



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
September 15, 2009

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, September 15, 2009, in Boise, Idaho. The meeting began at 9:04 a.m. in the second floor courtroom of the Borah Building. The Honorable Governor C. L. "Butch" Otter presided. The following members were present:

Honorable Secretary of State Ben Ysursa
Honorable Attorney General Lawrence Wasden – *joined via conference phone at 9:04 a.m.*
Honorable State Controller Donna Jones
Honorable Superintendent of Public Instruction Tom Luna

For the record, Governor Otter recognized the presence of all members of the Land Board.

• **CONSENT**

A motion was made by Controller Jones to adopt the Consent Agenda in its entirety. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 5-0.

1. Director's Report – approved

- A. Interest Rate on Department Transactions – September 2009
- B. Timber Sale Activity Report
- C. Timber Sale Official Transactions – August 2009
- D. Legal Matter Summary
- E. Bureau of Surface and Mineral Resources Official Transactions – August 2009
- F. Fire Settlement Information
- G. Fire Season Report

DISCUSSION: Director Bacon referred to the Timber Sale Activity Report, item B. He noted the Department has 171 active timber sale contracts representing approximately 341 million board feet and a value of approximately \$82 million. The Department had six sales in August, approximately 16 million board feet, and all sales sold with the average selling price at about \$120/thousand. Governor Otter asked about cedar prices. Director Bacon stated cedar sold for approximately \$470.

Secretary of State Ysursa asked for an update on cottage site lease cancellations shown in item E. Director Bacon stated three cancellations have been reinstated. These lessees either paid late, or it is anticipated they will pay late, but the Department had to

send out notices informing lessees that they would face cancellation if they did not make their payment by September 17, 2009. Assistant Director Brammer stated that two additional leases have been reinstated at Payette Lakes so the Department has four outstanding cancellations at Priest Lake. Area staff is following up with those lessees. Secretary of State Yursa asked if the number of cancellations is unusual. Assistant Director Brammer stated it is not.

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

<u>NORTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
A. Northwest Flats	CR-10-0384	12,371	TONS	Bonner	Priest Lake (Coolin)
B. Carey Creek OSR	CR-20-0281	2,100	MBF	Bonner	Pend Oreille (Sandpoint)
C. Anthony's Gold	CR-30-0562	4,855	MBF	Shoshone	St. Joe (St. Maries)
D. Daveggio-Flemming	CR-30-0571	3,290	MBF	Shoshone	St. Joe (St. Maries)
<u>SOUTH OPERATIONS</u>					
E. Big Shilla	CR-43-4018	7,215	MBF	Nez Perce	Craig Mt (Craigmont)

3. Request to Dispose of Surplus Property in Twin Falls Formerly Owned by the Idaho Department of Labor and Transferred to the Idaho Department of Lands – Staffed by Kathy Takasugi, Deputy Attorney General, Department of Labor, and Tracey Rauch, Lands, Minerals, Range Division, IDL – approved

DEPARTMENT RECOMMENDATION: That the Board direct the Department of Lands to dispose of the surplus property in Twin Falls pursuant to Idaho Code §58-332 permitting the Department of Labor to retain its reversionary interest in the property and to transfer its reversionary interest in the property at closing after a successful public auction.

DISCUSSION: Governor Otter asked if the College of Southern Idaho was contacted to determine if they had any interest in this property. Ms. Rauch stated the Department did not receive an expression of interest from any university or school. Governor Otter asked for confirmation that they were notified. Ms. Rauch stated they were.

Superintendent Luna asked if Xavier Charter School expressed interest in purchasing the property. Ms. Rauch stated she cannot confirm that Xavier Charter School was directly notified. The letter sent by the Department indicates that any agency under the state agencies should notify the sub-agencies as well.

Superintendent Luna noted Xavier Charter School is the current tenant, and he is curious if they are aware that they could purchase the property. Ms. Takasugi stated Xavier Charter School is in the middle of a three-and-a-half year short-term lease. Superintendent Luna asked if the sale of the property would affect the lease. Ms. Takasugi stated it may, depending upon when the property is sold at public auction. Her understanding is if the property does not sell at public auction, this item will be

brought back before the Land Board to seek approval for an appraisal after which a negotiated sale can be pursued.

Superintendent Luna asked if the property does sell, does the lease follow with the sale or is the lease cancelled. Ms. Rauch stated the TFDOE, LLC, will retain the current ground lease and will manage the building lease. The interest being disposed of by the Department of Labor will not impact the current lessee of the building.

BOARD ACTION: Approved.

4. Minutes – approved

A. Regular Land Board Meeting – August 18, 2009

• **REGULAR**

5. Endowment Fund Investment Board Manager’s Report – Presented by Larry Johnson, Manager of Investments, EFIB

A. Monthly Report

- Fund reserves have slightly improved. The lowest endowment has at least three times their approved 2010 distributions in reserve.
- The Endowment Fund Investment Board held a special meeting on August 27, 2009, to consider additional feedback on proposed administrative rules for the Public School Endowment Fund’s Credit Enhancement Program for school bonds. The EFIB voted to reconfirm the rules previously established at their August 12, 2009 meeting.
- On September 3, 2009, the EFIB Audit Committee approved the 2009 financial statements. The statements received an unqualified opinion from the independent auditor, and no significant deficiencies in the Investment Board’s operations were found.
- No compliance or legal issues.

B. Investment Report

- Fiscal year-to-date returns: 9%;
- Investment managers are performing as expected.

No action was taken on this agenda item.

6. Request by Three Rivers Timber, Inc., for Hardship Termination of the East Fork Commercial Timber Sale (TS-42-3594) – Presented by David Groeschl, Assistant Director, Forestry and Fire

DEPARTMENT RECOMMENDATION: That the Board approve the hardship termination for the East Fork Commercial Timber Sale (TS-42-3594) and assess penalties and costs of \$214,306.06 to Three Rivers Timber, Inc.

DISCUSSION: A verbatim transcript is available upon request. Please send your request to Susan Terry, Idaho Department of Lands, Post Office Box 83720, Boise, Idaho 83720-0050 or email sterry@idl.idaho.gov.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board approve the hardship termination for the East Fork Commercial Timber Sale, TS-42-3594, and assess penalties and costs of \$214,306.06 to Three Rivers Timber, Inc., which is the Department's recommendation. Secretary of State Yursa seconded the motion. The motion carried on a vote of 5-0.

7. Request by Three Rivers Timber, Inc., for Hardship Termination of the School Shelter Timber Sale (TS-42-3556) – Presented by David Groeschl, Assistant Director, Forestry and Fire

DEPARTMENT RECOMMENDATION: That the Board approve the hardship termination for the School Shelter Timber Sale (TS-42-3556) and assess penalties and costs of \$106,095.84 to Three Rivers Timber, Inc.

DISCUSSION: A verbatim transcript is available upon request. Please send your request to Susan Terry, Idaho Department of Lands, Post Office Box 83720, Boise, Idaho 83720-0050 or email sterry@idl.idaho.gov.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board approve the hardship termination for the School Shelter Timber Sale, TS-42-3556, and assess penalties and costs of \$106,095.84 to Three Rivers Timber, Inc., which is the Department's recommendation. Controller Jones seconded the motion. The motion carried on a vote of 5-0.

8. Idaho Geological Survey Advisory Board – Presented by George Bacon, Director

DEPARTMENT RECOMMENDATION: That the Board designates a Board member to serve as their representative to the Idaho Geological Survey at the Board's earliest convenience and direct the Department to advance legislation to amend Idaho Code 57-201 so that membership requirements are for "a member of the State Board of Land Commissioners or their designated representative."

DISCUSSION: Governor Otter asked if there is currently a responsibility or duty assigned to the Land Board representative on this committee. Director Bacon stated not at this time. Typically the Advisory Committee meets once each year with other meetings scheduled as needed. The Committee recently held a conference call to update members on budget concerns. For the most part, however, the University, with input from industry and the Land Board representative, sets the priorities. Governor Otter asked if the Advisory Committee generates a report. Director Bacon stated the Committee has an annual report posted on its web site. Governor Otter asked if that is sufficient. Director Bacon stated yes.

Secretary of State Yursa moved the Department's recommendation. He asked whom the Board intends to appoint to the Idaho Geological Survey Advisory Board. Controller Jones recommended that Governor Otter make the appointment. Governor Otter asked if there is any objection to Director Bacon continuing to represent the Board until the necessary legislation instruments have been adopted. Director Bacon stated there is no

objection from the Department. Hearing no objection from the Board, Governor Otter asked Director Bacon to continue in that capacity.

BOARD ACTION: A motion was made by Secretary of State Ysursa to move the Department's recommendation. Attorney General Wasden seconded the motion. The motion carried on a vote of 5-0. In addition, Governor Otter tasked Director Bacon with continuing to represent the Land Board until the necessary legislative changes have been adopted.

9. Fiscal Year 2011 Budget Proposal – Presented by Patrick Hodges, Division Administrator, Support Services

DEPARTMENT RECOMMENDATION: That the Board approve the Department's FY 2011 budget proposal as submitted to the Division of Financial Management and the Legislative Services Office prior to September 2, 2009.

DISCUSSION: None.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board approve the Department's Fiscal Year 2011 budget proposal as submitted to the Division of Financial Management and the Legislative Services office prior to September 2, 2009, which is the Department's recommendation. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 4-0, with Governor Otter recused for this vote.

• **INFORMATION**

Background information was provided by those indicated as presenters (below). No Land Board action is required on the Information Agenda.

10. Woody Biomass Energy in Idaho – Presented by David Naccarato, McKinstry Company and John Watts, Veritas Advisors

John Watts, Veritas Advisors, introduced David Naccarato of McKinstry Company. Mr. Naccarato provided background information on the McKinstry Company's goals and objectives regarding woody biomass and state lands.

DISCUSSION: Governor Otter commented that Idaho has received inquiries from woody biomass producers. Those producers indicated the normal economic size for a unit is 50 megawatts yet Mr. Naccarato mentioned a size of between 5-15 megawatts. Mr. Naccarato stated the ideal size for these projects is based on the economics of the sale of power. In some cases the lower megawatt size becomes economically viable in a public-private partnership with 10-15 year revenue bonds for funding. If the debt term is reduced, the size of the project goes up. McKinstry recognizes the difficulties in obtaining 120,000 bone-dried tons of waste fuel per year to supplement a 10-15 megawatt plant so one of the things that the Company is attempting to do is to find the size that is most applicable to areas such as Adams County. In its model McKinstry is confident that a 10-15 megawatt size makes economic sense with the assumption of a 10-15 year bond cycle. Mr. Naccarato stated that is the reason why McKinstry is seeking 15-year stewardship arrangements with the State of Idaho. The same process is being followed with the Company's federal program. McKinstry has asked for no less than 10-year stewardship contracts with 15 years being the ideal timeframe. Currently

McKinstry is considering a 19-megawatt plant in Gem County. In that instance, most of the fuel has tentatively been identified through private sources.

Governor Otter asked how many tons are required per year per megawatt. Mr. Naccarato responded depending on the design, somewhere in the measure of 10,000 bone-dry tons of waste biomass per year per megawatt. That amount can vary between 9,000 and 13,000 tons, subject to design.

Governor Otter asked if the McKinstry proposal includes reforestation. Mr. Naccarato stated McKinstry is proposing that these projects provide 15-year purchases of woody biomass waste, and that the contractors, backed up with 15-year stewardship contracts, provide the waste. How that is mixed in terms of their contractual agreements for reforestation is up to them. McKinstry simply wishes to close the loop.

Mr. Naccarato stated to be clear, McKinstry is not seeking to be competitive to available resources but rather is seeking to open up additional resources. The Company understands there is a lot of competition for existing resources. Governor Otter commented that could be complimentary, too. Mr. Naccarato stated that is the goal.

Governor Otter asked what kind of infrastructure would be required for the kind of harvest needed for this process. Mr. Naccarato stated McKinstry has set up a model for this process. The Company is doing similar things with the Washington Department of Natural Resources. What McKinstry can do is develop energy plants that provide jobs, provide economic need, and then tie it into the long-term purchase of the power that sustains the revenue. As an example, McKinstry Company would contract multi-year purchases into the market saying the Company would like 150,000 bone-dry tons of fuel and then actually bid that into the market. The missing element is people who would like to respond but cannot because they are limited to year-to-year. Those people tell us they have no means to provide a 10-15 year guaranteed supply of fuel, which is where the long-term state land stewardships can provide backing.

Governor Otter encouraged Mr. Watts to introduce Mr. Naccarato to Paul Kjellander, Administrator of the Governor's Office of Energy Resources, to see how the state can factor this additional energy into the state's overall energy plan.

Superintendent Luna noted that Mr. Naccarato mentioned a proposed facility in Gem County. Mr. Naccarato stated McKinstry is considering the development of a 19-megawatt project in Gem County with an alternate site under consideration in eastern Oregon. The Company is also putting in a woody biomass boiler for the Garden Valley School District, which will be paid for out of a \$2.75 million U.S. Forest Service stimulus grant. In addition, McKinstry Company will be responding to an Adams County RFQ. McKinstry has also been formally selected to put in a 10-15 megawatt biomass plant in Shoshone County. McKinstry will be considering putting in four or five of these plants throughout the state keeping in mind that they need to be balanced to the resource. The key is to not overharvest, but to have a balanced long-term sustainable economy.

Mr. Naccarato stated in the future, McKinstry believes there is an opportunity to consider utilizing grazing lands in southern Idaho for the development of biofuels, such as switchgrass or miscanthus, to support this type of energy plant.

