



STATE BOARD OF LAND COMMISSIONERS

C. L. "Butch" Otter, Governor and President of the Board

Ben Ysursa, Secretary of State

Lawrence G. Wasden, Attorney General

Donna M. Jones, State Controller

Tom Luna, Superintendent of Public Instruction

George B. Bacon, Secretary to the Board

State Board of Land Commissioners
October 18, 2007 Regular Meeting
Lewis-Clark State College, Lewiston, Idaho

This regular meeting of the State Board of Land Commissioners was held on the campus of Lewis-Clark State College, Lewiston, Idaho, on Thursday, October 18, 2007. Dr. Dene Thomas, President, Lewis-Clark State College, and Jeff Nettet, Mayor, City of Lewiston, provided welcoming comments.

President Thomas thanked the Land Board for visiting Lewis-Clark State College. LCSC is a beneficiary of the Normal School Fund* and holds true to the Normal School mission, which is the promotion of, and focus on, teaching. LCSC's tradition as a teaching institution ties into the Land Board's job of managing the Endowment Fund that provided the beginning for Lewis-Clark State College.

Governor Otter commented that today's meeting follows a plan developed by the Land Board earlier this year to move meetings around the state. Lewis-Clark State College is one of the beneficiaries of the Board's work. The Land Board's charge under the Constitution is straight forward, which is to manage endowment lands of the State of Idaho for the benefit of the beneficiaries. By moving the meetings around the State, the Board hopes to educate the public about the differences between public lands and endowment lands. While the two may have a similar character, the Board has a responsibility under the Constitution to manage endowment lands for the benefit of the designated beneficiaries.

At this time, on behalf of the Land Board, Governor Otter presented President Thomas with a facsimile check in the amount of \$1,155,000. The check represents moneys generated for Lewis-Clark State College through management of Normal School Endowment lands. Governor Otter noted that 90% of this money was generated from forested lands through industries such as Potlatch in Lewiston. President Thomas thanked the Land Board for their efforts and pledged that LCSC will make the best possible use of every dollar.

* Normal School – A school that trains elementary teachers, so named from the French *cole normale* because the first such school was intended as a model. Lewis-Clark State College was one of the last schools in the United States designated as a "normal school."



STATE BOARD OF LAND COMMISSIONERS

C. L. "Butch" Otter, Governor and President of the Board

Ben Ysursa, Secretary of State

Lawrence G. Wasden, Attorney General

Donna M. Jones, State Controller

Tom Luna, Superintendent of Public Instruction

George B. Bacon, Secretary to the Board

Final Minutes Regular Land Board Meeting October 18, 2007

The Idaho State Board of Land Commissioners meeting began at 10:07 a.m. in the Williams Conference Center, Clearwater/Snake River Rooms, Lewis & Clark College, 500 8th Avenue, Lewiston, Idaho. The Honorable Governor C. L. "Butch" Otter presided. The following members were present:

Honorable Secretary of State Ben Ysursa
Honorable Attorney General Lawrence Wasden
Honorable State Controller Donna Jones
Honorable Superintendent of Public Instruction Tom Luna (via conference phone)

Secretary to the Board George Bacon

Superintendent Luna left the meeting at 10:59 a.m.

▪ **CONSENT**

A motion was made by Attorney General Wasden to approve the Consent Agenda in its entirety. Controller Jones seconded the motion. The motion carried on a vote of 5-0.

1. **Director's Report** – approved

- A. Interest Rate on Department Transactions – September 2007
- B. Timber Sale Official Transactions
- C. Timber Sale Activity Report
- D. Legal Matter Summary
- E. Bureau of Surface and Mineral Resources, Official Transactions
- F. Bureau of Real Estate, Official Transactions, Land Sale
- G. Bureau of Real Estate, Official Transactions, Easement
- H. Fire Settlement Information
- I. Fire Season Report

DISCUSSION: Director Bacon called the Board's attention to Item I, Fire Season Report. This is the final report for the fire season. On state protection, which includes state, private and some federal land, 67,422 acres burned. Director Bacon noted that the twenty-year average is approximately 9,000 acres. The total number of fires this year was down by almost 80. Only 336 fires occurred this year, and the twenty-year average is about 410. The State expended \$28,691,000 fighting fire this year. Taking into account the expected reimbursement from partners and other participants, the total bill is estimated to be approximately \$22.5 million in deficiency warrants.

2. Endowment Fund Investment Board – Staffed by Larry Johnson, Manager of Investments, EFIB – approved

- A. EFIB Manager's Report
- B. Investment Report

Director Bacon provided the monthly report on behalf of the EFIB staff.

- The current value of the total endowment fund is \$1,176,039,154;
- 3.7% year-to-date return;
- 3.9% month-to-date return;
- Net contributions fiscal year-to-date (fiscal year started July 1, 2007) have been \$2,626,601.

3. Timber Sales – Staffed by Roger Jansson, Operations Chief-North, and Kurt Houston, Operations Chief-South – approved

NORTH OPERATIONS

A. Dry Wash	CR-20-0265	16,536	Tons	Bonner
B. Upper Brush Creek	CR-41-0033	4,675	MBF	Latah

SOUTH OPERATIONS

C. Aden Reservoir	CR-60-0165	4,525	MBF	Elmore
-------------------	------------	-------	-----	--------

4. Revised Fiscal Year 2009 Department of Lands Budget Enhancement Decision Units – Staffed by Jon Pope, Division Administrator, Support Services – approved

DEPARTMENT RECOMMENDATION: Direct the Department to include the new enhancement decision unit, priority #2, into the agency's FY 2009 budget request.

DISCUSSION: Director Bacon provided background information. He stated Attachment 1, Priority Item 2, is a request for an increase in the General Fund. Director Bacon noted what this update does not show is a decrease in the Earnings Reserve Endowment Fund for a no-net change in the Department's total budget. More money will come from General Fund and less from Earnings Reserve. Director Bacon stated if this request does not go through, the Department does not want to lose the Earnings Reserve money, which is used for permanent salaries.

Superintendent Luna asked for clarification that the Department is requesting a \$76,000 increase in General Fund with an off-setting reduction in the Endowment Budget. Director Bacon stated that is correct.

Governor Otter asked about this being a function of the Department of Lands. He stated the Department of Parks and Recreation has a contract with the Bureau of Reclamation on several locations in Idaho and they are, in fact, the lessor of the docks. They manage the resource. He asked

why that responsibility is bifurcated. If the Bureau of Reclamation can contract with the State Department of Parks in order to manage the lease, rental, sale or permitting of docks, is the Department of Lands considering similar contracting. Director Bacon stated the Department is looking for a long-term fix. Currently the program is funded from the General Fund. The Department collects fees for dock permits and the program is a net drain to the General Fund because the fees collected are less than the expenditures and budget every year. Two years ago the Department received legislative approval to increase fees. Since that time, the Department has completed an analysis of what the fees need to be to make this a self-sustaining program. The Department will be bringing proposed rule changes before the Board that have those fee increases incorporated and if the proposed rule changes are approved by the Legislature, the Department will be positioned to have a self-sustaining program. Once stabilized funding has been achieved, the Department will ask the Legislature to move the program to a dedicated fund. Once that change is established, the Department would consider other possible changes, keeping in mind that the State still has a responsibility to manage those public trust lands.

Governor Otter stated the program should be user pay. He encouraged the Department to move toward that direction. He suggested that the Department coordinate with the Departments of Parks & Recreation and Fish & Game to ensure consistency across agencies.

BOARD ACTION: Approved.

5. Cancellation and Bond Forfeiture of Dredge/Placer Permit No. 110 (Martinique Mining Company) – Staffed by Eric Wilson, Bureau of Surface and Mineral Resources - withdrawn

DEPARTMENT RECOMMENDATION: Cancel Dredge and Placer Mining Permit 110 and cash the \$15,000 surety bond.

BOARD ACTION: This agenda item was withdrawn.

6. Minutes – approved

A. Regular Land Board Meeting – September 20, 2007

▪ **REGULAR**

7. Relationship of Fire and Bugs – Presented by Jeff Fidgen and Don Wagner, IDL

DISCUSSION: Director Bacon noted that the Board previously asked for a discussion on a possible nexus between insects and fire. In response to that request, IDL staff, Don Wagner, Bureau of Fire Management, and Jeff Fidgen, Private Forestry/Forestry Assistance Bureau, provided a presentation to the Board.

Jeff Fidgen, Forestry Assistance Bureau, Coeur d'Alene Staff Office, IDL

At the September 20, 2007 Land Board meeting Mr. Fidgen presented a synopsis of the 2006 conditions for insects in Idaho on all ownerships. Mr. Fidgen stated Idaho currently is experiencing large outbreaks of mountain pine beetle and Douglas fir beetle mainly in the eastern portions of the state. Since 2000 the combined action of mountain pine beetle and Douglas fir beetle has killed upwards of 10 million trees in Idaho. Many of these trees are still on the landscape and have not been cut.

Don Wagner, Fire Management Bureau, Coeur d'Alene Staff Office, IDL

Mr. Wagner narrated a PowerPoint presentation for the Board.

DISCUSSION: Governor Otter asked what happens if a fire erupts in those areas where the trees are still on the landscape. Mr. Wagner stated there are two important aspects of fuel management that are considered. One is the nature of the fuels left on the ground after the disturbance, and the second is the canopy closure remaining, or the remaining trees and how far apart those trees stand. If the trees are too far apart, a crown fire can not move from one tree to the next.

Secretary of State Ysursa noted that one of the slides in Mr. Wagner's presentation shows managed areas versus unmanaged areas. However, the slide shows land managed in another state. He asked if the Department plans to capture a similar picture showing Idaho endowment land management versus federal land management. Mr. Wagner stated he is unaware of a similar photo showing Idaho endowment land management, but he will attempt to locate one. He added that fire reports, which include whether land burned was endowment land, will be available after December 1.

Governor Otter asked if the Department only fights fires on the six million acres it has an agreement on or does the Department also manage that acreage. Director Bacon stated the Department provides protection for about six million acres but only manages the state endowment land. Governor Otter stated in other words, the Department manages roughly 900,000 acres of forested lands and most of those lands are probably surrounded by some federal land, which is not managed for fire prevention or production. Director Bacon stated that is correct and that is a problem.

Governor Otter stated the Board would be interested in a report showing how much damage was done to endowment lands during the federal fires.

No action was taken on this agenda item.

8. Maggie Creek Supervisory Area Pulp Management Plan – *Presented by Bob Helmer, Chief, Bureau of Forest Management, and Jim Clapperton, Area Supervisor, Maggie Creek Supervisory Area* – approved

DEPARTMENT RECOMMENDATION: (1) Approval to exceed current clearcut policy on Maggie Creek Supervisory Area pulp sales; (2) Approval of the Maggie Creek Supervisory Area's 10-year pulp plan; (3) Approval of an increase in the annual harvest level for the Maggie Creek Supervisory Area; (4) Approval of additional FTE(s) and/or funding for pulp plan implementation.

DISCUSSION: Attorney General Wasden noted if the Board waited the ten-year approximate timeframe for this stand to collapse, it would put itself a decade behind in terms of creating a new cycle of trees. Mr. Clapperton agreed. Along with receiving the income, the endowments will be on the fast track to return on investment because the fast growing tree plantations put on wood rapidly. A 60- to 70-year rotation is anticipated for harvest and species resistant to these diseases and insects will be planted. Mr. Clapperton noted there is a cost to waiting. The trees will all die and sooner than later cost will be incurred for cleanup. If conditions remain unchanged, the endowments are not receiving a maximum benefit from these lands.

Governor Otter commented that earlier this year the Board discussed how far the Department is behind its management plan in terms of harvest. At that time the Department talked about being two billion board feet behind. He asked if this pulp management plan is included in that figure. Director Bacon stated that this pulp plan is included.

Mr. Clapperton stated in order to pursue this plan, clearcutting is necessary. Most stands do not have enough viable good quality seed trees. In order to clearcut and plant within a ten-year period, the Maggie Creek Area ran a scenario from fiscal year 2009 through 2018. The scenario covers about 4100 acres and has a total of 64 clearcuts with 12 clearcuts over 100 acres.

At this point, Superintendent Luna left the meeting.

Governor Otter asked if the root rots mentioned are soil borne bacteria. Mr. Clapperton stated it is a soil borne disease that causes the trees to rot and die. These diseases are usually species-specific. While the disease can not be removed from the soil, trees that are resistant to the disease can be planted with the appropriate spacing and location that is essential for growth to maturity.

Governor Otter asked if there are favorable species. Mr. Clapperton stated grand fir is the predominant species in the pulp stands, and it is not a favorable species.

Governor Otter asked if it would be possible to graft some of these trees onto roots that would be resistant to root rot soil borne bacteria. Mr. Clapperton stated grafting may not be feasible in this type of operation due to the number of acres to be planted. Historically the Area has been planting and clearcutting and has been successful with very little mortality.

Governor Otter asked what good it does to clean up a problem with disease and bugs if neighboring properties do not do the same. Mr. Clapperton acknowledged that is an issue. Some of these particular diseases are local. The insects, however, are a problem due to their mobility.

Attorney General Wasden noted that Mr. Clapperton mentioned earlier about the spacing of the trees not allowing enough sunlight and water per tree on a per acre basis. The newly created tree plantations will have a greater ability to ward off attacks by insects and other kinds of diseases because they have proper sunlight and water as opposed to the more dense stands that exist now. Mr. Clapperton agreed and stated it is not only the species composition but also the spacing and allowing the trees to fully utilize the site. Typically trees are planted at about a ten-foot spacing, which obviously as they grow older and bigger is too tight. Some mortality will occur, and in a few years the stand will be thinned leaving the healthiest most vigorous trees.

Attorney General Wasden noted the discussion point on page 1, estimated cost of additional fencing \$70,000. He stated his understanding of the need for fencing is to protect the seedlings from either trespass or current grazing practices in the area. Mr. Clapperton stated that is correct. The trees are very fragile in their early years and are prone to grazing damage mostly from trampling with some browsing. A fence will need to be constructed on the east side because it is the biggest block of land to the north. That fence would keep out adjacent cattle from allotments. The Department's current lessee would continue to graze to the east side of that fence, but the fence will protect the seedlings. Mr. Clapperton stated the fence would be three- or four-strand barbed wire and five miles long.

Governor Otter asked about grass fuels around the seedlings. Mr. Clapperton stated grass fires are a much less intensive type of fire. Response from local fire districts would be able to stop that kind of fire much more easily than a timber fire. However he acknowledged a threat does exist. Mr. Clapperton stated the ground that these pulp stands are located on is rolling and relatively flat and are not prone to fire naturally.

Secretary of State Ysursa asked what kind of public involvement is planned. Mr. Clapperton stated currently the Department plans to use its normal public involvement process. The sales and types of treatments will be advertised. Department staff has already contacted some of the adjacent landowners. Mr. Clapperton stated the Area could engage in some sort of a local public information campaign if the Board deems it necessary. Secretary of State Ysursa stated this is a more intense

clearcut program than usual. He believes it would be good public policy to get that information out as much as possible.

Governor Otter asked if the Department anticipates using this kind of plan in other management units in the state. Director Bacon stated the Department has an ongoing process implemented to look at each regional area to determine if it is being managed in the best manner for timber harvests and to assure that the levels are correct. This particular case would be part of that process except for the urgency. Governor Otter stated he concurs with Secretary of State Ysursa that it would be in our best interest to have an educational program explaining why this has to be done.

Governor Otter asked for the costs per acre for clearcutting, replanting and rehabilitation. Mr. Clapperton stated it varies depending on some factors, but the cost is about \$200 per acre. This plan is about 4100 acres over 10 years. The Department would plant about 400 acres per year on an average for a cost of about \$80,000 per year in planting costs. That cost does not include the growing of the trees, which is an additional cost.

Governor Otter asked what the average revenues would be from the sale of pulp and sawlogs from the existing stands. Jim Elbin, Forest Resource Supervisor, Maggie Creek Supervisory Area, responded that pulp sales, with sawlogs, usually sells for about \$183 per thousand as a running average over the last four years. Pulp is \$10 a thousand and is a significant portion of the sale.

Governor Otter asked for clarification of the sale contract. It is his understanding that the bid language tells potential bidders that they are to remove the pulp and sawlogs. He asked who handles replanting. Mr. Elbin stated the timber sale contract is separate. The successful bidder will log the contract area. The Department will usually contract site preparation and planting.

Attorney General Wasden thanked Mr. Clapperton and Mr. Elbin for taking him on a tour of the area being discussed. He agreed that these stands need to be replaced, and he believes it is a very responsible and well prepared plan.

Controller Jones also thanked Mr. Clapperton and Mr. Elbin for conducting a tour of this area for her as well. She stated she concurs with the Department's plan.

BOARD ACTION: A motion was made by Attorney General Wasden to adopt the recommendation of the Department as outlined in Item 8, Page 2, Recommendations 1, 2, 3 and 4, as follows: approval to exceed the current clearcut policy on Maggie Creek Supervisory Area pulp sales, approval of the Maggie Creek Supervisory Area 10-year pulp plan, approval of an increase in the annual harvest level for the Maggie Creek Supervisory area, and approval of additional FTEs and/or funding for pulp plan implementation. Controller Jones seconded the motion. Governor Otter noted the motion includes the fact that this is site-specific. The motion carried on a vote of 4-0, with Superintendent Luna being absent for this vote.

9. Contract Extensions – Timber, Salvage and Direct Sales – Presented by Ron Litz, Assistant Director, Forestry & Fire – approved

DEPARTMENT RECOMMENDATION:

That the Board adopt the following timber sale extension policy:

1. The State expects purchasers of state timber sales to harvest said sales within the original contract period. Purchasers must recognize that extensions will be granted at the sole discretion of the State and are not automatic.

2. If a purchaser has made reasonable efforts to complete the sale within the original contract period, and still needs an extension of time to complete the sale, the Department may grant the purchaser an extension (1st extension) for up to one year, provided the purchaser has made a written request for said extension at least thirty days prior to the expiration date of the contract. The request must include a justification explaining why the sale could not be completed within the original contract period and must include a detailed logging plan with specific time lines for completing the sale within the 1st extension period.
3. In the event that a purchaser is unable to complete the sale within the 1st contract extension, the following will apply:
 - A. If the purchaser is unable to complete the sale within the 1st contract extension period, the Department may grant a 2nd one year extension provided:
 - i. The Purchaser has completed all development work.
 - ii. No more than 25% of the estimated sale volume remains to be harvested, as determined by the State.
 - iii. The Purchaser has made a written request for the 2nd extension at least thirty days prior to the expiration date of the 1st extension has been received. The request shall include a detailed logging plan with specific time lines for completing the sale within the 2nd extension period.
 - iv. The Purchaser has made a cash payment for the remaining estimated value on the sale, including interest calculated for the 12 month term of the extension and any associated charges. This payment will be applied to each monthly bill. If at the end of the sale a balance remains from this payment, that balance will be refunded to the Purchaser. The Purchaser will be responsible for all charges that exceed this payment.
 - By granting a 2nd extension, the Purchaser will not be entitled to:
 - i. Any performance bond reductions for the remainder of the contract.
 - ii. Apply the initial deposit to the final payment.
 - iii. Any additional extensions, except as noted in #4 below.
 - B. If the purchaser is unable to complete the sale within the 1st contract extension period due to unforeseen "extreme" circumstances beyond the purchaser's control, the Department may grant a 2nd extension for up to one year as follows:
 - i. The purchaser must make a written request for the 2nd extension at least thirty days prior to the expiration date of the 1st extension describing what unforeseen "extreme" circumstances precluded sale completion.
 - ii. The purchaser has submitted a detailed logging plan with specific time lines for completing the sale within the 2nd extension period.
4. "Extreme" circumstances include, but are not limited to, catastrophic acts of nature (fire, blowdown, floods, earthquakes, etc.) that physically restrict the purchaser's access to the sale area, destruction of a purchaser's milling facilities or equipment by fire or catastrophic acts of

nature, or by a court order related to compliance with state or federal environmental laws that are out of the purchaser's control. Depressed market conditions will not be considered "extreme" circumstances.

5. Any sale contract extension, after the 2nd extension, will only be granted by a vote of the Idaho Board of Land Commissioners, may only be granted under the "extreme" circumstances outlined in paragraph 3B above, and may contain such conditions as the State Board of Land Commissioners may, at its sole discretion, impose. Such conditions may include, but are not limited to, restrictions on bidding on new state sales, establishing various operational schedules, and/or requiring additional financial assurances.
6. Extension fees will be as follows:
 - A. Prepaid or lump sum sales:

<u>Extension</u>	<u>Extension Fee</u>
1 st	\$2.00 per acre or \$80, which ever is greater
2 nd	\$4.00 per acre or \$160, which ever is greater
All other extensions	Established by the Board

B. Scaled Sales:

- 1) The interest rate for timber harvested during the 1st or 2nd extension period:
 - a) Increase from the current sale interest rate to the current average monthly rate for conventional mortgages as quoted in the Federal Reserve statistical release, rounded downward to the nearest ¼ percent, if it is greater than the current sale interest rate, or
 - b) Remain at the current sale interest rate if the current average monthly rate for conventional mortgages as quoted in the Federal Reserve statistical release, rounded downward to the nearest ¼ percent, is less than the current sale interest rate.
- 2) Fees associated with extensions granted after the 2nd extension will be set by the Land Board.

7. This policy supersedes the previous policy established June 14, 2004.

DISCUSSION: Attorney General Wasden asked what the Department envisions under this recommendation should an individual qualify for the second extension, and is granted that second extension, but fails to complete the sale. Director Bacon stated although the policy does not spell it out, if a purchaser did not complete the sale by the end of the second extension, and no provision exists for a third unless there is some extreme circumstance, when the contract expires, it would be a breach, and the Department's intent would be to seize the bonds and cash on hand for liquidated damages and then to follow the normal process. Attorney General Wasden noted essentially that would be a forfeiture of whatever monies would have been paid in as well. Director Bacon stated that is the intent of the Department.

Governor Otter asked about the normal term for the original contract. Director Bacon stated the normal term is set by the forester, generally the designer of the sale, and depending on the volume and complexities of sometimes large road packages and that type of activity, typically two to three

years is a contract term. Salvage sales are generally one year. By code, sales can be up to 15 years but two to three years is typical.

BOARD ACTION: A motion was made by Secretary of State Ysursa to move the Department's recommendation that the Board establish this new policy on extensions. Secretary of State Ysursa noted this is a reasonable fine tuning to the previous policy. Controller Jones seconded the motion. Governor Otter asked for further discussion. Attorney General Wasden inquired if the Secretary of State would consider in his motion including the proviso that the policy provide notice to the party receiving a second extension that there would be a forfeiture of those moneys if they failed to perform under the contract. Governor Otter asked if Attorney General Wasden was offering that as an amended motion. Attorney General Wasden stated yes. Secretary of State Ysursa agreed with the amended motion. Controller Jones also concurred. The amended motion carried on a vote of 4-0, with Superintendent Luna being absent for this vote.

10. Asset Management Plan Update – Presented by Kathy Opp, Deputy Director – approved

DEPARTMENT RECOMMENDATION: That the Board approve the asset management plan sections as presented.

DISCUSSION: (by section)

- **Performance Objectives, Section D, Item 1 (page 3)** – *DISCUSSION:* None.
- **Residential Real Estate, Section C, Item 2 (page 13)** – *DISCUSSION:* Secretary of State Ysursa stated while he agrees with the language in this section, he is concerned about the issue of cottage site leasing. Other options do exist, such as sale or exchange. However, whether those options should be pursued is not the question. Secretary of State Ysursa stated he is not advocating that sale or exchange be pursued. However, he asked for background information on the Department's economic analysis and methodology so that the Board can go forward as trustees and inform its constituents that it is not in the best interest of the endowments to exchange or to sell those cottage sites.

Deputy Director Opp stated that the original endowment reform efforts identified the need to reduce dependence on timber, which is about 90% of the revenue stream and represents a significant portion of the distributable income to the beneficiaries. This topic was alluded to at last month's Board meeting during the discussion of risk and return considerations. Ms. Opp added that even though this dependence exists on a principal source of revenue, it does not mean the Department has an interest in selling timber land to rebalance the portfolio. The Department feels it is a good investment, but in the risk and return consideration, one way to bring about greater diversity is to lift the performance of other asset types. Cottage sites are a diversifier. Commercial real estate is a diversifier. If those returns can be brought up to an acceptable peer level to expand the portfolio, the cottage sites asset type could potentially move from about a 4% contribution on an annual basis to a 15% contribution on an annual basis. Ms. Opp stated that, in and of itself, would help alleviate some of the dependence on a single source of revenue.

Secretary of State Ysursa stated that Board members have been fielding questions regarding this topic. The Board entered into endowment reform with 2.5 million acres of endowment lands. It has always been the Board's position to retain that land base. Secretary of State Ysursa suggested making sure that methodology is included in the business or asset plan. The question needs to be addressed explaining why it makes sense from an economic standpoint to retain that land and lease it rather than exchange or sell the land with proceeds going into the land bank to

buy other properties. Ms. Opp agreed that a more in-depth analysis on all asset types is necessary.

Attorney General Wasden agreed with Secretary of State Yursa that the language as presented is appropriate in terms of the theoretical approach that needs to be taken on this matter. He also agreed that the Board needs the kind of detailed analysis necessary to sustain proper decisions in accordance with fiduciary duties as outlined in the Constitution. However, he asked whether this section of language is the appropriate place to address the site-specific analysis or whether that should be done in a more generalized request to the Department. Secretary of State Yursa suggested that the asset management plan should also include future asset acquisition types. Those future types may dovetail into the land bank strategy. He thanked Attorney General Wasden for his question and stated perhaps that future discussion is where some of these questions will be addressed.

Governor Otter asked if the endowments would benefit more by combining sections of endowment land rather than maintaining scattered ownership. Although he does not see any problem with the wording in this section, he wants to be sure the Board would always have that idea for management in the future. Ms. Opp stated later in the development of this asset management plan a discussion on the land bank/land exchange strategy will take place. That section is anticipated to be brought to the Board at the December 20 meeting. During that discussion it will be pointed out that each asset type has an underlying business plan that develops strategy and tactics for dealing with particular asset types. These plans are more specific. Ms. Opp stated an over arching strategy is being developed. This optimization model will be key to helping the Board with decisions regarding new investments, divestiture and further acquisitions.

Governor Otter commented that sometimes we know the cost of everything and the value of very little. We get confused with income rather than the cost as well. Obviously management costs on for example cottage sites are relatively low compared to management costs for commercial property.

- **Commercial Real Estate, Section 4 (page 14)** – *DISCUSSION*: None.
- **Conservation, Section 7 (page 15)** – *DISCUSSION*: Attorney General Wasden stated he agrees with the language in this section. It highlights a comment made earlier that the lands for which the Board bears fiduciary responsibility are controlled by specific constitutional language requiring the Board to obtain a maximum long-term financial return. He noted that the Board on occasion has a hard time explaining to the public the difference between other lands and the purpose of endowment lands.

Governor Otter asked if anything in this section would preclude the Board from selling mitigation values to a private sector. For instance, if land is environmentally sensitive, could the environmental properties be sold to mitigate a private sector activity. Ms. Opp stated that option is included under the Opportunities heading of this section. Potentially mitigation banking credits could be sold for a certain amount of time thus adding an additional revenue stream.

- **Transition, Section D (page 16)** – *DISCUSSION*: None.

BOARD ACTION: (by section)

- **Performance Objectives, Section D, Item 1 (page 3)**: A motion was made by Attorney General Wasden to adopt the language as proposed by the Department with regard to Section D, Item 1. Secretary of State Yursa seconded the motion. The motion carried on a vote of 4-0, with Superintendent Luna being absent for this vote.

- **Residential Real Estate, Section C, Item 2 (page 13):** A motion was made by Attorney General Wasden to adopt the language proposed in Item 10, Attachment 2, Page 13, Paragraph 2, as outlined by the Department. Controller Jones seconded the motion. The motion carried on a vote of 4-0, with Superintendent Luna being absent for this vote.
 - **Commercial Real Estate, Section 4 (page 14):** A motion was made by Controller Jones to move that Section 4, Commercial Real Estate, Page 14, be approved as presented by the Department. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0, with Superintendent Luna being absent for this vote.
 - **Conservation, Section 7 (page 15):** A motion was made by Attorney General Wasden to adopt Item 10, Exhibit 2, Pages 15-16, Item 7, entitled Conservation, as provided by the Department. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 4-0, with Superintendent Luna being absent for this vote.
 - **Transition, Section D (page 16):** A motion was made by Attorney General Wasden to adopt Item 10, Exhibit 2, Pages 16-17, Paragraph D, entitled Transition, as outlined by the Department. Controller Jones seconded the motion. The motion carried on a vote of 4-0, with Superintendent Luna being absent for this vote.
- **EXECUTIVE SESSION - Withdrawn**

There being no further business to come before the Board, a motion was made by Secretary of State Ysursa to adjourn. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0, with Superintendent Luna being absent for this vote.

Meeting adjourned 12:15 p.m.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ C. L. "Butch" Otter

President, State Board of Land Commissioners and
Governor of the State of Idaho

/s/ Ben Ysursa

Ben Ysursa
Secretary of State

/s/ George B. Bacon

George B. Bacon
Director

<p>The above-listed final minutes were approved by the State Board of Land Commissioners at the November 15, 2007 regular Land Board meeting.</p>
