

**SPECIAL MEETING
STATE BOARD OF LAND COMMISSIONERS
October 22, 1991**

A special meeting of the State Board of Land Commissioners was held at 2:00 p.m., October 22, 1991, in Room 420 of the Capitol Building to consider the appraisal of cottage site lease lots and the Land Board subcommittee recommendation regarding the grazing rental rate for calendar year 1992. Governor Cecil D. Andrus presided. Those members present were:

Honorable Cecil D. Andrus, President, and Governor of the State of Idaho
Honorable Pete T. Cenarrusa, Secretary of State
Honorable Larry EchoHawk, Attorney General
Honorable J. D. Williams, State Auditor
Honorable Jerry L. Evans, Superintendent of Public Instruction

Stanley F. Hamilton, Secretary to the Board

Appraisal of Cottage Site Lease Lots

Mr. Hamilton recounted that when the Land Board subcommittee worked with the cottage site lessees last spring in an attempt to arrive at a rental rate for 1992, an appraisal of several lots at both Payette Lake and Priest Lake had been done by RECG, Inc., a Boise appraisal firm. Then when this issue came to the July board meeting, all three of the lessee associations stated firm opposition to the use of the RECG appraisal to establish fee simple lot values. When the board set the rate for 1992, they instructed the department to obtain another appraisal of those same lots in an effort to reach the true appraised value.

There have been continuing discussions with the associations about those appraisals, and it is now the consensus of the two homeowner associations at Payette Lakes that, while they do not necessarily agree with the use of those appraisals for setting rentals, they are willing to acknowledge the RECG estimates of values for the lots as reasonable and valid. They feel that the money that would be used for a new appraisal could just as well be turned to other uses.

The Priest Lake Association has taken a different tack -- they are concerned that there still are some differences between how the RECG appraisal came out and how another appraisal might come out provided that the directions to the appraiser were changed. The department has not had a chance to work out all the details on that and is reluctant to change the directions too much. The association would like to see directions such as giving more credit for sewage facilities and some of the other improvements that are available on the properties. The department has instructed they be appraised on fee simple value for bare land lots.

Mr. Hamilton advised that today the department is here to ask that the board authorize the department to not go through with the appraisal at Payette Lakes, and to use RECG appraisals as estimates of fee simple value -- bare lot value -- in any future endeavors that the board might choose to use them for, and to give the department further direction to continue discussions with the Priest Lake Association. The department would then try to get back to the board by November at the latest.

J. D. Williams asked what would the estimated savings be to the state in going with this recommendation.

Jay Biladeau said that on the Payette Lakes, it would be a savings of \$10,000 to \$12,000.

Jerry Evans moved to rescind the board direction to the staff that requires them to proceed with an appraisal of those properties. J. D. Williams seconded. The motion passed unanimously. Clarification: The intent of the motion includes allowing the department to continue to look at the Priest Lake appraisals. Governor Andrus requested that the record so indicate.

Land Board Subcommittee Recommendation Regarding the Grazing Rental Rate for Calendar Year 1992

Mr. Hamilton referred the board members to a summary analysis of the subcommittee's discussion from a meeting held yesterday. A year ago, the board had sat down with industry to negotiate a new grazing fee formula. They had asked Neil Rimbey from the University of Idaho for some help, and Mr. Rimbey developed "Equation 19" which predicts what the forage value index will be two years from the date given. This then can be used to predict what the grazing fees might be given some additional information. The board also required the department to undertake a contract with the University of Idaho to do a survey in an effort to try to establish what a reasonable value for services might be that could be deducted from the Idaho private grazing land lease rate.

The University of Idaho survey came up with three general findings. First, they calculated the private cattle lease rate in 1990 at \$6.84 per AUM as compared to \$8.42 from the Agriculture Statistic Service value. Second, they found two statistically significant relationships between grazing rental fees and services -- \$1.09 for maintenance of improvements and \$1.61 per AUM for liability insurance. Third, the study found that the vast majority of private grazing leases are paid after grazing has occurred rather than before (a state policy) and suggested that 33 cents per AUM based on 10% interest on a 185-day grazing period might be an appropriate adjustment.

Mr. Hamilton referred the board to Page 2 of the memorandum which provides a device for setting the base which could be used with Equation 19. It uses the University of Idaho calculations of \$6.84 as the average lease rate, with the costs of maintenance, liability insurance, and prepayment subtracted out for a total adjustment of \$3.03 leaving a net forage value of \$3.81 for the 1990 values. The forage value indexes for Idaho for the 1964-68 base period is \$1.54. Using that with Equation 19, the predicted rate for 1991 would have been \$3.81 (although the actual rate charged was \$4.99) and the prediction for 1992 would be \$4.11.

Mr. Hamilton said that the subcommittee voted 4 to 1, Superintendent Evans voting no, to follow the University of Idaho study recommendations for the 1992 fee. The committee was also interested in maintaining the sheep grazing fee at 25% less than the cattle rate which would provide a fee in 1992 of \$3.08 per AUM.

J. D. Williams, chairman of the subcommittee, reported to the board that the goal they had first started with was to create a formula that would be removed from the political realm and be based upon objective data that would be readily available to the state to determine the grazing rate each year. Last year the subcommittee picked what is called Formula #19 which is the one most statistically reliable. The problem with Formula 19 is that you have to have a base to start with.

The decision was made to do a study, funded by the department through the University of Idaho, based upon information accumulated from the Agricultural Statistical Service of the federal government, to try to determine what the base would be. Their goal was to determine the value of private lease rates so that the state would know what to charge to maximize the return to the endowment funds. Two rates were given -- one through the Agricultural Statistical Service which was \$8.42 for the average private lease rate in Idaho during 1990; and the University of Idaho conducted another study six months later to try to validate that figure. Their study showed the private lease rates in Idaho to be \$6.84 or a difference of \$1.58. That study also considered the factors that should be subtracted from the private lease rates. The subcommittee accepted the fact that it is more expensive to operate on public lands than it is on private lands.

They found three factors that were statistically important -- maintenance costs, the cost of liability insurance, and prepayment. A question came up concerning the use of the figure of \$1.61 per AUM for liability insurance as additional costs that cattlemen and woolgrowers have to incur as a result of using public lands. Mr. Williams said that he had supported the \$4.11 result because of his desire to have a formula, and when he agreed to that figure he said that he would do further research on the cost of liability insurance. He has today talked to some insurance agents and he also called his parents to see what they pay; and their insurance rates were far less than that. Mr. Williams said he thinks they are on the right track; they have developed a formula that makes sense, but they are still away from getting a base that starts with the average private lease rates in Idaho then subtracting out certain factors. As a result, he would recommend the board freeze the lease rate at \$4.99 for the coming year -- the same as the past year -- and authorize the committee to continue the study, hopefully with the University of Idaho staff and Dr. Neil Rimbey, to first of all identify the factors that should be subtracted from the private lease rate and then come up with a base figure to plug into the formula and then let the formula operate from then on.

Jerry Evans said there was no question that he voted in opposition to the recommendation of the committee at yesterday's meeting. He thinks everyone is interested in finding a formula, and the formula that Dr. Rimbey came up with and that they have generally agreed to, does a very good job of predicting private lease rates. However, he thinks there is a glitch in the amount to be discounted due to the added cost of operating on public land rather than private. Only 31% of the lessees undertaking each service as a part of the lease listed liability insurance. So a 25% reduction from the private lease rate based on a factor that predicts variability he thinks is wrong. Mr. Evans commented that at

the meeting yesterday, Mr. Ennis Pickett made a good point in terms of talking about the added costs of controlling the livestock on public vs. private land. He thinks that concept has more validity in terms of discounting than does liability insurance.

Mr. Cenarrusa commented that from the beginning when these rates went up drastically, that it was an arbitrary figure and that arbitrary factor is still in there, because the factor that was used was a rolling 24-month average of the price of a 500-pound calf multiplied by a factor of 5. The department had recommended a factor of 10 which would have been too high. Then arbitrarily it was set at a factor of 6 in order to arrive at a certain AUM price. Now the subcommittee is looking at how to stay close to that price or increase it a little bit -- and that is still arbitrary. The University of Idaho did a good, lengthy, study which eliminated many of the extremes that would give an incorrect figure, and they came up with what was recommended at yesterday's meeting (\$4.11). He thinks that rate is fair and he recommends staying with the subcommittee recommendation.

Governor Andrus said that he agreed with the University of Idaho's formula except for the liability insurance cost.

Mr. Ennis Pickett said that the study failed to take into consideration containment of livestock and he thinks that is the key where they are so far apart.

J. D. Williams said he thinks the subcommittee has made a lot of progress with the formula this last year, and the University of Idaho has come up with an average lease rate for private leases in the state. Now, it needs to be continued further looking at things like the containment costs and the type of additional expenditures that public grazers have.

Mr. Williams made a motion that the board set the 1992 grazing rate at the same rate of \$4.99; that the subcommittee be authorized to continue the study of the costs of operating on public lands as opposed to private lands and that they try to have the report ready before the board for consideration before June 1992 to set the 1993 rate. Larry EchoHawk seconded.

Mr. Cenarrusa said that he thinks this is sending the wrong message to Congress and Representative Synar in Oklahoma. The right signal would be to lower this to the University study. He recommends going along with the subcommittee's recommendation.

The motion passed 3-2; Mr. Evans and Mr. Cenarrusa voting no.

It was clarified and approved by unanimous consent that the grazing rate does include the 25% reduction for the sheep grazing rates.

Information--Fire Report

Mr. Hamilton reported that the fire situation is in good shape in north Idaho at this point, however, 3-4,000 acres were burned with one fatality in a rural district. The estimated cost of this is about \$1,000,000. This will mean a substantial increase in what was projected earlier this month at the regular board meeting. He also commented that there has been tremendous cooperation among the department and the rural districts and the Forest Service in fighting the fires up there.

There being no further business to bring before the board, the meeting was adjourned.

STATE BOARD OF LAND COMMISSIONERS

Leslie D. Anderson
President, and Governor of the State of Idaho

Countersigned:

Robert J. Conner
Secretary of State



Stanley F. Hamilton
Director