LANDS & WATERWAYS DIVISION

GRAZING PROGRAM

BUSINESS PLAN

May 2015

Idaho Department of Lands

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ATTACHMENT 5

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EXECUTIVE SUMMARY

This Grazing Program Business Plan presents analyses and recommendations intended to engage stakeholders and guide the State Board of Land Commissioners (“Land Board”) and the Idaho Department of Lands (“IDL”) in the management and leasing of the rangeland assets within the Grazing Program in order to enhance their long-term income and value. This business plan provides a framework for the development of policy and procedure by Executive and Bureau Staff and program implementation by Area Staff that will increase revenue, boost customer satisfaction, reduce expenses and prioritize investment. This business plan is consistent with IDL’s vision to be the premier trust land manager and aligns with the performance measures set forth in the Asset Management Plan (“AMP”) approved by the Idaho Land Board in 2011. This business plan also aligns with the recommended performance measures set forth by Callan Associates in the Asset Allocation and Governance Review approved by the Land Board and endorsed by the Legislature in 2014.

The Grazing Program faces many challenges in achieving established performance measures due to existing land ownership patterns, varying levels of land productivity and external factors including management by surrounding landowners (both federal and private), economic markets and ecological trends. Despite these challenges, several significant opportunities exist to improve the performance of the Grazing Program and thereby increase sustainable distributions to beneficiaries. These opportunities are presented in this business plan as both short-term (1-5 years) and mid-term (5-10 years) objectives.

At 1.4 million acres, the rangeland asset has significant potential for diverse and multiple revenue generating uses. Changes in population and demographics, increased concerns regarding environmental issues and other social issues have increased the demand for alternative uses of western rangelands. In many instances these uses, such as conservation and energy, may produce incremental returns while remaining compatible with current grazing uses. This business plan directs IDL to further explore and capitalize on these multi-use opportunities.

Given the vast number of acres managed under the Grazing Program and the limited resources available, efficient management of the program and controlling program expenses will be critical components in meeting the performance standards established in the Land Board’s AMP. Historically, program expenses have not been closely tracked and oftentimes have been combined with other IDL programs associated with the rangeland asset. This business plan directs IDL to design and develop systems and program-specific procedures that will prioritize management activities, adjust resource allocations and encourage cooperative management activities with customers and federal and state partners.

The business plan moves IDL from a uniform management structure for grazing land to a two-tiered structure, where priority is given to the lands which have the most to offer our customers. Establishment of a two-tiered management structure provides direction for effective land and resource management by IDL staff. A two-tiered management structure will increase program efficiencies and ultimately net long-term revenues attributable to the Grazing Program.

SECTION I: INTRODUCTION

History of State Endowment Trust Land Management

Historically, the General Land Ordinance of 1785 and the Northwest Ordinance of 1787 provided western states with a means of generating revenues for public services. Twenty seven years prior to statehood, Idaho received nearly three million acres of land through the Territorial Act of 1863. Idaho received additional lands in 1883 to support the State University (University of Idaho) and was granted additional acres upon recognition as a state in the union in 1890. Through these federal land grants, Idaho received a total of 3.65 million acres of land.

Over time, these lands were managed, and in some cases sold, to generate funding for nine endowed beneficiaries. The State Constitution established the Land Board as the trustee over the assets of the nine endowments. Established by Idaho Code 58-101, IDL is the administrative manager of the non-financial assets of each trust. Through direct management, leasing, sale, and exchange of state endowment trust lands and under direction of the Land Board, IDL is responsible for managing 2.4 million acres of land to continue the “sacred trust” established by the state’s constitution[1].

Mission and Vision Statements

In its AMP, the Land Board has determined that all endowment assets of the State of Idaho must, per the state Constitution, be managed “in such manner as will secure the maximum long term financial return” to the trust beneficiaries. The assets will be managed to provide a perpetual stream of income to the beneficiaries by:

- Maximizing long-term financial return at a prudent level of risk,
- Protecting future generations’ purchasing power, and
- Providing a relatively stable and predictable payout[2]

In support of this overarching mission, IDL has established the following mission and vision:

Mission

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

Vision

The Idaho Department of Lands will be the premier organization for trust management, service, and regulatory oversight in the western United States. We will invest in Idaho’s resources to maximize financial returns to the endowment trust beneficiaries and enhance the health and resilience of Idaho’s natural resources for the benefit of all Idahoans. We will deliver programs with professionalism and integrity, providing exemplary service to the citizens of Idaho. We will invest in our employees and have an organizational culture and framework that equips, entrusts,

[1] O'Laughlin, Jay (1990) *Idaho Endowment Lands: A Matter of Sacred Trust*. PAG Report No1. University of Idaho.
[2] Asset Management Plan, page 3

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

Business Plan Purpose and Need

This Grazing Program Business Plan provides IDL management and staff guidance in the management of the Grazing Program to ensure that current and future activities are consistent with IDL's mission and vision and ultimately, increase the level of perpetual distributions to beneficiaries. Professional and prudent management of Idaho's rangeland endowment asset sets a responsibility on IDL to achieve high levels of customer satisfaction, set fair market rental rates for grazing leases, minimize land management costs while maximizing revenues, protect the long-term value of the rangeland asset and consistently provide excellent service to the citizens of Idaho.

By providing program specific information within the framework of the AMP, this business plan acts as a guiding document from which area-specific operation plans can be developed for the grazing program. This business plan was developed as a dynamic, living document to be reviewed, stimulate conversations with stakeholders about innovative ways to build value for beneficiaries and if necessary, revised every 5 years to reflect new challenges and opportunities. In doing so, the business plan is the intermediary document that allows managers at all levels to link on-the-ground operational management decisions with endowment asset mission and management strategies established by the Land Board.

SECTION II: BUSINESS DESCRIPTION

Assets

Currently the 2.4 million acres of state endowment trust lands are organized into eight land classifications. Of the total trust acreage, 1.4 million or nearly 58% is classified as rangeland. Forest lands are the second largest land classification and represent approximately 40%.

Table I. Acreage by Land Asset Classification

Asset Class	Total Acres	% of Total
Rangeland	1,411,452	57.85%
Forest Lands	972,546	39.86%
Conservation	22,640	0.93%
Agriculture	16,890	0.69%
Commercial	15,437	0.63%
Residential	727	0.03%
Total	2,439,692	

Source: IDL Annual Report, 2014

Location and Distribution

Ninety-five percent (95%) of all rangeland asset acres are located in the two southern supervisory areas of Eastern Idaho (65%) and Southwest (30%). Northern Idaho state endowment trust lands are dominantly designated as forest lands with less than 1% of the total rangeland acreage located north of the Maggie Creek and Ponderosa Supervisory Areas.

Table II. Rangeland Asset Acres by Supervisory Area

Supervisory Area	Acreage	% of Total
Eastern	921,557	65.29%
Southwest	416,902	29.54%
Payette Lakes	59,294	4.20%
Maggie Creek	13,111	0.93%
Ponderosa	540	0.04%
Priest Lake	38	0.00%
Pend Oreille Lake	10	0.00%
Total	1,411,452	

Source: IDL Digital Land Records, 2014

Asset Value

The Idaho Constitution defines the state endowment trust lands management goal of maximizing long term financial returns to public schools and other beneficiaries. The rangeland asset is managed under statutory and constitutional conditions which not only impacts the stated objective but imposes non-financial considerations as well[3]. Management is made more difficult by the absence of clearly defined and collectively agreed upon key performance indicators for the rangeland asset class. Although the rate of return on assets ("ROA") is widely supported as a financial performance indicator and is essential in guiding long-term investment decisions, the historic IDL method of calculation was recently vetted by Callan Associates during the Asset Allocation and Governance Review report. This Land Board approved report[4] recommends, for ongoing management purposes, that IDL utilize alternate methods of measuring financial performance to increase accountability and drive improvement in operating performance. These measures, further described in this document, were recommended by Callan Associates, including Land Expectation Value, which was also endorsed by the Policy Analysis Group at the University of Idaho[5].

Rangeland asset value is currently based on ROA as outlined in the AMP. The target ROA identified in the AMP, set at .5% - 5%, is a target annually peer compared to western states with a primary mission to manage endowment trust lands. Appraising the value of endowment rangelands as well as the value of the resource used is challenging. In the past, IDL has used a five-year mass-appraisal method to determine the bare land value of the rangeland asset, incurring a high cost to endowments to maintain the five-year appraisal. However, the mass-

[3] Callan Associates (2014). *Asset Allocation and Governance Review - Idaho Board of Land Commissioners.*
[4] Callan Associates (2014). *Asset Allocation and Governance Review - Idaho Board of Land Commissioners.*
[5] Jay O'Laughlin and Philip S. Cook (2001). Endowment Fund Reform and Idaho State Lands: Evaluating Financial Performance of Forest and Rangeland Assets. PAG Report No.21. University of Idaho.

appraisal is of almost no value in guiding operational management of the asset. The mass-appraisal does not consider the value of the forage resource, infrastructure owned by the endowments or the wide range of land types and amenities of the rangeland asset. In addition, unlike a transaction-type appraisal, constitutional limitations[6] are set on selling state endowment trust lands not to exceed 320 acres to any one individual, company or corporation (O'Laughlin et al), which reduces the relevance of understanding what the land could potentially be sold for, which is what a transaction-type appraisal tells you.

Transaction-based appraisals include the impact of higher and better uses and the intangible value that private buyers ascribe to land ownership, which are often a significant part of the market value for grazing land (O'Laughlin et al). Therefore, appraisals are of little use in measuring and improving the long-term cash flow potential of the land. Growth in sustainable cash flow is what creates value for beneficiaries and drives the Land Board's decisions on distributions.

Grazing Land Valuation

In an attempt to set base values for grazing rates, three approaches to appraising fair market forage value include comparable sales, contributory value or cost approach, and income capitalization.

Comparable sales approach is often used in development of grazing fees paid to private land owners. The value is adjusted by the difference in services provided with the end value represented as a fee. Several states set grazing fees using this approach as well as the federal land grazing fee formula under the Public Rangeland Improvement Act ("PRIA"). A significant limitation to this method is finding private leases that are comparable to state trust and public lands. The comparable sales approach is similar to an appraisal method used to determine value for residential real estate such that comparable sales are adjusted by differences in the properties to arrive at an end appraised value

Contributory value or cost approach considers the value of one input used or replaced in the production of the commodity. The contribution is based on the percentage of the value that the land provides against the value of labor and inputs accounted for by a lessee. Forage, water, access, and availability are used as a basis to set fees as well as comparisons in the cost to construct improvements against a lessee's willingness to pay. In the case of state endowment trust lands, the input is the land and the value of the forage contribution is the rent due. The costs associated with replacing range forage are determined by either the price of alternative grazing leases or the cost of hay and supplemental feed. Another variation is the cattle price share approach with the grazing fee established by a relationship between the price of beef and an appropriately set grazing rate. While in theory a cost approach method appears straightforward in setting fair market forage values, the programming procedure to apply this appraisal method across all state endowment trust rangelands is complicated and a significant time investment (O'Laughlin et al).

The third approach to grazing land valuation is the income capitalization approach which is based on the capitalized value of income generated. Land value is considered by the present value of cash flows over a period of years, discounted at an interest rate, and an annual equivalent of the capital value is then determined to be the rate of return on assets (O'Laughlin et al). This approach determines the land expectation value. It is very useful in ongoing land

[6] Constitution of the State of Idaho. *Article IX. Education and School Lands, Section 8. Location and disposition of public lands.*

management, because it measures the resource manager's effectiveness in maintaining and increasing sustainable cash income.

Land Expectation Value

Revenue from IDL grazing leases on rangelands provides a significant source of income to the endowed beneficiaries. When grazing lease payments are related to land value, the annual net income can be capitalized to estimate the fair market value of the lands being grazed. Although fair market values for forage are difficult to determine, receiving fair market value for leasing state endowment trust lands is a reasonable management goal and essential in fulfilling the mission of maximizing the long-term value to the beneficiary.[7]

Several benchmark grazing rent studies by O'Laughlin et al and Resource Dimensions have indicated that the potential attainable revenue from grazing on trust lands can be attributed to private grazing lease rates by applying a discount. The discount reflects the fact that private owners generally provide additional services that are not cost-effective for IDL to provide on state endowment trust land. The value of rangelands for grazing is affected by variables including the size of parcels, access, location, topography, range condition, seasonal availability, fencing, water distribution, and current market conditions. Experts have estimated that a discount factor of 30% from private lease rates applied to state endowment trust grazing rates can account for market variables between the two lease types and align the grazing rate with a potential attainable fair market value.[8]

Land Expectation Value ("LEV") is not an appraisal of the land in terms of market value or intended to facilitate a transaction and LEV does not value tracks of land based on specific or intangible characteristics. Rather it is an estimate of the overall land value calculated from expected revenues based on current operations.

Land expectation value is the capitalized value of the expected annual net income according to the formula:

$V_o = A / i$
where: V_o = present value; A = annual net income; i = capitalization or discount rate

The purpose of LEV is to provide an input necessary to forecast returns for use in an asset allocation analysis and to determine the percent weight of the lands in the existing asset allocation[9]. In the case for state endowment trust lands, cash flows that are derived from resource management activities and land use are assumed to be perpetual. The Net Present Value ("NPV") of future cash flows denotes LEV which can then be calculated and used as the basis for determining ROA from grazing by assessing the future perpetual net income stream discounted to a present value with a discount rate (O'Laughlin et al).

Selection of a discounted interest rate is an important policy decision as it guides discount cash flows and provides a benchmark for analyzing financial performance. Discount rates reflect the desired return for an asset, or the rate of return from a substitute asset with similar risk. For rangeland asset returns the discount rate was calculated using the historical average of the 10-year bond equivalent yield for funding costs provided by the Farm Credit System Bank. The 10-year average for this rate is approximately 4% while the five-year average is about 3%. The average of these two yields establishes a nominal discount rate of 3.5%. Subtracting for

[7] Jay O'Laughlin and Philip S. Cook (2001). *Endowment Fund Reform and Idaho State Lands: Evaluating Financial Performance of Forest and Rangeland Assets*. PAG Report No. 21. University of Idaho.
[8] Resource Dimensions (2012). *Idaho Department of Lands Grazing Market Rent Study*.
[9] Callan Associates (2014). *Asset Allocation and Governance Review-Idaho Board of Land Commissioners*.

inflation of 2.25%, results in a forecast real discount rate of 1.25%[10]. This rate should be adjusted as financial market conditions and expectations change.

Financial Performance

In the 2014 Asset Allocation and Governance Review by Callan Associates, grazing land was included as an investment within a diversified asset allocation mix that included classes such as stocks, bonds, timberland, and potential allocations of US real estate and private equity. It was noted that the investment characteristic of grazing land provided a reasonable compensation for its risk, contributing to the bond-fund diversification and represented 2% of the total asset allocation at $61 million LEV assuming grazing land has the potential to generate $1.8 million of annual income with a target real rate of return (discount rate) of 3.0%[11]. Within the existing conservative asset allocation mix, the potential return on grazing land is expected to compensate for its risk (lower return, lower risk). A more aggressive asset allocation mix would not include grazing lands based on the current grazing rate structure as the mix would require larger allocations to higher return asset classes. It should also be noted that in FY 2014, grazing land generated only $0.8 million of income, so its current financial performance is well below the level assumed in the asset allocation work.

The Land Board approved Asset Allocation and Governance Report recommends a review of the rangeland asset financial metrics, selection of appropriate standards to assess financial performance and using Land Expectation Value as an appropriate estimate of land value based on expected revenues.

Cost Structure

The primary categories of the Grazing Program's cost structure are personnel and operating costs.

Income and Revenue

Most revenues for the Grazing Program are generated through annual rental payments paid by the lessee for the value of the forage used. Carrying capacities of the parcels are determined through utilization and productivity assessments with a specific number of AUMs set for each specific parcel. Annual rental payments are then calculated each year by multiplying the Land Board approved AUM rate by the number of established AUMs for each parcel. The Land Board approved AUM rate is designed to vary with the value of the livestock that grazes the land, and is calculated using several market data indices that include beef cattle prices, price of production inputs and private lease rates. Survey data collected by the USDA-National Agricultural Statistics Service ("USDA-NASS") is published in the December and January Agricultural Prices reports, and includes average prices and lease rates from eleven western states as well as private lease rates from Idaho.

When two or more applicants apply for the same lease, a conflict lease auction is conducted to determine the highest premium bidder for the lease. Minimum opening bid is determined by the expenses incurred for time spent by area staff to determine improvement values that exist on the parcel and that are owned by the current lessee. The high premium bidder is required to pay the entire high bid amount at time of auction as well as the value for improvements owned by the current lessee. While premium bonus bids generated from lease conflict auctions can during certain years represent a significant percentage of annual revenues generated by the program, on average 14% of the grazing program revenues are attributed to premium bonus

[10] Callan Associates (2014). *Asset Allocation and Governance Review-Idaho Board of Land Commissioners*.
[11] Callan Associates (2014). *Asset Allocation and Governance Review-Idaho Board of Land Commissioners*.

bids. Between 2010 and 2014, an average six out of 141 expiring grazing leases offered were conflicted by two or more applicants representing an average 5% of the total leases offered annually.

Table III. IDL Conflict Grazing Auctions, 2010 - 2014

Year	Premium Bonus Bid	Annual Grazing Lands Revenue	% Annual Revenue	Grazing Leases Conflicted	Total Grazing Leases Offered	% Leases Conflicted
2010	$79,900	$1,532,562	5%	4	156	2%
2011	$28,750	$1,878,863	2%	2	166	1%
2012	$554,700	$1,439,217	39%	16	134	12%
2013	$121,610	$1,932,652	6%	3	115	3%
2014	$414,752	$2,160,442	19%	6	133	5%
5-Year Average	**$239,942**		**14%**	**6**	**141**	**5%**

Source: IDL Annual Reports, 2010 - 2014

In addition, lease assignment fees and subleasing arrangements provide additional revenues for the Grazing Program. State lease contracts subject the lessee to a state share payment for any amounts received above the annual rental payment for state sublease agreements.

Leasing

As of January 2015, approximately 1,170[12] active grazing leases on 1,772,000 leased grazing acres with approximately 257,000 AUM's are managed by IDL. Of these grazing leases, 83% occur on the rangeland asset, with the remaining 17% occurring on forest lands asset. Eighty-one percent (81%) of all grazing leases occur in the two southern Supervisory Areas of Eastern Idaho (57%), Southwest (24%).

[12] The total number of active leases is a dynamic number that changes with the renewal of leases, timing of signature and cancellations, which occur throughout the calendar year.

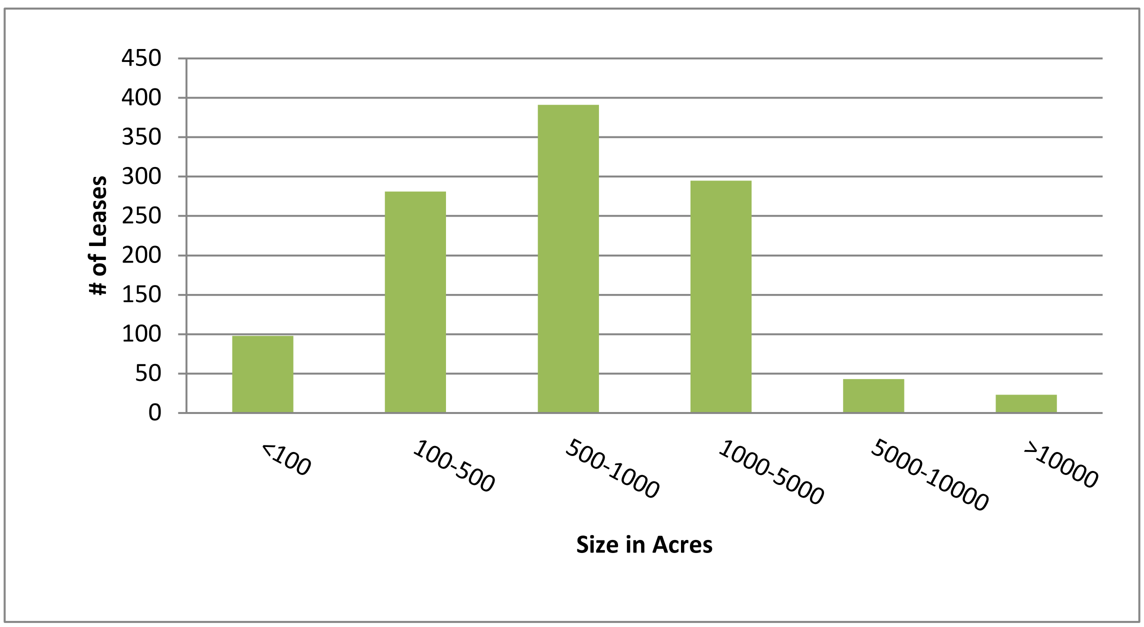
Table IV. Distribution of Grazing Leases

Supervisory Area	Leases	Acreage	% Leases
Eastern	658	938,789	57.00%
Southwestern	274	476,638	24.00%
Payette Lakes	123	131,263	11.00%
Maggie Creek	58	71,749	5.00%
Ponderosa	13	55,367	1.00%
Pend Oreille Lake	8	2,156	.05%
St. Joe	5	7,418	.05%
Clearwater	5	60,497	.05%
Mica	2	687	.02%
Priest Lake	1	216	.00%

Source: IDL Digital Lands Records, 2014

Lease size varies across the state with a range of four acres up to 80,526 acres. The median size of grazing leases is 640 acres or one full section. Figure 1 below shows the distribution of grazing leases by size.

Figure 1. Lease Acreage Distribution by Size



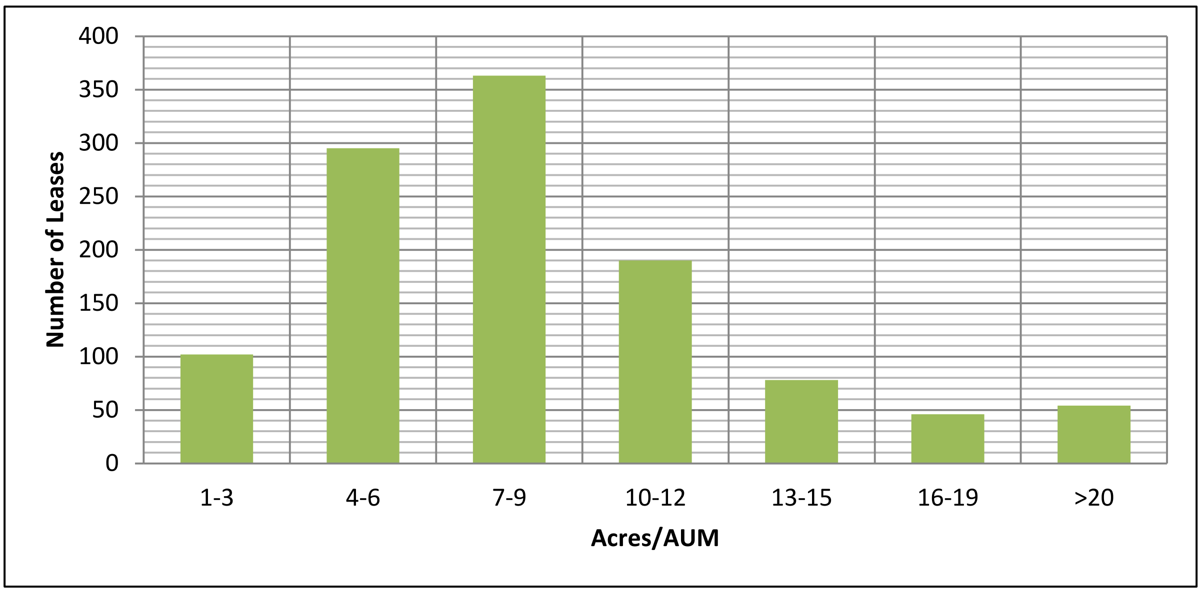
Source: IDL Digital Lands Records, 2012

Animal Unit Month

An Animal Unit Month ("AUM") is defined in Idaho Administrative Code 20.03.14.010 as the amount of forage necessary to feed one cow, or one cow with calf less than six months of age, or one bull for one month. One yearling is considered seven tenths (.7) of an AUM. Five head of sheep or five ewes with lambs are considered one (1) AUM. Grazing livestock consume approximately 2.5% of their body weight per day. On average, a 1,000 pound cow will consume approximately 800 pounds of dry forage per month. An AUM is used as the basis for determining production of the forage resource and how to best manage the resource to produce an optimum long term return. Acres per AUMs ("ac/AUM") are a common measure of land productivity. The median productivity on Idaho state endowment trust rangelands is eight acres per AUM, as shown in Figure 2. The most productive state endowment trust rangelands are located in Eastern Idaho with up to one acre per AUM on some lands. Although ac/AUM provides a general measure of productivity for grazing leases, it is not recommended for comparison across IDL Supervisory Areas. As a basis for assessing ac/AUM productivity, acreage that does not actually contribute to production such as wasteland, rocky outcrops, and roadways are deducted from the assessed AUM value of the grazing lease.

As of July 2014, the total number of AUMs authorized under active grazing leases was approximately 257,000. An additional 705 AUMs were leased under agricultural and conservation leases. Eighty-nine percent of all AUMs authorized are located in the Eastern and Southwest Idaho Supervisory Areas. The largest lease in terms of AUMs is located in the Eastern Idaho Supervisory Area and contains a total of 25,134 AUMs. The median for all grazing leases is 1,543 AUMs.

Figure 2. Leased Acres by AUMs Authorized



Source: IDL Administrative Records, 2013

Endowment Trust Customers

Endowment Beneficiaries

As a trust fiduciary, IDL's primary clients are the nine endowed beneficiaries that own the state endowment trust lands, typically Sections 16 and 36 of the original school land grants, managed by IDL. As the Table below indicates, the majority of the net income generated by the Grazing Program is directed to the Public School endowment.

Table V. Net Income by Endowment

Endowment	% Acres Rangeland Asset	2014 Net Revenues	% Total Net Income
Public School	94.7%	$ 688,865	88.9%
Ag College	1.3%	$ 16,794	2.2%
Normal School	1.1%	$ 10,421	1.3%
Charitable Institutions	1.0%	$ 12,464	1.6%
University of Idaho	.9%	$ 21,553	2.8%
School of Science	.8%	$ 19,111	2.5%
State Hospital South	.3%	$ 2,985	0.4%
Penitentiary	.1%	$ 2,848	0.4%
Capitol Permanent	0%	$ 0	0%
Total 2014 Net Revenues		$ 775,041	
Total Acres	1,411,452		

Source: IDL Annual Report, 2014

Grazing Lessees

While endowment beneficiaries are IDL's primary client, grazing lessees are viewed as fundamentally important customers within the Grazing Program given the value provided by forage and other amenities on state endowment trust lands. It is essential that to increase long-term net revenues to beneficiaries, IDL managers must increase the overall value of the land and related services to its customers. IDL can be characterized as an administrative landlord with trust responsibility to administer lease management of the land and resources in accordance with statutory rules and fiduciary prudence. Like other landlord-lessee arrangements, activities or services such as lease processing, billing, and range improvement projects all contribute to the value that lessees receive from leasing state endowment trust lands. These program activities must be delivered in a cost-effective manner that maintains or increases customer satisfaction.

Given the driving distances to most grazing parcels, it is generally cost prohibitive for IDL resource managers to regularly visit. Therefore, ongoing maintenance and improvement of grazing land must be done in partnership with the lessee, who is regularly on the ground. Creating and sustaining ongoing partnerships with lessees is essential to creating long-term value and increasing net income.

Value Propositions

Endowment Beneficiaries

The Grazing Program provides a continual source of funding for the endowed beneficiaries. IDL is commissioned by the Idaho Constitution to manage state endowment trust lands to maximize the revenue returns to the endowed beneficiaries.

Grazing Leases

For grazing lessees, IDL is providing a source of forage for livestock operations. By signing a lease contract with IDL, lessees are provided considerable certainty that they will have a source of forage available for the term of their lease. Other value propositions provided by IDL grazing leases are lease specific and may include water sources and range improvements such as fencing, livestock water development, and brush management for increased forage production.

Program Activities

Lease Contracting

The primary activity for the Grazing Program is to deliver the value proposition to the endowment beneficiaries through the issuance and management of lease contracts. Key activities associated with leasing include application and lease processing, lease compliance, lease management (including adjustments, assignments, and billings), and ongoing communication with lessees.

Land management activities that may influence grazing lease revenue include range improvement projects, activities to maintain resource capacity such as lease inspections and monitoring, and resource assessments.

Activities associated with value propositions gained by lessees include those associated with customer service. At both the Bureau and Area Staff level, customer service is executed in the form of open and appropriate communications, consistent noticing and timely response to conflicts and requests. Customer service is provided through multiple channels including telephone communications, regular mail noticing, public meetings, public website, and public walk-ins through one of the ten Supervisory Area offices.

Value Added Activities

Grazing Program management activities have the potential of adding value in terms of additional revenue streams and long-term resource benefits. Capitalized cost/benefit ratios associated with management activities generate increased forage productivity and the potential for increased stocking rates or higher AUM assessments. Management activities executed by Area Staff are often coordinated with federal, state, and conservation agencies that provide additional sources of technical knowledge and project funding. IDL grazing lessees add additional sources of funding and in-kind cost share opportunities that enhance rangeland management and forage resources. Examples of value added activities include:

- Agriculture production
- Range improvements to increase livestock distribution and forage productivity
- Utilization, carrying capacity, and stocking rate assessments to increase AUM's

- Encroaching juniper removal treatments to improve forage productivity, reduce soil erosion, increase water quantity, and surface flow
- Range seeding and restoration post wild-fire to increase forage productivity and reduce the potential spread of annual grasses, invasive or noxious weeds
- Range monitoring, resource assessments, and lease inspections to establish benchmarks and mitigate short-term resource degradation with potentially long-term negative affects to endowment rangelands
- Vegetative brush treatments to maintain or increase AUM's, forage production and long-term resource sustainability

In addition, developing Supervisory Area-specific operation plans that identify value added activities supports IDL's vision of investing in Idaho's resources to maximize financial returns to the endowed beneficiaries and enhance the health and resilience of Idaho's natural resources. The implementation of value-added activities by Area Staff supports IDL's mission of providing professional assistance to the citizens of Idaho to use, protect and sustain their natural resources as well as protect the long-term value of the rangeland asset.

Grazing Program Resources

Three major categories of resources are used to deliver the Grazing Program.

Staff Resources

The largest and most costly resource of the Grazing Program is staffing. Program delivery depends on multiple Divisions and Bureaus within IDL.

- Bureau Staff
    - procedural development, area staff support, policy development, partner relations
- Support Services Staff
    - lease processing, noticing, communications, systems and technical support
- Area Staff
    - lease administration, lease and land management, communications

As of March, 2014, the Grazing Program has a total of 10.3 full time equivalents ("FTEs") assigned across ten Supervisory Areas providing administrative management of roughly 1.7 million grazing acres including Forest Lands. The majority of these FTEs are resource supervisors and regional resource specialists that are responsible for multiple programs. While hired as range resource experts, their time is not necessarily 100% dedicated to the Grazing Program. Currently a total of five Area Staff are specifically designated as Range Specialists. These staff members are appropriately located in the Southwest, Eastern Idaho, and Maggie Creek Supervisory Areas.

Under current FTE allocations for the Grazing Program, staff resources meet the basic requirements for minimal lease administration and parcel management. Value-added activities to increase endowment revenues and resource stewardship goals may both warrant and justify additional staff allocations. Appropriate staff allocation is an important consideration in context with the level of lease administration and parcel management. Annual staffing level assessments based on developed Area-specific operation plans should be reviewed over the course of the five-year Grazing Program Business Plan.

Information Systems

A second major resource to the Grazing Program is information systems. The administration of grazing leases requires the exchange of a significant amount of information as a result of application processing, lease contract generation, billing statement generation, payment receipting and other miscellaneous correspondence related to communications with grazing lessees. Information systems currently available to the Grazing Program are the IMS lease administration system, Digital Land Records (“Land Records”), Geographic Information Systems (“GIS”) and financial accounting systems. A business process review is currently being conducted with a new information system to be implemented within three years.

Infrastructure and Equipment

The third resource category necessary for delivery of the Grazing Program is related to infrastructure and equipment. These resources include Supervisory Area offices, vehicles including ATVs and trucks, computers, and other office equipment.

Currently, program resources such as trucks and other equipment are tracked or assigned by IDL to a specific program, but not to a specific lease or parcel. Supervisory Area offices currently maintain equipment such as trucks, ATVs, and rangeland seeding drills which are used to manage the rangeland asset. In addition, multiple Supervisory Area offices currently have material inventories, most of which are commonly related to fencing and water development. Similar to program assets, these supplies are not tracked on a programmatic basis, and are typically used on a case-by-case basis rather than through a formal implementation plan.

Operational Procedures

Based on an assessment of activities and tasks amongst Area Staff, the following are major categories undertaken as part of program implementation. As noted above, the Grazing Program does not currently have specific operational procedures to guide management. However, several areas described below are guided by procedures developed for multiple IDL leasing programs known as Uniform Procedures.

Customer Service

IDL staff provides customer service by responding to requests for information from current lessees, the public and potential lessees. These activities include daily answering of phone calls, e-mails, and office or field visits by request from lessees and members of the public. Customer service is the responsibility of multiple departments within IDL including Bureau Staff, Administrative Staff, Resource Specialists, and Resource Supervisors. Currently the only guidance or procedures for customer service pertain to public records requests, which may be filed at the Supervisory Area office, but are typically processed at the Bureau office.

In an effort to establish IDL as a premier organization, a high standard of customer service is focused on elements such as professionalism, conflict resolution, interpersonal skills, and communication. IDL provides staff with customer service training focused on effective communication and interpersonal skills. In an ongoing effort to promote exceptional customer service, IDL intends to build a customer service feedback system to inform and inspire its growing culture of customer service.

Lease Processing

Many individual tasks are completed by IDL Staff that are classified as lease processing including acceptance of new applications; conducting conflict auctions; administration of lease assignments, subleasing and adjustments; and procedures associated with lease expiration. Procedures and guidelines for lease processing are captured by Uniform Procedures and are applicable to all IDL leasing programs. Lease processing is the responsibility of Supervisory Area staff and bureau staff including program managers, administrative staff, fiscal and land records.

Lease Administration

The administration of grazing leases includes ongoing activities required to ensure compliance with the provisions of the grazing lease contract. Such activities include updating of annual plans, lessee communications, noticing, billing and lease inspection. Program-specific procedures related to lease administration are slated for near-future development for the Grazing Program. Lease administration is the primary responsibility of Supervisory Area staff; however, additional staff including program managers, operation chiefs, administrative staff and fiscal staff are involved in lease administration functions.

Land Management

While closely related to lease administration, land management involves those activities associated with the physical management of the rangeland asset. Activities associated with land management include site inspections, resource inventory, lease monitoring, resource assessments and improvement projects. Program-specific procedures related to land management are slated for near-future development for the Grazing Program. Land management is the responsibility of Supervisory Area staff, specifically resource specialists and resource supervisors, as well as grazing lessees.

Inter-agency Coordination

Given the high percentage of federal land in Idaho and the history of land ownership, management of state endowment trust lands often involves coordination with other entities. Inter-agency coordination includes management activities that involve planning, communication, and implementation with other public agencies. Such activities may include monitoring and reporting for federal requirements, review of federal planning documents, coordinating committees, and coordinated land management. Inter-agency coordination varies significantly by Supervisory Area and over time. No specific guidance currently exists related to inter-agency coordination. Grazing Program staff involved in inter-agency coordination ranges significantly including resource specialists, supervisors, area managers, program managers, and operation chiefs.

Cooperative Partners

The majority of cooperative partners for the Grazing Program are those that assist in the management of rangelands and rangeland resources. Due to the intermingled ownership, landscape and over-lapping jurisdiction, public land management agencies such as the Bureau of Land Management ("BLM") and the United States Forest Service ("USFS") are key partners as their land management often influences the management of state endowment trust lands. Primary services provided by these public agencies include fire suppression, rangeland restoration and landscape scale resource management. Other key partners who provide rangeland and resource management include, but are not limited to, Rangeland Fire Protection Associations ("RFPA"), the Natural Resources Conservation Service ("NRCS"), Idaho

Department of Fish and Game ("IFG"), Idaho Department of Agriculture ("ISDA"), Office of Species Conservation ("OSC") and Idaho Rangeland Resource Commission ("IRRC"). In addition to land management services, these agencies are also key partners in addressing larger policy issues such as endangered species listings and changes to Idaho Code.

SECTION III: MARKET, BUSINESS and PROGRAM ANALYSIS

Market Analysis

Shifts in supply and demand for red meat cause significant fluctuations in the livestock markets. Therefore, IDL must develop policies and procedures that adapt to both strong and weak markets.

Currently, expanding middle classes in China, India and other developing nations have boosted demand for red meat globally. This increased demand has been met with a limited supply from the United States, as the national livestock inventory level is at its lowest since the 1950s. Multiple social and industry factors have driven the national livestock level to all-time lows, including an aging operator population, consolidation of operations and shifts in land-use. Recent beef price levels have set record highs and net income from livestock production has increased. In general, production trends including fuel and feed costs have fluctuated with supply and demand, national fuel trends and demand from alternative corn markets. While cow-calf and lamb producers have experienced favorable markets, livestock numbers continue to remain low with feedlots and packers operating in the red for nearly two years due to a limited ability to pass on higher costs to consumers. This trend and fluctuation in the livestock market will likely continue as producers increase herd size and young operators enter the market to meet the growing demand.

Livestock Inventories

Cattle and sheep inventories have seen a decline both nationally and at the state level. The January 1 beef cattle inventory for Idaho has declined 17% from 1991 to 2014, which is larger than the national inventory decline of 11% during the same time period. The 2014 national beef cattle inventory has been reported as one of the lowest since 1952[13]. Several factors, including producer dynamics, shifts in consumer trends, cost of production, and efficiencies in production have all contributed to an over-all declining herd inventory. Sheep inventories for the state saw an 8% decline at the state level for the same time period, which was lower than the approximately 38% decline at the national level.

Livestock Prices

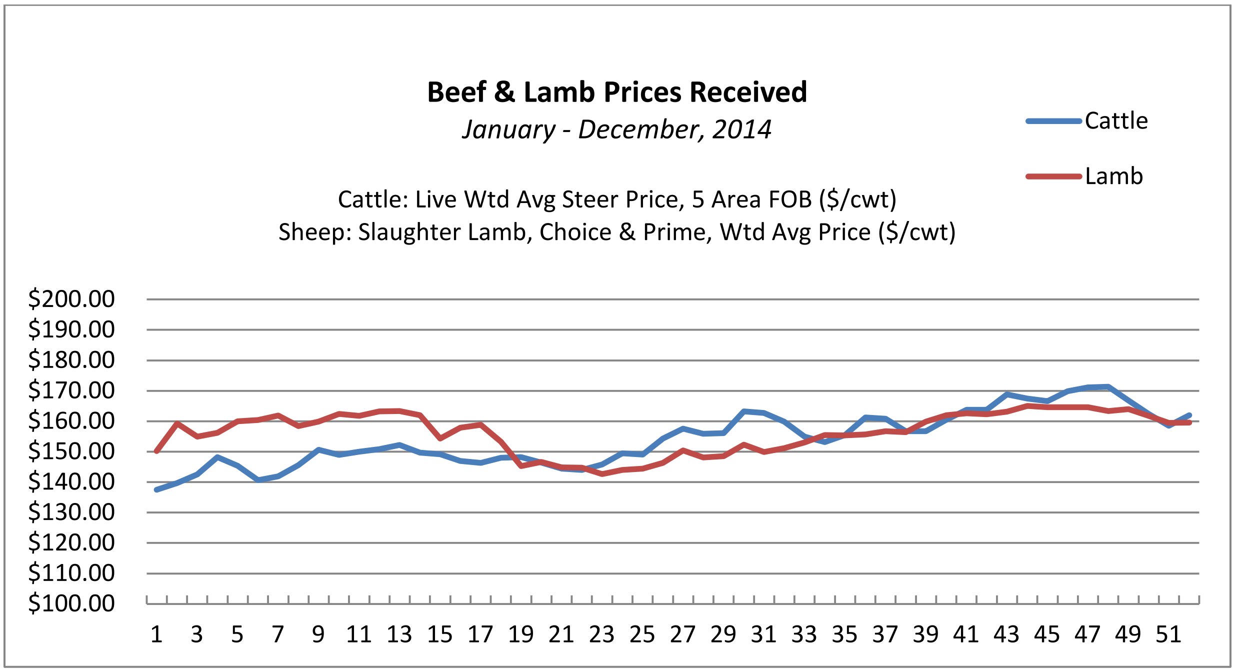
Various factors on both the supply and demand side of beef production have caused a considerable amount of volatility in the past two to three years. Demand from foreign consumption of meat has increased demand pressure on U.S. exports. Simultaneously, supply has been constrained by the broader decline in the over-all herd inventory and exasperated by two consecutive years of drought in the southwest and central regions of the country. The result of these market forces has been significant swings in average livestock prices.

Lamb and sheep prices have followed beef cattle price trends in the past few years. Similar to beef, demand has been driven by limited domestic supply. Imports from larger markets such as Australia and New Zealand have been limited due to strong currencies in those nations in

[13] Hawkes, Logan (2012) *Cattle Inventories drop to lowest level in 60 years*. Southwest Farm Press. February.

comparison to the US dollar. Shorter supply combined with demand from growing ethnic markets has helped to push prices to record levels with prices remaining well above historic averages. Between 2004 and 2014 beef cattle market prices have increased significantly by over 47% from an average \$78/cwt in 2004 to over \$146/cwt in 2014. During the same time period, prices received for lambs increased by 38% from an average \$96/cwt in 2004 to over \$153/cwt in 2014.[14] Reported beef and lamb prices in 2014 were the highest on record averaging \$146/cwt for live weight average steer price and \$153/cwt for lambs (Figure 3).

Figure 3. Beef and Lamb Prices Received (\$/cwt)



Source: USDA-AMS, Livestock, Poultry, & Grain Market News. 2014

While prices have been favorable for producers, margins have been tempered by higher production costs. Livestock feed, transportation, and machinery costs have consistently increased the cost of production. The Prices Paid Index reported by USDA for the period between 2004 and 2013 was a 3.8% annualized increase in production costs for beef cattle. This rate was higher than the inflationary rate of 1.6% for the same time period. Recent reductions in fuel costs may temper this growth in production costs.

Hay Prices

A significant increase in production costs has been from the cost of feed. During 2010 and 2011 producers both in Idaho and across the U.S. experienced record high prices for hay. While they have since backed off of their record highs, hay prices will likely remain above historic averages nationally as drought and wildfires continue to increase across the U.S.

[14] USDA Agriculture Marketing Service - *Livestock, Poultry, & Grain Market News*. 2004 - 2014

Conversely, seasonal rangeland grazing during winter and spring may provide producers with an alternative source of forage and subsequent reduction in livestock production costs.

Private, Public and State Lease Rates

In 2011, the initial business plan development and grazing program review emphasized the need for a benchmark grazing market rent study to determine regional forage values in Idaho as well as comparative state endowment trust peer rates and methodologies used. The results of the 2012 Grazing Market Rent Study by Resource Dimensions indicated a need for further assessment and analysis of the IDL grazing rate and methodology to determine alignment with the IDL mission and fair market forage values within Idaho.

This section in the future will include an analysis of private lease rates, federal permit rates, and state lease rates in Idaho. In the near future, IDL will seek direction from the Land Board to separately evaluate the IDL grazing lease rate and formula.

Business Analysis

The current business model implemented by IDL is a traditional owner/tenant business model. Under this model IDL considers the proposed use, management plan, and terms of the lease working cooperatively with the lease applicant. A majority of the lease management decisions including range improvement projects are initiated by the grazing lessee. Due to current rules pertaining to improvement crediting, grazing lessees also have ownership and value invested in those improvements, which are transferred upon expiration. One advantage of grazing lessee investment in improvements is the inherently greater value in the land due to these improvements. Greater management control of the land is also feasible due to IDL's ability to configure improvements that maximize production. Increased control may result in increased stocking rates or AUMs, but greater value may be captured by endowment trust lands when ownership of the improvements is held by the endowments. An example of this increased value is the recent auctioning of the Crane Creek parcel in 2012, located in Eastern Idaho, which brought a premium AUM rate of $15.79 over the term of the lease. In this lease the State of Idaho owned the improvements. In comparison a neighboring property, which included $171,000 in lessee-owned improvements, brought a premium AUM rate of $1.02 over the term of the lease.

Tiered Management Model

Several states, including Utah and Washington, have adopted a tiered lease management model. This tiered lease management model recognizes different characteristics of the state endowment trust land parcels and differentiates the land features into categories. In an effort to prioritize lease management strategies and indentify parcels with both minimum and maximum revenue generating potential, IDL developed a two-tiered management classification of Primary and Standard. Management categories include:

- Asset Class
- Parcel Type
- Forage Resource
- Access
- Management Control

Tiered classification of Primary and Standard is based on specific criteria in a simple framework that is intended to be a qualitative and objective assessment of state endowment trust land

parcels. The tiered classification framework provides a formal process by which parcels can be evaluated and management efforts prioritized.
Primary classification is based on distinctive values or characteristics of the leased parcel and requires inclusion within all five categories. Area-specific administrative and management efforts prioritize value-added activities on parcels that will enhance or maintain the long-term value of the resource and generate additional revenue to the endowments. Management categories include:

- Asset Class – Primary Rangeland Asset
- Parcel Type - Blocked parcels of $\geq$ 2500 acres
- Forage Resource - $\geq$ 400 AUMs and ≤ 8 acres per AUM
- Access – Management access with no known restrictions
- Management Control – Full state management control including infrastructure and water to manage as an independent grazing unit

Standard classification incorporates all remaining parcels that do not qualify as Primary due to the lack of one or more management categories. Within the Standard classification Area-specific administrative and management activities are based on an analysis of the cost/benefit or risk/benefit potential to generate additional revenues for the endowments. Custodial parcels are evaluated for long-term strategies such as risk mitigation, change of use, exchange or disposal. These concepts are discussed in greater detail in Appendix A.

Grazing Rate Formula

In 1990, the Land Board directed IDL to enter into a contract with the University of Idaho to explore alternative methodologies for determining the annual grazing rate for all IDL grazing leases. The formula presented to the Land Board in 1992 and ultimately approved is an adaptation of the federal grazing fee formula established in the Public Rangelands Improvement Act (PRIA) of 1978. The original intent of the formula was to develop a consistent and dependable means of predicting annual forage values in Idaho. The formula, as shown below, is a combination of several indices used to capture private rates as well as consider short term market conditions and costs for producers.

$$\mathbf{IDFVI_{t+2} = -6.92 + (0.13 \times FVI_t) + (0.60 \times BCPI_t) - (0.33 \times PPI_t) + (0.74 \times IDFVI_t)}$$

Where:

IDFVI ($_{t+2}$) is the predicted value of the Idaho Forage Value Index for the year the grazing fee is to be set, i.e. 2 years hence

FVI_t is the most recent published Forage Value Index, 11 western states

$BCPI_t$ is the most recent published Beef Cattle Price Index, 11 western states

PPI_t is the most recent published Prices Paid Index, 11 western states

$IDFVI_t$ is the most recent published value of the Idaho Forage Value Index

In the near future IDL will seek direction from the Land Board to begin a process of review to separately evaluate the IDL grazing lease rate and formula.

Program Analysis

The following is an analysis of the program strengths, challenges and opportunities that exist in the Grazing Program. A review of program challenges may help identify additional opportunities and impacts to the business operations of the Grazing Program.

Strengths

Market Conditions

Factors on both the supply and demand side of livestock markets have not only driven, but are maintaining beef cattle prices well above historic averages. Whereas the beef cattle market has historically had a predictable cyclical pattern, high foreign demand which has been outpacing supply is expected to continue into the foreseeable future. In addition to more favorable market conditions generally, higher feed costs have tempered beef cattle prices in more recent months and have made land leasing an attractive alternative. Because the current state grazing rate formula factors several market indices including the beef price index, current beef prices favor a higher state grazing rate.

At 1.4 million acres, rangeland is the largest of all IDL asset types. Traditionally, rangelands have been limited to the primary use of grazing. However, in more recent years these lands have also presented the potential for multiple lease types, particularly alternative energy. Wind, solar, geothermal, and gas energy alternatives have all been identified as potential leasing activities. Both public and private projects have increased in numbers over the past few years, including infrastructure from pipelines and transmission lines, providing opportunities for long-term leasing and easement contracts. As the western population continues to grow, energy development and related infrastructure in multiple forms will continue to be in demand. While Idaho has not experienced the growth of population and energy development that neighboring states have, increases in both should be considered moving into the future given the magnitude of the rangeland asset, especially across southern Idaho.

Range Improvements

The construction and maintenance of rangeland improvements, primarily fencing and water infrastructure, has historically been the responsibility of the grazing lessee. These improvements are the result of both personal lessee initiative and IDL requirements to make specific leased lands a manageable unit and to meet management objectives. Range improvements constructed on state endowment trust lands prior to 1970 are grandfathered per Idaho Administrative Code 20.03.14. Although IDL-approved documentation may not exist, lessees receive credit for maintained improvements. The improvement crediting system provides equity and incentive to grazing lessees to invest in state endowment trust lands while at the same time providing infrastructure with little to no cost to the endowments. In some cases, IDL maintains cooperation with lessees to construct IDL-approved improvements when deemed a cost/benefit to the endowments by providing materials.

Improvement credit valuation is based on replacement cost minus depreciation and the cost of IDL's preparation of any required improvement valuation is captured in the opening or minimum conflict auction bid. During a conflict lease auction IDL does not pay for improvements when a lessee loses a lease. In accordance to long standing statutes, lessees receive payment from the successful high bidder of the conflict auction for construction of IDL-approved rangeland improvements should they not continue as the holder of the lease. If state endowment trust lands are sold or exchanged, IDL may or may not pay for improvements when the lessee loses the lease. In a land sale or exchange, improvement credits are paid by the purchaser.

Lease Term Length

Idaho Statute 58-307 allows for flexibility in considering grazing lease term lengths of up to twenty years. Lease term lengths of five, ten, or twenty years provide Area staff with the ability to administer grazing lease parcels to benefit both the available resource and endowment revenues, with decisions made on a case by case basis. During current administration of both new and expiring leases, parcel assessments are conducted by IDL staff to identify available resource, management plan, administrative conditions, and the most appropriate lease term length. Management considerations such as future logging operations, timber plantations, regulating management concerns, and change of land use may warrant a five-year term length. Parcels that have high revenue generation potential based on proximity to population areas, high applicant ratio for conflicted leases, high forage production, and blocked ownership may be better suited for a ten-year lease term length. Management considerations under a twenty-year lease term length may include isolated or scattered ownership, lease management by the lessee and long-term management objectives of the parcel by Area staff.

Conflict Lease Auction

When two or more applicants make application for the same lease, Idaho Administrative Code 20.14.03 requires a conflict lease auction. The public conflict lease auction process provides IDL with the ability to obtain premium bonus bids and maximize revenues to the beneficiary. On average, roughly 5% of expiring grazing leases are conflicted in an auction process each year. Premium bonus bids paid by the highest bidder and received during the conflict auction provide a source of revenue to the endowment beneficiaries that may fully reflect a fair market forage value rate for that lease when amortized over the lease term length. Over a five year period between 2010 and 2014, an average $39,990 in premium bonus bids was paid per conflicted grazing lease (*see Table, pg 11*).

Challenges

Inter-dispersed Lands

Twenty-nine percent of IDL's rangeland asset is surrounded by federal ownership. In many cases, state endowment trust lands are isolated within federal ownership with no legal access to the state endowment trust land available. In cases where state endowment trust lands are inter-dispersed within federal and private ownership, there is very little management control available to IDL. Lands that lie within federal ownership are often used part-in-parcel with the federal lands, which means use and management are highly dependent on what is allowed by the federal permit. In more recent years, the BLM has come under increased scrutiny with regards to livestock grazing on federal lands managed by the agency. Through reductions in permitted uses, litigation and court orders driven by the Threatened and Endangered Species Act, grazing on state endowment trust lands within federal allotments has the potential to be subjected to reductions and exclusions.

In an effort to mitigate the potential listing of the Greater Sage-grouse, and subsequent federal grazing restrictions that could impact grazing on state endowment trust lands, IDL began planning efforts in concert with the Governor's Office of Species Conservation to develop an IDL sage-grouse conservation plan. Under this sage-grouse conservation plan, IDL is committed to applying conservation measures that reduce the impacts of priority threats to sage-grouse on state endowment trust lands. Based on current trends in federal permit renewals and the potential listing of Greater Sage-grouse in Idaho, reductions in grazing on federal lands will likely continue into the future.

Inter-dispersed lands are also limited in the marketability to multiple lease applicants. Many of the inter-dispersed lands lack access and adequate infrastructure, such as fencing and water improvements, to be managed separately from federal and private lands. While the limitations of inter-dispersed lands are evident, IDL's core objective to obtain maximum fair market forage value for the beneficiaries remains the same. Management strategies to mitigate the limitations may include added range improvements, obtaining easement for access, and land exchange.

Rental rate

A challenge exists for state endowment trust land managers across the west to both establish methodology for grazing rates as well as achieve fair market value for forage. On the surface, all endowment trust land states calculate grazing lease rates using established methodology, but the variety of formulas can be considered an indicator of no clear approach. Proponents have argued that state managed rangelands are significantly different from private leased lands and as a result, most state endowment trust land rental rates are significantly less than private lease rates.

Under IDL management, all state endowment trust land parcels are treated uniformly in terms of rental rate although distinct parcel characteristics can be found on many leased lands. The state median for acres per AUM for all leases is approximately 8.0 acres/AUM. A number of grazing leases administered by IDL are characterized by large blocked ownership, full management or legal access, a carrying capacity of over 400 AUM's, and contain sufficient infrastructure and water for complete management by the lessee. Achieving fair market value for forage on parcels that contain all the characteristics noted above is a topic to consider during the rate review process.

Revenue Potential

Small revenue margins are a significant challenge to the Grazing Program both on a lease by lease basis and programmatically. Due to marginal increases in productivity, lengthy payback periods, and potential revenue gains, most range improvement projects do not create a sufficient rate of return on investment for either IDL or the grazing lessee. Revenue and expense challenges exist at the programmatic level as well. Due to the large acreage covered by grazing leases and the revenues generated by those leases, cost minimization is a critical component to the Grazing Program's success. Similar to the parcel scale, programmatic investments are difficult to justify given the current marginal revenue potential of the program.

Through lease contract agreements, IDL is provided an opportunity to capture a share of additional revenue provided in sublease agreements. Per IDL lease terms, IDL is entitled to one-half the difference between the state AUM rate and the total amount received by the lessee from the sublessee. These types of arrangements on state endowment trust lands are not always identified and at times the endowments are not adequately compensated due to complex lease language. Lessee managed herd-stock arrangements bring additional complexity to state leasing arrangements. As an alternative, and to reduce the complexity of sublease arrangements and compensation, providing a set state sublease rental rate for all sublease and herd-stock agreements may help to both identify arrangements and adequately capture compensation for endowment beneficiaries.

Conflict Auction Process & Improvement Valuation

Within current Idaho Administrative Code 20.03.14, conflict lease auction participants must appear in person or by proxy to bid in the public auction process. The conflicted lease is awarded to the highest bidder with the total premium bid amount due at time of auction. In addition, improvement valuation credit is also due at time of auction to be paid by the high bidder to the State for reimbursement to the current lessee.

Valuation of creditable range improvements may likely impact the potential value of state endowment trust lands captured through lease conflict auctions. In lease conflict auctions, it is the conflicting applicant who must reimburse the existing lessee for the value of the improvements. In 2012, twelve existing grazing leases were conflicted by multiple applicants. The value of improvements associated with those leases was $320,731 or 60% of the high premium bid value for those leases. Of the $320,731 of creditable improvements associated with 2012 conflicted grazing leases, $171,000 was associated with one lease. High improvement values are likely to limit the number of applicants and the total high premium bid received at the auction for a conflicted grazing lease.

Overall, the conflict lease auction process may discourage a number of potential applicants from entering the conflict lease auction process due to their inability to secure the required funds for both the premium bid and the improvement valuation credit at time of auction. Having the ability to bid a premium AUM rate over the term of the lease may provide opportunity for additional conflict lease applicants and higher revenues generated from conflict lease auctions. Another concern for lessees of expiring leases is that lease tenure is not a consideration in the conflict lease auction process. Current lessees are less apt to invest in range improvements or stewardship projects on parcels that may be conflicted. Long-term resource sustainability plays an important role in endowment trust land ownership with lessees providing both funding and effort in constructing improvements and stewardship projects. In either case, a change in current statutes and rules would be required to consider any alternatives.

Federal Management

Federal land management has come under increased scrutiny in recent years with a focus on the ability of federal agencies to comprehensively manage the millions of acres of lands to which they are responsible. Twenty-nine percent or approximately 350,000 acres of the state endowment trust rangeland asset acres are subject to the increasing number of court orders, endangered species listings and federal management direction to reduce grazing on such lands. While these decisions may not apply directly to state endowment trust lands, use of these lands is directly tied to the management of the adjoining federal lands. As the 1999 Federal Resources Planning Act report suggests, the number of legal issues and conflicts on federally managed rangelands is likely to continue in the future, resulting in reductions to current grazing levels. Alternative leasing opportunities may exist on these lands as conservation values potentially replace grazing activities.

Natural Conditions and Trends

Several ecological and climatic trends exist that pose a threat to the long-term productivity of western rangelands, including Idaho state endowment trust lands. Non-native annual grass species such as cheatgrass, medusahead, and ventenata are widespread throughout Idaho's rangelands and have significantly reduced the amount of native perennial grasses. These invasive plants pose a threat to state endowment trust lands, both in their effect of reducing the productivity of available forage for livestock, thus reducing the capacity, but also through potential increases in costs to control such species. In addition to non-native plants, rangeland conditions such as pinyon pine and juniper encroachment also threaten the productivity of rangelands as they will crowd out desirable forage species.

Large scale range fires are a related but separate threat to the productivity of state endowment trust rangelands. Factors driving the increase in the number of large-scale range fires include increased human activity in landscapes, fuels associated with invasive species and changing climactic conditions. Particularly in southern Idaho, the effects of climate change include a decrease in the total annual moisture resulting in drier range conditions. Large, intensive fires impact both the short and mid-term productivity of rangelands. Fires that burn at a high enough intensity can actually damage soils to the extent that long-term recovery of plants and shrubs are significantly impacted, providing an increased threat for infestation of invasive species and continuing the trend of adverse conditions. IDL's continued support of Rangeland Fire Protections Associations provides a valuable opportunity to mitigate the impacts of wildfire to state endowment trust rangelands.

Expenses

In general, land management of natural resources can potentially generate significant program expense. Natural threats of rangelands such as invasive weeds and wildfire reduce the revenue potential of state endowment trust rangelands and the costs associated with restoration or improving forage production on rangelands requires significant investment. Program cost/benefit and risk/benefit analysis coupled with state administrative rules primarily drive management decisions on state endowment trust lands.

Management expenses for the Grazing Program pose another challenge in efforts to achieve objectives. Historically, management of expenses has received both internal and external attention. In 2001, the State Controller's Office conducted an analysis of expenses necessary to operate the Grazing Program. Due to IDL's inconsistent record keeping, a complete analysis could not be completed. Report recommendations included improvements in tracking and reporting of expenses. In 2007, the Attorney General's office made further inquiries into the Grazing Program expense allocations and found the accounting methodologies to be appropriate and made similar recommendations to improve program reporting.

In 2009, IDL completed a workload analysis for all leasing programs as part of an effort to implement the State's zero-based budgeting process. Although the analysis was inconclusive for the Grazing Program and resource allocation levels could not be immediately agreed upon between Supervisory Area managers and the Bureau, program adjustments were made that included a reduction in FTE's for the Grazing Program from 16 FTE's to 10.3 FTE's.

While the 2014 staffing levels at the current FTE allocation may be adequate in terms of status quo administration of state endowment trust lands, a re-evaluation of staffing levels may be required to address any increase in management activity. Value-added activities may increase program revenues and enhance or maintain valuable resources for the endowments, but projects to enhance forage productivity or carrying capacity assessments to adjust AUM values require additional resources and staff time. Accurate and complete expense reporting would provide the Grazing Program with critical information regarding appropriate resource allocation and management strategies. Although some improvements have recently been made to expense reporting, the Grazing Program expenses are still likely to be over-estimated due to over-lap from other IDL programs.

Operational Planning and Tracking

Incomplete information and tracking of operations have lead to inefficiencies in the grazing program. Without proper planning, programs and Supervisory Areas cannot appropriately allocate resources and budgets. In addition, without performance measures and feedback, no adequate analysis or information can be developed to determine if various managerial levels have achieved their stated goals and objectives.

Public Transparency

Efforts to amend statutes and rules governing all IDL programs, including endowment management programs such as grazing, are subject to the political and public involvement process. A review of the grazing program business plan and associated grazing rate included a public engagement process because IDL wanted to be transparent and inclusive in its decision making about the program in order to build partnership with stakeholders and garner the best ideas for creating long term value for beneficiaries. It can be challenging to respond to the varied interests that influence the outcome of the laws, rules and program in order to meet the constitutional mandate to maximize long term financial returns from the use of the lands.

Opportunities

Diversification

The current rangeland asset holdings are primarily the result of the federal land endowment process established at statehood. Historically, grazing has been the primary use on the lands currently classified as rangeland; however, more recently IDL has experienced an increase in the number of opportunities to diversify the use base and revenue potential. While the current income generation from alternative lease types remains low, Oil & Gas and alternative energy may present significant potential revenues streams as both exploration and market conditions become favorable. In addition to energy projects, other lease types have the potential to diversify rangeland revenues. Surface ownership provides greater control to develop the mineral resource, acquire payments for surface damage, well pads and seismic activity.

By identifying key habitat zones for Threatened and Endangered Species, land disposal, exchanges and conservation mitigation provide an opportunity for purchasing more desirable lands, blocking of high forage value lands and potential added revenue streams from conservation mitigation banking. Interest in conservation and payment for environmental services is growing across the west and in Idaho.

Prioritization

Current operations assign 10.3 FTEs to manage approximately 1,200 grazing leases and 1.4 million acres of rangeland across the state. This equates to approximately 135,000 acres and 115 leases administratively managed per FTE. At these levels, equal management of all leases is not feasible and is cost prohibitive. Adopting a tiered management framework and enhancing partnerships with customers provides an opportunity to maximize net revenues by minimizing management costs. Prioritization of grazing leases on those lands with the most potential revenue will help to achieve target returns and improve the expense to revenue ratio.

Range Improvement Inventory

A complete inventory of the current range improvements on state endowment trust lands has not been maintained by IDL and thus no accurate assessment exists of the potential total asset or liability associated with these improvements. On a per lease basis, an accurate assessment of infrastructure requirements in terms of additional fencing and water developments can enhance IDL's ability to maintain or increase AUMs over the term of a lease, maximizing revenue to endowment beneficiaries and adding value to the total rangeland asset.

SECTION IV: MANAGEMENT PLAN

Short and Mid-Term Objectives

Based on direction set out in the AMP and the above analysis, the following are short-term (1-5 year) and mid-term (5-10 year) objectives for the Grazing Program:

Short-term

- Achieve market rates for grazing leases that align with fair market forage values.

- Develop a premier Grazing Program, supported by an efficient and consistent leasing management system that improves state endowment trust land resources and supports value-added activities with appropriate resource allocations.

- Manage rangeland parcels based on two-tiered management structure. Allocate resources and align management strategies based on placement of parcel within tiered framework.

- Develop and integrate a customer service feedback process to provide staff development, training and inspire premier customer service in the Grazing Program

Mid-term

- Manage the rangeland asset prudently and consistently with the mission of maximizing long-term revenues to the endowed beneficiaries.

- Minimize exposure of the rangeland asset and Grazing Program to external risks such as litigation on federal lands, threatened and endangered species, wildfire, and invasive species as well as internal risks.

Management Strategies

The following strategies are intended to guide the management of IDL's rangeland asset and Grazing Program. These strategies are based on the strengths, challenges and opportunities identified in Section III.

- **Objective: Achieve market rates for grazing leases that align with fair market forage values.**

The true fair market forage value of IDL grazing leases and appropriate methods for determining such values has long been debated. With a mission to maximize revenues for state endowment trust land beneficiaries, IDL is obligated to review and subsequently achieve market rates for grazing leases that align with fair market forage values. There are various methodologies implemented by other state endowment trust land management agencies. A review of the current methodology implemented by IDL would consider all options and include rate formula transparency.

Strategy:

Evaluate existing rental rate methodology to ensure grazing lease rates are in line with fair market forage values.

Tasks	Resources	Timeframe
Request Land Board subcommittee review of grazing lease rate methodology. Conduct outreach efforts to explore and evaluate current and alternate lease rate methodology.	Program Manager	YR 1
Present lease rate methodology alternatives to executive staff for feedback and approval.	Program Manager	YR 2
Subcommittee recommendation. Land Board approval of lease rate methodology.	Program Manager	YR 2

- **Objective: Develop a premier Grazing Program, supported by an efficient and consistent leasing management system that improves state endowment trust land resources and supports value-added activities with appropriate resource allocations.**

In total, IDL manages 1.7 million acres of grazing land that includes livestock grazing on forest lands throughout the state. Managing all lands equally, similar to other land management agencies is not financially feasible for IDL. To achieve target returns, it is necessary that IDL prioritize management efforts to focus on those lands that provide the highest potential revenue, while minimizing costs through efficient management procedures.

Program goals include identifying systems, technology, and processes that minimize administrative costs and improve program efficiencies. Supervisory Area-specific strategic goals and operation plans both identify and support value-added activities that enhance revenue and resource stewardship. Integration of Supervisory Area-specific operation plans and interagency cooperative management strategies reduce impacts associated with wildfire, invasive species, conifer encroachment, federal lands management, and Threatened & Endangered Species.

Rangeland management decisions are supported by cost/risk and cost/benefit ratios that support the IDL mission. Assessment and prioritization of range improvement projects are implemented where rates of return are warranted, the potential for increased revenue to endowments is high, and impacts from federal or environmental risks are reduced.

Strategies:

Update and implement three year expiring lease review process. Implement efficient administrative processes identified through the 2014-2015 Business Process Review. Identify and implement support technology to improve program efficiency.

Tasks	Resources	Timeframe
Review and update current uniform procedures. Implement efficient administrative processes identified in Business Process Review.	Program Manager L&W Admin Staff Bureau Chief Area Staff	YR 1 Ongoing
Identify, develop, and implement technology to assist in lease review process.	Program Manager Area Staff IT Staff Land Records Staff	YR 2
Identify and develop tools and staff training for expiring lease review process.	Program Manager L&W Admin Staff Area Manager Resource Supervisors	YR 2
Conduct training and implement three year expiring lease review process.	Program Manager Bureau Chief Area Staff	YR 2

Develop program specific management procedures, guidelines, tools, technology, and mobile applications for efficient and consistent management.

Tasks	Resources	Timeframe
Identify programmatic elements that require program specific procedures, guidelines, tools, technology, and mobile applications.	Program Manager Area Staff Bureau Chief IT Staff	YR 1
Develop program procedures and guidelines, corresponding tools, technology, and mobile applications.	Program Manager Area Staff L&W Admin Staff GIS Staff	YR 2
Disseminate program procedures, guidelines, tools, technology, and mobile applications. Implement training for area staff.	Program Manager Area Staff	YR 2 Ongoing

Develop area-specific operation plans to identify efficient workloads, resource allocations, and value-added activities that support the Grazing Program and rangeland resources.

Tasks	Resources	Timeframe
Develop operational planning procedures, guidelines, and templates.	Bureau Chief Operations Chief Program Manager	YR 1
Provide training and guidance to Supervisory Area managers on operational planning.	Bureau Chief Operations Chief Area Managers	YR 1
Develop Supervisory Area specific strategic goals and operation plans that identify and support value-added activities.	Operations Chiefs Area Managers Resource Supervisors GIS Staff	YR 1

Conduct training and execute Supervisory Area-specific operation plans that support value-added activities.	Program Manager Area Manager Resource Supervisors Area Staff	YR 2
Develop and integrate tools, technology, and systems that support area-specific operation plans and value-added activities.	Program Manager Bureau Staff Area Staff IT Staff GIS Staff	YR 2
Evaluate staff allocations and FTEs based on Supervisory Area-specific operation plans with strategic goals that support value-added activities.	Area Manager Resource Supervisors Bureau Chief	YR 2-5

Land management decisions are based on a low risk/low cost/high benefit ratio basis.

Tasks	**Resources**	**Timeframe**
Develop framework and criteria for determining appropriate lease term lengths.	Program Manager Bureau Chief Resource Supervisors	YR 1
Develop training for Supervisory Area staff on risk/cost benefit analysis and financial considerations in decision making.	Program Manager Bureau Chief Operations Chief Fiscal	YR 2
Implement and provide training to Supervisory Area staff.	Program Manager Fiscal Area Managers	YR 3-5

Range improvement projects are implemented where rates of return are warranted.

Tasks	**Resources**	**Timeframe**
Develop procedures for the proposal, review, and allocation of funds for the purpose of range improvement projects.	Program Manager Bureau Chief Area Staff	YR 1
Implement and provide training to Supervisory Area staff on procedures.	Program Manager Resource Supervisors	YR 1
Bi-annually review project submittals and allocate funds accordingly.	Program Manager Bureau Chief Area staff Fiscal	Ongoing

- **Objective: Manage rangeland parcels based on two-tiered management structure. Allocate resources and align management strategies based on placement of parcel within tiered framework.**

Through development of a two-tiered management structure, state endowment trust lands are evaluated and management efforts prioritized through a simple and objective assessment process. The two-tiered framework considers five specific management categories of asset class, parcel type, forage resource, access and management control to categorize parcels.

Primary TIER I classification requires the parcel to completely align within all five categories. Standard TIER II classification is awarded to those parcels that do not align within all five categories. A secondary evaluation of TIER II parcels will be conducted for consideration under a Custodial classification.

Strategies:

Identify parcel placement within two-tiered management framework. Implement area-specific management priorities based on two-tiered parcel framework. Focus management efforts on those that have the highest revenue potential and long-term resource value.

Tasks	Resources	Timeframe
Identify parcel placement in two-tiered management framework based on Primary and Standard classification and five management categories.	Program Manager Area Staff Land Records Staff	YR 1
Develop area specific criteria within operation plans that focus on management efforts of those parcels that have the highest revenue potential and long-term resource value.	Program Manager Operations Chief Area Manager Area Staff	YR 2
Evaluate and identify parcels for Custodial classification within TIER II - Standard.	Area Staff Program Manager RES Bureau	YR 2 Ongoing
Develop lease term length analysis, criteria, and procedure for new and expiring leases. Provide staff training.	Program Manager Area Staff Bureau Chief	YR 1 Ongoing
Conduct lease term length analysis during new and expiring lease review.	Area Staff Program Manager	YR 1 Ongoing

- **Objective: Develop and integrate a customer service feedback process to provide staff development, training, and inspire premier customer service in the Grazing Program.**

A high standard of customer service centered on key elements such as conflict resolution, interpersonal skills and communication are vital to a credible Grazing Program. Understanding the needs of the customer, both internal and external, and supporting efficient and cooperative solutions to customer issues within the program exemplifies the IDL mission. Providing staff training focused on these key elements ensures that a consistent and professional level of customer service is promoted within the program. In an ongoing effort to promote exceptional customer service, IDL intends to build a customer service feedback system to inform and inspire its growing culture of customer service.

Strategy:

Build a customer service feedback system in the Grazing Program.

Tasks	Resources	Timeframe
Develop a pilot customer service feedback process in the expiring grazing lease process.	Program Manager Bureau Chief Area Managers	YR 1
Conduct pilot customer service feedback survey in the expiring grazing lease process.	Program Manager Bureau Chief Area Managers	YR 1
Evaluate and identify areas for staff training, coaching, and process or procedure revisions.	Bureau Chief Bureau Staff Program Manager Area Staff	YR 1 Ongoing
Identify and recognize staff that provides exceptional customer service as identified from customer service feedback system.	Executive Staff Bureau Chief Area Managers Program Manager	YR 1 – 5 Ongoing
Identify and recognize lessees who provide excellent land management and resource stewardship of state endowment trust rangelands.	Executive Staff Bureau Chief Program Manager Area Staff	YR 1 -5 Ongoing

- **Objective: Manage the rangeland asset prudently and consistently with the mission of maximizing long-term revenues to the endowed beneficiaries.**

On a programmatic level it is essential that IDL identifies enhanced revenue streams, land acquisition, disposal, exchange opportunities, and long-term resource stewardship goals while being conscious of costs and returns to investments. Implementation of the grazing program business plan offers an opportunity for annual assessment of resource levels and workload allocations. Resource Assessments and Lease Inspections are conducted by area staff to provide consistent and relevant data that will help to identify adjustments needed in management, and to better align with strategic goals and long-term resource stewardship. Prudent management involves recognition of opportunities for obtaining right-of-way and easement on parcels with restricted or limited management access, activities to enhance land values, or securing senior and 100% ownership of water rights on state endowment trust lands.

Strategies:

Develop a Rangeland Asset portfolio that identifies strategies to enhance or promote programmatic revenue streams; that provides a strategy and process to identify and evaluate land acquisition, disposal or exchange of unproductive and below average net-income parcels; with long-term resource goals consistent with both the vision and mission of IDL. Implement strategies identified in the Rangeland Asset portfolio.

Tasks	Resources	Timeframe
Identify strategies to enhance or promote programmatic revenue streams through data and information collected by Area staff through lease inspection or assessments.	Bureau Chief Program Manager Area Staff	YR 5
Develop strategy and process to identify and evaluate land acquisition, disposal or exchange. Data and information collected from RES, Area and GIS staff.	Program Manager RES Bureau Chief Area Staff GIS Staff	YR 5

Identify long-term resource goals consistent with the mission and vision of IDL. Data and information collected from Area staff.	Program Manager Area Staff Bureau Chief	YR 5
Develop a Rangeland Asset portfolio and strategic plan.	Program Manager	YR 6
Present portfolio to Executive staff for review and approval.	Program Manager Bureau Chief	YR 6
Implement strategies identified in portfolio.	Program Manager Bureau Chief RES Staff	YR 7

Evaluate resource levels and allocations through a workload analysis based on implementation of the Grazing Program Business Plan.

Tasks	Resources	Timeframe
Monitor workloads and develop workload analysis similar to that implemented as part of zero-based budgeting.	Program Manager Operations Chief Area Managers	YR 1-5
Implement and re-analyze workload analysis.	Program Manager Operations Chief Area Manager	YR 5
Develop report and recommendations based on analysis and present to Executive staff for consideration.	Program Manager Bureau Chief Operations Chief	YR 6
Implement approved changes (if any).	Operations Chief Bureau Chief	YR 7-10

Dispose of or exchange those properties that have a high expense to low revenue ratio and when there is a willing purchaser of the property. When feasible procure right-of-way and easement for those properties identified as having restricted or no known management access.

Tasks	Resources	Timeframe
Identify those properties that pose high management costs with low revenue potentials.	Area Staff Program Manager	YR 2-5 Ongoing
Work with Real Estate Services Bureau to further prioritize properties for disposal.	Area Staff RES Bureau Land Records Staff	YR 2-5 Ongoing
Dispose of properties through appropriate transactions (exchange or auction).	RES Bureau	YR 5-10 Ongoing
Identify those properties with restricted or no known management access.	Area Staff RES Bureau Land Records Staff	YR 2-5 Ongoing
Work with ROW and Real Estate Services Bureau to further prioritize properties in need of ROW or easement procurement.	Area Staff ROW Staff RES Bureau	YR 2-5 Ongoing
Procure ROW and legal access through appropriate transactions.	ROW RES Bureau	YR 3-10 Ongoing

Water rights are secured through established legal Settlement Agreement procedures to obtain senior and 100% ownership to State of Idaho, Department of Lands.

Tasks	Resources	Timeframe
Develop area staff procedures to identify and make application for water rights to include POU/POD, streams, beneficial use, water developments, and livestock water.	Program Manager Area Staff Technical Bureau Attorney General	YR 2-5
Implement and provide training to area staff on IDWR water rights database and current IDL procedures for securing water rights and administration of Settlement Agreements.	Program Manager Resource Supervisors Water Rights Staff Attorney General	YR 2-5 Ongoing
Secure 100% water rights on state endowment trust lands through established legal Settlement Agreement procedures.	Area Staff Technical Bureau Attorney General	YR 2-10 Ongoing

- **Objective: Minimize exposure of the rangeland asset and Grazing Program to external risks such as litigation on federal lands, threatened and endangered species, wildfire, and invasive species as well as internal risks.**

The rangeland asset and Grazing Program is susceptible to multiple risks, both external and internal. While these risks may not present themselves as actual fiscal costs today, they do represent a potential for substantial costs to IDL and the endowed beneficiaries over the long-term. Trends such as increasing federal litigation, decreased grazing on federal lands, the spread of invasive plants and wildfires have the potential to reduce revenue income from state endowment trust lands.

Efforts to amend statutes and rules governing all IDL programs, including endowment land management programs such as grazing, are subject to the political and public involvement process. It can be challenging to manage the varied interests that influence the outcome of the laws, rules, and program while meeting the constitutional mandate to maximize long term financial returns from the use of the lands.

Rangeland improvements are a unique benefit to IDL and the endowed beneficiaries. Improvements are typically paid for by grazing lessees adding infrastructure for land ownership and proper grazing management. In contrast, the existence of lessee owned improvements can be considered a determent to potential conflict applicants when the value is significant. Lessee owned improvements are paid by the purchaser or high bidder of the conflict lease auction. Grazing leases with high improvement crediting can decrease potential competition for lease conflicts.

Coordinated inter-agency involvement in landscape level strategic planning and projects reduces the risks and costs to the Grazing Program associated with environmental impacts and federal land policies. As an example, statewide planning and conservation efforts to mitigate the potential listing of the Greater Sage-grouse by the US Fish and Wildlife Service ("FWS") have included multiple projects on state endowment trust lands within the past five years that provide enhancement to both habitat and livestock forage production. Ongoing recognition of interagency technical and financial support, actively pursuing opportunities in agency collaboration and implementing habitat restoration projects on state endowment trust lands enhances forage production and supports the mission and vision of IDL.

Strategies:

Where environmental risks are high, negotiate land exchanges with appropriate management agencies.

Tasks	Resources	Timeframe
Identify lands with high risk exposure due to environmental conditions associated with endangered species listing and/or state and federal environmental regulatory requirements.	Area Staff Program Manager	YR 1-10 Ongoing
Prioritize those lands with the highest risk and lowest revenue potential.	Program Manager Area Staff	YR 2-10 Ongoing
Work with the Real Estate Services Bureau to negotiate land exchange with appropriate management agency.	Program Manager Area Staff RES Bureau Operations Chief	YR 2-10 Ongoing

Maintain and build upon working relationships with stakeholders; outreach mission, and objectives of endowment trust management.

Tasks	Resources	Timeframe
Attend annual meetings presented by Idaho livestock industries and the Idaho Rangeland Resource Commission; convey the mission of state endowment trust land management.	Program Manager Executive Staff	Ongoing
Engage stakeholder representatives in policy dialogues.	Program Manager Bureau Chief Area Staff Executive Staff	Ongoing

Develop data inventory and tracking procedures for creditable improvements.

Tasks	Resources	Timeframe
Determine most appropriate system and tools to capture range improvement inventory data and design database.	Program Manager IT Staff Area Staff GIS Staff	YR 2
Create database and develop associated procedures for collecting and inputting data.	Program Manager IT Staff Area Staff	YR 3
Input existing file data for all known range improvements and new permitted improvements.	Area Staff	YR 4-10

Evaluate improvement crediting rules and the impacts to the Grazing Program to better align with market performance.

Tasks	Resources	Timeframe
Analyze current improvement crediting rules and procedures to determine necessary revisions, if any.	Program Manager Area Staff Bureau Chief	YR 2

Develop updated rules and revisions to forms, procedures or process as determined.	Program Manager Area Staff Bureau Chief	YR 3-4
Provide training to area staff and implement program specific procedures.	Program Manager Area Staff	YR 5

Develop and maintain working relationships with inter-agency, coordination management groups. Identify opportunities, engage in planning efforts, and implement collaborative improvement projects that enhance state endowment trust land resources.

Tasks	**Resources**	**Timeframe**
Assess value of participation in coordinated management groups based on potential risk/benefit to IDL.	Program Manager Area Staff	Ongoing
Attend inter-agency and coordination management meetings based on assessed value and mission goals.	Executive Staff Program Manager Area Staff	Ongoing
Identify opportunities for cooperative lessee and inter-agency improvement projects; engage in cooperative planning efforts to include cost-share, cost/benefit, risk/benefit analysis; implement collaborative improvement projects as identified with lessees and inter-agency coordination management groups.	Area Staff Program Manager Operations Chief	Ongoing

Key Performance Indicators

To measure the performance of the Grazing Program, key performance indicators ("KPIs") have been identified that match the stated objectives of this business plan. By aligning performance indicators to management objectives, the business plan allows for an adaptive management system by which strategies can be adjusted over time. The KPIs are identified by the level at which measurement and tracking should be performed. For some KPIs, information may be rolled up to determine values at the higher management level.

Management Level	Key Performance Indicator	Estimated Date	Target Value	FY 2014 Value[15]
Objective: Achieve market rates for grazing leases that align with fair market forage values.				
Asset	Land Expectation Value	2020	TBD[16]	$29/ac
Asset	Real Return on Assets	2020	1.25%[17]	1.25%
Program	AUM Rate	2020	TBD[18]	$6.89
Objective: Develop a premier Grazing Program, supported by an efficient and consistent leasing management system that improves state endowment trust land resources and supports value-added activities with appropriate resource allocations.				
Program	Annual AUM Estimate	2020	TBD	256,681
Program	Annual Net Grazing Program Income/Acre Managed	2020	TBD	$0.55
Program	Annual Forage Improvement Acres	2020	TBD	13,346
Program	Net Income/FTE	2020	TBD	$58,230
Objective: Develop and integrate a customer service feedback process to provide staff development, training, and inspire premier customer service in the Grazing Program.				
Program	Customer Comments	2020	TBD	TBD
Objective: Manage the rangeland asset prudently and consistently with the mission of maximizing long-term revenues to the endowed beneficiaries.				
Asset	Expense/Revenue Ratio	2020	≤ previous year	64%
Program	Annual Net Revenue	2020	TBD	$775,041

[15] 2014 IDL Annual Report
[16] Callan Associates (2014) *Asset Allocation and Governance Review – Idaho State Board of Land Commissioners*.
[17] Callan Associates (2014) *Asset Allocation and Governance Review – Idaho State Board of Land Commissioners*.
[18] IDL anticipates Land Board recommendation in 2015.

Objective: Achieve market rates for grazing leases that align with fair market forage values.				
Manageme nt Level	**Key Performance Indicator**	**Baseline Date**	**Target Value**	**Current Value**
Asset	Land Expectation Value	2015	TBD[19]	$29/ac

Description:
Cash flow forecast[20] based on forecast of 260,000[21] AUMs and 2015 grazing rate of $6.77/AUM. Program expense and managerial overhead from 2013 IDL income statement, discounted for inflation. Discount rate estimated from average historical 10-yr bond equivalent yield for funding costs provided by Farm Credit System Bank. 10-yr ave. is 4%; 5-yr ave. is 3%; averaged to nominal discount rate of 3.5%. Inflation assumption of 2.25% subtracted from averaged discount rate results in real discount rate of 1.25%. Real discount rate leads to a $40.8 million land expectation value (LEV). In 2015, 1.4 million acres of rangeland valued at $29/ac.

Measure:

$$\text{LEV} = \frac{\text{Constant Real Annual Cash Flow}}{\text{Real Annual Discount Rate}}$$

Data Source:
Callan Associates, 2014
IDL Annual Financial Report, 2013

Reporting timeframe:
Annually

Objective: Achieve market rates for grazing leases that align with fair market forage values.				
Management Level	**Key Performance Indicator**	**Baseline Date**	**Target Value**	**Current Value**
Asset	Real Return on Assets	2015	1.25%[22]	1.25%

Description:
Real return on assets (real ROA) includes a combination of forage value and land; real cash flow divided by the real LEV. Result is real discount rate of 1.25%. Nominal return on assets is the ROA plus assumed rate of inflation. Nominal expected ROA is 3.5%.

Measure:

$$\text{ROA} = \frac{\text{Real Net Cash Flow}}{\text{Real LEV}}$$

Data Source:
Callan Associates, 2014
O'Laughlin et al PAG Report No. 21

Reporting timeframe:
Annually

[19] Callan Associates (2014). *Asset Allocation and Governance Review – Idaho State Board of Land Commissioners*.
[20] Cash flow forecast for asset value based on conservative rangeland asset revenues with no added premium bonus income.
[21] Actual IDL Rangeland Asset AUM values range between 255,000 to 285,000.
[22] Callan Associates (2014). *Asset Allocation and Governance Review – Idaho State Board of Land Commissioners*.

Objective: Achieve market rates for grazing leases that align with fair market forage values.				
Management Level	**Key Performance Indicator**	**Baseline Date**	**Target Value**	**Current Value**
Program	AUM Rate	2015	TBD[23]	$6.77
Description: 2015 state grazing AUM rate as determined by current rate formula approved by Land Board in 1992. Market indices include Idaho Private Lease rate index, 11 Western States Private Lease Rate index, Beef Cattle Price index, and Price of Inputs index.				
Measure: Annual calculation of IDL grazing rate				
Data Source: Annually calculated IDL lease rate USDA- NASS January and December Agricultural Prices reports				
Reporting timeframe: Annually				

Objective: Develop a premier Grazing Program, supported by an efficient and consistent leasing management system that improves state endowment trust land resources and supports value-added activities with appropriate resource allocations.				
Management Level	**Key Performance Indicator**	**Baseline Date**	**Target Value**	**Current Value**
Program	Annual AUM Estimate	2015	TBD	256,681[24]
Description: Annual Area AUM Estimates provide for more accurate reporting of programmatic active AUMs that account for revenue. Area trend data tracks annual increase or decrease of Area AUMs due to forage resource assessments, value-added activity, federal management and natural conditions.				
Measure: $\% \text{ Annual Change} = \frac{\text{Area AUMs}}{\text{Previous YR AUMs}}$ and $\frac{\text{Area AUMs}}{\text{Program AUMs}}$				
Data Source: IDL Area Reports 2014 IDL Annual Financial Report				
Reporting timeframe: Annually				

[23] IDL anticipates Land Board recommendation in 2015.
[24] 2014 Programmatic AUM value as reported in annual report.

Objective: Develop a premier Grazing Program, supported by an efficient and consistent leasing management system that improves state endowment trust land resources and supports value-added activities with appropriate resource allocations.				
Management Level	**Key Performance Indicator**	**Baseline Date**	**Target Value**	**Current Value**
Program	Annual Net Grazing Program Income/Acre Managed	2015	TBD	$0.55[25]
Description: Area specific value-added activities potentially increase revenues to the program. Optimal income generation potential to achieve program objectives is not well defined. Accurate record keeping and reporting by Area of net income by acres managed tracks increase of revenue. Data provides Area trend.				
Measure: Net Income/Acre = $\frac{\text{Program Revenue – (Expense + Managerial Overhead)}}{\text{Area Acres Managed}}$				
Data Source: IDL Annual Area Reports; 2014 IDL Annual Financial Report				
Reporting timeframe: Annually				

Objective: Develop a premier Grazing Program, supported by an efficient and consistent leasing management system that improves state endowment trust land resources and supports value-added activities with appropriate resource allocations.				
Management Level	**Key Performance Indicator**	**Baseline Date**	**Target Value**	**Current Value**
Program	Annual Forage Improvement Acres	2014	TBD	13,346[26]
Description: Area cooperative projects that improve forage provide long-term stewardship of resource. Projects that increase forage productivity may potentially increase revenues to the program. Optimal income generation potential to achieve program objectives is not well defined. Accurate record keeping and reporting by Area of forage improvement acres tracks annual trends and long-term revenue projections.				
Measure: % Change Previous Year = $\frac{\text{Annual Forage Improvement Acres}}{\text{Previous Year Acres}}$				
Data Source: IDL Annual Area Reports; 2014 Program Report				
Reporting timeframe: Annually				

[25] Current value based on 2014 Asset Acres reported of 1,411,452. Future acres reported and managed by Area will reflect higher numbers due to area grazing within Forest Asset.
[26] 2014 program report estimate of forage improvement acres includes juniper removal, range seeding, and brush management control

Objective: **Develop a premier Grazing Program, supported by an efficient and consistent leasing management system that improves state endowment trust land resources and supports value-added activities with appropriate resource allocations.**				
Management Level	**Key Performance Indicator**	**Baseline Data**	**Target Value**	**Current Value**
Program	Net Income/FTE	2014	TBD	$58,230
Description: Efficient land management and maximized long-term revenue generation requires optimal allocation of staff, accurate program record keeping and reporting of net income by Full-time staff equivalent (FTE).				
Measure: $\frac{\text{Net Income}}{\text{FTE}}$				
Data Source: 2014 IDL Annual Financial Reports				
Reporting timeframe: Annually				

Objective: **Objective: Develop and integrate a customer service feedback process to provide staff development, training and inspire premier customer service in the Grazing Program.**				
Management Level	**Key Performance Indicator**	**Baseline Data**	**Target Value**	**Current Value**
Program	Customer Comments	2015	TBD	TBD
Description: Through development and integration of an IDL customer service feedback process staff training and development will enhance the overall performance of the Grazing Program. Voice of the Customer (VOC) reporting tracks annual trends and provides feedback for performance and process change.				
Measure: $\text{VOC Positive \%} = \frac{\text{Number of Positive Comments Received}}{\text{Total Number of Comments Received}}$				
Data Source: IDL Pilot Customer Service Feedback System - Grazing Expiring Lease Process				
Reporting timeframe: Annually				

Objective: **Manage the rangeland asset prudently and consistently with the mission of maximizing long-term revenues to the endowed beneficiaries.**				
Management Level	**Key Performance Indicator**	**Baseline Data**	**Target Value**	**Current Value**
Asset	Expense/Revenue Ratio	2014	≤ previous year	64%
Description: Expense to revenue ratio is a measure of a business's efficiency. FY2014 – Direct Grazing Program Expense of $963,445; Managerial Overhead of $421,955; Direct Program Revenue of $2,160,442.				
Measure: Total Expenses = Program Expenses + Overhead / Program Revenue				
Data Source: 2014 IDL Annual Financial Reports				
Reporting timeframe: Annually				

$$\text{Total Expenses} = \frac{\text{Program Expenses + Overhead}}{\text{Program Revenue}}$$

Objective: **Manage the rangeland asset prudently and consistently with the mission of maximizing long-term revenues to the endowed beneficiaries.**				
Management Level	**Key Performance Indicator**	**Baseline Date**	**Target Value**	**Current Value**
Program	Annual Net Revenue	2014	TBD	$775,041
Description: Annual net revenue (ANR) is gross revenues minus expenses and managerial overhead. Annual net revenue provides bottom line revenue to the endowment trust beneficiaries and program change overtime. 2014 ANR $775,041 / 2013 ANR $679,343 = +12.4% change.				
Measure: % Revenue Growth = Current Year Net Revenue / Previous Year Net Revenue				
Data Source: 2014 IDL Annual Financial Reports				
Reporting timeframe: Annually				

$$\text{\% Revenue Growth} = \frac{\text{Current Year Net Revenue}}{\text{Previous Year Net Revenue}}$$

APPENDIX A

Two-tiered Parcel Management Framework

The two-tiered parcel management framework is intended to be an objective management assessment of state endowment trust lands, providing a simple, efficient, and impartial process by which parcels can be evaluated and management efforts prioritized. The two-tiered framework considers five specific management categories of asset class, parcel type, forage resource, access and management control to categorize individual parcels.

Primary TIER I classification requires the parcel to completely align within all five categories. Priority management of TIER I parcels fully aligns with the IDL mission, business plan objectives, and long-term resource stewardship.

Standard TIER II classification is awarded to those parcels that do not align within all five categories. Area-specific operations determine parcel management objectives, prioritization of cost-effective strategies to potentially align parcel within TIER I categories, and long-term resource stewardship. A secondary analysis of TIER II parcels is considered for Custodial classification. Management of TIER II - Custodial parcels is limited and potential divestiture of parcel may be considered in alignment with Land Board recommendations of the trust asset.

Definitions

TIER I	**Primary**	Primary classification is given to those parcels that provide the highest opportunity and potential for generating net revenues. Primary parcels are characterized by excellent natural and ownership qualities, require little management oversight or inspection, and provide excellent opportunities of cost-effective parcel management strategies for revenue generation. Acquisition of lands is favorable.
TIER II	**Standard**	Standard classification is given to those parcels that provide opportunity for generating net revenues. Additional improvements, management activity, or forage improvement projects may enhance forage resource or increase revenue generation. Standard parcels are characterized by suitable natural and ownership qualities and contain conditions or features that may require additional management oversight.
	Custodial	Custodial classification is given to those parcels that provide limited opportunity for generating net revenues. Custodial parcels are characterized by less than suitable natural and ownership qualities, contain significant conditions or features that require additional oversight, and provide little to no opportunity for additional revenue generation. Divestiture of lands is favorable.

Management Strategies

TIER I	**Primary**	Primary classification is given to those parcels identified for priority management to maintain, restore, or enhance resources for long-term resource stewardship. Intensive parcel management strategies are cost effective and offset by high potential revenue generation. Resource investments maintain or enhance productivity of parcel and provide state ownership of improvements. Lease tenure of 10-years optimizes competitive bid process. Lease tenure of 20-years is considered with low lease competition and compensated by fair market forage value.
TIER II	**Standard**	Standard classification is given to those parcels identified for retention, preservation, and enhancement. Management activities are prioritized based on net-income generating opportunities and long-term resource enhancement. Additional resources and management efforts facilitate conversion to best and highest potential use. Blocking ownership, additional improvements, and acquired access would be analyzed to determine the feasibility and impact of transitioning Standard TIER II parcel into Primary TIER I category. Lease tenure of 5-years provides management oversight and ability for change of use. Lease tenure of 10-years optimizes competitive bid process. Lease tenure of 20-years is considered with low or no lease competition and is compensated by fair market forage value.
	Custodial	Custodial classification is given to those parcels identified for low-priority and minimized management efforts. Custodial parcels may require additional management oversight but provide no opportunity for improvement. Steps should be taken to minimize management costs of parcels with significant oversight requirements. Under-performing parcels may warrant recommendation to change or discontinue use and leasing of parcel. Long-term strategies for parcels may include disposal or exchange of the trust asset if feasible and recommended by the Land Board. Lease tenure of 5-years provides management oversight and ability for change of use or disposal. Lease tenure of 10-years or 20-years is considered with low or no lease competition and is compensated by fair market forage value.

Table: Two-Tier Management Framework

Management Categories	Management Classification		
	Tier I	**Tier II**	
	Primary	**Standard**	**Custodial**
Asset Class	Rangeland Asset Class The natural and location characteristics of the parcel make it ideal for its intended use or asset classification.	Rangeland or Forest Asset Class: The natural and location characteristics of the parcel are suitable for its intended use or asset classification. Grazing may be classified as secondary use within Forest Asset.	Rangeland or Forest Asset Class: The natural and location characteristics of the parcel are poorly suited for its intended use of grazing. Management challenges exist that severely impact revenue potential or protection of resource. Grazing may be classified as secondary use within Forest Asset.
Parcel Type	Blocked state endowment trust land ownership: $\geq$ 2500 acres .	State endowment trust land ownership may be blocked, scattered sections, isolated parcels, or intermingled within federal, private, or other public land ownership.	State endowment trust land ownership of scattered sections, isolated parcels or intermingled within federal, private, or other public land ownership.
Forage Resource	Above average to average forage resources available Parcel carrying capacity $\geq$ 400 AUMs <and> Parcel forage production of $\leq$ 8 acres per AUM	Above average, average, or below average forage resources available. Management of resource may maintain, restore, or enhance long-term forage production of parcel.	Average or below average forage resources available. Ability to manage resource or maintain long-term adequate forage production is limited or constrained.
Access	Management access with no known restrictions.	Management access, restricted access by owner permission, or no known legal access available. IDL may have ability to obtain Easement or ROW.	Restricted access by owner permission or no known legal access available. IDL unlikely to obtain Easement or ROW.
Management Control	Complete management control of parcel. Suitable infrastructure and water availability to operate lease independently as a self-sufficient grazing system. Infrastructure may be state owned or lessee owned.	Complete, limited, or low level management control of parcel characterized by blocked, isolated, or inter-mingled ownership. May or may not be managed independently of adjacent private or federal lands.	Low level management control of parcel characterized by isolated or inter-mingled ownership. Parcel cannot be managed independently of adjacent private or federal lands.

APPENDIX B

TIER I MANAGEMENT CLASSIFICATION

IDL initiated an analysis of the IDL Rangeland Asset acres using the established *Two-tiered Parcel Framework* table (Appendix A). Of the 1,411,452 rangeland asset acres roughly 10% (131,322 acres) were identified under a TIER I management classification. State endowment trust land blocked parcels of 2,500 acres or more were identified and assigned a specific identification number (APPENDIX B - TIER I MAP). Blocked parcels were further evaluated for full management access, forage production of 8 acres or less per AUM, a carrying capacity of 400 or more AUM's, and infrastructure, specifically fencing and water developments, to fully support unit management.

Within this initial evaluation, IDL identified 12 blocked trust land parcels containing a total of 29 grazing leases which fully qualified under a TIER I management classification. Based on initial analysis, this management evaluation will be further refined over the next five years.

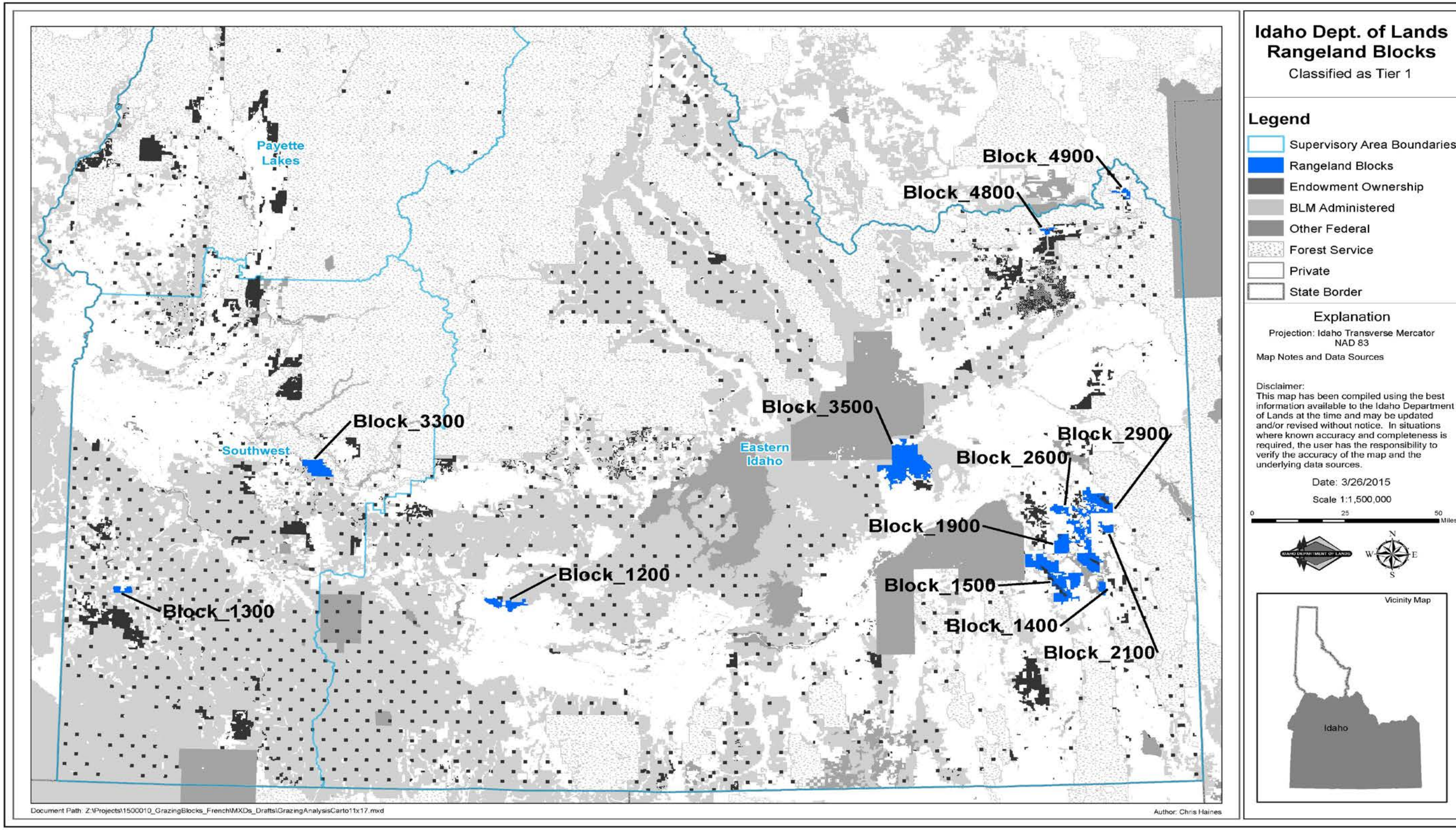
Southwest Supervisory Area

Block 1300; 1 grazing lease
Block 3300; 4 grazing leases

Eastern Idaho Supervisory Area

Block 1200; 2 grazing leases
Block 1400; 1 grazing lease
Block 1500; 5 grazing leases
Block 1900; 1 grazing lease
Block 2100; 1 grazing lease
Block 2600; 7 grazing leases
Block 2900; 1 grazing lease
Block 3500; 1 grazing lease
Block 4800; 1 grazing lease
Block 4900; 4 grazing leases

TIER I MAP


Idaho Dept. of Lands
Rangeland Blocks
Classified as Tier 1
Legend
Supervisory Area Boundaries
Rangeland Blocks
Endowment Ownership
BLM Administered
Other Federal
Forest Service
Private
State Border
Explanation
Projection: Idaho Transverse Mercator NAD 83
Map Notes and Data Sources
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.
Date: 3/26/2015
Scale 1:1,500,000
0
25
50
Miles
Vicinity Map
Idaho
Payette Lakes
Southwest
Eastern Idaho
Block_4900
Block_4800
Block_3500
Block_3300
Block_2900
Block_2600
Block_1900
Block_1200
Block_1300
Block_1500
Block_1400
Block_2100
Document Path: Z:\Projects\1500010_GrazingBlocks_French\MXDs_Drafts\GrazingAnalysisCarto11x17.mxd
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