

STATE BOARD OF LAND COMMISSIONERS  
December 20, 2011  
Regular Agenda

SUBJECT

Asset Management Plan Updates

BACKGROUND

At its December 20, 2007 meeting, the Idaho State Board of Land Commissioners (Land Board) approved an Asset Management Plan (AMP) for the administration of state endowment trust lands. The plan was subsequently updated on July 30, 2008 to include policy guidance for the financial assets held in trust and administered by the Endowment Fund Investment Board (EFIB). The AMP represents a comprehensive set of workable guidelines used by the Land Board, as the designated trustee for all endowment assets, to govern the administration of trust assets and to ensure the fulfillment of the constitutional mandate to maximize the long-term revenue for the beneficiaries.

Since the AMP was adopted, a variety of Land Board decisions and the realities of plan implementation point to a need for policy clarification and revision. Therefore, at its September 20, 2011 meeting, the Land Board directed the Department of Lands (IDL) to work with its staff and Land Board members to develop updates to the AMP.

DISCUSSION

While the primary users of the AMP are the Land Board, the IDL, and the EFIB, the plan also represents an educational document used to communicate roles and responsibilities to the trust beneficiaries, the legislature and the public. Suggested AMP updates are provided in Attachment 1. The general character of AMP revisions can be grouped into the following categories:

1. Updates due to ongoing work with other western states to better define asset classifications for comparative analysis;
2. Land Board policy changes since original AMP adoption i.e. unification of title in the Residential Asset Class;
3. General clarification of the Land Board's asset management and investment philosophy commensurate with its constitutional directive and the Prudent Investor standard of care.

RECOMMENDATION

The Department recommends that the Board adopt the revised Asset Management Plan as shown in Attachment 1.

BOARD ACTION

A motion was made by Attorney General Wasden that the Board adopt the revised Asset Management Plan as shown in Attachment 1. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 5-0.

ATTACHMENTS

1. AMP strike and underline version
2. December 2, 2011 Letter from Endowment Fund Investment Board





# Idaho State Board of Land Commissioners

## State Trust Lands Asset Management Plan

~~December 20, 2007~~  
December 20, 2011

updated ~~July 30, 2008~~

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This plan was originally adopted December 20, 2007 and updated July 30, 2008 to include policy statements governing financial assets (Section II).

# I. Overview

## A. Background

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

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

## B. Mission

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

A significant challenge for the trustee is managing revenue generating activities within a government agency. This includes a concern expressed by some members of the public that the trust unfairly competes with private enterprise.

## C. Asset Management and Investment Philosophy

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

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

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

#### **D. Performance Objectives**

1. Over time, ensure real returns for each endowment (after inflation and net of management expenses), perform at or above median compared to relevant peers.
2. Assets will be grouped into classifications of similar character to facilitate performance monitoring and analyses of portfolio diversification and risk. Each asset class will have a targeted rate of return and is expected to perform at or above median compared to relevant peers (see Section III, B, 3, Table 1 and Appendix, Exhibit 1, *Endowment Fund Asset Mix*).
3. Over time, the return of land assets should compete favorably with the return of financial assets. Where determination of land value is problematic, performance will also be measured by discounting expected net cash flows.

#### **E. Protection of Principal**

1. Proceeds from the sale of endowment lands will never be distributed, but must be reinvested in land within five years or transferred to the Permanent endowment funds. In deciding whether to reinvest in land or deposit the proceeds of a land sale in the Permanent fund, the Board should make its investment choice based upon consideration of the return for the trust as a whole.
2. Proceeds from extracted mineral resources will never be distributed but must be deposited to the Permanent endowment funds.
3. The principal of the Permanent endowment funds, adjusted for inflation, will never be distributed, to protect the future purchasing power of the beneficiaries.

## F. Distributions to Beneficiaries

1. Renewable income from the land assets as well as cash income and capital gains above inflation from the Permanent endowment funds will be deposited in the Earnings Reserve accounts.
2. The Earnings Reserve accounts should buffer fluctuations in revenues to provide stable and predictable payouts to the beneficiaries. If an endowment's Earnings Reserve account falls to zero, distributions must stop.
3. Long-term spending policy and annual distributions are recommended by the EFIB and approved by the Land Board. The Legislature considers the approved distributions in setting annual appropriations for the beneficiaries. The Legislature also appropriates the operating budgets for the IDL and the EFIB from the Earnings Reserve accounts.

## II. Financial trust assets

### A. History, Structure and Governance

1. History of the Endowment Funds

Since the original grants of land from the federal government, proceeds from the sale of land and income from the grant lands has been accumulated in endowment funds. These funds were managed first by the State Treasurer and later by the Department of Finance. By June 1966, the total endowment fund assets had grown to \$69 million. On March 25, 1969, the State Legislature created the "Endowment Investment Land Board", which held its first meeting on April 11, 1969. In later years, the name of the Land Board was changed to the Endowment Fund Investment Land Board and oversight of other investment pools were added to its responsibilities, including the reserves and surplus of the State Insurance Fund, the assets of the Judges' Retirement Fund, and the Ritter Island Endowment Fund. The EFIB hired its first staff member in 1971.

Originally, the State Constitution only permitted endowment funds to be invested in fixed income securities and all interest income was distributed annually to the beneficiaries. From inception, most revenues from endowment lands, including timber harvest receipts, were deposited in the Permanent endowment funds. However, from the early 1970's to June 2000, the IDL retained 10% percent of the income it generated for capital and management expenditures spending necessary to preserve the asset base (e.g. replanting, ~~and~~ road construction and range improvements). The remaining lands receipts, such as annual grazing and cottage site lease revenue, along with interest on unharvested timber contracts were distributed directly to the beneficiaries. By June 2000, the endowment funds had grown to \$811 million, plus approximately \$25 million held by the IDL.

A major restructuring of the endowment funds was implemented in July 2000. The Land Board was given governance authority over the EFIB and all endowment funds, investment restrictions were made consistent with the Idaho Prudent Investor Act (Idaho Code title 68, chapter 5), and each endowment fund (except for the Capitol Permanent Fund) was split into a Permanent Fund and an Earnings Reserve Fund. In the second half of 2000, 70% of the assets of the endowment funds were shifted to the equity markets.

Information on endowment fund balances, distributions and asset mix is shown in [Exhibit 1](#).

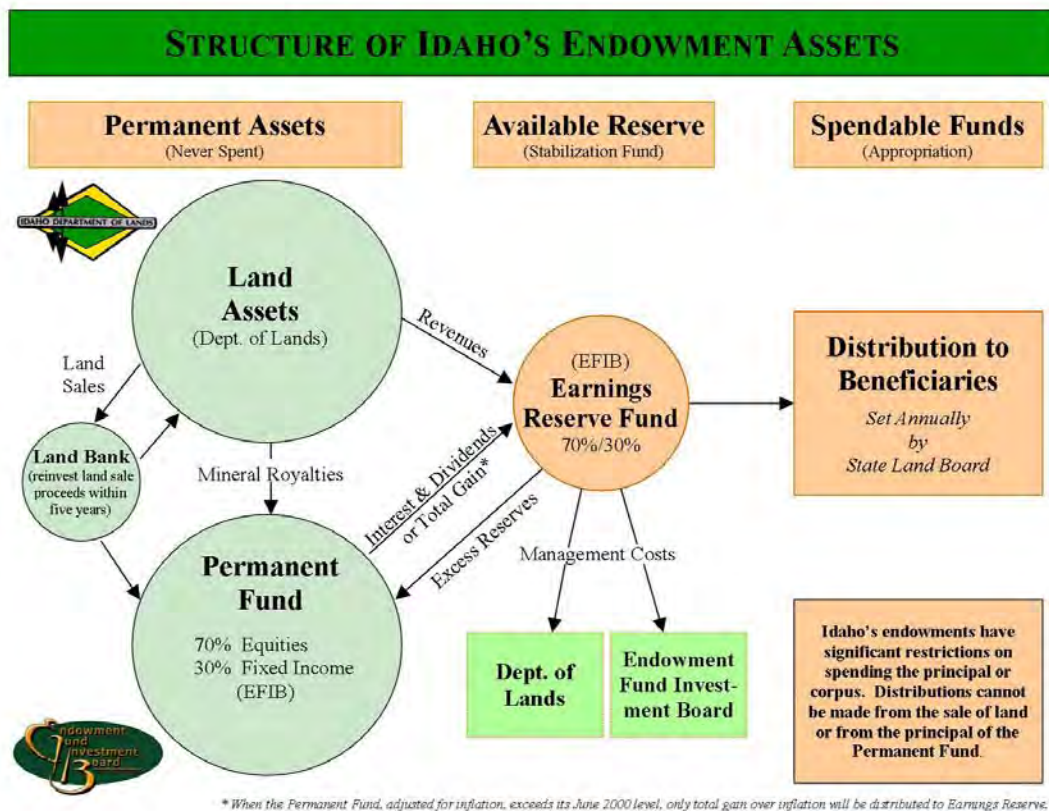
## 2. Structure of the Endowment Funds

Each endowment (with the exception of the Capitol Permanent Fund<sup>2</sup>) has two types of assets: permanent assets, which can never be distributed, and a reserve or buffer fund, from which distributions can be made. As shown below, the permanent assets consist of endowment land and a Permanent Fund. Renewable revenues from the land (e.g. timber harvest and rental income) and income from the Permanent Fund flow into the Earnings Reserve fund. Payments of management expenses and beneficiary distributions are made from the Earnings Reserve Fund. If the Earnings Reserve Fund balance ever falls to zero, then distributions must stop because the principal of the Permanent Funds can never be distributed. The Land Board Distribution Policy as set forth in Section II, D is designed to prevent such an occurrence.

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<sup>2</sup> The Capitol Permanent Endowment Fund has some unique characteristics. It is governed by the constitutional provisions that apply generally to the endowment funds, e.g. protect the endowments in a manner designed to secure the maximum long term financial return to the beneficiary. However, the statutes applicable to the Capitol Permanent Endowment differ from the other endowments. There is no earnings reserve fund and the Land Bank cannot be used for the sale and reinvestment of real property. Additionally, there is no strict statutory prohibition on spending the principal of the fund, but instead a requirement that distributions must take into account the preservation and growth of the fund over time. Lastly, Idaho Code 67-1610 states that distributions from the fund to the beneficiary, the Capitol Commission, are determined by the EFIB rather than the Land Board.





Currently, per Idaho Code 57-724A, interest and dividends from the Permanent Fund are added to the Earnings Reserve Fund each year. However, the flow of investment income to the Earnings Reserve Fund ~~will~~ changes as each endowment's Permanent Fund passes its Gain Benchmark (essentially the June 2000 level adjusted for inflation and certain deposits). A year after the gain benchmark is achieved, the total gain (interest, dividends, and capital gains/losses) above inflation will flow to the Earnings Reserve Fund annually. While this ~~will~~ change increases potential revenues due to the inclusion of capital gains, it ~~will~~ results in zero revenues flowing to reserves in years when there are capital losses in the stock market. Historically, capital losses in a 70% equity, 30% fixed income portfolio have occurred in one year out of three. Also, in each twenty-five-year period, there has been one period in which capital losses were severe enough that no income would have accrued to earnings reserve for five consecutive years.

This revised flow of income ~~will~~ helps protect the inflation-adjusted corpus or principal in the Permanent Fund, since interest and dividends will be used to offset capital losses. However, that means interest and dividend income ~~will is~~ no longer be available every year to help fund distributions.

When Earnings Reserves exceed an adequate level, the Land Board may consider transferring the excess reserves to the Permanent Fund. If the Permanent Fund is



already at the Gain Benchmark, then the Land Board may designate any transfer as increasing the Gain Benchmark to preserve additional corpus for future beneficiaries. If the Permanent Fund is below the Gain Benchmark, the Land Board may choose not to apply the transfer toward increasing the Gain Benchmark. This will allow the Permanent Fund to recover any shortfall ~~from the benchmark in~~ purchasing power more quickly.

#### 43. Governance of Endowment Funds

The Idaho Constitution provides that the endowment funds are held in trust and administered by the Land Board as trustees. The constitution further provides that Idaho Legislature may establish a statutory structure for administration that is consistent with the nature of the trusts. Accordingly, the Idaho Legislature created a structure that established the EFIB and the appropriations process for the trust management expenses and the beneficiary distributions. The constitutional and statutory provisions, together with Land Board policy, establish the following responsibilities.

The Land Board is responsible for:

- Overseeing the activities of the EFIB.
- Reviewing appropriation requests of the IDL from Earnings Reserves for consideration by the legislature.
- Approving allocation of Earnings Reserve Funds, specifically how much is:
  - Distributed annually to beneficiaries (Distribution Policy);
  - Retained for future distribution; and,
  - Transferred to the Permanent Funds to build corpus.

The EFIB is responsible for:

- Establishing investment policy for the funds, including:
  - Setting asset mix; and,
  - Defining allowed and prohibited investments.
- Recommending Distribution Policy and transfers of Earnings Reserves to the Land Board.
- Establishing Distribution Policy for the Capitol Permanent Fund.
- Selecting and monitoring investment managers, consultants, and custodians.
- Preparing audited financial statements for the funds and selecting an independent auditing firm.
- Selecting and directing staff.
- Approving an investment management expense budget from Earnings Reserve for consideration by legislative appropriation.

The Idaho Legislature is responsible for:

- Legislating methodology for restoring losses to the Public School and Agricultural College funds.
- Appropriating Earnings Reserve funds for operation of the IDL and the EFIB.

- Considering approved endowment distributions in setting beneficiary appropriations.

## **B. The Endowment Fund Investment Board**

### **1. Mission of the EFIB**

The mission of the EFIB is to provide professional investment management services to its stakeholders consistent with its constitutional and statutory mandates.

### **2. Structure of the EFIB**

The EFIB, ~~per~~pursuant to Idaho Code 57-718, consists of nine members, appointed by the Governor and confirmed by the Senate. These members are:

- One State Senator, one State Representative;
- One professional educator; and,
- Six members of the public familiar with financial matters.

The EFIB must meet at least quarterly and currently has a staff of four persons.

As permitted in Idaho Code 57-720, the fund assets of all nine endowments, both Permanent Funds and Earnings Reserve Funds, are comingled in a single investment pool for more efficient management oversight and to achieve economies of scale in fees.

The endowment funds are invested by professional investment firms. No funds are managed internally.

The EFIB also employs one or more outside consulting firms to provide specialized expertise and assist in, among other things, asset allocation, manager selection and monitoring, and performance measurement.

## **C. Fund Investment Management Philosophy**

### **1. Investment Policy and Return Objectives**

As perpetual funds, per state Constitution and statute, the endowment funds have a long-term investment horizon. All of the portfolios managed by the EFIB are subject to the variability of the financial markets and to the threat of eroding purchasing power due to inflation. The EFIB will mitigate some of the market risk by investing in diversified portfolios of assets so that the expected variation in the whole portfolio is less than the sum of the variations of each part.

With a citizen board and small staff, the EFIB will make strategic allocations and generally avoid making tactical calls, maintaining an asset mix that is expected to have reasonable performance over a market cycle. The asset mix of the fund takes into account the entire endowment portfolio – i.e. the fact that the revenues of the endowment lands, net of IDL expenses, will be contributed to the endowment funds.

The EFIB will maintain a detailed Investment Policy specifying responsibilities and containing guidelines for asset mix as well as allowed and prohibited investments. The current endowment fund asset mix of 70% equity and 30% fixed income is expected, over the long term, to earn 4.0% annually after inflation and investment expenses.

## 2. Performance Reporting to the Land Board

As required by Idaho Code §57-720, ~~Each year~~ the endowment funds will be audited annually by an independent public accounting firm. In addition, the EFIB will provide relevant, proactive reports on governance and performance to assure the Land Board that endowment fund assets are being prudently and profitably managed and to highlight any areas of concern.

Each month, EFIB staff will provide the Land Board with:

- Investment performance, both absolute and relative to benchmark.
- An evaluation of the sufficiency of earnings reserve balances (measured by coverage ratio: reserve balance divided by the distribution).
- A summary of any significant actions by the EFIB.
- Any compliance/legal issues, areas of concern, or upcoming events.

Part-way through the fiscal year, generally at the May meeting, the EFIB shall provide the Land Board with a brief financial summary of fiscal year-to-date activity.

After the end of the fiscal year, generally at the November meeting, the EFIB shall provide the Land Board with:

- A financial summary for the recently completed fiscal year.
- The report of the Audit Committee of the EFIB regarding control deficiencies identified by the independent auditor.
- An update on the EFIB's Strategic Plan.
- Investment performance for the fund versus strategic (longer-term) measures.
- A report on EFIB meetings; including number of meetings and attendance.

## D. Distributions to Beneficiaries

## 1. Objectives

The ultimate purpose of Idaho's land grant endowments is to provide a perpetual stream of income to the beneficiaries. In determining distributions, the Land Board, with assistance from the EFIB, considers the following for each endowment:

- Actual and expected return on the fund and income from the land.
- Expected volatility of fund and land income.
- The adequacy of distributable reserves to compensate for volatility of income.
- The beneficiary's ability to tolerate declines in distributions.
- Need for inflation and purchasing power protection for future beneficiaries.
- Legal restrictions on spending principal.

To guide the determination of future distributions for Idaho endowments, the following objectives, in priority order, have been established by the Land Board:

1. Avoid reductions in total endowment distributions.
2. Maintain adequate Earnings Reserves to protect distributions from temporary income shortfalls.
3. Grow distributions and permanent corpus faster than inflation and population growth.
4. Define the Distribution Policy in simple, broad terms. Treat all endowments the same unless there is a compelling reason to differentiate.

## 2. Distribution Policy

Based on the above objectives and expected returns of the entire portfolio (lands and funds), the Land Board has established the following Distribution Policy<sup>3</sup>:

- Distributions are determined individually for each endowment- (currently 5% for all endowments except State Hospital South which is 6%).
- ~~Current-d~~Distributions are 5%calculated as a percent of the three-year rolling average Permanent Fund balance for the most recently completed three fiscal years. The Land Board may adjust this amount, depending on the amount in the Earnings Reserve, transfers to the Permanent Fund, and other factors.
- The level of Earnings Reserves deemed adequate is five years of future distributions.

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<sup>3</sup> The Distribution Policy is different for the Capitol Permanent Fund. Idaho Code 67-1601 specifies that on July 1 of each fiscal year, the EFIB shall distribute a percentage of the value of the Capitol Permanent Fund. The percentage is approved by the EFIB and must be calculated to provide a stable source of funds while still preserving and increasing over time the value of the fund. The EFIB, after considering expected revenues from endowment land, has established that percentage as 5% of the three-year average value of the Capitol Permanent Fund.

- The Land Board may transfer any balance in an Earnings Reserve Fund in excess of an adequate level to the corresponding Permanent Fund and designate whether the transfer will or will not increase the Gain Benchmark.

### 3. Role of the Endowment Fund Investment Land Board

Each year, the EFIB shall present the following recommendations to the Land Board for its consideration:

- Whether any change should be made to the Distribution Policy.
- The amount of distributions for the next fiscal year for each endowment.
- What is considered to be an adequate level of earnings reserves for each endowment.
- The amount, if any, to be transferred from each earnings reserve to the corresponding permanent fund and whether such transfer should increase the gain benchmark.

### 4. Role of the Department of Lands

As requested by the EFIB or the Land Board, the IDL shall prepare, for each endowment, a forecast of expected land revenues and expenses.

## E. Restoring Losses in Endowment Funds

The state has a legal obligation to make up losses in contributed principal in two of the nine endowment funds<sup>4</sup>. Responsibility for making up these losses ultimately rests with the state legislature. However, if the Land Board determines that a fund's Earnings Reserve is sufficient, the Land Board may chose to make up all or part of a loss by transferring funds from Earnings Reserve to the Permanent Fund.

## III. Land trust assets

The land trust consists of real estate, which is defined by case law and in statute<sup>5</sup> as land and possessory rights to the land, ditches, water rights, mining claims, structures and improvements affixed to the land and all things for an infinite distance above as well as below the surface of the land. Assets owned by the endowment trusts must possess legal, transferable ownership, and must exist within the boundaries of the State of Idaho.

<sup>4</sup> Article 9, Section 3 of the state Constitution requires the state to make up any losses in the principal of the Public School Permanent Endowment Fund. Idaho Code 57-724 specifies that these losses must be made up after ten consecutive years of cumulative losses. Over time, expected transfers from Earnings Reserves to the Permanent Fund will significantly reduce the likelihood of the fund falling into a loss position. U.S.C. Title 7, Chapter 13, Subchapter I, Section 304, a federal statute, requires the state to make up any losses in principal in the Agricultural College fund.

<sup>5</sup> Idaho Code §55-101, Black's Law Dictionary, Reynard v. City of Caldwell, 55 Idaho 342, , 42 P.2d 292, 296 (1935).

## A. Overview of ownership (asset mix)

### 1. History

Idaho's endowment lands were granted to Idaho by the Federal Government to be held in "trust" and to provide financial support for the various institutions<sup>6</sup>.

The first land grant was made under the Territorial Act of 1863, granting sections 16 and 36 of each township for the support of public schools. The Territorial Act of 1883 granted 46,080 acres for the support of the State University. Upon admission as a state on July 3, 1890, the Idaho Admission Bill reconfirmed the previous grants, and provided an additional 50,000 acres for the support of the State University, plus lands for the support of 7 additional institutions.

~~The following table lists the granted acreage by beneficiary:~~

<del>ACRES BY INSTITUTION – July 3, 1890</del>	
<del>Institution</del>	<del>Acres Granted</del>
<del>Public Schools</del>	<del>2,982,683</del>
<del>Public Buildings</del>	<del>32,000</del>
<del>University</del>	<del>96,080</del>
<del>Agricultural</del>	<del>90,000</del>
<del>College</del>	
<del>Charitable</del>	<del>150,000</del>
<del>Institutions</del>	
<del>Insane Asylum</del>	<del>50,000</del>
<del>Normal Schools</del>	<del>100,000</del>
<del>Penitentiary</del>	<del>50,000</del>
<del>School _____ of</del>	<del>100,000</del>
<del>Science</del>	
<del>- _____ Total</del>	<del>3,650,763</del>

Because many of the sections granted for the support of the Public Schools were already in private ownership prior to statehood, the Bill directed the

<sup>6</sup> Pursuant to the Idaho Constitution, endowment lands, like other state property, are exempt from taxation. Article VII, Section 4 states in part, "The property of ...the state, counties, towns, cities, villages, school districts and other municipal corporations and public libraries shall be exempt from taxation." The reason for such exemption is that it impedes the purpose and use of the property. The exemption is offset by the fact that endowment lands provide resources for local businesses which in turn pay taxes and employ people in the local communities. *The Economic Activity of Idaho's Endowment Trust Lands*, Dr. Peter R. Crabb, Ph.D., July 2011, estimated as of the end of fiscal year 2010 that Idaho's Endowment Trust Lands contribute \$133 million in annual economic activity (net of management expenses) and support nearly 2000 jobs in the State of Idaho.

state to select replacement lands from the Public Domain. The exact acreage due the Public Schools was determined by assuming 1/18 of the total area of the State as published in the June 30, 1931, annual report of the General Land Office (53,688,320 acres).<sup>7</sup>

From the outset, there was considerable debate over whether or not to sell the endowment lands and invest the proceeds in a permanent fund, or whether the lands should be retained and managed. Initially, Idaho chose to concentrate on selecting high valued agricultural and grazing lands with the intention of selling them.<sup>8</sup> Timberlands were selected with the intention of removing the timber and then selling the land as agricultural or grazing lands. Because many of the granted lands were within National Forest Reserves, they were traded for lieu lands of equal value lying in more convenient locations.

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

### Endowment Ownership Through Time

<u>Institution</u>	Total Acres		
	1890	1940	2010
Public Schools	2,982,683	2,543,962	2,080,249
Agricultural College	90,000	42,836	33,526
Charitable Institutions	150,000	86,085	77,211
Normal School	100,000	53,389	60,046
Penitentiary	50,000	34,051	29,067
School of Science	100,000	74,714	75,875
<del>Insane Asylum</del> <u>State Hospital South</u> <sup>9</sup>	50,000	30,315	31,414
University of Idaho	96,080	51,316	54,646
<del>Public Building</del> <u>Capitol</u> <sup>10</sup>	32,000	14,719	7,222
<b>Totals</b>	<b>3,650,763</b>	<b>2,931,387</b>	<b>2,449,256</b>

<sup>7</sup> The other institutions were also directed to select lands to fulfill their grants from the Public Domain.

<sup>8</sup> A Preliminary Report on Management of State-Owned Lands In Idaho. Prepared by The Technical Advisory Committee on Land Management for The Idaho State Planning Land Board, December 1940.

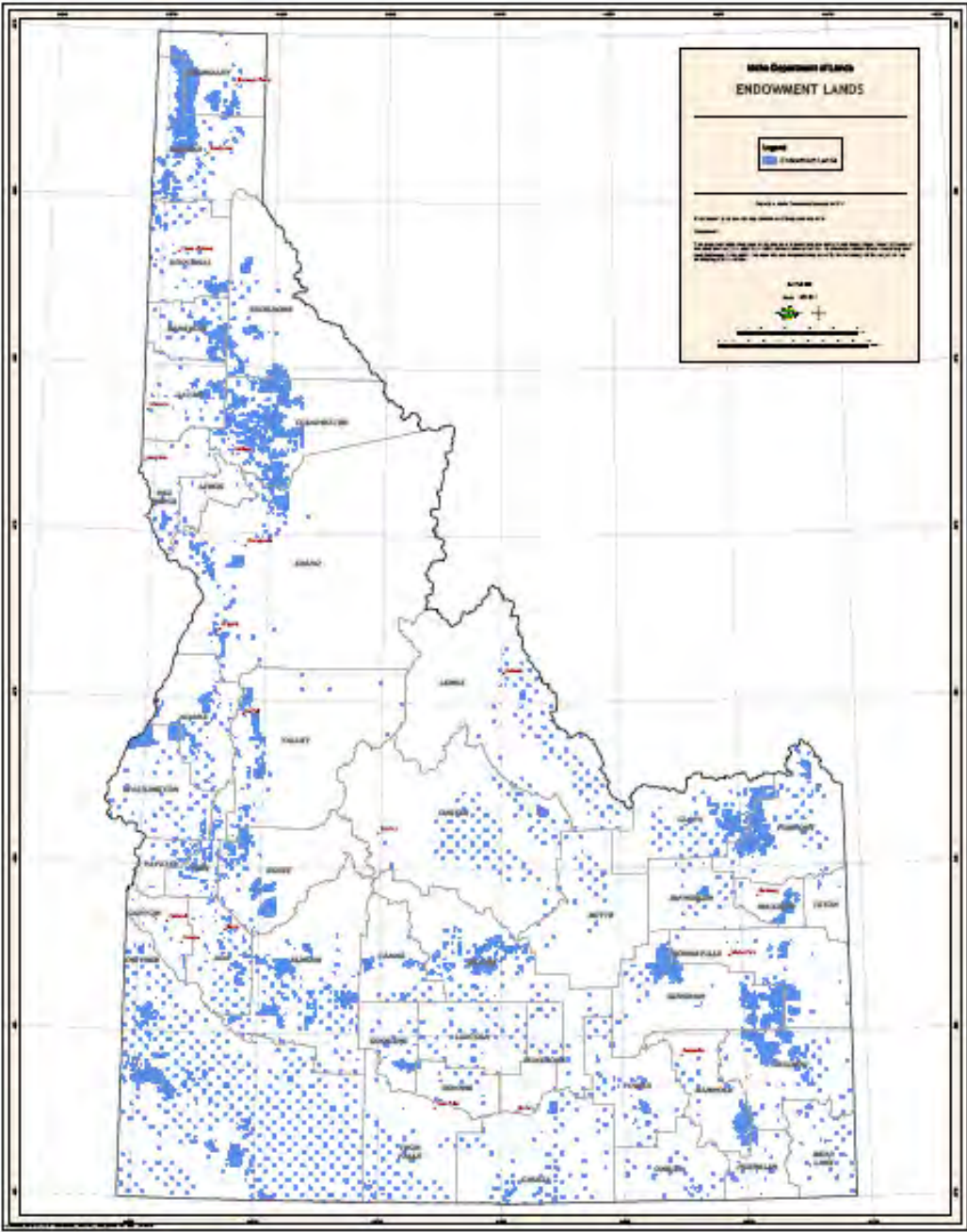
<sup>9</sup> At statehood, the State Hospital South endowment lands were originally granted as the Insane Asylum endowment

<sup>10</sup> At statehood, the Capitol endowment lands were originally designated as the Public Building endowment.



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

**Endowment Land Ownership Map**



## 2. Current Land Acres by Endowment

### Endowment Ownership - 2010

	Acres	% Total
<b>Public Schools</b>	2,080,249	85.0%
<b>Agricultural College</b>	33,526	1.4%
<b>Charitable Institutions</b>	77,211	3.1%
4/15 Idaho State University		
4/15 Juvenile Corrections Center		
4/15 State Hospital North		
5/30 Veterans Home		
1/30 School for the Deaf & Blind		
<b>Normal School</b>	60,046	2.5%
1/2 Lewis-Clark State College		
1/2 Idaho State University		
<b>Penitentiary</b>	29,067	1.2%
<b>School of Science</b>	75,875	3.1%
<b>State Hospital South</b>	31,414	1.3%
<b>University of Idaho</b>	54,646	2.3%
<b>Capitol</b> * no earnings reserve account	7,222	0.3%
<b>Totals</b>	<b>2,449,256</b>	<b>100.0%</b>

## 3. Asset Mix

Land trust assets are classified according to their “primary” use. Other uses are allowed when they do not adversely impact the “primary” use and the intended financial return. This is unlike federal lands or other public lands which are managed for multiple uses or for the benefit of the general public regardless of their financial return. Land asset classifications can be changed to meet changing markets or to capitalize on emerging alternative opportunities.

Categorizing lands into asset classifications allows:

- Land managers to customize plans and strategies so they can optimize returns based on specific asset characteristics.
- Monitoring performance by benchmarking against similar private industry (National Council of Real Estate Investment) and other trust land managers.
- Land managers to make informed decisions regarding portfolio risk resulting from lack of diversification, liquidity, environmental laws and other societal pressures.

Asset Classification	Asset Description
Forest <del>land</del>	Lands capable of regenerating and growing successive crops of commercial forest products on a sustainable basis
Agriculture	Lands used for growing cultivated plants or agricultural produce (grains, vegetables, and/or fruits).
<del>Grazing</del> Rangeland	Lands supporting natural vegetation, <u>generally grasses, forbs and small brush</u> , suitable for grazing by domestic livestock & wildlife.
Commercial Real Estate	Lands normally recognized as “commercial” in local zoning regulations, including retail and light industrial businesses, public facilities, energy resources (wind, hydro, wave), communication sites, ski resorts, etc.
Residential Real Estate	<del>Sales or Leases of cottage/cabin/home sites</del> <u>Land intended for sale or lease for residential subdivision, individual parcels or lots (includes cottage or cabin sites)</u>
Minerals	Includes <u>lands managed for</u> the <u>production and</u> sale of sand and gravel, oil and gas, coal, and other minerals including precious metals, decorative rock, phosphates, etc.
Conservation	Conservation lands are generally lands for which certain real property rights have been removed or otherwise restricted temporarily or permanently to maintain temporary or permanent rights for open space, preservation of habitat, natural areas, parks, or other such purposes.
<del>Recreation</del> (non-commercial)	<del>Includes easements, leases, or licenses for dispersed recreational use (hunting, fishing, trapping, camping, hiking, trails)</del>

## B. Land Management Philosophy

The land management philosophy of the Land Board is guided, first, by the directive in Article IX §8 of the Idaho Constitution requiring the Land Board to “provide for the location, protection, sale or rental of all the lands heretofore, or which may hereafter be granted or acquired by the state by or from the general government, under such regulations as may be prescribed by law, and in such a manner as will secure the maximum long term financial return to the institution to which granted...” As the Supreme Court stated in *Barber Lumber Co. v. Gifford*, it is the “land business of the state that is placed in the hands of the state Board of land commissioners.” 25 Idaho at 669, 139 P. at 562. Consistent with this constitutional directive, the Land Board will manage the real estate in its endowment portfolio to capture the full economic value of such lands and improvements for endowment beneficiaries. In pursuit of this objective the Land Board will contract with private entities to operate business activities upon the land trust assets. The Land Board, as trustees of

Idaho's endowment trusts, will be guided in its management by the "prudent investor rule,"~~has a duty to invest and manage the land trusts "as a prudent investor would,"~~ Idaho Code § 68-502(1), which includes development "of an overall investment strategy having risk and return objectives reasonably suited to the trust." Idaho Code § 68-502(2). This section further delineates the Land Board's land asset management philosophy and practices.

## 1. Management Goals

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

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

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

## 2. Risk – Return Considerations

The sale of timber accounts for about 85 percent of the total annual land trust revenue (Appendix F). Over dependence on one source of revenue, especially during changing market trends, adds concentration risk and is not a prudent investment strategy. This does not mean the timber asset should be aggressively sold to rebalance the land assets. Rather, the IDL should pursue strategies that lift the performance of other assets, ensure assets are classified appropriately to maximize revenue, and evaluate land assets in context of the total land and financial portfolio with the goal of reducing risk and increasing prospects for immediate, sustainable income. Appendix G demonstrates the sensitivity of gross revenue to fluctuations in Forestland receipts and resource management costs. Revenue and management cost implications are addressed in further detail by each underlying business plan by asset classification.

It is the Land Board's objective to optimize risk and rewards of the overall portfolio - the combination of the financial trust assets and the land trust assets. To achieve this optimization, the IDL and the EFIB will regularly evaluate the diversity and expected return of their respective asset mixes, keeping in mind the impact of their portfolio on the structure of the overall portfolio. The Land Board further recognizes the need to maintain a long-term investment and management focus despite inevitable short-term volatility. This ensures that non-reactive, structured revisions to Land Board philosophy and policy are based on long-term considerations and not in response to speculation or short-term market and value fluctuations. ~~The IDL and the EFIB will work to develop a financial model to help assess the risk and rewards associated with various financial and land investment diversity. This tool can be used to help assess the optimum portfolio mix given certain assumptions. It is important to keep in mind such tools can help guide strategy, but they do not guarantee resulting returns.~~

### 3. Performance Measurement

In order for the land assets to contribute to the overall trust return objectives established by the Land Board, rate of return thresholds are targeted for each asset type (classification). The rate of return thresholds will be based on both expected cash income and the estimated long-term value appreciation potential of the real estate asset. Current beneficiaries can only receive distributions from the cash income derived from managing the real estate, but value can also be created for future beneficiaries by holding land parcels with attractive future appreciation potential, even if they have low current income. Therefore, as a real estate manager with a perpetual investment horizon, the Land Board will hold both assets with attractive current cash income as well as assets whose primary value lies in their appreciation potential. Performance measurement will consider both sources of value. ~~Approximately one-half of the annual return target is based on the cash revenue generated and one-half is based in the value appreciation of the land asset.~~

Management systems are dynamic and require modification from time to time, therefore the asset classifications defined in Table 1 may represent target asset classifications not yet formally established. Table 1 also identifies general characteristics of each asset classification including the range of returns currently demonstrated in the market and generally expressed as a return on asset (ROA), and the recommended valuation method and valuation frequency.

Table 1: Asset Classification, Valuation and Proposed Benchmarks			
Asset Class	Peer ROA <sup>1</sup>	Valuation Method	Frequency
Forest <del>land</del>	3% - 8%	<ul style="list-style-type: none"> <li>Various Stumpage Price Indices</li> <li>Independent or Internal Appraisal -</li> </ul>	Annual Index, 5 year mass

Table 1: Asset Classification, Valuation and Proposed Benchmarks			
Asset Class	Peer ROA <sup>1</sup>	Valuation Method	Frequency
		Management Recommendation	appraisal
Agriculture	2% - 5%	Independent or Internal Appraisal	Annual Index, 5 year mass appraisal
<del>Grazing Rangeland</del>	.5% - 5%	Independent or Internal Appraisal	Annual Index, 5 year mass appraisal
Commercial Real Estate	3% - 15%	Independent or Internal Appraisal - Management Recommendation	Annual Index, 5 year mass appraisal
Residential Real Estate	3% - 12%	Independent or Internal Appraisal - Management Recommendation	Annual Index, 5 year mass appraisal
Minerals	3% - 18%	<ul style="list-style-type: none"> <li>• Unproven Site – bare land value only</li> <li>• Proven, Unopened Site – bare land value only or NPV of future earnings less development cost</li> <li>• Producing Sites – NPV future earnings</li> <li>• Closed / Abandoned Site – reversion value, possible liability to reclaim</li> </ul>	Dictated by changing stages of property characteristics and uses
Conservation	1% - 5%	Western states survey	Annual
<del>Recreation (non-commercial)</del>	<del>2% - 5%</del>	<del>Western states survey</del>	<del>Annual</del>
Rights-of-Way <sup>2</sup>	% of FMV	Western states survey	Annual

<sup>1</sup> Peer ROA represents the variation of returns demonstrated by Western states, including but not limited to MT, WA, OR, CO, NM, AZ, and researching other private real estate portfolio returns.

<sup>2</sup> The granting or receiving of rights-of-way can occur in combination with any asset type. Rights-of-way are shown in this table to demonstrate a means to compare peer pricing of such rights.

ROA is a profitability measure determined by the following formula:

$$\frac{(\text{Gross Revenue} - \text{Management \& Development Expense}) + (\text{Ending Asset Value} - \text{Beginning Asset Value})}{\text{Beginning Asset Value}}$$

The use of ROA is desirable because it transcends public and private sector boundaries. The calculation also normalizes the variability of cash receipts within the same asset class. For example, forage values differ across landscapes such that certain regions command higher lease rates. Transition values aside, the higher earnings capacity of the land generally translates to a higher asset value per acre, but the return on asset should be similar to peer assets meeting the definition of the ~~grazing Rangeland~~ classification.



Relevant peers include western states whose primary mission is to manage similar endowment trust lands, and private trust or investment firms in similar market sectors. To the extent possible, private sector firms should be chosen who operate in Pacific Northwest markets. It is recognized that a financial statement comparison between the IDL and similar private sector firms will require the development and conversion of financial statements, both an income statement and a balance sheet, from a government accounting basis to traditional accrual basis.

Meaningful and timely information is essential to optimizing trust management performance. The IDL will present a report showing the performance of the entire Land Trust and each of its components at least semi-annually to the Land Board. Such report shall include components of overall profitability and management efficiency compared to expectation and, annually, compared to peer performance (Appendices C, D and E). The evaluation reports ~~should be~~will ~~included in~~ a semi-annual or annual presentation, as appropriate.

#### 4. Underperforming Assets

Periodic evaluations ~~The annual evaluation reports~~ shall examine the performance of underperforming parcels within each asset classification. The IDL shall have plans to remedy underperformance, either for the entire asset class or for particular properties in an asset class. ~~Annual review of~~ Performance plans will include discussion toward progress in remedying previously identified underperformance from prior plans, and reasons for any lack of progress. Assets that have underperformed for longer than a period of five (5) years shall be ~~targeted~~ considered for transition (see section III, ~~C-10~~ F).

### C. Management Objectives by Asset TypeClass

This document represents a framework to drive further planning. Detailed underlying business plans are required for each asset classification to ensure that management activities are consistent with and contributing to the overall asset management goals. The underlying business plans highlight the need for developing and participating in appropriate benchmark studies to confirm the adequacy of valuations and economic return targets (see Appendix A – *Asset Business Plan Template*). Such plans will:

- Provide an executive summary of the plan for the asset classification.
- Describe the current and future influences on plan implementation and performance.



- Analyze past and present return on asset performance, current asset value, current asset characteristics, and future expected returns.
- Recommend long-term financial and land management objectives for the asset.
- Detail opportunities and challenges the asset faces and specify plans for capitalizing on opportunities and dealing with challenges.

## 1. **Forest~~land~~ Asset**

Idaho's forest asset consists of approximately 1~~4~~ million acres managed primarily for sawlog and cedar pole products. Management complies with all applicable federal and state statutes, such as the Federal Clean Water Act and the Idaho Forest Practices Act.

### Management Objectives

- Manage the forestland asset prudently, efficiently, and with accountability to the beneficiaries.
- Reduce risk and increase prospects for immediate, sustainable income.
- Realize an overall return on asset at or above the median return compared to relevant peers.
- Produce forest products that meet market demands.
- Identify and dispose of or transition underperforming forestland assets to increase economic performance and improve land asset diversity.

### Challenges

- Ensuring all-purpose, permanent legal access to forestland parcels.
- Balancing management expenses against revenue generated.
- Changing social and political attitudes and values, markets, and products.
- Legal challenges to interpretation and application of the Endangered Species Act and the Clean Water Act.
- Changing ownership and land management practices of federal and private land holdings.
- Changes in the forest industry and potential impacts on demand and pricing for endowment forest products.
- ~~Operating a profit oriented business within a government agency; traditionally perceived as a nonprofit environment.~~

### Opportunities

- Changing sawmill technology, markets, and products that provide new business opportunities.
- Productive and diverse forests.
- Forestlands adjacent to population centers present transition land opportunities.

## 2. Residential Real Estate

Idaho has been leasing residential sites since 1932. These properties consist of cabins and single family homes where the lessee is authorized to construct and own the improvements. Currently, the endowments lease over 540 sites, with the majority located on Priest and Payette Lakes. The ability to garner asset appropriate rental rates has long been debated. Experience and basic economic principles demonstrate that in instances of split ownership of land and improvements the economic potential of the property is often captured by the owner of the improvements without a corresponding benefit to the land owner. In February 2010, the Land Board voted to unify the cottage site estate; recognizing that the continuation of a long-term cottage leasing program falls short of maximizing the financial return that could be generated from alternative investments.

### Management Objectives

- Execute the approved Cottage Site Plan to unify the estate in a business savvy manner to maximize return to the trust beneficiaries.
- For the duration of the cottage site leasing program, Develop and manage ~~long term~~ residential leases that appropriately compensate the endowments.
- Identify additional high value (undeveloped) residential sites to maximize return to the trust beneficiaries.
- Identify and transition residential sites that may return more value to the trust if transitioned to a higher and better use.

### Challenges

- Increasing-Volatile real estate values associated with lake side or lake view property results in escalating fluctuating annual rent and produces pressure to maintain an artificially low making it difficult to achieve an appropriate and consistent return on asset.
- Executing the Cottage Site Plan in a business savvy manner to provide an orderly market transition, both in disposition and reinvestment.
- Resolving historic land access issues that affect value and marketability of title.
- Statutory limitation on residential lease to a duration of ten-years may impede achieving market rent.

### Opportunities

- Survey, plan and plat the existing and potential residential sites to add value to resulting unification processes.
- There is a potential for over 200 additional residential sites on Priest and Payette Lakes, and numerous other potential sites on other lakes and

endowment lands that could be developed and transitioned in a manner to bring diversification to the trust land portfolio.

### **3. Recreation (non-commercial)**

Idaho's endowment lands contain some of the most diverse landscapes in the Pacific Northwest. They include pristine mountain lakes, majestic mountain peaks, high alpine forests, desert lands, rugged breaklands, and river valleys. Because of this diversity, thousands of people use endowment lands each year for camping, hiking, fishing, hunting, bicycling, OHV use, berry picking, and mushroom picking.

#### Management Objectives

- Improve public awareness that endowment lands are not public lands.
- Accommodate public use of endowment lands, to the extent feasible, provided such use does not impair financial returns.
- Minimize or eliminate the adverse impact to endowment resources and uses due to dispersed public recreation.
- Promote and improve inter-agency cooperation and education for recreation on endowment land.

#### Challenges

- Public awareness of the purpose of endowment lands to generate revenue.
- Controlling the location and type of dispersed recreation (OHV, motorized vehicles, etc.).
- Vandalism and sanitization issues associated with dispersed recreation and camping.

#### Opportunities

- Mitigate cost and generate revenue through user fees or assessments.
- Taking advantage of available grant programs for management of recreation on endowment lands.

### **4.3. Commercial Real Estate**

Idaho has a long history of leasing properties for various commercial activities (e.g. communication sites, commercial recreation services, wind farms, etc.), but only began acquiring commercial office and retail properties in 1998. Idaho currently manages eight parking lots and seven office-retail properties of various age and quality designations<sup>11</sup> located principally in

<sup>11</sup> Commercial office and retail properties are designated as Class A, B, or C. The property class impacts lease rates and is driven by property age, location, construction quality, caliber of tenants and professional property management.

~~downtown Boise. Commercial real estate is property recognized as commercial by local zoning regulations. These properties include, but are not limited to, office, retail and light industrial businesses designations, public facilities, hospitality, energy resources (wind, hydro, geothermal), communication sites, ski resorts, etc. Commercial real estate provides valuable diversification to the land asset portfolio.~~

~~Commercial real estate provides an opportunity, over time, for diversification of the land asset portfolio. The value of commercial properties, in many instances, is derived not only from location, but also by the nature and quality of commercial improvements thereon and by their fitness for meeting market demands. Where ownership of improvements results in higher returns and an appropriate level of risk to the beneficiary, fiduciary obligations require the Land Board to retain ownership of such improvements. Leases and contracts for commercial management services will be offered based on business principles that will ensure the maximum long term financial return to the endowment beneficiaries. For example, gross leases, NNN leases or percent of gross receipts contracts are commonly used, but not uniformly applied across all commercial lease arrangements.~~

~~Idaho has a long history of leasing properties for various commercial activities, but only began acquiring commercial office and retail properties in 1998. Idaho currently manages eight parking lots and seven office-retail properties of various age and quality designations<sup>15</sup> Class C properties located principally in downtown Boise. Commercial office and retail properties are designated as Class A, B, or C. The property class impacts lease rates and is driven by property age, location, construction quality, caliber of tenants and professional property management.~~

#### Management Objectives

- Develop and manage long term commercial leases that achieve a rate of return consistent with peer ROA.
- Ensure lease terms and conditions comport with industry standards.
- Ensure tenant improvement allowances associated with the commercial leasing program represent necessary structural and finish requirements to property but not personal property of a prospective tenant.
- Contract property management and leasing activities, where appropriate, to ensure professional, consistent and quality service.
- Add properties to the commercial portfolio to achieve economies of scale in contract property management.
- Add properties to the commercial portfolio to improve diversity in land asset revenue streams.

#### Challenges

- Managing deferred and future maintenance, including capital improvements, on endowment owned facilities to accommodate market needs.
- Ensuring that lessees manage deferred and future maintenance, including capital improvements, on non-endowment owned improvements.
- Comparing performance measures to industry benchmarks, given the differences between private sector and governmental accounting practice, including but not limited to private investor practices such as accrual accounting, depreciation of capital improvements over time, and the use of leverage.
- Providing for the support of the prorata cost of health, life, safety services benefiting the property and tenants.
- ~~Managing the perception that the endowments (government) are in competition with private enterprise.~~

#### Opportunities

- ~~Diversify the~~Increase endowment trust land revenue stream through acquisition of or transition to higher yielding real estate.
- Geographically consolidate management of endowment land.
- Invest in properties that are within ~~aggressive and growing~~ communities that demonstrate sustained growth potential.
- Actively pursue entitlements on transition lands to create future long term leasing opportunities.

### **5.4. Agriculture**

Idaho's agriculture asset consists of approximately 17,000 acres of dryland and irrigated cropland administered through 110 leases. Some agriculture uses are leased in combination with grazing uses. In most cases, the state's lessee rather than the state holds the water right on the irrigated cropland. The agriculture asset includes lands used for cultivating grains, vegetables, and hay, as well as vineyards and orchards.

#### Management Objectives

- Develop and manage long term agricultural leases that achieve a rate of return consistent with relevant peers.
- Identify and acquire additional agriculture lands.
- Enroll endowment lands in federal agricultural programs, when appropriate.

#### Challenges

- Acquiring water rights.
- Obtaining an appropriate share of any federal agricultural program payments associated with the leasing of endowment lands.

- Ensuring endowment lands remain eligible for enrollment in federal agricultural programs.
- Capturing economies of scale.

#### Opportunities

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

### 6-5. Grazing Rangeland

Idaho's grazing Rangeland asset consists of approximately 1.84 million acres of primary and secondary rangeland administered through more than 1,200 1300 grazing leases and other instruments covering a variety of activities. Livestock forage productivity and availability varies significantly across the state due to factors of climate, vegetation types, topography and access to water. Some lands are of sufficient size and productivity to stand alone as a grazing unit; however, most endowment lands are managed in conjunction with adjoining ownerships.

#### Management Objectives

- Manage the grazing Rangeland asset prudently, efficiently, and with accountability to the beneficiaries.
- Develop and manage long term grazing leases that achieve a rate of return consistent with relevant peers.
- Identify and dispose of or transition underperforming grazing Rangeland assets to increase economic performance and improve land asset diversity.
- Minimize contractual and environmental risks.
- Identify programmatic or statutory changes that maximize income.

#### Challenges

- Consolidating land ownership through federal and private land exchanges.
- Ensuring all-purpose, permanent legal access to high value, core rangeland parcels.
- Inefficient Improving management regimes.
- Environmental constraints.
- Ineffective market structure.
- Balancing management expenses against revenue generated.
- Changing social and political attitudes and values, markets, and products.
- Operating a profit oriented business within a government agency.

#### Opportunities

- Geographically consolidating management of endowment Rangeland when it makes economic sense for long-term management or strategic opportunities.
- Grazing-Rangelands adjacent to population centers ~~often~~ present ~~ideal~~ transition land opportunities.

### **7.6. Conservation**

Similar to the issues associated with non-commercial public recreation, there is increasing pressure to manage endowment lands for conservation purposes. Scenic, cultural, fish and wildlife habitat, riparian areas, and other ecological values are receiving specific interest. Conservation lands are lands where certain real property rights are restricted or removed, either temporarily or permanently, for the purpose of preserving and protecting these environmentally important values.

#### Management Objectives

- Improve public awareness that endowment lands classified as Conservation lands must be appropriately compensated for the restricted property rights, including the expenses to manage the encumbrance.
- In situations where a permanent encumbrance is appropriate, such lands should be targeted for sale or exchange to an entity capable of long-term protection or preservation.

#### Challenges

- Comprehensive land use plans of local jurisdictions tend to classify undeveloped endowment lands as conservation and/or open space.
- Public perception appears to embrace the endowments administering such lands without appropriate compensation.
- Limited endowment resources to participate in all federal, state, county, and city land use planning and zoning processes, and other private development activities that affect endowment lands.
- Obtaining an appropriate share of any federal conservation program payments associated with the leasing of endowment lands.
- Ensuring endowment lands remain eligible for enrollment in federal conservation programs.

#### Opportunities

- Improving public awareness of the endowment's mission.
- Identifying land where conservation encumbrances can coexist with other uses to enhance endowment earnings.



## **8.7. Minerals**

Idaho has mineral rights on approximately 2.5 million acres of surface ownership and on approximately 0.5 million acres where mineral rights were reserved but the land was sold. On average about 50,000 acres of the mineral estate is leased annually, and of this amount only about 25% is in active production. Both numbers fluctuate with market conditions. Phosphate and sand-gravel are the principle products extracted from endowment lands. Management complies with all applicable federal and state statutes, such as the Federal Clean Water Act, the Idaho Surface Mining Act, and the Idaho Dredge and Placer Mining Protection Act.

### Management Objectives

- Realize an overall return on asset at or above the median return compared to relevant peers.
- Manage the mineral asset prudently, efficiently, and with accountability to the beneficiaries.
- Minimize contractual and environmental risks associated with extractive industries.
- Produce mineral products that capitalize on market demands.
- Identify programmatic or statutory changes that maximize income from mineral assets.

### Challenges

- Ensuring that returns from mining activity adequately compensate for post-mining land use and values.
- Identifying high value mineral resources that are marketable.
- Balancing management expenses against revenue generated.
- Changing social and political attitudes and values, markets, and products.
- Operating a profit oriented business within a government agency; traditionally perceived as a nonprofit environment.

### Opportunities

- Changing markets and products that provide new business opportunities.
- Aggregate sources proximal to areas of high growth.
- Widespread and diverse mineral resources.
- Providing incentives for increasing production revenue.

## **D. Recreation (non-commercial)**

Idaho's endowment lands contain some of the most diverse landscapes in the Pacific Northwest. They include pristine mountain lakes, majestic mountain peaks, high alpine forests, desert lands, rugged breaklands, and river valleys. Because of this diversity, thousands of people use endowment lands each year for camping.

hiking, fishing, hunting, bicycling, OHV use, berry picking, and mushroom picking. Incidental public recreation is not an asset class, but the issues associated with allowing such activity on endowment lands must be managed.

#### Management Objectives

- Improve public awareness that endowment lands are not public lands.
- Accommodate public use of endowment lands, to the extent feasible, provided such use does not impair financial returns.
- Minimize or eliminate the adverse impact to endowment resources and uses due to dispersed public recreation.
- Promote and improve inter-agency cooperation and education for recreation on endowment land.

#### Challenges

- Lack of public awareness of that the purpose of endowment lands is to generate revenue.
- Controlling the location and type of dispersed recreation (OHV, motorized vehicles, etc.).
- Vandalism and sanitization issues associated with dispersed recreation and camping.

#### Opportunities

- Mitigate cost and generate revenue through user fees or assessments.
- Taking advantage of available grant programs for management of recreation on endowment lands.

### **E. Rights-of-Way**

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

Each Area office shall prepare a an easement rights-of-way acquisition plan, which identifies easements access needed and tentative time frame for acquisition. Easement nNeeds shall be prioritized and based on the following management objectives:

- Achieve short and long-term financial objectives:
  - a. Maximize long term ability to provide income
  - b. Improve income generating potential
  - c. Provide future investment potential
  - d. Improve the stability of the asset
- Improve the manageability of the land asset:
  - a. Improve access i.e. multiple routes or points of entry
  - b. Consolidate ownership patterns
  - c. Leverage management resources with other agencies or entities

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

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

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

## **F. Transition**

Transition lands are those parcels that may, within the next twenty years, be suitable for a higher and better use than the current asset classification. Often these properties exhibit high property values and low annual revenues (underperforming), and may be encroached upon by urban development. A Transition Property business plan, similar to the underlying asset business plans, is required (see Appendix A – *Asset Business Plan Template*).

Management activities will focus first on transition land at the high end of market values (Best Markets), and then on land possessing Best Market potential within the next ten to twenty years (Emerging Markets). Criteria used in identifying transition lands are:

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

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

- Whether management costs can be minimized?
- Whether the lands can be managed differently to increase performance?
- Whether the parcel can be developed into a higher and better use?
- Who is the best long-term owner of the asset?

Area managers shall develop and maintain management plans to specifically identify transition opportunities (Appendix H). The identification of transition lands or parcels should be more, rather than less, inclusive. Before issuing leases, granting easements or temporary permits, or offering timber sales, managers must consider the impacts on future development opportunities.

## G. Land Acquisition and Disposal Strategy

The Land Board seeks to maintain a land base with a diverse set of asset classes (see section III – Land Assets, B – Land Management Philosophy, I – Management Goals). To accomplish this, the Land Board will consider the disposal, acquisition, or development of real property provided transactions enhance value and improve revenue streams to the beneficiaries. ~~Over the last 30 years, the emphasis has shifted from selling lands to improving management efficiency by blocking lands through land exchanges.~~

~~Future strategy will include proactively searching for property, consolidating ownership only when earnings will substantially increase, seeking to optimize risk and return, and identifying an exit strategy for each property. The target holding period for land assets shall be for long-term investment (generally 10 years or more).~~

### Management Objectives

- Increase long-term financial returns:
  - Reduce cost through improved management efficiency
  - Increase cash flow
  - Acquire lands or position parcels for value maximization
- Diversify the endowment land portfolio to distribute risk.
- Enhance access to endowment land assets.
- Adjust land holdings based on current and projected market conditions to capture value in excess of target returns.
- The target holding period for land assets shall be for long-term investment (generally 10 years or more).

### Challenges

- Constraints pursuant to Article IX, section 8 that do not conform to modern business practices:
  - The sale of land is limited to transactions “...sold in subdivisions of not to exceed three hundred and twenty acres of land to any one individual, company or corporation.”
  - All land sales are “...subject to disposal at public auction.”

- Evaluating and prioritizing acquisition and disposal transactions in an environment of limited resources.
- Communicating endowment investment objectives.
- Conducting commercial investment transactions in a political environment.
- ~~Current procedures inhibit~~ Executing revised procedures designed to foster the agency's ability to be competitive in the real estate market.
  - ~~Efficiency and expediency required to secure property~~
  - ~~Securing resources necessary to conduct due diligence~~
  - ~~Land Board approval required at multiple steps throughout the land acquisition and sale process~~
- ~~Operating a profit oriented business within a government agency; traditionally perceived as a nonprofit environment.~~

#### Opportunities

- Utilizing agent agreements to conduct proactive searches for properties based on criteria herein.
- ~~Authorizing agency management to enter into~~ Utilizing non-binding and binding agreements to become more competitive in the real estate market.
  - Buyer Agency Agreement
  - Letter of Intent, *including Buyer Agency Agreement* (Appendix I)
  - Agreement to Initiate (Appendix J)
  - Purchase Sale Agreement, *including Buyer Agency Agreement* (Appendix K)

#### Implementation Strategy

Using the diversification and target return objectives as criteria, the IDL shall implement acquisition and disposal processes that incorporate due diligence and modern real estate tools. Such tools include:

- The real estate agreements mentioned previously under *Opportunities*.
- The Parcel Nomination Process  
A filtering process used to reject or assign priorities and resources to potential transactions.
  - Parcel Nomination Coversheet (Appendix L)
  - Parcel Nomination Packet Checklist (Appendix M)
- Property plans
  - acquisition
  - disposal
  - exchange
  - transition
- Due diligence checklist (Appendix N)  
The timing and performance of various due diligence activities is different for each transaction. Expending significant resources on due diligence

should not occur until the proposed property is secured by one of the aforementioned real estate agreements.

- The Land Bank Fund

Idaho Code §58-133 provides for the sale and reinvestment in real property through a land bank. The Land Board views the land bank fund as an essential transition tool that can be used to address underperforming assets while new opportunities are targeted.

Throughout the implementation process the IDL will keep the Land Board apprised of progress, but will only seek Land Board approval at such time as sufficient data is available to make a final decision.

## **IV. Appendix/Exhibits**

## Exhibit 1

### Endowment Fund Assets, Distributions and Asset Mix

#### Idaho Land Grant Endowment Fund Assets

(Amounts in millions)

	<i>Fiscal Year End</i>				
	<u>1966</u>	<u>2000*</u>	<u>2011</u>		
			<i>Permanent</i>	<i>Earnings</i>	
			<i>Total</i>	<i>Fund**</i>	<i>Reserve**</i>
Public School	45.7	556.0	808.2	714.7	93.5
Agricultural College	2.6	14.8	25.9	20.2	5.7
Charitable Institutions	4.4	54.5	83.4	68.6	14.8
Normal School	4.2	47.3	76.1	62.8	13.4
Penitentiary	2.6	18.3	34.8	28.6	6.2
School of Science	4.3	54.8	85.1	70.1	15.0
State Hospital South	2.0	23.4	60.2	45.9	14.3
University	3.2	42.4	72.2	59.4	12.8
	69.0	811.5	1,245.9	1,070.2	175.6
Capitol Permanent***	<i>not avail.</i>	<i>not avail.</i>	21.9	<i>not applicable</i>	

\* Excludes approximately \$25 million of endowment-related funds held by the IDL which were transferred to the EFIB in July 2000 to become the beginning balance of Earnings Reserves.

\*\* Reflects \$28.6 million of approved transfers from Reserves to Permanent effective 9/1/2011.

\*\*\* The Capitol Permanent Fund was managed separately from the other endowments until 2004.

#### Endowment Fund Distributions

(Amounts in millions)

	<i>Fiscal Years</i>				<i>Coverage</i>
	<u>1966</u>	<u>2000</u>	<u>2007</u>	<u>2013A</u>	<i>Ratio*</i>
Public School	3.0	42.8	24.6	31.3	3.0
Agricultural College	0.2	1.0	0.7	0.9	6.2
Charitable Institutions	0.3	3.8	2.4	3.0	5.0
Normal School	0.3	3.9	2.1	2.7	5.0
Penitentiary	0.2	1.3	0.8	1.2	5.0
School of Science	0.3	3.8	2.4	3.0	5.0
State Hospital South	0.1	2.5	1.1	2.9	5.0
University	0.2	3.1	1.8	2.6	5.0
Total	4.7	62.0	35.8	47.5	3.7
Capitol Permanent**	<i>not avail.</i>	<i>not avail.</i>	-	<i>not avail.</i>	<i>not applic.</i>

\* 2011 Earnings Reserves (after transfers) divided by 2013 Distributions

\*\* The Capitol Permanent Fund was managed separately from the other endowments until 2004. The beneficiary chose to forgo a distribution in 2007 and 2013's has not yet been established.



## Endowment Fund Asset Mix

	<i><b>Target % Of Assets Invested</b></i>	<i><b>Ten-Year Expected Return*</b></i>	<i><b>Annual Absolute Risk</b></i>
<b><u>Equities</u></b>			
Developed markets			
U.S.	48%	8.0%	18%
Foreign	18%	7.9%	20%
Emerging markets	4%	8.4%	28%
Private equity	0%	9.1%	30%
High yield debt	0%	5.6%	12%
<b>Total Equities</b>	<b>70%</b>	8.0%	18%
<b><u>Fixed Income</u></b>			
Treasuries/Agencies			
T-Bills/Cash	0%	3.0%	5%
Standard	9%	3.2%	3%
Inflation-protected	5%	3.5%	6%
Mortgages (agency)	8%	3.8%	5%
Mortgages (non-agency)	1%	3.9%	5%
Corporates, other	7%	4.6%	11%
Foreign bonds	0%	3.4%	10%
<b>Total Fixed Income</b>	<b>30%</b>	3.8%	4.0%
Real Estate	0%	6.8%	16%
Absolute Return	0%	5.9%	10%
<b>Total</b>	<b>100%</b>	7%	13%

Duration/Maturity of Fixed Income (in years) 4.5

\* Assumes annual inflation rate of 2.5%. Returns are 10-year geometric.

Source: Callan Associates, EFIB staff. Return and risk assumptions  
as of January 2011.

## **Appendix A**

### **Asset Business Plan Template**

- A. Executive Summary
- B. Introduction
- C. Description of Business
  - 1. Asset Mission Statement
  - 2. Asset Goals, & Objectives
    - a. Short and long term financial goals & objectives
    - b. Short and long term resource management goals & objectives
  - 3. Brief History of the Business
  - 4. Business Strengths & Core Competencies
  - 5. Challenges & Opportunities Facing the Business
    - a. Immediate
    - b. Long term
  - 6. Future Outlook for the Business
- D. Business Products and Services
  - 1. Detailed Description of Trust Products and Services
    - a. Current Resource Information (detailed)
    - b. Current Asset Values (brief summary)
  - 2. Describe our Competitive Advantages and Disadvantages.
  - 3. Describe our Methodology for Pricing Trust Products
- E. Market Analysis (both resource and financial)
  - 1. Customer (purchaser) Analysis
    - a. Who They Are
    - b. Their Location
    - c. The Size of the Firms
    - d. Their Products and Capacity
  - 2. Competitor (may be a purchaser also) Analysis
    - a. Identify and Describe our Competition
      - 1.) Who They Are
      - 2.) Their Location
      - 3.) The Size of the Firms
      - 4.) Describe Competing Resources
      - 5.) Describe Competitor Strengths & Core Competencies
      - 6.) Describe Competitor Products and Production Capacity
    - b. Describe Asset Position
      - 1.) Size of the market
      - 2.) Percentage of market participation
      - 3.) Current demand for Trust products
  - 3. Growth History and Trends

4. Barriers to implementing the marketing plan

- a. Funding
- b. Training/skills
- c. Political climate
- d. Government regulations
- e. Changing economy
- f. Changes in our industry

5. Marketing Strategy

- a. Promotion
- b. Budget
- c. Pricing
- d. Locations
- e. Forecasts

6. Identify Research Needs

F. Operational Plan

1. Management and Organization (Current & Future)

- a. Personnel
- b. Location
- c. Production

2. Describe Challenges & Opportunities

3. Discuss How to Meet Future Resource and Financial Goals and Objectives

G. Financial Statement

- a. Brief History
- b. Detailed Description of Asset Values
- c. Projections

H. Appendices

# Appendix B

## Draft Endowment Income Statement – Land Assets

### IDAH0 DEPARTMENT OF LANDS Income Statement - Endowment Trust Lands For the Year Ended June 30, 2010

	Public School	Ag College	Charitable Institutions	Normal School	Penitentiary	School of Science	State Hospital South	University	Capitol	Total
<b>Direct Program Revenue *</b>										
Forest Land	20,547,534	715,971	3,259,211	3,226,116	865,242	2,429,860	3,333,592	1,616,525	309,857	36,303,906
Agriculture Land	309,383	1,210	-	-	11,268	-	3,238	4,200	-	329,298
Grazing Land	1,323,081	50,382	59,769	20,507	6,366	39,992	6,339	26,166	50	1,532,652
Residential Real Estate	2,919,819	-	-	607,069	-	-	1,241,518	-	-	4,768,405
Commercial Real Estate	628,486	2,310	32,800	1,015,387	6,429	195,991	319,702	115,034	6,968	2,333,107
Recreation	132,899	225	3,091	5,857	4,108	2,928	(678)	261	428	149,117
Conservation	51,549	-	20	197	-	-	-	3,526	-	55,291
Oil and Gas	75,390	1,915	80	26,700	124	1,688	1,649	19,947	-	127,492
Minerals	2,304,591	809	15,082	341,430	514	6,226	12,989	3,705	1,672	2,687,019
<b>Total Revenue</b>	<b>28,292,731</b>	<b>772,822</b>	<b>3,370,053</b>	<b>5,243,263</b>	<b>894,051</b>	<b>2,676,685</b>	<b>4,918,347</b>	<b>1,789,362</b>	<b>318,974</b>	<b>48,276,287</b>
<b>Direct Program Expense</b>										
Forest Land	9,460,234	212,499	1,016,774	605,737	337,778	795,514	376,864	653,223	92,155	13,550,776
Agriculture Land	88,556	346	-	-	3,225	-	927	1,202	-	94,257
Grazing Land	719,682	27,405	32,511	11,155	463	21,753	5,448	14,233	27	833,677
Residential Real Estate	194,873	-	-	30,741	-	-	59,285	-	-	284,899
Commercial Real Estate	465,538	298	16,974	1,458,792	-	-	779,766	109,189	(607)	2,829,861
Recreation	4,311	7	100	-	-	95	-	8	14	4,838
Conservation	22,219	-	9	-	-	-	-	1,520	-	23,832
Oil and Gas	873	22	1	106	1	20	19	231	-	1,477
Minerals	293,108	103	1,000	2,353	65	792	1,652	471	213	341,747
<b>Total Program Expense</b>	<b>11,249,394</b>	<b>240,680</b>	<b>1,026,784</b>	<b>2,214,433</b>	<b>344,967</b>	<b>818,174</b>	<b>1,221,940</b>	<b>780,077</b>	<b>91,801</b>	<b>17,965,362</b>
<b>Program Margin</b>	<b>17,043,337</b>	<b>532,142</b>	<b>2,343,269</b>	<b>3,028,830</b>	<b>549,084</b>	<b>1,858,511</b>	<b>3,696,408</b>	<b>1,009,285</b>	<b>227,173</b>	<b>30,310,926</b>
<b>Less: Managerial Overhead</b>										
Forest Land	2,744,553	60,620	25,227	175,366	108,552	255,916	104,483	169,149	28,661	3,899,571
Agriculture Land	40,929	160	-	-	1,491	-	428	556	-	43,563
Grazing Land	288,687	10,993	13,041	4,475	1,389	8,726	19,464	5,709	11	334,414
Residential Real Estate	63,978	-	-	10,092	-	-	19,464	-	-	93,533
Commercial Real Estate	43,967	28	1,603	92,033	28	-	27,941	10,312	(57)	175,855
Recreation	14,274	24	332	629	441	314	(73)	28	46	16,016
Conservation	11,945	-	5	46	-	-	-	817	-	12,813
Oil and Gas	1,894	48	2	671	3	42	41	501	-	3,203
Minerals	120,881	42	791	17,909	27	327	681	194	88	140,941
<b>Total Managerial Overhead</b>	<b>3,331,108</b>	<b>71,916</b>	<b>268,045</b>	<b>301,220</b>	<b>111,932</b>	<b>265,325</b>	<b>154,349</b>	<b>187,266</b>	<b>28,748</b>	<b>4,719,909</b>
<b>Net Income by Program</b>										
Forest Land	8,342,747	442,853	1,990,166	2,445,013	418,912	1,378,430	2,852,245	794,153	189,041	18,853,560
Agriculture Land	179,898	704	-	-	6,532	-	1,883	2,442	-	191,478
Grazing Land	314,713	11,984	14,217	4,878	1,514	9,513	1,508	6,224	12	364,562
Residential Real Estate	2,660,968	-	-	566,236	-	-	1,162,769	-	-	4,389,973
Commercial Real Estate	118,981	1,984	14,223	(535,049)	6,099	195,991	(488,005)	(4,467)	7,633	(682,610)
Recreation	114,313	194	2,658	5,037	3,534	2,518	(583)	224	368	128,264
Conservation	17,385	-	7	66	-	-	-	1,189	-	18,647
Oil and Gas	72,622	1,845	77	25,720	119	1,626	1,588	19,215	-	122,812
Minerals	1,890,602	664	12,373	280,097	422	5,108	10,656	3,039	1,372	2,204,331
<b>Net Income</b>	<b>13,712,229</b>	<b>460,227</b>	<b>2,033,721</b>	<b>2,791,999</b>	<b>437,152</b>	<b>1,593,186</b>	<b>3,542,059</b>	<b>822,019</b>	<b>198,425</b>	<b>25,591,016</b>
<b>Net Income / Total Revenue</b>	<b>48%</b>	<b>60%</b>	<b>60%</b>	<b>53%</b>	<b>49%</b>	<b>60%</b>	<b>72%</b>	<b>46%</b>	<b>62%</b>	<b>53%</b>

\* Direct Program Revenue includes contributions to permanent funds and earnings reserve funds.  
Revenue Source: IBIS Query Access Query  
Direct Expenditure Source: STARS DAFR 8290  
Admin Overhead Source: STARS DAFR 8290

## Appendix C

### Draft Annual Transactions by Asset Classification Report

#### Asset Management 2009 Transactions

##### SUMMARY - All Transactions

###### Transaction Statistics:

Acres	167.84
Asset Classification	ALL
Access	Varies See Transaction Detail

###### Disposal Priority

1. Increase Cash On Cash NPV of Cash Flow	\$172,600
2. Asset value projected to decline into the foreseeable future	Varies See Transaction Detail
3. Unauthorized or tenured use jeopardizes earnings to its highest & best use	Varies See Transaction Detail
4. Scattered, low value assets; transaction costs can be recaptured within 0-5 years	Varies See Transaction Detail

##### Disposal - Cash Sale

Mores Creek

###### Transaction Statistics:

Acres	1.84
Asset Classification	Residential Land
Access	Yes

###### Disposal Priority

1. Increase Cash On Cash NPV of Cash Flow	\$6,800
2. Asset value projected to decline into the foreseeable future	No
3. Unauthorized or tenured use jeopardizes earnings to its highest & best use	Yes
4. Scattered, low value assets; transaction costs can be recaptured within 0-5 years	Yes

##### Acquisition - Land Bank Purchase

Iron Mountain

Siverson Acquisition

###### Transaction Statistics:

Acres	13.6	160
Asset Classification	Timber	Timber
Access	Yes	Yes

###### Acquisition Priority

1. Cash On Cash NPV of Cash Flow	\$400.00	\$189,700
2. Acquire all purpose legal access (# of Acres)		3,680
Cost to acquire Acres		\$329,000
3. Reduce risk through diversification	Yes	No
4. Consolidate Ownership to reduce management costs	Yes	Yes

##### Land Exchange

###### Disposal/Acquisition

Trestle Creek

Gold Creek

###### Transaction Statistics:

Acres	120	126.3
Asset Classification	Timber	Timber
Access	Yes	Yes

###### Disposal Priority

1. Increase Cash On Cash NPV of Cash Flow	\$ 82,419
2. Asset value projected to decline into the foreseeable future	no
3. Unauthorized or tenured use jeopardizes earnings to its highest & best use	Yes
4. Scattered, low value assets; transaction costs can be recaptured within 0-5 years	No

###### Acquisition Priority

1. Cash On Cash NPV of Cash Flow	\$ 48,889
2. Acquire all purpose legal access (# of Acres)	No
3. Reduce risk through diversification	No
4. Consolidate Ownership to reduce management costs	No

\* Net Present Value of Cash Flow over 20 Years

**Appendix D**  
**Draft Annual ROA by Asset Classification Report**

**Sample Report**  
**Annual Asset Classification Returns by Net Revenue and Total Return**

*(in thousands)*

	<u>Net Revenue</u>	<u>% of Assets</u>	<u>Appreciation</u>	<u>% of Assets</u>	<u>Total Return</u>	<u>% of Assets</u>
Forest Land	\$ 50,000	3.25%	\$ 75,000	4.10%	\$ 125,000	7.35%
Grazing Land	\$ 500	0.25%	\$ 1,000	0.50%	\$ 1,500	0.75%
Agriculture	\$ 1,000	2.50%	\$ 1,500	3.75%	\$ 2,500	6.25%
Commercial RE	\$ 10,000	4.00%	\$ 8,000	3.20%	\$ 18,000	7.20%
Residential RE	\$ 8,000	3.75%	\$ 10,000	4.50%	\$ 18,000	8.25%
Recreation Uses	\$ 1,000	1.00%	\$ 1,000	1.00%	\$ 2,000	2.00%
Minerals	\$ 2,000	3.00%	\$ 3,000	4.50%	\$ 5,000	7.50%
<b>Total</b>	<b>\$ 72,500</b>	<b>3.13%</b>	<b>\$ 99,500</b>	<b>3.87%</b>	<b>\$ 172,000</b>	<b>7.00%</b>



**Appendix E**  
**Draft** Efficiency Measures Report by Asset Classification

Management Efficiency Measurement Report by Asset Classification							
	Net Income	Direct Program FTE's	Cost / FTE	Cost / Acre Managed	Net Income / Total Revenue	Net Income / FTE	
Forest Land	\$ 49,203,175	114.84	\$ 131,407	\$ 14.59	77%	\$ 428,450	
Grazing Land	\$ 74,473	16.50	\$ 91,811	\$ 0.89	5%	\$ 4,514	
Agriculture Land	\$ 250,139	1.05	\$ 67,920	\$ 1.72	78%	\$ 238,227	
Commercial Real Estate	\$ 1,464,007	2.70	\$ 410,895	n/a <sup>1</sup>	57%	\$ 542,225	
Residential Real Estate	\$ 4,326,753	2.15	\$ 54,649	n/a	97%	\$ 2,012,443	
Minerals	\$ 2,946,939	3.05	\$ 107,203	\$ 0.11	90%	\$ 952,855	
Net Income	\$ 58,265,486						
Net Income / Total Revenue	76%						

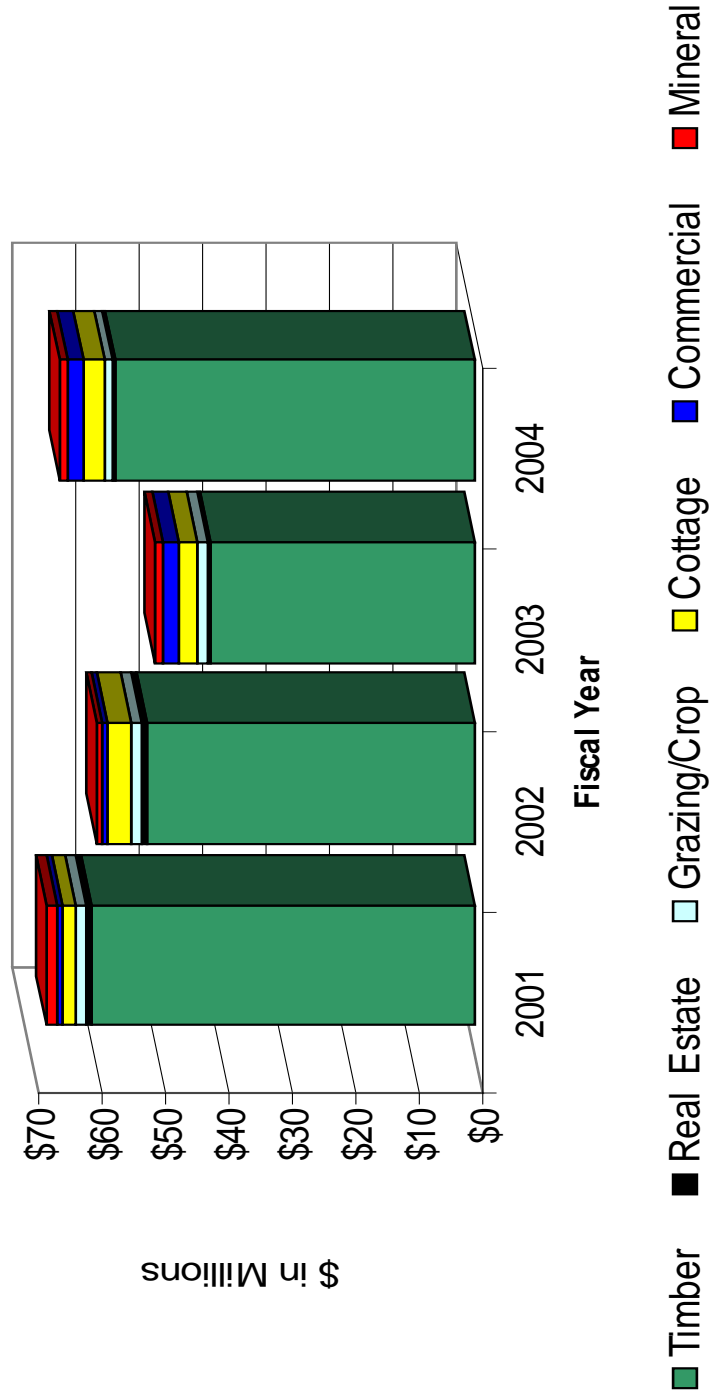
<sup>1</sup> The commercial real estate asset contains properties valued on a square footage lease rate, as well as those managed over a large land mass i.e. acres



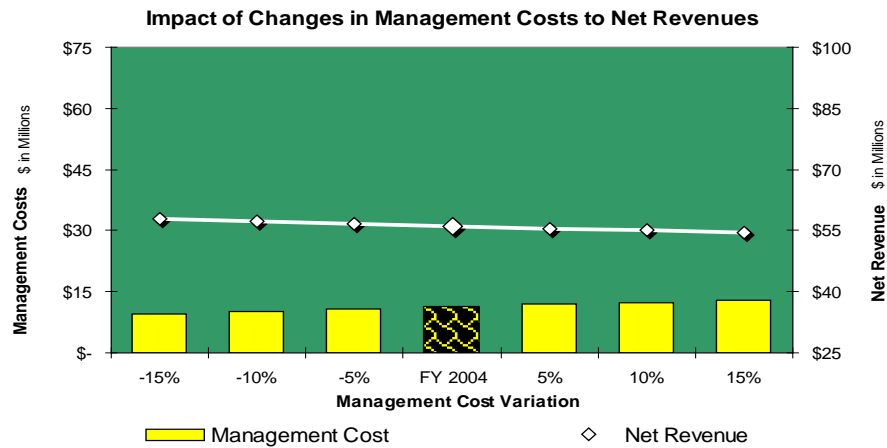
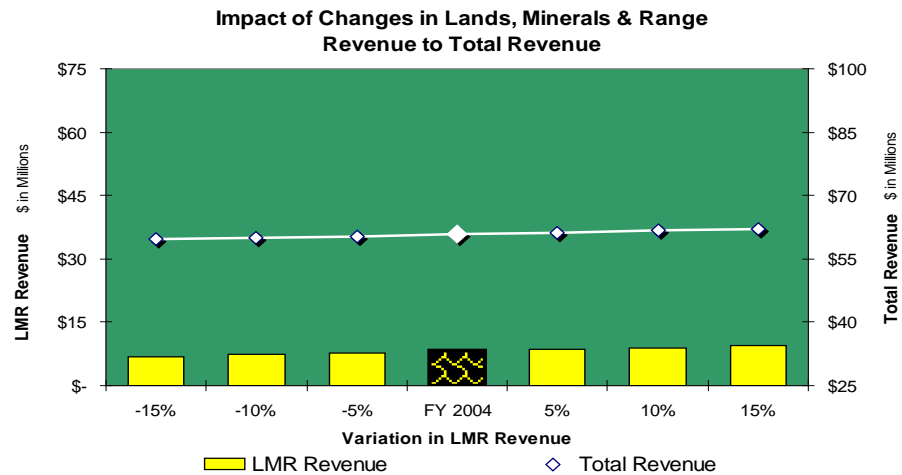
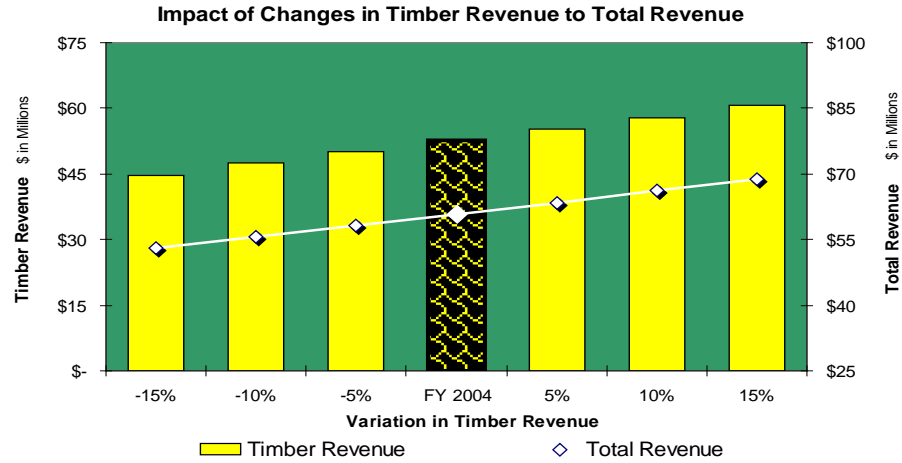
## Appendix F

### Gross Revenue Trend by Asset Classification

#### IDAHO DEPARTMENT OF LANDS Gross Revenue Trend by Current Asset Classification

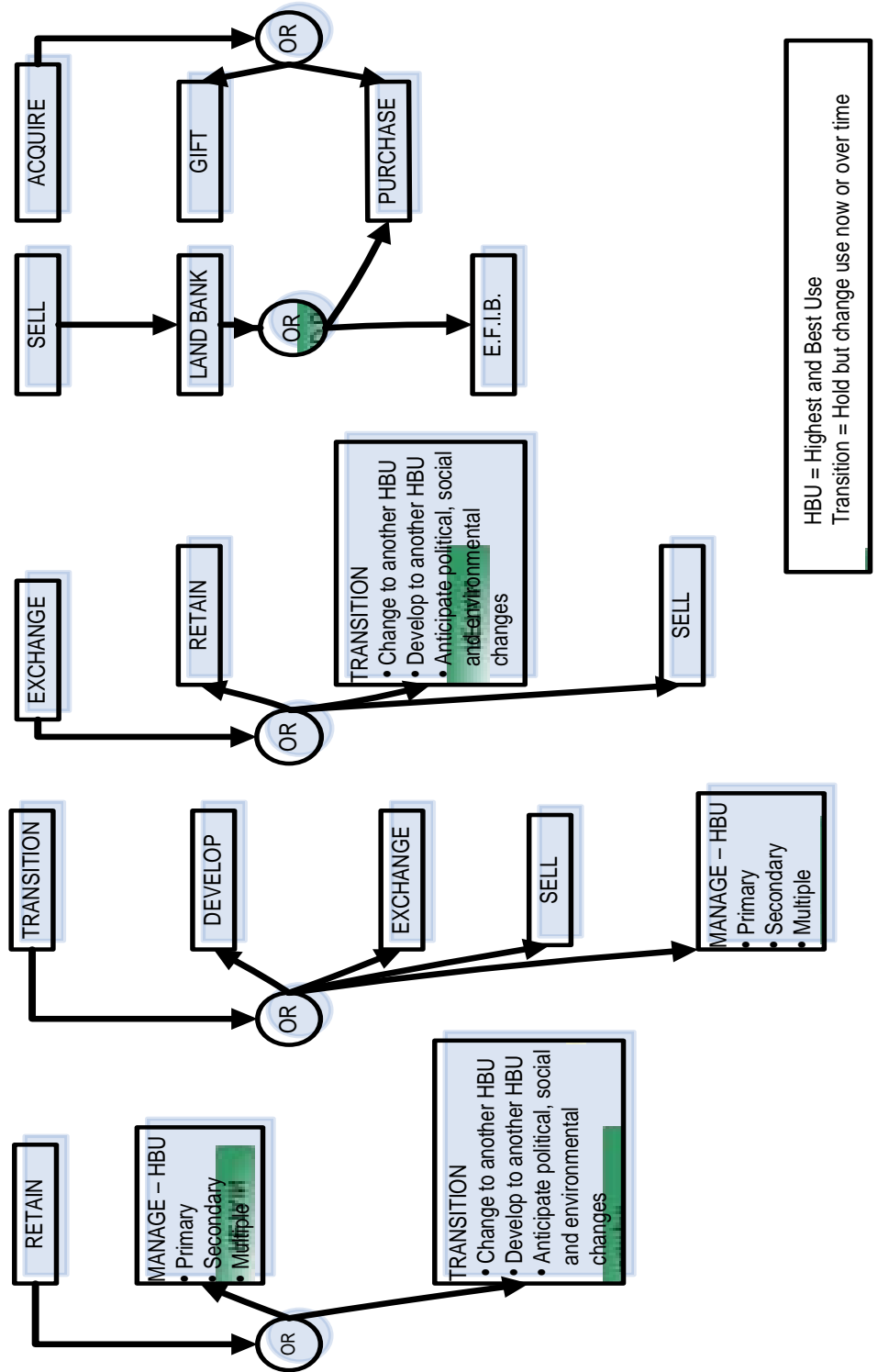


## Appendix G Sensitivity Analysis



## Appendix H Management Options Graph

### IDAHO ENDOWMENT TRUST LANDS MANAGEMENT OPTIONS



## Appendix I Sample Letter of Intent

[insert date]

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

RE: LETTER OF INTENT

Dear

This letter of intent sets forth the terms and conditions upon which \_\_\_\_\_ will purchase the above referenced property. It is understood that this Letter of Intent constitutes an expression of our intent only and that any final and binding agreement shall be subject to the preparation, negotiation and execution of definitive legal documents (hereinafter referred to as the "Purchase and Sale Agreement"). Subject to the foregoing limitations, it is our intention to enter into a Purchase and Sale Agreement that contains, among others, the following terms and conditions:

1. PURCHASER:
2. SELLER:
3. PROPERTY DESCRIPTION: The \_\_\_\_\_ located at \_\_\_\_\_, together with any and all improvements therein and all of Seller's right, title, and interest in all common areas, amenities, appurtenances, fixtures, chattels, and all personal property and the underlying fee land (collectively referred to as the "Property"). Seller shall sell Purchaser a 100% fee simple interest in the Property.
4. PURCHASE PRICE: The Purchase Price of the Property shall be \_\_\_\_\_ Dollars (\$\_\_\_\_\_) on an all cash sale. The Purchase Price shall be adjusted in accordance with generally accepted accounting procedures and customary real estate practice for prorations, credits and other adjustments, including, but not limited to, credit to Purchaser for security and other deposits paid by tenants.
5. PURCHASE AND SALE AGREEMENT: Seller and Purchaser, shall in good faith, prepare and execute a mutually acceptable Purchase and Sale Agreement within \_\_\_\_\_ days after Seller has accepted this Letter of Intent. Seller shall not accept any offer with respect to the sale of the Property during the \_\_\_\_\_ day period from execution hereof.

6. OTHER CONDITIONS: Conditions precedent to closing this transaction shall include:
- A. Due Diligence Period: The satisfactory approval of Purchaser's inspection of all aspects of the Property during an investigation period of \_\_\_\_\_ days (the "Due Diligence Period") which will commence receipt of the due diligence materials ("Due Diligence Information") shown on the attached Exhibit A. Within \_\_\_\_\_ days after the execution of the Purchase and Sale Agreement, Seller shall make available to Purchaser the Due Diligence Information. Review and acceptance of Due Diligence Information is subject to the approval of Purchaser, in its sole discretion.
  - B. Financing Period: The satisfactory receipt by Purchaser of a new loan at market rates and terms acceptable to Purchaser within \_\_\_\_\_ days (the "Financing Period") from Purchaser's receipt of the Due Diligence Information.
  - C. Title/Survey: Seller, at Seller's expense, shall cause the title company to issue a preliminary title report (the "Title Report"), accompanied by legible copies of all recorded documents relating to easement, right-of-way, and all other matters of record affecting the Property. Seller, at Seller's expense, shall cause to be delivered a current ALTA plat of survey of the Property, prepared by a duly licensed land surveyor acceptable to the Purchaser and Title Company (the "Survey").
  - D. Deposits/Closing: An earnest money deposit of \_\_\_\_\_ to be held for the benefit of the Seller and applicable to the Purchase Price, shall be delivered to the Escrow Agent within \_\_\_\_\_ of execution of the Purchase and Sale Agreement. The deposit will become nonrefundable only: (1) following Purchaser's satisfactory review of the Due Diligence Information, (2) following the satisfaction of the Financing Period and (3) upon delivery of title and survey to Purchaser's approval. Closing shall occur within \_\_\_\_\_ days following the Financing Period.
  - E. Extension of Closing: Purchaser shall have one (1) \_\_\_\_ (\_\_) day option to extend said Escrow by making an additional earnest money deposit of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) which shall be applied to the Purchase Price.
7. CONVEYANCE AND ENCUMBRANCES: The property shall be conveyed by recordable general warranty deed free and clear of all liens and encumbrances excluding: (a) real estate taxes which shall be the obligation of the Seller until date of closing and subject to proration, and (b) such liens and encumbrances as Purchaser elects to have remain against the Property.
8. CLOSING COSTS: Seller shall pay the costs of an ALTA extended coverage title insurance, transfer or sales taxes and any title curative work it elects to undertake. Purchaser shall pay recording fees, and all costs in connection with the physical inspection, accounting audit and together investigations made in connection with Purchaser's due diligence review. The Purchaser and Seller shall pay for their respective Attorney fees. All escrow fees shall be paid equally by Purchaser and Seller, except as otherwise provided in the Purchase and Sale Agreement.

9. ESCROW AGENT – TITLE COMPANY:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

10. 1031 EXCHANGE: Seller and Purchaser agree to cooperate with each other in accomplishing a tax deferred exchange(s) (1031 exchange). Neither Seller nor Purchaser shall be required to incur any additional expenses which may arise from the tax deferred exchange requested by the other party.
11. BROKERS: Seller shall be responsible for paying a sales commission of six (6%) percent of the sales price to Thornton Oliver Keller Commercial Real Estate. The responsible Broker shall be \_\_\_\_\_ of \_\_\_\_\_.

## V. Representation Confirmation

Check one (1) box in Section 1 below and one (1) box in Section 2 below to confirm that in this transaction, the brokerage(s) involved had the following relationship(s) with the BUYER(S) and SELLER(S).

**Section 1:**

- A. ☐ The brokerage working with the BUYER(S) is acting as an AGENT for the BUYER(S).
- B. ☐ The brokerage working with the BUYER(S) is acting as a LIMITED DUAL AGENT for the BUYER(S), without an ASSIGNED AGENT.
- C. ☐ The brokerage working with the BUYER(S) is acting as a LIMITED DUAL AGENT for the BUYER(S), and has an ASSIGNED AGENT acting solely on behalf of the BUYER(S).
- D. ☐ The brokerage working with the BUYER(S) is acting as a NONAGENT for the BUYER(S).

**Section 2:**

- A. ☐ The brokerage working with the SELLER(S) is acting as an AGENT for the SELLER(S).
- B. ☐ The brokerage working with the SELLER(S) is acting as a LIMITED DUAL AGENT for the SELLER(S), without an ASSIGNED AGENT.
- C. ☐ The brokerage working with the SELLER(S) is acting as a LIMITED DUAL AGENT for the SELLER(S), and has an ASSIGNED AGENT acting solely on behalf of the SELLER(S).
- D. ☐ The brokerage working with the SELLER(S) is acting as a NONAGENT for the SELLER(S).

Each party signing this document confirms that he has received, read and understood the Agency Disclosure brochure adopted or approved by the Idaho Real Estate Commission and has consented to the relationship confirmed above. In addition, each party confirms that the brokerage agency office policy was made available for inspection and review.

EACH PARTY UNDERSTANDS THAT HE IS A "CUSTOMER" AND IS NOT REPRESENTED BY A BROKERAGE UNLESS THERE IS A SIGNED WRITTEN AGREEMENT FOR AGENCY REPRESENTATION.

Listing Agent: \_\_\_\_\_

Selling Agent: \_\_\_\_\_

## **VI. Consent to Limited Dual Representation and Assigned Agency**

The undersigned have received, read and understand the Agency Disclosure Brochure. The undersigned understand that the brokerage involved in this transaction may be providing agency representation to both the buyer and the seller. The undersigned each understands that, as an agent for both buyer/client and seller/client, a brokerage will be a limited dual agent of each client and cannot advocate on behalf of one client over another, and cannot legally disclose to either client certain confidential client information concerning price negotiations, terms or factors motivating the buyer/client to buy or the seller/client to sell without specific written permission of the client to whom the information pertains. The specific duties, obligations and limitations of a limited dual agent are contained in the Agency Disclosure Brochure as required by section 54-2085, Idaho Code. The undersigned each understands that a limited dual agent does not have duty of undivided loyalty to either client.

The undersigned further acknowledge that, to the extent the brokerage firm offers assigned agency as a type of agency representation, individual sales associates may be assigned to represent each client to act solely on behalf of the client consistent with applicable duties set forth in Section 54-2087, Idaho Code. In an assigned agency situation, the designated broker (the broker who supervises the sales associates) will remain a limited dual agent of the client and shall have the duty to supervise the assigned agents in the fulfillment of their duties to their respective clients, to refrain from advocating on behalf of any one client over another, and to refrain from disclosing or using, without permission, confidential information of any other client with whom the brokerage has an agency relationship.

12. REPRESENTATION AND WARRANTIES: The Purchase and Sale Agreement shall contain such covenants, agreements, representations and warranties as Seller and Purchaser may agree upon.



13. ASSIGNMENT: Purchaser shall have the right, after giving written notice to Seller, to assign its rights under this Letter of Intent and the Purchase and Sale Agreement to any entity controlled by, or under common control of, Purchaser.

It is understood that the foregoing outline is not a binding agreement. Furthermore, it is understood that the purpose of this outline is to work toward acceptable terms by which to draft a Purchase and Sale Agreement which will be mutually acceptable to both parties.

If the above terms are acceptable to Seller, please so indicate by executing the below and returning the enclosed copy by the close of business \_\_\_\_\_.

**AGREED AND ACCEPTED:**

**PURCHASER:**

**SELLER:**

\_\_\_\_\_  
Its: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
Its: \_\_\_\_\_

Date: \_\_\_\_\_

## Appendix J

### Sample Agreement to Initiate

**THIS AGREEMENT** entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ by and between the **IDAHO DEPARTMENT OF LANDS** (hereinafter referred to as “**IDL**”), and **LAND EXCHANGE LLC** (hereinafter referred to as “**LAND EX LLC**”).

**WHEREAS, LAND EX LLC** desires to exchange approximately XXXXX acres, more or less, of **LAND EX LLC** owned land (hereinafter referred to as the “**LAND EX LLC LAND**”), and more accurately described in EXHIBIT A; and

**WHEREAS, IDL** desires to acquire the **LAND EX LLC LAND**, subject to approval by the State Land Board of Land Commissioners, through a land exchange so as to further the state’s management and use of endowment lands for the benefit of endowed institutions in accordance with ID Const. Art. 9, § 8, the Idaho Admissions Bill, § 5 (b) and Idaho Code § 58-138; and

**WHEREAS, IDL** desires to dispose of approximately XXXXX acres, more or less, of state owned endowment land, part of which is under lease (hereinafter referred to as “**ENDOWMENT LAND**”) of similar value as determined through the appraisal process by means of exchange and more accurately described in EXHIBIT A; and

**WHEREAS, LAND EX LLC** desires to acquire the **ENDOWMENT LAND** through a land exchange to provide an opportunity to obtain the necessary right-of-way for the XXXXXXXX extension as it crosses state-owned land.

**NOW THEREFORE**, in full and complete consideration of the promises contained herein, the parties hereto agree subject to final approval by the State Land Board of Land Commissioners and the **LAND EX LLC** as follows:

1. **LAND EX LLC** and **IDL** shall exchange mutually acceptable portions of the **LAND EX LLC LAND** and **ENDOWMENT LAND** of equal value as determined through the appraisal process.
2. **LAND EX LLC** shall acquire **ENDOWMENT LAND**, part of which is leased to a state lessee and lessee will need to provide his consent to the exchange.
3. **IDL** and its agents are authorized to enter on the **LAND EX LLC LAND** in order to complete inspection including Environmental Site Assessments, and appraisals necessary to pursue this exchange. **LAND EX LLC** and its agents are authorized to enter on the **ENDOWMENT LAND** in order to complete inspection including Environmental Site Assessments, and appraisals necessary to pursue this exchange.
4. **IDL** or **LAND EX LLC**, in its discretion, may determine that a Phase I Environmental Site Assessment of the **LAND EX LLC LAND** or **ENDOWMENT LAND** is necessary. **IDL** and **LAND EX LLC** agree to equally share the cost thereof, provided however, before obtaining a Phase I Environmental Site Assessment, **IDL** and **LAND EX LLC** shall agree on the need and the estimated cost thereof. **LAND EX LLC** and **IDL** shall thereupon notify the other party of its agreement to equally share the cost thereof, or **IDL** or **LAND EX LLC** may elect to terminate this Agreement, whereupon this Agreement shall terminate with no further

obligation by either party other than costs incurred up to the point of such termination as allocated herein.

5. Upon completion of the inspections, including any Phase I Environmental Site Assessment, **IDL** shall determine if Hazardous Substances or other unacceptable conditions on the **LAND EX LLC LAND** are such that **IDL** does not wish to continue the exchange contemplated hereunder. In such event, **IDL** shall give **LAND EX LLC** notice of termination of this Agreement whereupon this Agreement shall terminate with no further obligation by either party other than costs incurred up to the point of such termination as allocated herein. In the event **IDL** elects to continue with the exchange, **IDL** shall notify **LAND EX LLC** in writing of any Hazardous Substances or other unacceptable conditions on the **LAND EX LLC LAND** for which **IDL** will require remediation. Upon receipt of such notice, **LAND EX LLC** shall have the option of remediating such condition to **IDL's** satisfaction, or, if **LAND EX LLC** is unable or unwilling to remediate such condition, this Agreement shall terminate with no further obligation by either party other than costs incurred to the date of termination as allocated herein. Any removal and remedial actions shall be conducted and completed in accordance with all applicable federal, state, and local laws and regulations.
6. Upon completion of the inspections, including any Phase I Environmental Site Assessment, **LAND EX LLC** shall determine if Hazardous Substances or other unacceptable conditions on the **ENDOWMENT LAND** are such that **LAND EX LLC** does not wish to continue the exchange contemplated hereunder. In such event, **LAND EX LLC** shall give **IDL** notice of termination of this Agreement whereupon this Agreement shall terminate with no further obligation by either party other than costs incurred up to the point of such termination as allocated herein. In the event **LAND EX LLC** elects to continue with the exchange, **LAND EX LLC** shall notify **IDL** in writing of any Hazardous Substances or other unacceptable conditions on the **ENDOWMENT LAND** for which **LAND EX LLC** will require remediation. Upon receipt of such notice, **IDL** shall have the option of remediating such condition to **LAND EX LLC's** satisfaction, or, if **IDL** is unable or unwilling to remediate such condition, this Agreement shall terminate with no further obligation by either party other than costs incurred to the date of termination as allocated herein. Any removal and remedial actions shall be conducted and completed in accordance with all applicable federal, state, and local laws and regulations.
7. **IDL** shall contract for the appraisal of both the **LAND EX LLC LAND** and the **ENDOWMENT LAND**, with an independent third party appraiser acceptable to **LAND EX LLC** and **IDL**, in accordance with **IDL** standard procedures. The appraisals for the **ENDOWMENT LAND** and **LAND EX LLC LAND** shall be complete summary appraisal reports reflecting the market value of the lands to be appraised based on the highest and best use of the lands as though vacant, subject to any encumbrances and reservations of record. The completed appraisal for all land involved in the exchange shall be administered and reviewed by **IDL** and must be approved and accepted by both **IDL** and **LAND EX LLC**. The values set forth in the appraisal report shall serve as the value basis for the proposed exchange. **LAND EX LLC** agrees to pay the cost of the contract appraisal for both the **LAND EX LLC LAND** and the **ENDOWMENT LAND**.
8. It is understood that upon approval of the appraised market value by **IDL** and **LAND EX LLC** and completion of the terms and conditions set forth in this agreement; the parties will, by signed Memorandum, set forth the market value, closing date, acceptable encumbrances or exceptions to title, and any additional terms and conditions agreed upon

by the parties. At such time, this Agreement, as supplemented by such Memorandum, shall constitute an Exchange Agreement binding on all parties.

9. In the event **LAND EX LLC** and **IDL** are unable to agree upon valuations of the **ENDOWMENT LAND** and the **LAND EX LLC LAND** or agree on property to exchange, this Agreement may be terminated by either party, at which time, this Agreement shall terminate with no further obligation by either party other than costs incurred up to the point of such termination as allocated herein.
10. It is understood that prior to the full execution of the signed Memorandum described in #8 above, and any necessary approvals of the Idaho Land Board of Land Commissioners and the **LAND EX LLC** with respect to the contemplated exchange of the **LAND EX LLC LAND** for **ENDOWMENT LAND**, no action taken shall create or establish any contractual or other obligations to sell, buy, or exchange as against **IDL** or **LAND EX LLC**. Either **IDL** or **LAND EX LLC** may withdraw from the exchange proposal at any time prior thereto.
11. **IDL** and **LAND EX LLC** shall advertise, hold a public hearing on the proposed land exchange, and conduct any other procedures as required by state law and policy, including but not limited to notifying legislative committees of proposed land exchange. The public hearing will be paid for by **IDL**.
12. **LAND EX LLC** shall provide **IDL** with a commitment for title insurance showing the condition of the title to the **LAND EX LLC LAND**. **LAND EX LLC** shall also disclose to **IDL** all unrecorded liens or encumbrances or potential liens or encumbrances to which the **LAND EX LLC LAND** may be subject.
13. **LAND EX LLC** approval shall be required in order to complete the exchange. In the event **LAND EX LLC** rejects approval of the exchange contemplated hereunto, this Agreement shall terminate with no further obligation of either party other from costs incurred up to the point of such termination as allocated herein.
14. **LAND EX LLC** shall provide title insurance in the name of the State of Idaho Department of Lands.
15. **IDL** shall provide **LAND EX LLC** with a certificate of title showing the condition of the title to the **IDL LAND**. **IDL** shall also disclose to **LAND EX LLC** all unrecorded liens or encumbrances or potential liens or encumbrances to which the **ENDOWMENT LAND** may be subject.
16. **LAND EX LLC** will survey and monument the property corners, and provide a written legal description for the **ENDOWMENT LAND** and **LAND EX LLC LAND** to be exchanged.
17. **IDL** shall seek final approval from the State Land Board of Land Commissioners to complete the proposed land exchange. Said Land Board approval shall be required in order to complete the exchange. In the event the Land Board rejects approval of the exchange contemplated hereunto, this Agreement shall terminate with no further obligation of either party other than costs incurred up to the point of such termination as allocated herein.
18. **IDL** shall convey title of the **ENDOWMENT LAND** to the **LAND EX LLC** by State of Idaho

Deed. **LAND EX LLC** shall convey title of the **LAND EX LLC LAND** by Warranty Deed.

19. Prior to closing, all risk of loss shall remain with the party holding title to the property as of the time of occurrence of any such loss. In addition, should either the **LAND EX LLC LAND** or the **ENDOWMENT LAND** be materially damaged by fire or other cause prior to closing, this Agreement shall be voidable at the option of **IDL** or **LAND EX LLC**.
20. Neither party shall record this Agreement nor any copy hereof without the express written consent of the other parties.
21. This Agreement may be modified in writing by mutual agreement of the parties prior to closing and any such modifications shall be attached hereto as attachments and incorporated herein by reference.

**IN WITNESS WHEREOF**, the parties hereto have executed this agreement the day and year first written above.

\_\_\_\_\_  
**John Doe, President**  
**Land Exchange, LLC.**

\* \* \* \* \*

STATE OF IDAHO     )  
                                  ) ss.  
County of Ada )

On this \_\_\_\_\_ day of \_\_\_\_\_, 2007, before me, a Notary Public in and for said State, personally appeared **John Doe**, known or identified to me, to be the President, Land Exchange, LLC and acknowledged to me to be the person that executed the same.

**IN WITNESS WHEREOF**, I have hereunto set my hand and seal on the day and year written above.

\_\_\_\_\_  
NOTARY PUBLIC for IDAHO  
Residing at \_\_\_\_\_  
My Commission expires: \_\_\_\_\_

**IN WITNESS WHEREOF**, the parties hereto have executed this agreement the day and year first written above.

\_\_\_\_\_  
xxxxxxx, Area Manager  
Idaho Department of Lands

\* \* \* \* \*

STATE OF IDAHO     )  
                              ) ss.  
County of Ada )

On this \_\_\_\_\_ day of \_\_\_\_\_, 2007, before me, a Notary Public in and for said State, personally appeared xxxxxx, known or identified to me, to be the Area Manager, Idaho Department of Lands, and acknowledged to me to be the person that executed the same.

**IN WITNESS WHEREOF**, I have hereunto set my hand and seal on the day and year written above.

\_\_\_\_\_  
NOTARY PUBLIC for IDAHO  
Residing at \_\_\_\_\_  
My Commission expires: \_\_\_\_\_

**STATE OF IDAHO/LAND EXCHANGE LLC EXCHANGE  
LEGAL DESCRIPTION**

**STATE OF IDAHO LAND**

A PARCEL OF LAND LOCATED in the \_\_\_\_\_ COUNTY, IDAHO, being more particularly described as follows:

**LAND EXCHANGE LLC LAND**

A PARCEL OF LAND LOCATED in the \_\_\_\_\_ COUNTY, IDAHO, being more particularly described as follows:

## Appendix K Sample Purchase Sale Agreement

### REAL ESTATE PURCHASE AND SALE AGREEMENT

This Real Estate Purchase and Sale Agreement (the "Agreement") is made effective this \_\_\_\_ day of \_\_\_\_\_, by and between \_\_\_\_\_ ("Seller") and \_\_\_\_\_ ("Buyer") for the purchase and sale of that certain real property commonly known as \_\_\_\_\_ and situated in \_\_\_\_\_ County, \_\_\_\_\_, legally described on the attached Exhibit A which exhibit is made a part hereof, together with all rights appurtenant thereto, including water rights and all claims to water, all buildings, fixtures, other improvements located thereon, all entitlements and all reports, studies, and surveys of the Seller which pertain to the real property described herein (the "Property").

1. **Purchase Price; Payment.** The total purchase price for the Property is \_\_\_\_\_ Dollars (\$\_\_\_\_\_) which amount, including the Deposit, shall be paid as follows:

#### [CHECK THE CORRECT BOX]

☐ 1.1 In cash upon closing; or

☐ 1.2 \_\_\_\_\_ Dollars (\$\_\_\_\_\_) paid by a new loan to be obtained from a bank or other financial institution, from which Buyer is able to obtain a firm commitment for financing before the end of the Feasibility Period (effective to the date of closing), which loan contains the following terms or is otherwise acceptable to Buyer in its sole discretion: (i) bearing interest at a fixed rate of not more than \_\_\_\_\_ percent (\_\_\_\_%) per annum, (ii) with a maximum of \_\_\_\_\_ (\_\_\_\_) points payable at funding, (iii) repayable in monthly installments of principal and interest amortized over a \_\_\_\_\_ (\_\_\_\_) year term with a maturity not sooner than \_\_\_\_\_ (\_\_\_\_) years from the date of funding, secured by a first deed of trust encumbering the Property. The balance of the purchase price, including the Deposit, shall be paid at closing in cash; or

☐ 1.3 By Buyer's assumption and agreement to pay and perform in accordance with their terms, that certain promissory note and deed of trust, dated \_\_\_\_\_, covering the Property made by \_\_\_\_\_ as Grantor in favor of \_\_\_\_\_ as Trustee and \_\_\_\_\_ as Beneficiary, and recorded on \_\_\_\_\_ as Instrument Number \_\_\_\_\_ in \_\_\_\_\_ County, Idaho, the approximate unpaid principal balance of which at the date of closing will be \_\_\_\_\_ Dollars (\$\_\_\_\_\_). Buyer agrees to execute an assumption agreement if required by the holder of such encumbrance (the "Holder"), and Buyer's obligations under this Agreement are conditioned upon Buyer obtaining any necessary approvals for such assumption from the Holder. Seller/Buyer **[circle one]** shall pay all assumption fees and charges payable to the Holder. Notwithstanding any other provision hereof, if the Holder increases the rate of interest on the note secured by such encumbrance to a rate greater than \_\_\_\_\_ percent (\_\_\_\_%) per annum, or does not give written consent to the sale, prior to the expiration of the Feasibility Period, Buyer may, at its option, terminate this agreement and recover the Deposit. The balance of the purchase price, including the Deposit, shall be paid at closing in cash; or

☐ 1.4 By Buyer's executing and delivering to Seller a promissory note and deed of trust in a form to be mutually agreed upon by Buyer and Seller in the amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_). The balance of the purchase price, including the Deposit, shall be paid at closing in cash.

2. **Included Items.** All easement rights, mineral rights, other appurtenances, water and water rights appurtenant to or used on the Property including, but not limited to, any right Seller may have to receive natural flow and/or stored water delivered through any ditch, canal or water company's facilities, or under entitlements held by a third party for use on the Property, and all shares, certificates, and other documents evidencing such water rights are included in this sale. The following items are also specifically included in this sale: \_\_\_\_\_

\_\_\_\_\_. The following items are specifically excluded from this sale: \_\_\_\_\_  
\_\_\_\_\_.

3. **Earnest Money Deposit.** Within five (5) days from the date hereof, Buyer shall deposit with \_\_\_\_\_ (the "Closing Agent") its check in the amount of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) as an earnest money deposit ("the Deposit"), payable to Closing Agent. The Deposit, together with any interest thereon which shall accrue to the benefit of Buyer, shall be applied against the purchase price at closing.

4. **Buyer's Feasibility Study.**

4.1 **Feasibility Period.** Buyer shall have \_\_\_\_\_ (\_\_\_\_\_) days from the date of execution of this Agreement (the "Feasibility Period") to conduct a general feasibility study of the Property. Buyer and its officers, agents, employees, consultants or contractors shall have the right to enter upon the Property for the purposes of conducting such studies, inspections, surveys or evaluations as Buyer deems appropriate. Buyer shall have the right as part of such inspection to inspect the Property, as Buyer shall deem appropriate, including the interior of all buildings, to hire such engineers, architects and other consultants to inspect the Property at Buyer's cost, including the roofs, all mechanical equipment and utility facilities, to inspect all accounting records of Seller regarding the Property and its operation, and to conduct soil, environmental and similar tests and studies at Buyer's cost.

4.2 **Satisfaction or Waiver of Buyer's Feasibility Study.** On or before expiration of the Feasibility Period, Buyer shall deliver one of the following notices to the Closing Agent with a copy to Seller and the Brokers:

4.2.1 **Satisfactory.** A notice stating that Buyer has completed its feasibility study, and elects to proceed to closing this transaction on the remaining terms hereof and contingent on the final approval by the State Land Board of Land Commissioners.

4.2.2 **Unsatisfactory.** A notice stating that Buyer has completed its feasibility study and found, in Buyer's sole discretion, the property unsuitable, or for any other reason has determined this Agreement unacceptable, and therefore elects to terminate this Agreement. On giving such notice of termination to Closing Agent, the Deposit shall be returned immediately to Buyer and Buyer and Seller shall be relieved of all obligations hereunder, and this Agreement will be terminated.

4.2.3 **Failure to Give Notice.** If neither such notice is given within the Feasibility Period, this Agreement may be terminated by either party upon notice to the other party; provided that Buyer may, within ten (10) days of Buyer's receipt of Seller's termination notice, provide Seller with notice that the feasibility study is satisfactory, in which case this Agreement will remain in full force and effect. If this Agreement is terminated pursuant to this paragraph, the Deposit shall be returned to Buyer, and Buyer and Seller shall be relieved of all obligations hereunder, and this Agreement will be terminated.

4.3 **Review of Documents.** Seller shall within ten (10) days from the date of this Agreement, provide Buyer with copies of the following materials which may be in the possession of Seller: all leases, loan documents, plans, surveys, documents, studies, soils engineering reports, accounting records (for the previous two years), as-built utility drawings, covenants, conditions, restrictions and related instruments, contracts or documents concerning the Property, including all written correspondence with the applicable governmental agencies related to the Property. Seller agrees, at Seller's cost, to request and/or cooperate to obtain such materials not in Seller's possession for Buyer.

4.4 **Buyer's Indemnity.** Buyer agrees, at its sole expense, to cause the Property to be restored to substantially the same condition it was in prior to such entry. In addition, Buyer agrees to indemnify, defend and hold Seller, its successors and assigns harmless for, from and against and to reimburse Seller with respect to all claims for bodily injury, personal injury or property damage as well as any professional services lien, which may be asserted by reason of the activities of Buyer or its agents or designees during the investigations.



## 5. Closing.

**5.1 Time for Closing; Termination Date; Multiple Closings.** If Buyer approves the Property pursuant to Section 4 of this Agreement and contingent on approval by the State Land Board of Land Commissioners, the sale shall be closed in the office of the Closing Agent on or before . At Buyer's option, closing may occur earlier upon ten (10) days' notice to Seller. Buyer may extend the closing for up to two separate thirty (30) day periods if needed in order to obtain its financing or to accommodate Buyer's exchange, if any. At closing, Buyer and Seller shall deposit in escrow with Closing Agent all instruments, documents and monies necessary to complete the sale in accordance with this Agreement. As used herein, "closing" or "date of closing" means the date on which all appropriate documents are recorded and proceeds of sale are available for disbursement to Seller. Funds held in reserve accounts pursuant to escrow instructions shall be deemed, for purposes of this definition, as available for disbursement to Seller. If requested by Buyer, Seller agrees to permit multiple closings for portions of the Property, with one or more purchasers, which may or may not include the Buyer, so long as the purchase price is paid in full and all closings for portions of the Property occur simultaneously.

**5.2 Prorations; Closing Costs.** Taxes and assessments for the current year, collected rents, interest, prepaid premiums for insurance to be assigned to Buyer, if any, utilities constituting liens and other items of income and direct expense relating to the Property (including without limitation existing service or supply contracts, owner's association dues, etc.) shall be prorated as of the date of closing. On closing Seller either will assign and transfer to Buyer or give Buyer a credit in the amount of all tenant deposits, if any, held by Seller. Seller shall pay the premium for the title insurance policy, in the form set forth in Section 7, the cost of recording the deed of trust given to Seller hereunder, if any, and one-half (1/2) of Closing Agent's escrow fee. Buyer shall pay the cost of recording the general warranty deed, the amount of any assumption fees, if any, and one-half (1/2) of Closing Agent's escrow fee.

**5.3 Possession.** Buyer shall be entitled to possession of the Property upon closing.

**5.4 Documents To Be Delivered by Seller at Closing.** On the date of closing, Seller shall have executed, or caused to be executed, and delivered to the Closing Agent the following documents, if required by Buyer, in a form reasonably acceptable to Buyer and Seller:

- (a) General warranty deed;
- (b) Bill of sale;
- (c) Assignment of warranties and guaranties (as provided in Section 11 of this Agreement);
- (d) Assignment of leases and notices to tenants;
- (e) Certified rent roll;
- (f) Estoppel letters from all tenants of the Property dated within thirty (30) days of the closing date confirming that the leases are in full force and effect and unmodified, except as specified therein, that the assignment of the leases to Buyer does not constitute a default under the leases, and that all obligations of the lessor required to be performed to the date of the estoppel letter have been performed;
- (g) Subordination, non-disturbance and attornment agreements from all tenants of the Property in the form required by Buyer's lender, and such other documents as Buyer's lender may reasonably request;
- (h) Original lease agreements for all leases on the Property;
- (i) FIRPTA (as provided in Section 9.3 of this Agreement);
- (j) No-Lien affidavit (as provided in Section 9.2 of this Agreement);
- (k) Any other instruments or documents reasonably requested by Buyer; and
- (l) Other: \_\_\_\_\_

**6. Conveyance of Title.** On closing, Seller shall execute and deliver to Buyer a general warranty deed conveying good and marketable title to the Property free and clear of any defects or encumbrances except for the lien of

real estate taxes for the current calendar year not yet due and payable and those defects or encumbrances approved by the Buyer pursuant to Section 7 (the "Permitted Exceptions").

**7. Title Insurance.** Within ten days of the date of this Agreement, Seller will provide Buyer with a preliminary commitment (the "Commitment") for title insurance with standard/extended **[circle one]** coverage issued by a title company acceptable to Buyer, with copies of all exceptions set forth therein. Buyer may notify Seller of its approval or disapproval of any exception shown in the Commitment on or before the date of closing, by written notice (the "Title Notice"). If Buyer provides Seller with a Title Notice more than ten (10) days prior to closing, Seller shall, within ten (10) days after the receipt of such Title Notice, remove the disapproved exceptions or give reasonable written assurances to Buyer that such disapproved exception(s) will be removed on or before closing. If Seller fails to remove such exceptions or provide assurances to Buyer within such ten (10) day period, Buyer may, at its option, terminate this Agreement by giving notice of such termination to Seller. If Buyer provides Seller with a Title Notice within the last ten (10) days prior to closing, Seller shall have until the date of closing to remove the disapproved exceptions. If Buyer does not provide a Title Notice to Seller on or before closing, this Agreement shall terminate unless the parties close the sale, in which case title shall be deemed approved. Upon termination of this Agreement, Seller or Closing Agent shall refund the Deposit and all rights and obligations of Seller and Buyer under this Agreement shall terminate and be of no further force or effect.

Buyer shall not be required to close, and the Deposit shall be returned to Buyer, if any exception disapproved by Buyer as herein provided cannot be removed by closing; provided, however, that Buyer may elect to close in spite of any disapproved exceptions and close on the remaining terms, but such closing shall not be a waiver of Seller's obligation to provide title as approved by the Buyer. Notwithstanding the foregoing, Seller shall remove any defect or encumbrance attaching by, through or under Seller after the date of this Agreement. Exceptions to be discharged by Seller may be paid out of the purchase price at closing.

As soon as available after closing, Seller will provide to Buyer a policy of title insurance pursuant to the Commitment, dated as of the closing date and insuring Buyer in the amount of the purchase price against loss or damage by reason of defect in Buyer's title to the Property subject only to the printed exclusions and general exceptions appearing in the policy form; the Permitted Exceptions, encumbrances in favor of Seller granted by Buyer to secure any portion of the purchase price, if any, and real property taxes and assessments that are not delinquent.

**8. Risk of Loss; Insurance; Condemnation.** Risk of loss of or damage to the Property shall be borne by Seller until the date of closing. Thereafter, Buyer shall bear the risk of loss. In the event of material loss of or damage to the Property prior to the date upon which Buyer assumes the risk of loss, Seller shall not be obligated to restore the Property nor pay damages to Buyer by reason of such loss or damage, and Buyer may terminate this Agreement by giving notice of such termination to Seller and Closing Agent, and such termination shall be effective and the Deposit shall be refunded to Buyer within ten (10) days thereafter; provided, however, that such termination shall not be effective if Seller agrees in writing within such ten (10) day period to restore the Property substantially to its present condition by the closing date; and provided further that Buyer may elect to purchase the Property in the condition existing on the date of closing and on closing Seller shall assign to Buyer the proceeds of any policy of insurance carried by or for the benefit of Seller covering any loss or damage to the Property occurring after the date hereof and prior to the closing date. Seller will submit an insurance claim and use its best efforts to obtain insurance proceeds. On closing Seller will pay to Buyer, outside of escrow, the entire amount of insurance proceeds received prior to closing from such claim.

Until closing, Seller shall maintain its existing insurance policy with premiums prepaid on the Property insuring any improvements located on the Property against loss by fire, lightning and all other risks customarily covered issued in the state in which the Property is located.

If the Property is or becomes the subject of a condemnation proceeding prior to closing, Buyer may, at its option, terminate this Agreement by giving notice of such termination to Seller on or before the date of closing, and upon such termination the Deposit shall be returned to Buyer and this Agreement shall be of no further force or effect; provided, however, that Buyer may elect to purchase the Property, in which case the total purchase price shall be reduced by the total of any condemnation award received by Seller at or prior to closing. On closing, Seller shall assign to Buyer all Seller's rights in and to any future condemnation awards or other proceeds payable or to become payable by reason of any taking. Seller agrees to notify Buyer of eminent domain proceedings within five (5) days after Seller learns thereof.

**9. Seller's Representations and Warranties.** In addition to other representations contained in this Agreement and in Exhibit B, which exhibit is attached hereto and made a part hereof, Seller represents and warrants to Buyer as of the date of closing that:

**9.1 Authority.** Seller, and the person signing on behalf of Seller, has full power and authority to execute this Agreement and perform Seller's obligations hereunder, and if Seller is a corporation, all necessary corporate action to authorize this transaction has been taken;

**9.2 Parties In Possession; Liens.** The Property is not subject to any leases, tenancies or rights of persons in possession except as have been disclosed to Buyer in writing. Prior to closing Seller shall execute and deliver to the Closing Agent or Buyer an executed No-Lien Affidavit confirming the nonexistence of any liens or rights to any liens on the Property; and

**9.3 Non-foreign Status.** Seller is not a "foreign person" for purposes of Section 1445 of the Internal Revenue Code. Prior to closing, Seller shall execute and deliver to Closing Agent an affidavit in order to meet the Foreign Investment in Real Property Tax Act ("FIRPTA") requirements of I.R.C. § 1445.

**9.4 No Hazardous Waste; Indemnity.** Seller has not received notification of any kind from any agency suggesting that the Property is or may be targeted for a Superfund cleanup. To the best of Seller's knowledge, neither the Property nor any portion thereof is or has been used as a landfill, waste storage or disposal site, or for the storage or disposal of any chemicals, petroleum or oil products, or hazardous or dangerous wastes or substances. Seller agrees to indemnify and hold Buyer harmless from and against any and all loss, damage, claims, penalties, liability, suits, costs and expenses (including, without limitation, reasonable attorneys' fees) and also including without limitation, costs of remedial action or cleanup, suffered or incurred by Buyer arising out of or related to any such use of the Property, or portion thereof, occurring prior to the conveyance to Buyer, about which Seller knew or reasonably should have known prior to closing.

**10. Buyer's Authority.** Buyer represents and warrants to Seller that at the date of execution hereof and at the date of closing Buyer, and the person signing on behalf of Buyer, has full power and authority to execute this Agreement and to perform Buyer's obligations hereunder, and if Buyer is a corporation, all necessary corporate action to authorize this transaction has been taken.

**11. Assignment of Warranties and Service and Supply Contracts.** On closing, Seller shall assign to Buyer all rights and benefits, if any, now or hereafter held by Seller under any warranties of any kind, express or implied, made or furnished by the manufacturers, suppliers or vendors of any material used in construction of the improvements on the Property or any furniture, appliances or equipment to be purchased by Buyer hereunder, and shall assign to Buyer all rights and benefits or under any present or future contract for services or supplies used in or about the Property, such assignments to be self-operative without the need for any further written document; provided, however, that at Buyer's request Seller shall execute any instruments and cooperate with Buyer as reasonably required to evidence or enforce such assignments. Seller will sign any documents, join in any action, and otherwise cooperate with Buyer in enforcing any such warranties or contracts, provided that such documents and cooperation does not result in any cost or liability to Seller. Seller hereby designates and appoints Buyer as its true and lawful attorney, with full power of substitution in its name, to demand, collect, sue upon, receipt for, and otherwise dispose of or deal with any claims, payments, settlements or compromises which may be made with respect to any warranties transferred to Buyer hereunder. Buyer shall not be obligated to accept or assume Seller's obligations under any supply or service contract hereby assigned.

**12. Buyer's Conditions Precedent.** Buyer's obligation to close this transaction is subject to and conditioned upon satisfaction or written waiver by Buyer of the following conditions precedent on or before the date of closing:

(a) If the payment method selected for this purchase includes third party financing as set forth in Section 1.2 of this Agreement, Buyer shall have obtained financing satisfactory to Buyer in accordance with Section 1.2.

(b) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_;

(c) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
and

(d) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_.

If the foregoing conditions have been satisfied or waived on or before the date of closing, Buyer shall provide Seller with written notice of such satisfaction or waiver by the closing date. If Buyer does not deliver such notice to Seller on or before the closing date, this Agreement shall terminate unless the parties close the sale, in which case the conditions will be deemed satisfied. If this Agreement is terminated pursuant to this Section, the Deposit will be returned to Buyer and the parties shall have no further obligations under this Agreement.

**13. Condition of Property.** Buyer acknowledges that it has the right to inspect the Property as provided in Section 4 of this Agreement, and is purchasing the Property on an "as-is" basis without any warranties, express or implied, from Seller, except as provided in this Agreement (including Exhibit B). Buyer further acknowledges that Buyer is not relying upon any statement or representations by the broker(s) or any representatives of the broker(s) or Seller which are not expressly set forth in this Agreement.

**14. Default; Attorneys Fees.** Time is of the essence of this Agreement. If Seller defaults hereunder, Buyer may seek specific performance of this Agreement, damages or rescission and Buyer shall be entitled to a return of the Deposit on demand, and Seller hereby releases all claims to the Deposit in the event of such default. If Buyer defaults, the Deposit shall be forfeited on demand by Seller as liquidated damages and upon payment thereof to Seller, Buyer shall have no further obligations or liability hereunder. In any suit, action or appeal therefrom, to enforce this Agreement or any term or provision hereof, or to interpret this Agreement, the prevailing party shall be entitled to recover its costs incurred therein (and on appeal), including reasonable attorneys' fees.

**15. Notices.** Any notice under this Agreement shall be in writing and be delivered in person or by public or private courier service (including U.S. Postal Service Express Mail) or certified mail or by facsimile. Any notice given by certified mail shall be sent with return receipt requested. Any notice given by facsimile shall be verified by telephone. All notices shall be addressed to the parties at the addresses set forth in this Agreement, or at such other addresses as the parties may from time to time direct in writing. Any notice shall be deemed to have been given on the earlier of: (a) actual delivery or refusal, (b) three (3) days after mailing by certified mail, or (c) the day facsimile delivery is verified.

**16. Survival of Warranties.** The terms, covenants, representations and warranties shall not merge in the deed of conveyance, but shall survive closing.

**17. Commissions.** Buyer and Seller understand and agree that \_\_\_\_\_  
\_\_\_\_\_ are involved in this transaction on behalf of Buyer and that \_\_\_\_\_  
\_\_\_\_\_ are involved in this transaction on behalf of Seller (collectively the "Brokers"), and that no other broker or agent was the procuring cause of the transaction contemplated by this Agreement. Buyer and Seller each agree to protect, defend, indemnify and hold harmless the other, their successors and assigns, from and against any and all obligation, cost, expense and liability, including, without limitation, all reasonable attorneys' fees and court costs arising out of any claim for brokerage commission, finder's commission or other such compensation as a result of the dealings of Buyer and Seller in connection with this transaction other than such fees as may be due the agent of the party claiming such indemnification.

## VII. Representation Confirmation

Check one (1) box in Section 1 below and one (1) box in Section 2 below to confirm that in this transaction, the brokerage(s) involved had the following relationship(s) with the BUYER(S) and SELLER(S).

**Section 1:**

- A. ☐ The brokerage working with the BUYER(S) is acting as an AGENT for the BUYER(S).
- B. ☐ The brokerage working with the BUYER(S) is acting as a LIMITED DUAL AGENT for the BUYER(S), without an ASSIGNED AGENT.
- C. ☐ The brokerage working with the BUYER(S) is acting as a LIMITED DUAL AGENT for the BUYER(S), and has an ASSIGNED AGENT acting solely on behalf of the BUYER(S).
- D. ☐ The brokerage working with the BUYER(S) is acting as a NONAGENT for the BUYER(S).

**Section 2:**

- A. ☐ The brokerage working with the SELLER(S) is acting as an AGENT for the SELLER(S).
- B. ☐ The brokerage working with the SELLER(S) is acting as a LIMITED DUAL AGENT for the SELLER(S), without an ASSIGNED AGENT.
- C. ☐ The brokerage working with the SELLER(S) is acting as a LIMITED DUAL AGENT for the SELLER(S), and has an ASSIGNED AGENT acting solely on behalf of the SELLER(S).
- D. ☐ The brokerage working with the SELLER(S) is acting as a NONAGENT for the SELLER(S).

Each party signing this document confirms that he has received, read and understood the Agency Disclosure brochure adopted or approved by the Idaho Real Estate Commission and has consented to the relationship confirmed above. In addition, each party confirms that the brokerage agency office policy was made available for inspection and review. EACH PARTY UNDERSTANDS THAT HE IS A "CUSTOMER" AND IS NOT REPRESENTED BY A BROKERAGE UNLESS THERE IS A SIGNED WRITTEN AGREEMENT FOR AGENCY REPRESENTATION.

## VIII. Consent to Limited Dual Representation and Assigned Agency

The undersigned have received, read and understand the Agency Disclosure Brochure. The undersigned understand that the brokerage involved in this transaction may be providing agency representation to both the buyer and the seller. The undersigned each understands that, as an agent for both buyer/client and seller/client, a brokerage will be a limited dual agent of each client and cannot advocate on behalf of one client over another, and cannot legally disclose to either client certain confidential client information concerning price negotiations, terms or factors motivating the buyer/client to buy or the seller/client to sell without specific written permission of the client to whom the information pertains. The specific duties, obligations and limitations of a limited dual agent are contained in the Agency Disclosure Brochure as required by section 54-2085, Idaho Code.

The undersigned each understands that a limited dual agent does not have duty of undivided loyalty to either client. The undersigned further acknowledge that, to the extent the brokerage firm offers assigned agency as a type of agency representation, individual sales associates may be assigned to represent each client to act solely on behalf of the client consistent with applicable duties set forth in Section 54-2087, Idaho Code. In an assigned agency situation, the designated broker (the broker who supervises the sales associates) will remain a limited dual agent of the client and shall have the duty to supervise the assigned agents in the fulfillment of their duties to their respective clients, to refrain from advocating on behalf of any one client over another, and to refrain from disclosing or using, without permission, confidential information of any other client with whom the brokerage has an agency relationship.

## IX. Responsible Broker

The RESPONSIBLE BROKER in this transaction is xxxxx, Designated Broker for Thornton Oliver Keller Commercial Real Estate, LLC.

Listing Agency:  
Agent:  
Address:  
Phone:

Selling Agency:

Agent:

Address:

Phone:

**18. Counterparts.** This Agreement may be executed in any number of counterparts for the convenience of the parties, all of which, when taken together and after execution by all parties hereto, shall constitute one and the same Agreement.

**19. General.** This is the entire agreement of Buyer and Seller with respect to the matters covered hereby and supersedes all prior agreements between them, written or oral. This Agreement may be modified only in writing, signed by Buyer and Seller. Any waivers hereunder must be in writing. No waiver of any right or remedy in the event of default hereunder shall constitute a waiver of such right or remedy in the event of any subsequent default. This Agreement shall be governed by the laws of the state in which the Property is located. This Agreement is for the benefit only of the parties hereto and shall inure to the benefit of and bind the heirs, personal representatives, successors and assigns of the parties hereto. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision hereof.

**20. Assignment.** Buyer may assign its rights hereunder to any person(s) or entities.

**21. 1031 Exchange.** Each party will cooperate with the other to allow each party to effect an exchange qualified for tax deferral under Internal Revenue Code section 1031, provided, such cooperation shall not delay the closing and shall not require or result in any cost, liability or expense to the party so cooperating.

**22. Seller Cooperation.** Seller will cooperate in connection with Buyer's efforts to obtain all necessary permits, consents and approvals of all governmental agencies having jurisdiction over the Property as required in connection with zoning, design review and the construction of any improvements on the Property; provided, however, that Seller will not be required to, nor will Buyer enter into any agreement which serves to, place any permanent obligation, covenant or burden upon the Seller or the Property prior to closing without Seller's consent, not to be unreasonably withheld or delayed. Any and all expenses incurred by Buyer in conjunction with these matters will be Buyer's responsibility.

**23. Additional Provisions.** Any additional provisions are set forth in the Addendum to this Agreement, which Addendum is attached hereto and made a part hereof.

**24. Exhibits.** Exhibits A through C and the Addendum attached hereto are incorporated herein as if fully set forth.

**25. Acceptance.** Buyer's offer is made subject to the acceptance of Seller on or before \_\_\_\_\_ am/pm [circle one] of \_\_\_\_\_. If Seller does not accept this Agreement within the time specified, the Deposit shall be refunded to Buyer on demand.

[end of text]

Executed effective the date first set forth above.

**SELLER:** \_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Seller's Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

**BUYER:**

\_\_\_\_\_  
\_\_\_\_\_

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Buyer's Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

## EXHIBIT A

### Legal Description of the Property

## EXHIBIT B

### Additional Representations and Warranties

**Seller's Representations and Warranties.** In addition to other representations set forth in this Agreement, Seller represents and warrants to Buyer as of the date of closing that:

1. **No Violation of Law.** Neither the Property nor the sale of the Property violates any applicable statute, ordinance or regulation, nor any order of any court or any governmental authority or agency, pertaining to the Property or the use occupancy or condition thereof;
2. **No Defects.** Seller is unaware of any material defect in the Property;
3. **No Liens.** All persons and corporations supplying labor, materials and equipment to the Property have been paid and there are no claims of liens;
4. **No Assessments.** There are no currently due and payable assessments for public improvements against the Property and Seller is not aware of any local improvement district or other taxing authority having jurisdiction over the Property in the process of formation;
5. **Legal Access.** The Property has legal access to all streets adjoining the Property;
6. **Title.** Seller has good and marketable title to the property;
7. **Utilities.** All utilities, including but not limited to gas, electricity, telephone, water, and sanitation and storm sewers, are completed to one or more property lines of the Property, in size sufficient to service the Property. All such utilities are over valid easements of record or dedicated rights of way that have been accepted by local authorities having jurisdiction thereof;
8. **Flood; Drainage.** The Property is or is not **[circle one]** located in an area identified by the Secretary of Housing and Urban Development or other governmental agency as an area having special flood hazards, and no separate areas within the Property are required to be set aside for water retention, "green belt," open space or drainage;
9. **Water Retention; Drainage.** All water retention and storm drainage facilities, streets, curbs, gutters, sidewalks and utilities have been or will be completed in accordance with applicable plans, specifications and permits, and will have been approved by the applicable governmental entity prior to closing;
10. **Development Fees.** Seller has no notice or knowledge of any agreement, requirement, request or demand with or by any governmental entity to the effect that the owner of the Property shall or may be required to give consideration such as, without limitation, payment of any deferred zoning or development fees, contributions to school districts, park districts, local improvement districts or similar agencies, or dedication of any portion of the Property, as a condition to the granting of development or building permits for the Property;
11. **Storm/Sewer Facilities.** Seller has no knowledge of any restriction, moratorium, regulation or policy that would prevent or impede connection of present or future improvements on the Property to the storm, sanitary sewer, or water facilities, or that would impose an extraordinary fee for such connection;
12. **Contiguity.** The Property consists of one contiguous parcel of at least \_\_\_\_\_ square feet or \_\_\_\_\_ acres;



13. **Zoning.** The current zoning for the Property is \_\_\_\_\_. Seller has no knowledge of any plan by any person or entity to change the existing zoning applicable to the Property;

14. **Vehicular Access.** There is access to the Property sufficient to allow construction and development of the Property and the Property is accessible by vehicular traffic. Seller has no knowledge of any proposed changes in or to existing traffic patterns near the Property or vehicular access to the Property; and

15. **Commercial Development.** Seller acknowledges that Buyer is acquiring the Property with the intention of developing and constructing commercial improvements thereon.

The terms, covenants, warranties, and representations contained in this Agreement shall not merge with the deed or conveyance, but shall continue and survive closing.

## Appendix L Sample Parcel Nomination Coversheet



Parcel Nomination No. \_\_\_\_\_

### PARCEL NOMINATION COVERSHEET

*Parcel Nomination process is used by Idaho Department of Lands to evaluate land use proposals for Endowment Lands. Please provide all information and use the checklist provided to ensure that the Nomination Packet is complete.*

**Parcel Nomination Instructions:**

- Complete the Parcel Nomination Coversheet and provide all information outlined in the Parcel Nomination Packet Checklist. **NOTE: Complete Lease Application Packet if a leasing activity is being proposed.**
- Any incomplete Parcel Nomination Packets will be returned to the applicant.
- Completed Nomination Packets are to be submitted to the appropriate Supervisory Area Office for review by the Area Supervisor and the Operations Chief.

**Parcel Nomination Type:**

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Sale                                   | <input type="checkbox"/> Exchange                                  | <input type="checkbox"/> Acquisition [Purchase property] |
| <input type="checkbox"/> Transition [prepare for different use] | <input type="checkbox"/> Lease [Complete Lease Application Packet] | <input type="checkbox"/> Other _____                     |

**APPLICANT DATA:** All documents must contain the full legal name of the Applicant or the official business name as filed with the Idaho Secretary of State. Certificate of Good Standing must be provided for all business entities.

Applicant or Business Name:	Contact Name:
	Position or Title:
Street Address:	Mailing Address [if different from Street Address]:
City:	P.O. Box [if applicable]
State:	Zip +4: _____
Email Address[es]:	Work Phone: [   ]
Website Address[es]:	Cell/Mobile: [   ]
Fax: [   ]	Home Phone: [   ]

**Description of Property:**

Twp	Rge	Section	Subdivision	County	Acres	Fund

*I hereby certify that I am the Applicant or the Authorized Representative of the Applicant and that the information contained in the Parcel Nomination Packet is true and correct to the best of my knowledge, and acknowledge that falsification of any information contained herein, or provided herewith, will be grounds for rejection of the Parcel Nomination.*

Signature \_\_\_\_\_

Date \_\_\_\_\_

Printed Name \_\_\_\_\_

Title [if applicable] \_\_\_\_\_

**SUPERVISORY AREA**

*(IDL Staff Use Only)*

**OPERATIONS CHIEF**

- ☐ Parcel Nomination Packet Reviewed
- ☐ Parcel Nomination Packet Authorized for Submittal

- ☐ Parcel Nomination Packet Reviewed
- ☐ Parcel Nomination Packet Authorized for Submittal

Area Supervisor

Date

Operations Chief

Date

## Appendix M

### Sample Parcel Nomination Checklist



Parcel Nomination No. \_\_\_\_\_

## PARCEL NOMINATION PACKET CHECKLIST

Complete all items listed in this checklist and submit with the Parcel Nomination Coversheet to the appropriate Idaho Department of Lands Supervisory Area Office.

**THIS LIST OF REQUIRED INFORMATION IS NOT EXHAUSTIVE. IDAHO DEPARTMENT OF LANDS WILL DETERMINE IF ADDITIONAL INFORMATION WILL BE REQUIRED DEPENDING UPON THE PROPOSAL AND PARCEL LOCATION.**

- ☐ A narrative describing how the nominated parcel[s] will satisfy the Land Management Objectives listed below:
  - 1. Protect and enhance the value and productivity of the Land assets.
  - 2. Maximize financial returns from Land assets over time.
  - 3. Encourage a diversity of revenue-producing uses of Land assets.
  - 4. Manage Land assets prudently, efficiently, and with accountability to the beneficiaries.
- ☐ Verification that legal all purpose access has been acquired for all purpose ingress/egress to the parcel or the plan to acquire this access.
- ☐ Current status of the parcel – active leases/expiration dates, current revenues stream, IDL land classification, mineral resources, water resources available, navigable waters issues, is the parcel being considered for sale or exchange within the IDL, etc.
- ☐ A list of all improvements including buildings, fences, wells, tanks, pipelines, etc. located on the parcel. If improvements are located on site – map it.
- ☐ Local jurisdiction's comprehensive plan and zoning designations, special features/hazard areas associated with the parcel – avalanche, flood plain, subsidence, geothermal, etc. include copies of all applicable maps.
- ☐ Does the nominated site contain – critical wildlife habitat, sensitive/native plant species, endangered species – if so, where? – map it.
- ☐ Provide a general discussion of adjacent uses, both existing and proposed, on other public and private lands within a 5 mile radius of the parcel.
- ☐ Maps/Photographs [JPEG format] – showing nominated site and vicinity maps at 1 and 5 mile radius. Maps should indicate ownership patterns, other active leases – IDL or BLM, etc., access/circulation system in the area [even if only logging roads and trails]

#### WHAT HAPPENS AFTER SUBMITTAL OF THE PARCEL NOMINATION PACKET?

- ✓ Area Supervisor and Operations Chief must review packet for completeness and authorize the submittal of the nomination for review by the Department.
- ✓ Parcel Nomination Packets will be reviewed on a quarterly basis.
- ✓ Results of the review process will be provided to the applicant.

## **Appendix N**

### **Sample Due Diligence Checklist**

**“Due Diligence”** is a broad term that business, real property professionals and real estate attorneys use. The term is used here to refer to the inspection and investigation of real property being considered for acquisition. Due diligence is conducted to assist the buyer in making an informed purchase decision. Items considered under due diligence vary with each property type. The following checklist is a reference used to identify documents and conditions that should be considered in the purchase of real property.

       **Commitment for Title Insurance (All Properties).** A commitment for title insurance (Preliminary Title Report) should be obtained soon after the Purchase Sale Agreement is executed. This document includes the legal description for the property and provides a list of all current exceptions to title on the property such as property owner, unpaid taxes, easements, options to purchase, judgments, mortgages, recorded liens, deed of trust, timber harvest rights, mineral rights, water rights. The title review process is used to determine the condition of the title to be transferred to the buyer at closing, as well as identifying any potential title problems.

       **Phase One Environmental Site Assessment (Phase One ESA) (All Properties).** The Phase One ESA provides the buyer an overview of the environmental condition and environmental history of the property. The report is intended to identify actual and potential problems (e.g. contamination by hazardous substances, leaking underground storage tanks, landfills, etc.) based primarily on a review of historical use documentation, regulatory agency databases and a physical on-site investigation. If environmental conditions or potential environmental conditions are discovered during the investigation, the report will generally recommend specific follow-up testing, remediation and/or studies. A Phase One ESA typically does not include specific inspections for asbestos, lead paint, mold, radon, or wetland delineation. The final report has four components including: Records Review; Site Reconnaissance; Interviews with present and past owners, operators, occupants of the property and local government officials; and a Narrative Report.

       **Access (All Properties).** Evaluate the adequacy of access and determine whether additional rights may be obtained as part of an exchange or purchase transaction at closing. There are five (5) access classifications:

- 1) **Public Use Access:** A permanent public access typically from a county road, state or Federal highway, which has an approved approach designated for the purpose of which the property is currently being used, or designated for its current zoning. Width of approach needs to be sufficient for the properties designated use.
- 2) **Full Legal Administrative Access:** A designated permanent easement specifically identified for access to property for all management activities and access is transferable.

- 3) **Limited Legal Administrative Access:** A designated temporary or permanent access limited for specific activities that would be non-transferable. (Such as Timber harvest, for maintenance access, irrigation.)
- 4) **Physical Access:** Properties where there is an existing road to or across the property, but no permanent legal access is recorded. The road may be designated on a county map. The existing road may be primitive, in poor condition, or currently unusable.
- 5) **No Access:** Property with no legal or physical access established or identified by a recorded document or a county map.

       **Utilities (All Properties).** Identify existing utility infrastructure located on or adjacent to property such as power, water/well, septic/sewer, phone, natural gas, hot water, solar, wind and if they are provided by city services or located on site. Identify the capacity of the utilities; are they major transmission facilities which would encumber future use or development of the property, or are they of a capacity which could enhance the property for future development

       **Production Data (All Properties).** Obtain production information associated with the property being considered for purchase. Examples of production data for some property types:

- 1) **Cropland.** Parcel acreage, farmable acres, non-farmable acres, commodities grown, yields, total production, price per unit, and crop rotation. If the property will be acquired subject to a lease; name of tenant, term of lease, and type of lease (i.e. cash or crop share).
- 2) **Timberland.** Total acreage; delineation of acreage used for commercial timber, plantation, non-commercial timberland, and non-stocked; estimated timber volumes by species (i.e. MBF), and mean annual increment (MAI).
- 3) **Rangeland.** Parcel acreage, animal unit months (AUM's) of forage, season of use.
- 4) **Commercial.** Property operating data including cash flow analysis, vacancy rates, operating costs, rent vs. market rent, existing leases and lease terms.

       **Mineral Rights (All Properties).** The terms "mineral lands," "mineral," "mineral deposits," "deposit," and "mineral right," as used herein is construed to mean and include all coal, oil, oil shale, gas, phosphate, sodium, asbestos, gold, silver, lead, zinc, copper, antimony, geothermal resources, salable minerals, and all other mineral lands, minerals or deposits of minerals of whatsoever kind or character. This includes "salable minerals," meaning a mineral substance that can be taken from the earth and that has a value in and of itself separate and apart from the earth. The potential of mineral lands should be evaluated on annual rental, the amount of royalty, the basis upon which the royalty shall be computed and such other details as necessary in the interest of the state.

Determine whether the property to be acquired excludes mineral rights. To the extent that the mineral rights have been severed from fee ownership, determine to what extent, if any, those severed rights affect the use and value of the property by the buyer. Prior to purchase, determine who owns the mineral rights and what the owner's intent is regarding use and development of the mineral estate.

**\_\_\_\_\_ Water Rights (All Properties).** The constitution and statutes of the state of Idaho declare all the waters of the state, when flowing in their natural channels, including the waters of all natural springs and lakes within the boundaries of the state, and ground waters of the state, to be public waters. A water right is the right to divert the public waters of the state of Idaho and put them to a beneficial use, in accordance with one's priority date. Beneficial uses include such uses as domestic use, irrigation, stock-watering, manufacturing, mining, hydropower, municipal use, aquaculture, recreation, fish and wildlife, among others. The amount of the water right is the amount of water put to beneficial use. Determine the scope and nature of any water rights related to the property. If a property is fully serviced by water and sewer utility service, water rights will not be an issue. If water rights for the property have been separated from the fee interest or come from an off-site source, the purchase and sale agreement must address the transfer of necessary rights to the buyer at closing. The Idaho Department of Water Resources maintains a website to research water rights within the state of Idaho.

**\_\_\_\_\_ Physical Improvements (All Properties).** Improvements include buildings, fences, ponds, spring developments, and real property fixtures that are permanently part of the land. Improvements are generally attached to, embedded in or permanently resting on the land and cannot be removed without substantially damaging an improvement or the real property with which it is being used. An inventory of physical improvements on the property and who owns or claims to own the improvements will be made prior to requesting an appraisal.

**\_\_\_\_\_ Approvals and Entitlements (All Properties).** Determine the regulatory status of proposed property, and if it is based on the type or types of uses currently being made of the land. Review the current zoning, potential zoning, areas of impact, proposed future growth, any restrictive covenants or proposed restrictions which would encumber the property and its utilization in its highest and best use. Confirm that the existing use of the property complies with applicable zoning, building and life safety codes. Determine which land use entitlements will be necessary for intended use of the property.

**\_\_\_\_\_ Personal Property (All Properties).** Identify within the Purchase Sale Agreement what personal or intangible property will be included in the purchase. For example, furniture, trade fixtures, equipment, sprinkler pipe, pumps, etc. that are necessary for the buyer's use of the property. Determine any third party security interest in any of the personal property. Assess the need to purchase or transfer permits or licenses required to operate the property or related equipment and fixtures (e.g. franchises, trademarks, patents, copyrights, liquor licenses, etc.)

**\_\_\_\_\_ Rights-of-Way (Easement) Impacts (All Properties).** Rights-of-way are temporary or permanent property rights that have been either granted or acquired, for roads, utilities, or public use access. These are often conveyed through an easement and may or may not be recorded. In addition to roads and utilities some more obscure examples include:

- 1.) Conservation easements – limits the amount and type of development that can occur on a property in order to preserve its productive capacity and open character while keeping the property in the landowner's ownership and control.
- 2.) Solar/Scenic easements – protect an owner's view shed or path of sunshine and generally restrict the height of building construction.
- 3.) Airspace easement – permits the area above the surface of property to permit an imposition upon such property from excessive noise, vibration, discomfort, inconvenience, etc. that consequently reduces market value. Generally used for airport impact areas but can also apply to bridges and walkways.
- 4.) Maintenance easement – permits an individual to cross onto the property of another for the purpose of maintaining something owned or controlled by the dominant estate owner, such as, irrigation ditches, canals, culverts, power lines, water lines, etc.

\_\_\_\_\_ **Endangered Species (All Properties).** The Endangered Species Act of 1973, as amended, is one of the most far-reaching wildlife conservation laws ever enacted by any nation. The presence of threatened/endangered or potentially threatened/endangered species may significantly restrict the development potential, other potential uses, and market value of a property.

\_\_\_\_\_ **Copies of all leases affecting the property (All Properties).** Review all leases having an effect on the future use of or income from the property. For state lands involved in an exchange, ensure a land exchange addendum is signed by the lessee.

\_\_\_\_\_ **Appraisals and Appraisal Review (All Properties).** A real estate appraisal is required for all property types to determine the market value for the property or property rights or interest being disposed or acquired. At a minimum the appraisal is prepared in compliance with the *Uniform Standards of Professional Appraisal Practice (USPAP)*. Appraisals will be independently reviewed by IDL or another appraiser to ensure compliance with USPAP and to determine the adequacy and appropriateness of the report.

\_\_\_\_\_ **Property Boundary Survey (Optional).** Obtain copies of recorded Records of Survey for the property, if available. If a survey is necessary it should be initiated immediately after the Purchase and Sale Agreement has been executed to allow time to address any potential title problems identified by the survey prior to closing.

\_\_\_\_\_ **Timber Rights (Timberland).** Determine who has the legal right to harvest the timber on a parcel of land. A seller of forestland can choose to include or exclude timber rights as part of a fee ownership sale. Such rights can be severed for a specific period of time or permanently transferred.

\_\_\_\_\_ **Timber Cruise/Harvest/Road analysis and Check Cruise (Timberland).** Forested properties with merchantable timber being considered for acquisition will require a timber cruise to determine the quality and quantity of harvestable timber. The cruise will identify tree species and measurements within each plot. Sufficient plots must be



measured to obtain a statistically reliable sample for estimated gross volume, defect, piece size, general stand information, net merchantable volume, etc.

**\_\_\_\_\_ Conservation Reserve Program (Agriculture/Timberland).** Determine if the property is eligible for and currently enrolled in a variety of farm and agriculture programs. What is the impact in ownership change to enrollment eligibility? There are currently five (5) areas which can receive payment, including:

- 1) Wildlife Habitat Incentives (WHIP)
- 2) Wetland Reserve Program (WRP)
- 3) Forestry Incentive Program (FIP)
- 4) Farmland Protection Program (FPP)
- 5) Environmental Quality Incentives Program (EQIP)

**\_\_\_\_\_ Architecture/Engineering Analysis (Properties with Buildings).** Acquisition of properties with business related structures requires an analysis by architectural and engineering professionals to determine the condition of the building and identify any potential problem areas, such as deferred maintenance and necessary repairs. Such analysis will typically consider, but is not limited to an analysis of: structural integrity; roof, electrical, plumbing and HVAC systems age and condition; Americans with Disabilities Act (ADA), fire and safety code compliance; general service and maintenance logs; parking area requirements and surface age and condition; review of Phase One Environmental Site Assessment; and testing for asbestos, lead paint, or mold issues. If work is performed on improvements prior to closing, obtain copies of any design and construction drawings and contracts and determine whether the seller's rights under those contracts are assignable to the buyer. Ensure proper lien waivers have been obtained by the seller for work performed prior to closing.



## Appendix O Sample Development Plat Report Template



*Insert name of development*

### Development Plat

#### DEVELOPMENT PLAT REPORT

**1.1 Name of Development**

**2.1 Site Location**

a. IDL Management Area

b. Township/Range/Section

**3.1 Trust Beneficiary**

**4.1 Date Land Acquired**

**5.1 Overview of Development Plat**

- a. Acres
- b. Common Area acres
- c. Common Area Association
- d. Number of Lots
- e. Average Lot Size

- a.
- b.
- c.
- d.
- e.

**6.1 Trust Land Management Considerations**

All purpose legal access to remaining State Endowment Trust Land acreage, include disclosure that remaining Endowment Trust land is active, working forestland managed for commercial timber production

**7.1 Justification for Development Plat**

**8.1 Stakeholder Outreach –**

Neighborhood meetings held on \_\_\_\_\_

**9.1 Local Jurisdiction Outreach**

Assessor, Recorder, Commissioner Neilson, P/Z Director

**10.1**

**11.1**



The development plat for \_\_\_\_\_ is hereby approved by the Director of the Idaho Department of Lands on behalf of the State Board of Land Commissioners of the State of Idaho on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_. The Director hereby directs that the official plat be placed on file [recorded] in \_\_\_\_\_ County, Idaho, the county where the State Endowment Trust Land is located.

\_\_\_\_\_  
Director Department of Lands

On this \_\_\_\_\_ Day of \_\_\_\_\_, in the year \_\_\_\_\_, before me, a Notary Public in and for said State, personally appeared Thomas Schultz, known to me to be the Director of the Idaho Department of Lands that executed the development plat and the Development report documents for \_\_\_\_\_.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year last above written.

Notary Public for Idaho \_\_\_\_\_  
Commission expires: \_\_\_\_\_



*Insert name of development*

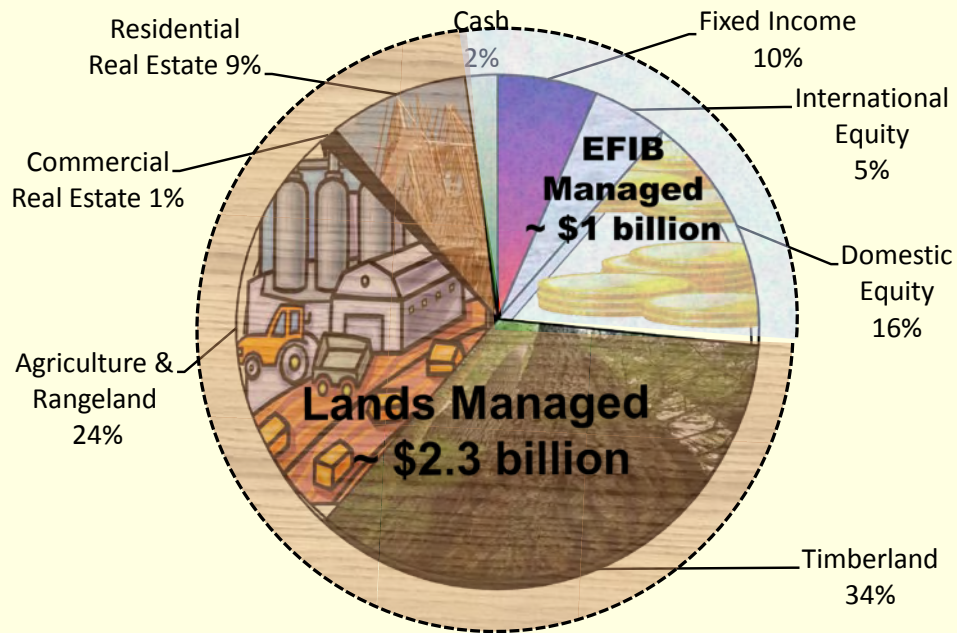
Development Plat Report

The required Development Plat report will include the following information, at a minimum:

- a. Site Location
- b. Site Characteristics or special conditions
- c. Justification for Development Plat
  - i. Beneficiary Benefit
- d. Trust Land Management Considerations
- e. State Board of Land Commissioners
  - i. Land Board Staff/Member meeting(s)
  - ii. Summary of comments received
  - iii. Follow-up actions
- f. Stakeholder Outreach –
  - i. Neighborhood meeting(s)
  - ii. Summary of comments received and responses
- g. Local Jurisdiction Outreach
  - i. Meeting(s) with local jurisdiction
  - ii. Summary of comments received and responses
- h. Plat Declarations
  - i. Discussion of any unique features of the plat
- i. Recommendation for approval of the development plat

## Appendix P

# Mix of All Endowment Assets ~ over \$3 Billion Dollars in Value



(as of June 30, 2009)

2

## **Glossary of Terms**

### **Asset Classification (type)**

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

### **Asset Management Plan**

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

### **Appraisal**

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

### **Beneficiary**

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

### **Building Owners and Managers Association (BOMA) Building Class Definitions**

A subjective quality rating of buildings which indicates the competitive ability of each building to attract similar types of tenants. Ratings include a combination of factors including rent, building finishes, system standards and efficiency, building amenities, location/accessibility and market perception.

#### **Class A**

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence.

#### **Class B**

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area and systems are adequate, but the building does not compete with Class A at the same price.

#### **Class C**

Buildings competing for tenants requiring functional space at rents below the average for the area.

### **Business Plan**

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

### **Capital Return**

Measures the change in market value from one period to the next. A property's value can go up (appreciation) or it can decline (depreciation) depending on market forces. The formula takes into consideration any capital improvements and/or any partial sales that occurred during the period.

### **Easement/Right-of-Way**

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

### **Earnings Reserve Fund**

Fund used to accumulate renewable sources of endowment asset revenue available for payment of distributions and fund management expenses. The Fund serves as a buffer to the market cycles of land and financial earnings. When reserves are deemed to be adequate and sufficient, any excess can be transferred to the Permanent Fund to first make up any shortfalls versus the Loss or Gain Benchmarks and second to provide for growth in distributions in excess of inflation. When reserves go to zero, no distributions can be made.

### **Fiduciary**

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

### **Gain Benchmark**

The level at which the Permanent Fund has achieved the objective of maintaining purchasing power for future beneficiaries. As defined by Idaho Code §57-724, it is calculated every fiscal year end by starting with the Loss Benchmark (original principal) and adding the cumulative effect of inflation (based on CPI-U) and certain reinvested income (transfers from Earnings Reserve designated as a permanent increase in corpus). The Gain Benchmark is used primarily to determine if the balance in the Permanent Fund is sufficient to offset the effect of inflation and population growth. When this level is achieved, any remaining appreciation of the Permanent Fund is considered distributable income and must be transferred to the Earnings Reserve Fund.

### **Gross Lease**

A type of commercial lease where the tenant pays a flat rental amount and the landlord pays for all property charges regularly incurred by the ownership, such as insurance, utilities, repairs, etc.

### **Income Return**

Measures that portion of total return attributable net operating income, or NOI. Net operating income is gross rental income plus any other income less operating expenses -

utilities, maintenance, taxes, property management, insurance, etc. The formula takes into consideration any capital improvements and/or any partial sales that occurred during the period.

### **Land Bank Fund**

Fund established by the Idaho Constitution (Article IX, Section 4) to allow the proceeds from the sale of state endowment trust land to be held for reinvestment in endowment land assets. The Fund includes the interest income earned on the Land Bank Fund balance

### **Letter of Intent (LOI)**

The expression of a desire to enter into a contract without actually doing so. An LOI is used to clarify the key points of a complex transaction for the convenience of the parties, to declare officially that the parties are currently negotiating, and to provide safeguards in case a deal collapses during negotiation. Sometimes called a term sheet or discussion sheet.

### **Loss Benchmark**

The contributed principal and minimum desired balance of the Permanent Fund. As defined by Idaho Code §57-724, it is calculated every fiscal year end by starting with the June 30, 2000 balance and adding deposits (primarily sales of extracted minerals and certain land sales). The Loss Benchmark is used primarily to determine the Gain Benchmark, but also to determine whether a loss in contributed principal has existed in the Public School Permanent Endowment Fund for ten years (a very unlikely condition), in which case the state is required to make up that loss.

### **Modified Gross Lease**

A type of real estate rental agreement where the tenant pays base rent at the inception of the lease but in subsequent years pays the base plus a proportional share of some of the other costs associated with the property, such as property taxes, utilities, insurance and maintenance. Modified gross leases are common in office space leasing where an office building is occupied by multiple tenants.

### **Net Lease**

A lease where the tenant is responsible for some of the additional costs associated with the property. There are three types of net leases: single net, double net and triple net. Under a single net lease, the tenant pays rent plus property taxes. Under a double net lease, the tenant pays rent plus property taxes and insurance. Under a triple net lease (NNN), the tenant pays for rent plus property taxes, insurance and maintenance. Because the tenant is covering these costs (which would otherwise be the responsibility of the property owner), the rent charged in the triple net lease is generally lower than the rent charged in a standard lease agreement.

### **Net present value (NPV)**

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



### **Permanent Fund**

The principal or corpus of the endowment fund which can never be distributed. Sources of funds include mineral royalty, land sale proceeds not reinvested in land (see Land Bank Fund), financial investment gains that recover past financial market losses, transfers from the Earnings Reserve Fund, and less any loss in market value (see Gain and Loss Benchmark). Any income earned by the Permanent Fund is transferred to the Earnings Reserve Fund and is available for distribution.

### **Prudent Fiduciary**

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

### **Real Estate**

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

### **Return on Asset (Total Return)**

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

### **Risk**

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

### **Split Estate**

Condition where the surface owner of real estate does not own improvements placed upon the land or does not possess ownership of subsurface commodities such as minerals.

### **Transition Land**

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



**Trustee**

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



## Endowment Fund Investment Board



### Board Members

**Larry Johnson, CFA, CPA**  
Manager of Investments

M. Dean Buffington, Chairman  
Max C. Black  
Vaughn Heinrich  
Susan K. Simmons  
R. John Taylor

Gavin M. Gee  
Thomas F. Kealey  
Richelle Sugiyama  
Chuck Winder

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December 2, 2011

### State Board of Land Commissioners

*The Honorable C.L. "Butch" Otter*  
Governor

*The Honorable Tom Luna*  
Superintendent of Public Instruction

*The Honorable Lawrence Wasden*  
Attorney General

*The Honorable Donna Jones*  
Controller

*The Honorable Ben Ysursa*  
Secretary of State

Dear Land Board members:

At its November 15 meeting, the Endowment Fund Investment Board reviewed changes proposed to the Land Board's Asset Management Plan, especially those sections that relate to Distribution Policy and the management of the investment funds. The EFIB is comfortable with the changes in the November 15 draft.

Also, it was a consensus of the Investment Board that the Asset Management Plan should more explicitly recognize that the proceeds from the sale of endowment trust land can either be reinvested in additional trust land or transferred to the Permanent Fund. Given this option, the Investment Board recommends that the Land Board require in its plan that any real estate acquired using Land Bank funds have an expected total rate of return that equals or exceeds the expected return on the investment fund, at a commensurate level of risk. The EFIB understands this is the current management practice, but suggests the Land Board consider memorializing this principle in the plan document.

Sincerely,

Larry Johnson  
Manager of Investments

cc: Tom Schultz – Secretary to the Land Board  
Land Board senior staff  
EFIB Members