

FAIR MARKET VALUE MINIMUM RENT POLICY

In order to provide a uniform and equitable leasing system for trust lands, the Fair Market Value Minimum Rent (FMV) policy uses a market value approach to establish a minimum opening bid at public auction. The Department contracts with a vendor to conduct a survey to assess land cash rents and land prices from agricultural owners and producers at a county level throughout North Dakota (County Rents and Prices Survey (Survey)) on an annual basis. The Survey provides statistically reliable land use data to help the Department gain insight into current rental rates.

The Commissioner may adjust the grassland Resource Area Productivity Index, Region Cropland Productivity Index, and fencing and water adjustments, as needed. The Board shall review any substantive adjustments that would impact the entire method.

Technical adjustments may be necessary when errors are discovered in the tract data. The Commissioner is authorized to make these and other technical adjustments that impact the minimum bid for individual tracts before the public auction or during the term of a lease, provided the lease has not been bid up.

Grassland FMV

$$\left(\left(\left(\left(RR - F \right) \times SE \right) \times \left(\left(\frac{GPI \times TSA^*}{RAPI} \right) - BW^* \right) \times \text{Grass Acres} \right) - W^* \right) + \left(BF^* \times \text{Grass Acres} \right) + LF = \text{Grassland Minimum Bid}$$

1. Regional Rent (RR): The RR is calculated based on a three-year moving average rental rate for pastureland (grassland), as annually reported in the Survey. Individual counties will typically be a region. Counties may be combined to create a region based on land resource similarity, adjacent land ownership, presence of trust lands, and low survey report numbers. (Addendum A - Grassland Leasing Regions map).
 - a. If one county is designated as a region the RR is based on that county's average rental rate.
 - b. If a region includes more than one county the RR is based on the lowest county average rental rate of the counties in the region.
2. Fence (F): To recognize that in most cases the Board does not provide or maintain fences, while most private landlords do, a deduction will be applied to regional rent. (Addendum B - Fence Adjustment Determination for Fair Market Value Minimum Rent Policy).
3. Potential Survey Error (SE): Because of the potential for error in the Survey, a downward adjustment of ~~540%~~ (0.9~~50~~) will be applied to each regional rent. This adjustment compensates for differences reported by those who leased land, versus those who did not lease land, to keep trust lands competitively priced.

North Dakota Board of University and School Lands: Surface Land Management

4. Grassland Productivity Index (GPI): The Department rates the productivity of each individual tract based on soils data. prepares a Grassland Productivity Worksheet to rate a tract's potential rangeland forage productivity. (Addendum C – Grassland Productivity Worksheet). Tracts that potentially produce more forage in a land resource area may be priced proportionately higher, and tracts with lower potential forage production may be priced proportionately lower, than an average tract.

For tracts not surrounded by Forest Service National Grasslands, the tracts' GPI are calculated at the "high good" productivity rate, while tracts surrounded by or adjacent to Forest Service National Grasslands or Tribal or reservation land are calculated at the "mid good" productivity rate. These ratings are based on the Natural Resources Conservation Service method of determining forage productivity. The lower GPI for tracts surrounded by or adjacent to Forest Service National Grasslands or Tribal or reservation land more closely reflects long term average use on trust land in those areas.

5. Resource Area Productivity Index (RAPI): The RAPI is the average potential grassland productivity for trust lands in a land resource area. (Addendum CD – Grassland Resource Areas map and Addendum DE – Land Resource Area Productivity Chart). The average is calculated by adding the carrying capacity, at the high good rating, of each individual tract within the land resource area and dividing that sum by the number of grass acres for those tracts within the land resource area.

- ~~6. Badlands Water Adjustment (BW*): In the Badlands, where there is lower grassland productivity, it is not always cost effective to develop water. Therefore, to recognize that livestock water sources serve multiple Badlands' tracts shared by multiple land owners, a deduction on a per grass acre basis may be applied in lieu of providing rent credit or cost share for developing water on trust lands. (Addendum F – Badlands Water Adjustment Determination for Fair Market Value Minimum Rent Policy and Addendum G – Badlands Water Adjustment Tracts map).~~

- ~~7.6. Tract Specific Water Adjustment (outside Badlands) (TSAW*): If it is determined that there is no potential development for permanent livestock water sources on the tract or on adjacent tracts or other issues that make the tract difficult to lease, the GPI will be reduced by 40% (0.60).~~

- ~~8. Board Owned Fencing (BF*): For tracts where the Board owns a boundary fence, a positive adjustment is made to negate any Fencing (F) deduction. (Addendum B – Fence Adjustment Determination for Fair Market Value Minimum Rent Policy).~~

- ~~9.7. Surface Lease Administrative Fee (LF): A lease administrative fee of fiveeleven cents per total tract acre will be charged annually to partially offset the expenses of conducting lease auctions, issuing leases, and maintaining surface lease records.~~

~~* These are tract specific adjustments that take into account a tract's unique characteristics.~~

10.8. Grassland Opening Bid Limits.

- a. Minimum: The minimum opening bid for grassland will not be less than 25% of the three-year moving average of the regional rent adjusted for potential survey error and fencing.
- b. Maximum: The maximum opening bid for grassland will not be greater than 125% of the three-year moving average of the regional rent adjusted for potential survey error and fencing.

Cropland FMV

$$(((\text{CPI} \div \text{RCPI}) \times (\text{RR} \times \text{SE})) \times \text{Cropland Acres}) + \text{LF} = \text{Cropland Minimum Bid}$$

1. Cropland Productivity Index (CPI): ~~The Department rates the productivity of each individual tract based on soils data. The Department prepares a Cropland Productivity Worksheet to rate a tract's potential cropland productivity. (Addendum H – Cropland Productivity Worksheet).~~ Tracts that have a higher than average potential cropland productivity may be priced proportionately higher, and tracts with lower potential cropland productivity may be priced proportionately lower, than an average tract.
2. Region Cropland Productivity Index (RCPI): The RCPI is the average potential cropland productivity for all cropland in a region. (Addendum ~~EI~~ - Region Cropland Productivity Index map). The acreage of each cropped soil in a region is multiplied by the soil's crop productivity index. The totals for each cropped soil are added and divided by the total cropland acres in a region.
3. Regional Rent (RR): The RR will be calculated based on a three year moving average of the ~~average rental rate most frequently reported for~~ non-irrigated cropland rental rate, as annually reported in the Survey. Individual counties will be a region.
4. Potential Survey Error (SE): Because of the potential for error in the Survey, a downward adjustment of 5% (0.95) will be applied to each regional rent. This adjustment compensates for differences reported by those who leased land, versus those who did not lease land, to keep trust lands competitively priced.
5. Surface Lease ~~Administrative~~ Fee (LF): A lease ~~administrative~~ fee of ~~elevenfive~~ cents per total tract acre will be charged annually to partially offset the expenses of conducting lease auctions, issuing leases, and maintaining surface lease records.
6. Cropland Opening Bid Limits.
 - a. Minimum: The minimum opening bid for cropland will not be less than 75% of the three-year moving average of ~~the regional rent as reported by the Survey~~RRy.

- b. Maximum: The maximum opening bid for cropland will not be greater than 1~~10~~5% of the three-year moving average of the ~~RR~~regional rent for cropland reported by the Survey.

Hayland FMV

(RR X Hayland Acres) + LF (If HPI < 0.50)

OR

((RR X 1.10) X Hayland Acres) + LF (If HPI > or = 0.50)
= Hayland Minimum Bid

1. Regional Rent (RR): The RR will be based on a three-year moving average rental rate for pastureland (grassland), as annually reported in the Survey. Individual counties will be a region. (Addendum ~~F~~ – Region Hayland Productivity Index map).
2. Hayland Productivity Index (HPI): ~~The HPI is calculated by taking the individual tract's hayland tons per acre divided by the region's highest hayland tons per acre. The Department rates the productivity of each individual tract based on soils data. (Addendum K – Hayland Productivity Worksheet).~~
3. Surface Lease Administrative Fee (LF): A lease administrative fee of ~~five~~eleven cents per total tract acre will be charged annually to partially offset the expenses of conducting lease auctions, issuing leases, and maintaining surface lease records.

Opening bid for terminated leases

1. If a lease is terminated, the tract may be offered at public auction for the remainder of the lease term, not to exceed the expiration date of the original lease.
2. When a lease terminates, the opening bid for that tract at the next auction will be set as follows:
 - a. For a tract that leased for the minimum opening bid, the opening bid will be calculated using the tract's current FMV.
 - b. For a tract that leased for higher than the minimum opening bid, the opening bid will be calculated at the midpoint between the current FMV and the terminated lease amount.
 - c. For a tract that leased for higher than the minimum opening bid and terminated twice within the five year lease term, the opening bid will be the previous lease amount.
 - d. For a tract that remains unleased for a calendar year, the opening bid will be calculated using the tract's current FMV.

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