property demonstrates consistency with the 2012 REAMP as it was a response to market-driven opportunities providing an 18 percent return on investment to the Common School Fund.

- **Helvetia Business Park Property.** Purchased in 2012, the Helvetia property is a multi-tenant, flexible occupancy industrial property in Hillsboro, Oregon. The purchase price in late 2012 was $2.9 million and the Department sold the property December 2019 for just over $4.2 million after managing the property seven years. The property was fully occupied for five of the seven years DSL held the asset. The Department invested nearly $60,000 in the design and construction of an accessible bathroom facility leading to full occupancy of the property. The overall investment was in line with the 2012 REAMP with approximately a 30 percent gain on the sale of the property and provided an average annual return of 6.2 percent from operations and management of the property.

- **Millican Road Tract.** In June 2012, DSL entered into an exchange agreement with Premier West Bank. The proposed land exchange was undertaken to reconfigure two adjacent, long, rectangular parcels measuring approximately a quarter mile by one mile and turning them into square parcel configurations of a half-mile by half-mile in size. This configuration made both properties easier to develop and thus more attractive to prospective industrial site purchasers. The greatest benefit to the DSL-managed property was the direct access to Millican Road. Both parcels were included in the Prineville UGB and later incorporated into the city limits. This initiative was strongly supported by the City of Prineville and Crook County who took the lead to adjust the Prineville UGB and city limits boundary to help provide marketable industrial lands that could create local employment opportunities.

  The property has attracted varying interests, including leasing for solar development and the potential for a data-center type of use. In 2017, the Department evaluated the long-term returns of a solar lease versus the one-time sale compensation of the property. An appraisal at that time indicated the market value of the property was $2.4 million. Due to the desire of local officials, the Department did not pursue the solar lease and instead is marketing the property for an industrial use that could add to the long-term employment opportunities for the local community.

  In 2018, the Department again had the property appraised and the market value had increased to $3.2 million. At this point, there was an interested buyer and DSL began working with a broker to increase the visibility of the property for sale. The interested buyer ultimately negotiated a phased purchase with an extended due-diligence period that would allow significant research into the power infrastructure of the property. This purchase and sale agreement required nonrefundable quarterly payments and the purchase price was negotiated at $4.5 million. The buyer ultimately cancelled the sale agreement, but the Department earned $74,000 in payments for the effort.

- **South Redmond Tract.** DSL acquired the South Redmond Tract in 2007 from the Bureau of Land Management as an in-lieu land selection. The 940-acre tract was configured as a contiguous block located adjacent to, and south of, the Deschutes County Fairgrounds and Exposition Center, and southwest of Roberts Field-Redmond Municipal Airport. At the time of acquisition, the property was outside the Redmond city limits and UGB and was not designated within the city's 50-year Urban Area Reserve.

  Upon DSL receiving title to the tract, a collaborative planning effort was initiated between federal, state, and local agencies which resulted in the South Redmond Tract Land Use and Management Plan. The plan recommended land use and land management concepts to generate the greatest possible revenues for the Common School Fund that are compatible with community interest and local land-inventory needs and were consistent with Oregon land use law and the DSL Asset Management Plan. Through this effort, the property was incorporated into the Redmond UGB and was annexed into city limits in 2019.

  As identified in the plan, the Department completed a land sale of 20 acres to the Oregon Military Department (OMD) for the development of a National Guard Readiness Center, as well as entered into a land exchange agreement with Deschutes County to accommodate a 140-acre expansion of the adjacent Deschutes County Fairgrounds. In February 2021, the land sale to OMD was finalized resulting in a $1.67 million contribution to the Common School Fund.

  The Department and Deschutes County are working together to complete the land exchange which will provide another 137 acres of land zoned for light industrial use. This exchange is expected to be completed in summer 2022. DSL's contracted brokers will then immediately market and sell the exchanged property to generate additional revenues for the Common School Fund.

  Approximately 780 acres of the tract were chosen to be the only property in the state zoned for Large Lot Industrial (LLI) use, with lots 200 acres or greater in size. As part of the LLI zoning requirements, the Department has invested nearly $2 million in road and utility infrastructure to position the property as "shovel ready" for interested buyers. Currently, the Department is working with the City of Redmond to partition off the first 200-acre lot to be marketed and sold through a contracted broker. There have been multiple interested parties, some for lots smaller than 200 acres. The LLI zoning requires the Department to sell a 200-acre or greater size parcel prior to pursuing sale of smaller parcels on the tract.

- **Stevens Road Tract**
  In 1997, the Department acquired a 640-acre tract northeast of the intersections of Stevens Road and 27th Street in Bend as an in-lieu land selection. In 2007, DSL adopted the Stevens Road Tract Conceptual Master Plan, which demonstrated the property's ability to meet the standards of the City of Bend for a mixed-use urbanized neighborhood addition which included commercial, industrial, open space, and residential zoning designations. Of the 640 acres of property studied in the Conceptual Master Plan, 320 acres were included in the City of Bend Urban Growth Boundary expansion approved in 2016 and have since been annexed into the city. The western half of the parcel was sold in 2020, providing $22 million to the Common School Fund.

  The eastern 261 acres of school lands remain outside the Bend UGB and are currently pending approval from Deschutes County to be rezoned for multi-use agricultural purposes which is a more appropriate zoning designation for property adjacent to developing or urbanized land. In 2021, the site was identified as having potential for a portion of the property to be developed for affordable housing under HB 3318. In cooperation and coordination with the City of Bend, a comprehensive development plan is being completed that will lead to the disposal of the remaining eastern acres. The ultimate result will provide affordable housing options for the Central Oregon community, a portion of which will be dedicated to housing for school district employees, as well as providing a significant amount of revenue to the Common School Fund.

APPENDIX B – LAND CLASSIFICATION CHANGES 2012-2021

Comparison of land classifications between 2012 and 2021 *Change in acres within each land classification, not including waterways*					
	Acres 2012	**Acres 2021**	% Land Class 2012	% Land Class 2021	**Change in acres**
Agricultural Lands	**5,860**	**7,930**	0.38%	.51%	**2,070**
Rangelands	**625,510**	**621,385**	40.28%	40.33%	**(4,125)**
Industrial/Commercial/ Residential Lands	**7,010**	**6,390**	0.45%	.41%	**(620)**
Forestlands	**129,530**	**122,360**	8.34%	7.94%	**(7,170)**
Mineral and Energy Lands	**774,110**	**769,120**	49.85%	49.92%	**(4,990)**
*Special Stewardship Lands	**11,005**	**13,545**	0.71%	.88%	**2,540**
TOTAL	**1,553,021**	**1,540,732**	100%	100%	**(12,295)****

**The mineral resource acres indicated above occur in "split estates" in which DSL owns the mineral rights but not the land surface associated with those rights. In addition to this acreage, DSL also manages 360,000 acres of mineral rights underlying DSL land (which are included in other land asset classes).*

***Changes in acreage classifications are either due to sale of lands in that classification, or the lands being re-classified after review of site characteristics.*