

The State Land Board met in regular session on February 10, 2004 in the Land Board Room of the State Lands Building, 775 Summer Street NE, Salem, Oregon 97301-1279.

Present were:

Bill Bradbury	Secretary of State
Randall Edwards	State Treasurer

<u>Assistants</u>	<u>Staff</u>	<u>Dept. of Justice</u>
Jim Brown	Ann Hanus	Lore Bensel
Jesse Cornett	John Lilly	
Inga Deckert	Steve Purchase	
	Jeannette Holman	
	Jeff Kroft	
	Gail Lowry	

The Secretary of State called the meeting to order at 10:00 a.m. The topics discussed and the results of those discussions are listed as follows. Further details of the discussions may be obtained in the written transcript of the meeting available at the Department of State Lands, 775 Summer Street NE, Suite 100, Salem, Oregon 97301-1279, (phone: (503) 378-3805, ext. 224).

2. Presentation by Oregon high school students on ocean issues.

Students from Newport High School delivered an impressive and informative presentation regarding farmed Atlantic salmon and other ocean issues. This presentation followed the student's trip to Washington D.C. where they represented the Pacific Northwest in the Coastal Eco-System Learning Center at the National Student Ocean Conference.

Consent Items

- 1.a. Request for approval of State Land Board minutes for December 9, 2003 meeting.**
- b. Request for authority to initiate rulemaking to rescind the administrative rules governing hydroelectric projects (OAR 141-087-0001 through 141-087-0050), and to initiate rulemaking to amend the administrative rules governing the authorization of special uses on state-owned land (OAR 141-125-0100 through 141-125-0220) to include hydroelectric facilities and similar structures and uses.**

Director Hanus said the reasons for the rulemaking request are (1) to clean up contradictory language that the agency realized was there when dealing with the Marmot Dam on the Sandy River and (2) to determine whether there should be some adjustments in the fees now charged for dams on state-owned property. She said that the agency intends to establish an advisory committee, consisting of key individuals, including Diana Oberbarnscheidt of Oregon PTA, Liz Frenkel and utility companies, for this effort.

Frenkel expressed concern for the Protected Area Program, which was developed as a result of the 1970s "hydro mania." She said that the protected areas are off limits for hydro electric and stressed that the program should be protected because of the high cost and difficulty of recreating it. Frenkel said that she and the League of Women Voters have no concerns about increasing leasing fees and moving them to another rule division and that they would like to be a part of that.

Jim Brown asked Director Hanus whether it is likely that the section Frenkel referred to would be moved and tacked into the new division of rules. Ann Hanus said that it is the intent of the Department to move the Protected Area Program and to maintain the Land Board's discretion. Under the current rules, it unclear where the rule applies and because of this uncertainty, the Department has not been charging fees for any of the dams. At present, under current rules, the amount is negotiated unless an agreement cannot be reached in which case they charge six percent of the value of the uplands. She cited Snake River dam as an

example where the easement charge under the current rules would probably be less than \$250.

c. Request for approval to appear before the Legislative Emergency Board to submit reports required by the 2003 Legislative Assembly and to request increased Other Funds expenditure limitation for three programs or projects.

Director Hanus briefly explained that the Department requested to return to the Emergency Board in response to the 2003 Legislative Assembly's budget notes. DSL will report on the progress they have made with regard to work plans that were submitted during the budget hearings.

d. Request for adoption of Oregon Natural Heritage Plan.

Director Hanus said that the Oregon Natural Heritage Plan (ONHP) is updated every five years and that the major revisions include a change in the eco-regional system that is consistent with the Report on the Environment approach and Oregon Watershed Enhancement Board definitions. There was also a decrease in the number of cells with sensitive plant/animal species.

e. Request by the Oregon Department of Transportation to acquire a permanent roadway easement over and upon the submerged and submersible lands of Upper Klamath Lake located in Klamath County.

Director Hanus explained that the easement would allow a fill in the Howard Bay area, which will create a wider, safer northbound climbing lane.

Treasurer Edwards moved the consent agenda and Secretary Bradbury seconded it. The approval was unanimous.

Informational Items

3. Asset Management Plan discussion.

Director Hanus said with the Strategic Plan completed, it is time for the Department to focus on updating the Asset Management Plan. The Asset Management Plan guides how the agency will manage its

portfolio of real estate assets. DSL is aiming at improving performance and efficiency, providing greater benefits to Oregon schools and setting policy guidance on how lands should be managed.

Assistant Director John Lilly, using a power point presentation, showed the Board how the Plan will develop over the next 12-16 months. He explained that the Common School Fund basically is made up of two types of assets, the investment portfolio and real property. He said that money comes from the management of constitutional and statutory lands. He showed how some of the statutory revenues pay for statutory programs before the residue goes into the Common School Fund for investment. He said the earnings from the principal of the Fund are used to both distribute to Oregon public schools and then to pay for expenses for the management of constitutional lands and the cost of capital improvements and maintenance.

Lilly explained further that the authority for the Asset Management Plan and the responsibility of the management originated from Oregon's Admissions Act. He said that at Oregon's admission into the Union every section 16 and 36 were dedicated to benefit the common schools of the state and from that the State Land Board received the commission to manage what is now called "trust lands." This mandate was written into the Oregon constitution. He told the Board that state law also requires the Board to have an Asset Management Plan and that the Department must report on the Asset Management Plan periodically. He said that the Department's first Plan was adopted in 1995, and has served as a benchmark for other states.

Lilly, using the Elliott State Forest as an example of trust lands, said that 86,000 acres of that land have been consolidated through trades and acquisitions and are being managed as trust land with the benefits going to the Common School Fund.

Lilly explained that the territorial sea, the beds and banks of navigable waters and the South Slough National Estuarine Research Reserve (SSNERR) are non-trust lands, which were granted to us at statehood and are the Department's statutorily given responsibility.

Treasurer Edwards asked whether it is the purpose of the non-trust lands to generate money, and Lilly said no, but some do, such as the waterways where certain activities require leases or easements such as sand and gravel extraction operations. He said that forestlands are the major revenue contributor among trust lands.

Treasurer Edwards asked Lilly whether there are still trust lands over which there is jurisdictional controversy and Lilly said that there are currently 3,500 acres of trust lands that are owed to Oregon by the federal government through in lieu selections. This is like a credit account whereby the state can go through the Bureau of Land Management to identify vacant public domain lands and apply for them to be transferred to the state as common school trust lands. He used as an example the Stevens Road Tract, 640 acres on the east side of Bend. He said that tract was an acquisition made in the mid 1990s through in lieu selection.

Secretary Bradbury asked whether the acreages of in lieu selection had declined over the years as we made use of it. Lilly said that at statehood, sections sixteen and thirty six totaled about 4.3 million acres, but over time our predecessors identified those lands and sold them and the revenue became the corpus of the Common School Fund. Lilly said that the key issue is to know what lands the BLM has that would be a good addition to the Common School Fund from a revenue-producing standpoint. Some of these BLM lands are not producing a high level of return. The federal land must also meet certain criteria, such as it cannot be mineral in character, needs to be undeveloped, and it must be public domain land. He said that some of the western states have talked about asking Congress to cash out the value of the property to the state. Secretary Bradbury agreed that the agency should pursue this path more aggressively. Lilly said that is part of the Strategic Plan.

Lilly itemized the Board's current holdings of trust lands -- 638,000 acres of rangeland, about 5,600 acres of agricultural land, more than 130,000 acres of forestland, and two acres of industrial/ commercial/ residential (ICR) land, which is the Department's building.

Lilly itemized the non-trust lands including the territorial sea, navigable waterways, Swamp Land Act lands, the South Slough National Research Reserve at Charleston and submerged/submersible lands comprise the approximate 800,000 acres of non-trust lands.

In further explaining surface land ownership, Lilly said because of vigorous exchanges in the 1970s and 1980s between the State and BLM, the State ended up with ownership of surface land on acreages where the BLM owns the minerals below the surface and another 33,000 acres where the State owns the minerals and the BLM owns the surface land.

Lilly told the Board the largest source of revenue comes from forest activity such as timber harvest, primarily in the Elliott State Forest. Other sources of revenue include waterway leases, easements and permits from people who use the beds and banks of the waterways and the territorial sea. He said that rangelands, though they cover a lot area, do not produce much revenue. He said that the Asset Management Plan would give the agency strategies to either increase the revenues coming from those lands or a plan for disposing of them.

Jim Brown asked John what the status is of the forest land that was declassified and returned to DSL two or three years ago. John said that about 7,200 acres of scattered parcels in eastern Oregon, of marginal forest value, were taken back from the Board of Forestry to be managed by DSL. Some of them are now used for grazing, one had a fire on it and another is being considered for sale. All of that land has been added to the agency's management portfolio and DSL is moving slowly to try to liquidate some, but has not done so on all of the parcels.

Director Hanus explained why DSL has not moved to liquidate the lands. One reason is the need for the agency to get the land sales and exchange rules in place and the other was that there simply was not staffing for that until a property manager position was approved for the eastern Oregon office by the last legislature.

Lilly then explained the financial aspect of state-owned lands stressing that forestry has the greater cost, followed by waterway costs, then rangeland. He said that on the whole the Department is in a positive cash flow in the asset classes.

Secretary Bradbury asked about the rangeland audit and whether it had been released, pointing out that it would confirm that the income and expense on rangelands is very close. Lilly said that it has not yet been released. He then told the Board that in the current Asset Management Plan grazing land management was recognized to be really tight, which is why they instructed DSL to look at lands strategically for sale and/or exchange with an emphasis on sale. He said that the Board clearly expects careful scrutiny to ensure there would be no compromise where resources were sold for the short-term benefit at the expense of sacrificing the long-term benefits.

Lilly referred back to the 1995 Management Plan which emphasized an overall management philosophy that maximizes revenue over the long term to conserve the monetary value and health and condition of the land.

4. Report on Sustainability Plan progress.

5. Report on customer service activities.

6. Removal-fill streamlining update.

Director Hanus provided the Board with updates on the Sustainability Plan, customer service activities and removal-fill streamlining.

The meeting was adjourned at 11:58 am.

Bill Bradbury, Secretary of State

Ann Hanus, Director

*(Lorraine Lowe authored these minutes.)