



TRUSTED
STEWARDS
of Idaho's Resources

*from Main Street
to Mountain Top*

Annual Report 2012

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MESSAGE FROM THE DIRECTOR

At the Idaho Department of Lands, we're in the pursuit of premier.

In late 2011 we revamped our vision. We want to become the premier agency for trust management, service, and regulatory oversight in the western United States. It may seem like a lofty goal, but we are well on our way to getting there.

We spent all of 2012 evaluating our structure to better align it with our new vision. We're streamlining services at our Area offices statewide and creating efficiencies and better focus at our staff offices in Boise and Coeur d'Alene. Simply put, all of these efforts in reaching "premier" help us become the best stewards we can be.

As financial stewards working within a multi-billion dollar trust that supports public schools and many other important public institutions in Idaho, we are thinking long-term about the productivity of the lands that were granted to Idaho at statehood. We facilitated two successful land exchanges in calendar year 2012, enabling the trust to swap certain land assets for others that produce higher financial returns and fit better into the overall long-term land portfolio objectives. We are nearing completion of a two-year process of planning, surveying, and platting thousands of acres of endowment-owned lakefront properties that are leased to more than 500 families, positioning the department to divest ownership of these lots and reinvest in higher performing assets and giving the families an opportunity to permanently acquire the lots on which their homes are built.

Complementary to making money is our role as stewards of the land. Many of our forestry and range professionals focus only on providing expert technical advice to Idaho land owners and lessees to manage lands for long-term health and productivity. We also participated in the statewide audit to inspect harvested sites statewide across many ownerships to assess compliance with forest practices laws and effects to water quality.

Additionally, a record timber harvest on state endowment trust forests in FY12 and impressive replanting and regeneration projects meant that we continued to forge ahead in our 10-year forest management plans statewide, which serve to make Idaho's endowment forests healthy and productive into the future.

Also, as the protectors of more than six million acres in fire management, in 2012 we kept the number of acres burned on our protection areas to half the 20-year average while statewide there were nearly as many acres burned as during the historic fires of 1910. In fact, almost 20 percent of the 20 million acres that burned nationally burned in Idaho.

We are proud that our management is putting Idahoans to work, too. When Idahoans are cutting and processing timber grown on endowment trust lands, they're working. When Idahoans can utilize state rangeland for grazing, they're working. When Idahoans carry out the day to day management of the endowment trust's commercial assets, they're working.

Our vision is a big undertaking, but our competent and dedicated staff will get us there. We're committing more resources to make greater leaders out of them, and their outstanding skills will continue to make more money into the future for trust beneficiaries, provide even better service to Idahoans, and more effectively regulate some of Idaho's most important industries.

Sincerely,



PHILOSOPHY

OUR VISION

The Idaho Department of Lands will be the premier organization for trust management, service, and regulatory oversight in the western United States.

We will invest in Idaho's resources to maximize financial returns to the endowment trust beneficiaries and enhance the health and resilience of Idaho's natural resources for the benefit of all Idahoans.

We will deliver programs with professionalism and integrity, providing exemplary service to the citizens of Idaho.

We will invest in our employees and have an organizational culture and framework that equips, entrusts, and expects employees to make decisions.

The Idaho Department of Lands will be a unified and vibrant organization in which all employees participate in constructive communication to fully meet our missions.

OUR MISSION

To professionally and prudently manage Idaho's endowment assets to maximize long-term financial returns to public schools and other trust beneficiaries and to provide professional assistance to the citizens of Idaho to use, protect and sustain their natural resources.

IDAHO STATE BOARD OF LAND COMMISSIONERS

The Idaho State Board of Land Commissioners (Land Board) consists of Idaho's governor, secretary of state, attorney general, superintendent of public instruction, and state controller.

In 1890, Idaho became the forty-third state of the Union. At that time, Congress granted millions of acres of land to the new State of Idaho for the sole purpose of funding specified beneficiaries, primarily the state's public schools.

The mandate was included in the Idaho Constitution, which states that the lands will be managed "in such a manner as will secure the maximum long-term financial return" to the beneficiary institutions.

The Land Board members are the stewards of state endowment trust lands in Idaho and the tens of millions of dollars in revenue that is generated for the trust beneficiaries from the use of the lands.

The Idaho Department of Lands carries out the executive directives of the Land Board to meet its constitutional trust mandate and other duties.

Under the direction of the Land Board, the Idaho Department of Lands also manages Idaho's public trust lands - the lands beneath the beds of Idaho's navigable lakes and rivers - for the benefit of all Idahoans, and provides service and assistance to Idahoans through forestry and fire management programs.

The Land Board also oversees the Idaho Board of Scaling Practices, the Clearwater-Potlatch Timber Protective Association, and the Southern Idaho Timber Protective Association.



C.L. "Butch" Otter
Governor of Idaho



Ben Ysursa
Secretary of State



Lawrence Wasden
Attorney General



Brandon Woolf
State Controller



Tom Luna
Superintendent of Public
Instruction



Tom Schultz
Secretary of the Board

In October 2012, Governor C.L. "Butch" Otter appointed Brandon Woolf to the position of state controller following the retirement of Controller Donna Jones.



View of the Floodwood State Forest in southern Shoshone County, showing a harvested area with seed trees left in place for natural regeneration.
Credit: IDL Forester Chuck Reinmuth

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Supervisory Areas

MAP



The dedicated staff of the Idaho Department of Lands work in fourteen Supervisory Areas throughout the state as well as in staff offices in Boise and Coeur d'Alene.

Permanent Personnel	260
Seasonal Employees	214
Endowment Land Acres	2,448,010
Annual Timber Sales	193
Leased Grazing Acres	1,777,558
Mineral Leases	168
Exploration Locations	80
Conservation Leases	22
Residential Leases	519
Commercial Leases	165
Waterway Encroachment Permits	412
Forest Protective Districts (Fire)	10
Forest Practices Notifications	1,821

MAP KEY

Supervisory Area Name

• Administrative Office

THE ENDOWMENT FUND BENEFICIARIES

Primary among the beneficiaries of state endowment trust lands is Idaho's public school system. All constitutionally designated funds and their beneficiaries are:

- Public School Endowment Fund
- The Agricultural College Fund (at the University of Idaho)
- The Charitable Institutions Fund (benefiting Idaho State University, State Juvenile Corrections Center, State Hospital North, Idaho State Veterans Homes, and Idaho School for the Deaf and Blind)
- The Penitentiary Fund
- The School of Science Fund (at the University of Idaho)
- The State Hospital South Fund
- The University Fund (at the University of Idaho)
- The Normal School Fund (benefiting the Idaho State University Department of Education and Lewis-Clark State College)
- The Capitol Commission





Flags in front of the IDL
Ponderosa Supervisory Area
Office in Deary

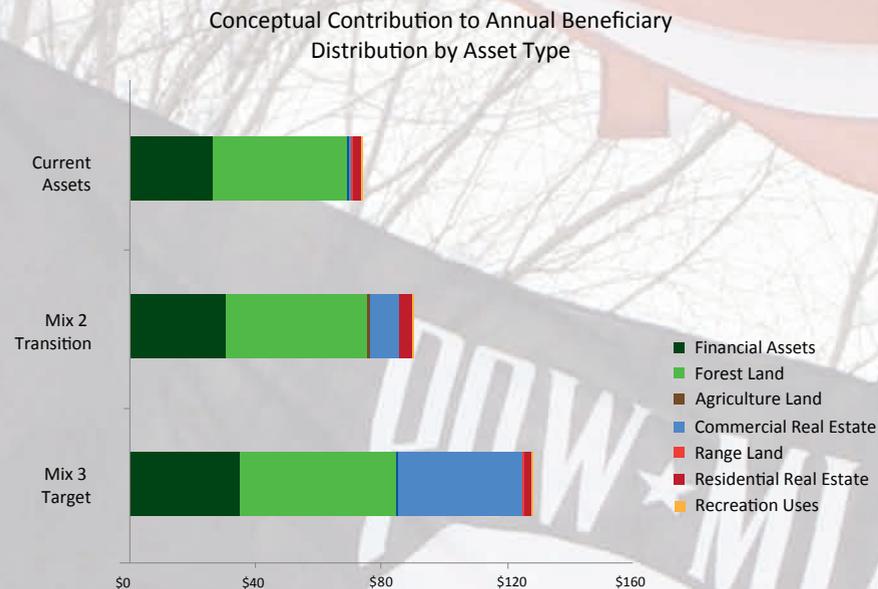
MANAGING ENDOWMENT ASSETS LONG-TERM

Endowment assets consist of both land and funds. Idaho law created the Idaho Department of Lands to serve as the manager of the non-financial assets of each trust (the land) and the Endowment Fund Investment Board to formulate policy for and manage the investment of the financial assets.

As the Idaho Constitution mandates, the assets are to be managed to provide a maximum perpetual stream of income to the beneficiaries; the Land Board is obligated to manage the assets of each trust with undivided loyalty to the beneficiaries of the trusts.

Beneficiary distributions depend on land revenues derived mostly from timber harvesting. In order to meet the constitutional mandate to maximize long-term returns, stability and resiliency in the overall trust land portfolio is needed and is best achieved through a more diverse mix of revenue sources.

Therefore, the department uses a variety of tools such as land exchanges, land sales (auctions) and other acquisitions, to adjust the land asset portfolio, thus strengthening the overall portfolio and fulfilling the Constitutional mandate set forth by the founders of the State of Idaho.





Fall colors on state endowment trust lands along Homer Creek in eastern Idaho

STRATEGIC TRANSACTIONS

Moving the endowment trust land portfolio toward a mixture of more diverse land assets is made possible through the work of IDL staff statewide, with the guidance of professional planners and business analysts in the IDL Strategic Business Unit in Boise.

2012 HIGHLIGHTS:

Progress on the Cottage Site Plan and Lot Solutions

Some of the land granted to Idaho at statehood included the land surrounding parts of Priest Lake and Payette Lake. Since the early 1900's, the State has been leasing the land as residential sites known as cottage sites. The individuals and families who leased the lots over time built homes on them, creating a split estate where the structure is considered personal property owned by the private individual (lessee) and the State owns the land underneath.

In 2010, the Land Board and the IDL concluded it was in the best interest of the endowment trusts to develop a plan to divest the State's interest in most of the lots over time and reinvest in other more stable, less emotional assets that could produce higher returns for the endowment trusts.

At the end of calendar year 2012, the IDL was in the final stages of "Lot Solutions," a two-year process of formally planning, surveying and platting cottage site subdivisions. The process prepares more than 500 cottage site lots at Priest and Payette Lakes for future transactions, mainly by sale and exchange.

Two land exchanges completed in calendar year 2012

Land exchanges enable the endowment trusts to dispose of certain land assets in exchange for assets of equal value that immediately produce benefits, with higher financial returns being a component of the benefits, for the trust beneficiaries.

In 2012, the IDL completed two land exchanges, bringing more diversity to the endowment asset portfolio and generating even higher returns for the endowment trust beneficiaries.

The success of these projects and others in recent years demonstrates the commitment and readiness to balance the endowment trust portfolio through business savvy transactions that move assets such as cottage sites into properties with greater earning potential.

FOREST MANAGEMENT

A large portion of the annual income for the endowment trusts is derived from the sale and harvest of timber, which the IDL actively manages on state endowment trust forest lands.

To ensure rapid timber growth, the IDL currently employs a large cadre of professional foresters including 53 operational foresters, 15 forestry supervisors and many more forestry experts, from technicians to the Director.

During fiscal year 2012, a record 330 million board feet of timber valued at more than 50 million dollars was harvested by professional logging contractors on state endowment trust forest lands in Idaho.

At the end of fiscal year 2012 the IDL had 193 active timber sales and approximately 441 million board feet under contract.

To assure the long-term health, vigor, productivity, and expected financial returns of the endowment trust forest, the following forest management activities were employed by IDL timber personnel:

- Reforested 3,200 acres (1,460,000 seedlings planted)
- Pre-commercially thinned 4,500 acres
- Site preparation for future regeneration efforts on 9,000 acres
- Timber sample on 64,000 acres measured for Stand Based Inventory
- Noxious/invasive weed management on more than 700 miles of road

Approximately 18 jobs are created for every 1 million board feet of timber harvested. That means the timber harvested from state endowment trust lands during FY2012 equated to 5,940 jobs in the Idaho forest products industry. The average wage for these jobs is approximately \$42,000 per year supporting families all across Idaho.

The summer of 2012 brought catastrophic damage events to Idaho forests. The IDL Priest Lake Supervisory Area suffered a wind storm causing severe blow down of timber. Both the Payette Lakes and Southwest Idaho Supervisory Areas experienced large forest fires. The foresters in each Area worked diligently to salvage approximately 10 MMBF valued at more than \$1 million which would have been lost if not for the quick reaction of the forestry team.

Endowment Programs | Serving Endowment Trust Beneficiaries

FOREST MANAGEMENT

Timber Harvested

Average Harvest Prices

	FY 2010	FY 2011	FY 2012
Sawlogs \$/MBF ¹	\$ 182.60	\$ 200.83	\$ 196.91
Sawlogs \$/Ton	\$ 18.51	\$ 22.23	\$ 13.47
Cedar Poles \$/LF ²	\$ 3.63	\$ 3.63	\$ 4.45

	Sawlogs (MBF)	Sawlogs (TON)	Cedar Poles (LF)	Cedar Products (MBF)	Pulp (MBF)
North Operations					
Priest Lake	14,050	0	0	935	1,958
Pend Oreille	18,010	23,953	265,040	768	1,710
Kootenai Valley	5,334	0	0	157	72
Mica	1,436	0	71,120	135	216
St. Joe	51,280	0	265,310	1,631	3,608
Cataldo	14,010	0	0	63	1,004
Ponderosa	33,010	0	251,510	806	5,526
Subtotal	137,130	23,953	852,980	4,495	14,094
South Operations					
Clearwater	32,887	14,326	632,910	591	4,436
Maggie Creek	40,253	0	135,865	794	15,985
Craig Mountain	10,580	0	0	98	1,983
Payette Lakes	16,528	67,379	0	0	754
Southwest	1,272	54,798	0	0	21
South Central	0	0	0	0	0
Eastern Idaho	4,780	17,162	0	0	0
Subtotal	106,300	153,665	768,775	1,483	23,179
Total	243,430	177,618	1,621,755	5,978	37,273

Total Harvest Volume - All product types - 329,678 MBF

Timber Sold

	FY 2010	FY 2011	FY 2012
Average Sale Prices			
Sawlogs \$/MBF ¹	\$ 166.11	\$ 196.07	\$ 195.84
Sawlogs \$/Ton	\$ 19.92	\$ 26.66	\$ 24.57
Cedar Poles \$/LF ²	\$ 3.56	\$ 3.82	\$ 4.46

	Sawlogs (MBF)	Sawlogs (TON)	Cedar Poles (LF)	Cedar Products (MBF)	Pulp (MBF)
North Operations					
Priest Lake	14,845	0	188,650	411	77
Pend Oreille	14,194	0	186,425	339	2
Kootenai Valley	1,987	0	0	0	0
Mica	12,042	0	145,700	20	0
St. Joe	31,350	0	159,900	825	394
Cataldo	8,225	0	0	0	0
Ponderosa	36,615	0	263,820	41	191
Subtotal	119,258	0	944,495	1,636	665
South Operations					
Clearwater	41,068	37,007	433,405	1,636	285
Maggie Creek	20,455	0	99,645	1,111	204
Craig Mountain	7,123	0	0	98	140
Payette Lakes	212	86,746	0	0	0
Southwest	81	50,805	0	0	0
South Central	0	0	0	0	0
Eastern Idaho	1,590	31,781	0	0	0
Subtotal	70,529	206,339	533,050	2,845	629
Total	189,787	206,339	1,477,545	4,481	1,294

Total Sale Volume - All product types - 245,569 MBF

¹Thousand Board Feet ² Lineal Feet

Endowment Programs | Serving Endowment Trust Beneficiaries

GRAZING, AGRICULTURE & CONSERVATION

The IDL manages more than 1,165 grazing leases that cover almost 1.8 million acres of state endowment trust land located primarily across the southern two thirds of Idaho. These leases contribute about 260,000 animal unit months (AUM) of forage to livestock operations each year.

Most of the original farming land owned by the endowments was sold during the early portion of the 1900's. What remains is a small portfolio of farming leases that total approximately 18,350 acres. Crops currently grown on state endowment trust lands include sugar, beets, corn, onions, potatoes, barley, hops, dry beans and wheat.

The IDL also manages a small portfolio of conservation leases. The leases are developed to allow resource preservation, view shed preservation, wildlife management, and other conservation practices without diminishing the potential lease revenue for the endowed beneficiary.

The Grazing Lease Program manages more than 1,100 grazing leases that cover almost 1.8 million acres of rangeland.

ENDOWMENT MINERAL LEASING

ENDOWMENT MINERAL LEASING

The IDL manages more than 3.3 million acres of endowment mineral ownership in Idaho. This ownership covers more than 6% of the state. Approximately 2.5 million acres include surface ownership, and the rest is state reserved mineral ownership with private surface ownership.

This year IDL administered 168 endowment mineral leases covering about 36,000 acres, and over 70 Exploration Locations. Minerals extracted from state endowment trust lands include phosphate, sand and gravel, other aggregates, decorative stone, garnets, clay, and cinders. Phosphate and sand and gravel continue to be the main source of mineral revenue. State land provides up to 50% of the phosphate produced in Idaho.

ENDOWMENT GEOTHERMAL LEASING

The IDL manages 21 geothermal resource leases that cover over 6,500 acres of state endowment trust land in southern Idaho. Only one lease is currently in production, but exploration is continuing in several locations.

ENDOWMENT OIL AND GAS LEASING

The IDL manages 203 oil and gas leases that cover almost 60,000 acres of state endowment trust land in southern Idaho. No production has occurred yet, but two leases in Payette County do have gas wells on them and are expected to start producing within the next year. More wells are anticipated, and IDL looks forward to this new source of revenue.



Renovated spaces in two commercial buildings in Boise owned by the endowment trust. Commercial leases generate some of the highest returns for endowment trust beneficiaries.

COMMERCIAL LEASING

Commercial uses include leasing for six sectors, including commercial office/retail, energy resources, communications sites, military facilities, industrial facilities, and recreation.

Expanding commercial energy resource leasing opportunities such as geothermal, wind and solar will diversify the use of endowment trust land assets beyond traditional uses. There currently is one wind energy lease in place and in production on state endowment trust lands.

The IDL manages six developed commercial properties and seven parking lots in downtown Boise and two other office/retail leases in Idaho Falls.

With the high financial returns and long-term stability that commercial office/retail leasing activities bring to the overall trust land portfolio, commercial office/retail leasing is expected to be an area of continued growth for the IDL.

Private third party companies and leasing agents provide the daily management and marketing of the commercial office-retail land assets. Additionally, in FY12 the IDL made investments in commercial office-retail properties in order to put them to work maximizing revenues for the trust beneficiaries. Those investments included tenant improvements that were completed entirely by private third party companies.

In fact, there are few other State agencies in Idaho that rely more heavily on private third party contractors to carry out its duties than the Idaho Department of Lands.

Enhancing the commercial uses of endowment assets benefits not only the endowment trust beneficiaries immediately and in the long run, but private industry as well.

Endowment Programs | Serving Endowment Trust Beneficiaries

COTTAGE SITE LEASING

More than 500 cottage site leases located at Priest Lake and Payette Lake are managed by the IDL.

Lessees are allowed to build private residences on waterfront and secondary lake properties owned by the endowment trusts.

WASDEN V. LAND BOARD

The Idaho Constitution states that disposal of state endowment trust land must occur through a public auction. Disposal has been determined through Constitutional debate discussions and case law to include both direct sales and leasing of state endowment trust land.

The Legislature in 1990 passed a law that excluded cottage sites leases from the public auction requirement, limiting competitive opportunities for other parties to bid on the lease and thus limiting the potential to generate higher returns for the endowment trusts.

Attorney General Lawrence Wasden challenged that law and shortly after the end of FY12, the Idaho Supreme Court decided the law was unconstitutional, subjecting the cottage site leases again to the public auction requirement when two or more applicants are interested in leasing the same site.

All 534 cottage site leases expire on December 31, 2013, and will be made available for anyone to lease beginning in 2014.

The Supreme Court decision also served to assert the Board's authority in matters related to management of state endowment trust lands.

FY2012 ENDOWMENT LEASING HIGHLIGHTS

GRAZING PROGRAM

1,165 grazing leases with a total of 1,777,559 leased acres and 257,050 animal unit months (AUM)

AGRICULTURE PROGRAM

67 farming leases with a total of 18,350 leased acres and 619 animal unit months (AUM)

CONSERVATION PROGRAM

22 conservation leases

COMMERCIAL PROGRAM

242,296 square feet of commercial office/retail property under lease with 88.7 percent occupancy

25 industrial leases

8 military leases

47 recreation leases (commercial and noncommercial)

73 communication leases

9 commercial office/retail leases

3 energy resources

RESIDENTIAL PROGRAM

354 Priest Lake cottage site leases

165 Payette Lake cottage site leases

6 other residential leases

ENDOWMENT MINERALS PROGRAM

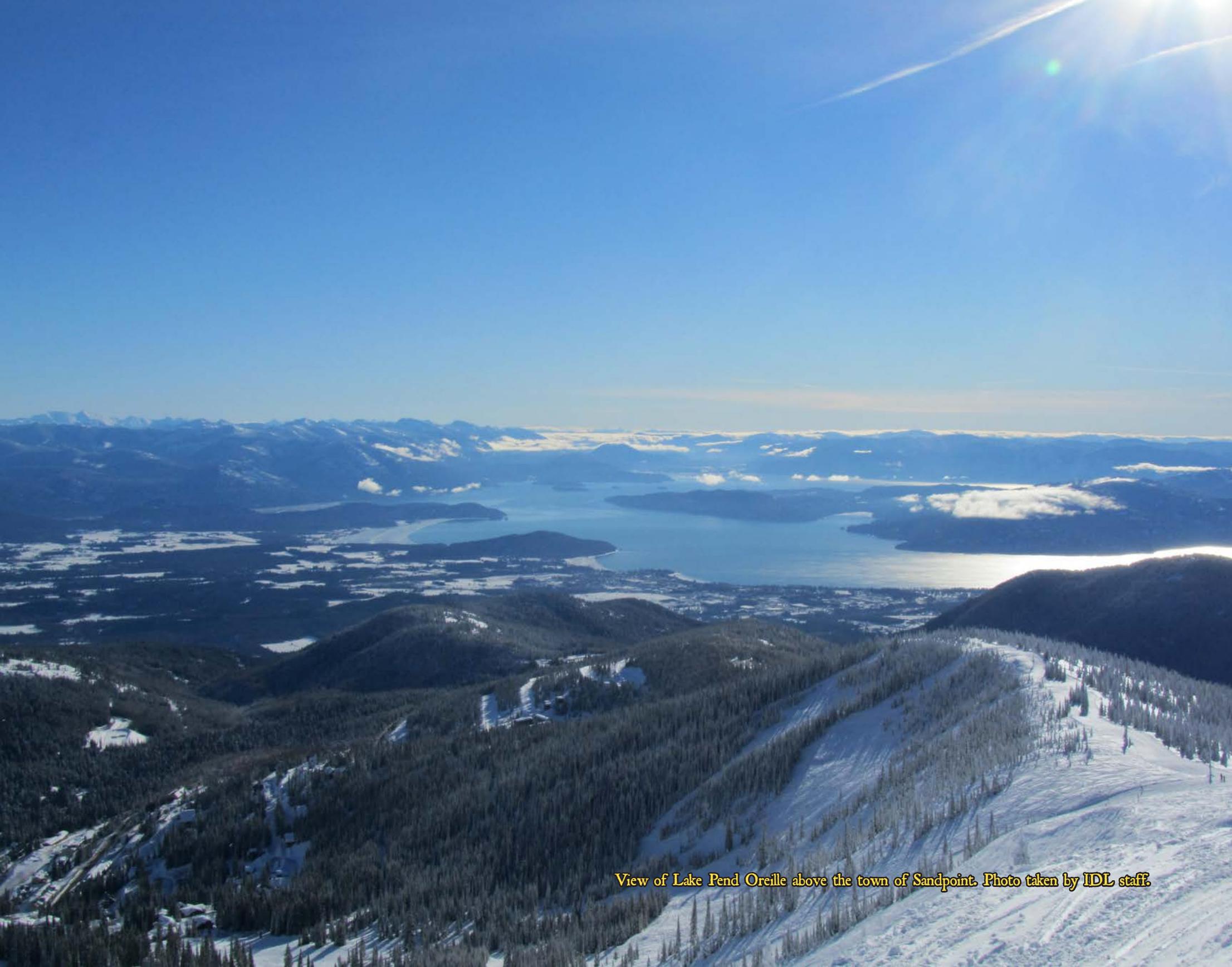
168 endowment mineral leases with a total of 35,955 leased acres

LAND USE PERMITS

95 land use permits issued

325 land use permits administered

(as of June 30, 2012)



View of Lake Pend Oreille above the town of Sandpoint. Photo taken by IDL staff.

THREATENED & ENDANGERED SPECIES

As land managers for one of Idaho's largest landowners—the state endowment trusts—the IDL carefully tracks and weighs in on any proposed federal listings of threatened and endangered species in Idaho that will affect management of endowment trust lands.

Such listings present constraints and uncertainty in land management. They can increase the costs of management and fire protection and limit activities on the land, thus decreasing financial returns to the trusts.

In addition to working with the U.S. Fish and Wildlife Service and NOAA Fisheries on issues involving listed species, staff in the IDL Threatened and Endangered Species program provide technical support to other IDL personnel with management issues related to species listings. The IDL also provides technical and policy review of proposed Endangered Species Act listings; climate change; biomass; and other federal proposed rules and court decisions.

Our work in this capacity is done in close cooperation with other State agencies and the Governor's Office of Species Conservation. Our work also serves private landowners in Idaho since many of the management issues the State experiences as endowment trust land managers are similar to issues private landowners face as well.

2012 HIGHLIGHTS:

- After a lengthy and detailed review and public comment period for the Proposed Critical Habitat for Woodland Caribou and associated Economic Analysis, the U.S. Fish and Wildlife Service reduced its Critical Habitat proposal from 375,552 acres to 30,000 acres. The original proposal contained approximately 65,000 acres of state endowment trust land, predominantly in

the Priest Lake area in northern Idaho. The final rule contains no critical habitat on endowment lands or on the east side of Priest Lake. The IDL comments in coordination with Idaho Fish and Game and the Governor's Office of Species Conservation played a significant role in the reduction of listed critical habitat.

- The Western Journal of Applied Forestry has accepted for publication a technical paper authored by IDL contractors Mark Teply and Dale McGreer titled, "Simulating the Effects of Forest Management on Stream Shade in Central Idaho." The peer-reviewed journal article will provide further defensibility of the IDL proposed riparian management measures.
- In March of 2012, the Governor's Sage Grouse Task Force was formed by executive order. Over several months the task force met to develop a state specific conservation plan for protecting greater sage grouse populations and their habitat in Idaho. The effort was put forward as a means of avoiding sage grouse being listed on the Threatened and Endangered Species list. IDL staff participated in planning meetings and acted as resource experts to the task force team.



Bottom pasture of the Crane Creek grazing unit in eastern Idaho looking toward Sheep Mountain in early spring 2012.

OIL & GAS CONSERVATION COMMISSION

The members of the State Board of Land Commissioners act as the Oil and Gas Conservation Commission. The Commission regulates the exploration, drilling and production of oil and gas resources to ensure the conservation of oil and gas and the protection of surface and groundwater.

Although oil and gas drilling permits have been issued by IDL, no commercial oil and gas wells are currently in production in Idaho.

In 2012, IDL issued 30 oil and gas leases on state endowment trust land for a total of 11,793 leased acres. Additionally, IDL issued two seismic permits, including a permit for the first 3-D seismic shoot completed in the state.

CHANGES TO IDAHO'S OIL & GAS LAWS AND RULES

When natural gas reserves were discovered in western Idaho in 2009, Idaho's laws and rules regulating the exploration and extraction of oil and natural gas were nearly two decades old and industry practices and expectations had changed considerably in the past 20 years.

The Oil and Gas Conservation Commission gave its approval for the IDL to conduct a negotiated rulemaking process to update the state's legal and regulatory framework governing oil and gas. Participation was quite broad during the negotiations. Industry representatives, non-government organizations, local governments, citizens, and other state agencies helped to improve the rules.

The Idaho Legislature in 2012 approved the rule changes and also passed numerous pieces of legislation sponsored by the IDL. One bill brought forth by industry related to county jurisdiction in oil and gas development also passed.



*View of Pillar Falls from state endowment trust lands in Jerome County.
The photo was taken from the Perrine Block, land owned by the
Public School endowment trust along the north bank of the
Snake River near the City of Twin Falls.*

REGULATORY & ASSISTANCE FUNCTIONS

MINING REGULATION & ASSISTANCE

The IDL administers the Idaho Surface Mining Act and the Idaho Dredge and Placer Mining Act on all state, private, and federal lands in Idaho. Mining plans and reclamation bonds are required prior to the start of mining activity regulated by these laws. Plans are reviewed and approved in coordination with other State and federal agencies.

The IDL also provides financial and technical assistance to land owners across Idaho with abandoned mine issues. Public safety and environmental protection are the focus of the abandoned mine lands program, which is funded by a portion of the Mine License Tax.

2012 HIGHLIGHTS:

1,496 surface mining reclamation plans
24 placer mining permits

In total these lands are managed for the public's benefit, not for a specific beneficiary.

The Mining Regulatory Program regulates surface mining and dredge/placer mining on all state, private, and federal lands in the State of Idaho.

PUBLIC TRUST LAND MANAGEMENT

The IDL and the Land Board manage public trust lands - the beds and banks lying below the ordinary high water mark of the state's navigable lakes, rivers and streams. Determination of whether a water body is navigable is made by the Land Board, the court system, or both.

In that capacity, the IDL is the administrator of the Idaho Lake Protection Act and regulates encroachments and activities on, in, or above the navigable lakes in the State of Idaho. Examples of encroachments permitted by the IDL include docks, marinas, and float homes.

Additionally, the IDL administers the leasing of riverbed public trust lands for minerals, and processes disclaimers of interest and easements along navigable rivers.

2012 HIGHLIGHTS:

NAVIGABLE WATERS PROGRAM

153 submerged land leases (i.e. marinas)
412 encroachment permits issued
11,870 encroachment permits administered

PUBLIC TRUST MINERAL LEASING

3 public trust mineral leases (also known as riverbed leases)
80 exploration locations (22 riverbed exploration certificates)

FIRE MANAGEMENT

The IDL fire management responsibilities are one of the most visible of our functions. On a day-to-day basis the IDL establishes and implements policies to prevent, prepare for, and fight wildland fires on six million acres of Idaho's state and private forest and rangelands.

These responsibilities include regulating the elimination of fire hazards caused by timber harvesting on State and private lands in Idaho.

The 14 supervisory area offices statewide and the fire management bureau in Coeur d'Alene promote and carry out the work of the IDL fire management program. The department's work in fire management helps protect and preserve important endowment timber assets as well as millions of acres of private forestland.

The IDL enhances forest and rangeland management on state endowment trust lands by utilizing fire as a management tool, while protecting local communities from wildfire by reducing fuels.

2012 FIRE SEASON IN REVIEW

The year 2012 was one of the biggest fire seasons in Idaho since the Panhandle's deadly "Big Burn" of 1910, in terms of number of acres burned.

On lands protected by the State, however, the 2012 fire season was below the 30-year average in terms of fire occurrence and acres burned.

Fire response in Idaho is organized by 18 forest protection districts. The IDL and timber protective associations have lead fire response duties on 12 forest protection districts over six million acres of predominantly state and private forested lands. Federal

land management agencies provide fire protection on the majority of their lands statewide.

State-managed fire suppression focuses on initial attack—getting fires out as quickly as possible in order to protect resources and minimize suppression costs. In 2012, favorable weather and the quick response by dedicated teams of firefighters kept 90 percent of fires on State protected lands to less than 10 acres.

Firefighters responded to 187 fires (51 percent of average) on lands protected by the IDL, Clearwater-Potlatch Timber Protective Association (CPTPA), and Southern Idaho Timber Protective Association (SITPA). These fires burned 4,755 acres, or 48 percent of the average acreage burned.

Human activity ignited 106 fires (57 percent of the year's total) that burned 4,460 acres. Human caused fires accounted for 94 percent of the burned area. The miscellaneous category accounted for the most human-caused fires and burned the largest area.

Lightning started 81 fires (43 percent of the year's total) and burned 295 acres, or 6 percent of the total area. The average fire size was 25.4 acres, which is 105 percent of the 30-year average. The median fire size was 0.1 acres.

The average fire on State-protected lands cost \$59,642, and the cost per acre was \$2,346.

FIRE MANAGEMENT

Number of Fires, by Cause, by District

District	# of Fires	Lightning	Misc.	Debris	Equip. Use	Campfire	Arson	Children	Smoking	Railroad
CPTPA	43	23	3	7	9	2	--	--	--	--
West St. Joe FPD	21	11	2	6	1	1	--	--	--	--
Southwest Idaho FPD	19	6	4	1	2	2	3	1	--	--
SITPA	19	6	6	2	1	4	--	--	--	--
Pend Oreille FPD	17	8	4	1	2	2	--	--	--	--
Maggie Creek FPD	16	3	3	5	3	1	1	--	--	--
Ponderosa FPD	14	11	2	--	--	--	1	--	--	--
Kootenai Valley FPD	9	3	3	1	1	1	--	--	--	--
Cataldo FPD	9	7	1	--	--	1	--	--	--	--
Craig Mountain FPD	9	3	3	--	1	1	1	--	--	--
Mica FPD	7	1	2	3	--	1	--	--	--	--
Priest Lake FPD	4	--	2	--	--	2	--	--	--	--
Total	187	81	35	26	20	18	6	1	0	0

The fire season begins in late spring so does not coincide with the fiscal year. As a result, figures on this page may not agree with fiscal-year statistics elsewhere in this report.



Photo taken by an IDL firefighter on a fire assignment out of state.
In Idaho, the IDL provides fire protection on more than six million acres of state and private land.

FORESTRY REGULATION & ASSISTANCE

The IDL forestry assistance professionals provide technical assistance to other IDL programs as well as local, state and federal officials.

These specialists in forest management, entomology, pathology, fisheries and wildlife biology, hydrology, geotechnical engineering and community forestry advise and assist urban and rural forest landowners in the responsible management of forest resources and enforce the policies set forth by the Idaho Forest Practices Act, which regulates commercial forest operations within Idaho.

CALENDAR YEAR AND FISCAL YEAR 2012 HIGHLIGHTS IN FORESTRY REGULATION:

Idaho Forest Practices Act Administration

The IDL administers the Idaho Forest Practices Act (FPA), a law created in 1974 to promote active forest management and ensure that the health of forest soil, water, vegetation, wildlife, and aquatic habitat is maintained during the growing and harvesting of forest trees in Idaho.

- Number of forest practices notifications: 1,821
- The IDL private forestry specialists conducted 1,279 forest practices inspections on 999 different harvesting operations on Idaho's private forestlands and found a 97 percent rate of compliance.
- Participated in the 2012 Water Quality/Forest Practices Quadrennial Audit led by the Idaho Department of Environmental Quality, inspecting 43 harvested sites statewide across many ownerships to assess compliance with FPA rules and effects to water quality.

- Carried out negotiated rulemaking to amend nine existing FPA rules and one new rule

CALENDAR YEAR AND FISCAL YEAR 2012 HIGHLIGHTS IN FORESTRY ASSISTANCE:

Forest Stewardship

Across the state, IDL private forestry specialists provide advice to private landowners on management planning, timber harvest, reforestation, thinning, and many other forest issues.

- Technical assists to private forest landowners: 1,398
- Developed 60 new or revised Forest Stewardship Plans, covering more than 1,900 acres.
- Helped improve outreach and education opportunities for private landowners and forest managers and helped facilitate forest improvement activities by partnering with the USDA Natural Resources Conservation Service and Farm Service Agency, and by supporting University of Idaho Extension Forestry to provide technical and financial assistance to forest landowners and facilitate more than 3,000 acres of forest improvement activities on private lands.
- Provided funding to facilitate targeted forestry education to 500 teachers at Project Learning Tree training sessions.
- Partnered with 200 forestry professionals from multiple entities to fund and facilitate the Idaho State Forestry Contest, a field education and forestry skills competition with 400 elementary, middle, and high-school students participating.

FORESTRY REGULATION & ASSISTANCE

Forest Health

Insect infestations and diseases present major health problems for Idaho forests. The IDL provides technical assistance, training, and financial assistance to forest landowners, designed to minimize risks and hazards from insects and diseases. Focus is on prevention, suppression, and restoration of forests before, during, and after an insect or disease outbreak.

- IDL conducted three pest detection surveys covering 8,558,036 acres, including an aerial detection survey, gypsy moth survey, and a Douglas-fir tussock moth survey.
- IDL conducted 78 insect and disease identification and management training sessions, with 3,100 participants.

Community and Urban Forestry

Trees provide many benefits in urban settings. They reduce air and noise pollution, help conserve water, save energy, reduce soil erosion, beautify areas and enhance economic stability, and provide many other benefits.

The IDL supports and provides assistance to communities that want to develop an urban or community forestry program.

- IDL is nearing completion on the second phase of a canopy analysis project in the Treasure Valley. Using geospatial analysis and other tools, the project helps determine the contribution of tree canopy to air quality, energy conservation and storm-water mitigation, and identifies high priority areas for planting trees to address air quality (especially ozone) and other issues.
- Five cities in Idaho received Tree City USA Growth awards for significant improvement to their tree management programs.

- In 2012, 90 communities received IDL assistance ranging from Arbor Day grants to management plan development and geospatial tree canopy studies.

Forest Legacy

Many private forest landowners face the choice to convert their lands to uses that will forever remove them from the forested land base.

The IDL administers a Forest Legacy Program that provides funding to purchase conservation easements on private lands that might otherwise be developed and lost as forests.

- IDL received two Forest Legacy Program (FLP) project applications, covering more than 12,100 acres, for 2014 funding consideration.
- One project in 2012 received funding to protect 1,700 acres as working forestlands, and closing on the project is anticipated in 2013.

Interdisciplinary Team Field Visits

The interdisciplinary (ID) team is the IDL cadre of technical specialists in hydrology, wildlife biology, fish biology and geotechnical engineering that provide advice and assistance to our own endowment trust land managers around the state.

In 2012, the ID team members conducted 114 field visits on individual projects throughout the IDL supervisory areas and completed 41 follow-up reports providing recommendations to staff.

SUPPORT SERVICES

Vital to the smooth operation of the entire department — including the Land Board — are the dedicated people in the support services division of the IDL who perform legal, fiscal management, information systems, and personnel functions from their offices in the department's headquarters in Boise and Coeur d'Alene.

GEOGRAPHIC INFORMATION SYSTEMS (GIS)

The Geographic Information System (GIS) section maintains the property ownership databases and records that are vital to the department as it formulates management strategies for the lands under its control. It also administers the IDL GIS Web site, which provides access to land records, published maps, aerial photography sources and digital maps of the entire state.

INFORMATION TECHNOLOGY

The Information Technology section manages the department's entire network infrastructure, including hardware, software, remote backup and storage, and help desk duties.

LEGAL OVERSIGHT

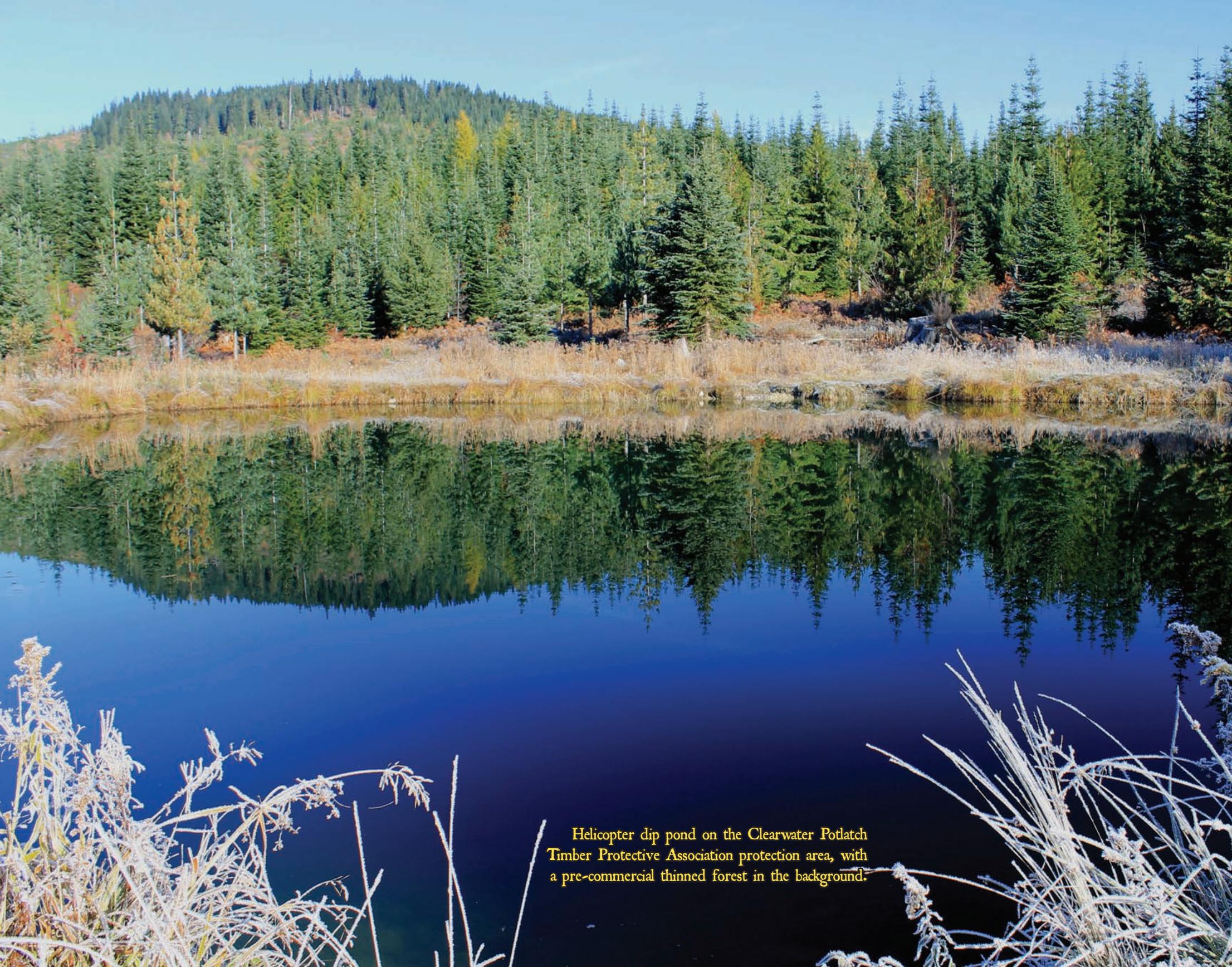
The IDL pays for legal counsel provided by the Idaho Attorney General. The deputy attorneys general assigned to the IDL provide legal advice, initiate legal action on the department's behalf and, when necessary, defend the IDL in court.

FISCAL MANAGEMENT

Under the supervision of the financial officer, the fiscal section provides oversight and policy direction for all accounting functions within the department, including purchasing, accounts payable and receivable, payroll and internal auditing.

HUMAN RESOURCES

The department's human resource officer and staff work closely with the state's division of human resources to deliver all personnel responsibilities, including recruiting, and record keeping.



Helicopter dip pond on the Clearwater Potlatch Timber Protective Association protection area, with a pre-commercial thinned forest in the background.

IDAHO BOARD OF SCALING PRACTICES

The Idaho Board of Scaling Practices enforces log scaling (measurement) standards prescribed by statute and regulation, to ensure professional quality log scaling for the benefit of Idaho timber interests. The Board tests and licenses log scaling practitioners and subjects them to routine, unannounced check scales to assure proficiency. The Board also administers log brand registrations and the disposition of prize (abandoned) logs.

Appointed by the governor, Board members represent industry, logging, and private landowner interests.

Current board members are:

- Tom Schultz, Chairman
- Jack Buell, Vice Chairman
- H. Larry Stewart, Secretary
- Robert E. Boeh
- Gerry Ikola
- Lynn House
- Brad Corkill

An executive director and check scaler, headquartered in the Idaho Department of Lands Coeur d'Alene office, carry out the Board's directives. Funding for the board is derived from assessment fees levied on the scale of forest products harvested within the state and from licensing and registration fees.

Russel Hogan was appointed the new Executive Director of the Idaho Board of Scaling Practices in June 2012, following the passing of the Board's long time director, Ernie Bauer.

ACCOUNTANTS' STATEMENT

	Initials	Date
Prepared By		
Approved By		

We have examined and prepared the data presented in this annual report in accordance with generally accepted accounting standards and affirm it is true and accurate and reflects the activity of the Idaho Department of Lands and the State Board of Land Commissioners during fiscal year 2012.

Signed,



Lisa Johnson
Financial Officer

Accounts and Funding Revenue and Expenditures

	Revenue	Expenditures
General Fund	1,041,641	3,886,286
Misc. Pass Through Funds	916,558	0
Dedicated Land Funds		
Forest Resources	560,314	494,720
Lands, Minerals, Range	159,583	155,025
Fire Management	6,309,636	3,904,087
Board of Scaling	218,843	190,061
Support Services	12,369	839,164
Indirect Cost Recovery	437,487	352,890
Community Forestry Trust	12,409	10,759
Land Bank	526,710	325
Total Dedicated Funds	\$ 8,237,350	\$ 5,947,031
Fire Suppression	3,045,807	9,059,013
Federal Funds	6,430,899	5,959,760
Endowment Funds		
Earnings Reserve	62,448,104	23,354,297
Permanent	3,309,840	0
Total Endowment Funds	\$ 65,757,944	\$ 23,354,297
Revenue & Expenditures	\$ 85,430,199	\$ 48,206,388

Endowment Land (by asset type and number of acres)

STATUS

Endowment	Agriculture	Commercial RE	Conservation	Forest Lands	Minerals	Range Lands	Residential RE	Total
Agricultural College	-	350	-	15,152	7	17,966	-	33,475
Capitol Permanent	-	19	-	7,164	-	39	-	7,222
Charitable Inst.	10	122	-	63,090	6	13,997	-	77,225
Normal School	38	316	-	43,671	63	15,663	50	59,800
Penitentiary Inc.	480	20	-	27,099	-	1,307	-	28,907
Public Schools	15,165	13,016	22,825	687,871	1,944	1,336,882	562	2,078,263
School of Science	-	350	-	63,964	78	11,475	-	75,867
State Hospital South	-	1,542	-	26,001	10	3,640	96	31,288
University of Idaho	100	1111	-	42,979	23	11,995	107	55,314
Total	15,792	15,855	22,825	977,579	2,131	1,412,98	841	2,448,010

Balances as of June 30, 2012

As a government entity, the Idaho Department of Lands is required to use cash basis accounting methods in reporting asset performance. Using the more commonly employed accrual method of accounting, the performance of commercial assets is represented as follows:

Developed Commercial Office/Retail	FY12
Gross Revenue	1,604,500
Direct Costs	<u>1,258,236</u>
Program/Building Margin (Cash Basis)	346,264
¹ Accrual Entries:	
² Add Current Year Capitalized Expenses	521,903
² Deduct Current Year Useful Life Amortization	<u>374,072</u>
Program/Building Margin (Accrual Basis)	494,094
Program Expense	142,110
Managerial Overhead	<u>141,136</u>
Net Income (Accrual Basis)	210,848
Return on Asset (ROA)	
Beginning Value	16,294,211
Ending Value	19,759,523
Cash on Cash	1.29%
Value Appreciation	<u>21.27%</u>
Total ROA	22.56%

Income Statement (for the year ended June 30, 2012)

ENDOWMENT TRUST LANDS

	Public School	Ag College	Charitable Institutions	Normal School	Penitentiary
Direct Program Revenue*					
Forest Land	29,724,164	1,932,501	5,772,246	670,687	2,853,688
Agriculture Land	370,567	1,200	242	-	25,802
Grazing Land	1,302,498	16,609	23,761	23,193	6,164
Residential Real Estate	3,980,734	-	-	771,118	-
Commercial Real Estate ¹	1,153,710	2,476	31,775	1,016,836	1,567
Recreation	250,062	144	3,935	12,074	3,871
Conservation	144,333	-	-	85	-
Oil and Gas	72,957	2,429	5,820	8,404	288
Minerals	3,051,225	601	15,955	177,008	954
Total Revenue	\$ 40,050,249	\$ 1,955,960	\$ 5,853,733	\$ 2,679,404	\$ 2,892,333
Direct Program Expense					
Forest Land	10,165,623	231,041	989,326	634,453	403,648
Agriculture Land	96,052	311	63	-	6,688
Grazing Land	808,379	10,308	14,747	14,395	3,825
Residential Real Estate	216,918	-	-	33,513	-
Commercial Real Estate ¹	259,470	58	2,363	1,032,886	313
Recreation	1,819	1	29	88	28
Conservation	79,805	-	-	47	-
Oil and Gas	4,166	139	332	480	16
Minerals	286,307	56	1,497	16,609	89
Total Program Expense	\$ 11,918,537	\$ 241,915	\$ 1,008,357	\$ 1,732,469	\$ 414,608
Program Margin	\$ 28,131,712	\$ 1,714,045	\$ 4,845,377	\$ 946,935	\$ 2,477,725
Less: Managerial Overhead					
Forest Land	2,891,260	63,509	265,071	182,986	113,903
Agriculture Land	43,425	141	28	-	3,024
Grazing Land	332,642	4,242	6,068	5,923	1,574
Residential Real Estate	67,690	-	-	10,458	-
Commercial Real Estate ¹	72,859	-	805	112,220	-
Recreation	8,153	5	128	394	126
Conservation	15,246	-	-	9	-
Oil and Gas	1,312	44	105	151	5
Minerals	129,041	25	675	7,486	40
Total Managerial Overhead	\$ 3,561,630	\$ 67,965	\$ 272,880	\$ 319,627	\$ 118,672
Net Income by Program					
Forest Land	16,667,281	1,637,951	4,517,849	(146,751)	2,336,138
Agriculture Land	231,091	748	151	-	16,091
Grazing Land	161,477	2,059	2,946	2,875	764
Residential Real Estate	3,696,126	-	-	727,148	-
Commercial Real Estate ¹	821,380	2,418	28,608	(128,269)	1,254
Recreation	240,090	138	3,778	11,592	3,717
Conservation	49,282	-	-	29	-
Oil and Gas	67,478	2,246	5,383	7,773	266
Minerals	2,635,877	519	13,783	152,913	824
Total Net Income	\$ 24,570,082	\$ 1,646,080	\$ 4,572,497	\$ 627,308	\$ 2,359,053
Net Income/Total Revenue	61%	84%	78%	23% **	82%

¹ Commercial Real Estate activities include office/retail and light industrial, public facilities, energy resources, communication sites, etc.

* Direct Program Revenue includes contributions to permanent funds and earnings reserve funds.

** \$872,047.77 in capital improvement and tenant improvement projects were completed on commercial buildings for State Hospital South and Normal Schools endowments.

† \$300,000 in one-time rock crushing costs for the Capitol endowment will be recovered in FY13.

• Revenue Source: IBIS Query/Access Query • Direct Expenditure Source: STARS DAFR 8290 • Admin Ovhd Source: STARS DAFR 8290

	School of Science	State Hospital South	University	Capitol	Total
Direct Program Revenue*					
Forest Land	3,657,056	2,433,438	3,636,530	80,278	50,760,589
Agriculture Land	-	-	1,885	-	399,696
Grazing Land	38,519	6,542	21,591	340	1,439,217
Residential Real Estate	-	1,541,931	-	-	6,293,783
Commercial Real Estate ¹	711	325,268	248,519	3,500	2,784,361
Recreation	2,921	274,696	601	-	548,303
Conservation	-	3,238	4,661	-	152,316
Oil and Gas	2,777	2,667	4,051	-	99,393
Minerals	10,155	13,376	10,715	299	3,280,285
Total Revenue	\$ 3,712,139	\$ 4,601,156	\$ 3,928,552	\$ 84,417	\$ 65,757,944
Direct Program Expense					
Forest Land	938,769	473,475	644,212	405,829	14,886,375
Agriculture Land	-	-	489	-	103,602
Grazing Land	23,906	4,060	13,400	211	893,232
Residential Real Estate	-	65,807	-	-	316,237
Commercial Real Estate ¹	72	355,540	65,651	50	1,716,404
Recreation	21	1,998	4	-	3,987
Conservation	-	1,790	2,577	-	84,218
Oil and Gas	159	152	231	-	5,676
Minerals	953	1,255	1,005	28	307,800
Total Program Expense	\$ 963,880	\$ 904,076	\$ 727,570	\$ 406,118	\$ 18,317,531
Program Margin	\$ 2,748,259	\$ 3,697,079	\$ 3,200,982	\$ (321,701)	\$ 47,440,413
Less: Managerial Overhead					
Forest Land	267,234	109,499	180,765	30,056	4,104,283.45
Agriculture Land	-	-	221	-	46,838.67
Grazing Land	9,837	1,671	5,514	87	367,558.45
Residential Real Estate	-	20,535	-	-	98,683.01
Commercial Real Estate ¹	-	30,611	28,317	107	244,919.78
Recreation	95	8,956	20	-	17,877.36
Conservation	-	342	492	-	16,089.62
Oil and Gas	50	48	73	-	1,787.74
Minerals	429	566	453	13	138,728.28
Total Managerial Overhead	\$ 277,646	\$ 172,229	\$ 215,856	\$ 30,262	\$ 5,036,766.36
Net Income by Program					
Forest Land	2,451,053	1,850,464	2,811,553	(355,606)	31,769,930
Agriculture Land	-	-	1,175	-	249,256
Grazing Land	4,775	811	2,677	42	178,427
Residential Real Estate	-	1,455,589	-	-	5,878,863
Commercial Real Estate ¹	639	(60,883)	154,550	3,343	823,038
Recreation	2,804	263,742	577	-	526,438.2
Conservation	-	1,105	1,591	-	52,008
Oil and Gas	2,569	2,467	3,747	-	91,930
Minerals	8,773	11,555	9,256	258	2,833,757
Total Net Income	\$ 2,470,613	\$ 3,524,851	\$ 2,985,127	\$ (351,963)	\$ 42,403,646
Net Income/Total Revenue	67%	77% **	76%	-417% †	64%

¹ Commercial Real Estate activities include office/retail and light industrial, public facilities, energy resources, communication sites, etc.

² See additional detail regarding the accrual method of accounting on page 36.

* Direct Program Revenue includes contributions to permanent funds and earnings reserve funds.

** \$872,047.77 in capital improvement and tenant improvement projects were completed on commercial buildings for State Hospital South and Normal Schools endowments.

† \$300,000 in one-time rock crushing costs for the Capitol endowment will be recovered in FY13.

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