

DEPARTMENT OF STATE LANDS

The Department of State Lands (DSL) is directed by the Governor, Treasurer, and Secretary of State (the State Land Board). The Department oversees state lands granted under the Oregon Admission Act for the purpose of funding public education through the Common School Fund. The Department also administers the state’s unclaimed property program and estates of people who die without a will and known heirs; protects state wetlands and waterways; and is the state partner for the South Slough National Estuarine Research Reserve (SSNERR).

DEPARTMENT OF STATE LANDS	2009-11 Actuals	2011-13 Leg. Approved	2013-15 Current Service Level	2013-15 Governor's Budget	2013-15 Co-Chairs' Budget (1.0)	% Change 2011-13 LAB to 2013-15 CSL
General Fund	1,934,790	681,266	0	0	0	-100.0%
Other Funds	23,084,202	27,903,872	25,754,324	26,965,342	0	-7.7%
Other Funds Nonlimited	7,346,149	29,054,249	10,054,249	10,054,249	0	-65.4%
Federal Funds	3,497,375	6,099,914	2,777,493	1,565,323	0	-54.5%
TOTAL FUNDS	\$35,862,516	\$63,739,301	\$38,586,066	\$38,584,914	\$0	-39.5%
Positions	110	108	105	106	0	-2.8%
FTE	107.46	106.42	104.00	105.00	0.00	-2.3%

Major Revenues	Budget Environment	Comparison by Fund Type																								
<ul style="list-style-type: none"> Other Funds are 89% of the 2011-13 LAB and are generated by: <ul style="list-style-type: none"> Activities on state lands, such as timber sales or rangeland leases, Regulatory fees, Investment earnings, and Grants. Federal Funds, 10% of LAB, primarily support SSNERR operations via grants from the National Oceanic and Atmospheric Administration. The U.S. Environmental Protection Agency also provides project grant funding. The 2011-13 LAB included one-time General Fund for legal fees and professional contractors on the Portland Harbor Superfund site. 	<ul style="list-style-type: none"> Managing lands for anticipated returns of income and appreciation in excess of 10-year average return to the Common School Fund. Recent recession impact on earnings. Continued research and analysis of the Portland Harbor Superfund site. Liabilities unknown. Listed species and other regulatory constraints. Stabilization of unclaimed property receipts and increased claims due to increased use of technology. South Slough dependence on federal government for operational funding. 	<table border="1"> <caption>DEPARTMENT OF STATE LANDS - Revenue Comparison (Millions of Dollars)</caption> <thead> <tr> <th>Year</th> <th>General Fund/Lottery</th> <th>Other Funds</th> <th>Federal Funds</th> </tr> </thead> <tbody> <tr> <td>2009-11</td> <td>\$1.9</td> <td>\$30.4</td> <td>\$3.5</td> </tr> <tr> <td>2011-13</td> <td>\$0.7</td> <td>\$57.0</td> <td>\$6.1</td> </tr> <tr> <td>2013-15</td> <td>\$0.0</td> <td>\$35.8</td> <td>\$2.8</td> </tr> <tr> <td>2013-15 GB</td> <td>\$0.0</td> <td>\$37.0</td> <td>\$1.6</td> </tr> <tr> <td>2013-15 CSL</td> <td>\$0.0</td> <td>\$0.0</td> <td>\$0.0</td> </tr> </tbody> </table>	Year	General Fund/Lottery	Other Funds	Federal Funds	2009-11	\$1.9	\$30.4	\$3.5	2011-13	\$0.7	\$57.0	\$6.1	2013-15	\$0.0	\$35.8	\$2.8	2013-15 GB	\$0.0	\$37.0	\$1.6	2013-15 CSL	\$0.0	\$0.0	\$0.0
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MAJOR CHALLENGES AND DECISION POINTS

<ol style="list-style-type: none"> 1. *Portland Harbor Superfund site cleanup will be a multi-biennia effort. The state needs to invest in preemptive legal action to determine responsible parties in order to minimize future cleanup costs. Potential insurance payments will reduce the future need for state funding. 2. Significant Phase-outs <ol style="list-style-type: none"> a. \$19 million from the Common School Fund (CSF) one-time loan to Department of Revenue (DOR) to cover cost of Senior Property Tax Deferral. If DOR does not repay loan by June 15, 2013, the Legislature is obligated to cover it. [Senate Bill 939 (2011)] b. \$4.5 million South Slough Other Funds and Federal Funds acquisition grants (acquisitions completed). c. \$2.6 million for Territorial Sea mapping one-time funding, Portland Harbor research, and fire suppression costs. 3. Grant opportunities are diminishing. This affects South Slough in particular as grants cover not only projects but also operations. Shortfall reduces the ability to implement the responsibilities of the Reserve. 	<p>The Governor’s 2013-15 budget (GB) is \$25.2 million total funds lower than the 2011-13 legislatively approved budget (LAB). Most of the change occurred in developing Current Service Level. (See #2).</p> <p>Policy packages include \$1 million to continue Portland Harbor Superfund Site cleanup research, \$300,000 for capital improvements to the State Lands Building, and \$153,000 for one position at South Slough. These packages are funded with Common School Fund Other Funds.</p> <p>PERS and statewide administrative savings packages total \$275,000 in total funds reductions.</p>
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* See attachment for additional information on this item.

MAJOR CHALLENGES AND DECISION POINTS

Department of State Lands

Analyst: Gilbert

- 6. Portland Harbor Superfund site cleanup will be a multi-biennia effort. The state needs to invest in preemptive legal action to determine responsible parties in order to minimize future cleanup costs.

The Portland Harbor Superfund site is the result of more than a century of industrial use along the Willamette River. Water and sediments along Portland Harbor have been found to be contaminated with hazardous substances. In December 2000, the Environmental Protection Agency listed the site - from the Columbia Slough to the Broadway Bridge - for study and eventual cleanup.

The state's interest is the Department of State Lands' (DSL) management of the state-owned submerged and submersible lands in the superfund area. As such, DSL and the state face significant potential cost for site cleanup. While the total cost is not yet known, rough estimates are around \$1 billion. On behalf of DSL, the Department of Justice (DOJ) entered into a contract with an expert witness to assess the state's sites and provide an evaluation of contamination, remedy, and associated costs in each sediment management area. In addition, DSL has extraordinary DOJ costs associated with the project. The expert discovered an old insurance policy covering the state's harbor activity from the mid-1970's to mid-1980's. DOJ is negotiating with the insurer for payout of the current project costs.

As of September 2012, the Legislature has budgeted a total of \$7.6 million. Part of the funding has come from drawing down DSL's statutory revenue ending balance and part is General Fund held in special purpose appropriations. Through the first 12 months of the 2011-13 biennium, DSL has spent just under 69% of the budget. It expects an additional \$2.3 million in expenditures through the remainder of the biennium, creating a budget shortfall of \$1.4 million. The following display summarizes budget and expenditures to date as well as the potential 2011-13 shortfall.

Portland Harbor Superfund Defense budget, expenditure history - \$ Millions

Total Budget	2007-09		2009-11		2011-13	
Other Funds	\$	0.7	\$	1.8	\$	1.9
General Fund		-		2.4		0.7
Total	\$	0.7	\$	4.3	\$	2.6
Actual Expenditures						
Other Funds	\$	0.4	\$	1.3	\$	1.1
General Fund		-		1.9		0.7
Total	\$	0.4	\$	3.2	\$	1.8
Plus estimated expenditure through 6/30/13						2.3
Estimated shortfall				\$	(1.4)	

DSL had planned to request funding for the shortfall at the December 2012 meeting of the Emergency Board. In the meantime, however, negotiations with the insurer have resulted in an expected first installment payment sometime in November. DSL's share is expected to be around \$1.7 million. As negotiations are not final, it is too soon to know details regarding this and future payments. Negotiations should be complete and details made public by January 2013.

For the 2013-15 biennium, in its agency request budget DSL requested \$0.5 million General Fund and \$1.0 million Other Funds for additional anticipated legal defense expenses. The Governor’s recommended budget advances the Other Funds part of the request. The Legislature will need to address the funding need.

Options for legislative consideration

	Pro	Con
1. Use the initial insurance installment to cover prior costs, reimbursing the General Fund. Total actual GF is \$2.6 million through June 2012.	General Fund is reimbursed first, making it available for other uses.	Funding is not available for current and future costs, DSL would need to request General Fund or try to find other revenue internally.
2. Use the initial installment to cover prior costs paid from the Common School Fund statutory revenues. Total \$2.8 million through June 2012.	Common School Fund statutory revenues will be replenished and available for cash flow stabilization and other uses.	Funding is not available for current and future costs. DSL would need to request General Fund or try to find other revenue internally.
3. Use the initial installment to cover current and future costs, including the \$1.4 million expected shortfall in 2011-13.	DSL need not request General Fund for ongoing expenses in the current biennium and in part in the next biennium.	The General Fund and statutory Common School Fund revenues are not reimbursed.