



Oregon

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TO: Joint Committee on Ways and Means: Subcommittee on Natural Resources

FROM: Mary Abrams, Director, Department of State Lands

RE: Follow-up to Questions During March 11 Hearing

Co-chair Devlin, Co-chair Rayfield and subcommittee members:

Below is information related to questions we could not answer in detail in the March 11 Department of State Lands budget hearing. Please let me know if I might provide additional detail.

1. Key Performance Measures: Representative Rayfield asked for additional information and context for the yellow and red ratings on our KPMs. We have attached our Agency Management Report to this memo which summarizes all of the KPMs including those in the green. We apologize for not including this report in our budget binder and will be sure to do so in the future. In addition, for the committee's easy reference, the following summarizes the information on each of the yellow and red ratings.

KPM 2a: Percent of program revenue streams used to cover administrative and operational costs of programs for forest lands – red

The significantly reduced timber revenue from forest lands is the primary contributor to this KPM being in the red.

KPM 7: Percent of removal-fill permit non-compliance conditions that have a final resolution in place within 12 months – red

Progress on this measure is highly dependent on the number of pending agency actions with higher priority, e.g. processing permit applications and responding to complaints of unauthorized activities. The increased permitting workload as the economy has recovered combined with a significant personnel turnover in 2013 prevented attaining the 50 percent target in 2014. However the agency did improve from 31 percent in 2013 to 42 percent in 2014 and anticipates continuing to improve this response time.

KPM 9: Average number of days for the agency to complete a wetland delineation report review – red

The agency has a 120-day statutory deadline, but an internal target of 60 days. Due to major personnel changes in FY 2014, we did not meet our 60-day timeline (86 days was the actual) even though we were well within our statutory timeline. This responsiveness should improve in subsequent years.

KPM 13: Percent of customers who rate the agency's customer service as excellent or good – *yellow*

The Department has consistently improved over the past eight years since first conducting customer surveys, however it is difficult for a regulatory agency to achieve the Department of Administrative Services goal of 93 percent (our 2014 percentage is 84.6 percent). The agency continues to work to improve this rating.

KPM 14: Percent of local Regional Solutions participants who rate the agency as excellent or good – *red*

The Department of State Lands was a regular participant in Regional Solutions activities when this KPM was originated. However currently we participate on a project-by-project basis making the responses on the annual Regional Solutions survey not representative of our project specific efforts. Therefore, this KPM was deleted from the FY 2013-15 budget.

KPM 17: Percent of total “best practices” met by the State Land Board – *yellow*

This KPM consists of responses to several questions on the workings of the Board. The Department of Administrative Services target is 100 percent positive responses. The Land Board currently attains 93 percent positive responses with the one weakness being the lack of an annual performance review of the director of the Department. While there is no formal performance review, the director meets routinely with the Board and receives informal review of her work during those meetings.

2. Department Expenses as a Percentage of the Common School Fund

Earnings: Representative Rayfield requested information comparing expenses to and earnings from the Common School Fund. To answer this question, it is helpful to understand that the realized gains (investment earnings) of the fund vary widely from year to year. Because of this variability, we have included two charts to provide an indication of the effect of operational costs on the balance of the Common School Fund. If Representative Rayfield or other committee members would like a more complete briefing we would be happy to provide that as well.

The first chart (next page) depicts the operational costs as a percentage of the change in the value of the fund on a biennial basis since the 2009-11 biennium. This demonstrates the effect of the wide market variations even when expenses are relatively static.

Common School Fund - Administrative Costs as a Percentage of the Growth of the Fund

<i>Biennium</i>	<i>Change in Value of Fund</i>	<i>Operating Costs</i>	<i>% Exp to Earnings</i>
2009-11	\$326,687,000	\$19,894,262	6.09%
2011-13	\$68,723,000	\$19,579,117	28.49%
2013-15*	\$226,268,000	\$18,631,988	8.23%
*As of December 31, 2014			
Notes: The change in the value of the fund includes net realized and unrealized gains/earnings, and net cash inflows (i.e. net unclaimed property receipts, net operating revenues, land sales)			
Operating Expenses are the actual expenditures of all Common School Fund programs.			

For the second chart, we employed the methodology used in calculating the distributions and show the operational costs as a percentage of the three-year rolling average balance of the fund. We believe this better represents the longer term effect of current operational costs on the Common School Fund. This calculation shows expenses at approximately 1 percent of the earnings.

As of December 31, 2014, the fund produced a 7.69 percent rate of return since June 1995. Under the current distribution policy (4 percent of the rolling average balance) with operating expenses at 1% or less the fund should continue to show a 2 – 3 percent growth from re-investment of earnings and continued cash inflows.

Common School Fund - Administrative Costs as a Percentage of the Market Value of the Fund

<i>Biennium</i>	<i>3 Year Rolling Avg of CSF Market Value</i>	<i>Operating Costs</i>	<i>% Exp to Earnings</i>
2010	\$974,900,000	\$9,947,631	1.02%
2011	\$959,728,333	\$9,947,631	1.04%
2012	\$1,062,001,333	\$9,789,558	0.92%
2013	\$1,119,481,333	\$9,789,558	0.87%
2014	\$1,204,259,333	\$9,315,994	0.77%
2015	\$1,324,897,667	\$9,315,994	0.70%
*As of December 31, 2014			
Notes: The change in the value of the fund includes net realized and unrealized gains/earnings, and net cash inflows (i.e. net unclaimed property receipts, net operating revenues, distributions)			
Operating Expenses are the actual expenditures of all Common School Fund programs.			