EXHIBIT 3
DATE 1/31/07
HB

LAND BANKING REPORT 2006 - 2007

Background:

HB 223 (77-2-361 through 367, MCA) passed the Legislature in 2003 with bipartisan support, including unanimous support from the Land Board. HB 223 enacted a Land Banking program whereby the proceeds of trust land sales would be placed in a special land banking account which could only be used to acquire other real property interests (land, easements, or improvements). A sunset of October 1, 2008 was inserted into the bill to ensure that Land Banking was a pilot program.

Statute requirements:

- Land Banking will sunset in 2008
- Limits sale of land to 100,000 acres
  - 75% of the 100,000 acres must be isolated land
  - Limits sales to 20,000 acres until replacement properties were purchased
- Replacement land must generate as much or more revenue than the land sold

Goals of the program:

- Increase public access to state trust land
- Improve the investment portfolio of the beneficiaries by diversifying land holdings

History:

Administrative process:

- A Negotiated Rulemaking process was approved by the Board of Land Commissioners in June 2004, and the Committee was initiated in October 2004
- Administrative Rules (ARM 36.25.801 through 817) were given final approval by the Board of Land Commissioners in September 2005
- A total of 118,038 acres have been nominated for sale since program inception. Processed and sold 19,189 acres of land; 18,625 isolated (97.1%), 564 legally (2.9%) accessible.
- 20 parcels were nominated for acquisition
- 4 parcels were purchased and 1 parcel pending for 24,315 acres

SALES AND CLOSINGS

Land Banking Rules demand a rigorous examination of trust land prior to sale, including evaluation using the Montana Environmental Policy Act (MEPA) process, appraisal, notification of lessees, beneficiaries, adjacent landowners, licensees, publication of legal notices, culminating in public auctions after which final Board approval is required. The 3-year weighted average rate of return on land sold is 0.8% for Common Schools and 0.6% for Pine Hills Trust.

Trust Land Sold via Land Banking

ACRES	COUNTY	SALES PRICE	ANNUAL INCOME	GRANT	RETURN
320	Chouteau	$ 60,800	$ 364	State Industrial School	0.60%
640	Chouteau	$ 121,600	$ 780	Common Schools	0.64%
9,585	Custer	$ 1,461,800	$ 11,369	Common Schools	0.79%
85	Flathead	$ 6,400,000	$ 1,119	Common Schools	0.02%
6,400	Garfield	$ 947,000	$ 8,614	Common Schools	0.91%
479	Madison	$ 886,298	$ 601	Common Schools	0.07%
80	Powell	$ 424,000	$ 110	Common Schools	0.03%
1,600	Treasure	$ 368,000	$ 2,039	Common Schools	0.55%
19,189	**TOTAL**	**$10,669,498**	**$ 24,996**	**Overall weighted average**	**0.8%**

ACQUISITIONS

Criteria for tracts acquired:

- the best return on the dollar with the greatest likelihood of producing higher revenue than that of the land sold;
- improving access; and
- maintaining a similar land base consistent with the state's fiduciary duty.

The following table summarizes replacement property acquired with Land Banking proceeds for Common Schools. Note that while 19,189 acres were sold generating $10,669,498 in sales revenue, the state has acquired 5,771 acres while spending $4,298,627, with an additional 18,544 acres pending, at a cost of $4,800,000. Additionally, the replacement acreage is all publicly accessible, while producing a higher rate of return to the beneficiary.

Tracts Acquired Through Land Banking

Tract	County	Acres	Purchase Price	Appraised Value	Est. Annual Net Income	Est. Rate of Return	Purchase Date (Est.)
Eustance Ranch (Ulm Pishkin)	Cascade	898 Grazing/Ag	$ 718,256	$ 969,600	$ 16,654 (includes sale of park easement to FWP)	2.32%	Oct 2006
Capdeville Ranch	Valley	552 Ag	$ 618,000	$ 619,000	$ 12,898	2.09%	Dec 2006
North Lincoln	Lewis and Clark	1,042 Graz/Timber	$1,672,371	$ 2,455,000	$ 68,472	4.09% combined	Dec 2006
Ovando Mtn.	Powell	1,439 Graz/Timber					
Wolf Creek Ranch	Fergus	1,840 Grazing/Ag	$1,290,000	$ 1,290,000	$ 25,473	1.97%	Jan 2007
PENDING	**Sub-Totals**		**$4,298,627**	**$ 5,333,600**	**$ 123,497**	**2.87%**	
Tongue River Ranch	Custer	18,544 Grazing/Ag	$4,800,000	$ 4,800,000	$ 64,700	1.35%	Jan 2007
	TOTALS	**24,315**	**$9,098,627**	**$10,133,600**	**$ 188,197**	**2.07%**	

Eustance Ranch
Cascade County

Acres	897.82
Grazing	709
Ag	185

Capdeville Ranch
Valley County

Acres	534
Ag	320

North Lincoln/Ovando
Lewis and Clark and Powell County

Acres	2,524
Timber	2,524

Wolf Creek (closing in January)
Fergus County

Acres	1,840
Grazing	796
Ag	1,044

Pending
Tongue River Ranch
Custer County

Acres	18,544
Grazing	18,220
Ag	324