

# STATE OF MONTANA

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

TRUST LAND MANAGEMENT DIVISION

REAL ESTATE MANAGEMENT BUREAU



*ANNUAL REPORT-FISCAL YEAR 2007*

## PREFACE



Fiscal year 2007 was a year of monumental accomplishments for the Department of Natural Resources & Conservation and specifically the Real Estate Management Bureau. For the first time in the history of the Trust Land Management Division, we saw gross revenues from the management of special uses, including real estate transactions and cabin site rentals, exceed traditional management uses related to timber, agriculture, and grazing. A large portion of the increased revenues came in the form of land sales, with those revenues to be redirected into land acquisition. Approximately 24,000 acres of state trust lands were purchased in fiscal year 2007 with increased recreational access and the potential for increased future revenue generation from those tracts. Additionally in fiscal year 2007, we saw the culmination of ten years worth of work at the Northwestern Land Office in securing a \$5.7 million right-of-way payment from the Montana Department of Transportation. The tremendous accomplishments of the real estate management programs are a testament to the exceptional divisional workforce, and the teamwork displayed between Helena bureau staff and various field offices located throughout the state. Look for continued success from the programs in fiscal year 2008 and 2009.

Tom Schultz, Administrator  
Trust Land Management Division



The dedication and service by the staff both within the bureau and the field offices has resulted in a banner year for revenues for the real estate management programs. The bureau was created in 1996 to recognize that state trust lands offer a variety of opportunities for the beneficiaries and the public. In 1996 the real estate management programs generated \$896,000, compared to over \$9 million this fiscal year. The location of state trust lands creates interests from and for a variety of uses including residential, commercial, and wind energy development that is attributable to the increase in revenues. The ability to sell and purchase lands with the sale proceeds has not only increased the annual revenues for the agricultural/grazing and timber land management programs annually, it has also increased public access to state trust lands. The success of these programs for 2007 is attributable to the planning, teamwork, commitment, and pride of the staff statewide. Thank you for this year's success!

Jeanne Holmgren, Bureau Chief  
Real Estate Management Bureau

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# INTRODUCTION



A beautiful scenic photo of the Absaroka Mountains

The Real Estate Management Bureau (REMB) is located in the Trust Lands Management Division (TLMD) of the Department of Natural Resources and Conservation (DNRC). The REMB administers all activities on lands classified as "other" and all secondary activities on lands classified as grazing, agriculture, or timber. Secondary activities, for state purposes, are characterized as "licenses." A license may be issued for temporary storage of gravel, construction materials, or equipment, for a group activity, for research, for outfitting and other forms of recreation, and for short-term agricultural uses such as grain bins, stockwater reservoirs, or pipelines.

The bureau's Real Estate Services Section is responsible for sales, exchanges, and grants associated with management of over 5.1 million acres of state trust lands. The Lands Section manages the disposition and acquisition of state trust lands through sale, purchase, and exchange.

The Rights-of-Way Section manages requests for rights-of-way through state trust lands and reciprocal access when needed to manage state trust lands that are otherwise landlocked.

The Property Management Section manages the Leasing Program and formulates a programmatic plan for development of special uses on state trust lands. The Leasing Program includes commercial developments, new leases such as wind farms, existing homesite leases, and short-term land use licenses.

The bureau is also responsible for assisting other agencies with management of their land. MCA 77-2-351 allows the state to transfer state non-trust lands to local governments in exchange for a commitment that the property be used for a continuing public purpose.

The management of the Recreational Use Program has been moved to the Ag and Grazing Bureau.

This report was prepared by the REMB to provide information gathered by the bureau regarding activity on lands that are classified as "other" and all secondary uses. The report provides a variety of information for all facets of the bureau. As a whole, the REMB generated \$9,013,114 in revenues for fiscal year 2007. This was an increase of \$5,840,745 over 2006.

DNRC  
REMB

## LEASING AND LICENSING

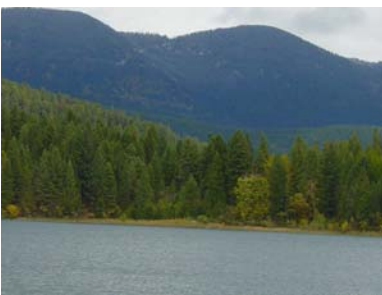
The Property Management Section of the REMB actively plans and develops tracts of land with high potential for single and multi-family residential, commercial, and industrial leases. Development of state trust lands in urban areas has the possibility of increasing annual revenues by over \$1 million annually during the next 20 years. In addition, the section has solicited and received proposals for development of wind energy on state trust lands.

Opportunities on state trust lands are normally identified in conjunction with a community's growth policy (master plan, comprehensive plan). Other opportunities are pursued on an as-identified basis, wherein DNRC or the proponent would pursue the appropriate planning and zoning approvals through the local government review process.

Lease and license revenue for FY 2007 was \$2,120,877 and \$318,169 respectively as shown in Table 1. Residential leasing makes up the largest portion of lease income with approximately 800 residential leases generating nearly \$1.3 million in FY 2007. Lease income increased \$330,302 compared to FY 2006, which is attributable to gains of 10% to 25% in several lease type categories, most notably commercial leasing, which increased \$130,000 from FY 2006.

<b>Table 1</b>				
<b>FY 2007 Lease and License Revenues</b>				
<b>Agreement Type</b>	<b>2007 Lease Revenue</b>	<b>2007 Leased Acres</b>	<b>2007 Value per Acre <sup>(1)</sup></b>	<b>2007 License Revenue</b>
Community Facility	\$12,451	402.07	\$30.97	\$2,789
Commercial	372,726	136.26	2,735.40	19,564
Communication Sites	32,273	30.51	1,057.78	35,168
Conservation	92,241	14,217.94	6.49	0
Developed Recreation	124,604	908.8	137.11	15,995
Industrial	70,627	151.27	466.9	1,550
Institutional	41,634	21.71	1,917.73	150
Residential	1,288,897	1,869.83	689.31	0
Residential Accessory	4,915	104.1	47.21	19,165
Rural Commercial	53,121	721.98	73.58	11,515
Rural Industrial	15,487	1,566.29	9.89	159,591
Other Lease	11,901	668.15	17.81	52,682
<b>Total</b>	<b>\$2,120,877</b>	<b>20,798.91</b>	<b>\$101.97</b>	<b>\$318,169</b>

(1) Lease Income/leased acres = value per acre.



DNRC REMB

Available leases for cabin site lots are located throughout Montana. Beaver Lake and a nearby cabin are pictured on this page.



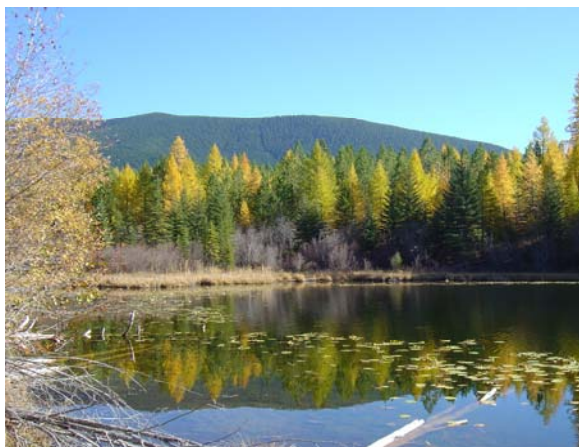
DNRC REMB

Information on leasing and licensing is available at:  
<http://www.dnrc.mt.gov/trust/REMB/availablelealestatate.asp>

## LAND SALES AND ACQUISITIONS

Land transactions (sales, purchases, or exchanges) help meet the objective of the DNRC to constantly strive to manage lands more effectively, improve their value, increase their potential for earning income, and reduce financial risks to the trusts. The DNRC seeks the right mix of land assets to manage by strategically repositioning state trust lands. The REMB sells or exchanges lands that are isolated or ineffective to manage and using the sales proceeds then acquires replacement state trust lands with higher long-term income generating potential.

DNRC REMB



The Real Estate Management Bureau is working toward acquiring this property on Tupper Lake.

The 2003 Montana State Legislature passed House Bill 223, which enables the Montana Board of Land Commissioners to use land banking for state trust lands. In September 2004, the Montana Board of Land Commissioners gave final approval to the Land Banking Rules. Land banking is a process that allows the Montana Board of Land Commissioners to pool revenue from a land sale with other sold properties to purchase lands with more income generating potential for the various trusts. Senate Bill 131 was passed by the 2007 Montana State Legislature and extended the sunset date for the land banking program from October 1, 2008 to 2011.

Land acquired using land banking revenues must meet specific requirements for income generation and accessibility to the public, among other desirable characteristics. The bureau will work with the real estate community and other interested parties to acquire productive agricultural, timber, and recreational land with good public access and higher income generating potential than the land being sold.

In FY 2007, the Land Banking program sold 19,189.47 acres for a total of \$10,669,510. Table 2 shows the acres sold in FY 2007 by county, grant, classification, income, and rate of return.

<b>County</b>	<b>Acres</b>	<b>Value</b>	<b>Land Class</b>	<b>Annual Income</b>	<b>Grant</b>	<b>Return</b>
Chouteau	320	\$60,800	Grazing	\$364	State Reform School	0.60%
Chouteau	640	121,600	Grazing	780	Common Schools	0.64%
Custer	9,585.19	1,461,800	Grazing	11,369	Common Schools	0.78%
Flathead	85.2	6,400,000	Other	1,119	Common Schools	0.02%
Garfield	6,400.00	947,012	Grazing	8,614	Common Schools	0.97%
Madison	479.08	886,298	Grazing	601	Common Schools	0.07%
Powell	80	424,000	Forest	110	Common Schools	0.03%
Treasure	1,600.00	368,000	Other	2,039	Common Schools	0.57%
	<b>19,189.47</b>	<b>\$10,669,510</b>		<b>\$24,996</b>		<b>0.80%</b>

## LAND SALES AND ACQUISITIONS, CONTINUED

Twenty parcels were nominated for acquisition in the land banking program. Six parcels were purchased for \$9,098,627 with a total acreage of 24,295 as shown in Table 3. The lands purchased are projected to generate 7.5 times more revenue annually than the lands that were sold. The lands are also legally accessible, providing public recreational opportunities. Additionally, 2,599.88 acres were donated by the Anton Sir Estate for state trust lands.

**Table 3**  
**Land Acquired by County and Grant in FY 2007**

Common Schools Counties	Acres	Value	Land Class	Acres by class	Estimated Annual Net Income	Rate of Return
Cascade	897.82	\$718,256	Grazing	897.82	\$16,654	2.32%
Custer <sup>(1)</sup>	18,544.18	4,800,000	Agriculture / Grazing	349.00 / 18,195.18	64,700	1.35%
Fergus	1,842.55	1,290,000	Agriculture / Grazing	1,033.90 / 808.65	25,473	1.97%
Lewis & Clark	1,041.83	1,131,636	Forest	1,041.83	33,650	2.97%
Powell	1,438.93	540,735	Forest	1,438.93	-	-
Valley	530	618,000	Agriculture / Grazing	324.4 / 205.6	12,898	2.09%
<b>Total</b>	<b>24,295.31</b>	<b>\$9,098,627</b>			<b>\$153,375</b>	<b>1.69%</b>

(1) Purchase Price was \$5,000,000. The State of Montana paid \$4,800,000 through the land banking program and Pheasants Forever contributed \$200,000.

Information on land sales and acquisitions is available at:  
<http://www.dnrc.mt.gov/trust/REMB/available realestate.asp>

## LAND EXCHANGES

The Land Exchange Policy was first adopted in 1994 and was revised in 2004. This policy was developed by the Montana Board of Land Commissioners for the purpose of guiding applicants for land exchanges and the DNRC in the process and review of land exchange proposals. The policy may be used by an exchange applicant or DNRC personnel to roughly evaluate the prospects of obtaining favorable review by the Montana Board of Land Commissioners.

The ability of the state to effectively manage state trust lands for the support of education has been limited by the fragmented ownership of the state trust lands. An inclusive and consistent land exchange policy is needed for future consideration of beneficial exchange proposals. Legal requirements, which shape the Montana Board of Land Commissioners' review of land exchanges, are found within the Montana Constitution, state statutes, and administrative rules. The DNRC reviews and processes land exchanges for the Montana Board of Land Commissioners under a land exchange policy. Land exchanges are analyzed using the following base criteria:

- Equal or greater land value
- Similar navigable lake or stream values
- Equal or greater acreage
- Equal or greater income to the school trust
- Consolidation of state trust lands
- Potential for long-term appreciation
- Improved or equal access to state or public land



DNRC REMB

The Clark Fork River flowing through part of the Lolo property.

Five land exchanges (CB Ranch, Tarkio (Five Valleys), Rocky Boy, Goguen, and Lolo) are currently in various stages of completion.



DNRC REMB

This property has the potential of being acquired in the Lolo exchange.

- **CB Ranch**—potential acquisition of 1,280 acres in exchange for 640 acres.
- **Tarkio (Five Valleys)**—potential acquisition of 581.80 acres in exchange for 504.46 acres
- **Rocky Boy**—potential acquisition of 320 acres in exchange for 1,440 acres.
- **Goguen**—potential acquisition of 600 acres in exchange for 435 acres.
- **Lolo**—potential acquisition of 11,336 acres of National Forest Land for the same amount of trust land acreage.

The Tarkio Land Exchange received final approval from the Montana Board of Land Commissioners in May 2007. DNRC has received applications for two new land exchanges, and is in discussion with the Confederated Salish-Kootenai Tribe for a land exchange.

Information on land exchanges is available at:  
<http://www.dnrc.mt.gov/trust/REMB/available realestate.asp>

## ONGOING LAND OFFICE PROJECTS

### -NORTHWEST LAND OFFICE-

#### **Spring Prairie Center - *Kalispell***

Activity involving the Spring Prairie Center in Kalispell included:

- Completion of Glacier High School, which opened in August 2007.
- The Montana Board of Land Commissioners approved a 20.58 acre easement for West Reserve Loop with the Montana Department of Transportation for more than \$1.6 million to be received in FY 2008.
- This connector road, West Reserve Loop, which traverses northwest to southeast through the north half of the section was completed in time for use for the opening of the 2007-2008 school year at Glacier High.
- An easement payment from the Montana Department of Transportation for the Highway 93 Bypass (59.3 acres) generated more than \$5.7 million for the Common Schools Trust permanent fund.
- The new Holiday Inn Express (3.45 acres) is open for business, and a U.S. Forest Service office building (4 acres) is nearly complete with expected occupancy in FY 2008.
- Development and leasing of approximately 20 acres in the northeast corner of Spring Prairie, generally referred to as Phase III, is under negotiation.

Glacier High School in Kalispell

DNRC NWLO



#### **Whitefish Area Trust Lands Neighborhood Plan - *Whitefish***

Three proposals have been presented to the Trust Land Management Division:

- A proposal to construct and maintain a trail system.
- A conservation-oriented land exchange.
- Accommodation of sanitation drainfields, outstanding private access issues, and sanitation system needs for trust land development.

### -SOUTHWEST LAND OFFICE-

Staff completed a land survey for the Copper Creek development area and are working on other projects in Philipsburg, Grant Creek, and Seeley Lake North. They continue to actively participate with Nature Conservancy and the Blackfoot Challenge regarding land dispositions and worked with Rural Initiatives in Missoula County on the Seeley Lake Growth Policy. Staff also met with Rock Creek Cattle to discuss land exchange and reciprocal access agreements. The Southwest Land Office also is in the process of completing the Lolo, CB Ranch, and Creech land exchanges and a land banking acquisition at Tupper Lake.

## ONGOING LAND OFFICE PROJECTS, CONTINUED

### -SOUTHERN LAND OFFICE-

The Southern Land Office teamed with REMB staff to examine the environmental requirements and other factors for the Springdale Wind Farm to reach Phase 3 of its request for proposals response and ultimately sign a lease with DNRC. Staff also participated in Yellowstone County and the City of Laurel's efforts to establish a Veteran's Cemetery north of Laurel, with a portion proposed on state trust land. Staff continues to review multiple potential land exchange proposals. They are also working with Lockwood School, Yellowstone County, and DNRC legal staff to abandon and modify existing easements crossing property owned by the Lockwood School and Yellowstone County.

### -CENTRAL LAND OFFICE-

In 2007 the Central Land Office completed a lease for a Meineke brake shop. This was the first lease in the Lewis and Clark Subdivision. The office also held public meetings to discuss the potential for commercial and residential development of the 440-acre Amsterdam Road parcel. Area and bureau staff met with a potential lessee, Space Bank, to negotiate the lease and development of a 10-acre tract of the Mandeville parcel, just north of Bozeman off I-15 and 7th Avenue.



The Lewis and Clark Commerce Center Subdivision in Bozeman.

### -EASTERN LAND OFFICE-

The Eastern Land Office completed the purchase of the Tongue River Ranch with assistance from the REMB. In addition, two attempts were made to sell the Old Campus of the Pine Hills Youth Correctional Facility. If a sale does not occur, the Pine Hills Old Campus will most likely be transferred to Custer County in FY 2008.

### -NORTHEAST LAND OFFICE-

NELO released wind development request for proposals for Geyser and Martinsdale, Montana, as discussed in the Wind Energy section of this document on the following page.

Information on ongoing projects is available at:  
<http://www.dnrc.mt.gov/trust/REMB/ongoing.asp>

## WIND ENERGY

Montana's first large-scale wind farm, the Judith Gap Wind Farm, generated its first full year's revenue of \$49,439. Thirteen of the 90 turbines on this 135 MW wind farm are on Common Schools trust land (640 acres).

Three additional wind farms are in the process of being developed on state trust lands.

Horizon Wind Energy, based in Houston, Texas, with regional offices in Portland, Oregon and Ellensburg, Washington, has made significant progress in laying the groundwork for the construction of an approximately 72 MW wind farm just north of Martinsdale, Montana.

The Springdale Wind Farm near Springdale, Montana is currently in Phase 2 of its request for proposal response. As mentioned on the previous page, the wind farm is examining environmental requirements necessary to reach Phase 3 of its RFP response and ultimately sign a lease with DNRC. This public/private wind farm, once built, is expected to be 67.5 MW in size with seven 1.5 MW turbines located on a section of state trust land.

Wind Kraft Nord, USA, is investigating the development of a possible 20-60 MW wind farm near Geysers, Montana.

Another RFP for wind development in Gallatin County is currently open and may be awarded in FY 2008.

Pictured is a wind turbine on the Judith Gap Wind Farm. DNRC REMB



Information on wind energy projects is available at:  
<http://www.dnrc.mt.gov/trust/REMB/ongoing.asp>

## RIGHTS-OF-WAY/EASEMENTS

The REMB is responsible for reviewing and processing applications for rights-of-way and easements across surface lands and navigable waterways administered by the state. Rights-of-way are most commonly sought for utility lines, pipelines, and roads. Applications for private driveways continue to increase in volume annually. Pursuant to the Montana Board of Land Commissioners Private Driveway Policy, DNRC evaluates these roads under the criteria established therein.

Pictured below is Reserve Loop, part of the Department of Transportation's Highway 93 Bypass project in Kalispell.

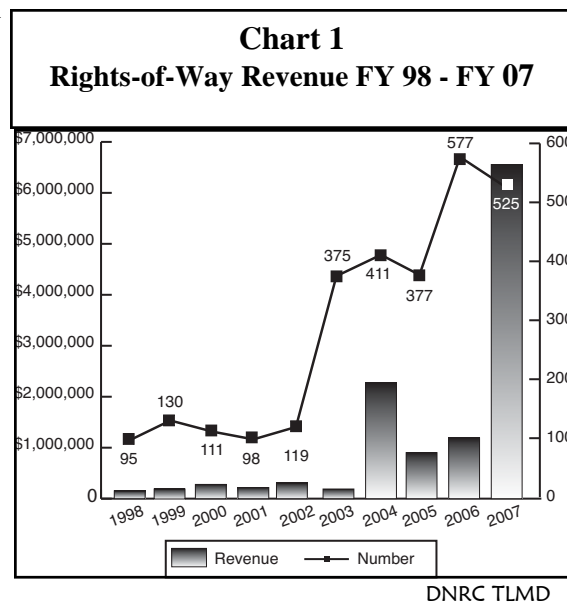


DNRC NWLO

During the Legislative Session of 2001, MCA 77-1-130 was amended to provide an easement application process for historic utilities and access roads that were constructed on state trust lands without benefit of a legal easement. Under this statute, utility companies, county government, and private individuals may make application through October 1, 2011 for a historic easement for the uses that occurred on state trust lands prior to 1997.

Both the Access Road Easement Policy and Reciprocal Access and Easement Exchange Procedures were adopted and approved by the Montana Board of Land Commissioners on September 18, 2006. 525 rights-of-way applications were presented to the Montana Board of Land Commissioners for approval in FY 2007. Of these requests, 434 were historic easement applications submitted under MCA 77-1-130.

Revenue rose significantly during the fiscal year due to the issuance of an easement to the Montana Department of Transportation for the proposed Highway 93 Bypass in Kalispell for \$5.7 million. Other large easements issued included an easement to Mineral County – St. Regis Sewer District for \$315,000 and a public recreation area/shooting range to the Montana Department of Fish, Wildlife, and Parks near Glendive for \$130,000. Rights-of-way revenue is shown in Chart 1.



Information on rights-of-way is available at:  
<http://www.dnrc.mt.gov/trust/REMB/rightsofway.asp>

## NON-TRUST LAND ACTIVITY

The REMB is responsible for maintaining ownership records of state non-trust lands owned by other state agencies excluding Montana Fish, Wildlife, & Parks and the Montana Department of Transportation. The bureau facilitates transactions such as land sales and leases/licenses between state agencies and interested parties.

The department facilitated the following transactions involving other state agency lands:

- Department of Military Affairs
  - Transfer of the Chinook Armory to the City of Chinook
  - Transfer of Glendive Armory to Dawson County
  - Acquisition of two parcels at Ft. Harrison
  - Preparation for the Missoula Armory auction
- Department of Commerce's Montana Heritage Preservation & Development Commission
  - Initiation of a land exchange in Virginia City.
- Department of Corrections
  - The Pine Hills Old Campus will most likely be transferred to Custer County in FY 2008.

In addition, the REMB continues to work on several projects for other state agencies.

Missoula Armory



DNRC REMB



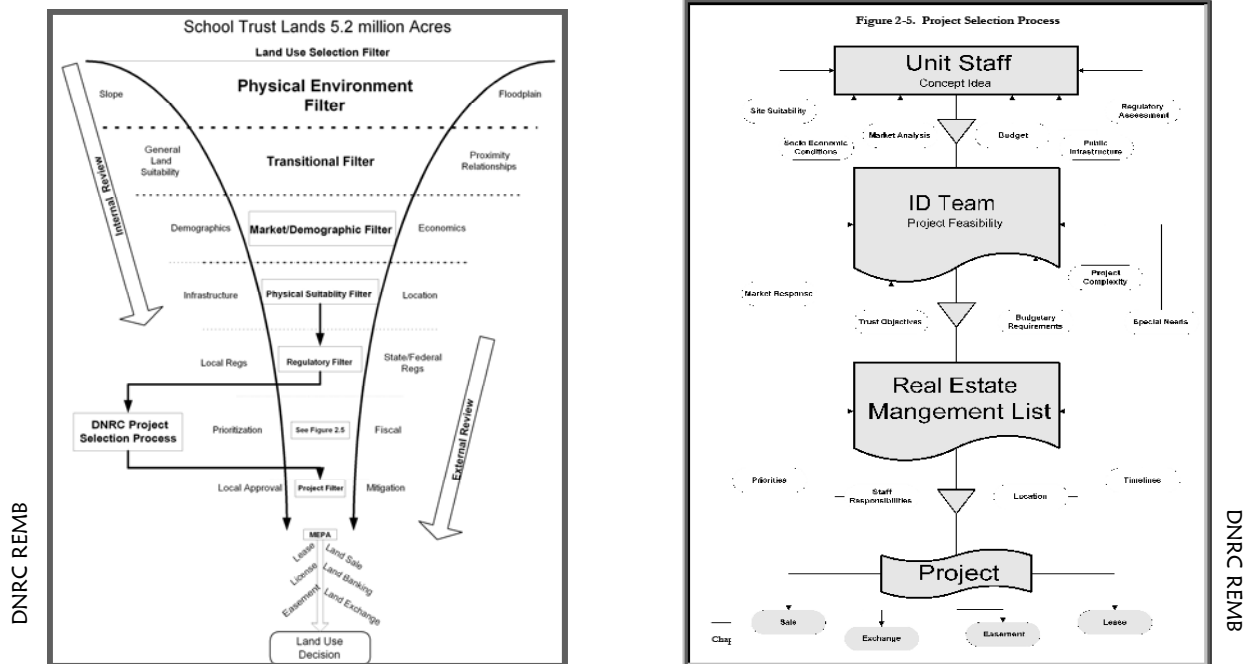
Pine Hills Old Campus

DNRC REMB

Information on non-trust land activity is available at:  
<http://www.dnrc.mt.gov/trust/nontruststateland/default.asp>

# REAL ESTATE MANAGEMENT PROGRAMMATIC PLAN

In November 2004, the REMB released the *Final Programmatic Environmental Impact Statement*, which included a preferred alternative for selecting and managing real estate activities on state trust lands. The director signed a Record of Decision for the *Final Programmatic Environmental Impact Statement* in July 2005. This document serves as the Real Estate Management Plan for state trust lands. The plan provides the bureau with consistent policy, direction, and guidance in its management of real estate activities on state trust lands and for development of commercial, industrial, residential, and conservation uses.



The Programmatic Plan uses a funnel filter process and a project selection process to help determine what projects are feasible and worthy of consideration.

As in FY 2006, the REMB and personnel from the DNRC’S regional areas conducted several real estate community meetings in the spring of 2007 to gather input on the development of state trust lands in areas such as Billings, Bozeman, Kalispell, and Missoula. Revised internal reporting documents allowed streamlined processes for the annual Real Estate Identification Team meeting held in June 2007. Real estate project development updates were shared along with decisions on project selection and prioritization.

Information on the Programmatic Plan is available at:  
<http://www.dnrc.mt.gov/trust/programmatic/default.asp>

## CONCLUSION



State Trust Land in the Bitterroot Valley.

The Real Estate Management Bureau has seen an increase in activity in the past year. Due to the diligent work of the dedicated employees in the Trust Land Management Division, FY 2007 was the REMB's most profitable year to date. This year's success can also be credited to newly implemented marketing strategies. The bureau is reaching out to community leaders outside of the real estate industry. These contacts include business development professionals, lenders, civic organizations, and others. The intent is to keep a wide base of people aware of the availabil-

ity of state trust lands for development, which will allow more people and businesses to consider state trust lands for commercial, industrial, and residential uses.

In addition, the bureau continues to advertise premier properties on the DNRC website. Also, the REMB, along with other western states, is seeking more exposure for Montana properties through the International Council of Shopping Centers (ICSC). The annual ICSC convention hosts more than 50,000 participants and houses thousands of booths representing developers, retail businesses, and support businesses offering services such as building and market studies.

Overall, the bureau experienced a revenue increase of over 35 percent from the previous fiscal year. As depicted in Table 4, the REMB has adopted additional asset class categories to describe sources of revenue. These categories were established by the Western States Land Commissioners Association (WSLCA) to help states better analyze financial information and also to provide a more accurate way to compare revenue sources to across all WSLCA states.

<b>Category and Sub-Category</b>	<b>Total Revenue</b>
<b>Commercial</b>	
Energy Resources	\$55,162
Communications	\$67,441
Commercial/Office	\$513,424
Recreation	\$140,599
Industrial	\$246,632
Military Facilities	\$8,965
<b>Total</b>	<b>\$1,032,223</b>
<b>Residential</b>	
Homesites/Cabin Sites	\$1,288,897
Residential Accessory	\$24,080
<b>Total</b>	<b>\$1,312,977</b>
<b>Conservation</b>	
Conservation/Wildlife Uses	<b>\$92,241</b>
<b>Navigable Waters</b>	
Licenses - Barbs, Rip-Rap, etc.	<b>\$1,605</b>
<b>Rights Of Way</b>	
All Grants	<b>\$6,574,068</b>
<b>Total</b>	<b>\$9,013,114</b>

PLEASE VISIT OUR WEBSITE AT:  
[HTTP://WWW.DNRC.MT.GOV/TRUST/REMB/DEFAULT.ASP](http://www.DNRC.MT.GOV/TRUST/REMB/DEFAULT.ASP)