Testimony of John A. Charles, Jr.
President and CEO

Regarding SB 847
June 5, 2017

My name is John Charles and I have been closely following the management of Common School Trust Lands since 1996.

Sadly, the Trust Lands have been steadily losing value as an endowment asset during that entire period. For example, the Elliott State Forest was estimated to be worth over $800 million in 1995; it is currently a liability for the Common School Trust Fund.

The 620,000 acres of rangelands had net operating income of -$1.2 million in 2016.

SB 847 offers a pathway for the disposal of underperforming lands, but it's difficult to see how a proposed transfer to other public bodies would be compliant with the fiduciary duty that Land Board members have to CSF beneficiaries.

Funds that the legislature might appropriate to "buy out" Trust Lands have to be paid by taxpayers. A large subset of that group will include beneficiaries of the CSF, including public school parents, school board members, public school teachers, and other school employees. Taxing them with debt service on bonds, as is now being proposed by the Governor for the Elliott, would be taking money away from them.

The Trust Land portfolio includes 1,540,000 acres of lands, as displayed in the attached summary from the most recent DSL status report. The estimated return on asset value for 2016 was 0.4%, which is an inflated number due the unknown market value of 767,100 acres of "Mineral and Energy Resource" lands and 13,200 acres of "Special Stewardship Lands." They have minimal value to the CSF as an endowment asset, and that will not change.

The only way to carry out the fiduciary duty to CSF beneficiaries is to inject new, private capital into the picture. The state should sell the remaining Trust Lands – which could be worth more than $700 million -- and invest the net proceeds in the Common School Fund, where annual total returns of 5%-8% could be expected for centuries to come.

Appendix C: FY 2016 Market Value and Performance by Land Class

Land Classification	*Total Acres*	Approximate Market Value (millions)	% of Total Market Value	Annual Net Operating Income (NOI)	Return on Asset Value (ROAV)
Forestlands: Elliott State Forest	*82,500*	$220.8[1]	41%	$1,378,936	0.6%
Forestlands: Other than Elliott SF	*38,000*	$103.3 – 113.9 [2]	20%	$1,083,257	1.0%
Agricultural Lands	*8,000*	$18.0 – 19.0 [3]	3%	$115,303	0.6%
Rangelands	*620,000*	$117.8 – 136.4 [4]	24%	($1,245,957)	-1.0%
ICR Lands	*6,800*	$59.7 – 65.7 [5]	12%	$247,127	0.4%
Special Stewardship Lands	*13,200*	[6]	-	$13,798	-
Mineral and Energy Resources	*767,100*	[6]	-	$311,888	-
Totals	***1,540,000***	**$538**	**100%**	**$1,904,352**	**0.4%** [7]

Notes:

(1) Final appraised value as determined by a Department-contracted appraisal process in 2016.

(2) Values reported in the FY 2011 Annual Report, using the per-acre equivalent. These are the most recent estimated values with documented DSL methodology.

(3) Value estimate is based on figures provided by USDA's report on land sales of Oregon's farm land. The 2016 average price per acre for Oregon's farm land is $2,200 as determined by USDA which collects land sales information. This includes all types of farming from dry farming to irrigated produce farming which is very lucrative. Irrigated farm land sales reflect values of $2,500 to $6,600 per acre in the areas in which DSL owns agricultural land. Most of DSL's agricultural land has water rights but does not own the irrigation equipment so the USDA average value has been adjusted to $2,500 to $2,700 per acre for the range of values.

(4) Blocked ranch values per acre are increasing ($600 per acre for ranches over 3,000 acres with recreational appeal is typical) but can take years to market successfully with a very limited number of these selling annually. Individual properties with smaller acreage average around $200 to $300 per acre. An average individual tract value was designated for each county. DSL's rangeland ownership would take over 50 years to sell and would depress rangeland values because of the large supply. To reflect this, a discount of 30% to 35% has been used to create the value range. The values in LAS reflect a more individual tract value.

(5) Each property was valued individually through research of comparable sale properties and those properties with lease income were valued by the income approach. DSL's land in Bend is still rebounding in value despite the addition of the Stevens Road tract to the UGB. The Forked Horn property was sold last year. The Eugene motorpool property and the Helvetia property were valued with full USPAP-compliant appraisals.

(6) Data not available.

(7) The total ROAV does *not* include NOI derived from special stewardship lands, since the asset value of those lands are not reported here. The NOI for mineral and energy resources is included here because those revenues are derived from parcels in one of the other surface land classifications.