

2007-2009 ASSET MANAGEMENT PLAN

IMPLEMENTATION PROGRESS REPORT

Introduction

The State Land Board (Land Board), through the Oregon Department of State Lands (Department), manages approximately 2.3 million acres of land and mineral interests owned by the State of Oregon, known as Common School Fund (CSF) lands (See Map 1).

In December 1995, the Land Board adopted its first Asset Management Plan (AMP) to guide the management and disposition of lands in accordance with ORS 273.245 and to improve their long-term financial performance and revenue generation. The Land Board adopted a revised plan in October 2006. The current AMP covers the period 2006-2016.

ORS 273.245 provides that: "The Department of State Lands shall provide a report to each regular session of the Legislative Assembly on the progress of implementing the (provisions of its) asset management plan." Pursuant to that directive, the Department has prepared a comprehensive review of the progress made to implement the AMP.

Asset Management Plan Purpose

The overall purpose of the AMP is to provide policy guidance on how state-owned lands, both Trust and Non-Trust, should be managed by the Land Board and the Department to provide the greatest benefit for the CSF and the people of Oregon over the next decade.

The 2006–2016 AMP:

- Revises and replaces the 1995 Asset Management Plan;
- Establishes a comprehensive real estate management philosophy;
- Provides proactive direction for management of the Board's real estate assets;
- Rebalances the real estate portion of the CSF portfolio;
- Identifies strategies to increase net revenues from CSF real estate assets; and
- Provides a guide to balance revenue generation and resource conservation decisions.

Scope of the Plan

The scope of the AMP is limited to the real estate portion of the CSF portfolio. In preparing this replacement to the 1995 AMP, the intent was not to start from scratch, but rather to complete a strategic assessment and update management direction, focusing on opportunities to increase revenues. That assessment included evaluation of:

- The overall management philosophy in the 1995 AMP to ensure that it provides a clear commitment to create a consistent and sustained stream of revenue for Oregon schools through proactive management of CSF lands;
- The Land Classification System adopted in 1995, including the need to reclassify parcels to better reflect their current and/or potential uses;
- Estimated land values for forestlands, rangelands, and agricultural lands and for selected industrial/commercial/residential (ICR) lands and mineral and energy resources (MER);
- Performance measures and targets for the overall real estate portfolio;
- Implementation strategies needed to achieve performance targets and to increase the total revenues from the Board's real estate assets;
- Lands to be retained; priorities for acquisition; and, pursuant to ORS 273.245, specific parcels that should be considered for future disposal through sale, exchange or transfer during the planning period;
- Criteria for acquisition and disposal, focusing on forest, agricultural and ICR lands; and
- Expected outcomes of the Plan implementation.

Goals for the AMP

The AMP guides the management of CSF lands until 2016 and encompasses the following goals:

- Retain core real estate assets;
- Increase the value of the real estate portion of the CSF portfolio and cash flow from those assets to the CSF;
- Rebalance the portfolio and create capital for reinvestment through investment in assets with high performance potential and the strategic disposal of selected assets;
- Through active management, increase the overall value of the real estate portion of the CSF portfolio;
- Establish priorities for management actions; and
- Balance revenue enhancement and resource stewardship.

Key Plan Strategies for Attaining the AMP Goals

The Plan proposes to accomplish the goals identified through several key strategies.

Protect and retain a core base of lands for long-term revenue generation.

A core of permanent land ownership will be maintained that includes: the Elliott State Forest and the majority of forestlands in Northwest and Southwest Oregon; nearly all agricultural lands; blocked rangelands; the Department's Salem office building and certain ICR lands in urban areas or in the path of progress; South Slough National Estuarine Research Reserve; waterways, with some exceptions; mineral interest ownerships, except those determined to have little, if any, potential for development; and known energy resources.

Pursue the acquisition of lands 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 will include: ICR lands in urban areas or in the path of progress, particularly in Central Oregon; agricultural and forestlands throughout Oregon, with preference to lands west of the Cascades; exchanges with the Bureau of Land Management (BLM) or other parties for lands in Central Oregon; and acquisitions or exchanges of surplus lands from other state agencies.

Evaluate for disposal, lands that are not actively managed, difficult, or uneconomical to manage or are low revenue producers.

Opportunities will be evaluated and pursued to dispose of, through sale or exchange, any parcels within the CSF portfolio except those specifically identified for retention. Disposal may be considered on a case-by-case basis to maximize investments; to respond to market-driven opportunities for lands acquired for purposes of future disposal; for lands not meeting performance targets; for lands better managed by another entity; or to meet other public purposes (e.g., highway rights-of-way). Priorities for lands to be evaluated for disposal through sale or exchange during the planning period include unleased, isolated rangelands (approximately 12,000 acres) and scattered forestlands (approximately 12,000 acres).

Invest in lands that have a clear potential for appreciation in value.

Increased revenues would be generated through investment in higher value lands, most notably lands in Central Oregon with urban development potential or within the path of progress. Other lands identified as having high return potential include forestlands, ICR lands and renewable energy sites. Increased revenues would also be generated through investment in higher value lands (e.g., increased harvest activities on certain tracts of scattered forestlands or commercial leases for urban or developable lands).

Actively manage lands to meet or exceed performance targets established by the Plan.

A variety of performance measures and targets are established as tools to judge the financial performance of the CSF's real estate assets over the planning period. An annual increase of 3-5% is established as a target for return on asset value, net operating income, and land value appreciation. The goal for the increase in all annual revenue is 5-7% annually.

Both to assist the Department in prioritizing its actions due to limited resources and to provide meaningful comparisons among land classes and land types, categories of Active Management and Limited Management are applied to all CSF lands.

Reinvest proceeds from the sale of lands into new lands to be acquired and into improvements to lands with revenue-producing potential.

Reinvestment of proceeds from land sales in lands with high return potential is a key strategy to increase revenues over time. In keeping with ORS 273.413, land sale proceeds would be deposited into the Department's Land Revolving Account and invested in acquiring new lands or in improvements to existing real estate assets.

Ensure that leases and other use authorizations reflect market values.

Rates for leases and other use authorizations will be regularly reviewed and adjusted to reflect market values.

AMP Implementation Priorities/Tasks and Current Status

Of the twenty-two short-term (3 to 5-year) implementation priorities/tasks identified in the AMP, fifteen have been completed or are underway. These strategies are re-evaluated every two years, recognizing that the ability to implement them is contingent on adequate staffing, the Department's Strategic Plan priorities, and Land Board and legislative direction.

Each of these fifteen tasks is explained below and a summary given of the progress made during 2007-2009. In some cases where the task has not been completed, an estimated completion date is given.

- 1. Compile information and refine the cost accounting system to track revenues and expenditures by land class and Active and Limited subcategories based on the Plan's reclassifications of land.***

Discussion: The Department's tracking of revenues and expenditures will need to be adjusted to reflect classifications of unclassified lands and reclassifications of land through this Plan.

Current Status: A new accounting coding system was instituted at the beginning of the 07-09 biennium. Its effectiveness was reviewed at the close of FY08. Some adjustments are expected for FY09. The system has been effective in providing the necessary data to compile the Department's performance measures as well as enable comparisons with other state trust land managers in Idaho and Montana.

2. *Compile information necessary to maintain performance measures and to evaluate performance targets.*

Discussion: A key element of the AMP was the adoption of performance measures and targets for the CSF's real estate assets as a means of measuring progress toward meeting the Plan's goals for the planning period. Evaluating the financial performance of public lands is a constantly evolving process of balancing a wide range of financial, environmental and social indicators. No universal or widely accepted financial performance indicator is available that is useful for the type of portfolio represented by CSF lands. Unlike liquid assets, the CSF real estate portfolio is not readily traded; i.e., the vast majority of the portfolio will remain in permanent public ownership.

Given the unique character of CSF lands, this Plan identifies a variety of measures and targets to be considered in assessing the performance of the overall CSF real estate portfolio. Four separate measures are being used by the Department to measure performance over the planning period: Return on Asset Value (ROAV); Net Operating Income (NOI); Annual Revenue (AR); and Land Value Appreciation (LVA). In recognition of variations in values, existing lease constraints, and other factors, a range of performance targets is established as goals to be achieved over the term of the planning period (10 years). These targets presume implementation of Plan management direction and short-term priorities. Active Management lands will be managed to achieve these performance targets during the planning period.

The targets are as follows: ROAV, NOI and LVA 3 to 5%; and AR 5-7%.

Recognizing that there is no consistency among western states, the Western States Land Commissioners Association is currently standardizing land classifications and developing common performance measures so that the performance of land types and asset management programs can be compared among the states. The measures and targets in this Plan are being used for the work of the Association.

Current Status: For FY08, the first year of the 07-09 biennium, and the only year of the biennium with complete information available, the measures were as follows:

AR \$14,269,627; a change from 06-07 of -12.4%
NOI \$7,050,470; a change from 06-07 of -29.6%

ROAV 1%; a change from 06-07 of -0.5%
LVA was assumed to be 3% for the year; no mass appraisal was conducted so the 04-05 total asset value used in the AMP was adjusted upward by a factor of 3% per year (the average rate of inflation).

All measures show performance under the target and reflect the heavy influence the economic downturn has had on forestlands, the primary revenue producing land asset. In addition, the amount of timber brought to sale has been lower than expected due to the effect of the federal Endangered Species Act on forest operations in the Elliott State Forest, the largest CSF forestland holding.

3. *Complete in-lieu selections of federal land owed to the state and, for each selection, develop an interim master plan that includes land classifications and management strategies.*

Discussion: Completion of these selections will satisfy a 1991 court decision that the State of Oregon was owed approximately 5,200 acres of federal public domain lands from admission into the Union. Since the 1991 decision, the Department has completed selection and transfer of lands in Deschutes and Jackson counties. Candidate properties have been identified for the remaining approximately 2,300 acres of in-lieu lands, the majority of which are located within Central Oregon.

Current Status: The federal government transferred 240 acres in central Deschutes County to the Land Board in April 2008. DSL continues to urge the federal government to complete transfer of 2,200 more acres including 1,577 acres near Bend (Deschutes County) just east of the city's Juniper Ridge development project and 640 acres located three miles south of Prineville (Crook County) zoned for rural residential use. DSL expects the Crook County land to be transferred before the end of the 07-09 biennium. The remaining grant lands may not be transferred until 2009-11 (See Map 2).

4. *Complete and implement a revised Master Plan for the Stevens Road Tract, secure a development partner, and work with the City of Bend and Deschutes County to pursue an Urban Growth Boundary (UGB) amendment.*

Discussion: The Land Board adopted a conceptual master plan for the 640-acre Stevens Road Tract near Bend in June 2007 (See Map 2). The plan anticipates urban development for the property with an emphasis on mixed-use residential. A critical factor in achieving the highest and best economic use of the Tract is its inclusion in the Bend Urban Growth Boundary.

Current Status: Considerable effort is being made to demonstrate to the City the attractiveness of this property for urban development. There is a growing

anticipation that a major portion of the Tract, between 140 and 350 acres, will be included in the UGB.

5. *Process for disposal of approximately 12,000 acres unleased, isolated rangelands (valued at about \$2 million).*

Discussion: In accordance with ORS 273.247 and Land Board policy, the Department intends to dispose of unleased, isolated tracts of rangelands through sale or exchange.

Current Status: Over 8,000 acres have received a preliminary in-house review for disposal. Sale efforts have focused on unleased, isolated rangelands in NE Oregon (Union, Umatilla, Wallowa and Baker Counties). Originally 12 parcels (652 acres) were evaluated for disposal. Considerable effort has been expended to prepare 10 unleased parcels (about 500 acres) for sale including site visits, appraisals, natural resources review, and title research. Eight parcels totaling about 400 acres and carrying an appraised value of \$155,000 are scheduled for auction in March 2009.

6. *Evaluate and process for disposal or management approximately 12,000 acres of scattered, unblocked forestlands (valued at \$30.1 to \$38.8 million).*

Discussion: The AMP identifies a number of scattered, isolated (unblocked) parcels as a high priority for evaluation for disposal. These parcels are generally difficult to manage because of their isolation and lack of access. They either have low timber volumes or are marketable within the short term.

Current Status: In April 2008, the Land Board sold 651 acres of forestland at Eight Dollar Mountain (Josephine County) for \$849,000 to the Oregon Parks and Recreation Department.

Several thousand acres on over 100 parcels have received preliminary in-house review for disposal. The Department has been aided greatly by the Oregon Department of Forestry's District Land Acquisition and Exchange Planning efforts. Several districts have completed plans (W. Oregon) or have them underway (North Cascades, Astoria, Klamath-Lake). These plans coupled with the Department's own work has resulted in the identification of a number of parcels with potential for sale or exchange.

Sales effort have been focused on 12 parcels (1,177 acres) in NE Oregon (Union, Umatilla, Wallowa and Baker Counties) where the parcels have been the subject of site visits, timber cruises and appraisals, natural resources review, and title research. Nine parcels totaling about 720 acres and carrying an appraised value of \$1.2 million are scheduled for auction in March 2009.

Another group of fifteen forest parcels (3,221 acres) are being readied for sale in early 2010. These lands are in SW Oregon (Coos, Curry, Douglas, and Lane Counties). When brought to sale, these lands will likely command a higher sale price than those in the NE Oregon sale due to the volume of timber and the size of the parcels.

7. *Identify and evaluate for investment or disposal those industrial/commercial/residential (ICR) parcels that have the greatest potential to generate income for the CSF through lease or sale.*

Discussion: Several ICR parcels located within rural and urban areas have short-term development or leasing potential, e.g., Ward Road (39 acres near Bend; zoned Rural Residential 10-acre minimum lot), Stevens Road, Juniper Canyon (640 acres, south of Prineville; zoned for Rural Residential 5-acre minimum lot), Bayshore (120 acres at the Port of Astoria), South Tongue Point (near Astoria and the site of a Clatsop Community College marine education facility), and Salem riverfront property (a small city lot).

Current Status: Two properties are presently being entitled and prepared for sale:

- a) **North Powder Parcel**, a 102-acre Union County site near North Powder has been evaluated for sale as a rural homesite. Plans are to auction this parcel in the Fall 2009 following approval of the homesite by Union County; and
- b) **Ward Road Parcel**, a 39-acre Deschutes County property just east of Bend has been evaluated for a five-lot cluster rural residential development. Plans call for obtaining county approval this spring. Development and sale of the lots await further evaluation of market conditions.

8. *Complete a Rangeland inventory.*

Discussion: In accordance with OAR 141.110, this inventory of rangeland condition and improvements for blocked, leased rangelands is needed in order to complete rangeland management plans required for each leasehold.

Current Status: During the 07-09 biennium it's expected that the initial on-the-ground range inventory will be conducted on about 60,000 acres. Data associated with inventory work done in previous seasons is being reviewed and utilized to revise range management plans of individual leaseholds. This is on pace to finish by 2016, the first ever complete inventory of range condition on blocked rangelands.

9. *Initiate and complete rulemaking to implement Land Board direction in response to Grazing Fee Advisory Committee recommendations.*

Discussion: In June 2006, the Land Board authorized the Department to initiate rulemaking to establish a minimum fee of \$4.25 per AUM for a grazing fee formula, establish an annual minimum grazing lease fee to cover the Department's administrative costs, and make "housekeeping" changes.

Current Status: This past summer (2008) another Grazing Fee Advisory Committee met to again review the fee formula and make recommendations for change. Rule changes are being drafted and will be presented to the Land Board for adoption prior to the end of the 07-09 biennium.

10. *Evaluate current land sales procedures and adjust practices and/or amend or develop administrative rules as needed to increase efficiency.*

Discussion: The Department's rules for land sales and exchanges are in need of updating. A number of the AMP's implementation actions rest on land sales and exchanges. Having an efficient and cost-effective procedure in place is considered a priority.

Current Status: The rule revision process has been underway for some time and will be completed, including public hearings and Land Board adoption prior to the end of the 07-09 biennium.

11. *Review all authorizations to validate uses and expiration dates. Renew expired authorizations based upon a re-evaluation of uses and fees.*

Discussion: Over the years the Department entered into a variety of easements that may have changed, expired or been abandoned. Old records of these transactions need to be reviewed, updated, and in many cases, included in the Department database. Where the use has changed or the easement expired, a new easement needs to be issued.

Current Status: Continual progress is being made in reviewing old easement files and including them in the database.

12. *In compliance with the Department's administrative rules, initiate a review of waterway lease rates no later than October 2007.*

Discussion: Regulations (OAR 141-082-0100) require the Department to periodically review and decide whether to maintain or re-determine lease rental formulas and payments.

Current Status: The in-house review of the waterway rules has been completed. Revisions to the rules are being compiled. Release of the rules for review by an advisory committee is pending.

13. *Within two years of AMP adoption, establish a policy for determining the percentage of revenues derived from land sales that will be dedicated to land development and acquisition.*

Discussion: This task addresses the establishment of a policy by October 2008, guiding the Department's use of funds deposited in the CSF Land Sale Revolving Fund. The Plan anticipates funds from rangeland and forestland sales going into the Revolving Fund to be re-allocated for projects to increase the value of existing ownerships, as well as the purchase or exchange of new investment lands.

Current Status: The task will be completed by October 2009. Revenues from multiple sales have not begun to flow to the fund. Some costs associated with preparing lands for sale and obtaining entitlements (e.g. land use permits, environmental clearances and UGB planning) have been covered by the fund. The fund amount currently stands at \$5.5 million.

14. *Develop new administrative rules governing the use of state-owned submerged and submersible land for hydroelectric facilities and other special uses, e.g., wave energy.*

Discussion: As with some of the other rules mentioned before, these special use rules are in need of updating, particularly those dealing with renewable energy project leasing.

Current Status: Rules dealing with wave energy leasing in the territorial sea were adopted in October 2007. The Land Board adopted the revised special use rules in October 2008.

15. *Review and, if necessary, revise administrative rules governing the exploration for and leasing of mineral and energy resources.*

Discussion: The current administrative rules are out-of-date and outmoded, and the industry expressed concern that they do not adequately address current practices. The rules need to be revised to be easily understood and usable by parties wishing to conduct exploration and leasing activities on lands administered by the agency and to streamline the process of applying for permits or leases.

Current Status: The rules for sand and gravel leasing were revised and adopted by the Land Board in October 2008.