



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

Tom Schultz, Secretary to the Board

Final Minutes
State Board of Land Commissioners' Regular Meeting
June 19, 2012

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, June 19, 2012 in the Senate/House Auditorium (Room WW02) at the State Capitol, 700 W Jefferson, Boise, Idaho. The meeting began at 9:07 a.m. The Honorable Governor C. L. "Butch" Otter presided. The following members were present:

Honorable Secretary of State Ben Yursa
Honorable Attorney General Lawrence Wasden (*via conference phone*)
Honorable Superintendent Tom Luna

For the record, Governor Otter recognized the absence of Controller Jones and the presence of four Board members; Attorney General Wasden joined the meeting by conference phone.

Secretary of State Yursa made a unanimous consent request that the Board defer action on agenda item 7 – Covenants, Conditions and Restrictions for State Subdivisions at Priest Lake – until the regularly scheduled Land Board meeting in July. Secretary of State Yursa explained additional time is desired to determine how various uses on the lake may be affected. There being no objections, Governor Otter so ordered.

Director Schultz expressed that State Controller Donna Jones continues to be in the hearts and prayers of the members of the State Board of Land Commissioners, who send her best wishes for a rapid recovery.

• **CONSENT**

1. Director's Report

- A. Interest Rate on Department Transactions – June 2012
- B. Timber Sale Activity and Information Report – May 2012
- C. Division of Lands, Minerals, Range Official Transactions – May 2012
- D. Legal Matter Summary – May 2012

DISCUSSION: Referencing the Timber Sale Activity and Information Report, Director Schultz commented the Department had seven timber sales in the last month with a 54% up bid in price. The Department has about 460 MMBF under contract with an estimated value of just over \$93 million.

Director Schultz noted that timber harvest receipts to date are above \$47 million; the Department anticipates \$50 million in gross timber sale receipts for FY2012. Director Schultz indicated that market trends show a 24% increase in nationwide housing units for the first four months of calendar year 2012 compared to the same time period in 2011 which may indicate an uptick in housing construction. Director Schultz stated the Department sold 105% of its FY2012 timber sales plan and cumulative harvest receipts are approaching \$50 million. Cumulative harvest volume is expected to exceed 300 MMBF, a record harvest level in the history of the Department.

Governor Otter inquired about the Department's progress in whittling away its 2 billion board feet surplus as reported in 2007. Director Schultz replied the Department is harvesting more than growth to bring that number down and will provide current standing volume numbers that show decrease in that surplus. Governor Otter noted one particular problem was trunk growth greater than 28 inches with few carriages in Idaho able to take larger logs. Director Schultz indicated the Department incorporates even age management, including clearcutting and shelterwood, in harvest prescriptions to continue reducing timber surplus.

Commenting on the LMR Transaction Report, Director Schultz mentioned a large number of oil and gas leases were sold by the Department at a December oil and gas lease auction. Director Schultz noted two residential assignments, with no premium rent per contract. Director Schultz indicated the Department had a fair quantity of leases cancelled; geothermal leases were cancelled at request of the lessee; of three minerals leases, one cancelled for nonpayment, the other two cancelled at lessee request, and the oil and gas leases for Pan American were all cancelled for nonpayment.

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.	Tarlac Meadow OSR	CR-10-0409	4,100	MBF Bonner	Priest Lake (Coolin)
B.	No Jack Flat	CR-10-0412	7,100	MBF Bonner	Priest Lake (Coolin)
C.	Fairview	CR-22-5024	1,190	MBF Kootenai	Mica (Coeur d'Alene)
D.	East Long	CR-30-0543	3,315	MBF Clearwater	St. Joe (St. Maries)
E.	Willow Two	CR-30-0590	6,705	MBF Benewah	St. Joe (St. Maries)
F.	Lost 40	CR-30-0592	5,670	MBF Shoshone	St. Joe (St. Maries)
G.	Old Pierce	CR-30-0595	8,015	MBF Benewah/ Shoshone	St. Joe (St. Maries)
H.	West Bovill	CR-41-0075	4,655	MBF Latah	Ponderosa (Deary)
<u>SOUTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
I.	Bruin Strom	CR-42-5063	2,300	MBF Idaho	Maggie Creek (Kamiah)
J.	Secret Service	CR-43-4027	7,735	MBF Idaho	Craig Mtn. (Craigmont)
K.	West Twin	CR-50-0168	25,062	TONS Valley	Payette Lakes (McCall)
L.	Upper Dry Buck	CR-60-0182	22,681	TONS Boise	Southwest (Boise)

DISCUSSION: Governor Otter commented on the price variance for cedar between the timber sales, noting almost \$120/MBF difference between lowest price and highest price and asked the reason for that variance. Director Schultz explained it depends somewhat on different regions of the state. The proximity to cedar mills and resultant transportation costs will drive the price, therefore the Department's prices are not necessarily the same for every log species at every

location. Governor Otter inquired how many cedar bidders the Department sees at auctions. Director Schultz replied there are three or four cedar mills. Director Schultz further explained that on a sale where the Department is not selling cedar poles, the company that buys the sale will buy the cedar as well. They will then market that cedar and sell to the cedar mills themselves as opposed to having a cedar company bid on those logs.

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

- A. Manager's Report
- B. Investment Report

DISCUSSION: Mr. Johnson stated that distributions for FY2012 and FY2013 are well secured by the reserves that are in place. Mr. Johnson noted the Investment Board held a meeting on May 15th with several actions to report. The Investment Board reviewed the Land Board's endowment distribution policy and recommends that no changes be made. The Investment Board also assessed preliminary FY2014 distribution estimates. Mr. Johnson reported that if the fiscal year had ended in March about \$5 million of reserves in excess of 5 years would transfer to the permanent funds of six endowments; total FY2014 distributions would increase 2.9% with 6 of 8 endowments showing increases. Strict application of the 5%/6% formula would result in additional distributions for Public School and Normal School as well. Mr. Johnson commented, however, that pending further analysis at its August meeting the Investment Board believes reserves are insufficient to support an increase for those two endowments. Mr. Johnson explained the estimate continues to reflect the temporarily higher reserve level for Agricultural College that was set last year based on an expected shortage in timber harvest for that endowment over the next five years. Mr. Johnson noted the Department is producing a new long term land revenue forecast which the Investment Board will examine before making final recommendations in August. The Investment Board will also take into account actions in the financial markets that have occurred since the end of March. Mr. Johnson reported that the Fund suffered a loss of 5.5% in May, with declines in the equity markets both domestically and internationally, partly offset by higher returns in fixed income as interest rates fell slightly. Mr. Johnson stated the Fund has recovered some of that loss, up 1.6% thus far in June and down a slight 0.14% fiscal year to date.

4. Strategic Plan FY2013-FY2016 – Presented by Patrick Hodges, Division Administrator-Support Services

DEPARTMENT RECOMMENDATION: Direct the Department to submit the FY2013 – FY2016 Strategic Plan to the Division of Financial Management by the July 1, 2012 deadline.

5. Approval of Minutes – May 15, 2012 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Secretary of State Yursa that the Board approve the Consent Agenda. Superintendent Luna seconded the motion. The motion carried on a vote of 4-0.

- **REGULAR**

6. Payette Lake Cottage Site Lease Valuation Process – Presented by Sid Anderson, Program Manager-Public Trust/Residential

DEPARTMENT RECOMMENDATION: Direct the Department to implement the new appraisal-based process for the valuation of the Payette Lake cottage sites as described above for the 2013 rent.

DISCUSSION: Secretary of State Ysursa noted the Department received a letter of support from the Payette Lake Cabin Owners' Association (PLCOA) and wondered if the PLCOA membership is primarily lakefront lot lessees. Director Schultz replied the PLCOA is probably more representative of waterfront lessees, but mentioned there are several associations and neighborhood groups representing owners and lessees at Payette Lake in addition to PLCOA. Secretary of State Ysursa commented that assessments for lakefront lots are down slightly, and second tier lots are down considerably; lessees will have an interesting decision regarding which option they choose.

BOARD ACTION: A motion was made by Secretary of State Ysursa that the Board approve the Department recommendation. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0.

~~**7. Covenants, Conditions and Restrictions for State Subdivisions at Priest Lake**~~ – Presented by Kate Langford, Strategic Business Analyst-Planning

BOARD ACTION: Agenda item 7 is deferred until the July 17, 2012 regularly scheduled Land Board meeting.

8. IDAPA 20.03.15, Rulemaking Governing Geothermal Leasing on Idaho State Lands – Presented by Bob Pietras, Program Manager-Commercial Energy Resources

DEPARTMENT RECOMMENDATION: Authorize the Department to enter into negotiated rulemaking for rule changes to IDAPA 20.03.15.

DISCUSSION: Governor Otter inquired if the Department is prepared to allow for legislative changes regarding auctions and referred to the case currently before the Supreme Court on Idaho Code § 58-310(A). Secretary of State Ysursa noted that 58-310(A) is pretty specific and suggested the Attorney General's Office may want to comment on how the Court's ruling will possibly affect the contents of these rules. Attorney General Wasden offered his agreement that this negotiated rulemaking move forward, but indicated that current IDAPA 20.03.15 rule discusses the granting of leases without a conflict auction; that portion needs to be considered or reconsidered in the context of this negotiated rulemaking to assure consistency with the Supreme Court's decision on 58-310(A). Mr. Pietras stated the Department is prepared to make changes as needed based on the Supreme Court ruling.

BOARD ACTION: A motion was made by Secretary of State Ysursa that the Board direct the Department to enter into negotiated rulemaking. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0.

At 9:38 a.m., the Chairman called a brief recess of the Board. The Board reconvened at 9:41 a.m.

9. Evaluation – Director, Department of Lands (no Board memo)

BOARD ACTION: Secretary of State Ysursa stated the Board made a very good decision when hiring Director Schultz and commended him for the great job he has done. Secretary of State Ysursa made a motion to raise the Director's annual salary to \$120,000.00, effective July 1, 2012. Superintendent Luna seconded the motion. The motion carried on a vote of 4-0.

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

• **INFORMATION**

10. Geothermal and Solar Lease Templates – Presented by Bob Pietras, Program Manager-Commercial Energy Resources

11. Oil and Gas Lease Template – Presented by Eric Wilson, Program Manager-Minerals

At 9:46 a.m. a motion was made by Attorney General Wasden to resolve into Executive Session pursuant to Idaho Code § 67-2345(1) subsection (f) for the purpose of communicating with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. Attorney General Wasden requested that a roll call vote be taken and that the Secretary record the vote in the minutes of the meeting. Secretary of State Ysursa seconded the motion. Roll Call Vote: Aye: Ysursa, Wasden, Luna, Otter; Nay: None; Absent: Jones.

• **EXECUTIVE SESSION**

A. Idaho Code 67-2345(1)(f) – to communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. [TOPIC: Lessee Representative Meetings]

At 9:55 a.m. the Board resolved out of Executive Session by unanimous consent. No action was taken by the Board during the Executive Session.

There being no further business before the Board, at 9:56 a.m. a motion was made by Secretary of State Ysursa to adjourn. Superintendent Luna seconded the motion. The motion carried on a vote of 4-0. Meeting adjourned.

