

## 2025-27 Budget Review

### Department of State Lands

	2021-23 Actual	2023-25 Legislatively Approved *	2025-27 Current Service Level	2025-27 Governor's Budget
General Fund	123,060,000	4,002,152	-	442,576
Other Funds	53,209,130	78,064,069	42,370,516	88,731,866
Other Funds (NL)	14,913,221	19,052,461	20,749,534	20,749,534
Federal Funds	2,477,678	6,130,888	2,565,522	6,529,002
<b>Total Funds</b>	<b>193,660,029</b>	<b>107,249,570</b>	<b>65,685,572</b>	<b>116,452,978</b>
Positions	105	113	108	138
FTE	103.38	110.78	106.50	132.66

\* Includes legislative and administrative actions through December 2024.

### 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, Secretary of State, and State Treasurer. The Board is responsible for managing the assets of the Common School Fund (CSF). These assets include equity investments managed by the Oregon Investment Council and State Treasurer on behalf of the Board and approximately 681,000 remaining acres of state lands deeded at statehood in trust for education, and other lands designated by statute. 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, and wetlands are assigned to DSL. The agency also manages the South Slough National Estuarine Research Reserve and provides administrative support for the Oregon Ocean Science Trust.

For agency operations, the Department is organized in three main areas:

- **Administration** - Business Operations and Support Services, the Director’s Office, Oregon Ocean Science Trust, and Capital Improvement.
- **Operations** - Aquatic Resource Management, Portland Harbor Clean Up, Submerged Land Enhancement Fund, Oregon Wetlands Revolving Fund, and Abandoned and Derelict Vessels.
- **Land Management** - Common School Fund Real Property, Elliot State Research Forest, and South Slough National Estuarine Research Reserve.

For budget purposes, the Department is organized around nine programs:

- **Common School Fund** – 89 positions (88.00 FTE): Consists of Land Management, Aquatic Resource Management, Business Operations and Support Services, and the Director’s Office.

- **Portland Harbor Cleanup** - no positions or FTE: This fund was established in 2017, funded in 2019, and serves to mitigate the state's financial risk relating to the Portland Harbor Superfund Site.
- **Submerged Lands Enhancement Fund (SLEF)** - no positions or FTE: The Submerged Lands Enhancement Fund improves the beds and banks of Oregon-owned waterways by funding community-led stewardship projects.
- **Oregon Wetlands Revolving Fund** - 0.50 FTE: Established by the 1987 Legislative Assembly to provide financial resources to acquire wetlands banking and wetlands mitigation sites; accomplish wetlands restoration, enhancement, and creation; and cover administrative costs.
- **Oregon Ocean Science Trust** - no positions or FTE: The Department of State Lands provides administrative support for the meetings of the Trust as needed. The Oregon Ocean Science Fund is established in the State Treasury. The Oregon Ocean Science Trust (OOST) secures and distributes funding to promote ocean and coastal knowledge, research, and monitoring to ensure the sustainable use of Oregon's resources, enhance coastal resilience, and support long-term ocean health for all Oregonians.
- **Abandoned and Derelict Vessels and Camping** - no positions or FTE: Addresses the impacts of hazardous boats and ships on Oregon-owed waterways. This program was formally authorized in the 2023-25 biennium in HB 2914 (2023).
- **Elliot State Research Forest** - no positions or FTE: The Elliott State Research Forest (ESRF) is 83,000 acres of contiguous state public forest land on Oregon's south coast as a nationally and internationally relevant center for forest science and management that also contributes to Oregon-based conservation, climate change objectives, recreation, education, equity, and economies. This program was established under DSL during the 2023-25 biennium and is under development.
- **South Slough National Estuarine Research Reserve** - 19 positions (18.00 FTE): The area was designated in 1974 as the first national estuarine research reserve and consists of nearly 7,000 acres along the Coos estuary on the south coast of Oregon in Charleston. The total South Slough National Estuarine Research Reserve (SSNERR) acreage is part of the U.S. National Estuarine Research Reserve System established by the Coastal Zone Management Act of 1972. SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, education, and stewardship programs. Its laboratory work is co-located with the Oregon Institute of Marine Biology in Charleston, which is operated by the University of Oregon.
- **Capital Improvements** - no positions or FTE: Manages property as assets of the Common School Fund. Expenditures in this program include land rehabilitation and conversion; small infrastructure design and construction projects; facilities rehabilitation; general maintenance and repair; weed control; and response to environmental hazards.

The Department is supported by 96% Other Funds and 4% Federal Funds. Other Funds revenue is derived primarily from program operations and investment income. Statutory program operations generate revenue from waterway, hydroelectric, sand and gravel leases, removal-fill permit fees, and unclaimed property investment earnings.

With the transfer of administration of the unclaimed property program to the Oregon State Treasurer (OST), a portion of the statutory revenues from investment earnings on unclaimed property held in trust within the Common School Fund will be used to fund the administration of those programs at OST.

Constitutional revenue is primarily investment income on that portion of the Common School Fund derived from assets generated from periodic land sales and other revenue generated from property holdings for deposit in the Common School Fund and to a lesser extent, investment income derived from escheated estates. Common School Fund revenues also include receipts from timber harvests on Common School forest land. The Department of Forestry (ODF) manages forest land for DSL.

Common School Fund revenue distributions to the Department of Education are made on an annual basis. Because these funds are directly transferred to the Department of Education, they are not included as part of the DSL budget. Estimated distributions for the 2025-27 biennium are \$154.4 million.

Federal Funds received by the Department from the U.S. Environmental Protection Agency (EPA), Office of Coastal Resource Management; National Oceanic Atmospheric Administration, Department of Commerce; and U.S. Fish and Wildlife Service, support the wetlands program, permit streamlining efforts, and the SSNERR. Federal Fund receipts are estimated at \$6.3 million for the 2025-27 biennium. State match requirements range from 0% to 50% depending on the individual grants and is provided from in-kind contributions, private donations, and some Common School Fund expenditures.

## BUDGET ENVIRONMENT

The Common School Fund (CSF) is a constitutional trust created to manage the assets derived from the common school trust lands granted to Oregon by the federal government at statehood. These lands originally comprised 6% of the state's land for the support of schools, plus land for a state university. Revenues from these lands and any associated mineral, timber, or other resources are dedicated to the Common School Fund. The Department is responsible for the management, leasing, and sale of state-owned mineral rights on over three million acres throughout Oregon.

The Oregon constitution (Article VIII) requires the Legislative Assembly to provide, by law, how monies in the Common School Fund shall be invested and distributed, and to appropriate, in each biennium, money from the fund for public education. ORS 273.105 delegates this responsibility to the State Land Board. From 1999 to 2009, distributions were based on a sliding scale of percentages of a three-year rolling average of the annual growth in the CSF's market value, with lower percentages used when fund growth was relatively sluggish.

From 2010 through 2018, the distribution target had been fixed at a rate of either 4% of the past three years' rolling average CSF balance when the average balance of the fund has increased by 11% or less, or 5% when the average balance has increased by 11% or greater. Following the passage of SB 1566 (2018), the State Land Board was presented an updated distribution study that was requested by State Treasury staff from a third-party consulting firm. Based on a number of factors including the target asset allocation of the fund, growth of unclaimed property inflows, and the distribution provisions of SB 1566, the report recommended that the distribution policy for the earnings of the Common School Fund to the State School Fund be limited to no more than 3.5% of the balance of the Common School Fund in order to maintain the stable real asset value of the fund.

The Portland Harbor Superfund Site remains an issue for the agency. The site is the result of more than a century of industrial use along the Willamette River. The EPA listed the area from the Columbia Slough to the Broadway Bridge as a Superfund Site in December 2000. Clean-up costs are anticipated to be significant. The state's potential exposure to liability for the cleanup costs are due to state-owned

submerged and submersible lands in the area as well as contaminations due to run-offs from Oregon Department of Transportation (ODOT) owned bridges, abutments, and adjoining lands.

Currently the agency is engaged in a two-part strategy of building a legal argument that limits the state's liability for the cost of the Portland harbor clean-up, and a project-centric approach to remedial design and cleanup efforts that serve to minimize the total potential costs to the state, and to encourage other potentially responsible parties to begin cleanup work at the site. A record of decision was issued by the EPA in January of 2017 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 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.

In addition to the funding for the legal defense costs, SB 5530 (2017) established the Portland Harbor Cleanup Fund to support the coordination of, and participation in, contracts or agreements relating to or arising out of the Portland Harbor Superfund Site that may include investigation of baseline conditions, investigation of key sediment sites, potential infrastructure needs related to contaminated sediments, development and administration of a comprehensive data management system for the site, satisfaction of obligations under any settlement or administrative order, work required by the EPA in connection with the site, and other activities directly related to minimizing the state's liability for costs related to the Portland Harbor Superfund Site. This fund was seeded with \$24 million, equal shares from the CSF and ODOT State Highway Fund during the 2017-19 biennium and has an approximate balance of \$11 million remaining with no dedicated ongoing revenue source other than interest earnings on the balance.

For the past four biennia, DSL has been working on a project to replace the information technology systems that support their Lands Administration functions. The current Land Administration System (LAS) was initially deployed in 1999. The new permitting and information system known as the Oregon Water and Land Stewardship (OWLS) system will allow for the agency-facing management and reporting as well as public-facing access for the application for permits, submittal and access to project documents, and payment of associated fees. The agency is in the implementation phase and completed configuration sprints 15-68 of the 70 planned during the 2023-25 biennium. There was an approved change request in November 2023 that re-baselined the project for an overall cost of \$17.2 million and go-live date of October 2025.

During the 2022 session, SB 1546 defined the steps necessary to finalize the decoupling of the Elliott State Forest from DSL and become an independent agency as of January 1, 2024, as the Elliott State Research Forest Authority (ESRFA). However, legislation included a provision that would roll that back if all steps were not completed. While the Elliott State Forest was financially decoupled from the Common School Fund, it was not transitioned to an independent agency. Funding for the Elliott State Research Forest Authority was included in HB 5048 (2023) and then subsequently disappropriated from the ESRFA and appropriated to DSL in SB 5701 (2024). As it stands, the Elliott State Research Forest is unfunded, financially decoupled from the CSF, and managed by the Department.

The people of Oregon own the beds and banks of all navigable and tidally influenced waterways throughout the state. On behalf of the State Land Board, DSL manages public waterways and through HB 2914 (2023) the Abandoned and Derelict Vessel program was established along with a fund that was

seeded with \$18.8 million in HB 5029 (2023) with proceeds from the Monsanto settlement. This was one-time funding for an established and ongoing program.

Key performance measure data indicates a longer time to process removal-fill permits and compliance actions than targeted timelines. While the timeline is within statutory limits, the number of days to process is impacting potential housing development opportunities. This has been an ongoing trend for several biennia. This presents a struggle between compliance and conservation efforts and untimely permits and delays in available land resources for housing developments.

## CURRENT SERVICE LEVEL

The 2025-27 current service level budget for the Department of State Lands is \$41.6 million, or 39% lower than the legislatively approved budget for the 2023-25 biennium. This change is due to the phase out of one-time expenditure authorizations that were approved in the prior biennium net of inflation.

One-time costs that were phased out include:

- \$2.9 million Federal Funds for one-time federal grants expended;
- \$4 million General Fund for the Elliott State Research Forest operational costs; and
- \$34.5 million Other Funds for Portland Harbor Superfund cleanup and legal costs, Land Administration System IT project, Oregon Ocean Science Trust expenses, and the Abandoned and Derelict Vessels program.

Standard inflation factors were applied at a rate of 4.2% for all service and supplies, capital outlay, and special payment accounts except for professional services expenditures which are allowed a 6.8% inflation rate. DSL also received above standard inflation of \$15,396 (or 3.2%) on fuel and utility costs. Agencywide, inflation adjustments totaled \$1.3 million.

## GOVERNOR'S BUDGET SUMMARY

The 2025-27 Governor's Budget includes over \$116 million total funds and 138 positions (132.66 FTE). The Governor's Budget is comprised of \$442,576 General Fund, just over \$109 million Other Funds, and approximately \$6.5 million Federal Funds. The total funds budget represents an increase of nearly \$51 million, or 77% above CSL, and includes 30 additional positions (26.16 FTE). In addition to adjustments for statewide Attorney General rates and Department of Administrative Services assessments and service charges, the following packages are included in the Governor's budget:

### Common School Fund

- Package 201 - This package includes \$3.1 million Other Funds expenditure limitation and establishes 13 permanent positions (11.32 FTE), nine of these are new and four are continuation of previously limited duration positions, to improve service delivery and timeliness for protection of wetlands and waterways in Oregon.
- Package 204 - This package supports the continuation of the replacement of the Land Administration System with the intent of completion and launch during the 2025-27 biennium, establishes one limited duration position (1.00 FTE), and includes \$3.5 million in Other Funds expenditure limitation.

- Package 205 - This package implements a new geographic information systems (GIS) team by establishing four permanent positions (3.04 FTE) and includes \$809,716 in Other Funds expenditure limitation. The intent is to provide additional mapping and GIS resources to the agency and public to support efficient data collection and information for decision making.
- Package 213 - This package provides \$500,000 Other Funds expenditure limitation to update the management plan for the Willamette River in Portland that was last adopted in 1992.
- Package 215 - This package provides continuation of Federal Funds expenditure limitation for a grant from the EPA of \$69,274 to support improvement and enhancement of the administration of Oregon's Removal-Fill law.
- Package 217 - This package provides \$10 million Other Funds expenditure limitation, funded by the CSF, to have the Department of Geology and Mineral Industries research geologic carbon sequestration methods and feasibility on state lands to combat climate change.

### Portland Harbor

- Package 211 - This package is funded through the Portland Harbor Cleanup Fund and supports remediation and design work at the Superfund site and provides \$1.2 million in Other Funds expenditure limitation for planned project estimates.
- Package 212 - This package is funded through the Common School Fund and supports the state's continued legal defense and establishes one permanent position (1.00 FTE) and \$5.4 million in Other Funds expenditure limitation.

### Oregon Wetlands Revolving Fund

- Packages 500 and 502 - These packages establish two permanent positions (1.52 FTE) and provides \$442,576 General Fund to support wetland mitigation and housing specific permits to address backlogs and delays in housing permits. These packages are part of the Governor's statewide Housing and Homelessness Initiative.

### Abandoned and Derelict Vessels

- Package 202 - This package provides Other Funds expenditure limitation of \$11.2 million to continue the Abandoned and Derelict Vessels program and establishes four permanent positions (3.76 FTE). The revenue source is a beginning balance from a one-time deposit of funds from the Monsanto settlement authorized in HB 5029 (2023). The Department is actively seeking federal grant opportunities to support this work as well. Establishing permanent positions without a permanent funding source is not best practice.

### South Slough National Estuarine Research Reserve

- Packages 203 and 206 - These packages establish two permanent positions, one limited duration position, and reclassifies an existing position (2.52 FTE). They provide \$813,662 Other Funds expenditure limitation to resource and fill the funding gap to operate the Reserve resulting from flat funding of federal operating grants. The packages are funded primarily by a transfer from the Common School Fund.

- Packages 210 and 216 - These packages continue previously awarded federal project grants in the amount of \$1.8 million in Federal Funds expenditure limitation.

### Elliott State Research Forest

- Package 090 - This is an analyst recommended package that provides \$10 million Other Funds expenditure limitation for the operations of the Elliot State Research Forest (ESRF). The source of revenue is unclear at this time.
- Package 214 - This package continues previously approved federal grant dollars for the redevelopment of the Shutter Creek site as an administration site for the ESRF and includes \$2.1 million Federal Funds expenditure limitation. Since the grant is passed through to DSL by DAS this will need to be changed to Other Funds expenditure limitation.

### KEY PERFORMANCE MEASURES

A copy of the Department of State Lands Annual Performance Progress Report can be found on the LFO website: [https://www.oregonlegislature.gov/lfo/APPR/APPRProposed\\_DSL\\_2024-10-09.pdf](https://www.oregonlegislature.gov/lfo/APPR/APPRProposed_DSL_2024-10-09.pdf)

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