

AGENDA
REGULAR MEETING OF THE BOARD OF LAND COMMISSIONERS
December 13, 2021, at 9:00 a.m.
State Capitol, Room 303
Helena, MT

ACTION ITEMS

- 1221-1 Timber Sale: Burr Hamilton **APPROVED 5-0****
Benefits: Common Schools, MSU 2nd Grant, Eastern College–MSU/Western College–UM
Location: Mineral County
- 1221-2 Oil and Gas Lease Sale (December 7, 2021) **APPROVED 5-0****
Benefits: Common Schools
Location: Hill, Liberty, Sheridan, and Toole Counties
- 1221-3 Cabin and Home Sites: Set Minimum Bid for Sale **APPROVED 4-1****
A. Flathead County **COMMISSIONER DOWNING OPPOSED**
Benefits: School for the Deaf & Blind, Montana Tech, Common Schools
Location: Flathead County
B. Sanders County
Benefits: Common Schools
Location: Sanders County
- 1221-4 Cabin and Home Sites: Final Approval for Sale **APPROVED 4-1****
Benefits: MSU 2nd Grant
Location: Missoula County **COMMISSIONER DOWNING OPPOSED**
- 1221-5 Easements: **APPROVED 5-0****
Benefits: Public Land Trust-Nav. Rivers, Common Schools, MSU 2nd Grant
Location: Chouteau, Daniels, Hill, and Missoula Counties
- 1221-6 Biennial Cabin Site Lease Rate Review: (October 2019 - October 2021) **APPROVED 5-0****
Benefits: Common Schools, School for Deaf & Blind, Montana State University, Montana Tech, Pine Hills School, Public Buildings, University of Montana, Veterans Home and Eastern College–MSU/Western College–UM
Location: Beaverhead, Big Horn, Blaine, Broadwater, Cascade, Choteau, Custer, Daniels, Fallon, Fergus, Flathead, Gallatin, Golden Valley, Hill, Judith Basin, Lake, Lewis & Clark, Lincoln, Madison, McCone, Meagher, Mineral, Missoula, Musselshell, Phillips, Pondera, Powder River, Powell, Prairie, Richland, Rosebud, Sanders, Sheridan, Stillwater, Toole, Valley, Wheatland, Wibaux and Yellowstone Counties

PUBLIC COMMENT

1221-1

TIMBER SALES
Burr Hamilton

**Land Board Agenda Item
December 13, 2021**

1221-1 Timber Sale: Burr Hamilton

Location: Mineral County
Sections 20, 21, 27, 28 & 29 T18N R27W

Trust Beneficiaries: Common Schools, MSU 2nd Grant, and Eastern College – MSU/ Western College – U of M

Trust Revenue: \$198,732 (estimated, minimum bid)

Item Summary

Location: The Burr Hamilton Timber Sale is located approximately 3 miles southwest of St. Regis, Montana.

Size and Scope: The sale includes 3 harvest units (333 acres) of tractor logging (223 acres) and line logging (110 acres).

Volume: The estimated harvest volume is 16,001 tons (2.5 MMBF) of sawlogs.

Estimated Return: The minimum bid is \$12.42 per ton, which would generate approximately \$198,732 for the Trust Beneficiaries (*Common Schools, MSU 2nd Grant, and Eastern College – MSU/Western College – U of M*) and approximately \$60,643 in Forest Improvement fees.

Prescription: This sale has a combination of overstory removal, individual tree selection, and sanitation harvest prescriptions designed to reduce insect and disease issues and to promote forest health.

Road Construction/Maintenance: The Department of Natural Resources and Conservation (DNRC) is proposing 1.6 miles of new permanent road construction, 1 mile of new temporary road construction, and 4.6 miles of road maintenance.

Access: Portions of the road are on a cost share with the United States Forest Service.

Public Comments: Five comments total were received regarding this project. Two members of the public commented, the first of which had concerns about truck traffic and the second did not express concern towards the project. The first commenter was informed about the duration and intensity of truck traffic from the timber sale, which lessened the commenter's concern.

In addition, two comments were received from Montana Fish Wildlife and Parks (MT FWP), the first of which expressed concern about harvesting in Class I Stream Management Zones (SMZs). They were informed that there are no Class I or Class II SMZs in the project area. The second comment from MT FWP expressed concern about sensitive plant and wildlife species and road placement. They were informed that species of concern were addressed in the EA analysis.

Lastly, one comment was received from the Mineral County Resource Coalition in favor of the project and wanted to know about changes to motorized use. They were informed that motorized use designation(s) in the area would not change following project implementation.

These issues and concerns were incorporated into project planning and design and will be implemented in during the project.

DNRC Recommendation

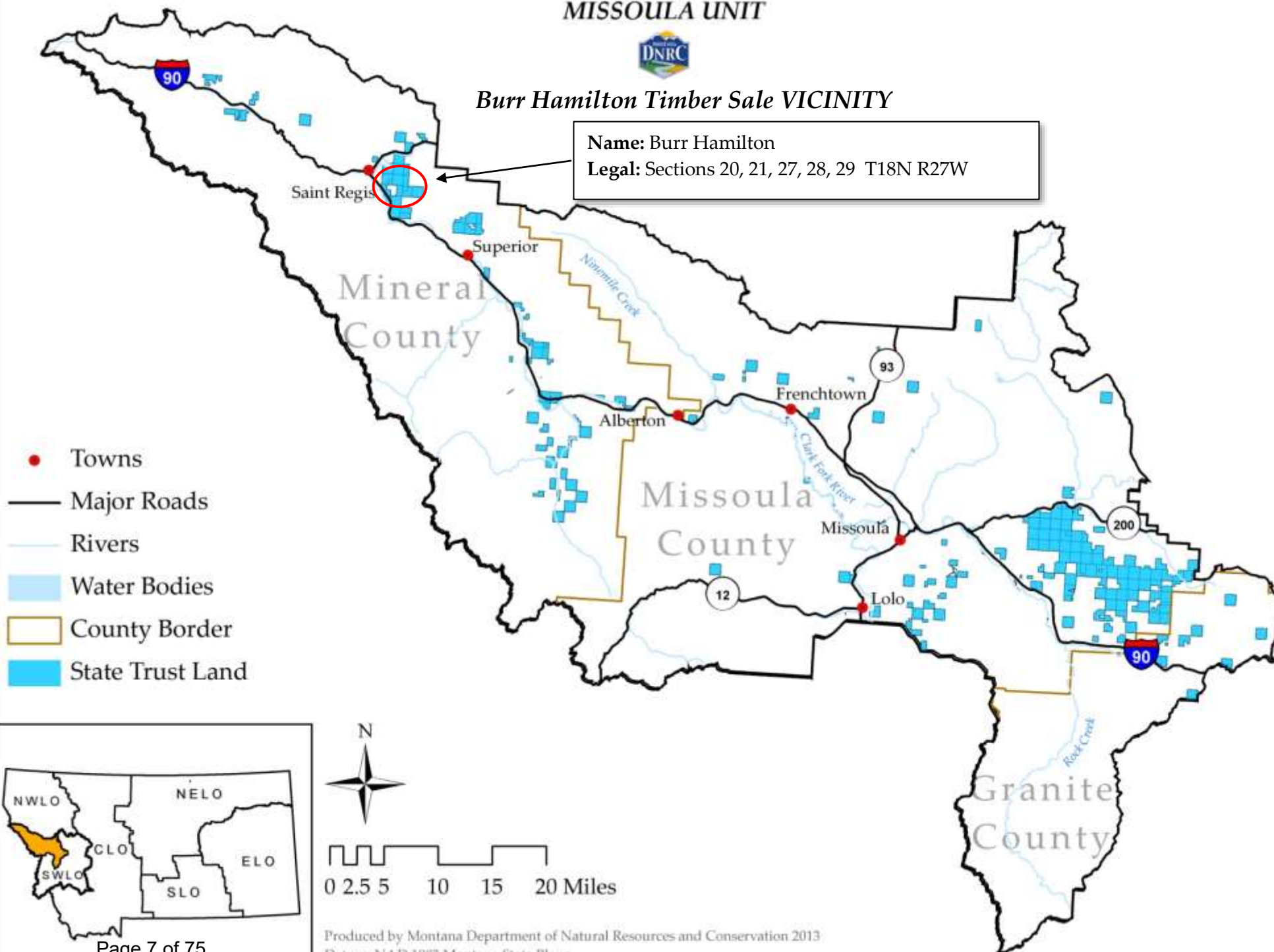
The director recommends the Land Board direct DNRC to sell the Burr Hamilton Timber Sale.

MISSOULA UNIT

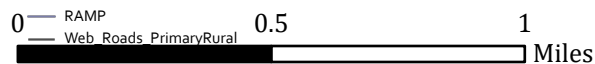
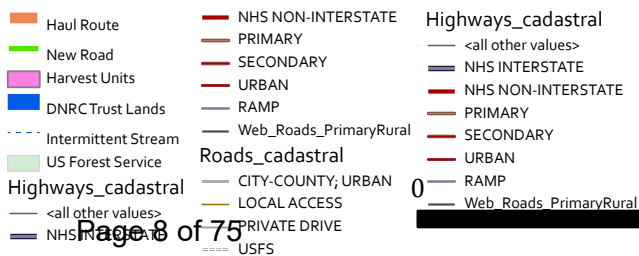
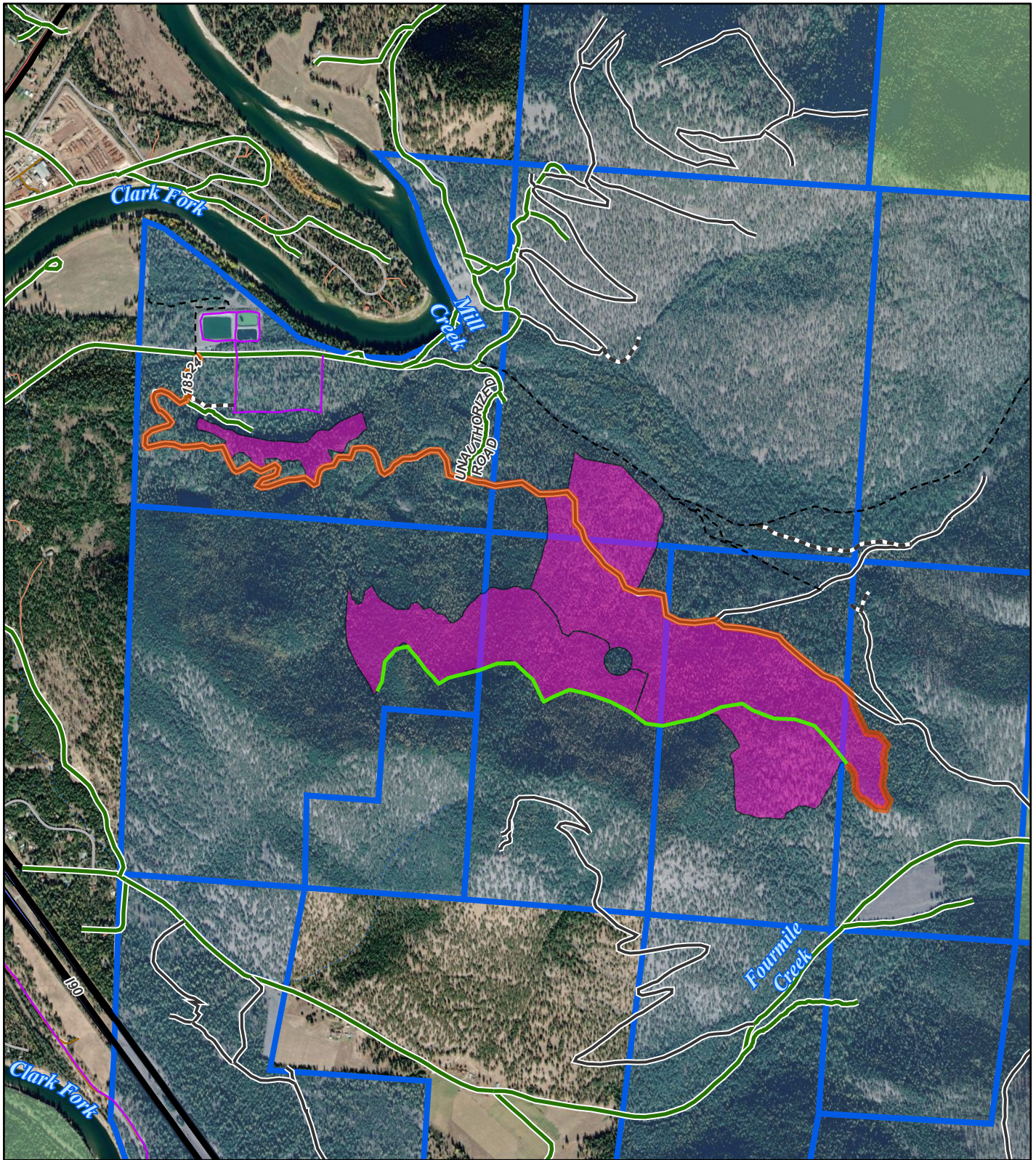
*Burr Hamilton Timber Sale VICINITY*

Name: Burr Hamilton

Legal: Sections 20, 21, 27, 28, 29 T18N R27W



Burr Hamilton Timber Sale Harvest Units and Haul Route



1221-2

OIL AND GAS LEASE SALE

(DECEMBER 7, 2021)

**Land Board Agenda Item
December 13, 2021**

1221-2 Oil and Gas Lease Sale (December 7, 2021)

Location: Hill, Liberty, Sheridan, Toole Counties

Trust Benefits: Common Schools

Trust Revenue: \$94,271.16

Item Summary

The Department of Natural Resources and Conservation (DNRC) held an online oil and gas lease sale that started on December 1, 2021 and closed on December 7, 2021, through the online auction company, EnergyNet. A total of thirty-six tracts were offered for lease. Thirty-six tracts were leased for a total of \$94,271.16. The thirty-six tracts that were sold covered a total of 11,222.95 acres. The average bid per acre was \$8.40.

The high competitive bid for the December 7, 2021 sale was \$67.50 per acre and the largest total bid was \$43,200.00 for Tract 29 in Liberty County

DNRC Recommendation

The director requests Land Board approval to issue the leases from the December 7, 2021 oil and gas lease sale.

State of Montana
Oil & Gas Lease Sale - December 7, 2021
Lease Sale Results

The following described lands were offered for oil and gas leasing through the online bidding service, EnergyNet.

Tract	Stipulations	Twp	Rng	Sec	Description	Acres	Bid/Acre	Total Bid	Lessee
Hill									
1	1, 2, 3, 4, 5, 6, 8	32.N	12.E	7	LOTS 3, 4, E2SW4	153.95	\$1.75	\$269.41	BEYOND HORIZON, LLC
2	1, 2, 3, 4, 5, 6	32.N	12.E	8	SE4	* 160.00	\$1.75	\$280.00	BEYOND HORIZON, LLC
3	1, 2, 3, 4, 5, 6, 10	32.N	12.E	16	ALL	640.00	\$1.75	\$1,120.00	BEYOND HORIZON, LLC
4	1, 2, 3, 4, 5, 6	33.N	9.E	2	E2	* 320.00	\$9.50	\$3,040.00	BEYOND HORIZON, LLC
5	1, 2, 3, 4, 5, 6, 10, 16	33.N	9.E	23	SE4NW4, NW4SE4, N2SW4, SW4SW4	200.00	\$14.50	\$2,900.00	BASELINE MINERALS, INC.
6	1, 2, 3, 4, 5, 6, 8, 10, 16	33.N	9.E	26	N2NW4, W2NE4	160.00	\$14.50	\$2,320.00	BASELINE MINERALS, INC.
7	1, 2, 3, 4, 5, 6, 10	33.N	9.E	36	ALL	640.00	\$9.50	\$6,080.00	BEYOND HORIZON, LLC
8	1, 2, 3, 4, 5, 6	33.N	11.E	5	S2	320.00	\$1.75	\$560.00	BEYOND HORIZON, LLC
9	1, 2, 3, 4, 5, 6	33.N	11.E	8	E2W2, NW4NW4, SW4SW4	240.00	\$1.75	\$420.00	BEYOND HORIZON, LLC
10	1, 2, 3, 4, 5, 6	33.N	11.E	16	ALL	640.00	\$1.75	\$1,120.00	BEYOND HORIZON, LLC
11	1, 2, 3, 4, 5, 6	33.N	11.E	17	N2NW4	80.00	\$1.75	\$140.00	BEYOND HORIZON, LLC
12	1, 2, 3, 4, 5, 6, 11	33.N	11.E	33	SE4NE4, NE4SE4, E2SE4SE4 LESS RR R/W	* 83.00	\$1.75	\$145.25	BEYOND HORIZON, LLC
13	1, 2, 3, 4, 5, 6, 11	33.N	11.E	34	S2NW4, N2SW4, SW4SW4	* 200.00	\$1.75	\$350.00	BEYOND HORIZON, LLC
14	1, 2, 3, 4, 5, 6, 10	33.N	11.E	36	ALL	640.00	\$1.75	\$1,120.00	BEYOND HORIZON, LLC
15	1, 2, 3, 4, 5, 6, 9, 10	34.N	10.E	36	ALL	640.00	\$1.75	\$1,120.00	BEYOND HORIZON, LLC
16	1, 2, 3, 4, 5, 6	34.N	11.E	36	ALL	640.00	\$1.75	\$1,120.00	BEYOND HORIZON, LLC
17	1, 2, 3, 4, 5, 6	34.N	12.E	16	ALL	* 640.00	\$1.75	\$1,120.00	BEYOND HORIZON, LLC
18	1, 2, 3, 4, 5, 6	35.N	13.E	16	ALL	640.00	\$1.75	\$1,120.00	BEYOND HORIZON, LLC
19	1, 2, 3, 4, 5, 6	36.N	13.E	36	ALL	640.00	\$1.75	\$1,120.00	BEYOND HORIZON, LLC
Liberty									
20	1, 2, 3, 4, 5, 6, 13	36.N	5.E	22	E2NW4, NE4	240.00	\$1.75	\$420.00	BEYOND HORIZON, LLC
21	1, 2, 3, 4, 5, 6, 13	36.N	5.E	23	W2NW4, NW4SW4	120.00	\$1.75	\$210.00	BEYOND HORIZON, LLC
22	2, 3, 4, 5, 6, 14	36.N	5.E	26	NW4SE4	40.00	\$2.75	\$110.00	BEYOND HORIZON, LLC
23	1, 2, 3, 4, 5, 6	36.N	6.E	19	LOT 3, SW4SE4	66.00	\$1.77	\$116.50	BEYOND HORIZON, LLC
24	1, 2, 3, 4, 5, 6	36.N	6.E	29	NW4NW4	40.00	\$2.75	\$110.00	BEYOND HORIZON, LLC
25	1, 2, 3, 4, 5, 6	36.N	6.E	30	NE4NE4	40.00	\$2.75	\$110.00	BEYOND HORIZON, LLC
26	1, 2, 3, 4, 5, 6, 7	37.N	4.E	11	SE4, BELOW THE BASE OF THE RIERDON FORMATION	160.00	\$1.75	\$280.00	WALKER, MICHAEL
27	1, 2, 3, 4, 5, 6, 7, 10	37.N	4.E	12	S2NW4, S2SW4, NE4SW4, BELOW THE BASE OF THE RIERDON FORMATION	200.00	\$1.75	\$350.00	WALKER, MICHAEL
28	1, 2, 3, 4, 5, 6	37.N	4.E	12	NW4SW4, BELOW THE BASE OF THE SWIFT FORMATION	40.00	\$2.75	\$110.00	WALKER, MICHAEL
29	1, 2, 3, 4, 5, 6	37.N	4.E	16	ALL, BELOW THE BASE OF THE KOOTENAI FORMATION	* 640.00	\$67.50	\$43,200.00	WALKER, MICHAEL

Tract	Stipulations	Twp	Rng	Sec	Description	Acres	Bid/Acre	Total Bid	Lessee
Liberty									
30	1, 2, 3, 4, 5, 6	37.N	5.E	7	SE4NW4, SW4NE4, NW4SE4, NE4SW4, BELOW THE BASE OF THE SWIFT FORMATION	160.00	\$1.75	\$280.00	WALKER, MICHAEL
31	1, 2, 3, 4, 5, 6	37.N	5.E	8	S2NE4, SE4, NE4SW4, BELOW THE BASE OF THE SWIFT FORMATION	280.00	\$1.75	\$490.00	WALKER, MICHAEL
32	1, 2, 3, 4, 5, 6, 7, 8	37.N	5.E	9	NE4NW4, S2NW4, NE4, SW4, SW4SE4, N2SE4, BELOW THE BASE OF THE SWIFT FORMATION	560.00	\$1.75	\$980.00	WALKER, MICHAEL
33	1, 2, 3, 4, 5, 6, 7, 8	37.N	5.E	9	SE4SE4, BELOW THE BASE OF THE SAWTOOTH FORMATION	40.00	\$2.75	\$110.00	WALKER, MICHAEL
34	1, 2, 3, 4, 5, 6	37.N	5.E	18	LOT 2, SE4NW4, BELOW THE BASE OF THE SWIFT FORMATION	80.00	\$1.75	\$140.00	WALKER, MICHAEL
Sheridan									
35	1, 2, 3, 4, 5, 6, 10, 12, 15	37.N	56.E	16	ALL	* 640.00	\$33.50	\$21,440.00	PRODUCTION ENERGY PARTNERS, LLC
Toole									
36	1, 2, 3, 4, 5, 6, 10	36.N	2.E	18	SE4NW4, W2SE4, E2SW4	* 200.00	\$1.75	\$350.00	WALKER, MICHAEL

* Part or all of tract is not state-owned surface

Summary by Lessor

	Total Acres	Total Tracts
Dept. of Natural Resources and Conservation	11,222.95	36

Oil and Gas Lease Sale Summary

Total Tracts	36
Total Acres	11,222.95
Total Bid Revenue	\$94,271.16
Average Bid Per Acre	\$8.40

State of Montana
Oil & Gas Lease Sale - December 7, 2021
Stipulations

- 1 Lessee shall notify and obtain approval from the Department's Trust Land Management Division (TLMD) prior to constructing well pads, roads, power lines, and related facilities that may require surface disturbance on the tract. Lessee shall comply with any mitigation measures stipulated in TLMD's approval.
- 2 Prior to the drilling of any well on or into the lease premises, lessee shall send one copy of the well prognosis, including Form 22 "Application for Permit" to the Department's Trust Land Management Division (TLMD). After a well is drilled and completed, lessee shall send one copy of all logs run, Form 4A "Completion Report", and geologic report to TLMD. A copy of Form 2 "Sundry Notice and Report of Wells" or other appropriate Board of Oil and Gas Conservation form shall be sent to TLMD whenever any subsequent change in well status or operator is intended or has occurred. Lessee shall also notify and obtain approval from the TLMD prior to plugging a well on the lease premises.

Issuance of this lease in no way commits the Land Board to approval of coal bed methane production on this lease. Any coal bed methane extraction wells would require subsequent review and approval by the board.
- 3 The TLMD will complete an initial review for cultural resources and, where applicable, paleontological resources of the area intended for disturbance and may require a resources inventory. Based on the results of the inventory, the TLMD may restrict surface activity for the purpose of protecting significant resources located on the lease premises.
- 4 The lessee shall be responsible for controlling any noxious weeds introduced by lessee's activity on State-owned land and shall prevent or eradicate the spread of those noxious weeds onto land adjoining the lease premises. The lessee's methods of control shall be reviewed and approved by the Department's Unit Office that has jurisdiction for that locale.
- 5 The definitions of "oil" and "gas" provided in 82-1-111, MCA, do not apply to this lease for royalty calculation purposes.
- 6 If the State does not own the surface, the lessee must contact the owner of the surface in writing at least 30 days prior to any surface activity. A copy of the correspondence shall be sent to TLMD.
- 7 Due to unstable soil conditions on this tract and/or topography that is rough and/or steep, surface use may be restricted or denied. Seismic activity may be restricted to poltershots.
- 8 The lessee is responsible to pay for all damages, including penalties and charges assessed by the USDA-CFSA on CRP lands, as a result of drilling and production on the tract.
- 9 This lease is located within designated sage grouse general habitat. Proposed activities are subject to, and shall comply with, all provisions, stipulations and mitigation requirements of the Montana Sage Grouse Habitat Conservation Strategy, as implemented by Governor's Executive Orders 10-2014, 12-2015, and amendments thereto. Contact the TLMD prior to preparing a project proposal.
- 10 Due to the floodplain/wetlands area(s), surface use may be restricted or denied.
- 11 Due to existing surface uses, adjacent surface uses, and the potential for future surface development, utilization of the surface for mineral exploration and development may be restricted or denied. Review of operating plans for exploration and/or development will include consideration of existing, adjacent, and potential surface development to minimize conflicts and ensure that both mineral and surface uses are consistent with one another and in the best long-term interest of the school trust.
- 12 This tract has (an) existing well(s) and related facilities. The lessee has 45 days from the effective date of this lease to determine whether or not to assume responsibility from the former lessee for the well(s) and any existing facilities. The lessee may not enter the well(s) until a change of operator has been filed with, and approved by, the Board of Oil and Gas Conservation. The(se) well(s) must be returned to commercial production or plugged and the well site (s) reclaimed within 6 months from the effective date of this lease.
- 13 No surface occupancy shall be allowed on this tract unless otherwise approved in writing by the Director of DNRC.

- 14 This lease includes areas that may be environmentally sensitive. Therefore, if the lessee intends to conduct any activities on the lease premises, the lessee shall submit to TLMD one copy of an Operating Plan or Amendment to an existing Operating Plan, describing in detail the proposed activities. No activities shall occur on the tract until the Operating Plan or Amendments have been approved in writing by the Director of the Department. TLMD shall review the Operating Plan or Amendment and notify the lessee if the Plan or Amendment is approved or disapproved.

After an opportunity for an informal hearing with the lessee, surface activity may be denied or restricted on all or portions of any tract if the Director determines in writing that the proposed surface activity will be detrimental to trust resources and therefore not in the best interests of the trust.

- 15 If whooping cranes are observed on-site, construction and/or maintenance activities shall be suspended until birds leave the area.
- 16 This tract contains a MT DNRC lease to U. S. Fish and Wildlife Service (FWS). This lease is being used as part of a waterfowl production area. Coordination with the U. S. FWS regarding the Department's MEPA review, and well location is required prior to approval of an oil or gas well and/or related activities.

1221-3

CABIN AND HOME SITES:

Set Minimum Bid for Sale

A. Flathead County

B. Sanders County

**Land Board Agenda Item
December 13, 2021**

1221-3A Cabin and Home Sites: Set Minimum Bid for Sale

Location: Flathead County
Trust Benefits: Deaf & Blind School, Montana Tech, Common Schools
Trust Revenue: \$1,716,000

Item Summary

The Department of Natural Resources and Conservation (DNRC) is requesting to set the minimum bid for 13 cabin sites nominated for sale in Flathead County. These sales were nominated by the lessees in conjunction with the Cabin and Home Site Sale Program. Preliminary Land Board approval was granted in April of 2020 (Approved 5-0).

Sale No.	Acres	Legal Description	Nominator	Trust
1040	1.055	Lot 4, Olney Townsite, COS 21331 T32N-R23W, Section 7	Joseph & Kathleen Krass	Deaf & Blind School
1138	1.551	Lot 1, Beaver Lake, COS 18353 T31N-R22W, Section 20	Rod & Sonya Herrick	Montana Tech
1139	2.774	Lot 3, Beaver Lake, COS 18353 T31N-R22W, Section 20	Caroline Saunders Smith	Montana Tech
1140	2.513	Lot 8, Beaver Lake, COS 18353 T31N-R22W, Section 20	Richard Kramer	Montana Tech
1141	1.457	Lot 16, Beaver Lake, COS 18353 T31N-R22W, Section 20	Philip R. Hambley	Montana Tech
1147	1.045	Lot 11, Olney Townsite, COS 21331 T32N-R23W, Section 7	Vincent L. Marks	Deaf & Blind School
1148	1.619	Lot 19, Olney Townsite, COS 21331 T32N-R23W, Section 7	Joseph & Kathleen Krass	Deaf & Blind School
1149	1.064	Lot 24, Olney Townsite, COS 21331 T32N-R23W, Section 7	Nathan & Patti Conkle	Deaf & Blind School
1150	2.771	Parcel 3, Olney Townsite, COS 21331 T32N-R23W, Section 7	John & Karen Streat	Deaf & Blind School
1151	3.546	Parcel 2, Olney Townsite, COS 21331 T32N-R23W, Section 7	John & Karen Streat	Deaf & Blind School
1152	4	Tract 9 COS 21990 OLNEY REMOTE T332-R23W, Section 18	Starla & Ted Guckenberg	Montana Tech
1153	2	Tract 3 COS 21787 T33N-R24W, Section 23	Wade, Mark, & Ben Fredenberg; Jovita Kottraba	Common Schools
1166	2.238	Lot 5, Beaver Lake, COS 18353 T31N-R22W, Section 20	Lonnie & Catherine Collinsworth	Montana Tech

The parcels are currently leased as cabin sites and produce an average income for residential leases statewide. The parcels will be sold with the access that is currently provided under their lease agreements and can be conveyed by DNRC.

Cultural/Paleontological Resources:

A Class I level of cultural resource inventory was conducted for each of the proposed sales. Home sites typically contain numerous structures and the ground surfaces within most home sites have been disturbed over the course of many years of occupation and development. These sales will have no effect to state-owned heritage properties.

Access/Recreational Use:

As part of the cabin site sale process, the State will convey any access that it has and can be conveyed to the purchaser of the cabin or home site property. Current cabin/home site access is limited to the lessee and does not provide access or recreational use to the general public. State lands classified as cabin or home sites are closed to general recreational use by the public in accordance with ARM 36.25.150(1)(a). Therefore, the State is not selling land under the cabin site sale program that the public is permitted to use for recreation. Rather, the funds generated by these sales will go towards purchasing new lands that will have dedicated public access and recreational opportunities.

Economic Analysis:

Short term – The average rates of return on these sale parcels are as shown in Figure 1. The parcels will continue to receive these returns if they remain in state ownership. The income rates of return will likely grow smaller over the next 20 years, as average annual value appreciation is greater than the annual rent increase, as shown in Figures 2 through 14 on the following pages.

Figure 1: Rates of Return at Current Appraised Values

Sale No.	Rate of Return	Sale No.	Rate of Return
1040	2.295%	1149	2.402%
1138	3.653%	1150	2.023%
1139	3.626%	1151	2.023%
1140	3.945%	1152	1.276%
1141	3.754%	1153	2.826%
1147	2.230%	1166	2.662%
1148	3.472%		

Figure 2: Sale 1040 - Review of Past Income and Values; Forecast Income and Values

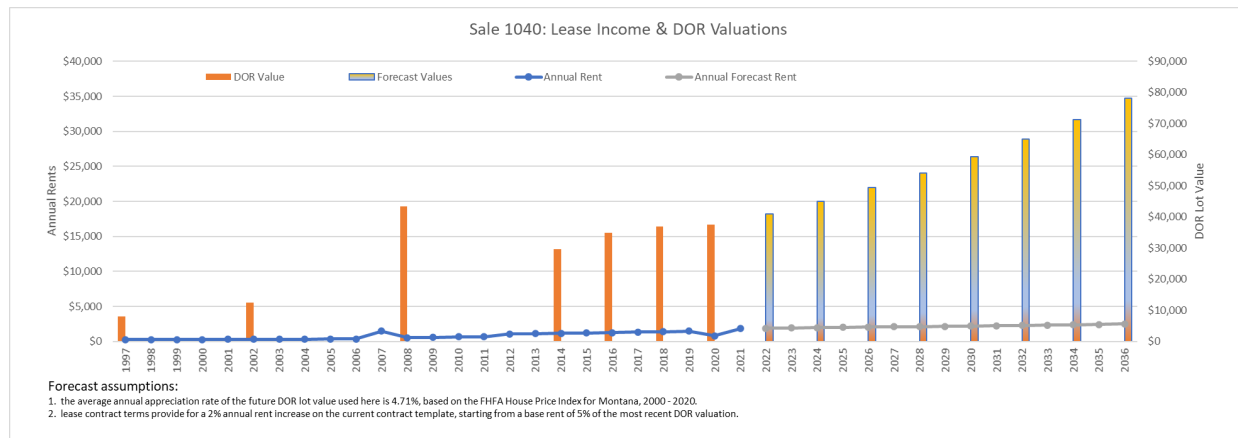


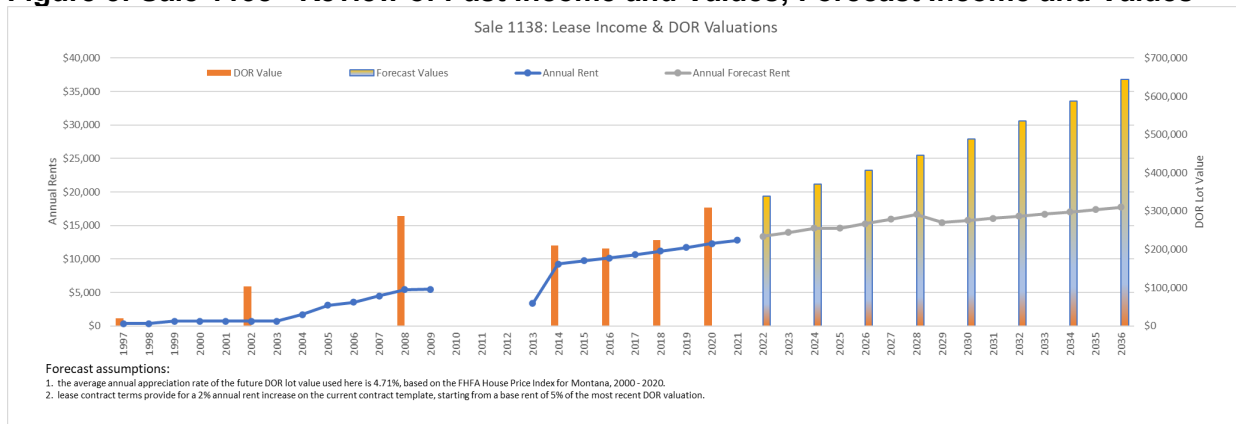
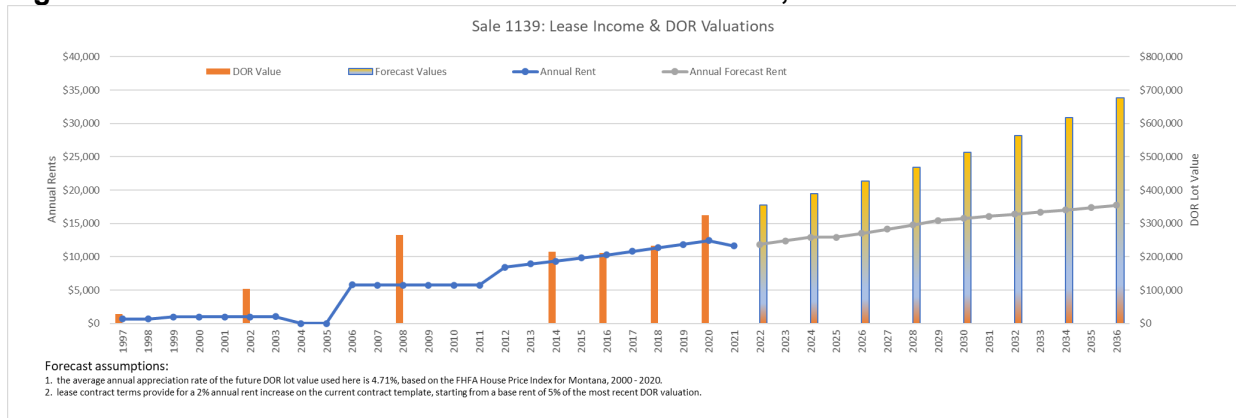
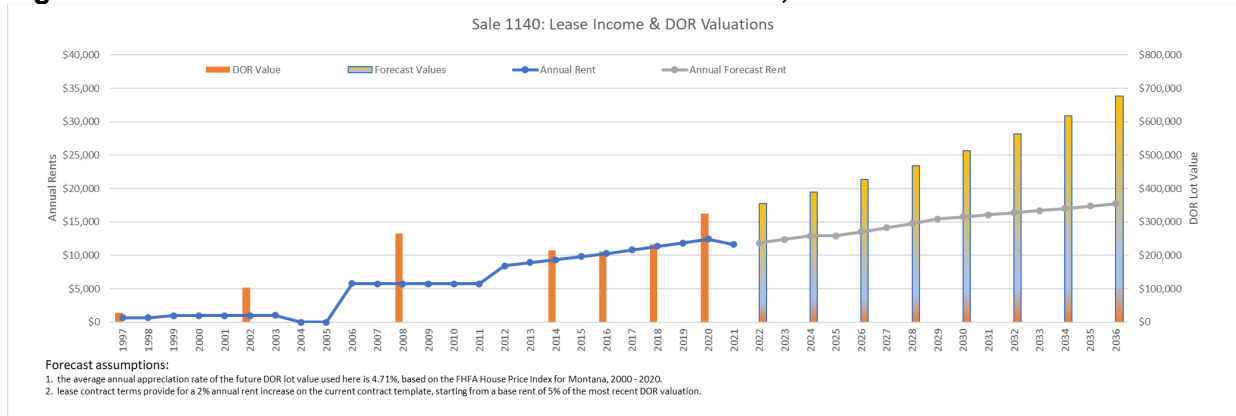
Figure 3: Sale 1138 - Review of Past Income and Values; Forecast Income and Values**Figure 4: Sale 1139 - Review of Past Income and Values; Forecast Income and Values****Figure 5: Sale 1140 - Review of Past Income and Values; Forecast Income and Values**

Figure 6: Sale 1141 - Review of Past Income and Values; Forecast Income and Values

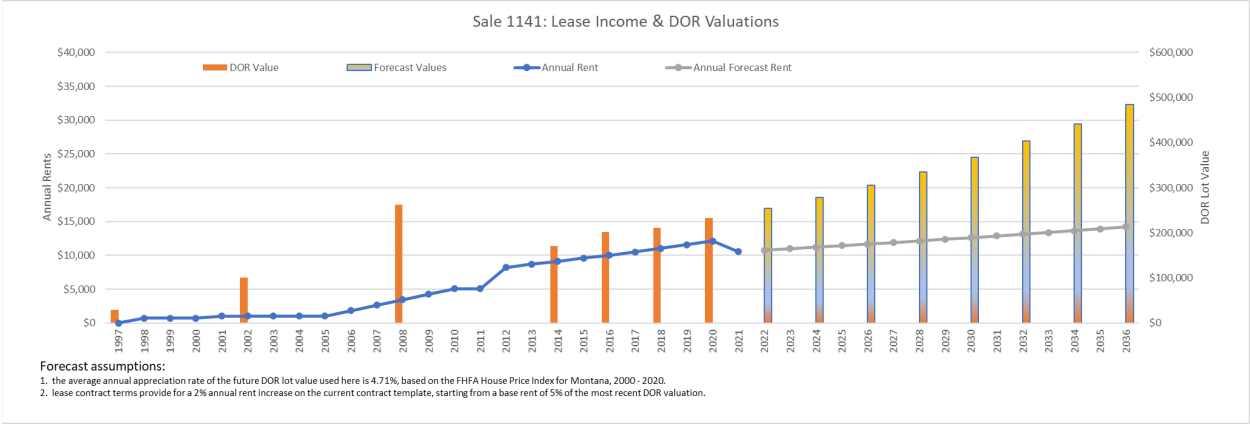


Figure 7: Sale 1147 - Review of Past Income and Values; Forecast Income and Values

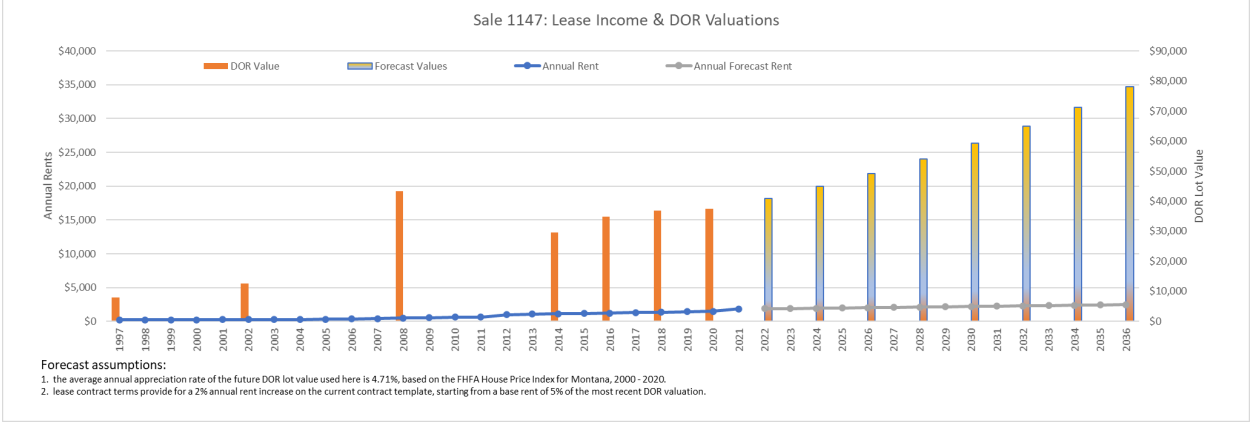


Figure 8: Sale 1148 - Review of Past Income and Values; Forecast Income and Values

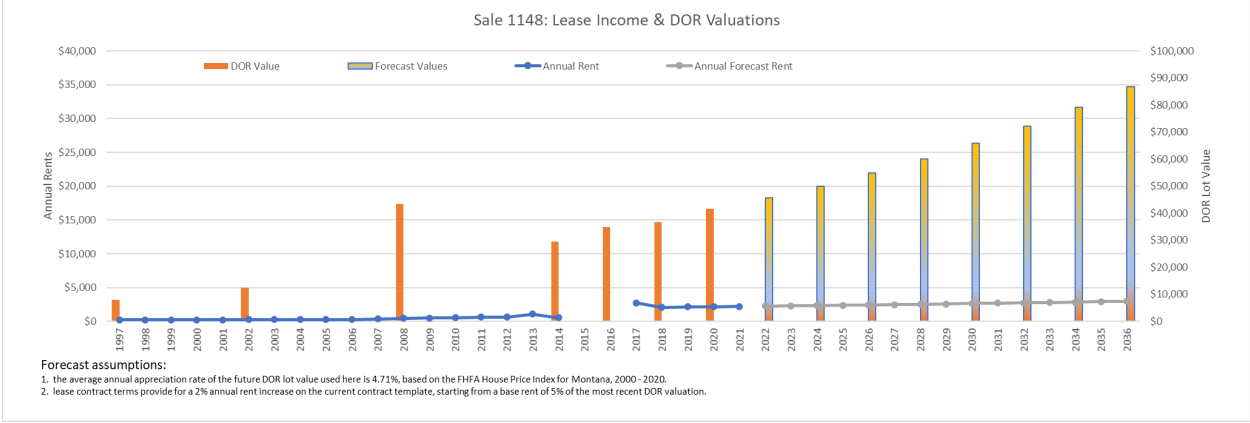


Figure 9: Sale 1149 - Review of Past Income and Values; Forecast Income and Values

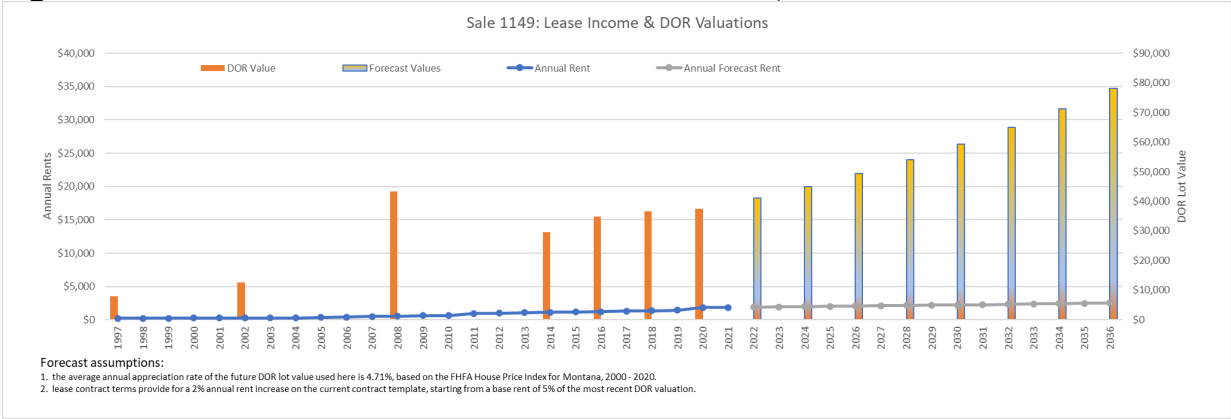


Figure 10: Sale 1150 - Review of Past Income and Values; Forecast Income and Values

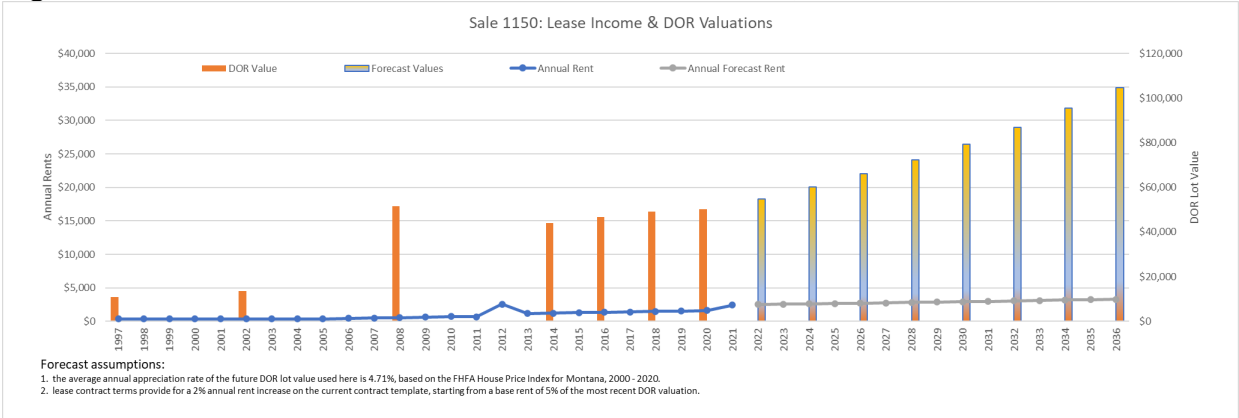


Figure 11: Sale 1151 - Review of Past Income and Values; Forecast Income and Values

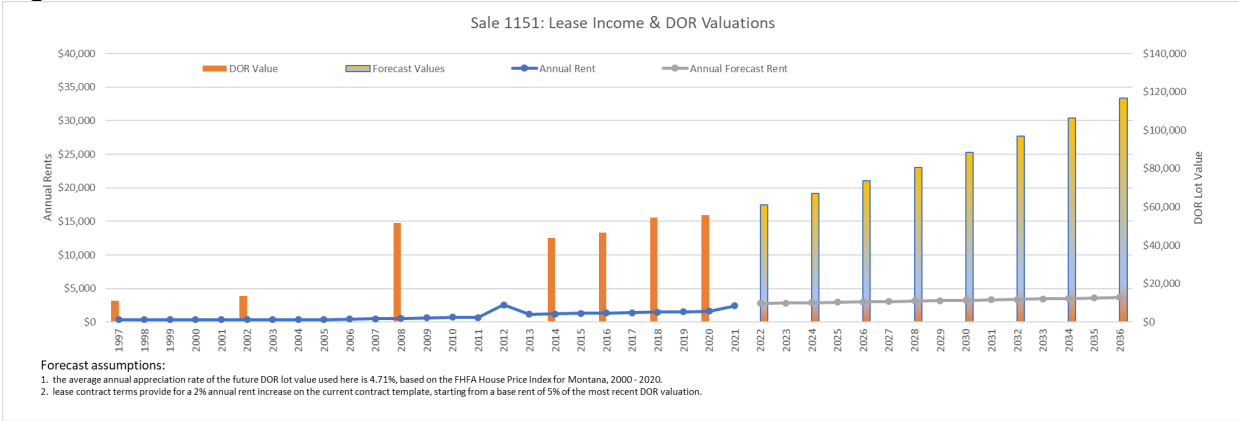
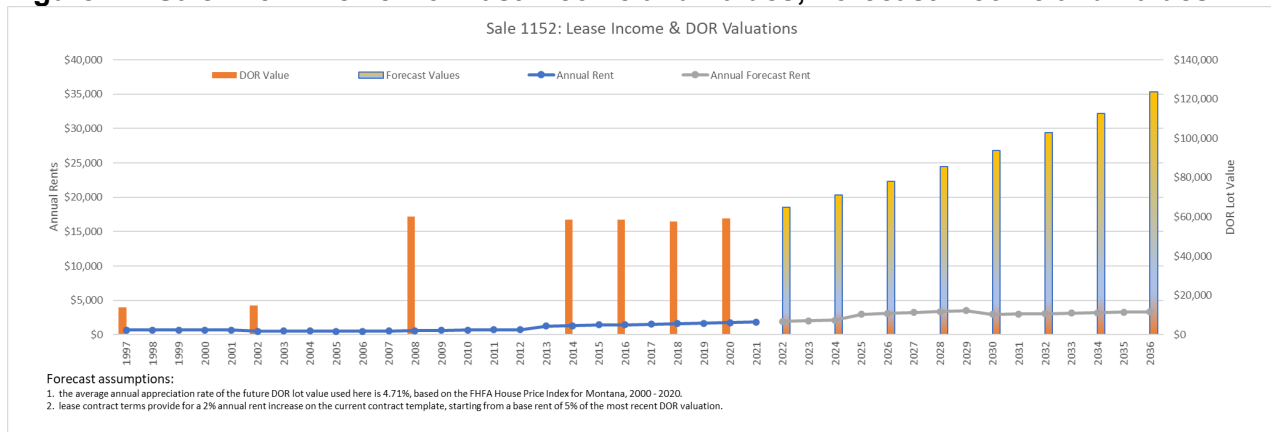
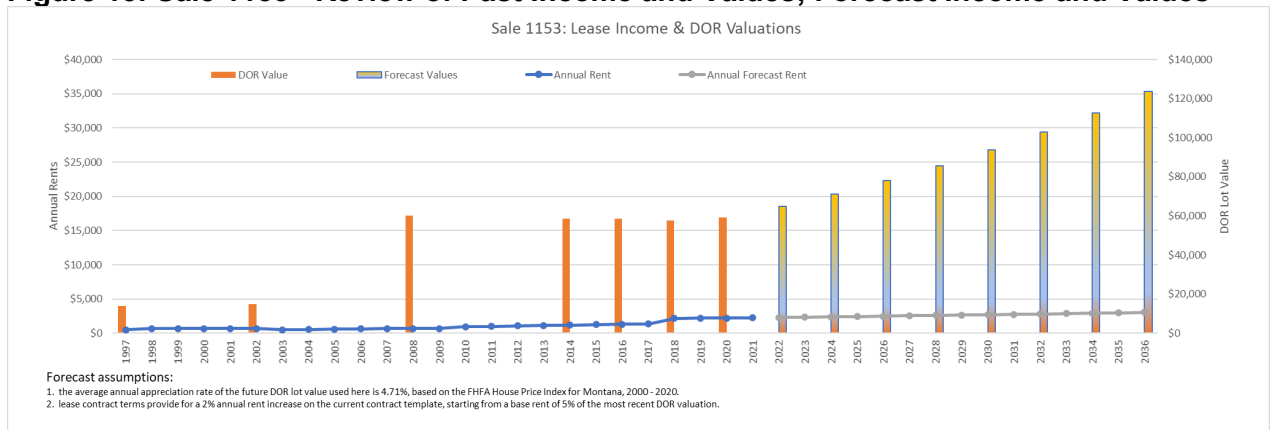
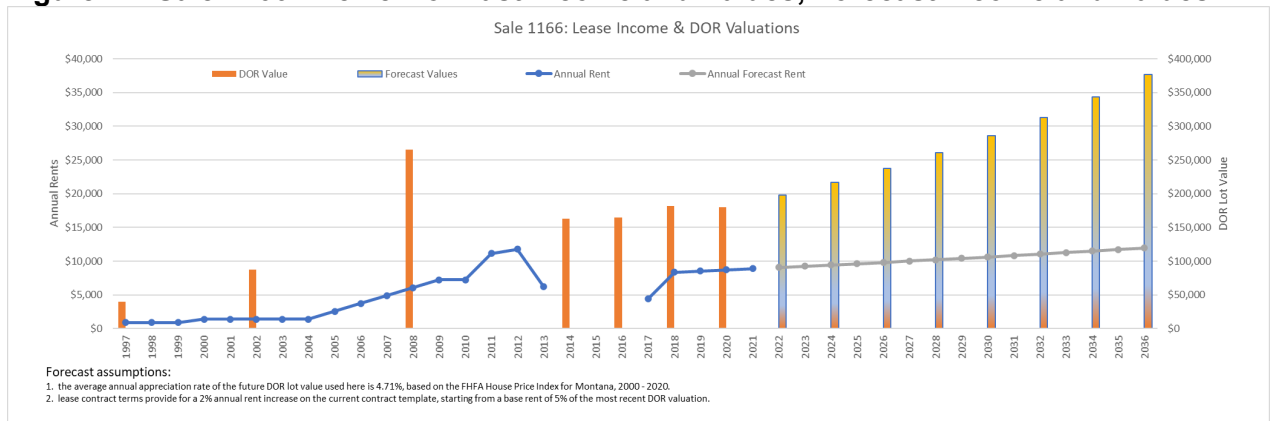


Figure 12: Sale 1152 - Review of Past Income and Values; Forecast Income and Values**Figure 13: Sale 1153 - Review of Past Income and Values; Forecast Income and Values****Figure 14: Sale 1166 - Review of Past Income and Values; Forecast Income and Values**

Long term – The funds from the sale of these parcels would be combined with other sale funds to purchase replacement lands through DNRC's Land Banking program. Lands purchased are required to have an equal or greater rate of return than the combined lands that generated the sale funds used for the purchase. To date, the average annual rate of return has been 2.91% on acquisitions, with income generated from annual lease payments. However, the rates of return on land acquired more recently have been higher, ranging from 3.54% on acquisitions purchased within the last three years to 3.21% for lands acquired within the last ten years. Figure 15 shows hypothetical lot values derived from the 3-year average net

revenue of the current lease, at a sample range of income rates of return that could be anticipated when the sale proceeds are used for a land banking acquisition.

Figure 15: Lot Values derived from 3-year Average Net Income at Sample Rate of Return

Sale Number		Rate of Return at Current Appraised Value for Land	Average Rate of Return on all Land Banking Acquisitions	Average Rate of Return on Land Banking Acquisitions within the last 3 years	Average Rate of Return on Land Banking Acquisitions within the last 5 years	Average Rate of Return on Land Banking Acquisitions within the last 10 years
	Income Rate of Return	Various (see Figure 1)	2.91%	3.54%	3.16%	3.21%
1040	Derived Lot Value	\$50,000	\$39,426	\$32,410	\$36,307	\$35,742
1138	Derived Lot Value	\$250,000	\$313,841	\$257,988	\$289,011	\$284,510
1139	Derived Lot Value	\$255,000	\$317,737	\$261,191	\$292,600	\$288,042
1140	Derived Lot Value	\$240,000	\$325,380	\$267,473	\$299,638	\$294,971
1141	Derived Lot Value	\$240,000	\$309,599	\$254,501	\$285,105	\$280,664
1147	Derived Lot Value	\$50,000	\$50,003	\$38,319	\$31,499	\$35,287
1148	Derived Lot Value	\$48,000	\$57,278	\$47,085	\$52,747	\$51,925
1149	Derived Lot Value	\$50,000	\$41,267	\$33,923	\$38,002	\$37,410
1150	Derived Lot Value	\$60,000	\$41,717	\$34,293	\$38,417	\$37,818
1151	Derived Lot Value	\$60,000	\$41,717	\$34,293	\$38,417	\$37,818
1152	Derived Lot Value	\$103,000	\$45,163	\$37,125	\$41,590	\$40,942
1153	Derived Lot Value	\$60,000	\$58,267	\$47,897	\$53,657	\$52,821
1166	Derived Lot Value	\$250,000	\$228,687	\$187,988	\$210,594	\$207,314

Appraised Values of Land and Improvements:

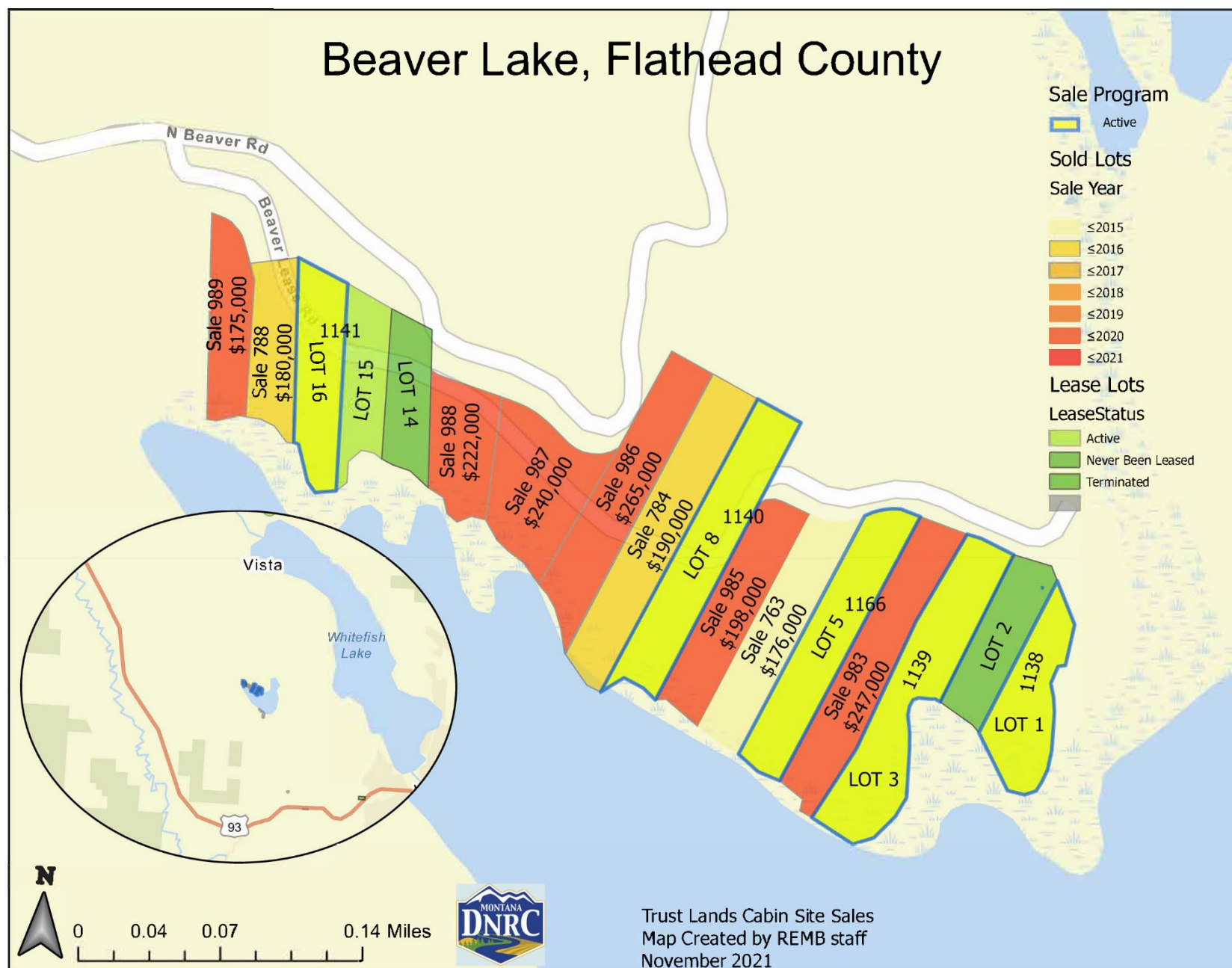
The appraisals were prepared by Montana General Certified Appraisers Elliott M. Clark, MAI, of Clark Real Estate Appraisal in Whitefish and Jennifer L. McGinnis, MAI of McGinnis Real Estate Appraisal Group, LLC in Whitefish.

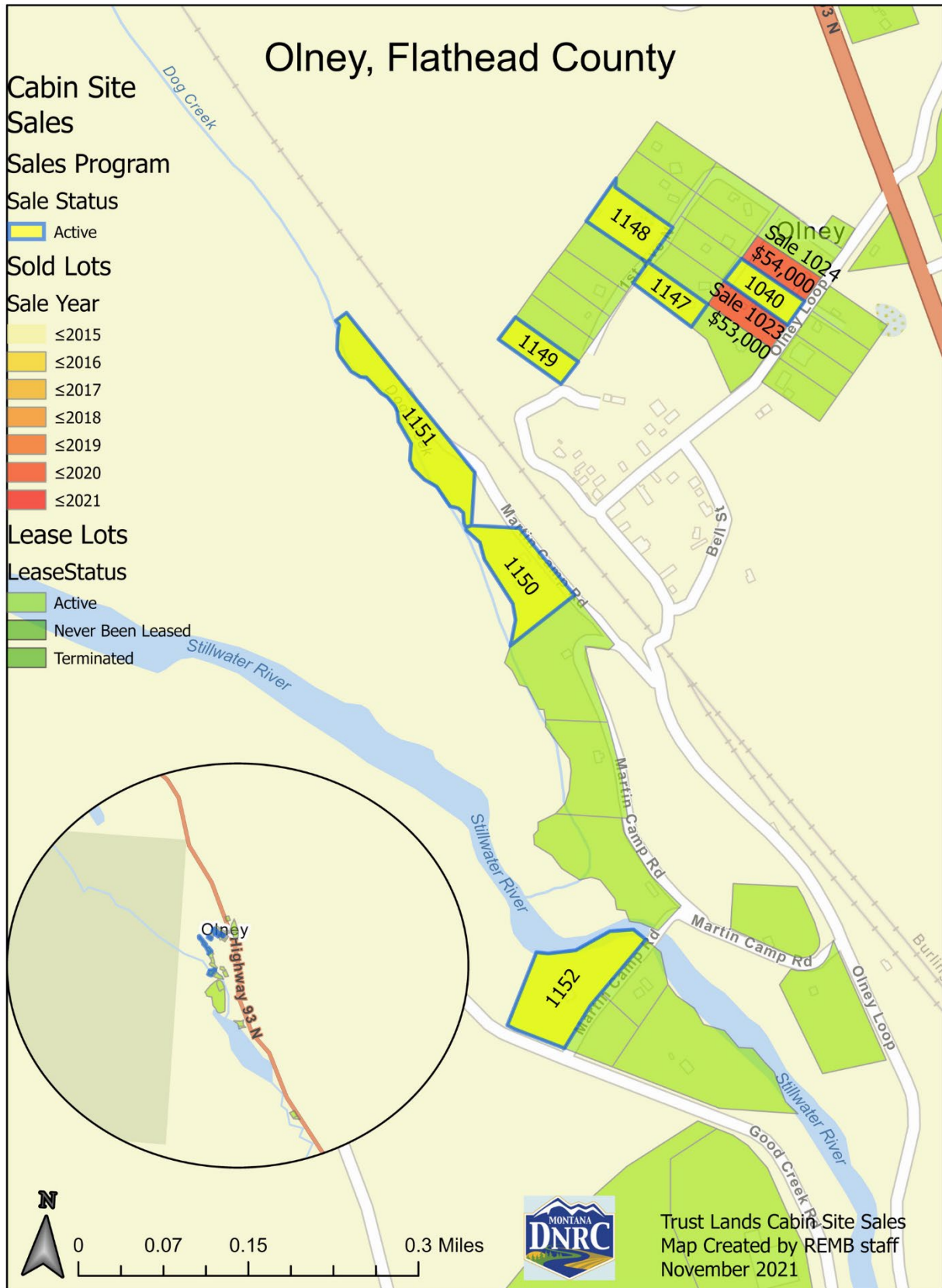
Sale Nos.	Appraised Land Value	Appraised Improvements Value
1040	\$ 50,000	\$ 116,000
1138	\$ 250,000	\$ 0
1139	\$ 255,000	\$ 150,000
1140	\$ 240,000	\$ 72,000
1141	\$ 240,000	\$ 85,000

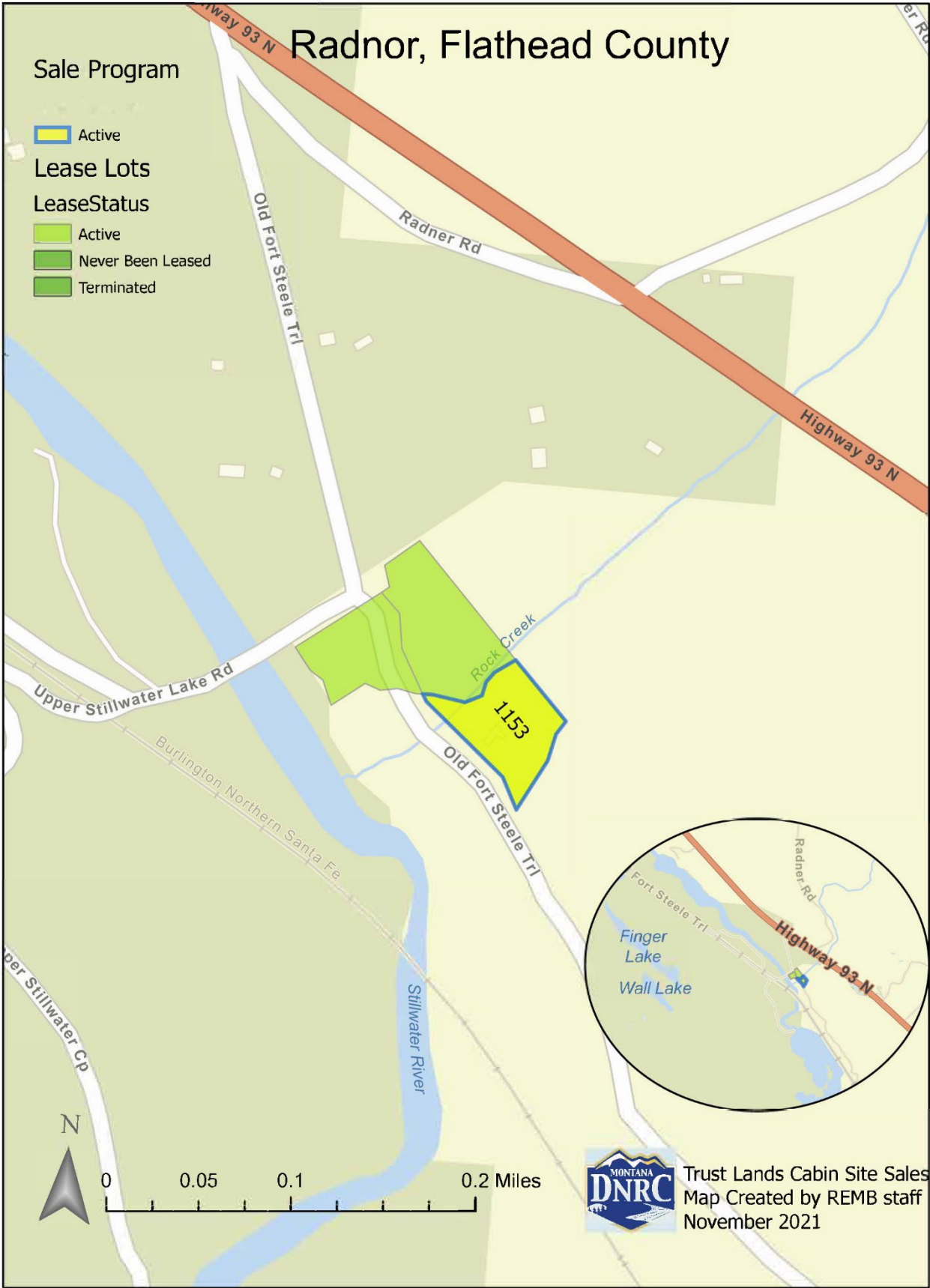
1147	\$ 50,000	\$ 55,000
1148	\$ 48,000	\$ 50,000
1149	\$ 50,000	\$ 418,000
1150	\$ 60,000	\$ 153,000
1151	\$ 60,000	\$ 270,000
1152	\$ 103,000	\$ 256,000
1153	\$ 60,000	\$ 110,000
1166	\$ 250,000	\$ 165,000

DNRC Recommendation

The director recommends that the Land Board set the minimum bid for these cabin sites at the appraised land value and the maximum value of compensation for the improvements shown above.







**Land Board Agenda Item
December 13, 2021**

1221-3B Cabin and Home Sites: Set Minimum Bid for Sale

Location: Sanders County
Trust Benefits: Common Schools
Trust Revenue: \$250,000

The Department of Natural Resources and Conservation (DNRC) is requesting to set the minimum bid for 3 cabin sites nominated for sale in Sanders County. These sales were nominated by the lessees in conjunction with the Cabin and Home Site Sale Program. In May 2020, the Board granted preliminary approval (Approved 5-0) for these sites to be included as part of the 2020-2021 Cabin Site Sales Program.

Sale No.	Acres	Legal Description	Nominator	Trust
1170	0.21	Tract 4, COS 3705 Sanders County	Marcie Albright & Jodie Chacon	Common Schools
1171	0.46	Tract 9, COS 3703 Sanders County	Bonnie J. & John Jay Gagnon	Common Schools
1172	1.94	Tract 1, COS 3704, Sanders County	Juan Lulack	Common Schools

The parcels are currently leased as cabin sites and produce an average income for residential leases statewide. The parcels will be sold with the access that is currently provided under their lease agreements and can be conveyed by DNRC.

Cultural/Paleontological Resources:

A Class I level of cultural resource inventory was conducted for each of the proposed sales. Home sites typically contain numerous structures and the ground surfaces within most home sites have been disturbed over the course of many years of occupation and development. These sales will have no effect to state-owned heritage properties.

Access/Recreational Use:

As part of the cabin site sale process, the State will convey any access that it has and can be conveyed to the purchaser of the cabin or home site property. Current cabin/home site access is limited to the lessee and does not provide access or recreational use to the general public. State lands classified as cabin or home sites are closed to general recreational use by the public in accordance with ARM 36.25.150(1)(a). Therefore, the State is not selling land under the cabin site sale program that the public is permitted to use for recreation. Rather, the funds generated by these sales will go towards purchasing new lands that will have dedicated public access and recreational opportunities.

Economic Analysis:

Short term – The average rates of return on these sale parcels are as shown in Figure 1. The parcels will continue to receive these returns if they remain in state ownership. The income rates of return will likely grow smaller over the next 20 years, as

average annual value appreciation is greater than the annual rent increase, as shown in Figures 2 through 4 below.

Figure 1: Rates of Return at Current Appraised Values

Sale No.	Rate of Return	Sale No.	Rate of Return
1170	1.133%	1172	0.897%
1171	1.215%		

Figure 2: Sale 1070 - Review of Past Income and Values; Forecast Income and Values

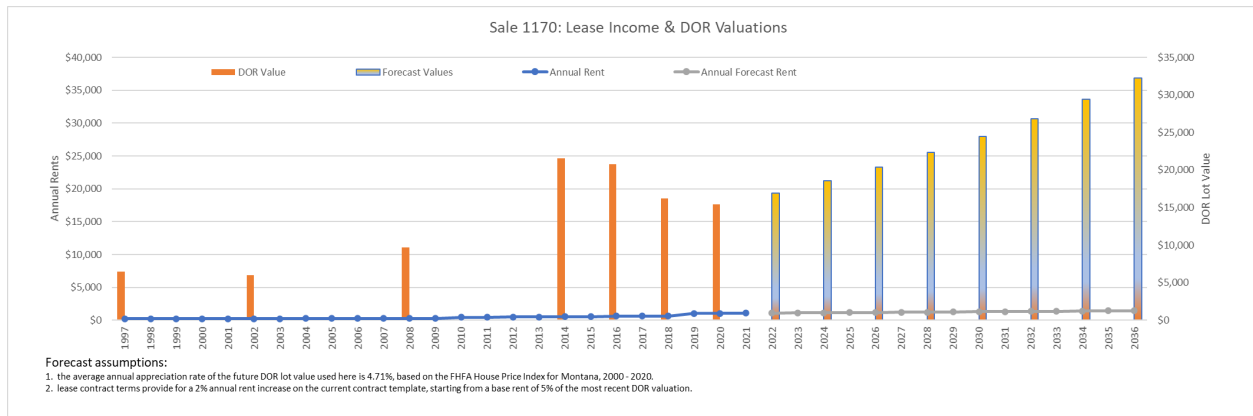


Figure 3: Sale 1171 - Review of Past Income and Values; Forecast Income and Values

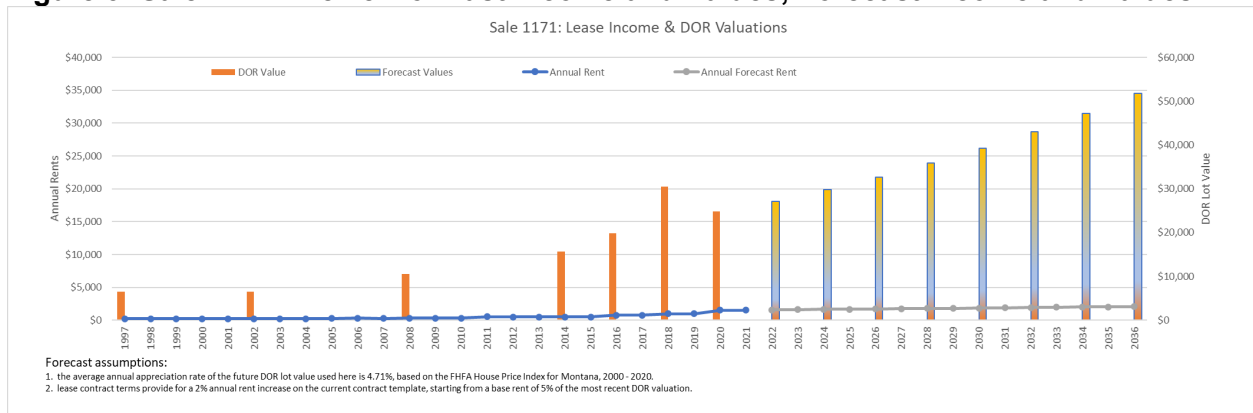
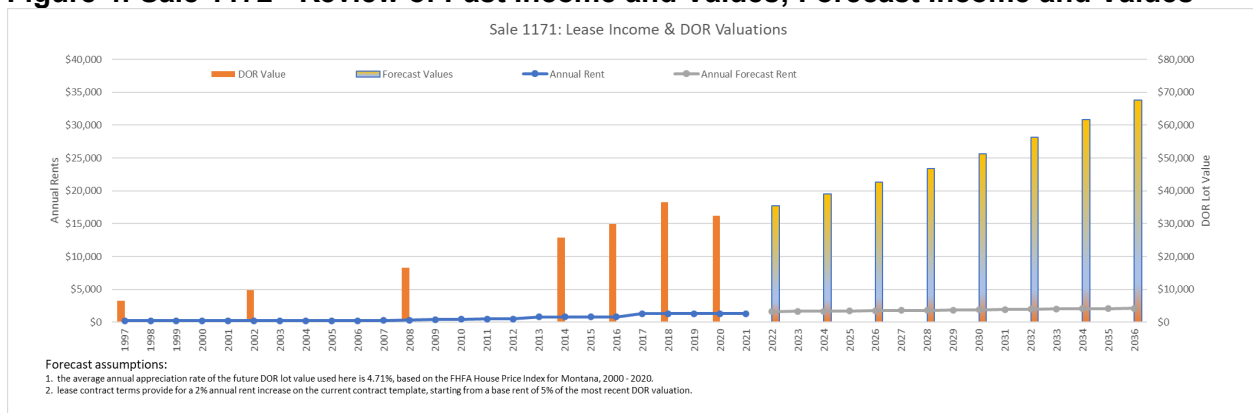


Figure 4: Sale 1172 - Review of Past Income and Values; Forecast Income and Values



Long term – The funds from the sale of these parcels would be combined with other sale funds to purchase replacement lands through DNRC’s Land Banking program. Lands purchased are required to have an equal or greater rate of return than the combined lands that generated the sale funds used for the purchase. To date, the average annual rate of return on acquisitions has been 2.91% on acquisitions, with income generated from annual lease payments. However, the rates of return on land acquired more recently have been higher, ranging from 3.54% on acquisitions purchased within the last three years to 3.21% for lands acquired within the last ten years. Figure 5 shows hypothetical lot values derived from the 3-year average net revenue of the current lease, at a sample range of income rates of return that could be anticipated when the sale proceeds are used for a land banking acquisition.

Figure 5: Lot Values derived from 3-year Average Net Income at Sample Rate of Return

Sale Number		Rate of Return at Current Appraised Value for Land	Average Rate of Return on all Land Banking Acquisitions	Average Rate of Return on Land Banking Acquisitions within the last 3 years	Average Rate of Return on Land Banking Acquisitions within the last 5 years	Average Rate of Return on Land Banking Acquisitions within the last 10 years
	Income Rate of Return	Various (see Figure 1)	2.91%	3.54%	3.16%	3.21%
1170	Derived Lot Value	\$63,000	\$24,536	\$20,170	\$22,595	\$22,243
1171	Derived Lot Value	\$75,000	\$31,324	\$25,749	\$28,846	\$28,396
1172	Derived Lot Value	\$112,000	\$34,540	\$28,393	\$31,808	\$31,312

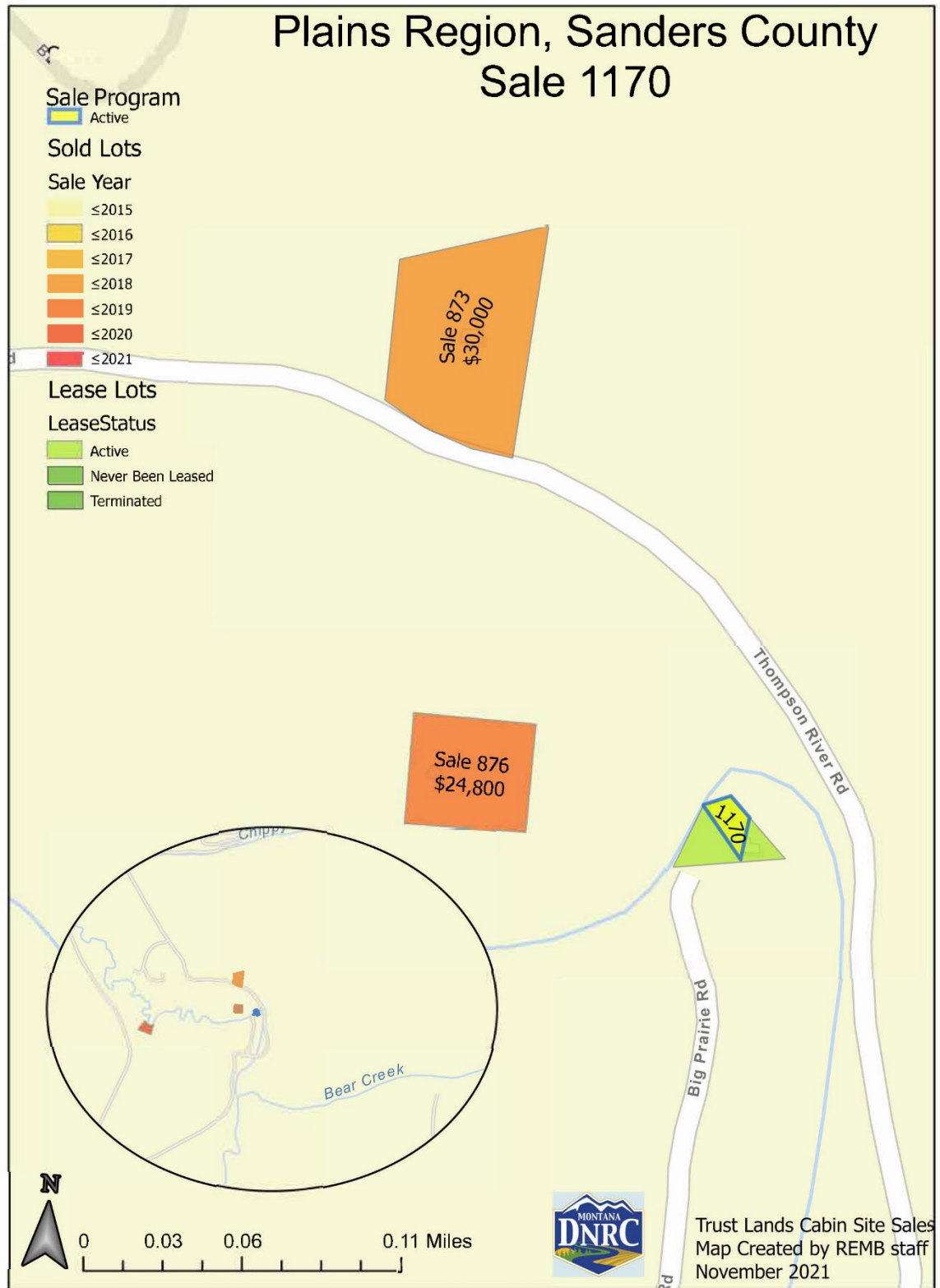
Appraised Values of Land and Improvements:

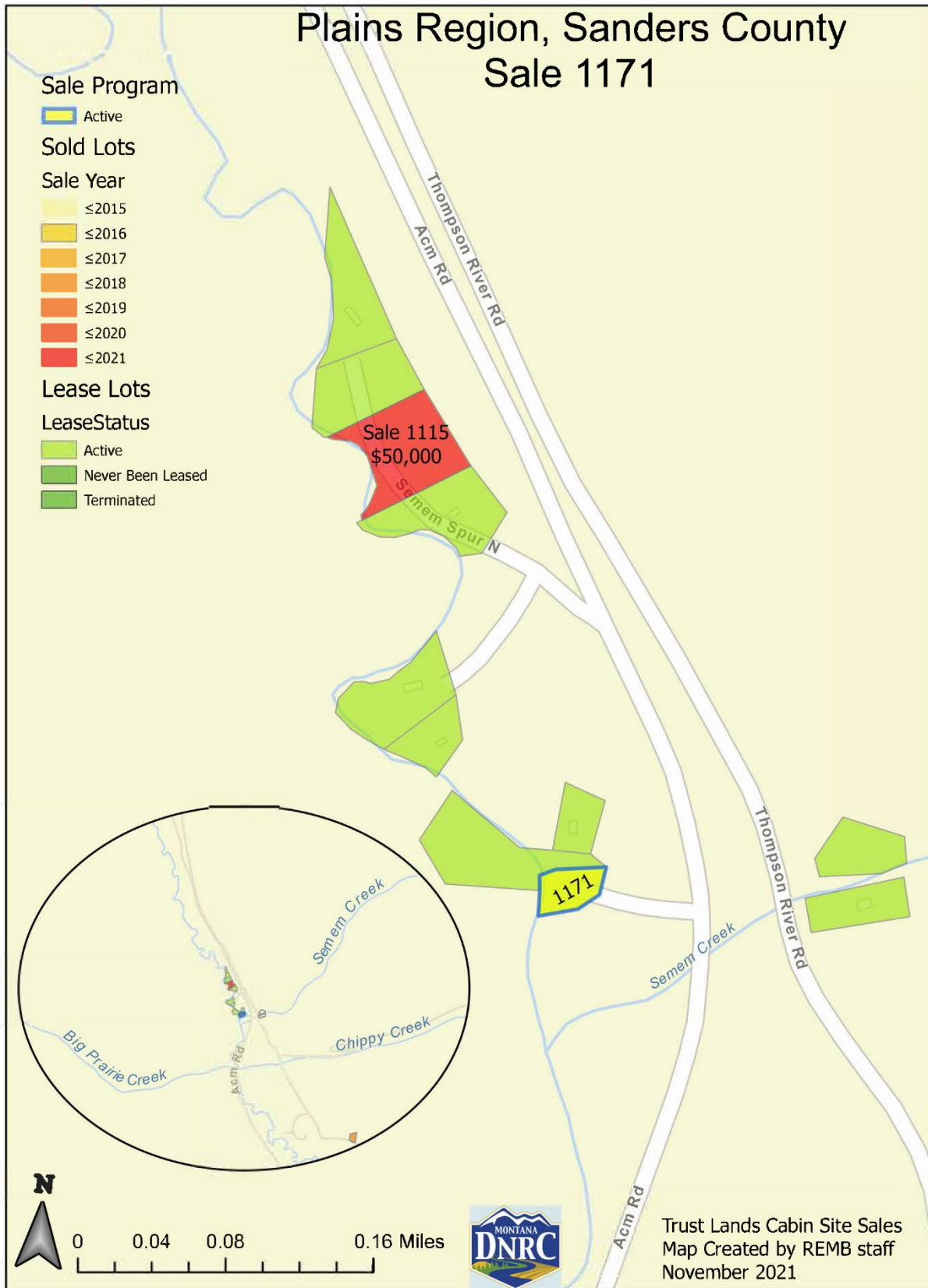
The appraisals were prepared by Montana General Certified Appraiser Jennifer L. McGinnis, MAI of McGinnis Real Estate Appraisal Group, LLC in Whitefish.

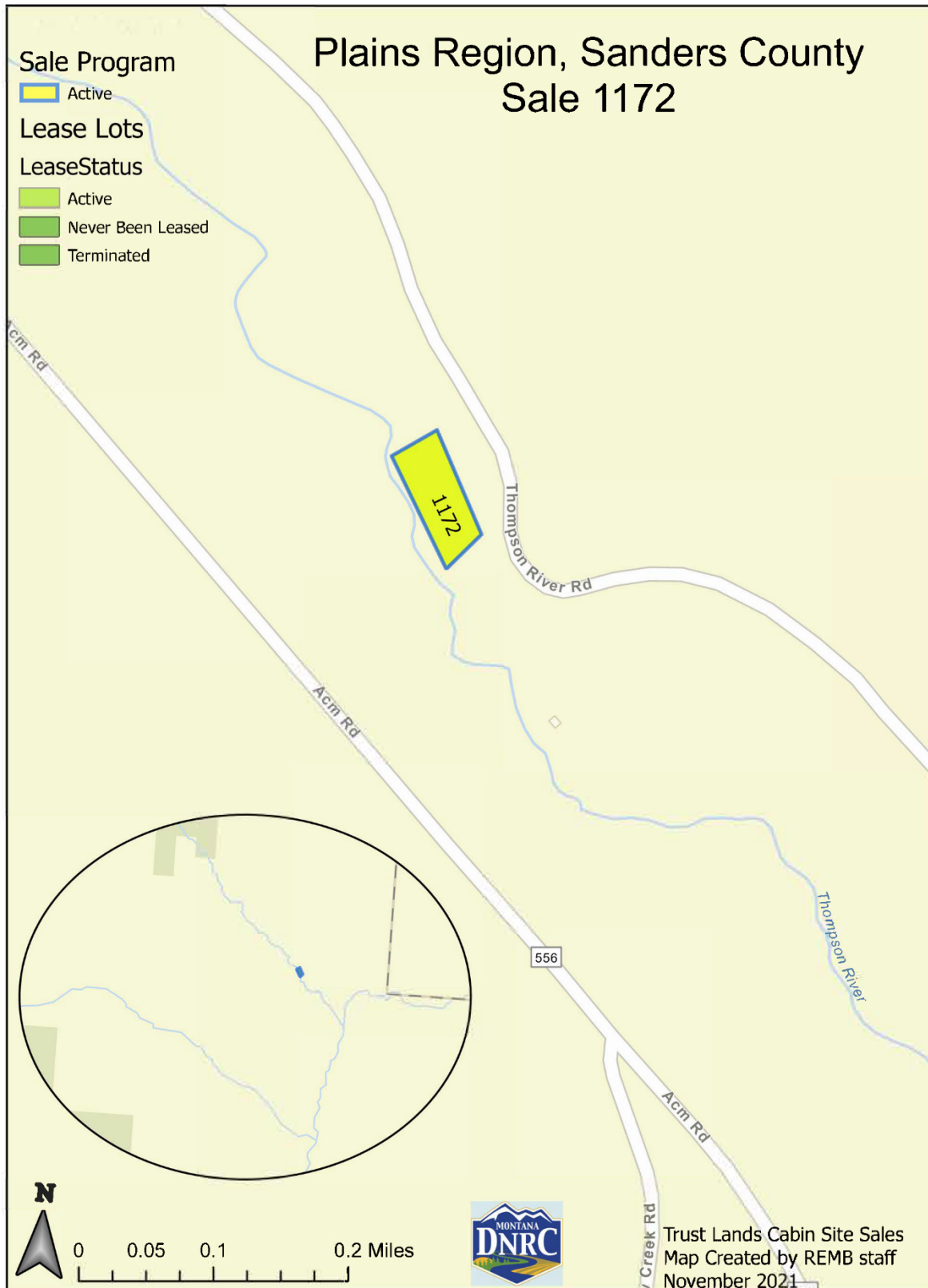
Sale Nos.	Appraised Land Value	Appraised Improvements Value
1170	\$ 63,000	\$ 62,000
1171	\$ 75,000	\$ 69,000
1172	\$ 112,000	\$ 75,000

DNRC Recommendation

The director recommends that the Land Board set the minimum bid for these cabin sites at the appraised land value and the maximum value of compensation for the improvements shown above.







1221-4

CABIN AND HOME SITES:

Final Approval for Sale

**Land Board Agenda Item
December 13, 2021**

1221-4 Cabin and Home Sites: Final Approval for Sale

Location: Missoula County
Trust Benefits: MSU 2nd
Trust Revenue: \$2,915,000

Item Summary

The Department of Natural Resources and Conservation (DNRC) is requesting final approval for sale of 16 cabin sites nominated for sale in Missoula County. These sales were nominated by the lessees in conjunction with the Cabin and Home Site Sale Program.

Sale No.	Acres	Legal Description	Nominator	Trust
1120	1.584±	Lot 1, Clearwater River East Shore, COS 5310, T16N-R15W, Section 10	CASSIDY, DANIEL	MSU 2 nd
1122	1.2±	Lot 4, Clearwater River East Shore, COS 5310, T16N-R15W, Section 10	GROSVENOR, WILLIAM & BRANDON	MSU 2 nd
1123	1.956±	Lot 5, Clearwater River East Shore, COS 5310, T16N-R15W, Section 10	SMITH, CORRI	MSU 2 nd
1124	2.91±	Lot 7, Clearwater River East Shore, COS 5310, T16N-R15W, Section 10	VOYLES, JIM R. & JANICE R.	MSU 2 nd
1126	2.856±	Lot 9, Clearwater River East Shore, COS 5310, T16N-R15W, Section 10	MARTELLO, BEN D. & SHIRLEY A.	MSU 2 nd
1127	2.587±	Lot 11, Clearwater River East Shore, COS 5310, T16N-R15W, Section 10	WELTER, JODY B. & ROSPI T.K.	MSU 2 nd
1128	2.408±	Lot 35, Clearwater River East Shore, COS 5310, T16N-R15W, Section 10	LINFORD, EDWARD L.	MSU 2 nd
1129	3.067±	Lot 36, Clearwater River East Shore, COS 5310, T16N-R15W, Section 10	CLOSSON, DOUGLAS E.	MSU 2 nd
1130	1.527±	Lot 23, Clearwater River East Shore Inland, COS 6114, T16N-R15W, Section 10	LOCKE, TIM; TAYLOR, COLLEEN	MSU 2 nd
1131	1.018±	Lot 24, Clearwater River East Shore Inland, COS 6114, T16N-R15W, Section 10	SANFORD, LUKIAN	MSU 2 nd
1132	1.38±	Lot 25, Clearwater River East Shore Inland, COS 6114, T16N-R15W, Section 10	TAYLOR, RODY & COLLEEN	MSU 2 nd
1133	1.21±	Lot 46, Clearwater River East Shore Inland, COS 6114, T16N-R15W, Section 10	JOHNSTONE, ROY N.	MSU 2 nd
1134	1.122±	Lot 7, Placid Lake West, COS 5049, T16N-R15W, Section 30	KREITZBERG, JOANNA B.	MSU 2 nd
1135	2.345±	Lot 10, Placid Lake West, COS 5049, T16N-R15W, Section 30	KIDDER, RAINE & AIRA	MSU 2 nd
1136	0.753±	Lot 1, Placid Lake East, COS 6623, T16N-R15W, Section 28	SAYRE, FRED & CAROLYN	MSU 2 nd
1137	1.312±	Lot 2, Placid Lake East, COS 6623, T16N-R15W, Section 28	SAYRE FAMILY LIMITED PARTNERSHIP	MSU 2 nd

The parcels are currently leased as cabin sites and produce an average income for residential leases statewide. The parcels will be sold with the access that is currently provided under their lease agreements and can be conveyed by DNRC.

Background

Preliminary Land Board approval was granted in April of 2020 (Approved 5-0), and the Land Board set the minimum bid for the land and the maximum value of compensation for the improvements at the appraised values in September of 2021 (Approved 4-1).

Cultural/Paleontological Resources:

A Class I level of cultural resource inventory was conducted for each of the proposed sales. Home sites typically contain numerous structures and the ground surfaces within most home sites have been disturbed over the course of many years of occupation and development. These sales will have no effect to state-owned heritage properties.

Access/Recreational Use:

As part of the cabin site sale process, the State will convey any access that it has and can be conveyed to the purchaser of the cabin or home site property. A Road Users Agreement (RUA) was recently created in the Clearwater River East Shore neighborhood. One access easement will be issued to the RUA for the entire neighborhood instead of issuing easements to the individual lots. Current cabin/home site access is limited to the lessee and does not provide access or recreational use to the general public. State lands classified as cabin or home sites are closed to general recreational use by the public in accordance with ARM 36.25.150(1)(a). Therefore, the State is not selling land under the cabin site sale program that the public is permitted to use for recreation. Rather, the funds generated by these sales will go towards purchasing new lands that will have dedicated public access and recreational opportunities.

Economic Analysis:

Short term – The average rates of return on these sale parcels are as shown in Figure 1. The parcels would continue to receive these returns if they remained in state ownership. With the exception of the Placid Lake lots (Sales 1134-1137), the income rates of return will likely grow smaller over the next 20 years, as average annual value appreciation is greater than the annual rent increase.

Figure 1: Rates of Return at Current Appraised Values

Sale No.	Rate of Return	Sale No.	Rate of Return
1120	2.646%	1130	3.487%
1122	2.526%	1131	3.292%
1123	3.507%	1132	3.694%
1124	2.926%	1133	3.344%
1126	3.723%	1134	3.859%
1127	3.074%	1135	4.296%
1128	3.682%	1136	4.587%
1129	2.848%	1137	3.134%

Long term – The funds from the sale of these parcels would be combined with other sale funds to purchase replacement lands through DNRC's Land Banking program. Lands purchased are required to have an equal or greater rate of return than the combined lands that generated the sale funds used for the purchase. To date, the average annual rate of return on acquisitions has been 2.91% on acquisitions, with income generated from annual lease payments. However, the rates of return on land acquired more recently have been higher, ranging from 3.54% on acquisitions purchased within the last three years to 3.21% for lands acquired within the last ten years.

Appraised Values of Land and Improvements:

The appraisals were prepared by Montana General Certified Appraisers Elliott M. Clark, MAI, of Clark Real Estate Appraisal in Whitefish and Nicholas J. Hogan, MAI of Hall-Widdoss & Company, P.C. in Missoula.

Sale Nos.	Appraised Land Value	Appraised Improvements Value	Final Sale Price
1120	\$ 125,000	\$ 226,000	\$ 125,000
1122	\$ 125,000	\$ 85,000	\$ 125,000
1123	\$ 125,000	\$ 274,000	\$ 125,000
1124	\$ 125,000	\$ 237,000	\$ 125,000
1126	\$ 125,000	\$ 241,000	\$ 125,000
1127	\$ 115,000	\$ 245,000	\$ 115,000
1128	\$ 115,000	\$ 345,000	\$ 115,000
1129	\$ 115,000	\$ 139,000	\$ 115,000
1130	\$ 55,000	\$ 209,000	\$ 55,000
1131	\$ 55,000	\$ 130,000	\$ 55,000
1132	\$ 55,000	\$ 197,000	\$ 55,000
1133	\$ 55,000	\$ 66,000	\$ 55,000
1134	\$ 475,000	\$ 190,000	\$ 475,000
1135	\$ 350,000	\$ 190,000	\$ 350,000
1136	\$ 350,000	\$ 160,000	\$ 350,000
1137	\$ 550,000	\$ 350,000	\$ 550,000

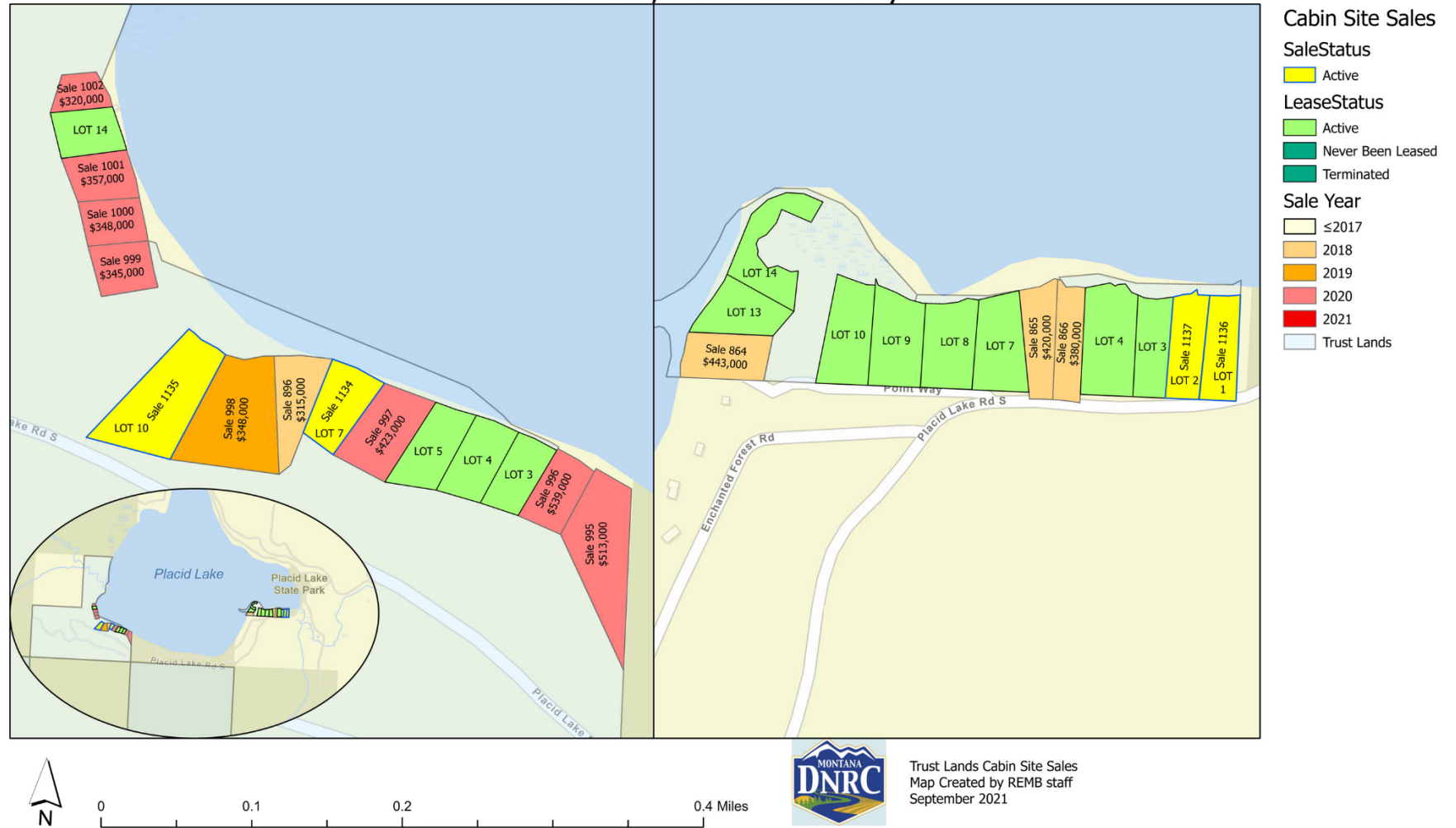
Sale Price

The cabin sites were sold at public auctions on November 16 & 17, 2021. There was one qualified bidder for each sale who were the current lessees. The sites sold for the final sale prices listed above.

DNRC Recommendation

The director recommends the Land Board grant final approval for the sale of these cabin sites at the values shown above.

Placid Lake, Missoula County



1221-5

EASEMENTS

**Land Board Agenda Item
December 13, 2021**

1221-5 Easements

Location: Chouteau, Daniels, Hill, and Missoula Counties

Trust Benefits: Common Schools, MSU - 2nd Grant, Public Land Trust
- Nav. River

Trust Revenue: Common Schools = \$27,895
MSU – 2nd Grant = \$52,390
Public Land Trust = \$17,209

Item Table of Contents

Applicant	Right-of-Way Purpose	Term	Page(s)
NorthWestern Corporation	Overhead Electrical Transmission	Permanent	48-50
NorVal Electric Cooperative Inc.	Buried Electrical Distribution	Permanent	51-52
North Central Montana Regional Water Authority	Buried Water Pipeline	Permanent	53-60
Clearwater East Road Users Assoc.	Private Access Road	Permanent	61-62

APPLICANTS AND RIGHTS OF WAY INFORMATION

Applicant:	NorthWestern Corporation 11 East Park St. Butte, MT 59701
Application No.:	17398 (Amended)
R/W Purpose:	two overhead 100kV electric transmission lines
Lessee Agreement:	N/A (Nav. River)
Acreage:	0.46
Compensation:	\$8,417.00
Legal Description:	60-foot strip across the Clark Fork River in NW4SW4, Sec. 22, Twp. 13N, Rge. 19W, Missoula County
Trust Beneficiary:	Public Land Trust - Nav. River

Item Summary

NorthWestern Corporation is requesting an amendment to Application No. 17398 to widen the existing corridor to accommodate reconstruction and relocation of a separate transmission line within 200 feet of it. Both easements were issued in 2016 under the historic right of way statute. These transmission lines feed the substation that provides power to downtown Missoula. The existing structures are wooden poles that have outlived their useful life span and will be replaced with new steel poles and new conductors. The easement for the line to be relocated (issued under Application Number 17396 in 2016) will be terminated.

DNRC Recommendation

The director recommends approval of the easement request by NorthWestern Corporation.

APPLICANTS AND RIGHTS OF WAY INFORMATION

Applicant:	NorthWestern Corporation 11 East Park St. Butte, MT 59701
Application No.:	17399 (Amended)
R/W Purpose:	two overhead 100kV electric transmission lines
Lessee Agreement:	N/A (Nav. River)
Acreage:	0.50
Compensation:	\$8,792.00
Legal Description:	60-foot strip across the Clark Fork River in NW4SW4, Sec. 22, Twp. 13N, Rge. 19W, Missoula County
Trust Beneficiary:	Public Land Trust - Nav. River

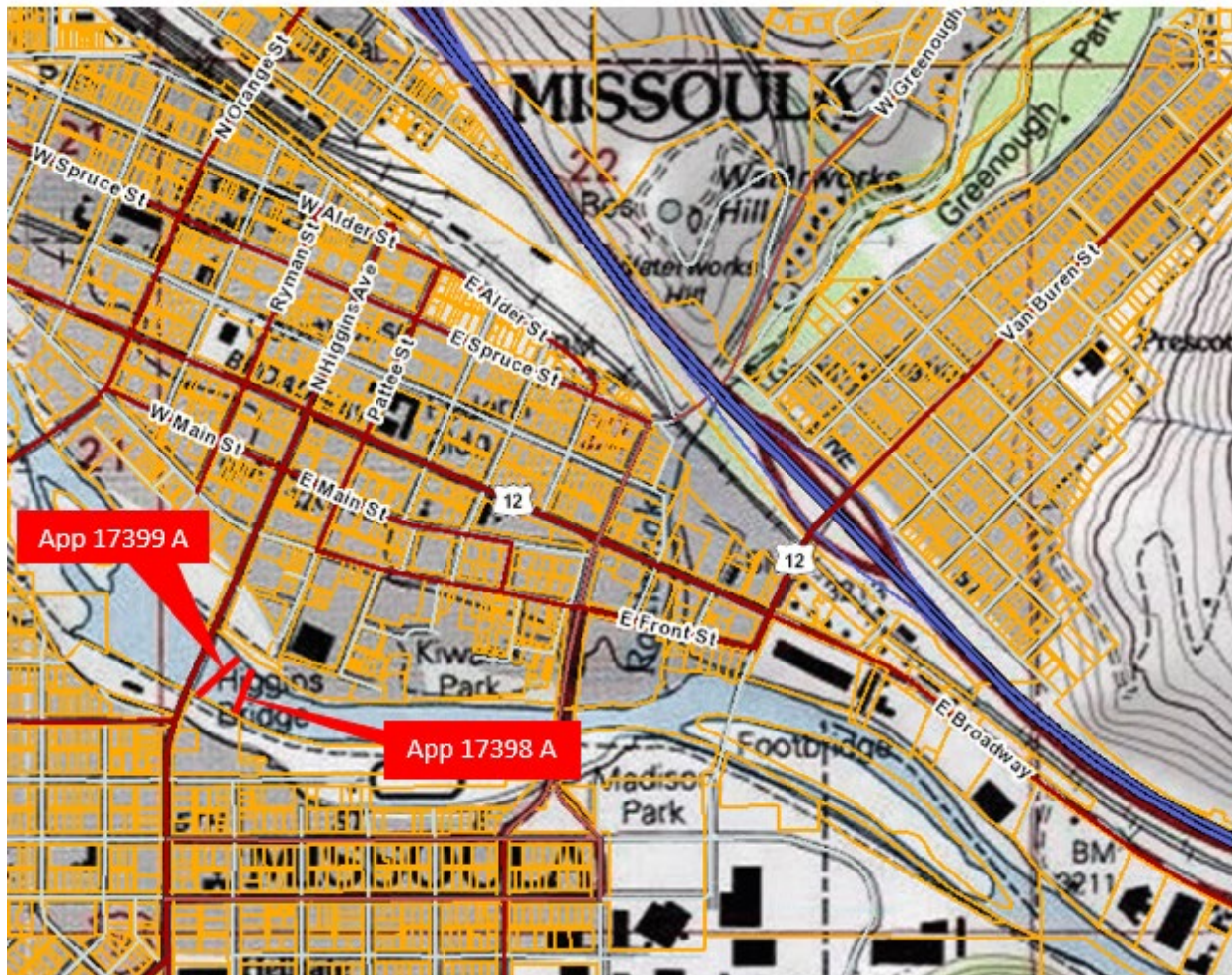
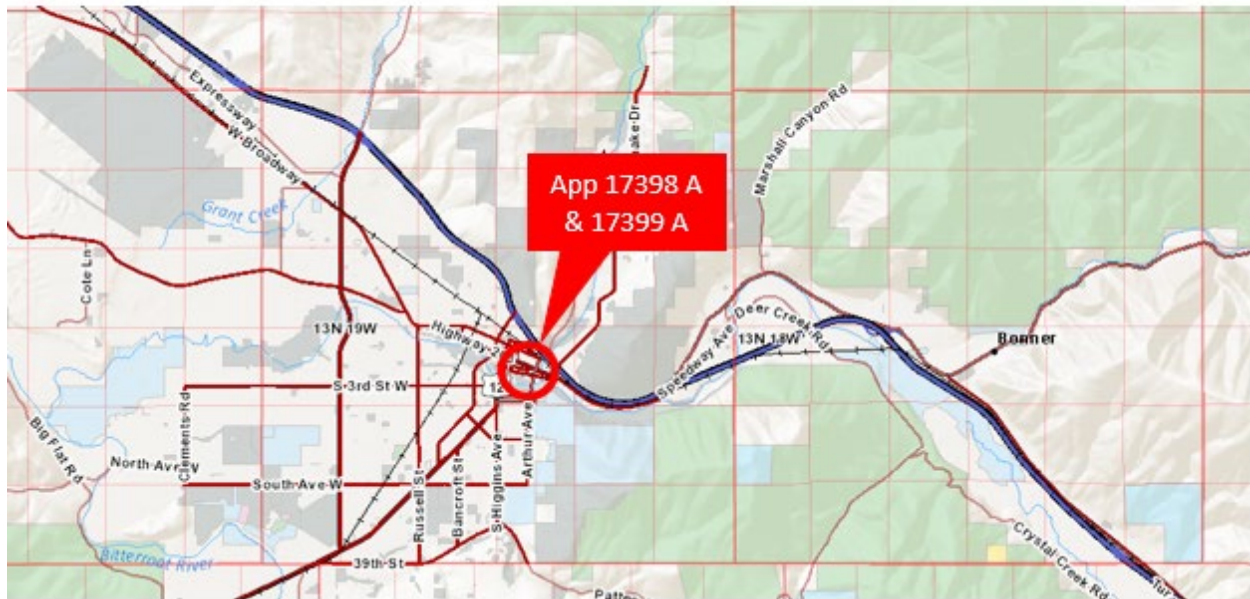
Item Summary

This amendment request is similar to the pre-ceding agenda item for NorthWestern Corporation. The proposal is to co-locate two other existing transmission lines crossing the Clark Fork River near the Higgins Avenue Bridge into one corridor. This proposal will also require replacement of poles and conductors. The historic easement to be relocated (Application No. 17400 issued in 2016) will be terminated.

DNRC Recommendation

The director recommends approval of the easement request by NorthWestern Corporation.

R/W Application 17398 A & 17399 A



APPLICANTS AND RIGHTS OF WAY INFORMATION

Applicant:	NorVal Electric Cooperative, Inc. PO Box 951 Glasgow, MT 59230
Application No.:	19148
R/W Purpose:	a buried 25kV electric distribution line
Lessee Agreement:	ok
Acreage:	2.49
Compensation:	\$747.00
Legal Description:	20-foot strip through W2NW4, S2NW4, NE4SW4, NW4SE4, Sec. 15, Twp. 34N, Rge. 45E, Daniels County
Trust Beneficiary:	Common Schools

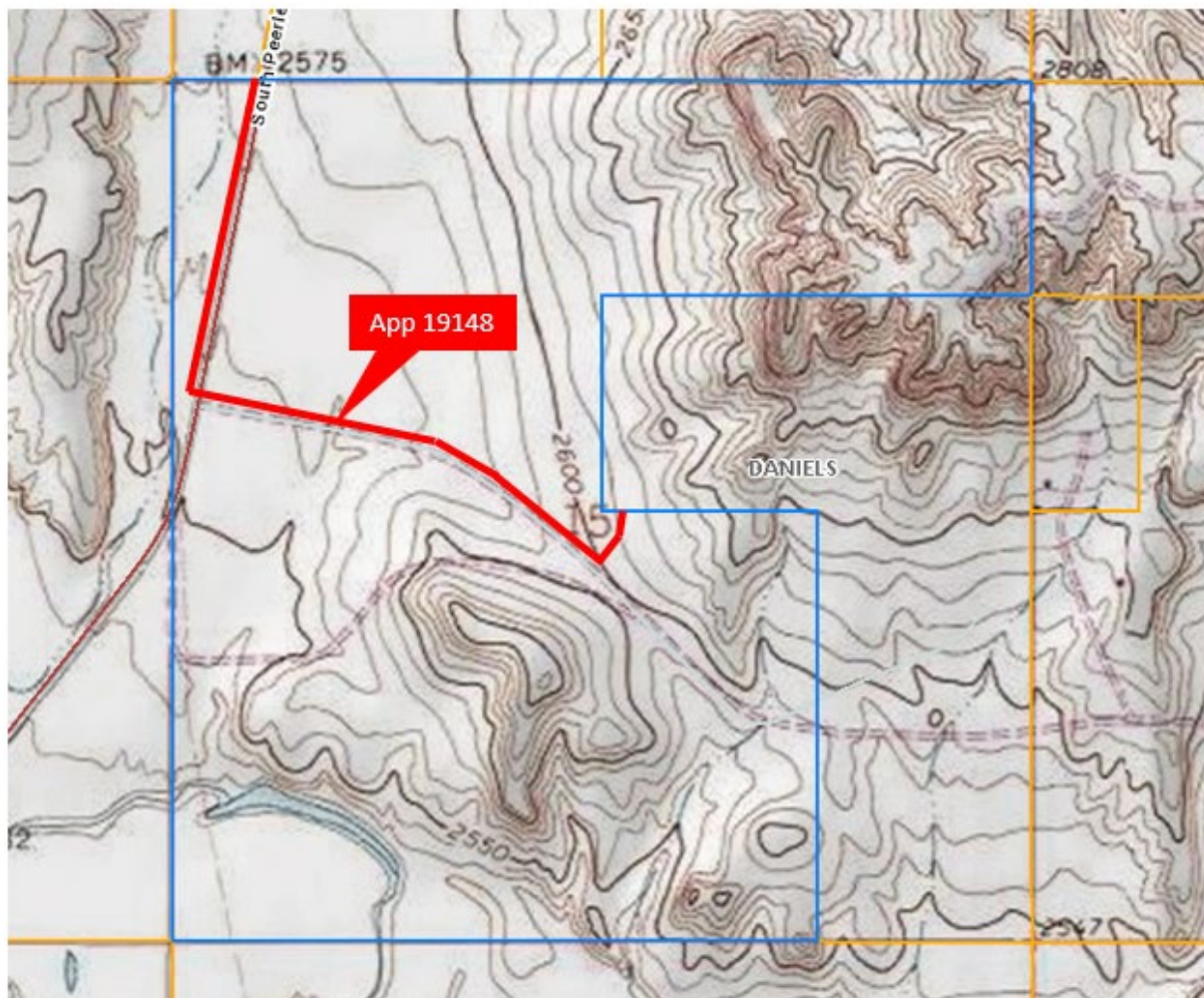
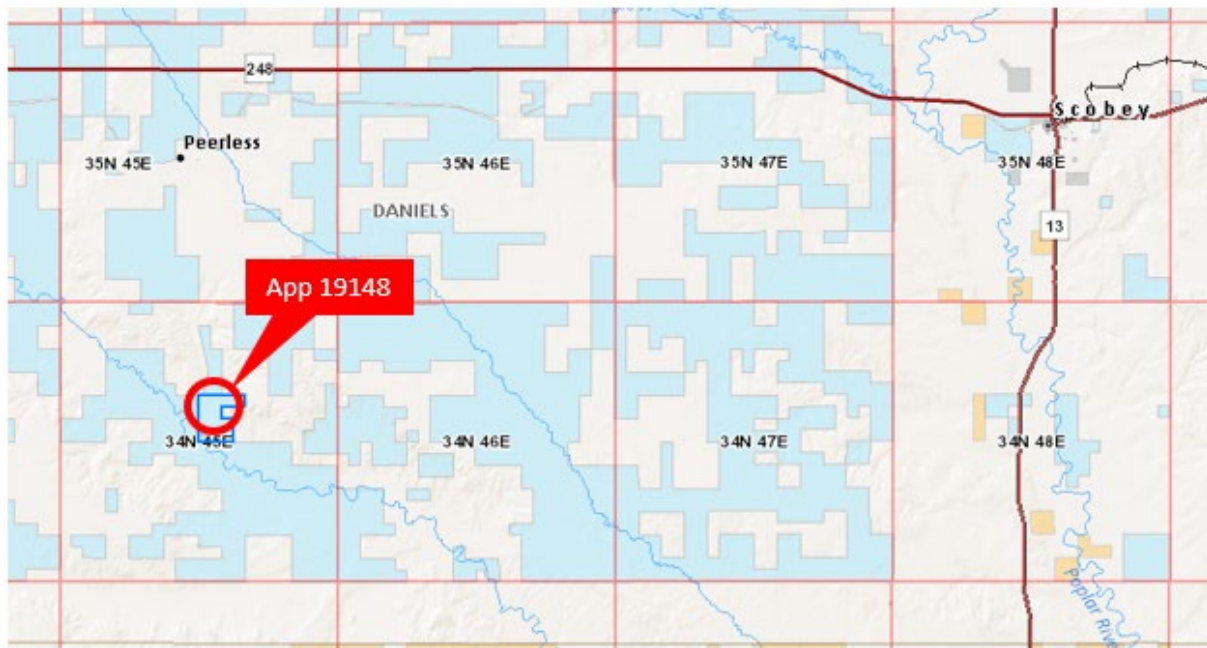
Item Summary

NorVal Electric Cooperative is proposing to install new underground 25kV electrical distribution line to replace an old existing buried line and provide more reliable service to the rural area south of Peerless. The replacement cable will be installed along existing public roads, therefore minimal impacts are expected. The proposed installation is outside of the sage grouse general habitat, therefore consultation with the program was unnecessary.

DNRC Recommendation

The director recommends approval of the application of NorVal Electric Cooperative.

R/W Application 19148



APPLICANTS AND RIGHTS OF WAY INFORMATION

Applicant:	North Central Montana Regional Water Authority PO Box 2456 Havre, MT 59501
Application No.:	19149
R/W Purpose:	a buried 10" water pipeline
Lessee Agreement:	ok
Acreage:	9.45
Compensation:	\$11,340.00
Legal Description:	50-foot strip through W2W2, S2S2, Sec. 36, Twp. 29N, Rge. 9E, Chouteau County
Trust Beneficiary:	Common Schools

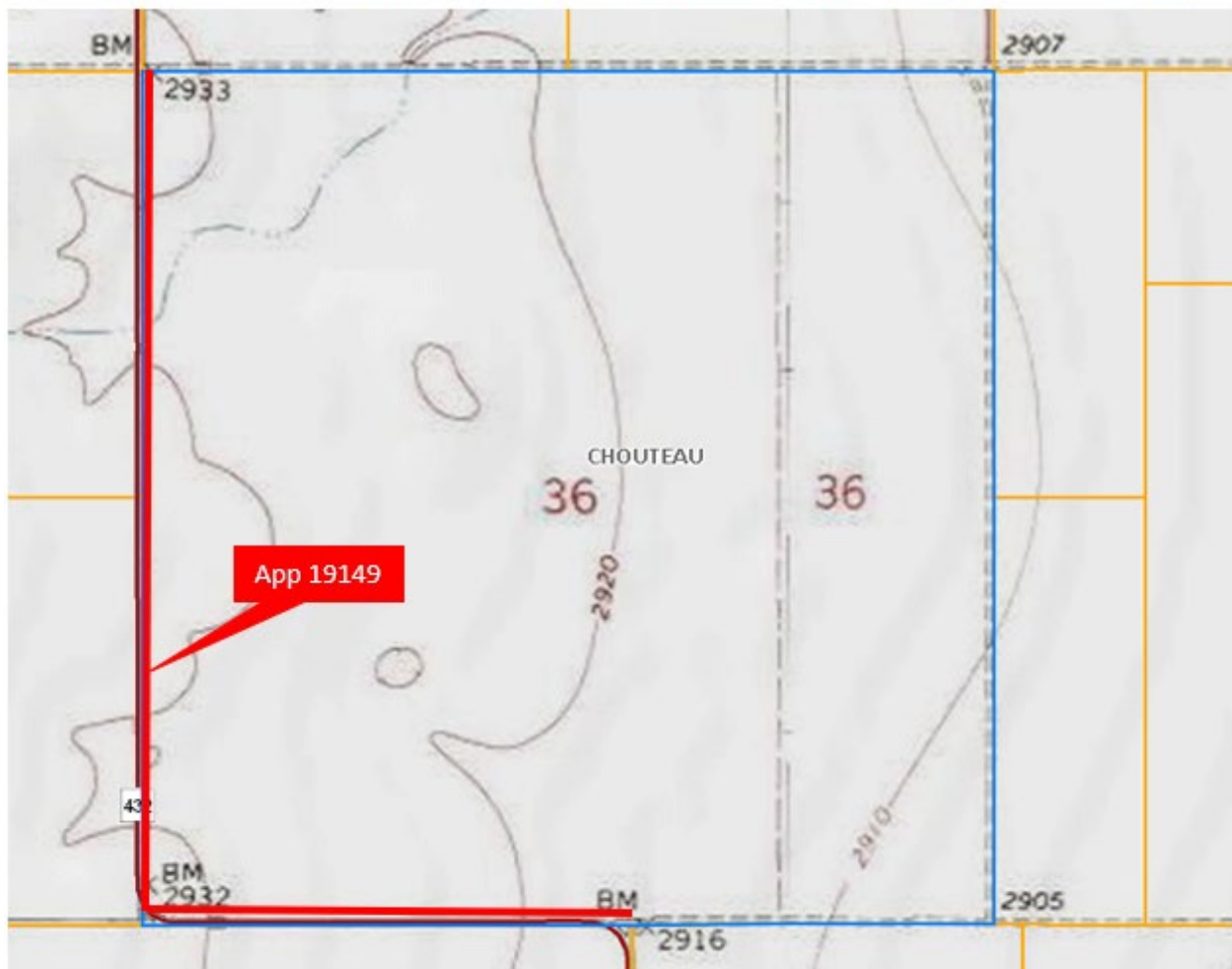
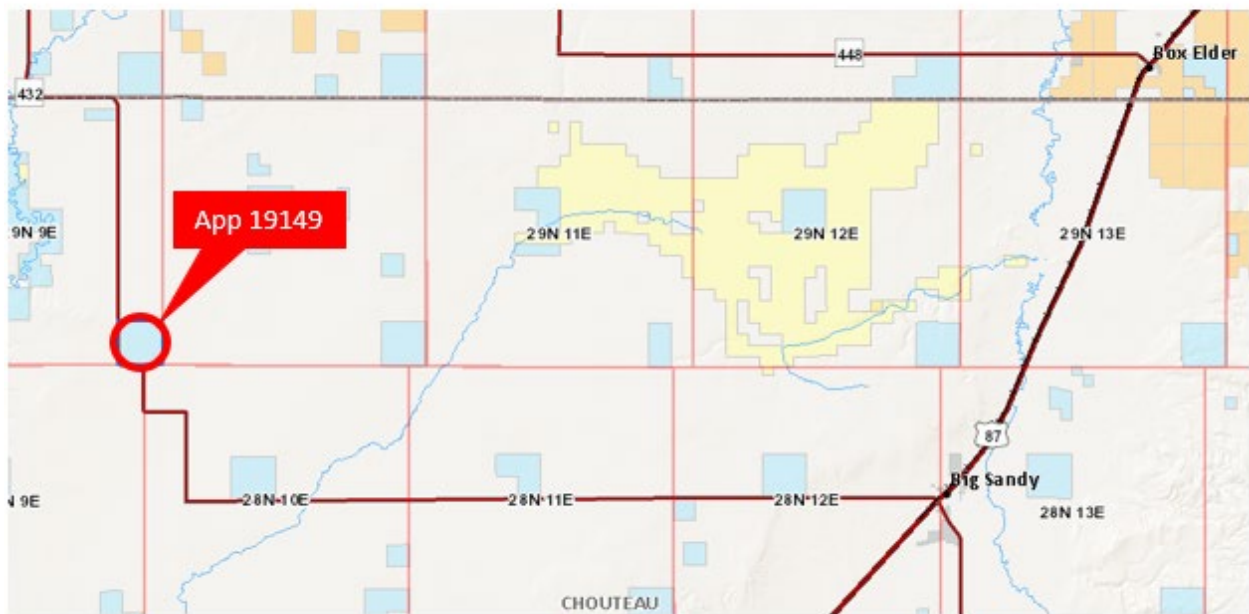
Item Summary

North Central Montana Regional Water Authority has made application to install a buried water pipeline to provide potable drinking water to the Loma Water District customers. The proposed pipeline is part of the federally funded water system to bring quality drinking water to the Rocky Boys Reservation and surrounding areas. The selected route follows existing public roads for the majority of the line and will cause minimal impacts to the surface land. In some cases, construction varies away from the road corridor, however reclamation will take place as quickly as possible and will be revegetated as soon as possible.

DNRC Recommendation

The director recommends approval of the easement for North Central Montana Regional Water Authority.

R/W Application 19149



APPLICANTS AND RIGHTS OF WAY INFORMATION

Applicant: North Central Montana Regional Water Authority
PO Box 2456
Havre, MT 59501

Application No.: 19150
R/W Purpose: a buried 10" water pipeline
Lessee Agreement: ok
Acreage: 7.26
Compensation: \$8,712.00
Legal Description: 50-foot strip through E2E2, SW4SE4, Sec. 36, Twp. 29N,
Rge. 12E, Chouteau County
Trust Beneficiary: Common Schools

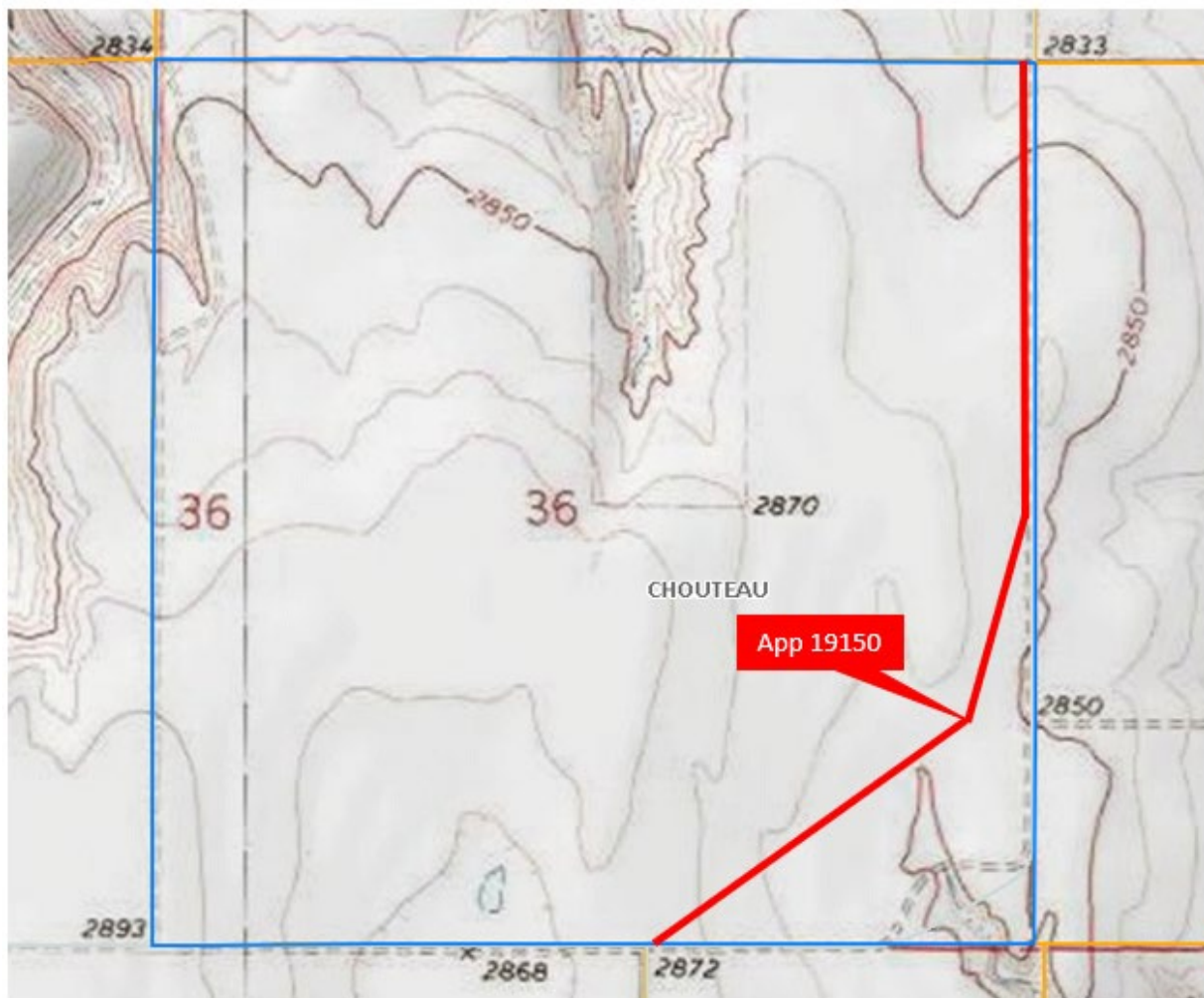
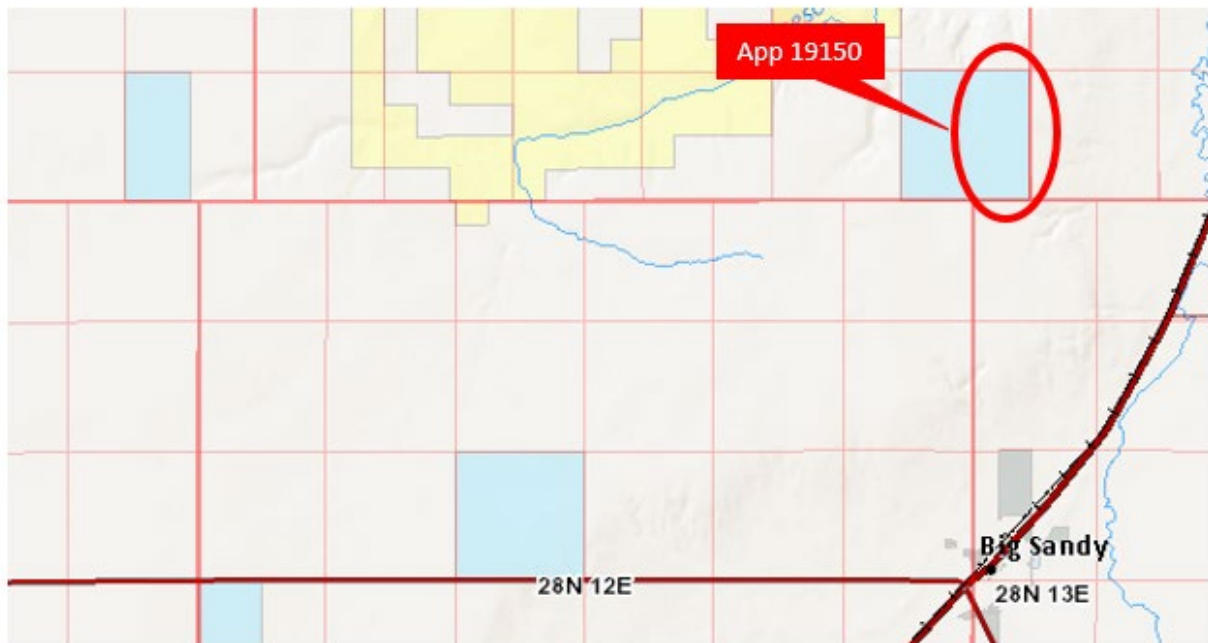
Item Summary

See page 53 for summary.

DNRC Recommendation

See page 53 for recommendation.

R/W Application 19150



APPLICANTS AND RIGHTS OF WAY INFORMATION

Applicant:	North Central Montana Regional Water Authority PO Box 2456 Havre, MT 59501
Application No.:	19151
R/W Purpose:	a buried 10" water pipeline
Lessee Agreement:	ok
Acreage:	0.09
Compensation:	\$100.00
Legal Description:	50-foot strip through SW4SW4, Sec. 36, Twp. 30N, Rge. 9E, Hill County
Trust Beneficiary:	Common Schools

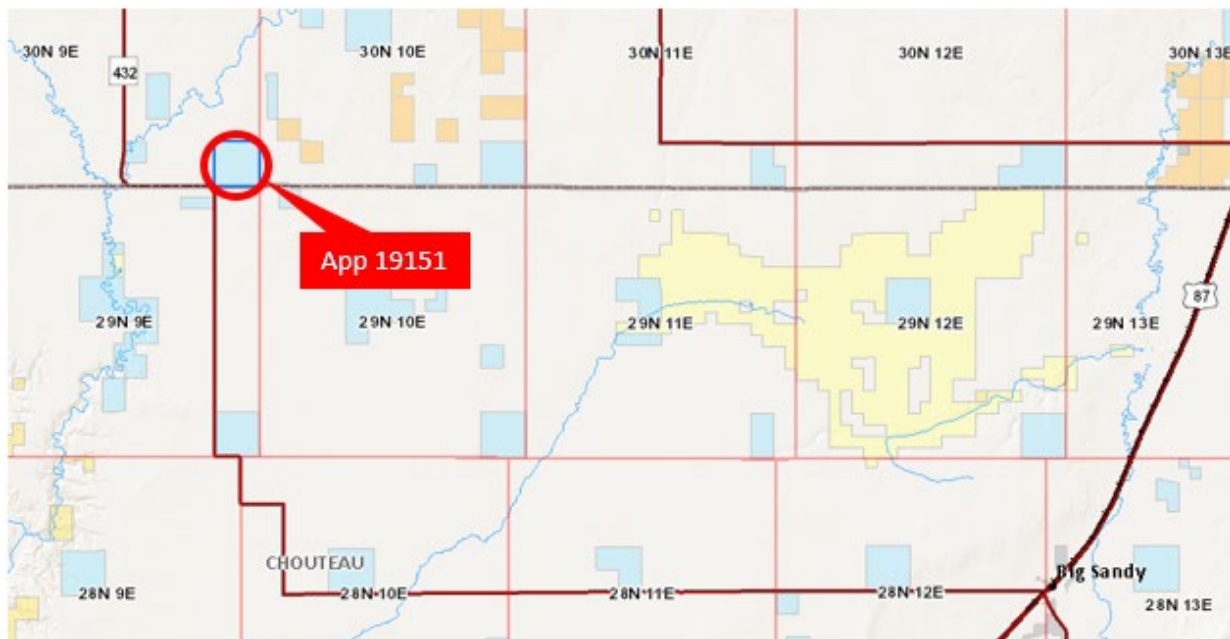
Item Summary

See page 53 for summary.

DNRC Recommendation

See page 53 for recommendation.

R/W Application 19151



APPLICANTS AND RIGHTS OF WAY INFORMATION

Applicant:	North Central Montana Regional Water Authority PO Box 2456 Havre, MT 59501
Application No.:	19152
R/W Purpose:	a buried 10" water pipeline
Lessee Agreement:	ok
Acreage:	6.36
Compensation:	\$6,996.00
Legal Description:	50-foot strip through E2E2, Sec. 36, Twp. 30N, Rge. 12E, Hill County
Trust Beneficiary:	Common Schools

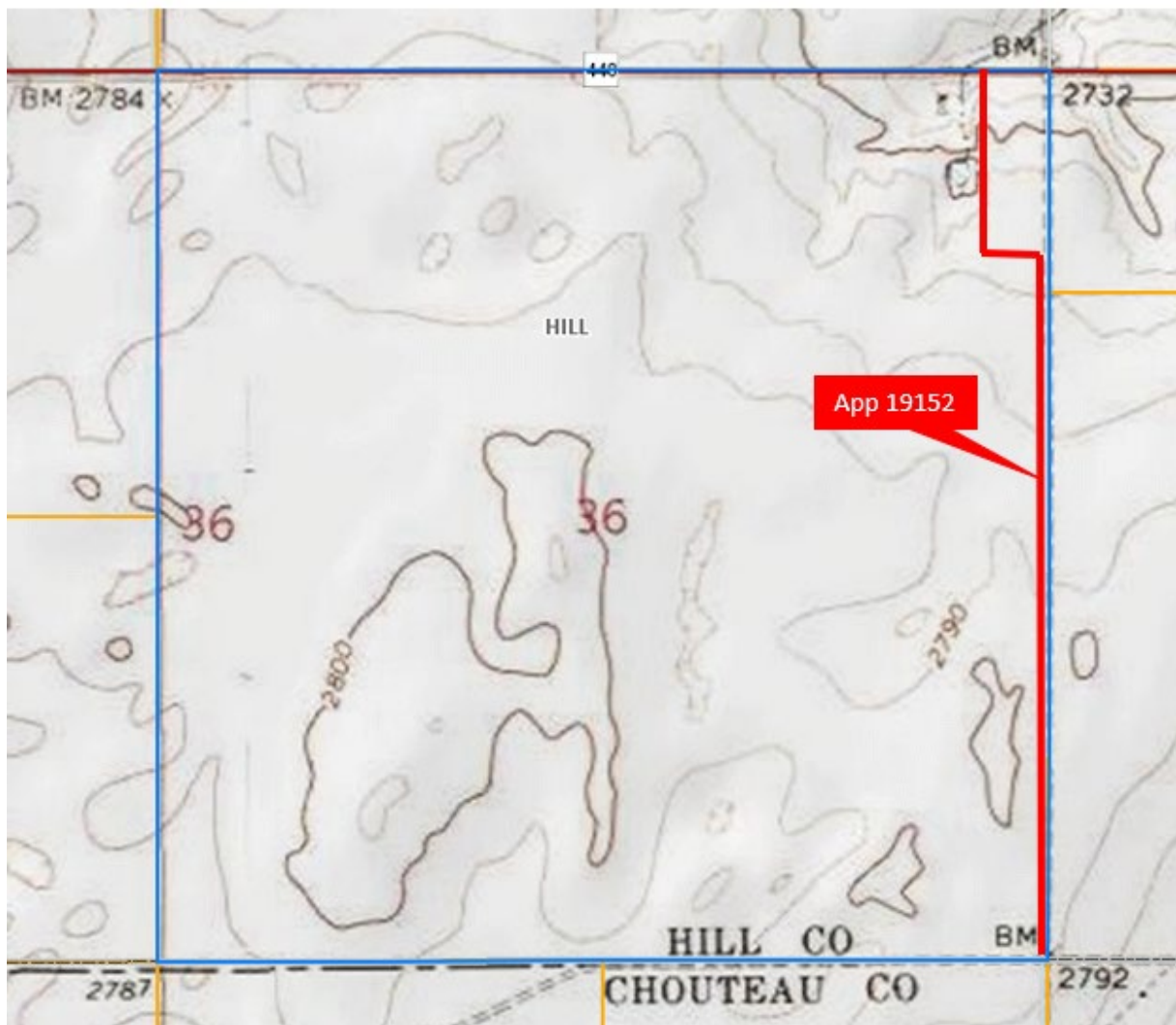
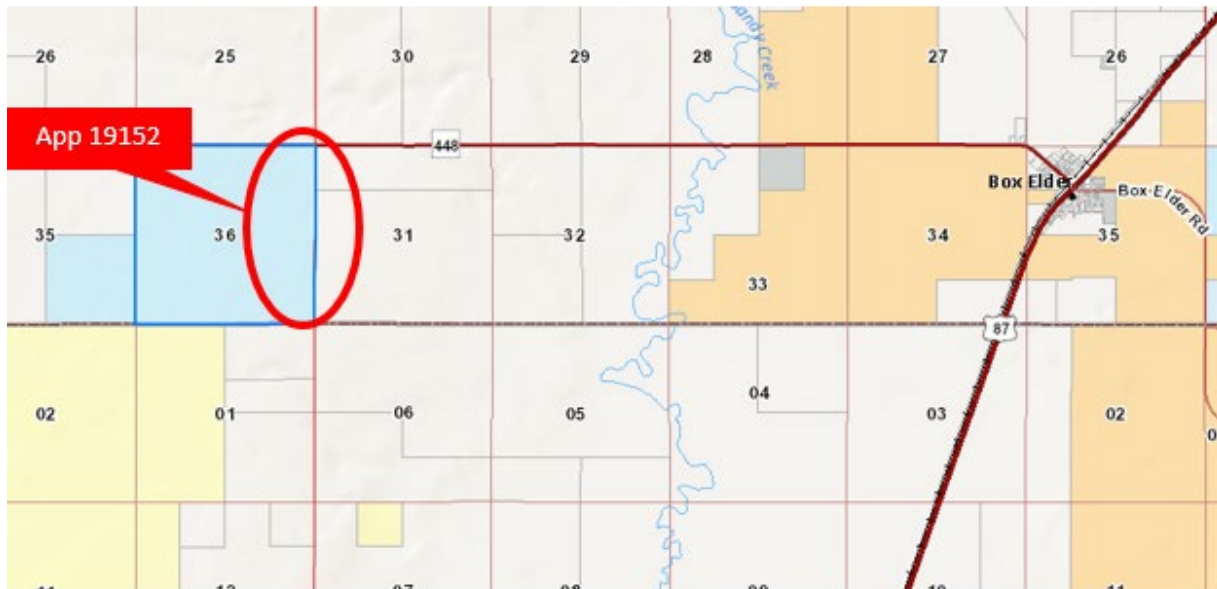
Item Summary

See page 53 for summary.

DNRC Recommendation

See page 53 for recommendation.

R/W Application 19152



APPLICANTS AND RIGHTS OF WAY INFORMATION

Applicant:	Clearwater East Road Users Association PO Box 1232 Seeley Lake, MT 59868
Application No.:	19153
R/W Purpose:	private access roads to serve 56 lots for single-family residential and associated outbuilding use, one single-family residence per lot
Lessee Agreement:	N/A
Acreage:	9.70
Compensation:	\$52,390.00
Legal Description:	60-foot strips through E2NW4, Sec. 10, Twp. 16N, Rge. 15W, Missoula County
Trust Beneficiary:	MSU - 2nd Grant

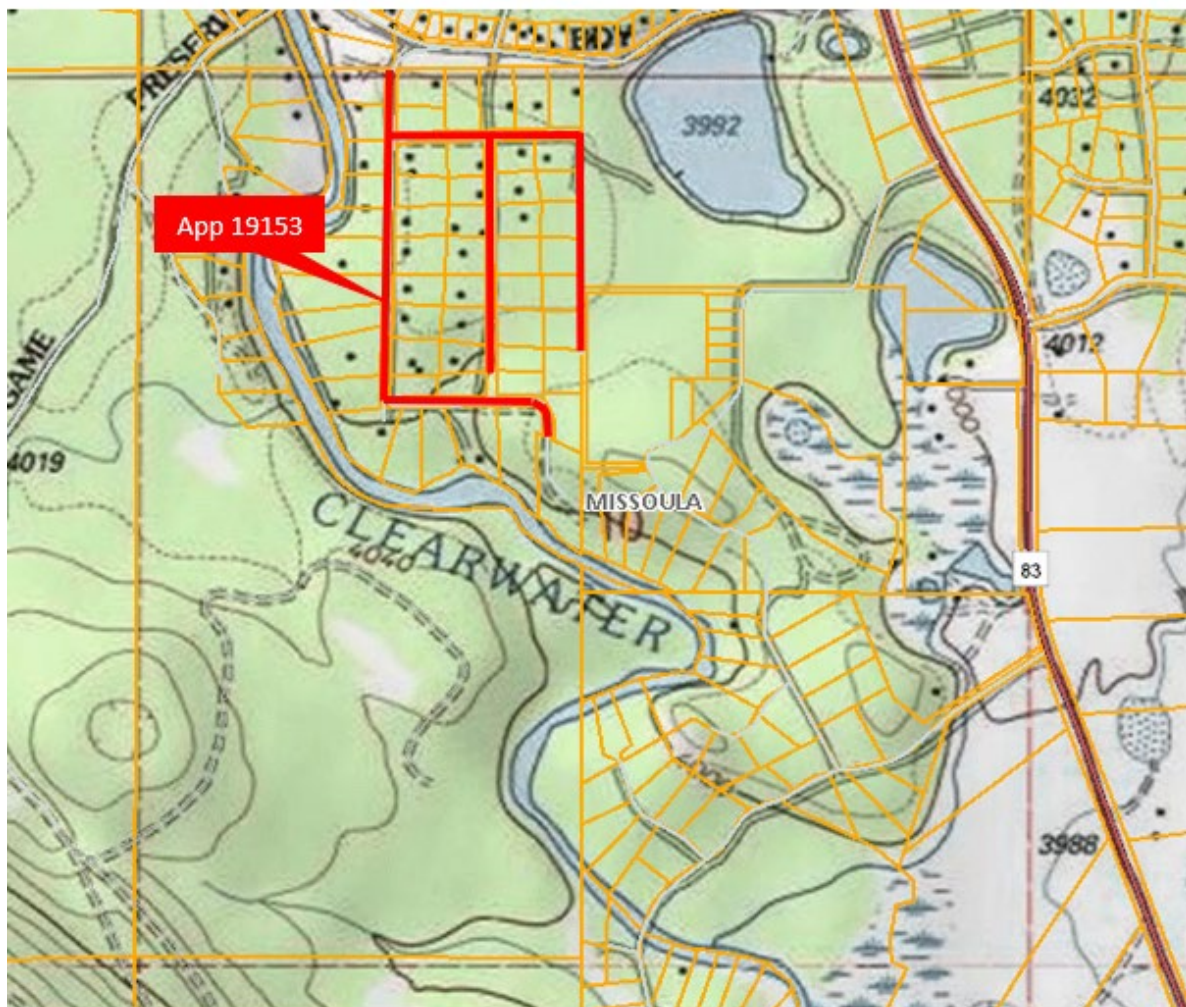
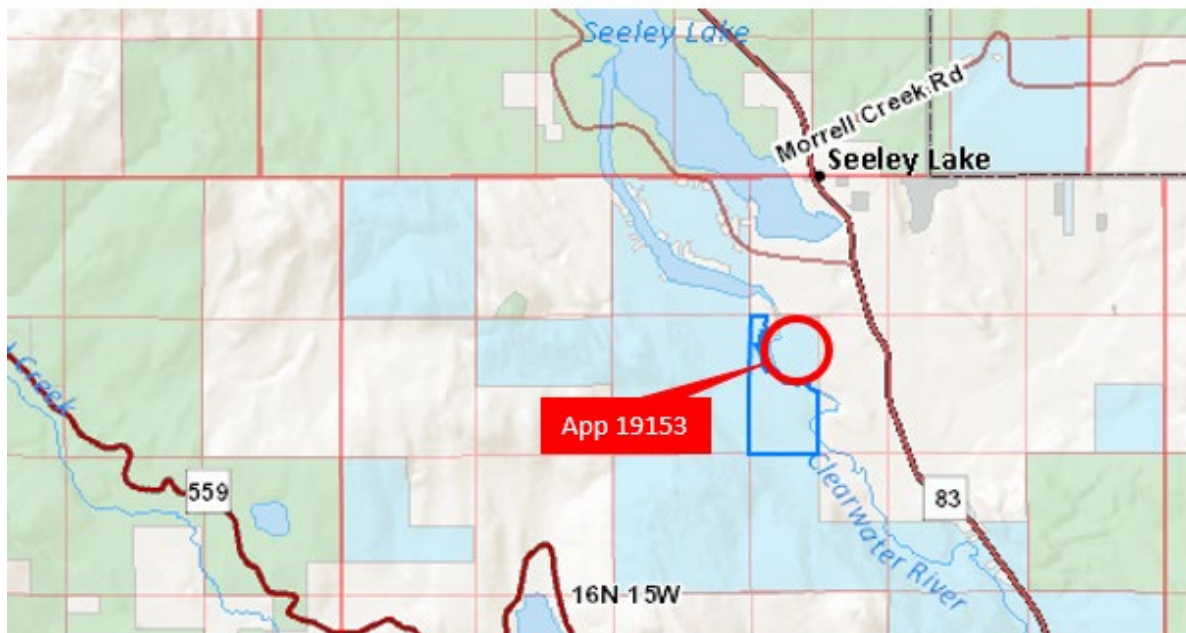
Item Summary

Clearwater East Road Users Association has made application for the Clearwater East Shore lease neighborhood (Dog Town). The access roads being conveyed are known as Grizzly, Cub, and Claw Lanes. To provide for consistent maintenance and ensure lessees and future purchasers of the residential lots share in these costs appropriately, this RUA was formed at the requirement of DNRC per ARM 36.25.1002(4)(a)(b). To comply with the Land Board's Access Policy regarding access to more than one residence, the conveyance fee of 1% was applied to 15 riverfront properties and 40 internal lots. Valuation for the conveyance fee was based off recent appraisals for leased lots currently in the cabin site sales program.

DNRC Recommendation

The director recommends approval of the application of Clearwater East Road Users Association

R/W Application 19153



1221-6

BIENNIAL CABIN SITE LEASE RATE REVIEW (October 2019 - October 2021)

**Land Board Agenda Item
December 13, 2021**

1221-6 Biennial Cabin Site Lease Rate Review: October 2019 – October 2021

Location: Beaverhead, Big Horn, Blaine, Broadwater, Cascade, Choteau, Custer, Daniels, Fallon, Fergus, Flathead, Gallatin, Golden Valley, Hill, Judith Basin, Lake, Lewis & Clark, Lincoln, Madison, McCone, Meagher, Mineral, Missoula, Musselshell, Phillips, Pondera, Powder River, Powell, Prairie, Richland, Rosebud, Sanders, Sheridan, Stillwater, Toole, Valley, Wheatland, Wibaux and Yellowstone Counties

Trust Benefits: Common Schools, School for Deaf & Blind, Montana State University, Montana Tech, Pine Hills School, Public Buildings, University of Montana, Veterans Home and Eastern College—MSU/Western College—UM

Trust Revenue: NA

Item Summary

Every two years, the Department of Natural Resources and Conservation (DNRC) must present to the Land Board an economist's review of cabin and home site rental lease rates from all new competitive bids and renewals conducted during the reporting period. This lease rate review requirement was established in September 2015 through a settlement agreement to a civil suit (Montrust III) and subsequent Administrative Rule (ARM 36.25.1014). This is the third biennial report presented to the Land Board. Accordingly, the Biennial Cabin Site Lease Rate Review includes data from all cabin site lease bids and renewals within the two-year period between October 2019 and October 2021. Upon review of the biennial report, the Land Board may consider whether to revise procedures and/or rental rates for cabin and home site leases.

Current Lease Rates

All rates are applied to the Department of Revenue (DOR) value for the leased land.

Bidding:

Cabin site leases on unleased lots are issued through a competitive bidding process. The bid amount is the first year's lease fee. Initial bidding for any individual lot starts at 6.5% for the first 60 days. If no bids are received, the rate may be reduced to 5% for an additional 60 days. For lots located in neighborhoods with vacancy rates over 30%, the bid rate may be reduced further after 120 total days if unsuccessful at 60 days at 6.5% and 5%, respectively. Bid rates may never be reduced to below 3.5% or \$800.

Renewals:

Administrative Rule (ARM 36.25.1011) provides for cabin site leases to be renewed with preference right and issued upon expiration without competitive bidding. All renewals are offered at 5%, or \$800, whichever is higher.

Summary

The results of competitive bids received for the two-year period (average 5.37% for October 2019 – October 2021, and average 5.22% for the life of the bidding program from 2015 to October

2021) and of sales of improvements through non-family lease transfers (mean implicit market rate of 8.28%) are indicative of a market for cabin site leasing which can continue to support a 5% or higher lease rate.

DNRC Recommendation

The director recommends continuing to hold minimum bids for vacant sites in low-vacancy neighborhoods at or above 5%.



Montana State Trust Lands

Cabin Site Lease Rate Review 2021

Background

The settlement agreement reached in 2015 between MonTrust and the Board of Regents, and the DNRC and MT State Leaseholders Association stipulated that the results of implementing the settlement would be reviewed and considered by the Land Board every two years. In June of 2016, the Department finalized new Administrative Rules (ARM 36.25.1001-36.25.2021) for cabin site leasing implementing the terms of the settlement. All new bidding shall start at 6.5% of the Department of Revenue (DOR) value for the land, and after 60 days, the minimum bid may be reduced to 5%. Additionally, the ARM allows for the minimum bid rate to be further reduced after 60 days of bidding at 5%, for neighborhoods with high vacancy rates (30% or higher).

Implementation

Upon adoption of the ARM to implement the settlement, DNRC made vacant cabin sites available for bid. The first round of bidding set minimum annual lease rates at 6.5% of the 2014 appraised lot values and opened in June 2016.

Table 1. Summary of Bids on Vacant Cabinsites

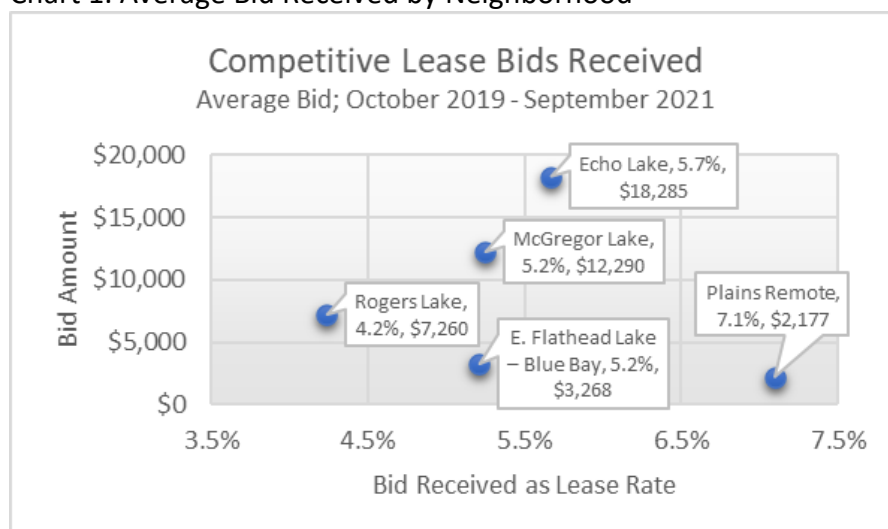
Bidding Period	Minimum Bid Rate	Lots Posted	Bids Received	Average Bid Rate	Portion of Posted Lots Receiving Bids	Lots with More Than 1 Bid
Jun-Aug 2016	6.50%	76	6	7%	7.9%	0
Aug-Oct 2016	5.00%	63	2	5.15%	3.2%	0
Dec-Jan 2017	5% or 4.5%	58	5	5.60%	8.6%	0
Mar-May 2017	5% or 4.5%	62	4	4.78%	6.5%	0
Jun-Jul 2017	5% or 4.0%	65	12	4.60%	13.8%	3
Sep-Nov 2017	5% or 4.0%	38	6	4.46%	15.8%	1
Feb-Apr 2018	5% or 4.0%	43	5	4.25%	11.6%	0
July-Aug 2018	5% or 4.0%	37	3	4.36%	8.1%	0
Jan-Mar 2019	5% or 4.0%	32	3	5.99%	9.4%	0
Oct-Dec 2019	5% or 4.0%	34	2	4.00%	5.9%	0
Apr-Jun 2020	5% or 4.0%	34	5	4.52%	14.7%	1
Sept-Nov 2020	5% or 4.0%	28	7	4.64%	21.4%	1
Mar-May 2021	5% or 4.0%	25	23	5.84%	52.0%	8
Average over 13 Bidding rounds:		46	6	5.01%	14%	Total of 14
~bid rates lower than 5% only set for neighborhoods with >30% vacancy. Lots with no previous bidding cycles set at 6.5%						

In the following rounds of bidding, the minimum bid rate was set at 5% for most sites, however minimum bid rates for sites in high-vacancy neighborhoods (more than 30% of lots vacant) continued to drop. The rates and results are summarized in Table 1, and more detail is shown in Exhibit A. These bidding cycles spanned roughly five years, encompassing 83 bids received.

Program Vacancy and Competitive Bidding Results

From October 2019 through October 2021, 19 new leases were signed through the bidding process. The 19 new leases produced in these four rounds of bidding, out of an average of 30 advertised sites, suggests an annual absorption rate of approximately 31%. Over the same time frame, nine existing leases were terminated for non-payment or other reasons. Of those, three are no longer managed as part of the residential leasing inventory.

Chart 1. Average Bid Received by Neighborhood



Active cabin site leases are billed according to four distinct lease type and fee calculation methods. At renewal or the start of a new lease, a financial review occurs and contracts use the new lease template. The average lease rate across all active leases in 2021, when comparing 2021 contract rent with the 2020 appraised values, is 4.7%. Details are shown in Exhibit B, where the newest lease contract is referred to as “Compound Increase.”

Table 2. Neighborhood Bidding Summary

	2017 Report			2019 Report			2021 Report			Total Average Bid Received	Total Average Bid Amount	Total Count of Bids
Neighborhood	Average Bid Received	Average Bid Amount	Count of Bids	Average Bid Received	Average Bid Amount	Count of Bids	Average Bid Received	Average Bid Amount	Count of Bids			
Beaver Lake	5.0%	\$8,255	6							5.0%	\$8,255	6
Central Remote	8.0%	\$12,501	1							8.0%	\$12,501	1
E. Flathead Lake – Blue Bay	5.4%	\$2,667	3	5.0%	\$2,467	7	5.2%	\$3,268	7	5.1%	\$2,832	17
Echo Lake	4.4%	\$11,701	5	5.0%	\$14,730	3	5.7%	\$18,285	7	5.1%	\$15,379	15
Kalispell Remote	5.1%	\$6,000	1	5.0%	\$7,150	1				5.1%	\$6,575	2
Lincoln Flats	6.2%	\$2,601	2							6.2%	\$2,601	2
McGregor Lake	5.2%	\$15,050	1	4.0%	\$8,471	2	5.2%	\$12,290	18	5.1%	\$12,058	21
Olney	6.8%	\$2,000	1							6.8%	\$2,000	1
Plains Remote							7.1%	\$2,177	2	7.1%	\$2,177	2
Rogers Lake	5.2%	\$6,410	6	4.1%	\$6,260	4	4.2%	\$7,260	3	4.6%	\$6,560	13
Stillwater/Libby Remote	6.1%	\$2,235	3							6.1%	\$2,235	3
Grand Total	5.4%	\$6,964	29	4.6%	\$6,505	17	5.3%	\$10,763	37	5.2%	\$8,564	83

The cumulative results of new competitive bidding since the new leasing rules were set are consistent with the ideal market lease rates identified in recent studies of the market for residential lease sites. The most recent study of Montana cabin sites found the true full market lease rate should fall between 4.9% and 8.6% (Bioeconomics 2015.)

Data from non-family transfers of improvements on active leases since the 2015 rate analysis (Bioeconomics, Cabin Site Lease Rate Valuation Analysis: 2015 Addendum to 2011 Report, 2015) were analyzed using the same model as the 2015 report. The sale price received by lessees for their improvements was compared to the MT Department of Revenue's assessed value of the improvements (details are shown in Exhibit C). A wide range of differences are found, with some selling under value and some gaining a profit (Leasehold Value) over the assessed value. The Leasehold Value is used in calculating what a full market lease rate would be. From 2015 – 2017 this implicit lease rate averaged 5.75% and from October 1, 2017 - September 30, 2019 averaged 5.73%. Over the current report period of October 2019 – September 2021 the implicit lease rate averaged 8.28% for non-family lease transfers. This is consistent with the top of the range of full market rates identified by Bioeconomics (2011 and 2015 update).

Table 3. Implicit Market Lease Rate: Nonfamily lease transfers, October 2017 – October 2021

Year	Average Implied Market Lease Rate	Non-family Transfers of Leases with Improvements
2017 October-December	3.62%	7
2018	6.23%	12
2019 to September	6.52%	15
Oct 2019 – Oct 2021	8.28%	16
2017-2021 Average/Total	6.61%	50

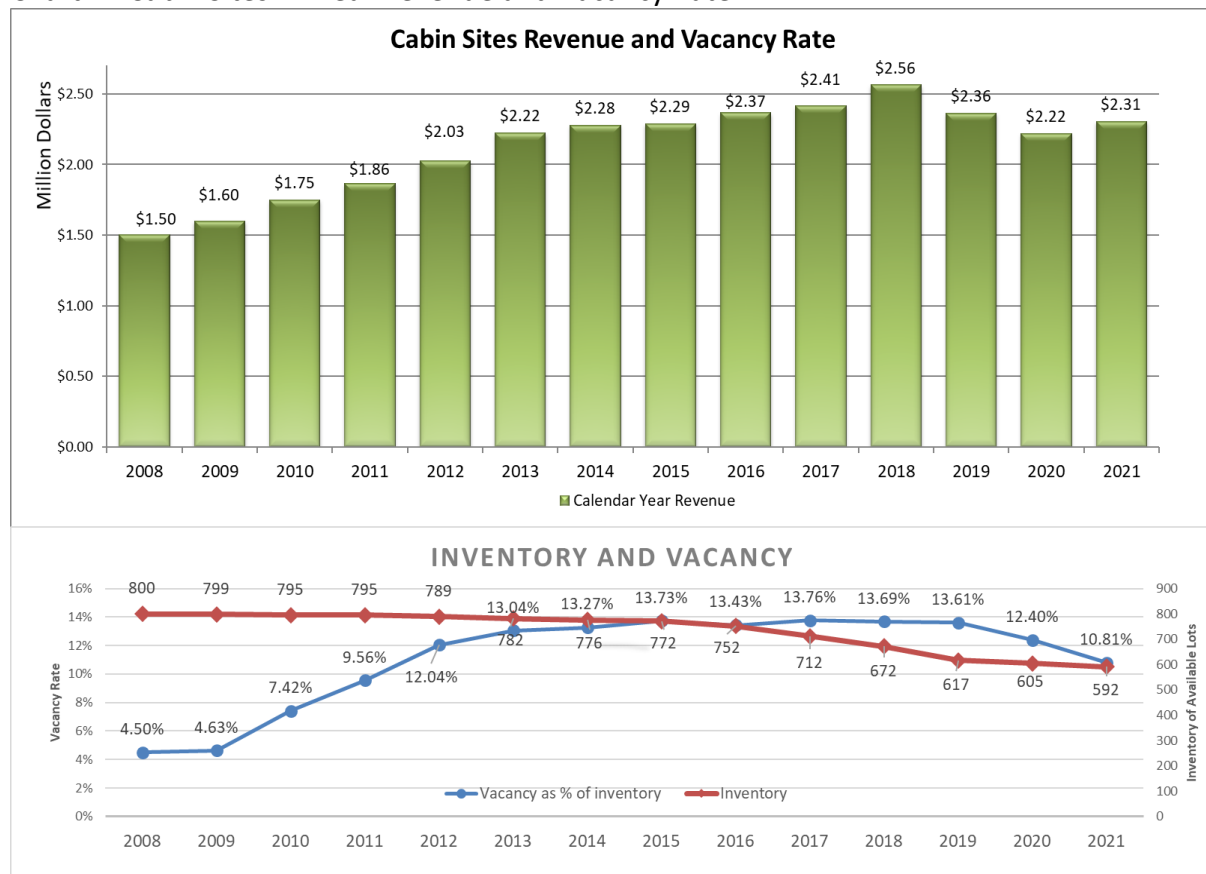
Assuming ongoing rounds of competitive bidding continue to produce similar results, the vacancy rates in most neighborhoods should fall over the next 1-2 years. However, the legislatively mandated cabin site sales program is reducing the inventory and as DNRC divests of active lease sites, this effectively pushes the vacancy percentage higher in neighborhoods with multiple sales. Given these opposing effects on vacancy rates, it may be several more years before the leasing program reaches some form of equilibrium vacancy rate. Table 4 shows a simple comparison of statewide vacancy data from June 2016 to September 2021 and illustrates the effect selling active leases has on countering the new leasing activity to hold vacancy rates high when compared to the working inventory.

Table 4. Total Working Cabin Site Inventory and Sales/Vacancy Rate

	Active	Vacant	Working Inventory	Sold	Vacancy Rate
June 2016	654	106	760	39	13.95%
September 2017	614	98	712	71	13.76%
September 2019	534	83	617	162	13.45%
September 2021	499	64	563	204	11.4%

The effective vacancy rate has dropped below 12% for the first time since 2011. Chart 2 illustrates that the higher vacancy rate over 13% had not resulted in falling revenues through 2018. The increased number of sold sites finally grew to the point that calendar year 2019 shows a drop in cabin site lease revenues over the prior year, and lease revenues in 2020 and 2021 stayed relatively flat as rising annual rents began to balance out the lost revenue from Cabin Site sales.

Chart 2. Cabin Sites 14 Year Revenue and Vacancy Rate



During the years prior to the settlement in 2015, competitive bidding occurred with a minimum bid of 5% and relatively few new leases were signed. Results from calendar year 2012 through October 2021 are provided in Table 5. Bidding activity for cabin sites on state land has fluctuated, with the 2021 data through October indicating a solid increase. A new bidding round is set to close in December 2021, which may provide an increase to the 2021 total reported here. While the strong housing market likely played a part in the increased bidding activity, the change may also be due to a measure of stability returning to the leasing program since reaching the final 2015 settlement agreement.

Table 5. Competitive Bidding 2012-2015

Bidding Period	Minimum Bid Rate	Competitively Bid Leases Signed
2012	5.00%	6
2013	5.00%	6
2014	5.00%	2
2015	5.00%	4
2016	5.00%	8
2017	5.00%	18
2018	5.00%	7
2019	5.00%	3
2020	5.00%	9
2021	5.00%	11
Total over Calendar Years 2012-2021:		74

Conclusion and Recommendation

The results of competitive bids received (average 5.37% for October 2019 – October 2021, and average 5.22% for the life of the bidding program from 2015 to October 2021) and of sales of improvements through non-family lease transfers (mean implicit market rate of 8.28%) are indicative of a market for cabin site leasing which can continue to support a 5% or higher lease rate. DNRC recommends continuing to hold minimum bids for vacant sites in low-vacancy neighborhoods at or above 5%. High vacancy (greater than 30%) neighborhoods persist and there are still vacant sites which have received no bids through several rounds of bidding.

Qualifications

This report was produced by DNRC's Trust Lands Economist, Brett Holzer (MS Applied Economics, Montana State University 2005.) Mr. Holzer has worked in the Real Estate Management Bureau of the Trust Lands Division since 2008.

References

Bioeconomics, I. (2011). *Cabin Site Lease Rate Valuation Analysis*.

Bioeconomics, I. (2015). *Cabin Site Lease Rate Valuation Analysis: 2015 Addendum to 2011 Report*.

Exhibit A: Results of Competitive Bidding for Cabin Sites

4%-6.5% MINIMUM BID RATES based on neighborhood vacancy Bidding: Opened October 1, 2019 – Closed December 2, 2019						
Lease Number	Unit	Neighborhood	Minimum Bid and Rate	Actual Bid Rate	Bid Amount	Improvements
3052833	KU	Rogers Lake (Lot 28)	4%; \$6,932	4%	\$ 7,000.00	Yes - Trust
3052867	KU	Orchard Villa (Lot 13)	4% \$2,463	4%	\$ 2,500.00	None
Average Bid Rate: 4%						

4%-5% MINIMUM BID RATES based on neighborhood vacancy						
Bidding: Opened April 9, 2020 – Closed June 8, 2020						
Lease Number	Unit	Neighborhood	Minimum Bid and Rate	Actual Bid Rate	Bid Amount	Improvements
3053273	KU	Orchard Villa (Lot 21)	5%; \$3,143.80	5.60%	\$ 3,500.00	None
3052167	KU	McGregor (Lot 17)	4% \$9,475.20	4.10%	\$ 9,754.40	Yes - Trust
3052005	KU	McGregor (Lot 18)	4% \$9,378.00	4.20%	\$ 9,873.70	Yes - Private
3052588	KU	Rogers (Lot 12)	4% \$6,824	4.10%	\$ 6,925.00	Yes – Trust
				4.60%	\$ 7,856.00	Yes – Trust
Average Bid Rate: 4.52% excluding duplicate, lower Hurd bid						

4%-5% MINIMUM BID RATES based on neighborhood vacancy Bidding: Opened September 4, 2020 – Closed November 4, 2020						
Lease Number	Unit	Neighborhood	Minimum Bid and Rate	Actual Bid Rate	Bid Amount	Improvements
3052860	KU	Orchard Villa (Lot 16)	5%; \$2,993.55	5.20%	\$ 3,100.00	None
3051566	KU	Echo (Lot 27)	5% \$16,335	5%	\$ 16,500.00	Yes – Private
3050748	KU	McGregor (Lot 4)	4% \$10,155.60	5.70%	\$ 14,412.00	Yes – Trust
3051989	KU	McGregor (Lot 14)	4% \$9,410.40	4.20%	\$ 9,975.03	Yes – Private
3051990	KU	McGregor (Lot 16)	4% \$9,507.60		\$ 9,494.16	Yes – Private
3052167	KU	McGregor (Lot 17)	4% \$9,475.20	4.20%	\$ 10,011.00	Yes – Trust
				4.20%	\$ 10,020.02	Yes – Trust
Average Bid Rate: 4.64% excluding disqualified bid on Lot 16						

4%-5% MINIMUM BID RATES based on neighborhood vacancy Bidding: Opened March 5, 2021 – Closed May 3, 2021						
Lease Number	Unit	Neighborhood	Minimum Bid and Rate	Actual Bid Rate	Bid Amount	Improvements
3053310	KU	E Lake Shore Flathead - Lot 18	5%; \$3,193.50	5.00%	\$ 3,194.00	None
3053311	KU	E Lake Shore Flathead - Lot 19	5%; \$3,180.75	5.16%	\$ 3,281.75	None
				6.29%	\$ 4,000.00	
3053272	KU	E Lake Shore Flathead - Lot 20	5%; \$3,163.80	5.22%	\$ 3,300.00	None
3051585	KU	Echo Lake - Lot 16	5%; \$14,150.00	5.72%	\$ 16,200.00	Yes – Trust
3052012	KU	Echo Lake - Lot 26	5%; \$18,013.75	5.30%	\$ 19,100.00	None
				7.98%	\$ 28,751.00	
3051974	KU	Echo Lake - Lot 4	5%; \$14,600.00	5.14%	\$ 15,000.10	Yes -- Private
3051583	KU	Echo Lake - Lot 6	5%; \$15,425.00	5.33%	\$ 16,444.44	Yes – Trust
				5.19%	\$ 16,001.00	
3051990	KU	McGregor Lake - Lot 16	5%; \$11,884.50	5.01%	\$ 11,904.00	Yes -- Private
				5.61%	\$ 13,330.00	
3052167	KU	McGregor Lake - Lot 17	5%; \$11,844.00	6.76%	\$ 16,010.00	Yes -- Private
3052034	KU	McGregor Lake - Lot 20	5%; \$11,641.50	5.01%	\$ 11,674.00	Yes -- Private
				5.50%	\$ 12,811.00	
3052384	KU	McGregor Lake - Lot 22	5%; \$10,872.00	5.02%	\$ 10,923.00	Yes – Trust
				5.52%	\$ 12,011.00	
3052251	KU	McGregor Lake - Lot 6	5%; \$11,601.00	7.76%	\$ 18,000.00	Yes -- Private
				5.39%	\$ 12,509.00	
				6.90%	\$ 16,000.00	
				5.39%	\$ 12,510.00	
3051581	KU	Plains Remote	6.5%; \$1,993.49	6.85%	\$ 2,100.00	Yes -- Private
				7.35%	\$ 2,253.50	
Average Bid Rate: 5.84%						

Exhibit B: Summary of DNRC Cabinsite Lot Values and 2021 Rents as a Percent of Lot Value

Area Office, Neighborhood	Billing Method								Total 2021 Rent - Total Average 2020 Value Avg Percent of Lot Value	
	Alt. 3b		Appraisal		Compound Increase		Fixed Amount			
	Average 2020 Value	2021 Rent - Avg Percent of Lot Value	Average 2020 Value	2021 Rent - Avg Percent of Lot Value	Average 2020 Value	2021 Rent - Avg Percent of Lot Value	Average 2020 Value	2021 Rent - Avg Percent of Lot Value		
Central	\$70,578	4.1%			\$147,907	3.9%			\$107,561	4.0%
Central Remote	\$70,578	4.1%			\$147,907	3.9%			\$107,561	4.0%
Eastern	\$11,588	2.2%			\$31,008	6.9%	\$3,855	20.8%	\$17,947	5.5%
Eastern Remote	\$11,588	2.2%			\$31,008	6.9%	\$3,855	20.8%	\$17,947	5.5%
Northeastern	\$27,487	3.5%	\$22,069	5.6%	\$25,193	6.3%	\$15,925	5.0%	\$25,215	4.7%
Northeast Remote	\$27,487	3.5%	\$22,069	5.6%	\$25,193	6.3%	\$15,925	5.0%	\$25,215	4.7%
Northwestern	\$179,850	4.1%	\$53,442	5.2%	\$107,485	4.7%	\$94,140	0.8%	\$124,134	4.5%
Ashley Creek	\$67,900	6.3%			\$60,678	3.1%			\$61,882	3.7%
Beaver Lake	\$233,073	5.5%			\$235,792	4.6%			\$234,773	5.0%
E Lake Shore - Flathead	\$449,523	3.4%	\$61,264	4.9%	\$63,308	4.5%			\$266,471	3.5%
Echo Lake	\$290,863	4.5%	\$172,550	5.2%	\$294,656	5.3%			\$286,632	5.0%
Fishtrap Creek	\$27,342	2.0%			\$21,930	6.1%			\$24,636	3.8%
Kalispell Remote	\$93,709	5.9%	\$67,400	5.0%	\$82,190	4.3%	\$94,140	0.8%	\$84,733	4.5%
Libby Creek					\$57,050	4.2%			\$57,050	4.2%
Mcgregor Lake					\$245,230	5.0%			\$245,230	5.0%
Mudd Creek	\$28,454	2.0%	\$29,316	5.8%	\$29,437	5.2%			\$29,246	4.6%
Olney Region	\$42,809	3.8%	\$40,700	4.9%	\$44,490	4.9%			\$43,884	4.6%
Plains Remote	\$20,964	2.3%	\$27,436	5.4%	\$23,744	5.8%			\$23,991	5.4%
Rogers Lake	\$185,333	6.2%			\$193,385	3.7%			\$191,875	4.2%
Stillwater-Libby Remote	\$45,277	5.3%			\$46,412	4.8%			\$46,062	4.9%
Thompson Creek	\$19,950	3.0%			\$24,804	6.3%			\$22,377	4.8%
Southern	\$43,279	4.1%			\$36,579	4.9%	\$2,062	38.8%	\$35,877	4.7%
Southern Remote	\$43,279	4.1%			\$36,579	4.9%	\$2,062	38.8%	\$35,877	4.7%
Southwestern	\$66,594	6.3%	\$110,500	4.6%	\$97,760	5.0%	\$30,853	2.6%	\$93,482	5.1%
Clearwater River Eastside	\$56,181	5.9%			\$55,844	6.6%			\$55,912	6.4%
Clearwater River Westside	\$71,582	4.9%			\$72,905	6.2%			\$72,464	5.7%
Copper Creek - Lincoln Area	\$39,466	7.3%			\$40,049	5.4%			\$39,926	5.8%
Elbow Lake					\$99,606	6.6%			\$99,606	6.6%
Fish Creek	\$55,626	2.5%	\$59,637	1.4%	\$55,263	1.8%	\$56,237	1.4%	\$56,377	1.7%
Grant Creek					\$241,954	2.0%			\$241,954	2.0%
Landers Fork					\$74,658	3.7%			\$74,658	3.7%
Lincoln Flats - Lincoln Area					\$40,766	5.4%			\$40,766	5.4%
Morrell Creek East					\$9,428	12.2%			\$9,428	12.2%
Morrell Creek West			\$14,384	6.9%	\$14,664	14.0%	\$8,826	9.1%	\$13,065	9.2%
Morrell Flats			\$46,796	5.3%	\$51,038	3.7%			\$50,508	3.9%
Placid Lake			\$392,625	4.9%	\$421,682	4.1%			\$418,050	4.2%
Seeley Lake Development	\$46,687	5.4%	\$44,365	5.4%	\$64,213	5.7%			\$61,202	5.7%
Seeley Lake East Outlet	\$121,549	7.3%	\$89,449	4.1%	\$109,211	4.3%			\$105,299	4.6%
Seeley Lake North			\$46,109	5.4%	\$47,139	5.7%			\$46,967	5.7%
Seeley Lake West Outlet	\$112,057	6.7%	\$112,862	3.1%	\$114,096	4.3%			\$113,654	4.6%
Southwest Remote					\$49,212	5.1%	\$2,111	37.9%	\$43,324	5.3%
Sperry Grade	\$77,734	7.0%			\$79,186	7.2%			\$78,394	7.1%
Grand Total	\$105,052	4.4%	\$84,328	4.8%	\$97,721	4.9%	\$25,258	3.2%	\$97,131	4.7%

Exhibit C: Non-Family Cabin Site Transfers, Oct 2019 - Oct 2021

Transfer Date	Neighborhood	Selling Price	Cadastral Value Improvements	Leaseholder Value	Cadastral Land Value	Leaseholder Value / Land Value	Implied Market Lease Rate
10/17/2019	Mudd Creek	\$32,000	\$23,690	\$8,310	\$32,852	25.30%	4.86%
10/18/2019	Placid Lake	\$310,000	\$155,600	\$154,400	\$396,750	38.92%	8.99%
10/18/2019	Seeley Lake West Outlet	\$365,000	\$273,760	\$91,240	\$161,059	56.65%	8.02%
10/31/2019	Morrell Flats	\$45,000	\$59,480	-\$14,480	\$93,490	-15.49%	4.54%
11/21/2019	Olney	\$42,000	\$37,910	\$4,090	\$50,700	8.07%	3.44%
12/3/2019	Elbow Lake	\$190,000	\$150,530	\$39,470	\$85,764	46.02%	6.95%
12/16/2019	Seeley Lake Development	\$34,180	\$28,000	\$6,180	\$43,912	14.07%	6.22%
6/25/2020	Elbow Lake	\$129,000	\$67,180	\$61,820	\$123,028	50.25%	13.18%
9/1/2020	Clearwater River East	\$25,000	\$12,600	\$12,400	\$47,440	26.14%	6.92%
9/11/2020	Seeley Lake Development	\$386,000	\$166,340	\$219,660	\$484,500	45.34%	9.16%
10/8/2020	Rogers Lake	\$65,000	\$58,340	\$6,660	\$158,000	4.22%	5.11%
1/26/2021	Echo Lake	\$120,000	\$52,550	\$67,450	\$244,000	27.64%	6.91%
3/2/2021	Lincoln Flats	\$60,000	\$31,600	\$28,400	\$44,990	63.13%	13.83%
4/15/2021	Placid Lake	\$230,000	\$84,450	\$145,550	\$380,250	38.28%	8.10%
7/19/2021	Southwest Remote	\$20,000	\$1,090	\$18,910	\$43,500	43.47%	8.63%
8/19/2021	Clearwater River East	\$46,000	\$18,320	\$27,680	\$49,918	55.45%	14.59%