



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
State Board of Land Commissioners' Regular Meeting
April 19, 2011

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, April 19, 2011 in Boise, Idaho. The meeting began at 9:58 a.m. in the second floor courtroom of the Borah Building, 304 North 8th Street, Boise. 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

Superintendent of Public Instruction Tom Luna was absent from this meeting.

For the record, Governor Otter noted his understanding that all members of the Board were present, with Superintendent Luna joining the meeting by conference phone. It was later recognized that Superintendent Luna disconnected from the teleconference call upon the adjournment of the Idaho Oil & Gas Conservation Commission meeting which immediately preceded the State Land Board meeting.

• **CONSENT**

1. Director's Report

- A. Interest Rate on Department Transactions – April 2011
- B. Timber Sale Activity and Information Report – March 2011
- C. Division of Lands, Minerals, Range Official Transactions – March 2011
- D. Legal Matter Summary – March 2011
- E. Fire Settlement Information – March 2011

DISCUSSION: Referring to the Timber Sale Activity and Information Report, Director Bacon noted the Department has been seeing good prices and significant harvest activity on State Trust Lands. The markets have shown more purchasers for foreign markets while the housing market in the U.S. continues to recover. Receipts have stayed strong due to demand for wood, and the long winter has enabled purchasers to keep logging further into spring. Prices are starting to climb again.

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

- A. Manager's Report – Mr. Johnson stated that endowment fund returns and timber revenues have been strong. Reserves for all endowments are over five years, except Public Schools which is over three years.
- B. Investment Report – Fiscal year to date returns are 23.1%; the month of March was essentially flat at 0.4%. Fiscal year 2011 has been very strong from an equity market standpoint and earnings of the Endowment Fund.

DISCUSSION: Mr. Johnson stated the Executive Committee of the Endowment Fund Investment Board recently voted to replace investment manager MetWest whose CEO left the firm, and has hired in its place Robeco Boston Partners to become effective in May. Governor Otter inquired about Boston's performance measurement based on EFIB's performance scale of portfolio managers. Mr. Johnson affirmed Boston's historical performance has been well above their benchmark, as was MetWest's.

Mr. Johnson noted that three members of the Investment Board were reappointed by the Governor and confirmed by the Senate. Mr. Johnson indicated the May meeting will be a joint meeting with the Land Board and Investment Board.

Mr. Johnson explained that EFIB's presentation for April's Land Board meeting to address questions raised by the Attorney General and the Superintendent of Public Instruction at the December 2010 Land Board meeting has been deferred until the May Land Board meeting due to the anticipated length of today's meeting.

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

<u>NORTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
A. Middle Uleda	CR-10-0394	2,400	MBF	Bonner	Priest Lake (Coolin)
B. Mid-Overlook OSR	CR-10-0395	1,500	MBF	Bonner	Priest Lake (Coolin)
C. Lost & Found	CR-10-0408	3,200	MBF	Bonner	Priest Lake (Coolin)
D. Otts	CR-20-0284	3,250	MBF	Bonner	Pend Oreille (Sandpoint)
E. Harlem Rim Ton	CR-20-0291	25,300	TONS	Bonner	Pend Oreille (Sandpoint)
<u>SOUTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
F. Ove Homestead Seed	CR-40-1050	3,865	MBF	Clearwater	Clearwater (Orofino)
G. Forest Boundary	CR-42-5048	3,650	MBF	Idaho	Maggie Creek (Kamiah)
H. Big Creek Ton	CR-50-0163	19,581	TONS	Adams	Payette Lakes (McCall)

DISCUSSION: Governor Otter inquired if the timber sales are laid out chronologically; for instance, is Mid-Overlook bid and sold before Lost & Found? Director Bacon indicated the sales are not necessarily sold in the order presented. After Land Board approval of the sales, local Area Offices plan sale dates and times to coordinate with auction personnel availability and try to avoid having sales on same dates at different Area offices because many timber sale purchasers want to be present at every auction. Governor Otter noticed that the price of Douglas-fir & Larch moved up \$36.00 between sales and asked if that had anything to do with the dates? Director Bacon stated that price fluctuations are typically due to timing of sale appraisals compared to quarterly pricing updates from the mills, as well

as local market needs; from one Area to another and one region to another, different markets will dictate different prices even during the same time frame. Direct Bacon noted that timber sales are being bid up, as much as 100% in some auctions.

4. Easement for a Non-motorized Public Pathway to the City of McCall on Public School Endowment Lands (Valley County) – Presented by Kurt Houston, Operations Chief-South

DEPARTMENT RECOMMENDATION: That the Board direct the Department to approve the easement for a non-motorized multi-purpose public pathway to the City of McCall and accept the in-kind construction costs of \$215,181.33 in lieu of a cash payment.

DISCUSSION: Governor Otter asked if the power line was already in place, and would it be moved to subsurface. Director Bacon responded affirmatively on both questions. Governor Otter then inquired whether, as the power line crosses endowment land, portals would be available for connection to the line; looking to future potential development on this land, it should have the benefit of connecting to the power. Director Bacon stated the Department would make certain that power connection is available for the endowment land. Secretary of State Yursa asked where the land is in relation to the Payette Lakes Area Office. The map included with the board memo shows the pathway is located in front of the Area office. Secretary of State Yursa then inquired about zoning on the Deinhard 80 endowment parcel, also shown on the map. Department staff replied that it is zoned commercial. Secretary of State Yursa noted he had an interest in City of McCall zoning on endowment land as it pertains to an upcoming agenda item.

5. Approval of Minutes – March 15, 2011 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Controller Jones to approve the Consent Agenda as presented. Attorney General Wasden seconded the motion. Governor Otter offered the clarification that included with the approval of agenda item 4 is the understanding that the Department would ensure the ability to tap into underground electrical lines. The motion carried on a vote of 4-0.

• **REGULAR**

6. Timber Sale Plan – Presented by Bob Helmer, Chief, Bureau of Forest Management

DEPARTMENT RECOMMENDATION: That the Board direct the Department to proceed with publication and implementation of the FY12 Timber Sales Plan.

DISCUSSION: Governor Otter stated his understanding that four years ago the Department was 2 billion board feet behind its management plan for sustainability. Director Bacon indicated standing inventory was at 2 billion board feet. Governor Otter asked how much the sustained yield was lagging. Director Bacon responded that the Forest Asset Management Plan identified the need to increase harvest approximately 45 million board feet per year to get stands in the condition necessary for desired future condition. From that perspective, it could be said yield was 45 million board feet behind, but it is more complicated than straight numbers. Increasing harvest and reducing rotation age will result in increased total growth. The Department anticipates meeting the proposed 247 million board feet harvest. Harvest levels may dip, but will eventually stabilize at a higher level than would have been realized without implementing the FAMP.

Governor Otter asked about publication of the Forest Asset Management Plan, that it is advertised in local papers but also on the public website. Mr. Helmer replied, yes, it is on the website. Governor Otter inquired if the Department is required by law to publish it. Mr. Helmer again replied yes. Director Bacon noted that it is Board Policy to require publication. Mr. Helmer confirmed Director Bacon's assertion, noting that it must be published in each county's newspaper, which the Department does with a legal advertisement. Governor Otter asked about the cost of publication in newspaper when the same information is available on the web. Mr. Helmer stated the cost varies between newspapers and estimates the Department spends approximately \$1,500.00 per year with legal advertisement publication as opposed to \$17,000.00 per year with past publishing methods.

Attorney General Wasden clarified that this agenda item is a plan, and that each individual timber sale would again be brought before the Board for approval. Mr. Helmer confirmed that statement.

Secretary of State Yursa commented that in the 2011 legislative session some Department sponsored timber rules were not successful and asked will the Department do any analysis of the effect of the rules not passing per Article 9 Section 8 management responsibilities. Secretary of State Yursa noted specifically the sealed bids and delivered product sales portions of the proposed timber rules. Mr. Helmer responded that it should have little effect as those were simply additional tools the Department would have employed in timber sales; the Department anticipates successfully selling the timber volume as specified in the Forest Asset Management Plan. Mr. Helmer stated the Department will continue to pursue those rules again this year. Governor Otter asked if the Department has done any international analysis since the tsunami in Japan; does the Department anticipate any additional requests or additional volume requirements. Mr. Helmer responded yes; most market reports indicate demand by foreign markets – China and Japan – is driving prices up. Mills on the west coast and Canada are producing at record levels because of the foreign demand which is taking much of the domestic lumber away, which is then increasing prices locally to meet that demand, and that is not likely to abate for some time.

BOARD ACTION: Secretary of State Yursa moved that the Board adopt the Department recommendation on the FY12 Timber Sales Plan. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0.

7. University of Idaho Forestry Camp lease at McCall (M-5016) currently known as the McCall Outdoor Science School (MOSS) – Presented by Kathy Opp, Deputy Director, and Jane Wright, Strategic Business Analyst

DEPARTMENT RECOMMENDATION: That the Board direct the Department 1) to enter into an Agreement to Initiate a land exchange for the ISBA AquaLife property in Gooding County. The IDPR board and the ISBA board would need to concur to effect the commitment of time and dollar resources necessary for due diligence; 2) to conduct further analysis to determine the feasibility of a land exchange for the AquaLife property, and provided the end result is the identification of a third party buyer for AquaLife who is willing to become part of a three-way land exchange; 3) to discontinue examining the Home Place land exchange option, as it is undesirable as an endowment asset; 4) given the uncertainty of a viable land exchange at this point, to offer the UI a new 2 year lease at a market rate consistent with other transition property in the vicinity, and subject to the standard sale and exchange contract language.

DISCUSSION: Secretary of State Yursa inquired if a representative of the University of Idaho would like to comment. Kent Nelson, University of Idaho, commented that the University has been on this property a long time and would like to stay, but must be able to afford the lease which means ultimately there is a need for an exchange to happen. The University is willing to consider further rent but would like to know that an exchange is likely to occur. The Department's proposal to move forward with due diligence on an acceptable exchange is also important to the University. Controller Jones asked if the University has worked with the Department to forward this proposal. Mr. Nelson responded yes, in fact the University funded the appraisal of the endowment lands in McCall that was, per Board policy, contracted by the Department. The University has worked with Parks & Recreation and Department staff to find lands and a transaction that will suit all. Controller Jones expressed confidence that all parties will continue working together to obtain a desired outcome. Mr. Nelson expressed his appreciation for the work by Department of Lands' staff and the cooperation from Director Merrill and the Department of Parks and Recreation. Secretary of State Yursa noted that this same property was appraised at approximately \$11,000,000 four years ago and it is now appraised at \$6,000,000. 4% of that figure is substantially more rent than \$55,000. Governor Otter offered Director Nancy Merrill, Department of Parks and Recreation, the opportunity to comment on this item. Director Merrill thanked the Land Board staff and the University of Idaho for working with Parks on this endeavor. Director Merrill indicated Parks intends to continue working with the University if Parks is successful in acquiring the property, and noted that Parks' proposed exchange property will be of value to the Public Schools endowment. Director Merrill expressed support of the Department recommendations. Governor Otter inquired if Parks has done a cash flow analysis to determine if this asset would be self-supporting. Director Merrill responded that Parks has begun that process.

BOARD ACTION: Attorney General Wasden moved that the Board adopt the Department recommendation as listed in agenda item 7, page 5 of 6. Controller Jones seconded the motion. Attorney General Wasden, with the permission of his second, offered a clarification on item 4 of the Department recommendation, that is, the market rate that is consistent with other transition property in the vicinity is 4% as has been previously set by this Board and he requested the clarification be made a part of his motion. Controller Jones concurred. The motion carried on a vote of 4-0.

8. Request for Approval to Modify the Existing Agriculture Rent Methodology – Presented by Neil Crescenti, Grazing, Farming & Conservation Program Manager

DEPARTMENT RECOMMENDATION: That the Board direct the Department to 1) remove modifiers, allowing adjustment of the state's share to reflect market conditions; 2) apply any of the standard cropland lease rental methodologies common in the market place to calculate individual lease rents.

DISCUSSION: Bob Brammer, Assistant Director-Lands, Minerals, Range, presented additional background. Since the adoption by the Board of the Asset Management Plan (AMP), the Department has been working on business plans as directed in the AMP, including the Agriculture Business Plan. In that effort the Department contracted a market rent study. That study and additional research has shown that performance of the Agricultural Asset is limited by the one size fits all formula adopted by the Board in 1995. Flexibility is needed in determining rents on agricultural leases if market rent and goals in the AMP are to be achieved. Neil Crescenti then presented the board memo.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation, two parts: 1) to remove the modifiers allowing adjustment of the state share to reflect market conditions; and 2) to apply any of the standard cropland lease rental methodologies common in the marketplace to calculate individual lease rents. Secretary of State Yursa seconded the motion. The motion carried on a vote of 4-0.

9. 2012-2013 Cottage Site Lease – Presented by Mike Murphy, Chief, Bureau of Surface and Mineral Resources

DEPARTMENT RECOMMENDATION: That the Board direct the Department to 1) delay issuance of a 10-year lease as previously approved at the December 21, 2010 Board meeting; 2) approve the 2-year lease document; 3) offer the 2-year lease to the cottage site lessees with a July 1, 2011 response deadline.

DISCUSSION: Secretary of State Ysursa acknowledged that the Board is involved in litigation regarding cottage site leases, recognized the need to continue leases during pending litigation, noted that the Department recommendation is consistent with Board action in December 2010 and expressed support for the Department recommendation.

BOARD ACTION: Attorney General Wasden moved adoption of the Department recommendation. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 4-0.

10. Approval to Proceed with Three Cottage Site Sale Auctions – Presented by Mike Murphy, Chief, Bureau of Surface and Mineral Resource

DEPARTMENT RECOMMENDATION: That the Board direct the Department to proceed with the auctioning of the land and any improvements associated with former cottage site leases R5005, R5254 and R5350.

DISCUSSION: Governor Otter asked what would be the process if there were no bidders at the auction. Mr. Murphy replied the future use of the sites would be considered, the Department may wait for a better market in which to auction the sites, or the sites may be re-leased. Governor Otter inquired about the course of action if the improvements on the cottage sites have mortgages. Mr. Murphy responded that the Department does review that possibility as part of the normal procedure for expiring or cancelled leases; these three leases do not have mortgages on improvements.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation. Controller Jones seconded the motion. The motion carried on a vote of 4-0.

• **INFORMATION**

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

11. Legislative Update – Presented by Kathy Opp, Deputy Director

• **EXECUTIVE SESSION**

None

At 11:01 a.m. a motion to adjourn was made by Attorney General Wasden. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 4-0. 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 Yursa

Ben Yursa
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 May 17, 2011 regular Land Board meeting.