

Department of Natural Resources and Conservation
Land Banking Report to the Environmental Quality Council
July 2012

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). In 2009 the Legislature passed HB 402, removing the sunset and capping the number of acres that could be sold through Land Banking at 250,000.

Statute requirements:

- Limits sale of land to 250,000 acres
 - 75% of the 250,000 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
- The Department is required to provide a report to the Environmental Quality Council prior to each regular legislative session, which describes the results of the Land Banking program in detail.

Goals of the program:

- Increase public access to state trust land
 - 166,058 acres have been nominated for sale
 - 52,863 acres have been sold, 93.8% were isolated
 - 48,084 acres have been purchased, all are legally accessible with recreational opportunities
- Improve the investment portfolio of the beneficiaries by diversifying land holdings
 - lands sold generated \$84,870 annually
 - lands acquired will generate \$226,279 annually
 - lands sold are predominately isolated grazing lands and the lands acquired include agricultural, grazing and timbered lands
- Enhance management and stewardship activities with land consolidation
 - lands acquired are contiguous and in most cases consolidate existing state ownership

Milestones:

- 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. Rules have been amended to reflect 2007 statutory changes.
- **590** parcels containing **166,058** acres have been nominated for sale since program inception. Processed and sold **52,863** acres of land consisting of **236** parcels. **49,580** acres were isolated (93.8%), while **3,282** acres were legally accessible (6.2%).
- Agency is currently processing **10,247** acres of land for sale; 2,340 isolated (23%); 7,907 legally accessible (77%).
- **48,084** legally accessible acres in **11** parcels have been purchased.
- Income generated annually from parcels purchased (\$226,279), has increased trust revenues 167% over income generated from parcels sold (\$84,870).

LAND BANKING SALES CLOSED

Land Banking Rules require 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.

Trust Land Sold via Land Banking 2006 – June 29, 2012 Sales by Trust

| ACRES | GRANT | SALES PRICE | ANNUAL INCOME | AVERAGE RATE OF RETURN |
|--------|-------------------------|--------------|---------------|------------------------|
| 47,700 | Common Schools | \$24,163,572 | \$73,020 | .30% |
| 640 | MSU Morrill | \$614,400 | \$1,428 | .23% |
| 160 | MSU 2 ND | \$300,000 | \$690 | .23% |
| 2,356 | Public Building | \$808,985 | \$4,691 | .58% |
| 80 | School of Mines | \$20,000 | \$172 | .86% |
| 679 | State Industrial School | \$157,290 | \$1,014 | .64% |
| 120 | State Normal School | \$24,000 | \$739 | 3.08% |
| 1,128 | University of Montana | \$489,000 | \$3,116 | .64% |
| 52,863 | TOTALS | \$26,577,247 | \$84,870 | .32% |

Sales by County

| ACRES | COUNTY | SALES PRICE | ANNUAL INCOME |
|--------|---------------|--------------|---------------|
| 1,000 | Beaverhead | \$564,000 | \$1,532 |
| 1,280 | Blaine | \$324,450 | \$2,639 |
| 181 | Broadwater | \$181,000 | \$236 |
| 935 | Carbon | \$1,598,250 | \$1,034 |
| 65 | Carter | \$14,715 | \$89 |
| 165 | Cascade | \$132,000 | \$151 |
| 2,907 | Chouteau | \$644,246 | \$4,222 |
| 9,648 | Custer | \$1,496,800 | \$11,460 |
| 9 | Daniels | \$12,000 | \$203 |
| 640 | Dawson | \$96,000 | \$182 |
| 320 | Deer Lodge | \$272,000 | \$1,843 |
| 320 | Fallon | \$92,800 | \$358 |
| 160 | Fergus | \$63,000 | \$192 |
| 85 | Flathead | \$6,400,000 | \$1,119 |
| 13,143 | Garfield | \$1,967,300 | \$15,929 |
| 648 | Golden Valley | \$307,000 | \$2,406 |
| 684 | Hill | \$342,100 | \$2,310 |
| 2,213 | Lewis & Clark | \$1,959,000 | \$2,626 |
| 1,065 | Liberty | \$246,473 | \$1,533 |
| 479 | Madison | \$886,298 | \$601 |
| 840 | Meagher | \$1,160,000 | \$7,080 |
| 160 | Missoula | \$300,000 | \$690 |
| 426 | Pondera | \$108,200 | \$959 |
| 1,517 | Powell | \$2,219,000 | \$4,285 |
| 4,472 | Rosebud | \$667,500 | \$4,276 |
| 480 | Sweet Grass | \$1,506,000 | \$2,340 |
| 880 | Teton | \$615,000 | \$2,622 |
| 2,829 | Toole | \$577,425 | \$4,776 |
| 1,600 | Treasure | \$368,000 | \$2,039 |
| 4 | Valley | \$4,000 | \$0 |
| 1,626 | Wheatland | \$668,790 | \$2,545 |
| 2,080 | Yellowstone | \$783,900 | \$2,594 |
| 52,863 | TOTAL | \$26,577,247 | \$84,870 |

LAND BANKING ACQUISITIONS

Criteria for tracts acquired:

- Increasing rate of return compared with the land sold.
- Improving access and consolidating land holdings.
- Maintaining a similar land base consistent with the state's fiduciary duty.
- Considering equalization of land base through sales and acquisitions by geographic area.

The following table summarizes replacement property acquired with Land Banking proceeds. Note that while **52,863** acres were sold generating **\$26,577,247** in sales revenue, the state has acquired **48,084** acres while spending **\$22,871,457**. Additionally, the replacement acreage is all publicly accessible, while producing more than twice the rate of return to the beneficiaries.

| Tracts Acquired Through Land Banking 2006 – June 29, 2012 | | | | | | | |
|---|-------------------|----------------------------|---------------------|---------------------|------------------|---------------------------------|---------------|
| Tract | County | Acres | Purchase Price | Appraised Value | 2011 Net Income | 2011 Income Rate of Return | Purchase Date |
| Eustance Ranch (Ulm Pishkin) | Cascade | 897.2 Grazing/Ag | \$718,256 | \$969,600 | \$6,020 | 0.84% | October-06 |
| Capdeville Ranch | Valley | 530 Ag | \$618,000 | \$619,000 | \$1,146 | .02%*** | December-06 |
| North Lincoln | Lewis and Clark | 1041 Graz/Timber | \$1,131,636 | \$1,480,000 | \$797 | 0.07%* | December-06 |
| Ovando Mtn. | Powell | 1,439 Graz/Timber | \$540,735 | \$975,000 | \$711 | 0.13%* | December-06 |
| Wolf Creek Ranch | Fergus | 1,842.55 Grazing/Ag | \$1,290,000 | \$1,290,000 | \$27,762 | 2.15% | January-07 |
| Tongue River Ranch | Custer | 18,544.18 Grazing/Ag | \$4,800,000 | \$4,800,000 | \$73,386 | 1.53% | April-07 |
| Tupper Lake | Powell | 1,777.67 Timber/Grazing | \$1,271,000 | \$1,271,000 | \$303 | 0.02%* | July-08 |
| DeBruycker Farm | Teton | 5,211.98 Ag/Grazing | \$4,980,000 | \$4,980,000 | \$112,770 | 2.26% | December-08 |
| Valentine Water Project | Fergus | 304 Grazing | \$150,000 | \$150,000 | \$1,384 | 0.92% | January-09 |
| Chamberlain Creek | Missoula | 1,171.9 Graz/Timber | \$1,336,000 | \$1,336,000 | \$0 | 0%** For the entire property | July-10 |
| Chamberlain Creek with CE | Missoula & Powell | 13,410.6 Timber | \$4,600,000 | \$4,600,000 | | | |
| North Swan (Phase 1) | Lake | 1,914 Timber | \$1,435,830 | \$1,435,830 | \$2,000 | 0.001%** | December-10 |
| TOTALS | | 48,084 | \$22,871,457 | \$23,906,430 | \$226,279 | | |

Average Cost per Acre for Acquisitions = \$476

Average Income per Acre for Acquisitions = \$4.71

Average Sale Price per acre for Sold Parcels = \$503

Average Income per acre for Sold Parcels = \$1.61

* Rate of Return only reflects secondary income from grazing, timber will be harvested from the property during the next 60 years.

** No timber harvests have occurred to generate income, the projected range of Rate of Return for timberland over a 60 year period is 0.96 to 2.13%.

*** 2011 flooding of Beaver Creek in Valley County resulted in substantial loss of income.

Department of Natural Resources and Conservation – July 2012

Eustance Ranch

Cascade County
Grazing/Ag Acres 897.2



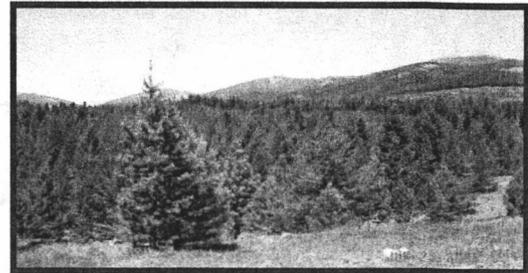
Capdeville Ranch

Valley County
Ag Acres 530



North Lincoln

Lewis and Clark County
Graz/Timber Acres 1,041



Ovando Mtn.

Powell County
Graz/Timber Acres 1,439

Wolf Creek Ranch

Fergus County
Grazing/Ag Acres 1,842.55



Tongue River Ranch

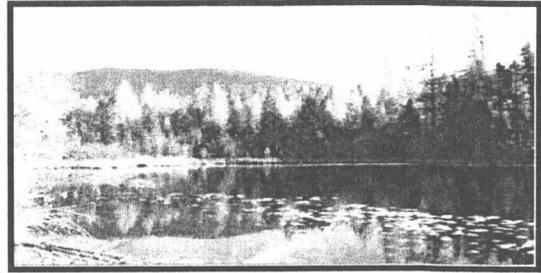
Custer County
Grazing/Ag Acres 18,544.18



Tupper Lake

Powell County
Graz/Timber Acres

1,777.67



DeBruycker Farm

Teton County
Grazing/Ag Acres

5,211.98



Valentine Water Project

Fergus County
Grazing Acres

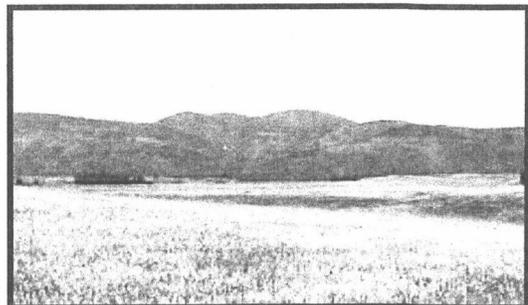
304



Chamberlain Creek

Missoula & Powell Counties
Graz/Timber Acres

14,582



North Swan (Phase 1)

Lake County

Timber Acres

1,914

