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STATE LAND BOARD MEETING

April 12, 2011

State Lands Building

775 Summer Street NE, Salem, Oregon

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1 commitment to responsible stewardship of Oregon's natural
2 (unintelligible). So I messed up your script, didn't I.

3 **SECRETARY OF STATE BROWN:** I think I can probably
4 figure it out.

5 **GOVERNOR KITZHABER:** (unintelligible).

6 **SECRETARY OF STATE BROWN:** Thanks, Governor. I'm
7 really pleased to present this year's Wetlands Project Award
8 for the Miami Wetland Enhancement Project. This voluntary
9 restoration project was coordinated by the Tillamook Estuaries
10 Partnership.

11 The \$1.8 million restored ecological function
12 throughout 44 acres of tidally influenced wetlands in the Miami
13 River watershed in Tillamook County. The work is significant
14 because nearly 85 percent of Tillamook Bay's wetlands are now
15 lost. This project helped restore habitat for five species of
16 salmonids -- Coho, Chinook, and chum salmon; and steelhead and
17 cutthroat trout.

18 Some of the specific improvements include increasing
19 freshwater and tidal channel complexity; restoring the
20 historical character of the site's vegetation through removing
21 invasive species and planting native plants; and enhancing
22 riparian vegetation along the river to provide shade, increase
23 dissolved oxygen, and provide a source of wood for recruitment.

24 Another reason the project is so impressive is the
25 nearly 25 partners involved, including two private landowners

1 and an advisory committee. So we don't have time to name
2 everyone. A sampling of those who helped include Vigil
3 Agrimis, Inc.; the Oregon and US Departments of Fish and
4 Wildlife; Stimson Lumber Company; Tillamook People's Utility
5 District; the Confederated Tribes of Siletz Indians; the
6 Tillamook School District; and the watershed, Oregon Watershed
7 Enhancement Board.

8 Perhaps most importantly, the restoration has
9 catalyzed the permanent protection of the project site and
10 other critical wetlands near Tillamook Bay, a federally
11 designated bay of national significance. I'm pleased also to
12 say that the Nature Conservancy is currently negotiating to
13 acquire properties in the project area that will guarantee
14 permanent protection of the lower Miami River basin.

15 So please join me in congratulating the project
16 partners here today to accept the 2010 Wetland Project Award
17 for the Miami Wetlands Enhancement project. The Tillamook
18 Estuaries Partnership board and staff include Joel Sacks, Bob
19 Rees, Lenora Lawrence, Valerie Folkema, Lisa Phipps, and Rachel
20 Hagerty, as well as Laura Todd from the US Fish and Wildlife
21 Service, and the project's principal engineer, Ken Vigil.
22 Please come up and (unintelligible) accept this award.

23 (Applause.)

24 **GOVERNOR KITZHABER:** Congratulations.

25 (T.N. Equipment malfunction. Missing audio.)

1 **GOVERNOR KITZHABER:** (unintelligible) in the ocean.
2 (Laughter.)

3 **STATE TREASURER WHEELER:** It's my pleasure to present
4 this year's Partnership Award to the Multnomah County Sheriff's
5 Office River Patrol for their years of outstanding service over
6 a wide range of situations occurring on state-owned land. As
7 the former chair of the county, I have first-hand knowledge of
8 the outstanding work done by the sheriff's office.

9 The River Patrol Unit was first founded in 1960 to
10 help decrease the number of thefts from boats and marinas, as
11 well as to provide search and rescue operations. It is now the
12 largest marine enforcement unit in the State of Oregon.

13 As the award nomination pointed out, this group
14 exemplifies going above and beyond the call of duty. On state
15 lands in Multnomah County, their help has been nothing short of
16 invaluable over the years.

17 Some examples of their assistance to the Department
18 of State Lands include in countless hours working with the
19 department staff to resolve a marina lease default on the
20 Columbia River involving a homeless camp, thefts, assaults, and
21 drug manufacturing; providing numerous boat trips for staff to
22 inspect state-owned lands from the water; at their own expense,
23 taking the lead in removing derelict and abandoned vessels on
24 state-owned lands.

25 And finally, the River Patrol Unit has conducted

1 multi-agency sweeps of illegal camps on state and federally
2 owned land at the Sandy River Delta. This work is exemplary
3 for their inclusion of social service agencies to assist the
4 homeless in finding permanent housing.

5 The Multnomah County Sheriff's Office River Patrol
6 Unit has made a significant impact on the environment that
7 benefits the Common School Fund, and helped stretch DSL's
8 limited staff and funds for monitoring our lands in Multnomah
9 County. We sincerely thank them for their efforts and their
10 dedication.

11 Please join me in congratulating them today for
12 receiving the 200 -- 2010 -- (unintelligible). Please join me
13 in congratulating them for receiving the 2010 Partnership
14 Award. With us to accept the award are Sheriff Dan Staton;
15 Chief Deputy Mike Shults; Sergeant Tim Lichatowich; and Deputy
16 Joe Graziano. Please come forward for a photo and to accept
17 your well-deserved awards.

18 (Applause.)

19 **DIRECTOR SOLLIDAY:** Governor, next up is the consent
20 agenda. There are two items on the consent agenda today. The
21 first one is a request for approval of the minutes of the
22 February 8, 2011 State Land Board meeting. And the second is a
23 request for approval to issue a conservation easement to the
24 Port of Newport and Lincoln County.

25 The conservation easement is for the purpose -- it'll

1 be a permanent conservation easement and it's for the purpose
2 of protecting an eelgrass mitigation site in Yaquina Bay that
3 was -- is part of the NOAA fleet construction project that's
4 about to be completed actually. The Port was required to
5 mitigate for impact to some eelgrass as a result of some
6 dredging that was going on at that site. And in fact, I might
7 mention that Sal Sluestat (Phonetic) actually helped them to
8 identify how to do the eelgrass mitigation and identify the
9 appropriate sites for that mitigation to take place on.

10 So the Port of Newport will be paying the Department
11 \$28,770.45 for the permanent conservation easement. And with
12 that, staff recommends approval of the consent agenda.

13 **GOVERNOR KITZHABER:** Is there a motion?

14 **SECRETARY OF STATE BROWN:** Governor, I would move
15 approval of the consent agenda.

16 **STATE TREASURER WHEELER:** Second.

17 **GOVERNOR KITZHABER:** It's been moved and seconded
18 that the Land Board approve the consent agenda. Is there
19 objection? That's ordered.

20 **DIRECTOR SOLLIDAY:** The first action item today is a
21 request for authorization to sell four scattered parcels in
22 Baker, Union, and Umatilla Counties. These are parcels that
23 the Land Board originally began looking at back in 2007 for
24 potential disposal. The Land Board ultimately decided to
25 dispose of 16 of the parcels.

1 When we went to auction in 2009 on these parcels
2 originally, five of them were sold at auction; two of them were
3 sold later as direct sales. The remainder were left unsold.
4 And we've updated the appraisals on those properties and are
5 now bringing to you four of those parcels to place out on
6 public auction again.

7 And I might say, when we did this original sale, we
8 had done the appraisals at the peak of the market and then went
9 to auction towards the bottom of the market. And so our
10 appraising was pretty high compared to probably what the values
11 of those properties were, so the new appraisals have --
12 actually reflect the current market rates. And hopefully, we
13 will have a little bit better success rate.

14 Three of these parcels are scattered rangeland
15 parcels. They're in most cases surrounded by private
16 ownership. They're not leased by us to anyone, and it would be
17 difficult to do that because of the isolated nature of them and
18 because of the ownership that surrounds us.

19 The fourth parcel is a mixed forest grazing parcel.
20 It has some older conifer trees on it, but a large part of the
21 parcel is scrub brush and maybe more suitable for grazing than
22 for timber management. It's a parcel that was decertified
23 several years ago from forestland management.

24 And with that, staff is recommending that we sell
25 through open competitive bid the four isolated parcels in those

1 three northeastern counties. The minimum bid price would be
2 based on the appraised price plus our transaction costs.

3 **GOVERNOR KITZHABER:** Is there questions?

4 **STATE TREASURER WHEELER:** I have a question. What
5 are the carrying costs for these properties, and what would the
6 justification be for selling them now as opposed to waiting for
7 the market conditions to improve?

8 **DIRECTOR SOLLIDAY:** So Treasurer Wheeler, for these
9 parcels, we're paying fire assessments, and that would be
10 really our only carrying costs at this point. But they are not
11 generating any revenue into the Common School Fund at this
12 point and have not been.

13 **STATE TREASURER WHEELER:** May I ask a --

14 **GOVERNOR KITZHABER:** Yes, please.

15 **STATE TREASURER WHEELER:** -- follow-up question,
16 Governor? Is there any advantage financially to the Common
17 School Fund in delaying this sale and waiting until real estate
18 values get better, or is it your contention that because
19 they're isolated we really don't have any additional
20 opportunity for upside value?

21 **DIRECTOR SOLLIDAY:** Yeah. Treasurer Edwards, I'm not
22 sure how much upside -- Treasurer Edwards. Treasurer Wheeler,
23 I'm not sure -- it's been awhile. You know, I'm not --
24 particularly the rangeland parcels, their values are not going
25 to change significantly. The one parcel that has some timber

1 on it may go up in value. The appraisals didn't change a
2 significant amount from when we originally appraised them. For
3 us, the money would go into the land revolving account, would
4 be available for reinvestment in parcels, and hopefully would
5 generate revenue quicker into the Common School Fund.

6 **TREASURER WHEELER:** Okay. Thank you. I appreciate
7 it.

8 **GOVERNOR KITZHABER:** And how much are we paying for
9 the fire suppression costs? Good ballpark, I mean.

10 **DIRECTOR SOLLIDAY:** (unintelligible).

11 **UNIDENTIFIED FEMALE VOICE:** About \$200 a year.

12 **DIRECTOR SOLLIDAY:** Okay. So a fairly insignificant
13 cost at this point.

14 **GOVERNOR KITZHABER:** Do we have a motion?

15 **STATE TREASURER WHEELER:** Settlement (phonetic).

16 **GOVERNOR KITZHABER:** Okay. Then move that we
17 authorize the sale of these scattered parcels in Baker, Union,
18 and Umatilla Counties. Discussion? Objections? It's ordered.

19 **DIRECTOR SOLLIDAY:** Okay. The next action item is a
20 request for authorization to sell .31 acres of historical fill
21 lands in Tillamook County to Patrick and Tracy Scribner. This
22 is a parcel of historical fill lands on -- in Nehalem Bay.
23 This is an area that was filled by the Corps of Engineers as
24 they were dredging navigation canal in the Nehalem Bay and the
25 Nehalem River back in the mid-20th century.

1 The Scribners purchased the property in 2007. There
2 is a hotel located partially on the submerged and formerly
3 submerged and submersible land and on the upland, as well as a
4 marina that is associated with the business. The state does
5 not have access to the parcel other than from the water. The
6 Scribners applied to purchased this property in 2009, and
7 they've agreed to pay \$20,000 for the parcel. And staff is
8 recommending that the Board sell through a direct sale to the
9 Scribners this .31 acres of historical fill lands on the
10 Nehalem Bay for a price of \$20,000.

11 **GOVERNOR KITZHABER:** Questions? Is there objection
12 to the recommendation? Then we will authorize the sale of
13 those parcels.

14 **DIRECTOR SOLLIDAY:** The next item is a request for
15 authorization to sell four parcels totaling 24,090 square feet
16 of filled lands in Multnomah County to the Port of Portland.
17 This sale would be for \$132,550.

18 These four small -- and they are very tiny; you'll
19 notice a total of 24,090 square feet -- are part of a larger
20 fill that occurred back beginning in the late 1960s. The Port
21 of Portland came to the Land Board in the late 1960s with a
22 request to fill the land and to purchase the land. The Land
23 Board sold the parcel to the Port, issued a deed to them for
24 the parcel. They paid for it at that time.

25 But when they filled the land, they filled beyond the

1 boundaries of the deed that was issued back in the 1960s. And
2 the Port, as it was heading towards leasing Terminal 6 -- this
3 is, of course, along the Columbia River. As the Port was
4 heading towards leasing Terminal 6 last year to a new company
5 to manage those operations, they reviewed their real estate
6 records and realized that they had a deed that did not
7 encompass the entire area that had been filled.

8 And so this is to correct that situation. The Port
9 applied to purchase this -- these extra areas. As you can see
10 on the map in your notebook, they are four very small areas
11 right around the boundaries of the fill that took place. And
12 so staff is recommending the Board sell those four parcels
13 totaling 24,090 square feet for the appraised price of
14 \$132,550. The property was appraised and it came in at \$5.50 a
15 square foot.

16 **GOVERNOR KITZHABER:** Any questions?

17 **STATE TREASURER WHEELER:** No.

18 **GOVERNOR KITZHABER:** Now, the forks (phonetic) pretty
19 flush. Don't you think you can push (unintelligible).

20 (Laughter.)

21 **DIRECTOR SOLLIDAY:** Of course, you can't
22 (unintelligible).

23 **GOVERNOR KITZHABER:** Push (unintelligible). How bad
24 do they need this (unintelligible)?

25 (Laughter.)

1 **GOVERNOR KITZHABER:** Okay.

2 **SECRETARY OF STATE BROWN:** Governor?

3 **GOVERNOR KITZHABER:** Yes.

4 **SECRETARY OF STATE BROWN:** I would move that we
5 approve the sale for parcels to the Port of Portland.

6 **GOVERNOR KITZHABER:** Yeah. Okay.

7 **STATE TREASURER WHEELER:** Second.

8 **GOVERNOR KITZHABER:** Without objection.

9 **DIRECTOR SOLLIDAY:** Okay. Now, the first
10 informational item we have today is a report on the Common
11 School Fund investments, and I'll invite Mike Mueller up here.
12 And while he's coming up here, I do want to just make sure the
13 Board is aware that the co-chair's budget that was recently
14 released includes an additional \$23 million distribution from
15 the Common School Fund during the 2011/13 biennium. That \$23
16 million represents a five percent distribution. The current
17 Land Board policy is four percent, which was adopted back in
18 2009.

19 We also in 2009, the Board adopted a resolution to do
20 a one-time five percent distribution during the '09/11
21 biennium, subject to funds being available in the distributable
22 income account. We've been fortunate we've been able to make
23 those distributions this biennium. And I would expect that I
24 will -- we will be bringing to the Board in June a
25 resolution -- a similar resolution to do a one-time five

1 percent distribution in 2011/13.

2 And with that, I'm going to turn it over to Mike for
3 his report. And then if there are questions --

4 **GOVERNOR KITZHABER:** I have a question, actually, on
5 this topic right here. So one of the concerns I have about the
6 budget is that we, to the greatest extent possible, use revenue
7 that's not one-time revenue so that we don't continue to push
8 the can down the road. So my question is, in -- in '13/15,
9 presumably if the economy hasn't fully returned to a robust
10 condition, they'll be looking for another appropriation. Is
11 this sustainable over time?

12 **DIRECTOR SOLLIDAY:** Governor, when we did the
13 analysis back in 2009, when we changed the policy for
14 distributions in 2009, we actually asked Treasury to do an
15 analysis of three percent, four percent, and five percent
16 distributions. And the analysis indicated that we could
17 sustain any of those distribution levels over time, assuming we
18 meet the policy objectives that are set up for investment in
19 the Common School Fund.

20 And as you know, we've been in a down market. Our
21 returns have been lower than they had been in the previous
22 biennia. We are starting to see recovery of those returns this
23 biennium. Anytime we get into a down market, we're -- because
24 we have about 70 percent of the Common School Fund invested in
25 equities, we're going to suffer the down market along with

1 everybody else. But we have -- and Michael report -- have
2 recovered nicely or are recovering nicely from the bottom that
3 we hit a couple of years ago, and we hope to continue to see
4 that recovery.

5 And by statute and by the Constitution, we can't
6 distribute more than what is the distributable income account.
7 So if we get to a situation where we're making a four percent
8 or a five percent distribution, by policy -- and the money is
9 not there, we just cannot make the distribution.

10 **GOVERNOR KITZHABER:** Okay. Thank you.

11 **MR. MUELLER:** Mr. Governor, members of the Land
12 Board, I'm Mike Mueller. I'm the Deputy Chief Investment
13 Officer at the Oregon State Treasury. I'll keep my remarks
14 brief because you have my written report. I just want to let
15 you know that 2010 marked the second consecutive year of very
16 good market returns. In fact, the Common School Fund for the
17 calendar year ended December was up 13 percent, and over the
18 two-year period it was up 21.4 percent on an annual basis. So
19 each of the past two years were quite good for the fund.

20 This is the second year of the implementation of a
21 manager lineup changes instituted by the Oregon Investment
22 Council whereby we use managers, equity managers that are also
23 used by the Oregon Public Employee Retirement Fund, so they get
24 outstanding monitoring by Treasury staff. So far, the results
25 have been good. Six of the eight active equity managers have

1 exceeded their respective benchmarks over the past two-year
2 period.

3 And I will conclude by just noting that, net of
4 distributions and contributions to the Common School Fund, the
5 fund has grown by 50 percent over the past two years from a low
6 of \$678 million, just a couple years ago in February of 2009,
7 to slightly over 1.1 billion at the end of 2010. And as of the
8 end of February, we're still at 1.1 billion. And year-to-date,
9 the fund has earned -- this calendar year-to-date through
10 February -- three percent.

11 **GOVERNOR KITZHABER:** Questions? Thank you.

12 **DIRECTOR SOLLIDAY:** Now, the last thing I want to do
13 under other is just give the Board an update on legislative
14 activities that have the potential to affect our department.
15 We have about a half-dozen bills that would affect the Removal-
16 Fill Program in one way or another. Most of those are bills
17 that we are generally supportive of. There's a couple we're
18 continuing to monitor closely. I would say there's nothing of
19 major significance in any of those bills.

20 We are also tracking some bills that affect our
21 proprietary actions. We had worked with Senator Johnson on a
22 bill affecting submerged and submersible land, our waterway
23 leasing program. That bill is scheduled for a work session
24 next week, and I think we've got general agreement from
25 everybody on that bill at this point.

1 We also have -- we've been tracking some forestry
2 bills. We thought most of those were going to go away, but it
3 appears as though House Bill 2001 is going to go to work
4 session. It's been scheduled for a hearing twice, but has been
5 carried over. It's now scheduled tomorrow for a hearing and is
6 scheduled for a work session on Friday.

7 This is a bill that would direct -- defined the
8 definition of greatest permanent value. And the bill, as it's
9 written, would apply that greatest permanent value or attempt
10 to apply that greatest permanent value to management of Common
11 School Fund forestlands and the Elliott State Forest.

12 And we'll be providing testimony that indicates that
13 the Land Board's direction for managing forestlands comes from
14 the Constitution. And it is not the greatest permanent value
15 direction; it is the direction that's laid out in Article Eight
16 of the Constitution, and that where statute conflicts with the
17 Constitution, the constitutional direction will prevail. So
18 we'll just get that on the record to make sure that the
19 committee and the legislature is reminded of that issue. This
20 comes up every session, so we're used to doing this.

21 And then one other bill I'd mention that affects our
22 proprietary actions, and that's House Bill 2009. That deals
23 with the designation of marine reserves and the territorial
24 sea. You'll remember we brought two reserves to the Land Board
25 over a year ago for designation, and this would -- the bill as

1 crafted would direct the Land Board to adopt three additional
2 marine reserves that have come out of local community teams and
3 are being recommended by the Ocean Policy Advisory Council and
4 the Oregon Department of Fish and Wildlife for adoption.

5 So the bill would direct us to do rule-making. We
6 are the -- the Land Board is the agency that designates the
7 boundaries of those reserves. And then we also put in place
8 restrictions on activities that we otherwise might allow in the
9 territorial sea from occurring in those areas. So just want
10 you to be aware of -- that bill is scheduled for a work session
11 on Thursday.

12 **GOVERNOR KITZHABER:** Okay. Yes, Kate?

13 **SECRETARY OF STATE BROWN:** Quick question. Where are
14 the three additional marine reserves? I'm assuming one's off
15 of Tillamook.

16 **DIRECTOR SOLLIDAY:** Well, let's see if I can do this.
17 Cascade had Cape Falcon, and --

18 **GOVERNOR KITZHABER:** Richard. Okay, Richard --

19 **DIRECTOR SOLLIDAY:** Cape Perpetua. Thank you. And
20 then there is a sixth reserve that is still being discussed for
21 Cape Arago off of the Coos Bay area. And there's a
22 recommendation that has come from a community group to the Port
23 of Coos Bay, which they will then forward on to the Ocean
24 Policy Advisory Council.

25 **SECRETARY OF STATE BROWN:** Thank you.

1 **DIRECTOR SOLLIDAY:** And then we are also following a
2 couple bills that affect multiple agencies. One is a bill
3 dealing with ecosystem services; that's House Bill 3109. That
4 bill is also scheduled for both a hearing and a work session
5 tomorrow, and we'll be testif -- this afternoon, actually. And
6 we'll be testifying in support of that bill. I actually sat on
7 the Senate Bill 513 taskforce that developed a report that is
8 leading to this legislation being introduced this session. And
9 it builds on the language that Senate Bill 513 put in statute
10 in 2009.

11 There are also a bunch of bills, other bills that
12 affect multiple agencies. We've been paying attention to the
13 bill, House Bill 2020 that deals with the number of supervisory
14 employees relative to the number of nonsupervisory employees.
15 That bill is scheduled for a work session.

16 We've been paying attention to House Bill 2009, which
17 would require all agencies who own real estate or facilities to
18 do a reserve study and to keep that reserve study up to date.
19 And the purpose of the reserve study is to identify the
20 maintenance needs of your facilities, and to develop a fund to
21 fund those maintenance needs over time, similar to reserve
22 studies that homeowners associations, condominium associations
23 are required to have.

24 This is a legislative concept that I -- DAS -- DAS
25 actually put forward a bill that was a little different than

1 this that -- and they were under the impression that this
2 was -- concept was not going forward, and it resurfaced again
3 on Friday.

4 **GOVERNOR KITZHABER:** Richard?

5 **MR. WHITMAN:** Louise, you said House Bill 2009. I
6 think you meant a different number.

7 **DIRECTOR SOLLIDAY:** Yeah, sorry. 2003. Sorry.
8 Yeah, the marine reserve bill is 2009. 2003. And then Senate
9 Bill 953, which is a little confusing in reading it, but I
10 think the intent of it is that the legislature must approve all
11 fee increases that are adopted by rule by agencies. The
12 language is a little weird the way it's drafted. But it, all
13 of a sudden, got scheduled on Friday, so we're paying attention
14 to that.

15 We've also been paying attention to the public
16 records bill and a couple of bills from the Department of
17 Justice dealing with environmental enforcement. There are two
18 bills that are similar; House Bill 3325, which is up this
19 afternoon, and Senate Bill 941, which is up a little later this
20 week.

21 And then two sustainability bills, Senate Bills 942
22 and 943, which are scheduled for next week. So those are bills
23 that affect more agencies than just us, but we are tracking
24 because they have the potential to impact our ability to do the
25 work that we're doing.

1 **GOVERNOR KITZHABER:** Okay. Very good. Any other
2 business? (unintelligible)?

3 **DIRECTOR SOLLIDAY:** With that, I have no other
4 business to come before the Board today.

5 **GOVERNOR KITZHABER:** Very good. Anyone else? No
6 objections? Adjourned.

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CERTIFICATE

I, Stephen V. Wright, hereby certify that I am an electronic transcriptionist for Business Support Services of Salem, Inc., that as such electronic transcriptionist I prepared from a tape recording provided by Business Support Services, Inc., the foregoing typewritten transcript of the meeting had upon the matter at the time and place set forth in the caption hereof; and that the foregoing pages, which are numbered 1 through 20, both inclusive, are the true, accurate and complete transcript of the proceedings adduced had upon the said meeting.

WITNESS my hand as electronic transcriptionist this 14th day of April 2011.

Stephen v. Wright, Transcriptionist

svw/svw