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Proposal Outline

Idaho Department of Lands Submission

NOVEMBER 2020





The master plan ("Land Use Plan" or "The Plan") discussed herein is presented as one of numerous potential alternative solutions to the overall Land Management Strategy. The Plan is based on a preliminary analysis of the lands around Payette Lake and the planning process is ongoing. As such, the land uses, and final acreage allocations are subject to further refinement. The values included in this presentation reflect Preserve McCall's current understanding of potential land uses and are meant to further discussions of The Plan with the Idaho Department of Lands and other stakeholders.

Throughout these materials, the term "park" is used to describe the overall master plan strategy. In the context of these materials, "park" describes a general sense of contiguous green area for public benefit to include access, recreation, and conservation. In the context of these materials, "park" does not reflect a specific type of ownership or management.



"...going to the mountains is going home; that wildness is a necessity"

- John Muir





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Executive Summary

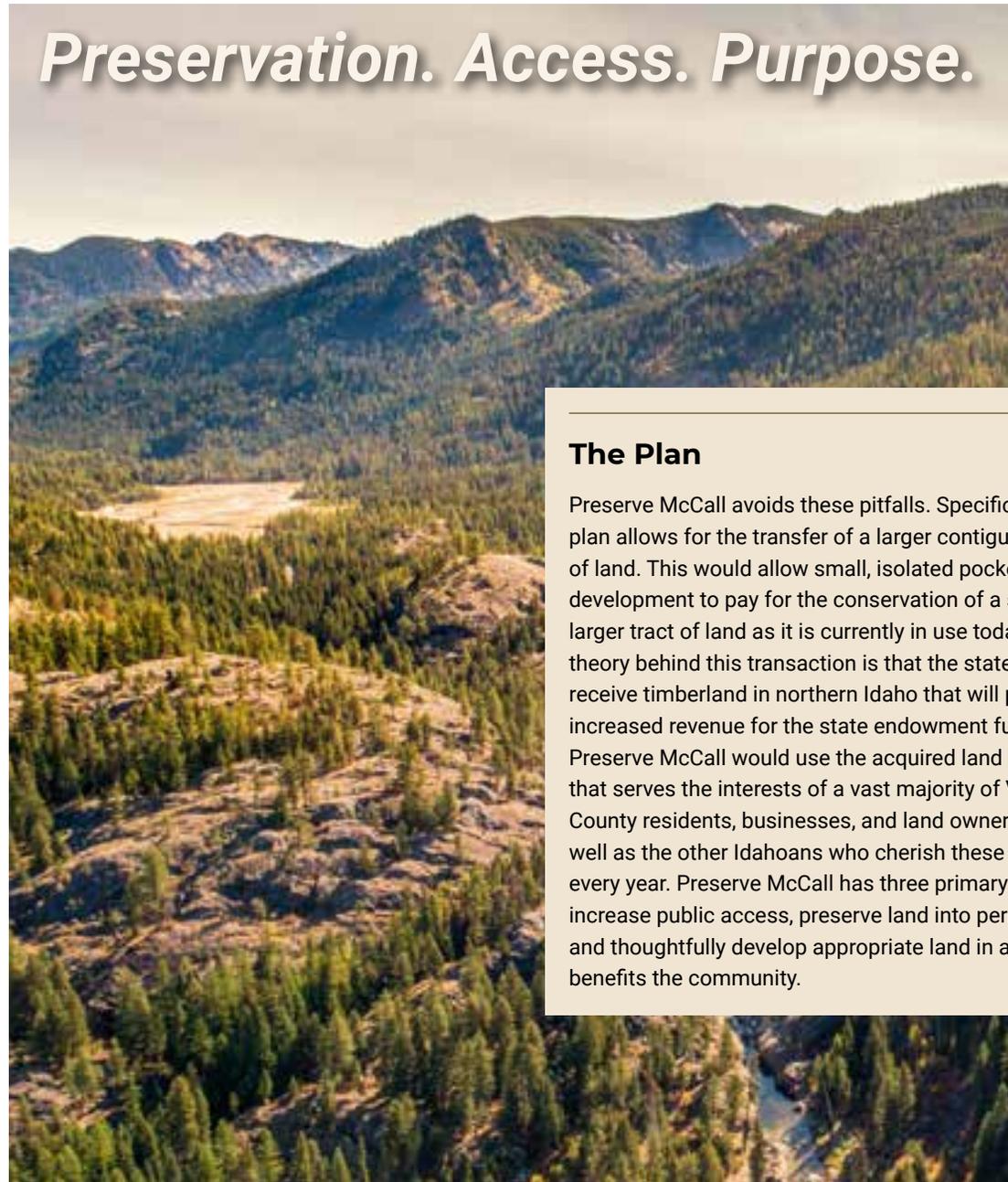
Preserve McCall offers a plan to protect recreation and wildlands in Valley County by exchanging private harvestable timberland in northern Idaho for acreage in Valley County owned by Idaho's state education endowment.



Current Situation

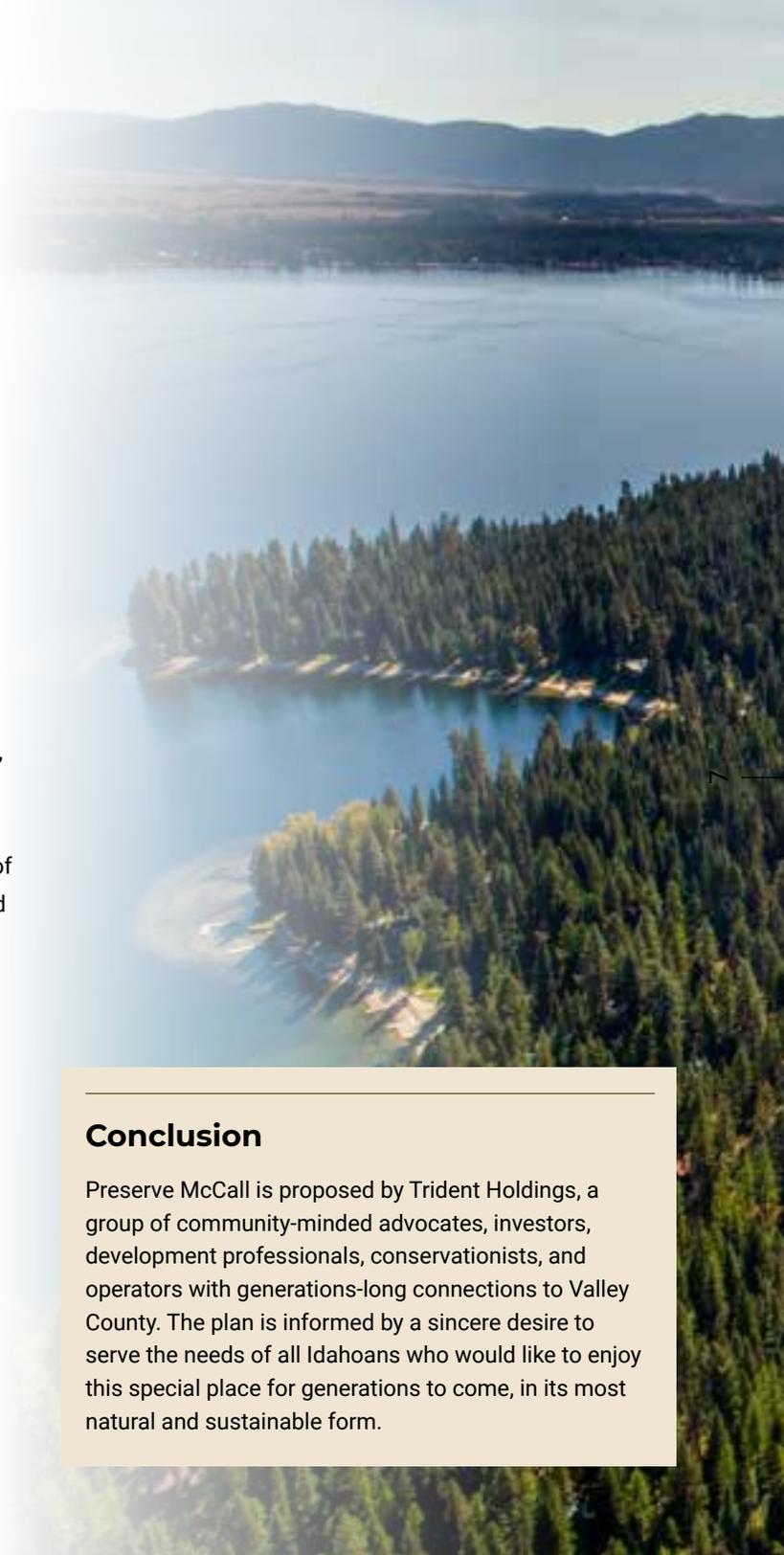
The Idaho State Board of Land Commissioners manages state-owned endowment lands to fund public education in Idaho, among other beneficiaries. Some of that land in Valley County, specifically around Payette Lake and Little Payette Lake, offers limited profitability for the state due to its particular terrain, location, and the restricted ability to harvest timber from it. If this land is sold by the state, such as through its auction program, the Idaho Constitution limits dispositions to no more than 320 acres to any one buyer. Our concern is that selling this land to multiple entities in 320-acre parcels could result in a patchwork of privately-owned plots that could seriously limit public access and conservation, and lead to haphazard development contrary to the values of the McCall community and its master plan.

Preservation. Access. Purpose.



The Plan

Preserve McCall avoids these pitfalls. Specifically, the plan allows for the transfer of a larger contiguous parcel of land. This would allow small, isolated pockets of development to pay for the conservation of a single, larger tract of land as it is currently in use today. The theory behind this transaction is that the state would receive timberland in northern Idaho that will produce increased revenue for the state endowment fund, while Preserve McCall would use the acquired land in a way that serves the interests of a vast majority of Valley County residents, businesses, and land owners, as well as the other Idahoans who cherish these areas every year. Preserve McCall has three primary goals: increase public access, preserve land into perpetuity, and thoughtfully develop appropriate land in a way that benefits the community.



Public Access

The Preserve McCall plan prioritizes improvements to public access across multiple sites around Payette Lake, Little Payette Lake, and the Lake Fork area. One of the most important benefits of the public land around Valley County is the ability for Idahoans from all walks of life to recreate in a variety of ways, some unique to central Idaho. In McCall, hikes end with huckleberries, and some hunters scout for elk, while others seek morrells. Whether it's snowmobiling or strapping on touring skis, it all starts with access to public lands. Preserve McCall is committing to improve public access to the lake, to these endowment acres, and to the surrounding uphill Forest Service lands.

Preservation

This plan also proposes creating additional public use, ideally through the expansion of Ponderosa State Park, or through the creation of an adjacent park managed by the city, county, or a separate park authority. The multiple uses for this park could include expanded day-use camping, longer-term camping with improvements, as well as new and improved trail systems and recreational areas. An expanded park also sets aside beach access and preserves views of the lake for the public. There are multiple viewsheds and beloved recreational spots that would be protected and preserved with Preserve McCall's plan.

Development with Purpose

The economic driver of the plan is thoughtful, diverse, and purposeful development that meets the needs of the community. Phased development could include residential development, workforce housing near downtown McCall, a community recreation center, and other opportunities for the community. While honoring the hard work they already perform in this arena, Preserve McCall will partner with McCall and Valley County to determine the best development plans to serve the community with a goal of low-density solutions, maintained access to the lake, and improved city infrastructure to meet the challenges of growth. Of the total acres exchanged, a minority would be developed for private use, over time, while Valley County would benefit from one of the largest efforts to protect recreation and wildlands in state history.

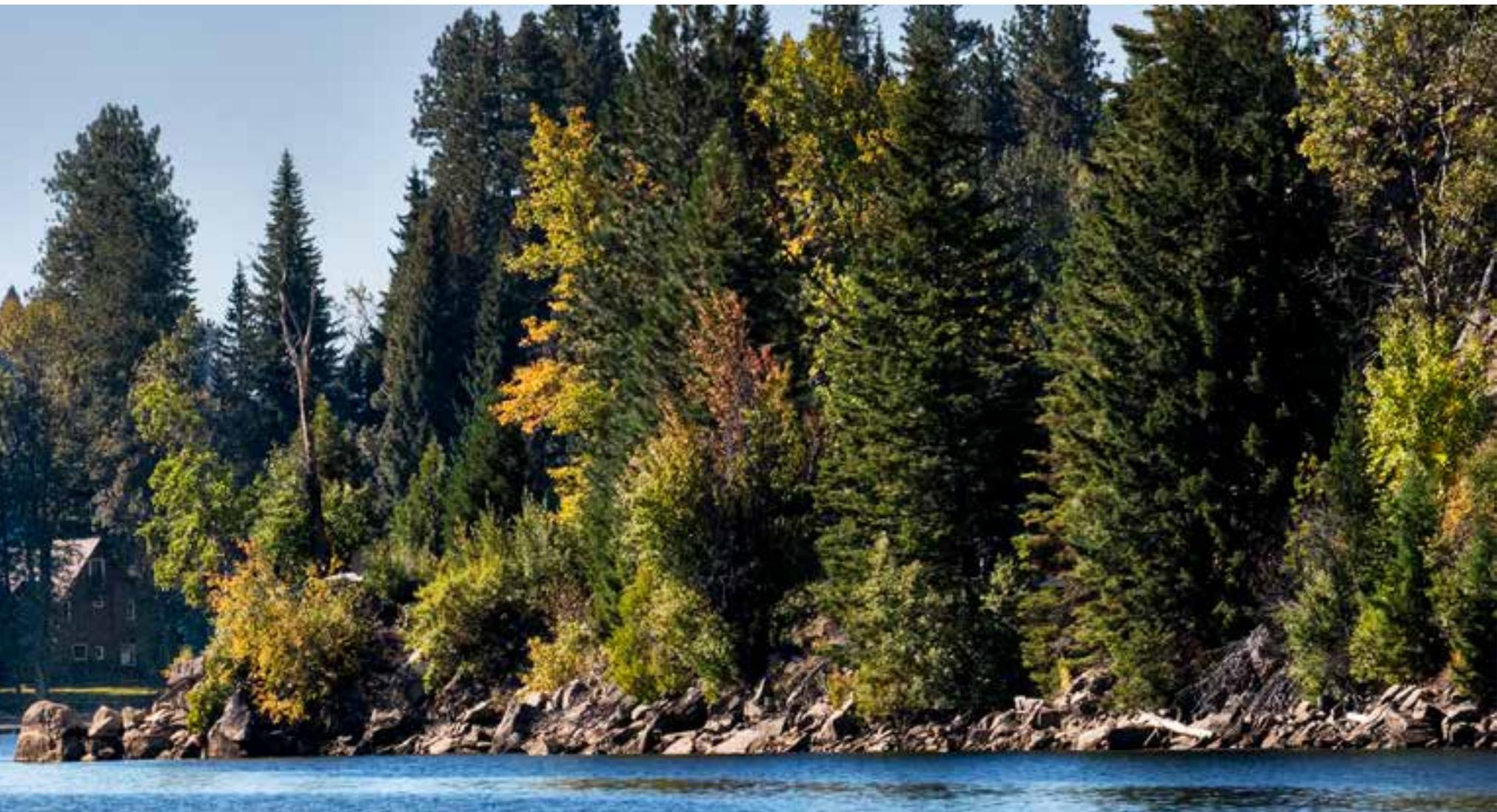
Conclusion

Preserve McCall is proposed by Trident Holdings, a group of community-minded advocates, investors, development professionals, conservationists, and operators with generations-long connections to Valley County. The plan is informed by a sincere desire to serve the needs of all Idahoans who would like to enjoy this special place for generations to come, in its most natural and sustainable form.

Land Use Plan

*Stewardship of Lands Around
Payette Lake in Perpetuity*





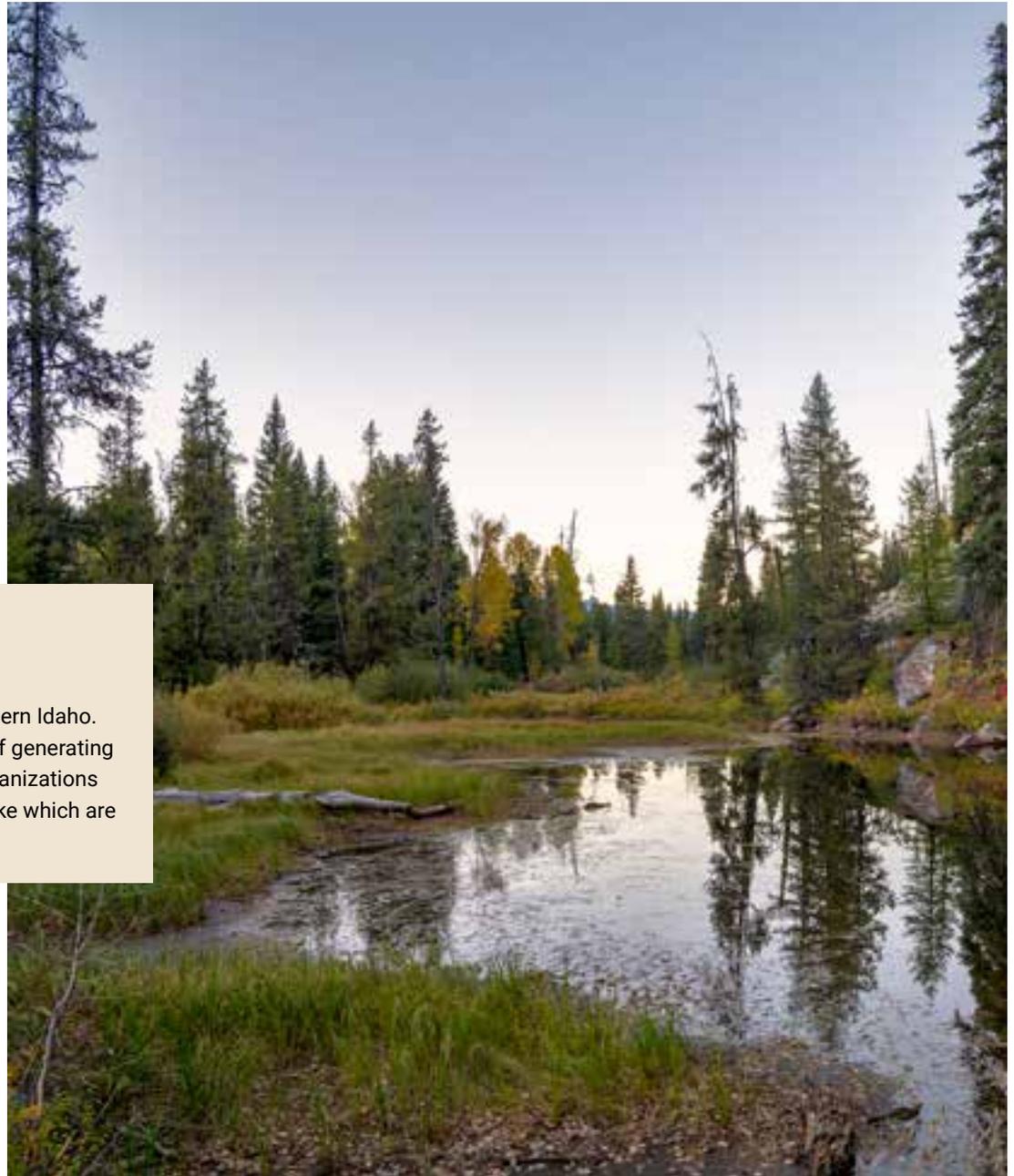
Overview

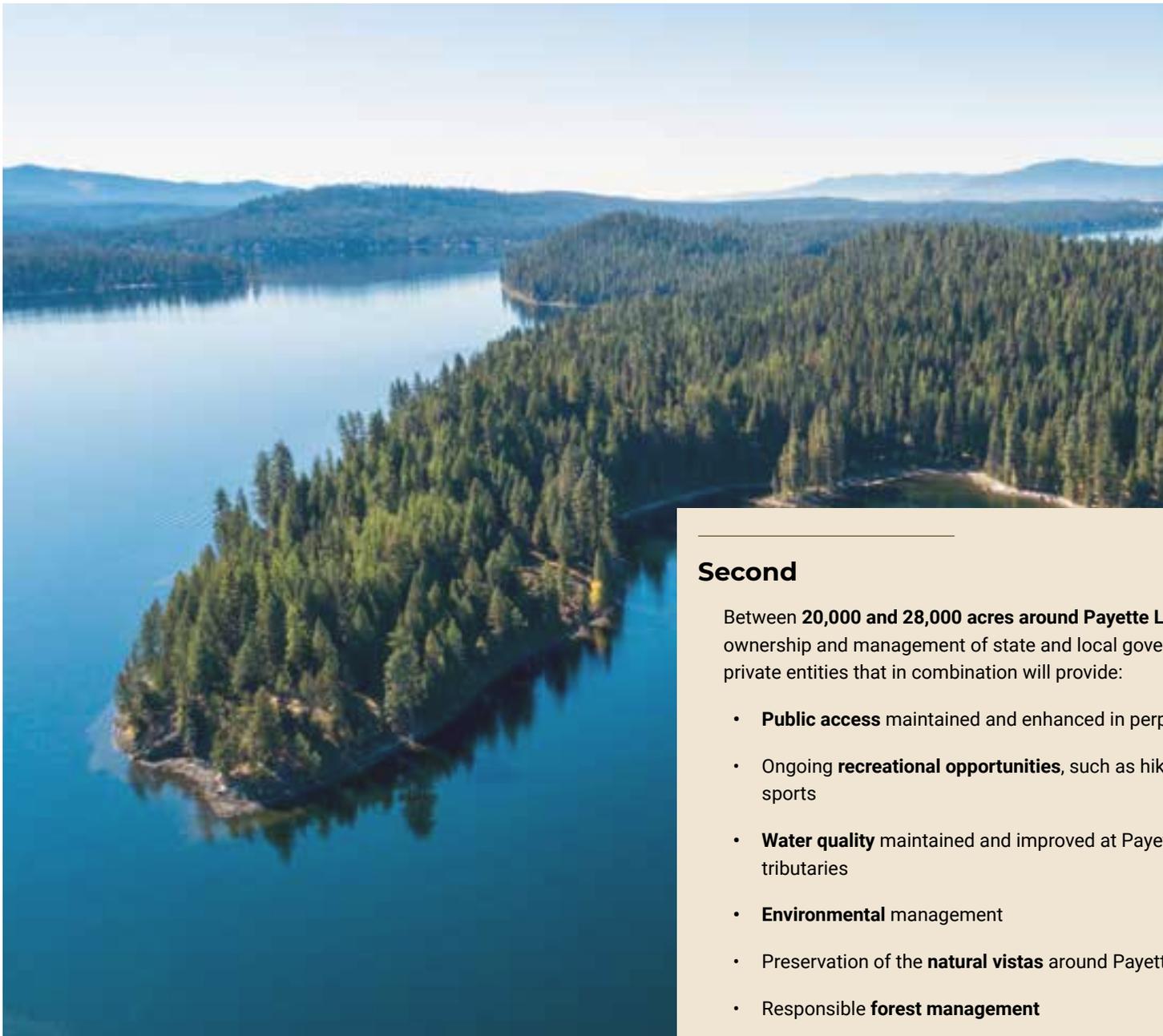
The McCall Land Exchange Proposal (Proposal) is intended to benefit the Idaho state endowment land trust, the lands within which are managed by the Idaho Department of Lands (the endowment arrangement is herein referred to as “IDL”), as well as its beneficiaries, the school children of Idaho, the City of McCall, Valley County, and all residents of the state of Idaho. The proposal provides certainty about the land uses around Payette Lake and enhances financial returns for IDL.

The proposal is in two parts:

First

IDL receives **productive timberlands** spread across northern Idaho. IDL can make full use of this land to **realize its mission** of generating returns that financially support many institutions and organizations in the State, in contrast with IDL’s land around Payette Lake which are constrained by visual and environmental concerns.





Second

Between **20,000 and 28,000 acres around Payette Lake are preserved** under the potential ownership and management of state and local governmental entities, land trusts, and private entities that in combination will provide:

- **Public access** maintained and enhanced in perpetuity
- Ongoing **recreational opportunities**, such as hiking, camping, hunting, and winter sports
- **Water quality** maintained and improved at Payette Lake, Little Payette Lake, and their tributaries
- **Environmental** management
- Preservation of the **natural vistas** around Payette and Little Payette Lakes
- Responsible **forest management**

To fund the Proposal, a limited amount of development will occur in targeted areas.



Land Management Strategy

This substantial dedication of land and the funding to manage it in perpetuity is made possible through the limited development of land for conservation based residential and hospitality uses set within remarkable natural settings and connected to recreational resources (hiking, biking, skiing, boating, etc.). This development is anticipated to take place over several decades and market cycles. The locations of these potential development lands is the result of a comprehensive, preliminary analysis of natural and man-made factors present on and adjacent to the Land.

In addition, two in-town parcels of approximately 80 acres each would be targeted to **housing and community facilities for full-time residents of McCall.**



Disclaimer: In the context of this presentation, the term park is used to describe a general sense of contiguous green area for public benefit. It is not to indicate any specific type of ownership or management. It is also does not indicate consent or endorsement from the Idaho Department of Parks and Recreation.



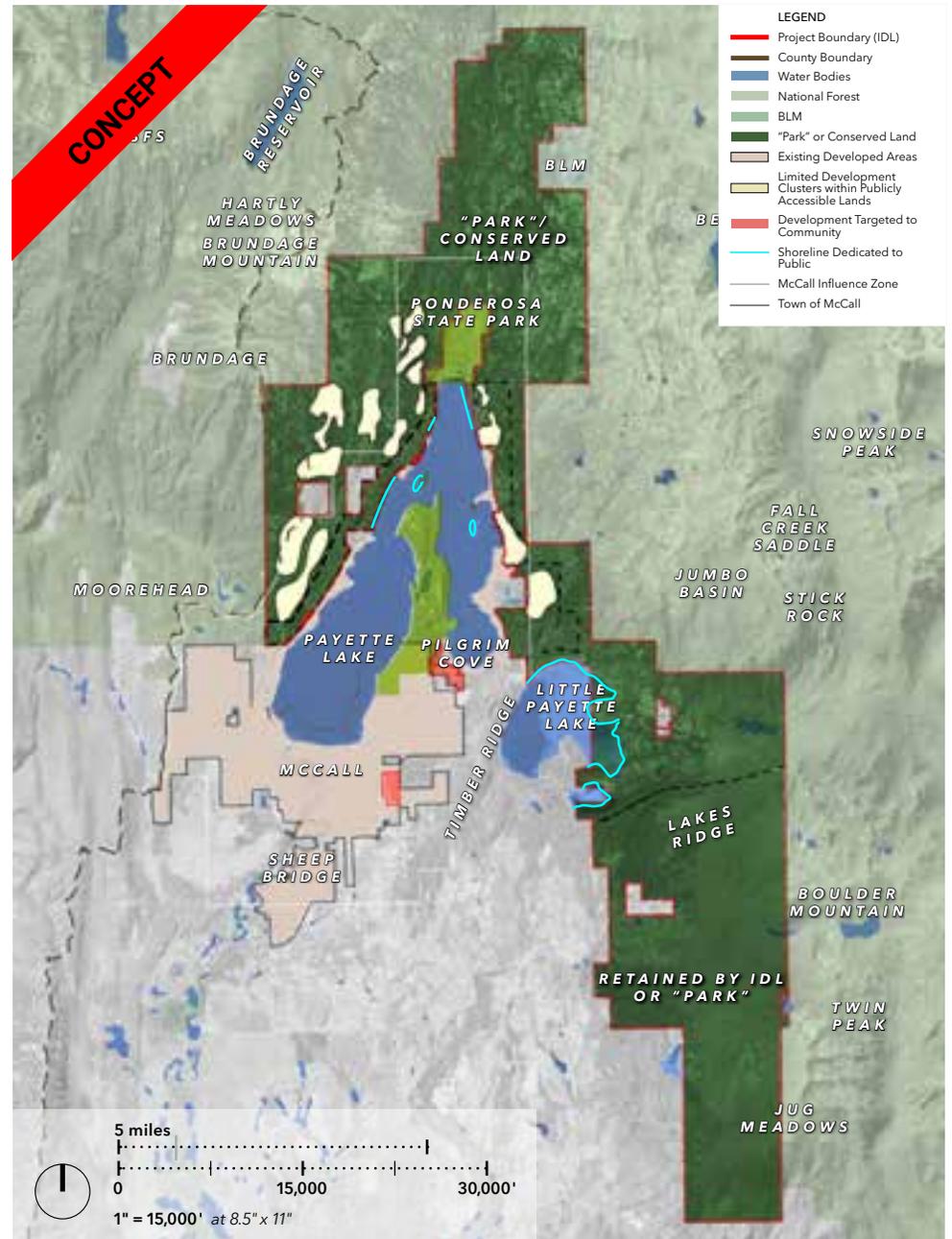
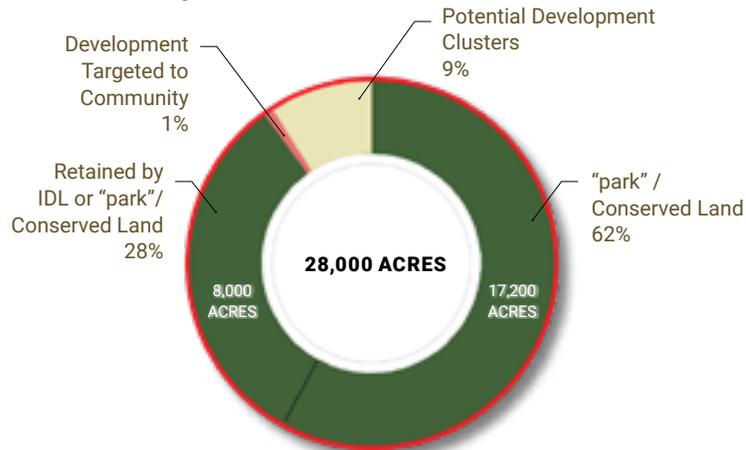
Improving public access through limited clusters of development, permanent conservation, and expanded recreation

The Plan

The Plan for Preserve McCall is comprised of four elements:

1. The “park”: ~17,200 acres of land owned and managed to provide **permanent public access**
2. Development within and consistent with the **McCall Area Comprehensive Plan**, including:
 - **Residential** lands targeted towards local community use on approximately 1% of the 28,000 acres
 - Land dedicated to the City for the establishment of a new **Recreation Center**
 - **Lakefront land** for increased public access, residential, and hospitality uses
3. **Limited clusters of development** set within lands that will be preserved for public access, conservation, and recreation
4. Certain lands may **remain with IDL as productive timberlands** or would otherwise be **included as part of the “park”**; while the size of these lands is to be determined, an assumption of 8,000 acres has been made throughout

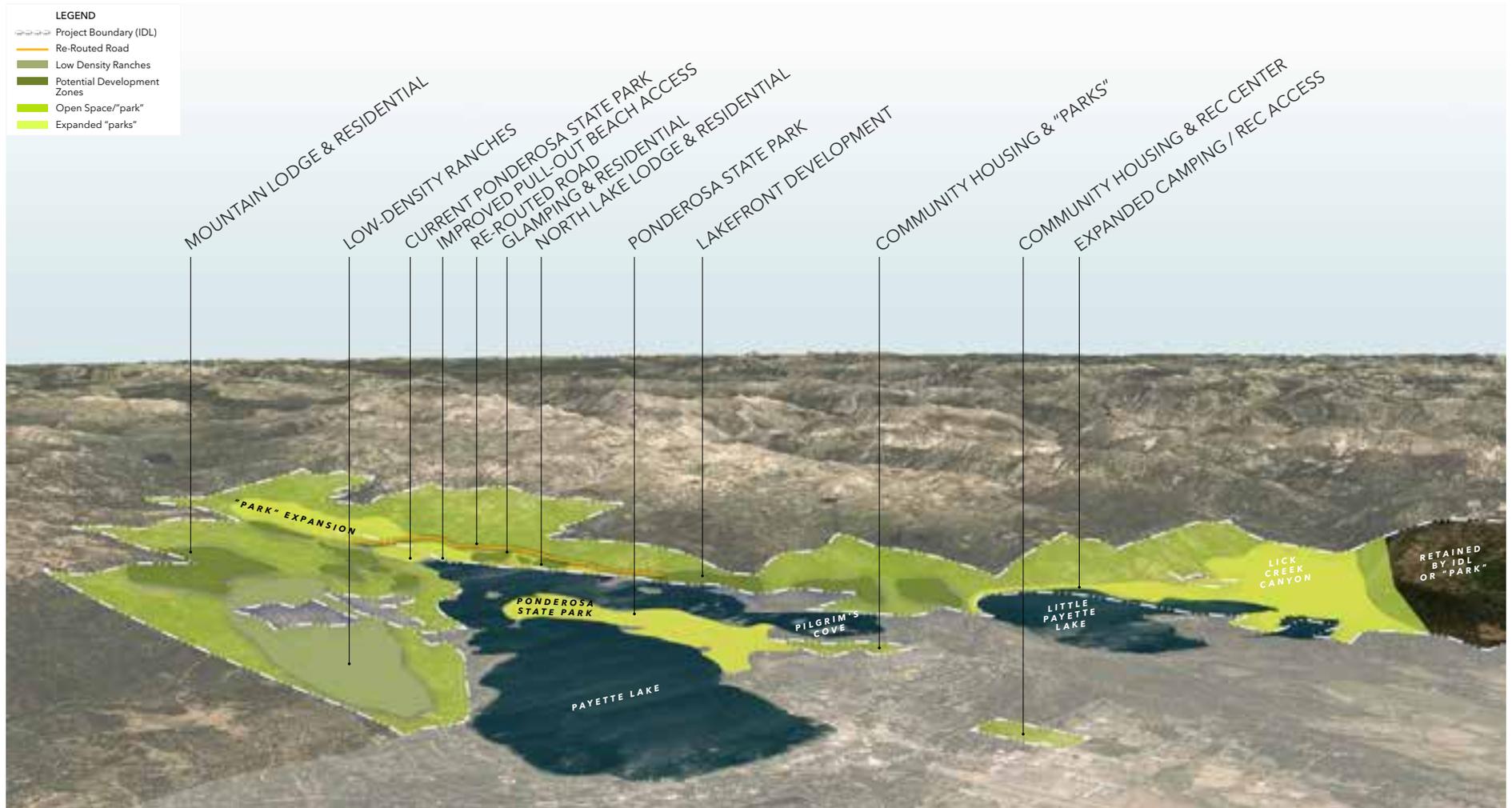
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Land Use Plan: Option 1

The organization of the Plan addresses the **challenges** faced by residents and visitors of the region today, as well as the **long-term objectives** shared by residents and visitors for management of the **ecological, aesthetic and recreational stewardship of the land**, including:

1. Expanded **recreational access** and potential funding source for management of the "park" and other dedicated open spaces
2. Connection to and enhancement of **areas of ecological value**
3. Safeguarding the **views**heds from Payette and Little Payette Lakes and the City of McCall
4. **Permanent public access** to the vast majority of the land, including the dedication of 4.5 miles of lake frontage on Little Payette Lake and nearly 2 miles of lake frontage on Payette Lake



Community Features of Land Use Plan

Studying the land to protect local natural resources

Land Inventory

The process to prepare the Plan began with understanding the land and its natural resources. Significant features and patterns of the land were inventoried and recorded as a series of resource maps that provided the principal tools for generating the Plan. The focus was on:

Water Quality Protection - identifying the creeks and watersheds that feed into Payette Lake and Little Payette Lake because of the importance of water quality to the area.

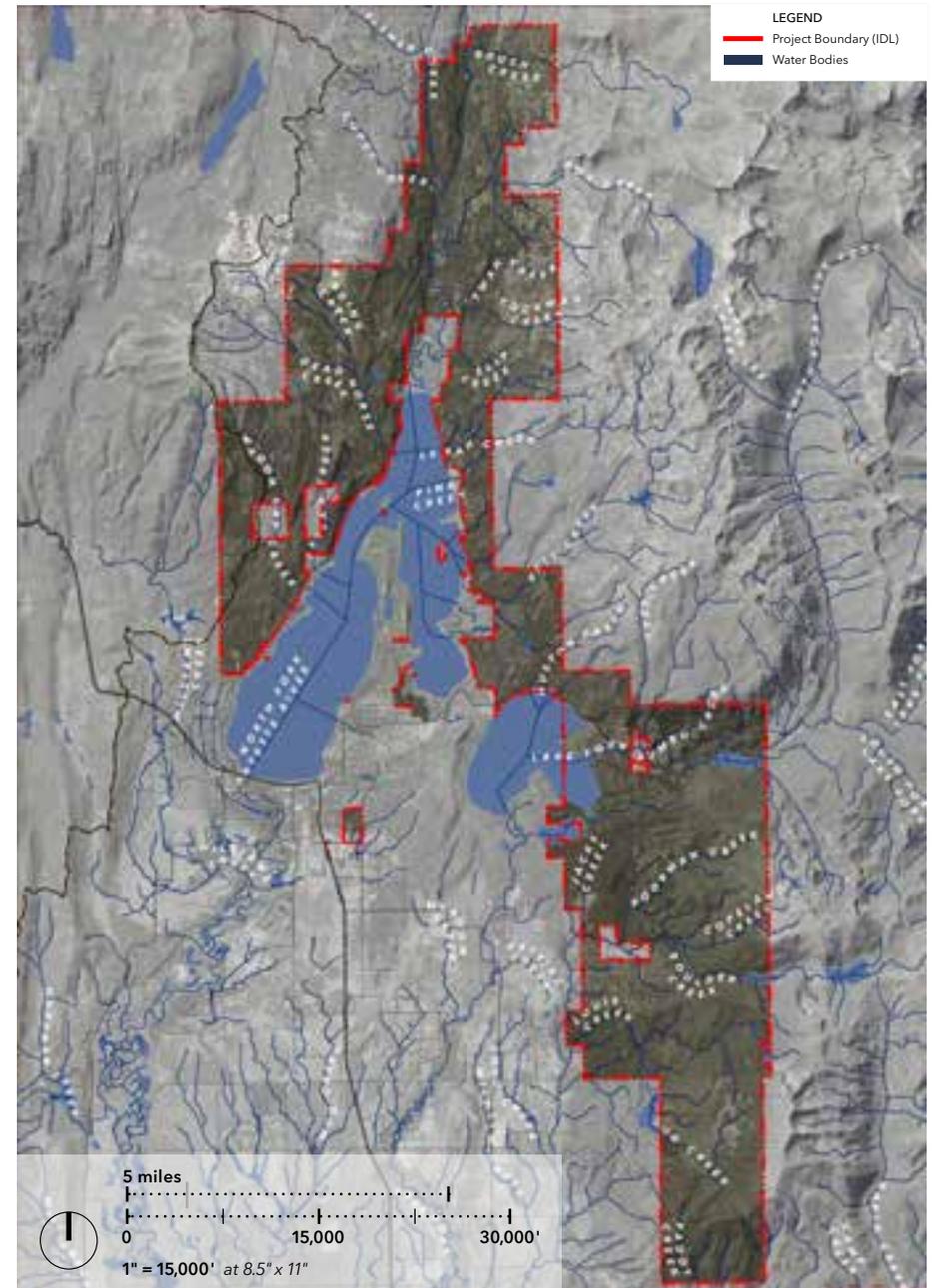
Visual Resource Protection - to ensure that the visual quality of the forested setting around the lake is maintained.

Habitat Management - Preserve McCall has prepared an interrelated resource map of wildlife habitat to protect the complex land mosaic used by wildlife.

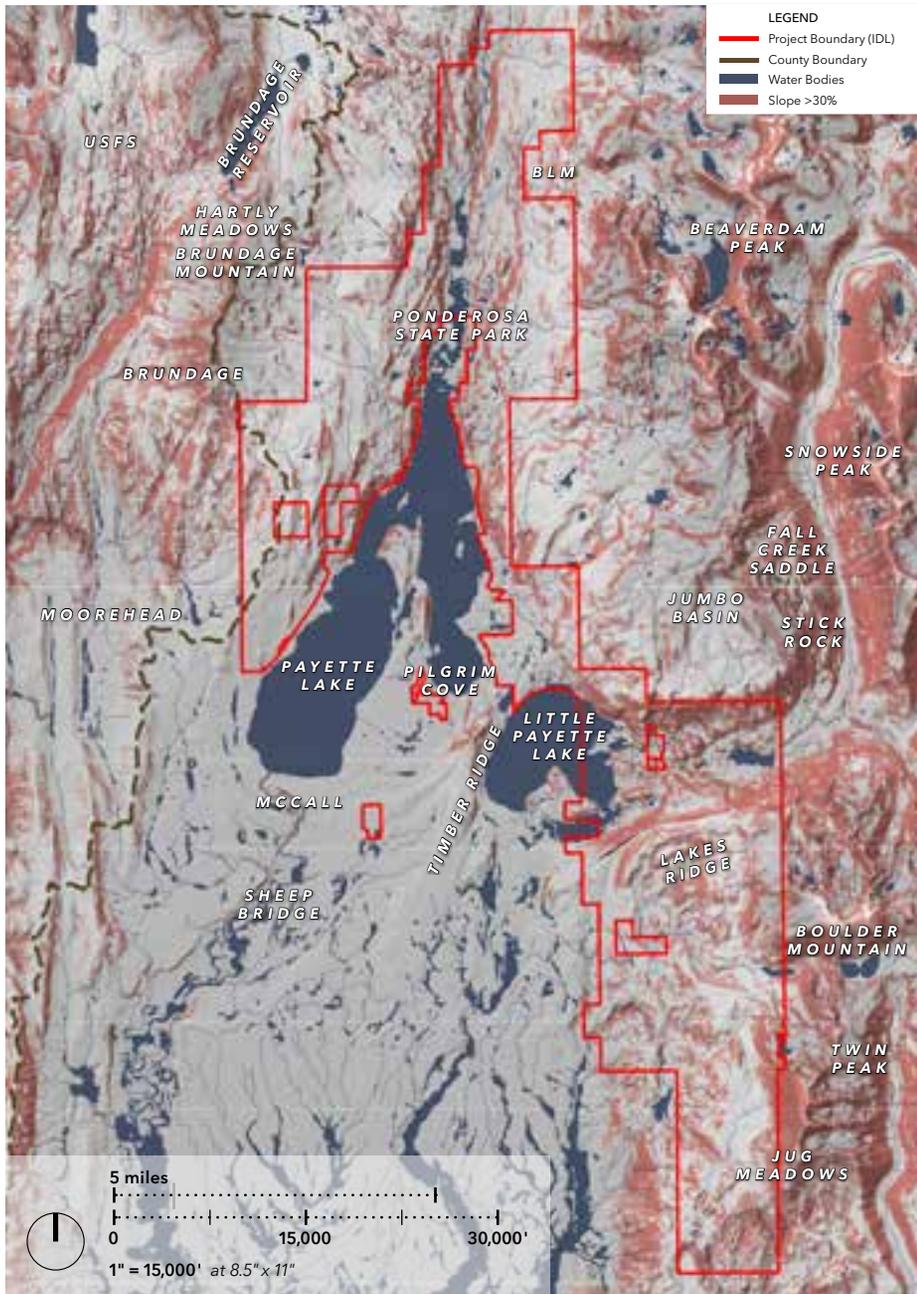
Expansion of Recreation - understanding how the network of recreation uses can be maintained and expanded on land with appropriate slopes.



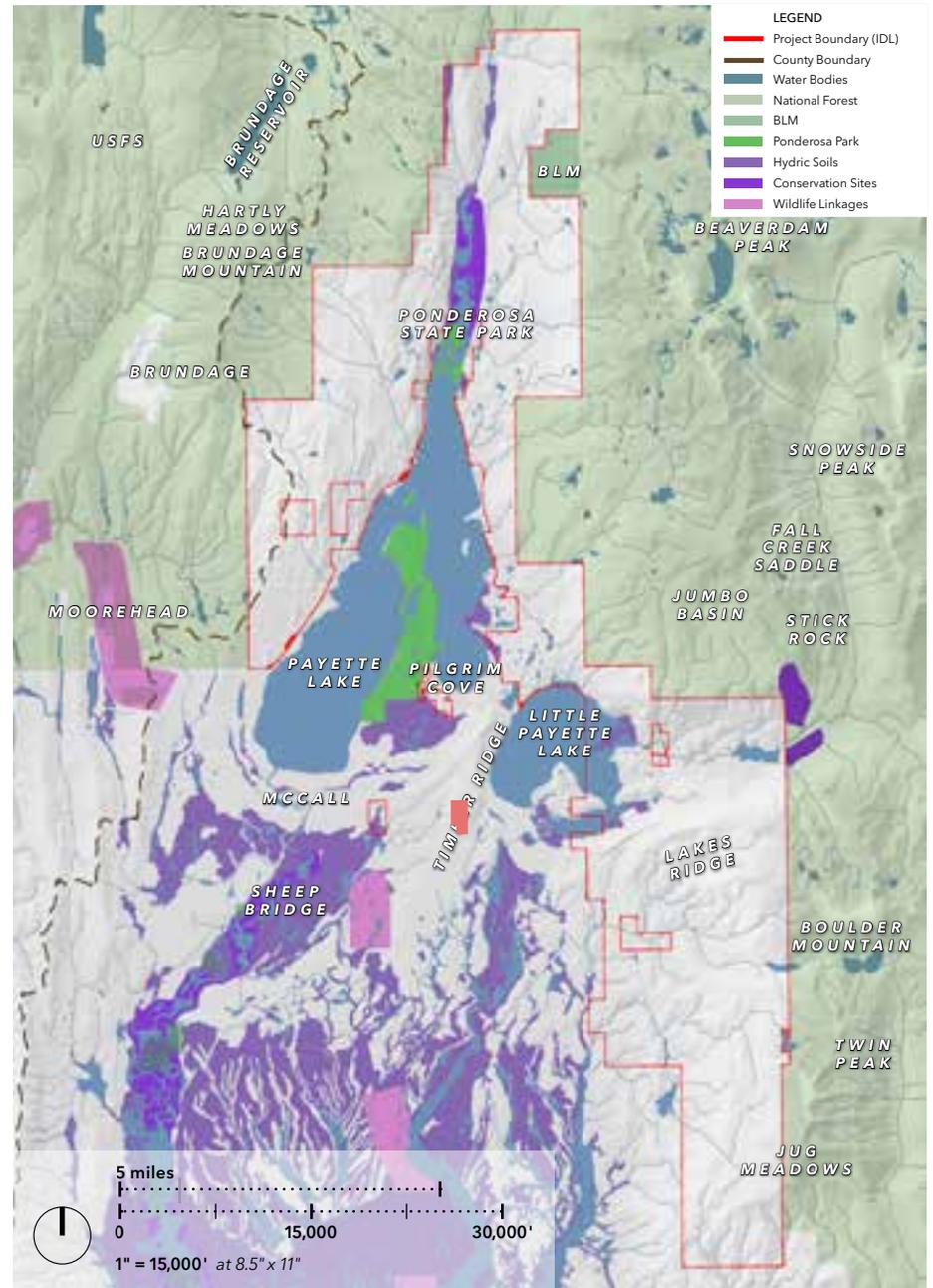
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Hydrology



Slope



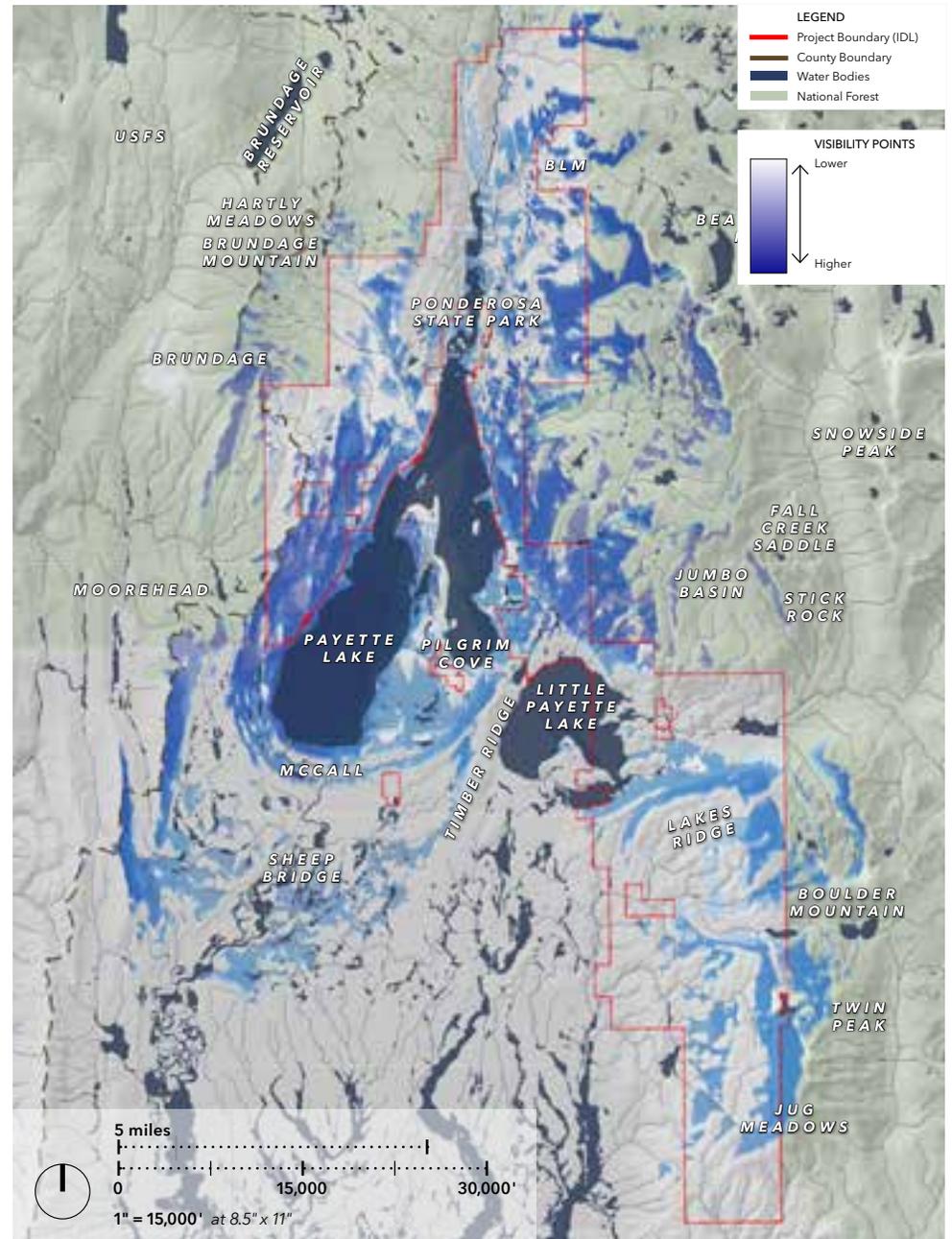
Ecology & Soils

Celebrating panoramic vistas along the lake and throughout the surrounding mountains

Protecting the Viewshed

Much of McCall's distinctive character is derived from the **panoramic vistas** across the lake and towards forested hillsides and mountains. The significance of the visual resource is stated as Goal 4 of the McCall Area Comprehensive Plan: "Ensure that new development protects the treasured views of Payette Lake and adjacent landscapes...". The Proposal supports this important regional goal.

In recognition of this importance, a rigorous analysis has been undertaken to assess significant viewsheds. The summary plan, shown on the opposite page, compiles visual land areas from various viewpoints – in McCall, in Ponderosa Park, and on Payette Lake. **Darker blue colors indicate points visible from more viewpoints.** This information has been used to guide decisions on protecting the viewshed and where new land uses can be **located to minimize their visual impact.**



Viewshed Analysis from Payette Lake and Downtown McCall

Protecting the Setting that has Attracted People for Generations



Payette Lake and Downtown McCall in 1932

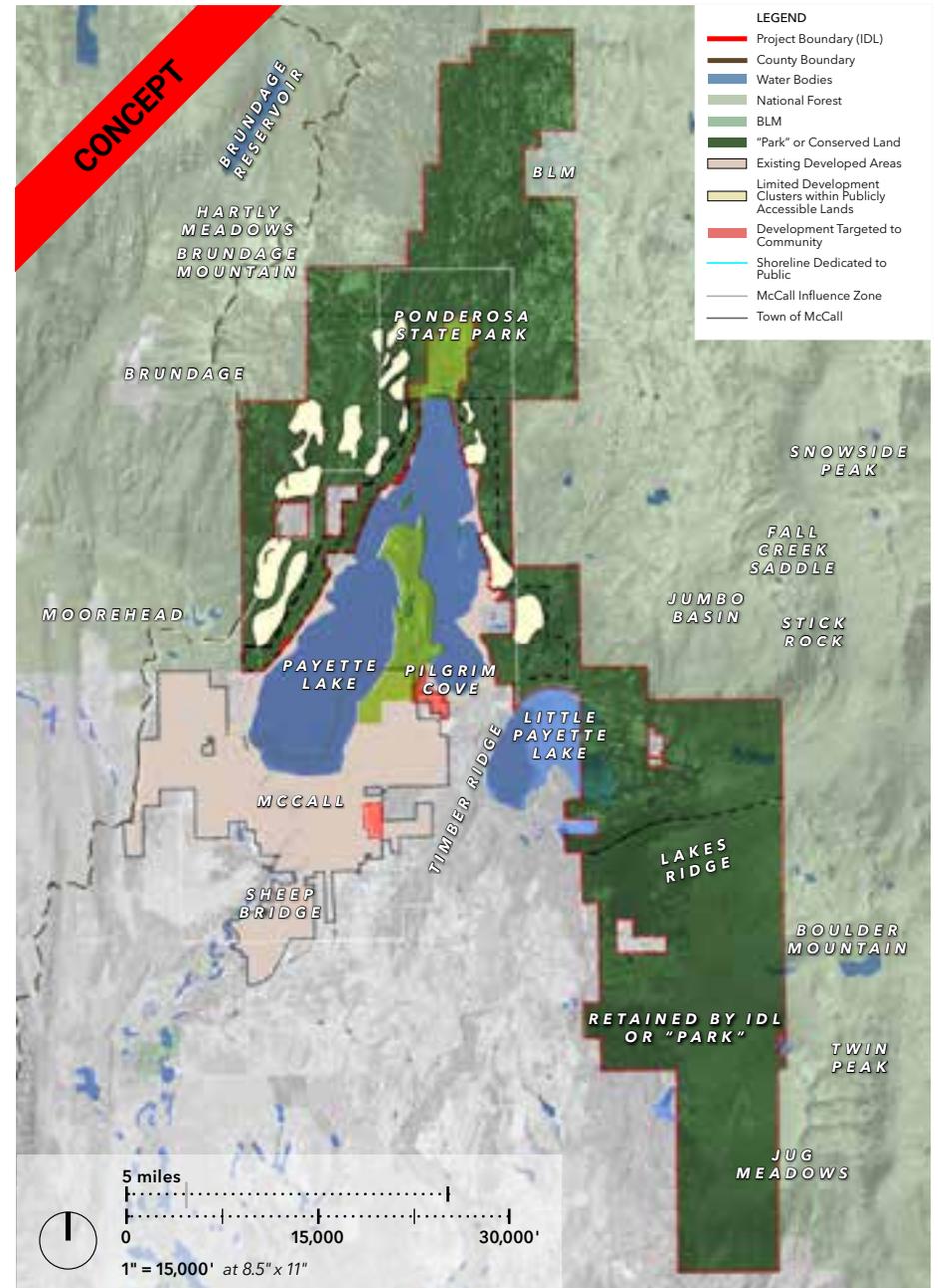
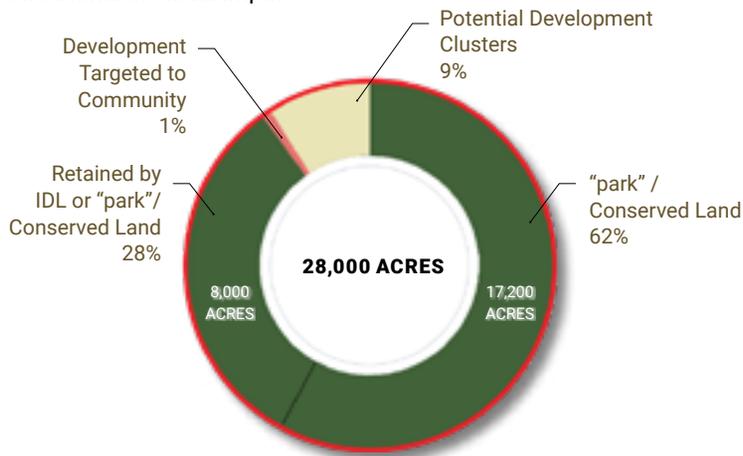
Land Use Plan Options

The land inventory establishes a **framework to manage the land resources for recreation and conservation**. Within that framework, a **range of alternatives** exist for locating development that will fund the land exchange. Three potential approaches are shown:

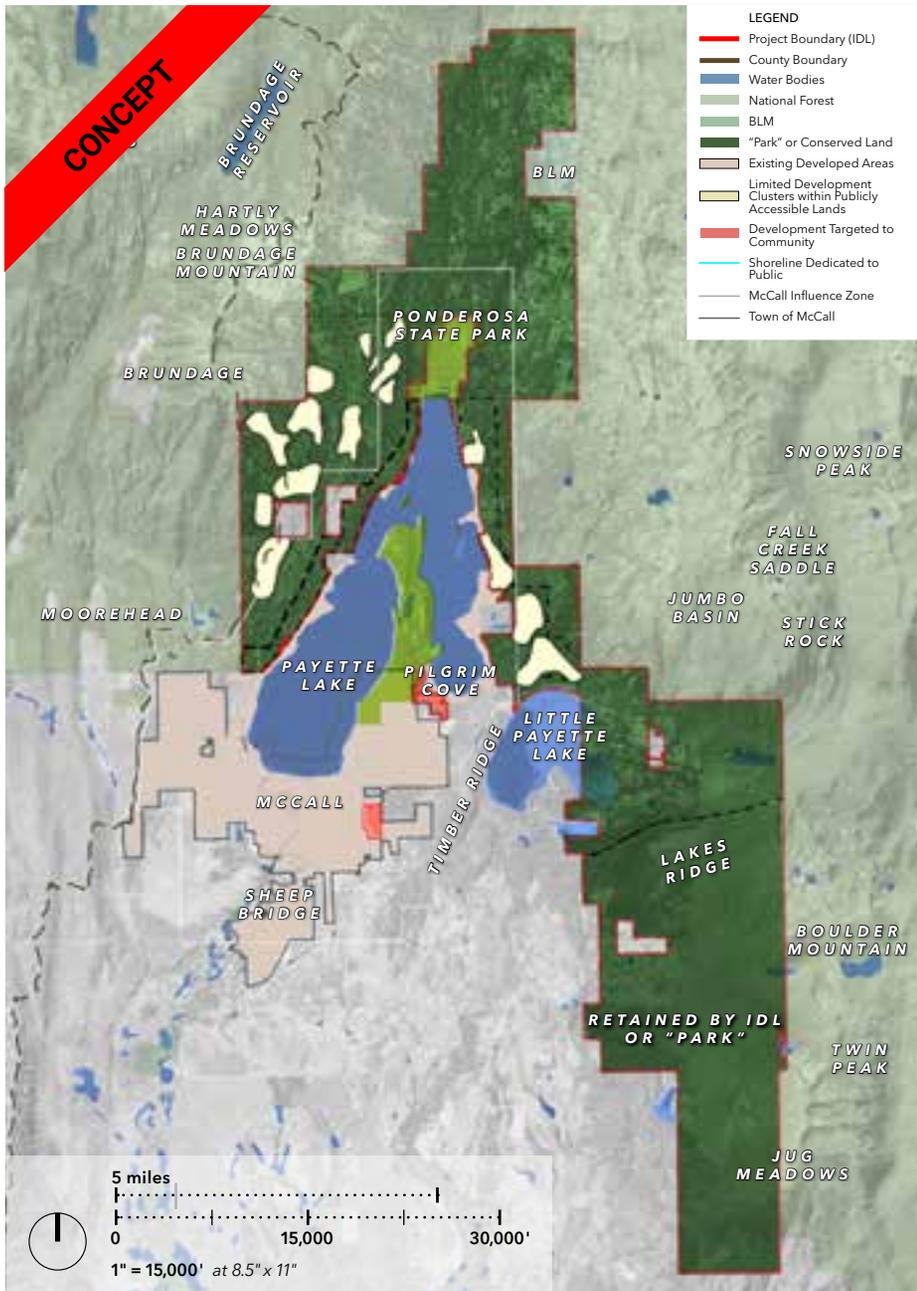
- Option 1** Where development areas are **closer to the City of McCall**
- Option 2** Where development areas are located **farther from Payette Lake**
- Option 3** Where development areas are **south of the north unit of Ponderosa State Park**

These three options are preliminary and do not convey the full range of possibilities. Preserve McCall anticipates **working with local residents, the City of McCall, and Valley County**, among others, to shape a preferred approach.

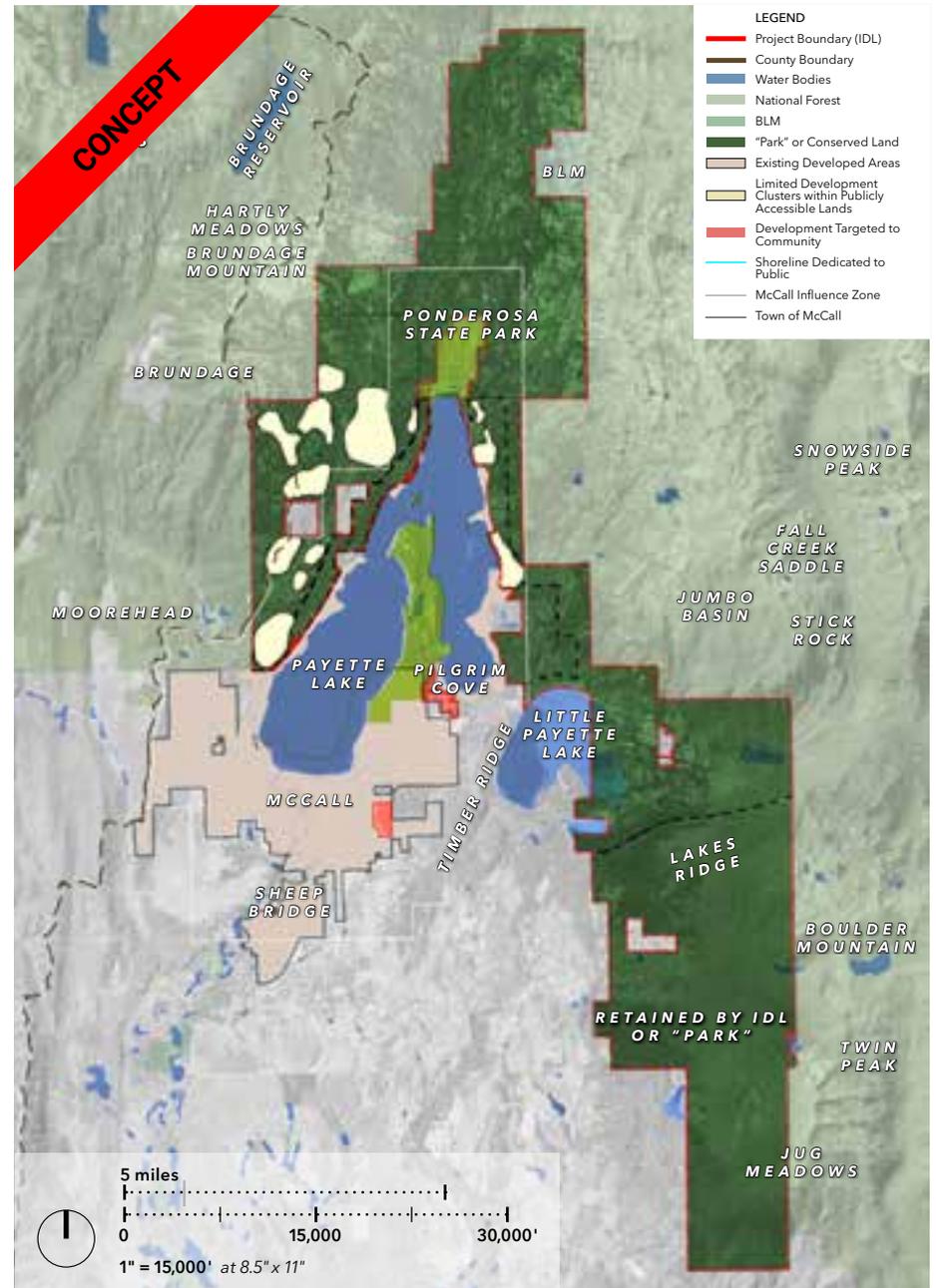
If Preserve McCall successfully incorporates community input, the end result will not necessarily be any of the options shown here. The result of this collaboration will be a **plan that protects the land from further subdivision** that might occur in a random, piecemeal manner with limited consideration for recreational or visual impact.



Potential Land Use Plan: Option 1



Potential Land Use Plan: Option 2



Potential Land Use Plan: Option 3

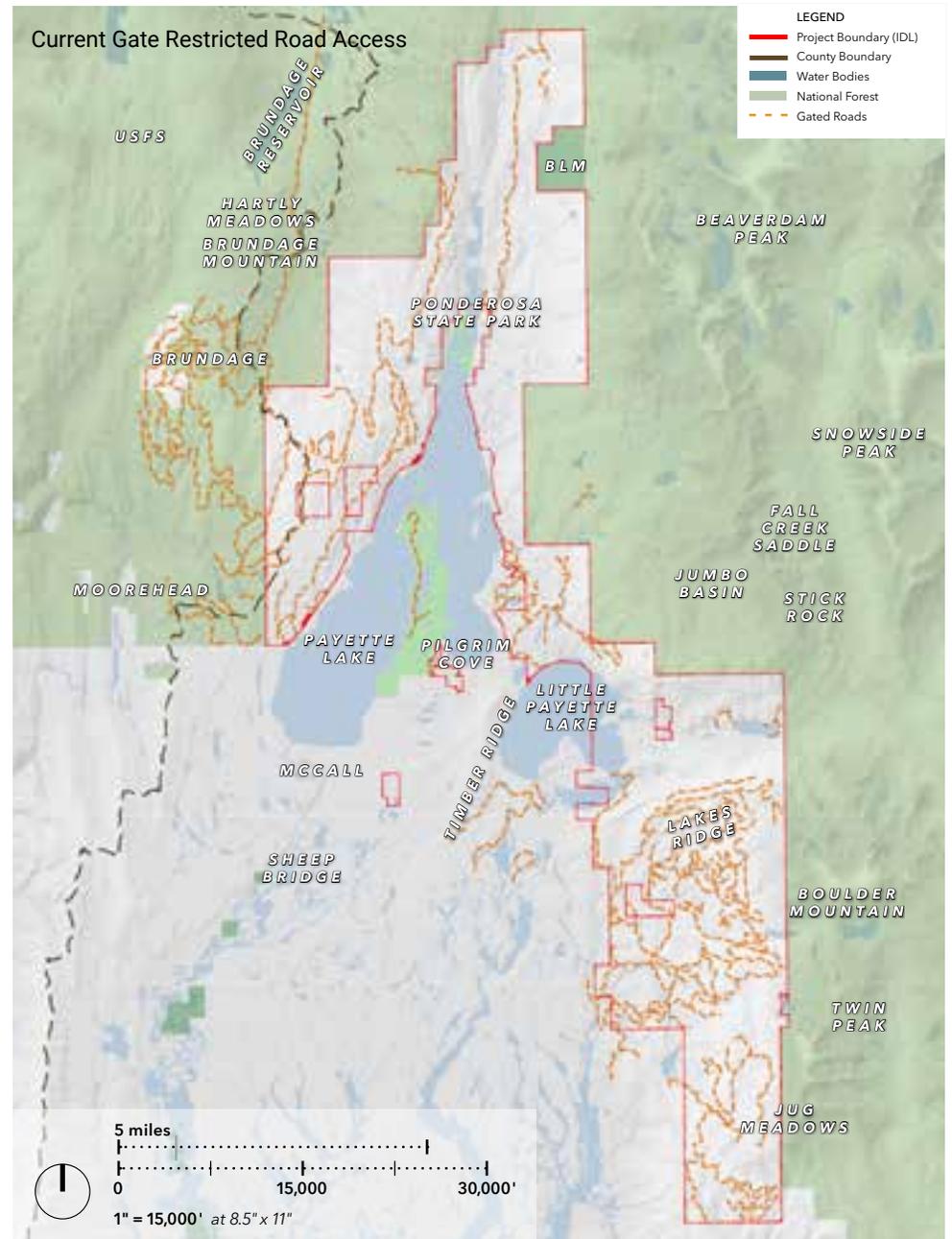
Improving public access and protecting beloved local recreation sites

Enhance Recreational Access

The lands around Payette Lake support a wide variety of recreational activities. Mountain biking, camping, hunting, skiing, snowmobiling, and hiking on the miles of trails are all popular with residents and a draw to the region.

While many trailheads and access points exist currently, additional access would enhance public recreation on the land. Preserve McCall is committed to working with local and regional recreation groups to:

- Identify **new trailhead locations**, along with parking and other features
- Prepare an overall **"Trail Master Plan"** designed for the specific ways that hikers, mountain bikers, and snowmobilers, among others, use the land
- **Improve boat ramps** and associated parking and restrooms to reduce congestion that exists today
- **Diversify camping and campgrounds**, ranging from RV camps, to glamping, youth camp areas, and wilderness tent camp sites
- **Improve access** to surrounding U.S. Forest Service lands



Source: onX GPS Maps

The “park”

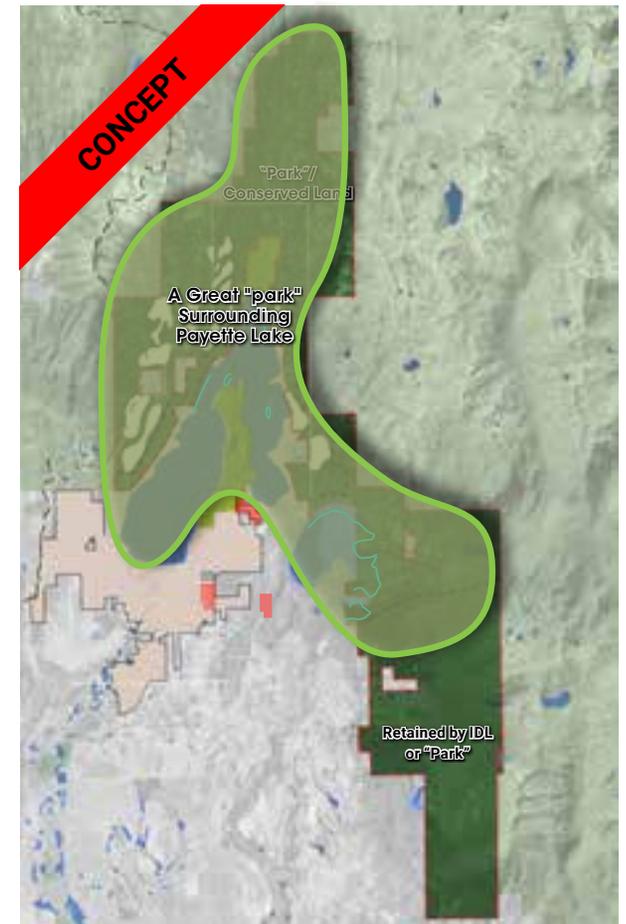


The plan proposes that approximately 17,200 acres across, or 62% of IDL’s ~28,000 acre landholding, be **dedicated in perpetuity as “park” land** and continue to provide a wide **range of recreation, combined with proper land management and conservation.**

Ownership and management of the “park” land would be transferred to a public or nonprofit entity (or several entities) whose primary mission is to operate the “park” land for recreation and conservation. The entity (or entities) would operate the “park” independent from the project applicant and provide stable management in perpetuity. Preserve McCall envisions **partnering with local or regionally-based entities** and has initiated preliminary discussions to begin to outline that path forward.

Disclaimer: In the context of this presentation, the term Park is used to describe a general sense of contiguous green area for public benefit. It is not to indicate any specific type of ownership or management.

Approximately 17,200 Acres of Permanently Dedicated “park” Land Around Payette Lake

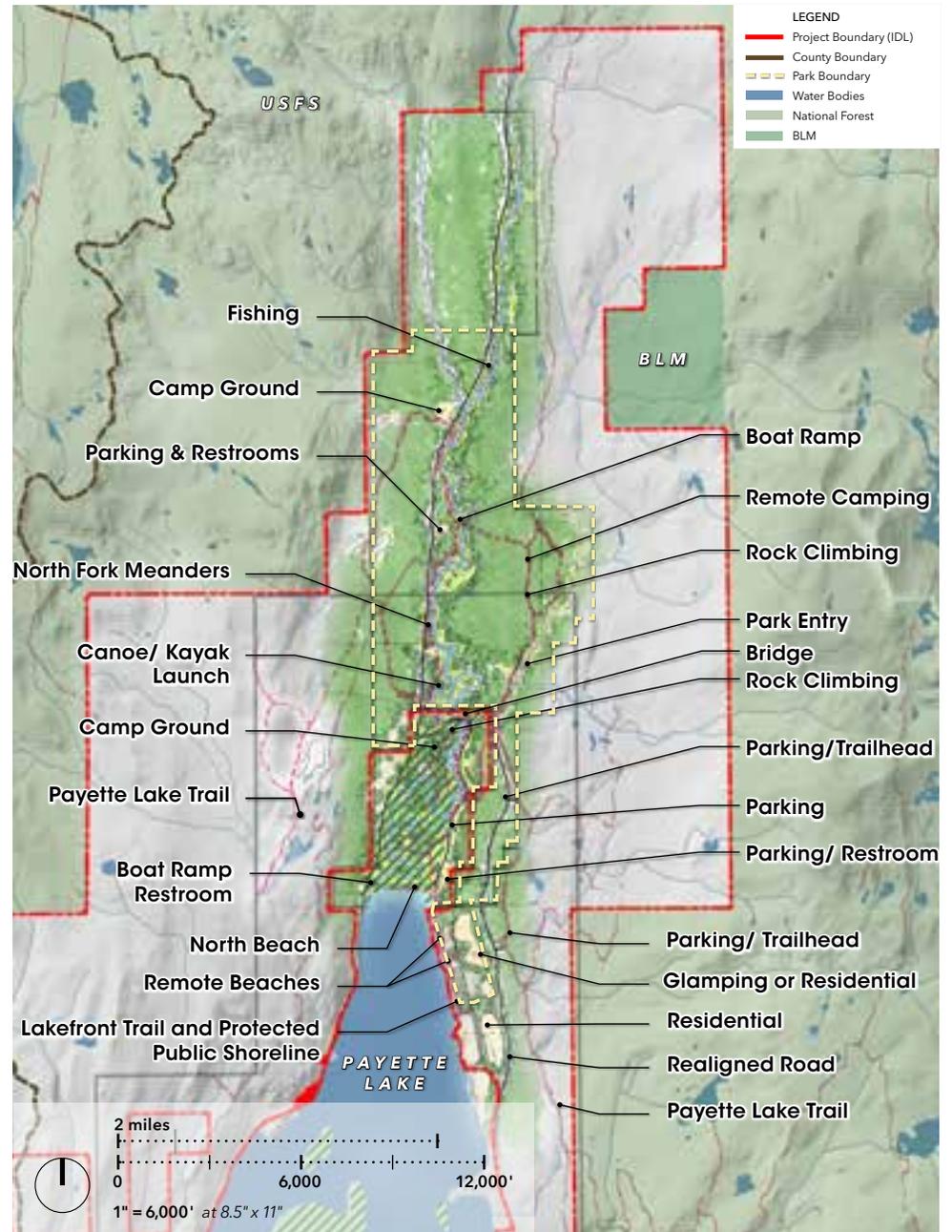


Concept: “park” Surrounding Payette Lake

North Beach

The Plan contemplates a prominent “park” area near North Beach. This area could be logical for an expansion of the North Beach Unit of Ponderosa State Park. This would allow additional and more diverse recreational uses and improve the setting as a recreation destination, including:

- Securing more of the North Fork for **kayaking and non-motorized boating**
- **Additional trails** along the North Fork
- **Expanded campground** and tent camping areas
- **Reducing congestion** by dispersing visitors over a larger area
- The **relocation of East Side Road** at the northeastern part of Payette Lake for **additional public access points**, a new 2 mile long lakefront trail, and a more park-like character by **removing vehicular traffic and improving the lake's water quality**



Plan for North Beach “park” Area



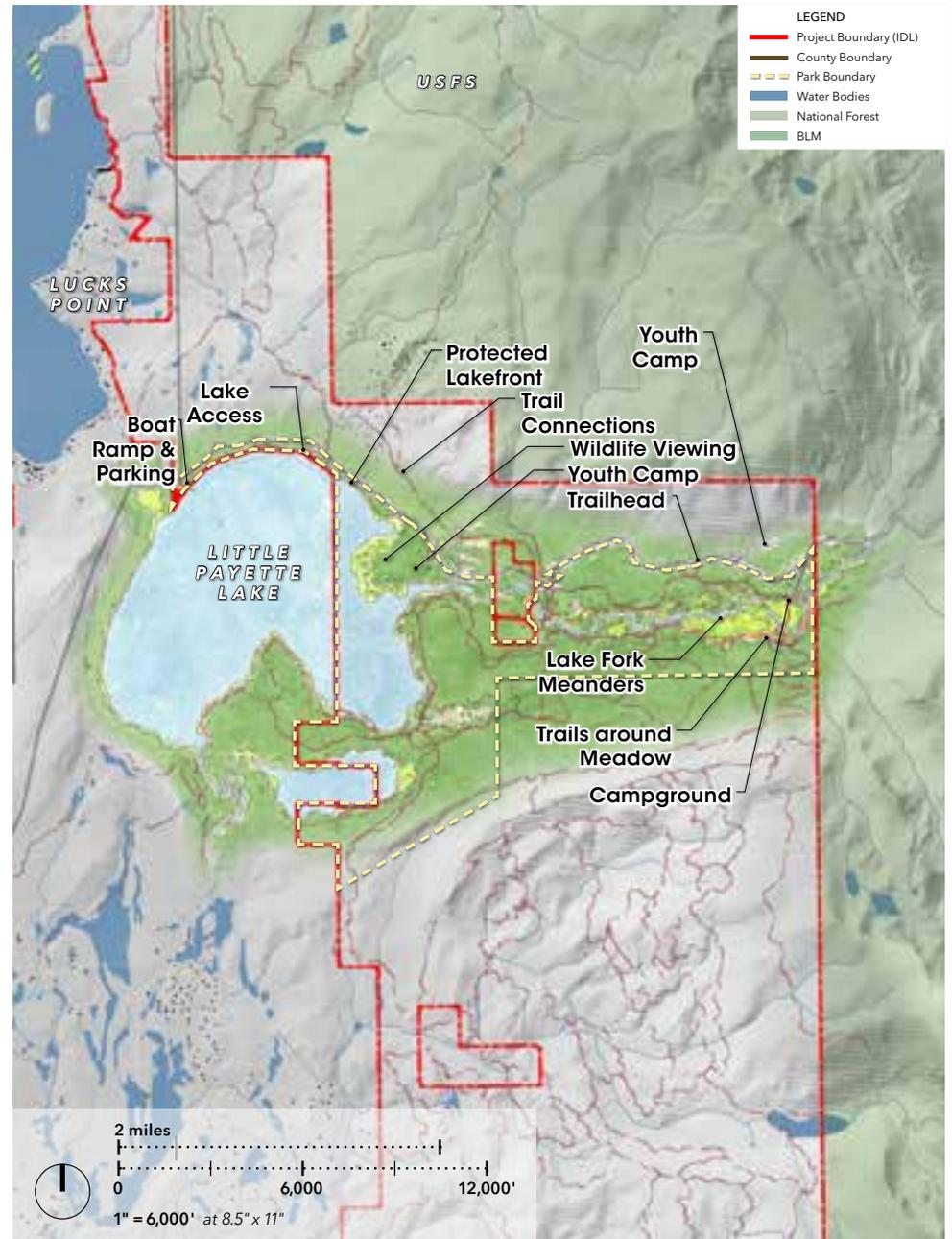
Plan for North Beach "park" Area

Lake Fork

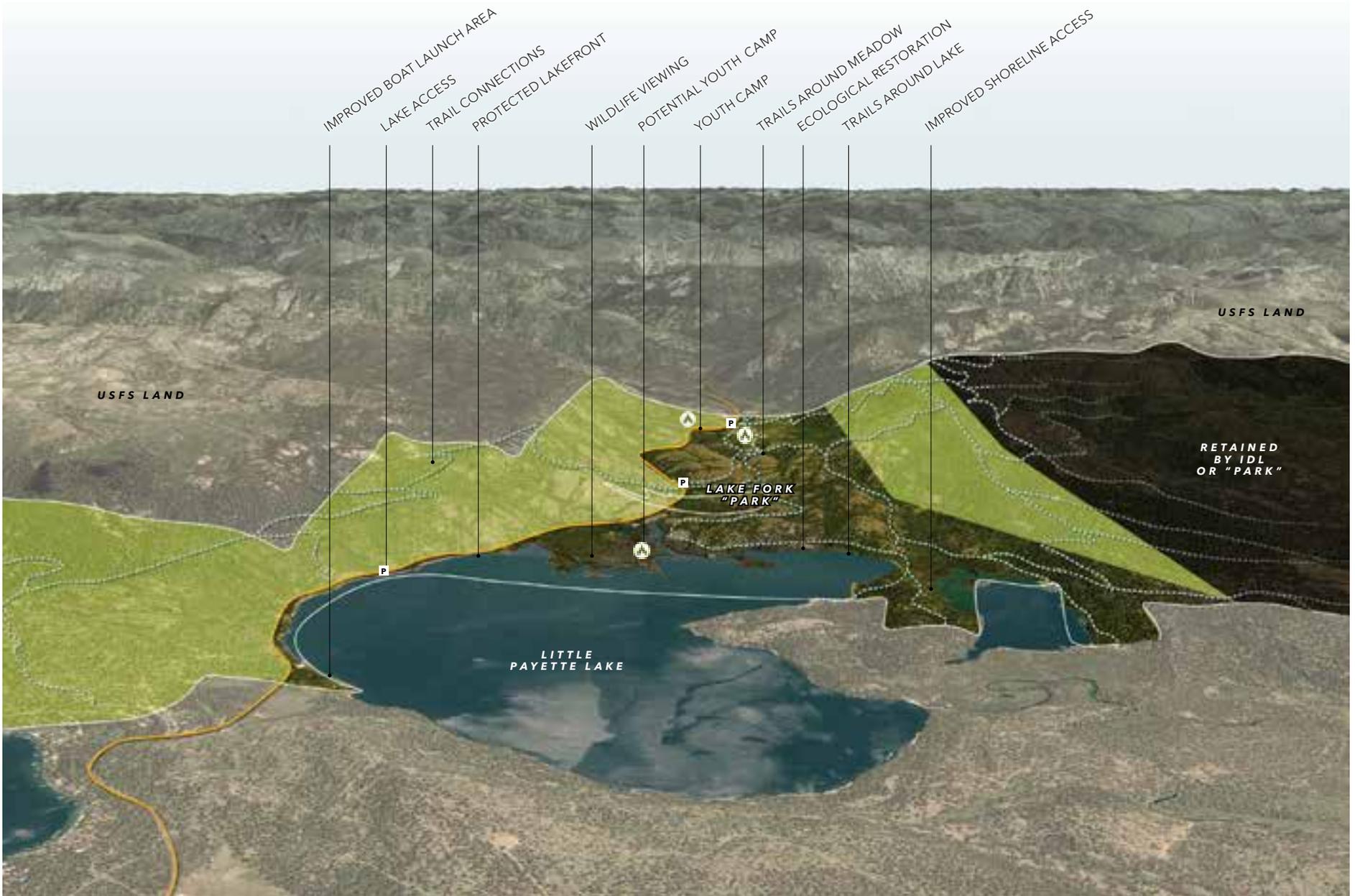
Lake Fork and Little Payette Lake are unique geological areas that offer additional recreation opportunities. The Plan contemplates this area becoming a **more prominent "park" area**, which could be logical as a new Lake Fork Unit of Ponderosa State Park.

- 4.5 miles of **lakefront** on Little Payette Lake permanently preserved for **public access and recreation**.
- **Additional trails** along Lake Fork, with a new trail connection to Payette Lake
- **Improved boat ramp** facilities at Little Payette Lake
- **Camping** areas
- **Land set aside** for youth groups

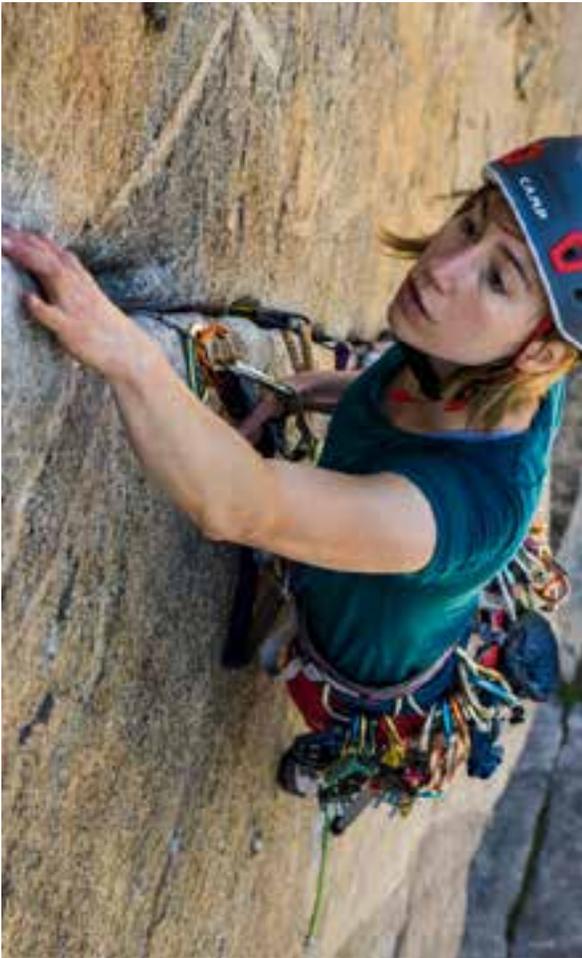
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Plan for Lake Fork "park" Area



Plan for Lake Fork "Park" Area

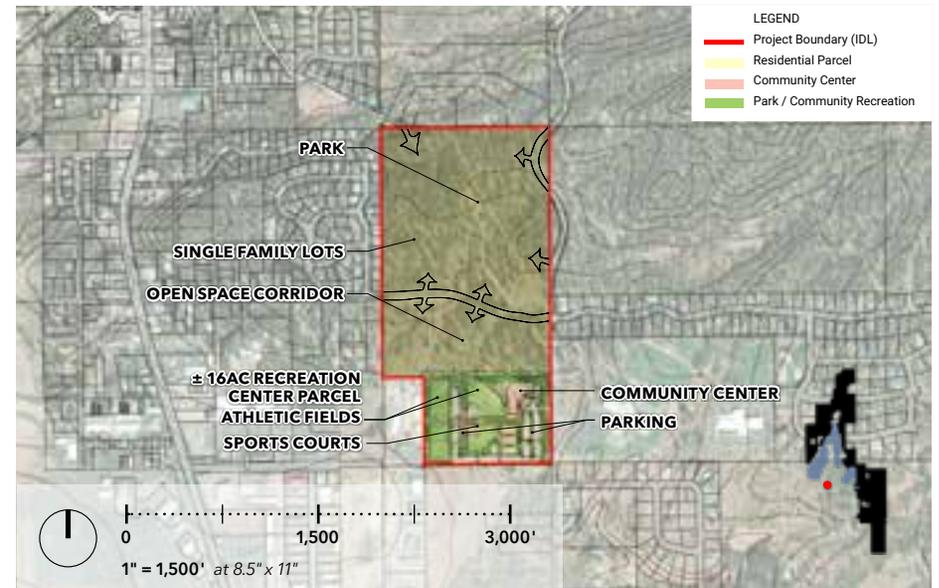
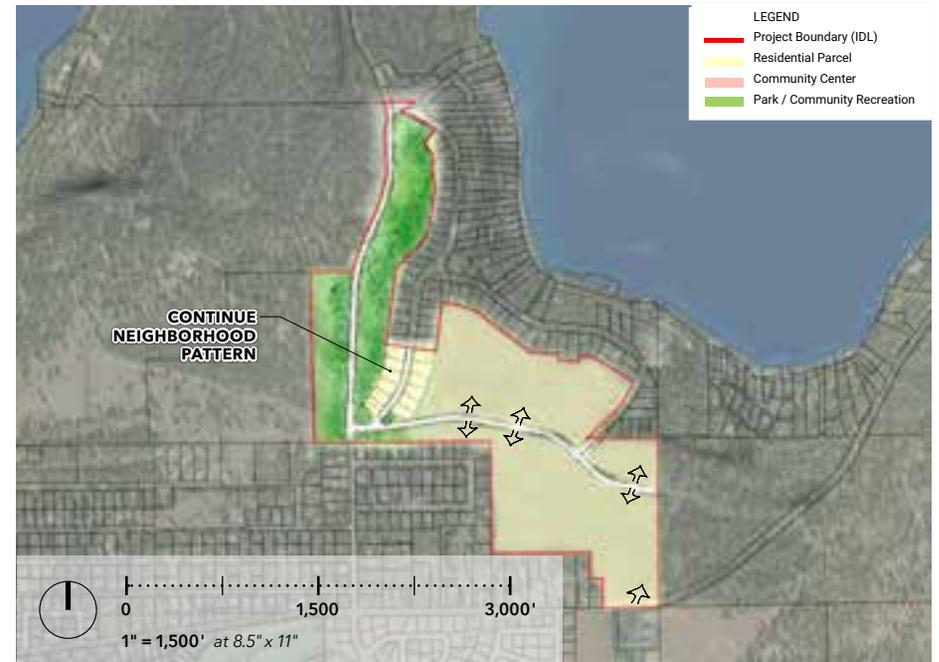
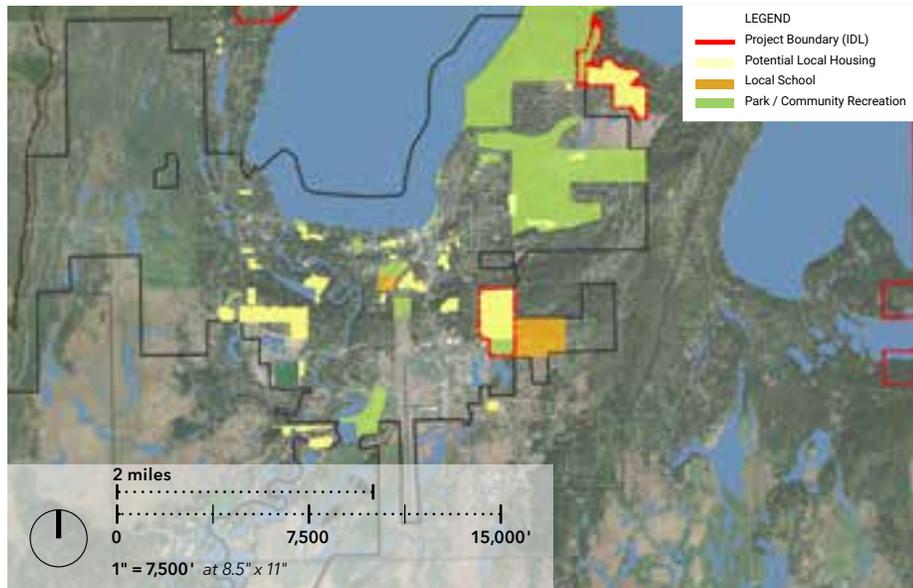




Secure Land to Develop Housing for Locals

Like many mountain recreation communities, McCall and Valley County have increasingly struggled to **provide affordable housing to support a local workforce** while at the same time **avoiding sprawl and retaining a small-town character**. There is no simple solution. A strong “no growth” position displaces the local workforce, grows pressure elsewhere in the region, increases commute times, and prices out local workers from becoming homeowners. A strong “pro growth” position risks changing the special character of McCall and the surrounding areas.

IDL owns two parcels within the City of McCall: an ~80 acre parcel off Deinhard Lane and an ~80 acre parcel off Lick Creek Road. Both parcels are forested and unused except as passive open space. **Including these parcels in the land exchange would secure land for moderate and low-income households to live in the city as part of a comprehensive regional workforce housing strategy.**



Recreation Center

The in-town parcel at Deinhard Lane has the potential for use as a community resource. Uses could include a **multi-use community recreation center, in addition to workforce housing**. Possible uses include baseball, softball and soccer fields, tennis and pickleball courts, and a community center with all-season uses.

Similar facilities have been constructed in **other mountain recreation communities** and have become **notable places for the community to gather, play, and relax**.



Durango, CO Recreation Center



Breckenridge, CO Recreation Center



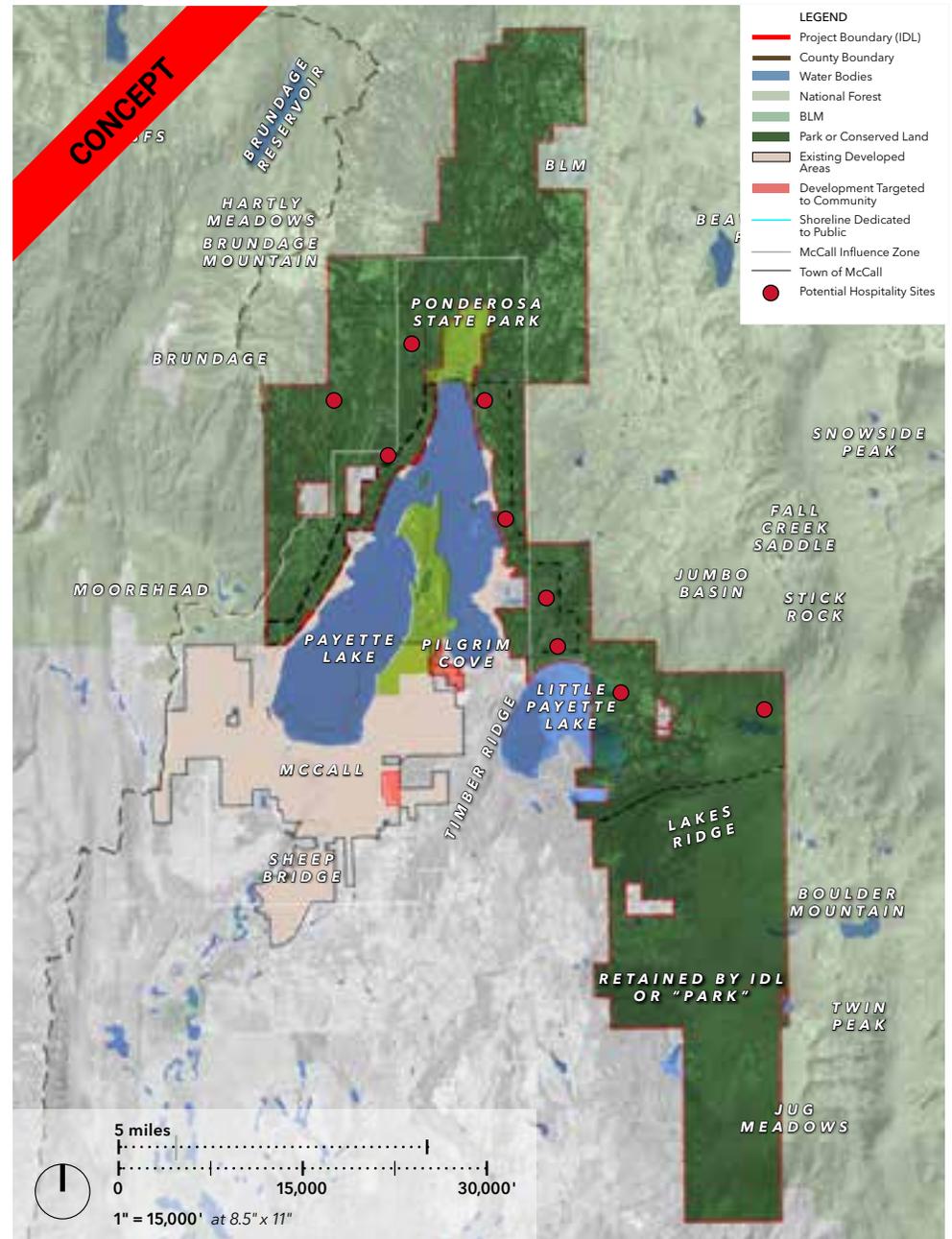
Avon, CO Recreation Center

Enhancing recreational access through limited tourism opportunities

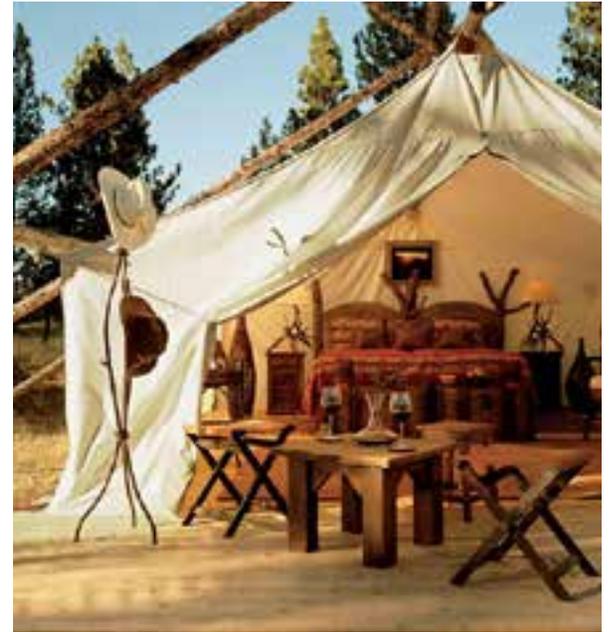
Lodging & Hospitality

Within the clusters of development identified in this proposal, there would likely be one or more **hospitality offerings ranging from luxury hotels, spa, glamping and full-service camping to a meeting and conference center, clubhouses, youth camps and retreats.** Sites have been preliminarily identified which **combine attributes of views, natural beauty and access.**

These lodging and hospitality offerings would be likely **sources of revenue to fund the on-going operations and maintenance of "Park"** as well as potential sources of tax revenue for the City of McCall and Valley County.



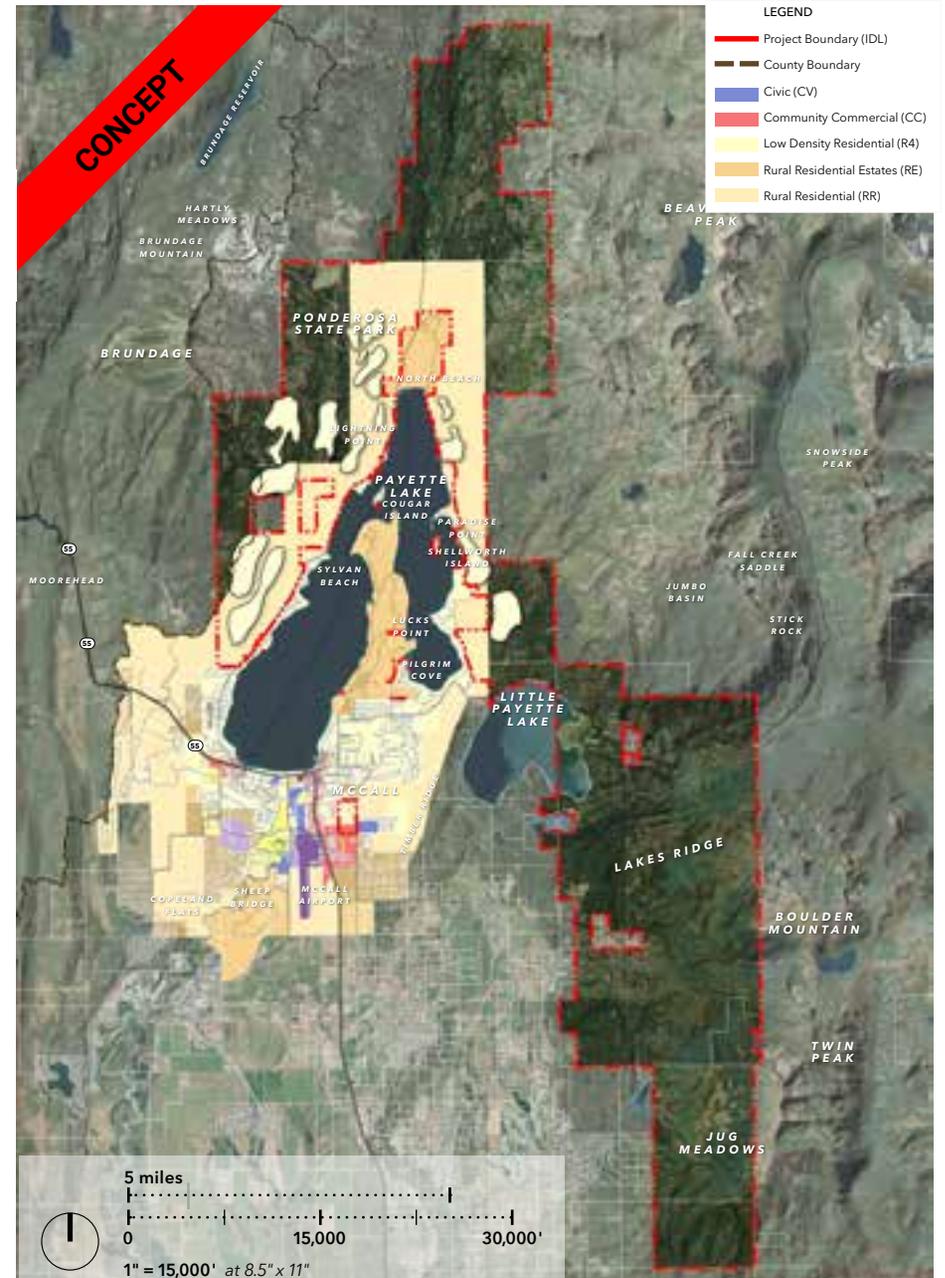
Potential Lodging, Hospitality, and RV Camping Sites



Balancing regional growth with a long-term supply of high-quality development

Local Control of the Planning and Development of the Land

Much of the proposed development falls within the McCall Impact Area and continues established and logical development patterns around the lake. Oversight of development on the Land would be subject to an **entitlement process and approvals by the City of McCall and Valley County** to ensure that the amount and phasing of development, the balance of primary and secondary housing, and the **impacts of development are appropriately mitigated.**





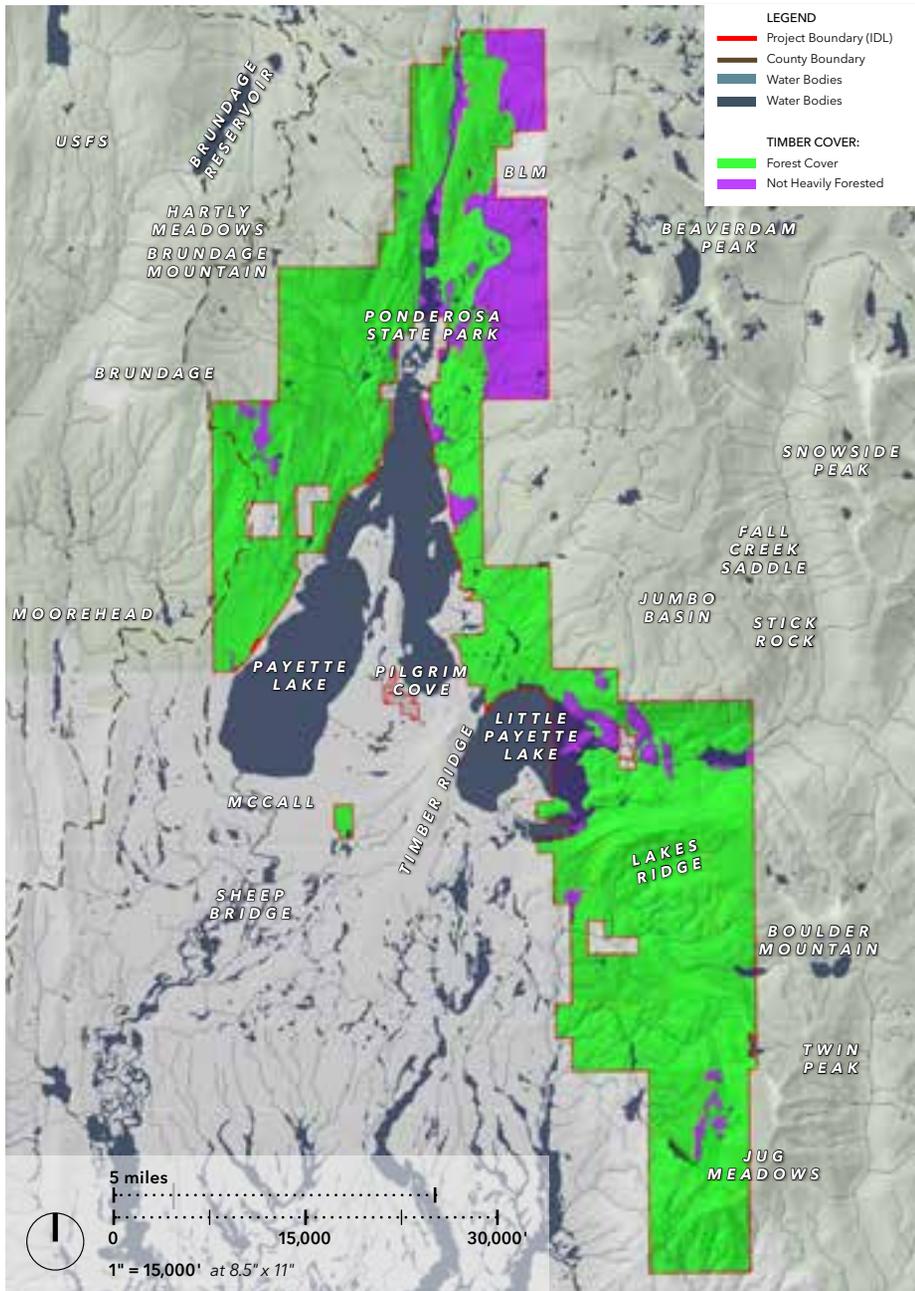
Sustainable management of the land's vast resources

Maintain Access to Timber Resources

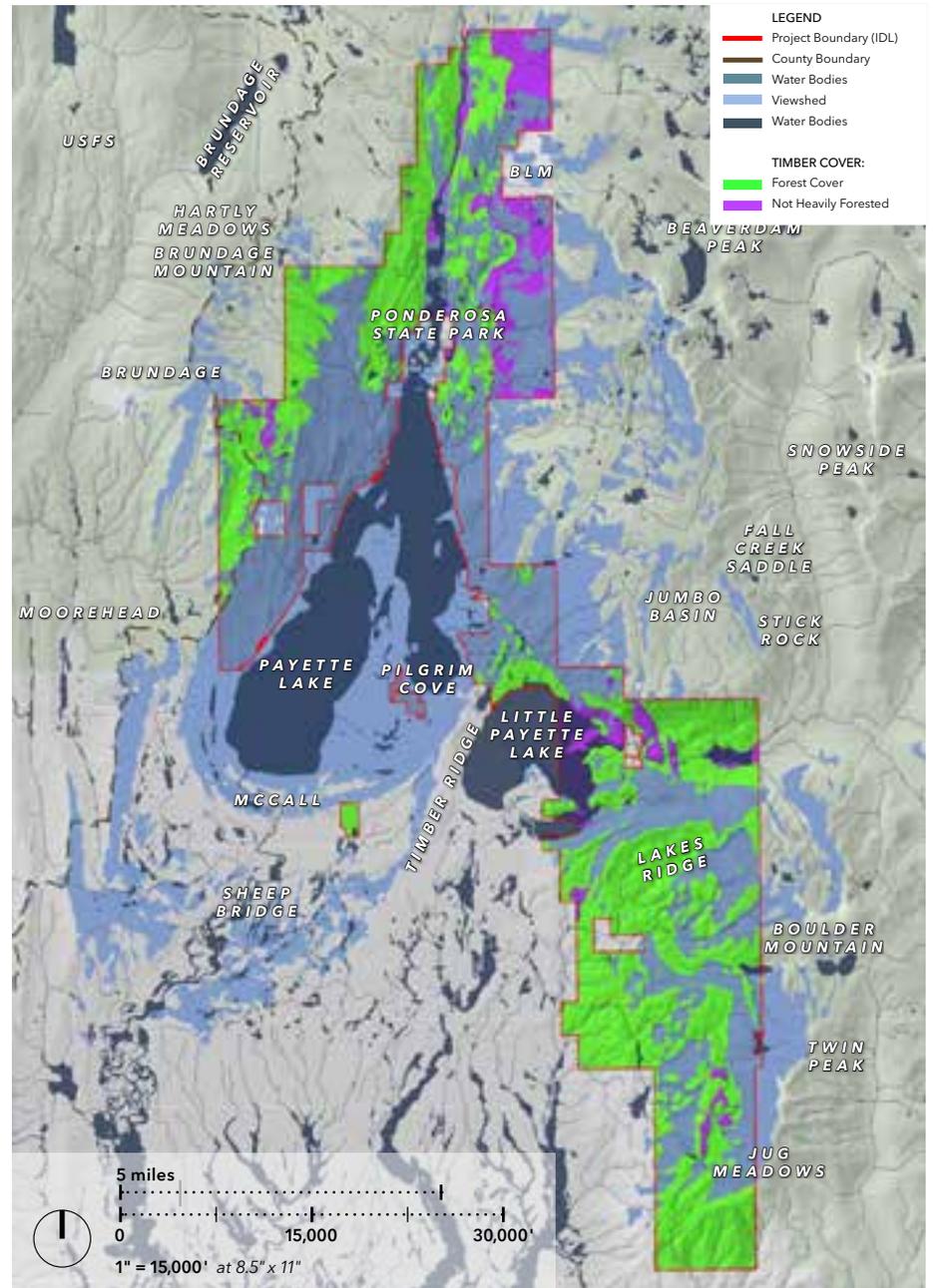
Some areas of the exchange lands are **suitable for ongoing timber management**. These areas are generally the land south of Little Payette Lake that have lower impact on visual quality, road access, and more profitable soil and slope conditions. A comprehensive analysis of the economic potential timber asset is now underway by IDL.

The Plan is flexible as to the outcome of these lands. One scenario is that IDL retain these lands. An alternative scenario is that these lands are included in the "park". Preserve McCall anticipates **discussions with IDL and others** on the preferred outcome of these lands, which will likely continue logging operations on this acreage in keeping with healthy forest management..





Forest Cover



Viewshed Analysis over Forest Cover

Managing the Land in Perpetuity

The goal of the Plan is to establish a land use pattern and resource management practices that will **protect the land year after year**. This framework will provide:

- More **profitable timberland for IDL** in northern Idaho
- **Public access** to the vast majority of the land in perpetuity
- **Certainty about the future of the land** for the residents of McCall and Valley County
- **New recreational opportunities** and experiences for all Idahoans

Conservation priorities were determined based on three key factors:

- Their direct recommendation from state documents and/or datasets
- The adjacency to these key areas as well as the watersheds upon which they exist
- Their overall ecological value.

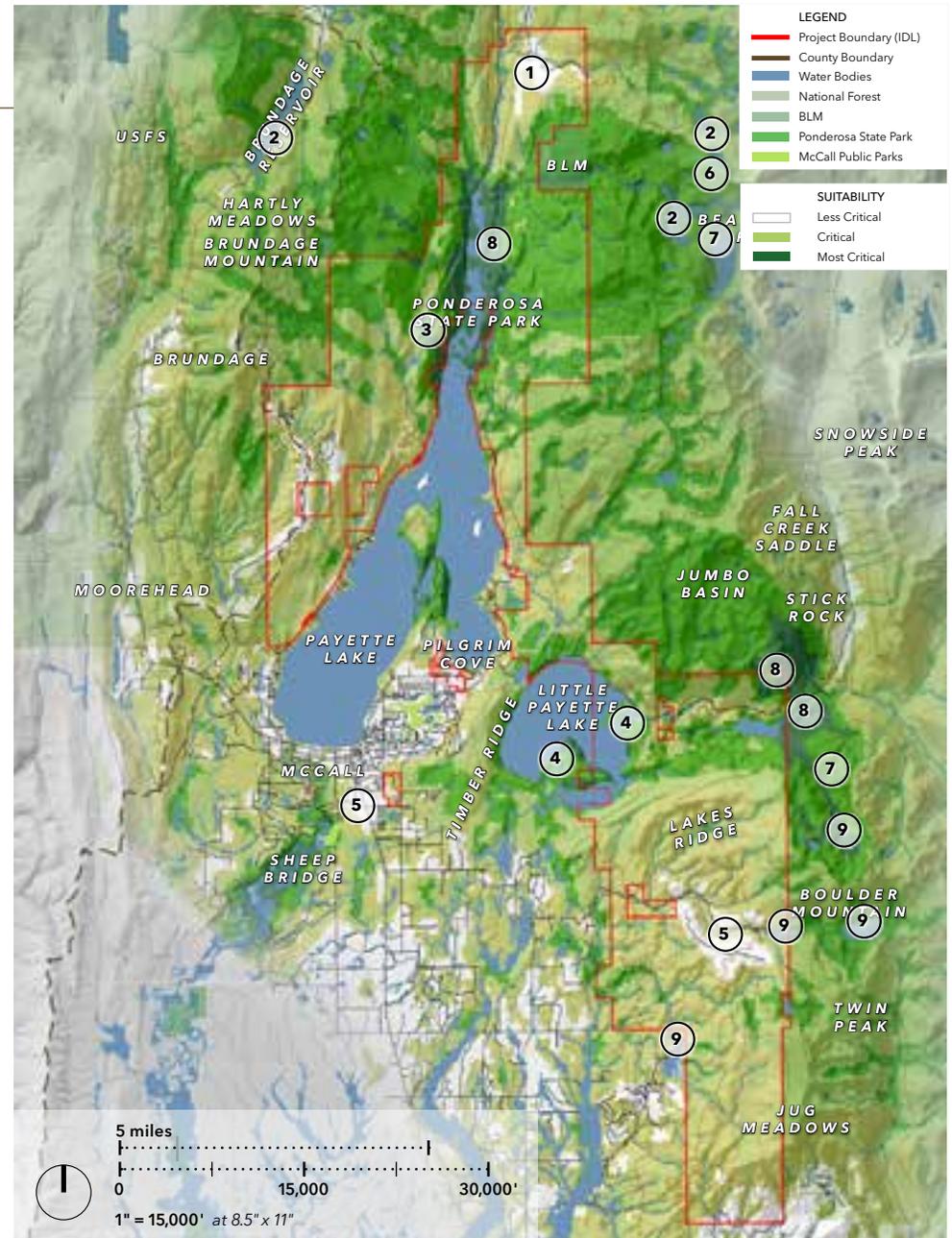
The highest priority items were determined based on state recommendations in the Strategic Habitat Conservation in Idaho (2017)¹ report outlining key conservation priorities for the state. Areas with endangered species were given particularly high priority. Adjacent areas and the watersheds in which these key features exist were also prioritized for their ability to promote the health of these critical ecosystems. Overall ecological value was also considered for certain areas that were not mentioned in any state documentation. These areas were selected based on various factors; some of which include remote and unfragmented habitat, riparian areas, and streams flowing to waters containing salmonid populations.



¹ US Fish & Wildlife Service (2017). Strategic Habitat Conservation in Idaho: A Priority Conservation Strategy 2017. Retrieved from: https://www.fws.gov/idaho/documents/SHC/IFWOstrategicframework_10August2017_FINAL-6c_lo-res.pdf

Conservation Priorities

1. Although these areas are shown as Less Critical according to the Habitat Suitability Analysis, they provide important connectivity to the greater conservation network. Protection should be considered in these areas.
2. Waterways outside the project boundary sustain populations of salmonids that are a high priority for conservation.
3. Several areas adjacent and north of Payette Lake support (or have the potential to support) ponderosa pine - an important tree species in the region.
4. Through the Habitat Suitability Analysis, the wetland surrounding Little Payette Lake has been identified as one of the top 60 wetlands to protect in Idaho.²
5. White areas (less critical) tend to represent highly developed areas or locations close to roads that do not have a strong ecological value.
6. On the east side of the property boundary, a high concentration of wetlands, being relatively remote, wildlife migration corridors, and connectivity to the greater network of protected areas contributes to higher conservation value.
7. Watersheds of high importance due to the number of key ecological features they sustain.
8. Areas surrounding conservation sites are important to protect in addition to the conservation site itself.
9. Waterways sustaining populations of salmonids are of high priority for conservation.



Conservation Priorities and Habitat Suitability Analysis

² Murphy, C., J. Miller, and A. Schmidt. 2012. Idaho wetland conservation prioritization plan – 2012. Prepared for Idaho Department of Parks and Recreation. Idaho Department of Fish and Game, Boise, ID.

Conservation Plan

Protect the Future of Our Land





Conservation Plan & Alternatives

Preserve McCall will continue recreational access to the majority of the proposed exchange lands by implementing one or more land conservation strategies. Preserve McCall has engaged conservation experts BenchMark Advisors and Singing Stream Conservation Consultants to advise on avenues for achieving this goal. Numerous local, regional, and national conservation-focused groups have been engaged to explore options for working together in these efforts and early conversations have been positive.

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Over the coming months, Preserve McCall and its advisers will refine a path forward to assuring conservation and public access for recreation.





1. Conservation Plan

Optimally, some portion of the acreage surrounding Ponderosa State Park and Little Payette Lake, if not all of it, would become a park through a direct grant to the Idaho Department of Parks and Recreation. Preserve McCall has requested to work with this agency to explore this possibility. Alternatively, Preserve McCall is pursuing additional options with local, regional, state and national conservation entities whereby these same lands could be conserved through a combination of structures.

The viability of each of these approaches to preserve access would depend upon the ability of the property's stewards to provide responsible forest management in a way that does not impose an untenable financial burden upon a private conservator or governmental agency. Making available the necessary level of economic support for this continued access for the foreseeable post-exchange future will provide value for the state's endowment by not imposing the burden of infrastructure and maintenance costs upon it. This low-impact approach makes the exchange an attractive option for achieving the Land Board's objectives.



2. Exchange Agreement

The proposed exchange agreement will contain a series of interdependent covenants, each of which will become binding only after occurrence of another. The exchange agreement will also serve as the master agreement for a series of contracts that contain the terms of real property transactions, forest management on conservation lands, financing, infrastructure creation, and all other material elements of thoughtful conservation and development upon which this exchange proposal hinges. At a minimum, the exchange agreement will contain: a plan for conservation of land through work with a state agency or conservation partner or other conservation method, establishment of a fund for infrastructure and maintenance, establishment of a fund for payment in lieu of property taxes on timberlands put under state ownership in northern Idaho, and performance of maintenance of conserved lands.



3. Payment in Lieu of Taxes

Preserve McCall will identify sources of income to replace funds that would have been provided by property taxes paid on lands that are put under state ownership or otherwise protected. This trust would terminate upon its depletion, but would create a buffer to ease the loss of tax revenues for coffers of the counties where these newly state-owned timberlands are situated.



5. Other Agreements

In addition to the agreements described here, Preserve McCall anticipates negotiating and entering into numerous other agreements, pertaining to developing designated development parcels, and selling properties to end users. Following the exchange, portions of the former endowment lands will lie within the McCall Impact Area and Valley County. The work Preserve McCall intends to perform will also require development agreements, real estate purchase and sale contracts, utility and transportation easements, road sharing agreements, and other more granular-level land use, public-private, and commercial marketing contracts as are typical in operations such as Preserve McCall's.



4. Community Stakeholders

In response to feedback from stakeholder groups, Preserve McCall is also exploring the potential for a community agreement which would set forth its obligations to the community surrounding the exchange parcels and to end users. Elements of this proposed agreement could be a part of a conservation easement, the terms of a fee grant to a public agency, or the exchange agreement.

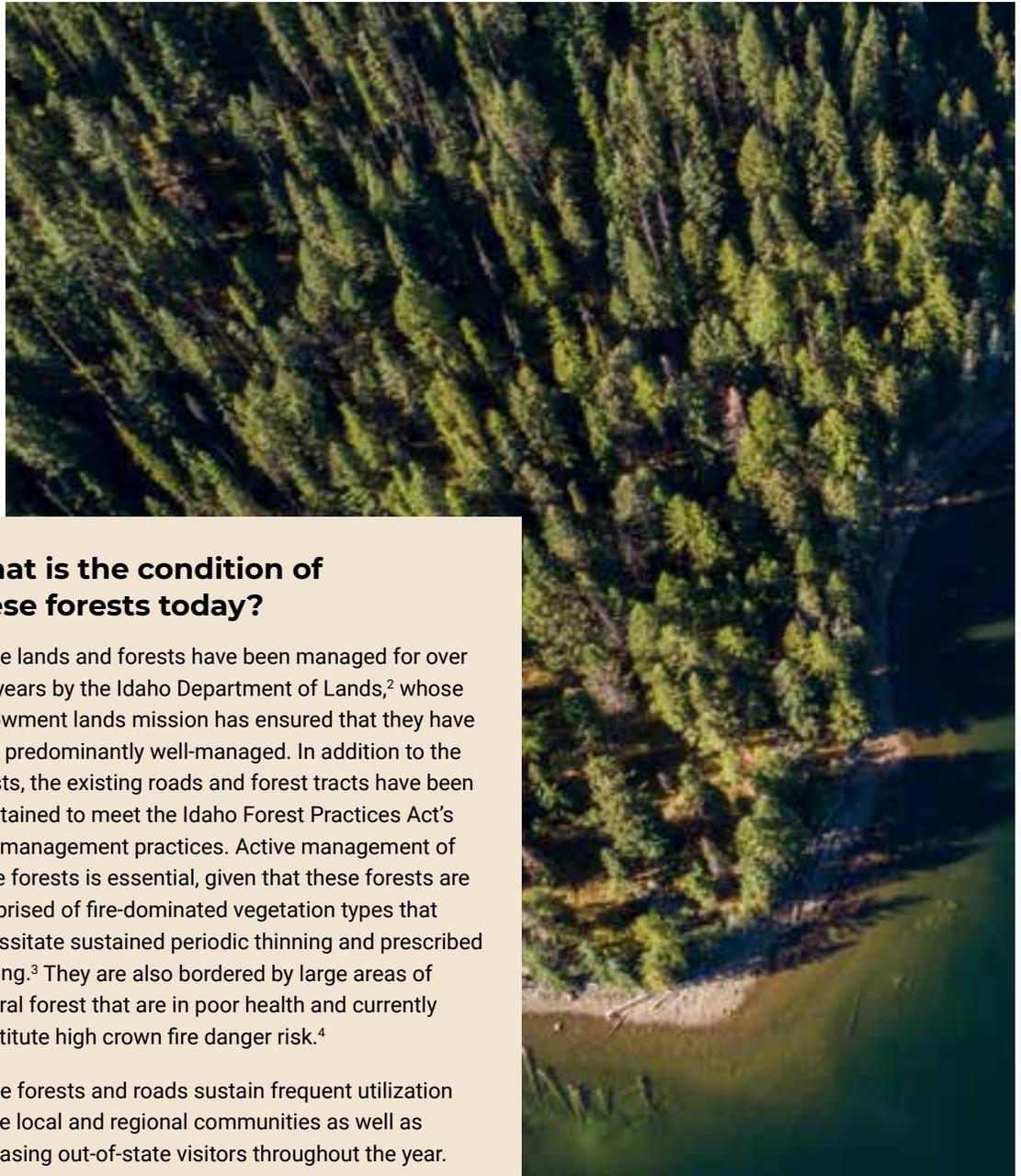


Future Forest Management Objectives

In order to maintain productive access for current timber leaseholders, the forested portions of the exchange lands identified for conservation will be managed for a certain period of time under a forest, aesthetics, and recreation plan which seeks to sustainably maintain the health, vigor, and aesthetic qualities of these forests.

This plan will cover all facets of maintaining an already thriving forest, including, among others, provisions for healthy growth, fire prevention and management, and maintenance of access for end users, especially those who currently enjoy such access, such as snowmobilers, bicyclists, equestrians, and hikers.

The following is very simply a statement of future forest management objectives and brief description of the broad silvicultural regimes which are appropriate to the mixed conifer and fire disturbance ecological vegetation types that dominate the lands¹ concerned.



What is the condition of these forests today?

These lands and forests have been managed for over 100 years by the Idaho Department of Lands,² whose Endowment lands mission has ensured that they have been predominantly well-managed. In addition to the forests, the existing roads and forest tracts have been maintained to meet the Idaho Forest Practices Act's best management practices. Active management of these forests is essential, given that these forests are comprised of fire-dominated vegetation types that necessitate sustained periodic thinning and prescribed burning.³ They are also bordered by large areas of Federal forest that are in poor health and currently constitute high crown fire danger risk.⁴

These forests and roads sustain frequent utilization by the local and regional communities as well as increasing out-of-state visitors throughout the year.

Proposed Forest Management Objectives

1. Density

Maintain the mean stand density of each management unit⁵ at less than 90 square feet of basal area per acre⁶ in order to **sustain forest vigor, soil summer moisture availability, and natural tree regeneration of the tree species appropriate to the forest type**, taking into account increasingly drier and warmer climatic conditions.

2. Wildfire Danger

Maintain the level of wildfire danger at low to medium on a sustained basis. Maintain forest roads to allow for any fire outbreak to be accessed by ground-based equipment within two hours.

3. Forest Health

Manage the forests in order to **maintain the health of all age classes** within each management unit.⁵

4. Forest Aesthetics

Maintain the aesthetics of the forests where it does not compromise other objectives. This includes slash management and maximum openings associated with group selection harvesting of higher elevation forest types.

5. Recreation

Maintain forest roads and trails to better than Idaho Forest Practices' standards⁷ by **connecting, where feasible, forest trails that enhance walking, biking, cross country skiing and designated snowmobile use**.

6. Regeneration

Foster tree regeneration where visual and sound screening supports real estate development objectives.

7. Inventory

Undertake a comprehensive forest inventory and a management unit⁵ level forest management plan. This plan will identify targeted uses as well as forest and vegetation management for the next 100 years of each management unit⁵ level.

8. Habitat

Maintain a diversity of early forest and mid-succession wildlife habitats.

¹ MAPPING RELATIVE FIRE REGIME CONDITION CLASS FOR THE WESTERN UNITED STATES. James P. Menakis, Forester, Fire Effects Unit; Melanie Miller, Fire Ecologist, Bureau of Land Management; Thomas Thompson, GIS Specialist, Fire Effects Unit Fire Sciences Laboratory, Rocky Mountain Research Stations, Forest Service USDA

² Idaho Department of Lands <https://www.idl.idaho.gov/about-us/understanding-endowment-land/>

³ Wildland Fire Management: Are actively managed forests more resilient than passively managed forests? Jay O'Laughlin, Ph.D., Professor and Director College of Natural Resources Policy Analysis Group University of Idaho, Moscow

⁴ Idaho Department of Lands Forest Action Plan <https://www.idl.idaho.gov/forestry/forest-action-plan/>

⁵ Management unit is geographic land area normally of a few hundred acres to which common forest management prescriptions are applied.

⁶ Suggested Stocking Levels for Forest Stands In Northeastern Oregon and Southeastern Washington: An Implementation Guide for The Umatilla National Forest David C. Powell Silviculturist USFS 1999

⁷ Idaho Forest Practices Act, <https://www.idl.idaho.gov/forestry/forest-practices-act/>

Community Engagement

Act on the Voices of Valley County





Results of Community Polling

Preserve McCall recently commissioned a public opinion survey of adults in Valley and Adams County on the subject of a proposed plan to exchange thousands of acres of state endowment land for more profitable timber acreage in north Idaho. The survey, conducted by GS Strategy Group, highlighted three central findings that are key to understanding how area residents view such an exchange, and why.



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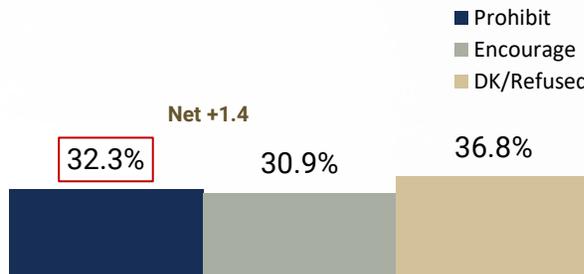
The survey was conducted from July 13-16, 2020 of 250 adults in Valley and Adams Counties. The survey was conducted by phone, with 50% of respondents contacted via landline phone and 50% via cell phone and has a margin of error of +/- 6.15%. The respondents accurately reflect the geographic and demographic profile of the area.

Less Than 1/3 of Residents Staunchly Oppose Development

Future Development

Which comes closest to your opinion about future development in Adams and Valley County?

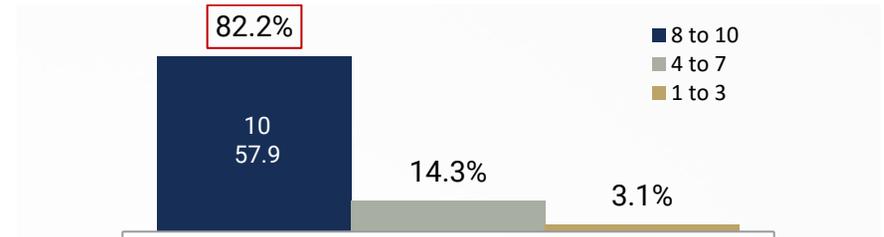
- We should **prohibit** any new development no matter what
- We should **encourage** all feasible development projects to grow the economy here



There was significantly less concern about future development in the area. When offered the choice between prohibiting any new development or encouraging feasible development projects to grow the economy, only 32% of respondents said to prohibit any new development no matter what. The majority of respondents were instead split between encouraging feasible development projects and not taking a position. Support for encouraging development was strongest among Republicans, Adams County residents, and Valley County residents who live outside of the City of McCall.

Protecting Access to Public Lands is A Top Priority

Survey respondents indicated overwhelming concern about protecting access to public lands. When asked how concerned they were about protecting access to public lands on a scale of 1 to 10, with 1 being not at all concerned and 10 being highly concerned, 82% responded with an 8, 9, or 10. More than half – 58% - said they were 10/10 concerned about protecting public land access. This prioritization of public access was underscored elsewhere in the survey when potential reduction of public access was identified as the clear top concern respondents had about the proposed land exchange plan.

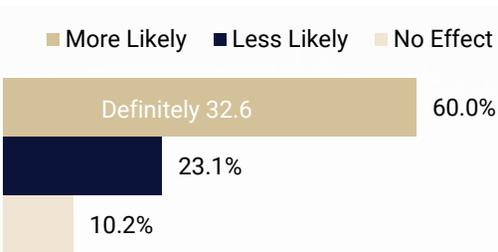


Protecting Access to Public Land

On a scale of 1 to 10 with 1 being not at all concerned and 10 being highly concerned, please indicate how concerned you are about protecting access to public lands?

If you knew the following were true, would you be more likely or less likely to favor Preserve McCall's land exchange plan? If it would not affect your support one way or the other, just say so.

The land exchange plan will permanently protect Idahoans' ability to use the area for public recreation.



Learning the Plan Protects Access Increases Support

As respondents learned key details about the plan, their support for it increased dramatically. This is particularly the case when they learned the plan would permanently protect Idahoans' ability to use the area for public recreation. 60% of respondents said that information made them more likely to support the plan, while nearly 1/3 of respondents said it made them definitely more likely.

Ongoing Community Engagement

Preserve McCall is committed to respecting and incorporating the City of McCall's and Valley County's community values in the master planning process.

Over the last several months, Preserve McCall has met with various community stakeholders, including conservation, recreation, and economic groups as well as many individual community members. We understand, and these conversations confirmed, that it is critical that we continue to listen to the community, explore and recognize its needs, and ensure that our plan addresses these needs.

For example, through conversation with community groups, we have come to better appreciate the affordable housing challenges facing McCall. With these learnings, we have been able to identify land parcels that are well-suited to help address this challenge by developing housing that would serve the local population.

Through ongoing engagement with the community, Preserve McCall hopes to continue to identify opportunities to add value to the community and help craft creative solutions to existing challenges.



Methodology

Moving forward, Preserve McCall will work with the community to build a formal process to continuously engage and involve them in the development of the master plan for the exchange lands. We anticipate this ongoing process to be active in some form throughout the life of this project.

At the outset, we envision a three-step process:

1. Identification of issues and concerns

Answer the question, "What is important to the community in the continued development of the master plan?"

2. Development of a range of master plan options

Leverage the information gathered in Step 1 and provide ongoing feedback to outline master plan options that address a variety of community needs and wants.

3. Select a master plan

Review the merits of the master plan options and come to a decision on the best path forward.

Preserve McCall will utilize numerous methods throughout this process:

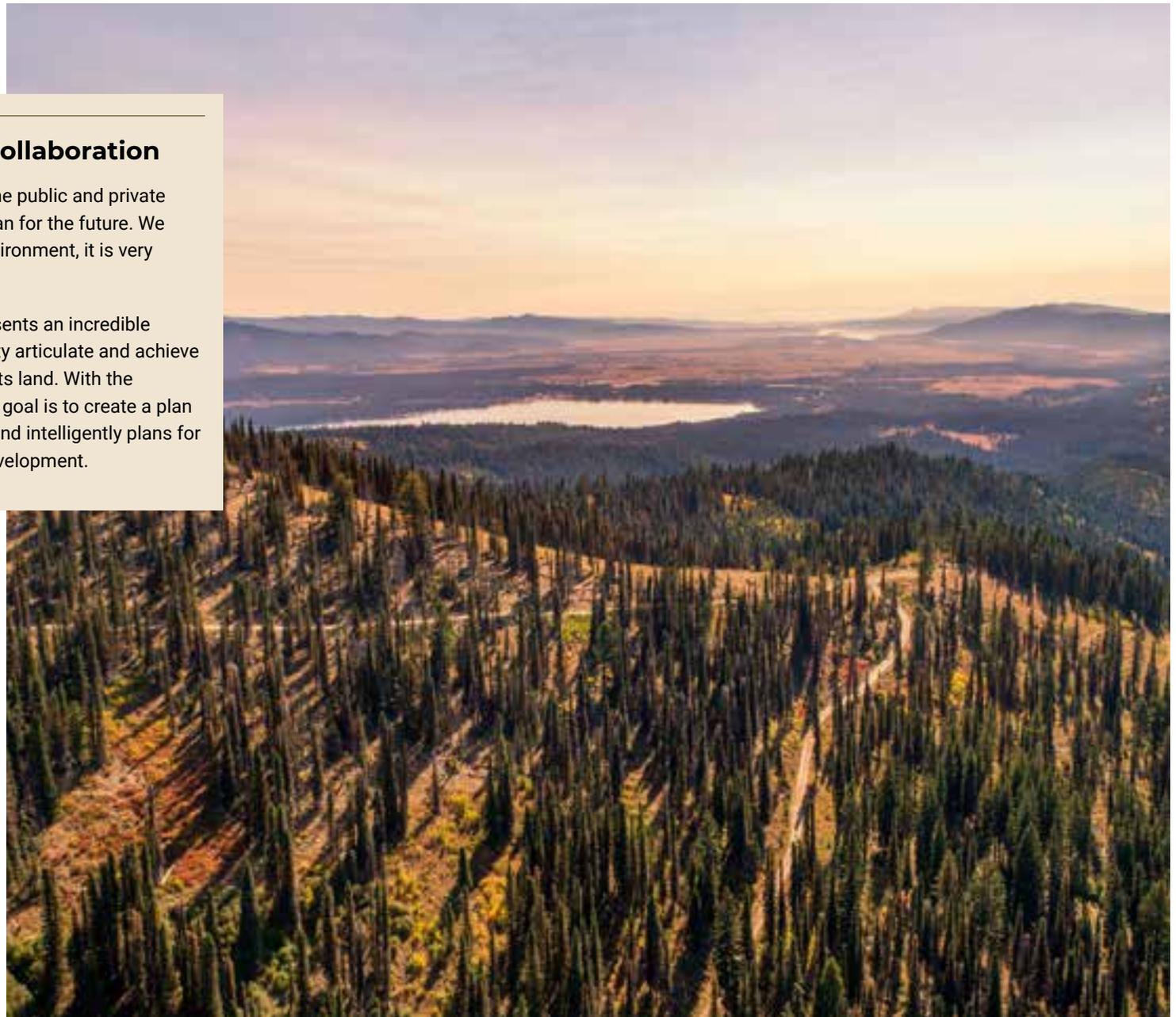
- One-on-one meetings
- Small group meetings
- Open houses
- Surveys and mailings
- Actively monitored website engagement

This process will respect all social distancing protocols.

Public and Private Collaboration

Preserve McCall believes that the public and private sectors can work together to plan for the future. We acknowledge that in today's environment, it is very difficult to find a middle ground.

Preserve McCall's proposal presents an incredible opportunity to help Valley County articulate and achieve the best plans for the future of its land. With the guidance of the community, our goal is to create a plan that safeguards public access and intelligently plans for future growth and economic development.



Economic Analysis

Ensuring Sustainable Growth



Disclaimer: The information presented here is for illustrative purposes only and is based upon Preserve McCall's internal projections and analysis. Any conclusions or figures made a part of this document or discussion of it should not be relied upon for any purpose outside this presentation. Preserve McCall and Trident Holdings LLC, their employees, and their agents assume no liability for any errors or omissions in the content of this presentation. The information contained in this presentation is provided on an "as is" basis with no guarantees of completeness, accuracy, usefulness, or timeliness and without any warranties of any kind whatsoever, express or implied. As but one example, this economic analysis excludes from consideration certain parcels within McCall's city limits that are contemplated earlier in the land use planning materials, and which may or may not be included in the final exchange application. This analysis also lacks incorporation of IDL internal and/or non-public data, which would affect results, for example.



Economic Benefits to Idaho Endowment Beneficiaries

Preserve McCall proposes to work with the Idaho Department of Lands (IDL) to develop a land and timber asset exchange of financially underperforming Idaho endowment lands in the Payette Lake area. The proposed exchange involves Preserve McCall acquiring designated “timberlands” from IDL endowment lands and a small number of unleased residential lots in Valley County, Idaho. Preserve McCall will exchange these lands with IDL for privately-owned commercial timberlands in north Idaho that exceed IDL’s return threshold of 3.5%. These north Idaho timberlands will become new endowment timberlands.



Research Focus

SMART Forest Solutions® was asked to perform an economic analysis of the proposed Preserve McCall land asset exchange under the Idaho Constitution, the State Board of Land Commissioner’s (Land Board) Statement of Investment Policy - Idaho Land Grant Endowments (SIP), and recent subcommittee findings and recommendations.

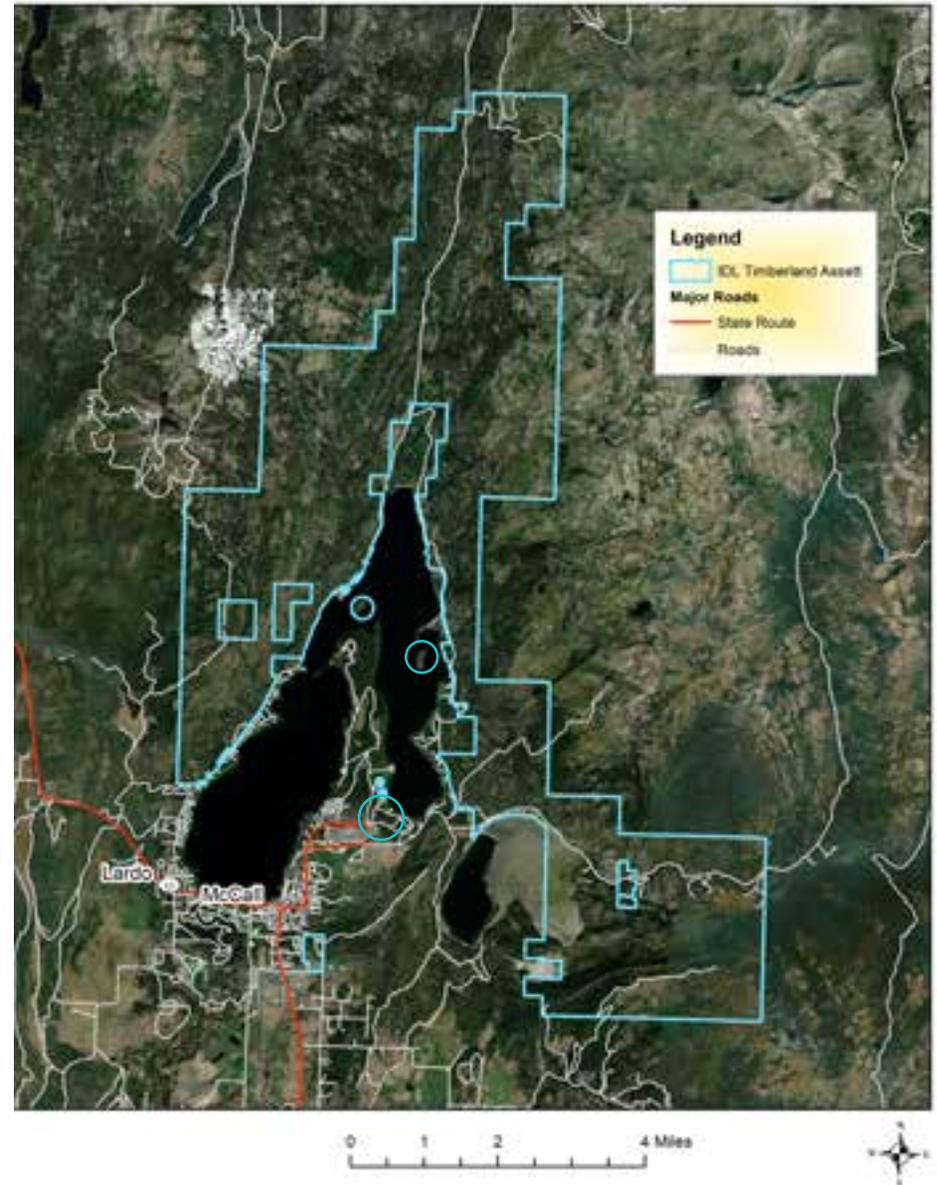
Summary of Findings

- Research indicates the specific “economically impaired” lands subject to this exchange (~20,000 acres in Valley County) are underperforming the State’s desired long-term return of 3.5%, contrary to the Idaho Constitution and Land Board Policy. Rather, these lands are a major cost center to the endowment, costing an estimated \$282,200 annually.
- The proposed exchange is estimated to generate more than \$2.49 million per annum of net revenues, returns and cost savings. This annual benefit, which existing assets cannot provide, represents \$74.4 million of real net present value to beneficiaries, notably Idaho schools and universities. Moreover, the endowment will receive an additional incremental, accretive \$36.0 million value from non-exchange portfolio reallocations to meet Callan targets. Put simply, because the exchange provides the endowment with profitable lands for minimal cost, less Land Bank funds will be needed for timberland purchases to achieve target allocations, and more funds can be invested in higher-returning, non-timber instruments like equities. This represents \$107.3 million in total real net present value for beneficiaries.
- Acquiring north Idaho timberlands near mid-rotation will increase timber revenues from existing endowment forests for several decades (estimated at \$11.0 million of present value, or nearly \$387,000 annually). IDL’s policy manages endowment timberlands to a non-declining statewide timber harvest, so buying younger, mid-rotation trees enables the state to harvest more of its existing, older portfolio now.
- The proposed exchange will improve physical and legal accessibility to existing north Idaho endowment lands. Opening this access makes it possible to harvest endowment lands that are currently encircled or blocked, unlocking existing timberlands asset value (conservatively estimated at a present value of nearly \$2.9 million).
- Obtaining income-earning timberlands from this exchange reduces reliance on the Earnings Reserve through reduction in total asset income volatility.
- IDL’s potential alternatives do not offer comparable returns. Neither a campaign to auction various smaller high-value parcels piecemeal nor a strategy of using only Land Bank funds to buy North Idaho timberlands outright (while retaining this cost center) would replicate the proposed exchange’s returns .
- Preserve McCall is deeply committed to working with all parties involved, particularly local governments in Valley County and McCall, to fulfill community requests for conservation and public access, and intends to bring additional year-round employment and economic development to the region. Preserve McCall also developed a potential term escrow fund structure to address tax-based concerns of northern Idaho counties.

Asset Exchange Proposal

Through concurrent three-party agreements, this proposal exchanges economically-constrained forested and a small number of unimproved and unleased lake lot land assets of several Idaho endowment beneficiaries in the Payette Lakes region. These would be exchanged for North Idaho working forests adjacent or in proximity to endowment forests within strong and growing timber market regions. This exchange explicitly supports the Land Board's July 2018 Statement of Investment Policy (SIP).

The exchange will follow IDL-defined exchange procedures. Following IDL and the Land Board approval in concept of such an exchange, Preserve McCall and IDL staff will cooperatively identify endowment lands within the Payette and Little Payette regions best suited for eventual exchange. Upon completion of this joint planning initiative, Preserve McCall will also finalize options to acquire suitable working forests for each endowment beneficiary from private forest owners adjacent or in proximity to endowment properties in north Idaho.



Exchange Proposal Alignment to Policy and Objectives

The proposed exchange explicitly supports the Idaho State Board of Land Commissioners Statement of Investment Policy and the Idaho Department of Lands Forest Asset Management Plan Goals and Objectives:

As outlined in the July 17, 2018 SIP (p. 2),

“Article IX, Section 8 of the Idaho Constitution includes the following restrictions regarding the sale of lands:

- All land must be disposed of via public auction
- A maximum of 100 sections (64,000 acres) of state lands may be sold in any year
- A maximum of 320 acres may be sold to any one individual, company, or corporation
- No state lands may be sold for less than the appraised price
- Granted or acquired lands may be exchanged on an equal value basis with other lands subject to certain restrictions
- Forest and certain other land may not be sold per Idaho Code § 58-133, which states, “All state-owned lands classified as chiefly valuable for forestry, reforestation, recreation, and watershed protection are reserved from sale and set aside as state forests.”

The SIP also defines the Board’s asset allocation objectives, including those for increasing timberland assets (pgs. 5-6 of SIP replicated here).

STRATEGIC ASSET ALLOCATION

Asset Class	Target Asset Allocation	Range	Actual Allocation June 30, 2017	Expected 10-yr Compounded Return ^{1,2}	Implied Real Net Return ³
Financial Assets	58%	50-65%	59.2%	6.3%	4.05%
IDL Timberland	39%	30-50%	33.2%	5.70%	3.45%
IDL Grazing Land	2%	0-5%	1.7%	3.00%	0.75%
Cash Equivalents - Land Bank	1%	0-5%	2.1%	2.00%	-0.25%
Residential Real Estate	0%	N/A	2.6%	N/A	
Idaho Commercial Real Estate	0%	N/A	0.5%	N/A	
Other Land	N/A	N/A	0.7%	N/A	
Total	100%		100%	6.69%	4.44%
Expected Risk (Standard Deviation)				9.28%	
Inflation Assumptions				2.25%	

The policy further defines land asset objectives explicitly, including the role of such assets in reducing overall volatility of endowment investment revenue and therefore the level of the Endowment Earnings Reserve, as follows (text selected from SIP p. 13-16):

"VII. Asset Class Policies for Land Assets

A. Investment Objective for the Land Assets

The primary objective for the Land Assets is the generation of maximum long-term return at a prudent level of risk using traditional land grant asset types. The Land Assets diversify the Financial Assets given the low correlations of timberland and rangeland to public capital markets. The Land Assets also lower the volatility of the total investment portfolio considering timberland and rangeland returns have historically exhibited lower volatility than equity asset classes. During periods of negative financial returns, Land Assets can provide a positive revenue stream to help maintain Earnings Reserves and stable Endowment distributions.

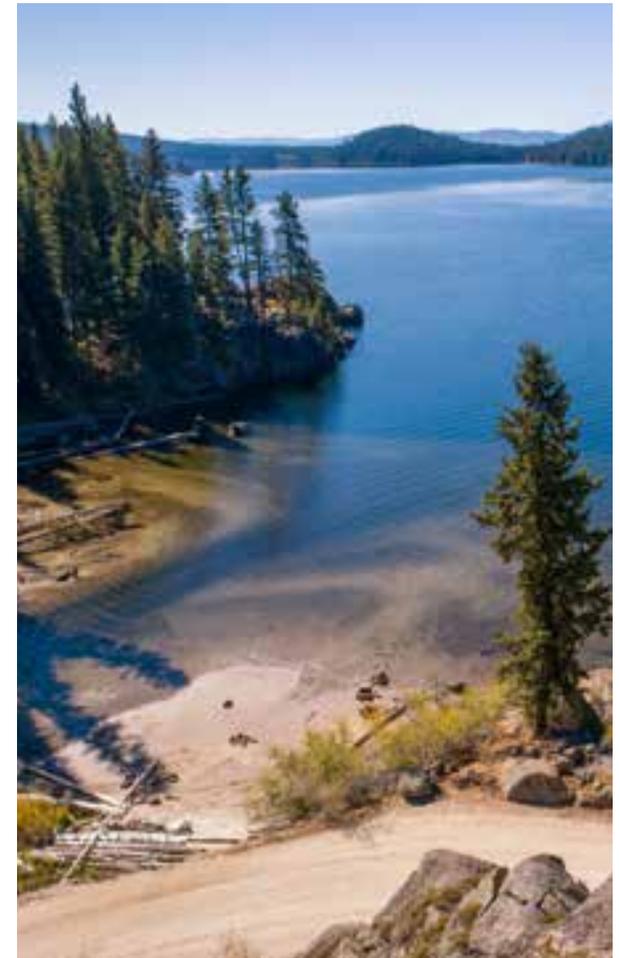
Investment objectives are long-term return objectives. The investment objective for the land portfolio recognizes that timberland is a primary driver of the overall return for land and that income from timberland and, to a lesser degree, all other lands are the primary generator of investment returns. The individual investment objectives for timberland, rangeland, and farmland reflect the long-term investment characteristics (return, correlation, and volatility) compared to other asset classes. Investment objectives also consider the existing base of land holdings along with management constraints, notably sales restrictions, acreage limitations, and the rent-setting and leasing processes. The return objectives should not be viewed in isolation but in relationship to one another.

The Land Assets are managed to achieve a real net return target of at least 3% over a long-term holding period (Land Assets Return Objective). The Land Assets Return Objective includes both income and appreciation, is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit), and net of inflation as measured by the Consumer Price Index. While the Land Assets Return Objective includes both income and appreciation, the return is expected to be generated primarily from income.

New timberland acquisitions shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the following:

- If the expected financial return generated by income exceeds the minimum hurdle rate of 3.5% real net;*
- Whether the return profile is sufficient relative to the risk taken, including an analysis of the transaction in terms of long-term financial return and risk to the Endowment;*
- Whether the transaction would facilitate improved management or improve the overall Endowment land ownership pattern in the area;*
- The existence of any potential risks, including but not limited to environmental or title-related issues.*

Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. The presence of minerals including sand and gravel can enhance the net return from timberland. Land Bank funds used for acquisition can only to be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Reinvestment Plan."



Payette Lakes Forest and Recreational Lake Lot Land Assets

IDL, on behalf of the endowment beneficiaries, manages approximately 105,022 acres of forested lands within the IDL Payette Lakes Supervisory Area.

Of the total, over 27,000 acres in the IDL Payette Lake's Supervisory Area are designated as "secondary forests."² This means these lands are economically impaired due to legal or physical access, low forest productivity, or Land Board aesthetic management policies limiting timber harvesting and road construction. By statute the forested lands cannot be sold for other purposes and can only be exchanged for other forested lands.³

By Land Board Policy and IDL forest management plans, endowment secondary forest lands within the Payette Lakes viewscape have undergone minimal harvesting for decades.⁴ These lands are therefore constrained in recouping IDL's current annual \$14.11 per acre per year

of timberland management expenses as of 2019.⁵

Although endowment-appraised timberlands land values are not publicly available, land values of similar unimproved but operable forest tax appraised properties⁶ in Valley County, having lake views, range from \$98-\$2800 per acre depending on parcel acreage. These endowment secondary forest lands are therefore constrained from achieving the desired 3.5% real return on assets until exchanged. This economic return is estimated to range from 1.3% to negative 11.0% per annum depending on the land plus timber values assigned.



² IDL 2007 Forest Asset Management - MANAGEMENT GUIDELINES FOR ENDOWMENT TRUST FOREST LANDS WITHIN THE SECONDARY BASE

³ Idaho Code § 58-133 requires that all state-owned lands classified as chiefly valuable for forestry, re-forestation, recreation, and watershed protection be reserved from sale and set aside as state forests. Timberland can be exchanged but only for other timberland.

⁴ IDL 2014-2019 Timber Sale Annual Reports

⁵ IDL Payette District July 2020 Financial Summary

⁶ Valley County 2019 Tax Assessment Database for forested parcels greater than 40 acres, with lake views



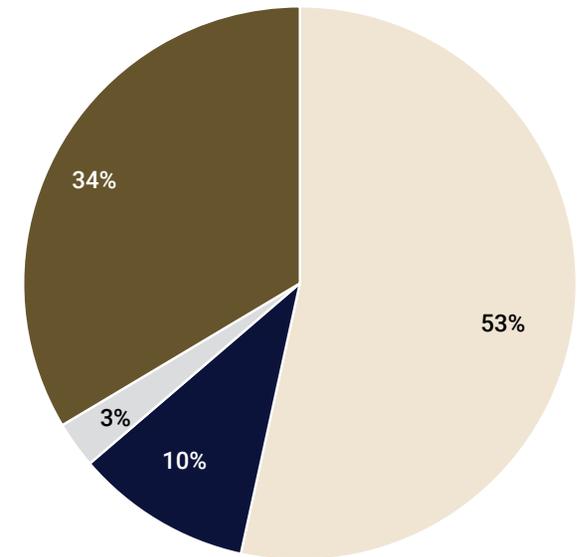
2019 Payette Lakes Endowment Forest Lands Real Rates of Return

The potential exchange of these forested lands for forests capable of meeting the Land Board's policy objective of 3.5% per annum real rate of return on timberland assets is viable and a financially sound opportunity. This represents a potential land exchange of up to 20,000 forested acres and 16.1 acres of platted lots.



Proposed Exchange's Annual \$3.9M Per Annum Endowment Income Represents \$115.4M in Portfolio Net Present Value

-  Annuity Net Revenues (*Acquired north Idaho Timberlands*)
-  Immediate allowable cut benefits (*existing endowment's mature primary forests*)
-  Improve legal and physical access (*existing endowment lands*)
-  Portfolio reallocation to Callan-targeted non-timber assets (*see separate economic analysis*)



Estimated Financial Benefits Summary
Preserve McCall Proposed Exchange

Financial Exchange Benefits	Acres Contributing	Net Cash Income Per Acre Per Annum	Annual Net Income	Net Present Value ⁷	Implied Net Cash Return on Exchange Assets
Annuity Net Revenues <i>(Acquired north Idaho Timberlands)</i>	31,150	\$64.43	\$2,006,229	\$57,320,840	4.03%
Immediate allowable cut benefits <i>(existing endowment mature primary forests)</i>	Existing endowment primary forest acres over 80 years old	N/A	\$386,594	\$11,045,543	0.78%
Improve legal and physical access <i>(existing endowment lands)</i>	1,583	\$64.43	\$101,966	\$2,913,303	0.20%
Portfolio reallocation to Callan-target non-timber assets ⁸ <i>(see separate economic analysis)</i>	N/A	N/A	\$1,211,613	\$36,008,011	2.43%
TOTAL			\$3,706,402	\$107,287,697	7.44%

⁷ Discount Rate for benefits i-iv is the 3.5% real net return target for timberlands. Discount rate for benefit v is the endowment's 3.36% real weighted average portfolio return excluding timberlands. Real forecasted rates of return were adjusted using Callan's inflation projections of 2.25%.

⁸ Eliminated expenses from this exchange are likely much greater than this, because this estimated reduction is based only on the 12,000 acres IDL identifies as secondary forest around Payette Lake, not the full administrative expense for the entire encumbered exchange area.

Note: See Benefits to the Endowment's Performance and Asset Reallocation Section for more detail on this particular exchange benefit.

Northern Idaho Target Exchange Timberlands

Preserve McCall identified and is contracting with a variety of large private forest owners known to be interested in divesting mid-rotation forest lands adjacent or in proximity to Endowment lands. These operable forest lands reside within six counties in western north central and northern Idaho. Market prices for fully accessible and operable mid-rotation (pole size) forests within these counties ranged from \$1,200 to \$1,800 per acre in 2020. The proposed land exchange would focus on acquiring highly-productive mid-rotation forest lands adjacent or in proximity to existing endowment forests.

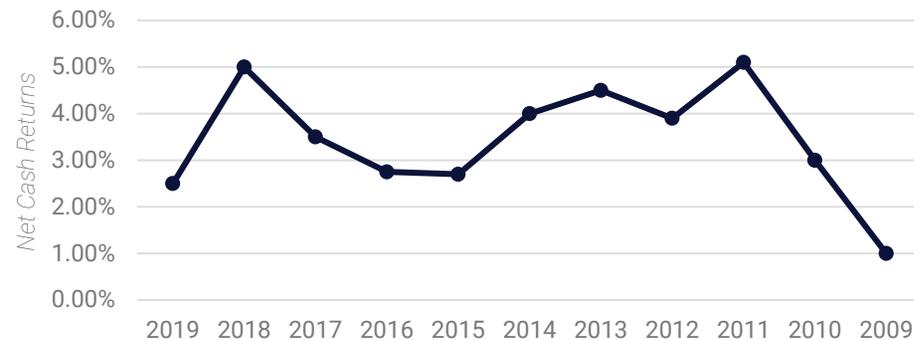
Potential real cash stand-alone returns on these timberlands at current market prices range from 3.6-4.0% per annum, exceeding the Land Board's asset class target of 3.5% real cash returns.

SMART Forest Solutions' analysis of 2019 PNW trends in commercial timberlands cash returns on assets and Idaho market region's timber prices strongly supports the Land Board's investment policy to significantly increase the endowment's acreage of working forests.

Nominal prices were converted to constant 2019 dollars using the GDP implicit price deflator. Trend line was developed as base case projections and adjustments to the trends incorporated based on team analysis. The

range of delivered log price compound annual growth rates for purposes of evaluating potential property returns ranged from 0.62% to 0.93% real, averaging 0.73% real.

**SURVEY OF RETURNS ON TIMBERLANDS
INVESTMENTS IN THE PACIFIC NORTHWEST**



Source: National Council of Real Estate Investment Fiduciaries



Northern Idaho Delivered Log Prices

Tree Species	2010-2019				2019
	Min	Median	Average (\$/MBF)	Max	Average
Douglas Fir/W Larch	277	386	365	402	385
Grand Fir/W Hemlock	274	366	352	389	385
Lodgepole Pine	275	370	352	388	367
Ponderosa Pine	280	299	310	357	280
Spruce	279	366	353	400	348
Western White Pin	286	332	326	337	337

Source: Northwest Management Inc.

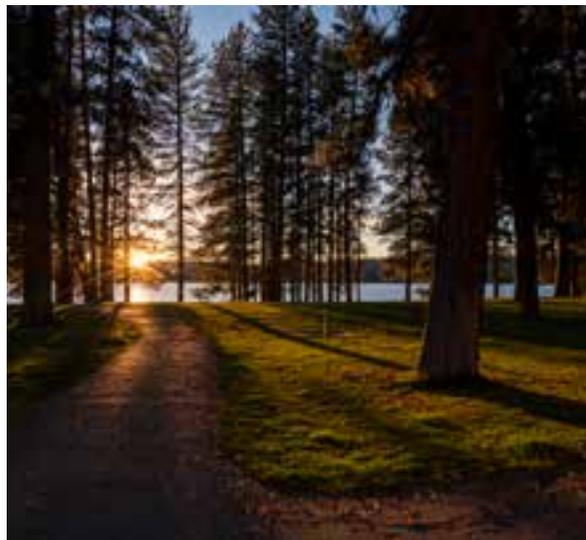


Additional, Significant Benefits of Endowment Timberlands Acquisition

Allowable Cut Benefit - IDL, in constructing its forest asset management plans, explicitly seeks to minimize the risk of declines in annual distributions to endowment beneficiaries and, by extension, minimize the total endowment earnings reserve. To achieve this, IDL Forest Asset Management Plans maintain a non-declining timber harvest policy. Given the age class structure of the endowment's forests, acquiring mid-rotation forests would facilitate near-term increases in timber harvests. IDL forest asset management planning during 2007-2008 identified improvements in real rates of return on investment of 0.15-0.47% through such acquisitions. Moreover, timber harvest net cash receipts of the acquiring supervisory areas would rise by +\$386,000 per annum (commencing immediately) by purchasing 31,000 acres of mid-rotation forests over five years.²

Physical and Legal Access - In 2007 IDL identified approximately 220,000 acres of "secondary" endowment forests. Preserve McCall is unaware of the actual acreage of forested lands classified as secondary resulting from legal or physical access constraints. However, analysis of proposed north Idaho exchange forest lands highlights the opportunities to return modest acreages of these forests to operable and accessible status.

While the benefit of improving access is very specific to potential exchange lands, the benefits are significant.





Financial Benefits Comparison

Comparison of Financial Benefits of Preserve McCall's Proposed Land Exchange to Endowment Acquisition through Expenditure of Land Bank Funds

The endowment acquisition of timberlands via exchange or expenditure of Land Bank funds provides many of the same near and long-term financial benefits. However, the exchange of underperforming secondary forests has two very significant additional benefits, beyond what Land Bank purchases alone can provide:

- Per the Land Board's and IDL's use of the Land Expectation Value methodology in determining its annual timberlands asset value, any reduction in net losses improves both the remaining endowment timberlands values per acre and near- and long-term net cash returns on asset.



There is one large additional (but difficult to quantify) source of value from Preserve McCall's proposed exchange that Land Bank purchases alone cannot produce. Per Callan's recommendations, IDL values timberland assets using "Land Expectation Value". This longstanding formula (LEV = Constant Real Annual Cash Flow / Real Annual Discount Rate) determines, in a standardized method, the long-term sustained value of the underlying land. This is not, in fact, an income-based asset valuation, which would equally take into account annual revenues and expenses, but then would also annually charge for the rotation or perpetuity land rent (at the discount rate) based on the underlying land value (from LEV or an appraisal).

This may at first seem complex, but it is important. It means that, in reality, the Endowment has three classes of timberland assets:

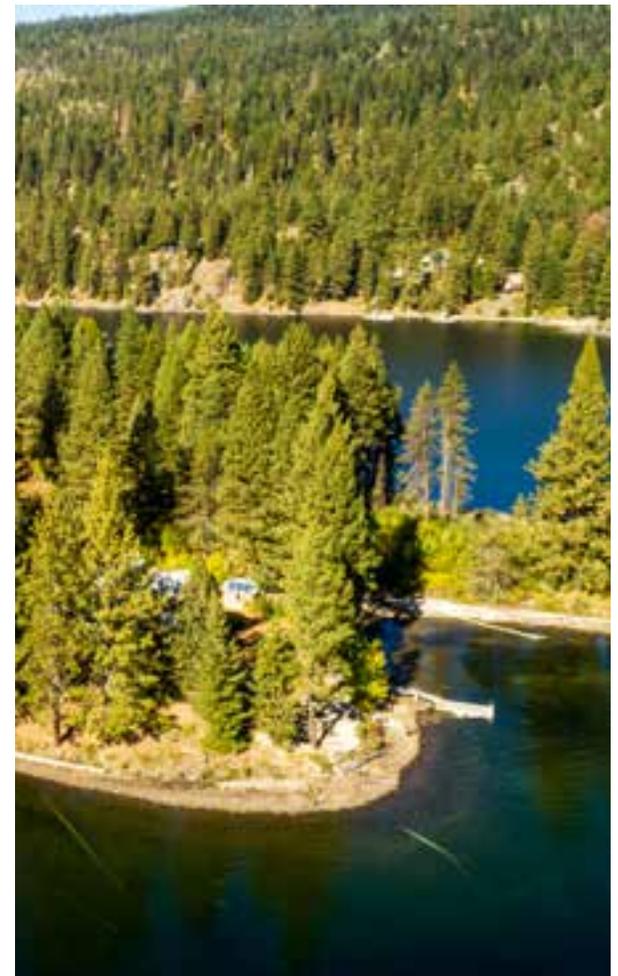
- 1. Original Federal land grant acres** (for which the state of Idaho and its endowment invested zero dollars). Therefore, not charging annual land rent is correct, and a net present asset income based valuation is proper. LEV works fine for these lands.
- 2. Land Bank Fund cash acquired acres.** For these acres annual land rents should be expensed in their asset income valuation.
- 3. Preserve McCall's Exchange Proposal.** The endowment also invests zero cash and therefore, as with the Federal land grant timberland acres, would properly have zero annual land rent charged in calculating a net present asset income based valuation.

These asset classes—with Land Bank purchases on one side, and Federal grants plus Preserve McCall's proposal on the other — have very different annual returns on investment, even for identical acres. IDL, when it values properties for cash acquisition, does take bare land value into account. However, it then ignores that value in its future LEV based asset reporting. This overstates true returns. By contrast, returns from Preserve McCall's proposed exchange avoid this pitfall.

Conclusion

It is the authors' expert opinion that this proposed land exchange provides far superior financial returns to endowment beneficiaries over a Land Bank expenditure-only strategy and continued 2020-2021 auctions of unoccupied Payette Lake lots.

Preserve McCall's proposed lands exchange will significantly improve financial returns to endowment beneficiaries while also supporting the economic growth of Valley County, Idaho. SMART Forest Solutions and Preserve McCall look forward to working with the Idaho Department of Lands staff to implement this proposed exchange.



Payette District Financials

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Payette Lakes Supervisory Area
Summary of Land Management Revenue and Expenses
 (All Data is Approximate)

Timber Management (approximately 100,000 acres)

Average annual management expenses (FY 2017-2019): \$1,411,000¹

Average annual gross revenue (FY 2017-2019): \$2,644,274

Average annual net revenue (FY 2017-2019): \$1,233,274

In the McCall Impact Area and the larger vicinity of about 28,000 acres, IDL expects to offer 57.3 million board feet of timber at auction over the next 10 years with an estimated gross revenue of \$9.1 million.

Endowment Leasing (Entire Payette Lakes Supervisory Area)

Average annual management expenses (FY 2018-2020): \$249,609¹

Average annual gross revenue (FY 2018-2020): \$794,630

Average annual net revenue (FY 2018-2020): \$545,021

Approximate McCall Impact Area Revenue (Approx. 5,500 acres)

(See Table 1 on page 2)

¹ Includes estimated bureau and overhead expenses

Table 1

Approximate Endowment Revenue by Asset Class and Activity within the McCall Area of Impact²

Asset	Activity	Endowment	Acres	Annual Income	Income Per Acre
Residential RE (Impact Area)	Cottage Site	SHS	5.00	\$138,494.00	\$27,698.80
		NS	0.25	\$3,056.00	\$12,224.00
		PS	3.00	\$28,706.00	\$9,568.67
Commercial RE (City Limits)	Office	PS	5.00	\$16,869.00	\$3,373.80
		PS	0.18	\$41,990.00	\$233,277.78
		PS	0.25	\$10,227.00	\$40,908.00
Timberland (Impact Area)	Communication	SHS	0.25	\$10,227.00	\$40,908.00
		NS	22.00	\$2,000.00	\$90.91
	Recreation	PS	6.00	\$2,000.00	\$333.33
		Mixed	1105.00	\$1,000.00	\$0.90
	Recreation	Mixed	19.85	\$1,000.00	\$50.38
		Mixed	3258.00	\$742.31	\$0.23
	Mineral	Mixed		\$30,100.00	
Timber Harvest		Mixed		\$187,573.00	\$34.10
Total Annual Revenue				\$473,984.31	

² The revenue in this table is included in the gross revenue numbers of the Payette Lakes Supervisory Area on page 1.



For decades, IDL has annually reported statewide revenues and expenses, in detail by Endowment and by asset class. In addition, timber sales by district have long been reported.

The preceding Summary of Land Management Revenue & Expenses for the Payette Lakes Supervisory Area has been utilized by Preserve McCall's consultants to revise and significantly improve its March 2020 *Proposed Land Exchange: Economic Benefits to Idaho Endowment Beneficiaries*.



Observations & Questions

Analysis of this supplemental information provided by IDL (shown on the previous page) has prompted several questions that readers of this economic analysis should bear in mind:

1. The district-wide 2017-2019 Timber Management Net Revenue is stated as \$12.33 per acre. Yet, the McCall Impact Area, nearly all of which falls within the IDL aesthetics policy viewshed, is stated to have an annual Timber Harvest Revenue of \$34.10 per acre. This suggests timber revenue within the McCall Impact area is almost three times higher than timber revenue across the entire district, even though most of the district is not encumbered by this policy.
2. The summary also states: "In the McCall Impact Area and the larger vicinity of about 28,000 acres, IDL expects to offer 57.3 million board feet of timber at auction over the next 10 years with an estimated gross revenue of \$9.1 million." This means that 28,000 acres of the district's 100,000 acres of forests (28%), of which 12-17,000 acres are within the lake's viewshed which constrains harvesting volumes and commercial viability, will produce 34% of the gross timber management revenue for the entire district. In addition, at no time during the last twenty years has harvested volume met the now projected ten-year future harvest volume.
3. Based on the district's financial summary, the annual timberlands Management Expenses for the district are \$14.11 per acre. This in contrast to the statewide average reported in IDL's 2019 Annual Report of \$23.22 per acre for the 1,030,049 acres in the timberland asset class. It is unclear what characteristics of the Payette Lakes Advisory Area make its administration by IDL so much less expensive than other areas statewide.

Benefits to the Endowment's Performance and Asset Reallocation

Authors: Brent Lawson¹ and David New²

Increase in Year-One Forecasted Portfolio Return, ex-IDL Timberland	\$1,211,613
Present Value of Exchange's Accretive Value to Portfolio, ex-IDL Timberland*	\$36,008,011
Increase in Year-One Portfolio Forecasted Return	\$1,882,828
Present Value of Exchange's Accretive Value to Portfolio**	\$48,196,995
Difference in Year-10 Real Portfolio Value after Land Exchange	\$73,039,479

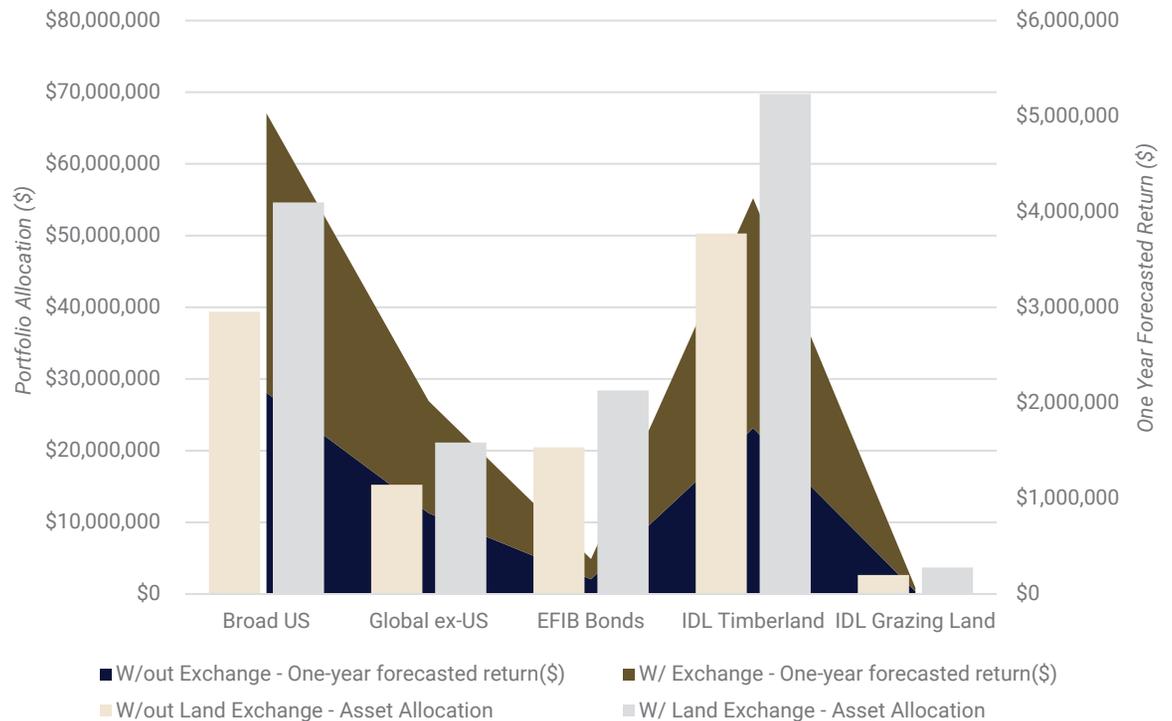
*Discount rate equals the portfolio, ex-IDL timberland real forecasted rate of return of 3.36% and total portfolio real forecasted rate of return of 3.91%. Real forecasted rates of return were adjusted using Callan's inflation projections of 2.25%. This maintains consistency with the real rates of return in the preceding Economic Benefits Section.

** The year one accretive value excludes returns from IDL timberland assets. These returns are accounted for in the Benefits Section. This methodology was utilized in an effort to avoid double counting timberland returns. However, the forecasted return on the \$13.7m delta (\$63.9m - \$50.2m - timberland allocation w/ Exchange and w/out Exchange) is not accounted for. Thus, the portfolio reallocation effect is even higher than presented above.

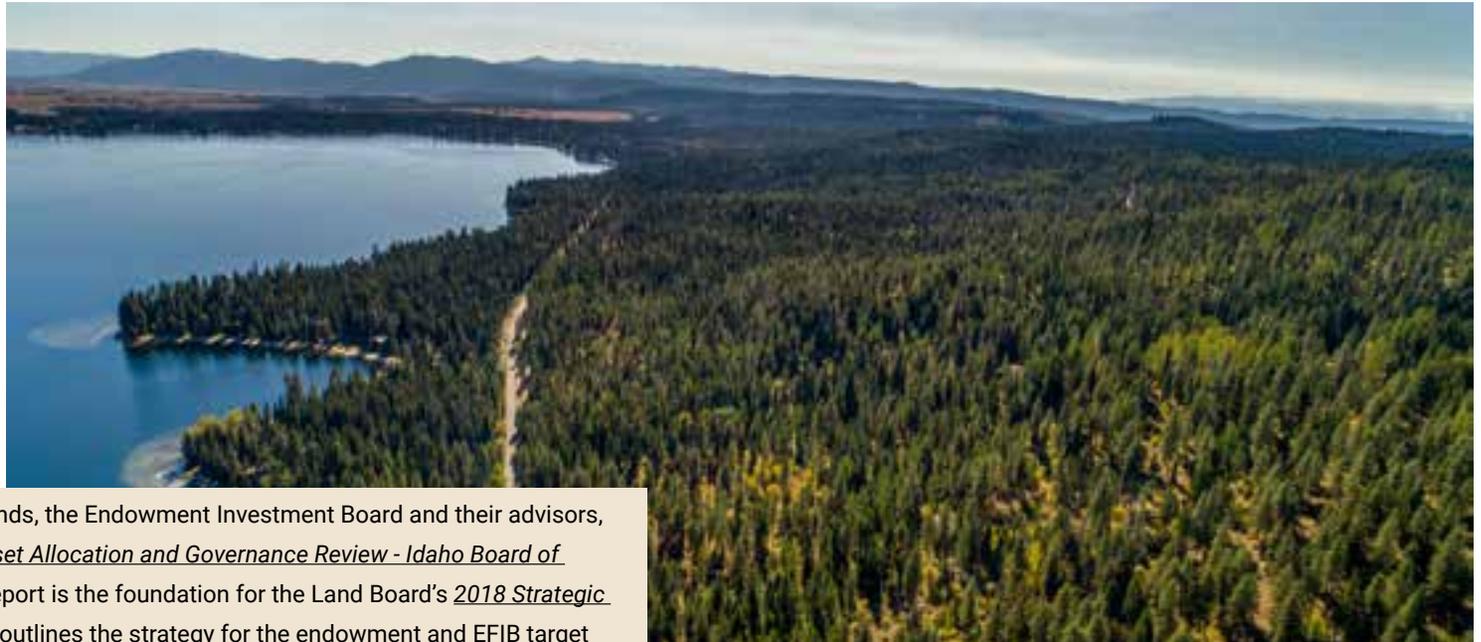
Key Findings

The Land Exchange-enabled portfolio reallocation effect unlocks additional capital to be invested in higher-yielding asset classes, including US & Global equities, generating higher forecasted returns. Without the Land Exchange, the portfolio's one-year forecasted return, ex-IDL timberland return, is **\$3,132,133**. With the Land Exchange, the portfolio's one-year forecasted return, ex-IDL timberland return, is **\$4,343,746**. The accretive value to Endowment beneficiaries is **\$1,211,613**, or **\$36 million** in net present value.

\$1.21 million greater one-year forecasted portfolio return as a result of Land Exchange enabled portfolio reallocation







In 2014 the Idaho Department of Lands, the Endowment Investment Board and their advisors, the Callan Group, completed the *Asset Allocation and Governance Review - Idaho Board of Land Commissioners* report.³ This report is the foundation for the Land Board's *2018 Strategic Investment Policy*.⁴ The 2014 report outlines the strategy for the endowment and EFIB target asset allocations. Preserve McCall's proposed timberland exchange allows the endowment to more quickly achieve the Callan recommended portfolio allocation targets, and in following those recommendations, simultaneously increase equity investments.

When assuming a \$128.79 million Land Bank Reserve, an estimated \$49.82 million timberland exchange,⁵ and maintaining the Callan recommended asset allocation, the land exchange implicitly increases the total available, fungible assets for investment to \$178.61 million. The land exchange is accretive to the overall portfolio as the endowment will only be required to invest an additional \$19.93 million in timberlands (plus the \$49.82 million land exchange) to meet the target allocation (39%). The Land Bank Reserve will now have the capacity to invest the remaining \$128.79 million as recommended by Callan's portfolio allocations⁶, excluding the timberland allocation which has already been filled. The endowment will achieve the benefits of the 3.45% forecasted real compounded return⁷ (Callan Projected Returns, adjusted for inflation) on the newly-acquired timberland assets (both land exchange and non-land exchange⁸) while simultaneously increasing equity exposure at their higher forecasted rates of return (Broad US – 5.35% and Global ex-US – 5.55%, real compounded returns).





With the proposed land exchange, the endowment portfolio receives profitable lands for negligible cost,⁹ needs to buy less lands with its Land Bank funds to achieve Callan’s target allocations, and therefore has more funds to invest in equity instruments. When following the Callan asset allocation guidelines, after adding the additional timberland investments, the Portfolio may increase its equity investments as follows:

Without Land Exchange	Equity Investment Allocation (\$)	\$54,616,518
With Land Exchange	Equity Investment Allocation (\$)	\$75,744,000
Increase	Equity Investment Allocation (\$) (+ %)	\$21,127,482 (+16%)

As mentioned, the proposed land exchange provides the opportunity for the endowment to achieve several aims at once. This exchange speeds the Land Board’s ability to follow and achieve Callan’s expert-recommended allocation strategy, and in doing so, allocate significantly more funds to equities (per Callan’s percentage targets).

The \$49.82 million Land Exchange implicitly increases the total investable, fungible assets to \$178.61 million (\$128.8 million Land Bank Reserve). Given higher investable assets, and while maintaining the Callan asset allocation recommendations, the \$49.82 million Land Exchange fills 71.4% of the IDL Timber allocation, requiring less investment in timberland. This effect shifts the remaining capital to higher returning asset classes, including equities.

Exhibits

Exhibit 1:

Endowment Allocation (6/2014)¹⁰

Asset Class	Allocation (\$ mm)	Allocation (%)
Domestic Equity	902	31%
Int'l Equity	349	12%
EFIB Fixed	469	16%
IDL Timberland	1,152	39%
IDL Grazing Land	61	2%
Cash	17	1%
Portfolio	2,950	100%

Exhibit 2:

Callan Projected Returns¹¹

Asset Class	Uncompounded Return	Compounded Return	Real Return
Broad US	9.15	7.60	5.35
Global ex-US	9.80	7.80	5.55
EFIB Bonds	3.06	3.00	0.75
Real Estate	7.35	6.20	3.95
Private Equity	13.55	8.50	6.25
IDL Timberland	6.25	5.70	3.45
IDL Grazing Land	3.50	3.30	1.05
Cash Equivalents	2.00	2.00	-0.25
Inflation	2.25	2.25	

Exhibit 3:

Summary Results of Portfolio Analysis¹²

	Without Land Exchange	Equity Investment Allocation (\$)	\$54,616,518
	With Land Exchange	Equity Investment Allocation (\$)	\$74,744,000
	<i>Increase</i>	Equity Investment Allocation (\$) (+ %)	\$21,127,482 (+16%)
	Without Land Exchange	Equity Investment Forecasted Y1 Return (\$)	\$2,952,457
	With Land Exchange	Equity Investment Forecasted Y1 Return (\$)	\$4,094,566
	<i>Increase</i>	Equity Investment Forecasted Y1 Return (\$)	\$1,142,108
		Discount Rate (Equity portfolio WA rate of return) ¹³	5.41%
	NPV of Accretive Value to <u>Equities</u> from Exchange-enabled Reallocation		\$21,127,482
	Without Land Exchange	Portfolio Forecasted Y1 Return (\$), ex-IDL Timberland Return	\$3,132,133
	With Land Exchange	Portfolio Forecasted Y1 Return (\$), ex-IDL Timberland Return	\$4,343,746
	<i>Increase</i>	Portfolio Forecasted Y1 Return (\$), ex-IDL Timberland Return	\$1,211,613
		Discount Rate (ex-IDL portfolio WA rate of return)	3.36%
	NPV of Accretive Value to <u>ex-IDL Portfolio</u> from Exchange-enabled Reallocation		\$36,008,011
	Without Land Exchange	Total Portfolio Forecasted Y1 Return (\$)	\$4,867,288
	With Land Exchange	Total Portfolio Forecasted Y1 Return (\$)	\$6,750,116
	<i>Increase</i>	Additional Total Portfolio Forecasted Y1 Return (\$)	\$1,882,828
		Discount Rate (portfolio WA rate of return)	3.91%
	NPV of Accretive Value to <u>Portfolio</u> from Exchange-enabled Reallocation		\$48,196,995

Exhibit 4:

**One-year Asset Allocation Impacts |
With & Without Land Exchange**

Scenario 1 - Without Land Exchange

Land Bank Reserve	\$128,791,950
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Asset Class	% Allocation	\$ Allocation	One-year compounded real return (%)	One-Year forecasted portfolio value (\$)	One-year forecasted return (\$)
Broad US	31%	\$39,379,776	5.35%	\$41,486,594	\$2,106,818
Global ex-US	12%	\$15,236,743	5.55%	\$16,082,382	\$845,639
EFIB Bonds	16%	\$20,475,737	0.75%	\$20,629,305	\$153,568
Real Estate	0%	\$0	3.95%	\$0	\$0
Private Equity	0%	\$0	6.25%	\$0	\$0
IDL Timberland	39%	\$50,294,348	3.45%	\$52,029,503	\$1,735,155
IDL Grazing Land	2%	\$2,663,156	1.05%	\$2,691,119	\$27,963
Cash Equivalents	1%	\$742,191	-0.25%	\$740,335	(\$1,855)
	100%	\$128,791,950	3.78%	\$133,659,238	\$4,867,288
				One-Year Forecasted Gain	\$4,867,288
				One-Year Forecasted Rate of Return	3.78%

Scenario 2 - With Land Exchange

Land Bank Reserve	\$128,791,950
Land Exchange Assets	\$49,821,000
Total Investable Assets	\$178,612,950

Asset Class	% Allocation	Land Exchange	Available assets - % allocation	Available assets - \$ allocation	Total allocation	One-year compounded return (%)	One-Year forecasted portfolio value (\$)	One-year forecasted return (\$)
Broad US	31%		42%	\$54,613,180	\$54,613,180	5.35%	\$57,534,985	\$2,921,805
Global ex-US	12%		16%	\$21,130,820	\$21,130,820	5.55%	\$22,303,581	\$1,172,761
EFIB Bonds	16%		22%	\$28,396,432	\$28,396,432	0.75%	\$28,609,405	\$212,973
Real Estate	0%		0%	\$0	\$0	3.95%	\$0	\$0
Private Equity	0%		0%	\$0	\$0	6.25%	\$0	\$0
IDL Timberland	39%	\$49,821,000	15%	\$19,928,871	\$69,749,871	3.45%	\$72,156,241	\$2,406,371
IDL Grazing Land	2%		3%	\$3,693,353	\$3,693,353	1.05%	\$3,732,133	\$38,780
Cash Equivalents	1%		1%	\$1,029,295	\$1,029,295	-0.25%	\$1,026,722	(\$2,573)
	100%	\$49,821,000	100%	\$128,791,950	\$178,612,950	3.91%	\$185,363,066	\$6,750,116

One-Year Forecasted Gain **\$6,750,116**
One-Year Forecasted Rate of Return **3.78%**

One-Year Delta in Portfolio Return, ex-Land Exchange Timberland Return (\$) **\$1,211,613**
Discount rate (portfolio return, ex-Timberland return) **3.36%**

Net Present Value (NPV) of Accretive Value to Portfolio, ex-IDL Timberland, from Land Exchange-enabled Reallocation **\$36,008,011**

Exhibit 5:

**Ten-Year Forecasted Endowment Performance |
With & Without Land Exchange¹⁴**

Scenario 1 - Without Land Exchange				1	2	3	4	5	6	7	8	9	10
Asset Class	% Allocation	\$ Allocation	Compounded real return	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Broad US	31%	\$39,379,776	5.35%	\$41,486,594	\$43,706,127	\$46,044,404	\$48,507,780	\$51,102,946	\$53,836,954	\$56,717,231	\$59,751,603	\$62,948,314	\$66,316,048
Global ex-US	12%	\$15,236,743	5.55%	\$16,082,382	\$16,974,954	\$17,917,064	\$18,911,461	\$19,961,047	\$21,068,885	\$22,238,208	\$23,472,429	\$24,775,149	\$26,150,169
EFIB Bonds	16%	\$20,475,737	0.75%	\$20,629,305	\$20,784,025	\$20,939,905	\$21,096,954	\$21,255,182	\$21,414,595	\$21,575,205	\$21,737,019	\$21,900,047	\$22,064,297
Real Estate	0%	\$0	3.95%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Private Equity	0%	\$0	6.25%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IDL Timberland	39%	\$50,294,348	3.45%	\$52,029,503	\$53,824,521	\$55,681,467	\$57,602,477	\$59,589,763	\$61,645,610	\$63,772,383	\$65,972,530	\$68,248,583	\$70,603,159
IDL Grazing Land	2%	\$2,663,156	1.05%	\$2,691,119	\$2,719,375	\$2,747,929	\$2,776,782	\$2,805,938	\$2,835,401	\$2,865,172	\$2,895,257	\$2,925,657	\$2,956,376
Cash Equivalents	1%	\$742,191	-0.25%	\$740,335	\$738,485	\$736,638	\$734,797	\$732,960	\$731,127	\$729,300	\$727,476	\$725,658	\$723,843
Portfolio	100%	\$128,791,950		\$133,659,238	\$138,747,486	\$144,067,408	\$149,630,252	\$155,447,836	\$161,532,572	\$167,897,499	\$174,556,314	\$181,523,406	\$188,813,893
% Gain				3.78%	3.81%	3.83%	3.86%	3.89%	3.91%	3.94%	3.97%	3.99%	4.02%

Ten-Year Forecasted Real Gain without Land Exchange \$60,021,943

Scenario 2 - With Land Exchange				1	2	3	4	5	6	7	8	9	10
Asset Class	% Allocation	\$ Allocation	Compounded real return	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Broad US	31%	\$54,613,180	5.35%	\$57,534,985	\$60,613,107	\$63,855,908	\$67,272,199	\$70,871,262	\$74,662,874	\$78,657,338	\$82,865,506	\$87,298,810	\$91,969,296
Global ex-US	12%	\$21,130,820	5.55%	\$22,303,581	\$23,541,429	\$24,847,979	\$26,227,042	\$27,682,642	\$29,219,029	\$30,840,685	\$32,552,343	\$34,358,998	\$36,265,923
EFIB Bonds	16%	\$28,396,432	0.75%	\$28,609,405	\$28,823,975	\$29,040,155	\$29,257,956	\$29,477,391	\$29,698,472	\$29,921,210	\$30,145,619	\$30,371,711	\$30,599,499
Real Estate	0%	\$0	3.95%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Private Equity	0%	\$0	6.25%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IDL Timberland	39%	\$69,749,871	3.45%	\$72,156,241	\$74,645,632	\$77,220,906	\$79,885,027	\$82,641,060	\$85,492,177	\$88,441,657	\$91,492,894	\$94,649,399	\$97,914,803
IDL Grazing Land	2%	\$3,693,353	1.05%	\$3,732,133	\$3,771,320	\$3,810,919	\$3,850,934	\$3,891,368	\$3,932,228	\$3,973,516	\$4,015,238	\$4,057,398	\$4,100,001
Cash Equivalents	1%	\$1,029,295	-0.25%	\$1,026,722	\$1,024,155	\$1,021,595	\$1,019,041	\$1,016,493	\$1,013,952	\$1,011,417	\$1,008,888	\$1,006,366	\$1,003,850
Portfolio	100%	\$178,612,950		\$185,363,066	\$192,419,618	\$199,797,461	\$207,512,198	\$215,580,217	\$224,018,731	\$232,845,823	\$242,080,489	\$251,742,683	\$261,853,373
% Gain				3.78%	3.81%	3.83%	3.86%	3.89%	3.91%	3.94%	3.97%	3.99%	4.02%

Ten-Year Forecasted Real Gain with Land Exchange \$133,061,423

Ten-Year DELTA: Real Portfolio Return with Land Exchange (\$) \$73,039,479

Endnotes

¹ Yale University, B.A. in Economics

² Purdue University, B.A. in Forestry Science

³ Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014

⁴ Statement of Investment Policy. Idaho Land Grant Endowments, July 2018

⁵ This estimated exchange value is a preliminary estimate. The valuation for exchanged lands will depend on eventual appraisals, to ensure the exchange is performed on a value-for-value basis. This early value estimate is also not the basis for doing the exchange in any way, but rather an attempt to show to the Land Board and IDL the general order of magnitude that the exchange offers broader endowment portfolio returns.

⁶ Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014. Table 4: Endowment Asset Allocation (Financial and IDL) – 6/30/2014.

⁷ Ibid. Table 1: Callan Capital Market Projections: Projected Returns and Risks.

⁸ The Portfolio Return, ex-IDL Timberland does not include the incremental returns on the delta between the IDL Timberland allocation in Scenario 1 (\$50.3mm) and Scenario 2 (\$63.9mm), or \$13.6mm in additional value. Using the 3.45% forecasted IDL Timberland rate of return on this incremental value yields an additional \$469,703 of forecasted return, which is not captured in this analysis.

⁹ These costs will include, among other transaction costs, the costs for due diligence and appraisal.

¹⁰ Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014

¹¹ Ibid.

¹² The analysis assumes land exchange occurs in Q1 2021. The analysis reflects return estimates for 2021. The land exchange assumes no costs for the endowment (see footnote v) and the basis in the Exchange timberlands are \$0.

¹³ WA – weighted average rate of return. This is the total portfolio rate of return weighting each asset class return by the portfolio weight of each asset class.

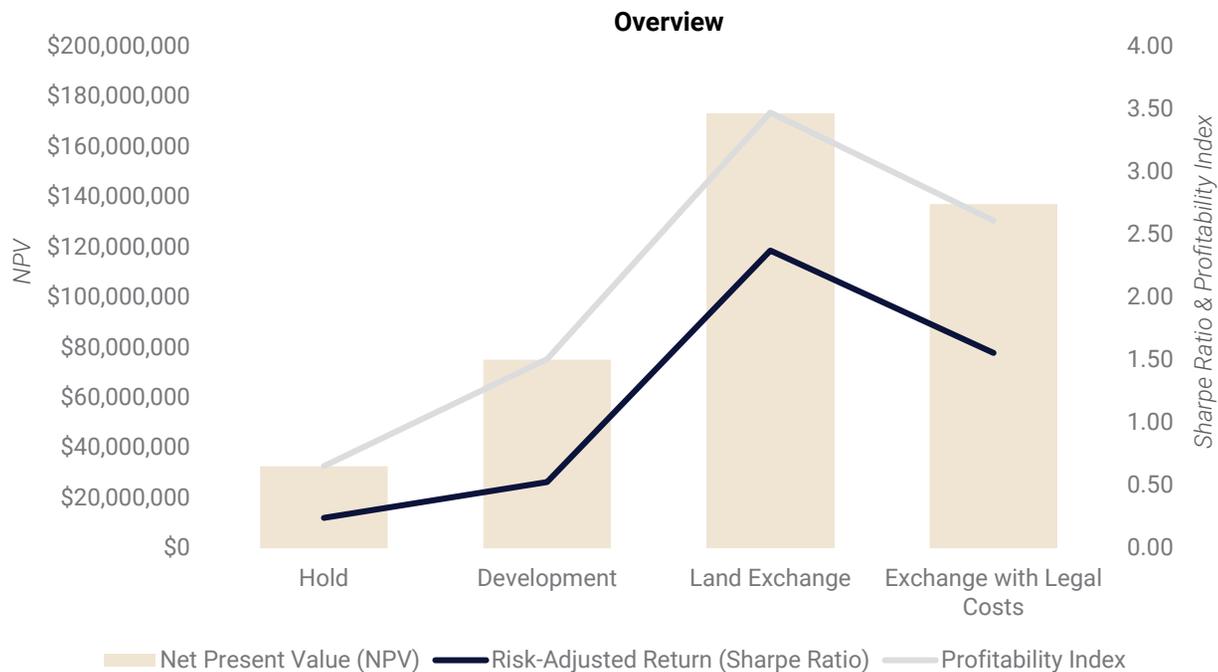
¹⁴ Ten-Year Forecasted Gain with Land Exchange is calculated as the difference between the portfolio ending value with the additional value of Land Exchange assets versus the original Endowment funds available (\$128.8 mm).



Asset Valuation Scenario Analysis

Authors: Brent Lawson,¹ Spencer Klingman,² and David New³

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Key Findings

Profitability metrics across all four scenarios express a positive correlation – meaning, the Land Exchange offers the Endowment both the greatest cash flow distributions, as exemplified by the higher NPV and Profitability Index, and the greatest risk-adjusted returns, as exemplified by higher Sharpe Ratios.



Δ Appraisal Value/acre	\$/acre	Total Appraised Value	Multiplier			
			Hold	Development	Land Exchange	Land Exchange w/ Legal
-\$500	\$1,300	\$39,821,000	0.81x	1.87x	3.54x	2.61x
\$0	\$1,800	\$49,821,000	0.66x	1.51x	3.47x	2.61x
\$500	\$2,300	\$59,821,000	0.55x	1.26x	3.43x	2.61x
\$1,000	\$2,800	\$69,821,000	0.48x	1.09x	3.40x	2.61x
\$1,500	\$3,300	\$79,821,000	0.43x	0.96x	3.38x	2.62x
\$2,000	\$3,800	\$89,821,000	0.38x	0.86x	3.36x	2.62x
\$2,500	\$4,300	\$99,821,000	0.35x	0.78x	3.34x	2.62x

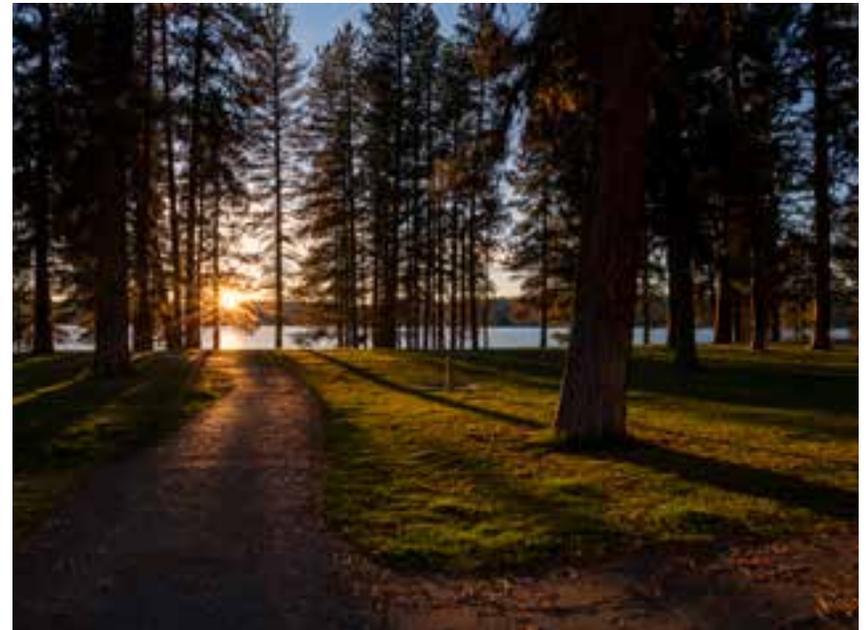
Note: Multiplier^o defined as NPV divided by total cash outlays.

Objective

The purpose of this analysis is to quantitatively estimate and analyze the profitability of various investment and management strategies for the Idaho Endowment's timberland and residential holdings in the Payette Lakes region. Considering the Endowment land holdings, constitutional mandates, and relevant topics discussed in Land Board meetings, the following long-term management strategies have been identified and thus examined in this analysis:

1. **Hold** – Idaho Department of Lands (IDL) and the Endowment continue ownership and management of the existing timberland holdings and sell the remaining residential lots (cottage sites).
2. **Development** – The IDL staff undertakes a residential development process internally by installing necessary infrastructure - roads, power, septic systems, water utilities, traffic control, planning and zoning – to sell the feasible residential acreage.
3. **Land Exchange** – The IDL executes the proposed exchange by acquiring higher income producing timberland assets in northern Idaho and in course reduces administrative costs on the Payette Lakes region assets.
4. **Land Exchange with Legal Costs & Time Delays** – The Land Exchange scenario (item 3 above) with additional legal costs and time delays, dragging initial cash flows from the subject project (detailed assumptions included below).

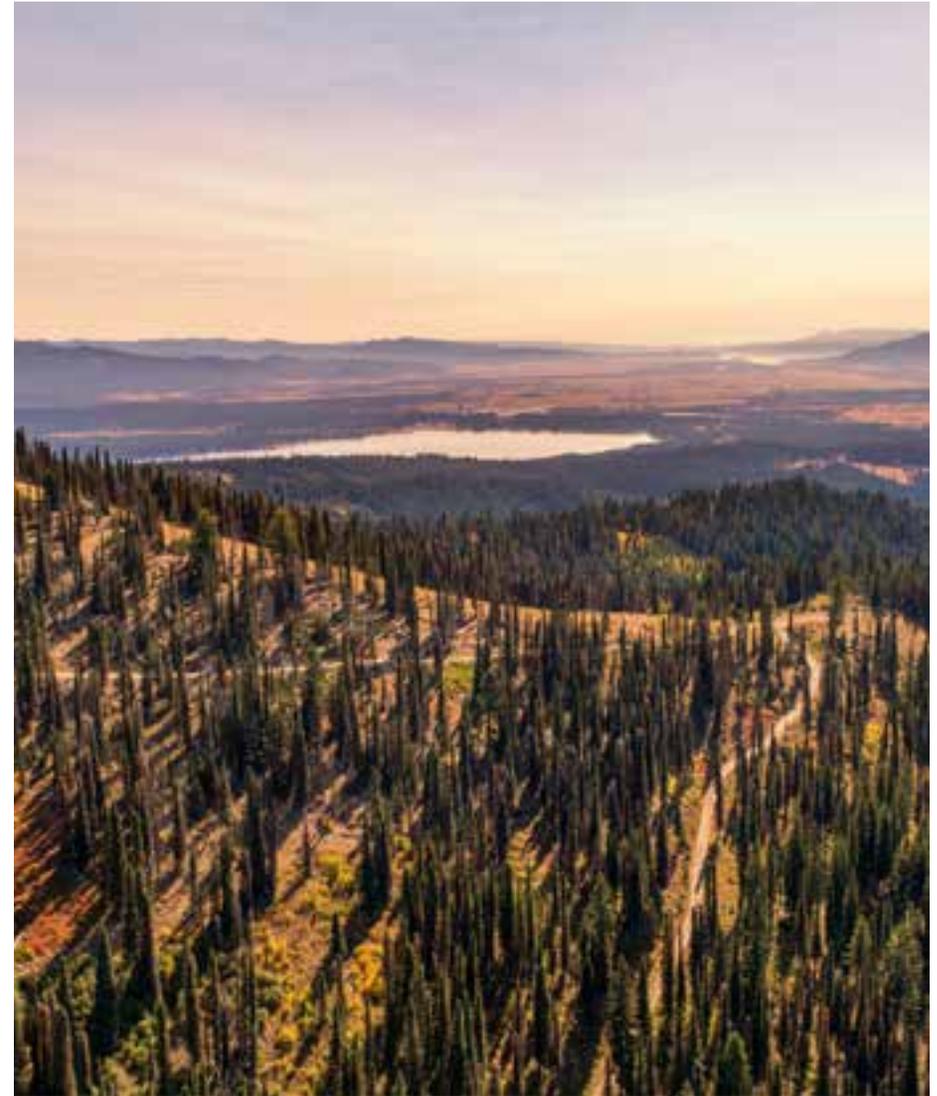
Scenario analyses of this nature provide the reader with a modest understanding of profitability related to the various opportunities available to Idaho's Endowment. We recognize the insufficiency of long-term forecasting models; nevertheless, we believe the analysis can be directionally useful. Numerous forecasting methodologies accepted in the real estate investment industry have been employed in this analysis. At every junction, conservative assumptions have been made related to base-line acre values, income returns, growth rates, development costs, and inflation expectations. In course, it is our belief that the resulting profitability estimates are sensible and prudent in nature.



Methodology

For the avoidance of doubt, we have described the methodologies exercised in this scenario analysis below.

1. **Net Present Value (NPV)** – The NPV metric, described as a monetary value, represents the present value of future cash flows minus the scenario’s initial cash outlay. The present value is derived from discounting the future cash flows by a rate representing the aggregate opportunity cost of the institution contemplating the scenario. The discount rate for the NPV metric has been assumed at the Endowment portfolio asset weighted real return forecast of 3.78%.⁴
2. **Internal Rate of Return (IRR)** – The IRR metric, described as a percentage value, represents the discount rate that results in the sum of the present value of cash flows equal to the initial scenario outlay. Put simply, the IRR represents the discount rate necessary to render an NPV of zero. This metric is less subjective than NPV as no discount rate on the future cash flows are assumed. Instead, this metric provides the implied discount rate representing the institution’s return on investment.
3. **Payback Period** – The Payback Period, described as a year count, calculates the time it takes for the initial scenario outlay to be recovered through cash flows generated by the same scenario. This metric is simple and intuitive. It provides the reader with a time estimate on profitability and is a strong indicator of liquidity.
4. **Profitability Index** – The Profitability Index, described as a ratio, represents the value received in exchange for one unit of currency invested in any given scenario. This is also commonly referred to as the “benefit-cost” ratio. It provides the reader with an estimate of profitability for every dollar invested.
5. **Sharpe Ratio** – The Sharpe Ratio describes the anticipated excess return of the scenario relative to the risk-free rate of return for every unit of risk assumed. Risk is measured as the standard deviation of the relevant return drivers for each specific scenario.



While each methodology provides the reader with a meaningful profitability metric representing any given scenario, consideration of all relevant methodologies and an appreciation for the respective strengths of each provides the reader with a more holistic, comprehensive evaluation.

Figure 1:

Scenario Analysis

Figure 1 demonstrates the Net Present Values, Internal Rates of Return, Payback Period, Profitability Index, and Sharpe Ratios for each of the four strategies analyzed. Figure 1 illustrates the positive correlation observable between the various profitability metrics as it relates to any given scenario.

Beginning Year: 2021

Years of Analysis: 80

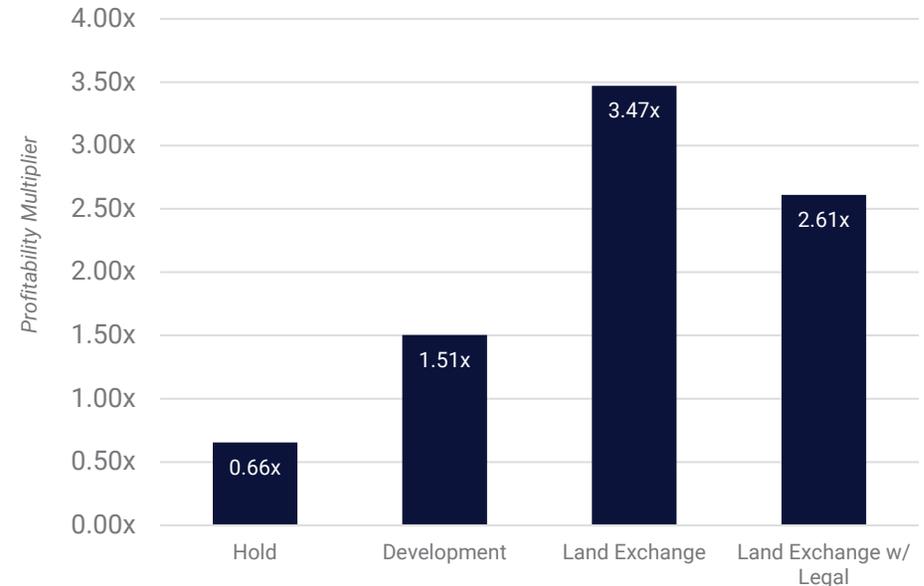
Scenario	Hold	Development	Land Exchange	Exchange with Legal Costs
Timberland disposition year	2100	2100	2100	2100
Residential disposition year	2030	2030	n/a	n/a
Development disposition year	n/a	2021 - 2080	n/a	n/a
Net Present Value (NPV)	\$32,645,972	\$75,099,490	\$172,992,427	\$137,141,554
Internal Rate of Return (IRR)	2.01%	5.52%	9.19%	6.44%
Payback Period	45.93	17.16	12.65	21.84
Profitability Index	0.66	1.51	3.47	2.61
Risk-Free Rate - Real (One-Year)	1.21%	1.21%	1.21%	1.21%
Risk (Standard Deviation)	3.32%	8.18%	3.36%	3.36%
Risk-Adjusted Return (Sharpe Ratio)	0.24	0.53	2.37	1.56

Model Assumptions

The following model assumptions are included in all four scenarios:

- 1. Timing** - The analysis begins as of January 1, 2021 and analyzes an 80-year period, with December 31, 2100 as the terminal year (Note: This differs from the perpetuity values in the section before. Aligning terminal value years makes the different scenarios comparable). An 80-year period of analysis was selected to reduce the appreciated terminal value of timberland assets. By extending the assumed terminal values, the primary drivers of the discounted cash flow (DCF) analysis are derived from timberland annual net incomes and disposition of key residential properties (existing cottage sales and/or development parcel sales).
- 2. Real Returns** – All appreciation rates, growth rates and return metrics are stripped of the Callan Inflation assumption of 2.25%⁵ to provide real rates of return. This methodology was adopted to maintain consistency with real rates of return analyzed in the previous section and the Endowment’s real portfolio rate of return of 3.78%.⁶
- 3. Discount Rate** – The Endowment Fund real weighted-average portfolio return of 3.78% was utilized as the discount rate. This discount rate accurately reflects the Endowment’s current asset allocation and Callan’s projected returns. The discount rate accounts for opportunities in all asset classes. To provide color on the sensitivity of the discount rate, NPV results are analyzed with various discount rates ranging from 2.8% - 4.8% in Exhibits A, B, C, and D.
- 4. Internal Rate of Return (IRR)** - The current value of the Payette Lakes timberland holdings is approximated at \$49,821,000. This value per acre may be adjusted as additional appraisal resources are allocated to the project. The figure was used as the initial investment for all scenarios. Although the Endowment will not incur this acquisition expenditure (the Endowment currently owns the assets), an assumption on current value is necessary for the profitability analysis of each scenario.

The figure below reveals one of the key metrics - the Profitability Index - in plain form. The Profitability Index, or the Multiplier, expresses the value received in exchange for one unit of currency invested. This demonstrates the expected value from each scenario given the assumed initial investment of \$49.821 million. We view this as a simple representation of the magnitude of difference between the available strategies presented to the Endowment.



In an effort to address questions regarding the Payette Lakes Endowment land valuations, we have presented the following sensitivity tables for NPV, IRR, Sharpe Ratio, and the Profitability Index. We currently assess the Payette Lakes timberland assets at \$1,800 per acre for the 20,000 acres (with additional value of \$13.82mm on the cottage sites included in the proposed land exchange). However, the below tables allow the reader to adopt their own timberland valuation methodology, as reflected by the Payette Lakes value per acre. This additional optionality allows the reader to attribute their personal views and analyze the associated profitability metrics for each scenario.

Summary Total			NPV			
Δ Appraisal Value/acre	\$/acre	Total Appraised Value	Hold	Development	Land Exchange	Land Exchange w/ Legal
-\$500	\$1,300	\$39,821,000	\$32,175,386	\$74,635,266	\$140,823,588	\$110,867,864
\$0	\$1,800	\$49,821,000	\$32,645,972	\$75,099,490	\$172,992,427	\$137,141,554
\$500	\$2,300	\$59,821,000	\$33,116,558	\$75,563,714	\$205,161,266	\$163,415,244
\$1,000	\$2,800	\$69,821,000	\$33,587,144	\$76,027,938	\$237,330,105	\$189,688,934
\$1,500	\$3,300	\$79,821,000	\$34,057,729	\$76,492,163	\$269,498,944	\$215,962,625
\$2,000	\$3,800	\$89,821,000	\$34,528,315	\$76,956,387	\$301,667,783	\$242,236,315
\$2,500	\$4,300	\$99,821,000	\$34,998,901	\$77,420,611	\$333,836,621	\$268,510,005

Summary IRR			IRR			
Δ Appraisal Value/acre	\$/acre	Total Appraised Value	Hold	Development	Land Exchange	Land Exchange w/ Legal
-\$500	\$1,300	\$39,821,000	2.69%	6.81%	9.38%	6.48%
\$0	\$1,800	\$49,821,000	2.01%	5.53%	9.19%	6.44%
\$500	\$2,300	\$59,821,000	1.59%	4.63%	9.06%	6.42%
\$1,000	\$2,800	\$69,821,000	1.30%	3.97%	8.97%	6.41%
\$1,500	\$3,300	\$79,821,000	1.10%	3.47%	8.91%	6.39%
\$2,000	\$3,800	\$89,821,000	0.94%	3.07%	8.85%	6.39%
\$2,500	\$4,300	\$99,821,000	0.82%	2.74%	8.81%	6.38%

Summary SR			Sharpe Ratio			
Δ Appraisal Value/acre	\$/acre	Total Appraised Value	Hold	Development	Land Exchange	Land Exchange w/ Legal
-\$500	\$1,300	\$39,821,000	0.45	0.69	2.43	1.57
\$0	\$1,800	\$49,821,000	0.24	0.53	2.37	1.56
\$500	\$2,300	\$59,821,000	0.12	0.42	2.33	1.55
\$1,000	\$2,800	\$69,821,000	0.03	0.34	2.31	1.54
\$1,500	\$3,300	\$79,821,000	-0.03	0.28	2.29	1.54
\$2,000	\$3,800	\$89,821,000	-0.08	0.23	2.27	1.54
\$2,500	\$4,300	\$99,821,000	-0.12	0.19	2.26	1.54

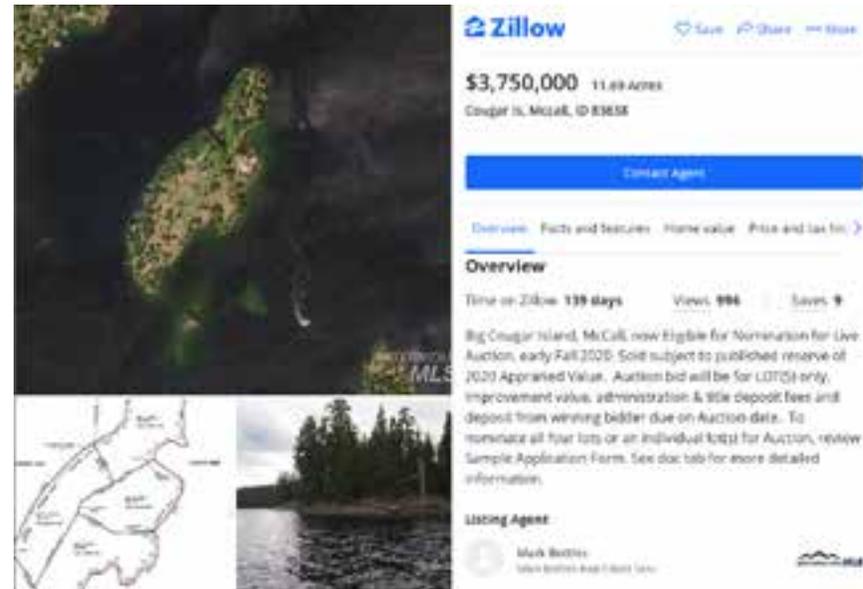
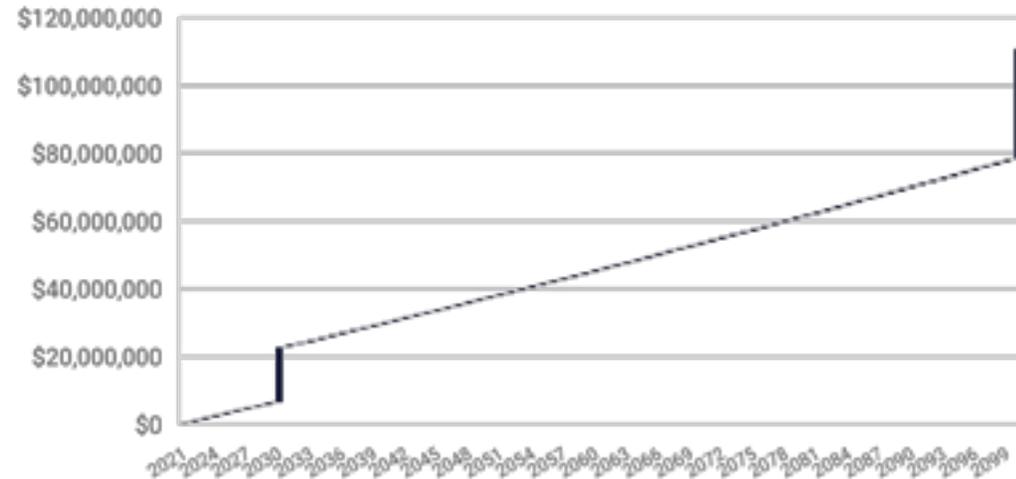
Summary Multiplier (NPV/Cash Outlays)			Multiplier			
Δ Appraisal Value/acre	\$/acre	Total \$	Hold	Development	Land Exchange	Land Exchange w/ Legal
-\$500	\$1,300	\$39,821,000	0.81x	1.87x	3.54x	2.61x
\$0	\$1,800	\$49,821,000	0.66x	1.51x	3.47x	2.61x
\$500	\$2,300	\$59,821,000	0.55x	1.26x	3.43x	2.61x
\$1,000	\$2,800	\$69,821,000	0.48x	1.09x	3.40x	2.61x
\$1,500	\$3,300	\$79,821,000	0.43x	0.96x	3.38x	2.62x
\$2,000	\$3,800	\$89,821,000	0.38x	0.86x	3.36x	2.62x
\$2,500	\$4,300	\$99,821,000	0.35x	0.78x	3.34x	2.62x

Scenario One: Hold

The Hold scenario assumes the Endowment maintains ownership and the current management plan for the Payette Lake assets. As per the Payette Lakes Supervisory area, we project the Hold strategy will generate \$367,800 net income per annum from the Endowment Impact Area forests - timber activity. We project the Endowment Impact Area non-timber revenues from timberland acreage (communication, recreation, grazing and mineral lease) will generate \$112,364 in net income per annum. Finally, we project the Endowment Impact Area – lease activity from non-timberland to generate \$239,308 in net income per annum. Each of these revenue generating activities are maintained throughout the hold period. Over the long-run, the net incomes are grown at a 2.5% nominal, or 0.25% real appreciation rate to reflect the long-term pricing tailwinds for the subset of assets.

Given the current endowment of unsold cottage sites included in the Land Exchange proposal,⁸ the Hold scenario assumes the Endowment will complete the disposition of the remaining 14.9 lake front acres (8 sites) and 1.2 non-lake front acres (3 sites) in 2030. Sales were analyzed using a seven-year regression analysis, then extrapolated for the remaining cottage sites as of 2020. The predictive value for lake front parcels was estimated \$911,316 per acre. The predictive value for non-lake front parcels was estimated at \$200,000 per acre. These valuations were used as the starting values for per acre disposition calculations. Free market transaction per square foot and per acre values over the 2013-2019 period were also analyzed to cross check the rationale behind the predictive value

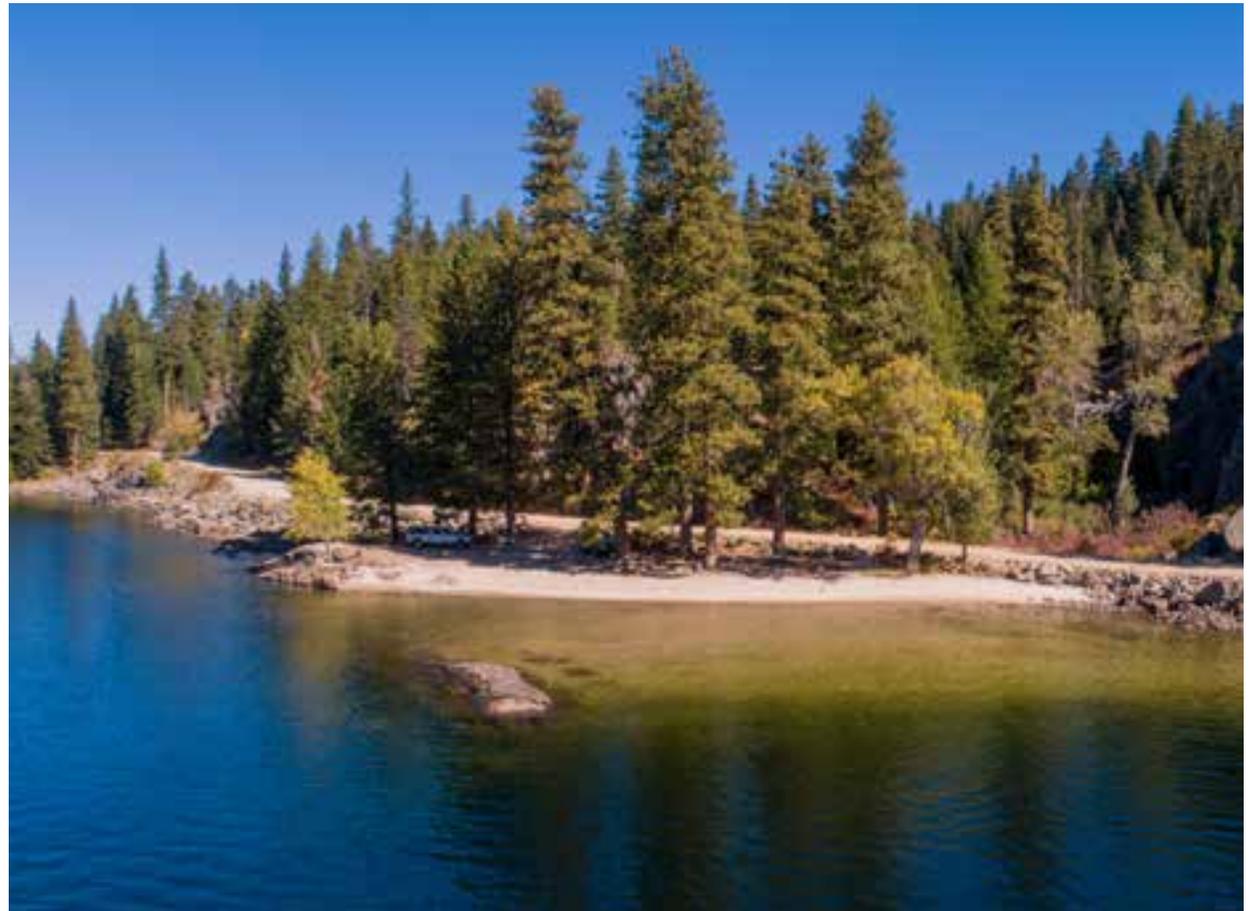
Scenario One: Hold
Cumulative Cash Flow Time Series



Selling unleased properties, Zillow, retrieved 25 October 2020

estimates. We confirmed the historical sales in the open market corroborate our valuation methodology. The valuation figures were in line. The residential values are appreciated at the five-year historical McCall residential appreciation rate of 1.31% real, or 3.56% nominal.⁹ We utilized the historical growth rate proxy based on the 2015-2020 free-market transactions.¹⁰ This analysis further supports the regression analysis and predictive values as outlined above. We view the long-term growth rates as a generous assumption, given the most recent five-year period represents a rather aggressive residential bull market. Finally, we recognize historical valuations are not indicative of future results as by definition, the future is unknown. We do not attempt to adjust long-term trends in this analysis and suggest the methodology fairly represents long-term valuations.

The analysis assumes the timberland acreage will be held for eventual sale. The timberland holdings of 20,000 acres were assigned a valuation of \$1,800 per acre. We currently believe this valuation to be in-line with market, given conversations with appraisers and forestry consultants.¹¹ It is critical to note that these valuations are subject to change upon the official IDL appraisal. The roughly 5,000 non-viewshed timberland acres are forecasted to grow at the 20-Year NCREIF Appreciation Index - compounded annual growth rate (CAGR) of 3.66% nominal, or 1.41% real.¹² Given discussions with forestry consultants, we suggest the ~15,000 viewshed timberland acres are impaired timberlands, thus are not expected to appreciate at the same rate. We have ascribed a 0.0% nominal growth rate (-2.25% real) to the viewshed acres.¹³ The NCREIF Earnings before Interest, Taxes, Depreciation, Depletion, and Amortization (EBITDDA)¹⁴ Index returns are excluded from long-term timberland asset growth rates as the annual earnings are reflected in the annual real return figures as presented above. The terminal value of the Endowment's 5,000 non-viewshed timberland holdings in 2100, assuming the 3.66%



NCREIF Appreciation Index growth rate is \$5,459 per acre (real). The terminal value of the ~15,000 viewshed acres, assuming the 0.0% nominal growth rate is \$298 per acre (real). To clarify, the terminal value does not suggest the IDL disposes of the timberland assets. The terminal value simply represents the timberland value in perpetuity. Due to the nature of discounting over 80-years, the terminal values of the timberland assets are not significant drivers to the NPV analysis.

With the exception of year 2030 and 2100, where upon the residential acres and timberland are assumed to be

sold, respectively, the Hold scenario generates modest positive cash flow due to the lower timber productivity and high administrative costs. This return profile is considered particularly risky given the majority of years are anticipated to be slightly productive, thus placing a disproportionate reliance on only a few events which may or may not materialize to expectation. Further critical thought should be given to the prospects of the terminal valuations in the year 2100. If there is even the potential for the related timberland acres to be unproductive, the terminal value estimated at best use will suffer a considerable loss of value.

Scenario Two: Development

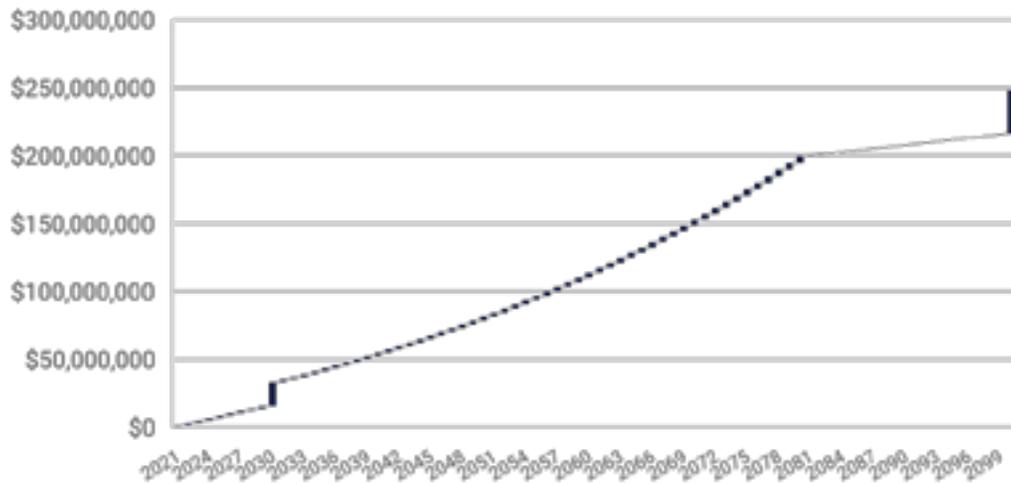
90 In the Development scenario, the same assumptions for Payette Lakes timberland assets and existing residential sales are maintained as in Scenario One. The scenario analyzes the returns if the Idaho Department of Lands staff undertakes the residential development project internally. The development project is scaled throughout the analysis period, meaning, we assume the Endowment will develop 24 acres per year for the next 60 years (2021-2080). Anecdotally, we have learned IDL recently considered developing 120 acres into 130 residential properties. If we assume the project will take 5 years to complete, this equates to 24 acres per year. In the Scenario Two analysis, the development project yields 1,440 total acres, or 7.20% of the ~20,000 acres of the proposed Land Exchange. Developing 1,440 acres of currently classified timberlands into residential properties is a prudent assumption given the size of the McCall and greater Idaho residential markets. The “absorption rate”, or the rate at which new homes sell in a specific market over a period of time, will be the primary constraint in a development project of this scale. We believe the pace of development and total acreage developed is in-line with the market’s current capacity to absorb new housing.

The analysis assumes the IDL staff will develop only the necessary infrastructure to sell bare land residential properties (horizontal development). This does not include the construction of homes or improvements (vertical development). The infrastructure expenses include, but are not limited to, roads, retainer walls, community wells, neighborhood water lines, fire hydrants, power lines, individual domestic wells, individual septic systems, TOPOS engineering, traffic control, permits, zoning, safety & compliance standards (fire and emergency systems), IDL staff salaries and general contractor expenses. In conversations with community architects and residential development firms, infrastructure costs for a development of this scale would cost roughly \$163,476 per acre on the low end and \$285,738 per acre on the high end.¹⁵ We assume 0.5 acre lots, resulting in 2,880 units over the 60-year period. The development costs per unit are \$81,738 on the lower bound and \$142,869 on the higher bound. Due to the scaled development approach, infrastructure development costs are appreciated at a 3.00% nominal growth rate, or 0.75% real growth rate. The all-in development costs, including the inflationary effects, over 60 years is \$295,920,705. This may be a considerable expense for the Endowment to incur from the Endowment’s current, and future, cash assets. The Endowment would take a substantial risk incurring the

development costs on an investment in a residential real estate market, which has historically been volatile in nature. Residential development risk is analyzed using a proxy as defined by a 50% weight to the average rolling three-year standard deviation of McCall residential market and a 50% weight to the average rolling three-year standard deviation of USA Framing Lumber prices. The proxy’s standard deviation is 8.18% (Lumber – 5.80% and Residential 10.56%).¹⁶ Therefore, the significant investment is concentrated on a risk that is not guaranteed to produce the forecasted returns (demonstrated below). In other words, the Endowment would be making a capital-intensive investment on risk factors that have been volatile in nature. The expected payout from the development is far from guaranteed.

It is worth noting, these development costs would require resources to be allocated away from traditional Endowment Fund portfolio investments, including domestic and international equities. Finally, residential developments of this scale and nuance require specialized expertise and significant coordination. The required time investment and long, but relatively shallow learning curve associated with development, may not be the best use of IDL staff. Such an undertaking would likely compete with current IDL staff responsibilities to the Endowment and beneficiaries.

Scenario Two: Development
Cumulative Cash Flow Time Series



Once developed, the analysis assumes residential acres will be sold at valuations of \$200,000 per acre. This is a favorable assumption given the Endowment’s non-lake front cottage site median sale was \$4.33 per square foot, or \$188,722 per acre. The feasibility of continued lake-front property development is a serious concern due to the lack of availability of lake front parcels – most of the lake front parcels have been sold through cottage site auctions. We assume all development acres will be non-lake front. The per acre valuations are appreciated at the same 3.56% McCall residential nominal growth rate, or 1.31% real, through the development period (as outlined above). In addition to the 1,440 development acres, the remaining cottage sites are assumed to be sold in 2030 at the same valuations as outlined in Scenario One. The timberland terminal value methodology is the same as outlined in Scenario One, besides the 1,440 developed acres subtracted from the viewshed timberland acres.



IDL’s application for 130 residential unit sewer expansion assessment

PAYETTE LAKES RECREATIONAL WATER AND SEWER DISTRICT
AGREEMENT FOR SEWER COMMITTED MODEL SERVICES

APPLICANT: Idaho State Department of Lands (Siti Anderson)

PHONE: 208-334-4229

ADDRESS: 300 N 6th st
Boise, ID 83720

DESCRIPTION OF PROPERTY TO BE SERVED:
27-120 acres of Endowment Lands adjacent to the lake on the east side of Payette Lake.
Located in 19M, 3E, Sec 26.

PROPERTY OWNERS: Idaho State Department of Lands

TYPE OF FACILITIES TO BE SERVED: Residential/Commercial

DESCRIPTION OF FACILITIES (e.g. number of residences; type of establishment)
If the best reach does stream from this site were served how many EDU's would be
available before another bottleneck began to form elsewhere in the system?
What would it take to get to approximately 130 EDU's available in this location?

DEPOSIT OF \$300 REQUIRED for minimum anticipated costs to the District

APPLICATION RECEIVED BY: Dale Cap

DATE: 1.6.2020

DEPOSIT REMITTED: \$300.00

DATE PAID: 1.6-2020 CHECK NO.: 129932675

Applicant agrees to reimburse the Payette Lakes Recreational Water and Sewer District for any costs incurred to model sewer capacity for the property described. Costs include services provided by J-C-B Engineers or their subsidiaries, District staff time and incidental costs.

[Signature] [Signature]
 Applicant signature Date

Attachments/Exhibits attached to application:

Deposit _____
 Final Fees billed _____
 Balance Due _____
 Date Paid in Full _____

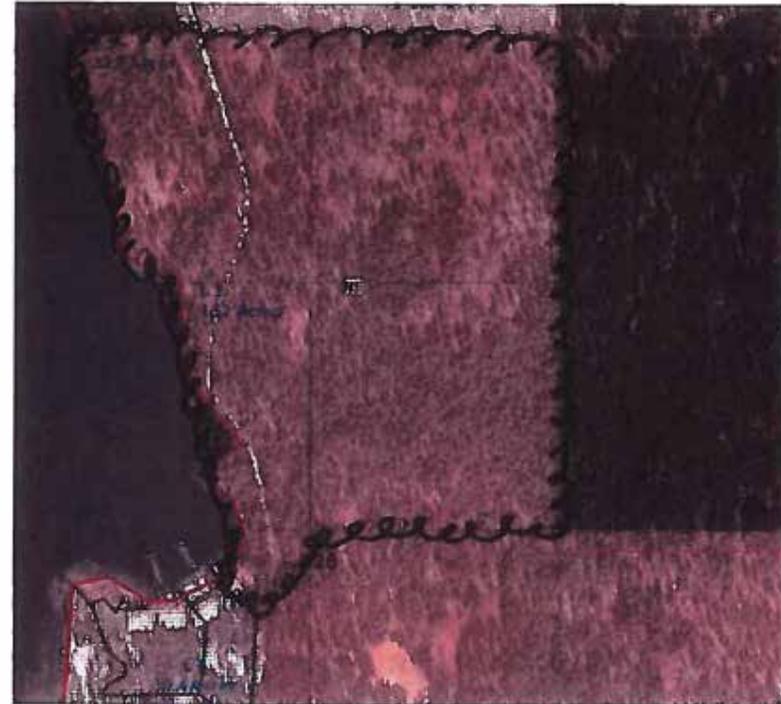
level

Committed Model 3/14/10

v. 3018-01

IDL's application for 130 residential unit sewer expansion assessment

Attachment A



IDL's application for 130 residential unit sewer expansion assessment

Holding Endowment lands for eventual residential development through internal efforts appears attractive at first glance; however, the feasibility of implementation, concentrated development risk, magnitude of capital expenses and overall inferior long-term returns demonstrates the development approach to be less attractive than the Land Exchange alternative. As exemplified by a lower Sharpe Ratio, the IDL Development scenario also offers lower risk-adjusted returns to the Endowment.

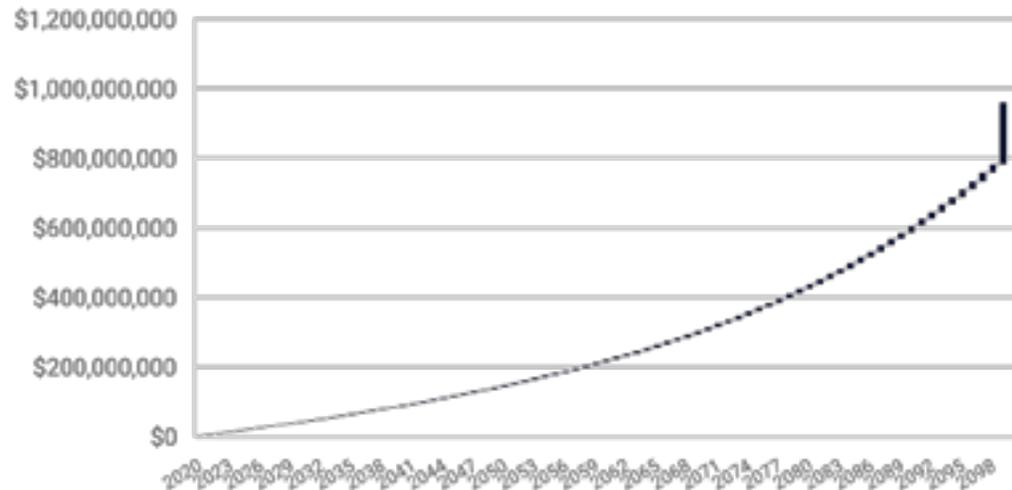


Scenario Three: Land Exchange

The proposed Land Exchange, primarily outlined in the Economic Benefits to Idaho Endowment Beneficiaries section, thoughtfully addresses the economic benefits of the Land Exchange to the Endowment. The Exchange Lands in northern Idaho are assumed to deliver a \$64.43 net return per acre per annum, or \$2,006,229 in net revenues per annum on 31,000 proposed candidate acres.¹⁷ This revenue stream is grown at a 2.5% nominal growth rate, or 0.25% real growth rate, to reflect long-term trends in timber pricing. Over the long run, we believe this is a conservative, prudent assumption for timber prices.

The immediate allowable cut benefit for the Endowment portfolio resulting from the acquisition of northern Idaho exchange assets is conservatively estimated at \$386,594. This immediate cut benefit is projected to last through the entire investment period as the older trees that will be harvested will continue to cycle through the Endowment unit mix. In other words, the older trees that are harvested will be replanted, and the unit mix of the Exchange Land timber holdings will continue to cycle through the Endowment's unit age mix. The Endowment asset profile will continue to materialize this benefit for the 80-year hold. This effect is appreciated at a base 2.25% growth rate, in-line with inflation.

Scenario Three: Land Exchange
Cumulative Cash Flow Time Series



The improved legal and physical access effect for the northern Idaho timber assets is valued at \$64.43 per acre for 1,583 acres - yielding \$101,966 in annual net income. We view this as a conservative assumption given our understanding of proposed north Idaho exchange lands. The physical access effect is appreciated at a 2.25% nominal growth rate, in-line with inflation.

Finally, the portfolio reallocation to Callan-targeted non-timber assets is projected at \$1,211,613 per annum. This assumption will be held throughout the entire analysis period, as the portfolio will continue to yield these benefits as asset allocations perform. The growth of the portfolio reallocation is in-line with the Endowment's forecasted portfolio real rate of return of 3.78%.¹⁸ The portfolio reallocation benefit will be maintained through the period of analysis.

Timberland assets are assigned a valuation of \$1,600 per acre. A more detailed per acre valuation exercise will be conducted during the Land Exchange asset due diligence period. Given the \$1,600 per acre timberland valuations in northern Idaho, and currently assumed \$49,821,000 Land Exchange value, roughly 31,000 acres would be acquired in northern Idaho. It is critical to note these valuation estimates are subject to change as appraisal valuations are materialized; the acreage count may change in unison. The Land Exchange scenario also includes the assumption that the Endowment will hold timberland assets in perpetuity after 2100. The historical Earnings before Interest, Taxes, Depreciation, Depletion, and Amortization (EBITDDA)¹⁹ Index returns are excluded from long-term timberland asset growth rates because the Land Exchange assets EBITDDA is included in the annuity net income per annum calculations, as demonstrated above. Timberland holdings are appreciated at the 3.66%



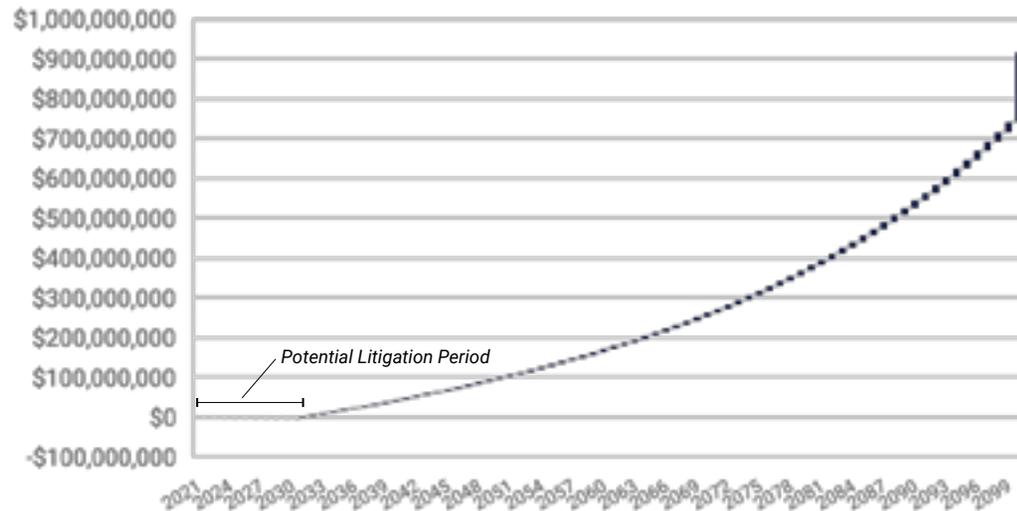
NCREIF Appreciation Index growth rate. The terminal value of timberland assets in 2100 after ascribing the real appreciation rate is \$4,852 per acre. Due to the compounding nature of the discount rate over 80 years, the terminal values for timberland assets are not significant drivers to the NPV analysis.



Scenario Four: Land Exchange with Legal Costs & Time Delays

The final scenario assumes the proposed Land Exchange (same assumptions as Scenario Three), with the addition of significant legal costs and extensive time delays. This scenario assumes legal costs to be \$1 million per year, for a ten-year exchange process. The analysis maintains the year 2021 combined \$719,471 in annual net income from the timber revenue from timberland, non-timber revenue from timberland, and non-timberland acreage revenue, until the Land Exchange is executed. This effect slightly offsets the negative cash flows through the 10-year delay process. Despite the \$10 million in legal expenses and time delays, both considered unlikely and without known reasons now, the “delayed” Land Exchange nevertheless proves more attractive relative to any other Endowment alternative.

Scenario Four: Land Exchange with Legal Delays
Cumulative Cash Flow Time Series



Conclusion

The scenario analysis suggests the execution of the Land Exchange proposal creates the greatest value for the Endowment relative to any currently available alternative. When comparing the Land Exchange opportunity to the Hold scenario, the Land Exchange offers \$140.35 million greater value to the Endowment. When comparing the Endowment's most aggressive strategy, Development, to the Land Exchange, the net present value of the Land Exchange still exceeds the alternative by \$98.08 million. Even assuming extensive legal costs and time delays for the execution of the Land Exchange, the bear case Land Exchange scenario still exceeds the Hold alternative by \$104.49 million and the Development alternative by \$62.23 million.

The Land Exchange strategy dramatically increases annual cash flow distributions for Endowment beneficiaries, while simultaneously reducing concentrated risk profiles in residential markets and development processes. The Land Exchange's annual cash flow distributions inherently diversify the risk profile of the Endowment. In the Hold and Development scenarios, the majority of the success of each project rests on the success of the residential sales (existing acreage and development acreage). In any asset class, or portfolio management opportunity set, an investment thesis of this nature creates an isolated, concentrated risk profile that generates a less attractive risk-adjusted returns. Put plainly, to undertake the Hold or Development scenario, the Endowment would be placing a focused bet on a residential real estate market, which has traditionally been considered a secondary market.

Furthermore, by undergoing development internally, the Endowment, by constitution, would need to reclassify the Payette Lake holdings into the Real Estate asset class. This forces the Endowment to purchase additional timberland investments from their Land Bank Reserve funds to maintain the Callan recommended asset allocations. The residential development would require a substantial undertaking, drawing extensive staff costs, consultant fees, and raw material costs. This may be viewed as counter to the highest and best use of IDL staff time.



In conclusion, the proposed Land Exchange provides the Endowment an attractive opportunity to smooth annual cash flow distributions for Endowment beneficiaries, diversify the investment risk profile, and offer long-term land appreciation value. Through this analysis, the net present value calculations, complemented by other industry standard profitability metrics, quantitatively display how no other Endowment alternative creates as much value on a nominal and risk-adjusted basis to the portfolio's beneficiaries as the proposed Land Exchange.

Exhibits

Exhibit A: Scenario One: Hold - NPV Analysis - Discount Rate & Years of Analysis

		Discount rate				
		2.8%	3.3%	3.78%	4.3%	4.8%
Years	20	\$23,613,714	\$22,626,144	\$21,692,436	\$20,809,140	\$19,973,058
	40	\$30,583,260	\$28,692,626	\$26,980,443	\$25,425,082	\$24,007,952
	60	\$34,816,958	\$32,036,885	\$29,627,153	\$27,523,672	\$25,675,015
	80	\$41,029,075	\$36,361,538	\$32,645,972	\$29,636,658	\$27,157,977

Exhibit B: Scenario Two: Development - NPV Analysis - Discount Rate & Years of Analysis

		Discount rate				
		2.8%	3.3%	3.78%	4.3%	4.8%
Years	20	\$42,271,982	\$40,436,539	\$38,710,447	\$37,086,019	\$35,556,178
	40	\$68,370,263	\$63,091,402	\$58,404,901	\$54,231,544	\$50,503,836
	60	\$90,394,035	\$80,444,102	\$72,103,574	\$65,066,204	\$59,089,356
	80	\$96,556,939	\$84,735,214	\$75,099,490	\$67,163,523	\$60,561,582

Exhibit C: Scenario Three: Land Exchange - NPV Analysis - Discount Rate & Years of Analysis

		Discount rate				
		2.8%	3.3%	3.78%	4.3%	4.8%
Years	20	\$66,226,322	\$63,382,066	\$60,719,946	\$58,226,229	\$55,888,331
	40	\$122,360,720	\$112,088,588	\$103,043,403	\$95,056,300	\$87,983,724
	60	\$175,906,553	\$154,214,307	\$136,248,949	\$121,280,692	\$108,733,883
	80	\$249,434,943	\$206,123,111	\$172,992,427	\$147,358,042	\$127,289,733

Exhibit D: Scenario Four: Land Exchange with Legal Costs - Discount Rate & Years of Analysis

		Discount rate				
		2.8%	3.3%	3.78%	4.3%	4.8%
Years	20	\$28,835,364	\$26,774,647	\$24,869,073	\$23,106,047	\$21,474,068
	40	\$84,969,762	\$75,481,170	\$67,192,530	\$59,936,118	\$53,569,461
	60	\$138,515,595	\$117,606,888	\$100,398,077	\$86,160,510	\$74,319,620
	80	\$212,043,985	\$169,515,693	\$137,141,554	\$112,237,860	\$92,875,470

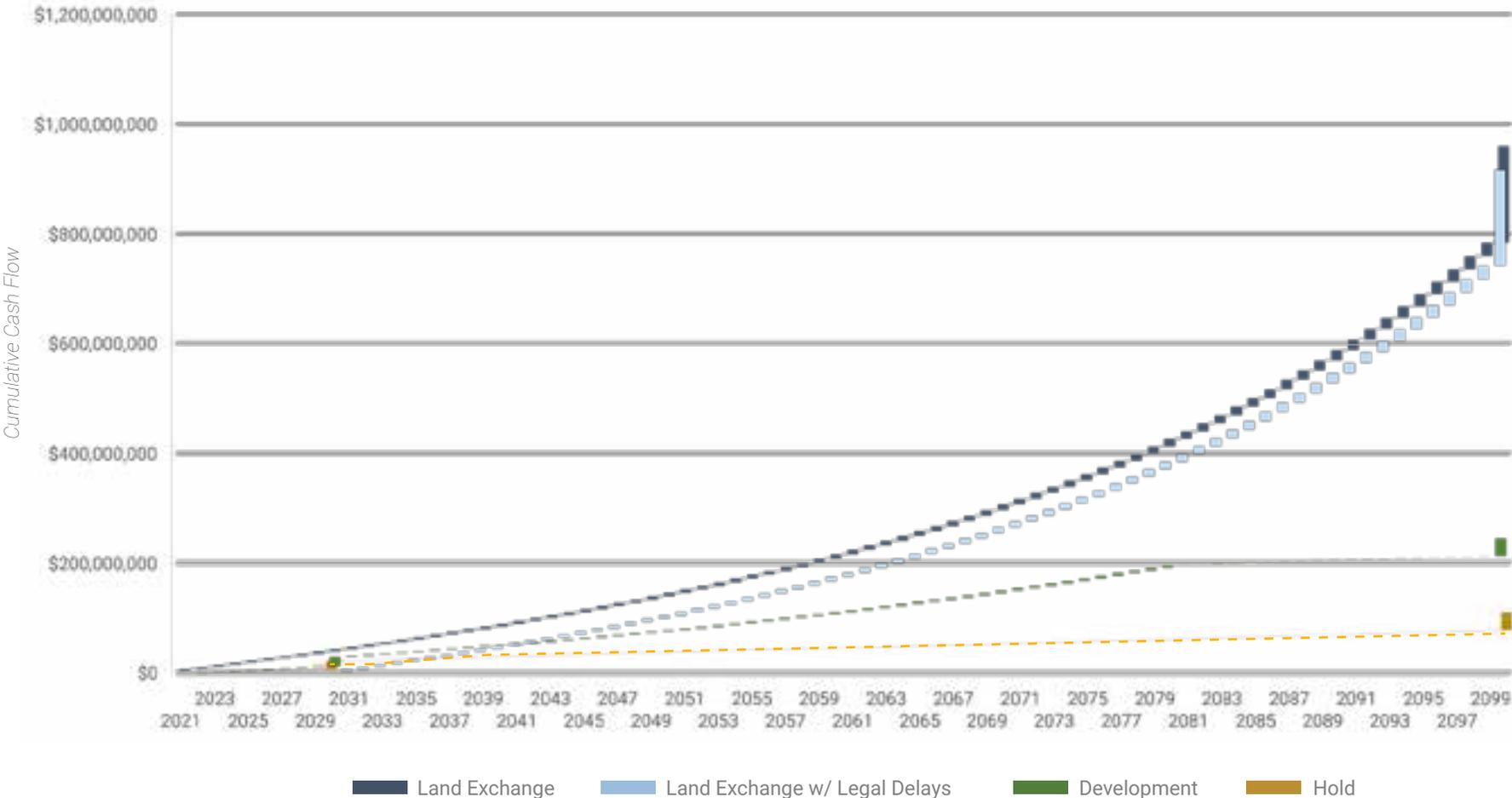
Model

Inputs

Timing	
Base year	2021
Years of analysis	80
Land terminal value year - Timber	2100
Terminal year of analysis	2100
Begin Date	12/31/2020
End Date	12/31/2100

Metrics	
Inflation*	2.25%
Discount rate**	3.78%

Asset Valuation Scenario Analysis



Scenario 1

Hold

Acreage Assumptions		Residential Valuation	
Timberland - Nonviewshed acres	5,000	Lake Front - value/acre (future sales)	\$911,316
Timberland - Viewshed acres	15,000	Non-Lake Front - value/acre (future sales)	\$200,000
Lake Front - acres	14.90	Residential appreciation rate	3.56%
Lake Front - quantity homes	8.0 ~		
Non Lake Front - acres	1.2		
Non Lake Front - quantity homes	3.0 ~		
Residential total acres	16.1		
Timing		Timberland Valuation	
Disposition Year - Residential	2030	Timber price index - appreciation rate	3.66%
Disposition Year - Timberland	2100	Timber total index - appreciation rate	8.75%
		Timber viewshed acreage - appreciation rate	0.00%
Net Income			
Endowment Impact Area forests timber revenues - acres	20,000		
Endowment Impact Area forests timber revenues - return/acre	\$18.39		
Endowment Impact Area forests timber revenues as annual NET cash	\$367,800		
Growth rate	2.50%		
Endowment Impact Area non timber revenues from Timberland - acres	20,000		
Endowment Impact Area non timber revenues from Timberland - \$/acres	\$5.62		
Endowment Impact Area non timber revenues from Timberland - NET cash	\$112,364		
Growth rate	2.50%		
Endowment Impact Area Lease NET Revenue from Non-Timberland assets	13.68		
Endowment Impact Area Lease NET Revenue from Non-Timberland assets	\$17,493		
Endowment Impact Area Lease NET Revenue from Non-Timberland assets	\$239,308		
Growth rate	2.50%		

Scenario 2

Development

Timing Assumptions

Begin Year - Development	2021
End Year - Development	2080
Disposition year - Timberland	2100
Disposition year - Residential (existing)	2030
Acres developed/year	24
Total acres developed	1,440
% of acres developed	7.20%

Valuation

Residential value/acre - base	\$200,000
Residential appreciation rate	3.56%
Development cost per acre (lower bound)	\$163,476
Development cost growth rate	3.00%
Total acres developed	1,440

Total Development CapEx (Today's \$)	-\$235,405,309
Total Development CapEx (Inflation)	-\$295,920,705
Development Cost per acre	See 'Development Budget Assumptions'



Scenario 3

Land Exchange

	Acres contributing	Net return/acre/annum (\$)	Net income per annum (\$)	Net present value (NPV)	Rate (%)	Growth rate (%)
Year 1 value		\$49,821,000				
Annuity net revenues	31,138	\$64.43	\$2,006,229	\$57,320,840	4.03%	2.50%
Exchange Allowable Cut Improvement on IDL Northern Districts	n/a	n/a	\$386,594	\$11,045,541	0.78%	2.25%
Improve legal and physical access	1,583	\$64.43	\$101,966	\$2,913,303	0.20%	2.25%
Portfolio reallocation to Callan targets	n/a	n/a	\$1,211,613	\$36,008,011	2.43%	3.78%
Total		\$49,821,000	\$3,706,402	\$107,287,695	7.44%	
Timberland - Appreciation (nominal)					3.66% ++	
Timberland - Appreciation (real)					1.41%	

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Scenario 4

Land Exchange w/ Legal Costs

Hours legal work/annum	2,000
Hourly rate	\$500
Total legal costs per year	\$1,000,000
Beginning year	2021
Ending year	2030
Total time delay	10



Development Budget

Assumptions

	Per Unit		Per 2880 Unit Development	
	Lower Bound	Upper Bound	Lower Bound	Upper Bound
Septic system/lot	\$25,000	\$50,000	\$72,000,000	\$144,000,000
Well water/lot	\$30,000	\$45,000	\$86,400,000	\$129,600,000
Community Wells (fire)	\$500,000	\$1,000,000	\$500,000	\$1,000,000
Community underground pipe	\$2,900,000	\$4,000,000	\$2,900,000	\$4,000,000
Overhead power lines (15-mile development)	\$13,700,000	\$19,000,000	\$13,700,000	\$19,000,000
Roadways/lineal foot	\$110	\$200	\$3,394,827	\$6,187,600
Engineering Fees	\$100,000	\$300,000	\$100,000	\$300,000
TOPOS	\$50,000	\$100,000	\$50,000	\$100,000
SWPPP	\$150,000	\$300,000	\$150,000	\$300,000
Traffic Control	\$200,000	\$350,000	\$200,000	\$350,000
Permits	\$50,000	\$100,000	\$50,000	\$100,000
Overhead/Staff Costs	\$120,000	\$240,000	\$34,560,000	\$69,120,000
General Contractor Costs	\$21,400,483	\$37,405,760	\$21,400,483	\$37,405,760
Total Development Cost			\$235,405,309	\$411,463,360
Acres			1,440	1,440
Total Development Cost per Acre			\$163,476	\$285,738
Total Development Cost per Unit			\$81,738	\$142,869

Endnotes

Scenarios

¹ Real Asset Investment Consultant, Yale University Economics

² CPA, Westchester Group Investment Management, Inc. – Finance Director

³ Purdue University, B.A. in Forestry Science

⁴ Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014

⁵ Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014

⁶ Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014

⁷ Economic Benefits Section (preceding section), Smart Forest Solutions.

⁸ Payette Cottage Sites Info 3-3-2020

⁹ McCall Residential Housing market analysis – per square foot valuations, per acre valuations, growth rates, and standard deviation calculations were calculated by the Endowment’s historic cottage site sales information.

¹⁰ Valley County RealQuest Sales: SFR & Residential sales data from 2015-2020, annual observations.

¹¹ Smart Forest Solutions – Forestry Consultant

¹² NCREIF Northwest Timberland Values: 20-year analysis, quarterly observations.

¹³ Smart Forest Solutions – Forestry Consultant

¹⁴ EBITDDA – The Earnings before Interest, Tax, Depreciation, Depletion, and Amortization accounts for the natural pest and disease effects of timber management.

¹⁵ Road construction is the greatest unknown. Road design was based on “flat designs”, excluding the need for massive fills or bridges. A design of 26 feet width, 12” of base pit run, 4” of gravel, and a 2.5” mat of asphalt was utilized.

¹⁶ McCall Residential Historical Sales: Valley County RealQuest Sales Data – years 2015-2020, annual observations. Lumber Price: UNECE USA Framing Lumber – years 2000-2019, monthly observations - <http://www.unece.org/forests/output/prices.html>.

¹⁷ SFS Phase I Economic Report, Smart Forest Solutions - Precise valuations and acreage counts will be concretely established at a later date.

¹⁸ Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014. – Portfolio weighted compounded real returns equals 3.78%.

¹⁹ EBITDDA – The Earnings before Interest, Tax, Depreciation, Depletion, and Amortization accounts for the natural pest and disease effects of timber management.

+Portfolio One-year expected return as the growth rate for the Portfolio reallocation to Callan Targets (real)

++The 20-year compounded annual growth rate (CAGR) of the NCREIF Index was selected as the appropriate timberland appreciation rate.

We believe this rate most accurately reflects the stabilized appreciation of institutional grade timberland investments. The beginning 10-12 years of the Index reflects a much higher price appreciation rate due to the immature institutional industry and lack of competition. The more recent 20-year perspective serves as a directionally useful proxy in the long-term price appreciation of timberland asset values.

^Assumes an initial cost of \$49.8mm for each scenario in IRR analysis.

~ Represents available Endowment cottage site properties included in the Exchange proposal as of 2020.

~~ Analysis from residential market in McCall and national secondary residential markets.

Note: Implied Net Cash Return on Exchange Assets (Economic Report Jun 2019)

Model

*Callan inflation assumptions.

**Discount rate utilized is the forecasted real return of the Endowment’s portfolio (Callan recommended asset allocations).

***Model input assumptions run through each scenario.



Idaho Constitution and Statute on Land Exchanges





Idaho Constitution and Statute on Land Exchanges

Disclaimer: This summary is not an exhaustive representation of the law of land exchanges in Idaho or intended to be construed as legal advice.



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Idaho Constitution on Endowment Lands

ID Constitution, Article IX, §8

"It shall be the duty of the state board of land commissioners to provide for the location, protection, sale or rental of all the lands heretofore . . . and in such manner as will secure the **maximum long term financial return to the institution to which granted** or to the state if not specifically granted; provided, that no state lands shall be sold for less than the appraised price.

. . . [T]he legislature shall provide for the sale of said lands from time to time and for the sale of timber on all state lands and for the faithful application of the proceeds thereof in accordance with the terms of said grants; provided, that not to exceed one hundred sections of state lands shall be sold in any one year, and **to be sold in subdivisions of not to exceed three hundred and twenty acres of land to any one individual, company or corporation**. The legislature shall have power to authorize the state board of land commissioners **to exchange granted or acquired lands of the state on an equal value basis for other lands** under agreement with the United States, local units of government, corporations, companies, individuals, or combinations thereof."

Idaho Code on Land Exchanges

ID Code §58-138. EXCHANGE OF STATE LAND.

“(1) The state board of land commissioners may at its discretion, when in the state’s best interest, exchange, and do all things necessary to exchange fee simple title . . . for lands of equal value, public or private[.] The parties dealing with the state in such an exchange transaction shall not be prohibited from purchasing or selling assets related to accomplishing the transaction before, simultaneously or after said transaction, provided that all such prior and simultaneous purchases and sales are expressly provided for in the exchange agreement.

(5) Prior to the exchange of any state endowment lands pursuant to this section, the state board of land commissioners shall have an appraisal and review appraisal conducted of the lands it desires to exchange along with an appraisal and a review appraisal of the lands it is proposing to acquire in the exchange.

(6) In determining the fair market value of state endowment lands to be exchanged and acquired pursuant to this section, the state board of land commissioners shall consider all relevant information and circumstances including, but not limited to, the appraisals and review appraisals required by the provisions of subsection (5) of this section and any evidence that enhances or detracts from their reliability.”









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