

State Lands

	2015-17 Actual	2017-19 Legislavely Adopted	2017-19 Legislatively Approved*	2019-21 CSL LFO	2019-21 Governor's Budget
General Fund	242,904	5,000,000	5,000,000	--	--
Lottery Funds	--	--	--	589,920	589,920
Other Funds	32,278,901	47,925,059	56,436,136	45,471,053	62,539,044
Other Funds (Nonlimited)	13,184,428	10,234,249	19,234,249	10,627,890	10,627,890
Federal Funds	1,541,286	2,261,458	2,466,188	2,225,284	2,475,477
Total Funds	47,247,519	65,420,766	83,136,573	58,914,147	76,232,331
Positions	107	111	113	106	116
FTE	107.00	109.33	110.67	105.50	114.33

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The Department of State Lands (DSL) is the administrative arm of the State Land Board. The Board, created under the Oregon Constitution, consists of the Governor, the Secretary of State, and the State Treasurer. The Board is responsible for managing the assets of the Common School Fund. These assets include equity investments managed by the Oregon Investment Council and the State Treasurer on behalf of the Board and over two million acres of state lands deeded at statehood in trust for education, other lands designated by statute, and escheated and forfeited property. In managing these assets, the Board adheres to the constitutional standard of “obtaining the greatest benefit for the people of the state, consistent with the conservation of... [the]...resource under sound techniques of land management.” By statute, related programs, such as removal-fill, wetlands, and unclaimed property, are assigned to DSL. The agency also manages the South Slough National Estuarine Research Reserve.

For budget purposes, the Department is organized around four areas:

- Common School Fund – (90 positions, 89 FTE) Consists of Land Management, Aquatic Resource Management, Business Operations and Support Services, and the Director’s Office.
- Oregon Wetlands Revolving Fund – (0.50 FTE) Established by the 1987 Legislative Assembly to provide financial resources to acquire wetlands banking and wetlands mitigation sites; to accomplish wetlands restoration, enhancement, and creation; and to cover administrative costs.
- South Slough National Estuarine Research Reserve – (16 positions, 16.00 FTE) A tidal inlet of the Coos estuary six miles southwest of Coos Bay. The area was designated in 1974 as the first national estuarine research reserve and consists of 1,000 acres of tidelands and open water surrounded by a 3,800-acre upland border. The total South Slough National Estuarine Research Reserve (SSNERR) acreage

is part of the U. S. National Estuarine Research Reserve System established by the Coastal Zone Management Act of 1972. SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, education, and stewardship programs. Its laboratory work is co-located with the Oregon Institute of Marine Biology in Charleston, which is operated by the University of Oregon.

- Capital Improvements – (no positions or FTE) Manages property as assets of the Common School Fund. Expenditures in this program include land rehabilitation and conversion; small infrastructure design and construction projects; facilities rehabilitation; general maintenance and repair; weed control; and response to environmental hazards.

CSL Summary and Issues

The current service level for the agency includes adjustments from the 2017-19 legislatively adopted budget for:

- 2018 session actions and Emergency Board actions through March 2018 including:
 - Position actions including collective bargaining agreements negotiated by the Governor; \$670,675
 - Expenditure authority for cleanup work at the Goble site; \$7.24 million
 - Expenditure authority for federal and other grant funds; \$390,815
- Net impact of the biennialization of position actions and the elimination of limited duration positions; a net reduction of \$392,458
- Projected adjustments for existing debt service costs; \$393,641
- Decrease in vacancy savings to reflect anticipated actual personal services expenditures; \$338,125
- Personal Services adjustments not included elsewhere including; temporary appointments, overtime, and associated taxes; \$70,809
- Phase-out of one-time funded activities or programs funded in the 2017-19 budget, including reductions for:
 - Funding for the development of a habitat conservation plan (HCP) and environmental impact statement (EIS) related to the management of the Elliot state forest; \$1.5 million
 - Purchase of all-terrain vehicles for the Common School Fund lands program; \$26,000
 - Bond issuance costs for the \$3.0 million spring 2019 bond sale, the proceeds of which are deposited in the Portland Harbor Cleanup Fund; \$57,587
 - Expenditure limitation for cleanup work at the Goble site; \$7.24 million
 - One-time grant funds; \$438,958
 - Legal expenses related to the Portland Harbor Superfund site; \$6.1 million
 - General Fund appropriation for deposit in the Portland Harbor Cleanup Fund; \$5.0 million
 - Limitation related to SB 912 (2015) work on historically filled lands \$116,800
- Inflation, both standard inflation at a rate of 3.8% for most Services and Supplies expenditures, and extraordinary inflation for certain authorized items; \$1.59 million
- Increases in state government service charges; \$282,951

Additional legislatively approved changes that were made to the 2017-19 budget for the Department of State Lands after April 2018 are not contemplated in the current service level budget for the agency, but are captured in the legislatively approved budget. Typically, adjustments made to the agency's budget during this part of the interim are for one-time funding or expenditure authority, and therefore, require no additional accommodation in the upcoming biennium's budget.

The current service level budget for the agency shrinks by \$6.5 million or 9.9% from the legislatively adopted budget. This is entirely attributable to one-time funding items, particularly the elimination of the \$5.0 million General Fund appropriation that was made to the agency to initially fund the Portland Harbor Cleanup Fund.

There are some significant errors included in the current service level due to the calculation of phased-out items contained in the essential budget package 022 and a base budget error due to incorrect position coding.

- A position that was authorized to be permanent, full-time position was established by the agency as limited-duration and therefore was eliminated in the current service level budget for the agency.
- A \$2.5 million deduction from the amount phased-out for the one-time legal costs related to the Portland Harbor Superfund site was included in error. The agency's stated that the intent of this entry was to capture anticipated insurance reimbursements that the agency was using to reduce booked expenditures. When an agency uses this scheme, recovered monies are not booked as revenue, but rather as negative expenditures, thus understating the total amount expended. Even in that case, the \$2.5 million reduction in phase-outs incorrectly adjusts the resulting budget expenditure authority upwards instead of downwards as would be desired under a recovered-revenue used to reduce expenditures scheme.
- Federal grant fund expenditure limitation of \$329,000 for a grant that was awarded to DSL in 2016 for the remodel at the Estuarine and Coastal Sciences (ECOS) Laboratory had been carried forward into the 2017-19 biennium and was anticipated to be phased-out of the budget for the 2019-21 biennium, but was not.
- Other Funds expenditure limitation of \$608,000 was provided to the agency in 2017-19 for fire patrol assessments on the Elliott when those costs were thought to be paid via the private management contract, but for 2019-21 those costs are included in the revenue transfer made to ODF from DSL and therefore must be removed from the expenditure limitation at CSL.
- Finally, DSL mistakenly included a reduction of \$200,000 Other Funds for capital improvement projects. This funding was included in the 2017-19 legislatively adopted budget and was intended to continue in the base budget for the agency.

Policy Issues

- Elliott Forest management. The Land Board elected to discontinue the management agreement between DSL and the Department of Forestry for the Elliott State Forest. Oregon Statute (ORS 530.490) provides that notwithstanding any other law, or authority granted thereunder, the State Forester is authorized to manage the Elliott State Forest. It is not clear if the Land Board had the legal authority to end the management of the Elliott by the State Forester. The Land Board subsequently contracted with a private party for the

custodial management of the Elliott. Under that contract, no new timber sales have been prepared and therefore no income is being produced from the land. In addition to the existing budgetary resources at the agency dedicated to the operation and management of the Elliott, 2019-21 biennium policy packages put forth by DSL include \$2.0 million for the private management contract, \$1.6 million for continued development of a habitat conservation plan and a public ownership transfer option for the Elliott, and \$180,000 for a dedicated forester position.

- Elliott Forest Bonding/Bond proceeds. The Legislature authorized the issuance of \$100 million in certificates of participation, the proceeds of which were to be used to release the Elliott from its obligation to the Common School Fund. The expenditure authority, and the associated debt service, were allocated to the Department of Forestry. At the October 2018 meeting of the Land Board, the intent was expressed that the payment of the \$100 million in bond proceeds to the Common School Fund would be applied as a “buy-down” reduction in the appraised value, thus reducing the additional amount required by a future purchaser. If the policy is not to have the Department of Forestry involved in the management or the ownership of the Elliott, it may be more appropriate to move the expenditure authority and debt service for the bonds to the Department of Administrative Services.
- Portland Harbor Cleanup Fund. Although \$8.0 million in funding was provided for the Portland Harbor Cleanup Fund, there was no requirement made to have the agency provide either a plan for the funds use or for a report to the legislature on planned expenditures or expenditures made from the funds. Expenditures from the fund in the 2017-19 biennium are anticipated to total just over \$200,000, leaving a fund balance carried forward in to 2019-21 of \$7.8 million. As of November 8, 2018, DSL reports that up to \$1.765 million has been identified for specific projects, but again, no specific timeline for expenditure has been set other than the amounts anticipated in the current biennium.
- Portland Harbor Cleanup Fund bonds. Bonds are due to be sold in April 2018 to produce a net \$3.0 million for deposit in the Portland Harbor Cleanup Fund. That amount, along with a transfer of \$5.0 million General fund provides a total of \$8,0 million in seed money for the fund as noted above. Absent a clear plan for expenditures for the upcoming biennium that requires the entire fund balance, it may be preferable to delay the sale of the bonds until the funding requirement is known.
- Portland Harbor Cleanup Generally. For the past four biennia (since 2011) the agency’s budget has included dedicated expenditure authority for dealing with legal and remedial project costs for the Portland Harbor. This expenditure authority is separate to the funding and expenditure authority provided for the Portland Harbor Cleanup Fund and comes from the Common School Fund. The current budget request is for \$6.8 million.

Governor’s Budget:

The Governor’s budget results in a 29.4% increase in total expenditures from the current service level. In addition to the proposed expenditures included in the policy issues discussed above, the Governor’s budget includes packages that carry-forward existing biennium work that was phased-out at CSL, including work on historically filled lands authorized by SB 921 (2015) and the continuation of an IT project manager to shepherd the lands database replacement project and other ongoing IT projects at the agency.

DSL was authorized to establish an ongoing, permanent, position for general project management of the Portland Harbor and Elliott State Forest work in the 2017-19 biennium. The agency mistakenly identified the position as limited-duration and phased it out of the current service level budget. The Governor's budget restores this position.

Although not originally included in the agency's requested budget, the Governor's budget includes expenditure authority for another \$5.0 million in lottery bond proceeds intended for deposit in the Portland Harbor Cleanup Fund.

There are four new items in the Governor's budget in addition to the continuing items discussed above:

1. A position at the South Slough National Estuarine Research Reserve (SSNERR) to manage GIS data;
2. A half-time, seasonal educational position at SSNERR;
3. An unclaimed property claims examiner; and
4. An internal auditor position at the agency.

Other Significant Issues and Background

Change in distribution to State School Fund resulting from SB 1566 (2018). Due to the volatility of distributions from the Common School Fund to the special PERS unfunded liability account for school districts as required under SB 1566, the Land Board adopted a maximum 3% distribution to the State School Fund from the Common School Fund; a reduction of one percent. The change was based on an actuarial review that was requested by the Land Board of impacts resulting from the implementation of SB 5166 to the Common School Fund.