AGENDA
Idaho Park and Recreation Board Meeting
August 5-7, 2019
Super 8 by Wyndham
276 No. 4th Street
Montpelier, ID  83254

AGENDA ITEM: Heyburn Recreational Residence Leases

ACTION REQUIRED: Board Action

PRESENTER: David White, North Region Manager
Steve Strack, Deputy Attorney General

PRESENTATION
At the May Board meeting in McCall, staff presented a draft Recreational Residence Site Lease for the Board’s consideration. Staff also presented the written lessee comments, including those from the Leaseholder’s Association Attorney Mr. John Magnuson, and addressed them accordingly. Two lessee representatives addressed the Board sharing concerns and recommendations. It was noted that the Department’s timeline provided for the final lease approval to occur at the August Board meeting. Thus, Board action was tabled accordingly, and staff agreed to allow additional comments until June 15, 2019.

Staff received letters from two individuals, a lessee and the Leaseholder’s Association Attorney, John Magnuson. These letters are attached for your information and reference. One lessee also noted that the Heyburn Lease Appraisal/Payment Comparison 2003 – 2020 did not reflect their annual payments accurately. Hence, staff reviewed the spreadsheet and corrected it accordingly. It is attached as well for information and reference.

All lessees were given an opportunity to appeal the appraisal of their recreational residence site. Only two appeals were received, and decisions on the appeals are pending. Those lessees will have an opportunity to address the Board at its November meeting if they are not satisfied with the Department’s decision on the appeals.

ISSUES PRESENTED:

The Board currently leases 142 cabin sites within Heyburn State Park. The applicable statute, Idaho Code § 67-4201, provides that the Board may make cabin sites available for lease “if in the opinion of the park and recreation board it is desirable” to do so. Accordingly, the leases expiring on December 31, 2019, provide as follows:

No right of renewal is implied or granted as part of this lease. The decision to offer to Lessee a new lease at the expiration of this lease is expressly reserved to the sole discretion of the Lessor, upon terms to be decided by the Lessor.

See also IDAPA 26.01.21.070 (“No lease may include any right of renewal, whether expressed or implied”). Implicit in the terms of Idaho Code § 67-4201 and IDAPA 26.01.21.070 is that the
Board’s decision to continue offering cabin site leases is subject to the Board’s determination that the recreational and financial benefits derived from leasing the cabin sites outweigh the costs incurred by the Department—both in lost opportunities to use the sites for other recreational needs and the financial and staff impacts associated with the leasing program. A description of services associated with the cabins is attached.

The determination of the financial benefits of leasing is governed by statute and rule. The Board is required by statute to “make and collect reasonable charges” for the use of state park lands. Idaho Code § 67-4223(7). Within Heyburn State Park specifically, “lots and blocks may be appraised and an annual rental fixed thereon.” Idaho Code § 67-4201. The rule implementing the statute requires that:

- Base lease rates are set so as to provide the Department a reasonable return based upon the fair market value of the lease site.

IDAPA 26.01.22.090 (“Rule 90”). Given the plain language of Rule 90, the two questions before the Board are:

- What is the fair market value of the lease sites?
- Given that value, what is a reasonable return?

**Fair Market Value**

The term “fair market value” means the price that a seller is willing to accept and a buyer is willing to pay on the open market and in an arm’s length transaction.” Black’s Law Dictionary 1549 (7th ed. 1999).

Establishing the fair market value of public property is difficult because the property is typically held subject to statutory restrictions on its use. If restrictions on use were taken into account, the fair market value of the property would be substantially reduced in comparison to similar private property in the area. To account for this, appraisals conducted in preparation for sale or lease of government property typically include instructions to appraise the property under the hypothetical condition that the property is available for private ownership. For example, federal rules for appraising property to be exchanged provide as follows:

When appraising the federal land portion of the exchange, the regulations require that the appraiser “estimate the value of the lands and interests as if in private ownership and available for sale in the open market.” This is an assignment condition that requires a legal instruction and creates a hypothetical condition.

43 CFR 2201.3-2(2). The United States Forest Service, when appraising leased cabin sites on national forest lands, employed similar instructions. Market values were established by a comparable sales approach, using land sales date for uses similar to the authorized use. Forest Serv. Handbook § 2709.11.31.1 The appraisal instructions provided that “[t]he lot is appraised as if held in private ownership.” Forest Serv. Handbook 5409.12 Chap. 60. “The highest and best use of the lot is its authorized use, a recreation residence lot.” Id. “The purpose of the appraisal was to determine market value of the fee simple estate of a typical lot or lots.” Id. In short, lands were appraised under the “hypothetical condition that they are already in non-Federal ownership.” Id. “Nearby arm’s length transactions, comparable to the land under appraisement, reasonably current, are the best evidence of market value.” Id. The appraisal instructions did not direct the appraiser to take into account lease limitations, such as the Forest Service’s prohibition on full-time occupancy of cabin sites.

A 2016 survey of eighteen public entities that leased land for use as cabin sites found that all charged a rate of return based on fee simple appraisals, including those entities that prohibited year-round occupancy. Bioeconomics, Inc., Johnson Lake: Late Lot Lease Rate Valuation
Analysis 6 (2016). The same report rejected the suggestion made here by Mr. Morse that the rental rate should be based on the property rights actually leased rather than the fee simple value of the property. See id. at 27-43 (recommending that appraisals of "leased fee" values be adjusted upward by 30% to 55% to reflect fee simple value, and that rent be 5% of the adjusted fee simple value).

In accordance with the common practice of calculating rent as a percentage of fee simple value, the cabin and float home sites within Heyburn State Park are appraised under the instruction to appraise the sites as if available for fee-simple private ownership, unencumbered by any lease or by lessee-owned improvements. This creates the hypothetical condition that the property is "vacant and unimproved."

This instruction is consistent with Rule 90, which requires rent to be based on a percentage of the value of the "lease site." The term "lease site" is different than the term "leased site," which could be interpreted to mean the value of the site as leased to the cabin and float home owners. In other words, Rule 90 contemplates a rate of return based on the unencumbered value of the lease site, not the value of the property rights actually leased to the cabin owners. The property rights leased to cabin owners differ from IDPR’s fee simple right in two primary ways:

- Use of the site is limited to 185 days in any 365 day period (but the owner’s improvements and personal property may occupy the site year-round);
- No fencing or other exclusion of the public from the site (other than lessee-owned improvements) is allowed.

The appraiser hired by the Heyburn State Park Leaseholders Association, Ed Morse, appears to criticize the use of the "vacant and unimproved" hypothetical condition, but identifies no statute, rule, or legal standard prohibiting the use of such a hypothetical condition. Mr. Morse does not contest that the hypothetical conditions results in a determination of fee simple value. Instead, his criticisms of the hypothetical condition center on his central premise that a determination of "market rent" should be based on an appraisal that takes into account all lease restrictions. As discussed below, however, Rule 90 requires only that the Board establish a "reasonable rate of return." There is no statute, rule, or legal standard requiring the Board to charge "market rent."

Moreover, the Uniform Standards of Professional Appraisal Practice (USPAP) specifically authorize appraisers to assume the existence of a "hypothetical condition," i.e., a condition "contrary to what is known by the appraiser to exist on the effective date of the assignment." The appraiser hired by the Department, Vicki Mundlin, accepted the assignment to appraise the cabin sites using the hypothetical conditions crafted by the Department that the sites were vacant, unimproved, and available for fee simple ownership, and fully disclosed those hypothetical conditions in her appraisal, as required by USPAP Rule 4.2. Ms. Mundlin is an appraiser with over 27 years of appraisal experience and is certified as a Member of the Appraisal Institute (MAI), which is the highest achievement that is available to an appraiser.

In short, use of a hypothetical condition to establish fee simple value of the lease sites is consistent with Rule 90’s requirement to establish the “fair market value of the lease site.” Accordingly, staff recommends below that the Board accept the appraised values.

**REASONABLE RATE OF RETURN**

Rule 90 provides that the Board is to establish a reasonable return based upon the fair market value of the lease site."

"Return," as used in Rule 90, means the "annual income from an investment, expressed as a percentage of the investment." Black’s Law Dictionary 1268 (7th ed. 1999). The term "lease site" refers to those "lots and blocks" that the Board was authorized to establish within Heyburn State Park for lease as recreational residences. Idaho Code § 67-4201.
The leaseholders have submitted the consulting report of Ed Morse, who criticizes the proposed 5% rate of return as not reflecting “market rent.” In adopting Rule 90, the Board did not require that the rent be based on comparable market rents, on discount rates, on cap rates, on market rates of return, or on any of the other fluctuating market indicators discussed in Mr. Morse’s consulting report. Rather, the Board chose to require only that the return be “reasonable.” The term “reasonable rate of return” is often used in the regulatory context where market-based rates are inapplicable due to the lack of competitive markets. See, e.g., In re California Wholesale Elec. Antitrust Litig., 244 F. Supp. 2d 1072, 1074 (S.D. Cal. 2003) (distinguishing “reasonable rate of return” from “competitively-determined market-based rates”). In the regulatory environment a rate that is fair and based on a reasoned examination of all relevant factors meets the requirement of reasonableness. See, e.g., BP W. Coast Prod., LLC v. F.E.R.C., 374 F.3d 1263, 1284 (D.C. Cir. 2004).

In prior litigation with the Heyburn State Park Leaseholders Association, the district court applied similar standards, and held that the term “reasonable” in Rule 90 was not unconstitutionally vague, but rather was a term of art used over 1,967 times in the Idaho Code. McGurkin v. IDPR: Memorandum Decision at 4 (Idaho 2d Dist. Ct., Jan. 30, 2001). The court also confirmed that the determination of “reasonable” rates of return, as used in Rule 90, is a “discretionary function” of the Board. Id. at 7. In exercising this discretionary function, the Board must make a reasoned, rational decision and “cogently explain why it has exercised its discretion in a given manner.” Id. at 9 (quoting Motor Vehicle Manufacturers Ass’n, 463 U.S. at 48).

So while market rates of return are certainly factors that the Board may consider, the Board is not required to establish a “market rent” as advocated by Mr. Morse.

Moreover, were the Board to adopt Mr. Morse’s recommendation that the Board employ market rent by multiplying the market discount rate by the value of the “actual leased property right,” the appraised values may be lower, but the rate of return would be substantially higher than 5%. As indicated in Mr. Morse’s report, current market rates are as follows:

- Average discount rate: 7.33%
- Overall cap rate: 6.23%
- Residual cap rate: 6.58%
- Prime rate: 5.50%

Likewise, the Idaho State Treasurer annually sets a base interest rate for each fiscal year using the “weekly average yield on United States treasury securities as adjusted to a constant maturity of one (1) year.” Idaho Code § 28-22-104. The base rate for FY 2020 is 7.125%.

In short, the 5% rate of return is already substantially discounted from typical market rates of return. While, as Mr. Morse points out, discount and interest rates were two or three percentage points higher at the time the Board established the 5% rate, such fact does not demonstrate that the 5% rate is now unreasonable. Such fact is equally consistent with the proposition that the 5% rate was, if anything, too low at the time of its establishment when compared to then-existing interest rates.

More importantly, Mr. Morse’s assertion that the rate of return for the Heyburn cabin sites should go up or down as market interest rates go up or down ignores the basis for the Board’s 2001 rent decision. The Board, in establishing the 5% rate or return, did not refer to then-existing market rates of interest (if it had, the rent may well have been higher). Rather, the Board examined rates charged by other public entities for use of public lands, and examined rates of return recommended to other public agencies. As discussed below, doing so today would yield a similar result.

Mr. Morse’s assertion that the reasonable return should take into account the 185 day limit on
occupancy has been previously presented to, and rejected by, the Board. In 2001, the Board noted “that even though use of the lease site is restricted in time, the lessee's improvements occupy the leased property the full three hundred sixty-five (365) days of each year.” The right to maintain improvements year-round has value, even if occupancy is prohibited. In the market rent survey for cabin sites at Heart Butte Reservoir, the appraiser assigned a “storage rent” of $50 per month for cabins remaining on federal property during non-occupancy months by examining prices charged by vicinity storage facilities for storage of RVs. Laflamme, supra, at 35. Outdoor RV storage rates in north Idaho run around $60 per month.

**Rental Rates Charged by Other Public Entities:**

The California State Lands Commission is authorized to lease state lands for recreational uses including cabins. California Administrative Code Title 2, Division 3, Chapter 1, § 2002. Rent for such uses is calculated at “9% of the appraised value of the leased land,” although the Commission may adjust the “benchmark rental rate if there is a large concentration of similar facilities in the local area. California Administrative Code Title 2, Division 3, Chapter 1, § 2003. Rents can also be adjusted if there is “relevant, reliable and comparable data is available concerning the value of the land proposed to be leased.” *Id.*

The Wyoming Office of State Lands and Investments is authorized to lease state lands for cabin sites. WY Stat. § 36-5-115. The annual rental is “based on fair market value for the same or similar use of the land” but “shall not be less than $250.00 or 5½% of the appraised land value and any improvements owned by the State.” WY Admin. Code 060.0002.5 § 7.

The Utah Division of Forestry, Fire and State Lands is authorized to lease state land for recreational cabin sites. Utah Admin. Code § R652-30-300. Lease rates are calculated by “multiplying the fair market value of the subject property by the current division-determined interest rate.” Utah Admin. Code § R652-30-400(2). In practice, the division uses the prime interest rate as the base for determining the lease rate, subject to adjustment for location of the land and other factors. Cook & O’Laughlin, *Analysis of Procedures for Residential Real Estate (Cottage Site) Leases on Idaho’s Endowment Lands* 17 (2008). The current prime interest rate is 5.5%.

The Montana Department of Natural Resources and Conservation “must attain full market value: for cabin site rentals based on an “appraisal of the cabin site value as determined by the department of revenue.” Mont. Code Ann. § 77-1.208. In practice, the Department calculates rent “as a percentage of the appraised unimproved land value.” *Montana Trust Land Cabins Site Lease Rate Valuation Analysis* 4 (2015). The target rental rate is 5% of full appraised value, but the rent is being gradually phased in over an extended period of years. *Id.*

The Minnesota Department of Natural Resources leased lakeshore lots for 5% of the appraised fee simple value of the leased land from 1998 to 2016, but most lots have since been sold pursuant to legislative direction. *School Trust Land Report* #98-05, p. 54 (1998).

The Idaho Department of Lands leases residential lots for 4% of fee simple market value, but lessees are responsible for installation and maintenance of access roads, water, sewer, and electrical systems.

Minnesota Power and Land leases lakeshore lands for 2.5% of the county assessed market value of the land, with the owner responsible for payment of all property taxes. [http://www.mpland.com/Leaseholders](http://www.mpland.com/Leaseholders) The result is an effective rental rate of around 3.5%. Johnson Lake, Late Lot Lease Rate Valuation Analysis 22 (2016).

The United States Forest Service historically used 5% of the market value of the recreation residence lots as the basis for cabin site special use permit fees. Because the market value of National Forest lands was rising rapidly, Congress passed the Cabin Fees Act in 2016,
est.ablishing a fixed fee schedule for cabin sites, with annual fees ranging from $650 to $5,650. Pub. Law 113-291 § 3024. The fees were based on 5% of market value as of the time the Act was passed, and are periodically adjusted for inflation.

**RENTAL RATES RECOMMENDED BY OTHER EXPERTS SINCE 2001**

In its 2001 decision setting the 5% rental rate, the Board relied on a “market return study specifically addressed to Heyburn State Park lease sites [that] resulted in the recommendation of a five percent (5%) rate of return for the Heyburn State Park lease sites.” 2001 Decision at 4. The Board also cited four studies recommending rates of return for leasing of state endowment lands. The four studies recommended rates of 3.5%, 4.5, 6%, and 8%. The purpose of the following section is to update the 2001 decision with recommendations made to other public agencies since 2001.

In 2010, economists Terry Anderson and Reed Watson recommended to the State Board of Land Commissioners that the Board adopt a minimum rental rate of **6 percent of appraised value** for cottage sites at Priest Lake and Payette Lake.

In 2015, Bioeconomics, Inc. advised the Montana Department of Natural Resources and Conservation that “full market annual rental value for Montana state cabin sites is in the range of **5% to 8% of appraised value**, with a “mean implicit full-market lease rate” of 6.7%.

Bioeconomics, Inc., Montana Trust Land: Cabin Site Lease Rate Valuation Analysis 6 (2015). Accordingly, Bioeconomics found that the Montana target rate of 5% was appropriate given the challenging economic conditions then existing. Id. at 6-7.

In 2016, Bioeconomics, Inc. recommended to the Central Nebraska Public Power and Irrigation District that it adopt a lease rate of **5 percent of fee simple value** for cabin site lots at Johnson Lake, Nebraska. Bioeconomics, Inc., Johnson Lake: Late Lot Lease Rate Valuation Analysis 44 (2016).

In 2015, the Bureau of Reclamation commissioned an appraisal of market rents for cabin sites at Heart Butte Reservoir, in North Dakota, that were limited to seasonal use, with occupancy prohibited from November 1 to April 1. Lessees had to provide their own septic system, well, and electrical hookups. The appraiser recommended an **annual rental of $2,350** for cabin sites. Charles Laflamme, Market Rent Survey, Heart Butte Reservoir Cabin/Trailer Sites (2015).

**AREA RV AND CABIN SITE RENTALS.**

The 2015 appraisal to determine fair market rents for cabin sites leased by the Bureau of Reclamation at Heart Butte Reservoir in North Dakota suggested using rental charges for local RV parks as comparable properties, adjusting the rates downward as much as $200 per month to account for services not provided to the cabin sites, such as electricity, water, and sewer. The appraiser concluded that while RV parks include a number of amenities to entice guests, such as wi-fi, cable TV, and swimming pools, the “important of such amenities is likely dwarfed by the setting of the campground sites themselves,” and so qualitative adjustments to account for such amenities were not weighed heavily. Given that, an informal survey of rates charged by RV parks in the general vicinity of Heyburn State Park may help inform the Board’s decision (keeping in mind that rates are not directly comparable without adjustment for included electricity, sewer, and water services).

- Pines RV Park, Harvard, ID. $50 daily, $1,000 monthly (includes electricity, water, sewer, and wi-fi).
- H2H Bison Ranch, Worley, ID ($55 daily includes electricity, sewer, and water; $600 monthly, water and sewer included).
- Misty Meadows RV Park, St. Maries, ID. $38 daily, $380 monthly (includes electric, sewer, & water)
• Shady River RV Park, St. Maries, ID. $21.50 daily, $350 monthly (includes electric, water, sewer).
• Wolf Lodge Campground, Coeur d’Alene, ID. $45-$55 daily (includes electric, water, sewer & wi-fi) (no monthly rates)
• Blackwell Island RV Park, Coeur d’Alene, ID. $69.98 daily (waterfront) $58.48 daily (non-waterfront) (includes electricity, water, sewer, basic cable, and wi-fi) (no monthly rates).
• Camp Bay, Lake Pend Oreille ($6,000 annually for 50 ft. lakefront cabin site lot with dock rights) (lessee responsible for electricity, water, and septic).

In comparison, Heyburn State Park cabin and float home site rents at 5% of fair market value will range from $1,575 to $4,875 annually, which, if spread over 185 days or six months amounts to the following rates:
• Cabin Lowest: $8.51 daily / $262.50 monthly
• Cabin Average: $12.52 daily / $386.33 monthly
• Cabin Highest: $26.35 daily / $812.50 monthly
• Float Home: $10.13 daily / $312.50 monthly

If fees for water, sewer, and trash-streetlight are included, daily and monthly rents are:
• Cabin Lowest: $13.65 daily / $420.96 monthly
• Cabin Average: $17.67 daily / $544.80 monthly
• Cabin Highest: $31.49 daily / $970.96 monthly
• Float Home: $14.75 daily / $455.04 monthly

CONCLUSIONS

The 5% rate of return established in the Board’s 2001 decision:
• Is 0.5% lower than the current prime rate;
• Is 2.33% below the current average discount rate;
• Is 2.125% below the base interest rate established by the Idaho State Treasurer;
• Is within the range of rental rates charged by other public entities (3.5% to 9%);
• Is within the range of recent expert recommendations made to other public entities for similar rentals (5% to 6%);
• Yields daily and monthly rents comparable to those charged for RV sites in the area of Heyburn State Park.

RECOMMENDATION

Staff recommends that the Board:
1. Approve the 2020-29 cabin site lease;
2. Accept those appraised values established in the Mundlin appraisal, except for the two appraisals with pending appeals; and
3. Direct staff to apply the Board’s 2001 decision establishing a reasonable return of 5% of the fair market value of each lease site.

ATTACHMENTS

1. Draft Recreational Residence Site Leas;
2. Corrected Spreadsheet comparing appraised values and rents;
3. Lessee comments;
4. Leaseholder’s Association Attorney John Magnuson comments with Ed Morse Consulting Report;
5. Services provided by Park staff;
6. Rental Rate Recommendation Reports
a. Terry L. Anderson and Reed Watson, *Analysis of Subcommittee Recommendations to the Idaho Board of Land Commissioners.* (Feb. 12, 2010) (copy enclosed)


RECREATIONAL RESIDENCE SITE LEASE
Heyburn State Park
Lease No. ______

LESSOR Name and Address: Idaho Department of Parks and Recreation
PO Box 83720
Boise ID 83720-0065

LESSEE Name and Address: Lessee Name(s): ____________________________
Address 1: ____________________________
Address 2: ____________________________
City, State, Zip: ____________________________

Lease Term: Commencement: January 1, 2020
Expiration: December 31, 2029.

Leased Site: Area: _______________
Lot: _______________
Heyburn State Park.

Rent: Initial rent is $ _________ per year, subject to annual and periodic adjustment,
and payment of utility fees and charges as listed below.
See Section 4, Attachment A.

Agreement: Lessor, in consideration of the rent paid and the covenants, conditions and
restrictions hereinafter set forth, in this Lease (including all Attachments), does
hereby lease and demise unto Lessee the right to uses the above-identified
Recreational Residence Site for the uses and purposes specified herein.

Liability Insurance: See Section 14, Attachment A.

Lease Index: This Lease consists of the following sections, each of which is material:
SITE-SPECIFIC PROVISIONS
SIGNATURE PAGE
ATTACHMENT A – GENERAL LEASE PROVISIONS

(continued on next page)
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Fees for Trash/Streetlight, Water Access, and Sewage Service may be adjusted annually by Lessor.
This lease agreement (Lease), including the SITE SPECIFIC PROVISIONS, the SIGNATURE PAGE, and ATTACHMENT A (GENERAL PROVISIONS), all of which are incorporated herein in their entirety, is made and entered into by and between IDPR and the below-signed Lessee(s).

IDPR SIGNATURE

IN WITNESS WHEREOF, the parties hereto have caused these presents to be duly executed the day and year first above written.

SIGNED: IDAHO DEPARTMENT OF PARKS AND RECREATION

BY: Susan Buxton, its Director

State of Idaho )
County of Ada   )

On this ______ day of ______________, in the year ______, before me, a Notary Public in and for said State, personally appeared David Langhorst, known to me to be the director of the Idaho Department of Parks and Recreation, that executed the within instrument, and acknowledged to me that the Idaho Department of Parks and Recreation executed the same.

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

Notary Public for the State of Idaho
Commission expires: __________

LESSEE SIGNATURES

By signing, Lessee(s) verify receipt, review, and acceptance of all attachments and terms and conditions.

x________________________________________ x________________________________________
(Lessee) (Lessee)

STATE OF ______________________)
COUNTY OF ______________________)

On this _____ day of ______________, in the year ______, before me, a Notary Public in and for said State, personally appeared __________________________ known to me to be the person(s) who executed the instrument as Lessee, and acknowledged to me that such person(s) executed the same.

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

Notary Public
Commission expires: __________
1. **Definitions.** As used in this Lease, the terms set forth below have the following definitions:

a. **Address of record.** Lessee’s address as shown on the SITE SPECIFIC PROVISIONS page of this Lease, or as reflected in Lessor’s records upon written notification by Lessee of a change in address.

b. **Assignee.** A person who assumes a valid lease from a Lessee.

c. **Assignment.** The Department-approved transfer of a valid lease from a current Lessee to a new Lessee.

d. **Assignor.** A current Lessee who transfers a valid lease to a new Lessee.

e. **Board.** The Idaho Park and Recreation Board, as established by Idaho Code §§ 67-4221 through 67-4223.

f. **Department or IDPR.** The Idaho Department of Parks and Recreation.

g. **Director.** The director and chief administrator of the Department, or the designee of the director.

h. **General development plan.** The framework for the overall design, planning, development and administration of resources and facilities within Heyburn State Park.

i. **Improvements.** Residences, outbuildings, structures, fixtures, and other property belonging to Lessee and permanently or temporarily affixed to a recreational residence site, but excluding movable personal property as defined herein.

j. **Lease.** The herein instrument defining the rights and duties of the parties regarding the use and occupation of a recreational residence site located within Heyburn State Park. The term “Lease” is used for the sake of convenience and shall not be used to interpret or modify the rights granted by this instrument.

k. **Lease payment.** The annual fee or rent paid by a Lessee to the Lessor.

l. **Lessee.** A person who holds a valid lease for a recreational residence site within Heyburn State Park.

m. **Lessee of record.** The individual, married couple, or living trust whose name appears in the Department records as the current lessee(s) of a recreational residence site.

n. **Lessor.** The Idaho Department of Parks and Recreation.

o. **Motor vehicle.** Any wheeled vehicle that is self-propelled except vehicles moved solely by human power and motorized wheelchairs.

p. **Moveable personal property.** Personal property that is not permanently or temporarily affixed to the Recreational Residence Site, including, but not limited to, household goods and furnishings belonging to Lessee.
q. **Ordinary high water mark.** The high water elevation in a lake over a period of years, uninfluenced by man-made dams or works, at which elevation the water impresses a line on the soil by covering it for sufficient periods to deprive the soil of its vegetation and destroy its value for agricultural purposes. The ordinary high water mark for all lakes within Heyburn State Park is presumed to be 2,128 feet above mean sea level.

r. **Outbuilding.** Any walled or roofed structure upon the Recreational Residence Site other than the recreational residence, including, but not limited to garages, storage buildings, and sheds.

s. **Park Manager.** The manager of Heyburn State Park.

t. **Recreational residence.** A cabin, house, or other structure used by Lessee to provide living accommodations upon the Recreational Residence Site.

u. **Recreational Residence Site.** A particularly described parcel of real property, located within Heyburn State Park and owned by the Department, which has been made available to private individuals through a lease for the purpose of constructing and maintaining a recreational residence.

v. **Remove.** As applied to improvements and moveable personal property, the term “remove” means to either re-locate the improvements and moveable personal property to a location outside Heyburn State Park, or to dismantle and dispose of the improvements or moveable personal property in a manner consistent with public health, public safety, and preservation of park resources.

w. **Serve.** Any provision in this Lease requiring Lessor to serve notice upon Lessee shall be fulfilled by the mailing of such notice to Lessee by first-class United States Mail, addressed to Lessee at its address of record.

x. **Sublease.** A Lessee’s written agreement to sub-let or rent the recreational residence on a recreational residence site for monetary or other valuable consideration.

2. **Lease Term.** The term of this Lease shall be for ten (10) years commencing upon January 1, 2020 and ending December 31, 2029.

a. **Renewal.** No right of renewal is implied or granted as part of this Lease. The decision to offer to Lessee a new lease at the expiration of this Lease is expressly reserved to the sole discretion of the Lessor, upon terms to be decided by the Lessor. Provided, that the current Lessee shall have the right of first refusal to any lease of the Recreational Residence Site offered upon the expiration of this Lease, or for two years thereafter, so long as Lessee is not in default of any provision of this Lease.

3. **Lessee Restrictions and Obligations.** Leases will be issued only to natural persons, or trustees thereof. Corporations, LLCs, partnerships, associations and other entities are not eligible to lease recreational residence sites.

a. Lessee is solely responsible for informing Lessor of any changes in Lessee’s status that may affect Lessee’s eligibility to rent the Recreational Residence Site, or of any changes in Lessee’s address of record.
4. Lease Payment.

a. **Base Rate.** The initial annual lease payment shall be as stated on the SITE SPECIFIC PROVISIONS page. The lease payment is calculated as five percent (5.0%) of the established fair market value of the Recreational Residence Site as if the Recreational Residence Site were held in fee simple estate for residential usage, with no adjustment for the restrictions on use or occupancy set forth in this Lease. The fair market value of the Recreational Residence Site was determined by appraisal solicited by Lessor prior to the offering of this Lease, and by signing this Lease Lessee acknowledges and accepts such determination of fair market value.

b. **Mid-Term Base Rate Adjustment.** All Recreational Residence Sites shall be reappraised at the middle of the lease term to establish fair market value as of January 1, 2025, and the base rate will be adjusted to reflect the fair market value established by the re-appraisal. The market value shall be determined as if the Recreational Residence Site were being offered for sale at fee simple for purposes of residential usage, with no adjustment for the restrictions on use and occupation set forth in this Lease.

c. **Appeal Rights With Respect to Mid-Term Appraisal.** If, after correction of any factual or calculation errors in the mid-term appraisal report, the Lessee disagrees with the appraised value, Lessee may obtain an independent appraisal of Lessee's Recreational Residence Site from an Idaho-certified general appraiser. Lessee shall be responsible for paying the costs of such appraisal. The appraiser shall prepare the appraisal using the same Scope of Work and Appraisal Instructions provided to the first appraiser by IDPR. If the difference in value between the two appraisals is 10% or less, the difference shall be split, and that value will be the final appraised value for the purpose of calculating rent. If the difference between the two appraised values is greater than 10%, then the two appraisals will be referred to a third Idaho-certified appraiser for review under Standard 3 of the Uniform Standards of Professional Appraisal Practice. The third appraiser shall be selected by Lessor, and the cost of the third appraiser shall be split between Lessor and Lessee, with Lessee required to deposit Lessee’s share of the cost with the Lessor prior to engaging the third appraiser. The third appraiser shall be requested to reconcile the two values using the data and analysis in the first two appraisals. The value determined by the third appraiser shall be final and cannot be appealed to, or reviewed by, the Park and Recreation Board. Provided, that if for any reason a third appraiser is unable to reconcile the values of the first two appraisers, the Park and Recreation Board will, after notice and hearing, make the final determination of value.

d. **Annual base rate adjustment.** Between and after appraisals of fair market value, Lessor retains the right to adjust the base rate as of the beginning of any calendar year. The base rate shall be adjusted by multiplying the previous year’s lease rates by the unadjusted “Consumer Price Index, Urban, U.S. City Average, All Items,” as published by the United States Bureau of Labor Statistics at www.bls.gov/cpi/ for the twelve months immediately preceding preparation of the annual billing. Provided, the annual base rate adjustment shall not exceed 5% in any one year.

(1) Changes in the base rate will be reflected on the annual billing that shall be mailed by Lessor to Lessee at Lessee’s address of record on or before November 15 each year.
e. **Payment Schedule.**

(1) Full Payment. The Lessee may make payment in full on or before the first day of January of each year for the coming year.

(2) Optional Split Payment. The Lessee may make a payment of one-half the amount due, plus a one-time $200 split payment fee, on or before the first day of January of each year. The second one-half of the payment will be made on or before the first day of April of each year.

f. **Late Payments.** If for any reason annual rent is not paid in full by January 1 (or by April 1, if the first half of a split payment is received), IDPR may serve upon Lessee a Notice of Violation. Such Notice is deemed to be effective three (3) days after the date of mailing or as otherwise designated in the Notice.

(1) Opportunity to Cure. Lessee shall have thirty (30) days from service of a Notice of Violation within which to cure or resolve the violation as noticed. To cure or resolve a notice of late payment, Lessee must, in addition to paying the annual rent, pay a late payment fee of $200. The parties acknowledge and agree that the late payment fee is a reasonable attempt to estimate and to compensate IDPR for additional costs incurred by IDPR in administering such late payments and is not intended as a penalty. For each subsequent calendar month in which payment is not made, Lessee shall pay an additional late payment fee of one-twentieth the annual rent or fifty dollars, whichever is greater.

(2) Notice of Termination. In the event Lessee fails to timely pay all rent due after being sent a Notice of Violation, IDPR may issue a Notice of Termination to Lessee in conformity with the provisions of Section 18.b.

5. **Recreational Use and Occupancy.** The Recreational Residence Site is leased for recreational residence use only. Occupancy may be intermittent or seasonal but in no event shall the recreational residence be occupied in excess of six (6) months in any 12 consecutive months or more than 185 days in any 365 day cycle.

a. No commercial enterprise is allowed upon the Recreational Residence Site, including short-term or long-term rental or time-sharing for profit.

b. Lessee’s use of the Recreational Residence Site shall not preclude the right of public access for any lawful purpose. Signs suggesting that entry onto the site constitutes a trespass are prohibited.

6. **Construction and Reconstruction.** It is the Department’s goal that recreational residences shall be as visually unobtrusive as possible. All construction and reconstruction of recreational residences and other improvements upon recreational residence sites are subject to approval of the Lessor.

a. Plans. Detailed plans for construction or reconstruction of improvements must be submitted to, and approved in writing by, the park manager prior to construction. Licensed architectural or detailed construction drawings will be required for major construction or reconstruction.
b. **Local building permits.** Lessee must comply with all applicable local building codes and building permit requirements.

c. **State Construction Permit.** Lessee must obtain a Heyburn State Park Recreational Residence Construction Permit prior to any construction or reconstruction of improvements upon the Recreational Residence Site. Applications for Construction Permits may be obtained from the park manager. Applications should be submitted at least thirty (30) days before the anticipated start of construction. All exterior building construction must be completed within twelve (12) months of the issuance of the Construction Permit.

(1) Construction Permits for construction that does not increase the square footage of a recreational residence may be approved by the Park Manager. Construction Permits for cabin expansions, including porch or deck additions, may be approved by the Region Manager if the Recreational Residence Site is not identified in the 1990 Heyburn State Park General Development Plan as a phase-out site. Construction Permits for cabin expansions, including porch or deck additions, must be approved by the Director if the Recreational Residence Site is identified in the general development plan as a phase-out site.

d. **Height limitations.** Recreational residences shall not exceed two floors or 25 feet in height. No requests for construction of additional stories for an existing one-story recreational residence will be considered.

e. **Size limitations.** Recreational residences shall not exceed 1000 square feet of living space as measured by the interior dimensions of the perimeter walls. No expansion of existing recreational residences with 1000 square feet or more of living space will be approved. Porches are considered as living space and will be included in the calculation of allowable square footage. Porches are distinguished from decks by the fact that they are enclosed with sides and a roof. Decks should be designed to blend in with the existing structure and shall fit within required setbacks of the Recreational Residence Site.

f. **Outbuildings.** No outbuilding, whether a garage, storage building, or shed, shall be constructed on the Recreational Residence Site without the issuance of a Construction Permit from Lessor. Each Recreational Residence Site shall contain no more than one outbuilding, unless the non-conforming outbuildings existed on January 1, 2000. Construction of new outbuildings may not exceed twenty (20) feet by twenty-four (24) feet, and side walls may not exceed eight (8) feet in height. As a condition of construction, Lessor may require an outbuilding to be smaller than the maximum allowed dimensions, depending on the size of the recreational residence, location of the outbuilding, visual impacts, and applicable set back requirements. No new garage or storage building shall be used for any type of living accommodations. Metal outbuildings will not be approved.

g. **Reconstruction.** In the event that a recreational residence is destroyed, the Lessor specifically retains the right to determine, at its discretion, whether to terminate this Lease or allow the recreational residence to be rebuilt. Complete destruction is defined as a loss of 60% or more of the original structure. In determining whether to terminate the Lease under this provision, the Lessor shall consider whether the site is identified in the general development plan for phase-out of recreational residence sites, location of...
the site, density of the recreational residences in the area, and other factors. When a recreational residence is destroyed and the lease is terminated, the Lessee is responsible for salvage, clean up, and restoration of the Recreational Residence Site. Following restoration of the site, the Lessee will receive a pro-rata refund of the annual lease payment, calculated from the date of destruction.

**h. Unauthorized Improvements.** The construction, placement, or erection of any structures, improvements, or other alterations without the prior written consent of the Lessor shall constitute a breach of this Lease. At its discretion, the Lessor may either terminate this Lease or require removal of the structure, improvement, or alteration. If removal is required, Lessee shall complete removal within thirty (30) days of receiving notification from Lessor.

**i. Setbacks.**

(1) Recreational residences and outbuildings shall be constructed with foundation and outside walls set back a minimum of six (6) feet from the Recreational Residence Site boundaries.

(2) Recreational residences and outbuildings on waterfront sites shall be set back a minimum of fifty (50) feet from the waterfront boundary, and a minimum of six (6) feet from any other boundary. The area between the ordinary high water mark and the Recreational Residence Site boundary is managed for public use and is not part of the Recreational Residence Site. The only permanent structure permitted between the ordinary high water mark and the Recreational Residence Site boundary is an approach ramp to access a leased dock and a path to access a leased dock. Lessees that have non-conforming structures that were previously approved by Lessor in the area between the ordinary high water mark and the Recreational Residence Site boundary may continue to maintain and repair them, but requests to reconstruct non-conforming structures will not be approved by Lessor.

**7. Maintenance of Recreational Residences.** Lessees must maintain recreational residences and recreational residence sites with sensitivity to the fact that their recreational residences are located in a public park with historical, cultural, and natural amenities that are valued by visitors and residents alike. Visual impacts of recreational residences must be minimized by the use of muted natural colors and maintenance of the recreational residence in ways that minimize the intrusiveness of the structure.

**a. Site Conditions.** Lessee shall maintain recreational residences and recreational residence sites to minimize fire and safety hazards, protect park resources, and to provide a natural, but managed appearance. Recreational residence sites shall be kept at all times in a clean and sanitary condition, free of trash, garbage, litter and unused or discarded personal property. Lessee shall comply with all directives of park manager with regard to maintenance of a clean and sanitary condition at the Recreational Residence Site. Firewood storage should be confined to one location, away from the recreational residence. Roofs should be kept clear of all debris and needles on a regular basis to minimize fire hazard.

**b. Roofing Material.** Roofing material of recreational residences and outbuildings can be shingle, shake, rolled mineral surfaced, 3-tab composition, or baked-on enamel metal. Shake and shingle roofing, although acceptable, are not recommended because of the
potential fire hazard. Baked-on enamel roofing should be of an earth-tone color, preferably dark brown or dark green. A palette of acceptable colors is available at the park office; other colors will require the prior written approval of the park manager.

c. Exterior Colors. The exterior color of recreational residences, outbuildings, and other improvements should harmonize with the surrounding landscape. Strong contrasts between the trim and exterior color should be avoided. Log siding and natural wood siding is preferred. Painted siding should be limited to earth-tones and forest colors which blend in with the natural surroundings. A palette of acceptable colors is available at the park office; other colors will require the prior written approval of the park manager.

d. Use Limited to Site. Lessees shall confine all improvements, moveable personal property, vehicles, and pets to the Recreational Residence Site. No encroachment onto adjacent property, whether park property or another Recreational Residence Site, will be permitted.

e. Satellite and TV Antennas. Satellite antenna receiver dishes three (3) feet or less in diameter are permitted. To the extent possible, they should be located so as to minimize their visibility from public areas. Other external television and radio aerial antennas are not permitted.

f. Signs & Flags. Any signs, flags, or banners visible from the exterior of the recreational residence shall be subject to Lessor approval. Political advertising is strictly prohibited.

g. Landscaping. Lessee shall maintain landscaping in a manner consistent with the natural surroundings.

   (1) Lessee may not remove vegetation, including trees, from the Recreational Residence Site without the prior written consent of Lessor. Felling of hazard trees on the Recreational Residence Site is the responsibility of Lessee; provided, that prior written consent of the park manager is required. Lessor will identify, mark, and authorize removal of hazard trees upon request and as time permits.

   (2) Existing grass and vegetated areas may be mowed, trimmed, and irrigated to produce a managed appearance. Expansion of lawn areas is not allowed without the written consent of Lessor. Lessee shall employ native species of plants in all landscaping, and existing native vegetation should be retained wherever possible.

   (3) Fencing. Fences are not appropriate in a state park and will not be approved.


   a. Domestic Trash. Domestic trash, excluding toxic and hazardous materials, landscape and construction materials, may be placed in the trash receptacles provided at designated locations in Heyburn State Park.

   b. Burnable Materials. With the permission of the Lessor, Lessees may remove burnable plant material and construction material to a designated location in Heyburn State Park. Arrangements for such disposal shall be made in advance with the park manager.
c. **Other Trash.** All other trash shall be removed from the park and disposed of in conformity with all pertinent federal, state and local laws and regulations.

d. **Fees.** A fee shall be assessed against each recreational residence lease to cover the costs of trash collection and street lighting. The initial trash collection and street lighting fee is identified in the SITE SPECIFIC PROVISIONS. Such fee is subject to annual adjustment at the discretion of the Lessor. Changes in the trash and street lighting fee will be reflected in the annual billing.

e. **Electricity.** Lessor does not provide electrical service to recreational residences. Lessee is responsible for arranging for electrical service directly with the appropriate electrical service provider.

f. **Domestic Water.**

   (1) **Availability.** Domestic water, where available, shall be supplied by the Lessor. The use of the water system and the supply of water provided may be curtailed or terminated without notice due to emergency, or for cause upon ten (10) days written notice to Lessee from Lessor. Lessor, its agents and employees, and the state of Idaho, its agents and employees, shall not be liable in any manner for damage or inconvenience to the Lessee by reason of failure of, damage to, or termination or curtailment of, the operation of any water delivery system or source supplying water to the Recreational Residence Site.

   (2) **Maintenance.** Lessor is responsible for maintenance and repair of the major components of the water system up to Lessee’s connection with the Lessor’s main water supply lines. Lessee is responsible for maintenance and repair of the connection with Lessor’s main water supply line and all water lines from such connection to Lessee’s recreational residence.

   (3) **Water Access Fee.** A water access fee shall be assessed against each recreational residence lease. The initial water access fee is identified in the SITE SPECIFIC PROVISIONS. The water access fee is not intended to be a per-unit charge for water used by Lessee. Rather, it is intended to offset the cost of maintenance and repair of those components of the Heyburn State Park water system attributable to the service of the recreational residences. The water access fee is subject to annual adjustment at the discretion of the Lessor. Changes in the water access fee will be reflected in the annual billing. Water access rates may also be adjusted by the Lessor in the event the existing water delivery system is expanded, improved, or upgraded.

9. **Sewage.** Heyburn State Park Central Sewage Treatment System. Lessee's recreational residence shall be connected to the nearest available main line of the Heyburn State Park central sewage treatment system. Lessee is responsible for all costs associated with the maintenance and repair of Lessee’s lateral sewage disposal line from Lessee’s recreational residence to the nearest available main line of the Heyburn State Park central sewage treatment system. Maintenance of the connection and lateral sewage disposal line shall comply with all applicable regulations and requirements of the Panhandle Health District.

a. **Annual Sewage Service Fee.** A sewage service fee shall be assessed against each recreational residence Lessee. The initial sewage service fee is identified in the SITE
SPECIFIC PROVISIONS. The sewage service fee is intended to offset the cost of maintaining, operating, and replacing, as necessary, those portions of the Heyburn State Park central sewage disposal system attributable to service of the recreational residences within Heyburn State Park. Portions of the fee may be set aside by Lessor to fund future replacement costs. The sewage fee is subject to annual adjustments at the discretion of the Lessor. Changes in the sewage fee will be reflected in the annual billing. Sewage fees may also be adjusted at other times by the Lessor in the event the sewage disposal system is expanded, improved, upgraded, replaced, or subjected to extraordinary or unexpected costs due to natural disaster, catastrophic failure or regulatory requirements.

b. Lessor reserves the right to order Lessee to temporarily cease occupation of the Recreational Residence Site in the event that the central sewage treatment system becomes non-operational. Lessor, its agents and employees, and the state of Idaho, its agents and employees, shall not be liable in any manner for damage or inconvenience to the Lessee by reason of failure of, damage to, or termination or curtailment of, the operation of the central sewage treatment system.


a. Number limited. No Lessee may keep more than two (2) operational motor vehicles upon the Recreational Residence Site. Non-operational motor vehicles must be removed from the Recreational Residence Site within thirty (30) days of cessation of operation. Lessee shall keep no additional motor vehicles within the boundaries of Heyburn State Park.

b. Use Limited. All motor vehicles shall stay on established Department roadways or parking areas except for trails and areas that are designated for off-road use. Drivers and motor vehicles operated within lands administered by the Department shall be licensed or certified as required under state law for the type of vehicle operated. The drivers of all motor vehicles shall comply with the speed and traffic rules of the Department, and all other state laws and local ordinances governing traffic on public roads.

11. Burning Prohibited. Lessee may not burn material of any type or nature outside of a stove or fireplace without the prior written consent of the park manager. Barbecue devices, designed for use outdoors, are permitted.

12. Inspection of Recreational Residence Site. Lessee shall permit the inspection of the Recreational Residence Site to verify compliance with the terms and conditions of this Lease at any reasonable time and upon reasonable notice.

13. Fire Protection. Lessor does not provide fire protection services to Lessees, nor does Lessor assume or accept any responsibility for damages that Lessee may suffer as the result of wildfires occurring within Heyburn State Park. Lessee waives all claims against Lessor for damages resulting from wildfires and other natural disasters, including claims that Lessor provided insufficient water service for fire suppression purposes.

14. Insurance. Lessee shall obtain and maintain either general liability or homeowner’s insurance, as applicable, and, if necessary, umbrella liability insurance with a combined limit of not less than one million dollars ($1,000,000.00) to cover liability for bodily injury,
property damage and personal injury, arising from Lessee’s use of the Recreational Residence Site.

a. **Evidence of Insurance.** All insurance required under this Lease shall be with companies licensed and admitted in Idaho. Within 15 days of signing this Lease, Lessee shall furnish IDPR with a certificate of insurance executed by a duly authorized representative of each insurer showing compliance with the insurance requirements set forth above and naming the Idaho Department of Parks and Recreation and the State of Idaho as additional insureds. A copy of the additional insured endorsement will be attached to the Certificate.

b. Failure of IDPR to demand such certificate or other evidence of full compliance with these insurance requirements shall not be construed as a waiver of Lessee’s obligation to maintain such insurance.

c. Failure to maintain the required insurance may result in termination of this Lease. Any such termination shall be preceded by the issuance of a Notice of Violation and shall be subject to the timelines set forth in Section 18.

d. Lessee shall pay all policy premiums annually in advance, for each of the insurance policies required under the terms of this Lease. Lessee shall deliver to IDPR evidence of such payment in conjunction with each annual payment of this Lease, before the payment of any insurance premiums become in default.

15. **Indemnification.** Lessee hereby agrees to defend, indemnify, and hold harmless the Lessor, the Board, the state of Idaho, its agents and employees for any and all claims, actions, damages, costs, and expenses which may arise by reason of the occupation and use of the Recreational Residence Site by Lessee or any of Lessee’s invitees, or by any person occupying or using the Recreational Residence Site with the Lessee’s permission.

16. **Treatment of Improvements Upon Termination of Lease.** Lessee acknowledges that Lessee’s right to use and occupy the Recreational Residence Site is fully defined by this Lease and that it has no right of use and occupation, or any other property interest in the Recreational Residence Site, either explicit or implied, except as expressly set forth in this Lease. In the event of termination of this Lease, either by expiration of its term, voluntary termination by Lessee, or termination by Lessor for cause pursuant to other provisions of this Lease, Lessee shall dispose of improvements and moveable personal property as follows:

a. **Non-approved improvements.** Unless specifically directed otherwise in writing by Lessor, Lessee shall remove all non-approved improvements from the Recreational Residence Site, with Lessee paying all costs of removal.

b. **Approved improvements.** Lessor may, at its option, elect to purchase some or all of Lessee’s approved improvements. For purposes of this provision, “approved” improvements shall be those improvements constructed with Lessor's prior written approval as provided in Section 6 of this Lease or similar provisions in predecessor leases. At any time prior to the date of termination, or within thirty (30) days thereafter, Lessor shall inspect the Recreational Residence Site and determine which, if any, improvements it desires to purchase. Lessor shall pay fair market value for any improvements purchased.
(1) Fair market value of improvements shall be determined by the following method: Lessor shall provide to Lessee a list of at least three appraisers acceptable to Lessor. Lessee shall select one appraiser from the provided list. The appraiser shall determine the fair market value of the improvements using a sales comparison approach, and excluding any value attributable to the Recreational Residence Site. Lessor and Lessee shall share equally the costs of the appraisal.

(2) If Lessee asserts that the appraised value is in error, Lessee may either (1) elect to remove the improvements pursuant to Section 16.c of this Lease; or (2) appeal the appraised value using the procedure set forth in Section 4.c of this Lease.

(3) Nothing in this subsection shall be deemed to obligate the Board to purchase the improvements if the fair market value established pursuant to Sections 16.b(1) and (2) is higher than the Board is willing to pay. The final decision to purchase improvements rests solely in the discretion of the Board.

c. Any improvements not purchased by Lessor shall be removed by Lessee from the Recreational Residence Site, with Lessee paying all costs of removal.

d. Lessee shall remove all moveable personal property from the Recreational Residence Site, with Lessee paying all costs of removal.

e. If Lessee is directed to remove some or all improvements, Lessee shall restore the Recreational Residence Site as nearly as reasonably practical to its natural condition, with Lessee paying all costs of restoration.

f. Removal of all improvements and moveable personal property, and restoration of the Recreational Residence Site, shall be completed within ninety (90) days of termination. If Lessee fails to remove all improvements and moveable personal property, or to restore the Recreational Residence Site within ninety (90) days of termination, Lessor retains the right to do so and to bill Lessee for all expenses occurred in such removal and restoration. Lessee covenants to reimburse Lessor for all such expenses.

17. Breach. Any violation by Lessee or any agent of Lessee (including sublessees) of any term of this Lease, or any violation of any rule now in force or hereafter adopted by the Board, shall be grounds for termination of this Lease.

18. Remedies for Breach

a. Notice of Violation. In the event that Lessor becomes aware of any violations of the terms of this Lease other than late payment of rent addressed pursuant to Section 4 of this Lease, Lessor shall serve upon Lessee a Notice of Violation. Lessee shall have thirty (30) days from service of the notice to cure the violation. Lease violations which have not been cured within thirty (30) days of service of the notice of violation shall subject this Lease to termination.

b. Notice of Termination. A Notice of Termination for violation of the terms of this Lease shall be in writing and shall be served on Lessee not less than thirty (30) days prior to the effective date of termination.
c. **Administrative Fees.** Prior to the effective date of termination, Lessee may elect to pay the Lessor’s administrative costs associated with enforcing the terms of this Lease, and the Lessor may agree to accept payment of such costs in lieu of termination for each day that such violation went uncorrected over and beyond the thirty day grace period provided in Section 18.a of this Lease. Lessor and Lessee agree that such administrative costs are fixed at fifty dollars ($50) for each day that the violation goes uncorrected, up to a maximum of one thousand, five hundred dollars ($1,500).

d. **Type of Breach.** The determination of whether a violation constitutes a material breach subjecting a lease to termination shall rest solely in the discretion of the Director.

19. **Reinstatement of Lease.** Not later than thirty (30) days following the effective date of termination of this Lease for cause, the Lessee may submit to the Lessor a written request for reinstatement setting forth good cause why the lease should be reinstated. At the Director’s discretion, a terminated lease may be reinstated upon the payment of the Lessor’s administrative costs associated with enforcing the terms of this Lease. Lessor and Lessee agree that such administrative costs are fixed at fifty dollars ($50) for each day that the violation went uncorrected over and beyond the thirty day grace period provided in Section 18.a of this Lease, up to a maximum of one thousand five hundred dollars ($1,500). Such administrative costs shall be in addition to those imposed pursuant to Section 18.c of this Lease. The Director may also impose additional terms and conditions as appropriate to address the lease or rule violation.

20. **Subleasing.** Lessee may sublease the Recreational Residence Site with the written consent of Lessor. A sublease does not effect a transfer to the sublessee of Lessee’s responsibilities for and compliance with the terms and conditions of this Lease; Lessee remains responsible for sublessee’s compliance with all lease terms. Any attempt to sublease a Recreational Residence Site without the written consent of Lessor shall be void, and shall constitute a breach of this Lease.

a. Subleasing shall be the sole means of authorizing use of the Recreational Residence Site by anyone other than Lessee and immediate family members. Short term rental of the Recreational Residence Site or any use of the Recreational Residence Site by persons other than Lessee in return for monetary or other payment to Lessee is specifically prohibited and shall be cause for immediate termination of this Lease. Sublease of the Recreational Residence Site is limited to one time per calendar year.

b. Recreational residence sites are not commercial enterprises and subleasing rates shall not reflect a profit to Lessee. In any calendar year lessee cannot sublease for more than the total annual lease payment (including utilities) plus five percent (5%) of the appraised value of the improvements as established by the Benewah County Assessor.

c. Subleases are subject to all the terms of this Lease. Sublease agreements shall include provisions requiring the sublessee to abide by all terms in this Lease.

d. The Director may impose additional requirements as a condition of approving the sublease agreement.

e. Applications to sublease the Recreational Residence Site must be received by the Lessor at least twenty-one (21) days prior to the date of the proposed sublease.
21. Assignment.

a. **Approval Required.** Lessee shall not assign this Recreational Residence Site lease without first having obtained the prior written consent of Lessor. Any assignment of this Lease without the written consent of Lessor shall be void and shall be a breach of this Lease, resulting in termination. If Lessee purports to assign this Lease without the prior written consent of Lessor, Lessee shall retain all of the rights, duties, and responsibilities imposed by the terms of this Lease.

b. **Required Documentation.** The following items shall be provided to the Lessor by a Lessee seeking to assign a lease:

   (1) Application for Assignment. Application for assignment of a recreational residence site lease shall be made on forms available from the Lessor. Applications shall be complete and contain all information requested on the form.

   (2) Purchase Agreement. One copy of the purchase agreement or contract of sale, acknowledged by the assignee and assignor.

   (3) Other Appropriate Paperwork. If the assignment is made without sale, Lessee shall provide the appropriate paperwork for the type of transaction, i.e., letter indicating gift, divorce decree, will, etc.

   (4) Assignment Fee. Any Application for Assignment of Lease shall be accompanied by a processing fee of three hundred dollars ($300.00).

c. **Deficiencies.** All lease payments and charges owed to the Lessor shall be paid and all deficiencies shall be cured before Lessor will approve an application for assignment.

d. **Action on Application.** The Lessor shall approve or deny an application for assignment of a lease within thirty (30) days of receipt of a completed application.

e. **Conditions.** Assignees are subject to all the terms of this Lease and such other conditions as the Director may impose as a condition of approving the application for assignment.

f. **Recording.** All leases and assignments shall be recorded with Benewah County.

22. Liens and Mortgages.

a. **Liens.** Lessee shall not permit or suffer any liens of any kind to be effected on or enforced against the Recreational Residence Site, including but not limited to, any mechanics’ liens or material suppliers’ liens for any work done or materials furnished on the Recreational Residence Site at Lessee’s instance or request. Lessee shall ensure that full payment is made for any and all materials joined or affixed to the Recreational Residence Site pursuant to this Lease and for any and all persons who perform labor on the Recreational Residence Site.

b. **Leasehold Mortgage.** Lessee shall not allow any mortgage, deed of trust or security interest, lien, encumbrance or other similar instrument or transaction (“Leasehold Mortgage”), to be filed or recorded without first obtaining IDPR’s prior written consent.
therefor, which consent shall not be unreasonably withheld or conditioned. Any Leasehold Mortgage may only encumber Lessee’s leasehold interest in this Lease and/or Lessee’s interest in any improvements or moveable personal property owned by Lessee. The Leasehold Mortgage shall terminate upon the termination of this Lease for any reason, and such Leasehold Mortgage shall not encumber or require subordination of IDPR’s title or rights to the Recreational Residence Site. In the event Lessee breaches its obligations under this Lease, Lessee agrees to provide the holder of such Leasehold Mortgage (“Lienholder”) with a copy of any Notice of Breach and/or Notice of Termination provided by IDPR to Lessee. Lienholder shall have the right to cure any default or breach specified in the Notice of Breach or Notice of Termination during the same time allowed to Lessee or within thirty (30) days after the receipt of said notice by the Lienholder, whichever is greater. Upon the termination of this Lease for any reason, the Leasehold Mortgage shall terminate and Lessee shall immediately acquire the written release in recordable form (and record and/or file the same in any office as may be required) to effect the release of any Leasehold Mortgage or lien of any kind affecting any interest of Lessee in the Lease, the Recreational Residence Site, and/or in any Lessee-owned improvements or Moveable Personal Property thereon. Lienholder shall acknowledge this requirement in the Leasehold Mortgage, and shall, upon the execution of a Leasehold Mortgage involving Lessee or this Lease, agree to, and shall, immediately release any Leasehold Mortgage upon the termination of this Lease.

23. Rules and Regulations. Lessee shall comply with all Department rules and regulations.

24. Lessor Consent. Whenever any action by Lessee requires Lessor’s consent pursuant to a provision in this Lease, Lessor’s consent to such action shall be strictly construed to apply to the specific action to which such consent applied, and not to imply consent to any similar or subsequent actions by Lessee. Consent of Lessor to any action of Lessee must be explicit; no provision in this Lease shall be construed to allow consent by omission.

25. Waiver. The waiver by Lessor of any breach of any term, covenant or condition of this Lease shall not be deemed to be a waiver of any past, present or future breach of the same or any other term, covenant or condition of this Lease. The acceptance of rent by Lessor hereunder shall not be construed to be a waiver of any violation of the term(s) of this Lease. No payment by the Lessee of a lesser amount than shall be due according to the terms of this Lease shall be deemed or construed to be other than a part payment on account of the most recent rent due, nor shall any endorsement or statement of any check or letter accompanying any payment be deemed to create an accord and satisfaction.

26. Binding on Heirs. All of the terms, covenants, and conditions of this Lease shall be binding upon the heirs, executors, successors in interests and assignees of the parties.

27. No Incorporation of Prior Agreements. This lease sets forth the entire agreement between Lessor and Lessee with respect to the subject matter hereof, and no prior written or oral agreements, or writings or statements by either Lessor or Lessee, are incorporated herein.

28. Modification. No modification, release, discharge, change, or waiver of any provision of this Lease shall be of any force, effect, or value unless it is in writing and signed by both Lessor and Lessee.
29. **Headings.** Headings in this Lease are for convenience and reference only and shall not be used to interpret or construe its provisions.

30. **Governing Law.** This lease shall be governed by and construed under the laws of the state of Idaho.

31. **Officials, Agents and Employees of Lessor Not Personally Liable.** It is agreed by and between the Parties that in no event shall any official, officer, employee or agent of the State of Idaho be in any way liable or responsible for any covenant or agreement contained in this Lease, express or implied, nor for any statement, representation or warranty made in or in any way connected with this Lease or the Premises. In particular, and without limitation of the foregoing, no full-time or part-time agent or employee of the State of Idaho shall have any personal liability or responsibility under this Lease, and the sole responsibility and liability for the performance of this Lease and all of the provisions and covenants contained in this Lease shall rest in and be vested with the State of Idaho.

32. **Service of Notice.** Service of notice shall be deemed effective when mailed, postage prepaid, to the Lessor at:

   Heyburn State Park  
   57 Chatcolet Road  
   Plummer, ID 83851

   or

   Idaho Department of Parks and Recreation  
   North Region Office  
   2750 Kathleen Avenue, Suite 1  
   Coeur d'Alene, ID 83815

Service to Lessee shall be at Lessee’s address of record. It shall be the responsibility of the Lessee to notify Lessor of changes in address.

33. **Non-Discrimination.** The parties shall not discriminate against any person because of race, creed, religion, color, sex, national origin or disability.

34. **Reservations.** Lessor specifically reserves all rights not expressly granted to Lessee, including, but not limited to, the following rights:

   a. To enter upon the Recreational Residence Site, or any portion thereof, during the term of this Lease for any reasonable purpose incident to this Lease or Lessor’s retained rights, including the purpose of inspecting the leased premises.

   b. All rights of timber harvest or removal, oil and gas, geothermal rights, mineral rights, easements and rights-of-way, fee title to the Recreational Residence Site and title to all appurtenances and improvements placed thereon by Lessor.

   c. To grant easements and rights-of-way over, under, across and upon the Leased Premises, providing said easements and rights-of-way do not conflict or interfere with the use of Lessee or with the approved improvements installed, maintained or operated
by Lessee upon the Recreational Residence Site. This Lease is subject to any right-of-way or easement previously granted by Lessor over the Recreational Residence Site.

d. To require that changes be made in the use under this Lease and/or to the improvements on the Recreational Residence Site, including to the sanitation or other facilities for the protection of public health, safety, preservation of property or water quality, in accordance with all applicable laws and rules.

e. Rights of access, ingress and egress over, under, across and upon the Leased Premises for Lessor and its authorized agents and assigns over and across the Recreational Residence Site including, but not limited to, on existing roads. Said rights of access, ingress and egress may be for purposes of administration, for providing access to neighboring lots, or for any other purpose of Lessor.

f. Lessor reserves the right to establish, adjust, or reconfigure the boundaries of the Recreational Residence Site as necessary to resolve conflicting claims of use. The right of reconfiguration shall include the right to increase or decrease the square footage of the Recreational Residence Site. Lessee shall be notified of Lessor's intent to reconfigure the Recreational Residence Site at least one hundred-eighty (180) calendar days prior to any such reconfiguration being accomplished.

g. Lessor reserves the right to close any road or change any access route to the Recreational Residence Site for road protection, water quality protection, wildlife and fish protection, public safety, administrative purposes or any other reason deemed necessary or appropriate by Lessor. Lessees will be notified of planned road closures prior to action by Lessor. If an access road is closed permanently, other reasonable access will be provided to the Leased Premises. Temporary road closures may prevent, limit or restrict access for a period of time.
| Lease # | Lot Name | First Name | Last Name | Plot Size (Acres) | 2013 Value | 2014 Value | 2015 Value | 2016 Value | 2017 Value | 2018 Value | 2019 Value | 2020 Value |
|---------|----------|------------|-----------|-------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 505-H-19| RAUCH    | Thomas     | ANDERSON  | 2,095.80          | $51,188    | $4,077     | $2,906.87  | $3,788     | $1,623.80  | $1,538.70  | $1,397.60  | $2,081     |
| 502-H-19| LISTER   | JESS       | SCHULTHEIS | 42,750            | $2,081     | $3,682     | $4,077     | $2,906.87  | $33,750    | $1,310.63  | $3,784.90  | $41,438    |
| 513-H-19| C42      | PAUL & PATRICIA A |  |  |  |  |  |  |  |  |  |  |  |  |
| 512-H-19| C46      | ANDERSON   | THOMAS & JODI | 82,500          | $82,500    | $65,813    | $3,270     | $2,125     | $120,750   | $113,850   | $71,500    | $40,500    | $27,750    |
| 511-H-19| C18      | WILSON     | WILLIAM & KATHERINE | 42,750          | $42,750    | $3,348     | $1,848     | $1,795.09  | $3,342.80  | $1,941     | $1,834.58  | $2,400     |
| 528-H-19| 578-H-19 | LINDA G.   | RAUCH     | 42,750            | $51,188    | $4,077     | $2,906.87  | $3,788     | $1,623.80  | $1,538.70  | $1,397.60  | $2,081     |
| 502-H-19| 515-H-19 | RAUCH      | ANDERSON  | 42,750            | $51,188    | $4,077     | $2,906.87  | $3,788     | $1,623.80  | $1,538.70  | $1,397.60  | $2,081     |
| 513-H-19| 512-H-19 | RAUCH      | ANDERSON  | 82,500            | $82,500    | $65,813    | $3,270     | $2,125     | $120,750   | $113,850   | $71,500    | $40,500    | $27,750    |
Dear Mr. White,

As a lease holder at Heyburn State Park, I would like to recommend maintaining the current lease rate rather than increasing the rate to 5%. My rationale is that we have been informed each year that Heyburn State Park is the one state park in Idaho that pays for itself, without relying on the state for additional funding to operate. This information has come from Ron Heiss at the annual leaseholders meetings. If the park is self-supporting, then there should not be a need to increase the lease rate.

I am also concerned about the new requirement that leaseholders carry $1,000,000 of liability insurance in case of fire. Apparently this level of insurance is not available for cabin owners. The requirement was not listed in the documents which we received, though is in the more extensive lease description. It seems that the rationale for this requirement should be clearly explained to leaseholders.

Thank you for your attention to my concerns.

Sincerely, Elizabeth Wilson

Leaseholders: Scott and Elizabeth Wilson
910 SE Spring Street
Pullman, WA. 99163
509-339-5755
June 18, 2019

Idaho Department of Parks & Recreation
Attn: David E. White, North Region Manager
2885 Kathleen Avenue, Suite 1
Coeur d'Alene, ID 83815

Idaho Department of Parks & Recreation
Attn: Steve Strack, Deputy Attorney General

Re: Heyburn State Park Recreational Residences 2020 Lease

Gentlemen:

This letter follows my correspondence of May 10, 2019 and the IDPR Board Meeting of May 21, 2019.

This letter is written with the request that it be provided to the Board for its consideration in any upcoming deliberations related to the Heyburn State Park Recreational Residences 2020 Lease. I previously wrote to the Board, in care of you, with comments regarding an appropriate lease rate and an appropriate capitalization rate in the context of a reasonable return for IDPR. This letter provides supplemental information in that regard.

On behalf of the leaseholders, I engaged Ed Morse, MAI, to analyze the rent issue now pending before the Board. Enclosed you will find Mr. Morse’s June 17, 2019 report and conclusions. Mr. Morse has concluded that the most similar lease discount rate he could find would indicate a 3.25% return for year-round use of small sites on Lake Pend Oreille with dock rights. The rate of 5%, proposed by IDPR staff, appears excessive, in Mr. Morse’s opinion, as he believes the
June 18, 2019

Page 2

same to have been based upon data from 1999 which has significantly changed due to changed market and economic factors.

Sincerely,

[Signature]

John F. Magnuson

JFM/krn
Enclosure
cc: Client
IDAHO DEPT PARKS LTR wpd
MEMO

To: John Magnuson, Attorney at Law
HAND DELIVERED

From: Ed Morse, CRE, MAI Morse & Company, 208-667-5583.
morseandco@frontier.com P.O. Box 3294 Hayden, Idaho.

Date: June 17, 2019

Subject: Heyburn Park Leases & Discount Rates; Consulting Report

Dear Mr. Magnuson:

This report follows your request for an analysis of leasing issues at Heyburn State Park regarding rent issues pending before the Park Board. I have been asked to analyze the rent issue presented.

There are some apparent conflicts between the proposed lease and the existing regulations. The proposed lease, and appraisal procured by the Parks & Recreation Dept. management ignored the lease and appraised the ‘fee simple interest’ in the land. The problem with this methodology is that the fee simple interest is not leased. Severe restrictions on use of the property include limits on use or occupancy to 185 days per year; allowing public access to the lots excluding building interiors; and limits on lease terms to 10 years. These lease restrictions fall far short of leasing the fee simple rights in the property.

Appraisals must, unless they adopt a hypothetical condition excluding the lease, consider the restrictions of the lease when property is encumbered by a lease. The appraisal procured by the Parks Dept. specifically adopted a hypothetical condition, (contrary to what exists) excluding the effect of the lease on property value.

The proposed lease document appears to conflict IDAPA regulation 090 (01) which states base lease rates shall be set as to provide a reasonable return based upon the fair market value of the lease site. The fair market value of the lease site must reflect the restrictions and limits of the lease; i.e. the value of the property leased. This was not done in the

Heyburn Park Consulting Report
appraisal procured and prepared by Valbridge. The engagement agreement with the appraiser specifically excluded consideration of the lease.

IDAPA Rule 090.01 Base Rates, states
"Base Lease Rates shall be set so as to provide the Department a reasonable return based upon the fair market value of the lease site."

Use of the term reasonable rent is construed to be market rent, which is the only measurable standard. The issues presented are:

1. What is a ‘reasonable return’ [i.e. market rent]; and
2. What is the market value of ‘the lease site’?

APPLICABLE DEFINITIONS & TERMS

Market Rent is defined as:
The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement including permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs). ¹

Note the definition requires the rental rate to consider lease restrictions, costs, term, and all other material elements of the lease. Trying to estimate market rent without considering these issues can be misleading. Leases that restrict uses, like not allowing sole occupancy of the yard will affect rent. Waterfront sites without full use of the waterfront would also affect the rental rate, as would a high insurance cost expense requirement. A rental term shorter than the economic life of the buildings will affect the rental rate. The tenant has the risk of loss from non-renewal; risk of loss of capital investment if improvements are made and the tenant cannot enjoy by use the improvement they bought or constructed. This typically results in structures not being upgraded because of shorter term lease renewals.

A Discount Rate is defined as:
A yield rate used to convert future payments or receipts into present value; usually considered to be a synonym for yield rate. ²

A Yield Rate is defined as:
A rate of return on capital, usually expressed as a compound annual percentage rate. A yield rate considers all expected property benefits, including proceeds from sale at the termination of the investment. ³

² Dictionary, see fn. #1.
³ Heyburn Park Consulting Report
It is important for the reader to understand the difference between the return on, and return of capital. For a rented improved property, annual rent represents both a return on, and return of capital. To obtain a rate of return for the land, the value and age/remaining economic life must be calculated to dissect the total rate of return between land and building. Then the return to land can be calculated. There are very few land rentals so the available rental below should be accorded substantial weight. The Green family owns a large lakefront holding on Camp Bay, on Lake Pend Oreille. They rent lakefront lots, mostly 50 ft, with a right to construct and use a dock, and tenants have built cabins. They have exclusive use of the land for the entire year. The frontage has an estimated value for 50 ft lots @ $3800/ff or $190,000. The current rent is recently raised to $6,000/yr. The indicated rate of return is: $6,000 / $190,000 = 3.2% land rate of return for the waterfront lot rental. These lots have private road access off a county road, septic systems, and lake water. They have use of the land the entire year, and have dock rights with exclusive dock use. These rentals are older cabins and rents have been renewed for decades but were recently raised. The rental indicates a land rate of return of 3.25% +/- for land with exclusive use and year-round occupancy.

3 Dictionary, see fn #1.

Heyburn Park Consulting Report

E MORSE CRE, MAI

3
In the absence of directly comparable rental data, some agencies and appraisers resort to trying to *impute* a rental rate by using a market extracted rate of return times the land value.

\[
\text{Discount Rate} \times \text{Value} = \text{Annual Rent}
\]

This method of imputing rent *only* works if the value used in the equation above is based upon only the **actual leased property rights**; and the discount rate is extracted from rentals with similar risks, terms, expenses and property types in the market. In the case of Heyburn leased lots, there are virtually no comps with similar restrictive leases; limited to partial year use; with non-exclusive use of the site in the private market.

**APPRaisal STANDARDS & LEASE ISSUES**

The Mundlin appraisal procured by the Parks Dept. was clear in stating **fee simple rights** are appraised; that the lots are appraised as if vacant and unimproved *in fee simple interest*; the lots do not have waterfront ownership, access across the site by the public is available under the lease; and these restrictions of the lease were not considered in the value. Restrictions include limits on use of the site for only +/- 185 days only is not considered; and duration of the lease for only 10 years is not sufficient to amortize the construction of new or major improvements to cabins. Consequently, the cabins generally get only maintenance. The lease restricts sub-leasing for ‘gain’, although assignment is allowed. None of these restrictions were considered.

The set of property rights appraised does not even remotely coincide with the property rights actually leased under the restrictions of the lease. This creates a major problem in valuation having one hypothetical set of property rights appraised; and then leasing a substantially different set of property rights to the lessee’s. **The property rights actually leased were never appraised.**

**PRIOR SERVICES**

The appraiser worked on many of these issues in 2009 when the Board lowered a requested rate of return by staff from 5% to 3.75%. At that time, I presented evidence of the Priest Lake study and pointed out the onerous lease restrictions that affect land discount rates and the rental value.

Many of these same issues arose in the 2009 valuations and adjustments were made by the Park Board in the lease discount rate to 3.75 +/- %. In 2009 three appraisers [Joe Corlett MAI of Boise; Stan Moe MAI of Coeur d’Alene, and myself] undertook a study for Priest Lake cottage site leases and Payette Lake and concluded a market lease rate for the land was about +/- 3.5%. Major considerations for that analysis were:

- Discount rates for land are lower than improved leases, and residential rentals often do not maximize investment returns.

**Heyburn Park Consulting Report**
The Priest Lake lots were larger than typical and limited to a single site. The lease duration (10 yrs or less) was less than needed for a purchase mortgage. The lease duration and unknown rent changes increased tenant risks. Land rates of return are lower than commercial rates of return. Lease restrictions like use, improvement size, and restrictions must be considered.

Few land comparable rents and virtually no sales were found of rented leased waterfront land or cabin/cottage sites in the local market. The lots at Priest Lake are being sold to lessee’s to out from a leasing situation. These go through a public auction sale process.

In 2009, I communicated with local staff (Mr. White) and provided background materials for the joint study Scot Auble MAI and I performed that adjusted property values downward to reflect then current market conditions. At that time is was apparent that staff was attempting to bias the rental rate process by having a different set of property rights appraised than was actually leased. The Board adjusted for the difference in the discount rate selected.

**ANALYSIS OF ISSUES**

There are two components of market rent under the rental structure staff is proposing for the lease: Value x Rate = Rent.

This is a convoluted method and it allows for mistakes and manipulation when the wrong set of property rights are appraised and a discount rate is not derived from similar property rents with similar costs and risks.

For the result in the equation above to be market rent, you **must** determine the value of the property rights actually leased x (times) a market rate of return for the property type, risks, and duration of the lease. This has not been done. The value of the leased site property rights has not been determined. The land leased is actually only within the building envelope, without exclusive use of the site.

There is may be an issue of the correct date of value. On page 16 of the Mundlin report, it states the lease sites are to be appraised in the middle of the lease term. That apparently did not occur.

Until the lease lapses, it would seem to control the rent re-set. Mundlin disclosed she has performed prior appraisal work on these parcels within the last three years. The appraisal on page 16 of the Mundlin appraisal report states it ignored the 6 month occupancy, and ‘as they are considered inherent in the negotiate lease rate’ (sic). Staff continues to urge a 5% rate, without negotiation, or acknowledgement of these restrictions. Staff appears to
have biased the appraisal requests, and the ignored the property rights that should have been appraised. 
How, by whom, and upon what data and research the lease restrictions to be considered is never mentioned; and it is apparent no adjustments have been made.

HISTORICAL TRENDS AND RATE CHANGES
Staff correspondence suggests the 5% rate was set about 1999 by a Board decision. What staff apparently doesn’t understand or want to consider is that a market rate of return changes as the market changes. When it is used as a component to determine market rent, the rate must vary as the market changes.

Rates of return for land are influenced by inflation, interest rates, supply and demand, and market factors. A rate of return when used in a rent formula is not a historical fact; it is an ever-changing market-derived figure that will vary as the market changes and supply and demand changes. The Mundlin report indicated the market in the south end of the lake for largely secondary small sites is stable, not strongly appreciating.

When interest rates are high and inflation is high, discount rates will be higher. When interest rates are low, values may be higher, but discount rates and rates of return are lower. The following data documents declining interest rates; declining inflation; declining cap rates, and these is no local basis I have found to increase the land discount rate.

The discount rate when used as a rent component in the absence of any prior agreement should be determined from the market (market derived) by use of comparable data and rental data as available. It should have been determined as part of the appraisal assignment to determine market rent.

Interest rates are currently low, and rates of return for residential real estate has been low since the recession of 2008-10. Local interest rates and lease rates in the rent formula are not a fixed fact, they vary upon real estate market and interest rate changes. Likewise, the Benewah county market was determined in the Mundlin appraisal to reflect no price changes in the last few years.

The definition of the market rent explains the elements to be considered:
Market Rent is defined as:
The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement including permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs).

The definition of market value as quoted from the USPAP definition mandates that the property rights must be determined for a credible valuation conclusion.

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MARKET VALUE:
A type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal. Comment: Forming an opinion of market value is the purpose of many real property appraisal assignments, particularly when the client’s intended use includes more than one intended user. The conditions included in market value definitions establish market perspectives for development of the opinion. These conditions may vary from definition to definition but generally fall into three categories:
1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);
2. the terms of sale (e.g., cash, cash equivalent, or other terms); and
3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale).

Appraisers are cautioned to identify the exact definition of market value, and its authority, applicable in each appraisal completed for the purpose of market value. [2018-19 USPAP]

In the appraisal development process, USPAP standards require the appraiser to identify leases, easements and restrictions. To get around this, apparently at Parks Staff instructions, the Mundlin report adopted a hypothetical condition [contrary to what actually exists] to ignore the lease, and appraise only the fee simple estate. This was apparently at the direction of Parks staff, not the appraiser’s fault.

Standards Rule 1-2 (e) of USPAP requires the appraiser to:
(e) identify the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal, including:
(i) its location and physical, legal, and economic attributes;
(ii) the real property interest to be valued;
(iii) any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal;
(iv) any known easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of a similar nature; and
(v) whether the subject property is a fractional interest, physical segment, or partial holding;

Comment on (i)–(v): The information used by an appraiser to identify the property characteristics must be from sources the appraiser reasonably believes are reliable. [2018-19 USPAP]

RIGHTS & RESTRICTIONS
It is a fundamental step in the appraisal process to accurately identify the property rights to be appraised, and the type of value. An opinion of value is different than an opinion of market rent. Both opinions/conclusions require the appraiser to identify the property rights or under a lease, the lease rights and restrictions. The definition of market rent requires the appraiser to consider the rights and restrictions, and term of the lease.

Heyburn Park Consulting Report
The methodology adopted by the Parks Dept. tries to circumvent the normal market-derived determination of market rent. They are requesting the value of different property rights; then appear to be applying their own desired (non-market derived) rate of return. The result is their mandated rent, not a market rent or reasonable rent.

MUNDLIN ENGAGEMENT AGREEMENT
The cabin site appraisal contract on page 111 of the Mundlin report contains the engagement agreement requires the appraiser to determine ‘...the fee simple market value of the site as if it were vacant and unimproved, based upon the highest and best use, and subject to any rights and reservations of record.’ Are the subject leases recorded? If so, the lease restrictions are of record, and should have been considered.

The contract states no title report will be provided. The engagement contract states further that the 185 day occupancy restriction, the dwelling size are not to be taken into account in the appraiser’s valuation “because they are accounted for in the lease rate set by the Idaho Park & Recreation Board”. The Board has no data, no qualifications; no market research, and no evidence I am aware of to make this decision. The instructions to the appraiser were to ignore the issue.

TRENDS FOR RATES
The following graphs and charts show rate trends in the market.

Highlights show rates in 1999, 2009; and lower rates today in 2019. This shows CPI or inflation rates which have declined, and lower fed funds rates which drive interest rates.

Heyburn Park Consulting Report
**Economic Indicators | PwC Real Estate Investor Survey, Q4 2018**

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<th>Regional Mall</th>
<th>CBD Office</th>
<th>Warehouse</th>
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<td>Q4 2018</td>
<td>Q3 2018</td>
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<td><strong>Discount Rate (IRR)</strong></td>
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<tr>
<td>Range (%)</td>
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<td>Range (%)</td>
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PwC is a national consulting firm that compiles cap rates. The rates represent overall cap rates for the leased fee interest, in late 2018. Market interest and bond rates are shown below which show a decline.

**Market rates and bond yields**

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<td>2.47</td>
<td>2.09</td>
<td>1.47</td>
<td>1.13</td>
<td>0.61</td>
<td>0.49</td>
</tr>
<tr>
<td>LIBOR 3-month rate</td>
<td>—</td>
<td>—</td>
<td>1.69</td>
<td>1.30</td>
<td>0.99</td>
<td>0.62</td>
</tr>
<tr>
<td>U.S. 5-year bond</td>
<td>2.67</td>
<td>2.80</td>
<td>2.18</td>
<td>1.92</td>
<td>1.93</td>
<td>1.70</td>
</tr>
<tr>
<td>U.S. 10-year bond</td>
<td>2.81</td>
<td>2.93</td>
<td>2.40</td>
<td>2.33</td>
<td>2.45</td>
<td>2.04</td>
</tr>
<tr>
<td>U.S. 30-year bond</td>
<td>3.06</td>
<td>3.06</td>
<td>2.77</td>
<td>2.85</td>
<td>3.06</td>
<td>2.97</td>
</tr>
<tr>
<td>Municipal tax exempted (Aaa)*</td>
<td>2.91</td>
<td>3.22</td>
<td>2.91</td>
<td>2.95</td>
<td>3.47</td>
<td>3.02</td>
</tr>
<tr>
<td>Municipal tax exempted (A)*</td>
<td>3.41</td>
<td>3.72</td>
<td>3.41</td>
<td>3.50</td>
<td>4.05</td>
<td>3.60</td>
</tr>
<tr>
<td>Corporate bonds (Aaa)*</td>
<td>4.02</td>
<td>3.96</td>
<td>3.51</td>
<td>3.68</td>
<td>4.06</td>
<td>4.03</td>
</tr>
<tr>
<td>Corporate bonds (A)*</td>
<td>4.37</td>
<td>4.29</td>
<td>3.79</td>
<td>3.93</td>
<td>4.28</td>
<td>4.38</td>
</tr>
<tr>
<td>Corporate bonds (Baa)*</td>
<td>5.13</td>
<td>4.83</td>
<td>4.22</td>
<td>4.37</td>
<td>4.83</td>
<td>5.48</td>
</tr>
</tbody>
</table>

Source: Valuation Magazine, Appraisal Institute, 1st Quarter 2019
2009 Rates are shown in the table below, and are higher than 2018/19 rates.

<table>
<thead>
<tr>
<th>Korpacz National Market Indicators</th>
<th>Fourth Quarter 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discount Rate (IRR)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Range</strong></td>
<td>7.00% - 17.00%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>10.00%</td>
</tr>
<tr>
<td><strong>Change (b.p.)</strong></td>
<td>+ 20</td>
</tr>
<tr>
<td><strong>Overall Cap Rate (OAR)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Range</strong></td>
<td>5.00% - 11.00%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>8.00%</td>
</tr>
<tr>
<td><strong>Change (b.p.)</strong></td>
<td>+ 8</td>
</tr>
<tr>
<td><strong>Residual Cap Rate</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Range</strong></td>
<td>6.25% - 12.00%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>8.84%</td>
</tr>
<tr>
<td><strong>Change (b.p.)</strong></td>
<td>+ 20</td>
</tr>
</tbody>
</table>

Source: Valuation Magazine, Appraisal Institute.

Cap rates in 1999 are shown in the table below. Again, the 1999 rates are higher than 2019 rates.

<table>
<thead>
<tr>
<th>National Market Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discount Rate (IRR)</strong></td>
</tr>
<tr>
<td><strong>Range</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
</tr>
<tr>
<td><strong>Change (b.p.)</strong></td>
</tr>
<tr>
<td><strong>Overall Cap Rate (OAR)</strong></td>
</tr>
<tr>
<td><strong>Range</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
</tr>
<tr>
<td><strong>Change (b.p.)</strong></td>
</tr>
<tr>
<td><strong>Residual Cap Rate</strong></td>
</tr>
<tr>
<td><strong>Range</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
</tr>
<tr>
<td><strong>Change (b.p.)</strong></td>
</tr>
</tbody>
</table>

Source: Valuation Magazine, Appraisal Institute.
The following chart depicts national cap rates as tracked by NCREIF for four property types. The cap rates are higher than a land discount rate. The cap rates depict returns for improved investment property in stable large urban markets with stronger demographics and are a ceiling well above the discount rate applicable to the subject property.

CONCLUSIONS
All the trends are all similar in documenting declining rates of return from the 1999 and 2009 levels. The Dept. of Parks & Recreation staff has adroitly avoided addressing the critical and most relevant issue: i.e. what is the market rent of the leased sites considering the actual property rights leased and terms of the lease. As represented in the appraisal instructions, the Board is to negotiate and determine the discount rate to multiply the value by the rate. All market evidence points to a rate below the 2009 rate of 3.75% due to the declining rate environment and the existing market data.

Nowhere has the cost of procuring high limits insurance been considered. Likewise, it is my understanding the float home owners paid or obligated themselves for sewer line improvements for the float home sites. This is a major land improvement to the Park & Recreation Board landfill that is paid for by the lessee’s and should result in some offset to their rent because the Park Board land will permanently benefitted from these improvements. The float homes pay rent, and pay to amortize this capital improvement in

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addition to rent as I understand the costs. Nowhere has Parks & Recreation Dept. appeared to consider this benefit to their property which they receive.

The most similar lease discount rate I could find indicates a 3.25% return for year-round use of small sites on Lake Pend Oreille with dock rights. The proposed rate of 5% appears excessive and was based upon data from 1999 which has significantly changed due to changed market and economic factors.

If you have any questions or if the association needs additional assistance and analysis on this matter please contact me.

Sincerely Yours

Ed Morse CRE, MAI

Attachments
Certification
Qualifications
Terms & Conditions of Use

Heyburn Park Consulting Report
CERTIFICATION OF THE COUNSELOR

I certify that, to the best of my knowledge and belief,

1. The statements of fact contained in this report are true and correct.

2. The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analysis, opinions, conclusions and recommendations.

3. I have no present or prospective interest in the property that is the subject of this report and I have no personal interest or bias with respect to the parties involved.

4. My engagement in this assignment was not contingent upon developing or reporting predetermined results.

5. My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event related to the intended use of this assignment.

6. My analysis, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Uniform Standards of Professional Appraisal Practice, the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute; and the Counselors of Real Estate.

7. I have not made a personal inspection of the property that is the subject of this report. No one provided significant professional assistance to me except as specifically noted in this report. I have not performed appraisal services regarding this property in the last three years.

8. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

9. As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.

Ed Morse, CRE, MAI
CGA-23

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CONTINGENT AND LIMITING CONDITIONS

The certification of the Counselor appearing in this counseling letter is subject to the following conditions and to such other specific and limiting conditions as are set forth by the Counselor in the report.

1. The counselor assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the counselor render any opinions as to the title, which is assumed to be marketable. The property is analyzed as though under responsible ownership and competent management.

2. Any sketches or photographs appearing in this counseling report are included to assist the reader in visualizing the property, and the counselor assumes no responsibility for their accuracy or interpretive quality. The counselor has made no survey of the property.

3. The counselor is not required to give testimony or appear in court because of completion of this report, with reference to the property in question, unless arrangements have been made previously.

4. The distribution of the total valuation in this counseling report between land and improvements applies only under the existing program of utilization. The separate valuations for land and buildings must not be used in conjunction with any other appraisal, or separately, and are invalid if so used.

5. The liability of Morse and Company and the appraiser(s) signing this report is limited to the original client only, and liability is limited to the appraisal fee actually received by the appraiser(s). Further, the parties and all users of this report agree there is no duty or liability to any second or third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. No third party can rely upon this appraisal for any purpose whatsoever, unless they are the intended user as specified in the report.

6. When the counseling report contains a valuation relating to an estate in land that is less than the whole fee simple estate, the value reported for such estate relates to a fractional interest only in the real estate involved and the value of this fractional interest only in the real estate; and the value of this fractional interest plus the value of all other fractional interests may or may not equal the value of the entire fee simple estate considered as a whole.
7. The counselor assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The counselor assumes no responsibility for such conditions or for engineering, which might be required to discover such factors.

8. Information, estimates and opinions furnished to the counselor and contained in this counseling report were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished the counselor can be assumed by the counselor.

9. Possession of this counseling report, or a copy thereof, does not carry with it the right of publication and the counseling report may not be used by any person or organization except the client, without the previous written consent of the counselor and then only in its entirety.

10. Disclosure of the contents of this counseling report is governed by the Bylaws and Regulations of the Appraisal Institute and other professional appraisal organizations with which the counselor is affiliated. Neither all nor any part of the contents of this counseling report (especially any conclusions as to value, the identity of the counselors or the firm which they are connected, or any reference to the Appraisal Institute or any other professional appraisal organization or designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any public means of communication, without the prior consent and approval of the counselor.

11. In all counseling reports subject to satisfactory completion, repairs, or alterations, the counseling report and value conclusions are contingent upon completion of the improvements in a workmanlike manner.

12. Neither the counselor's employment, nor the compensation for making this counseling report are contingent upon the acquisition or the amount of financing obtainable, based upon the findings of this counseling report.

13. The existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, radon gas, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the counselor become aware of such materials on or in the property unless otherwise stated. However, the counselor is not
qualified to test such substances or conditions. If the presence of such substances, such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions may affect the value of the property, the value estimated is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.

14. This counseling report is not intended to be used for, or in conjunction with, any securities offering. This counseling report is not intended to be used for any securities underwriting purpose without the express written consent of the counselor.

15. Unless otherwise stated in this report, the subject property is appraised without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presents of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability, or utility.

16. Real Estate markets are subject to future changes and market conditions may be influenced by many factors. Changes in vacancy, competition, interest rates, local economic conditions, and employment levels, among others, are likely to affect real estate values. Lending or investment decisions should be based upon a current appraisal. The counselor should be contacted to verify the facts and value conclusions in this report prior to any lending or investment decision. No loan or investment should be made on an opinion over 90 days from the effective date without verification with the consultant that the report assumptions, sales data, market conditions, and conclusions remain valid.

17. On reports for proposed construction or prospective dates of valuation, the consultant may have to forecast values or market conditions in order to arrive at the value estimate. The consultant cannot be held liable for changes in the market or unforeseen events that alter market conditions or property values after the date of the report, but prior to the effective date of valuation.

18. The report does not consider, and the consultant is not qualified to determine, compliance with the ADA (Americans with Disabilities Act) or the Fair Housing Act. Both of these acts have technical requirements for handicapped access, as well as other provisions, that go beyond the scope of the appraisal. Unless otherwise stated in the report, no compliance audit with either ADA or Fair Housing, if applicable, has been
prepared. The presence of barriers or violations of the acts within the improvements, may affect value or marketability.

19. This report is the intellectual property of Morse and Company and is subject to the right of copyright by the author. It cannot be copied, excerpted, quoted, or otherwise be used without the express written permission of Morse and Company, and its use is limited to the intended use and intended user as specified in this appraisal report. The appraisal report cannot be posted on, or published to the Internet.

20. Any claim for liability of Morse & Company, and/or the counselor signing this report, is limited to the amount of the fee charged in the assignment, and in no event shall damages include any consequential or punitive damages. The parties agree that any claim for liability or damages for the counseling services shall be determined exclusively by binding arbitration, governed by the rules of the American Arbitration Association.

21. Use of and reliance upon the counseling containing these limiting conditions constitutes consent and acceptance of all the limiting conditions. The counselor and Morse & Company only have a duty to the intended user and for the intended use of the counseling report. No other party has a right to rely on the counseling report.
COUNSELING ASSIGNMENT TERMS AND CONDITIONS

Acceptance and Applicability: These Terms and Conditions for Appraisal Services and Reports ("Terms and Conditions") shall apply to all appraisal reports, contracts, review or consulting services arising from the appraisal assignment or services related thereto. In addition, with respect to any appraisal report, any use of or reliance on the appraisal by any party, regardless of whether the use or reliance is authorized or known by Appraiser, constitutes acceptance of these Terms and Conditions as well as acceptance of all other appraisal statements, limiting conditions and assumptions stated in the appraisal report. An Appraisal Service Agreement may contain different provisions than stated in this document but such different provisions shall only apply between Client and Appraiser/Firm, unless the Appraisal Services Agreement expressly states otherwise.

Definitions: In these Terms and Conditions:

"Appraisal Services Agreement" means any written agreement with Client for performance of the appraisal services by Appraiser.

"Client" means a party identified expressly as a client in an Appraisal Services Agreement and also any party identified expressly as a client by the Appraiser in an appraisal report;

"Appraiser" means the appraiser(s) or counselors performing part or all of the services and/or signing an report, and

"Appraisal Firm or Firm" means any business entity employing the Appraiser or of which the Appraiser is a partner, owner, shareholder, member, officer, director or independent contractor, and includes the other employees, partners, owners, shareholders, members, officers, directors or independent contractors of any such entity.

Intended Users: The Appraiser or Counselor will identify one or more "intended users" of the appraisal in the report, either by name or type of user. The purpose of this identification is for Appraiser to determine the appropriate reporting of the appraisal in a manner that is clear and understandable to the identified intended user(s). It is not an acknowledgement by Appraiser that Appraiser knows or expects a party to use or rely on the appraisal. Neither the Appraiser nor the Firm is responsible to parties who are not identified as the intended users or for uses not identified as the intended uses.

Appraiser and Counselor Independence: As required by law and professional standards, the Appraiser's performance of the appraisal is independent, impartial and objective. Accordingly, the Appraiser cannot agree to provide a value opinion that is contingent on a predetermined amount and cannot ensure that the opinion of value will serve to facilitate any specific objective of Client or others or advance any particular cause.

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Unauthorized Use or Publication: No part of the appraisal or counseling report or the opinions or conclusions may be published or used in any advertising materials, property listings, investment offerings or prospectuses, or securities filings or statements without Appraiser’s prior written authorization. Any party who publishes or uses the report or Appraiser’s work product without such authorization or who provides the report or Appraiser’s work product for such unauthorized use or publication agrees to indemnify and hold the Appraiser and the Firm harmless from and against all damages, liabilities, losses, causes of actions, expenses, claims and costs, including attorneys’ fees, incurred in the investigation and/or defense of any claim arising from or in any way connected to the unauthorized use or publication.

No Third Party Beneficiaries of this Agreement: Unless identified expressly in the engagement agreement, there are no third party beneficiaries of any Appraisal Service Agreement pertaining to the appraisal, and no other person or entity other than the client shall have any right, benefit or interest under such agreement. The identification of a party as an intended user of the appraisal does not mean that the party is a third party beneficiary of the Appraisal Services Agreement.

Appraiser or Counselor Not Responsible for Certain Conditions: Notwithstanding that Appraiser or Counselor may comment on, analyze or assume certain conditions in the report, the Appraiser or Counselor shall have no monetary liability or responsibility for alleged claims or damages pertaining to: (a) title defects, liens or encumbrances affecting the property; (b) the property’s compliance with local, state or federal zoning, planning, building, disability access and environmental laws, regulations and standards; (c) building permits and planning approvals for improvements on the property; (d) structural or mechanical soundness or safety; (e) contamination, mold, pollution, storage tanks, animal infestations and other hazardous conditions affecting the property; and (f) other conditions and matters for which licensed real estate appraisers are not customarily deemed to have professional expertise. If the appraiser is to consider such conditions, such conditions must be disclosed to the appraiser in writing with details how such property conditions are to be considered in the appraisal.

Maximum Time Period for Legal Actions: Unless the time period is shorter under applicable law, any legal action or claim relating to the appraisal or counseling services provided shall be filed in court (or in the applicable arbitration tribunal, if the parties to the dispute have executed an arbitration agreement) within two (2) years from the date of delivery to Client of the appraisal report to which the claim or causes of action relate or, in the case of acts or conduct after delivery of the report, two (2) years from the date of the alleged acts or conduct. The time period stated in this section shall not be extended by any delay in the discovery or accrual of the underlying claims, causes of action or damages. The time period

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E. MORISE CRE, MAI
stated in this section shall apply to all non-criminal claims or causes of action of any type.

**Imitations of Liability and Assignment of Claims:** Professional standards for the performance of real estate appraisals require that appraisers perform their services independently, impartially and objectively. Clients and other users of appraisals may have separate legal or regulatory obligations imposed on them in relation to the appraisal process. The provisions of this section are designed to assure that an appraiser can render appraisal services in compliance with professional standards for reasonable compensation and to assure that clients and users can comply freely with their own professional and legal obligations. All modifications to these terms must be in writing and signed by the parties subject to the modification. Counseling assignments are performed in compliance with the Code of Ethics of the Counselors of Real Estate.

**a. Limitations of Liability:** To the fullest extent permitted by applicable law, the maximum monetary liability of Appraiser, Firm or Client to one another or to any third party (regardless of whether such party’s claimed use or reliance on the appraisal was authorized) for any and all claims or causes of action relating to the appraisal or Appraisal Services Agreement shall be limited to $10,000. Or the total compensation actually received by Counselor for the report or other services that are the subject of the claim(s) or cause(s) of action, whichever is more.

This limitation of liability extends to all types of claims and causes of action, whether in contract or tort, but excludes: (i) claims/causes of action for intentionally fraudulent or criminal conduct, intentionally caused injury, or unauthorized use or publication of the work product or (ii) claims/causes of action by Appraiser or Firm for the collection of unpaid compensation for the appraisal or other services (for which the maximum recovery shall be the total amount unpaid and owing to Counselor, plus applicable interest and late charges).

**b. No Special or Consequential Damages:** No Appraiser, Counselor, Firm nor Client shall be liable to one another or to any third party for special or consequential damages, including, without limitation, loss of profits or damages proximately caused by loss of use of any property, regardless of whether arising from negligence or breach of the Appraisal Services Agreement or otherwise, and regardless of whether a party was advised or knew of the possibility of such damages.

**No Assignment of Claims:** Legal claims or causes of action relating to the report or Services Agreement are not assignable, except: (i) as the result of a merger, consolidation, sale or purchase of a legal entity, (ii) with regard to the collection of a bona fide existing debt for services but then only to the extent of the total compensation for the appraisal plus reasonable interest, or (iii) in the case of an appraisal performed in connection with the origination of a mortgage loan, as part of the transfer or sale of the mortgage before an

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event of default on the mortgage or note or its legal equivalent.

Subpoenas and Testimony: In the event that Appraiser or Counselor is compelled by subpoena or other legal or administrative process to provide testimony or produce documents relating to the report or services, whether in court, deposition, arbitration or any other proceeding, the party seeking such testimony or documents agrees to compensate the witness, as applicable, for the reasonable time incurred in connection with preparation for and provision of such testimony and/or documents at their hourly rates in effect at that time and reimburse reasonable actual expenses. The witness is to be given advance notice to allow scheduling and file review prior to any deposition or testimony.

Severability: If any provision of these Terms and Conditions is held, in whole or part, to be unenforceable or invalid for any reason, the remainder of that provision and the remainder of the entire Terms and Conditions will be severable and remain in effect.

If any of these Terms and Conditions conflict with the terms and conditions of the Appraisal Engagement Agreement, the engagement agreement shall control but only as between Client and Appraiser/Counselor, unless the Agreement expressly states otherwise.
QUALIFICATIONS
ED MORSE, CRE, MAI

EDUCATION:
Yakima Valley College - 1968-1970; Bachelor of Science Degree - University of Idaho - 1972
Masters Degree in Business Admin - University of Idaho - 1973
Juris Doctorate of Law, Cum Laude - Gonzaga University, College of Law - June 1977

REAL ESTATE APPRAISAL EDUCATION:

University of Idaho
Essentials of Real Estate (#461) 1971; Real Property Appraisal (#462) - 1972

American Institute of Real Estate Appraisers/Appraisal Institute

Miscellaneous Courses
American Right of Way Assn (#401); Evaluation of Conservation Easements (AI & ASFMRA) - 2008

SEMINARS:
FHLMC – Residential Instruction Seminar
SREA – Introduction to Capitalization Seminar, Condemnation & Partial Takings, Underwriting & Regulations 41-B to 41-C

Appraisal Institute

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Law Seminars

Miscellaneous Seminars & Symposiums

PROFESSIONAL AFFILIATIONS/MEMBERSHIPS
The Counselors of Real Estate (CRE)
Appraisal Qualifications Board of the Appraisal Foundation – past member, past Chairman
Idaho Real Estate Appraiser Board - former Board Member
Member, Inland Northwest Chapter of the Appraisal Institute, MAI Certificate #10898
Idaho State Certified General Appraiser, Certificate #23
Formerly licensed Idaho Real Estate Broker
Member of the Idaho Bar Association - inactive status

APPRaisal EXPERIENCE:
Gridley & Hoagland, Real Estate Appraisers - January 1974 to June 1976; Morse & Morbeck, Real Estate Appraisers - July 1976 to August 1979; Acuff & Morse, Real Estate Appraisers and Counselors - September 1979 to June 1985; Appraiser - Morse & Company, Real Estate Appraisers and Counselors - July 1985 to Present

Authored - "The Appraisal of Community Property," The Appraisal Journal, 10/88, pg 477

TEACHING EXPERIENCE:
Instructor - Formerly a Certified Instructor for the Idaho Real Estate Commission, Education Council, for their Real Estate Appraisal Course, at various locations and at North Idaho College. Developed and taught a seminar for appraisers on Regulatory Taking Damage Measures for the Inland Northwest Chapter of the Appraisal Institute; and regulatory taking and special benefits seminars for attorneys with Law Seminars International.

Speaking engagements on appraisal issues, qualifications, and eminent domain. Adjunct University of Idaho College of Law – Appraisal, Valuation & Damages

TYPICAL ASSIGNMENTS:
Appraisals to determine the Market Value of unimproved land, existing and proposed residential and multi-residential properties; existing and proposed recreational properties and recreational land; agricultural property, timber lands, ranches, special purpose properties; existing and proposed commercial, industrial and mining properties. I have also completed appraisals of existing and proposed subdivisions; PUD's; and condominiums. I have appraised special purpose properties including golf courses, athletic clubs, bowling alleys, psychiatric hospital, mini-lubes, car washes, C-stores, water rights, mining and mineral interests including gravel, corridors, railroad rights-of-way, linear easements, and businesses. I have also appraised conservation easements, numerous partial takings, and remnant parcels, leaseholds, and physical and legal interests. Recreational property

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includes waterfront lands, condominiums, ski condominiums, waterfront PUD’s and condos; and
recreational “in holdings” surrounded by public lands and river front recreation land.
I have qualified as an expert witness and testified in both district and magistrate courts in Idaho, Washington, and U.S. Bankruptcy Court. I have testified about actual market value, and as an expert regarding damages on the fee simple estate and partial interests. I have completed appraisals for partial interest acquisitions, for easements and similar fractional interests, in a "before" and "after" situation, and other fractional interests like leased fee subject to a leasehold interest, and life estates. I have testified on damages in condemnation cases and numerous real estate damage cases. I have also completed appraisals on contaminated or impaired properties, and have testified as an expert regarding the value of contaminated property, and damages to real property, and damages to business interests. Litigation and appraisal experience includes easements, fee interests, partial interests and assignments for community property valuation and apportionment of community improvements.

Typical assignments also include appraisals, consulting, counseling to solve real estate problems, feasibility analysis and/or highest and best use analysis; and appraisals on real property interests. I have served as a court appointed arbitrator involving the partition of a large farm with timberlands, and as arbitrator in several cases involving real property and contractual interests. Real estate counseling assignments include the determination of damages, regulatory takings, and the denial of all viable economic use. I have testified as a review appraiser. I have performed reviews for lending purposes and for easement acquisitions and fee requisitions under the federal rule for airport expansions.

**TYPICAL CLIENTS:**
Served as an independent fee appraiser for such clients as:

- Ada County Highway Dist
- Avista Utilities
- Bank CDA
- Bank of America
- City of Bonners Ferry
- City of Coeur d'Alene
- City Coeur d'Alene School Dist
- City of Colville, WA
- City of Hayden
- City of Sandpoint
- Clark Fork/Pend Oreille Cnsvy
- Coeur d'Alene Tribe
- Columbia Bank
- Community Bank
- Farmer's Insurance Group
- First American Title
- Grange Mutual Life Insurance
- Idaho Forest Industries
- Idaho Independent Bank
- Idaho Power
- Idaho Public Utility Comm
- Key Bank
- Kootenai County
- Kootenai County Library Dist
- Mountain West Bank
- Panhandle State Bank
- Safeco Insurance
- Spokane County Parks Dept
- Umpqua Bank
- Union Pacific Rail Road
- US Bank
- US DOJ Department of Interior
- Washington Trust Bank
- Wells Fargo Bank
- Various Law Firms & Attorneys
SERVICES PROVIDED AND COSTS ASSOCIATED WITH HEYBURN STATE PARK
RECREATIONAL RESIDENCE LEASE MANAGEMENT

Services and benefits provided to Heyburn State Park Lessees:

- Guests of Hidden Lake float home owners are given free passes to park at the Chatcolet day use parking lot.
- Cabin and float home owners get free use of the Park burn pile for disposing of burnable yard waste and construction materials.
- The lease lots above the lake shore do not extend to the water (most are only 100’ long) but most owners have claimed the shoreline as their own even though they don’t pay for it. They mow, irrigate, keep boats, canoes, kayaks, build fire pits, etc.
- Owners are issued firewood permits if there is downed wood nearby that they would like to use.
- Lessees get free use of Park boat ramps, day use areas, trails, etc.
- Staff works with lessees to provide parking in “community” parking areas in areas where parking is limited, such as Hawley’s Landing or Rocky Point.

Quantifiable administrative costs incurred in administering leases:

- The Park spends $4,500 annually for dust abatement and $1,400 for road patching. Approximately 2/3rds of that cost ($4,130) is spent on roads used by cottage owners or shared by the park and cottage owners.
- The Park plows 3.7 miles of road shared by the park and the cottage owners, and 1 mile of road used exclusively by cottage owners. In the winter of 2018-19, the Park 66.9 inches of snow from November thru March, and roads were plowed approximately 15 times with an average time of 6 hours per plowing, for a total of 90 hours of snow plowing on roads either shared with cottage owners or solely used by cottage owners. The estimated costs of such plowing is $3,760 in wages and benefits, and $2,700 in truck time at $30.00 per hour.
- Leslie Naccarto, Heyburn State Park Lease Administrator, spends approximately 30% of her time on lease duties. Park Manager Ron Hise spends approximately 20% of his time dealing with lease issues. Estimated costs are $30,624.

Non-quantifiable administrative costs associated with leases:

- On average the park manager deals with lease violations regarding unauthorized vegetation/tree removal, and construction about 6 times per year.
- Staff must address with cabin owners issues such as unattended barking dogs; dogs off leash, parking boat trailers off lease lot (in the woods), setting up camp trailers in their driveways, and dealing with dock lessors complaining about unauthorized boats tied to their dock (some owners think that the dock automatically comes with the cottage).
- Staff regularly deals with owners attempting to dispose of concrete, furniture, appliances, etc. in Park dumpsters.
- Staff fields calls from owners when the power goes out or a streetlight is out, and contacts the City of Plummer or provides owners the City of Plummer number.
• Staff regularly checks on hazard trees at the request of owners and grants them permission to remove where appropriate.
• Staff traps nuisance animals at the request of cabin owners (so far in the last year staff trapped 12 raccoons for a cottage owner at Rocky Point).
• Staff is often asked to check on people’s cottages in the winter. A common request is “my electric bill was higher than normal will you go check my cabin?”.
• When a water leak is suspected staff goes cabin to cabin to find it. If the leak is at a cabin staff shuts their water off and calls the owner. Most of the time leaks are due to poor winterization.
• If a tree falls on a cottage staff contacts the owner. Where necessary, staff places tarps over holes in people’s roofs to prevent further damage.
• If there are break-ins staff contacts the owner. One time staff boarded up the broken window to keep the weather out since the owner lived in California.
• Staff disposes of dead wildlife that may end up on lease sites.
ANALYSIS OF SUBCOMMITTEE RECOMMENDATIONS TO THE IDAHO BOARD OF LAND COMMISSIONERS
Terry L. Anderson and Reed Watson

I. Introduction

On January 11, 2010 the Cottage Site Subcommittee submitted to the Idaho Board of Land Commissioners (Land Board) a draft report regarding the future management of state-owned cottage sites on Payette and Priest Lakes. The Subcommittee’s report recommends several changes to the existing cottage site leases, which all expire on December 31, 2010.

We evaluate the Subcommittee’s recommendations under two distinct criteria. Specifically, we evaluate whether the Subcommittee’s recommended method of calculating annual rent is likely to “insure that each leased lot generates market rent throughout the duration of the lease,” as required by Idaho Code § 58-310A. This standard applies to the recommendations pertaining to target rent calculation and phasing-in rent increases. We evaluate the Subcommittee’s other recommendations under the Land Board’s constitutional obligation to “secure the maximum long-term financial returns” for endowment beneficiaries. This standard applies to the Subcommittee’s recommendations regarding premium rent, lease term, and lot disposal.

The dual standard is warranted by the legislative finding that “maximum long-term financial returns to the institutions to which granted are best obtained through stable leases at market rent” (Idaho Code § 58-310A(1)(h)). To achieve that goal, the Land Board must be able to adjust annual rent consistent with obtaining maximum long-term financial returns. If the Subcommittee’s recommends changes that make it more difficult for the Land Board to secure market rent, it would be not be meeting its statutory duty or its constitutional duty. Because the Subcommittee’s recommendations regarding premium rent, lease term, and lot disposal do not directly affect the calculation of annual rent amounts, we evaluate those recommendations only by the prudent investor standard required by the state constitution.

II. Subcommittee’s Recommendations

The Subcommittee Report recommends the following changes to the existing cottage site lease terms:

- that the target annual lease rent equal 4 percent of the average appraised value of each lot over the most recent ten years;
- that the actual rent increase annually at a constant percentage rate to reach the target rent in five years;
- that the premium rent (i.e., the portion of the leasehold value paid to the State upon lease transfer) increase from the existing 10 percent to 50 percent over the next five years
(increasing by 10 percent each year) and that the premium rent remain at 50 percent for the remainder of the lease;
• that the duration of future leases be 35 years; and
• that the Department of Lands conduct the necessary analysis and recommend to the Land Board specific long term plans for continued leasing, development, or disposal of cottage sites.

III. Target Rent Calculation – Market Rent is the Standard

A. Contract Rate

According to the Subcommittee, “[t]he 4% used in the formula falls within the range of rates mentioned above [i.e. rates documented in other Land Board reports] and will still generate interest in the market. It provides a reasonable rate of return and generates an average 9% per year increase over the first five years to the beneficiaries” (Subcommittee Report, 2). We emphasize at the outset that this is the lease rate, not the market rent, which is what Land Board is legally required to target for maximizing long-term financial returns.

The recommendation that the annual lease rate be increased is a step in the direction of obtaining a market rent, but the recommendation still does not meet the prudent investment standard for two reasons.

1. Though four percent indeed falls within the range of rates suggested in previous reports to the Land Board, it is decidedly at the lower end of that range. The proposed contract rental rate remains below the rate charged by several other states with comparable cottage leasing programs and well below the rates of return available from institutional investments of similar or less risk.¹ The proposed rate also falls below the 6 percent implicit rates of return calculated using the Duffield model and reported in the Knipe report. Though the Subcommittee’s proposed contract rental rate of 4 percent is an improvement of the current 2.5 percent contract rental rate, comparisons to other states’ cottage site leasing programs, to similar asset classes, and to implicit rate calculations all suggest 4 percent is below market. Moreover, the Subcommittee’s recommendation of 4 percent has no credibility as a “market” rate other than the fact that it falls within the broad range of 3.5 to 18 percent recommended by the various appraisal reports.

2. The proposed 4 percent is also fixed, meaning it does not change with changing market conditions. Given that market rates of return are continually moving, a prudent investor would adjust his expected rate of return to equal the market rate. This could mean that rates would increase to the benefit of the state or decrease to the benefit of the lessee depending on market movements. That a 4 percent contract rental rate provides a “reasonable rate of return” is irrelevant; the contract rental rate must generate a market

¹ As discussed in our report to the Idaho Attorney General’s Office dated February 12, 2010, rates of return for institutional investments typically include asset appreciation as well as the periodic or “cash-on-cash” returns. The total rate of return for cottage site leases should therefore include both the contract rental rate and the realized appreciation rate earned by Department.
rent to secure the maximum long-term financial return for endowment beneficiaries. By fixing the rate at 4 percent over a long period of time, Land Board would be missing upturns in market rates and not meeting its fiduciary responsibility.

B. Appraised Value

According to the Subcommittee, “[a]pplying a rate to a land value that adjusted annually has caused drastic swings in annual rental fees. Using a 10 year average of the land value in calculating the rent would smooth out the impact of those rapid swings, and provide greater stability than is currently the case” (Subcommittee Report, 2). While it is true that using a ten year rolling average to calculate annual rent would reduce rapid swings in annual rental fees, such averaging will also make it virtually impossible for the Land Board to charge lessees “market rent,” as required by the Idaho Code.

Consider how averaging appraised land values over a ten year period would affect annual rental fees if land values are depreciating or appreciating. If land values are depreciating, contract rents would actually exceed market rent because the average land value would exceed the land’s market value. The opposite outcome would result if land values were appreciating over the ten year averaging period as they have been for long-term. During either depreciation or appreciation, contract rents would not equal market rents, and the Land Board would find itself in violation of its statutory obligation.

Using the ten year average of appraised land values also means that the state will always be earning rents based on past rather than current land values and therefore, especially during times of appreciation, will continually be below market rents. This would be the equivalent of a bond investor basing investment decisions on a ten year average of bond prices rather than on current bond prices. Doing so would mean that the current price of the bond would only get a one-tenth weight in financial calculations when, in fact, the current price is what the bond is worth and what determines the rate of return. Given this approach, it is not surprising that the Land Board itself calculates an effective rate of return closer to 2.5 percent than to the 4 percent rate proposed by the Subcommittee.

Another argument against appraising lot values annually is cost. Indeed, appraising 522 lots annually is both expensive and administratively burdensome for the Land Board. However, during periods of rapid appreciation or depreciation, changes in land value and, consequently, changes in annual may overwhelm appraisal costs, but this will not always be the case. Therefore, the Land Board should only consider using long-term averages if land values were expected to remain relatively constant thus reducing the need for annual appraisals. Such an expectation seems unjustifiable given the significant appreciation of lot values in recent decades. Thus the recommendation appears inconsistent with the Land Board’s statutory obligation.

C. Phase-in Period

The subcommittee recommends that the actual rent increase (or decrease) annually from the prior year’s rent at a constant percentage rate to reach the target rent in five years. The Subcommittee report does not state a specific rationale for phasing in the target annual lease rent over a five
year period, but presumably the policy is intended to slow the immediate impact on lessees of increases in the contract rent.

Even if one assumes that the targets are correct approximations of “market rent,” adjusting rents or rates over a five year period guarantees that the state is not securing market rent for the five year adjustment period. If the target annual rent equals the market rent for a cottage site lease at the end of the five-year phase-in period, the market rent will obviously exceed the contract rent during the phase-in period, as the contract rental rate “catches up” to the target and, presumably, to the market rate. If the target annual lease rent is below the market rent, as the above analysis suggests, then the contract rent will be below market rent not only during the phase-in period but also for the remainder of the lease.

Delaying the acquisition of that target for five years will prevent the Land Board from securing “market rent” during the phase-in period, and as with using the ten year average appraisal value, this guarantees that the actual return will be less than the prudent market return.

IV. Lease Terms and the Prudent Investor Standard

A. Premium Rent

“Since 2003, cottage site owners have realized in excess of $25 million for the use of State endowment land while the endowment received only $2.7 million” (Subcommittee Report, 2). According to the Report, “[t]he Subcommittee believes that a 50% premium rent rate will have the effect of maximizing the return to beneficiaries, and that any higher rate would be counterproductive, and act as a disincentive for selling leaseholders to be active in seeking the maximum sale price” (Subcommittee Report, 3).

As discussed in our report to the Idaho Attorney General’s Office entitled “Report to the Idaho Attorney General’s Office Regarding Cottage Site Leases” dated February 12, 2010 (first report”), positive leasehold values demonstrate that the market is placing a premium on the value of the cottage site lease plus any value of improvements over and above their appraised value. Though it is difficult to separate how much of the leasehold value is due to the lease and how much is due to the improvements, we can be sure that below market rents constitute a share of the $25 million premium and probably a share significantly above 10 percent.

The Subcommittee’s recommendation to increase premium rent from 10 percent to 50 percent of the leasehold value validates that the board has not been charging market rents, that below market rents have contributed to leasehold values, and that the state has been missing out on revenues that a prudent investor would have captured. Until the ownership of the lot and of the improvements is unified, there will be conflict over the appropriate division of leasehold values. At the 10 percent premium rent, the state is missing some of its rightful and prudent investor revenues while the lessees contend that the premium rent is essentially a tax on their property. As discussed in our first report, the portion attributable to below market rents is not easily
distinguishable from the portion attributable to inaccurate improvement appraisals. This fact makes it all the important that the Land Board increase contract rents to equal market rents as soon as possible so as to eliminate any contribution that below market rents make to leasehold values.

Aside from split ownership complicating leasehold division, the five year phase-in of the premium rent increase creates an incentive for lessees contemplating transfer to consummate such deals sooner rather than later. By so doing, they receive a larger portion of the leasehold value (90 versus 50 percent). This incentive is more likely to influence those lessees who acquired cottage site leases for speculative purposes that it will those longstanding lessees who lease cottage sites more for recreational opportunities as opposed to profit. Assuming the purpose of the phase-in period for premium rents is to avoid “severely impairing or eroding longstanding business relationships with our lessees,” while still meeting the Land Board’s fiduciary obligations, the phase-in period is likely to fall short in both respects. “Speculating” lessees will consummate transfers at 10 percent premium rents – at the expense of trust beneficiaries – while the longstanding, recreation-motivated lessees will transfer leases when they no longer desire the recreational value, most likely after the premium rent has increased.

**B. Lease Duration**

This extension had been contemplated previously, when the Land Board unanimously approved a motion to seek legislation allowing an increase in the lease duration. The Land Board’s stated rationale was that longer lease terms would allow tenants to secure traditional longer-term mortgages. However, both the proposed and current leases contain provisions allowing “the Board to cancel the lease and sell or exchange the property upon prior notice” (Subcommittee Report, 3), which reduces the security of the investment for the lessee.

If the purpose of the 35 year duration is to allow lessees to secure longer-term mortgages, it is not clear that it will help given that the state can terminate the lease with 180 days notice. Therefore we do not see a rationale for increasing the lease term to 35 years. The cancellation provision invalidates the claim that extending the lease term will enable lessees to procure more traditional and favorable financing terms, particularly because the Subcommittee is simultaneously recommending that the Land Board investigate divestment – an option that would likely require invocation of the cancellation provision.

Such an extension would further entrench lessee beliefs that cottage site leases convey more property rights than they actually do. Moreover, as explained in our first report, extending lease terms from 10 to 35 years will actually reduce the Land Board’s ability to adjust rates commensurate with market changes in order to procure a market rent that will maximize long-term financial returns for trust beneficiaries, especially with fixed lease terms (at 16). If the contract rate is put in place for 35 years, the share of leasehold value attributable to below market rents will increase and further complicate implementation of premium rents. If the Land Board

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2 By “inaccurate,” we simply mean improvement appraisals may not reflect the subjective preferences of an acquiring lessee who places a higher value on a lessee-owned improvement than did an objective appraisal. Such an improvement premium could constitute a portion of the leasehold value, but would not be attributable to below market rent and therefore should not accrue to the endowment beneficiaries.
insists on establishing 35 year leases, it must, at a minimum, include a lease provision that allows the board to adjust the rental rate commensurate with the prudent investor standard.

C. Lot Disposal

“The Subcommittee believes that the long term solution to the never ending cottage site imbroglio is to dispose of the lots in a reasonable, market savvy manner. The proceeds could then be invested in other assets which could better enhance the endowments.” Here, we could not agree more the Subcommittee’s recommendation. As explained in our first report, the split ownership of the cottage site lots and improvements makes it practically impossible for the Land Board to know what share of any leasehold value belongs to the endowment beneficiaries. In turn, the split ownership issue makes it practically impossible for the Land Board to maximize the long-term financial return to trust beneficiaries.

Regardless of whether the Land Board acquires ownership of the improvements or whether lessees acquire fee simple title to the lots, unification of ownership will resolve the issue of leasehold value division and allow the Land Board to fulfill its fiduciary obligation. We concur with the Subcommittee’s recommendation that special emphasis be put on finding ways to consolidate ownership.

V. Conclusion

The Subcommittee’s recommendations regarding the cottage site lease terms may be an improvement over the status quo because they raise the rental rate, but they nonetheless prevent the Land Board from securing the maximum long-term financial return for the trust beneficiaries. The Subcommittee’s recommendations also preclude the Land Board from securing “market rent” from cottage site leases because the averaging of appraised lot values, phase-in period for attaining the target annual lease rent, and the extension of the lease term would all have the effect of artificially reducing annual rents below what the evidence suggests could be earned in an open, competitive leasing market or in other investments. Moreover, the contract rental rate is still below prudent market rates of return including rates charged by other states for similar properties (5 to 5.5 percent). At a minimum the rental rate should equal the implicit rates of return calculated using the Duffield Model (6 percent).

The Land Board should heed the Subcommittee’s recommendation to research the divestment option for state-owned cottage sites. In addition, the Land Board should consider other ways to unify the ownership of the cottage site lots and the improvements on them, as this is absolutely essential for securing the maximum long-term financial return to trust beneficiaries.