



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
January 19, 2010

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, January 19, 2010, in Boise, Idaho. The meeting began at 9:03 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 State Controller Donna Jones
Honorable Superintendent of Public Instruction Tom Luna

For the record, Governor Otter recognized the absence of Attorney General Wasden and noted that otherwise the roll was full.

• **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 4-0, with Attorney General Wasden absent from this vote.

1. Director's Report – approved

- A. Interest Rate on Department Transactions – January 2010
- B. Timber Sale Activity Report
- C. Timber Sale Official Transactions – December 2009
- D. Legal Matter Summary
- E. Bureau of Surface and Mineral Resources Official Transactions – December 2009
- F. Fire Settlement Information

DISCUSSION: Director Bacon noted that item 1-B, the Timber Sale Activity Report, contains new charts that better display the current status of timber harvests. Monthly harvest value figures are down about 88% of normal for a five-year period, reflecting a downturn of 12% of normal related to timber harvests. While that is not a bad figure, Director Bacon stated cumulative harvest revenue receipts are down 56%. The difference is attributed to the fact that purchasers are harvesting more of the recently purchased sales that were purchased at lower prices and holding high priced wood that has been under contract for several years. Director Bacon also noted monthly stumpage prices are running about \$130 per thousand board feet.

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. Apocalyptic Pole	CR-300558	1,170	MBF	Clearwater	St. Joe (St. Maries)
		256,300	LF	Clearwater	St. Joe (St. Maries)
<u>SOUTH OPERATIONS</u>					
B. TadPole	CR-400976	1,700	MBF	Clearwater	Clearwater (Orofino)
		178,915	LF	Clearwater	Clearwater (Orofino)
C. West Benton Pole	CR-401049	560	MBF	Clearwater	Clearwater (Orofino)
		195,060	LF	Clearwater	Clearwater (Orofino)
D. Harbinger	CR-600178	39,239	Tons	Boise	Southwest (Boise)

3. Request for Approval to Transfer the Mineral Estate for the Land Exchange Formerly Completed between the State of Idaho and Heidi Baldwin – Staffed by Perry Whittaker, Strategic Business Analyst – approved

DEPARTMENT RECOMMENDATION: That the Board direct IDL to complete the mineral estate conveyance.

DISCUSSION: Secretary of State Yursa asked for an update on the status of the two home sites in the SNRA. Director Bacon stated there are actually four parcels in the SNRA south of Stanley. One is basically a cliff that is inaccessible. The northern-most parcel, south of Red Fish Lake by the fish hatchery, has a plat and an approved subdivision that needs to be redone. Several properties were sold many years ago from that state section and are now in private ownership so some opportunities may exist. The other three sections are under lease with the Idaho Department of Transportation for rock pits and currently, with the demise of Tamarack, there does not appear to be any exchange potential. Director Bacon noted there are members of the public, especially the Sawtooth Society and others, who would like to move that state land into federal ownership. However, the State is finding that those properties are uniquely situated due to the availability of road-quality rock on the parcels. There is no other road-quality rock available to the IDOT in the area so it is unlikely IDOT will relinquish the mineral leases.

Governor Otter asked about the IDOT leases. Director Bacon stated IDOT leases directly from the Department of Lands under a ten-year lease. IDOT has about six or seven years remaining under the current lease.

Secretary of State Yursa commented that the lease should have the standard clause that says the State can sell or exchange the parcels. Director Bacon stated the lease does contain that clause.

Governor Otter noted IDOT has searched for other sources of road-quality rock and has found no other sources in that area. Director Bacon stated that is correct. He added that the Forest Service recently completed an intensive study of the area’s geology and confirmed there is no other rock source available. The next closest source would be by Twin Falls or Ketchum.

Governor Otter asked if the rock is sold. Director Bacon stated IDOT currently is purchasing the rock from the Department. Governor Otter asked if IDOT is the only entity using that rock source. Director Bacon stated IDOT has the rock encumbered by lease.

BOARD ACTION: Approved.

4. Minutes – approved

A. Regular Land Board Meeting – December 15, 2009

• REGULAR

5. **Endowment Fund Investment Board Manager's Report** – *Presented by Chris Halvorson, Investment Officer, and Andy Potter, Senior Financial Specialist, EFIB*

A. Monthly Report – *Presented by Chris Halvorson, Investment Officer, EFIB*

- Investment performance in December was positive;
- As of end of October, reserves were at least three times the annual distribution;
- No significant actions were taken by the Investment Board since the last Land Board meeting;
- The EFIB received a formal Attorney General's opinion relative to the school bond guaranty fees.

B. Investment Report – *Presented by Chris Halvorson, Investment Officer, EFIB*

- For December 2009 the fund was up 1.9%;
- Fiscal year-to-date return is 18.5%;
- Returns for calendar year 2009 were approximately 25%;
- For the fiscal year, the fund earned about 80 basis points better than its benchmark;
- All managers are performing as expected;
- So far in January the fund has earned an additional 2% bringing the fiscal year-to-date return to approximately 20%.

C. Endowment Fund Investment Strategy Overview – *Presented by Chris Halvorson, Investment Officer, EFIB*

At the last Land Board meeting, the Chairman asked for a review of the Endowment Fund's investment strategy. Mr. Halvorson reviewed a PowerPoint presentation handout entitled *Endowment Fund Investment Strategy Overview, Board of Land Commissioners, January 19, 2010*.

Slide highlights include the following information:

- Basic guidelines for fund management are contained in the Land Board's approved Asset Management Plan;
- Endowment funds are perpetual with a long-term investment horizon, which is important in determining investment strategy;
- Funds are subject to variability of financial markets and can suffer reduced purchasing power due to inflation;
- To offset some risk the fund is invested in a diversified portfolio;
- The EFIB's citizen board and small staff make long-term strategic allocations and generally avoid making tactical calls;
- The EFIB maintains an asset mix that is expected to have reasonable performance over a market cycle;
- The EFIB builds its investments based on five elements of diversification:

- 1) **Risk of Return** – the EFIB invests 70% in stocks and over weights to equities since it has a long-term investment horizon;
 - 2) **Region** – the EFIB holds 16% of the total portfolio and 23% of the equity portfolio invested in companies located outside of the U.S.;
 - 3) **Investment Style** – The EFIB is balanced between managers who specialize in buying companies based on depressed value, and those who understand best how to value high growth opportunities.
 - 4) **Size** – The domestic equity portfolio generally contains a market weight of large, medium and small companies, with the exception of a slight overweight to mid-size companies.
 - 5) **Active vs. Passive Management** – In passive management an index is bought that represents the market. All fixed income and 18% of equities are in index funds, which represent 43% of the total fund. The remaining 57% of the fund is placed with active managers who over- and under-weight specific securities and shift between sectors and industries based on where they see the best opportunity.
- **Future Strategic Changes Include:** Increasing international equities from 16% to 21% with a corresponding reduction in U.S. equities (the fund will remain 70% stocks; 30% bonds); implement an asset switch by hiring Global Equity managers who will have the freedom to select the best stocks anywhere in the world (this will delegate some authority for regional allocation to managers so the percentage invested in non-U.S. companies will vary around the 21% target);
 - In addition, Endowment Fund staff is currently examining the possibility of investment in non-Idaho real estate and expects to present a recommendation to the EFIB this fall.

DISCUSSION: Governor Otter asked about annual distributions to beneficiaries. He commented that it would be helpful to have a shorter picture of what may be happening to the base for distributions. Mr. Halvorson stated an easier way to consider that would be the EFIB measures coverage ratio, which is the amount in the reserve fund divided by the amount of distribution. For example, currently the Public School fund has about three years of distributions in the bank.

D. Outlook for Earnings Reserves and Distributions – *Presented by Andy Potter, Senior Financial Specialist, EFIB*

Mr. Potter reviewed a PowerPoint presentation handout entitled *Outlook for Earnings Reserves and Distributions, Presentation to the Land Board, January 19, 2010; Also presented to the Joint-Finance-Appropriations Committee, January 18, 2010.*

Slide highlights include the following information:

- **Measuring Security of Distributions Using the Coverage Ratio** – The risk of a shortfall in distributions is measured by comparing the earnings reserve balance with the amount of distributions. This ratio measures the degree of reserve to maintain the distribution into future years. That is found by dividing the balance in each reserve account by the annual distribution.
- **Security of Future Distributions** – Current reserves are sufficient to guarantee payment of appropriated FY 2010 distributions and approved FY 2011 distributions currently before the Legislature.

- **Outlook for FY 2012 and Beyond** – For FY 2012 and beyond the question becomes can the 2011 level of distributions be maintained given the current depressed level of timber revenue and low interest rates. Housing starts in 2008 hit a 50-year low while 2009 starts fell to 65% of the 2008 level. Starts are expected to go up in 2010 but not as high as the 2008 low. Lumber prices in 2009 hit a record low. Those prices have bounced back somewhat, and the hope is that as the economy begins to turn around, the price of lumber will go up. Based upon the assumption that Lands revenues are equal to the low case scenario, and that there is no price appreciation or loss of fund assets, 2012 distributions are projected to be equal to 2011 distributions, which means that 2010, 2011 and 2012 distributions will not be reduced. June 2012 reserves are expected to be at least three years for all endowments, with Public Schools coming in at slightly under three years. The forecast is that, as of June 30, 2012, the fund should be in reasonable shape for endowment fund distributions.
- **Caveats** – Forecasted coverage ratios under the “low” scenario are near minimum acceptable levels for some endowments by FY 2012. Current and expected land revenues and fund returns will need to be closely monitored. Reductions in FY 2012 distributions may be necessary if future fund returns are materially negative, additional hardship extensions are offered on existing timber contracts, a material number of existing timber contracts are abrogated by purchaser defaults/bankruptcies or if future timber prices fall below level assumed in “low” revenue scenario.

DISCUSSION: Secretary of State Yursa asked if the bottom line, assuming the “low” scenario, is that Public Schools will stay at \$31.3 million in the distributions from the endowments for the next two fiscal years. Mr. Potter stated that is correct.

No action was taken by the Board on this agenda item.

6. **Proposed Land Board Meeting Sites Outside of Boise - Presented by George Bacon, Director**

DEPARTMENT RECOMMENDATION: That the Board direct the Secretary to establish two regular meetings of the State Board of Land Commissioners outside of Boise with the June meeting in Sandpoint and an October meeting in Twin Falls.

DISCUSSION: Controller Jones asked for a cost estimate. She noted that the board memo states between \$3000 and \$5000. Director Bacon stated the Department expects the cost to fall within the \$3000 to \$5000 range for the Sandpoint venue. However, he added the cost will depend on the amount of Department staffing needed. Some staff may be able to participate by conference phone or video conference and that would keep costs down. Also, to reduce travel costs, Department staff may be able to include other state business while in northern Idaho, such as conducting annual area visits.

Governor Otter asked about feedback from prior off-site meetings. Director Bacon stated public feedback has been positive. An additional benefit is the off-site meetings allow Department staff to attend to see their bosses in action.

BOARD ACTION: A motion was made by Controller Jones that the Board direct the Secretary to establish two regular meetings of the State Board of Land Commissioners outside of Boise with the June meeting in Sandpoint and an October meeting in Twin Falls and that the Director also be instructed to use every cost cutting measure possible when arranging these trips. Secretary of State Yursa seconded the motion. Superintendent Luna commented that Sandpoint was one of the first schools connected to the Idaho Education Network, and he suggested using IEN to connect staff from

the Treasure Valley to northern Idaho to save on expenses. The motion carried on a vote of 4-0, with Attorney General Wasden being absent from this vote.

** At 9:30 a.m. Governor Otter recused himself from item 7 and left the meeting. Before leaving, Governor Otter asked Secretary of State Yursa to take over as Chairman of the Board for the remainder of the meeting.*

Before beginning item 7, Director Bacon notified the Board that IDL employee Perry Whittaker has announced his pending retirement after working 33 years with the State of Idaho. Mr. Whittaker stated he has enjoyed the opportunity to work with Board members and staff over the years. Secretary of State Yursa commented that he has been around for 35 years and has enjoyed working with Mr. Whittaker during that time. He stated "Perry has always been a gentleman," and he thanked Mr. Whittaker for his years of thorough, competent and dedicated service.

7. Request for Approval to Complete a Land Exchange between the State of Idaho Department of Lands and the J. R. Simplot Corporation – Presented by Perry Whittaker, Strategic Business Analyst

DEPARTMENT RECOMMENDATION: That the Board direct IDL to complete the final exchange as described.

DISCUSSION: Controller Jones asked about the structure of the sub-lease and lease. She asked if Simplot would be obligated to step back in if the sub-lease falls apart. Deputy Director Opp stated the lease has been structured so that Simplot will guarantee the payment over the life of the lease regardless of whether it is sub-leased in the future.

BOARD ACTION: A motion was made by Superintendent Luna to direct IDL to complete the final exchange as described. Controller Jones seconded the motion. The motion carried on a vote of 3-0. *Vote Tally – Aye:* Yursa, Jones, Luna; *Nay:* 0; *Recused:* Governor Otter; *Absent:* Attorney General Wasden.

● **INFORMATION**

None

● **EXECUTIVE SESSION**

None

As a side note prior to adjournment, Secretary of State Yursa stated the Board plans to have a cottage site item on the February 16, 2010 regular meeting agenda.

There being no further business to come before the Board, at 9:45 a.m. a motion was made by Controller Jones to adjourn. Superintendent Luna seconded the motion. The motion carried on a vote of 3-0. *Vote Tally – Aye:* Yursa, Jones, Luna; *Nay:* 0; *Absent:* Governor Otter; Attorney General Wasden. Meeting adjourned.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ C. L. "Butch" Otter

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

The above-listed final minutes were approved by the State Board of Land Commissioners at the February 16, 2010 regular Land Board meeting.