Testimony of John A. Charles, Cascade Policy Institute
Before the State Land Board
Regarding <u>Agenda Item #3: DSL Strategic Plan</u>
December 14, 2021

Dear Land Board members:

I have followed the work of DSL for more than 25 years and have testified many times on matters related to the Common School Trust Lands (CSTL). Having reviewed the proposed DSL Strategic Plan, I offer the following comments:

<u>**Duration:**</u> The planning period of four years is <u>too long</u> to qualify as "strategic." Many assumptions may be obsolete by then.

For example, when President-elect Obama was about to take office in 2009, he was dismayed to find out that he would have to surrender his Blackberry to the Secret Service. Like many users, he claimed to be totally dependent on it.

Just four years later, he was no longer talking about Blackberry, for obvious reasons; Blackberry had been wiped off the face of the earth by the Apple iPhone, which was released on June 29, 2007.

There is no point planning for what DSL might do in 2026. If you want to be strategic, focus only on what has to happen in the next 30-90 days.

<u>**Scope:**</u> The scope of the draft plan is too broad, which is another reason it's not strategic. Three of the four main elements should be jettisoned, including: ***"exceptional service";*** ***"thriving Oregon"***; and ***"great workplace."*** Those should already be goals for DSL, and stating them in this plan does not make them special. They are basic management responsibilities under the jurisdiction of Director Walker, and there is no obvious need for the Board to spend time on them.

The only critical issue that needs an immediate policy change by the Land Board is the fourth element, ***"Supporting schools."***

<u>**DSL's stated revenue goal is self-defeating:**</u> The draft plan states that a key strategy is to "Improve the financial performance of forest properties."

It then follows with an "Example project: permanently address the ***Elliott State Forest's ongoing impacts*** to the Common School Fund."

But the "Measuring Progress" section states:

• "Increase in revenues generated by all land management activities, ***excluding timber harvest receipts."***

If the Board excludes timber harvest receipts from consideration, then it <u>can't permanently address the Elliott State Forest's ongoing impacts to the Common School Fund.</u>

This is a moment of truth for the Board. Your land management strategy is not working. In fact, every strategy tried over the past 20 years has failed. Repeating the same mistakes over and over again does not qualify as a "strategic plan."

I was in the room when then-Gov. Ted Kulongoski made his parting comments as a Land Board member in December, 2010. He summarized his disappointment with ESF planning in two sentences, ***"We spent $3 million and 10 years on an HCP, and we came away with nothing. How did that happen?"***

The answer to the question is that entire generations of Land Board members have never been willing to treat Common School Trust Lands as a money-making asset. Non-financial attributes have always been ranked higher. This can be seen by comparing the financial performance of Oregon's CSTL with peer states, something Cascade Policy Institute did in a study we published in March 2018: https://bit.ly/3dKp5vm.

Oregon has consistently been outperformed by other states. The comparison with Washington was particularly enlightening, since both Oregon and Washington are heavily forested. As of the date of publication, Washington was earning $37/acre on its Trust Lands, and Oregon was earning $4.25/acre.

Nothing has changed since 2018. In the most recent DSL report on the performance of the Common School Fund Real Property, dated February 2021, the agency states that the land portfolio generated negative $197,585 in NOI last year, with a ROAV of minus 0.03%.

Ever since the Elliott started losing money eight years ago, the Board has recognized that there are serious risks of being sued by CSF beneficiaries for breach of fiduciary trust. That risk grows larger with every passing week.

<u>Conclusion:</u> With the start of the 2022 legislative session just six weeks away, I suggest the following strategic actions:

1. Immediately cancel plans to introduce ESF decoupling legislation in the short session.

2. Direct the DSL to develop a draft set of total return metrics for the entire CSTL portfolio, for approval by the SLB by the close of 2022. This is something the state has experience with in the context of OPERF. The PERS Fund currently has an assumed earnings rate of 6.9%, so why is it acceptable to assume that the CSTL portfolio will lose money year after year? Oregon's 561,000 public school students deserve better.

3. If the Board cannot see a viable path to profitability on the CSTL portfolio by the end of next year, it should consider selling off the lands and putting the net proceeds into the Common School Fund.