

FY11 Net Operating Income:

\$88,979

Special Stewardship

About 9,996 acres are classified as Special Stewardship lands and are managed primarily to ensure the protection of scenic, natural resource, cultural, educational or recreational values. The class includes both Trust and Non-Trust lands. Properties classified as Special Stewardship include Department lands such as: South Slough National Estuarine Research Reserve (4,800 acres); lands within state Scenic Waterway and federal Wild and Scenic River; and properties registered on the Oregon State Register of Natural Heritage Resources.

South Slough National Estuarine Research Reserve (SSNERR)

The South Slough National Estuarine Research Reserve (SSNERR) is a 4,800-acre natural area located in the Coos estuary on the south coast of Oregon. The Reserve was designated in 1974 as the first unit of the National Estuarine Research Reserve System (NERRS), a network of estuarine habitats protected and managed for the purposes of long-term research, education, and coastal stewardship. Established by Congress in 1972 as part of the Coastal Zone Management Act (CZMA), the NERRS is administered as a partnership between the National Oceanic and Atmospheric Administration (NOAA) and the coastal states.

Encompassing a mixture of open water channels, tidal and freshwater wetlands, riparian areas, and forested uplands, SSNERR supports and coordinates research, education and stewardship programs that serve to enhance a scientific and public understanding of estuaries and contribute to improved estuarine management. SSNERR uses innovative programming and delivery to increase understanding of estuarine ecosystems for four targeted audiences: 1) school-aged children, 2) university students and researchers, 3) coastal decision makers and 4) the general public. Over the past 30 years, SSNERR has grown in the depth and scope of its programs and developed facilities to meet the needs of visitors and staff.

The data shown below does not include revenue or expenses for South Slough National Estuarine Research Reserve.

Total acres: 9,996

Types of authorizations: communication site lease; forage lease; easement.

FY11 Gross Annual Revenue: \$13,204

Communication Site Lease (Const)	\$12,022
Onshore oil & Gas Lease (Stat)	\$1,179
Miscellaneous	\$ 3

FY11 Annual Expenditures: \$63,001

FY11 Net Operating Income: (-\$49,797)

COMMON SCHOOL FUND

The Common School Fund includes two types of assets—financial assets (e.g., cash and investment in stocks, bonds and other securities) and real property. While Non-Trust lands are not considered CSF assets, revenues from their management are deposited in the fund. This plan addresses management of all the Land Board’s real property assets. It does not address the Fund’s financial assets, the management of which are overseen by the State Treasurer in accordance with the asset allocation established by the Oregon Investment Council.

Contributions to the CSF from real property assets are derived from a variety of business activities. For example, rangelands are leased for grazing; timber is sold; and waterway areas are leased for such uses as sand and gravel removal, houseboat moorages, marinas and log storage. Other CSF revenue sources include escheated estates (where there is no will and no known heir); earnings on unclaimed property held in the fund; gifts to the state not designated for some other purpose; and tax revenues from production, storage, use, sale or distribution of oil and natural gas.

Distribution of Earnings

Twice yearly, the Land Board distributes earnings from investments of the CSF to Oregon’s K-12 public school districts based upon the number of school-age children (ages 4-20) in each county. DSL forwards the investment earnings to the Oregon Department of Education, which then distributes them to the districts. Previously, the Land Board sent the funds to county treasurers who then distributed the monies to schools.

The distribution of earnings from the Common School Fund is based on a three-year rolling average of the fund’s value. In FY 2000, the Land Board adopted a distribution formula based on a sliding scale of 2-5% of the annual change in the fund’s value. The three-year rolling average formula is intended to prevent large variations in annual distributions.

In 1871, the first distribution of \$39,452 from CSF earnings was made, based on 34,055 school children, or \$1.16 per student. In 1920, \$432,267 was distributed based on 213,994 students, or \$2.02 per student. In 2006, CSF receipts to Oregon’s public school districts totaled \$45.5 million; and in 2011, the distribution totaled \$48.745 million, or \$86.84 per student (561,378 students). A 16-year history of CSF distributions is illustrated in Figure 2.

Land Revolving Account

This account within the Common School Fund was established in 1987 and later revised in 1995 (ORS 273.413). It was set up as a means to finance investments in land through the sale “...of isolated sections and fragments of sections of state lands which are not suitable for management according to long-range policies of the State Land Board.” The funds in the account “...are continuously appropriated for the acquisition of lands or other suitable investments as directed by the Board, in consultation with the Oregon Investment Council.” Allowable uses of the account include land acquisition and land improvements.

II. Land Classification

A key element of the REAMP is a system to classify the agency's lands in a meaningful way. DSL's Land Classification System of seven land classes distinguishes lands by suitability for both existing and potential uses, and as a tool to apply broad management principles to categories of lands. The system is used by the Department to categorize and manage state land based on the primary uses identified for each land class, and to report on annual revenue and authorizations by land class. Secondary uses (e.g., telecommunications sites, pipeline easements, public recreation, and road rights-of-way) are allowed as long as they do not substantially interfere with the primary uses.

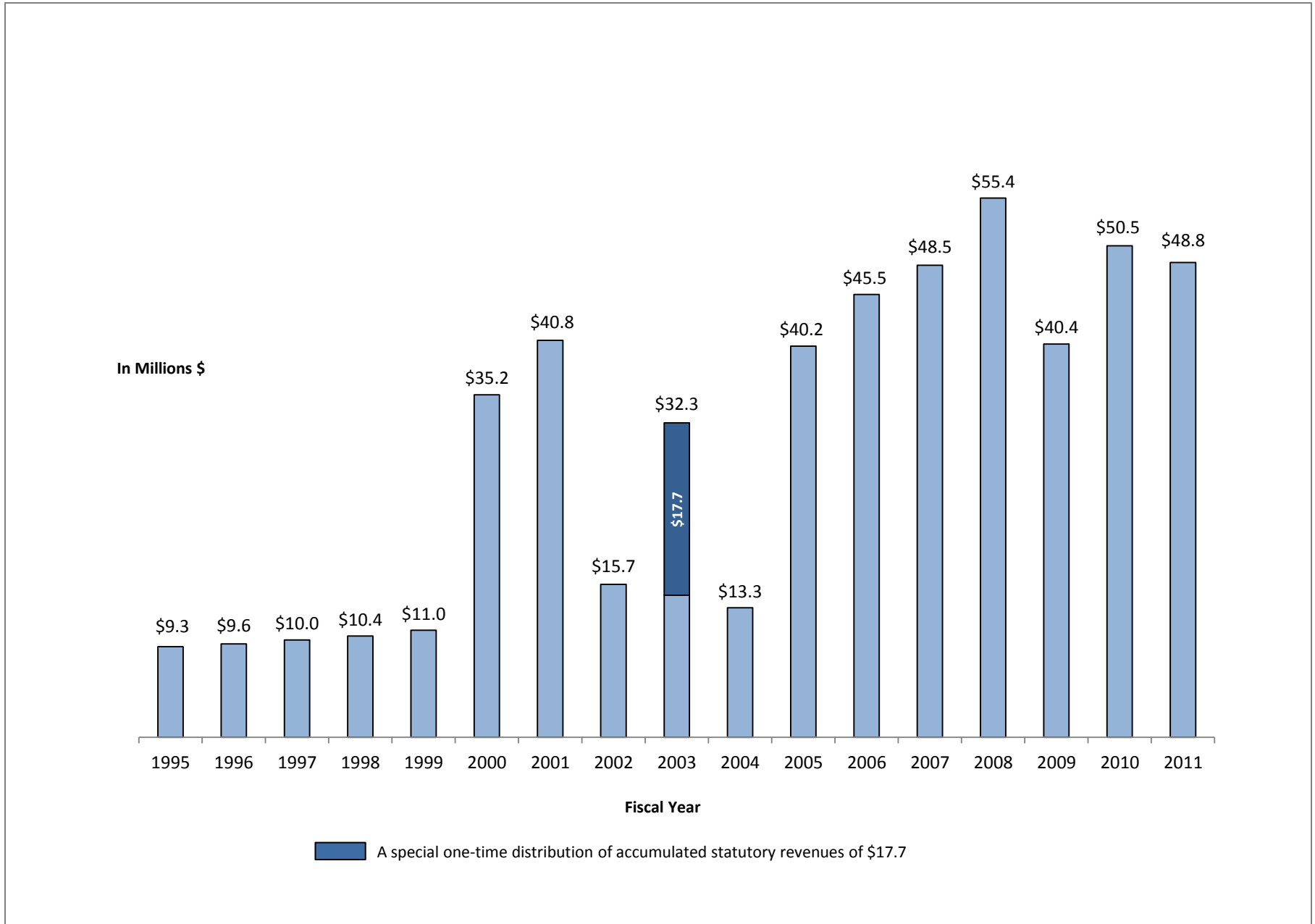
A. Current Asset Base by Land Class

The CSF's real property asset portfolio consists of approximately 2.3 million acres of forestlands, agricultural lands, rangelands, industrial/commercial/residential (ICR) lands, special stewardship lands, waterways, mineral and energy resources, and unclassified lands. Table 2 details the land distribution of this current asset base.

Table 2: Asset Inventory, July 2011

Land Classification	Total Acres	% of Total CSF Lands
Forestlands	119,770	5.11
Agricultural Lands	5,860	0.25
Rangelands	625,510	26.71
ICR Lands	7,010	0.30
Special Stewardship Lands	10,000	0.43
Waterways	1,260,000	34.15
Mineral and Energy Resources	774,110	33.05
Totals	2,802,260	100
¹ 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 410,000 acres of mineral rights underlying DSL land (which are included in other land asset classes) and 2.1 million acres of mineral rights underlying surface acreage owned by other state agencies such as the Department of Forestry.		
<small>(1)</small>		

Figure 2: Common School Fund Distributions, 1995 to 2011



FORESTLANDS

All forestlands are Trust lands. Forestland is managed primarily to produce merchantable timber on a sustainable basis in accordance with plans adopted by the Land Board in cooperation with the Board of Forestry. DSL contracts with the Oregon Department of Forestry (ODF) to manage the majority of CSF forestlands – about 125,000 acres – referred to as certified forestlands. Most forested acreage is in the Elliott State Forest (about 85,000 acres) located in the Coast Range northeast of Coos Bay. Other major holdings are within the Sun Pass State Forest (6,400 acres), including the 3,037-acre Yainax Butte parcel near Klamath Falls and forest-lands in northwest and southwest Oregon (about 26,000 acres), including lands within the Clatsop, Tillamook and Santiam state forests. Management planning for Land Board and BOF lands are integrated within each ODF administrative unit or planning area. Approximately 7,000 acres that DSL directly manages are referred to as de-certified forestlands (see Glossary).

AGRICULTURAL LANDS

Approximately 5,800 acres are classified as agricultural lands. All of the agricultural leases are in central and eastern Oregon.

Agricultural lands possess a combination of characteristics such as, but not limited to, Class I-IV soils (as identified by National Resource Conservation Service's Soil Capability Classification System) and favorable precipitation, growing season and water availability. The lands may be developed (for example, cultivated, irrigated, etc.) for the production of all types of agriculture commodities.

RANGELANDS

DSL manages approximately 625,000 acres of rangelands located primarily in central and eastern Oregon (Lake, Harney and Malheur counties). Much of this land is arid or semi-arid rangeland and contains vegetation consisting of grasses, grass-like plants, forbs and shrubs suitable for grazing.

About 98% of rangelands are leased, with 139 active forage leases in FY 2010. Of these, 44 are leases on large blocked parcels of more than 1,000 acres each. The remainder is approximately 95 smaller parcels. Other uses found on rangeland include communication site leases and easements. Recently, alternative energy uses are being investigated, including a solar display near Christmas Valley and a wind energy project in the Stockade Block. DSL is actively pursuing other alternative energy sites, and potential conversion to agricultural land, where feasible.

INDUSTRIAL/COMMERCIAL/RESIDENTIAL (ICR) LANDS

Approximately 7,000 acres are managed as ICR Lands. Such land is typically in or near an urban area and zoned, or has the strong potential for being zoned, for industrial, commercial or residential uses. Urban industrial/commercial/residential land, by definition, is located within an urban growth boundary. Rural land is located outside urban growth boundaries and may include land designated as urban reserve or within urban unincorporated communities.

SPECIAL STEWARDSHIP LANDS

These lands are managed primarily to ensure the protection of scenic, natural resource, cultural, educational and recreation values. This class may include both Trust and Non-Trust lands. The majority of lands classified as special stewardship are CSF lands managed by and currently

designated by the Oregon Department of Forestry as special stewardship lands. These lands are generally managed for uses other than income production, e.g. aquatic and riparian habitat, threatened and endangered species, or visual quality.

The South Slough National Estuarine Research Reserve was the first reserve designated under the National Estuarine Sanctuary Program. Under this program, healthy estuarine ecosystems that typify different regions of the country are designated and managed as sites for long-term research, and are used as a base for estuarine education and interpretation programs. The Reserve is administered as a partnership between the National Oceanic and Atmospheric Administration (NOAA) and the Department. NOAA provides funding, national guidance and technical assistance. A 2006 management plan guides the work of the Reserve. Administrative operations are overseen by the Department with direction from the South Slough NERR Management Commission. The Department holds title to the lands within the NERR and manages them as CSF assets.

WATERWAYS

Approximately 800,000 acres of submerged and submersible lands are classified as waterways. These include submerged and submersible land under the Territorial Sea (i.e., oceanward to the three-mile limit), tidally influenced land, and the non-tidally influenced bed and banks of 12 waterways and a number of lakes in the state. Waterways are Non-Trust lands.

State ownership of waterways is established by the Oregon Admission Act and federal common law, including the Equal Footing Doctrine. Public rights of fishing, navigation and commerce are “public” interests that apply to all tidelands, shorelines and underlying beds. The extent of public waterway ownership is determined by tidality or by title navigability. Most of the submerged and submersible lands subject to the ebb and flow of the tides are publicly owned. In some cases, lands between the ordinary high and low tide on tidelands have been sold to private interests. Since 1995, state ownership of waterways (except meandered lakes, which are navigable by statute) is based on a determination by the Land Board that they are title navigable, i.e., they were used or susceptible to use as a highway of commerce at time of statehood (ORS 274.402).

MINERAL AND ENERGY RESOURCES

The dominant use of lands in the mineral and energy resources class is the exploration for and development of mineral and energy resources; however, other uses, such as agricultural or rangeland uses, will typically also occur.

Mineral Resources

For minerals, the classification is applied to: (1) all state-owned parcels of subsurface mineral ownership interest, and (2) lands where the dominant use is associated with mineral resource development or exploration. (See Appendix A - Glossary - for a definition of mineral resources.)

The Department is responsible for the management, leasing and sale of state-owned mineral rights on approximately 3 million acres throughout Oregon. ORS 273.780 gives the Land Board authority for mineral and geothermal rights on most lands owned by the State of Oregon. These mineral rights occur on both the lands managed by the Department, as well as on lands owned by other state agencies. Approximately 753,000 acres occur in “split estates,” in which the Department owns the mineral rights but not the land surface associated with those rights. In addition to this acreage, the Department also manages 410,000 acres of mineral rights underlying DSL land

(which are included in other real property asset classifications), and 2.1 million acres of mineral rights underlying surface acreage owned by other state agencies, such as ODF. The Department receives compensation from the production of minerals from these lands in the form of royalties on the value of the minerals mined, as prescribed by statute and/or administrative rule.

Energy Resources

Energy resources include solar, geothermal, hydropower, wave energy, and wind energy sites. To date, hydropower resources have been developed on state land and lands are currently leased in Eastern Oregon for solar and geothermal energy projects that could result in significant revenue to the CSF. Investigations are also underway for wind and ocean wave energy projects.

III. Valuation and Performance

A key goal of the REAMP is to increase revenues from CSF real property assets. Current information on land values and performance is essential for establishing appropriate rates of return against which to measure the performance of the CSF assets. Performance goals, in return, serve as a basis for determining which lands to retain, invest in or sell.

A. Current Valuation and Performance

Revenues are generated from CSF real property assets through a variety of business activities or authorizations, including timber sales, grazing leases, rental of space in the Department's office building, natural gas royalties, and waterway leases for such uses as gravel extraction, marinas, and fiber-optic cables. Additional revenues are generated to the CSF from a 6% wellhead tax on oil and gas production on private lands and payments from the Federal Energy Regulatory Commission (FERC) for FERC-licensed projects on federal lands. An estimate of the total value of all DSL lands is included in Table 3. The estimate is based on broad averages (e.g. all western Oregon DSL forest land sales over the past three years) and should be seen only as a comparative base and should not be used as an actual value indicator for any specific parcels.

Procedures and systems for evaluating the financial performance of public lands are constantly evolving. No universal or widely accepted financial performance indicator is available for each land class. Return on Asset Value (ROAV) is the most common financial performance indicator when complete data is available for the asset class. ROAV is calculated by dividing the Net Operating Income (NOI) by the Market Value, and is expressed as a percentage for each land class. The NOI is the difference between total revenues (leases and other authorizations) and total operating expenses (costs for management, administration, repairs, etc.). The 2010 values and ROAV show comparative returns by land class, and are shown in Table 3.

This plan takes an approach to identifying lands for sale and purchase that is significantly different from the 2006 AMP. However, the following findings, primarily taken from the 2006 AMP, remain pertinent for the revised 2012 REAMP:

- The CSF is receiving a positive net cash flow from its real property assets.

- Forestlands have historically and currently generated the majority of the Department's real property asset revenues. Any improvements in efficiency or other revenue enhancement measures for forestlands would be expected to have significant positive revenue impacts.
- Although they comprise a small proportion of the asset base and of NOI, agricultural lands would be expected to continue to provide a relatively small but stable flow of income. Agricultural lands perform substantially better than rangelands, and generally perform better than forest lands. Conversion from rangeland to agricultural lands where feasible is a viable means of enhancing CSF revenues.
- Rangelands historically and currently have the poorest performance among the actively managed lands within the CSF portfolio. In most years, rangelands have had a positive NOI once the cost of capital improvements are taken into account. In addition, the grazing fee has increased in recent years and is substantially higher than the grazing fee on federal lands.
- The ROAV for ICR lands is about in the midpoint of land classes, although ICR values have increased more than fivefold since the 2006 AMP. This value increase is far below potential returns, because of entitlement delays (e.g., urban growth boundary inclusion and annexation of South Redmond and Stevens Road Tracts) or unfavorable market conditions (e.g., Forked Horn Butte and Ward Road Subdivisions) hampering final development and/or sale.
- Although waterways are managed primarily for purposes of resource protection, revenue generation is also an important consideration. Waterway leases typically are the second greatest source of land management revenue to the CSF.
- Special stewardship lands are managed primarily for the protection of resource, cultural, educational and recreation values; minimal revenue generation is expected from these lands.
- Mineral and energy resources represent significant future revenue generation potential.

Table 3: Market Value and Performance by Land Class (2011)

Land Classification	Total Acres	Approximate Market Value (millions)	% of Total Market Value	Net Operating Income (NOI)	% of Total NOI	Return on Asset Value (ROAV)
Forest Lands	119,770	\$325.5 – 359.0 ⁽¹⁾	57-62%	\$4,126,413	66.3%	1.2 - 1.3%
Agricultural Lands	5,860	\$13.4 – 13.9 ⁽²⁾	2.3 – 2.4%	\$165,092	2.7%	1.2%
Rangelands	625,510	\$109.5 – \$125.1 ⁽¹⁾	21-22%	\$112,862	1.8%	0.09 – 0.1%
ICR Lands	7,010	\$69.3 – 72.3 ⁽³⁾	12-12.6%	\$506,762	8.2%	0.7%
Special Stewardship Lands	10,000	⁽⁴⁾	⁽⁴⁾	(\$49,797)	-0.8%	⁽⁴⁾
Waterways	1,260,000	⁽⁴⁾	⁽⁴⁾	\$1,271,562	20.4%	⁽⁴⁾
Mineral and Energy Resources	774,110	⁽⁴⁾	⁽⁴⁾	\$88,979	1.4%	⁽⁴⁾
Totals	2,802,260	\$517.7 – 570.3	100%	\$6,221,873	100%	1.09 – 1.2%
<p>Notes:</p> <p>(1) Based on recent average sale values.</p> <p>(2) Based on USDA average agricultural land values for Oregon.</p> <p>(3) Individual parcel values based on recent land sales.</p> <p>(4). Adequate data not available.</p>						

B. Performance Measures

A key REAMP element is establishing performance measures and targets for the CSF's real property assets as a means of measuring progress toward meeting the plan's goals. Evaluating the financial performance of public lands is a constantly evolving process of balancing a wide range of financial, environmental and social factors. No universal financial performance indicator is available that is useful for the type of portfolio represented by CSF lands. Given the unique character of CSF lands, a variety of measures and targets may be considered in measuring the performance of the overall CSF real property asset portfolio. Four separate measures are used by the Department to measure performance: Return on Asset Value (ROAV); Net Operating Income (NOI); Annual Revenue (AR); and Land Value Appreciation (LVA). These measures will assist in the evaluation of lands for potential sale and the evaluation of lands for potential purchase.

RETURN ON ASSET VALUE (ROAV)

ROAV is the most common financial performance indicator when complete data is available, including information on current market appraisal values, annual expenditures, and annual revenues generated. ROAV measures return compared to land value. It allows for comparison with similar business returns and financial instruments. ROAV is not a particularly useful measure unless a good benchmark has been established: i.e. an appraised value that can be periodically updated with accurate information in order to identify increases in land value. ROAV is a good tool when the benchmark is valid (e.g. land purchased by the Department) and it can be tracked over time.

NET OPERATING INCOME (NOI)

NOI measures income compared to expenses and is calculated as gross revenue minus operating expenditures. It requires revenue and expenditure information by parcel or land class. Expenses for maintenance and improvements are typically not considered 'operating' expenses for purposes of calculating NOI, since they preserve or increase the value of the land. NOI will be calculated each year, along with the percent change from year to year.

TOTAL ANNUAL REVENUE (AR)

AR, expressed in dollars or as a percentage, measures only the income obtained from management of the CSF's real property assets. Using this measure, the Department calculates the change in AR on an annual basis. One of the Department's Key Performance Measures reads: *Increase in Revenues from Land Management Activities - Percent increase in revenues generated by all Land Management activities, exclusive of timber harvest receipts.*

LAND VALUE APPRECIATION (LVA)

LVA, expressed as a percentage, measures the change in land value over a specific period of time. It requires periodic re-appraisal or calculation of land value, although value trending and best professional judgment could substitute. Land value will be carefully tracked on properties that have a good benchmark (see ROAV discussion above). Only broad estimates of land value will be made on properties without a good benchmark.

