



FY 2023

Managing School Lands

Annual Report of the Real Property Program
OREGON DEPARTMENT OF STATE LANDS



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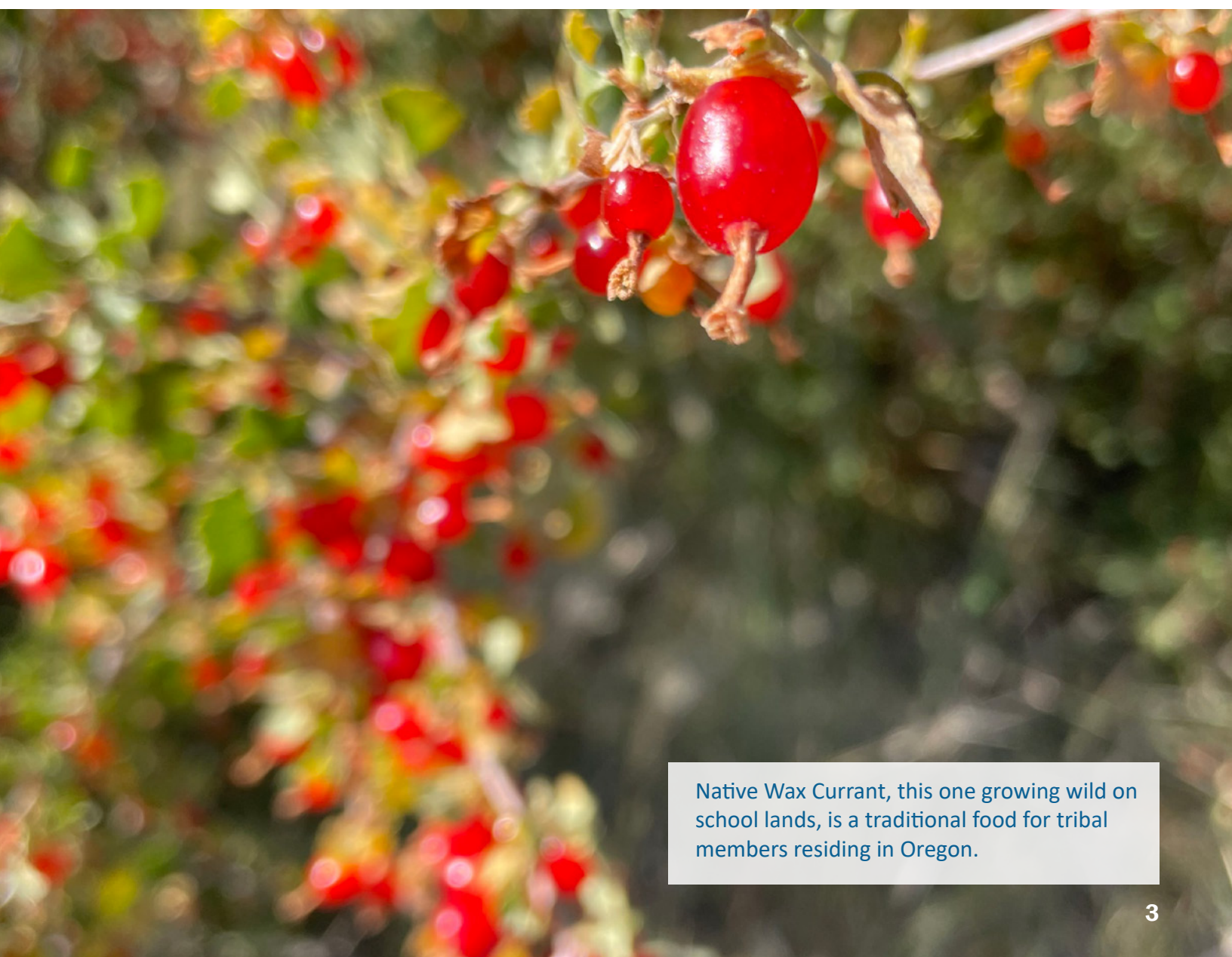


REPORT

AT-A-GLANCE

Oregon school lands are 768,000 acres strong and provide diverse value to Oregon including revenue creation for the Common School Fund, economic opportunities in Eastern Oregon, and habitat improvements for important species like greater sage grouse. The Department of State Lands, specifically the Real Property program, manages these lands. This **Real Property Program Annual Report** for July 1, 2022, to June 30, 2023 (FY23) reviews the current school lands portfolio, discusses management approaches and activities, analyzes school land financial performance, and identifies future projects and priorities.

The goal of this report is to provide FY23 information about Oregon’s school lands and how they are managed, as well as a snapshot in time of Real Property Program performance that can be measured against previous performance and used to identify and address factors affecting performance.



Native Wax Currant, this one growing wild on school lands, is a traditional food for tribal members residing in Oregon.

Key takeaways include:

Resolving the future of the Elliott State Forest continues to be important for the Common School Fund.

Program net operating income remains negative due to expenses related to the Elliott State Forest. When Elliott expenses are excluded, net operating income was \$1.66 million.

Forage leases continue to be the largest use on school lands.

The Department leases 657,738 acres of rangelands and forestlands for grazing through forage leases. In FY23, 157 forage leases generated \$763,794, up 34% from the previous year.

DSL-managed forestlands continue expansion.

The Department is exploring options to improve forestland revenue. In FY23, this effort included a proposal to bring forestlands in the Klamath District under DSL management, rather than the Oregon Department of Forestry, to reduce costs and increase revenue.

Land use authorizations are up.

Real Property Program land use authorizations were up 12% in FY23, contributing about \$1.5 million to revenue.

Strategic work helps protect assets long-term.

- Developing the Department's 10-year school land Asset Management Plan
- Developing partnerships and identifying funding sources to restore degraded habitats and promote wildfire-resilient conditions
- Land use planning projects in urban areas that will result in high-yield land sales
- Enhancing and exploring opportunities for communication facility and renewable energy project leases
- Securing the remaining 1,400 acres of school lands owed to Oregon by the federal government



REAL PROPERTY PROGRAM OVERVIEW

The federal government granted Oregon nearly 3.4 million acres of land "for the use of schools" at statehood in 1859. The revenue generated from managing these school lands is placed in the Common School Fund which is dedicated to support public education in Oregon. The State Land Board was established at statehood as trustee of the Common School Fund and school lands.

Today, Oregon's school lands continue to contribute to K-12 public education by generating revenue for the Common School Fund. The Department of State Lands manages school and other statutory lands on behalf of the State Land Board.

The Department's Real Property Program is tasked with managing school lands. The Program is linked to the [2022-2027 Department of State Lands Strategic Plan](#) as follows:

Strategic Goal: Supporting Schools

Manages school lands to benefit current and future students. The Program follows best management and stewardship practices to maximize revenue generated for the Common School Fund, while protecting school lands and their resources to benefit future generations. Much of the revenue from school lands is generated through leases and authorizations. The Program also strategically sells and exchanges low-performing lands or acquires lands with long-term potential to produce revenue for the Common School Fund.

Strategic Goal: Thriving Oregon

Ensures school lands continue to thrive. The Program partners with organizations, land management agencies, tribal partners, and landowners to develop projects that reduce wildfire risk, improve the health of rangelands and forestlands, and engage in other stewardship activities on school lands. These actions directly benefit communities in Oregon as well as create value for the future.

Strategic Goal: Great Workplace

Develops management strategies and tracks performance. The Program is guided by DSL's Strategic Plan, Asset Management Plan, and metrics to track land valuation and performance. These guiding tools help staff prioritize their diverse workloads, advance their skills in collaboration, and share knowledge that has been acquired over decades of management.

Strategic Goal: Exceptional Service

Supports access, service, and increase awareness in land management. Through the goal of maximizing benefits in land management, the Real Property Program works with the public to offer various authorizations, including permits, leases, and licenses for land uses. While reporting is most often concerned with larger scale uses such as livestock grazing, public access also creates low barrier to entry opportunities for the surrounding communities such as personal-use firewood collection and recreational uses such as hunting and OHV use. Land management practices are maintained to allow for these activities whenever possible and provide ecosystem services to ensure viability into the future. In addition, the program manages all real estate transactions for the Department and mineral right activities on behalf of other state agencies.

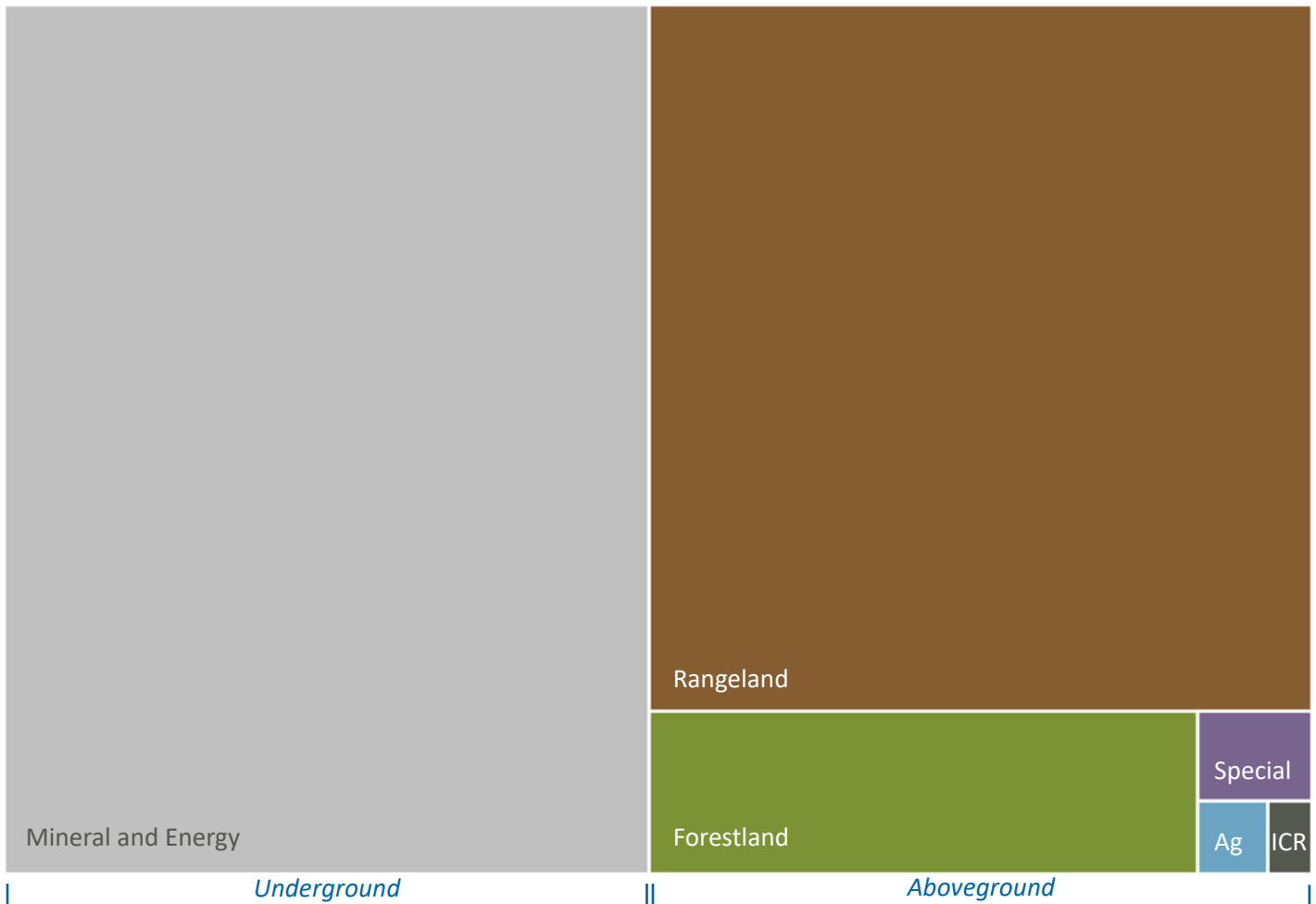
Land Classifications

The Program manages school lands and statutory lands¹. **School lands**, also known as trust lands, were granted by the federal government upon Oregon’s admission into the Union. The Land Board is directed by Oregon’s Constitution to manage these lands for the primary purpose of generating revenue for K-12 education.

Approximately 25,700 acres of **statutory lands** managed by the Program were dedicated to the state through the Swamp Lands Act of 1860. The majority of these acres are rangelands. The Elliott State Forest was transferred from school land to statutory lands in FY23, and now comprises the largest portion of statutory lands of the Real Property Program.

Mapped across the state in [Appendix A](#), lands are assigned a land classification:

- Forestland (122,499 acres)
- Agricultural (7,053 acres)
- Rangeland (624,211 acres)
- Industrial/Commercial/Residential (4,424 acres)
- Mineral and Energy (768,550 acres)
- Special Stewardship (14,074 acres)



¹ Statutory lands include assets managed by the Real Property Program, and do not include the beds and banks of navigable waterways, which are overseen by DSL’s Aquatic Resource Management Program.

Forestland is area capable of growing and sustaining forest cover. Forestlands managed by the Oregon Department of Forestry (ODF), in compliance with the Oregon Forest Practices Act on behalf of DSL, make up about 28,000 acres. Primarily located in the western portion of the state, ODF-managed forests tend to be highly productive with timber harvest operations contributing to the Common School Fund. DSL-managed forestlands are typically slow-growing sites that produce minimal income from timber harvest. These 12,600 acres of forestlands typically contribute to the Common School Fund through land authorizations such as grazing leases and require fewer timber management activities. Currently managed by DSL, the Elliott State Forest contains 82,500 acres of forestlands located in the Coast Range northeast of Coos Bay and currently generates no revenue from forestry activities.

Agricultural land is area where the native vegetation has been removed for crop production. To be classified as agricultural lands, the parcel must currently be under lease for agriculture or in the process of being converted to agriculture. Agricultural lands are typically converted from rangelands; however, conversions are limited and infrequent. The Department aims to keep agricultural lands in areas that already have agriculture present so as not to add unnecessary fragmentation to high-quality rangelands. The holding of water rights by the Department is a limiting factor in agricultural conversions.

Rangeland has arid or semi-arid soils and dominant sagebrush or juniper vegetation. Rangelands are primarily suitable for grazing and make up the largest surface acreage managed by the Department with the greatest number of leases. Some rangelands have been leased to grazing for 100 years or more.

Industrial/Commercial/Residential (ICR) lands are parcels located within or adjacent to urban growth boundaries or urban reserves. These lands are currently zoned or likely to be zoned for industrial, commercial, or residential uses. ICR lands are managed for the express purpose of being sold or leased for future development.

Mineral and Energy land may contain mineral or energy resources. Mapped across the state in [Appendix A-2](#), **mineral resources** are subsurface rights reserved for mineral resource development or exploration. **Energy resources** are lands primarily used for renewable energy, including wind, solar, and geothermal.

Special Stewardship land is managed to ensure the protection of cultural, educational, scenic, recreational, and natural resource values. They typically have benefits other than revenue production—for example, they may serve as habitat for threatened or endangered species. Approximately 6,700 acres of special stewardship lands are managed by South Slough Reserve for recreation and coastal research, education, and training. The Real Property Program manages about 7,000 acres of special stewardship lands, not including the South Slough Reserve.

Real Property Program staff periodically evaluate properties to ensure land classifications are appropriate. The current land classifications were updated in FY22 and the revenue and expenditures in this report accurately represent current classifications. Changes to land classifications are made based on individual property site characteristics, uses, and any other pertinent information available to DSL staff.



SCHOOL LAND

USE AUTHORIZATIONS

The Program works with ranchers, farmers, utilities, local governments, tribal governments, businesses, and others to issue authorizations for use of school lands. These uses benefit both the Common School Fund and local Oregon economies.

Table 1 details 247 new and continuing authorizations in FY23, which is a significant portion of the work of the Real Property Program. An authorization may be as simple as issuing a firewood cutting permit for a small fee, or as complex as dealing with a cell tower company for a communications site lease, involving lease payments, construction activities, sub-leases, bonding, and other regulatory concerns. Many of these authorizations require staff to perform site inspections and monitoring, host meetings, and process payments. The Program currently has five field staff handling authorizations, with just two employees monitoring 170 agricultural and forage leases on over 670,000 acres of land. Authorization types shown in Table 1 are based on the intended use rather than classification of the land. For example, there may be grazing on forestlands, and communication sites placed on rangelands.

Table 1. Authorization Total Revenues in FY23

AUTHORIZATION TYPE	LAND USE	NUMBER OF AUTHORIZATIONS	TOTAL ACRES	TOTAL REVENUE	PERCENTAGE TOTAL REVENUE
Forage Leases	Grazing	157	657,738	\$763,794	52%
Special Use Leases	Agriculture	13	7,125	\$ 348,481	24%
	ICR	2	402	\$ 90,080*	6%
	Communications	24	Nominal	\$101,607	7%
	Hard Mineral	2	659	\$117,622	8%
	Upland Quarry	2	10	\$0**	0.0%
	Recreation	6	80.8	\$10,124	0.7%
	Solar	3	1,325	\$13,626	0.9%
	Miscellaneous	3	6,085	\$950	0.1%
Oil & Gas	Oil & Gas	7	Nominal	\$ 4,362	0.3%
Easements	Easements	1	1.8	\$2,500	0.2%
Permits	Small Products, Gravel Removal & Hauling Permits	26	N/A	\$7,122	0.5%
TOTAL*		247	677,865	\$1,460,269	100%

Note: Acres may be double-counted due to multiple authorizations on the same property.

* This total is for authorizations issued by the Real Property Program and does not include income from the leasing of space in the Department's Salem building.

** No revenue due to no activities at quarries in FY23.

Forage Leases

The Department currently has 157 active forage leases (see Table 1), managed in partnership with leaseholders who graze livestock on rangelands or forestlands. In FY23, forage leases accounted for \$763,794, or 52% of the Program's income from authorizations. Annual forage lease fees are based on the grazing fee formula in administrative rule and vary annually based on average calf prices of the preceding year.

Special Use Leases

Special use leases authorize a variety of uses on a mix of land classifications. Currently these uses include agriculture, renewable energy (solar, wind, geothermal), communication sites, upland quarries, collection of small products (gems, petrified wood, small forest products), and scientific research. Combined, all special use leases accounted for \$682,832, about 47%, of income generated from authorizations in FY23.

Agricultural leases currently generate the greatest income per acre compared to other leases. While agricultural lands account for a small fraction of school lands (~1 percent), agricultural leases made up over half of the Special Use authorizations revenue, or 24% of total Real Property authorization revenue in FY23, generating \$348,481 and 51% of all special uses. Most of these lands are in Eastern Oregon and are leased for alfalfa and row crops that may be rotated with corn.



Communication leases make up the largest number of authorizations for a single special use category (24 leases, see Table 1). Communication leases allow placement of facilities to support cell phone service, internet service, emergency communications (911 or State police), as well as cable broadcast, radio broadcast and local radio users. There were 24 communication leases in FY23. Communication sites are clustered in five locations, two of which are in Harney County. An outdated facility currently in operation in Harney County is under development by the Burns Paiute Tribe. This facility aids communication services, including phone and internet, as well as service for Tribal emergency radio support. The Department is currently working on rulemaking to establish separate administrative rules for communications leases to allow for more efficient management (see [Future Projects & Priorities](#)).

Solar energy leases are in demonstration phases. Oregon's Renewable Portfolio Standards requires that 50% of the electricity Oregonians use come from renewable sources by 2040. The Program is in the process of authorizing three different solar generation projects.

1. Photovoltaic energy generation and battery storage facility in Harney County. This project has undergone public review and is in the draft phase of the demonstration license. This three-year license permits the applicant to investigate the economic and technological viability of installing the project. The demonstration phase includes 21,530 acres which may be scaled down for the eventual operational phase.
2. 245-acre solar development currently in the demonstration phase in Crook County.
3. Approximately 1,280 acres in Lake County where the demonstration phase is nearing an end, with construction slated for FY24 and the project on track to be operational in FY25.

Although the development sizes for these sites are yet unknown, it is estimated that 100 to 150 megawatts could be produced between the 3 solar leases. That range could provide electricity for 15,000 homes, conservatively. As these authorizations progress into the operational phase, the program revenue will increase over time.

Hard rock mineral leases are an additional type of Special Use Lease which include management, leasing, and sale of State-owned mineral rights. The Program is managing a hard rock mineral lease in its 40th year in Malheur County where the facility is extracting diatomaceous earth. Diatomaceous earth has many uses depending on its grade, which include as a functional additive in paint, treating blood platelets, and as a membrane filter aid. The product is trucked to Vale, Oregon, where it is processed. Local employment is provided at the mining site, for trucking, and at the processing facility.

Easements

The Department also issues easements, which allow an authorized person or entity to access a specific property for a particular use. The most common easement uses are for utilities, such as powerlines and fiber optic cables; roads or trails; and easements for the use of water rights. While the Department has approved hundreds of easements over time, there are only a handful of new easements issued on school lands every year. There are currently 326 active upland easements. Lawsuits have affected the Department's ability to charge fees for utility easements across school lands, which has affected the Program's income.

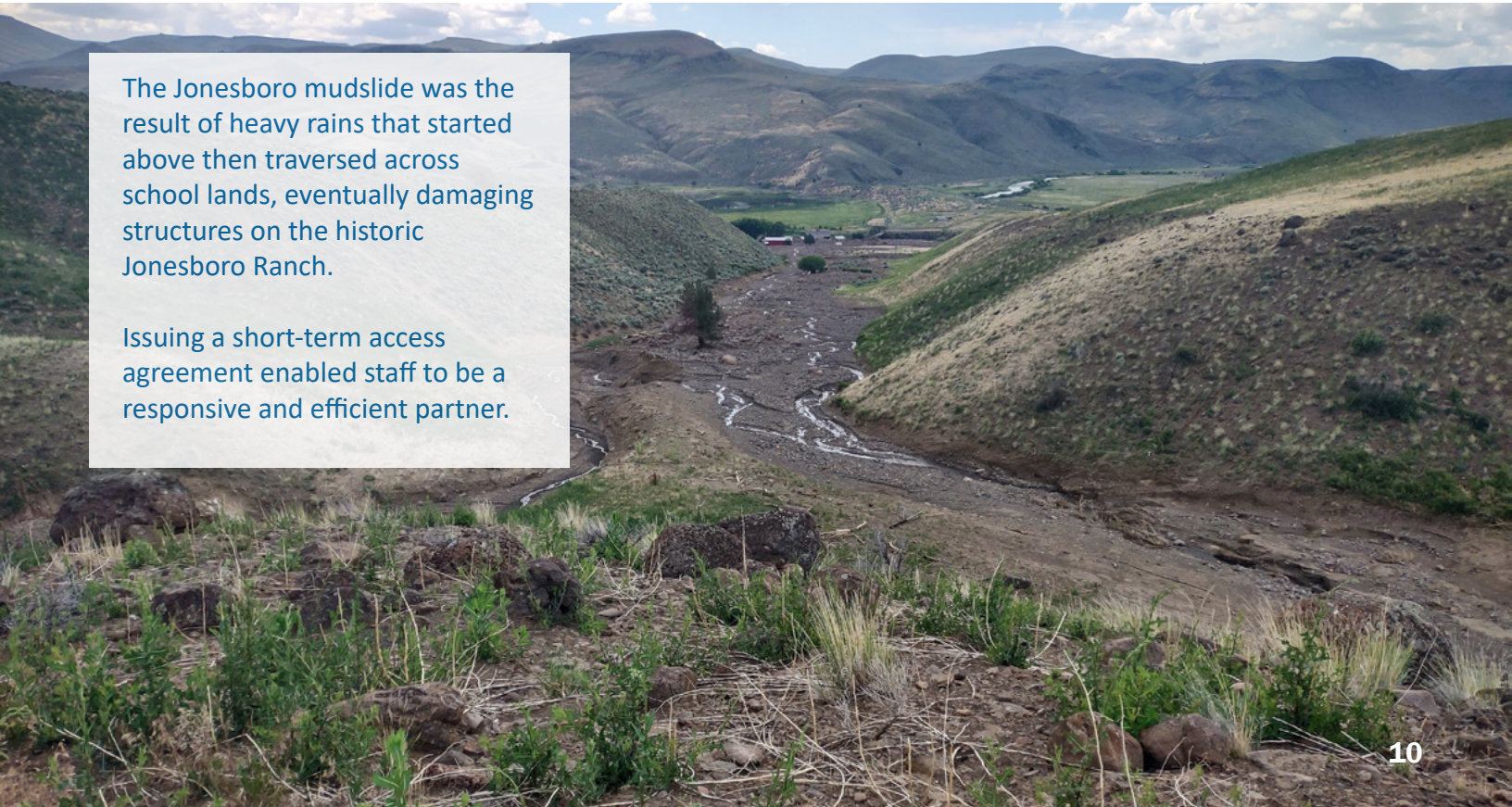
The Department issues different durations of easements, including permanent, depending on the purpose and need of the request. Permanent easements require State Land Board approval prior to issuance and term easements are not to exceed 30 years. The Department issued one permanent easement to the City of Prineville for water storage tanks in early 2023, see Table 1. This Land Board approval provided a permanent location for the growing City of Prineville's water supply. Additionally, the Department often receives requests from adjoining landowners for term easements to secure access to their homes. The Department reviews these requests thoroughly to ensure school lands do not become unnecessarily encumbered. However, when necessary, these term easements provide vital access to community members' properties.

Special Use Licenses

The Department administered 26 licenses and permits for removal of small products and gravel from school lands in FY23, see Table 1. These permits, which provide little to no revenue to the Common School Fund, allow for activities such as firewood cutting or collection of small amounts of gravel.

Short Term Access Agreements

A no-fee authorization called a short-term access agreement is also available for activities such as educational or research projects, races and events, and collection of mineral or plant samples. In FY23, the Program issued multiple short-term access agreements, including for the cleanup surrounding Highway 20 in Jonesboro in Malheur County after a massive mudslide covered the road and adjacent uplands and the remediation of Upper Klamath Lake following a tractor truck accident resulting in the loss of cargo, diesel, and other fluids.



The Jonesboro mudslide was the result of heavy rains that started above then traversed across school lands, eventually damaging structures on the historic Jonesboro Ranch.

Issuing a short-term access agreement enabled staff to be a responsive and efficient partner.



FORESTLANDS

Building the Department’s first timber sale program was a significant accomplishment in FY23. DSL had no previous timber program infrastructure. Building this program included developing a timber sale contract, log ticket books, a timber appraisal process, and a log brand. Field work associated with all these projects includes rigorous assessment of forest stand conditions including tree health, species mix, forest structure, and development of methods for cutting the treatment area. Those methods include laying out sale boundaries, marking trees, and measuring tree volumes. This program infrastructure is vital to all future projects on DSL-managed forestlands.

DSL-managed forestlands are maintained to improve wildfire resiliency, forest health, wildlife habitat, forage leases, and timber sales to generate revenue for the Common School Fund. In FY23, DSL sold its first timber sale, the Pine Mountain East Timber Sale. This sale is a 70-acre thinning project on a parcel in Hood River County with the goal of improving forest health and producing revenue for the Common School Fund. The sale will generate over \$650,000 in revenue in the next two years and will increase forest resiliency to withstand the impacts of wildfire, insect outbreaks, and drought. This project is the first of many DSL-managed projects planned for the future.

The Department continues to explore options to address the revenue challenges associated with managing forestlands. In FY23, the Department proposed transferring the remaining ODF-managed forestlands in the Klamath District to DSL management to reduce costs and increase overall forestlands revenue. The Klamath properties cost more than \$225,000 annually between fiscal years 2017 and 2021. Poor timber markets, low-value species mix, and low volume-per-acre harvests are factors in these costs. The “decertification” process requires both State Land Board and Board of Forestry approval, and results in the Department regaining management authority over the decertified forestlands. Work accomplished in FY23 included a financial analysis of the performance of the forestlands in the Klamath District and extensive coordination with ODF to propose decertification of those forestlands.



The Department's first log brand will be used to brand logs from the Pine Mountain East Timber Sale prior to transportation.


ODF-Managed Forestlands Revenue

In FY23, ODF reported total timber sale revenue from the 28,000 acres of ODF-managed forestlands at \$2.75 million, with \$908,000 in net revenue for the Common School Fund. ODF is currently working through the final stages of the Western Oregon State Forests Habitat Conservation Plan, a management plan that will enable ODF to comply with the federal Endangered Species Act, while managing state forests for economic, environmental, and social benefits. The management plan will cover all ODF and DSL forestlands west of the Cascades, excluding the Elliott State Forest, which will be covered by a distinct habitat conservation plan, forest management plan, and operations plan.

Elliott State Forest Costs

The 82,500-acre Elliott State Forest generates no revenue for the Common School Fund. Timber harvests, which previously provided revenue to the Fund, were scaled back in 2012 following a lawsuit regarding federal Endangered Species Act compliance. Costs associated with forest management include ongoing road maintenance, reforestation expenses, and efforts to create an Elliott State Research Forest. Elliott-related expenses to the Common School Fund were \$4.1 million in FY23, impacting the overall financial performance of school forestlands, and ultimately the financial performance of the entire Real Property Program.

Decoupling the Elliott from the Common School Fund was completed in FY23, through a State Land Board vote in December 2022 to release the forest from its obligation to generate revenue for schools as well as fully satisfying the \$221 million financial obligation to the Common School Fund. A down payment of \$100 million was made to the Common School Fund in 2019, through the sale of legislatively approved bonds. In 2022, the Legislature provided the remaining \$121 million in general funding to satisfy the Common School Fund. With decoupling actions complete, the forest is no longer an asset of the Common School Fund.



As a publicly owned forest, the Elliott has completed its obligation to funding schools, but will continue to contribute to conservation, recreation, education, Indigenous culture, and local economies as a research forest.



RANGELANDS

Beyond leasing rangelands for grazing, there is ongoing stewardship and management of the lands accomplished through habitat improvement efforts. Range improvement projects are funded through two financial mechanisms, partnerships and the range improvement fund. With these funds, DSL can focus on improvements to the health of the land through habitat improvement projects, fuels reduction, seeding disturbed ground, and noxious weed management. Some of the projects that have been funded in FY23 include water developments, livestock wells, waterlines, fences, terrestrial and aerial invasive plant control work (herbicide spraying), seeding rangelands, and juniper removal.

Partnerships

Long-term partnerships with multiple entities for a wide variety of grants and funding opportunities assist with funding or implementing rangeland projects. Often, these partnerships reach other landowners and expand work beyond school lands. Partners include:



- Natural Resources Conservation Service (NRCS)
- Pheasants Forever
- High Desert Partnership
- U. S. Fish and Wildlife Service (USFWS)
- Owyhee Watershed Council
- Bureau of Land Management (BLM)
- Oregon Department of Forestry
- Oregon Department of Fish and Wildlife (ODFW)
- Soil and Water Conservation Districts (SWCD)
- Cooperative weed management areas
- Landowners
- Eastern Oregon Agriculture Research Center
- Harney County Weed Control
- Other non-governmental organizations

Grant funding in FY23 included the Bipartisan Infrastructure Law; Regional Conservation Partnership Programs, Environmental Quality Incentives Programs, Focused Interest Partnership Programs and Recovery Grants, and other opportunities.

Projects funded through partnerships included 7,700 acres of annual invasive grasses treatments on school lands with the assistance of High Desert Partnership. Partners included NRCS, ODFW, BLM, Pheasants Forever, Harney and Malheur County SWCD's, ODFW, USFWS and multiple landowners.

Efforts to remove juniper trees, which pose a unique threat to groundwater supply and undergrowth habitat, also benefit from partnerships. With the assistance of NRCS in Harney and Malheur Counties, 500 acres of juniper was removed on DSL rangelands. An additional 1,200 acres of rangelands received juniper treatments through assistance of Pheasants Forever and funded by Bipartisan Infrastructure Law funding from US Fish and Wildlife Service.

Included in these partnerships, DSL is coordinating with many groups and efforts throughout Central and Eastern Oregon to protect and enhance sage grouse habitat.

Range Improvement Fund

12.5% of revenues from rangelands is put back on the ground to implement range projects to enhance/protect various ecosystem functions, increase forage production, and further improve range conditions.

There were three projects implemented through the Range Improvement Fund in FY23. One project included 238 acres of juniper removed in a riparian stream/meadow system with the objective of improving stream flows and riparian habitat. The other two projects were implemented to aid in livestock distribution: four miles of livestock fence constructed in Lake County in conjunction with the Lakeview BLM and six miles of waterline replaced in Harney County.

While rangeland covered in Medusahead can look beautiful to the untrained eye, this invasive grass (pictured here on school land in Malheur County) increases the risk of a large catastrophic wildfire, has no forage or habitat value, and forms a near monoculture by outcompeting native grasses.



ICR LANDS

INDUSTRIAL, COMMERCIAL, AND RESIDENTIAL

When acquiring property, whether through selection of school lands still owed to Oregon by the federal government or through purchase, the Department seeks to acquire Industrial, Commercial, and Residential (ICR) properties with a high probability of generating income for the Common School Fund. ICR properties are wholly or partially developed, with added improvements like roads or utilities, and planned for eventual sale. ICR sales also often bring important community benefits such as providing land for housing or economic development.

Planning and development of two ICR properties in Deschutes County is helping to add a mix of housing and economic opportunities to Central Oregon. DSL acquired these properties – the Stevens Road Tract and the South Redmond Tract – from the Bureau of Land Management as in-lieu lands, school lands not provided at statehood and still owed to Oregon by the federal government. The acquisition of these lands partially satisfied the federal government’s obligation to provide Oregon with in-lieu lands, with approximately 1,400 acres of federal land still owed.

- The **Stevens Road Tract** in Bend has 261 acres remaining after 382 acres were sold in 2020. In 2021, the Legislature passed House Bill 3318, providing the opportunity to bring the remaining 261 acres into Bend’s urban growth boundary. The bill requires that the resulting development be a complete community that includes affordable and workforce housing as part of walkable neighborhoods. The Department and the city of Bend entered into an agreement to establish the development of a Concept Plan for the future development of the remaining acres, and to sell 20 acres to the City of Bend to help meet Bend’s critical need for more affordable and middle-income housing. House Bill 3318 identifies that 8 of the 20 acres will be designated through deed restrictions to be available to households with one or more educators, and the remaining 13 acres will be deed restricted for certain levels of affordable housing. The Stevens Road Tract is making progress to be included in the Bend Urban Growth Boundary in early 2024.
- The **South Redmond Tract** is a 945-acre tract that is fully incorporated into the City of Redmond urban growth boundary as a “large lot industrial” zoned property. The large lot industrial zoning allows for industrial development on a parcel that is 200 acres or larger. To date, the Department has completed the engineering, design, and construction of utilities and a street segment in preparation for future development. In April 2021, a 20-acre parcel of the tract was sold to the Oregon Military Department for \$1.6 million (funds received by the Common School Fund). The Military Department is planning to develop a readiness center on this property, which will serve as a training facility for the National Guard and emergency center for events like natural disasters. The Department continues to work with Deschutes County to exchange a portion of the tract, which will allow the County to expand its fairgrounds. No further transactions will occur on the tract until the Department has met the requirements of the large lot industrial zoning designation plans to sell a 200-acre parcel, see [Future Projects and Priorities](#).





LAND TRANSACTIONS

Income from land sales and mineral releases can range from a few hundred dollars to millions of dollars.

Planning and improving lands with high urban development potential. The Department works collaboratively with local communities and governments to plan and improve lands with potential to be developed for industrial, commercial, or residential (ICR) use.

Selling or exchanging lands with minimal income potential. Non-ICR lands are sometimes sold or exchanged when parcels have minimal or no potential to produce income for the Common School Fund, or when an individual or entity approaches DSL to request the transaction. In such cases, following a due diligence review, the State Land Board will determine whether to approve the sale or exchange.

Administering release of mineral resource rights. Historically the State of Oregon has reserved mineral rights when any piece of land is sold. This has created scattered mineral ownerships across all state agencies throughout Oregon, which is often an impediment to development. The Department is responsible for processing requests to release rights to mineral resources owned by other state agencies identified in statute. Income from those releases goes to the Common School Fund.

Proceeds from all school land sales are deposited in an account within the Common School Fund called the Land Sale Revolving Fund (per [ORS 273.413](#)). This fund may be used only to acquire additional lands or other suitable investments, as directed by the State Land Board in consultation with the Oregon Investment Council. Because funds may only be drawn for acquisitions, expenses for land sales (such as operating costs and improvement and maintenance) are currently reported in the ICR land classification. This skews the income and expenditures for the ICR classification.

FY23 Land Transactions

DSL is responsible for managing and completing land transactions for minerals owned by the State of Oregon as outlined in [ORS 273.780](#). The Department, through the Real Property Program, has completed the release of three mineral estates for other state agencies. Releasing the mineral estates to the various state agencies allows for them to clear title and complete disposal of the respective agency's land.

DSL completed one exchange of submerged and submersible lands through a quitclaim deed in order to clarify ownership and identify DSL's ownership along a portion of the Willamette River in Benton County. In addition, mineral rights were sold in Yamhill County as part of a conservation land acquisition related to the Willamette Wildlife Mitigation Program. Yamhill Soil and Water Conservation District paid for mineral assessment work and \$1,235 for the mineral rights.

In 2020, a landowner in Harney County proposed a land exchange with DSL. The land exchange benefited DSL by trading an isolated 164 acres for 160 acres that is adjacent to several other school lands (known as a block) now totaling 800 acres, which greatly benefits management. The landowner also benefited by receiving land adjacent to his other property. This exchange was completed in FY23, with exchange costs split between the two parties, and the private landowner paying \$550 for the difference in appraised values.




FINANCIAL PERFORMANCE

OF SCHOOL LANDS AND ASSETS

The Program reports on four measures used to assess the financial performance of school lands and assets. Those measures, defined in the Real Estate Asset Management Plan, are total annual revenue, return on asset value, annual change in net operating income, and annual land value appreciation.

The income generated from the sale of school lands is not factored in when calculating these performance measures because land sale proceeds are deposited into the Land Sale Revolving Fund to use for future land or investment acquisitions. Due to this, land sale proceeds are not acknowledged in the total annual revenue, reducing return on asset value and net operating income.



This Western Juniper berry appears benign as it hopes to attract a bird for propagation. However, the overabundance of this species is negatively impacting water supply, sage grouse habitat, and viability of grazing land.

Total Annual Revenue. Annual revenue measures earnings obtained from Real Property Program management activities, excluding land sales. In FY23, total annual revenue was approximately \$5.2 million, about \$363,000 less than FY22, see [Appendix B](#). Annual revenue does not include land sales, which would have added \$1,785 for a mineral rights release and a land exchange.

Return on Asset Value. Return on asset value measures revenue generated compared to market value of the land. This measurement is calculated based on market values, annual operating expenditures, and total annual revenues generated. For this report land values for FY22 were used. [Appendix C](#) shows the estimated market value for forestlands, agricultural lands, rangelands, and ICR lands managed by the Real Property team, as well as these land classifications combined.

In FY23, the return on asset value for the four land classifications averaged 0.26%, down 0.01% from FY22. Agricultural Lands were up 0.32%, Rangelands were up 0.1%, ICR Lands were up 0.32% and Forestlands overall were down 0.82%. When broken out into different subclasses, ODF-managed Forestlands were down 0.97%, DSL-managed Forestlands were up 0.53% (to 0.00%), and Elliott State Forest was down a further 0.87% from FY22 to -1.81%.

The Program also tracks change in return on asset value over the past ten years, anticipating fluctuations in measures over time. [Appendix D](#) shows the fluctuations in return on asset value over the last ten years. Since 2018, the return on asset value has remained generally steady, increasing or decreasing by 0.5% to 1%. Forestlands have seen about a 1% dip compared to 2022. In the next asset management plan, the Department anticipates no longer using land values in measuring program success. Without land values significantly decreasing, or revenues significantly increasing, increasing the return on asset value is not feasible.

Annual Change in Net Operating Income. Net operating income measures total revenue minus operating expenditures. In FY23, the overall net operating income decreased largely due to a \$2 million dollar increase in Elliott State Forest costs and other factors outlined below:

- Continued fire protection costs coupled with expenses incurred from the Elliott State Forest. Without accounting for the expenses from the Elliott, FY23 net operating income would be \$1.66 million.
- The Elliott State Forest continues to affect overall financial performance of forestlands. In FY23, the net operating income for forestlands remained negative, decreasing further with an overall negative net operating income of \$4 million. This change was driven by a \$2 million increase in Elliott State Forest costs.
- ODF-managed forestlands net operating revenue was less than last year due to a decrease in timber sale harvest volume. This cyclical performance is typical as timber volume and prices ebb and flow year-to-year. DSL-managed forestlands generated some revenue in FY23 from the Pine Mountain East Timber Sale. The program expects an upward trend in revenue from DSL-managed forestlands in future years.
- The net operating incomes increased year-over-year on all land classifications except forestlands. Forestlands were down 858% compared to FY22.
- Rangelands saw a 475% increase in net operating income compared to FY22. The increase in forage lease revenue can be attributed to an increase in the grazing fee, which is tied to average calf prices for the preceding year. Cattle prices have been increasing, therefore, our grazing fee reflects that change. The grazing fee in 2022 was \$10.38/AUM (Assets Under Management) and in 2023 it was \$11.69/AUM. The increase in rangeland net operating income was also impacted by annual increases in communication site leases and a vacant rangeland technician position in FY23.
- See [Appendix B](#) for Net Operating Income details.

Besides forage leases contributing to revenue, managed cattle grazing also reduces wildfire fuel and supports ranching families in Eastern Oregon.





FUTURE PROJECTS

AND PRIORITIES

The Program continues to manage Oregon's school lands with a commitment to growing revenue for the Common School Fund. The Department's five-year [Strategic Plan](#) provides a foundation for strategic work, establishing Department-wide goals and progress metrics that are advanced by program-level projects. The following projects have been highlighted as priorities in continuing this strategic work.

Updating the Asset Management Plan

The previous 2012 Real Estate Asset Management Plan is due to be updated. Drafting of this plan, along with research and development of needed changes, began in 2023. It is anticipated to be before the State Land Board for consideration in the first half of 2024. Creating this plan will allow the Department to identify effective strategies and procedures for ongoing management and stewardship of school lands over the next decade. Plan development includes meaningful engagement with stakeholders and the public.

Planning High-Yield Industrial, Commercial, and Residential Projects

The Program will continue to improve and sell existing Industrial, Commercial, and Residential (ICR) properties.

- There are 778 remaining acres of the South Redmond Tract available for sale in a large lot industrial zone that has the potential to aid economic development in Central Oregon. The Department is focused on fulfilling its large lot industrial zoning obligation by 2028 as identified in Oregon Administrative Rule and the City of Redmond's zoning code. The Department is actively marketing the first large lot industrial zoned 200-acre parcel.
- Approximately 261 acres of the Stevens Road Tract near the Bend Urban Growth Boundary remain school lands. DSL continues to coordinate with the city of Bend as the city is working quickly through a process to incorporate the remaining acres into the urban growth boundary, meeting the requirements laid out by House Bill 3318 (2021), which include designating lands for affordable housing.
- The Department is currently under contract for the sale of the Millican Road parcel, a 159-acre industrial property located on the western edge of the city of Prineville.

Rulemaking for Communication Leases

Currently, communication leases are authorized through DSL's special use administrative rules ([OAR-141-125](#)). These rules are outdated and do not address some matters unique to communications sites. Having a set of rules to specifically address communication leases will provide a more streamlined leasing process, keep pace with a rapidly changing industry, add efficiency with management, and update lease fees. The Department was delayed in late FY23 on completing new communication lease rules (OAR-141-126) due to legal concerns. After receiving significant comments during the public review period, DSL is revising the draft rules in consultation with Oregon Department of Justice and aims to have the rule finalized in the 2024 calendar year.

Communication Site for Regional Wildfire Management

The Program is working with a university consortium on developing new communication site authorizations on the Steens Mountain Communications Site in Harney County. The applicant is proposing to construct a site that will provide wildfire cameras and tools to help firefighters and first responders. The site would become part of a network across the west that assists in confirming wildfire ignitions, scaling fire resources up or down, monitoring fire behavior, and helping evacuations.

Analysis of Lands for Renewable Energy

The state’s goal to go carbon neutral by 2040 provides a unique opportunity to increase school lands revenue through renewable energy developments such as solar, wind, or geothermal energy. Renewable energy transitions are a high priority for the Real Property Program in the Strategic Plan. Leases for solar energy have slowly increased, namely in Lake and Deschutes Counties. The Oregon Department of Energy has created a mapping tool that will aid analysis of school lands for potential renewable energy resources. While being proactive with this Strategic Plan project, the Program has interest in renewable energy lease requests and will be finalizing a demonstration license for a solar generation and battery storage facility in Harney County in FY24. The goal is to have analysis completed in FY24 to attract more activity in renewable energy uses on school lands.

In-Lieu Selections with the Bureau of Land Management

The federal government still owes the state of Oregon approximately 1,400 acres of federal lands “in-lieu” of school lands not granted upon statehood. The Department continues working with the BLM on identified forestlands and ICR lands as priority in-lieu acquisitions. Among these, there is a 79-acre residential-zoned BLM land parcel in the urban growth boundary of La Pine and a 440-acre farmland-zoned parcel east of Bend. The Program is hopeful to complete a portion of the in-lieu acquisitions by the end of FY24.

Klamath Forestlands Transitioning to DSL Management

On July 1, 2023 (FY24), DSL transferred 4,907 acres of forestland from ODF management to DSL management in the Klamath District. The remaining 1,920 acres will be transitioned at a later date, possibly by the end of FY24. DSL continues to work with the ODF Klamath District staff to develop a smooth management transition between the agencies. Much of the future management needs will be for forest health improvement and wildfire fuels reduction. This management transfer should reduce forestlands costs by up to 15% on an annual basis.

Partnerships on Rangelands

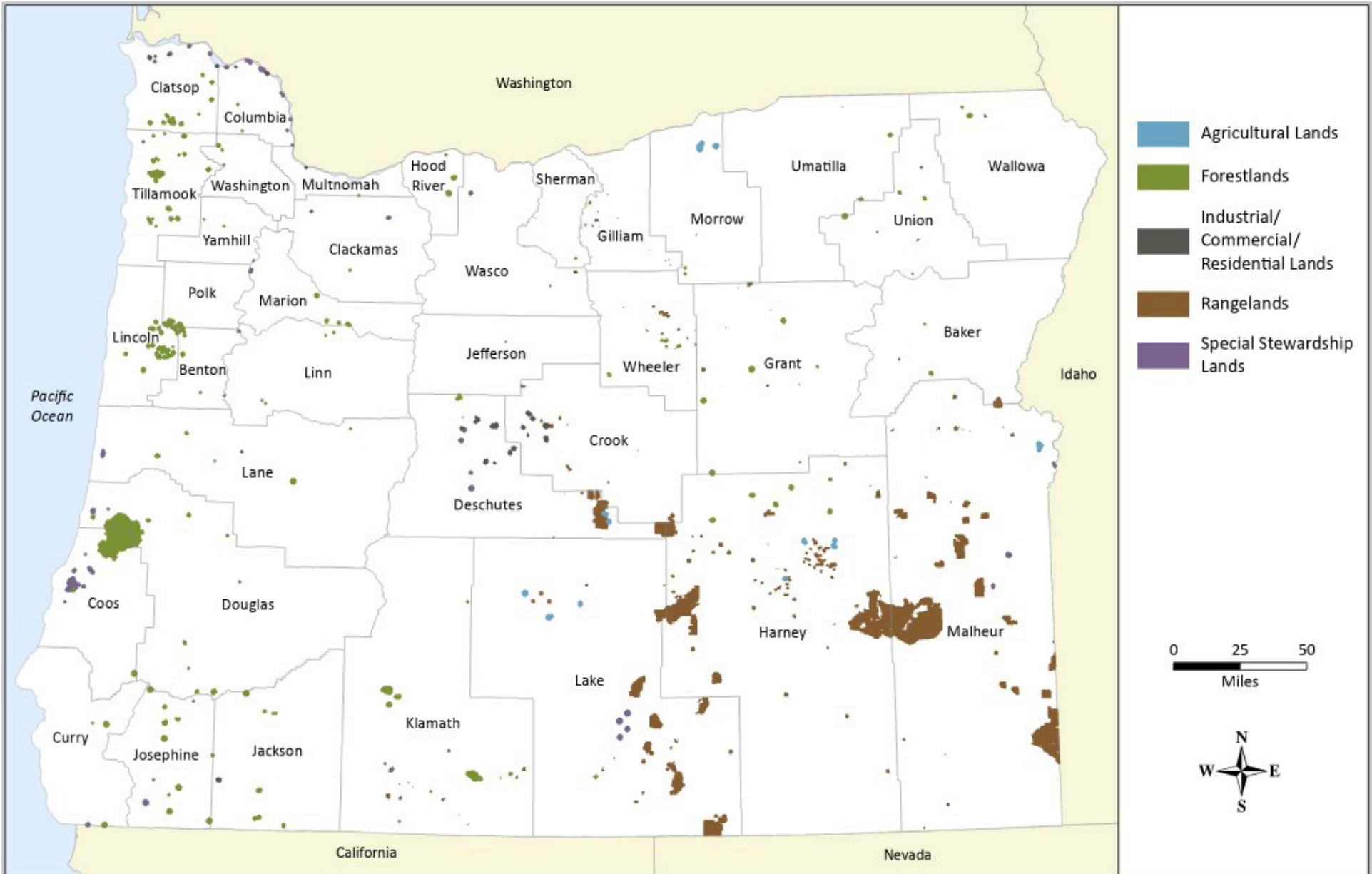
In FY24, the Department will continue to address the challenge of invasive grasses which increase wildfire risk and degrade valuable ecosystems throughout the region. Applications have been submitted for large scale projects in Harney, Malheur and Lake Counties to address invasive grasses and noxious weeds.

Randy Wiest, Rangeland Manager Lead, is well-respected among partners in Eastern Oregon and embodies the Department's Strategic Goal of Exceptional Service.



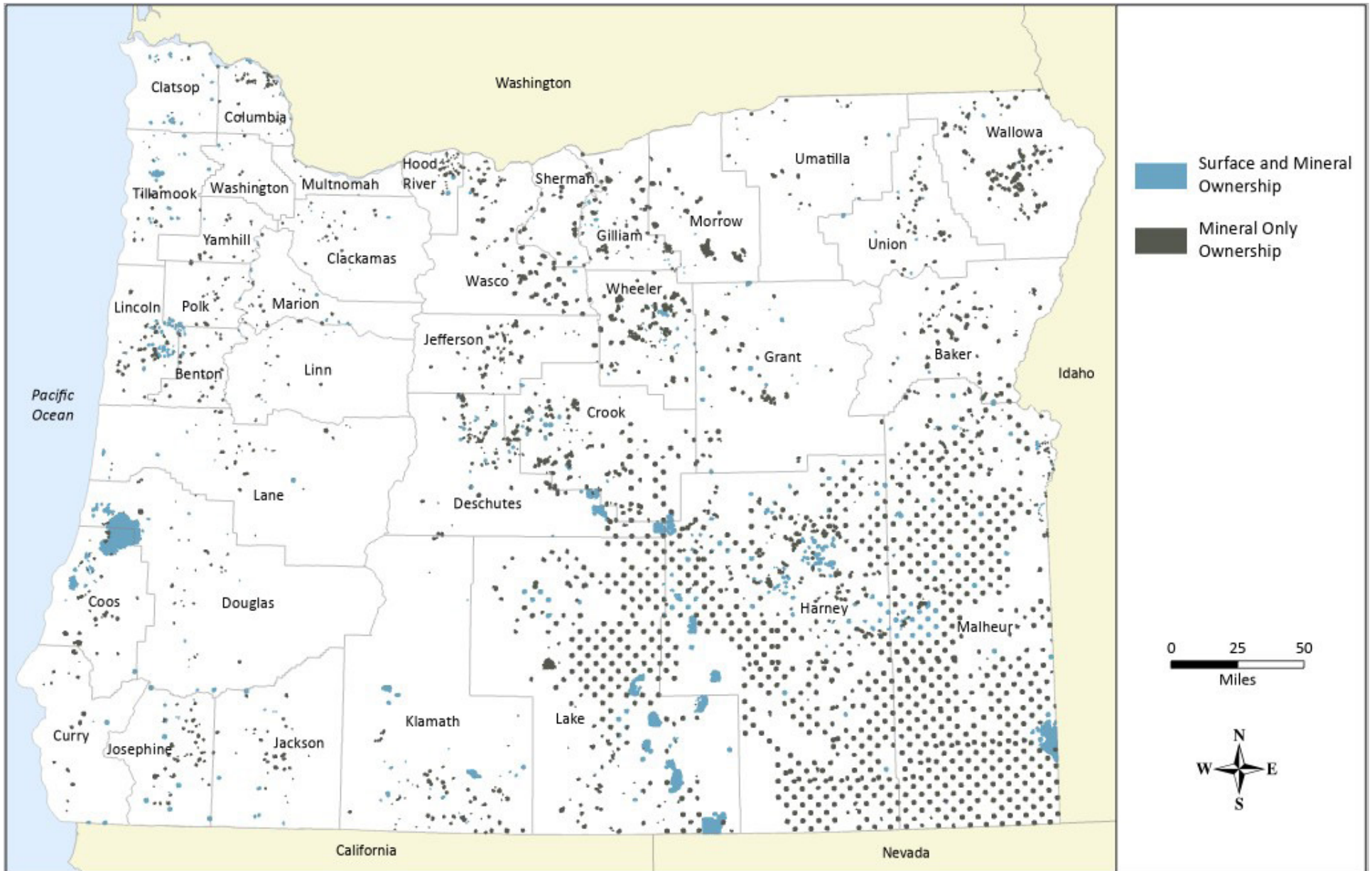


Appendix A-1: Land Classification, excluding Mineral Energy Lands





APPENDIX A-2: Surface and Mineral (Sub-surface) Lands



Appendix B-1

FY2021-FY2023 Real Property Revenues, Expenditures (Direct only) and Net Operating Income by Land Class

LAND CLASSIFICATION	FISCAL YEAR 2021			FISCAL YEAR 2022			FISCAL YEAR 2023			3- YEAR AVG. ANNUAL NET OPERATING INCOME
	GROSS REVENUE	EXPENDITURES	NET OPERATING INCOME	GROSS REV-ENUE	EXPENDITURES	NET OPERATING INCOME	GROSS REVENUE	EXPENDITURES	NET OPERATING INCOME	
Agricultural Land	\$360,002	\$150,302	\$209,700	\$337,531	\$161,765	\$175,765	\$341,739	\$102,407	\$239,332	\$208,266
Rangeland	\$725,829	\$699,582	\$26,247	\$694,826	\$651,837	\$42,989	\$850,650	\$646,584	\$204,066	\$91,100
ICR	\$1,091,690	\$1,168,477	(\$76,787)	\$1,142,550	\$1,051,418	\$91,131	\$991,491	\$750,058	\$241,433	\$85,259
Forestland	\$2,596,568	\$3,020,405	(\$423,837)	\$3,223,572	\$3,587,604	(\$364,032)	\$2,921,775	\$6,016,634	(\$3,094,860)	(\$1,294,243)
Mineral & Energy Resource	\$33,463	\$58,319	(\$24,856)	\$97,256	\$52,494	\$44,762	\$130,650	\$60,341	\$70,309	\$30,072
Special Stewardship	\$40,182	\$7,498	\$32,684	\$2,967	\$15,385	(\$12,418)	\$9,574	\$8,919	\$655	\$6,974
Totals	\$4,847,734	\$5,104,583	(\$256,849)	\$5,498,701	\$5,520,504	(\$21,803)	\$5,245,879	\$7,584,943	(\$2,339,064)	(\$872,572)
Totals Without Forestlands	\$2,251,166	\$2,084,178	\$166,988	\$2,275,129	\$1,932,900	\$342,229	\$2,324,104	\$1,568,308	\$755,796	\$421,671

Appendix B-2

Forestlands Breakdown (Not inclusive of land sales revenue/expenditures)

LAND CLASSIFICATION	FISCAL YEAR 2021			FISCAL YEAR 2022			FISCAL YEAR 2023			3- YEAR AVG. ANNUAL NET OPERATING INCOME
	GROSS REVENUE	EXPENDITURES	NET OPERATING INCOME	GROSS REVENUE	EXPENDITURES	NET OPERATING INCOME	GROSS REVENUE	EXPENDITURES	NET OPERATING INCOME	
ODF-managed Forestlands	\$2,571,257	\$1,549,009	\$1,022,248	\$3,206,397	\$1,407,441	\$1,798,956	\$2,754,787	\$1,846,378	\$908,409	\$1,243,204
Elliott Forest	\$0	\$1,406,618	(\$1,406,618)	\$0	\$2,070,953	(\$2,070,953)	\$74,886	\$4,078,365	(\$4,003,480)	(\$2,493,684)
DSL-managed forestlands	\$25,311	\$64,778	(\$39,467)	\$17,175	\$109,210	(\$92,035)	\$92,102	\$91,891	\$211	(\$43,763)
Real Property Total Without Elliott Forest	\$4,847,734	\$3,697,964	\$1,149,770	\$5,498,701	\$3,449,551	\$2,049,150	\$5,170,993	\$3,506,577	\$1,664,416	\$1,621,112

Appendix C

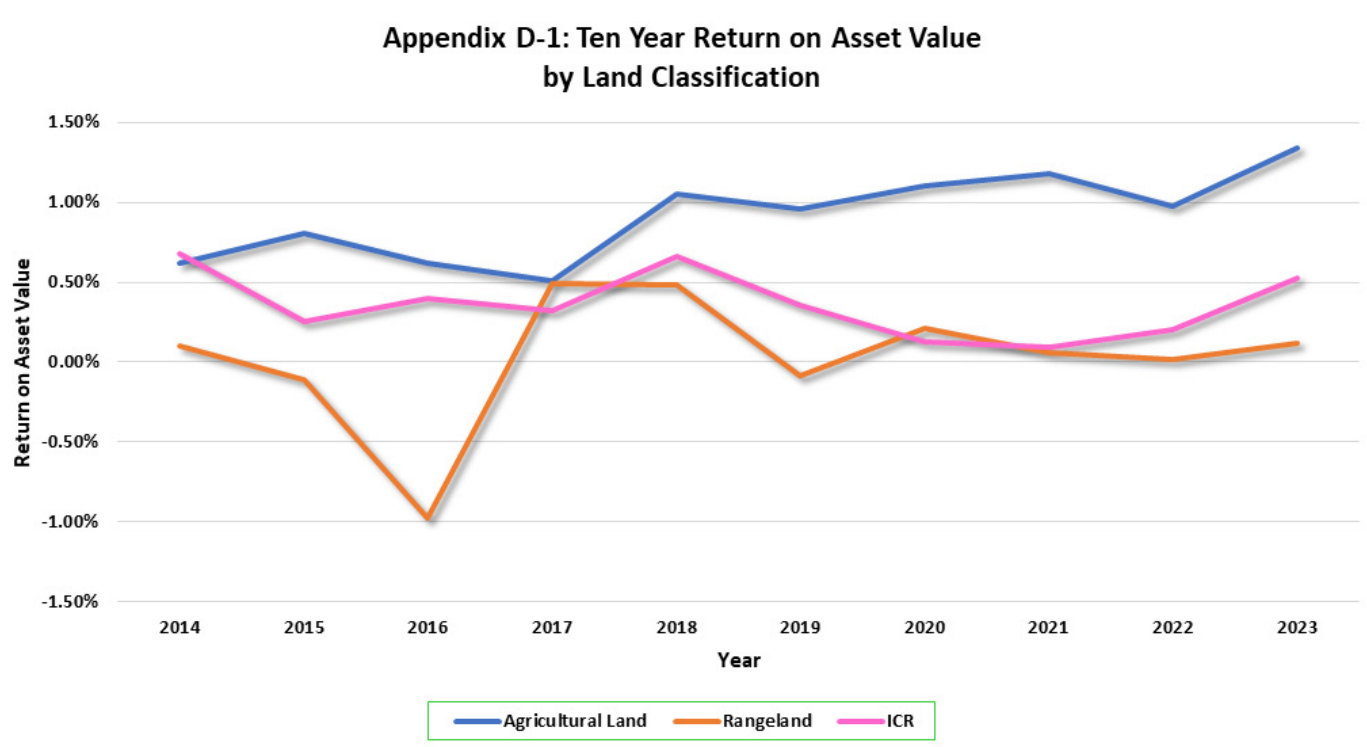
FY2023 Market Value and Performance by Land Classification

LAND CLASSIFICATION	2023 NET OPERATING INCOME	MARKET VALUE (MILLIONS - FROM 2022)	2023 RETURN ON ASSET VALUE
Agricultural Lands	\$ 239,332	\$ 17,850,000	1.34%
Rangelands	\$ 204,066	\$ 175,950,000	0.12%
ICR Lands	\$ 241,433	\$ 46,000,000	0.52%
Elliott Forest	\$ (4,003,480)	\$ 220,800,000	-1.81%
ODF-managed Forestlands	\$908,409	\$ 91,650,000	0.99%
DSL-managed Forestlands	\$211	\$ 19,450,000	0.00%
All Forest Lands	\$ (3,094,860)	\$ 331,900,000	-0.93%
Totals	\$ (2,410,029)	\$ 571,700,000	-0.42%



Appendix D-1: Return on Asset Value Graphs

Return on Asset Value for Agricultural Lands, Rangelands, and ICR Lands





Appendix D-2: Return on Asset Value Graphs

Return on Asset Value for Forestlands

