



STATE BOARD OF LAND COMMISSIONERS

C. L. "Butch" Otter, Governor and President of the Board
Ben Yursa, Secretary of State
Lawrence G. Wasden, Attorney General
Donna M. Jones, State Controller
Tom Luna, Superintendent of Public Instruction

Kathy J. Opp, Secretary to the Board

Final Minutes
State Board of Land Commissioners' Regular Meeting
August 16, 2011

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, August 16, 2011 in Boise, Idaho. The meeting began at 9:00 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 Yursa
Honorable Attorney General Lawrence Wasden
Honorable State Controller Donna Jones
Honorable Superintendent of Public Instruction Tom Luna

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

• **CONSENT**

1. Director's Report

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

DISCUSSION: Reviewing the Timber Sale Activity and Information Report, Acting Director Opp noted that the Department sold 8 timber sales in July; those sales represented an approximately 55% up-bid from appraised values. The Department advertised one salvage sale but received no bids. One recent timber sale, the Robinson Creek Sale (Kingston), was greatly enhanced by a 1-acre Land Bank purchase. The Robinson Creek timber sale sold at \$340/thousand, or \$100/thousand more than appraised value. The Land Bank purchase opened access and considerably shortened haul route on this timber sale. Timber sale volume under contract remains near \$200/thousand. Domestic markets continue to be very soft; prices are buoyed by export markets. Referring to the Fire Season Report, Acting Director Opp commented that the Department has seen benefit from Idaho's wet, cool spring. The Department estimates fire suppression expenditures to be around \$4.4 million. Idaho has helped neighboring states substantially; with Idaho now seeing warmer temperatures, Department fire crews are again in Idaho prepared for increasing fire activity here.

2. 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. POL 2012 Poles	CR-20-0293	350	MBF	Bonner	Pend Oreille
		4,000	Poles		(Sandpoint)
B. Schwartz Creek	CR-41-0062	10,630	MBF	Latah	Ponderosa (Deary)
C. North Pole	CR-41-0065	1,660	MBF	Latah	Ponderosa (Deary)
		5,040	Poles		
<u>SOUTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
D. Corp OSR	CR-40-1075	1,895	MBF	Clearwater	Clearwater (Orofino)
E. Old Maggie Rd Resale	CR-42-5057	4,085	MBF	Idaho	Maggie Creek (Kamiah)

DISCUSSION: Acting Director Opp noted that the Department manages some General Fund timberland. One of the beneficiaries of the North Pole timber sale is the General Fund, which will receive approximately 56% of the revenue from this sale.

3. Approval of Minutes – July 19, 2011 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Controller Jones that the Board approve the Consent Agenda as presented. Attorney General Wasden seconded the motion. The motion carried on a vote of 5-0.

- **REGULAR**

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

- A. Manager’s Report – Mr. Johnson stated that FY2012 distributions are well-secured by sufficient reserves. There are no legal or compliance issues. The independent audit of the FY2011 financial statements is nearly complete; at this point the audit has not raised any issues.
- B. Investment Report – Mr. Johnson noted that the Fund lost 0.8% in July. Managers are performing as expected. Mr. Johnson offered that through August 15th the Fund lost 5.2%, for a year to date loss of about 6%.

Referring to the Endowment Fund Return vs. Peers graphic, Mr. Johnson commented that Idaho's Endowment Fund returns average over the past five years has ranked 9th percentile, which is excellent performance as compared to other public funds. Mr. Johnson remarked that investment performance is a measure of both return and risk. The Endowment Fund returns have been significantly higher and slightly less volatile than its benchmark. The Fund returns have also been higher, but slightly more volatile, than the average peer.

C. FY 2013 Distributions and Transfers – Mr. Johnson reviewed the Endowment Fund Investment Board's summary of recommended distributions and transfers as shown in Table 1 of the Board memo. Mr. Johnson commented that typically when a Fund contains more than five years of distributions in its reserve fund, the excess will be transferred to its permanent fund. The Agricultural College Fund meets that criteria; however, with the current decline in equity market and forecasted sizeable decline in timber harvest levels for Ag College, the EFIB recommended a reduced transfer to its permanent fund to ensure sufficient reserves are retained.

EFIB RECOMMENDATION: Approve the recommended distributions and transfers.

BOARD ACTION: A motion was made by Secretary of State Yursa that the Board approve the EFIB recommendation. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-1, with Superintendent Luna voting in opposition. Governor Otter asked if Superintendent Luna was amenable to explaining his opposing vote. Superintendent Luna made reference to concerns previously expressed and declined to offer detail in the interest of the Board's time.

5. Department of Lands Fiscal Year 2013 Budget Proposal – Presented by Lisa Johnson, Financial Officer

Acting Director Opp noted that the Department uses the budget development process as a succession and training tool for mid-level managers. The Department assembles a budget panel annually to work with the Financial Officer; members gain an understanding of how state budgets are prepared and how funds need to be justified. The Department's FY2013 budget panel is in attendance here today. Lisa Johnson, Financial Officer, will present the budget proposal.

DEPARTMENT RECOMMENDATION: Direct the Department to include these supplemental and enhancement requests in the FY13 budget proposal due on September 1, 2011.

DISCUSSION: Attorney General Wasden acknowledged that the Board should take action on this agenda item due to the September 1 deadline for submitting the Department's budget proposal, but that Priority 5 on Attachment 1 (FY 2013 Enhancement Requests, page 3) should also be brought for consideration at the next regularly scheduled meeting of the Idaho Oil & Gas Conservation Commission.

Superintendent Luna noted that an investment of the size, type and scope indicated on Priority 1 (Lands Information Management System, or LIMS) results in higher productivity, higher return on investment, and potential need for fewer employees and inquired what return on investments was factored into this request. Acting Director Opp responded that LIMS is in part needed to benefit the SRBA and compliance reporting issues. Superintendent Luna clarified his question to state that LIMS is an automation process and usually through automation there is a return on investment due to reduced expenses and asked what savings the Department has estimated. Division Administrator Groeschl explained that the LIMS project was identified during the Forest Asset Management Planning (FAMP) process. The Department looked at business practices overall and made some determinations in number of FTE and funding needed to fully execute FAMP and increased harvest. One need identified was improvement in data management and business practices; LIMS does help the Department in that regard, both for succession planning with new foresters hired as well as efficiencies gained in generating required reports and capturing data. Another aspect considered was the number of new FTE needed; the Department was able to limit the need for additional FTE because of development of the LIMS project. When the Department previously implemented an

increased harvest of 30 million board feet, 10 new FTE were hired; under this implementation, the Department has the same amount of volume increase with only 4 new FTE, with the prospect of bringing the LIMS project into service over a number of years.

Superintendent Luna inquired about funding on Priority 7 (Attachment 1, page 4). Acting Director Opp replied that a portion of required funding has been requested through Division of Public Works (DPW). The Department determined that of the \$56,500 total project cost, the Endowment portion is \$33,900. The remaining amount of \$22,600, which would typically be requested through General Fund, is borne by DPW because the Eastern Area Office is an administrative site. Acting Director Opp noted that the decision unit request will also have to be approved in DPW's budget. Secretary of State Yursa asked for clarification on which funds are the 'other funds' portion of this request. Ms. Johnson responded that the Endowment portion comes from a pooled earnings reserve used to fund operating expenses. At the end of the Fiscal year, an allocation based on certain cost drivers is made from the pooled reserve to the nine discrete Endowment Funds.

Governor Otter commented on Priority 2 (Attachment 1, page 2) regarding the Department's intention to hire an outside contractor, and inquired if DEQ was able to perform the work. Acting Director Opp indicated the Department has been working with DEQ on this project, and has also been working to characterize this site for a couple of years with outside contractors. This is a continuation of that work. DEQ assists the Department with oversight and guidance.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation to include these supplemental and enhancement requests in the FY13 budget proposal due on September 1, 2011. Secretary of State Yursa seconded the motion. For the record, Governor Otter noted that the Chairman does not vote on this item because the Governor's Office prepares an Executive budget proposal for each state agency. The motion carried on a vote of 4-0, with Governor Otter abstaining.

6. Request to Conduct Competitive Auctions for Aggregate Mineral Leases in Ada and Canyon Counties – *Presented by Eric Wilson, Program Manager-Minerals*

DEPARTMENT RECOMMENDATION: Designate all aggregate mineral commodities in Ada and Canyon County for competitive bidding.

BOARD ACTION: A motion was made by Controller Jones that the Board designate all aggregate mineral commodities in Ada and Canyon County for competitive bidding. Attorney General Wasden seconded the motion. The motion carried on a vote of 5-0.

7. Hansberger Enterprises LLC Land Exchange – *Presented by Kate Langford, Strategic Business Analyst-Planning*

Acting Director Opp stated that since publication of this agenda item, Land Board and Department staff have become aware of a number of parties with an interest in this item. In the spirit of cooperation, the applicant endorses a continuance of this item to allow time for further discussions between the Department, the Cedar Knolls Dock Association and other interested parties. The applicant has requested a withdrawal of this item from today's agenda.

DISCUSSION: Secretary of State Ysursa agreed that in the spirit of transparency it behooves the Board to delay action until more input is received and offered to make a motion to delay this item for the purpose of allowing affected lot owners and lessees a chance to look at this proposal. Secretary of State Ysursa asked that when folks make comment they keep in mind that, agree or disagree, a problem exists with the current access, a solution for the problem has been drafted, and the solution seems to benefit the Endowment significantly. Secretary of State Ysursa asserted the Board's duty of undivided loyalty to the Endowment, but also expressed a duty to try to ameliorate some of the problems around Payette Lake.

BOARD ACTION: A motion was made by Secretary of State Ysursa to delay action on this item until the October Land Board meeting. Controller Jones seconded the motion. The motion carried on a vote of 5-0.

8. Property Line Boundary Agreement – Idaho County – *Presented by Kurt Houston, Operations Chief-South and Steve Schuster, Deputy Attorney General*

DEPARTMENT RECOMMENDATION: Direct the Department to execute the Boundary Agreement set forth in Attachment 2.

DISCUSSION: None.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board approve the Department recommendation and that the Boundary Agreement in Attachment 2 be executed. Controller Jones seconded the motion.

FURTHER DISCUSSION: Secretary of State Ysursa wondered if the Department was certain this agreement was the best solution, referencing a previous boundary agreement in the Boise Foothills which was thought to be correct but was incorrect. Mr. Schuster replied this situation is quite different. Governor Otter inquired if this situation is an adverse possession question. Mr. Schuster responded no. Governor Otter wondered that it is also not the rule of the antique fence law. Mr. Schuster replied no; a lot of caution is exercised with fences and each is evaluated on its own facts. Fences may or may not represent an actual boundary, or an approximate boundary, but this is not an adverse possession situation.

The motion carried on a vote of 5-0.

• **INFORMATION**

9. Agriculture Business Plan Summary – *Presented by Neil Crescenti, Program Manager-Grazing, Agriculture, Conservation*

DISCUSSION: Attorney General Wasden thanked the Department for pursuing and following through with the Board's motion in April and reporting on this item.

10. Community Forest Trust – Presented by Gordon Cruickshank, Commissioner Chairman-Valley County and Dan Dinning, Commissioner-Boundary County

The Secure Rural Schools Act (SRS) establishes a schedule of direct transfer payments from the US Treasury to Idaho Counties with federal forest lands.

DISCUSSION: Governor Otter asked for clarification on percentages. Mr. Dinning responded that under SRS 25% of gross receipts of national forests originally went to the counties; 70% of that figure goes to counties, 30% to schools.

Secretary of State Yursa inquired how this concept differs from the Federal Lands Task Force concepts of a few years ago. Mr. Cruickshank replied one difference is that in earlier concepts the counties had asked for the Federal lands to be relinquished to State ownership; in this proposal the lands will remain in Federal ownership but the lands will be managed by the State.

Superintendent Luna question if the commissioners had discussed their concept with any senators or representatives. Mr. Dinning stated that there have been preliminary conversations with staff and some meetings are occurring. Mr. Cruickshank indicated that he met this past spring with Congressman Labrador, discussing SRS reauthorization, and the Congressman seemed open to ideas that would help the counties move away from reliance on Federal tax payments.

Attorney General Wasden thanked the commissioners for their longtime work on this effort. Controller Jones also applauded the commissioners for their hard work.

Governor Otter inquired if the commissioners had approached their national association for support of this concept, allowing that it primarily affects the 19 western states. Mr. Cruickshank responded that there have been discussions with the National Association of Counties and clarified that it does affect more than the 19 western states, although those are the biggest recipients. In working with the National Forest County of Schools Coalition, the commissioners have learned that southeastern and midwestern states receive a proportion and those states have been contacted for assistance, including West Virginia, Florida, Arkansas, Mississippi, Texas, and Arizona. The National Association of Counties has requested that all of the Idaho counties pledge their support and then the National Association will determine how to best provide assistance. Mr. Cruickshank commented that the biggest message the counties want to impart is that administration of the Federal lands has not changed, as was intended, to return management of timber into reliable and sustainable revenue, so Idaho counties are stepping forward with a concept. Mr. Dinning noted that support of the Land Board is important to success of this concept.

Governor Otter indicated his support, and inquired how this concept differs from a charter forest management agreement. Superintendent Luna suggested that the charter forest concept derived from charter schools, offering more flexibility in management and use of lands with higher accountability and the expectation of superior results. Superintendent Luna stated he is not aware of any charter forests in operation in Idaho.

Mr. Cruickshank recapped that the commissioners are looking for acceptance of the concept to start discussions and determine how this concept could be utilized in Idaho. Governor Otter noted that in the concept, a 200,000 acre pilot project is proposed and asked how the 200,000 acre size was determined, and if the 200,000 acres have been selected. Mr. Cruickshank replied that specific

acres have not been selected; one option is to have four 50,000 acre plots in different areas of the state due to different dynamics of the state, but details have not been established for the pilot project.

Secretary of State Yursa offered support of the concept but expressed concern about how State management costs would be handled with no denigration of management of Endowment timberlands and funds and inquired if the Department has done analysis on this concept to ascertain if it could work while being cost-neutral to the Endowments. Acting Director Opp remarked that the commissioners are presenting their concept to the Board with the anticipation that the Department will continue to work with them to refine the mechanisms of the plan.

Governor Otter asked if the Department had a round figure on per acre costs for Endowment lands. Acting Director Opp responded that it really depends on the area of the state and the markets.

Superintendent Luna asked how many acres would need to be managed to generate the \$30,000,000 revenue that would no longer be received from the Federal government. Mr. Dinning replied that an exact figure is not known due to volatility in timber markets at present but indicated an analysis could be done, and suggested that the Department may have that type of data available.

Governor Otter inquired about the length of the trial period for the 200,000 acre pilot. Mr. Dinning responded it would be 5 years or for the duration of the next SRF reauthorization, whichever is longer.

Governor Otter commented that Endowment lands, especially in-holdings, may be enhanced if the Department managed adjacent Federal lands where disease and other problems are not being treated because Endowment lands presently suffer as a result of that negligence.

Superintendent Luna wondered if the commissioners or the Department is looking for direction from the Board in support of the concept. Governor Otter indicated willingness, as a Board member, to sign a letter of support. Superintendent Luna concurred and also encouraged the Department to work closely with commissioners in developing the concept plan. Mr. Cruickshank expressed appreciation for the audience with the Board on late notice and for the comments in support of the concept.

At 10:12 a.m. a motion was made by Attorney General Wasden to recess until call of the Chair. Secretary of State Yursa seconded the motion. The Chair suggested the Board should reconvene at 12:15 p.m. Attorney General Wasden amended his motion to stand in recess until 12:15 p.m. Secretary of State Yursa seconded the amended motion. The motion carried on a vote of 5-0.

At 12:20 p.m. the meeting of the Idaho State Board of Land Commissioners returned to order.

At 12:20 p.m. a motion was made by Attorney General Wasden to resolve into Executive Session pursuant to Idaho Code § 67-2345 subsection (1)(a) to consider hiring a public officer/employee, wherein the respective qualities of individuals are to be evaluated in order to fill a vacancy. Attorney General Wasden requested that a roll call vote be taken and that the Secretary record the vote in the minutes of the meeting. Controller Jones seconded the motion. Roll Call Vote: *Aye*: Yursa, Wasden, Jones, Luna, Otter; *Nay*: None; *Absent*: None.

