



**Idaho State
Board of Land Commissioners**

**Endowment Lands
Asset Management Plan**

May 17, 2016

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I. Overview

A. PURPOSE

This document provides strategic direction to the Idaho Department of Lands (IDL) for the management of endowment lands. Program managers, primarily timberland, farmland, and rangeland, will develop and maintain program-specific business plans to guide the individual programs in the management actions on endowment lands. The program-specific business plans will provide direction to support the strategies in this Asset Management Plan.

B. BACKGROUND

The Idaho Constitution establishes the State Board of Land Commissioners (Land Board) as the trustee over the assets of the nine endowments. As trust manager, the Land Board is obligated to manage the assets of each trust with undivided loyalty to the beneficiaries of the trusts. Idaho Code § 58-101 created the Idaho Department of Lands (IDL) to serve as the manager of the non-financial assets of each trust. Similarly, Idaho Code § 57-718 created the Endowment Fund Investment Board (EFIB) which formulates policy for, and manages the investment of, the financial assets.

C. RELATED DOCUMENTS

Policies for endowment investments, including land assets, are found in the Investment Policy Statement, presented to the Land Board for approval in 2016. The Investment Policy Statement provides direction and performance measures for financial and land assets as a combined trust. The Investment Policy Statement also details the governance structure approved by the Land Board in 2015.

The Callan Report, authored by Callan Associates (Callan) and accepted by the Land Board in 2014, provided guidance to the Land Board regarding the Board's role as strategic managers, asset allocation, governance structure, investment policy, asset valuation, and managing the endowment assets as a combined trust. The Callan Report recommended development of the Investment Policy Statement and Asset Management Plan.

The Endowment Fund Reform Progress Report (2013), also known as the Maynard Report, provided a status update on endowment reform and made several recommendations, particularly related to asset valuation and third-party verification. The progress report, like other similar previous efforts, was a precursor to the Callan Report.

The IDL Strategic Plan is scheduled for completion in May, 2016, and will be updated annually. The Strategic Plan will have major goals for IDL and strategies to make progress toward those goals that will be developed throughout the agency.

The Strategic Reinvestment Plan, presented to the Land Board for approval in 2016, provides direction for the reinvestment of Land Bank funds. The Strategic Reinvestment Plan was primarily authored by Callan in their role as the Land Board's general consultant and investment consultant to the Endowment Fund Investment Board (EFIB).

The Cottage Site Plan, revised and approved by the Land Board in 2016, provides direction for the disposal of residential real estate. The proceeds from the sale of the land assets are transferred to the Land Bank for reinvestment.

Commercial Real Estate Business Plans, approved by the Land Board in 2016, provide direction for the disposal and retention of commercial real estate assets. The proceeds from the sale of those assets are transferred to the Land Bank for reinvestment.

Business plans for IDL land management programs contain the tactics that support this Asset Management Plan. Business plans should be updated and revised on a schedule detailed in each plan or as changing conditions dictate. Business plans provide the ongoing, specific direction for land asset management practices. An example outline for business plans is found in Appendix A. The priorities for business plan development are timberland, rangeland, and farmland. Other asset classes/programs are expected to initially focus on establishing and maintaining policies and procedures rather than business plans.

The Distribution Policy, established by the Land Board, and managed by the EFIB, is included in the Investment Policy Statement and defines how proceeds from land management (and financial assets) are passed on to the beneficiaries.

The Greater Sage-Grouse Conservation Plan, approved by the Land Board in 2015, summarizes conservation measures for endowment land programs that are complementary to the Idaho Alternative for sage-grouse conservation actions on federal land. The plan communicates that there are adequate existing regulatory mechanisms in place to alleviate the primary threats to sage-grouse and sage-grouse habitat to prevent a listing under the Endangered Species Act. Finally, the plan preserves the statutory responsibility of IDL to manage endowment lands under a constitutional mandate to maximize long-term returns to endowment beneficiaries. The plan specifically describes how sage-grouse conservation measures will be applied on endowment lands. The conservation measures are applicable to a variety of activities on endowment lands, including but not limited to fire management, leasing, regulatory, assistance, and rangeland management. While this Asset Management Plan will not restate direction from the Greater Sage-Grouse Conservation Plan, the direction will apply to land management practices.

D. ASSET MANAGEMENT PHILOSOPHY

To fulfill its fiduciary duties to each individual endowment, the Land Board as trustee for the state of Idaho will:

1. Invest in land assets and financial instruments consistent with the powers and limitations imposed by the Idaho Constitution.
2. Manage the endowment land and financial assets as a whole trust on a total return basis.
3. Seek to optimize return from both the endowments' land and financial assets by managing risk through diversification of holdings over time.
4. Ensure that significant land holdings will be maintained in perpetuity, since they provide material diversification and inflation protection to an endowment's portfolio.
5. Seek to reposition parcels to reduce risk, lower management costs, and increase prospects for immediate and sustainable income, recognizing that much endowment land remains in the original scattered parcels obtained from the federal government.
6. Provide for the appropriate and reasonable management expenses of each endowment from its own income.
7. Accommodate public use of endowment lands, to the extent feasible, provided such use does not impair financial returns.

E. PROTECTION OF PRINCIPAL

Proceeds from the sale of endowment lands will never be distributed, but must be reinvested in land within five years or transferred to the Permanent Endowment Funds. The Strategic Reinvestment Plan provides guidance for the Land Board regarding reinvestment of Land Bank funds.

Proceeds from extracted mineral resources will never be distributed but must be deposited to the Permanent Endowment Funds.

F. THE LAND BANK FUND

Article IX Section 4 of the Idaho Constitution and Idaho Code § 58-133 provide for the sale and reinvestment in real property through a Land Bank. The Land Board views the Land Bank as an essential tool that can be used when new land acquisition opportunities are identified. Acquisitions can include easements to secure or improve access. The Strategic Reinvestment Plan provides guidance for reinvestment of Land Bank funds.

II. Endowment Assets

Endowment assets of the state of Idaho consist of both land and funds. All endowment assets are held in trust by the state in nine endowment trusts. The state initially received grants of over 3.65 million acres of land in trust from the federal government in the Idaho Admissions Bill and through other federal acts. Historians of Idaho's constitutional debates note, "The land was to be managed according to private trust law and free from political influence and consideration...to support education [and] with the profits from these lands to relieve taxpayers from the burden."¹ Over time, properties were sold or exchanged, with proceeds from the sales and certain other income deposited in the endowment funds.

The land trust consists of real estate, which is defined by case law and in statute² as land and possessory rights to the land, ditches, water rights, mining claims, structures and improvements affixed to the land and all things for an infinite distance above as well as below the surface of the land. Land assets owned by the endowment trusts must possess legal, transferable ownership, and must exist within the boundaries of the state of Idaho.

A. OVERVIEW OF OWNERSHIP

Idaho's endowment lands were granted to Idaho by the federal government to be held in "trust" and to provide financial support for the various institutions³. The first land grant was made under the Territorial Act of 1863, granting sections 16 and 36 of each township for the support of public schools. The Territorial Act of 1883 granted 46,080 acres for the support of the state university. Upon admission as a state on July 3, 1890, the Idaho Admission Bill reconfirmed the previous grants, and provided an additional 50,000 acres for the support of the state university, plus lands for the support of seven additional institutions.

Because many of the sections granted for the support of the public schools were already in private ownership prior to statehood, the Bill directed the state to select replacement lands from the public domain. The exact acreage due the public schools was determined by assuming 1/18 of the total area of the state as

¹ Colson, Dennis C. (2011). Compilation of notes from the Idaho Constitutional Convention in Boise, Idaho held July 4, 1889. Idaho Endowment Lands and The Idaho Constitution, p. 4 and 8.

² Idaho Code § 55-101, Black's Law Dictionary, Reynard v. City of Caldwell, 55 Idaho 342, 42 P.2d 292, 296 (1935).

³ Pursuant to the Idaho Constitution, endowment lands, like other state property, are exempt from taxation. Article VII, Section 4 states in part, "The property of ...the state, counties, towns, cities, villages, school districts and other municipal corporations and public libraries shall be exempt from taxation." The reason for such exemption is that it impedes the purpose and use of the property. The exemption is offset by the fact that endowment lands provide resources for local businesses which in turn pay taxes and employ people in the local communities. *The Economic Activity of Idaho's Endowment Trust Lands*, Dr. Peter R. Crabb, Ph.D., July 2011, estimated as of the end of fiscal year 2010 that Idaho's Endowment Trust Lands contribute \$133 million in annual economic activity (net of management expenses) and support nearly 2,000 jobs in the state of Idaho.

published in the June 30, 1931, annual report of the General Land Office (53,688,320 acres).⁴

From the outset, there was considerable debate over whether or not to sell the endowment lands and invest the proceeds in a Permanent Fund, or whether the lands should be retained and managed. Initially, Idaho chose to concentrate on selecting high-valued agricultural and grazing lands with the intention of selling them.⁵ Timberlands were selected with the intention of removing the timber and then selling the land as agricultural or grazing lands. Because many of the granted lands were within National Forest Reserves, they were traded for lieu lands of equal value lying in more convenient locations.

Idaho began selling land immediately, resulting in about 33 percent of the original land grant acreage being sold to date. The majority of lands were sold between 1900 and 1940, with over 12 percent of the total acres granted being sold between 1911 and 1920 alone. While land sales significantly reduced acreage between 1890 and 1940, over the past 60 years some acres returned to the trusts through land sale contract forfeitures, loan foreclosures, purchases and land exchanges. The following table illustrates the ownership of the various institutions through time.

Endowment Ownership Through Time

<u>Institution</u>	Total Acres		
	1890	1940	2015
Public School	2,982,683	2,543,962	2,073,095
Agricultural College	90,000	42,836	33,502
Charitable Institutions	150,000	86,085	77,253
Normal School	100,000	53,389	59,655
Penitentiary	50,000	34,051	28,908
School of Science	100,000	74,714	75,490
State Hospital South⁶	50,000	30,315	31,423
University of Idaho	96,080	51,316	55,179
Capitol⁷	32,000	14,719	7,282
Totals	3,650,763	2,931,387	2,441,790

Totals may not match due to rounding.

⁴ The other institutions were also directed to select lands to fulfill their grants from the public domain.

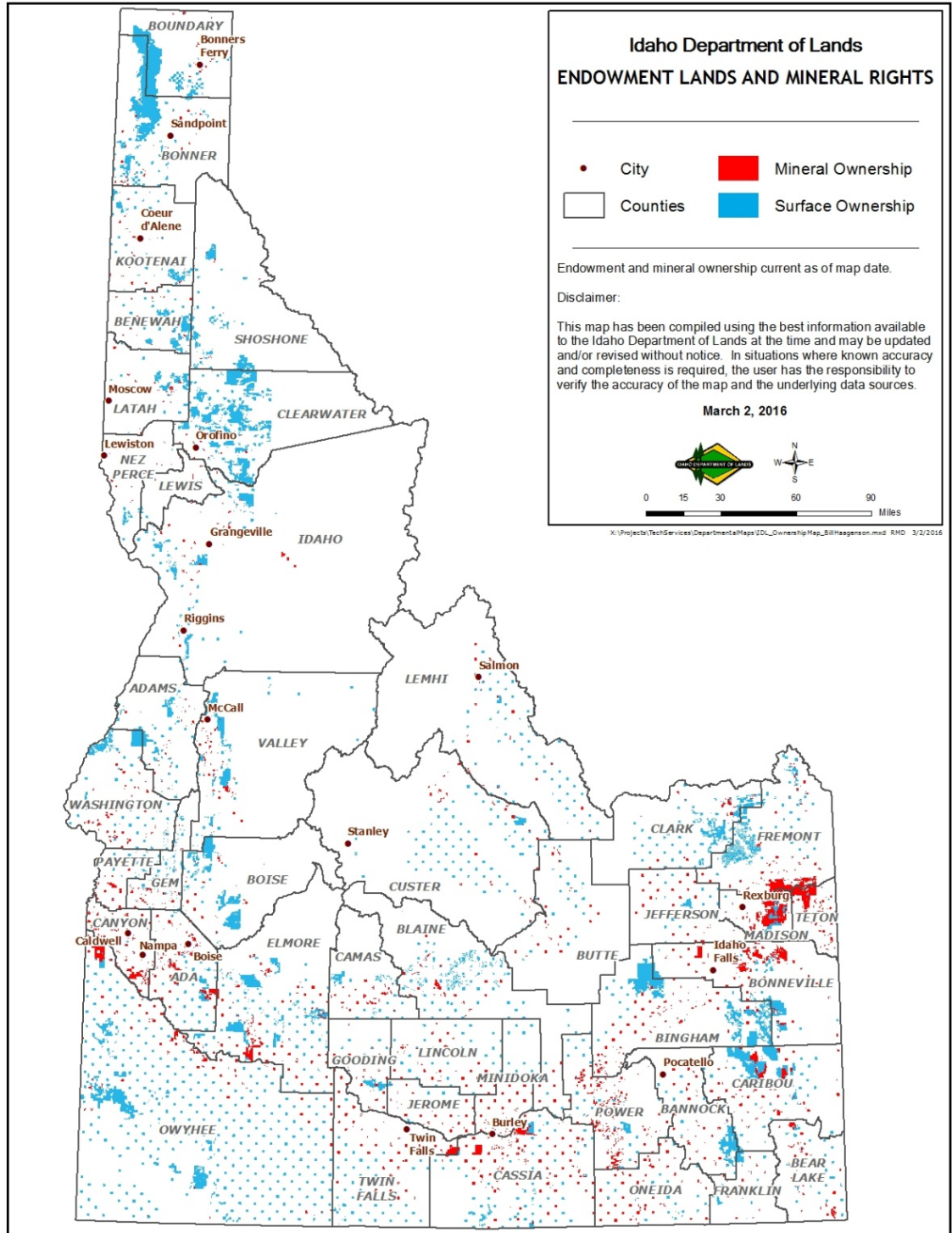
⁵ A Preliminary Report on Management of State-Owned Lands In Idaho. Prepared by The Technical Advisory Committee on Land Management for The Idaho State Planning Land Board, December 1940.

⁶ At statehood, the State Hospital South endowment lands were originally granted as the Insane Asylum endowment.

⁷ At statehood, the Capitol endowment lands were originally designated as the Public Building endowment.

As can be seen in the endowment land ownership map below, the ownership pattern is very scattered and disjointed due to the original public school land grants, the selection process for replacement, in lieu and other endowment lands, and the selling or exchange of various lands.

Endowment Land Ownership Map



Current Land Acres by Endowment

Endowment Ownership - 2015

	Acres	% Total
Public School	2,073,095	85.0%
Agricultural College	33,502	1.4%
Charitable Institutions	77,253	3.2%
4/15 Idaho State University		
4/15 Juvenile Corrections Center		
4/15 State Hospital North		
5/30 Veterans Home		
1/30 School for the Deaf & Blind		
Normal School	59,655	2.4%
1/2 Lewis-Clark State College		
1/2 Idaho State University		
Penitentiary	28,908	1.2%
School of Science	75,490	3.1%
State Hospital South	31,423	1.3%
University of Idaho	55,179	2.3%
Capitol	7,282	0.3%
Totals	2,441,790	100.0%

Totals may not match due to rounding.

Land trust assets are classified according to their “primary” use. Other uses are allowed when they do not adversely impact the “primary” use and the intended financial return. This is unlike federal lands or other public lands which are managed for multiple uses or for the benefit of the general public regardless of their financial return. Land asset classifications can be changed to meet changing markets or to capitalize on emerging alternative opportunities. Overall asset allocation target ranges have been established for the total endowment portfolio by Callan Associates (2014).

Categorizing lands into asset classifications allows:

- Land managers to customize plans and strategies so they can optimize returns based on specific asset characteristics.
- Monitoring performance by benchmarking against similar private industry and other trust land managers.
- Land managers to compare actual land asset allocation to recommended target ranges and strive to adjust over time.

Asset Classification	Asset Description
Timberland	Lands capable of regenerating and growing successive crops of commercial forest products on a sustainable basis.
Farmland	Lands used for growing cultivated plants or agricultural produce (grains, hay, vegetables, and/or fruits).
Rangeland	Lands supporting natural vegetation, generally grasses, forbs and small brush, suitable for grazing by domestic livestock and wildlife.
Commercial Real Estate	Lands normally recognized as “commercial” in local zoning regulations, including retail and light industrial businesses and parking lots.
Residential Real Estate	Land intended for sale or lease for residential subdivision, individual parcels or lots (includes cottage or cabin sites).
Minerals	Includes lands managed for the production and sale of sand and gravel, oil and gas, coal, and other minerals including precious metals, decorative rock, phosphates, etc.

B. LAND MANAGEMENT PHILOSOPHY

The Land Board manages the real estate in its endowment portfolio to capture the full economic value of such lands and improvements for endowment beneficiaries. Pursuant to Article IX Section 8 of the Idaho Constitution, the Land Board is required to “provide for the location, protection, sale or rental of all the lands heretofore, or which may hereafter be granted or acquired by the state by or from the general government, under such regulations as may be prescribed by law, and in such a manner as will secure the maximum long-term financial return to the institution to which granted...” In pursuit of this objective the Land Board will contract with private entities to operate business activities upon the land trust assets.

As the Supreme Court stated in *Barber Lumber Co. v. Gifford*, it is the “land business of the state that is placed in the hands of the State Board of Land Commissioners.” 25 Idaho at 669,139 p. at 562. The Land Board, as trustees of Idaho’s endowment trusts, will be guided in its management by the “prudent investor rule,” Idaho Code § 68-502(1), which includes development “of an overall investment strategy having risk and return objectives reasonably suited to the trust” (Idaho Code § 68-502(2)).

C. MANAGEMENT OBJECTIVES BY ASSET CLASS

Management Goals

- Protect and enhance the value and productivity of the land assets.
- Maximize financial returns from land assets over time.
- Encourage a diversity of revenue-producing uses of land assets.
- Manage land assets prudently and efficiently with accountability to the beneficiaries.

These goals are best achieved by establishing general operating expectations for endowment trust lands, including but not limited to the following:

- Preserving land holdings where leasing will generate a competitive rate of return.
- Seeking to enhance land values before considering sale, or exchange of underperforming land assets.
- Acquiring lands and resources within traditional asset classes when the acquisition will add value or diversification to the overall trust portfolio.
- Selling lands, structures, and resources when the outcome adds value to the overall trust portfolio.
- Exchanging lands and resources when the exchange will add value or diversification to the overall trust portfolio.

This document represents a framework to drive further planning. Detailed underlying business plans for specified programs shall ensure that management activities are consistent with and contributing to the overall asset management goals. Such plans will:

- Provide an executive summary of the plan for the asset classification.
- Describe the current and future influences on plan implementation and performance.
- Analyze past and present return on asset performance, current asset value, current asset characteristics, and future expected returns.
- Recommend long-term financial and land management objectives for the asset classification.
- Detail opportunities and challenges the asset classification faces and specify plans for capitalizing on opportunities and dealing with challenges.
- Define the revision timeline for the plan.

1. Timberland

The endowment's timberland asset consists of approximately 1 million acres managed primarily for commercial forest products. Management complies with all applicable federal and state statutes, such as the Federal Clean Water Act and the Idaho Forest Practices Act.

Management Objectives

- Reduce risk and increase prospects for sustainable annual income.
- Realize an overall return on asset consistent with the objectives in the Investment Policy Statement.
- Produce forest products that meet market demands.
- Identify and exchange or transition underperforming forestland assets to increase economic performance of the asset class.
- Pursue acquisition, through purchase or exchange, of timberland that exceeds the productivity and financial return of the average timberland currently in the portfolio.

Challenges

- Ensuring all-purpose, permanent, and legal access to forestland parcels.
- Balancing management expenses against revenue generated.
- Changing social and political attitudes and values impact land management practices.
- Legal challenges to interpretation and application of the Endangered Species Act and the Clean Water Act.
- Changing ownership and land management practices of federal and private land holdings.
- Changes in domestic and global markets and industry infrastructure impacts demand and pricing for endowment forest products.
- Timberlands cannot be sold, but can be exchanged.

Opportunities

- Changing sawmill technology, markets, and products that provide new business opportunities.
- Consistent long-term income and return on asset from productive and diverse timberlands primarily due to biological growth.
- Geographically consolidate management of endowment land by blocking up parcels where consistent with land management objectives.
- Capture higher value by exchanging timberlands adjacent to population centers.
- Consider timberlands with conservation easements to reduce acquisition cost and enhance financial return.

2. Residential Real Estate

Idaho has leased residential sites since 1932. These properties consist of cabins and single-family homes where the lessee is authorized to construct and own the improvements. Currently, the endowments lease 337 sites (2015), with the majority located on Priest and Payette Lakes. The ability to garner asset appropriate rental rates has long been debated. Experience and basic economic principles demonstrate that, in instances of split ownership of land and improvements, the economic potential of the property is often captured by the owner of the improvements without a corresponding benefit to the land owner. In February 2010, the Land Board voted to unify the cottage site estate, recognizing that the continuation of a long-term cottage leasing program falls short of maximizing the financial return that could be generated from alternative investments.

Management Objectives

- Execute the approved Cottage Site Plan to unify the estate in a business savvy manner to maximize return to the trust beneficiaries.
- For the duration of the cottage site leasing program, develop and manage residential leases that appropriately compensate the endowments.

Challenges

- Volatility in real estate values associated with lakeside or lakeview property makes it challenging, controversial, and costly to administer a process of determining annual rent that is both embraced by leaseholders and achieves an appropriate return on asset.
- Executing the Cottage Site Plan in a business savvy manner to provide an orderly market transition, both in disposition and reinvestment.
- Water use by lessees without existing water rights.

Opportunities

- Reinvest the proceeds from the sale of cottage sites in a manner consistent with the Strategic Reinvestment Plan.

3. Commercial Real Estate

Idaho has a long history of leasing properties for various commercial activities (e.g. communication sites, commercial recreation services, wind farms, etc.), but only began acquiring commercial office and retail properties in 1998. Idaho currently manages nineteen commercial buildings and parking lots of various age and quality designations⁸ located principally in downtown Boise.

⁸ Commercial office and retail properties are designated as Class A, B, or C. The property class impacts lease rates and is driven by property age, location, construction quality, caliber of tenants and professional property management.

In 2016, based on recommendations in the Callan Report (Callan Associates, 2014) and from its Commercial Real Estate Advisor (CenturyPacific, LLLP, 2016), the Land Board approved the disposal of the majority of these commercial real estate properties. The Land Board's decision will result in limited ongoing commercial real estate ownership and no new commercial real estate acquisitions. Leasing of endowment lands for commercial uses will continue.

While ownership of commercial buildings and parking lots is being phased out, leasing of other endowment lands for commercial uses will continue because it provides an attractive opportunity for increased revenue from the land asset portfolio. Other commercial real estate leasing activities include, but are not limited to, energy resources (wind, hydro, geothermal), communication sites, ski resorts, etc. Leases will be offered based on business principles that will ensure the maximum long-term financial return to the endowment beneficiaries.

Management Objectives

- Efficiently divest of the majority of the commercial real estate portfolio consistent with the Land Board's 2016 decision.
- For the duration of the program, develop and manage commercial leases that achieve a rate of return consistent with objectives in the Investment Policy Statement.
- Ensure lease terms and conditions comport with industry standards.
- Ensure tenant improvement allowances associated with the commercial building leasing program represent necessary structural and finish requirements to property but not personal property of a prospective tenant.
- Contract property management and leasing activities, where appropriate, to ensure professional, consistent, and quality service.

Challenges

- Efficient disposal of commercial properties given process limitations such as public auction and recapture of sale expenses.
- IDL organizational structure and processes are better suited to natural resource management than to the efficient management of commercial real estate.
- Managing deferred and future maintenance, including capital improvements, on endowment-owned facilities to accommodate market needs.
- Ensuring that lessees manage deferred and future maintenance, including capital improvements, on non-endowment owned improvements.
- Comparing performance measures to industry benchmarks, given the differences between private sector and governmental accounting practice, including but not limited to private investor practices such as accrual accounting, depreciation of capital improvements over time, and the use of leverage.

- Providing for the support of the prorata cost of health, life, safety services benefiting the property and tenants.

Opportunities

- Reinvest the proceeds from the sale of commercial real estate in a manner consistent with the Strategic Reinvestment Plan.
- Geographically consolidate management of endowment land by blocking up parcels where consistent with land management objectives.
- Pursue leasing of endowment land for commercial activities as opportunities arise.

4. Farmland

The endowment's farmland asset consists of approximately 17,000 acres of dryland and irrigated cropland administered through 110 leases. Some agriculture uses are leased in combination with grazing uses. The farmland asset includes lands used for cultivating grains, vegetables, and hay, as well as vineyards and orchards.

Management Objectives

- Develop and manage long-term agricultural leases that achieve a rate of return consistent with objectives in the Investment Policy Statement.
- Pursue acquisition, through purchase or exchange, of farmland that meets or exceeds the productivity and financial return standards in the Investment Policy Statement and Strategic Reinvestment Plan.
- Enroll endowment lands in federal agricultural programs, when appropriate.

Challenges

- Acquiring water rights.
- Ensuring endowment lands remain eligible for enrollment in federal agricultural programs.
- Developing economy of scale in the farmland leasing program.
- Identifying properties to acquire.
- Being competitive in potential acquisition opportunities.

Opportunities

- Diversifying the endowment land revenue stream.
- Geographically consolidating management of endowment land where consistent with land management objectives.
- Acquiring farmland in the path of urban growth that presents intermediate revenue and long-term transition opportunities.
- Developing agricultural use on existing endowment ownership through the acquisition of water rights.

- Reinvesting Land Bank funds in farmland consistent with the Strategic Reinvestment Plan.
- Acquiring farmland through exchange for rangeland.

5. Rangeland

The endowment's rangeland asset consists of approximately 1.4 million acres of rangeland administered through approximately 1,200 grazing leases and other instruments covering a variety of activities. Livestock forage productivity and availability varies significantly across the state due to factors such as climate, vegetation types, topography and access to water. Some lands are of sufficient size and productivity to stand alone as a grazing unit; however, most endowment lands are managed with adjoining ownerships.

Management Objectives

- Develop and manage long-term grazing leases that achieve a rate of return consistent with the objectives in the Investment Policy Statement.
- Identify and dispose of or transition underperforming rangeland assets to increase economic performance and improve land asset diversity.
- Minimize contractual and environmental risks.
- Identify programmatic or statutory changes that maximize income.

Challenges

- Rangeland is not considered an institutional asset class generally because values are inflated by the non-monetary rewards that private interests realize from land ownership. Grazing income rarely generates a sufficient rate of return to justify acquisition (or retention) based on reasonable return on investment criteria.
- Consolidating land ownership through federal and private land exchanges, including exchanges for other land asset types.
- Ensuring all-purpose, permanent legal access to high-value, core rangeland parcels.
- Improving management regimes.
- Environmental constraints.
- Limited competitive bidding impacts the market.
- Balancing management expenses against revenue generated.

Opportunities

- Geographically consolidating management of endowment rangeland where consistent with land management objectives.
- Exchange of rangelands for other land asset types with greater income and return potential.

- Rangelands adjacent to population centers may present transition land opportunities.

6. Minerals/Oil and Gas

Idaho has mineral rights on approximately 2.4 million acres of surface ownership and on about 0.9 million acres with mineral rights only. Phosphate and sand-gravel are the principle products extracted from endowment lands. Management complies with all applicable federal and state statutes, such as the Federal Clean Water Act, the Idaho Surface Mining Act, and the Idaho Dredge and Placer Mining Protection Act. IDL administers mineral leases for endowment lands, endowment mineral rights, and also for other state-owned lands.

Natural gas exploration and production has increased in recent years with the potential for long-term production and associated revenue. Management of this relatively new industry in Idaho has presented administrative challenges.

Management Objectives

- Minimize contractual and environmental risks associated with extractive industries.
- Lease lands for potential mineral products that capitalize on market demands.
- Identify programmatic or statutory changes that maximize income from mineral assets.

Challenges

- Ensuring that returns from mining activity adequately compensate for post-mining land use and values.
- Development of efficient administrative structure and processes.
- Managing mineral resources with a split estate.

Opportunities

- Aggregate sources proximal to areas of high growth.
- Widespread and diverse mineral resources.
- Increased production revenue from oil and gas development.
- Acquisition of lands with mineral rights through purchase or exchange.

Active Management

While endowment lands are actively managed to maximize long-term revenue for the beneficiaries, active management also provides other long-term benefits that may not be considered when financial performance is evaluated. Benefits such as improved vegetation health, reduction and rearrangement of fuels, road maintenance and

protection of water quality, and various wildlife habitat structural stages often result from active management of natural resources on endowment lands.

For example, forest management practices maintain age class diversity at the landscape level, resulting in less overall susceptibility to damaging agents such as bark beetles. The reduction in fuel loading following forest management activities and slash disposal can modify fire behavior.

Grazing can be used as a management tool to maintain rangeland health. Well-managed grazing can favor desirable plants, improve habitat for wildlife, reduce weeds, and reduce fuel loading.⁹

Benefits such as those described above are difficult to include in analysis of the financial performance of an asset class.

Rights-of-Way

Rights-of-way are temporary or permanent property rights that have been either granted or acquired, for roads, utilities, or public use access. It is desirable that the IDL have permanent, logistically convenient all purpose legal access to state endowment lands, although limited duration, limited purpose legal access can also have significant value.

Each area office shall prepare a rights-of-way acquisition plan, which identifies access needs and tentative time frame for acquisition. Needs shall be prioritized and based on the following management objectives:

- Achieve short- and long-term financial objectives:
 - a. Maximize long-term ability to provide income.
 - b. Improve income generating potential.
 - c. Provide future investment potential.
 - d. Improve the stability of the asset.

- Improve the manageability of the land asset:
 - a. Improve access, i.e., multiple routes or points of entry.
 - b. Consolidate ownership patterns.
 - c. Leverage management resources with other agencies or entities.

⁹ *Rangelands – An Introduction to Wild Open Spaces*. University of Idaho Rangeland Center and Idaho Rangeland Resource Commission. 2011.

The True Cost of Wildfire in the Western U.S. Western Forestry Leadership Coalition. 2010.

Fuel Treatments on Rangelands. Cook and O'Laughlin. University of Idaho Policy Analysis Group. 2011.

Rights-of-way may be negotiated and acquired in the following ways:

- Easement for minimal monetary consideration or donation.
- Easement exchange.
- Work-in-kind easements.
- Easement purchase.
- Co-op agreements.
- Purchase property (fee simple) to reserve right-of-way.

Granted rights-of-way generally detract from the value or reduce the flexibility of endowment land management. It is the duty of the Land Board and IDL, as trustees, to protect the long-term productivity of trust lands for the beneficiaries; therefore, care must be taken to ensure the granting of rights-of-way benefit the trust. While the state receives compensation for the property interest disposed of, this compensation often does not capture the superior value afforded to private lands as a result of enhanced access. This is especially the case in those instances wherein the private lands are considered for development. In development situations, compensation for such rights-of-way must properly account for the amount of endowment land encumbered, the bundle of rights granted, impacts to and additional restrictions on endowment land management and the increased administrative burden.

Conservation

Conservation is an activity that occurs on traditional asset classes such as farmland, rangeland, and timberland. Conservation in this context occurs when certain real property rights are restricted or removed, either temporarily or permanently, for the purpose of preserving and protecting other important values.

Management Objectives

- Target lands with long-term conservation strategies in place for sale or exchange. Exchanges could be used to acquire lands of a different land asset type.

Challenges

- Comprehensive land use plans of local jurisdictions tend to improperly classify undeveloped endowment lands as conservation and/or open space.
- Limited endowment resources to participate in all federal, state, county, and city land use planning and zoning processes, and other private development activities that affect endowment lands.

Opportunities

- Improving public awareness of the endowment's mission.

- Identifying land where compensated conservation encumbrances can coexist with other uses to enhance endowment earnings.

Recreation

Idaho's endowment lands contain some of the most diverse landscapes in the Pacific Northwest. They include lakes, mountains, high forests, desert lands, rugged breaklands, and river valleys. Thousands of people use endowment lands each year for camping, hiking, fishing, hunting, bicycling, off highway vehicle (OHV) use, berry picking, mushroom picking, and other recreational activities. Incidental public recreation is not an asset class, but the issues associated with recreation on endowment lands must be managed.

Management Objectives

- Promote and improve interagency cooperation and education for recreation on endowment land.
- Manage impacts to endowment resources and uses from dispersed public recreation.
- Utilize OHV funds to improve management and enhance OHV recreation opportunities on endowment lands.

Challenges

- Managing the location and type of dispersed recreation (OHV, motorized vehicles, etc.).
- Vandalism and sanitization issues sometimes associated with dispersed recreation and camping.

Opportunities

- Policy development for recreation on endowment lands.
- Generate increased revenue for the beneficiaries and improve long-term access for recreation through new sources of dedicated funding from recreation use.
- Taking advantage of available grant programs for management of recreation on endowment lands.

Transition of Land

Lands suitable for transition are parcels already owned by the endowment that may, within the next ten to twenty years, be suitable for a higher and better use than the current asset classification. Often these properties exhibit high property values and low annual revenues (underperforming), and may be encroached upon by urban development.

Management activities will focus first on lands suitable for transition at the high end of market values (best markets), and then on land possessing best market potential within the next ten to twenty years (emerging markets).

Criteria used in identifying lands suitable for transition are:

- Appraised values above the value normally indicative of the current use.
- Regional land use planning studies.
- Resource trends and demographic changes.

Underperforming assets present transition opportunities. IDL will work to identify and analyze such lands to determine the best solution to resolving the underperformance. Such analysis will consider:

- Minimizing management costs.
- Changing management to improve performance.
- Evaluating higher and better use.
- Long-term asset ownership.

Lands suitable for transition can be leased, or sold, subject to analysis on a case-by-case basis.

D. LAND ACQUISITION AND DISPOSAL STRATEGY

To enhance value and improve revenue streams to the beneficiaries, the Land Board will consider the exchange, disposal, and acquisition of real property within traditional asset classes. The Land Exchange Policy to be prepared by the Real Estate Services Bureau and approved by the Land Board's Investment Subcommittee will provide direction for land exchanges.

Management Objectives

- Increase long-term financial return at a prudent level of risk.
- Reduce cost through improved management efficiency.
- Acquire lands or position parcels for value maximization and efficient management.
- Enhance access to endowment land assets.
- Adjust land holdings based on current and projected market conditions to capture value in excess of target returns.
- Evaluate and prioritize proposed transactions.
- Work with and engage private and public entities/persons for exchange opportunities.

Challenges

- Constraints pursuant to Article IX, section 8 that do not conform to modern business practices:
 - The sale of land is limited to transactions "...sold in subdivisions of not to exceed three hundred and twenty acres of land to any one individual, company or corporation."
 - All land sales are "...subject to disposal at public auction."
 - No more than one hundred sections of state land shall be sold in any one year.
- Timberlands cannot be sold but can be exchanged for other timberlands.
- Disposition of university lands is restricted as follows: "No university lands shall be sold for less than ten dollars per acre, and in subdivisions not to exceed one hundred sixty acres, to any one person, company, or corporation."
- Slow transaction process.
- Evaluating and prioritizing acquisition and disposal transactions in an environment of limited resources.

Opportunities

- Reinvestment of the proceeds from land asset sales in a manner consistent with the Strategic Reinvestment Plan.
- Utilizing agents and contracted services to conduct proactive searches for properties based on established investment criteria.
- Using Land Investment Advisors and contracted services to assist in transactions.
- Exchange lands on an equal value basis.

III. Appendices/Exhibits

Appendix A

Example Program Business Plan Template

This template is provided as a guide. Please note that some sections may not be applicable to all programs.

A. Executive Summary

B. Introduction

C. Description of Program

1. Mission statement
2. Goals and objectives
 - a. Short- and long-term financial goals and objectives
 - b. Short- and long-term resource management goals and objectives
3. Brief history of the program
4. Program strengths and core competencies
5. Challenges and opportunities facing the program
 - a. Immediate
 - b. Long term
6. Future outlook for the program

D. Program Products and Services

1. Detailed description of trust products and services
 - a. Current resource information (detailed)
 - b. Current asset values (brief summary)
2. Describe our competitive advantages and disadvantages.
3. Describe our methodology for pricing trust products

E. Market Analysis (both resource and financial)

1. Customer (purchaser) analysis
 - a. Who they are
 - b. Their location
 - c. The size of the firms
 - d. Their products and capacity
2. Competitor (may also be a purchaser) analysis
 - a. Identify and describe our competition
 - 1.) Who they are
 - 2.) Their location
 - 3.) The size of the firms
 - 4.) Describe competing resources
 - 5.) Describe competitor strengths and core competencies
 - 6.) Describe competitor products and production capacity

- b. Describe asset position
 - 1.) Size of the market
 - 2.) Percentage of market participation
 - 3.) Current demand for trust products
- 3. Growth history and trends
- 4. Barriers to implementing the marketing plan
 - a. Funding
 - b. Training/skills
 - c. Political climate
 - d. Government regulations
 - e. Changing economy
 - f. Changes in our industry
- 5. Marketing strategy
 - a. Promotion
 - b. Budget
 - c. Pricing
 - d. Locations
 - e. Forecasts
- 6. Identify research needs

F. Operational Plan

- 1. Management and organization (current and future)
 - a. Personnel
 - b. Location
 - c. Production
- 2. Describe challenges and opportunities
- 3. Discuss how to meet future resource and financial goals and objectives

G. Financial Statement

- a. Brief history
- b. Detailed description of asset values
- c. Projections

H. Plan Revision Timeline

I. Appendices

Glossary

Asset Classification

Grouping assets of similar characteristics based on the principle that such assets perform similarly in the marketplace (e.g. risk, return, regulation) and different assets perform differently as market and economic conditions vary.

Asset Management Plan

Document used to ensure assets can be managed, preserved and protected for long-term goals and strategy. Asset plans define over-arching beliefs and philosophy about a set of collective investments and include elements of financial analysis, asset selection (and divestiture), asset allocation (diversification), plan implementation, ongoing monitoring of the investments/assets and potential improvements.

Appraisal

An analysis, opinion or conclusion relating to the value, nature, quality, or utility of specified interests in, or aspects of, identified real estate. (Real estate appraisers are regulated in Idaho and are required to be licensed).

Beneficiary

A person or entity entitled to the benefit of any trust arrangement.

Business Plan

A comprehensive analysis of all aspects of a business relevant to its viability, including its history, management, competitive position, market, activities, products, policies, financial performance and projected performance.

Easement/Right-of-Way

A temporary or permanent property right either granted or acquired, for roads, utilities, or public use access. The right or interest that one party has in the land of another.

Fiduciary

An individual or institution responsible for administering assets for a beneficiary, often in a trust. A fiduciary has a strict legal obligation to act solely in the best interest of the beneficiary and not for ones' own personal gain or the gain of others. In Idaho, fiduciaries are required to follow the Prudent Investor Rule.

Income Return

Measures that portion of total return attributable net operating income, or NOI. Net operating income is gross rental income plus any other income less operating expenses - utilities, maintenance, taxes, property management, insurance, etc. The formula takes into consideration any capital improvements and/or any partial sales that occurred during the period.

Net Present Value (NPV)

The sum of all future cash flows discounted to present value and netted against the initial investment.

Permanent Fund

The principal, or corpus, of the Endowment Fund, which can never be distributed. Sources of funds include, but are not limited to, mineral royalty and land sale proceeds not reinvested in land (see Land Bank Fund).

Plan

A set of actions that have been thought of as a way to do or achieve something.

Prudent Fiduciary

A requirement that a fiduciary or trustee must act as a prudent investor when investing and managing assets for a beneficiary. To satisfy the standard of care requirement, a trustee is required to consider the performance of the entire portfolio rather than a single investment, as well as understand needs for liquidity, regularity of income, preservation of capital and diversification. Idaho Code Section 68, Chapter 5 requires that all trustees in Idaho act as Prudent Investors.

Real Estate

Land and all physical property related to it, including houses, fences, landscaping and all rights to the air above and the earth below the property (*Barron's Dictionary of Finance and Investment Terms*).

Return on Asset (Total Return)

Return on asset is a common profitability measure in real estate. The calculation includes components of income and capital/value appreciation, compared to the capital invested (or current value) of an asset. The calculation normalizes the variability of revenue within the same asset class because the higher earnings capacity of the land generally translates to a higher asset value per acre, but the return on asset should be similar to peer assets.

Risk

The possibility that returns from an investment will be greater or less than forecast. Types of risk include inflation risk, political risk, liquidity risk, country risk, etc. Diversification of investments provides some protection against risk.

Split Estate

Condition where the surface owner of real estate does not possess ownership of subsurface commodities such as minerals.

Strategy

A careful plan or method for achieving a particular goal usually over a long period of time.

Tactic

Specific actions used to achieve a particular goal.

Transition Land

Transition lands are those parcels that may, within the next twenty years, be suitable for a higher and better use than the current asset classification. Such properties often exhibit high property values and low annual revenues (underperforming).

Trustee

Person or entity with a fiduciary responsible for administering a trust (e.g. acquiring and disposing of trust assets, generating income from trust assets, determining distributions to the trust's beneficiary) according to trust law and the rules established by the trust's grantor. The Idaho State Board of Land Commissioners serves as trustee of all endowment land and financial assets and must act according to Idaho law as well as the rules established by the grantor, the United States Government, in the Idaho Admissions Act and related federal legislation.