

Department of State Lands

	2013-15 Actual	2015-17 Legislatively Approved*	2017-19 Current Service Level	2017-19 Governor's Budget
General Fund		346,082		
Lottery Funds				
Other Funds	28,187,651	40,545,846	29,340,595	38,477,111
Other Funds (Nonlimited)	11,594,220	10,234,249	10,234,249	10,234,249
Federal Funds	2,475,172	2,396,484	1,723,318	1,723,318
Federal Funds (Nonlimited)				
Total Funds	42,257,043	49,738,661	41,298,162	50,434,678
Positions	103	112	103	108
FTE	103.00	111.00	103.00	107.33

* Includes Emergency Board and administrative actions through December 2016.

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.

CSL Summary and Issues

The Department of State Lands recognizes a beginning fund balance in the Common School Fund of \$1.54 Billion and revenues to the Common School Fund of \$228 million. The CSL budget anticipates a \$110.2 million transfer to the Oregon Department of Education, State School Fund. General Fund that was included in the 2015-17 biennium budget for funding the identification and notification of the state's interest in historically filled lands as required by SB 912 (2015) has been completely phased out of the CSL budget. An additional \$7.75 million in Other Funds were phased out of the budget at CSL for one-time program expenditures included in the 2015-17 legislatively approved budget. Reductions in Federal Funds are resultant from the removal of one-time authority to expend federal grant funds.

The agency has, over the past two biennia, been recognizing a large portion of revenues to the Common School Fund as non-limited. DSL uses non-limited Other Funds expenditures for the payment of investment transactions and auditing costs, certain utility pass-through payments, and for the transfer of funding to the Department of Education for the Common School Fund (although that particular transfer is done as a revenue transfer and, therefore, is not recorded as an expenditure). The actual non-limited expenditures of the agency have been fairly steady at around \$11 million a biennium. The agency is recognizing \$79 million Other Funds revenue as non-limited and creating intra-fund transfers of \$130 million that convert Other Funds Revenue to non-limited, \$110 million of which is then transferred to ODE. This biennium DSL is projecting an ending fund balance of non-limited Other Funds of \$159 million at CSL. The non-limited Other Funds are not needed in the DSL budget and the agency is supportive of their conversion back to limited Other Funds.

Another technical issue is that payments received by DSL for claims against insurance policies held by prior tenants and land owners of property included in the Portland Harbor Superfund area have not been recognized as revenues to the agency, but rather as offsets to expenditures for legal and associated other fees. In practice the agency has recognized expenditures, but then reduced or offset those expenditures as insurance claims payments have been received, thus re-using the same expenditure limitation multiple times, much like a revolving charge card account. A technical adjustment will need to be made to the 2017-19 budget to recognize the payments as revenues and provide adequate expenditure limitation so that the actual cost of the legal fees can be captured in the agency's budget.

Policy Issues

The Governor's budget proposal contains two major categories; continuance of programs from prior biennia, and expansion of agency capacity for ongoing operations.

Funding that was provided for the work on the Portland Harbor Superfund Site that has been provided by the Legislature since the 2011-13 biennium is included in the Governor's budget with a large increase in limitation requested for Attorney General expenses. This limitation increase will allow DSL to book total AG expenditures without regard to insurance recoveries so that the total cost of AG expenses are explicit in the agency's budget. Two policy bills were passed and implemented in the prior biennium. SB 912 (2015) provided a General Fund appropriation and authorization for limited duration staff. The current funding proposal provides funding for two limited duration positions to continue the work required by SB 912, but funded from the common school fund. The fiscal impact statement for the bill included these costs in the 2017-19 biennium. Additionally, DSL is requesting an increase in expenditure limitation to implement the policy mechanics of HB 2436 (2015) for the identification and cleaning up or removing derelict structures, vessels, and debris on state owned waterways.

Expansion of operational capacity in the Governor's budget proposal includes additional expenditure limitation for Portland office space, vehicle replacement costs, sage grouse preservation, trust land management, and facilities maintenance.

Other Significant Issues and Background

During the 2015-17 biennium, the State Land Board decided not to renew the management contract for the Elliot State Forest with the Oregon Department of Forestry in anticipation of the sale of the Elliot. The CSL budget recognizes reductions in income from the Elliot via ODF as well as in management expenses of the Elliot paid to ODF. The net impact of this action is a \$1.8 million anticipated gain to net revenues over the biennium for the Common School Fund. Until the completion of a sale, the management costs for the Elliot will be funded from the land sales revolving account which is not budgeted. Proposals for purchase of the Elliot were due to DSL on November 15, 2016. One proposal was received by the State Land Board. The proposal submitted by Lone Rock Timber Management Company et al was deemed responsive to the request for proposals issued by DSL for the sale. The State Land Board approved moving forward with the sale with an amended sale protocol during the February 14, 2017 meeting.

The Portland harbor superfund site remains a looming issue for the agency. Currently the agency is engaged in a strategy of building a legal argument that limits the state's liability for the cost of the Portland harbor clean-up. A record of decision was issued by the U.S. Department of Environmental Quality that outlines a thirteen-year clean-up period with a total non-discounted cost of roughly \$1.7 billion. The portion of these costs attributed to the State of Oregon has not yet been determined. DSL has been using payments received from insurance companies on policies purchased by former owners and lessees of state lands to pay a portion of the Attorney General costs for the legal defense, but those funds are not anticipated to cover ongoing costs. The total state liability for the clean-up and the ongoing additional legal costs are unknown, but likely to become an issue in the 2017-19 biennium.