

STATE BOARD OF LAND COMMISSIONERS OPEN MEETING CHECKLIST

FOR MEETING DATE: August 21, 2018

Regular Meetings

8/8/18	Notice of Meeting posted in prominent place in IDL's Boise Headquarters office five (5) calendar days before meeting.
8/8/18	Notice of Meeting posted in prominent place in IDL's Coeur d'Alene Headquarters office five (5) calendar days before meeting.
8/8/18	Notice of Meeting posted in prominent place at meeting location five (5) calendar days before meeting.
8/8/18	Notice of Meeting emailed/faxed to list of media and interested citizens who have requested such notice five (5) calendar days before meeting.
8/8/18	Notice of Meeting posted electronically on IDL's public website www.idl.idaho.gov five (5) calendar days before meeting.
8/15/18	Agenda posted in prominent place in IDL's Boise Headquarters office forty-eight (48) hours before meeting.
8/15/18	Agenda posted in prominent place in IDL's Coeur d'Alene Headquarters office forty-eight (48) hours before meeting.
8/15/18	Agenda posted in prominent place at meeting location forty-eight (48) hours before meeting.
8/15/18	Agenda emailed/faxed to list of media and interested citizens who have requested such notice forty-eight (48) hours before meeting.
8/17/18	Agenda posted electronically on IDL's public website www.idl.idaho.gov forty-eight (48) hours before meeting.
12/22/17	Annual meeting schedule posted – Director's Office, Boise and Staff Office, CDA

Special Meetings

	Notice of Meeting and Agenda posted in a prominent place in IDL's Boise Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted in a prominent place in IDL's Coeur d'Alene Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted at meeting location twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda emailed/faxed to list of media and interested citizens who have requested such notice twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted electronically on IDL's public website www.idl.idaho.gov twenty-four (24) hours before meeting.
	Emergency situation exists – no advance Notice of Meeting or Agenda needed. "Emergency" defined in Idaho Code § 74-204(2).

Executive Sessions (If only an Executive Session will be held)

	Notice of Meeting and Agenda posted in IDL's Boise Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted in IDL's Coeur d'Alene Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda emailed/faxed to list of media and interested citizens who have requested such notice twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted electronically on IDL's public website www.idl.idaho.gov twenty-four (24) hours before meeting.
	Notice contains reason for the executive session and the applicable provision of Idaho Code § 74-206 that authorizes the executive session.


RECORDING SECRETARY

August 15, 2018
DATE



Idaho State Board of Land Commissioners

C. L. "Butch" Otter, Governor and President of the Board

Lawrence E. Denney, Secretary of State

Lawrence G. Wasden, Attorney General

Brandon D Woolf, State Controller

Sherri Ybarra, Superintendent of Public Instruction

David Groeschl, Secretary to the Board

NOTICE OF PUBLIC MEETING AUGUST 2018

The Idaho State Board of Land Commissioners will hold a Regular Meeting on Tuesday, August 21, 2018 in the **State Capitol, Lincoln Auditorium (WW02), Lower Level, West Wing, 700 W Jefferson St., Boise**. The meeting is scheduled to begin at 9:00 AM (Mountain).

Please note meeting location.

This meeting will be streamed live via audio at this website address <http://idahoptv.org/insession/other.cfm>

First Notice Posted: 8/8/2018-IDL Boise; 8/8/2018-IDL CDA

This notice is published pursuant to § 74-204 Idaho Code. For additional information regarding Idaho's Open Meeting law, please see Idaho Code §§ 74-201 through 74-208.

Idaho Department of Lands, 300 N 6th Street, Suite 103, Boise ID 83702, 208.334.0242



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State Board of Land Commissioners Regular Meeting

August 21, 2018 – 9:00 AM (MT)

Amended Final Agenda

Capitol, Lincoln Auditorium (WW02), 700 W. Jefferson St., Boise, Idaho

1. Director's Report

Endowment Transactions

- A. Timber Sales – July 2018
- B. Leases and Permits – July 2018

Status Updates

- C. Land Revenue Forecast
- D. Fire Season

Consent (Action)

- 2. Approval of Minutes** – July 17, 2018 Regular Meeting (Boise)
- 3. Approval of Minutes** – August 3, 2018 Special Meeting (Boise)

Regular (Action)

- 4. Endowment Fund Investment Board Manager's Report** – *Presented by Chris Anton, EFIB Manager of Investments*
 - A. Manager's Report
 - B. Investment Report
 - C. FY2020 Distributions and Transfers
- 5. FY2020 Budget Enhancements** – *Presented by Debbie Buck, Financial Officer*
- 6. Land Board Recreation Policy** – *Presented by Bill Haagenson, Deputy Director*
- 7. Recreation Access Agreement** – *Presented by Bill Haagenson, Deputy Director*
- 8. Grazing Rate Methodology** – *Presented by Diane French, Division Administrator-Lands and Waterways*

State Board of Land Commissioners

Amended Final Agenda

Regular Meeting (Boise) – August 21, 2018

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Information

9. Oil and Gas Royalty Audit – *Presented by Mike Murphy, Bureau Chief-Endowment Leasing*

For the record, pursuant to Idaho Code Section 74-204(4)(c), Attorney General Wasden amended the published agenda. Refer to meeting minutes for detailed information regarding the amendment motion.





Idaho State Board of Land Commissioners

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State Board of Land Commissioners Regular Meeting

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State Board of Land Commissioners

Draft Agenda-v0808

Regular Meeting (Boise) – August 21, 2018

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Information

9. Oil and Gas Royalty Audit – *Presented by Mike Murphy, Bureau Chief-Endowment Leasing*

Executive Session

- A. Idaho Code 74-206(1)(a) – to consider hiring a public officer, employee, staff member or individual agent, wherein the respective qualities of individuals are to be evaluated in order to fill a particular vacancy or need. This paragraph does not apply to filling a vacancy in an elective office or deliberations about staffing needs in general. [TOPIC: Hiring Agency Director]

Regular (Action)

10. Hiring of Director for Idaho Department of Lands



Idaho Statutes

TITLE 74 TRANSPARENT AND ETHICAL GOVERNMENT

CHAPTER 2 OPEN MEETINGS LAW

74-206. EXECUTIVE SESSIONS -- WHEN AUTHORIZED.[EFFECTIVE UNTIL JULY 1, 2020] (1) An executive session at which members of the public are excluded may be held, but only for the purposes and only in the manner set forth in this section. The motion to go into executive session shall identify the specific subsections of this section that authorize the executive session. There shall be a roll call vote on the motion and the vote shall be recorded in the minutes. An executive session shall be authorized by a two-thirds (2/3) vote of the governing body. An executive session may be held:

(a) To consider hiring a public officer, employee, staff member or individual agent, wherein the respective qualities of individuals are to be evaluated in order to fill a particular vacancy or need. This paragraph does not apply to filling a vacancy in an elective office or deliberations about staffing needs in general;

(b) To consider the evaluation, dismissal or disciplining of, or to hear complaints or charges brought against, a public officer, employee, staff member or individual agent, or public school student;

(c) To acquire an interest in real property which is not owned by a public agency;

(d) To consider records that are exempt from disclosure as provided in [chapter 1, title 74](#), Idaho Code;

(e) To consider preliminary negotiations involving matters of trade or commerce in which the governing body is in competition with governing bodies in other states or nations;

(f) To communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. The mere presence of legal counsel at an executive session does not satisfy this requirement;

(g) By the commission of pardons and parole, as provided by law;

(h) By the custody review board of the Idaho department of juvenile corrections, as provided by law;

(i) To engage in communications with a representative of the public agency's risk manager or insurance provider to discuss the adjustment of a pending claim or prevention of a claim imminently likely to be filed. The mere presence of a representative of the public agency's risk manager or insurance provider at an executive session does not satisfy this requirement; or

(j) To consider labor contract matters authorized under section 67-2345A [[74-206A](#)](1)(a) and (b), Idaho Code.

(2) The exceptions to the general policy in favor of open meetings stated in this section shall be narrowly construed. It shall be a violation of this act to change the subject within the executive session to one not identified within the motion to enter the executive session or to any topic for which an executive session is not provided.

(3) No executive session may be held for the purpose of taking any final action or making any final decision.

History:

[74-206, added 2015, ch. 140, sec. 5, p. 371; am. 2015, ch. 271, sec. 1, p. 1125.]

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IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS

August 21, 2018
Timber Sales Report

Timber Sale Transactions and Activity

During July 2018, the Department of Lands sold twelve endowment timber sales at auction. The endowment net sale value represents a 28% up bid over the advertised value. The Department of Lands also sold one Idaho Transportation Department timber sale at auction (TS224307). The non-endowment net sale value represents an 87% up bid over the advertised value.

McFarland Cascade, who purchased the Schwartz Pole sale last month, has proposed helicopter logging the sale. Since helicopter logging exceeds the minimum standards set forth in the contract, the Department will consider this request as long as all other contract provisions and management goals for the sale are met.

TIMBER SALE AUCTIONS								
SALE NUMBER	SAWLOGS MBF	POLES LF	POLES MBF	CEDAR PROD MBF	PULP MBF	APPRAISED NET VALUE	SALE NET VALUE	NET \$/MBF
TS304308	6,620			300		\$ 2,220,909.00	\$ 2,845,922.00	\$411.26
TS304309	4,035			50		\$ 1,023,094.50	\$ 1,305,286.45	\$319.53
TS414310	4,510					\$ 732,964.00	\$ 1,746,587.10	\$387.27
TS414311	9,150			280		\$ 1,585,271.00	\$ 1,641,702.50	\$174.09
TS504312	2,180					\$ 328,369.84	\$ 444,228.00	\$203.77
TS104313	4,000					\$ 544,406.50	\$ 854,258.00	\$213.56
TS104314	1,400					\$ 302,858.00	\$ 491,033.00	\$350.74
TS424315	3,615			335		\$ 1,608,540.00	\$ 1,775,678.00	\$449.54
TS424316	8,250			2,315	8,425	\$ 3,855,545.00	\$ 3,855,545.00	\$203.03
TS224317	3,970					\$ 653,121.50	\$ 1,030,826.40	\$259.65
TS304318	9,715			100		\$ 2,706,924.00	\$ 3,696,339.00	\$376.60
TS204319	955					\$ 412,475.50	\$ 758,345.50	\$794.08
	58,400	0	0	3,380	8,425	\$ 15,974,478.84	\$ 20,445,750.95	\$291.23
*TS224307	575	Transportation Department Sale				\$16,759.51	\$31,393.30	\$54.60

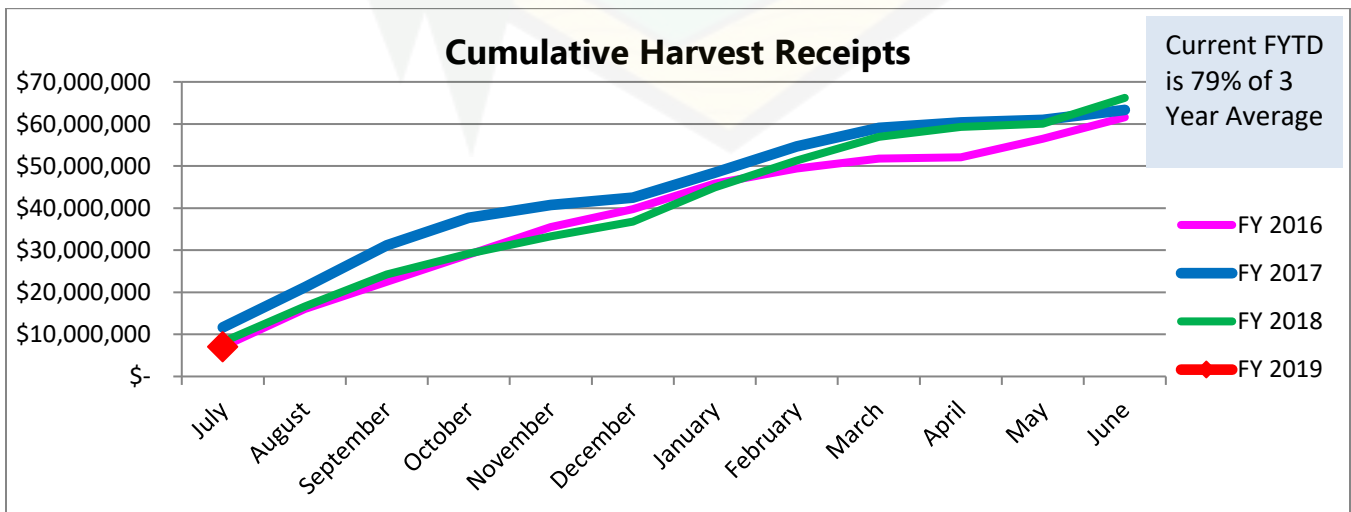
PROPOSED TIMBER SALES FOR AUCTION				
North Operations				
Sale Name	Volume MBF	Advertised Net Value	Area	Estimated Auction Date
Hard Rock GNA	8,690	\$ 1,394,275	IPNF	8/29/2018
Selkirk Powder	3,200	\$ 551,079	PL	8/30/2018
Fenton Cougar OSR	3,235	\$ 437,103	PL	8/30/2018
Lee Lake	3,300	\$ 624,070	PL	9/12/2018
Sand Castle	2,120	\$ 545,456	POL	9/4/2018
Blue Pole	6,470	\$ 1,811,546	MICA	8/27/2018
Eagle Face	6,470	\$ 1,811,546	MICA	8/27/2018
Beaver Camp	12,795	\$ 5,151,474	SJ	8/22/2018
South Operations				
Sale Name	Volume MBF	Advertised Net Value	Area	Estimated Auction Date
Greasewood Ton	3,840	\$ 661,757	PAY	8/23/2018

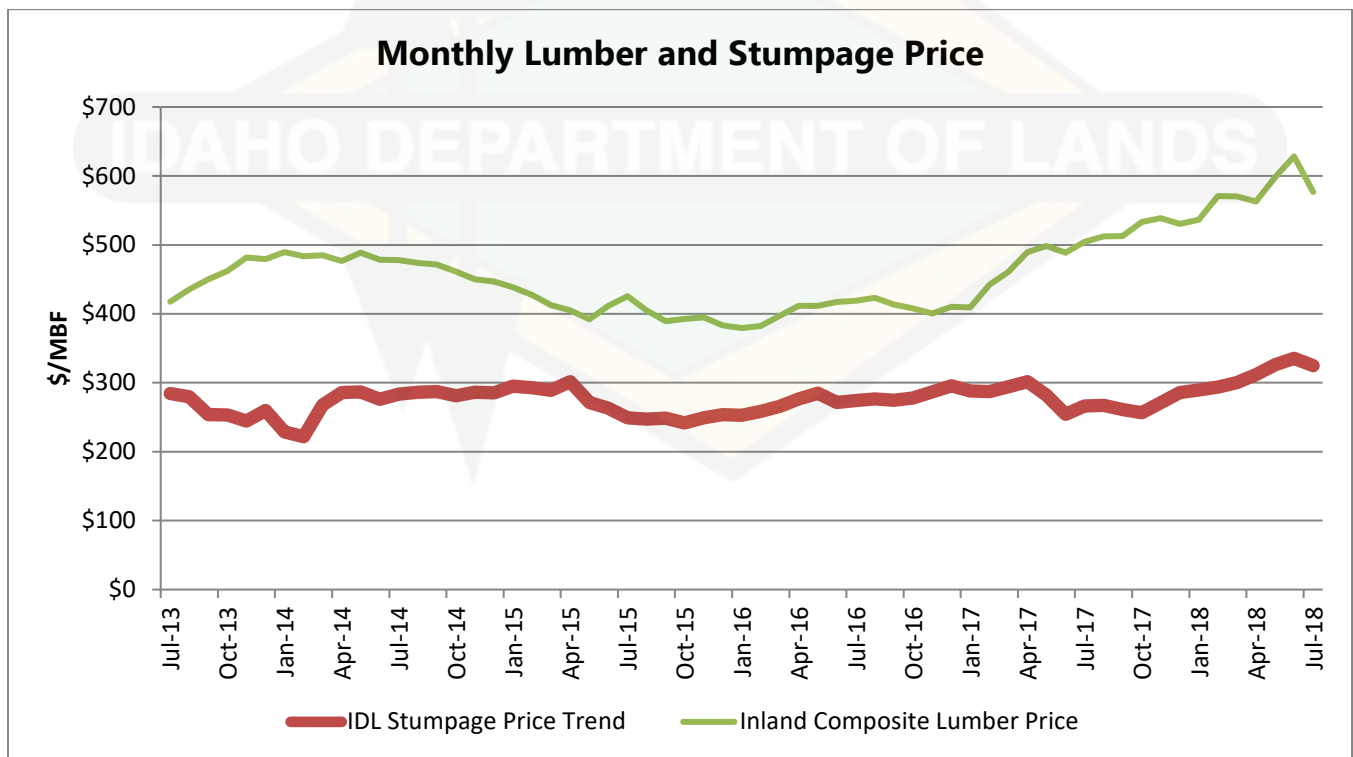
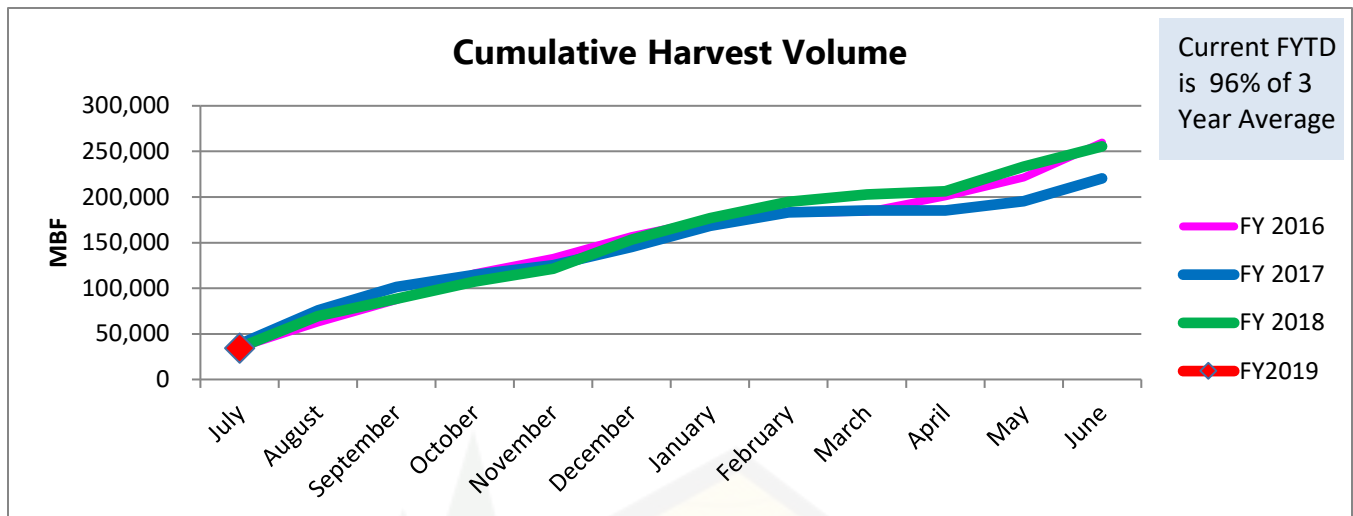
VOLUME UNDER CONTRACT as of July 31, 2018			
	Total	Public School	Pooled
Active Contracts	188		
Estimated residual volume (MBF)	448,717	269,529	179,188
Estimated residual length (LF)	385,025	285,446	99,579
Estimated residual weight (Ton)	578,672	369,005	209,667
Total Residual MBF Equivalent	556,025	338,134	217,891
Estimated residual value	\$ 166,947,725	\$101,389,086	\$65,558,639
Residual Unit Value (\$/MBF)	\$ 300.25	\$ 299.85	\$ 300.88

TIMBER HARVEST RECEIPTS							
	July		FY to date		August Projected		
	Stumpage		Interest		Harvest Receipts		
	Stumpage		Interest		Stumpage		Interest
Public School	\$	3,893,641.48	\$	450,150.47	\$	4,343,791.95	\$ 5,743,755.94 \$ 878,506.95
Pooled	\$	2,430,432.62	\$	308,209.78	\$	2,738,642.40	\$ 3,786,051.29 \$ 460,783.84
General Fund	\$	621.99	\$	61.64	\$	683.63	\$ 2.22 \$ 0.00
TOTALS	\$	6,324,696.09	\$	758,421.89	\$	7,083,117.98	\$ 9,529,809.45 \$ 1,339,290.79

Status of FY 2018 Timber Sale Program						
	MBF Sawlog			Number Poles		
	Public School	Pooled	All Endowments	Public School	Pooled	All Endowments
Sold as of July 31, 2018	134,176	99,360	233,537	11,081	9,178	20,259
Currently Advertised	7,598	0	7,598	936	0	936
In Review	6,276	1,569	7,845	0	0	0
Did Not Sell	600	0	600	0	0	0
TOTALS	148,651	100,929	249,580	12,017	9,178	21,195
FY-2018 Sales Plan			248,000			20,000
Percent to Date			101%			106%

Status of FY 2019 Timber Sale Program						
	MBF Sawlog			Number Poles		
	Public School	Pooled	All Endowments	Public School	Pooled	All Endowments
Sold as of July 31, 2018	31,146	21,389	52,535	0	0	0
Currently Advertised	22,088	4,442	26,530	3,474	1,489	4,963
In Review	14,443	9,812	24,255	1,717	6,458	8,175
Did Not Sell	0	0	0	0	0	0
TOTALS	67,676	35,643	103,320	5,191	7,947	13,138
FY-2019 Sales Plan			256,000			20,000
Percent to Date			40%			66%





IDL Stumpage Price Line is a 6 month rolling average of the net sale price.

STATE BOARD OF LAND COMMISSIONERS

August 21, 2018
Endowment Transactions

Leases and Permits

To close out FY18, the Southwest Area office administered two 49-year commercial military leases with the Idaho National Guard for military equipment staging. M600080 consists of 209 acres with revenues supporting Public School (62%) and School of Science (38%). M600081 consists of 37.08 acres with revenues supporting Capital Commission (100%).

Payette Lakes Area office administered one 20-year communication site lease with Horvath Towers, LLC consisting of two sites. ID2 Deinhard 80 is a 3.0-acre site with revenues supporting Public School (100%), and Lick Creek (Pilgrim) is a 1.3-acre site with revenues supporting State Hospital South (100%).

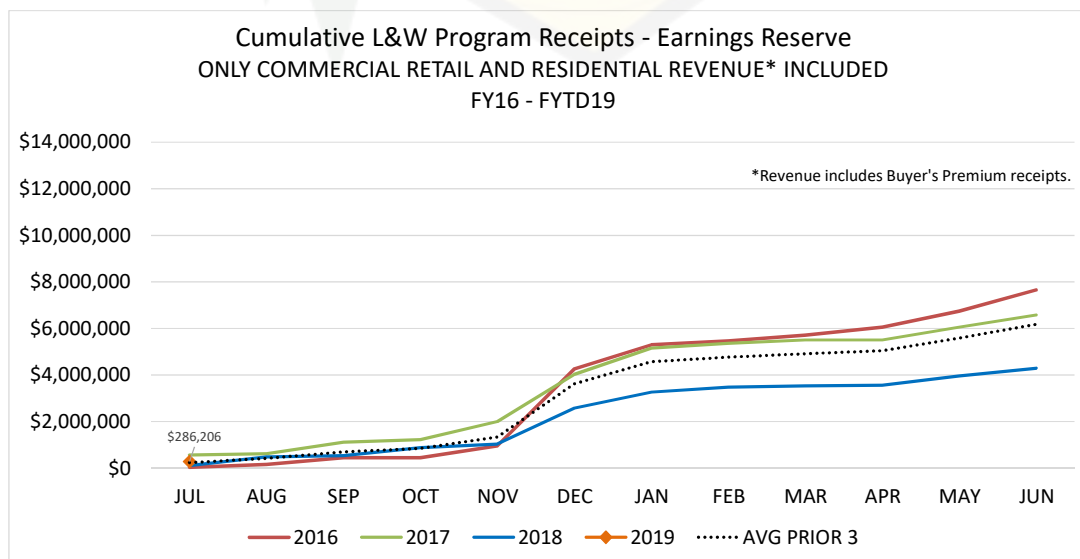
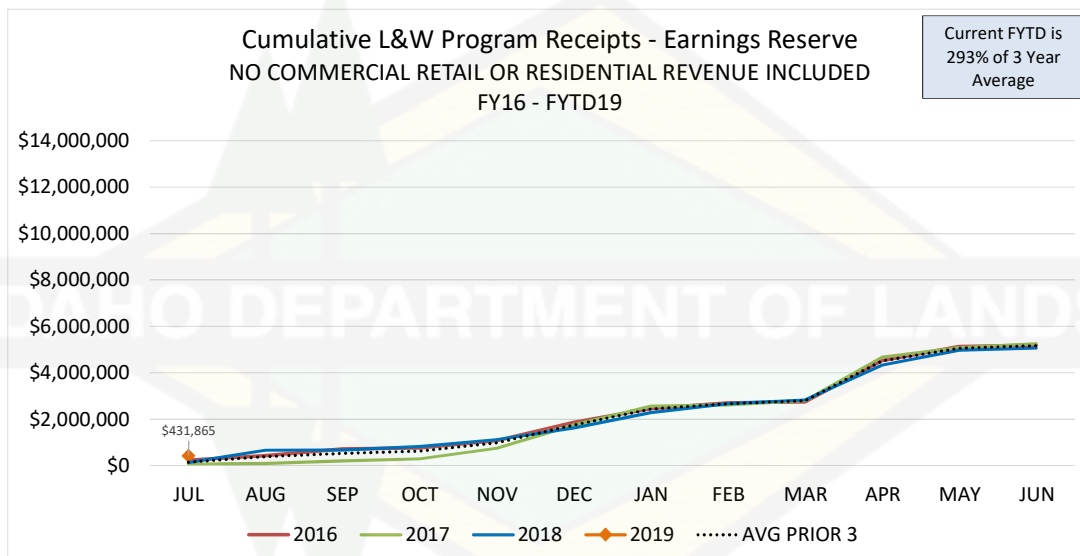
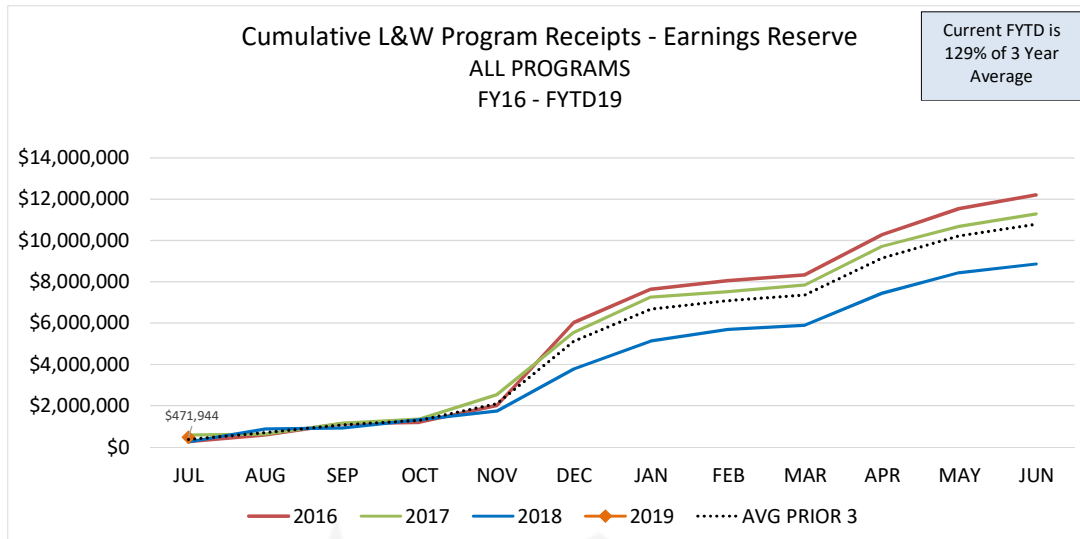
FISCAL YEAR 2019 – LEASING & PERMITTING TRANSACTIONS BY MONTH – through July 31, 2018													
ACTIVITY	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
SURFACE													
Agriculture	-												0
• Assignments	-												0
Communication Sites	1												1
Grazing	2												2
• Assignments	-												0
Residential	-												0
• Assignments	1												1
COMMERCIAL													
Alternative Energy	-												0
Industrial	-												0
Military	2												2
Office/Retail	-												0
• Assignments	1												1
Recreation	-												0
OTHER													
Conservation	1												1
Geothermal	-												0
Minerals	-												0
• Assignments	-												0
• Exploration	5												5
Non-Commercial Recreation	-												0
Oil & Gas	-												0
PERMITS													
Land Use Permits	6												6
TOTAL INSTRUMENTS	19												19

Real Estate

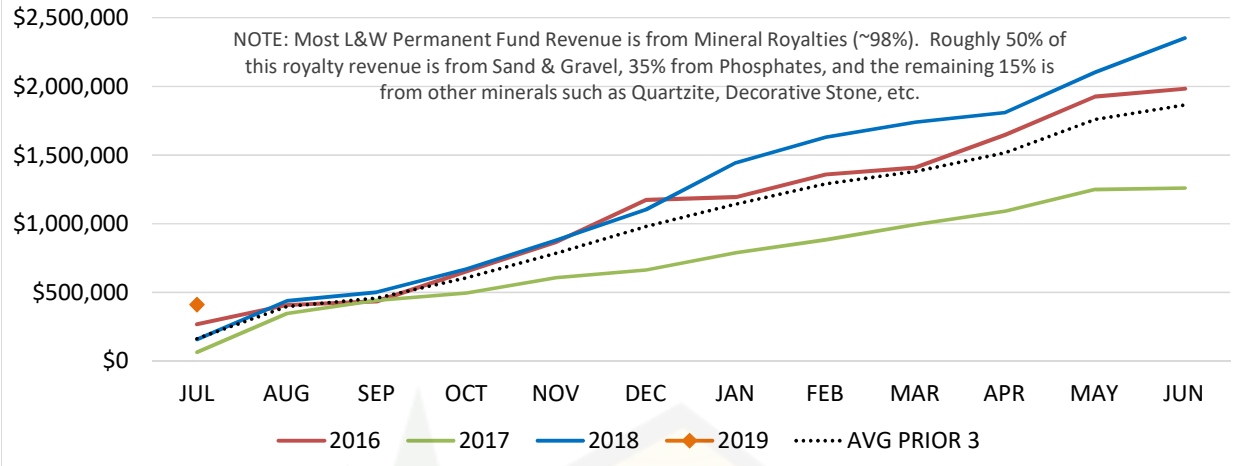
Eight deeds issued in July were a result of cottage sites sold during the Payette Lake auction on June 15, 2018. Deed AD491, issued by the Idaho Military Division to the Idaho Department of Lands is for the Bonners Ferry surplus property that the Department is selling pursuant to the Surplus Property Act.

FISCAL YEAR 2019 – REAL ESTATE TRANSACTIONS BY MONTH – through July 31, 2018													
ACTIVITY	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
Deeds Acquired	1												1
Deeds Granted	8												8
Deeds Granted - Surplus	-												0
Easements Acquired	-												0
Easements Granted	1												1

LANDS AND WATERWAYS DIVISION 2019 FYTD GROSS REVENUE through July 31, 2018	
ACTIVITY	REVENUE
SURFACE	
Agriculture	\$2,112
Communication Sites	\$25,223
Grazing	\$82,042
Residential	\$175
COMMERCIAL	
Alternative Energy	\$0
Industrial	\$200
Military	\$57,520
Office/Retail	\$39,905
Recreation	\$7,170
OTHER	
Conservation	\$0
Geothermal	\$1,280
Minerals	\$9,841
Non-Commercial Recreation	\$350
Oil & Gas	\$0
RE/Buyer's Premium	\$246,126
TOTAL FYTD REVENUE	\$471,944



Cumulative L&W Permanent Fund Revenue/Royalties
 (Does NOT include Land Bank Revenue)
 FY16 - FYTD19



IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS

August 21, 2018
Director's Update

Subject

Land Revenue Forecast

Background

Each year, the Idaho Department of Lands (Department) provides a revenue forecast by endowment showing a likely range of revenue for the next four fiscal years based on expected levels of operations, prices of existing timber sales under contract, and predicted changes in lease revenues and agency expenditures. The four-year net income forecast table is provided as Attachment 1.

An income range is shown for each endowment primarily due to variability in timber markets and the duration of timber sale contracts given the flexibility allowed purchasers on when to harvest timber. Most leasing activity returns are relatively stable from year to year; however, the ongoing sale of cottage sites and commercial real estate continues to impact annual lease revenues. Reinvestment of Land Bank proceeds generated by the sales is expected to offset declining revenues. In FY2018, cottage site sales generated about \$35.8 million in Land Bank Funds with commercial sales generating another \$8.5 million.

Discussion

The Department's gross land management revenue was \$74 million in FY2018, or approximately \$1 million less than FY2017 and \$2.5 million more than the 10-year average. The \$74 million total is approximately \$3.7 million below last year's forecasted high and \$16.2 million above the forecasted low. Gross revenue forecasts compared to actual returns are provided as Attachment 2.

The Department's net land management income was \$46.4 million in FY2018, or approximately \$.5 million more than FY2017 and \$.4 million less than the 10-year average. The \$46.4 million total is approximately \$5.1 million below last year's forecasted high and \$14.8 million above the forecasted low. Net income forecasts compared to actual returns are provided as Attachment 3.

The timberland asset class accounted for approximately 89 percent of the total gross land management revenue and 94 percent of the total net land management income in FY2018. Based on preliminary modeling results, timber revenue is expected to increase moving forward associated with an anticipated increase in the sustained yield.

The land revenue forecast also includes implementation of the Strategic Reinvestment Plan. It assumes \$33 million in Land Bank funds is reinvested annually for five years beginning in

FY2019 (\$165 million total). This reinvestment is anticipated to bring a 6.75 percent gross nominal return (2.25 percent inflation) realized beginning FY2021, which allows time for updated timber modeling, timber sales plans, and other necessary measures.

Attachments

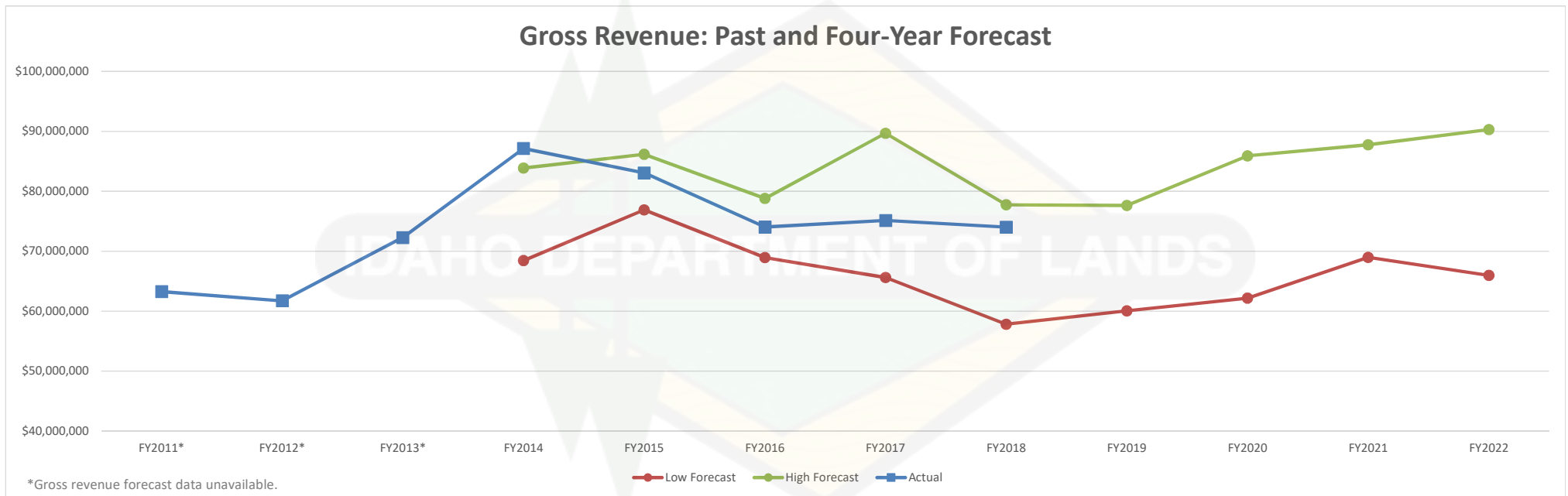
1. Four-Year Net Income Forecast Table (by Endowment)
2. Gross Revenue: Past and Four-Year Forecast Graph
3. Net Income: Past and Four-Year Forecast Graph

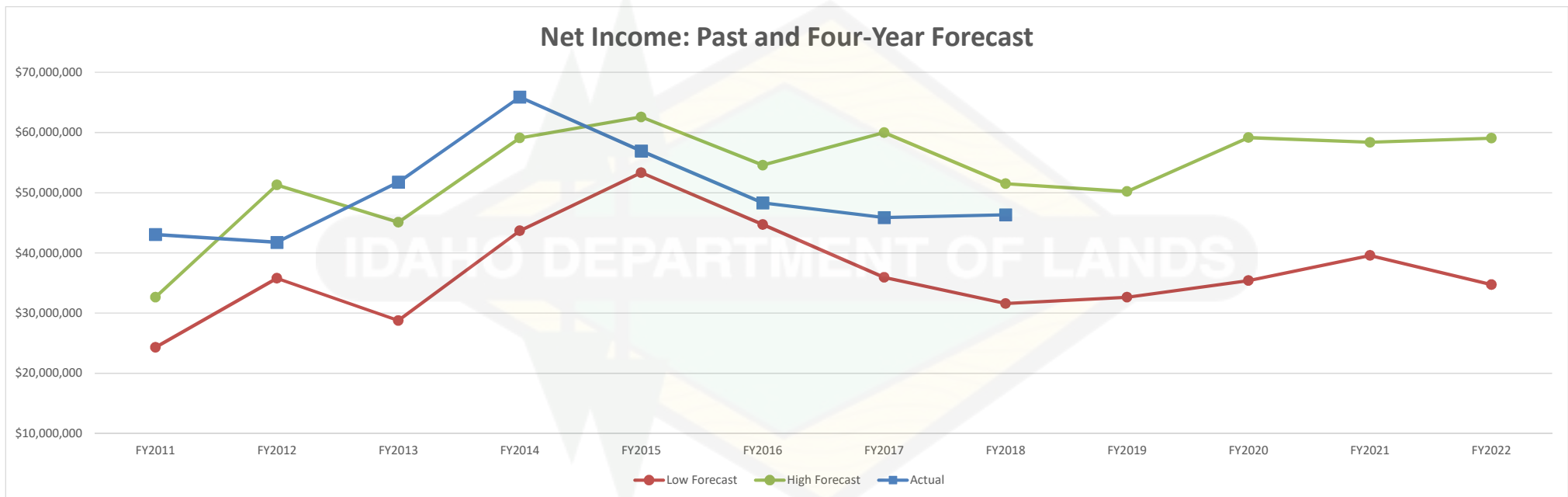


Four-Year Net Income Forecast

Fiscal Year	Net Income	Public School	Ag College	Charitable Institutions	Normal School	Penitentiary	School of Science	State Hospital South	University	Capitol*	Total
2018	Low	\$ 16,372,123	\$ (93,662)	\$ 3,848,346	\$ 1,698,765	\$ 1,437,932	\$ 3,289,738	\$ 2,764,904	\$ 2,227,664	\$ 43,426	\$ 31,589,236
	High	\$ 27,696,242	\$ (13,212)	\$ 5,965,039	\$ 2,717,286	\$ 2,241,236	\$ 5,139,768	\$ 4,174,554	\$ 3,473,273	\$ 111,127	\$ 51,505,313
	Actual	\$ 24,858,713	\$ (134,267)	\$ 4,204,399	\$ 3,871,963	\$ 2,909,666	\$ 4,179,959	\$ 1,651,594	\$ 4,973,936	\$ (157,936)	\$ 46,358,027
2019	Low	\$ 19,618,387	\$ 106,523	\$ 3,216,536	\$ 1,587,668	\$ 1,228,307	\$ 2,773,795	\$ 2,100,540	\$ 1,904,906	\$ 102,162	\$ 32,638,823
	High	\$ 29,610,257	\$ 177,509	\$ 5,084,206	\$ 2,486,363	\$ 1,937,105	\$ 4,406,174	\$ 3,344,348	\$ 3,003,972	\$ 161,898	\$ 50,211,831
2020	Low	\$ 21,589,491	\$ 400,141	\$ 3,476,169	\$ 1,966,625	\$ 1,071,780	\$ 2,523,200	\$ 2,310,529	\$ 1,979,399	\$ 86,713	\$ 35,404,046
	High	\$ 35,509,066	\$ 698,393	\$ 5,963,649	\$ 3,281,868	\$ 1,833,162	\$ 4,354,359	\$ 3,970,625	\$ 3,387,614	\$ 149,290	\$ 59,148,025
2021	Low	\$ 23,888,043	\$ 963,528	\$ 2,992,616	\$ 1,877,717	\$ 1,145,772	\$ 2,881,877	\$ 3,595,231	\$ 1,979,849	\$ 261,533	\$ 39,586,165
	High	\$ 34,794,817	\$ 1,464,538	\$ 4,559,130	\$ 2,695,850	\$ 1,743,254	\$ 4,413,250	\$ 5,341,533	\$ 2,958,588	\$ 399,868	\$ 58,370,828
2022	Low	\$ 21,040,344	\$ 883,021	\$ 2,876,224	\$ 1,799,732	\$ 1,385,216	\$ 1,128,095	\$ 3,151,907	\$ 2,262,167	\$ 204,203	\$ 34,730,908
	High	\$ 35,059,181	\$ 1,582,714	\$ 5,232,727	\$ 2,893,709	\$ 2,520,827	\$ 2,073,218	\$ 5,370,418	\$ 3,963,701	\$ 373,712	\$ 59,070,208

*Capitol revenue accrues to the permanent fund rather than the reserve.





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IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS

August 21, 2018
Director's Update

Subject

Fire Season Update

Background

As of August 16, 2018, Emergency Fire Suppression expenditures are estimated to be \$15,000,000. The Suppression Account will recover an estimated \$3,000,000 of reimbursable costs, for a net obligation of \$12,000,000. The total obligation above includes the 2018 contracted aircraft costs.

Discussion

On July 23, the Trestle Fire started on private land south of Cascade, within the Southern Idaho Timber Protective Association jurisdiction. This fire is contained at 129 acres.

The Mile Marker 73 Highway 55 Fire started July 25, on private land south of Banks, within the Southwest Forest Protective District. This fire is contained at 4,653 acres.

The Alpine Fire started July 28, on private land near Sandpoint, within the Pend Oreille Forest Protective District. This fire is 103 acres and was managed by an IDL Type 3 team.

The Goose Rapids Fire burned within the Craig Mountain Forest Protective District. It is contained at 1,200 acres.

As shown in the table below, fire occurrence to date for 2018 is 81 percent of the 20-year average, while the acres burned is 67% of the 20-year average.

Fire Season Comparison to Date

# of Fires Under IDL Protection				
Year	Lightning	Human	Total	Acres
2015	143	124	267	88,918.4
2016	43	66	109	586.2
2017	34	100	134	51,173.9
2018	39	141	180	7,376.2
20 Yr. Average			222	11,066

July saw very low precipitation and above normal temperatures. August and September are predicted to have above normal temperatures and below normal precipitation. As fuels continue to dry, fire activity is expected to increase. Fire restrictions are being implemented due to elevated fire danger.

Significant Fires Outside of IDL Protection

Rattlesnake Fire

The Rattlesnake Creek Fire started on private land near Riggins. This fire is currently 5,967 acres and is 43% contained. The fire is currently being managed by a Type 2 team.

Sharps

The Sharps Fire started on IDL endowment land on July 29 near Bellevue. This fire is currently 64,575 acres and 90% contained.

Grassy Ridge

The Grassy Ridge Fire started on July 26 near Dubois. This fire is currently at 99,502 and is 100% contained. This fire threatened the city of Dubious; at this time all evacuation orders have been lifted.

Mesa

The Mesa Fire started on July 26 near Council. This fire is currently being managed by a Type 3 team. This fire impacted the Highway 95 travel corridor. The fire is 34,719 acres and is 89% contained. This fire has nearly 307 personnel assigned to it.

Total Acres Burned by Ownership

8/10/2018

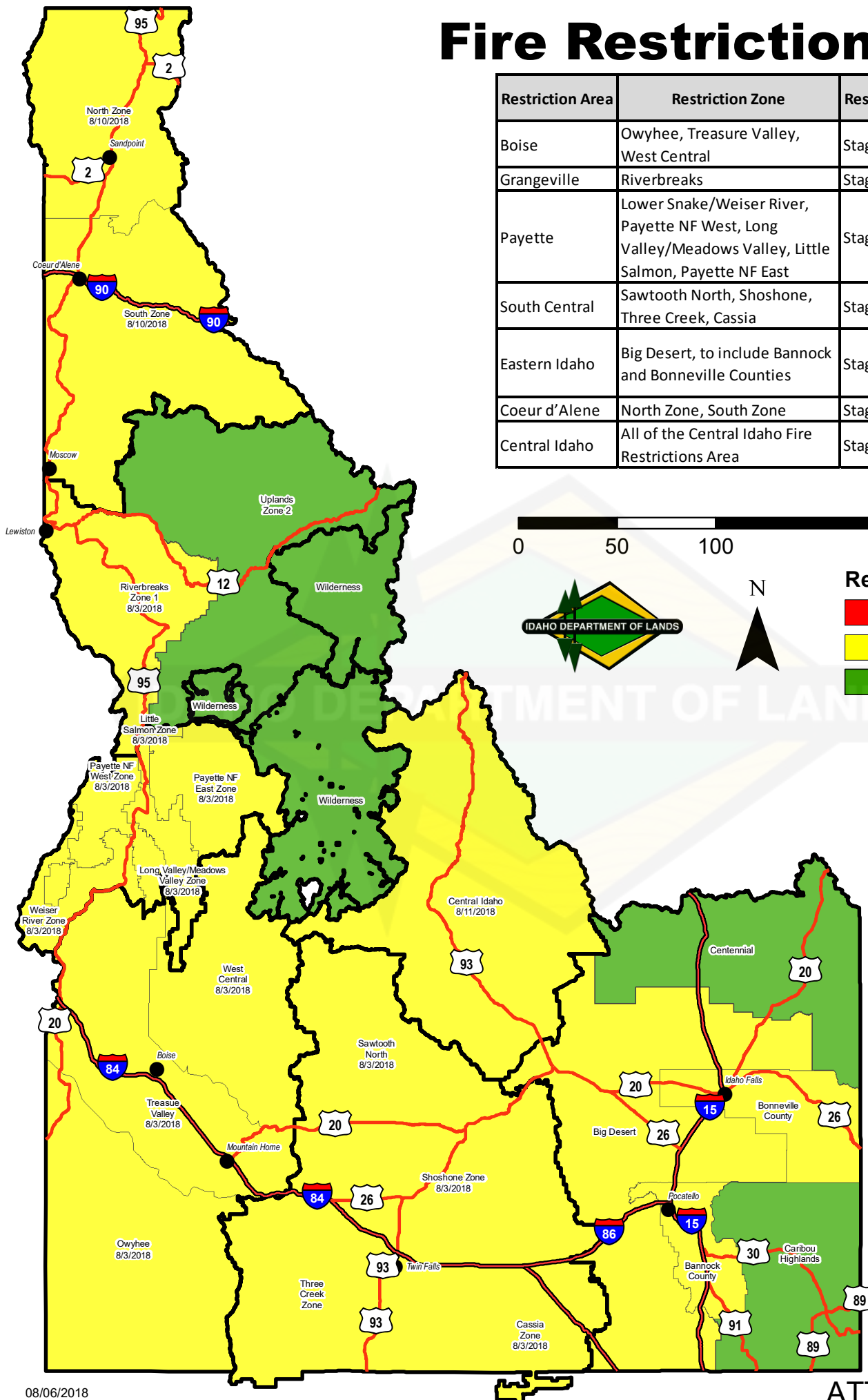
SURFACE OWNER	ACRES
Idaho Department of Lands	51,433
Fish and Game	219
Private	85,963
Bureau of Land Management	243,679
Forest Service	48,850
Other Federal	3,960
Total Acres	434,104

Attachments

1. Idaho Fire Restrictions Map
2. Significant Fires Throughout Idaho

Fire Restrictions 2018

Restriction Area	Restriction Zone	Restriction	Date Enacted
Boise	Owyhee, Treasure Valley, West Central	Stage I	3-Aug-18
Grangeville	Riverbreaks	Stage I	3-Aug-18
Payette	Lower Snake/Weiser River, Payette NF West, Long Valley/Meadows Valley, Little Salmon, Payette NF East	Stage I	3-Aug-18
South Central	Sawtooth North, Shoshone, Three Creek, Cassia	Stage I	3-Aug-18
Eastern Idaho	Big Desert, to include Bannock and Bonneville Counties	Stage I	6-Aug-18
Coeur d'Alene	North Zone, South Zone	Stage I	10-Aug-18
Central Idaho	All of the Central Idaho Fire Restrictions Area	Stage I	11-Aug-18



0 50 100 200 Miles



Restriction Stage

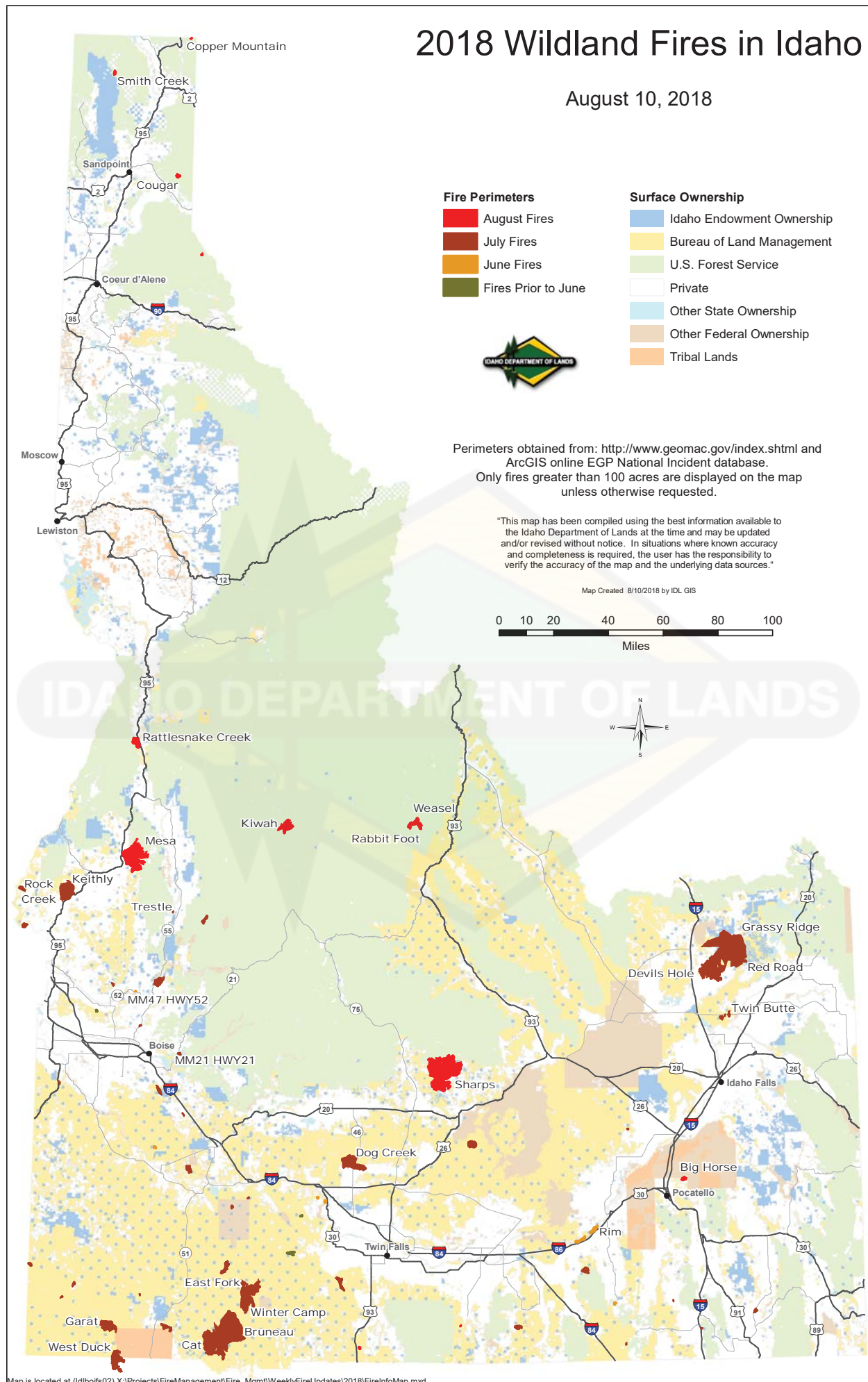
- Stage II
- Stage I
- No Restrictions

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IDAHO DEPARTMENT OF LANDS

2018 Wildland Fires in Idaho

August 10, 2018



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IDAHO DEPARTMENT OF LANDS



STATE BOARD OF LAND COMMISSIONERS

C. L. "Butch" Otter, Governor and President of the Board
Lawrence E. Denney, Secretary of State
Lawrence G. Wasden, Attorney General
Brandon D Woolf, State Controller
Sherri Ybarra, Superintendent of Public Instruction

David Groeschl, Secretary to the Board

Be it remembered, that the following proceedings were had and done by the State Board of Land Commissioners of the State of Idaho, created by Section Seven (7) of Article Nine (IX) of the Constitution.

Draft Minutes

State Board of Land Commissioners Regular Meeting
July 17, 2018

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, July 17, 2018, in the Capitol, Lincoln Auditorium, Lower Level, West Wing, 700 W. Jefferson St., Boise, Idaho. The meeting began at 9:00 a.m. The Honorable Governor C. L. "Butch" Otter presided. The following members were present:

Honorable Secretary of State Lawrence Denney
Honorable Attorney General Lawrence Wasden
Honorable State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, Governor Otter recognized the presence of all Board members.

Director Groeschl updated the Land Board on the completion of the Coeur d'Alene (CDA) staff office building expansion. Two years ago a decision unit was approved for a 12,800 square foot addition; the project cost was \$3.4 million. The building addition included integrating the Mica Supervisory Area Office and the CDA staff office into the same building, while keeping them distinct with separate entrances. On July 12th the combined offices held an open house with ribbon cutting event. Director Groeschl remarked that it was a pleasant surprise to have Attorney General Wasden attend; the Attorney General assisted Director Groeschl with the actual ribbon cutting. Director Groeschl expressed special recognition for the efforts of Frank Waterman and Kate Christensen in making the remodel and transition into the new space a very smooth process. Director Groeschl commented that the Department's IT staff also contributed to an easy transition process. Director Groeschl thanked Attorney General Wasden for his participation, and thanked the Land Board for its support in approving the decision unit. Attorney General Wasden noted that he was in Coeur d'Alene on other business and was able to incorporate the open house into his schedule. Attorney General Wasden commented that as he toured the remodeled facility it was evident that the expansion will greatly improve the efficiency and operation for employees at the CDA office.

1. Director's Report

Endowment Transactions

A. Timber Sales – June 2018.

DISCUSSION: Controller Woolf said it was interesting reading in the first paragraph about sale TS414302 and the non-cedar sawlog selling for \$929/MBF. Controller Woolf asked if that is an anomaly or is that likely to be recurring in the future on sales that have a large quantity of cedar product. Director Groeschl replied that it is probably an anomaly. Director Groeschl elaborated that in this particular sale cedar makes up 84% of the volume; the non-sawlog volume that was bid up significantly is a very small portion of the overall sale volume. What happens at times is during the bidding process somebody bids up the non-cedar sawlogs in order to get the sale, because they only have to remove the non-sawlog trees—just enough volume to access those cedar pole trees.

B. Leases and Permits – June 2018

Status Updates

C. Return on Asset (ROA) Review

DISCUSSION: Governor Otter asked how the measurement is based on return-on-investment and capital appreciation when most of the land was free¹; why would it be based upon return on capital? Director Groeschl responded that the Department calculates value for timberland and rangeland based on land expectation value (LEV). The Department's timberland asset value is about \$1.18 billion and that LEV calculation is based on a discounted cash flow based on historical net revenue stream. That methodology is also used for rangeland whereas commercial real estate and residential real estate are all based on appraisals. Commercial and residential assets are saleable; they can be appraised and see what the change in market value is over time. The Department is statutorily prohibited from selling timberland; an appraisal really does not help. Governor Otter remarked that buying timberland is not prohibited; when timberland is added at today's prices—\$700-800/acre—as opposed to the starting corpus of \$1.18 billion, the index could be thrown off substantially. In the future it will look like it is not doing well compared to today, as more timberland is added. Director Groeschl referred to page 11; the timberland portfolio shows some additions called capital contributions. When the Department has acquired timberland, at the price acquired, it is then added to the value of the existing timberland based on that purchase price. The purchase price is calculated based on a discounted cash flow at a range of 3.5% net up to about 6% net. As Callan recommended the Department looks to acquire at 3.5% net or above. Acquisitions so far have been 4-5.5% net return; those are added in on top of the present value of existing timberland and then income return is calculated based off the income divided by that new land value, with that value added in. This year even though this land value was added to existing land base at those prices, final year-end numbers will be close to the 3-year average shown on the Callan report which was a 3.92% income return.

¹ Approximately 3.6 million acres of endowment land was granted by Congress to Idaho at statehood.

Attorney General Wasden thanked the Director for the analysis of breaking out the return of vs. return on investment which was important to understand in terms of comparing apples-to-apples in the return on investment. Attorney General Wasden called attention to page 2, the asset distribution—about 80% of land assets are in timber which seems to be a large number in terms of the asset portfolio, the asset allocation. Attorney General Wasden noted that there is a distinction in that if the endowment is considered as a whole, including securities assets, that 80% number is going to go down and it actually constitutes somewhere in the 30% range of overall assets. Attorney General Wasden voiced interest in making certain the asset allocation across the entire portfolio is not too heavily weighted in one area, reducing risk. Director Groeschl mentioned that the reinvestment strategy agenda item will address that topic. Director Groeschl commented that timberland is 80-81% of the value of all land assets, timberland represents about 39-40% of the total asset of the whole trust, including financial assets and land assets. The range determined in Callan's original asset allocation study for timberland is 30-50% of the whole asset value. If all of the Land Bank proceeds are reinvested into timberland, it would only push the total timberland asset value up a few percentage points of the whole. Governor Otter wondered, more importantly, what is the contribution of that 80% timberland asset to net income. Director Groeschl noted that timber is roughly 80-85% of net income from land revenue.

D. Land Bank Fund

E. Fire Season

DISCUSSION: Director Groeschl reported on a fire not included in this report. The Mile Marker 21 fire started on Sunday, July 15th and is the largest fire within the Department's protection area, located near Lucky Peak Reservoir. It was roughly 700 acres and is now one hundred percent contained; the Department was assisted by Forest Service resources. The Department will be mopping up and patrolling that fire for a few weeks to make sure there are no hot spots. The fire is under investigation.

2. Endowment Fund Investment Board Report – Presented by Chris Anton, EFIB Manager of Investments

A. Manager's Report; and

B. Investment Report

DISCUSSION: Mr. Anton remarked that the endowment portfolio generated solid returns in fiscal year 2018. During the month of June the Fund was down 0.2% but ended the fiscal year up 9.8%. Mr. Anton commented that global equities had a strong fiscal year led by U.S. equities. Equities overall were up 13.9%; U.S. equities were up 17.3%. One U.S. equity manager, Sands Capital, that manages the large-cap growth sector of the portfolio was up more than 35%; a very good year. International developed and emerging market equities faltered a bit in the final quarter as there were indications that economic growth outside of the U.S. was slowing, concerns about a trade war and a strengthening dollar. The real estate portion of the portfolio provided modest returns both from income and appreciation; overall real estate provided about a 7.8% return for the year. The fixed income portion of the portfolio

struggled to break even, with rising interest rates and inflation beginning to tick up later in the year, but it did provide some stability to the portfolio. Generally 2018 was a very strong year. Mr. Anton stated that fiscal year 2019 is off to a good start; the Fund is up 1.6% through yesterday. Distributions for 2018 and 2019 are well-secured. Based on preliminary analysis, it will be possible to increase the reserves for Public School from five to six years. Charitable Institutions was approved to increase from five to seven years; it may not quite get to seven—six-and-a-half years is probable. All other endowments will be at seven years. Mr. Anton indicated there are no actions of the Investment Board to report. EFIB will present its beneficiary distribution request as well as transfer request at the August Land Board meeting. Distributions are anticipated to modestly increase. In fiscal year 2019 the distribution total is \$78 million; it will be closer to \$80 million for 2020. Even at the higher distribution level a little over \$50 million from reserves will move into the permanent fund. Mr. Anton mentioned EFIB is in the process of closing its books; the auditors will be on hand next week and the Land Board Audit Committee is scheduled to meet August 16th. The Audit Committee will present their report at the August Land Board meeting. The Investment Board is scheduled to meet on August 17th.

- **CONSENT (ACTION)**

3. Statement of Investment Policy Annual Review – Staffed by Kari Kostka, Strategic Planning Manager

RECOMMENDATION: Callan, the Department, and EFIB recommend approval of the annual revision to the Statement of Investment Policy for the combined Endowment assets.

DISCUSSION: None.

4. Approval of Minutes – June 19, 2018 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt and approve the Consent Agenda. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

- **REGULAR (ACTION)**

5. Reinvestment of Land Bank Funds – Presented by Kari Kostka, Strategic Planning Manager

RECOMMENDATION: Approve the Investment Subcommittee's recommendation to implement Option A from Callan's Asset Allocation and Distribution Study for the reinvestment of Land Bank funds.

DISCUSSION: Attorney General Wasden stated his understanding of the options available: Option C is to immediately transfer funds to the permanent fund which the Department does not recommend. Option B is to essentially transfer \$58 million immediately and save the rest in reserve for potential transactions. Option A is to pursue potential transactions—the Department has a few in the pipeline--and then transfer what is not needed. Ms. Kostka said that is correct. Attorney General Wasden asked for the Department's view of Option A; i.e., what it does and how

it will operate. Ms. Kostka responded that Option A most closely resembles what the Department is doing now. There is a joint effort with EFIB, analysis of numbers (revenue) coming into the Land Bank, and with the development of the acquisition business plan, the Department has confidence that it is moving forward with several beneficial, sound transactions. The Department, in coordination with EFIB, is also being realistic; if potential transactions will not utilize Land Bank funds before they expire, the Department will identify amounts that make sense to proactively transfer to the permanent fund. Ms. Kostka commented that the Department is not opposed to transferring funds but staff sees a few really good acquisition possibilities in the near term and does not want to limit opportunities just yet, so Option A is preferred. Ms. Kostka added that it is not necessarily ideal to reinvest in financial markets with markets being as high as they are right now. Attorney General Wasden noted that the hurdle rates listed in Option A are intended to make certain that the Department is seeking land investments that will add to the endowment portfolio—timberland is not being purchased just for the sake of buying timberland, it has to meet specific financial criteria. This is an important consideration to remember. Ms. Kostka agreed that hurdle rates are a big component of the option. Attorney General Wasden requested verification and assurance from the Department, from EFIB, and from Callan that the recommendation of Option A accomplishes two things simultaneously and that is—recognizing that the future cannot be predicted; there is no crystal ball—to the best of all parties' ability Option A is intended to accomplish reducing volatility in the endowments' overall investment portfolio at the same time as increasing returns, or the potential for reducing volatility and the potential for increasing returns. Ms. Kostka stated that is exactly the goal of the Department. Ms. Kostka mentioned another component intended to counter any volatility is the increase in reserve levels which was approved by the Board and is already being implemented.

Regarding the financial portfolio, Mr. Anton remarked that during the February meeting Callan presented their capital markets assumptions and indicated that over the next ten years they expect gross returns of about 6.3%, net returns of 4.05%. In their study Callan said timberland investment is a good diversifier. If the Department gets similar real returns, because timber has lower volatility, it helps reduce overall volatility. It also provides similar and potentially greater returns if the Department finds opportunities above that hurdle rate. EFIB's perspective is that the Board should preserve its flexibility during this five year period and allow the Department to find and identify opportunities as long as they meet or exceed the hurdle rate. Governor Otter wondered what the motivation was for even considering Options B and C. Mr. Anton commented that the recommendation for B and C is they could potentially get similar returns on the financial assets but would likely have more volatility. Neither of those are bad options, the financial assets have been performing well; however, the Department has this unique opportunity to reinvest the money in timberland and it makes sense to preserve flexibility and look for transactions that provide substantial returns. Governor Otter suggested a cautious eye would look at Options B and C and conclude they were only included to validate Option A. Mr. Anton noted that Callan believes investing Land Bank money in financial assets is not a bad decision either. Generating 6.3% gross returns, 4% real returns, is a good option. Right now there is another option and that is to look at timber opportunities. Mr. Anton said Callan and EFIB agree that the Department should have the opportunity to look for reinvestment opportunities in timber and agricultural land. If the Department finds opportunities that meet the hurdle rate it will reduce overall volatility and enhance returns for the beneficiaries.

Governor Otter commented that the Department has shown there is a margin of diminishing return of around \$8 million yet the earnings reserve levels are increasing. Governor Otter inquired how the Department and EFIB intend to add to the reserves when there is \$8 million less in diminishing returns on investment. Mr. Anton indicated that at the end of fiscal year 2018 all reserves will be at target levels with the exception of Charitable Institutions, which will be at six-and-a-half of its target seven years. Mr. Anton continued that investing in more timberland generates more revenue that comes directly into those reserves and keeps them replenished; it is a healthy thing if the right opportunities are found. Governor Otter asked if new timberland acquisitions are expected to provide an increase in land revenue. Director Groeschl remarked that the acquisition of timberlands does two things: one, it replaces or exceeds the revenue that was lost through the sale of commercial and residential properties, and two, it reduces volatility; it provides a very stable revenue stream that meets or exceeds revenue previously being generated.

Director Groeschl elaborated, explaining that there is a two-year lag between acquiring new timberland and generating revenue from it. In addition to providing a stable revenue source, new timberland will increase the Department's sustained yield—not only is there sustained yield off the land base that is acquired, it also then increases the sustained yield off the existing land base because now it is looking at entire ownership. For example, one area has a sustained yield calculation of roughly 85 million board feet (MMBF) a year; if 20,000 or 30,000 acres is acquired with 15 MMBF on those acres, add those numbers and the sustained yield is 100 MMBF. But in running the model again, a third time, the sustained yield is actually 115 MMBF because what it does is now look at the entire land base and age/size class distribution and it gives an uplift on sustained yield across the entire land base. However, returns for acquisitions are only calculated on that acquisition, on what that land can produce, so it is conservative. Director Groeschl stated that the existing timberland base from the southern border of Idaho to the northern border of Idaho is returning about 3.9% net revenue. The Department is looking to acquire timberland in the strongest wood basket areas—good transportation, strong markets, competition—the return expectations for those acquisitions are higher. Director Groeschl noted that Callan used 3.5% in their modeling. If the Department can acquire timberland that is in that 4-5% range then the return across the entire timberland portfolio is increased and that provides stability to that land revenue stream versus the volatility on revenue generated in the financial markets. Governor Otter asked if, relative to the timber report earlier in this meeting, the Department will concentrate on buying cedar. Director Groeschl replied the focus is more on where it is located within various wood basket areas and site productivity; the Department is not targeting a single species because even cedar prices can vary significantly. While cedar is high right now, other non-cedar prices are also very strong. Due to fluctuations, the Department uses an average in its analysis. Governor Otter commented it helps stumpage price when there is a 25% tax from Russia and beetle kill and pine bark kill in Canada.

Governor Otter mentioned that a couple of years ago the Department reported that Idaho imported sawlogs of about 200 MMBF, even with all of Idaho's private harvest, federal harvest in the state, before Good Neighbor Authority, and state harvest which was at that time around 230 MMBF. Governor Otter asked what is present usage of infrastructure (sawmills) and is more capital structure going to be needed. Director Groeschl responded that the Department just looked at the current percent of capacity being used right now in Idaho across the various sawmills; statewide the number is below 80%, around 74-75%. Mills like to run slightly above 90% capacity.

The mills can absorb 200-300 MMBF before they would reach that 90% capacity level. The mill infrastructure would not require any capital expenditures right now to absorb an additional 200-300 MMBF.

Secretary of State Denney inquired if the return on funds in the Land Bank is exceeding the target of 3.5%. Mr. Anton replied that the return in the Land Bank is about 2%; it is below target today because it is invested in short-term investment-grade fixed income. Statute does not allow any losses on those investments so it is invested very conservatively. Mr. Anton noted that is one of the downsides in providing time to reinvest Land Bank funds, that in the intermediate term there is some opportunity cost because the funds are earning a small amount.

Attorney General Wasden requested Callan's input on Option A. Ms. Haskins stated with regard to the options that were presented, and Option A in particular, Callan likes to lay out acceptable options; all the options that were laid out are acceptable and the Board can choose to do Option A or B or C at any time. Ms. Haskins commented that for the reasons previously mentioned, Callan is supportive of Option A and options B and C are also acceptable. Ms. Haskins complimented the Department and EFIB for all the work that has been done and noted that having this discussion about what to acquire, where to acquire it, and what it is going to look like, is meant to assure the Board. What does the transaction pipeline look like, will it meet the hurdle rates, and will the returns be accretive because that is what is needed. The 4.5% range is certainly competitive with EFIB at lower volatility. Ms. Haskins indicated the returns at the minimum hurdle rate for timber at 3.5% would also be fine but mentioned that for the next agenda item which will be discussed, Callan did a study and looked at a number of large institutional timber managers—what are they doing and what are their return requirements—the Department's target hurdle rates are consistent with those managers return requirements; from that perspective the Department is doing what others are doing. Ms. Haskins mentioned one thing she found interesting is that there are not a lot of institutional buyers playing in this market in Idaho, which should be good for the Department in terms of purchasing timber and potentially getting returns above the minimum hurdle rate of 3.5%. Ms. Haskins said it is a little bit different on farmland which is a reason to set the hurdle rate higher, but if farmland markets turn then there might be similar opportunities because people would rotate out and the Department would have more opportunity to acquire farmland.

Secretary of State Denney inquired if the Department, as it looks at purchasing timberland, is receiving any pushback from the county commissioners for taking that potential purchase off the tax rolls. Director Groeschl stated the Department has made two fairly small acquisitions to date; the Department spoke with the county commissioners, who were supportive of those acquisitions. As the Department considers some of these larger acquisitions, staff will be having conversations with those county commissioners. Director Groeschl shared that a little over a year-and-a-half ago before coming to the Land Board for approval of the reinvestment strategy, the Department met with eight or nine counties. All of those counties where potential timberland opportunities exist were either neutral or supportive of the Department's reinvestment strategy; they simply asked that they be informed prior to closing on an acquisition so that if there is a tax impact to their county they can determine how they might deal with it. Director Groeschl reiterated that Department staff, as a signed purchase sale agreement is in place for an acquisition, will start the outreach with the respective county commissioners.

Governor Otter asked if in some of these acquisitions the Department is entertaining maintaining a conservation easement that may have been sold or given at one time or another, and if so, how will that be treated. Director Groeschl stated the Department is looking at potential properties that have conservation easements on them. These easements typically were put in place to compensate the current landowner for the development rights but then to manage those in perpetuity as timberland using traditional forest management practices. The Department does not see an issue with the conservation easement impeding its ability to manage those lands or impeding the Board's ability in making decisions regarding the management of those lands related to the traditional use and management of forest management. Governor Otter wondered about the appreciation value for the portfolio. Director Groeschl explained that once the development rights have been taken off through a conservation easement, the land is valued as timberland without any higher and better use values associated with it. The increase in value would come just like existing endowment timberland. Since the Department is statutorily prohibited from selling timberlands the value comes in the revenue generated off that land; it would be calculated through land expectation value. The increase would be associated with the timberland value increase and not associated with other potential uses. Governor Otter reflected on capital revenues that have been flowing in; the money has to be spent someplace. Governor Otter wondered what if there had been conservation easements on all of the lake lots—is the Department giving up something for the lack of that appreciation value. Director Groeschl indicated that as the Department evaluates those timberlands that may have a conservation easement on them, the lands are not the small lands, for instance around a lake where a small private landowner has put a conservation easement on with a development envelope within there. The lands the Department would consider do not have development envelopes in them and are typically not associated with lake frontage. Governor Otter remarked that Idaho is the fastest growing state in the nation and observed the Department could be suffering an opportunity cost someday, especially with those conservation easements.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation that is approve the Investment Subcommittee's recommendation to implement Option A from Callan's Asset Allocation and Distribution Study for the reinvestment of Land Bank funds. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

6. Strategic Reinvestment Plan Annual Review – Presented by Sally Haskins, Senior Vice President, Callan LLC

RECOMMENDATION: The Department recommends approval of the memo submitted by Callan on July 5, 2018, as the annual update to the Strategic Reinvestment Plan.

DISCUSSION: None.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation that is approve the memo submitted by Callan on July 5, 2018 as the annual update to the Strategic Reinvestment Plan. Controller Woolf seconded the motion. The motion carried on a vote of 4-0.

For the record, Governor Otter left the meeting at 10:25 am and returned at 10:27 am and therefore did not vote on agenda item 6.

7. Cottage Site 2024 Voluntary Auction for Ownership (VAFO) Plan – Presented by Sid Anderson, Program Manager-Residential

RECOMMENDATION: Approve the Department's proposed Cottage Site Voluntary Auction for Ownership (VAFO) 2024 Plan, approve the auctioning of the new residential lots at Payette Lake, and approve the auctioning of future lots in locations appropriate for each site to include Ada, Bonner, Kootenai, or Valley Counties.

DISCUSSION: Controller Woolf expressed his appreciation for all the work done by the Department these past years. Controller Woolf asked for the Department's perspective on the 67 lots that may potentially remain after the VAFO process through 2024. Mr. Anderson responded it is a mixed bag; there are lessees that that would prefer to continue leasing. Some have expressed that since the beginning that they felt like the lease rate was fine and they would rather continue leasing than have to purchase the lease. There is also a percentage of lessees that just do not feel like they can afford to purchase; they can continue to lease but they cannot buy. The majority of those fall in one of those two categories. Controller Woolf wondered how valid it will be to hold auctions in those years indicated with a very small number of interested parties. Mr. Anderson commented that is why the Department is asking the Board to continue to allow VAFOs depending on interest. If there is one site in a year that is going to go to auction then an auction would not be held, with the exception of the last year of auctions. The Department is gauging interest, knowing this is going to fluctuate and change as people continue to assign; just in the last month two new sites assigned at Payette Lake that were not interested before but the new lessee is. The Department anticipates that after 2019 auctions would be held every other year.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt and approve the Department recommendation that is to approve the Department's proposed Cottage Site Voluntary Auction for Ownership 2024 Plan, and include the auctioning of new residential lots at Payette Lake, and approve the auctioning of future lots in locations appropriate for each site to include Ada, Bonner, Kootenai or Valley counties. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

- **INFORMATION**

NONE

At 10:40 a.m. a motion was made by Attorney General Wasden to resolve into Executive Session pursuant to Idaho Code § 74-206(1)(d) and § 74-206(1)(f) to consider records that are exempt from disclosure as provided in Chapter 1, Title 74, Idaho Code and to discuss the legal ramifications of and legal options for pending litigation or controversies not yet being litigated but imminently likely to be litigated. Attorney General Wasden requested that a roll call vote be taken and that the Secretary record the vote in the minutes of the meeting. Controller Woolf seconded the motion. *Roll Call Vote:* Aye: Denney, Wasden, Woolf, Ybarra, Otter; Nay: None; Absent: None.

- **EXECUTIVE SESSION**

- A. Idaho Code § 74-206(1)(f) - to communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. [TOPIC: Sharlie-Grouse Petition]

At 10:52 a.m. the Board resolved out of Executive Session by unanimous consent. No action was taken by the Board during the Executive Session.

- **REGULAR (ACTION)**

8. Appointment of Hearing Officer

BOARD ACTION: A motion was made by Attorney General Wasden that the Board grant authority for the Idaho Department of Lands' Director to appoint a hearing officer to conduct the matter under the APA in regards to the Sharlie-Grouse Neighborhood Association Petition for Declaratory Ruling and that the hearing officer provide a recommended order to the Board. Controller Woolf seconded the motion. Governor Otter clarified that APA is the Administrative Procedures Act. The motion carried on a vote of 5-0.

There being no further business before the Board, at 10:53 a.m. a motion to adjourn was made by Attorney General Wasden. Controller Woolf seconded the motion. The motion carried on a vote of 5-0. Meeting adjourned.



STATE BOARD OF LAND COMMISSIONERS

C. L. "Butch" Otter, Governor and President of the Board
Lawrence E. Denney, Secretary of State
Lawrence G. Wasden, Attorney General
Brandon D Woolf, State Controller
Sherri Ybarra, Superintendent of Public Instruction

David Groeschl, Secretary to the Board

Be it remembered, that the following proceedings were had and done by the State Board of Land Commissioners of the State of Idaho, created by Section Seven (7) of Article Nine (IX) of the Constitution.

Draft Minutes
State Board of Land Commissioners Special Meeting
August 3, 2018

A special meeting of the Idaho State Board of Land Commissioners was held on Friday, August 3, 2018, in the Idaho Department of Lands, Garnet Conference Rooms, 300 North 6th St., Boise, Idaho. The meeting began at 9:47 a.m. The Honorable Governor C. L. "Butch" Otter presided. The following members were present:

Honorable Secretary of State Lawrence Denney
Honorable Attorney General Lawrence Wasden
Honorable State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, Governor Otter recognized the presence of all Board members.

At 9:49 a.m. a motion was made by Attorney General Wasden to resolve into Executive Session pursuant to Idaho Code § 74-206(1)(a) to consider hiring a public officer, employee, staff member or individual agent, wherein the respective qualities of individuals are to be evaluated in order to fill a vacancy. Attorney General Wasden requested that a roll call vote be taken and that the Secretary record the vote in the minutes of the meeting. Controller Woolf seconded the motion. *Roll Call Vote:* Aye: Denney, Wasden, Ybarra, Woolf, Otter; Nay: None; Absent: None.

• **EXECUTIVE SESSION**

- A. Idaho Code § 74-206(1)(a) – to consider hiring a public office, employee staff member or individual agent, wherein the respective qualities of individuals are to be evaluated in order to fill a particular vacancy or need. [TOPIC: Hiring Agency Director]

At 2:07 p.m. the Board resolved out of Executive Session by unanimous consent. No action was taken by the Board during the Executive Session.

There being no further business before the Board, at 2:07 p.m. a motion to adjourn was made by Attorney General Wasden. Controller Woolf seconded the motion. The motion carried on a vote of 5-0. Meeting adjourned.





M. Dean Buffington :: Chairman
Jerry F. Aldape Irving Littman
Neil A. Anderson Gary L. Mahn
Warren R. Bakes Richelle A. Sugiyama
Gavin M. Gee Chuck Winder

Chris J. Anton :: Manager of Investments

Monthly Report to the Board of Land Commissioners

Investment performance through July 31, 2018

Month: 2.1% Fiscal year: 2.1%

Fiscal 2019 started off in positive territory driven by continued economic expansion in the U.S. and anticipation of strong corporate earnings. Gross domestic product increased by 4.1% during the second quarter led by consumer and business spending and a surge in exports in anticipation of retaliatory tariffs from China. The U.S. labor market remains strong. A strengthening dollar and trade tensions between the U.S. and its global trading partners have recently put pressure on international and emerging market equities, however, they recovered modestly during July.

Status of endowment fund reserves

Distributions for FY2019 and FY2020 are well secured. For all endowments, estimated reserves as of July 2018 were at least 6 times the size of the anticipated FY2020 distributions.

Significant actions of the Endowment Fund Investment Board

Meetings: None.

Compliance/legal issues, areas of concern

Material deviations from Investment Policy or compliance guidelines for investment managers: None.

Material legal issues: None.

Changes in board membership or agency staffing: None.

Upcoming issues/events

The Land Board Audit Committee is scheduled to meet on August 16th to review the independent auditor's report and approve the Endowment Fund's fiscal 2018 financial statements.

The EFIB is scheduled to meet on August 17th. It is anticipated that they will develop, for approval by the Land Board, recommendations for FY2020 beneficiary distributions and the transfer of excess reserves to the permanent fund.

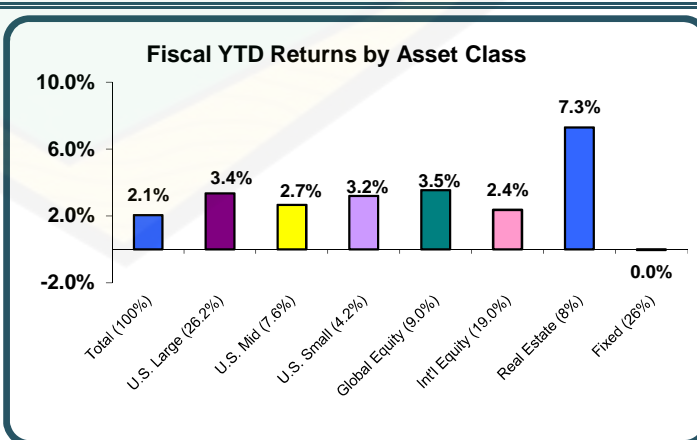
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IDAHO DEPARTMENT OF LANDS

	<u>Month</u>	<u>FYTD</u>
Beginning Value of Fund	2,189,851,992	2,189,851,992
Distributions to Beneficiaries	(6,517,200)	(6,517,200)
Land Revenue net of IDL Expenses	-	-
Change in Market Value net of EFIB Expenses	42,949,174	42,949,174
Current Value of Fund	2,226,283,965	2,226,283,965

<u>July-18</u>	<u>Fiscal Year to Date</u>	<u>Last Five Years</u>
Total Fund 38% R3 19% Ax 9% AC 26% BB 8% OD	2.1% 2.0%	Total Fund 38% R3 19% Ax 9% AC 26% BB 8% OD
Total Fixed 85% BB Agg, 15% TIPS	0.0% -0.1%	Total Fixed 85% BB Agg, 15% TIPS
Total Equity 38% R3 19% Ax 9% AC	3.0% 3.0%	Total Equity 38% R3 30% Ax 9% AC
Domestic Equity Russell 3000 (R3)	3.2% 3.3%	Domestic Equity Russell 3000 (R3)
Global Equity MSCI ACWI (AC)	3.5% 3.0%	Global Equity MSCI ACWI (AC)
Int'l. Equity MSCI ACWI ex-US (Ax)	2.4% 2.4%	Int'l. Equity MSCI ACWI ex-US (Ax)
Real Estate Real Estate Index (OD)	Real Estate Real Estate Index (OD)	

	<u>Mkt Value</u>	<u>Allocation</u>
Domestic Equity	\$ 870.5	39.1%
Large Cap	591.2	26.6%
Mid Cap	177.1	8.0%
Small Cap	102.3	4.6%
Global Equity	203.5	9.1%
Int'l Equity	420.3	18.9%
Fixed Income	557.9	25.1%
Real Estate	165.6	7.4%
Cash	8.4	0.4%
Total Fund	\$ 2,226.3	100.0%



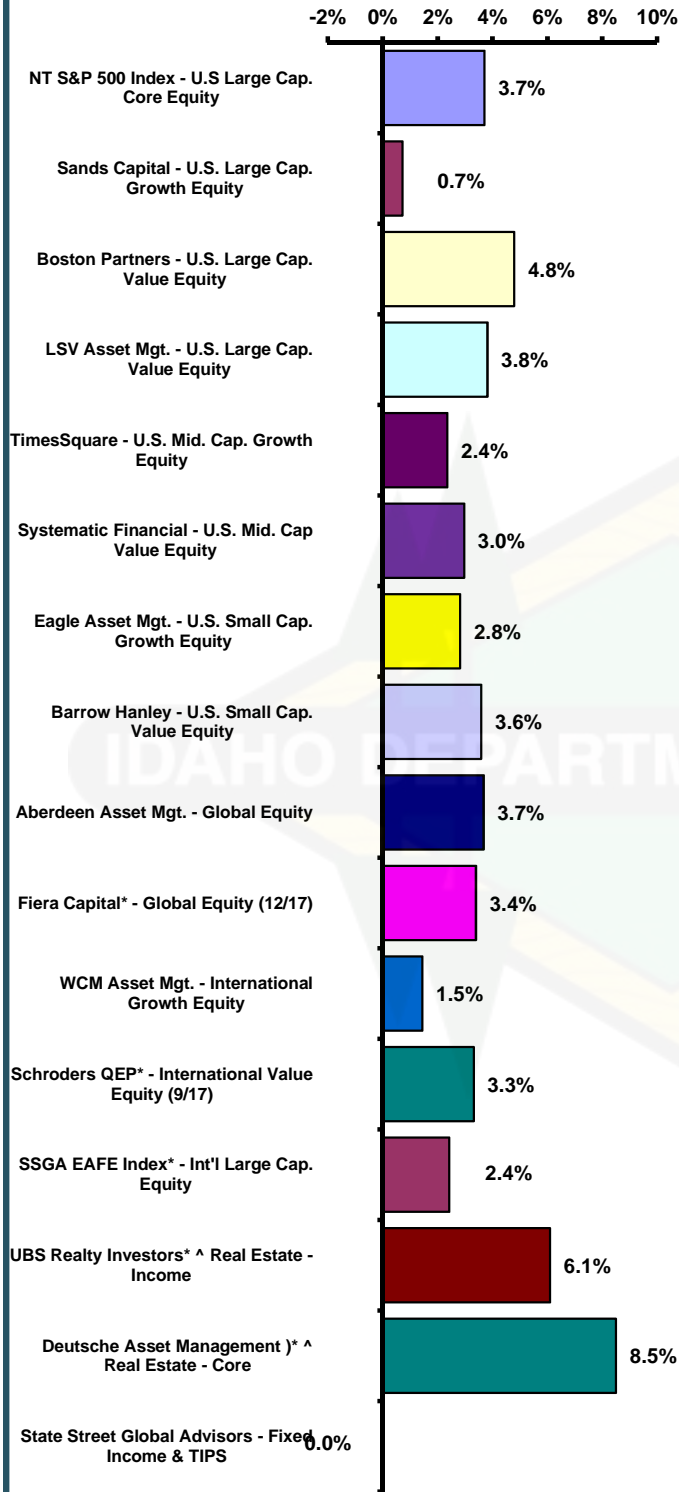
Endowment Fund Staff Comments:

The fund was up 2.1% for the month, 0.1% over the benchmark. The Russell 3000 index was up 3.3%, Russell Midcap up 2.5% and Russell 2000 (small cap) up 1.7%. International equities (MSCI ACWI ex-US) were up 2.4%. Value outperformed Growth, while Domestic equity outperformed International equity. Bonds, as measured by the BBC Aggregate index, were up 0.02% and TIPS were down 0.5%. 10 of 13 active managers beat their benchmark this month. On a FYTD basis, the fund is up 2.1%, 0.1% over benchmark, and 10 of 13 active managers beat their benchmark.

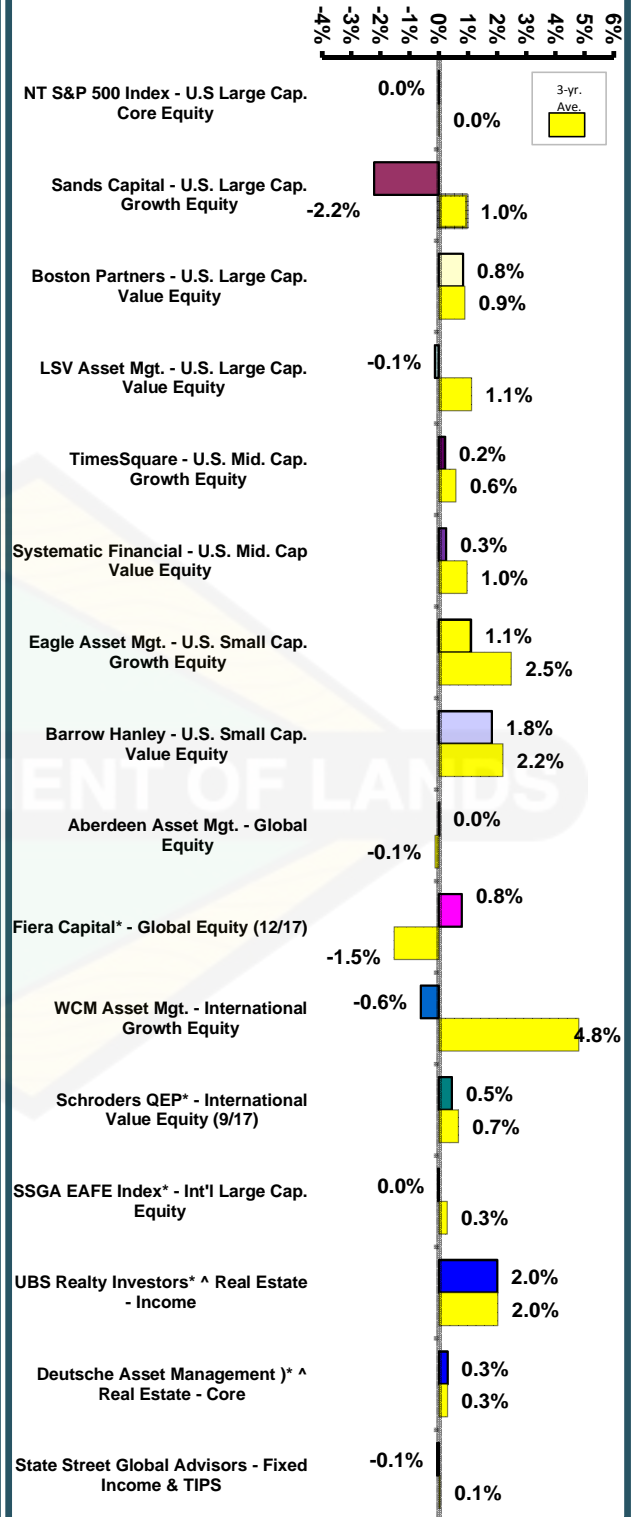
July 31, 2018

INVESTMENT REPORT

FYTD Manager Returns



Manager Relative Returns Fiscal YTD and 3-Yr Ave. Annualized*



* ITD return used when manager has less than 3 years. ^ Most recent valuation.

STATE BOARD OF LAND COMMISSIONERS

August 21, 2018

Regular Agenda

Subject

Approval of fiscal year 2020 beneficiary distributions, transfer of earnings reserve funds in excess of target levels to corresponding permanent funds and designation of the transfers as increases in the gain benchmark (or permanent corpus) for each of the permanent funds.

Background

The Endowment Fund generated investment returns of 9.94% (7.69% real return, net of 2.25% inflation) during fiscal year 2018. Investment gains allowed all permanent funds to be at their inflation-adjusted gain benchmark on June 30, 2018. Investment returns above the gain benchmark plus \$45.8 million in net land revenue allowed all but the Charitable Institution Fund to have earnings reserves in excess of target levels. Earnings reserves in excess of target levels may be transferred into the corresponding permanent funds and added to the gain benchmark.

Recommendation

EFIB recommends that the Land Board approve a 3.5% increase in beneficiary distributions or a total of \$80,918,000 in FY2020, transfer \$50,309,000 from earnings reserve funds to permanent funds and designate the transfers as additions to the gain benchmarks (or permanent corpus). The distributions and transfers for each beneficiary are outlined in the table below.

	Distributions To Beneficiaries				Transfer To	Added to
	Approved FY2019	Approved FY2020	% Change	\$ Change	Permanent Fund*	Gain Bench- mark**
Public School	50,325,600	51,260,000	1.9%	934,400	19,157,000	19,157,000
Ag College	1,447,200	1,466,000	1.3%	18,800	1,381,000	1,381,000
Charitable Instit.	5,754,000	5,754,000	0.0%	-	-	-
Normal School	4,410,000	4,946,000	12.2%	536,000	6,534,000	6,534,000
Penitentiary	2,193,600	2,247,000	2.4%	53,400	5,204,000	5,204,000
School of Science	4,826,400	4,930,000	2.1%	103,600	8,903,000	8,903,000
State Hosp. South	5,024,400	5,955,000	18.5%	930,600	-	-
University	4,225,200	4,360,000	3.2%	134,800	9,130,000	9,130,000
	78,206,400	80,918,000	3.5%	2,711,600	50,309,000	50,309,000
* Amount of Earnings Reserve in excess of what is deemed adequate relative to the 2020 distribution. The adequate reserve level for Public School is six years and all others are set at seven years.						
** Amount of the transfer that will be considered a permanent increase in original corpus. No endowment had past losses at the end of FY 2018, so all the transfer can be considered corpus/principal and added to the Gain Benchmark.						
All calculations subject to adjustment pending final audit of fiscal year 2018 results.						

Board Action



Proposed Fiscal Year 2020 Distributions and Transfers

IDAHO DEPARTMENT OF LANDS

Land Board Meeting
August 21, 2018

Distribution Policy Summary

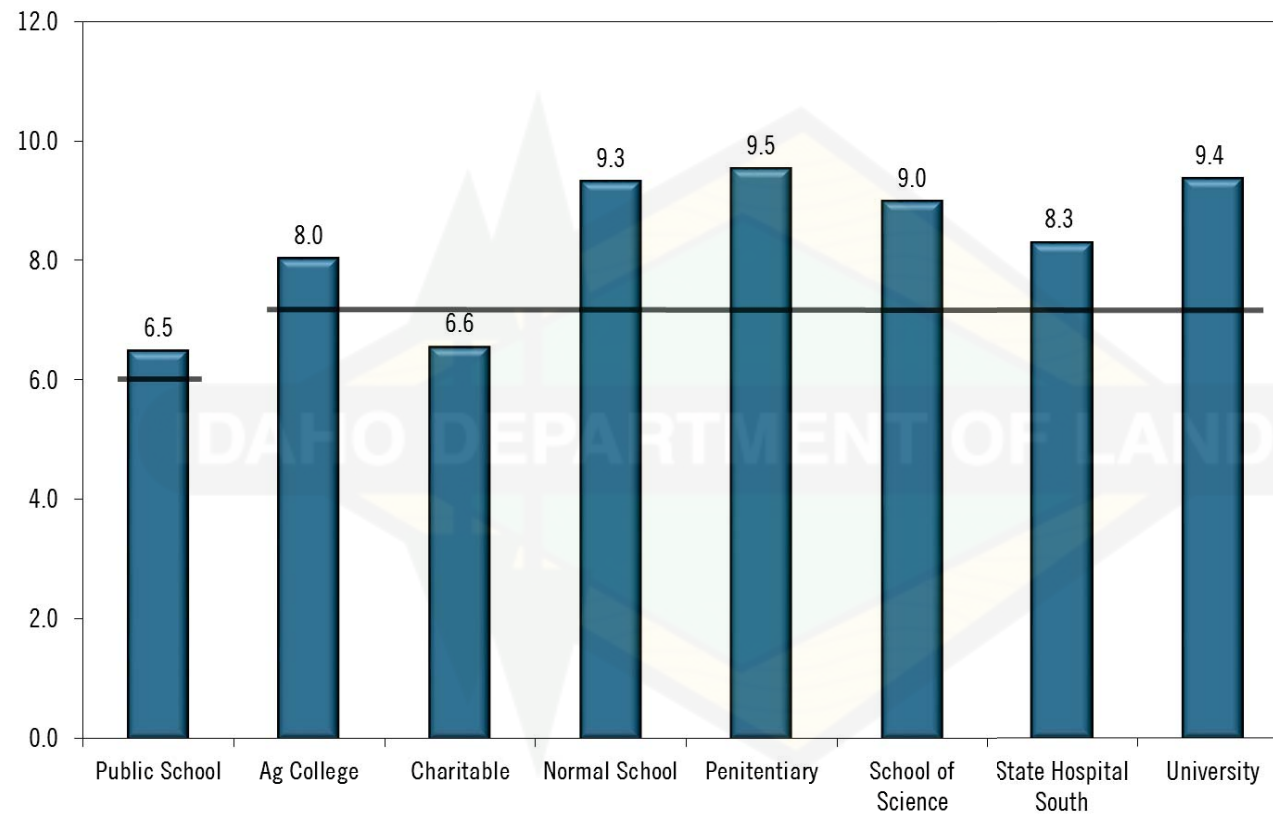
The Land Board has adopted the following principles:

- Distribute 5% of the 3-year average value of each Permanent Fund annually (7% for State Hospital),
 - Adjusted for reserves, transfers and any other relevant factors
- Maintain Earnings Reserves at adequate levels (based on target years of distributions)
- Consider transferring any excess reserves back to the Permanent Fund each year

Current Situation

- The Endowment Fund's fiscal 2018 gross return of 9.94% (7.69% real return, net of 2.25% inflation) pushed all endowments well above their inflation-adjusted target (the "Gain Benchmark")
- Current year and next year's approved distributions are safe – nearly every fund has full reserves
- Record \$155 million of timber presold as of June 30, 2018: Guaranteed income over the next 3 years
 - Lumber prices and buyers' financial reserves must be sufficient to allow them to fulfill their contracts on time

Coverage Ratio June 30, 2018



RECOMMENDED ENDOWMENT DISTRIBUTIONS - FY 2020

(Using June, 2018 balances - \$ in millions)

	Total	Public School	Ag College	Charit- able	Normal Schools	Peni- tenary	School of Science	State Hospital South	Uni- versity
FY 2017 Distribution	\$ 63.2	\$ 36.7	\$ 1.3	\$ 5.5	\$ 4.3	\$ 2.0	\$ 4.7	\$ 4.6	\$ 4.0
FY 2018 Distribution	\$ 73.5	\$ 47.0	\$ 1.3	\$ 5.5	\$ 4.3	\$ 2.0	\$ 4.7	\$ 4.6	\$ 4.0
FY 2019 Distribution	\$ 78.2	\$ 50.3	\$ 1.4	\$ 5.8	\$ 4.4	\$ 2.2	\$ 4.8	\$ 5.0	\$ 4.2
FY 2020 Distribuiton	\$ 80.9	\$ 51.3	\$ 1.5	\$ 5.8	\$ 4.9	\$ 2.2	\$ 4.9	\$ 6.0	\$ 4.4
% Change: 2020 vs. 2019 Distribution	3.5%	1.9%	1.3%	0.0%	12.2%	2.4%	2.1%	18.5%	3.2%

Earnings Reserves status (as of 6/18)

Earnings Reserve Policy Target (in years)		6.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Years of reserves, before transfer		6.4	7.9	6.6	8.3	9.3	8.8	7.0	9.1
Years of reserves, after transfer		6.0	7.0	6.6	7.0	7.0	7.0	7.0	7.0
Earnings Reserve Balance (6/18)	\$ 563.0	\$ 326.7	\$ 11.6	\$ 37.8	\$ 41.2	\$ 20.9	\$ 43.4	\$ 41.7	\$ 39.6
Recommended Transfer to Perm Fund	\$ 50.3	\$ 19.2	\$ 1.4	\$ -	\$ 6.5	\$ 5.2	\$ 8.9	\$ -	\$ 9.1
Earnings Reserve Balance After Transfer	\$ 512.7	\$ 307.6	\$ 10.3	\$ 37.8	\$ 34.6	\$ 15.7	\$ 34.5	\$ 41.7	\$ 30.5

Land Board Action Requested

- Approve the distributions, the transfers, and the classification with regard to the Gain Benchmark as shown below

	<i>Distributions To Beneficiaries</i>				<i>Transfer To</i>	<i>Added to</i>
	<i>Approved</i>	<i>Approved</i>	<i>%</i>	<i>\$</i>	<i>Permanent</i>	<i>Gain Bench-</i>
	<i>FY2019</i>	<i>FY2020</i>	<i>Change</i>	<i>Change</i>	<i>Fund*</i>	<i>mark**</i>
Public School	50,325,600	51,260,000	1.9%	934,400	19,157,000	19,157,000
Ag College	1,447,200	1,466,000	1.3%	18,800	1,381,000	1,381,000
Charitable Instit.	5,754,000	5,754,000	0.0%	-	-	-
Normal School	4,410,000	4,946,000	12.2%	536,000	6,534,000	6,534,000
Penitentiary	2,193,600	2,247,000	2.4%	53,400	5,204,000	5,204,000
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University	4,225,200	4,360,000	3.2%	134,800	9,130,000	9,130,000
	78,206,400	80,918,000	3.5%	2,711,600	50,309,000	50,309,000

* Amount of Earnings Reserve in excess of what is deemed adequate relative to the 2020 distribution. The adequate reserve level for Public School is six years and all others are set at seven years.

** Amount of the transfer that will be considered a permanent increase in original corpus. No endowment had past losses at the end of FY 2018, so all the transfer can be considered corpus/principal and added to the Gain Benchmark.

All calculations subject to adjustment pending final audit of fiscal year 2018 results.

STATE BOARD OF LAND COMMISSIONERS

August 21, 2018

Regular Agenda

Subject

Fiscal Year 2020 Department of Lands Budget Enhancements

Background

The Department is requesting concurrence on the proposed FY20 Enhancement Decision Units. Pursuant to Idaho Code § 67-3502, agencies must submit their budget request to the Division of Financial Management (DFM) and the Legislative Services Office (LSO) by September 4, 2018. The Board briefing and meeting schedules prevent the Department from having the full budget request ready for the August meeting. The complete budget will be presented for Board approval at the September 18 meeting.

Attachment 1 summarizes the Department's proposed enhancements for the FY20 budget in order of priority.

Discussion

The Department is asking for consideration of the attached decision units. The proposed decision units align with the strategic goals that are detailed in the Department's Strategic Plan document. As you may recall, the strategic plan is organized around four major Department-wide goals. Those goals are: (1) Financial Stewardship – Maximize returns through prudent management of resources and funds, (2) Customer Focus – Exemplary professional service to all customers, (3) People – A high performing workforce, and (4) Process – Effective policies, procedures and systems to drive informed decision making. With these goals in mind, the Department is developing a budget submission for FY20 that includes enhancements to further our efforts in meeting our goals.

The information outlined below highlights some of the ways our enhancement requests link to the Strategic Plan in an impactful way:

Financial Stewardship and Prudent Resource Management

- The Right-of-Way Agent position will acquire permanent access to state lands. A portion of our timber acres does not have legal or management access. Without permanent access, IDL may not be able to manage or harvest the timber, resulting in uncaptured revenue.
- Two tree coolers will allow the Ponderosa and St. Joe Areas to protect the investment of our seedlings in a more operationally efficient and financially responsible manner.

Customer Focus:

- This year's request includes an FTE and funding for an IT System Coordinator. This position will provide technical administration of enterprise network software, hardware, servers, and help desk support, which will provide improved service to internal and external customers.

People:

- The Eastern Area is requesting a .67 FTE and funding for an Office Specialist. This position will assume the workload currently handled by a contracted employee. This position will improve employee retention and limit the need for repeated training.

Process:

- While we do not have enhancement requests for FY20 for either of our Land Information Management Systems (LIMS), those two systems are moving forward. The LIMS Forest Management system has had 20 releases go into production, 13 over the last year, including statewide fire reporting, hydrology, regulatory, and increased forest inventory functionality.
- The Department is also moving forward with the implementation of LIMS Lands and Waterways. The project is wrapping up land records and water rights functionality. In FY19, the project will release functionality for customers to apply for and maintain grazing, crop, and conservation leases online. The new system will improve efficiency of the application process, as well as processing financial transactions.

The request to replace the St. Joe Supervisory Area Office affects all of the Department's goals. The existing facility requires costly maintenance and does not adequately meet the St. Joe Area needs. A new facility will allow the St. Joe Office to operate more efficiently through improved technology infrastructure as well as reduced facility costs. The new design will enhance the customer experience in both the lobby and the conference rooms. Additionally, the layout will provide a better team environment for IDL personnel enabling streamlined processes.

The enhancements in the Department's budget request reflect the following increases over the FY2019 ongoing appropriation:

FUND TYPE	Increase from FY19 Base Budget	
	ONGOING & ONE TIME Requests Combined	ONGOING Requests Only
General Fund	\$22,500 (0.39%)	\$21,600 (0.37%)
Earnings Reserve Fund	\$1,110,600 (3.95%)	\$163,700 (0.58%)
Lands Dedicated Fund	\$531,600 (5.20%)	\$21,100 (0.21%)
Federal Funds	\$0 (0%)	\$0 (0%)

Throughout the rest of the budgeting submission process, the Department will follow DFM guidelines.

Recommendation

Direct the Department to include the enhancement requests as outlined in Attachment 1 in the Fiscal Year 2020 budget proposal due on September 4, 2018.

Board Action

Attachments

1. FY2020 Enhancement Decision Unit Requests

The logo of the Idaho Department of Lands is a large, faint watermark in the background. It features a stylized mountain peak on the left, a central diamond shape with a green-to-yellow gradient, and a horizontal banner across the middle containing the text "IDAHO DEPARTMENT OF LANDS" in white capital letters.

IDAHO DEPARTMENT OF LANDS

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IDAHO DEPARTMENT OF LANDS

IDL Enhancement Decision Units - FY2020

Priority	Description	General Fund	Dedicated Fund	Federal Fund	Earnings Reserve Fund	Total	Object	FTP	Ongoing or OneTime
1	<u>LAAC: Right-of-Way Agent, Sr.</u>								
	Pay Grade M at 80% of policy plus full benefits. Request includes \$80,000 for salary and benefits, \$2,800 for training, travel and ongoing software supplies, and \$2,900 for laptop PC, monitor, telephone, O365 license and an office chair. Current staffing levels in the ROW program are insufficient to meet the needs of state access acquisitions and public requests for granting rights-of-way. IDL manages both timberlands and rangelands that are impacted by access issues and some lands are unmanageable or have revenue producing limitations due to a lack of legal access. A lack of access also hampers the ability to protect endowment land from wildfire. An additional ROW Agent within IDL will help balance the needs of our customers as well as the needs of our state and state endowment trust beneficiaries.								
	Salary and Benefits	\$0	\$0	\$0	\$80,000	\$80,000	PC	1.00	Ongoing
	Travel and Training	\$0	\$0	\$0	\$2,800	\$2,800	OE	0.00	Ongoing
	PC, Monitor, Telephone and Desk Chair	\$0	\$0	\$0	\$2,900	\$2,900	CO	0.00	One Time
		\$0	\$0	\$0	\$85,700	\$85,700		1.00	
2	<u>LAAA: IT Systems Coordinator</u>								
	Pay Grade L at 80% of policy plus full benefits. Request includes \$72,100 for salary and benefits, \$10,000 for training, travel and ongoing software supplies, and \$4,300 for laptop PC, monitor, telephone, and office furniture. This position supports enterprise network software, hardware and servers and responds to Tier 2 helpdesk requests. Implementation of the new enterprise systems (LIMS) require consistent "up" time to ensure our staff has access to the system to do their work and that our customers have access to the public portals and self-service components of the system.								
	Salary and Benefits	\$10,900	\$10,900	\$0	\$50,300	\$72,100	PC	1.00	Ongoing
	Travel and Training	\$2,000	\$2,000	\$0	\$6,000	\$10,000	OE	0.00	Ongoing
	PC, Monitor, Telephone and Furniture	\$900	\$900	\$0	\$2,500	\$4,300	CO	0.00	One Time
		\$13,800	\$13,800	\$0	\$58,800	\$86,400		1.00	

Priority	Description	General Fund	Dedicated Fund	Federal Fund	Earnings Reserve Fund	Total	Object	FTP	Ongoing or OneTime
3	<u>LAAB: Tree Coolers</u>								
	This request is for the purchase/construction of two insulated pole or conventional style buildings to be used as seedling storage coolers on the Ponderosa and St. Joe Area. Each area plants between 350,000 – 500,000 seedlings annually. IDL staff has completed comparative analysis on the most efficient storage solutions and has found that installing these coolers is preferable to the rental of diesel or electric trailer units because they allow for palletized delivery which reduce handling and stress on the seedlings. Rented units also require a great deal of maintenance and observation to ensure that they don't fail and inadvertently raise seedling mortality. Further, IDL has used private nurseries and other agencies (USFS) in the past, but those options are no longer available to the Department.								
	Tree Cooler (Ponderosa and St. Joe Areas)	\$0	\$0	\$0	\$391,600	\$391,600	CO	0.00	One Time
		\$0	\$0	\$0	\$391,600	\$391,600		0.00	
4	<u>LAAC: PT Office Specialist 2 (Eastern Area)</u>								
	Pay Grade G at 80% of policy plus benefits. This request is to convert one temporary half-time unbenefited position to one 0.67 Office Specialist 2 in the Eastern Area Office. This position turned over three times in the past year due to the “temporary” status of the position and continual retraining is time consuming and inefficient. This position supports both the endowment and regulatory missions.								
	PT Office Specialist 2	\$0	\$8,200	\$0	\$24,600	\$32,800	PC	0.67	Ongoing
		\$0	\$8,200	\$0	\$24,600	\$32,800		0.67	

Priority	Description	General Fund	Dedicated Fund	Federal Fund	Earnings Reserve Fund	Total	Object	FTP	Ongoing or OneTime
5	<u>LAAB/LAAD: St. Joe Facility Replacement</u>								
	Demolish and rebuild St. Joe administrative offices (including soft costs). Total project cost is estimated at \$4,362,000. This request is contingent up a PBFAC award of \$3,302,500. The facility in St. Maries, ID was built in the 1940's and has had three additions over time. The additions have created separate ineffective heating systems and workspace that is poorly designed for today's digital environment. A facility condition assessment was performed in 2016 and outlined approximately \$535,000 worth of deferred maintenance, repairs and ADA issues that need to be addressed. During the assessment it was recommended to scrape the structure and build new office space on the site.								
	Design Fees (80% PBFAC)	\$0	\$80,855	\$0	\$0	\$80,855	CO	0.00	One Time
	Furniture (0% PBFAC)	\$0	\$28,250	\$0	\$254,250	\$282,500	CO	0.00	One Time
	Information Technology (80% PBFAC)	\$0	\$49,471	\$0	\$0	\$49,471	CO	0.00	One Time
	Site Improvements (80% PBFAC)	\$0	\$56,500	\$0	\$0	\$56,500	CO	0.00	One Time
	Demolition (80% PBFAC)	\$0	\$22,600	\$0	\$0	\$22,600	CO	0.00	One Time
	Fire Operations Facility (0% PBFAC)	\$0	\$271,865	\$0	\$295,677	\$567,543	CO	0.00	One Time
		\$0	\$509,541	\$0	\$549,927	\$1,059,469		0.00	
6	<u>LAAB: CPTPA/SITPA CEC</u>								
	Request for CEC for CPTPA and SITPA staff at 1% as per budget guidelines.								
	CEC for CPTPA and SITPA (placeholder)	\$8,700	\$0	\$0	\$0	\$8,700	TB	0.00	Ongoing
		\$8,700	\$0	\$0	\$0	\$8,700		0.00	
Grand Totals:		\$22,500	\$ 531,541	\$0	\$1,110,627	\$1,664,669		2.67	

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IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS

August 21, 2018

Regular Agenda

Subject

Land Board Recreation Policy

Background

Article IX, Section 8 of the Idaho Constitution mandates that state endowment trust lands be managed to secure the maximum long-term financial return to the endowment beneficiaries. Revenue-generating activities on endowment lands and earnings on invested funds provide millions of dollars annually in support of Idaho's public school system and numerous other state of Idaho institutions.

In addition to providing financial support to the beneficiaries of nine endowment funds, endowment lands also benefit the citizens of Idaho by providing access for recreational pursuits. A recent analysis shows approximately 96 percent of endowment lands are accessible for recreation by foot, water, or vehicle today. Revenue-generating management activities are taking place largely without interference or degradation by dispersed recreational uses on these lands.

The Land Board Recreation Policy (Attachment 1) directs the Department in carrying out the Land Board's fiduciary obligations while managing for recreational activities on endowment lands where those activities do not conflict with the Land Board's fiduciary obligations.

Discussion

The Land Board Recreation Policy describes the position of the Land Board regarding recreational use of endowment lands and provides direction to the Department. The policy:

1. Supports allowing the general public continued recreational access to legally-accessible endowment lands, as long as the recreational activities do not degrade the lands, interfere with management activities, or otherwise negatively affect the long-term financial return to endowment beneficiaries.
2. Authorizes the Department director to implement limitations to certain recreational activities on endowment lands, including closure when necessary, to protect the public or the underlying value and productivity of the endowment land.
3. Directs the Department to develop internal policies and procedures to bring uniformity to how endowment land managers handle recreation-related management decisions across the state.
4. Directs the Department to pursue mechanisms to compensate the endowment beneficiaries for dispersed recreation uses to help assure continued access to legally-accessible endowment lands for the general public.

5. Directs the Department to work with law enforcement agencies to ensure compliance with recreation management objectives on endowment lands.
6. Directs the Department to partner with other agencies and organizations to assist in the development of managed and/or organized recreation opportunities on endowment lands.

Recommendation

The Department recommends approval of the Land Board Recreation Policy.

Board Action

Attachments

1. Recreation Policy

IDAHO DEPARTMENT OF LANDS

State Board of Land Commissioners Recreation Policy

BACKGROUND

Article IX, Section 8 of the Idaho Constitution mandates that state endowment trust lands are to be managed to secure the maximum long-term financial return to the endowment beneficiaries. Revenue-generating activities on endowment lands and earnings on invested funds provide millions of dollars annually in support of Idaho's public school system and numerous other state of Idaho institutions. In addition to providing financial support to the beneficiaries of nine endowment funds, endowment lands may also benefit the citizens of Idaho by providing access for recreational pursuits, so long as recreation activities are consistent with the constitutional mandate.

The members of the State Board of Land Commissioners (Land Board) are the trustees of endowment lands and the funds they generate. The Land Board provides direction to the Idaho Department of Lands (IDL) in the management of endowment lands.

LAND BOARD RECREATION POLICY

Idaho has a history and culture of valuing outdoor recreation opportunities and access to lands not privately owned. The outdoor recreation industry contributes hundreds of millions of dollars to Idaho's economy each year. The accessibility of millions of acres of endowment lands for recreation helps strengthen Idaho's economy.

The Land Board Recreation Policy directs IDL in carrying out the Land Board's fiduciary obligations while managing for recreational activities on endowment lands where those activities do not conflict with the Land Board's fiduciary obligations.

The Land Board supports a policy of allowing the general public continued recreational access to legally accessible endowment lands, as long as the recreational activities do not degrade the lands, interfere with management activities, or otherwise negatively affect the long-term financial return to endowment beneficiaries. The Land Board authorizes the IDL director to implement limitations to certain recreational activities on endowment lands, including closure when necessary, to protect the public or the underlying value and productivity of the endowment land. The Land Board directs IDL to develop internal policies and procedures to bring uniformity to how endowment land managers handle recreation-related management decisions across the state.

RECREATION FUNDING

- A portion of every off-highway vehicle registration fee currently is directed to IDL to "provide off-highway vehicle opportunities and to repair damage directly related to off-highway vehicle use" (Idaho Code § 67-7126(4)).
- The Land Board directs IDL to pursue mechanisms to compensate the endowment beneficiaries for dispersed recreational uses of endowment lands as a means to help protect continued recreational access to legally accessible endowment lands for the general public.

- Non-exclusive leasing and land use permitting will give due consideration to net revenue and risks to the endowments.

PARTNERSHIPS

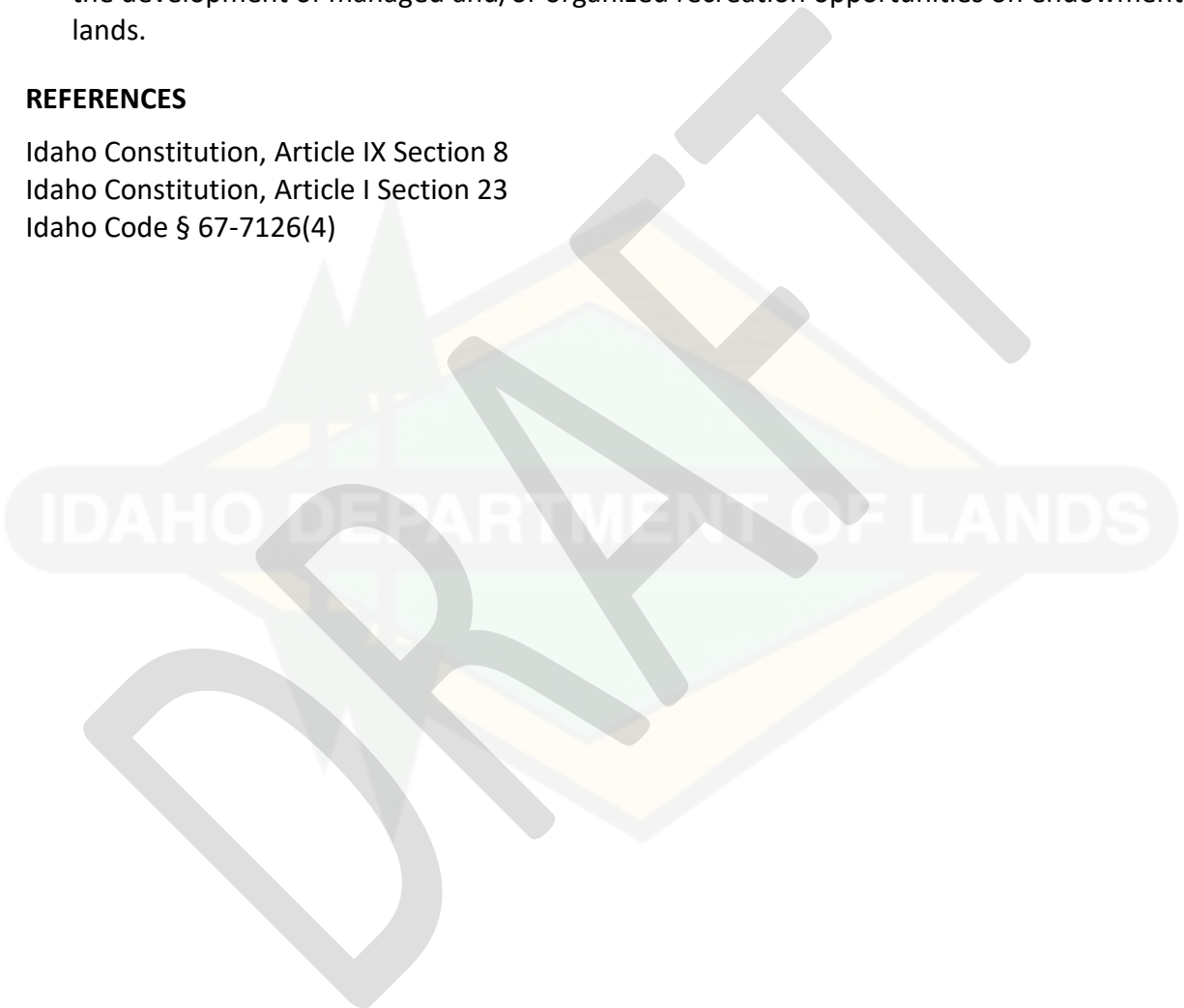
- The Land Board directs IDL to work with law enforcement agencies to ensure compliance with recreation management objectives on endowment lands.
- The Land Board directs IDL to partner with other agencies and organizations to assist in the development of managed and/or organized recreation opportunities on endowment lands.

REFERENCES

Idaho Constitution, Article IX Section 8

Idaho Constitution, Article I Section 23

Idaho Code § 67-7126(4)



STATE BOARD OF LAND COMMISSIONERS

August 21, 2018

Regular Agenda

Subject

Recreation Access Agreement

Background

Article IX, Section 8 of the Idaho Constitution mandates that state endowment trust lands be managed to secure the maximum long-term financial return to the endowment beneficiaries. Revenue-generating activities on endowment lands and earnings on invested funds provide millions of dollars annually in support of Idaho's public school system and numerous other state of Idaho institutions.

In addition to providing financial support to the beneficiaries of nine endowment funds, endowment lands also benefit the citizens of Idaho by providing access for recreational pursuits. Approximately 96 percent of endowment lands are accessible for recreation by foot, water, or vehicle today. Top recreation uses on endowment lands include hunting and fishing, and other uses such as camping associated with hunting and fishing. Revenue-generating management activities are taking place largely without interference or degradation by dispersed recreational uses on these lands. There are instances when damage to endowment land infrastructure, such as roads, occurs and must be repaired. The Department currently uses Earnings Reserve funds intended for public schools and other endowment beneficiaries to pay for the repairs, or funds from Off-Highway Vehicle (OHV) registration fees where damage is directly tied to OHV use.

Consistent with the Land Board's Recreation Policy, this Memorandum of Agreement Regarding Recreational Access on State Endowment Lands ("Agreement") meets the Land Board's fiduciary responsibility to the endowment beneficiaries, while providing for public recreation on most endowment lands (Attachment 1).

Discussion

Under the Agreement, the Idaho Department of Fish and Game (IDFG) would pay \$0.25/acre as an annual payment to the Department for recreational access on approximately 2,316,400 acres of endowment land. The payment per acre would be adjusted annually at the same percentage as the Consumer Price Index, up to a maximum increase or decrease of three percent. Acreage subject to the Agreement would be adjusted no later than every five years.

A portion of the compensation would be in-kind through the services of IDFG conservation officers providing enforcement of statutes and rules on endowment lands where necessary. An amount equal to the salary, benefits, and operating expenses for two full-time senior

conservation officers would be deducted from the gross amount due. The in-kind contribution would be adjusted annually based on the previous fiscal year average salary, benefits, and operating expenses for a senior conservation officer.

The net amount due would be transferred from IDFG to the Department for distribution to the appropriate endowments. In the first year of the agreement, the net payment would be approximately \$367,100. However, the first year payment would be prorated based on the effective date of the agreement.

The Department is developing internal policies for administration of recreational activities on endowment lands.

If approved by the Land Board, the agreement would be executed upon the approval of the Idaho Fish and Game Commission.

Recommendation

The Department recommends approval of the Memorandum of Agreement Regarding Recreational Access on State Endowment Lands in substantially the form attached hereto.

Board Action

The logo of the Idaho Department of Lands is a large, stylized diamond shape. It features a light green center, a yellow border, and a grey outer border. The words "IDAHO DEPARTMENT OF LANDS" are written in white capital letters across the middle of the diamond.

IDAHO DEPARTMENT OF LANDS

Attachments

1. Recreation Access Agreement

**MEMORANDUM OF AGREEMENT
REGARDING
RECREATIONAL ACCESS ON STATE ENDOWMENT LANDS**

This Memorandum of Agreement Regarding Recreational Access on State Endowment Lands ("Agreement") is made and entered into this ____ day of _____, 2018 ("Effective Date"), by and between the Idaho State Board of Land Commissioners ("Land Board") and the Idaho Fish and Game Commission ("Commission") (collectively, "Parties").

RECITALS

WHEREAS, the federal government granted certain lands ("Endowment Lands") to the State of Idaho upon statehood, to be held in trust for designated beneficiaries, including public school, the agricultural college, charitable institutions, normal school, penitentiary, school of science, state hospital south, university, and the capitol permanent fund ("Endowment Beneficiaries");

WHEREAS, pursuant to Article IX, § 7 of the Idaho Constitution, the Land Board has the direction, disposition and control of the State's public lands, subject to regulation;

WHEREAS, pursuant to Article IX, § 8 of the Idaho Constitution, the Land Board has the duty to manage Endowment Lands to maximize the long-term financial return to the Endowment Beneficiaries;

WHEREAS, the Land Board has adopted a policy ("Recreation Policy") of allowing the general public to have continued recreational access to legally-accessible Endowment Lands, so long as the recreational activities do not degrade the lands, interfere with management activities, or otherwise negatively affect the long-term financial return to Endowment Beneficiaries;

WHEREAS, the Recreation Policy directs the Idaho Department of Lands ("IDL") to pursue mechanisms to compensate Endowment Beneficiaries for such recreational use;

WHEREAS, pursuant to Idaho Code §§ 58-101 and 58-119(1), IDL is an instrumentality of the Land Board and has the power to exercise, under the Land Board's general control and supervision, all the rights, powers and duties vested by law in the Land Board;

WHEREAS, Idaho Code § 36-104(b)(7) authorizes the Commission to obtain by agreement lands or waters to provide places where the public may fish, hunt, or trap in a lawful manner to support the public's ability to exercise rights to hunt, fish, and trap pursuant to Article I, § 23 of the Idaho Constitution;

WHEREAS, Idaho Code § 36-104(b)(7) authorizes the Commission to obtain by agreement lands or waters to provide places where the public may fish, hunt, or trap in a lawful manner;

WHEREAS, one of the objectives of the Commission's Strategic Plan (2015) is to sustain fish and wildlife recreation on public lands;

WHEREAS, pursuant to Idaho Code §§ 36-101 and 36-105(a) and (e), the Director of the Idaho Department of Fish and Game ("IDFG"), under the Commission's supervision and direction, is responsible for general supervision and control of all IDFG's activities, functions, and employees, including the enforcement of Idaho Fish and Game laws, rules, and proclamations and other Idaho laws not inconsistent with them;

WHEREAS, the Parties agree that payment by IDFG to IDL for public recreational access to accessible Endowment Lands is consistent with the Land Board's fulfillment of its duty to maximize the long-term financial return to Endowment Beneficiaries;

WHEREAS, the Land Board's Recreation Policy directs IDL to work with law enforcement agencies to ensure compliance with recreation management objectives on Endowment Lands, and the Parties agree that the availability of services of IDFG Conservation Officers for enforcement of Fish and Game and related recreational laws, rules, and proclamations enhances the ability of the Land Board and IDL to protect the Endowment Lands and therefore the interests of the Endowment Beneficiaries;

WHEREAS, the Parties agree that it is appropriate to credit as payment for public recreational access an amount for IDFG's provision of Conservation Officer services equivalent to two full-time ("FTE") Senior Conservation Officer Positions;

WHEREAS, the Parties have previously entered into leases or other agreements regarding public access to specific portions of Endowment Lands ("Existing Agreements");

WHEREAS, the Parties intend that those Existing Agreements will remain in effect and separate from this Agreement unless terminated;

NOW THEREFORE, for and in consideration of the mutual promises, covenants, agreements and conditions hereinafter set forth, the Parties agree as follows:

ARTICLE I – ENDOWMENT LANDS OPEN TO RECREATION

1.1. As used in this Agreement, "Recreational Activities" includes hunting, fishing, trapping, wildlife viewing, hiking, recreational travel (by stock, bicycle, or motor vehicle on designated routes), dispersed camping, and other non-commercial recreational activities. "Recreational Activities" does not include cutting or removing wood, collecting valuable rocks or minerals,

mineral exploration, or the collection or disturbance of archaeological, historical, or paleontological sites. Those non-Recreational Activities may take place, if at all, only upon a separate agreement between IDL and the person or entity seeking to engage in non-Recreational Activities.

1.2. The Parties understand and agree that certain Endowment Lands are closed to Recreational Activities due to management activities or other reasons necessary to protect the interests of the Endowment Beneficiaries, for public safety reasons, or due to the lack of legal public access ("Closed Lands"). The remaining Endowment Lands are open to Recreational Activities. The Endowment Lands Open to Recreation ("ELOR") and Closed Lands are depicted on Exhibit A, attached hereto and incorporated herein by reference.

1.3. The Parties understand and agree that Endowment Lands that are the subject of Existing Agreements may be added to this Agreement upon termination of the Existing Agreement and mutual agreement of the Parties.

1.4. The Parties agree that as of the Effective Date of this Agreement, IDL manages 2,316,400 acres of ELOR ("Recreation Acreage").

1.5. No later than July 1, 2023, and at least every five years thereafter, IDL will re-calculate the amount of Recreation Acreage and provide that number to IDFG.

1.6. The Parties agree to use the Recreation Acreage number to calculate the payment provided for in Article III, below.

1.7. In consideration of the Conservation Officer services and the Payment set forth in Articles II and III, below, and subject to the conditions set forth in this Article I, the Land Board will continue to allow public access for Recreational Activities upon ELOR.

1.8. The Land Board reserves the right, at its sole discretion, to close any of the ELOR to Recreational Activities, or to limit certain Recreational Activities, to fulfill its fiduciary obligations to the Endowment Beneficiaries, manage public safety, or for resource protection purposes.

1.9. IDL will inform IDFG of the closure of ELOR, or limitation of any Recreational Activities on ELOR, within 30 days of said closure or limitation.

1.10. Nothing contained herein shall be construed as a guarantee, warranty, or promise that the ELOR described herein are suitable for any particular Recreational Activities.

1.11. The Parties understand and agree that a fundamental consideration of the Commission for this Agreement, including but not limited to the calculation of price per acre of ELOR, is the

current amount and geographic distribution of ELOR, and that reduction in the availability of ELOR may be cause for the Commission to seek renegotiation or termination of this Agreement.

1.12. The Parties understand and agree that nothing contained in this Agreement shall require the Land Board to acquire easements, rights-of-way, or other rights across non-Endowment Land for the public to use in accessing any existing Endowment Lands or to any Endowment Lands the Land Board may acquire in the future.

1.13. The Parties understand and agree that nothing contained in this Agreement shall limit the Land Board's authority to sell, lease, dispose of, or otherwise encumber any Endowment Lands, including ELOR.

1.14. The Parties understand and agree that nothing contained herein shall constitute the transfer of Endowment Lands or any right thereto to the Commission or the public.

ARTICLE II – CONSERVATION OFFICER SERVICES

2.1. IDFG will provide Conservation Officer services, approximately equivalent to two (2) Senior Conservation Officer FTEs per year, for the purpose of patrolling ELOR and responding to violations of state law, rule, order, or proclamation related to Recreational Activities upon those ELOR.

2.2. IDL and IDFG will meet at least every two years to review the areas of patrol and enforcement emphasis on ELOR, and other Endowment Lands if appropriate, for IDFG to incorporate into IDFG Enforcement work plans in conjunction with provision of Conservation Officer services under this Agreement.

ARTICLE III – PAYMENT

3.1. The Commission agrees to compensate the Land Board in the amount of twenty-five cents (25¢) per acre of ELOR ("Access Compensation").

3.2. For each succeeding year of this Agreement, the Access Compensation per acre will adjust at the same percentage as the Consumer Price Index, up to a maximum decrease or increase of three percent (3%) per year.

3.3. The Parties agree that IDL will credit toward the Access Compensation an amount for IDFG's provision of Conservation Officer services, equivalent to the average salary, benefits, and operating expenses in the preceding fiscal year for two (2) Senior Conservation Officer FTEs ("CO Services Payment"). The Land Board understands and agrees that this amount may vary annually.

3.4. IDFG will pay IDL the net amount of the Access Compensation after crediting the CO Services Payment (the net amount, "Access Payment"). For each year after the first year of this

Agreement, IDFG will pay the Access Payment to IDL, calculated pursuant to Articles 3.1 through 3.3, no later than September 1 of each year.

3.5. In determining an appropriate amount for Access Compensation, the Parties have taken into account that, pursuant to Idaho Code § 67-7126(4), one dollar (\$1.00) from each off-highway motor vehicle number certificate is allocated to IDL to provide off-highway vehicle opportunities and to repair damage directly related to off-highway vehicle use.

ARTICLE IV – GENERAL TERMS AND CONDITIONS

4.1. No Agency Created. The Land Board, IDL, and their respective officers and employees are not officers, employees, or agents of the Commission or IDFG. The Commission, IDFG, and their respective officers and employees are not officers, employees, or agents of the Land Board or IDL.

4.2. Liability. Each Party shall be responsible only for the acts, omissions, or negligence of that Party's own employees. The Parties acknowledge that each party participates in the State of Idaho Risk Management Program comprehensive liability plan using the Retained Risk Account ("Risk Program"). Each Party is obligated to notify the Division of Risk Management and the other Party upon receipt of notice or in the event it has knowledge of any claim or damage arising out of this Agreement.

Nothing in this Agreement shall extend the tort responsibility or liability of either Party beyond that provided by the Idaho Tort Claims Act, Idaho Code § 6-901 *et seq.* Any covered third-party tort liability claim, suit, or loss arising from this Agreement shall be allocated to the Parties by the Division of Risk Management for purposes of the respective loss experiences and subsequent allocation of self-insurance assessments.

Each Party shall be responsible for damage to property of the other Party caused by its Employees in the performance of the Agreement. If property damage arises in the performance of this Agreement and is covered by the Risk Program, the Division of Risk Management shall charge the damage or loss to the responsible Party's loss history, and the responsible Party shall pay the deductible, if any.

If a claim or damage is not covered by the Risk Program, the responsible Party shall pay the costs arising from such claim or damage. If a claim or damage arises from more than one Party's performance of the Agreement or is not allocable to any Party, each Party shall pay the costs to such Party arising from the claim or damage.

4.3. Representatives.

4.3.1. The Land Board hereby designates the following individual to act as its representative and contact to ensure coordination for purposes of this Agreement:

[INFORMATION FOR DESIGNATED INDIVIDUAL]

4.3.2. The Commission hereby designates the following individual to act as its representative and contact to ensure coordination for purposes of this Agreement:

[INFORMATION FOR DESIGNATED INDIVIDUAL]

4.4. Meet and Confer. In the event the Parties disagree about the amount and location of ELOR, access to or on ELOR, CO Services or the CO Payment, or other performance of this Agreement, the Representatives designated in Article 4.3 will meet within 30 days of either Party's request, to confer and attempt to resolve the disagreement. Nothing contained in this Article 4.4 shall be construed to alter the constitutional and statutory authorities of either Party.

4.5. Termination. Either Party may terminate this Agreement at any time upon written notice to the other Party, which notice shall be provided no less than sixty (60) days prior to the end of the then-current fiscal year. Termination will be effective at the end of the fiscal year in which the written notice was provided.

4.6. Fiscal Necessity and Non-Appropriation. The Parties understand and agree that each is a government entity and that the payments herein provided for are subject to Idaho State Legislative appropriations. The Legislature is under no legal obligation to make appropriations to fulfill this Agreement. This Agreement shall in no way or manner be construed so as to bind or obligate the State of Idaho beyond the term of any particular appropriation of funds by the State's Legislature as may exist from time to time.

Each Party reserves the right to terminate this Agreement in whole or in part if, in its sole judgment, the Legislature of the State of Idaho does not appropriate sufficient funds as may be required for the State to continue such payments, or if the Executive Branch mandates any cuts or holdbacks in spending, or if funds are not budgeted or otherwise available, or if the State discontinues or makes a material alteration of the program under which the funds were provided. The State shall not be required to transfer funds between accounts in the event that funds are reduced or unavailable.

If this Agreement is terminated pursuant to this Article 4.6, all affected future rights and liabilities of the Parties shall thereupon cease within ten (10) calendar days after notice by the terminating Party. Further, in the event of non-appropriation, neither Party shall be liable for any penalty, expense, or liability, or for general, special, incidental, consequential or other damages resulting therefrom.

4.7. Assignment and Delegation. Neither Party may assign its rights or delegate its duties, in whole or in part, without the prior written consent of the other Party.

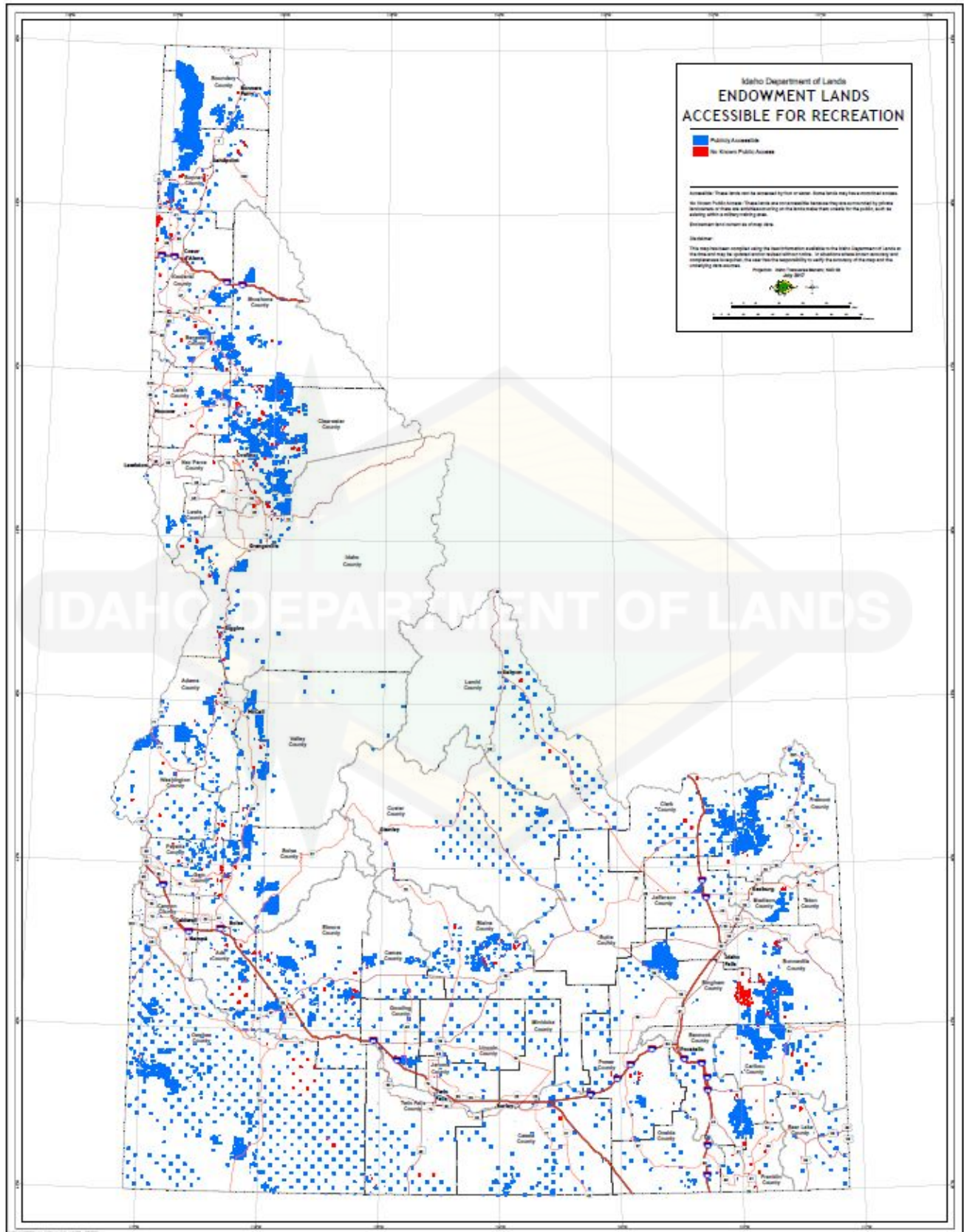
4.8. Governing Law. This Agreement shall be governed by and construed under the laws of the State of Idaho and the Parties hereto consent to the jurisdiction of the state courts of Ada County in the State of Idaho in the event of any dispute with respect to this Agreement.

4.9. Entire Agreement. This Agreement sets forth the entire agreement between the Parties related to the subject matter of this Agreement and may not be modified without the written consent of both Parties.

4.10. No Personal Liability. The Parties understand and agree that in no event shall any official, officer, employee, or agent of the State be personally liable or responsible for any representation, statement, covenant, warranty or obligation contained in, or made in connection with, this Agreement, express or implied.

[Signature Lines]

EXHIBIT A – Endowment Lands Open for Recreation



STATE BOARD OF LAND COMMISSIONERS

August 21, 2018

Regular Agenda

Subject

State Grazing Rate Methodology Review

Background

On December 5, 2017, the State Board of Land Commissioners (Land Board) held a special meeting to consider selecting a grazing rate approach and formula for State Endowment lands (Attachment 1). The two preferred alternatives being considered were based on a recommendation by the Land Board established Grazing Subcommittee (Subcommittee), with a final report and analysis presented during the November 2017, regular Land Board meeting. The two alternatives presented for Land Board consideration included a Contributory Share Approach, called the Calf-Crop Share formula with a 13% state share and a Price Index Approach called the Revised Status Quo (RSQ) formula with a base fee value of between \$2.00 and \$2.58.

During the December 2017 special meeting the Land Board voted unanimously to defer a decision on the issue until the Land Board could appropriately consider additional information. During this special meeting, the Land Board elected not to prescribe a time limit for the review.

As directed by the Land Board, the Idaho Department of Lands (Department) conducted a review during the months of March through June 2018, of existing grazing rate data, analysis methodologies, and publications previously presented. The purpose of this review was to summarize this information and provide the Land Board with a grazing rate methodology recommendation.

Department Review Findings

Members of the Grazing Subcommittee Advisory Group suggested a 13% state contributory share as an appropriate share under the Calf-Crop Share formula. Originally, Advisory Group members recommended a 12.5% state contributory share as this share associates with one-half of a standard row-crop share of 25%. The rationale for the 12.5% state share was based on the premise that it takes approximately one year to raise a calf, or 15 months from conception to weaning. Accomplished through a variety of land and feed inputs including hay and federal land allotments, only a portion of the forage requirements for beef production may come from state trust lands. In contrast, with a row-crop state share of 25% the producer may depend entirely on the state trust lands for crop production.

Using a 12.5% state share in the Calf-Crop Share formula produced State Animal Unit Month (AUM) grazing rates that tracked at or below the current Status Quo formula grazing rates. Since the Status Quo formula AUM rates already track well below Idaho Private AUM lease rates, the Advisory Group members raised the state share to 13% so that the Calf-Crop Share AUM rate would track slightly higher than the Status Quo rates.

After further review of the Calf-Crop Share formula and follow-up conversations with Advisory Group members, the Department finds no solid or defensible basis for recommending the Calf-Crop Share formula with a 13% state share contribution.

The Revised Status Quo (RSQ) formula relates and tracks closely with a percentage of the USDA-National Agricultural Statistics Services (USDA-NASS) published Idaho Private Lands Lease Rate (IDPLLR), depending on the base fee value chosen. The RSQ formula eliminates the multi-collinearity concerns associated with current grazing rate formula by eliminating the 11-Western States Forage Value Index and the Prices Paid Index.

In order to determine an appropriate base fee for the RSQ formula, the Departments review consisted of the following:

1. An analysis of the Idaho state endowment trust lands Return on Asset for the Rangeland Asset;
2. An analysis of peer-reviewed, published literature that examined potential discounts of state trust land or federal public land grazing lease rates from private lands grazing lease rates;
3. An update to the Table 2: Summary of Fee and Non-Fee Grazing Costs from the 2011 publication by Dr. Neil Rimbey and L.A. Torell, *Grazing costs: What's the current situation?* (Agricultural Economics Extension Series No. 2011-02. University of Idaho, College of Agricultural and Life Sciences) with 2017 data as published from USDA-NASS;
4. An analysis of Idaho's state trust lands grazing rates compared to other western states trust lands grazing rates.

Several lines of evidence suggest that a 30%-35% discount from the USDA-NASS published IDPLLR may be a defensible and justifiable discount to determine a state trust lands grazing rate. A grazing rate based on a 30%-35% discount would achieve the Land Board's mandate to maximize revenue for endowment beneficiaries and would account for the additional costs lessees incur in managing a state trust lands lease.

1) Return on Asset Analysis

One method in determining a defensible discount rate is to analyze published financial performance reports that evaluate Return on Asset (ROA) for rangelands and established Land Board policy for rates of return on state trust rangelands.

Based on expected net rate of returns reviewed within several financial publications and established Land Board policies the Department identified a range of between 0.5% and

6.0% net real ROA for rangelands with an average of 2.15%-3.45% net real ROA. In contrast, the Land Board's Asset Management Advisor Callan Associates recommended a 3.5% net real ROA for timberland and 4.5% net real ROA for farmland.

In the July 2017, *Statement of Investment Policy – Idaho Land Grant Endowments*, the policy positions land asset investment objectives by considering the existing base of land holdings along with management constraints, notably sales restrictions, acreage limitations, and the rent-setting and leasing processes. In consideration of this policy statement, the Department selected a conservative net real ROA of 2.0% for state trust rangelands (Attachment 2).

According to recent Department financial data analysis, there are 1,732,501 grazing acres under lease, representing a land value of \$74,084,230. Based on a 2.0% ROA, the expected net income return would be \$1,481,685. To achieve this benchmark, the Land Board would need to set a grazing rate of \$12.21 per AUM. This translates to a discount from the private lease rate of 32%.

Based on Department income statements and published annual reports, the 3-year average ROA (FY16-FY18) for the rangeland asset is 1.58% net. A prudent goal over the long-term would be to move closer to a 2.0% net ROA.

2) Published Literature

The Department reviewed several existing published rangeland and grazing economic studies that evaluate what a suitable discount may be between a private land grazing lease and a grazing lease on public or state trust lands. The Department and Dr. Dennis Becker, University of Idaho Policy Analysis Group, reviewed and compiled the most prominent peer-reviewed publications available. Collectively, these publications identified a potential range of 12% to 44% discount from the private lands lease rate, with an average suggested discount of 30% for a public or state trust land grazing lease compared to a private lands grazing lease (Attachment 3).

3) Update to Table 2: Summary of Fee and Non-Fee Grazing Costs

The 1994 publication *The Value of Public Land Forage and the Implications for Grazing Fee Policy*¹ is the only comprehensive study to date that quantifies specific costs associated with livestock grazing on private lands versus federal public lands. This study identified non-fee grazing costs (herding, fencing, etc.) in 1992 for private leases and federal public permits in Idaho, Wyoming, and New Mexico. As a follow up Dr. Rimbey, et al., brought the cost figures forward from 1992 to 2010 in the publication *Grazing Costs: What's the Current Situation?* (Rimbey & Torell, 2011).

¹ *The Value of Public Land Forage and the Implications for Grazing Fee Policy: A Summary of the Bureau of Land Management and U.S. Forest Service Incentive-based grazing fee study*, Grazing Fee Task Group; Agricultural Experiment Station Bulletin 767, New Mexico State University, College of Agriculture and Home Economics; January 1994.

To do this, the authors assigned USDA-NASS reported indices to the cost items identified during the previous research. For example, the costs of moving livestock are represented by the average of two USDA-NASS indices: "Auto and Truck Costs" and "Wage Rates". By making the comparison between 1992 cost indices to 2010 cost indices, the authors derived an index or inflation factor that was then used to extrapolate 2010 costs. Using the same method, the Department recreated the summary of non-fee grazing costs for 2017 by comparing 2010 USDA-NASS indices to corresponding 2017 indices.

The results (Attachment 4) indicate a 36% higher cost to graze on federal public land versus private land in 2010 compared to a 31% higher cost to graze on federal public land versus private land in 2017. Costs associated with grazing on federal lands may be higher or comparable to costs associated with grazing on state endowment trust lands, depending on identified factors within the study. As such, applying a 31% discount for grazing on state endowment trust lands is likely conservative.

The Department received additional costs analysis related to grazing on state trust lands from the Idaho Farm Bureau during the review time period. A survey of roughly 1% of state grazing lessees, with approximately 9% of the total state AUMs, identified a straight average non-fee cost of \$27.71/AUM. With a weighted average that covers the 23,091 total AUMs surveyed, the 2018 average non-fee cost of grazing on state trust lands is \$14.94/AUM. Though this constitutes a small subset of state grazing lessees surveyed, the 2018 weighted average non-fee costs to graze on state trust lands of \$14.94/AUM might be measured in relation to the 2017 private cattle non-fee cost of \$16.43/AUM and the 2017 federal public land non-fee cost of \$23.86/AUM identified in the previously reported grazing cost study.

4) Western State Comparison

The Department reviewed methodology used by other western states with trust lands to determine an AUM market rate for state trust grazing lands. A comparison of USDA-NASS private land lease AUM rates to state trust land AUM rates for each of the western states shows great variability, ranging from no discount in Nevada and Oregon, to a 71% discount in Wyoming. An average of the 11-western state discount rates, excluding California (California sets individual rates for their leases) shows an average of a 34% discount (Attachment 5).

In summary, multiple methods of analyzing lease rates that result in nearly the same discount rate of between 30%-35% gives Idaho a high degree of confidence that this may represent the average differences in cost between a private grazing lease and a state trust land grazing lease.

Discussion

The Revised Status Quo formula was one of two methods recommended by the Grazing Subcommittee for consideration by the Land Board. The RSQ formula, developed and recommended by Dr. Neil Rimbey, is similar to the Status Quo formula but it removes the

highly correlated variables of the 11-Western States Forage Value Index and Prices Paid Index. Similar to the Status Quo methodology, a three-step process is used to calculate the RSQ State AUM grazing rate. The first step is to compute the current (t) annual published IDPLLR rate into an index, and insert that index into the formula. The second step is to calculate the first part of the formula into a predicted, two-year future (t+2), Idaho Forage Value Index (IDFVI). The third step is to calculate the two-year future grazing AUM rate by inserting the predicted IDFVI, dividing by 100, and then multiplying a base fee value to arrive at the AUM rate.

Revised Status Quo Formula

$$\begin{aligned}
 \text{2017 Value:} & \quad \$18.00/\text{AUM IDPLLR}_t \\
 \text{IDFVI}_t = & \quad = (+18.00_t / \text{Absolute Value } \$3.39) * 100 \\
 & \quad = 531_t \\
 \text{RSQ Formula} & \quad = (13.85 + (0.9967 * \text{IDFVI}_t)) / 100 \\
 \text{Predicted, IDFVI}_{t+2} & \quad = (13.85 + (0.9967 * 531_t)) / 100 \\
 & \quad = 5.431_{t+2}
 \end{aligned}$$

Example

$$\begin{aligned}
 \text{2019 State Grazing Fee} & \quad = (5.431_{t+2}) \times (\$2.15 \text{ Base Fee}) \\
 & \quad = \$11.68/\text{AUM}
 \end{aligned}$$

Since the RSQ formula tracks directly with a percentage of the USDA-NASS published IDPLLR, one option (Option 1) would be to index the base fee value as a percentage of the IDPLLR. Attachment 6 is an exhibit of the Revised Status Quo formula data with historical and projected state AUM grazing rates, percentage ratio to the USDA-NASS published Idaho Private Lands Lease Rate, and a comparison to the current Status Quo formula.

A second option (Option 2) simply applied would be to establish a state grazing rate as a percentage of the USDA-NASS published IDPLLR (Attachment 7).

Regardless of the option selected, the Land Board could also consider phasing in either option over a 4-year period to allow the Department to track market trends and confirm that as grazing rates are increased, there is no net loss to state trust endowment beneficiaries.

Recommendation

The Department recommends adoption of Option 1 or Option 2:

Option 1	Option 2
<p>A) Land Board adopts the RSQ formula with a base fee index value of 2.15, representing 65% of the USDA-NASS published IDPLLR.</p> <p>B) Land Board adopts a 4-year phase-in of the base fee index value as follows: <u>2019</u>: RSQ index value set at 1.65; representing 50% of the 2017 USDA-NASS IDPLLR; 2019 state AUM rate set at \$8.96/AUM. <u>2020</u>: RSQ index value set at 1.81; representing 55% of the 2018 USDA-NASS IDPLLR. <u>2021</u>: RSQ index value set at 1.98; representing 60% of the 2019 USDA-NASS IDPLLR. <u>2022</u>: RSQ index value set at 2.15; representing 65% of the 2020 USDA-NASS IDPLLR.</p>	<p>A) Land Board adopts a grazing rate that represents 65% of the USDA-NASS published IDPLLR.</p> <p>B) Land Board adopts a 4-Year Phase-in as follows: <u>2019</u>: State AUM rate set at \$8.96/AUM representing 50% of the 2017 USDA-NASS IDPLLR. <u>2020</u>: State AUM rate set at 55% of the 2018 USDA-NASS IDPLLR. <u>2021</u>: State AUM rate set at 60% of the 2019 USDA-NASS IDPLLR. <u>2022</u>: State AUM rate set at 65% of the 2020 USDA-NASS IDPLLR.</p>
<p>C) Department annually tracks USDA-NASS published data and provide the Land Board with an annual update on trends using 2017 data as the baseline. Annual updates would include 2017 baseline trend data and show the following: Total # AUMs under lease Total # of acres under lease Total gross revenue AUMs, acres, and gross revenue identified under Timberland Asset AUMs, acres, and gross revenue identified under Rangeland Asset State endowment trust land AUMs and acres surrounded 100% by private land State endowment trust land AUMs and acres surrounded by federal lands State endowment trust land AUMs and acres with full management or legal access</p>	<p>C) Same as Option 1</p>

D) Department conducts a 5-year review summarizing all data during CY2023 and presents to Land Board to reconsider the established benchmark of a 35% discount from the IDPLLR and the ongoing use of RSQ formula.	D) Department conducts a 5-year review summarizing all data during CY2023 and present to Land Board to reconsider the established benchmark of a 35% discount from the IDPLLR.
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Board Action

Attachments

1. December 5, 2017 Board Memo
2. IDL Rangeland ROA Analysis
3. Grazing Rate Discount Publications
4. Comparison of Non-Fee Grazing Costs - 2010, 2017, 2018
5. 2016 Grazing Rates for 11 Western States – State vs Private
6. Revised Status Quo Formula; Graph RSQ
7. Discount IDPLLR; Graph Discount IDPLLR

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IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS
December 5, 2017
Regular Agenda

SUBJECT

Grazing Rate Methodology

BACKGROUND

During the November 21, 2017, regular State Board of Land Commissioners (Land Board) meeting the Idaho Department of Lands (Department) presented the Grazing Subcommittee and Rate Methodology Review Update. This summation of information and analysis, conducted by the Grazing Subcommittee, Advisory Group and expert consultants, spanned a two-year process that included: 12 Subcommittee and Advisory Group meetings; development of methodology alternatives; an economic analysis and a final Land Board report presented by Dr. Dennis Becker, University of Idaho Policy Analysis Group; and a public review and comment period. The Land Board directive before the Grazing Subcommittee was to bring forward recommended alternatives for full Land Board consideration. As a result, during the November 21, 2017, regular meeting, the Grazing Subcommittee recommended two alternatives to be considered by the Land Board:

- Revised Status Quo – Price Index Approach; base fee between \$2.00 - \$2.58
- Calf-Crop Share – Contributory Share Approach; 13% state share

DISCUSSION

The two alternatives recommended by the Grazing Subcommittee at the November Land Board meeting are in alignment with the final report conclusion developed by Dr. Dennis Becker and include a Price Index approach with a range of base values and a Contributory Share approach. Attachment 1 is an exhibit that intends to establish a scaled range of values for the two alternatives brought forward by the Grazing Subcommittee and includes the Status Quo and the USDA National Agricultural Statistics Service (NASS) Idaho private lease rates as points of reference.

Public testimony was received during the November 21, 2017, regular Land Board meeting and the Board agreed to consider additional written testimony received by December 1, 2017. All additional public written testimonies received through December 1 were forwarded to Board members for review as they were received. All public comments and written testimony received between November 21 and December 1, 2017, are included within Attachment 2.

In addition to the Land Board receiving written testimony, the Land Board will provide an opportunity for short verbal testimony today, limited to three minutes per person, as per the meeting agenda that was released to the public last week.

BOARD ACTION

A motion was made by Secretary of State Denney to defer a decision on this issue until the Board can appropriately consider the additional information received. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

For the record, the Board prescribed no time limit for its review.

ATTACHMENTS

1. Comparison of Grazing Rates
2. Public Testimony received November 21 through December 1, 2017



IDAHO DEPARTMENT OF LANDS

IDL Rangeland Return On Asset Analysis

	Rangeland Asset	Acres Leased for Grazing	
Acres	1,426,519	1,732,501	
Value	\$61,000,000	\$74,084,230	
AUMs		257,950	
Acres/AUM		6.7	
Gross Income (GI) ROA	4.25%	2.25%	10-Year Inflation Rate Ave (Callan)
Real Net Income (NI) ROA	2.00%		
Expected Net Income	\$1,481,685		
Expected Net Income Per Acre	\$0.86		
6-Year Average Annual Expenses	\$1,577,413		
Average Expense Per Acre	\$0.91		
Expected Gross Income Per Acre	\$1.82		
Expected Gross Income	\$3,148,580		
Expected IDL AUM Rate	\$12.21		
2017 Pvt Lease Rate	\$18.00		
IDL % of Private Rate	68%		
Discount from Private Rate	32%		

IDL Annual Reports - Income Statement

Fiscal Year	Gross Rev	Net Rev	NI ROA	Cost%
FY13	\$1,932,652	\$679,343	0.92%	64.85%
FY14	\$2,160,442	\$775,041	1.05%	64.13%
FY15	\$2,265,606	\$811,075	1.09%	64.20%
FY16	\$2,970,033	\$1,212,708	1.64%	59.17%
FY17	\$2,976,094	\$989,671	1.34%	66.75%
FY18	\$2,943,898	\$1,316,410	1.78%	55.28%
Average (FY13-18)	\$2,541,454	\$964,041	1.30%	62.07%
3-Yr Avg (FY16-18)	\$2,963,342	\$1,172,930	1.58%	60.42%

Supporting Publications	ROA (%)
PAG Issue Brief #17, March 2016 - <i>Financial Performance of Idaho's Endowment Rangelands</i> ; University of Idaho; Dennis R. Becker, Ph.D. and Philip S. Cook	1.7 - 2.8
PAG Report #21, December 2001 - <i>Endowment Fund Reform and Idaho's State Lands: Evaluating Financial Performance of Forest & Rangeland Assets</i> ; University of Idaho; J. O'Laughlin and P.S. Cook	1.3 - 2.2
Callan Associates Report - <i>Asset Allocation and Governance Review</i> ; 2014	1.25
<i>Idaho State Trust Lands Asset Management Plan</i> ; 2011	0.5 - 5.0
<i>Citizens Committee Report</i> ; Curtis et al.; 2001	6.00

Low/High Average: **2.15 - 3.45**

Grazing Rate Discount Publications

Discount	Title	Author	Year
30%	<i>Economic Consideration for Setting Grazing Fees on New Mexico State Trust Lands</i>	Torell	1990
36-39%	Range and Pasture Forage: What's it worth? (Cited by IDL Market Rent Study)	Rimbey	1992
30-35%	Grazing fees: how much is fair? Research Report 666 (Cited by IDL Market Rent Study)	Torell	1992
30%	<i>Public Grazing in the West and Rangeland Reform '94</i> (Discount Analysis for all Western States)	LaFrance	1995
20-30%	<i>Montana Trust Land Grazing Lease Rate Valuation Analysis</i>	Bioeconomics	2011
44%	<i>Montana Grazing Rate Update and Montana Summary of the 2011 Grazing Review</i> (30% was base rate, but discount was increased due to DNRC lease conditions)	MT DNRC	2012
12-14%	U of I Research Bulletin 185 Idaho Private Rangeland Grazing – Lease Arrangements	Rimbey	2014
Average Discount Cited in Publications and Economic Studies: 30%			

IDAHO DEPARTMENT OF LANDS

Comparison of Non-Fee Grazing Costs, 2010 and 2017

Item	Corresponding NASS Indices	2010	2010	2017	2017	2017
		Public Cattle Cost	Private Cattle Cost	Index/Inflation Factor	Public Cattle Cost	Private Cattle Cost
Lost Animals	Meat Animals/Prices Received	\$2.81	\$1.62	0.70	\$1.98	\$1.14
Association Fees	Production Items	\$0.55	\$0.00	0.53	\$0.29	\$0.00
Veterinarian	Wage Rates	\$0.10	\$0.12	0.62	\$0.06	\$0.07
Moving Livestock	(Auto & Trucks) + (Wage Rates)	\$4.77	\$2.75	0.78	\$3.71	\$2.13
Herding	Wage Rates	\$4.29	\$2.92	0.62	\$2.68	\$1.83
Salt and Feed	(Auto & Trucks) + (Feed)	\$2.88	\$4.02	1.37	\$3.95	\$5.50
Travel	(Auto & Trucks) + (Fuel & Energy)	\$1.40	\$0.37	1.16	\$1.63	\$0.42
Water	Production Items	\$0.45	\$0.13	0.53	\$0.24	\$0.07
Horse Cost	Feed	\$0.56	\$0.27	0.44	\$0.25	\$0.12
Maintenance	(Wage Rates) + (Building & Fencing)	\$6.66	\$3.85	1.29	\$8.61	\$4.98
Dev. Depreciation	Production Items	\$0.51	\$0.17	0.53	\$0.27	\$0.09
Other Costs	Production Items	\$0.39	\$0.13	0.53	\$0.21	\$0.07
Total Non-Fee Costs		\$25.37	\$16.34		\$23.86	\$16.43

Discount: 31%

Data Sources:

Ag Prices Report - USDA NASS - January, 2011

Ag Prices Report - USDA NASS - January, 2018

Grazing Costs: What's the Current Situation?, Rimbey et al. 2011

IDAHO DEPARTMENT OF LANDS

2018 Idaho Farm Bureau Survey

State Grazing Lease Data from Current Lessees

Expenses/Cost per AUM of Grazing on State Trust Lands

Total State AUMs: 257,950
Percent AUMs Surveyed: 8.95%

Active Leases: 1138
Percent Leases Surveyed: 1.23%

#AUMs	Non-Fee Costs/AUM	2017 State Lease Fee	Total Cost	Total Non-Fee Costs/AUM
1,000	\$9.09	\$9.01	\$18.10	\$9,090.00
512	\$3.90	\$9.01	\$12.91	\$1,996.80
808	\$11.17	\$9.01	\$20.18	\$9,025.36
3,380	\$28.39	\$9.01	\$37.40	\$95,958.20
800	\$18.85	\$9.01	\$27.86	\$15,080.00
4,800	\$13.54	\$9.01	\$22.55	\$64,992.00
65	\$57.67	\$9.01	\$66.68	\$3,748.55
414	\$20.04	\$9.01	\$29.05	\$8,296.56
6,750	\$8.83	\$9.01	\$17.84	\$59,602.50
3,600	\$13.54	\$9.01	\$22.55	\$48,744.00
570	\$29.80	\$9.01	\$38.81	\$16,986.00
40	\$150.00	\$9.01	\$159.01	\$6,000.00
10	\$7.10	\$9.01	\$16.11	\$71.00
342	\$15.95	\$9.01	\$24.96	\$5,454.90
23,091	\$27.71	\$9.01	\$36.72	\$345,045.87

\$27.71

Average Non-fee Cost/AUM

\$14.94

Weighted Average Non-Fee Costs/AUM

Non-fee costs include:

Labor
 Monitoring cattle
 Water hauling and maintenance
 Herding
 Salt
 Fencing/maintaining
 Land Management
 Vet/trucking
 Fuel
 Weeds Expenses
 Predator loss
 Fire

2016 Grazing Rates for 11 Western States – State vs Private

State	Private Lease Rate	State Lease Rate	State % of Private Rate	Discount
Nevada	\$ 10.00	\$ 11.00	110%	0%
Oregon	\$ 17.00	\$ 17.99	106%	0%
Washington (avg.)	\$ 14.00	\$ 12.80	91%	9%
Montana	\$ 24.00	\$ 19.57	82%	18%
Colorado (avg.)	\$ 17.50	\$ 13.59	78%	22%
Utah (avg.)	\$ 16.50	\$ 8.76	53%	47%
Idaho	\$ 18.00	\$ 8.09	45%	55%
New Mexico	\$ 14.00	\$ 5.99	43%	57%
Arizona	\$ 9.00	\$ 3.45	38%	62%
Wyoming	\$ 21.50	\$ 6.14	29%	71%
California	\$ 23.00	NA	CA Sets Individual Rates for Leases	

Average Discount for 11-Western States: **34%**

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IDAHO DEPARTMENT OF LANDS

Revised Status Quo

Source: USDA - National Agricultural Statistics Services(USDA-NASS)

Idaho Private Lands Lease Rate (IDPLLR), January Agricultural Prices publication.

IDPLLR data from general farm questionnaire 1964-1977; switched to June enumerative survey 1978-1999; shifted to January survey 1999 - present.

Rates are \$ per AUM for pasturing cattle on non-irrigated private grazing land.

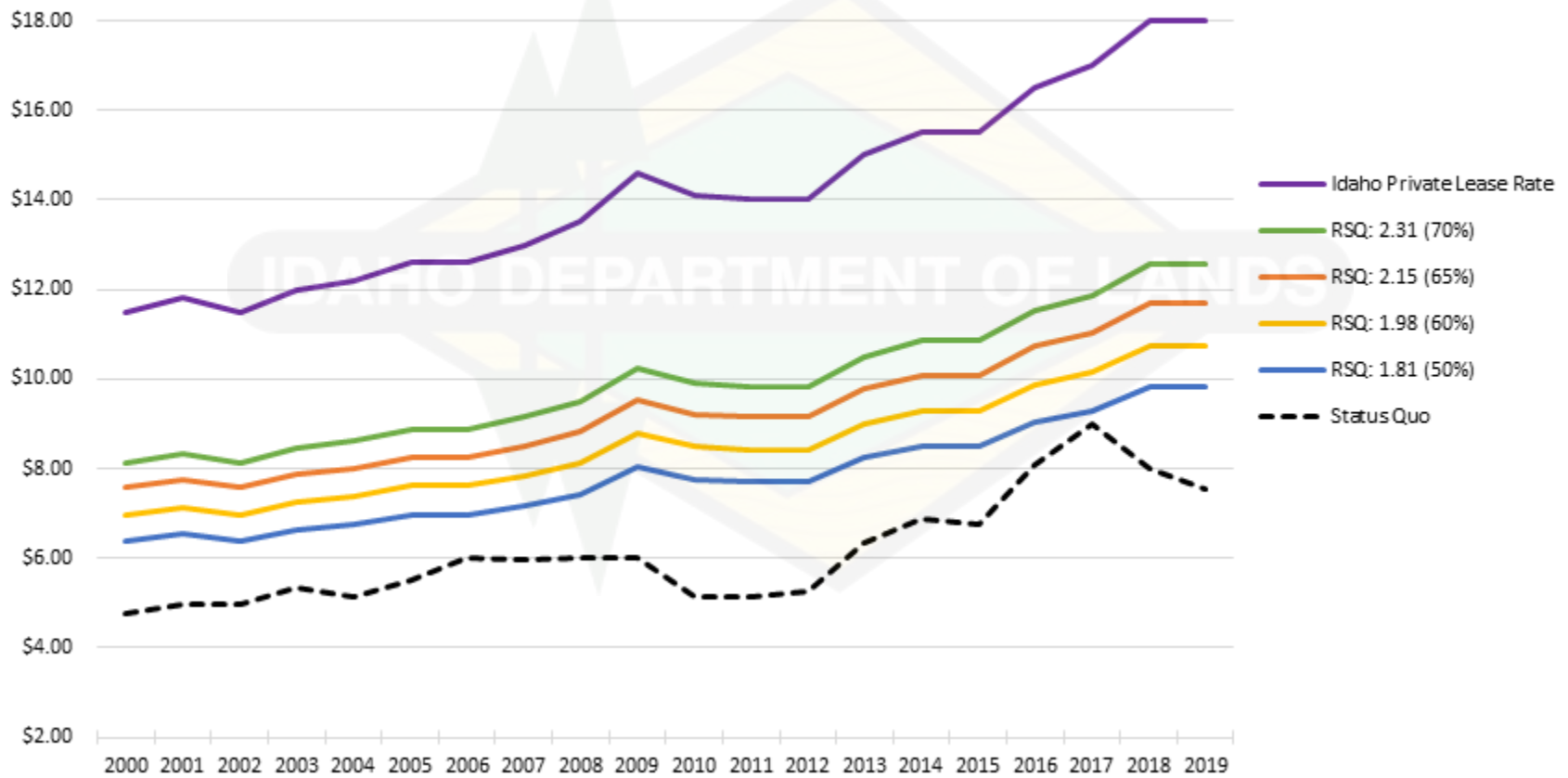
$$1) IDFVI_t = (+ IDPLLR_t / \text{Absolute } \$3.39) \times 100$$

$$2) IDFVI_{t+2} = (13.85 + (0.9967 \times IDFVI_t)) / 100$$

$$3) \$/\text{AUM} = (IDFVI_{t+2}) \times (\$x.xx \text{ Base Fee})$$

Data Year	IDPLLR _t	IDFVI _t	RSQ Eq.	Status Quo		RSQ		RSQ		RSQ		RSQ		RSQ		RSQ	
				Base Fee	% of IDPLLR	Base Fee	% of IDPLLR	Base Fee	% of IDPLLR	Base Fee	% of IDPLLR	Base Fee	% of IDPLLR	Base Fee	% of IDPLLR	Base Fee	% of IDPLLR
				\$ 1.70		\$ 1.65		\$ 1.81		\$ 1.98		\$ 2.15		\$ 2.31			
1998	\$11.50	339	\$3.520														
1999	\$11.80	348	\$3.608														
2000	\$11.50	339	3.520	\$ 4.76	41%	\$ 5.81	50%	\$ 6.37	55%	\$ 6.97	61%	\$ 7.57	66%	\$ 8.13	71%		
2001	\$12.00	354	3.667	\$ 4.95	42%	\$ 5.95	50%	\$ 6.53	55%	\$ 7.14	61%	\$ 7.76	66%	\$ 8.33	71%		
2002	\$12.20	360	3.725	\$ 4.96	43%	\$ 5.81	50%	\$ 6.37	55%	\$ 6.97	61%	\$ 7.57	66%	\$ 8.13	71%		
2003	\$12.60	372	3.843	\$ 5.33	44%	\$ 6.05	50%	\$ 6.64	55%	\$ 7.26	60%	\$ 7.88	66%	\$ 8.47	71%		
2004	\$12.60	372	3.843	\$ 5.15	42%	\$ 6.15	50%	\$ 6.74	55%	\$ 7.38	60%	\$ 8.01	66%	\$ 8.61	71%		
2005	\$13.00	383	3.961	\$ 5.53	44%	\$ 6.34	50%	\$ 6.96	55%	\$ 7.61	60%	\$ 8.26	66%	\$ 8.88	70%		
2006	\$13.50	398	4.105	\$ 6.02	48%	\$ 6.34	50%	\$ 6.96	55%	\$ 7.61	60%	\$ 8.26	66%	\$ 8.88	70%		
2007	\$14.60	431	4.434	\$ 5.96	46%	\$ 6.54	50%	\$ 7.17	55%	\$ 7.84	60%	\$ 8.52	66%	\$ 9.15	70%		
2008	\$14.10	416	4.284	\$ 6.01	45%	\$ 6.77	50%	\$ 7.43	55%	\$ 8.13	60%	\$ 8.83	65%	\$ 9.48	70%		
2009	\$14.00	413	4.255	\$ 5.99	41%	\$ 7.32	50%	\$ 8.03	55%	\$ 8.78	60%	\$ 9.53	65%	\$ 10.24	70%		
2010	\$14.00	413	4.255	\$ 5.12	36%	\$ 7.07	50%	\$ 7.75	55%	\$ 8.48	60%	\$ 9.21	65%	\$ 9.90	70%		
2011	\$15.00	442	4.549	\$ 5.13	37%	\$ 7.02	50%	\$ 7.70	55%	\$ 8.42	60%	\$ 9.15	65%	\$ 9.83	70%		
2012	\$15.50	457	4.696	\$ 5.25	38%	\$ 7.02	50%	\$ 7.70	55%	\$ 8.42	60%	\$ 9.15	65%	\$ 9.83	70%		
2013	\$15.50	457	4.696	\$ 6.36	42%	\$ 7.51	50%	\$ 8.23	55%	\$ 9.01	60%	\$ 9.78	65%	\$ 10.51	70%		
2014	\$16.50	487	4.990	\$ 6.89	44%	\$ 7.75	50%	\$ 8.50	55%	\$ 9.30	60%	\$ 10.10	65%	\$ 10.85	70%		
2015	\$17.00	501	5.137	\$ 6.77	44%	\$ 7.75	50%	\$ 8.50	55%	\$ 9.30	60%	\$ 10.10	65%	\$ 10.85	70%		
2016	\$18.00	531	5.431	\$ 8.09	49%	\$ 8.23	50%	\$ 9.03	55%	\$ 9.88	60%	\$ 10.73	65%	\$ 11.53	70%		
2017	\$18.00	531	5.431	\$ 9.01	53%	\$ 8.48	50%	\$ 9.30	55%	\$ 10.17	60%	\$ 11.04	65%	\$ 11.87	70%		
2018				\$ 8.03	45%	\$ 8.96	50%	\$ 9.83	55%	\$ 10.75	60%	\$ 11.68	65%	\$ 12.54	70%		
2019				\$ 7.56	42%	\$ 8.96	50%	\$ 9.83	55%	\$ 10.75	60%	\$ 11.68	65%	\$ 12.54	70%		
10-Year Average (2010-2019)				\$ 6.82	43%	\$ 7.49	50%	\$ 8.22	55%	\$ 8.99	60%	\$ 9.76	65%	\$ 10.49	70%		
20-Year Average (2000-2019)				\$ 6.14	43%	\$ 7.09	50%	\$ 7.78	55%	\$ 8.51	60%	\$ 9.24	65%	\$ 9.93	70%		
2019 \$/AUM Rate				\$ 7.56	42%	\$ 8.96	50%	\$ 9.83	55%	\$ 10.75	60%	\$ 11.68	65%	\$ 12.54	70%		

Revised Status Quo Comparison



Discount IDPLLR

Source: USDA - National Agricultural Statistics Services(USDA-NASS)

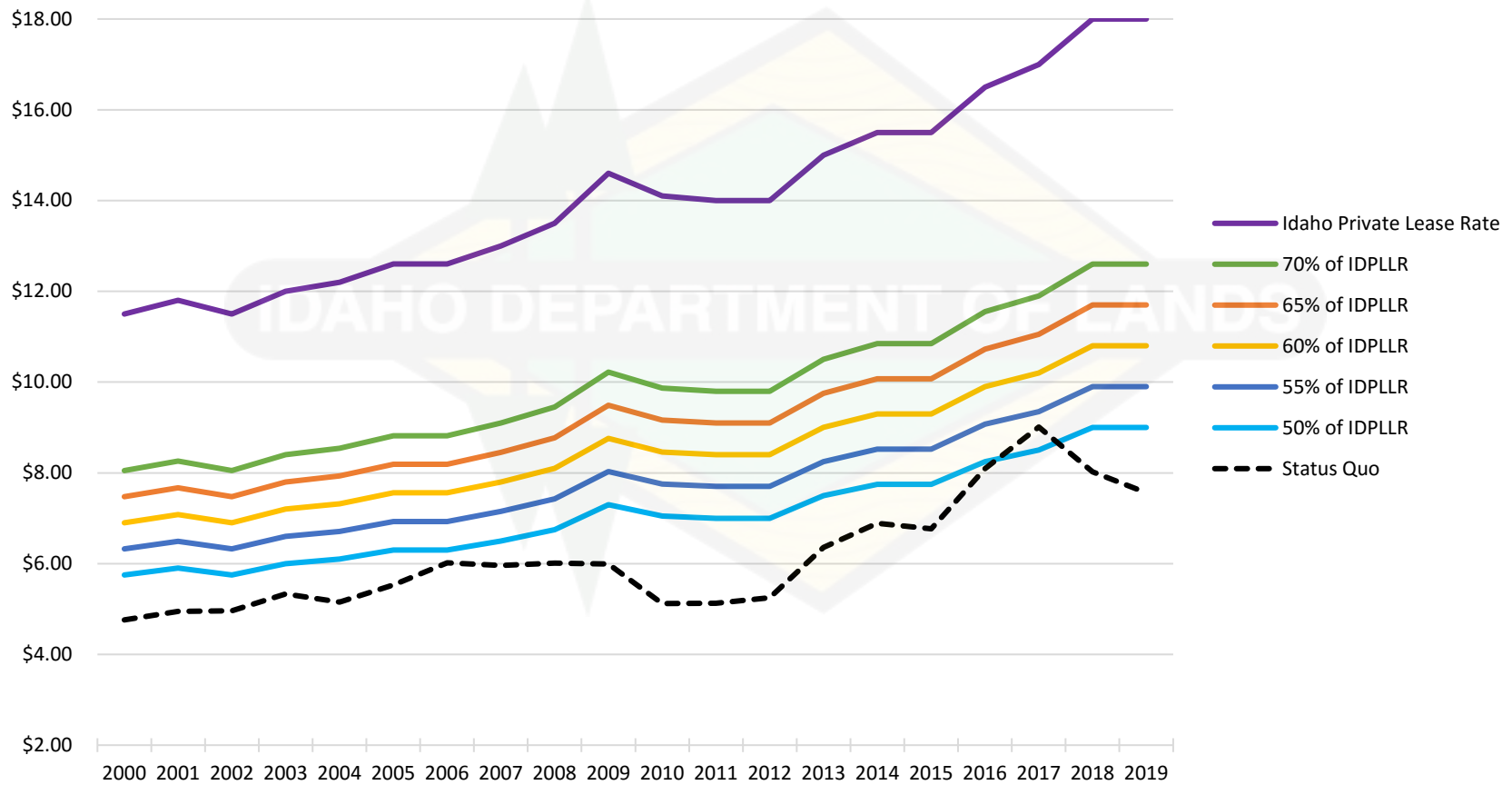
Idaho Private Lands Lease Rate (IDPLLR), January Agricultural Prices publication.

IDPLLR data from general farm questionnaire 1964-1977; switched to June enumerative survey 1978-1999; shifted to January survey 1999 - present.

Rates are \$ per AUM for pasturing cattle on non-irrigated private grazing land.

		Status Quo	Status Quo	Disc. IDPLLR	Disc. IDPLLR	Disc. IDPLLR	Disc. IDPLLR	Disc. IDPLLR	Disc. IDPLLR	Disc. IDPLLR	Disc. IDPLLR	Disc. IDPLLR	Disc. IDPLLR
		Base Fee	% of IDPLLR	State AUM Rate	% of IDPLLR	State AUM Rate	% of IDPLLR	State AUM Rate	% of IDPLLR	State AUM Rate	% of IDPLLR	State AUM Rate	% of IDPLLR
Data Year	IDPLLR _t	\$ 1.70											
1998	\$11.50												
1999	\$11.80												
2000	\$11.50	\$ 4.76	41%	\$ 5.75	50%	\$ 6.33	55%	\$ 6.90	60%	\$ 7.48	65%	\$ 8.05	70%
2001	\$12.00	\$ 4.95	42%	\$ 5.90	50%	\$ 6.49	55%	\$ 7.08	60%	\$ 7.67	65%	\$ 8.26	70%
2002	\$12.20	\$ 4.96	43%	\$ 5.75	50%	\$ 6.33	55%	\$ 6.90	60%	\$ 7.48	65%	\$ 8.05	70%
2003	\$12.60	\$ 5.33	44%	\$ 6.00	50%	\$ 6.60	55%	\$ 7.20	60%	\$ 7.80	65%	\$ 8.40	70%
2004	\$12.60	\$ 5.15	42%	\$ 6.10	50%	\$ 6.71	55%	\$ 7.32	60%	\$ 7.93	65%	\$ 8.54	70%
2005	\$13.00	\$ 5.53	44%	\$ 6.30	50%	\$ 6.93	55%	\$ 7.56	60%	\$ 8.19	65%	\$ 8.82	70%
2006	\$13.50	\$ 6.02	48%	\$ 6.30	50%	\$ 6.93	55%	\$ 7.56	60%	\$ 8.19	65%	\$ 8.82	70%
2007	\$14.60	\$ 5.96	46%	\$ 6.50	50%	\$ 7.15	55%	\$ 7.80	60%	\$ 8.45	65%	\$ 9.10	70%
2008	\$14.10	\$ 6.01	45%	\$ 6.75	50%	\$ 7.43	55%	\$ 8.10	60%	\$ 8.78	65%	\$ 9.45	70%
2009	\$14.00	\$ 5.99	41%	\$ 7.30	50%	\$ 8.03	55%	\$ 8.76	60%	\$ 9.49	65%	\$ 10.22	70%
2010	\$14.00	\$ 5.12	36%	\$ 7.05	50%	\$ 7.76	55%	\$ 8.46	60%	\$ 9.17	65%	\$ 9.87	70%
2011	\$15.00	\$ 5.13	37%	\$ 7.00	50%	\$ 7.70	55%	\$ 8.40	60%	\$ 9.10	65%	\$ 9.80	70%
2012	\$15.50	\$ 5.25	38%	\$ 7.00	50%	\$ 7.70	55%	\$ 8.40	60%	\$ 9.10	65%	\$ 9.80	70%
2013	\$15.50	\$ 6.36	42%	\$ 7.50	50%	\$ 8.25	55%	\$ 9.00	60%	\$ 9.75	65%	\$ 10.50	70%
2014	\$16.50	\$ 6.89	44%	\$ 7.75	50%	\$ 8.53	55%	\$ 9.30	60%	\$ 10.08	65%	\$ 10.85	70%
2015	\$17.00	\$ 6.77	44%	\$ 7.75	50%	\$ 8.53	55%	\$ 9.30	60%	\$ 10.08	65%	\$ 10.85	70%
2016	\$18.00	\$ 8.09	49%	\$ 8.25	50%	\$ 9.08	55%	\$ 9.90	60%	\$ 10.73	65%	\$ 11.55	70%
2017	\$18.00	\$ 9.01	53%	\$ 8.50	50%	\$ 9.35	55%	\$ 10.20	60%	\$ 11.05	65%	\$ 11.90	70%
2018		\$ 8.03	45%	\$ 9.00	50%	\$ 9.90	55%	\$ 10.80	60%	\$ 11.70	65%	\$ 12.60	70%
2019		\$ 7.56	42%	\$ 9.00	50%	\$ 9.90	55%	\$ 10.80	60%	\$ 11.70	65%	\$ 12.60	70%
10-Year Average (2010-2019)		\$ 6.82	43%	\$ 7.49	50%	\$ 8.23	55%	\$ 8.98	60%	\$ 9.73	65%	\$ 10.48	70%
20-Year Average (2000-2019)		\$ 6.14	43%	\$ 7.07	50%	\$ 7.78	55%	\$ 8.49	60%	\$ 9.19	65%	\$ 9.90	70%
2019 \$/AUM Rate		\$ 7.56	42%	\$ 9.00	50%	\$ 9.90	55%	\$ 10.80	60%	\$ 11.70	65%	\$ 12.60	70%

% of Idaho Private Lease Rate (IDPLLR) Comparison



STATE BOARD OF LAND COMMISSIONERS

August 21, 2018
Information Agenda

Subject

Oil & Gas Lease Royalty Audit

Background

In 2017, the Idaho Department of Lands (Department) initiated a Request for Proposal (RFP) process to identify and contract with a third-party oil and gas lease royalty auditor. As a result, the Department executed a contract on September 7, 2017, with Opportune, LLP (Opportune) from Houston, Texas.

Under the IDL RFP, 18-400 contract, the Scope of Work (Attachment 1) included an oil and gas royalty audit of three wells under two state leases held by AM Idaho, LLC (Operator). The audit was to determine whether royalties paid to the Department for oil and gas produced, during the audit period of August 2015 through December 2016, complied with the terms of:

- Idaho Statute: Title 47 Mines and Mining, Chapter 3 - Oil and Gas Wells and Title 47 Mines and Mining, Chapter 8 - Oil and Gas Leases on State and School Lands;
- IDAPA 03.16.20.03.16: Rules Governing Oil and Gas Leasing on Idaho State Lands;
- Lease Agreements: O-01983 and O-01996.

In addition, the limited audit process under the RFP was to include the following:

- A review and summary of documents provided by the Operator such as sales contracts, gathering contracts, and processing contracts with a focus on pricing, allowable deductions, processed gas percentages, liquid settlement percentages, and custody point determinations;
- An analytical review of volume and payment reconciliations of the audit period data set and documentation of any significant differences pertinent to the audited leases;
- A confirmation that the Operator's identified arms-length transactions represent appropriate arms-length transactions through a review of hydrocarbon sales points;
- Proposed recommendations for additional auditing tasks beyond the scope of this limited oil and gas audit that would be beneficial to the Department and beneficiaries;
- Documentation of any significant findings that may warrant further investigation by the Department.

The contract required Opportune to deliver:

- An audit report to the Department that summarized and documented the audit findings.
- An in-person presentation of the audit findings and information related to the auditing process at a State Board of Land Commissioners' (Land Board) regular meeting.

- A general audit review workshop for the Department and Land Board staff to include the auditing process, methods, and practices; recommendations for future best management practices; and substantial time for questions and answers for workshop participants.

Discussion

Opportune conducted the limited audit process between September 2017 and May 2018 with the Operator submitting royalty reports and payments as requested by Opportune, related to the three wells under two state oil and gas leases as shown in Table 1 below and in the map (Attachment 2).

Table 1.

Oil & Gas Lease	Field	Well Name	Royalty Interest	Products*
O-01983	Willow	ML Investments 1-10	0.0078125	C, P, RES
	Willow	ML Investments 2-10	0.0078125	C, P, RES
O-01996	Hamilton	State 1-17	0.1171875	G

* Products:
 C = Condensate
 P = Natural Gas Plant Liquids
 RES = Pipeline-Quality Natural Gas
 G = Non-Processed Gas

Opportune completed the limited services audit report during August 2018 and provided the Department with the Oil and Gas Audit Report that includes an Executive Summary and audit findings (Attachment 3).

During the audit process, Opportune completed an examination of field production and sales that included facility processing, volume and marketing reports, as well as plant and production statements. Opportune noted a lack of transparency and detail regarding pricing and costs in product transport, plant statements, and production statements. Attachment 4 diagrams the Willow-Hamilton field, production facilities, and sales points. Opportune analyzed royalties and volumes reported to the Department as well as spot pricing comparisons related to oil and gas products. In addition, Opportune examined Alta Mesa's relationship to the entity that provides midstream, processing services of the Operator's production, Northwest Gas Processing LLC (NWGP), and to the marketing company the Operator hired to market production from the leases, ARM Energy Management LLC (AEM) (Attachment 5).

Audit Findings

The key Issues identified by the audit process are the lack of transparency in product pricing and costs, potential lack of contracts between Alta Mesa and related entities that address pricing and costs, and a lack of contract language within the current state lease with Alta Mesa or in the new oil and gas lease contract template that adequately addresses arms-length transactions.

James Fisher, managing director for Opportune, will present to the Land Board details of the audit report, information related to the auditing process, and audit findings.

One key issue identified is a lack of transparency for the pricing of condensate, residue gas, and natural gas liquids (NGLs). Realized prices are low compared to area benchmarks, and there is a lack of readily available market data. Opportune discussed this issue with Alta Mesa, and Alta Mesa acknowledged that they have royalty rights in their contract with AEM. Alta Mesa indicated that these royalty rights help to ensure that Alta Mesa receives market pricing from AEM, but Alta Mesa states it has not exercised these rights.

Another issue identified by Opportune is that no costs are charged to Alta Mesa by NWGP, and Alta Mesa's representative stated that there is no contract between Alta Mesa and NWGP. Opportune believes that discussions between the Department and Alta Mesa should occur to set expectations for Alta Mesa to take steps to ensure that it is receiving market value pricing. In doing so, this would ensure Operator compliance with IDAPA 20.03.16, Rules Governing Oil and Gas Leasing on Idaho State Lands, related to disposition and market data that operators should have available for Department review.

During the audit process, the Department provided Opportune an opportunity to review the lease contract currently held by Alta Mesa, as well as a new 2018 oil and gas lease contract template drafted by the Department with assistance from the Attorney General's Office. This new lease contract template would be used for future oil and gas lease transactions.

Opportune noted that within the new lease contract template the Department defined an arms-length transaction, but not the consequences if transactions do not adequately reflect an arms-length transaction. Opportune has provided the Department with a sample of lease contract language for consideration that addresses this issue.

Volumes matched between AEM, NWGP, and volumes reported to IDL. The one exception noted was NGLs for the production months of January through March in 2016. Alta Mesa reported no sales volumes during these three months. Consistent with industry practice, the aggregate sales value of NGLs was a negative value so no royalty was paid. As no royalty was paid, no volumes were reported. Opportune noted that Alta Mesa did not pay IDL for its share of plant fuel, but the net royalty calculated was approximately \$105 during the period.

Department Actions

The Department will take the following actions:

- 1) The Department will contact Alta Mesa and request they complete an audit of AEM. Based on the report provided by Opportune, the audit revealed that prices received by Alta Mesa from AEM are significantly lower than various market spot pricing identified by Opportune in the audit process. The Department will request that: the AEM audit include information on how prices received from AEM are determined; all deductions including transportation, marketing and processing costs; and identification of the market location where lease products are sold or shipped. An AEM audit by Alta Mesa will ensure that Alta Mesa is receiving market value pricing,

and that Alta Mesa is complying with rules related to disposition and market data that it, as the Operator should have available for Department review.

- 2) IDAPA 20.03.16.045.01 states that royalty shall be due on all production from the leased premises except that consumed for the direct operation of the producing wells and that lost through no fault of the lessee. The Department will contact Alta Mesa and request payment for royalties owed associated with volumes of plant fuel used to process the product within the plant. The request for payment and notification will include the audit period as well as set an expectation going forward for payment of royalties from January 2017 to the current period.
- 3) The Department will request that Alta Mesa provide the Department with the agreement between Alta Mesa and AEM, and provide documentation that proves existence of an arms-length transaction between Alta Mesa and AEM or other purchasers or end purchasers.
- 4) The Department will request that Alta Mesa provide detailed plant statements that specify: pricing of all oil and gas products produced from the leases, each entity that AEM sold lease products to, each entity that transported the lease products, and market location of where the products were sold.
- 5) The Department will request documentation from Alta Mesa explaining what Alta Mesa did with oil and gas products produced from the leases that were not sold, such as propane and ethane.
- 6) The Department will continue to review the audit findings with assistance from the Attorney General's Office and return to the Land Board within the next three months regarding other recommended actions related to this audit process by Opportune as well as a recommendation for the potential auditing of additional reporting periods.
- 7) The Department will assist Opportune in conducting a general audit review workshop for the Department and Land Board staff, scheduled during the afternoon of August 21, 2018, following the regular Land Board meeting. This audit review workshop will include the auditing process, methods, practices, and recommendations for future best management practices.

Attachments

1. IDL RFP 18-400, Scope of Work (pgs. 5 - 8)
2. State Hydrocarbon Producing Wells Map, August 2015 – December 2016
3. Oil and Gas Audit Report – Opportune, LLC
4. Willow Hamilton Field Production and Sales
5. Alta Mesa Partnership

3.0 SCOPE OF WORK

PROJECT NAME: Oil and Gas Auditing Services

LOCATION: Boise, ID

OVERVIEW

The Idaho Department of Lands (IDL) requires professional auditing services necessary to assess whether royalties paid to IDL for oil and gas produced during the audit period of August of 2015 through December of 2016 from three wells under two state leases were in compliance with the terms of:

- Idaho Statute - Title 47 Mines and Mining - Chapters 3 Oil and Gas Wells,
- Idaho Statute - Title 47 Mines and Mining – Chapter 8 Oil and Gas Leases on State and School Lands;
- IDAPA 03.16 20.03.16 - Rules Governing Oil and Gas Leasing on Idaho State Lands; and
- Lease agreements O-01983 and O-01996.

The contracted auditor (Auditor) will provide services on behalf of IDL, and may have access to confidential systems and information not available to the public. As such, all records and reports will remain the property of IDL or the state agency where such information resides.

General Information

The Auditor will perform a limited oil and gas lease audit of royalties paid to IDL from August of 2015 through December of 2016 including: an analytical review of volume and payment reconciliations; an assessment of identified arms-length transactions; and documentation of any significant findings that may warrant further investigation. Currently, one operator (Operator) submits royalty reports and payments for the three producing wells under two state leases.

Well Name	Field	State Royalty Interest	Total Production Timeframe	Products ¹	TOTAL BOE ² FY2016 ³
ML Investments 1-10	Willow	0.0078125	Aug. 2015 - Jan 2016 ⁴	C, P, RES	58,000
ML Investments 2-10	Willow	0.0078125	Aug. 2015 - present	C, P, RES	174,000
State 1-17	Hamilton	0.1171875	Aug. 2015 - present	G	1,300

¹ Product Codes:
C = Condensate
P = Natural Gas Plant Liquids
RES = Pipeline-Quality Natural Gas
G = Non-Processed Gas

² Barrel of Oil Equivalent (BOE) is approximately 5.8 MMBtu per one barrel (42 U.S. gallons) of crude oil. The BOE combines production into a single measure for generalized comparison purposes only.

³ FY2016 = July 2015 - June 2016

⁴ shut in since Feb 2016

IDL has assembled 15 audit review documents. Documents 1-8 are included in this request as Attachment 1. Documents 9-15 will be forwarded to the auditor selected for these services. Additional

severance tax information may be available from the Idaho State Tax Commission, and audit information may be available from the U.S. Department of Interior Office of Natural Resources Revenue.

List of Documents from IDL for Audit Review (documents 1-8 attached)

1. Southwestern Idaho Natural Gas Play, Idaho Geological Survey, 2014
2. Idaho Statute - Title 47 Mines and Mining - Chapters 3 Oil and Gas Wells
Statute in effect for the audit period
3. Idaho Statute - Title 47 Mines and Mining – Chapter 8 Oil and Gas Leases on Sate and School Lands
Statute in effect for the audit period
4. IDAPA 03.16 20.03.16 - Rules Governing Oil and Gas Leasing on Idaho State Lands;
Rules in effect for the audit period
5. Lease O-01983
6. Lease O-01996
7. IDL Oil & Gas Royalty Report
This is the blank form that contains the following tabs: Summary Sheet, Data Form, Field Descriptions, and Product Definitions
8. Idaho Oil and Gas Conservation Commission Monthly Production Report Form
This is the blank form for production information submitted to the newly-created Oil and Gas Regulatory Division within IDL

(Documents 9-15 are not included in this Request for Proposal due to their potential exemption from the Idaho Public Records Act. After award of the contract, Auditor will be required to sign a confidentiality agreement, and Documents 9 through 15 will be forwarded to the Auditor.

9. Production and Process Schematic Diagram (s).pdf
10. Individual Monthly Royalty Reports, 3 State wells.xls
11. Royalty Report Summary Table for all 3 State wells.xls
12. Royalty Report Summary Table for well State 1-17 on State Lease 1983.xls
13. Royalty Report Summary Table for well ML Investments 1-10 on State Lease 1996.xls
Shut-in since Feb. 2016
14. Royalty Report Summary Table for well ML Investments 2-10 on State Lease 1996.xls

15. Production Report Summary Table.xls

This spreadsheet contains compilations of production information for each well as separate tabs

SCOPE OF WORK:

IDL will complete the following three tasks upon delivery of the Notice to Proceed to the Auditor.

Document/Data Exchange and Pre-Audit Conference:

1. IDL will schedule a meeting with the Auditor to review the contract scope of services, period of performance, documents to be reviewed, work products to be developed, scheduling and coordination with the Operator, and other relevant topics.
2. IDL will provide to the Auditor relevant information about the Operator, such as office address, audit contact, key personnel, and other background information.
3. IDL will provide Documents 9-15 to the Auditor.

The Auditor will complete the following 12 tasks upon receipt of the Notice to Proceed from the IDL.

Limited Audit Process:

1. Kickoff Meeting. Participate in a phone meeting with IDL to review the contract scope of services and timing, documents to be reviewed, work products to be developed, scheduling and coordination with the auditee, and other relevant topics. Provide summary meeting notes to IDL within three business days after the Kickoff Meeting.
2. Initial Review. Review Documents 1-8 listed above and provided in this RFP. Estimate the effort necessary to review the audit period data set that will be provided to the Auditor. The audit period data set is from three wells. The audit period data set encompasses 81 rows (more or less) organized in 13 columns as shown on Document 7 (IDL Royalty Report). Inform IDL about any concerns or data gaps based upon this review.
3. Analytical Review. Perform an analytical review of volume and payment reconciliations of the audit period data set, and document significant differences that are pertinent to audited leases. Using best professional judgment, inform IDL of additional recommended out-of-scope work and estimated costs, such as a gas processing plant audit.
4. Opening Conference Call. Coordinate with IDL and the Operator to schedule an opening conference call. The conference call will include a discussion of the audit scope, audit timing, pending document requests or questionnaires to be submitted to the Operator, and any other relevant topics.
5. Written Request. Submit a written request to the Operator requesting specific information in support of the audit. Coordinate with the Operator the handling of any proprietary information in accordance with the Idaho Publics Records Act.
6. Potential Field Visit. Assess the need for a field visit and make a recommendation to IDL regarding its impact and value related to the audit. The Auditor will coordinate with IDL and the

Operator regarding the scheduling, timing, logistics, and safety measures necessary should a field visit occur.

7. Review Schematic Diagrams. The Auditor will request any necessary schematic diagrams for oil and gas operations from the Operator. The Auditor will review these schematic diagrams for appropriate completeness, field equipment, measurement points, custody points, and commingling points. The Auditor will identify any differences or necessary additions.
8. Review and Summarize Documents. Review and summarize documents provided by the Operator, such as: sales contracts, gathering contracts, and processing contracts. For processing contracts, focus will be on pricing, allowable deductions, processed gas percentages, liquid settlement percentages, and custody point determinations.
9. Confirm Arm's Length Transactions. Confirm that the raw and processed hydrocarbon sales points identified by the Operator represent appropriate arms-length transactions.
10. Additional Recommendations. Propose recommendations for additional auditing tasks beyond the scope of this limited oil and gas audit that would be beneficial to IDL and the beneficiaries given that a comprehensive oil and gas audit may not be financially justifiable due to the current low level of hydrocarbon production.
11. Audit Report. Deliver an audit report to IDL that summarizes and documents the audit findings. The report must include any work papers, such as spreadsheets, that support the Auditor's findings and conclusions.
12. Board Presentation and Audit Review Workshop. Upon completion of the auditing work and audit report, conduct an in-person presentation of the audit findings and information related to the auditing process at a formal State Board of Land Commissioners meeting (scheduled on the third Tuesday of every month in Boise). Present a 3-hour audit review workshop at IDL, which must include the auditing process, methods, practices, recommendations for future best practices, and substantial time for questions and answers for workshop participants.

All deliverables will be submitted to: Mike Murphy, Endowment Leasing Bureau Chief, Idaho Department of Lands (or his designee); or in electronic format to mmurphy@idl.idaho.gov.

Period Of Performance:

The contract will become effective once signed by all parties. The Auditor and the Contracting Officer's Representative will discuss the contract terms, work performance requirements, and tentative work schedule at the mandatory Kickoff Meeting. All requirements of the contract scope of work must be satisfactorily completed by the dates as determined and mutually agreed upon during the kickoff meeting.

Contracting Officer's Representative:

Idaho Department of Lands
Mike Murphy, Bureau Chief, Endowment Leasing
300 North 6th Street, Suite 103
Boise ID 83702
Phone: 208-334-0290
Email: mmurphy@idl.idaho.gov

State Hydrocarbon Producing Wells from August 2015 - December 2016

11/30/2017

Highway



Oil and Gas Well



Oil and Gas Lease



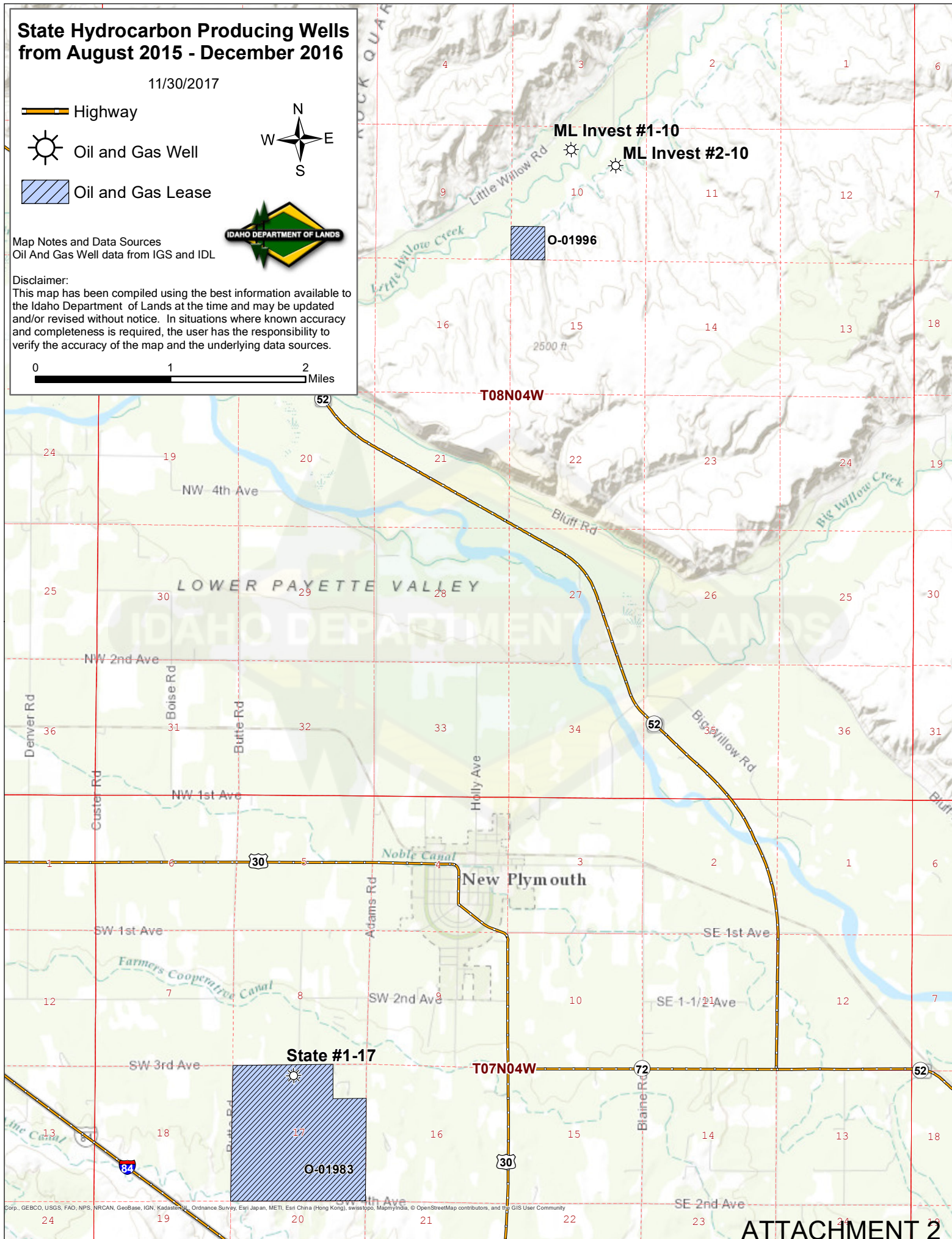
Map Notes and Data Sources

Oil And Gas Well data from IGS and IDL

Disclaimer:

This map has been compiled using the best information available to the Idaho Department of Lands at the time and may be updated and/or revised without notice. In situations where known accuracy and completeness is required, the user has the responsibility to verify the accuracy of the map and the underlying data sources.

0 1 2 Miles



Corp., GEBCO, USGS, FAO, NPS, NRCAN, GeoBase, IGN, Kadaster NL, Ordnance Survey, Esri Japan, METI, Esri China (Hong Kong), Swisstopo, Mapbox India, © OpenStreetMap contributors, and the GIS User Community

ATTACHMENT 2

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IDAHO DEPARTMENT OF LANDS



Idaho Department of Lands
ATTN: Michael Murphy,
Bureau Chief – Endowment Leasing
300 N. 6th St Suite 103
Boise, ID 83702

August 10, 2018

Dear Mr. Murphy:

The Idaho State Board of Land Commissioners (“Land Board”) and the Idaho Department of Lands (“IDL”) have entered into oil and gas leases on state endowment trust lands. IDL has the responsibility of administering trust lands on behalf of the Land Board to maximize revenue generation for specified beneficiaries. Lands and minerals owned by the State are leased to make money for those beneficiaries. Compared to other states, oil and gas leasing in the State of Idaho is currently a small component of land administration. The Idaho Legislature and the Land Board have adopted requirements for operators to provide royalty reporting to IDL. IDL has requested auditing services to assess whether royalties paid to state beneficiaries for oil and gas produced from wells on the state endowment trust lands are in compliance with the governing statutes, rules and leases and reflect accurate reporting made by the operator. IDL has engaged Oppertune LLP (“Oppertune”) to perform a limited oil and gas lease audit of royalties paid to IDL from August of 2015 through December 2016 (collectively, “Period”) including an analytical review of volume and payment reconciliations; an assessment of identified arms-length transactions; and documentation of any significant findings that may warrant further investigation. During the Period, one operator (“Operator”) submitted royalty reports and payments for three producing wells under two state leases. Oppertune has provided this report (“Report”) as a summary of our limited audit.

The Land Board is the Lessor in two oil and gas lease agreements in which Alta Mesa Services, LP (“Alta Mesa”) was the Operator for the Period. Alta Mesa is currently the largest producer in the State and was during the Period. Lease 0-01983 is 600 acres with a gross royalty of 12.5%, and lease 0-01996 is 40 acres with a gross royalty of 12.5%. Each lease was unitized into a 640 acre section resulting in net revenue interests of 11.71875% and .78125% for the two leases, respectively. During the Period, the State 1-17 was the single well operational on 0-01983, and production was only dry gas during the Period. During the Period, both the ML Investments 1-10 and the ML Investments 2-10 were productive wells, and each well produced condensate, residue gas, and natural gas liquids (“NGLs”).

Oppertune

Executive Summary

Opportune's scope of services included the following:

- Perform an analytical review of volume and payment reconciliations of the Period data set, and document significant differences that are pertinent to audited leases.
- Using best professional judgment, inform IDL of additional recommended out-of-scope work and estimated costs, such as a gas processing plant audit.
- Review Schematic Diagrams. The Auditor will request any necessary schematic diagrams for oil and gas operations from the Operator. The Auditor will review these schematic diagrams for appropriate completeness, field equipment, measurement points, custody points, and commingling points. The Auditor will identify any differences or necessary additions.
- Confirm that the raw and processed hydrocarbon sales points identified by the Operator represent appropriate arms-length transactions.
- Propose recommendations for additional auditing tasks beyond the scope of this limited oil and gas audit that would be beneficial to IDL and the beneficiaries given that a comprehensive oil and gas audit may not be financially justifiable due to the current low level of hydrocarbon production.

Opportune reconciled a schedule of royalties payable to IDL to payments submitted to IDL and performed analytical reviews of volumes and payment reconciliations. We noted that payments received were \$58.61 lower than expected payments based on reporting to IDL from Alta Mesa during the Period. The difference can be requested from Alta Mesa though the amount is immaterial compared to total receipts.

Opportune reconciled volumes reported by Alta Mesa and noted Alta Mesa did not pay royalties on plant fuel volumes. While total plant fuel volumes were understated by approximately 17K MMBTU, the resulting understated royalties were approximately \$107. Opportune was able to reconcile reported volumes to plant statements and purchaser statements from ARM Energy Management, LLC ("AEM"), the entity that markets production on behalf of Alta Mesa. Reported royalty volumes were actual physical volumes sold for condensate and NGLs. For residue gas, reported volumes were based on nominated monthly volumes rather than physical volumes delivered. Alta Mesa does not provide a reconciliation of imbalances between nominated volumes and produced volumes, but the sales volumes nominated were higher than delivered volumes by 2,516 MMBTU, resulting in IDL receiving approximately \$90 more in royalty proceeds than it would have received based on actual volumes delivered.

The key identified issue is pricing. Alta Mesa contracted with AEM to market its product, but as AEM is the entity that is making the sales, Alta Mesa does not have the data necessary to prove that it is receiving market prices. AEM takes title of production volumes upon their entering the gas plant. AEM appears to meet the criteria as an End Purchaser. Opportune recommends formally requesting Alta Mesa to audit AEM as a means for proving that AEM is getting the best market price possible. We noted that no fees are being charged to Alta Mesa for the processing of products in the gas plant. With the audit of AEM, it is possible that AEM could prove that costs are being deducted from prices received. Even with the newly updated form lease, the issues identified related to pricing and transparency of counterparties with AEM may not be improved. Additional language may be needed to require Alta Mesa to provide additional disclosures regarding ultimate sales prices.

Background Information

The Report addresses payments received by IDL, volumes produced and sold, and prices realized by Alta Mesa. We have compared data provided by IDL with data provided by Alta Mesa. Oppertune's main contact with Alta Mesa was Jessica Guiliza, Alta Mesa's Revenue Manager ("Guiliza"). Guiliza provided requested documents and answers to questions presented by Oppertune.

Additionally, the entity that processed Alta Mesa's production on lease 0-01996 and the entity that marketed Alta Mesa's production on 0-01996 were affiliates or related parties with Alta Mesa. Both will be discussed in more detail in the Report. The use of affiliated parties within transactions is a regular practice in the oil and gas industry. Operators often own midstream facilities or utilize affiliates to market or purchase production in order to achieve additional economies of scale, but these related transactions can be a challenge to royalty holders as financial results are examined. Companies may divest these same businesses if they can achieve more favorable results by outsourcing or contracting these same services with third parties. One key recommendation is enhancing IDL's ability to protect itself from operators' use of affiliated entities. The goal for IDL should be to receive at least the same results as if the operator were utilizing or marketing to non-affiliated, third-party entities.

Northwest Gas Processing, LLC is the midstream entity that processes Alta Mesa's production. The following is a description of the relationship and transactions between Northwest Gas Processing, LLC and Alta Mesa per the December 31, 2016 form 10K. Both passages are included in Alta Mesa's footnote regarding related party transactions (see "Item 13. Certain Relationships and Related Transactions, and Director Independence" in Alta Mesa's form 10K):

"Midstream Asset Sale and Land Purchase

On December 31, 2014, we sold our interests in a partially constructed pipeline and gas processing plant at cost to Northwest Gas Processing, LLC ("NWGP") for \$25.5 million cash and short-term note receivable of \$8.5 million, while recording no gain or loss on the sale at December 31, 2014. The \$8.5 million note receivable, dated December 31, 2014, bears interest at 8% per annum, interest payable only in quarterly installments beginning January 1, 2015, and matures on December 31, 2019. Immediately after the consummation of the transaction, NWGP's obligation under the \$8.5 million promissory note was transferred to High Mesa Services, LLC, a subsidiary of High Mesa. On December 31, 2015, we repurchased a small portion of land originally sold to NWGP at cost of \$0.7 million."

"NWGP Services Agreement

We are party to a services agreement dated January 1, 2016 with NWGP. Pursuant to the agreement, we agree to provide administrative and management services to NWGP relating to the midstream assets we sold to NWGP on December 31, 2014. During the year ended December 31, 2016 NWGP was billed for management services provided in the amount of approximately \$0.1 million. High Mesa owns a controlling interest in NWGP."

Both of these passages reference High Mesa, described as follows:

"Partnership Structure

We are structured as a private partnership. Since our inception in 1987, we have funded exploration, development and operating activities primarily through cash from operations, contributions by our limited partners, borrowings under our senior secured credit facilities and proceeds from the issuance of senior unsecured notes.

Our partnership agreement currently provides for two classes of limited partners. Our Class A limited partners include our founder, Michael E. Ellis, and other parties. Our sole Class B limited partner is High Mesa, Inc. (“High Mesa”) which has been funded through investments from HPS Investment Partners, LLC (formerly known as Highbridge Principal Strategies LLC) (“HPS”) and Bayou City Energy Management LLC (“Bayou City”) in exchange for 100% of the preferred stock in High Mesa.”

Alta Mesa outsources its product marketing efforts to ARM Energy Management, LLC (“AEM”). The relationship with ARM is described in Alta Mesa’s footnotes, but not in its “Item 13. Certain Relationships and Related Transactions, and Director Independence”, and the following from the December 31, 2016 10K describes the relationship between Alta Mesa and ARM Energy Management:

“We sell the oil and natural gas from several properties we operate primarily through a marketing agreement with ARM Energy Management, LLC (“AEM”). We are a part owner of AEM at less than 10%. AEM markets our oil and natural gas and subsequently sells it under short-term contracts generally with month-to-month pricing based on published regional indices, with differentials for transportation, location, and quality taken into account. AEM remits monthly collections of these sales to us, and receives a 1% marketing fee. Our marketing agreement with AEM commenced in June 2013. The agreement will terminate in 2018, with additional provisions for extensions beyond five years, and for early termination. During the second half of 2013 and throughout 2014 to 2016, AEM marketed majority of our production from operated fields. Production from non-operated fields, the most significant of which were our Eagleville field in South Texas, and our Hilltop natural gas field in East Texas prior to their sale, was marketed on our behalf by the operators of those properties. Production from our interests in Eagleville was sold by the operator, Murphy Oil Corporation. We sold our remaining interests in Eagleville in the third quarter of 2015. See “Note 4 — Significant Acquisitions and Divestitures” in the accompanying notes to the consolidated financial statements included elsewhere in this report for additional information.”

“For the year ended December 31, 2016, revenues marketed by AEM were \$160.7 million, or 80% of total revenue excluding hedging activities.”

“We believe that the loss of any of our significant customers, or of our marketing agent AEM, would not have a material adverse effect on us because alternative purchasers are readily available.”

Alta Mesa’s description of its relationship with AEM addresses its marketing of Alta Mesa’s revenues in Oklahoma since Alta Mesa’s significant revenue activities occur in that market. AEM also provides marketing services related to Alta Mesa’s production in Idaho, and AEM markets all products produced in the Little Willow field. Alta Mesa describes its relationship with Alta Mesa, but does not appear to consider it as a related party, as Alta Mesa’s ownership of AEM is less than 10%.

See Exhibit 1 for a graphical representation of Alta Mesa’s partnership entities and the entities party to the marketing agreement with AEM.

In order to mitigate risks related to receiving less than its fair share of royalty proceeds due to operators taking advantage of affiliated transactions to pay less than market rates, the Land Board can address the use of affiliated transactions in subsequent leases. These matters have been addressed in other oil and gas jurisdictions around the country. The Land Board could include provisions to define affiliated transactions and provide a framework to ensure payments are as favorable as would be received in an arm’s length transaction. Specifics may address both affiliated midstream costs and marketing arrangements. IDL’s oil and gas attorney will be integral in drafting language that is acceptable to IDL and can be enforced prospectively, including providing additional audit rights and information requirements to the State and or IDL. See Exhibit 2 for samples of lease language related to these matters.

Royalty Payments Made by Alta Mesa

During the Period, Alta Mesa made the following payments to IDL based on the attached listing of payments by check and wire transfer provided by Alta Mesa to Opportune:

Accounts Payable Summary Check Register (CD3310)

Payee: IDAHO DEPARTMENT OF LANDS

ALTA MESA SERVICES, LP

Acct	Check No	Check date	Type	Check amount	Wire Xfer	Status
OPER	2065724	10/22/2015	AP	1,077.60		CLEARED 10/31/15
CDOP	844	11/24/2015	AP	1,863.39		CLEARED 11/30/15
CDOP	1834	12/29/2015	AP	2,143.64		CLEARED 01/31/16
CDOP	9789	7/14/2016	AP	6,726.10		CLEARED 07/31/16
UBFA	7072	8/25/2016	AP	1,571.84	WT	CLEARED 10/31/16
UBFA	7992	9/28/2016	AP	1,439.46	WT	CLEARED 10/31/16
UBFA	8514	10/28/2016	AP	1,372.35	WT	CLEARED 10/31/16
UBFA	9081	12/5/2016	AP	2,235.66	WT	CLEARED 12/31/16
UBFA	9590	1/3/2017	AP	1,305.62	WT	CLEARED 01/31/17
WFFA	619	2/2/2017	AP	1,778.08	WT	CLEARED 02/28/17
WFFA	1604	3/6/2017	AP	2,957.42	WT	CLEARED 03/31/17

Total Payments 24,471.16

Note: The above schedule was provided by Alta Mesa and is a schedule of all payments during the Period.

Alta Mesa reported the following royalty payables by lease and commodity type as follows based on their royalty reporting requirements to IDL:

Production Month	Gas 0-01983	Gas 0-01996	Condensate 0-01996	NGLs 0-01996	Total Due	Associated Payment	Difference
Aug-15	\$ 413.53	\$ 512.16	\$ 116.52	\$ -	\$ 1,042.20	\$ 1,077.60	\$ 35.40
Sep-15	314.56	853.45	632.82	73.97	1,874.81	1863.39	(11.42)
Oct-15	317.21	1,017.08	696.67	108.58	2,139.55	2143.64	4.09
Nov-15	275.38	531.25	335.82	92.60	1,235.05		
Dec-15	49.84	388.43	430.87	4.51	873.65		
Jan-16	255.89	989.72	409.63	-	1,655.24		
Feb-16	88.82	131.38	244.76	-	464.96		
Mar-16	65.06	63.76	493.75	-	622.56		
Apr-16	-	159.56	500.17	93.11	752.85		
May-16	57.06	290.29	646.38	231.36	1,225.10	6726.1	(103.31)
Jun-16	216.49	567.29	545.64	226.12	1,555.54	1571.84	16.30
Jul-16	267.82	654.01	364.06	153.50	1,439.38	1439.46	0.08
Aug-16	178.73	691.76	377.59	124.28	1,372.35	1372.35	(0.00)
Sep-16	217.23	1,184.21	664.83	169.40	2,235.68	2235.66	(0.02)
Oct-16	25.28	647.10	478.06	155.18	1,305.62	1305.62	(0.00)
Nov-16	-	855.39	597.69	325.00	1,778.08	1778.08	(0.00)
Dec-16	-	1,955.38	594.78	406.98	2,957.14	2957.42	0.28
Totals	\$2,742.89	\$11,492.23	\$ 8,130.05	\$ 2,164.60	\$24,529.77	\$24,471.16	\$ (58.61)

Note: the above schedule is a reconciliation of royalties payable and payments made.

Payments are understated by \$58.61 for the Period. This amount can be requested from Alta Mesa for the period.

Volumes Reported by Alta Mesa

In the two charts below, Alta Mesa has reported gross volumes and gross revenue values during the Period, respectively, for the two leases as follows:

Month	Residue Gas (MMCF)			Condensate (Barrels)		NGLs (Gallons)	
	State 1-17	ML Investments	ML Investments	ML Investments	ML Investments	ML Investments	ML Investments
		1-10	2-10	1-10	2-10	1-10	2-10
Aug-15	1,296	58,711	3,228	868	37	-	-
Sep-15	1,014	51,740	59,723	1,715	1,984	62,525	71,626
Oct-15	1,106	49,836	61,074	1,305	2,703	63,262	87,395
Nov-15	1,057	17,921	48,860	389	1,712	36,069	112,532
Dec-15	228	54,589	71,040	1,177	2,042	67,304	93,018
Jan-16	1,011	33,776	94,656	857	3,117	-	-
Feb-16	440	-	86,467	-	2,436	-	-
Mar-16	365	-	83,016	-	2,873	-	-
Apr-16	-	-	90,214	-	2,611	-	150,067
May-16	296	-	91,203	-	2,814	-	105,284
Jun-16	757	-	70,765	-	2,201	-	137,566
Jul-16	889	-	64,907	-	1,761	-	132,756
Aug-16	573	-	64,381	-	1,797	-	123,976
Sep-16	682	-	99,141	-	3,146	-	113,052
Oct-16	83	-	66,355	-	1,943	-	58,401
Nov-16	-	-	105,234	-	3,351	-	141,695
Dec-16	-	-	101,955	-	2,933	-	121,148
Total Reported	9,797	266,573	1,262,219	6,311	39,461	229,160	1,448,517

Note: The above schedule is all reported volumes by type (residue gas, condensate and NGLs) during the Period.

Month	Residue Gas Gross Value			Condensate Gross Value		NGLs Gross Value	
	State 1-17	ML Investments	ML Investments	ML Investments	ML Investments	ML Investments	ML Investments
		1-10	2-10	1-10	2-10	1-10	2-10
Aug-15	\$ 3,528.78	\$ 62,145.87	\$ 3,410.15	\$ 14,283.28	\$ 631.09	\$ -	\$ -
Sep-15	2,684.27	50,708.72	58,532.95	37,549.94	43,450.96	4,775.36	4,693.25
Oct-15	2,706.90	58,497.13	71,688.51	29,043.16	60,131.14	5,486.22	8,412.51
Nov-15	2,349.92	18,248.12	49,751.75	7,958.39	35,027.16	2,587.90	9,264.69
Dec-15	425.29	21,604.28	28,115.09	20,164.53	34,986.60	375.02	202.38
Jan-16	2,183.60	33,316.38	93,368.33	11,306.75	41,125.34	-	-
Feb-16	757.91	-	16,817.18	-	31,329.02	-	-
Mar-16	555.15	-	8,161.08	-	63,199.60	-	-
Apr-16	-	-	20,424.08	-	64,022.12	-	11,918.14
May-16	486.95	-	37,156.73	-	82,737.24	-	29,613.99
Jun-16	1,847.37	-	72,612.92	-	69,841.76	-	28,943.98
Jul-16	2,285.36	-	83,713.55	-	46,599.15	-	19,647.83
Aug-16	1,525.14	-	88,545.15	-	48,331.35	-	15,907.61
Sep-16	1,853.68	-	151,579.42	-	85,098.69	-	21,683.34
Oct-16	215.71	-	82,829.37	-	61,191.71	-	19,862.87
Nov-16	-	-	109,490.02	-	76,504.67	-	41,599.85
Dec-16	-	-	250,288.44	-	76,132.33	-	52,093.53
Total Reported	\$ 23,406.03	\$ 244,520.50	\$ 1,226,484.72	\$ 120,306.05	\$ 920,339.93	\$ 13,224.50	\$ 263,843.97

Note: The above schedule is all reported gross values by type (residue gas, condensate, NGLs) during the Period.

Lease 0-01996's allocated production is produced within the Little Willow production facility and is processed through the Highway 30 facility operated by NWGP. The Highway 30 facility processed production from the following wells during the Period:

ML 2-10
ML 1-10
ML 2-3
Kaufman 1-34
Kaufman 1-9 LT
Kaufman 1-9 UT
ML 1-11 LT
ML 1-11 UT
ML 1-3

See Exhibit 3 for a graph of the Little Willow plant schematic. Included are all meters used to account for all volumes in the system.

Opportune reviewed plant statements for the Period. We noted a reconciliation between gas and product entering the plant at the inlet, representing volumes at the wellhead, volumes delivered after deductions for plant fuel and accounting for changes in inventory and sales volumes after processing. Wet gas and condensate enter the plant, and both are processed with resultant deliveries of residue gas, condensate, and NGLs. We noted volumes for plant fuel which should qualify for royalty were as follows:

Production Month	Plant Fuel MMBTU	Gross	Net
9/30/2015	1,089.50	\$ 1,042.54	\$ 8.14
10/31/2015	748.80	687.18	5.37
11/30/2015	889.66	714.05	5.58
12/31/2015	1,459.20	562.89	4.40
1/31/2016	2,017.23	1,666.05	13.02
2/29/2016	1,422.08	259.52	2.03
3/31/2016	1,331.06	113.59	0.89
4/30/2016	1,442.13	293.67	2.29
5/31/2016	795.56	276.49	2.16
6/30/2016	858.17	768.14	6.00
7/31/2016	880.92	998.14	7.80
8/31/2016	901.36	1,076.94	8.41
9/30/2016	752.61	993.33	7.76
10/31/2016	478.16	559.05	4.37
11/30/2016	993.46	884.94	6.91
12/31/2016	1,327.04	2,785.30	21.76
	17,386.94	\$13,681.81	\$ 106.89

Note: The above schedule is monthly plant fuel MMBTU volumes, gross values and net values during the Period. Amounts were obtained from the monthly plant statements.

Resultant plant fuel recoveries were calculated utilizing the residue gas rate for the associated production month.

Sales of condensate and NGLs are based on actual volumes sold. Production volumes were sent or piped into the Highway 30 facility, processed and then stored in tanks until sold. Sales volumes could also include inventory balances from prior months.

NWPG processes and AEM markets NGLs by product (ethane (C2), propane (C3), iso butane (IC4), normal (NC4), natural gasoline (C5+)). Based on metering of gas and condensate at the well, NWPG allocates individual products to each well. See sample below of June 2016 allocation of NGL gallons by product:

June 2016 NGLs by Product & Well NGL Total by Product Percentage
(Amounts in Gallons)

Product	Well Name						
	Kauffman 1-34	Kauffman 1-9 LT	ML 1-11 LT	ML 1-11 UT	ML 1-3	ML 2-10	ML 2-3
Ethane	11,311	4,193	7,266	10,509	20,354	12,107	7,558
Propane	53,996	15,517	22,422	29,943	64,914	38,467	24,232
Isobutane	32,540	7,610	10,583	13,475	31,282	18,699	11,799
Normal Butane	51,989	12,981	18,532	23,422	55,466	33,216	20,781
Natural Gasoline	55,820	11,476	18,271	22,100	57,210	35,163	21,390
Total Gallons	205,655	51,778	77,074	99,449	229,225	137,652	85,760
Ethane	5.5%	8.1%	9.4%	10.6%	8.9%	8.8%	8.8%
Propane	26.3%	30.0%	29.1%	30.1%	28.3%	27.9%	28.3%
Isobutane	15.8%	14.7%	13.7%	13.5%	13.6%	13.6%	13.8%
Normal Butane	25.3%	25.1%	24.0%	23.6%	24.2%	24.1%	24.2%
Natural Gasoline	27.1%	22.2%	23.7%	22.2%	25.0%	25.5%	24.9%
Total Percent	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Above schedule is a sample month (June 2016) NGL gallons by product and percentage of gallons by product.

Reported residue gas volumes are based on delivered thousand cubic feet (mmcf) volumes at the plant. We reconciled reported volumes to volumes delivered as follows:

Month	Reported 1-10	Delivered 1-10	Difference	Reported 2-10	Delivered 2-10	Difference
	Residue Gas	Residue Gas	Residue Diff	Residue Gas	Residue Gas	Residue Diff
Sep-15	51,740	51,739	1	59,723	59,725	(2)
Oct-15	49,836	49,672	164	61,074	60,769	305
Nov-15	17,921	17,866	55	48,860	48,703	157
Dec-15	54,589	54,589	0	71,040	71,040	0
Jan-16	33,776	33,776	0	94,656	94,656	0
Feb-16				86,467	86,467	0
Mar-16				83,016	83,021	(5)
Apr-16				90,214	90,217	(3)
May-16				91,203	91,214	(11)
Jun-16				70,765	70,768	(4)
Jul-16				64,907	64,994	(87)
Aug-16				64,381	64,581	(200)
Sep-16				99,141	99,159	(19)
Oct-16				66,355	66,405	(50)
Nov-16				105,234	105,243	(9)
Dec-16				101,955	102,041	(86)
Total Variance	207,862	207,641	221	1,258,991	1,259,004	(13)

Note: The schedule above is a reconciliation of reported residue gas volumes versus delivered volumes per the monthly gas plant statements during the Period.

Reported gas volumes are higher than statement volumes for the Period.

Reported condensate and NGL volumes are based on sold volumes. Volumes are delivered to the plant and placed in tanks until they are sold.

Month	Reported Volumes				Statement Values				Difference			
	Condensate (Barrels)		NGLs (Gallons)		Condensate (Barrels)		NGLs (Gallons)		Condensate (Barrels)		NGLs (Gallons)	
	ML Investments 1-10	ML Investments 2-10	ML Investments 1-10	ML Investments 2-10	ML Investments 1-10	ML Investments 2-10	ML Investments 1-10	ML Investments 2-10	ML Investments 1-10	ML Investments 2-10	ML Investments 1-10	ML Investments 2-10
Sep-15	1,715	1,984	62,525	71,626	1,715	1,984	62,525	71,626	0	(0)	0	(0)
Oct-15	1,305	2,703	63,262	87,395	1,091	2,220	59,826	81,263	214	483	3,436	6,132
Nov-15	389	1,712	36,069	112,532	339	1,525	34,699	108,164	50	187	1,370	4,368
Dec-15	1,177	2,042	67,304	93,018	1,177	2,042	67,304	93,018	(0)	(0)	0	0
Jan-16	857	3,117			857	3,117			0	0	-	-
Feb-16		2,436				2,436			-	(0)	-	-
Mar-16		2,873				2,880			-	(7)	-	-
Apr-16		2,611		150,067		2,615		150,120	-	(4)	-	(53)
May-16		2,814		105,284		2,829		104,803	-	(15)	-	482
Jun-16		2,201		137,566		2,211		137,652	-	(10)	-	(85)
Jul-16		1,761		132,756		1,902		134,818	-	(141)	-	(2,062)
Aug-16		1,797		123,976		2,074		128,795	-	(277)	-	(4,819)
Sep-16		3,146		113,052		3,181		113,305	-	(35)	-	(253)
Oct-16		1,943		58,401		2,205		59,294	-	(262)	-	(893)
Nov-16		3,351		141,695		3,376		141,859	-	(25)	-	(163)
Dec-16		2,933		121,148		3,051		122,542	-	(117)	-	(1,394)
Total Reported	5,443	39,424	229,160	1,448,517	5,179	39,650	224,354	1,447,258	264	(225)	4,806	1,258

Note: The above schedule is a reconciliation of reported sales volumes of condensate and NGLs versus delivered condensate and NGL volumes during the Period.

Reported volumes are higher than statement volumes for both condensate and NGLs. Additionally, we noted that in January – March, 2016, no NGL volumes (and associated royalties) were reported to the State for NGLs as a result of total NGL sales value being negative. This is appropriate as no cash receipts are received by Alta Mesa related to NGLs.

Rather than deduct the NGL value from residue gas, Alta Mesa paid royalties only for condensate and residue gas. Royalties are calculated based on the accumulated NGL monthly balance rather than charged to individual plant product. A summary of NGLs for January – March are as follows:

Product	Jan-16			Feb-16			Mar-16		
Ethane	31,721	\$ (0.415)	\$(13,176.90)	17,242	\$ (0.424)	\$(7,317.50)	23,127	\$ (0.424)	\$(9,796.60)
Propane	120,795	\$ (0.255)	\$(30,742.33)	70,577	\$ (0.220)	\$(15,534.00)	141,170	\$ (0.150)	\$(21,175.50)
Isobutane	56,859	\$ (0.018)	\$(1,029.15)	32,642	\$ 0.050	1,635.36	65,649	\$ 0.026	1,693.74
Normal Butane	103,220	\$ (0.091)	\$(9,403.34)	60,821	\$ (0.075)	\$(4,579.82)	118,565	\$ (0.065)	\$(7,683.01)
Natural Gasoline	106,241	\$ 0.171	18,124.71	63,842	\$ 0.134	8,535.68	121,947	\$ 0.286	34,840.26
Totals	418,836	\$ (0.086)	\$(36,227.01)	245,124	\$ (0.070)	\$(17,260.28)	470,458	\$ (0.005)	\$(2,121.11)

Allocated NGLs

ML 2-10	147,579	\$ (0.090)	\$(13,282.11)	75,623	\$ (0.070)	\$(5,293.61)	101,311	\$ (0.003)	\$(253.28)
ML 1-10	49,818	\$ (0.087)	\$(4,319.22)						

Note: The above schedule represents three months of NGL volumes and values which yielded negative values. For IDL the negative values resulted in no royalties being paid for NGL volumes during the indicated months.

We noted that AEM has provided negative pricing for Ethane for all months during the Period. Prices range from (\$.2124)/gallon in December 2016 – (\$.4275)/gallon in December 2015.

Pricing

Key current leasing provisions related to pricing are as follows for the subject leases during the Period:

- **Oil Royalty Calculation.** When paid in cash, the royalty shall be calculated upon the reasonable market value of the oil at the well which shall not be less than the price actually paid or agreed to be paid to the lessee at the well by its purchaser; in no event shall the royalties be based upon a market value at the well less than the posted price in the field for such oil, or upon a market value at the well less than the prevailing price received by other producers in the field for oil of like grade and gravity at the time such oil is run into pipelines or storage tanks.
- **Gas royalty calculation.** On gas, including casinghead gas or other gaseous substances, the royalty shall be calculated upon the reasonable market value at the well or on the price received by lessee at the well, whichever is greater, of all gas produced and saved from the leased premises. Where gas is sold under a contract that has been approved by the State, the reasonable market value of such gas for determining the royalty payable shall be the price at which such gas is sold under the contract; provided, however, that no approval by the State of the terms of any such agreement shall operate to make the State a party thereto or obligates it.

The following are realized prices by product and by lease during the Period.

Production Month	Lease 0-01996			Lease 0-01983
	Condensate	Gas	NGL	Gas
	Per BBL	Per MMBTU	Per Gallon	Per MMBTU
Sep-15	21.90	0.96	0.07	2.65
Oct-15	22.25	0.92	0.09	2.45
Nov-15	20.46	0.80	0.08	2.22
Dec-15	17.13	0.39	0.00	1.87
Jan-16	13.19	0.83	(0.09)	2.16
Feb-16	12.86	0.18	(0.07)	1.72
Mar-16	22.00	0.09	(0.00)	1.52
Apr-16	24.52	0.20	0.08	
May-16	29.40	0.35	0.25	1.64
Jun-16	31.73	0.90	0.21	2.44
Jul-16	26.46	1.13	0.15	2.57
Aug-16	26.90	1.19	0.13	2.66
Sep-16	27.05	1.32	0.20	2.72
Oct-16	31.50	1.17	0.34	2.60
Nov-16	21.87	0.89	0.29	-
Dec-16	26.88	2.10	0.42	-

Note: The above schedule is a listing of realized prices by product during the Period.

Opportune discussed pricing with Guiliza. Opportune noted prices were generally low across the board for lease 0-01996 for all products. See chart below comparing realized prices to various indices (for oil, Rocky Mountain crude is the closest index, and for gas, Kingsgate and the Alberta are the closest indices):

Source	Oil Prices				Natural Gas Prices					
	Cushing, OK WTI Spot Price FOB (Dollars per Barrel)	Europe Brent Spot Price FOB (Dollars per Barrel)	Rocky Mountain Crude Oil First Purchase Price Historical Data	Reported Crude Price	Natural Gas Cost, as Delivered (\$/Mcf)	U.S. Natural Gas Pipeline Imports Price (Dollars per Thousand Cubic Feet)	Henry Hub Natural Gas (\$/mmbtu)	Kingsgate (ID) (Hub Sumas) (\$/mmbtu)	Alberta (Hub AECO) (\$/mmbtu)	Reported RES
	Thomson Reuters:	Thomson Reuters:	EIA	Alta Mesa	Langley	EIA	EIA	October 2015 final North American Market Gas-trade (NAMGas) Model	October 2015 final North American Market Gas-trade (NAMGas) Model	Alta Mesa
Sep-15	45.48	47.62	36.94	21.90	3.00	2.49	2.66	2.47	2.45	0.98
Oct-15	46.22	48.43	38.92	22.25	2.91	2.37	2.34	2.54	2.51	1.17
Nov-15	42.44	44.27	35.76	20.46	2.72	2.19	2.09	2.54	2.51	1.02
Dec-15	37.19	38.01	30.01	17.13	2.41	2.13	1.93	2.86	2.83	0.40
Jan-16	31.68	30.7	24.42	13.19	2.67	2.42	2.28	3.10	3.06	0.99
Feb-16	30.32	32.18	23.93	12.86	2.25	2.12	1.99	3.21	3.18	0.19
Mar-16	37.55	38.21	30.86	22.00	2.26	1.55	1.73	2.92	2.88	0.10
Apr-16	40.75	41.58	34.19	24.52		1.51	1.92	2.96	2.93	0.23
May-16	46.71	46.74	39.74	29.40	2.41	1.44	1.92	3.17	3.13	0.41
Jun-16	48.76	48.25	42.95	31.73	2.47	1.76	2.59	3.10	3.07	1.03
Jul-16	44.65	44.95	39.67	26.46	2.83	2.26	2.82	3.17	3.13	1.29
Aug-16	44.72	45.84	39.22	26.90	2.89	2.29	2.82	3.23	3.20	1.38
Sep-16	45.18	46.57	39.42	27.05	3.38	2.42	2.99	2.98	2.95	1.53
Oct-16	49.78	49.52	44.37	31.50	4.75	2.5	2.98	3.05	3.01	1.25
Nov-16	45.66	44.73	40.1	22.83		2.41	2.55	3.02	2.99	1.04
Dec-16	51.97	53.29	45.73	25.96	4.05	3.31	3.59	3.38	3.34	2.45

Note: The above schedule is a listing of oil (condensate) and residue gas prices by index price and then compared to the Alta Mesa realized price during the Period.

One critical question raised by IDL concerns whether Alta Mesa treating or identifying ARM as an “End Purchaser” as defined in Idaho Code 47-310(6) (End Purchaser - means a third party, arms-length purchaser of oil, gas or condensate that is ready for refining or other use, or a third party, arms-length purchaser of other fluid or gaseous hydrocarbons that have been separated in a processing facility). In this case, it appears that AEM is an End Purchaser given that title changes to AEM as volumes enter the gas processing plant. Further, AEM agrees to the realized prices and sells to the parties who take the final processed products.

AEM provides marketing services including finalizing transactions with sale counterparties and setting prices. Guiliza stated that Alta Mesa has the right to audit AEM to determine if prices are below market. Opportune suggests that IDL utilize its lease provisions and existing rules and statutes to encourage Alta Mesa to audit AEM in order for Alta Mesa to satisfy its obligations to provide proof of market value as defined in the *Rules Governing Oil and Gas Leasing on Idaho State Lands*. Opportune also suggests that future leases require these audits and require operators to provide third party sales information to IDL. IDL retains the option to market on their own behalf and take product in kind, but given the relative low volumes, it is unlikely IDL would recognize benefits outweighing the costs of marketing.

Opportune noted that volumes and values on the producer statements from AEM match the sales quantities on the plant statement. Our understanding is that plant statement sales volumes are provided

from AEM data rather than separate plant sales meters. Opportune also noted that no plant fees are shown on any of the plant statements during the period. These could include processing fees, gathering fees, dehydration fees, or transportation. In general, Opportune would expect these fees to be shown if they are being charged. Based on discussion with Guiliza and with NWGP, none of these fees are charged to Alta Mesa. Opportune requested the service contract between Alta Mesa and NWGP and were told that there is no service agreement. In light of the low commodity prices received, we believe an audit of AEM can determine if these fees are being absorbed by seller, and, therefore, recharged to IDL.

Opportune was able to review the contract between AEM and Alta Mesa. AEM was contracted to market on behalf of Alta Mesa. There were no clauses requiring minimum volumes or dollar amounts, and there were no price parameters such as indices or basis differentials, nor were there any fees charged save for a per unit marketing fee (\$.25/bbl for condensate, \$.025/MMBTU for gas) which was not charged to the State nor deducted from royalties paid to the State. AEM is required to provide a monthly statement to Alta Mesa. We reviewed the AEM monthly statements for gas, condensate, and NGLs and noted marketing fees being charged to Alta Mesa as directed in the contract. Additionally, Opportune noted that these marketing fees were not deducted from the gross revenues serving as the basis of royalties being paid to IDL. See Exhibit 4 for sample of statements for a single production month (September statement related to August production).

AEM sells residue gas based on nominated (scheduled) MMBTUs rather than actual delivered volumes, which results in a monthly imbalance of sold volumes versus produced volumes. Opportune inquired about the status of the imbalance as the monthly payable/receivable is not accounted for on either the plant statement or the purchaser statement provided by AEM on a monthly basis. Opportune inquired with Guiliza, and we were told that imbalances are not tracked on a formal basis. Jessica said that some months the variance is higher, and some months the variance is lower. We noted the following residue gas imbalance values for the Period:

Month	ML 1-10			ML 2-10			Residue	
	Gas Volume Delivered	Gas Volume Sold	Difference	Gas Volume Delivered	Gas Volume Sold	Difference	Sales Price	Variance
Sep-15	58,815.02	52,992.00	(5,823.02)	67,893.00	61,171.22	(6,721.78)	0.96	(12,004.12)
Oct-15	56,494.73	63,532.62	7,037.89	69,116.75	77,727.04	8,610.29	0.92	14,360.41
Nov-15	20,275.74	22,665.83	2,390.09	55,273.42	61,788.99	6,515.57	0.80	7,147.75
Dec-15	61,779.47	56,005.55	(5,773.92)	80,397.75	72,883.76	(7,513.99)	0.39	(5,125.84)
Jan-16	38,418.36	40,338.95	1,920.59	107,666.49	113,048.87	5,382.38	0.83	6,031.60
Feb-16				98,490.84	92,153.96	(6,336.88)	0.1825	(1,156.42)
Mar-16				94,628.48	95,641.88	1,013.40	0.09	86.48
Apr-16				102,959.30	100,299.40	(2,659.90)	0.20	(541.65)
May-16				103,907.58	106,926.60	3,019.02	0.35	1,049.22
Jun-16				80,681.63	81,127.75	446.12	0.90	399.32
Jul-16				73,920.22	73,981.17	60.95	1.13	69.06
Aug-16				73,401.67	74,339.63	937.96	1.19	1,120.67
Sep-16				113,548.52	114,867.37	1,318.85	1.32	1,740.68
Oct-16				76,109.20	70,898.79	(5,210.41)	1.17	(6,091.82)
Nov-16				120,996.76	122,927.44	1,930.68	0.89	1,719.78
Dec-16				117,625.24	119,348.51	1,723.27	2.10	3,616.95
Gross Value	235,783.32	235,534.95	(248.37)	1,436,616.85	1,439,132.38	2,515.53		12,422.08
Net Value								88.97

Note: The above schedule is a listing of imbalance volumes comparing nominated volumes to delivered volumes, and the resulting value difference is IDL receiving \$88.97 more than it would have received based on actual delivered volumes.

During the Period, IDL received \$88.97 more than it would have received based on actual deliveries. Using nominated volumes is an acceptable practice in the oil and gas industry, but operators keep track of the imbalances to ensure that all parties are receiving full value based on produced volumes.

Change of Lease Form

Since the initiation of the audit of the payments related to the Period, IDL has revised its oil and gas lease template regarding arm's length transactions. IDL has requested Oppertune to review and provide comments about whether the new form addresses issues that have been identified in the Report.

IDL defines an "Arm's-Length Transaction" as "a contract or agreement between Lessee and independent persons who are not affiliates and who have opposing economic interest regarding the contract. To be considered Arm's Length for any Production month, a contract must satisfy this definition for that month, as well as the date on which the contract was entered into." Further, IDL appears to require transactions to be arm's length. However, what is not addressed is what happens if the transaction does not meet the requirements. AEM is a third party that is in the business of marketing oil and gas production on behalf of operators across the United States. There is a contract between AEM and the Alta Mesa regarding the marketing of Idaho production. Alta Mesa owns a less than 10% interest in AEM. AEM also markets Oklahoma production for Alta Mesa. What is not clear is whether economic interests are opposing in this case. What will happen if this transaction is not arm's-length? The consequences are not clear.

Summary of Findings

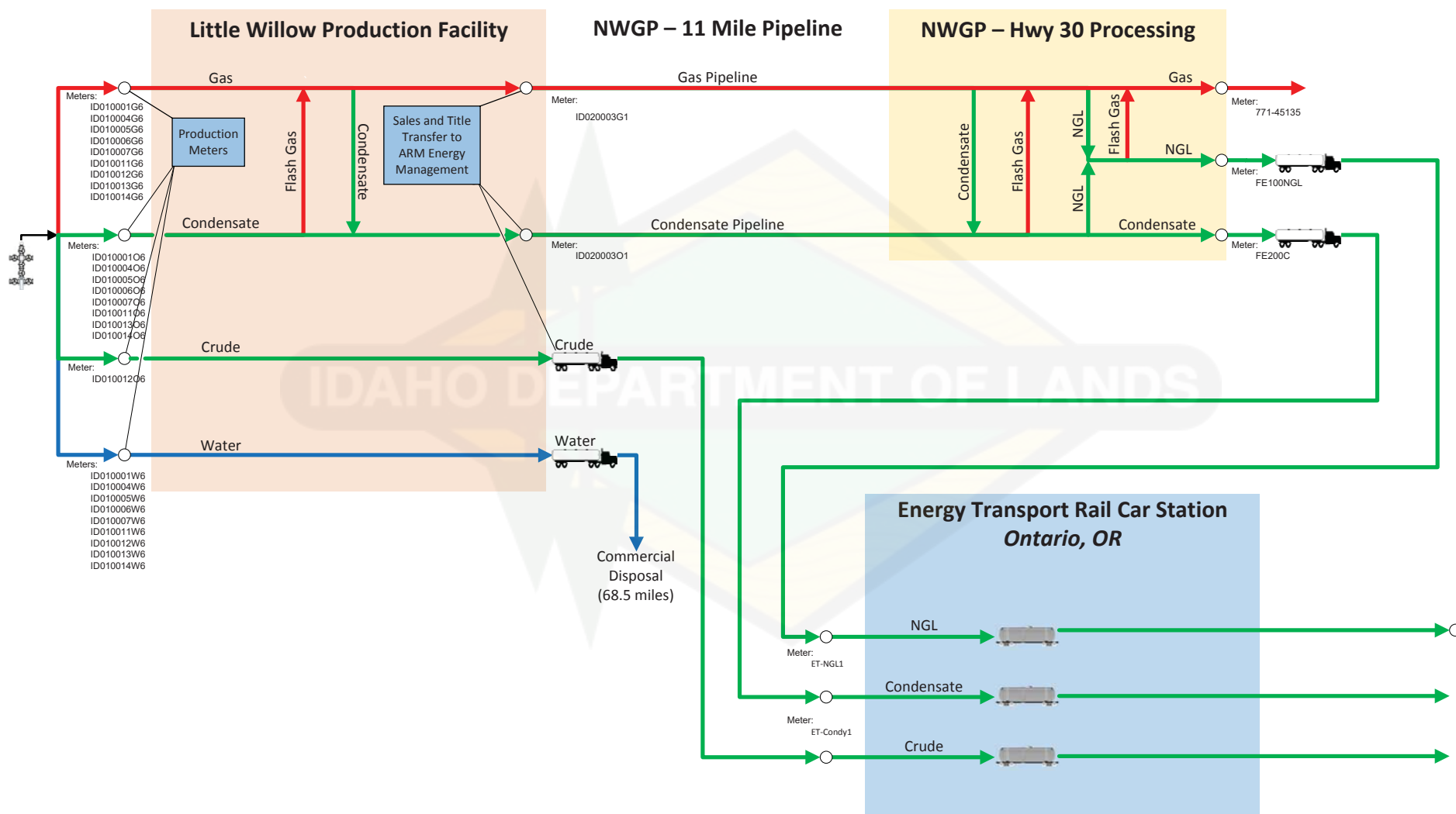
Oppertune reviewed data provided by IDL and Alta Mesa during the Period. The Report addresses royalties and volumes reported to IDL. The Report also addresses pricing and the entities that are providing midstream processing services of the Operator's production, NWGP, and the third-party marketing company that the Operator has hired to market on its behalf, AEM. The key issue is a lack of transparency of pricing of condensate, residue gas and NGLs. Realized prices are low to area benchmarks, and there is a lack of readily available market data. Oppertune discussed this issue with Alta Mesa. Alta Mesa acknowledged that they have royalty rights in their contract with AEM to help ensure that they are receiving market pricing, but these rights have not been exercised. Oppertune noted that no costs are being charged to Alta Mesa by NWGP, and Alta Mesa's representative has stated that there is no contract between Alta Mesa and NWGP. Oppertune believes that discussions between IDL and Alta Mesa should occur to set expectations that Alta Mesa will take steps to ensure that it is receiving market value pricing, so Alta Mesa can comply with IDL rules related to disposition and market data that operators should have available to IDL. IDL has provided a new lease form for future lease transactions. IDL has defined an "arms-length transaction", but IDL may not have addressed the consequences when transactions are not at arms-length.

Volumes matched between AEM, NWGP, and volumes reported to IDL. The one exception noted was NGLs for the production months January through March 2016. Alta Mesa reported no sales volumes during these three months. The aggregate sales value of NGLs was a negative value, so no royalty was paid. As no royalty was paid, no volumes were reported. Oppertune noted that Alta Mesa did not pay IDL for its share of plant fuel, but the net royalty calculated was approximately \$105 during the Period.

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Willow Hamilton Field Production and Sales

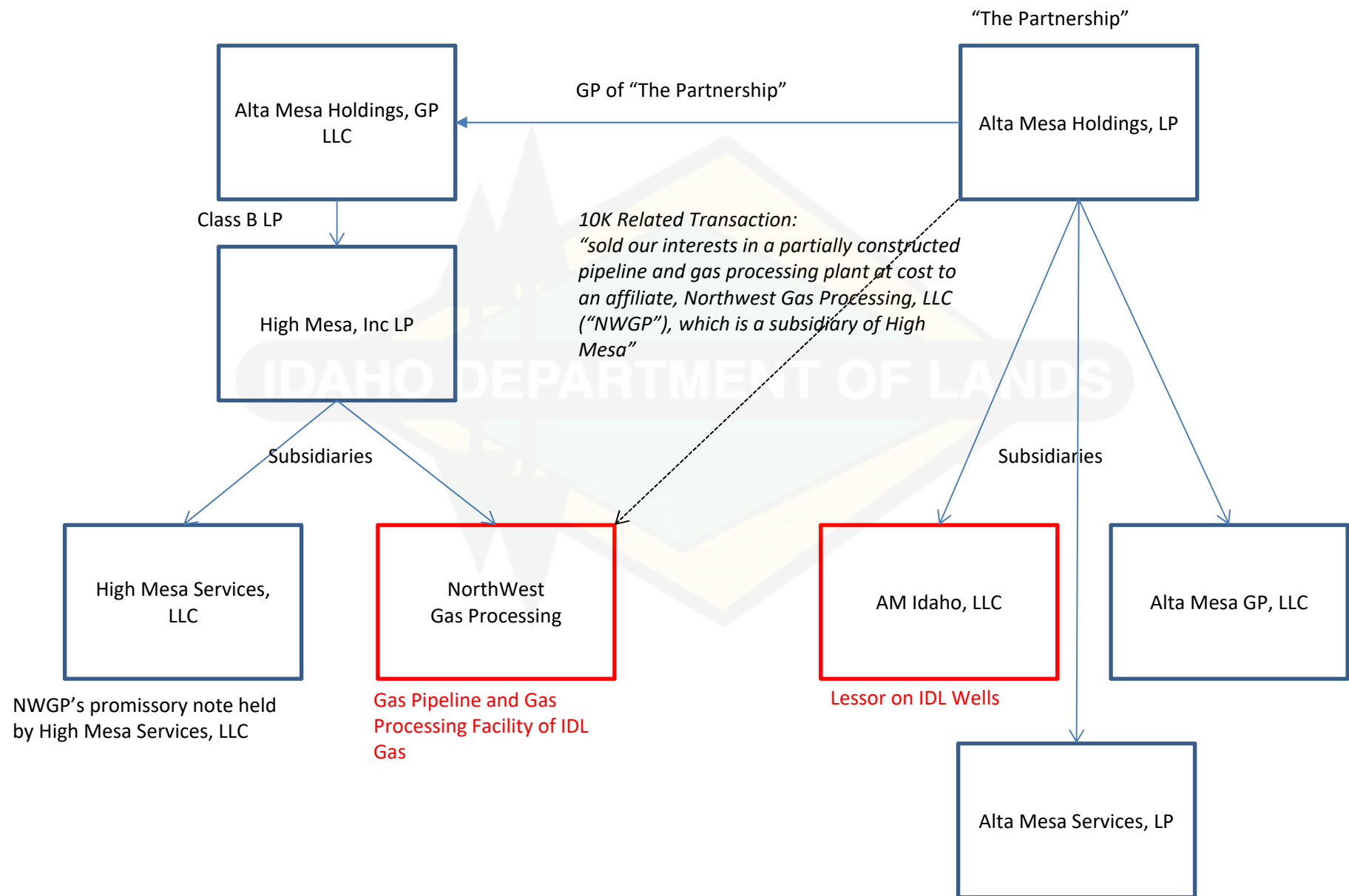


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1 ALTA MESA PARTNERSHIP



2 ALTA MESA MARKETING ARRANGEMENT

