

STATE BOARD OF LAND COMMISSIONERS

July 18, 2023
Information Agenda

Subject

Endowment Land Leasing Continuum

Background

Residential and commercial leasing revenues have been on the decline since the State Board of Land Commissioners (Land Board) directed the Idaho Department of Lands (Department) to unify the split estates of the cottage site leases and dispose of endowment owned commercial buildings and properties. Receipts from the sale of land assets enter the Land Bank fund, with a five-year lifecycle for reinvestment.

Department management strategies and guidance come from multiple sources. The Wasden vs. State Board of Land Commissioners decision of 2012 and the long term effort towards endowment reform were catalysts for development or refinement of several Land Board and Department policies and management plans. Examples include, the 2014 Callan Report, the annually updated Statement of Investment Policy, and the 2021 approved Asset Management Plan.

Discussion

Endowment land is organized by asset class. The classifications are based on the primary asset managed: timberland, farmland, rangeland, residential real estate, commercial real estate, minerals, and oil and gas. Lands may be reclassified by the Land Board, such as from timberland or rangeland to residential real estate or commercial real estate. However, that does not change the status as endowment land or the primary purpose of the land, which is maximizing long-term financial returns to the owning beneficiary.

Lands within an asset class may have other uses. Existing examples of this are communication sites (cell or radio towers) located on timberland or rangeland. The Department's annual report shows the income produced from each asset class, regardless of activity. For example, a communication site lease on rangeland will be reported as rangeland income.

As the state of Idaho has grown in population, there is more and more demand for use of endowment land beyond traditional management activities. The Payette Endowment Lands Strategy (PELS) explored possibilities with properties that were likely to transition from a traditional use in multiple five-year tiers. The strategy employs evaluating leasing opportunities immediately and into the future or, if leasing and traditional management activities cannot meet financial benchmarks, evaluating parcels for disposition to achieve appropriate returns through reinvestment or transfer to the permanent fund.

Opportunities to explore new leasing activities are occurring in other parts of the state where land values have seen rapid increase or new industries need land to expand their business or infrastructure. An example of this was presented during this meeting regarding the potential leasing of the Ohio Gulch property.

Attachment 1 shows a draft leasing continuum with a range of leasing, ranked by the Department's perception of feasibility and compatibility with Land Board direction and policy, and Department management objectives. Attachment 2 shows the average revenue generated per acre by the various lease types that exist in the current endowment portfolio.

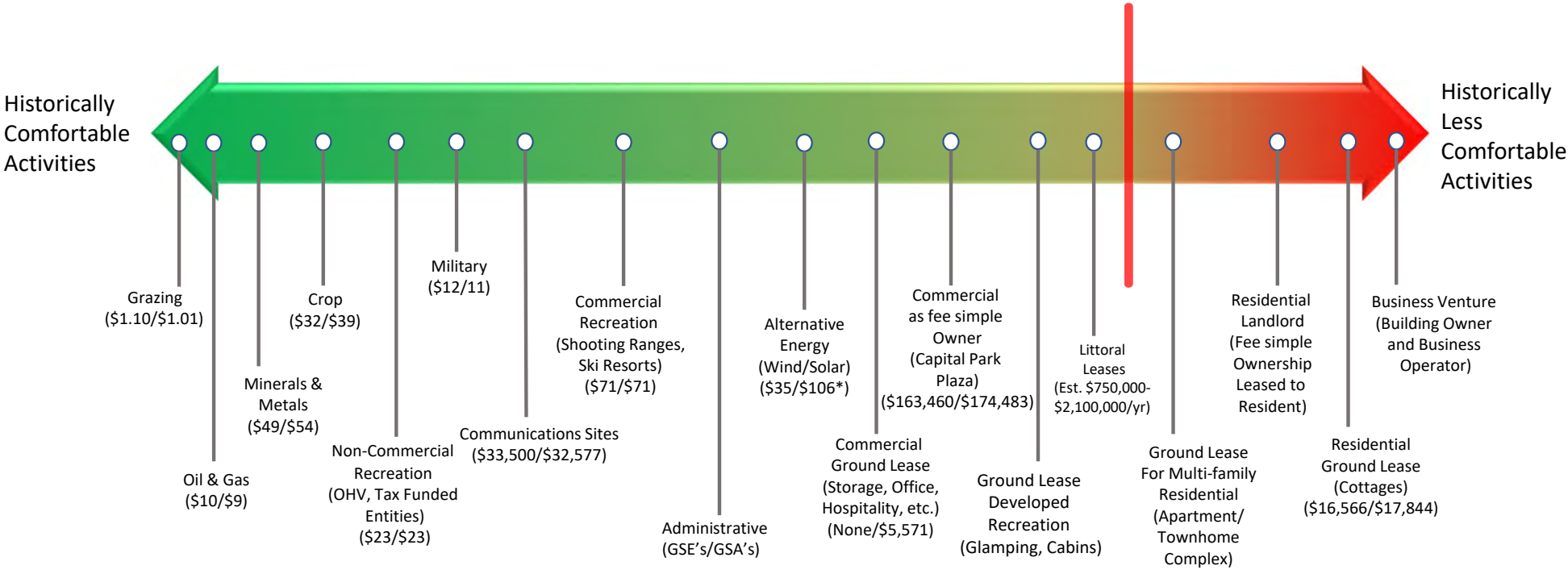
Other opportunities being researched include further alternative energy, carbon credit, and commercial recreational leasing. Alternative energy options include wind, solar, and geothermal. Carbon credit leasing is being investigated to see where it is compatible with the Department's current forest management objectives and rotation lengths. Commercial recreation opportunities are very diverse. Concepts within the initial investigation phase are leasing of littoral rights adjacent to upland endowment ownership and "glamping operations."

There are multiple opportunities for replacing or exceeding the reduced leasing income from the disposition of residential properties and commercial buildings while diversifying the revenue generation from endowment holdings. Currently, the timberland asset class, which is approximately 42% of the endowment land base, produces 95-98% of the net revenue. A Department goal over the next five to ten years is to move this number under 90% and over the longer term bring more balance to the revenue generation without sacrificing the efficacy of the timber program.

Attachments

1. Endowment Leasing Continuum
2. Five-year Endowment Leasing per Acre Revenue

Leasing Opportunities



*Alternative Energy projects have a longer construction period, therefore the leases recently executed will not be receiving royalties until 2028 and beyond. Additionally, IDL's first solar leases are currently in negotiations for \$600-\$1,000/acre. This activity is expected to generate much more revenue in the long-term.

LEGEND
(YTD 2023 Revenue per Acre/5-year avg projection per acre)

Endowment Leasing
2018 - 2023 Avg Revenue Per Acre

