



Oregon

Theodore R. Kulongoski, Governor

Department of State Lands

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State Land Board

State Land Board

Regular Meeting

October 14, 2008

Agenda Item 8

Theodore R. Kulongoski

Governor

Bill Bradbury

Secretary of State

Randall Edwards

State Treasurer

SUBJECT

Request for approval to negotiate a land exchange between Deschutes County and the State Land Board

ISSUE

Whether the Land Board should give approval for the Director to complete negotiations of a pre-exchange agreement for a land exchange between Deschutes County and the State Land Board for the following properties:

- Lands to be Acquired by the Land Board from Deschutes County:
 - Warrin Road Parcel (146.76 acres)
 - Long Butte Parcel (120 acres)
- Lands to be Acquired by Deschutes County from the Land Board:
 - South Redmond Tract North Parcel (up to 238 acres)

AUTHORITY

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

ORS 270.010; pertaining to the sale of state surplus property.

ORS 273.055; relating to the power to acquire and dispose of real property.

ORS 273.171; relating to the duties and authority of the Director.

ORS 273.316 and .321; relating to the exchange of state lands

OAR 141-067; relating to the sale, exchange and purchase of state land.

Asset Management Plan (AMP) adopted by the Land Board, October 2006.

SUMMARY

This action is being requested in order to carry out one of the implementation actions identified in the Department's Proposed South Redmond Land Use and Management Plan.

During the development of the plan, Deschutes County showed a strong desire to enter into a land exchange arrangement with the Department to acquire land within DSL's South Redmond Tract lying south and adjacent to the 132-acre Deschutes County Fairgrounds and Exposition Center. In fact, the county had hoped to acquire as much as 320 acres of the property from the U.S. Bureau of Land Management (BLM), but put their plans on hold while DSL acquired the tract in 2007.

In mid-2007, the Deschutes County Board of Commissioners authorized county staff to commence work on a land exchange proposal with DSL. County and DSL staff met to review a list of county lands available for exchange and, in April 2007 DSL indicated an interest in two county properties known as Long Butte (120 acres) and Warrin Road (146.76 acres) (see Appendix A).

Staff has investigated the two county properties. Preliminary feasibility studies have also been conducted in order to determine if the acquisitions meet the requirements of the Board's Asset Management Plan.

County Exchange Parcels

Warrin Road Parcel

This 146.76-acre parcel (T15S R11E Section 17 Tax Lot 700) is located on Fryrear Road about 6 miles east of Sisters (See Appendix B). There is good all-weather access to the land via county roads. The property gently slopes to the east from a rise at the west end; views of the Three Sisters are available. The parcel is rocky and covered with juniper and sagebrush. The surrounding land use is large-lot rural homesites and farms. The property is zoned Exclusive Farm Use, but it is not irrigated and, due to the poor soils, is not considered high value farmland. A Surface Mining Impact Area Combining Zone overlay exists on the property due to its proximity to the former county landfill and present transfer station. A forty-acre parcel (Fryrear Road Parcel) of Common School Fund land is adjoining and contiguous to the Warrin Road Parcel to the east.

The general area is recognized as deer winter range and is adjacent to the 30,000-plus acre Bureau of Land Management Dry Canyon area. This primitive BLM area is popular for its motorized and non-motorized trail opportunities.

This parcel has rural, non-farm dwelling homesite potential. When combined with the Department's existing 40-acre Fryrear Road Parcel, the total acres available equal 186.76, enough for five homesites. The addition of the county's parcel would benefit the homesite potential on DSL's Fryrear Road Parcel. Preliminary analysis by staff reveal that, conservatively-speaking, a return on investment of about 6% to 8% per year is possible, if the project takes five years to plan, develop, market and sell. Other non-development management alternatives include outright sale or exchange. Potential buyers/exchange partners include adjacent property owners, developers or land conservancies.

Long Butte Parcel

This parcel is made up of 2 tax lots (T16S R12E Section 22 Tax lot 100 is 40 acres; T16S R12E Section 22 Tax lot 2800 is 80 acres) totaling 120 acres (see Appendix C). The entire property is zoned Rural Residential with a 10 acre minimum lot size (RR-10). The land sits atop Long Butte, a high "table" formation midway between Bend and Redmond, just west (less than one mile) of Highway 97. Views from the property, which has gently sloping side slopes with a nearly level area at the top, range 360 degrees to Redmond, Smith Rock, Powell Butte, Three Sisters, Mt. Jefferson and Bend. The surrounding neighborhood is composed of fair to good quality homes on one to three-acre parcels. An existing constraint on development of the property is access, as it is limited to a 30-foot wide right-of-way to Tax lot 2800 off a cul-de-sac (Imperial Avenue).

As a result of the favorable zoning (RR-10) the 120 acres offers the opportunity to develop 12 ten-acre homesites. Reaching this "highest and best use" hinges on acquiring the additional access needed to meet land use development standards. A number of opportunities exist to obtain access such as purchasing access easements or additional parcels. Preliminary analysis by staff indicate that even after accounting for the cost of acquiring access, the 12 ten-acre homesites would provide a return on asset value of 9% to 10% per year, if the project takes five years to plan, develop, market and sell.

Department of State Lands Exchange Parcel

South Redmond Tract North Parcel

The proposed South Redmond Land Use and Management Plan identifies up to 238 acres in the north half of Section 33 T15S R13E for potential transfer to Deschutes County via a land exchange (see Appendix D). The land lies adjacent and contiguous to the Deschutes County Fairgrounds and Exposition Center. The North Parcel is currently zoned Exclusive Farm Use, though it is not irrigated and of marginal agricultural value due to its rockiness and poor soil. The county's plans for the land, once acquired, have not been determined. In order to make any urban-level use of the parcel, the county will need to have it

included in the Redmond Urban Growth Boundary and annexed to the city. The county has indicated an interest in participating with the Department in a cooperative effort to prepare the UGB amendment application to the city. If the parcel were not the subject of an exchange, it is likely the plan would have allocated the area to large-lot industrial uses.

Exchange Process

The land exchange is expected to be value based (i.e. the amount of land traded between parties may be different, but the values will be more or less equal). The Department is interested in maximizing the value of the Land Board's North Parcel. DSL and the county have begun preliminary negotiations on a pre-exchange agreement that identifies the lands to be exchanged, method of valuation, due diligence requirements, cost sharing and other responsibilities of each party. Once completed and approved by the county, the Department will request the Land Board's approval of the final agreement. The Land Board will also be asked to approve the final transaction. The Department and the county have not established a firm schedule for the completion of this transaction. The county has been interested in the land for some time. It is likely that the land exchange could be completed by fall, 2009.

Valuation

The minimum acceptable land exchange value for the South Redmond Tract North Parcel will be established by the Director based on the Department's estimate of value as derived from the fair market value appraisal of each parcel. The county will be responsible for obtaining current market value appraisals for the two county properties (i.e. Long Butte and Warrin Road). Appraisals for each parcel (including timber valuations, as applicable) will be conducted by State of Oregon licensed, professional land appraisers.

Conditions of Exchange

The Department will retain all subsurface mineral rights on the South Redmond exchange parcel. The Department will reserve the mineral rights and the right to ingress, egress and use the surface to produce the minerals. The Department will seek to obtain all mineral rights and interests for the county exchange parcels.

Agency and Public Review

The effects of the exchange proposal as to the South Redmond Tract has been extensively discussed and reviewed by the agencies and the public as an element of the Proposed South Redmond Tract Land Use and Management Plan process.

The county land exchange process will include opportunities for the public to review and provide testimony on the exchange of the county lands.

CONFORMANCE WITH THE ASSET MANAGEMENT PLAN (AMP) and RULES GOVERNING THE SALE, EXCHANGE AND PURCHASE OF LAND (OAR 141-067)

This proposal conforms to the requirements of both the AMP and the Board's rules (Appendix E).

Specifically, the county parcels:

- Are located within the highly desirable central Oregon area;
- Could be classified and managed as Industrial/Commercial/Residential lands under the AMP (with emphasis on large-lot rural residential);
- Offer rural residential development opportunities with development costs and return within acceptable risk;
- Offer high probability for value appreciation or the ability to generate revenue through development and sale;
- Represent an opportunity to acquire through exchange at relatively low transaction costs;
- Offer near term potential net revenue/land appreciation returns in excess of the target 5% to 7%;
- Require acceptable levels of capital investment to achieve or exceed the target return; and
- Bring additional land management (and cost) burden to DSL that is within acceptable range of costs/expertise.

The disposal of the South Redmond Tract North Parcel conforms to AMP disposal criteria because it offers the opportunity to obtain land that is zoned for uses with higher values and to realize return more quickly than can be achieved on the existing DSL land. Finally, the disposal is consistent with the proposed South Redmond Tract Land Use and Management Plan.

RECOMMENDATION

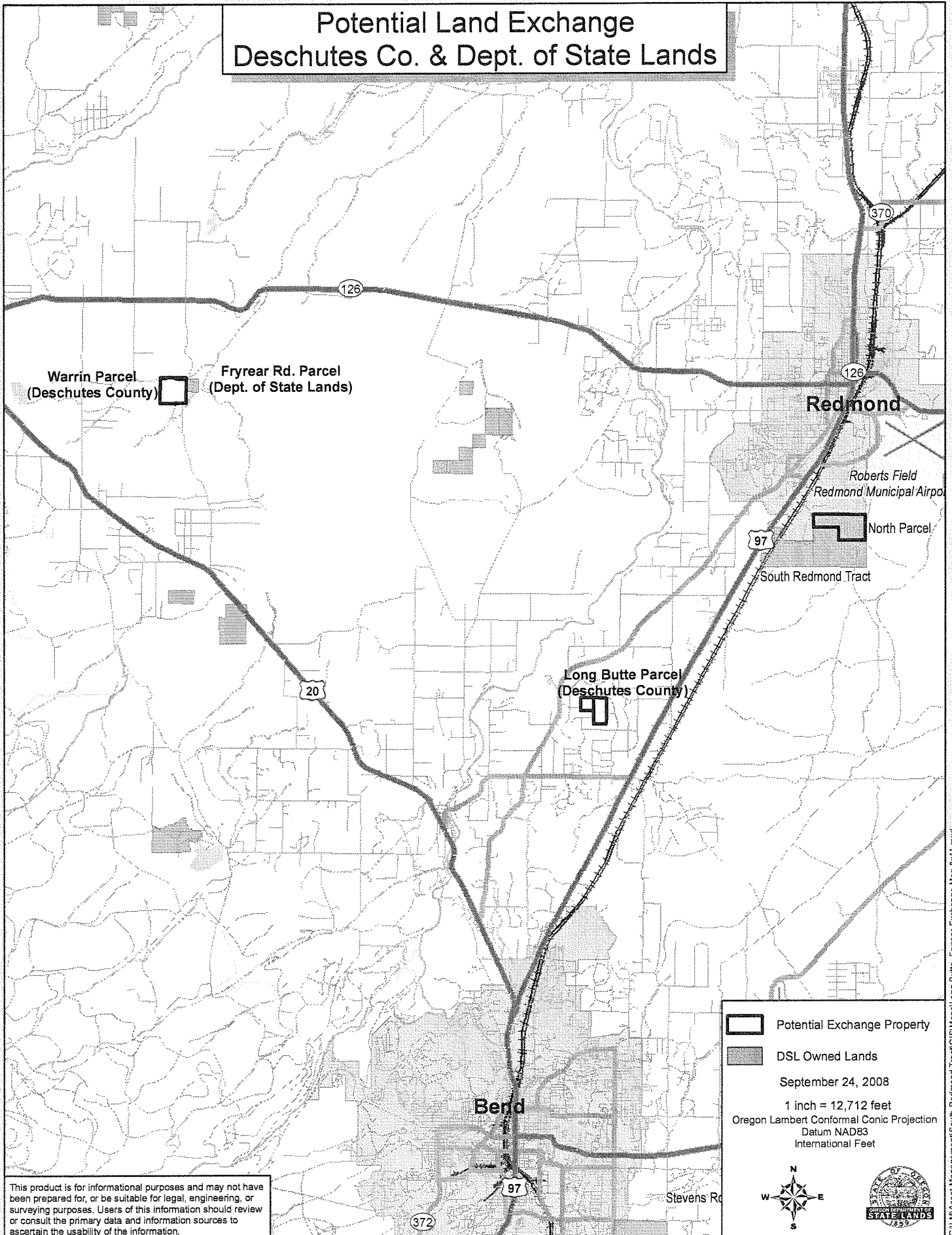
The Department recommends that the Land Board give approval for the Director to complete negotiations of a pre-exchange agreement for a land exchange between Deschutes County and the State Land Board for the following properties:

- Lands to be Acquired by the Land Board from Deschutes County:
 - Warrin Road Parcel (146.76 acres)
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APPENDICES

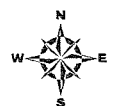
- A. Map of Potential Land Exchange Areas
- B. Map of Warrin Road Parcel
- C. Map of Long Butte Parcel
- D. Map of South Redmond Tract North Parcel
- E. Asset Management Plan: land disposal and acquisition criteria

Potential Land Exchange Deschutes Co. & Dept. of State Lands



This product is for informational purposes 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.

Potential Exchange Property
 DSL Owned Lands
 September 24, 2008
 1 inch = 12,712 feet
 Oregon Lambert Conformal Conic Projection
 Datum NAD83
 International Feet






Contact: Dan Antonson, GIS Analyst, Oregon Dept. State Lands

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Potential Land Exchange Deschutes County

Warrin Parcel
(Deschutes County)

Fryrear Rd. Parcel (DSL)

-  Potential Exchange Property
 -  Tax Lot Lines
 -  DSL Owned Lands
- September 24, 2008
1 inch = 1,000 feet
Oregon Lambert Conformal Conic Projection
Datum NAD83
International Feet

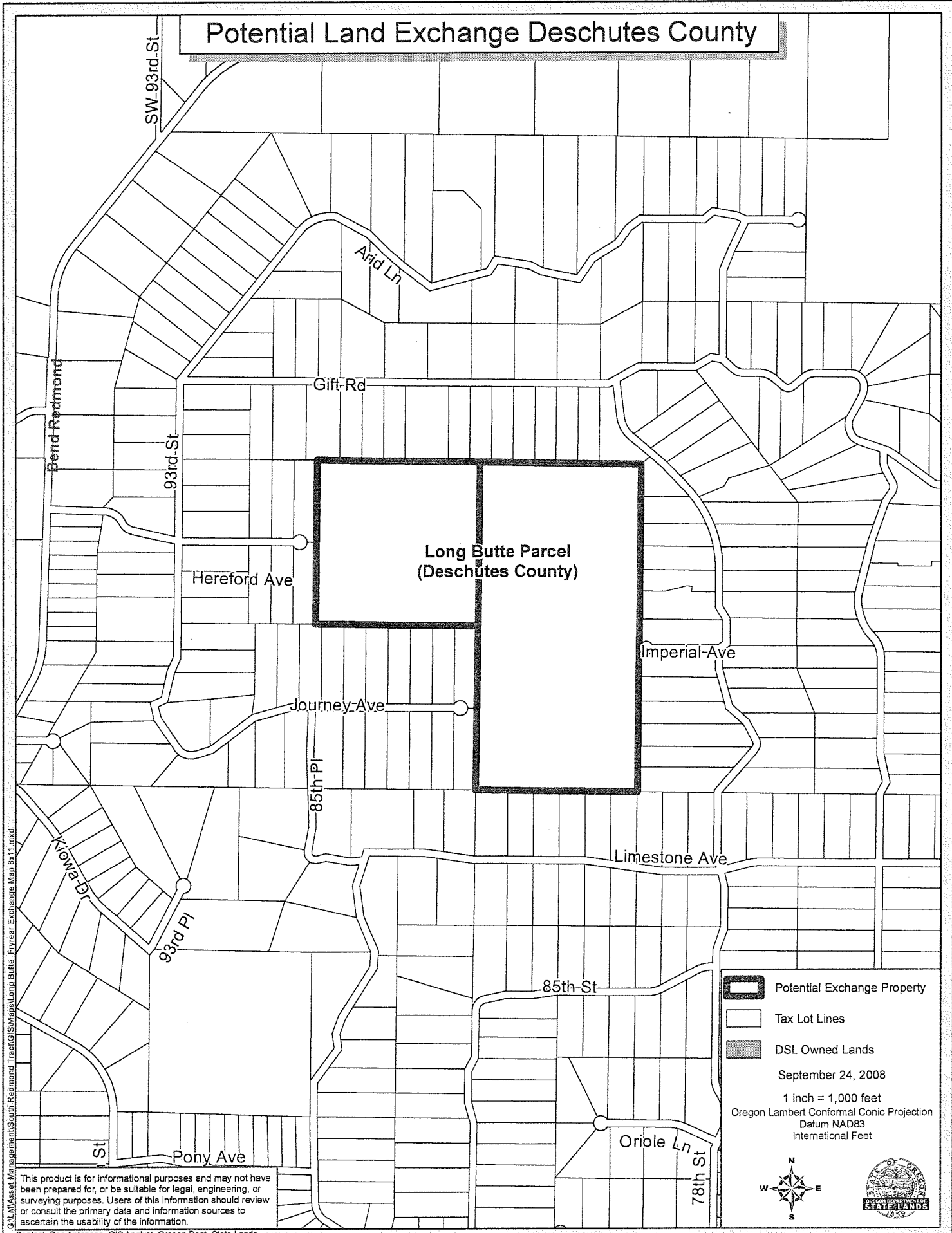


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Contact: Dan Antonson, GIS Analyst, Oregon Dept. State Lands

Potential Land Exchange Deschutes County

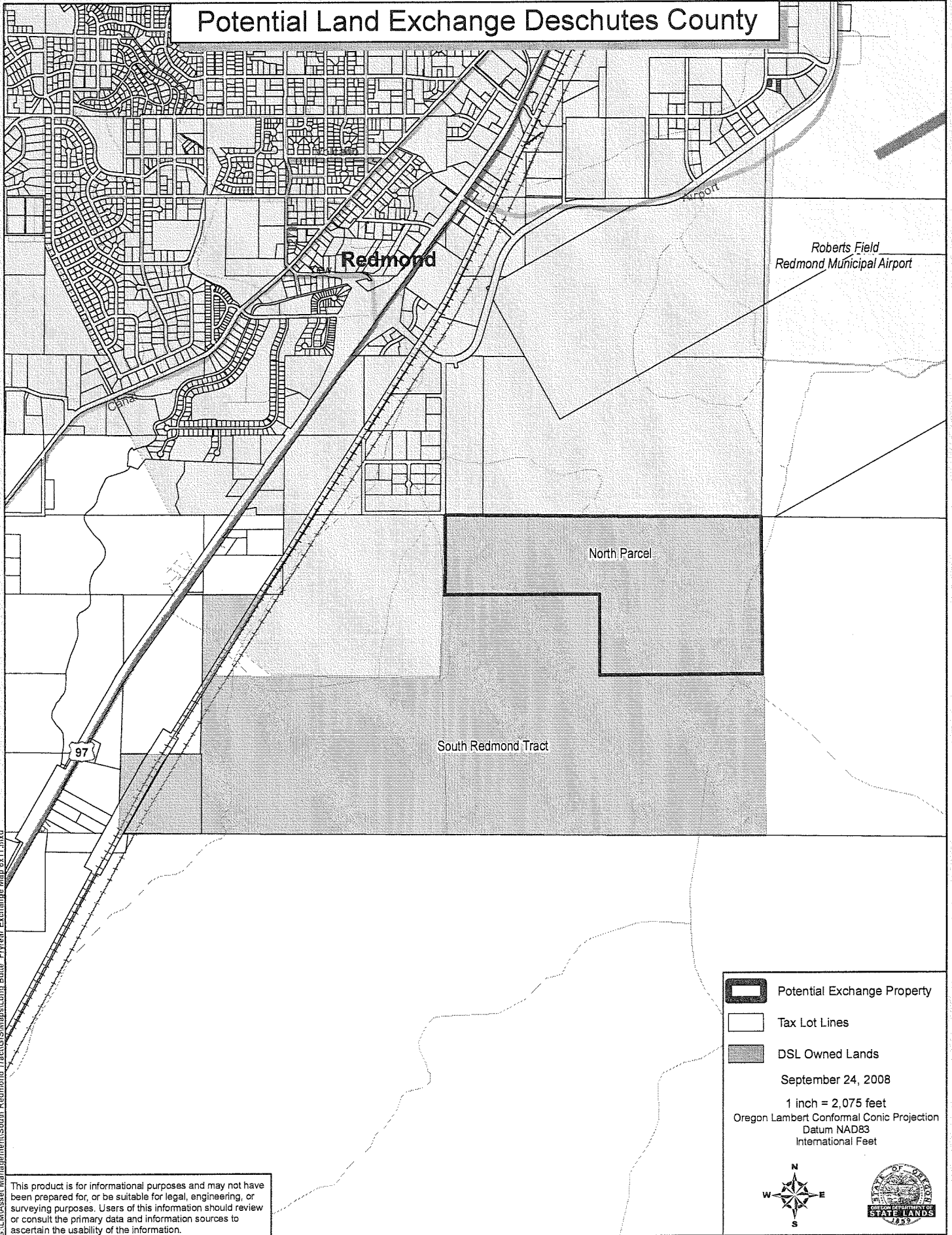


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This product is for informational purposes and may not have been prepared for, or be suitable for legal, engineering, or surveying purposes. Users of this information should review or consult the primary data and information sources to ascertain the usability of the information.

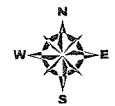
Contact: Dan Antonson, GIS Analyst, Oregon Dept. State Lands

Potential Land Exchange Deschutes County



Potential Exchange Property
Tax Lot Lines
DSL Owned Lands

September 24, 2008
 1 inch = 2,075 feet
 Oregon Lambert Conformal Conic Projection
 Datum NAD83
 International Feet



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 Contact: Dan Antonson, GIS Analyst, Oregon Dept. State Lands

2006-2016 ASSET MANAGEMENT PLAN

TABLE 3, CONT'D.

Action	Strategy	Locational Direction	Additional Direction
Disposal (sale or exchange)	Pursuant to ORS 273.245 and 273.316, evaluate and pursue opportunities to dispose (sale or exchange) of any parcels within the CSF portfolio except those specifically identified for retention.	<p>Priorities for lands to be disposed of or evaluated for disposal through sale or exchange during the planning period include:</p> <ul style="list-style-type: none"> • Unleased, isolated Rangelands (approximately 12,000 acres). • Scattered Forest lands (approximately 12,000 acres). 	<p>Disposal may be considered on a case-by-case basis as part of SAMP's or master plans to maximize investments; to respond to market-driven opportunities, especially for lands acquired for purposes of future disposal; for lands not meeting management expectations; for lands better managed by another entity; or to meet other public purposes (e.g., highway rights-of-way).</p> <p>Waterways (submerged and submersible lands) are not eligible for disposal except as allowed for "new lands" (filled lands as defined in ORS 274.095), historically filled lands, or contaminated sites.</p> <p>Proposed land sales or exchanges must be approved by the Land Board and carried out in accordance with the Board's administrative rules. The following criteria are among the factors to be considered when evaluating a land disposal proposal:</p> <ul style="list-style-type: none"> • Parcel has low income-generating potential and limited multiple land use(s); is not leased or leasable, has poor physical attributes and/or has external constraints to managing for highest and best use. • Parcel has low appreciation potential. • Parcel has no or limited access to utilities; • Parcel management costs are high in comparison to actual or potential returns and/or appreciation potential. • Significant environmental risks are present, such as hazardous waste or environmentally sensitive attributes. • Changes in zoning or other circumstances preclude development of the parcel for its highest and best use. • Parcel is an in-holding within another major landowner's ownership, or is a small, isolated tract. • Market conditions dictate that disposal is prudent in order to realize appreciation in value. • A high level of market demand exists for the type of property being considered. • The highest and best use of the parcel has changed to a use not compatible with the uses preferred by the Department or is inconsistent with the Plan. • Parcel has high holding costs, particularly those associated with liability or other risk (i.e., disposal becomes an "emergency"). <p>Prior to disposing of land, an evaluation will be conducted of the potential presence of mineral resources of value. If present, mineral rights may be retained by the Department following disposal of the surface lands.</p>

APPENDIX E

2006-2016 ASSET MANAGEMENT PLAN

TABLE 3: PRINCIPLES FOR RETENTION, ACQUISITION & DISPOSAL

Action	Strategy	Locational Direction	Additional Direction
Retention	Maintain a core of permanent land ownership during the planning period	Lands to be retained during the planning period include: <ul style="list-style-type: none"> • Elliott State Forest and the majority of Northwest and Southwest Forest lands. • Nearly all Agricultural lands. • Blocked Rangelands. • Department's office building and certain ICR lands in urban or urbanizable areas. • South Slough National Estuarine Research Reserve. • Waterways, except "new lands," historically filled lands, and contaminated lands on a case-by-case basis. • Mineral interest ownerships except those determined to have little, if any, potential for development. • Known energy resources. 	
Acquisition (through purchase or exchange)	Evaluate and pursue opportunities to acquire parcels available for sale or through other means (e.g., in-lieu selection or exchange) that have a high probability for appreciation in value or the ability to consistently generate revenue over the long term for the CSF	Priorities for acquisition during the planning period include: <ul style="list-style-type: none"> • Purchase of developed or undeveloped ICR lands in urban or urbanizable areas, particularly central Oregon properties. • Purchase of Forest and Agricultural lands throughout Oregon, with preference to lands west of Cascades. • Exchanges with BLM or other parties for other lands in the Central Oregon area that would complement the Department's ownerships. • Exchanges or purchases involving surplus lands managed by other state agencies, e.g., ODOT and OPRD. 	All acquisitions must be approved by the Land Board and carried out in accordance with the Board's rules for exchanges and purchases (OAR 141-067). Properties considered for acquisition will be evaluated in accordance with both the following factors and acquisition criteria for the applicable land class: <ul style="list-style-type: none"> • Net Revenue Potential/Capital Appreciation Potential: Near-term opportunities for an ROAV of 5 to 7% (real rate adjusted for inflation); or annual appreciation within the same range. • Capital Investment Requirements: Acceptable levels of capital investment (costs beyond purchase price) to achieve the targeted ROAV. • Management Costs: Anticipated annual management costs fall within an acceptable range of costs comparable to similar investments. • Operating Budget: Anticipated annual management costs can be borne by the Department's current budget or funds are anticipated within a reasonable time following acquisition. • Local Government Coordination and Support: Coordination with local governments has occurred in concurrence with the Department's State Agency Coordination Agreement. The level of local government (e.g., city, county, school district) support for the acquisition. • Support of Other Public Policies/Programs: The acquisition assists in achieving or furthering another state public policy or program objective (e.g., State Economic Development Strategy).