

STATE BOARD OF LAND COMMISSIONERS

December 20, 2022

Regular Agenda

Subject

Future of the Cottage Site Leasing Program

Question Presented

Shall the Land Board adopt the Cottage Site Residential Leasing Plan Beyond 2024?

Background

The leasing of State Endowment Trust Land for use as residential sites, known as cottage sites, has been active since the early 1900s. In a typical cottage site lease, the lessee has a leasehold interest in the cottage site land while owning and maintaining approved residential structures, creating a split estate.

On February 16, 2010, the State Board of Land Commissioners (Land Board) directed the Idaho Department of Lands (Department) to unify 523 cottage site split estates. Since 2011, the annual auction cycles have resulted in the transition of 481 cottage site lots to private ownership (156 lots at Payette Lake and 325 lots at Priest Lake) for a total of \$253,698,625 to the endowments.

On December 19, 2017, the Land Board approved the 2018 Cottage Site Leasing Plan. This plan provided lessees the option to continue participation in the Voluntary Auction for Ownership (VAFO) Program through December 31, 2024, with the goal of unifying the split estate on as many cottage sites as possible during that time.

Currently, there are 48 remaining cottage sites, with 19 cottage site lessees having expressed interest in upcoming VAFO cycles. An estimated remaining 29 cottage sites will need to be leased beyond the 2024 calendar year (Attachment 1).

Discussion

In 2021, the Department began to plan and develop a path forward for the cottage site leasing program beyond 2024. The Department proposed three options for the future of cottage site leases:

Option 1 – Long-term ground lease (30 years) with improvements reverting to the State

Option 2 – Long-term lease (30 years) ending in auction of entire estate

Option 3 – Short-term lease (10 years) ending in auction of the lease

In February 2022, letters were sent to 43 cottage site lessees outlining the above options and requesting their feedback as to which options were of interest (Attachment 2). The Department received feedback from 15 lessees; their responses are shown in Table 1.

Table 1 – Survey Results

Cottage Site Leasing Options	Number of Interested Lessees*
Option 1 – Long-term ground lease with improvements reverting to the State	2
Option 2 – Long-term lease ending in auction of estate	7
Option 3 – Short-term lease ending in auction of lease	6
Other/None of the proposed options	2

*Some lessees indicated support for more than one option; a total of 15 lessees responded.

In addition to lessee surveys, the Department gathered information relating to residential leasing programs operated by other western states. A summation of that information is in Table 2.

Table 2 – Residential Leasing in the Western States

State	Lease Rate	Notes
Montana	5% of appraised land value	Lease fee determined at auction and is first year's rent. Each year thereafter rate increases by 2% for 15 years. Rent is adjusted at 15 years (or renewal) to 5% of appraised land value. 2% increase remains for life of lease.
Utah	5 times the value of the land	Utah's residential leasing portfolio is nearly all comprised of cow camp/ranch cabins along grazing routes on low value land. Most are 20-30 years in length. Minimum policy for rent is \$5,000/year.
Colorado	N/A	The few residential leases are handled as a commercial ground lease which includes annual base payments or gross receipt rent, escalations of rent of either flat percentage or CPI, lease length of 35-49 years, and the lessee owned improvement reverts to the State at the end of the lease.
Nevada	N/A	No equivalent program/leases.
New Mexico	N/A	No true analogue exists to cottage site leases. They do lease "Homestead" sites, which are residential improvements associated with a grazing or agricultural lease. Rent is negotiated on a case-by-case basis.
Wyoming	5.5% of appraised land value	Lease terms are generally 25 years with a 5-year reappraisal cycle. If able, they may use comparable properties to determine rent.

After considering lessee feedback, market information, and gauging lessee interest, the Department proposes offering the following options to cottage site lessees (Attachment 3).

Option 1 – Long-term Lease: 15-year lease, ending in auction of the entire estate, at the Department's discretion. Rent for this option would be 5% of appraised value with a 5-year re-appraisal cycle. Rent will also include an annual increase that is determined by CPI or a flat rate of 3%, whichever is greater.

Option 2 – Medium-term Lease: 10-year lease ending with the auction of the entire estate, at the Department's discretion. Rent will be 4.5% of appraised value with re-appraisal occurring every 5 years. Rent will also include an annual increase that is determined by CPI or a flat rate of 3%, whichever is greater.

Option 3 – Short-term Lease: 5-year lease ending with the auction of the entire estate, at the Department's discretion. Rent will be 4% of appraised value with an annual increase that is determined by CPI or a flat rate of 3%, whichever is greater.

Other Considerations:

Voluntary Auction for Ownership (VAFO) opportunities will still be available to all lessees, though not on an annual basis. The Department will determine future VAFO dates (likely every 3-5 years) to maximize revenue while balancing the costs of administering the auction. The level of lessee interest will also play a vital role in the frequency of VAFO cycles.

Recommendation

Adopt the 2025 Cottage Site Leasing Plan

Board Action

Attachments

1. VAFO/ULA History and 2024 Projections
2. February 2022 Cottage Site Leasing Options Letter
3. Cottage Site Leasing Options Chart

VAFO History / 2024 Projections

As of 11/21/2022

Payette Lake Cottage Sites																
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Lots Sold / VAFO	0	2	0	13	21	51	30	14	9	8	0	0	2			156
Remaining Lots	168	166	166	153	132	81	51	37	28	20	20	20	18			
Expressed interest in future VAFO cycle														0	0	
Remaining Lots after future														18	18	
Priest Lake Cottage Sites																
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Lots Sold / VAFO	0	0	0	0	59	43	43	57	50	29	18	16	10			325
Remaining Lots	355	355	355	355	296	253	210	153	103	74	56	40	30			
Expressed interest in future VAFO cycle														10	9	
Remaining Lots after future														20	11	
Priest & Payette Lake Cottage Sites									2017	2018	2019	2020	2021	2022	2023	2024
Lots Sold	0	2	0	13	80	94	73	71	59	37	18	16	10			481
Remaining Lots	523	521	521	508	428	334	261	190	131	94	76	60	48			
Expressed interest in future VAFO cycle														10	9	
Remaining Lots after future cycles														38	29	

Payette 18 of 168 lots left = 11% or 156 sold of 168 93%

Priest 30 of 355 lots left = 8% or 325 sold of 355 92%

Both Lakes 48 of 523 lots left = 9% or 481 sold of 523 92%

TRUST LAND MANAGEMENT DIVISION
IDAHO DEPARTMENT OF LANDS
300 N 6th Street
Boise, ID 83702
Phone (208) 334-0200
Fax (208) 334-3698



STATE BOARD OF LAND COMMISSIONERS
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Lawrence E. Denney, Secretary of State
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February 24, 2022

Re: Future of the Cottage Site Leasing Program

Dear Cottage Site Lessee:

On November 16, 2021, the Idaho Department of Lands (Department) received approval from the Idaho State Board of Land Commissioners (Land Board) to begin outreach to existing cottage site lessees to gauge interest in various leasing options for the future of cottage site leases.

Considering the approaching expiration of the leased cottage sites, the Department is considering three options for fulfilling the Land Board's directive to "unify the estate" of each site. Based on feedback received from existing lessees, the Department will present a plan to the Land Board in August 2022.

Option One – Long-term Ground Lease: The Department will offer a lease consistent with terms typically found in private ground leases. In particular, the lessee owns existing improvements or may elect to construct improvements on the leased cottage site for the duration of the lease, but the ownership interest in the improvements will revert to the endowment at the close of the lease term, thereby unifying the land estate.

The lease length (i.e., term) for cottage sites under Option One will be 30 years to provide long-term security to lessees while supporting the transition of full ownership to the endowment. A lease rate and reappraisal schedule will be established by the Department by working with third-party advisors and the Office of the Attorney General (OAG) to set a market rate and leasing structure in the endowment beneficiaries' best interests. In addition, this option will not allow for periodic Voluntary Auction for Ownership (VAFO) cycles.

Option Two – Long-term Lease ending in Auction of the Entire Estate: The Department will offer a 30-year lease term that eliminates the split estate through a mandatory auction for the improvements and real property at the end of the lease. Option Two will have the highest lease rate among the options because of the long-term security for the lessee and the possibility for lessee compensation for lessee made improvements at the end of the lease term. Lessees who are unsuccessful in winning the final auction for the entire estate, under this option, shall be compensated by the winning bidder for the value of improvements made by lessee, as valued by a third-party appraiser selected by the Department. This option will allow for periodic enrollment by lessees into the VAFO process, as determined by the Department.

Option Three – 10-year Lease Ending in Auction of Lease: A final option for the remaining lessees will be a 10-year lease term structured similarly to the current lease. Option Three will offer lessees a periodic option to participate in the VAFO process. This option provides flexibility to the lessee and will be offered at a slightly lower rate than Option Two. However, this lease structure provides more opportunities for interested parties to apply and participate in a lease auction at the end of the lease term and does not unify the estate.

IDL would appreciate your feedback on the proposed options as we gauge lessee interest in the proposed options. Please email your desired option and any comments to: comments@idl.idaho.gov, with the subject line “Future of Cottage Sites.” Alternatively, you may provide feedback by completing and returning the comment form on page 3.

Respectfully,

Josh Purkiss
Real Estate Services Bureau Chief

Enc.\1 - Cottage Site Lessee Comment Form

2025 Cottage Site Leasing Plan Options

