

The existing DNRC Cabinsite Lease procedures include several factors that have created an untenable situation for current and potential leaseholders. **88% of existing leaseholders are Montana residents, representing upwards of 700 families.** Many of these families have held their leases for generations and all will be severely impacted if no remedy is found. The primary factors contributing to the crisis include:

- ◆ **Current DoR appraisal methods** base the value of cabinsite leased land on fee simple comparables, resulting in inflated values that do not recognize limited leaseholder rights and lessee responsibilities.
- ◆ The **DNRC fee structure** is based on the DoR appraisal rather than on a market assessment of reasonable rent for unimproved property.
- ◆ **Short lease terms and valuation cycles** have resulted in extreme unpredictability of annual lease fees and made it next to impossible for cabinsite lessees or potential buyers to obtain financing.
- ◆ **Current sub-leasing restrictions** prohibit lessees from generating short-term rental income to help pay high annual lease fees.

Based on the 2009 DoR appraisals, annual lease fees for the vast majority of cabinsite lessees will **double, triple, and in some cases quadruple** over the next five years, in many cases reaching **\$20,000 or more per year.** To further compound the problem, the volatility of current DNRC leasing procedures has already prompted a virtual **shut-down the real estate market for DNRC cabinsite leases.** Leaseholders will be forced to abandon leases or sell at gross discounts due to record high annual fees and a lack of potential buyers, thereby greatly **increasing the vacancy rate.** Our informal survey shows **67% of lessees will be forced off their leases** if fees **double.** This represents **300 Montana families** with a **loss of more than \$600,000** in annual lease revenue (based on current levels). Lessees unable to sell their improvements within two years of default, forfeit their improvements to the State, creating an environment for expensive litigation.

In response to this dire situation, the lessees have formed the **Montana State Leaseholders Association.** In two short months, this grass roots effort has grown to include over **250 families.** The Association's goal is to reach a fair and equitable solution among all interested parties that makes DNRC cabinsite leases affordable to Montanans while attaining full market value for MonTrust. Members of the Association worked closely with DNRC staff to craft the foundation for just such a solution – **Alternative 4: Joint Venture.** This Alternative provides a long-term, fully-developed solution balancing interests of all stakeholders. To accomplish the goals of Alternative 4, the primary points:

- ◆ Freeze lease fees at current rates for one year.
- ◆ Sanction a study, bringing together representatives from each stakeholder group, to further develop the following strategies and explore other strategies that may come to light.
  - Utilize professional valuation and market lease rate studies, based on a nationally recognized framework to develop a defensible fair market value for leased land and affordable lease rates.
  - Establish a floor and cap on lease rates and/or annual increases to assure consistent annual returns.
  - Create a “valuation incentive system” for the Trust to recapture leasehold value at assignment or sale. Recapture sums promote stable, reasonable, long-term lease rates and terms, and encourage an active market for lease sales, thus, maximizing Trust revenue on two fronts – income and leasehold (capital) appreciation. Capital appreciation recapture at the end of lease cycles or upon assignment eliminates the need to charge lessees premium lease rates (as in the other Alternatives) to maximize Trust returns.
- ◆ Eliminate A-E billing cycles to establish parity among all lessees.
- ◆ Extend lease terms to meet standard credit-term length plus five years. (Typically 35 years)
- ◆ Create a fee assistance program for low- and fixed-income residents.
- ◆ Expand subleasing opportunities to increase options for lessees to meet annual lease fees.
- ◆ Create a DNRC hearing and appeals to address lessor-lessee issues and ensure due process.
- ◆ Establish a lease cancellation process that would fairly value improvements and provide for a State auction, rather than forfeiture, if real estate marketing efforts are unsuccessful.

We appeal to the members of the Environmental Quality Council to support Alternative 4 and to facilitate any new legislation that may be required to implement it. Thank you for your time and support, and we especially thank the DNRC for working collaboratively with us to craft a long-term solution to this critical issue.