STATE BOARD OF LAND COMMISSIONERS

Philip E. Batt, Governor and President of the Board
Pete T. Cenarrusa, Secretary of State
Alan G. Lance, Attorney General
J. D. Williams, State Controller
Anne C. Fox, Superintendent of Public Instruction

Stanley F. Hamilton, Secretary to the Board

FINAL MINUTES
SPECIAL LAND BOARD MEETING
COTTAGE SITES
June 4, 1997

The special meeting of the Idaho Board of Land Commissioners concerning cottage site rentals was held on June 4, 1997, in Boise, Idaho. The Honorable Philip E. Batt presided. The following members were present:

Honorable Secretary of State Pete T. Cenarrusa
Honorable Attorney General Alan G. Lance
Honorable Controller J.D. Williams
Honorable Superintendent of Public Instruction Ann C. Fox

The meeting convened at 9:00 AM.

REGULAR AGENDA

1. CONTINUANCE - IDAHO DEPARTMENT OF FISH & GAME - SALVAGE TIMBER SALE - SOUTH FORK OF THE SALMON RIVER - 1,000 Mbf

   The Land Board approved the salvage timber sale with modification as stated in the minutes

   Director Hamilton stated this was on the last regular agenda and the Board asked to set it over until this meeting. Tracy Trent, Southwest Region Supervisor and Steve Narolski, Forester represented the Idaho Fish and Game and Rick Johnson, Executive Director represented the Idaho Conservation League.

Mr. Narolski explained the purpose of the salvage timber sale. They would like to remove one million board feet from that particular area to help speed forest recovery as well as generate revenues for other wildlife programs. They will harvest dead or dying trees. Since the last meeting, this area has been reviewed by a geologist. They will not build any new roads. They will harvest by helicopter. They will utilize the Pacfish setback which means Class 1 streams will have a no-cut zone of 300 ft. and Class 2 - or non-fish bearing streams - will have a no-cut zone of 150 ft.

Controller Williams asked about road repairs or straightening of roads. Mr. Narolski stated they would make damage repairs. Mr. Trent stated that there would be no road re-construction. Controller Williams asked if they were confident that they could do the work without damaging the area. Mr. Trent stated a similar approach was used on the foothills property and they were pleased with the outcome. They realize this is an extremely sensitive area. Superintendent Fox asked what would happen to the river. Mr. Narolski stated that the Department of Fish and Game did not intend to harvest any trees in the 300 ft. and 150 ft. areas.

Rick Johnson, Executive Director for the Idaho Conservation League stated that, in his memory, ICL has never challenged a timber sale that was offered by the Department of Fish and Game. Rick gave ICL's viewpoint and position on this area. They asked that this salvage timber sale not be allowed to proceed. This is a natural wildlife area. The South Fork is nationally known as a wildlife habitat. He encouraged the Land Board to disapprove logging on wildlife lands on the South Fork of the Salmon River.

Superintendent Fox asked what harm logging could do. Mr. Johnson stated that he couldn't point and say it would be harmful, but it is a cumulative effects "kind of thing." This is a highly fragile area and doesn't need this kind of treatment. There was considerable discussion that followed regarding the concerns of ICL and how the Idaho Department of Fish and Game will handle these concerns.

Kay Hummel stated that she had personal knowledge of these sites. She stated that she respected the integrity of the Dept. of Fish and Game. She stated that the greatest erosion is not from fires. Her observation is that snow events and old roads are the problem. She supported the position of ICL.

Tom Smith stated that his concern is less with the logging component and more with the road re-construction in this area. He provided a brief background for the Board. There is an attempt underway to expedite an environmental review process in order to allow log hauling on roads blown out in December of >96 and January of >97. Damage from flooding has occurred over the past several years. The road is a source of sediment and damage to water quality and fisheries. There is an attempt to seek emergency funding for these road repairs.

Mr. Smith urged the Board to give serious evaluation as to whether jeopardizing, not only Bull Trout, but Steelhead and Salmon are worth it in view of the minimal gains obtained by giving that timber out. Director Hamilton stated that the National Marine Fisheries Service will be reviewing this and will issue the recommendation back to the Forest Service.

Governor Batt asked Mr. Narolski and Mr. Trent of the Idaho Department of Fish and Game if they could quantify the amount of enhancement to wildlife restoration and harvest would be accrued by this sale as opposed to the proceeds obtained from the sale. Mr. Trent stated that during the course of the sale, there would be some benefits accrued to wildlife on the property itself by distributing slash that will promote regeneration of the Ponderosa Pine. In addition, revenue that comes from the sale can be used for wildlife management programs in other parts of the state. Mr. Trent stated that natural healing of the land is taking place, the harvest of the timber will accelerate that enhancement promoting regeneration of the pine.

Director Hamilton explained that when the Director of Fish and Game put Mr. Narolski on board, the understanding was that Fish and Game would bring in their sales and that the Board would evaluate those. The Department of Lands staff would not participate in those sales, which come in from Fish and Game. This was an agreement between Mr. Conley and the Board's predecessors. Attorney General Lance stated that if Mr. Mealey, Director of Idaho Fish and Game wants to rejuvenate this agreement, this should be discussed.

Controller Williams suggested that the Idaho Department of Lands forester monitor the proposed Idaho Fish and Game sale. Director Hamilton said that one of the foresters would monitor the sale in the terms of the Forest Practices Act. John Lillihaug, Service Forester and Forest Practices Advisor at McCall would track this sale. At the Board's recommendation, he would track it very closely. Director Hamilton stated that Mr. Narolski is obligated to track this sale also.

Secretary of State Cenarrusa moved for approval of the salvage timber sale, seconded by Attorney General Lance. Attorney General Lance stated that he had always found the Idaho Conservation League to be a very responsible group of individuals. He stated that with the authority to shut this operation down, assuming it could be proven to the Board that it is detrimental to the environment, he would vote in favor of the motion. Controller Williams asked the consent of the Board to clarify the motion by asking the professional foresters from the Department to monitor this sale carefully and if any problems occur, bring them to the Board's attention immediately. The Board had no objection to this clarification. There being no further discussion, the motion carried on a vote of 5-0.

2. COTTAGE SITE RENTAL AT PRIEST LAKE AND PAYETTE LAKE

The Board established the new rate for cottage site rentals at 2.5% with the understanding this can be reopened based on incoming information from the lessees)

Director Hamilton brought the issue of cottage site rental at Priest Lake and Payette Lake before the Board. Bryce Taylor presented the background information prior to consideration of the issue.

Department records indicate the first leases were entered into about 1924 with the majority of the leases being issued in the 40's and 50's. The Board did sell a number of leases in the 40's. Rentals from I945 - 1988 had been essentially handled as flat-rate rental. Second tier lots were one rate and lakefront lots were one rate. These rates were periodically adjusted - quite prominently 3-5 years.

There was one cycle that ran for 14 years with no adjustments during that period. In 1988, after significant discussion in 1987, the rent for the lots has been determined as a percentage of the lot value. In 1987, several lots were sold to determine test the market under an auction process. Those lot values were then used to determine rental as a percentage return.

Governor Batt and Superintendent Fox left the meeting at 10:20 AM

Attorney General Lance said it was his understanding that at the vote that was taken in 1992, it was made very clear on the record that the arrangement that was entered into was not necessarily binding upon subsequent Land Boards. Mr. Taylor stated that this was his understanding also and it was pointed out very clearly in the minutes.

Controller Williams stated the reason this was an issue was because in 1987, there was a 10-year phase in plan in the policy that was adopted then. Jerry Evans made it clear at that time that one board couldn't bind another. This is a plan but not a binding situation.

Mr. Taylor stated that in the review of this issue, the Department believes that the current rental is below market. The leasehold values have escalated since 1992. The market data reviewed indicates that a higher rental is necessary. In some cases local property taxes actually exceed the rent the Department receives for the property.

Mr. Taylor stated that the Department researched Montana's cottage site rental program that is very similar to Idaho in several respects. It is a 15-year lease, not subject to conflict applications, and is assignable. They use a County assessed valuation, which is

reevaluated every 5 years. Their rental is 3.5% times that assessed valuation and that's established in legislation. The average rental in Montana is $420.00 per year. Their land values are much less than in Idaho.

Minnesota was also researched. They have about 500 lots. Leases are similar. It is a 10-year lease, a 33-ft. wide easement is retained along the lakeshore for public use, and either party may terminate with 90-days notice. This gives much less security than Idaho. The state is not obligated to insure access to the client to get to the lot. Their legislature has established rental at 5% of the appraised value. The land value is less, on the whole, than Idaho. Their rents run from $175 to $3,000 per year.

The U.S. Forest Service was also researched. They also have lease lots on the West Side of Priest Lake. The Federal Register establishes the Forest Service Fee at 5% times the appraised fee simple value. The appraised value is examined every 20 years and in the instance of Priest Lake was last done between 1978 and 1982. They update the values annual with the Implicit Price Deflator Index. The current rent at Priest Lake is $1,910 per year. Under a reappraisal, examining the actual values compared to what they've done in the Implicit Price Deflator Index, the Forest Service has indicated that the new rent should be approximately $8,750 per year. This clearly shows that the price indicator has not kept pace.

Mr. Taylor concluded the summarization of the cottage site rental background. Director Hamilton said that the 10% transfer fee needs to be considered by the Land Board. He said the leasehold value is basically the difference between the total transaction value less the value of any improvements held by the lessee, less any personal property. The difference is what has been determined leasehold value and in some cases can be fairly substantial. Mr. George Manos asked who did the appraisal. Mr Taylor said that was an appraisal done by a firm named RCEG.

Secretary of State Cenarrusa proceeded with the Priest Lake Lessees Association. Doug Cresswell, President of the Priest Lake Lessees Association said the association represents approximately 355 lessees at Priest Lake. Kent Helmer and Frank Nichols, members of the board, were present at the meeting. Mr. Cresswell's issues brought before the Board covered process, Land Board obligations with regard to the 10-year phase in agreement, cost comparison information and recommendations.

Mr. Cresswell stated that the official notice was received on May 28 - one week prior to the meeting. On Friday, May 30, a FedEx was received which contained a packet of information supplied by the Department of Lands for consideration. There was no time to notify the members and very little time to consult with board members. He stated that he hoped the Land Board did not make a decision at this meeting. He also stated that the lessees have not had the opportunity to meet with staff from the Department.

Mr. Cresswell stated in 1991, when a new lease agreement was negotiated, IDL and the Land Board were asked to give the lessees an agreement that was long-term enough so that the lessees could plan for the future. The 10-year agreement gave the lessees, who could not afford to keep their property, reasonable time to put their property up for sale and recover their investment. In 1988 there was another 10-year phase in agreement which was to have been good through 1997. The state reneged on that agreement. Again, we have a 10-year agreement - the 1992 agreement. We are into this 5 years and you are looking at terminating the agreement. What does that do to stability and predictability?

Mr. Cresswell stated that he feels the lessees are on a roller coaster - not knowing whether to get on or off. He stated the moral and ethical thing to do is to live up to the 10-year agreement.

Governor Batt returned at 10:50 AM.

Mr. Cresswell covered the cost comparisons, as they perceived them. They are concerned about the assessed values and their appraiser will address the board. He asked that all the information be looked at before a decision is made.

Attorney General Lance asked Mr. Cresswell how many of the 355 lessees appealed, to the Bonner County Assessors office, the evaluation. Mr. Cresswell stated he didn't know. Attorney General Lance stated that appellate process goes to the Assessors Office in the County in which the property is located - not the Land Board. Mr. Cresswell stated that what was received from Bonner County is an assessment notice of the value of the improvements, not necessarily the value of the lots. Director Hamilton stated that the valuation of the lots comes to the Idaho Department of Lands - they do belong to the Department.

Attorney General Lance left the meeting at 10:55 AM.

Controller Williams asked about adequate notices regarding the meeting. He asked Mr. Cresswell if he had known about the meeting 6 months before, what would have been done differently. Mr. Cresswell said he would have expected a meeting in North Idaho - a hearing - with the Board of Directors to discuss specifics - such as information that was used. He said he hoped the Board would extend this 5 years, study it, develop a proposal and conduct the hearings so the lessees have ample notice and a reasonable time to make decisions.

Mr. Cresswell stated he would at least hope the Land Board would at delay this for another year. Director Hamilton stated that if rental rates were to be increased for the next calendar year, a decision needs to be made and the Department needs to notify each of the lessees in writing by July 1. They have to be given 6 months written notice of any increase. The lease year runs from January 1 - December 31.

Attorney General Lance returned at 11:05 AM.

Mr. Ed Morse, Real Estate Appraiser from Coeur d'Alene addressed the Land Board. He was asked, by the association, to review the recommendation from the Department of Lands staff. He prepared a brief report that raised several issues he would like the Board to consider. He stated this material had no recommendation to look at in terms of a change in rental rates. There is a lot of data contained therein. He reviewed terminology. He said under the state law and under the lease agreement, the lessees own all improvements that are put in and that not only includes building improvements but it includes site improvements. Understanding the nuances of the legal interests is very important to understanding his concerns about the past appraisal work and the accuracy of some of the conclusions that were arrived at. The Attorney General stated that, it seems to him, the lessee, assuming that the Land Board approved these improvements, would get paid for them whether on the front end or the back end.

Superintendent Fox returned at 11:10 AM

Mr. Morse continued discussion regarding mistakes he felt were made by the Bonner County appraisal. Mr. Morse said that it appeared to him that the IDL appraisers have not looked at several issues. Mr. Morse asked that the Land Board have the Idaho Department of Lands look at the issue of valuation. He stated that there are significant questions regarding accuracy and methodology in terms of value that should be looked at in fairness to the lessees.

Governor Batt invited Mr. Charles Lempesis, Attorney for the Priest Lake Association to address the Board. Mr. Lempesis provided background and history of this issue to the Board. He discussed the process that has been employed and the status of the record upon which the Land Board is called to make a decision. He then suggested a paradigm or critical path for decision making that, for the first time in the history of the State Land Board, could thoroughly and decisively address the issue.

This is the most contentious, divisive, time-consuming, emotion ridden, political (in some respects) contradiction in terms that the Land Board is faced to deal with. He commended the Board for looking hard at the issue, recognizing they do have a sacred trust. Running the state as a business is a sound philosophy and examining this issue is certainly a fiduciary responsibility.

In 1992, the lessees felt they had a stable lease for the next 10 years. Stability is important in that marketplace, not only because it is fair but because you can de-stabilize market rates and the value of the leases and the long-term return to the state of Idaho if you do de-stabilize that marketplace. Tampering with that lease should be looked at long and hard.

Mr. Lempesis spoke about the process and the Department of Lands staff. The lessees have been talking with Mr. Taylor and others on this particular issue for at least 6-8 months. He stated that the Department - in good faith - did what they could to present a report today. You will note that it does not contain a recommendation. Issues and sub-issues are complex. Mr. Morse only highlighted a few. On the record here today, there is no basis upon which you should make a final decision. He asked that the Land Board be the first Land Board under the direction of Governor Batt to thoroughly decide this issue.

He outlined five things that, in his opinion, really need to be addressed.

1) What would the Land Board be with respect to these cottage site leases? What really is the philosophy presently?
2) In defining what rates and fees should be, what is the Land Board policy in respect to the character of these areas? Should Priest Lake be Lake Tahoe? Should Payette Lake be some other place?
3) Economic data - while all of us can use whatever facts we choose in trying to decide what is a fair value, no one has ever, in any appraisal, in any assessment, truly determined with all of the competing factors what the value of the leasehold interest is, exclusive of the fee simple interest.
4) That study should be commissioned and then involve the lessees.
5) What terms, when you arrive at that data and have credible data to deal with, you implement those increases.

Mr. Lempesis suggested that someone needs to do, in problem solving, a critical path and paradigm how to finally resolve this problem and answer these questions after fifty years. Until that is done, there will be constant revisiting of this issue.

Attorney General Lance stated that Mr. Morse clearly brought to the attention of the Land Board, the percentage of the improvements that belong to the lessee clearly enhances the value of the overall package (the interest of the Land Board). He said the Land Board needs to determine what this percentage should be. He asked Mr. Lempesis what percentage do the lessees feel their improvements make. Mr. Lempesis stated that he was not an appraiser. He stated that he would, on the behalf of his clients, submit a critical path to decision making.

Director Hamilton commented that this Land Board and past Land Board's have examined the question of improvements. The appraisal instructions that the Department has used for years, based on direction from the Board, have been to appraise the lots as vacant and unimproved. The Bonner County Assessor was instructed to work under these instructions.

Governor Batt said that this is not a new issue to the Board. It has been discussed in nearly every meeting of the Land Board. It is a valid point that this document has not been in hand long enough to do good work on it, but the issue itself has been around for a long time and

discussed in great detail. The appraisal business itself is a very complicated issue. The Land Board has to take an honest attempt at doing what the Board believes is right.

Mr. Lempesis stated that he has no doubt that the Land Board will make an honest effort to do what's fair. He said he doesn't feel that is an issue. One major issue is a false assumption that there is data that exists that properly values that market rate with the valuation of those property interests.

Controller Williams said a good question brought out was - should the Land Board be in this business? These are valuable properties. What should we be doing with them? There is the trust responsibility - we need to increase the return to the endowment. He stated that he felt the economic issues could be resolved in a period of time between now and the renewal date of January. He emphasized that the Land Board had to make a move.

Mr. George Manos addressed the Land Board. He said everyone is in a catch 22 situation, with the uncertainty that has been created on the leases - not knowing exactly where the lease payments are going to go. He stated that he was content where we are on the scale. He felt the Land Board did a good job. The appraiser raised his $200,000. He stated that he felt this was in line - even though he will pay a considerable amount down the road. The value has been created by the deeded property going up.

Governor Batt asked Mr. Daniel Glynn, Attorney for the Payette Lake Cabin Owners Association to address the board. He would like to see the creation of a sub-committee mandated by the Board and hoped it would include participation by the lessee organizations. He hopes that they will come to a recommended action that is satisfactory not only short-term but also long-term. He referenced the Association's memorandum of May 27th. He encouraged the Land Board to look at this in detail. The position of the Payette Lake Cabin Owners Association is that the Board, through its administration of this program over the last 40-50 years has set forth an administration, with regard to the lessees, which encouraged the lessees to participate in this program.

Mr. Glynn asked that the Board recognizes and preserves, in tact, the leasehold value that has been encouraged. Talk about the leasehold value, how it was created, how the lessees were induced to participate in it and what the Land Board is going to do to preserve that leasehold interest. This should go a long way in satisfying the other questions. Lessees need to have security and stability with regard to their leasehold interests. That has to be assured to the lessees. Hopefully within the next year we can sit down and achieve a mutual resolution of this matter.

Superintendent Fox stated that it was her understanding that when the previous Board made the agreement, that Jerry Evans clearly said that it was not a contract. It was a lease schedule that they put in place. Director Hamilton stated that Mr. Evans made it fairly clear in the minutes.

Superintendent Fox read from the June 9, 1992 minutes. As Mr. Evans noted that the last time a schedule was adopted, there was some discussion concerning whether or not the state had entered into a binding contract. Some of the lessees viewed that as a contract and he would hope that the Board clearly communicates that this is not a contract matter. It clearly signals the Board's intentions, but this Board cannot limit or keep another Board from taking a subsequent action later on. Mr. Glynn showed in the minutes that the motion was made, seconded and passed 4-1 with Mr. Evans abstaining. His comment was after the motion was made. There was never a statement by the Board that this was clearly not a contract matter. This was simply the statement of Mr. Evans. He stated that he felt, despite the statement, this is still a contract matter. And it must be recognized that the lessees left there thinking this was a contract.

Controller Williams stated that he was there. It was a 10-year plan. One thing that that Board was trying to accomplish was stability. No one could have predicted the increase in values that has occurred since then. He stated that Jerry Evans was chairman of the sub-committee and had sat through at least 3 official meetings with various lessees and their groups. This issue from the 1987 10-year plan was brought up. That was why he said what he did. Everyone on the Board at that time understood that we could not bind subsequent Land Boards. There is a lot of case law that says, because of the fiduciary nature of our duties, that we can do something - but it has to follow the law. If it doesn't, then it is not binding upon other Boards. Mr. Glynn stated that stability and market rents go hand in hand. That needs to be recognized. You can't pursue market rents that destroys the stability.

Governor Batt left at 1:20 PM.

Mr. Tom Smith addressed the Board. He stated that he had also been at the meeting where Jerry Evans made his comment. The letters to the lessees were unequivocal, and except for Mr. Evans, who was a dissenter to the policy, he never saw anything else to that effect. Certainly the Land Board cannot bind future Land Boards on all things, but they can certainly enter into 10-year leases in certain cases and he stated that he did not feel this Land Board would be able to terminate, without cause, a 10-year lease. He stated that this 10-year contract is a part of the fabric of the agreement. To tamper with this is to fly in the face of the Constitutional mandate to achieve the long-term maximum rate. If you continually unsettle these long-term leases, you're going to drive the values down. If the Land Board carries this to the ultimate extreme, this could turn Priest Lake and Payette Lake into another Lake Tahoe. Only the extremely rich would be able to afford that kind of lease.

Mr. Mark Prusynski, President, Pilgrim Cove Homeowners Association, addressed the Land Board. Pilgrim Cove is on the east bay of Payette Lake. What is market rent - or what is the market that the Land Board is mandated to obtain. Land is appraised on a fee simple

basis because that's the way the Land Board - maybe several Land Boards past - wrote the appraisal instructions. Last year an appraiser was hired and they went through the whole idea of what are we appraising here. Mr. Corlett presented the Board with a packet of material – talking about you ought to appraise the property, as it is, not some cloudy concept of "O.K. let's assume." Try to appraise on leasehold value or leased fee estate. This complies with the statutory mandate of this Board to determine market rent. It doesn't say market rent of fee simple property. It is what is the market for the property the state has. The state needs to consider that in looking at the market, the state is a major player. The state controls and affects the market. When the state owns the majority of the land, it's not a free market.

Governor Batt returned to the meeting at 1:55.

Sally Trott asked to address the Land Board. She spent considerable time looking at this issue in the Evergreen Land Exchange. She said she was pleased that the Board was looking at the fiduciary responsibilities to the endowment fund. Ms. Trott stated that she had no self-interest in this because she has deeded property at Payette Lake. She said their property has been re-assessed every year and their property taxes have risen. She commended the Board for looking hard at the fiduciary responsibility to the endowments. It is not only a Constitutional requirement, it is an Idaho State statute 53-310A. Governor Batt stated that it was not necessary to be a lawyer to have a legal opinion "in this court."

Governor Batt said one thing that concerns him is that the Land Board has not been diligent enough to get the maximum amount of money for the endowment. Attorney General Lance stated that a decision needs to be made in the month of June to give the Department enough lead-time to notify anyone of any proposed changes. There is no scheduled regular Land Board meeting for the month of June.

Governor Batt asked the Attorney General if the Board has the authority to make a new agreement. Attorney General Lance stated it does. Governor Batt stated that the Board should be somewhere at a relatively low rate of return, higher than we presently are and it should not be phased in. A reasonably low rate of return can be justified because this is a growth piece of property.

Superintendent Fox made a motion that the Board decides, at this point, to set a new rate for the properties. Attorney General Lance stated that a rate should be decided upon then the motion made. Superintendent Fox suggested 2.5%. Secretary of State Cenarrusa seconded the motion saying this would satisfy the 58-310A as it reads.

The Attorney General brought out that some of the value of this property is the sweat equity of the lessees. He stated that he felt the Board was close with the existing motion, keeping in mind the other issue, to be looked at later and probably separately, is the transfer fee.

Controller Williams said that he felt the 2.5% is in the area. He agreed with the Attorney General that the lessees have a point - a lot of the value that is there is the result of what the lessees have done.

The Attorney General stated that he didn't see any problem using the latest available assessed numbers. Superintendent Fox stated that this motion is a proposal, which will allow for reconsideration if warranted. Attorney General Lance was concerned that this was just a proposal due to time frames. He suggested making this the action of the Board subject to revisiting if information is provided that warrants a special meeting prior to the 1st of July.

Director Hamilton stated that there was not a single day in June all Board members could be present for a meeting. Attorney General Lance suggested that if this is made the action of the Board today, sent out notices as suggested and the people have an opportunity to change their minds by July or August or September, no one has paid any more rent by this time. Controller Williams stated that what has been proposed by the Attorney General would work.

Controller Williams brought out that maybe the values that are being used through the assessment process may be questionable and there should be a period of time for review. He suggested acting now with the understanding that it can be reopened based on incoming information. Superintendent Fox agreed with this as long as, in writing, each renter is notified with that statement. The Attorney General stated that until the Board establishes something different this is the action of the Board. Motion carried on a vote of 5-0.

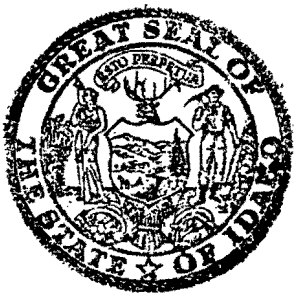
Motion was made by Controller Williams and seconded by Superintendent Fox to adjourn the meeting. Motion carried on a vote of 5-0.

IDAHO STATE BOARD OF LAND COMMISSIONERS

Philip E. Batt

President, State Board of Land Commissioners and
Governor of the State of Idaho

Pete T. Cenarrusa
Secretary of State



Stanley F. Hamilton
Director, Idaho Department of Lands

Controller Williams suggested that the Idaho Department of Lands forester monitor the proposed Idaho Fish and Game sale. Director Hamilton said that one of the foresters would monitor the sale in the terms of the Forest Practices Act. John Lillihaug, Service Forester and Forest Practices Advisor at McCall would track this sale. At the Board's recommendation, he would track it very closely. Director Hamilton stated that Mr. Narolski is obligated to track this sale also.

Secretary of State Cenarrusa moved for approval of the salvage timber sale, seconded by Attorney General Lance. Attorney General Lance stated that he had always found the Idaho Conservation League to be a very responsible group of individuals. He stated that with the authority to shut this operation down, assuming it could be proven to the Board that it is detrimental to the environment, he would vote in favor of the motion.

Controller Williams asked the consent of the Board to clarify the motion by asking the professional foresters from the Department to monitor this sale carefully and if any problems occur, bring them to the Board's attention immediately. The Board had no objection to this clarification. There being no further discussion, the motion carried on a vote of 5-0.

2. Cottage Site Rental at Priest Lake and Payette Lake
   Presented by Bryce Taylor, Bureau Chief, Range Management and Surface Leasing

Director Hamilton brought the issue of cottage site rental at Priest Lake and Payette Lake before the Board. Bryce Taylor presented the background information prior to consideration of the issue.

There were presentations by many of the cottage site lessees and considerable discussion with the Board regarding appraisals and values. Governor Batt stated that he felt the Board was not diligent enough in trying to get the maximum amount of money for the endowment. Attorney General Lance said that a decision needs to be made by the end of June and give the Department enough lead-time to notify lessees of proposed changes. There is no scheduled regular Land Board meeting for the month of June.

Governor Batt asked the Attorney General if the Board has the authority to make a new agreement. Attorney General Lance stated it does. Governor Batt stated that the Board should be somewhere at a relatively low rate of return, higher than we presently are and it should not be phased in. A reasonably low rate of return can be justified because this is a growth piece of property.

Superintendent Fox made a motion that the Board decides, at this point, to set a new rate for the properties. Attorney General Lance stated that a rate is picked then the motion

made. Superintendent Fox suggested 2.5%. Secretary of State Cenarrusa said this would satisfy the 58-310A as it reads and he seconded the motion.

The Attorney General brought out that some of the value of this property is the sweat equity of the lessees. He stated that he felt the Board was close with the existing motion, keeping in mind the other issue, to be looked at later and probably separately, is the transfer fee. Controller Williams said that he felt the 2.5% is in the area. He agreed with the Attorney General that the lessees have a point - a lot of the value that is there is the result of what the lessees have done.

The Attorney General stated that he didn't see any problem using the latest available assessed numbers. Superintendent Fox stated that this motion is a proposal, which will allow for reconsideration if warranted. Attorney General Lance was concerned that this was just a proposal due to time frames. He suggested making this the action of the Board subject to revisiting if information is provided that warrants a special meeting prior to the 1st of July.

Director Hamilton stated that there was not a single day in June all Board members could be present for a meeting. Attorney General Lance suggested that if this is made the action of the Board today, sent out notices as suggested and the people have an opportunity to change their minds by July or August or September, no one has paid any more rent by this time.

Controller Williams stated that what has been proposed by the Attorney General would work He brought out that maybe the values that are being used through the assessment process may be questionable and there should be a period of time for review. He suggested acting now with the understanding that it can be reopened based on incoming information.

Superintendent Fox agreed with this as long as, in writing, each renter is notified with that statement. The Attorney General stated that until the Board establishes something different this is the action of the Board. Motion carried on a vote of 5-0.

Motion was made by Controller Williams and seconded by Superintendent Fox to adjourn the meeting. Motion carried.