



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
July 20, 2010

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, July 20, 2010, in Boise, Idaho. The meeting began at 8:59 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 (*via conference phone*)
Honorable Attorney General Lawrence Wasden (*via conference phone*)
Honorable State Controller Donna Jones
Honorable Superintendent of Public Instruction Tom Luna

Governor Otter recognized the presence of all members of the Board, with Secretary of State Ysursa and Attorney General Wasden joining the meeting by conference phone at 8:59 a.m. Secretary of State Ysursa left the meeting at 10:15 a.m.

• **CONSENT**

1. Director's Report – approved

- A. Interest Rate on Department Transactions – July 2010
- B. Timber Sale Activity and Information Report – June 2010
- C. Division of Lands, Minerals, Range Official Transactions – June 2010
- D. Legal Matter Summary – June 2010
- E. Fire Settlement Information – June 2010
- F. Fire Season Report

DISCUSSION: Regarding item 1B, the Timber Sale Activity and Information Report, Deputy Director Opp noted page 2 of 7 reflects the difference in value between Public School and Pooled endowment stumpage values. Harvest receipts show \$33.7 million gross, with a net amount of \$18 million, which is considerably off the normal ten-year average. Ms. Opp also noted that page 4 of 7 shows 100% completion for the Fiscal Year 2010 Sales Plan for all endowments.

Regarding the fire season report, Governor Otter asked if the net obligation represents standby costs. Deputy Director Opp stated that it does. Although the equipment is available to be deployed on other protection areas, the Department has first call.

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. POL 2011 Pole	CR-20-0288	200,575	LF	Bonner	Pend Oreille (Sandpoint)
		390	MBF	Bonner	Pend Oreille (Sandpoint)
B. First Willow	CR-30-0581	3,135	MBF	Benewah	St. Joe (St. Maries)
C. Spur 1 Pole	CR-41-0055	399,955	LF	Clearwater	Ponderosa (Deary)
		2,130	MBF	Clearwater	Ponderosa (Deary)

<u>SOUTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
D. Dawson Bits	CR-42-5042	4,050	MBF	Clearwater	Maggie Creek (Kamiah)
E. Final Flats	CR-43-4019	5,366	MBF	Idaho	Craig Mt (Craigmont)
F. East Jug	CR-50-0150	27,653	TONS	Valley	Payette (McCall)

DISCUSSION: Governor Otter mentioned concerns expressed by Representatives Shepherd and Stevenson and Idaho County Commissioners regarding the need for clearcuts. He asked if the Department is working on improving public communication to explain its forest management practices. Deputy Director Opp stated the Department is currently preparing a pamphlet for that purpose and plans to deliver that message soon.

3. State Participation as a Member of the Clearwater-Potlatch Timber Protective Association and the Southern Idaho Timber Protective Association – Staffed by Brian Shiplett, Chief, Bureau of Fire Management – approved

DEPARTMENT RECOMMENDATION: That the State continue to participate as a member of the Clearwater-Potlatch Timber Protective Association and the Southern Idaho Timber Protective Association.

BOARD ACTION: Approved.

4. Authorization for Issuance of Deficiency Warrants to Pay Fire Suppression Costs in Fiscal Year 2011 – Staffed by Brian Shiplett, Chief, Bureau of Fire Management – approved

DEPARTMENT RECOMMENDATION: That the Board authorize the Department to issue deficiency warrants necessary to pay fire suppression costs beyond the \$151,600 appropriation for fiscal year 2011.

BOARD ACTION: Approved.

5. **Application for Dredge/Placer Permit No. P800350, Robin Mavros, dba Mavros Firewood and Timber Products, Inc., Darby, MT 59829 – Staffed by Kurt Houston, Operations Chief-South – approved**

DEPARTMENT RECOMMENDATION: That the Board approve issuance of the permit subject to the plan submitted in the application, participation in the State Bond Assurance Fund and compliance with the Rules and Regulations Governing Dredge and Placer Mining Operations in Idaho.

BOARD ACTION: Approved.

6. **Application for Dredge/Placer Permit No. P-50-0331, Scott Hutchens, Weiser, ID – Staffed by Kurt Houston, Operations Chief-South – approved**

DEPARTMENT RECOMMENDATION: That the Board approve issuance of the permit subject to the plan submitted in the application, submission of the required \$2,935 bond and compliance with the Rules and Regulations Governing Dredge and Placer Mining Operations in Idaho.

BOARD ACTION: Approved.

7. **Minutes – approved**

A. Regular Land Board Meeting – June 15, 2010

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

• **REGULAR**

8. **Endowment Fund Investment Board Manager's Report – Staffed by Larry Johnson, Manager of Investments, EFIB**

- A. Manager's Report
- B. Investment Report
- C. Analysis of Income Flow per Statute

DISCUSSION: Superintendent Luna noted that Mr. Johnson explained that a transfer of one dollar from the reserve fund to the endowment would generate a five cent increase in distribution. However, he asked if triggers would have to be met first before that five cent increase would occur. Mr. Johnson stated that he could not think of any strict triggers that exist in the Board's policy, but that he would give this further consideration.

Superintendent Luna asked if the fact that reserve funds are invested in more volatile markets is one of the reasons it is necessary to have a five-year reserve. He asked if the Board chose to capture that income and put it in a safer investment would that be an argument for lowering the

number of years of reserves needed. Mr. Johnson stated that if the reserves were invested 100% in bonds that it would have a modest impact in reducing the amount in reserves, changing the target from five years to perhaps four or four-and-a-half years. He explained that variations in land and Permanent Fund income tend to be larger than variations in the Reserve Fund due to equity market variability.

Superintendent Luna suggested it would be beneficial to explore the wisdom and value of capturing the income and returns off of the Permanent Fund and then basically banking those returns in a more conservative investment. Mr. Johnson stated that the reserve funds are viewed as perpetual investments that can be invested in higher volatility equity to earn a higher long-term return. However, the EFIB's policy is to consider moving to a higher mix of fixed income when reserves drop to less than 1.3 years of distributions.

No action was taken on this agenda item.

9. Revision of IDAPA 20.02.14, Rules for Selling Forest Products on State-Owned Endowment Land and Repeal of IDAPA 20.02.11, Timber Supply Stabilization Act of 1989 on State Forests – Presented by David Groeschl, Assistant Director, Forestry and Fire

DEPARTMENT RECOMMENDATION: That the Board direct the Department to enter into the negotiated rulemaking process to revise IDAPA 20.02.14, Rules for Selling Forest Products on State-owned Endowment Land and repeal IDAPA 20.02.11, Timber Supply Stabilization Act of 1989 on State Forests.

DISCUSSION: Controller Jones asked if the Department has been working in conjunction with the forest industry to develop the rules. Assistant Director Groeschl stated yes. The Department has worked with the forest industry representatives for the last year and will continue to work with them through the negotiated rulemaking process.

Governor Otter asked if the Department is suggesting that it should become its own agent for sales and marketing. Assistant Director Groeschl stated yes. Washington DNR has been using this process for the last seven years and currently has a merchandizing sale program that has generated 15% more net revenue. This process also addresses issues for more difficult market areas and reduces some of the burden for small contractors. Governor Otter asked if it is 15% of gross or net. Mr. Groeschl stated the change would yield 15% more net revenue.

Governor Otter asked if the Department has the expertise to do this work. Mr. Groeschl stated the Department has some staff expertise, but there will also be a learning curve. The idea is to put four pilot projects on the ground and to work through those to evaluate the process and to make a comparison to the Department's stumpage sale program. The pilot projects would get the Department started and input from adjacent states and contracted resources would also be used to evaluate project success.

Superintendent Luna asked how long it would be until the four pilot projects would be completed and analyzed. Mr. Groeschl stated it is anticipated that the four pilot projects would be on the ground within the next two years. Once those projects have been completed, it is anticipated the analysis would be completed within six months.

Governor Otter asked who would do the analysis. Mr. Groeschl stated most of the analysis would be completed in-house, but some parts may be contracted. Governor Otter asked if another four identical projects are available to match performance against the private sector. Mr. Groeschl stated the goal, compared with nearby stumpage sales, is to use the comparison discussed with the consultant to gather information from them to see how we do compared to the private sector.

Governor Otter expressed concern about the ability of the Department to handle this by itself. He asked if it would be possible to include a sunset clause. Deputy Director Opp suggested that this topic could come forward for approval with the Department's annual timber sales plan thus allowing the Board to make a decision at that time. Governor Otter stated "that's fair."

Superintendent Luna asked if the plan is to have the initial four pilot projects fully completed, including analysis, before projects five and six are started. Mr. Groeschl stated the goal is to stagger the four pilot projects over the next couple of years, complete them and analyze shortly thereafter. By staggering the projects the Department can assess how well they are working and learn where adjustments are needed. The goal is for a delivered product.

Governor Otter asked if this process would help bring more interest to isolated sales. Mr. Groeschl stated it would.

BOARD ACTION: A motion was made by Superintendent Luna to adopt the Department's recommendation. Controller Jones seconded the motion. The motion carried on a vote of 5-0.

10. Authorization for Negotiated Rulemaking on IDAPA 20.03.04, "Rules for the Regulation of Beds, Waters, and Airspace Over Navigable Lakes in the State of Idaho" – Presented by Mike Murphy, Chief, Bureau of Surface and Mineral Resources

DEPARTMENT RECOMMENDATION: That the Board direct the Department to initiate negotiated rulemaking for IDAPA 20.03.04, "Rules for the Regulation of Beds, Waters, and Airspace Over Navigable Lakes in the State of Idaho."

DISCUSSION: Governor Otter asked if there is a grandfather clause in this rule. Mr. Murphy stated yes.

Governor Otter asked if the Department is working with Idaho Department of Water Resources on the water intake line fees. Mr. Murphy stated yes. Governor Otter suggested the Department should check with the Department of Water Resources to make sure the water rights permitting process is not being violated. Mr. Murphy stated he would check with IDWR.

Governor Otter and Superintendent Luna thanked the Department for a job well done.

BOARD ACTION: A motion was made by Superintendent Luna to adopt the Department's recommendation. Attorney General Wasden seconded the motion. The motion carried on a vote of 5-0.

11. Auctions for Geothermal Leases – Presented by Eric Wilson, Lands, Minerals and Range

DEPARTMENT RECOMMENDATION: That the Board allow the Director to designate a KGRA, as required by IDAPA 20.03.15.045, for all state lands south of the Salmon River, and all state lands within and south of Lemhi County, down to the Utah and Nevada state boundaries.

DISCUSSION: Governor Otter asked if across-the-counter permits have been issued that could be speculative. Mr. Wilson stated a number of leases have been issued. Some lessees have been diligently working to get to production; others have not done anything. The Department is currently requiring potential lessees to explain their exploration proposal, and land use permits are being issued rather than leases, to ensure viability of the resource and the operator. The Department will continue treating existing lessees and applications in the same manner regarding proof of plans, exploration and viability.

Governor Otter asked how large an area is under lease. Mr. Wilson stated in Idaho, the lessee is limited to 640 acres.

Deputy Director Opp commented that the Department is working with interested parties on geothermal statutes and will return to the Board in August with recommended legislative changes.

Governor Otter asked if the geothermal lease interferes with any other permitting on these lands. Mr. Wilson stated no. The leases are very specific to geothermal. The regulatory arm of geothermal development is handled by the Idaho Department of Water Resources.

BOARD ACTION: A motion was made by Controller Jones to adopt the Department's recommendation. Attorney General Wasden seconded the motion. The motion carried on a vote of 5-0.

✓ Secretary of State Ysursa left the meeting at 10:15 a.m.

• **INFORMATION**

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

12. Update on Idaho State Assessment of Forest Resources and State Forest Resource Strategy – Presented by David Groeschl, Assistant Director, Forestry and Fire

13. Land Revenue Forecast – Presented by Patrick Hodges, Division Administrator, Support Services

14. June 2011 Board of Examiners' Meeting for Statewide Fiscal Year Closeout – Presented by Dan Goicoechea, Office of the State Controller

