

September 16, 2013

To Idaho Land Board:

Honorable C. L. "Butch" Otter, Governor
Honorable Ben Ysursa, Secretary of State,
Honorable Lawrence Wasden, Attorney General,
Honorable Brandon Woolf, State Controller,
Honorable Tom Luna, Superintendent of Public Instruction,

Tom Schultz, Director of the Idaho Department Lands

Re: IRR appraisal/Dept. Of Lands
Education Research Center, Idaho Falls

Gentlemen:

I have had an opportunity to review the appraisal dated June 7, 2013 prepared by Darrin Liddell, MAI, of Integra Realty Resources (IRR). The appraisal was prepared for Ms. Jane Wright, Strategic Business Analyst, Idaho Department of Lands ("IDL"), Boise, Idaho (hereinafter "IDL Report") (copy enclosed). The property and improvements are located at 595 University Boulevard, Idaho Falls, Idaho.

As stated in the IDL Report, the appraisal was to conform to the Uniform Standards of Professional Appraisal Practice (USPAP), The Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, and the appraisal guidelines of State of Idaho. In reviewing the IDL Report, I had serious doubts that it met the USPAP standards. I shared my concerns with members of T.A.C. (Tax Accountability Committee) an informal watchdog group of citizens from all walks of life, including current and former legislators and professionals. They agreed with my assessment.

In an effort to obtain the best expert advice on the subject, we then contacted professionals in the appraisal practice for their opinions. They uniformly advised us that the IDL Report is seriously flawed and, if professionally challenged, would be shown to fail to meet USPAP standards. With their assistance and support, we were able to retain the services of the highly qualified appraiser, Mr. Scott Erwin, Idaho Certified General Appraiser # 61 to perform a Review Appraisal Report of the IDL Report and its supporting appraisal done for the State of Idaho on the

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property and improvements which are located at 595 University Boulevard, Idaho Falls, Idaho ("Review Report"). A copy of Mr. Erwin's Review Report is enclosed along with Mr. Erwin's qualifications as an appraiser, review appraiser, and teacher in the profession.

The first area of concern in the IDL Report is related to page 1 "Extraordinary Assumptions & Hypothetical Conditions" which indicate "none." However, there are several conditions that question this assumption and are critical in determining the constitutional requirement to "...secure the maximum long term financial return..."

First, the IDL Report used the Sales Comparison Approach with sales located in Utah, Wyoming, Texas, and Ohio which have little or no economic relationship with Idaho Falls, Idaho. Next, the IDL Report used the Income Capitalization Approach stating that a probable buyer would base a purchase price primarily on the income generating potential of the property. This income approach poses a real problem because there is no assurance that the present income will continue, especially when there are only seven (7) years remaining on the present lease. This is not "long term." Moreover, the Lease cancelation clause states that, "This Lease is contingent upon the availability of appropriated funds from the Dept. of Energy." The lease also provides that "The Lessee may cancel this Lease at any time if D.O.E. ceases to appropriate funds for the payments due under this Lease." In this case, both the Lessor (Idaho Land Board) and the Lessee (Battelle Energy Alliance, LLC) are dependent on a third party (D.O.E) to make the lease payments. The extraordinary and hypothetical condition here is that the Dept. of Energy is not a signatory of this agreement and has no obligation to pay anything to anybody. In fact, even the third party (DOE) is dependent on a fourth party (Congress) to appropriate money for their operation.

In reality, the current lease and lease terms should have been identified as "extraordinary" if for no other reason that the lease rate far exceeds market rates for the subject area in East Idaho. The IDL Report itself compares lease rates in like properties which are at a much lower rate, largely from properties outside of Idaho thereby making the current lease exceedingly higher and "extraordinary." No consideration has been given to this and, no adjustment has been applied to mitigate this excessive lease rate or the term of the lease. Since the IDL Report relies almost exclusively on income capitalization as a valuation basis, the lease rate, current and potential is, and should have been a serious contributing factor to the final determination of value. The income capitalization approach in this report simply cannot be supported by the reports own information. This assessment of the IDL Report is shared by Mr. Erwin. In his Review Report at page 5 he found that the adjustments made in the IDL Report "lack market support and are

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somewhat subjective. It is difficult to tell how the adjustments were determined or calculated.” On page 6, Mr. Erwin concludes that using the proper rental rate of \$13.00 per square foot as opposed to the \$16.75 used in the IDL Report results in a property value difference in the sum of \$1,327,800.

In reviewing the “Income Capitalization Approach to Value” section of the report, it is evident that the lease rate was the determining factor in the final valuation. The comparable properties used in the analysis, however, do not meet professional standards, which opinion is shared by Mr. Erwin. The properties are far removed from the subject property. Some of the “comparable” properties used for justification are located in vastly different markets with higher lease rates than the market rates in Idaho Falls. Indeed, one comparable property is a medical facility which has no reasonable relationship to design, function or location to the subject property.

On pages 2 and 3 of his Review Report, Mr. Erwin states:

Mr. Liddell applied adjustments to the sales in Ohio, Texas, and in Taylorsville Utah for superior location. The adjustments were in every case minus 5%. There is no explanation as to how this adjustment was developed and how these four sales can be exactly 5% better than the subject regardless of location. It is this appraiser’s opinion that the location adjustment is subjective and lacks market support. Other adjustments were applied for time, market conditions, physical characteristics and economic characteristics. Again, these adjustments appear to be subjective and lack market support.

Of course, Mr. Erwin’s Review Appraisal speaks for itself. Nevertheless, we find it extraordinary that an appraisal report of this importance, and anticipated value, be accepted by the Idaho Land Department without review. It is common practice to have an appraisal report, particularly in federally funded projects/acquisitions, to be reviewed by a qualified appraiser. A review appraisal is both a reasonable and generally accepted practice which, in this case, would have revealed many of the issues referred to above, making the report unacceptable as a supporting reference to the valuation and purchase price of Six Million One Hundred Thousand Dollars (\$6,100,000.00). It is more likely, as demonstrated in the Review Report, that a valuation closer to Four Million Five Hundred Thousand Dollars (\$ 4,500,000.00) would be reasonable reconciling the Income Capitalization Approach and the Sales Comparisons supported by market rates in Idaho Falls.

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We strongly recommend that the IDL Report be referred to the Appraisal Board for further review, with a recommendation that the results be presented to the Idaho Department of Lands (IDL). The IDL may, depending on the results, find reason to take any, and all appropriate action against IRR for any improprieties within the report which may have led to an unreasonable purchase price.

T.A.C. believes that an error of this magnitude is indicative of major problems with the Idaho Land Board's Asset Management Plan to sell and exchange Idaho Trust lands to invest in commercial real estate and compete with private businesses and it raises serious questions about whether the constitutional mandate to act in the interest of trust beneficiaries is being met, and can be met, in the current organizational climate. We strongly urge the Attorney General of the State of Idaho to investigate this matter, and forthrightly advise the Idaho Land Board and the Idaho Department of Lands of his findings.

Sincerely and respectfully,



John L. Runft
Runft & Steele Law Offices, PLLC

JLR:kra

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