



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
Brandon D. Woolf, State Controller
Tom Luna, Superintendent of Public Instruction

Tom Schultz, Secretary to the Board

Final Minutes
State Board of Land Commissioners' Regular Meeting
March 21, 2013

The regular meeting of the Idaho State Board of Land Commissioners was held on Thursday, March 21, 2013 in the State Capitol Auditorium (Room WW02) at 700 West Jefferson, Boise, Idaho. The meeting began at 9:02 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
Honorable State Controller Brandon Woolf (*via teleconference*)
Honorable Superintendent of Public Instruction Tom Luna

For the record, Governor Otter recognized the presence of all Board members, with Controller Woolf joining the meeting via conference phone.

1. Director's Report

- A. Interest Rate on Department Transactions – March 2013
- B. Timber Sale Activity and Information Report – February 2013
- C. Division of Lands and Waterways Activity and Information Report – February 2013
- D. Legal Matter Summary – February 2013

DISCUSSION: Director Schultz noted the interest rate on Department transactions is 3.50%, which is a slight increase from February.

Referring to the Timber Sale Activity Report, Director Schultz stated the Department held four timber sales in February with net sales value of approximately \$6.7 million, an upbid of 124% over the advertised values. The Department's timber volume under contract currently is just over 390 MMBF and slightly more than \$80 million in value. Director Schultz noted timber harvest receipts for February were in excess of \$9 million; that is a record for any single month, and represents almost 20% of the annual revenue received for timber sales. Harvest receipts for fiscal year to date are about \$43.3 million. Director Schultz mentioned market trends indicate a positive outlook. The Department had some sales this past month with triple the minimum bid price received. There is typically a direct correlation between lumber price and stumpage prices;

that correlation in the past year has not been as strong as historically but now the market is starting to see stumpage prices catch up with the price of lumber. Average stumpage prices are around \$225/MBF right now. Home builders are again reporting upward movement in single family housing production in the past year; January permit totals were the highest since 2008. Director Schultz reported the Department anticipates just over 241 MMBF to be sold this year in its timber sale program and to date the Department is close to 80% of that target. The Department is nearing 90% of its target for cedar poles sales. Director Schultz added that timber harvest receipts at present are just above \$43 million; the Department is still on target for about \$50 million this fiscal year, and expects roughly 300 MMBF in harvest volume this year.

Commenting on the Lands and Waterways Activity Report, Director Schultz noted a new Residential Other lease (R600002) located in the Southwest Area. Additionally, two Residential leases were assigned; one as a result of the lessee passing away (R1087) and the second was a family transfer (R1267). Director Schultz also pointed out a Deed transaction; in 1973 a sale of 320 acres occurred in Twin Falls County, and this mortgage is finally paid off after 40 years of installment payments to the Department.

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

- A. Manager's Report
- B. Investment Report
- C. Expected Returns

DISCUSSION: Mr. Johnson reported that reserves for the Fund are very good, given the record timber revenue the Department had in February, as well as strong fund results. Estimated reserves are at least 5 times the approved 2014 distribution except for Public School which is at 3.8 times. Mr. Johnson stated that the Investment Board met on February 13, 2013 and did not make any significant decisions, but did examine information on expected future returns. Mr. Johnson noted that February was a decent month in the financial markets; the Fund is up 0.7% due to strong equity returns. Mr. Johnson remarked that fiscal year to date through February the Fund was at 11.8% and through March 20th was at almost 14% reflecting continued notable returns for the Fund. Mr. Johnson stated that all investment managers are performing as expected.

Mr. Johnson summarized the information provided on expected future returns: over the next 5-6 years U.S. bonds are expected to earn about 1.7%, a record low. The asset mix of the Endowment Fund is 70% equity and 30% fixed income; what are the long term implications as a result of low bond returns. The Investment Board's asset consultant, Callan Associates, issues a revised forecast every year covering the next 10 years. Callan's assumption is the Endowment Fund will earn an average of 6.6% over the next decade. Subtract expenses of 0.4% to manage the Fund, retain 2.5% in the corpus for inflation and the result is an expected real return of 3.7%. The Land Board Asset Management Plan stipulates a 4% annual return, which will likely be surpassed with the gain from active management that is not presently factored. Although this is one of the lower expected future returns in some time because of the current low level of bond returns, Mr. Johnson affirmed that the Fund's mix remains the best for the endowment funds.

Attorney General Wasden thanked Mr. Johnson for the report and wondered – if the expected real net return for the Fund is 3.7%, and distributions are paid out every year at approximately 5%, what are the risks associated with that and what is the implication of that 4% return. Mr. Johnson replied the 5% is based on the size of the permanent fund only; taking into account the size of the reserve fund, that works out to an average of 4%. The Investment Board believes the investment funds will disburse 4%; that does not include what the Department is expected to earn. On an overall basis, the endowments will likely earn more than 4% of the Fund, adding in the land assets, and that will allow reserves to grow, which will increase permanent funds, which will increase payouts. Attorney General Wasden commented on the 2.5% inflation figure; it is not the predicted inflation, but that number is seemingly based on an educated guess. Mr. Johnson concurred; it is a reasoned estimation only.

- **CONSENT**

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. Morris Finn	CR-30-0598	4,550	MBF	Clearwater	St. Joe (St. Maries)
<u>SOUTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
B. 13 Mile Road	CR-40-1116	3,855	MBF	Clearwater	Clearwater (Orofino)
C. Mud Springs Ton	CR-80-0114	20,319	TON	Madison	Eastern (Idaho Falls)

DISCUSSION: None.

4. Timber License Plate Fee Recommendations – Staffed by Betty Munis, Director, Idaho Forest Products Commission

DEPARTMENT RECOMMENDATION: Direct the Department to proceed with the recommended educational projects listed in Attachment 1 and developed jointly with the Idaho Forest Products Commission.

DISCUSSION: None.

5. Approval of Minutes – February 19, 2013 Regular Meeting (Boise)

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

- **REGULAR**

6. Implementation of 2014 Cottage Site Rents – Presented by Sid Anderson, Program Manager-Public Trust/Residential

DEPARTMENT RECOMMENDATION: Direct the Department to offer the Deferral Option for the increase in 2014 cottage site rents as described in the Board memo.

DISCUSSION: A verbatim transcript is available by request to the Department of Lands, Attn: Land Board Recorder, PO Box 83720, Boise, Idaho 83720-0050 or by email to public_records_request@idl.idaho.gov.

BOARD ACTION: A motion was made by Secretary of State Yursa that the Board adopt the Department recommendation. Superintendent Luna seconded the motion. The motion carried on a vote of 4-1 [aye: Yursa, Woolf, Luna, Otter; nay: Wasden].

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

- **INFORMATION**

7. Legislative Update – Presented by Tom Schultz, Director

DISCUSSION: Governor Otter inquired if \$400,000 in funding for the Rural Fire Protection Associations was included in House Bill H0093. Director Schultz replied that the \$400,000 was included in the Department's budget (H0269) and approved by the Legislature.

Governor Otter asked about the amendment to Senate Bill S1049 (relating to the Oil and Gas Conservation Commission). Director Schultz responded that on page 2, line 7 the reference to Idaho Code § 59-509(h) was amended to reference Idaho Code § 59-509(n) to denote that commission members will receive a \$50.00 honorarium rather than a stipend.

Governor Otter requested an analysis from the Department pertaining to House Concurrent Resolutions HCR021 and HCR022 which will appoint a committee to study the transfer of federal lands to the State of Idaho, and direct Congress to divest of federal lands to the State of Idaho, respectively. Governor Otter asked that the Department present information at the next Board meeting regarding costs and other potential impacts if federal land transfer to the State should become reality, as well as recommendations whether the Department, under direction of the Land Board, or perhaps a new department should administer said public lands. Director Schultz stated the Department will make a presentation as requested. Secretary of State Yursa added any recommendations should be vetted against Article IX, Section 8 of the Idaho Constitution and evaluate if such federal public lands transferred to the State would fall under the same mandate as Endowment Lands.

At 9:44 a.m. a motion was made by Attorney General Wasden to resolve into Executive Session pursuant to Idaho Code § 67-2345(1) subsections (d) and (f) for the purposes of considering records that are exempt from disclosure under Idaho Code § 9-340D, and to communicate with legal counsel regarding 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 Yursa seconded the motion. Roll Call Vote: *Aye*: Yursa, Wasden, Woolf, Luna, Otter; *Nay*: None; *Absent*: None.

- **EXECUTIVE SESSION**

- A. Idaho Code 67-2345(1)(d) – to consider records that are exempt from disclosure as provided in chapter 3, title 9, Idaho Code **and** 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: 2014 Cottage Site Lease Values]
- B. 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: CPTPA Update]

At 10:12 a.m. the Board resolved out of Executive Session by unanimous consent. No action was taken by the Board during the Executive Session.

- **REGULAR**

- 8. **OSHA/CPTPA Informal Settlement Agreement** – *Presented by David Groeschl, State Forester/Deputy Director, Forestry & Fire*

DEPARTMENT RECOMMENDATION: As per 38-104(2), the Department recommends the Land Board authorize CPTPA to sign the final OSHA Informal Settlement Agreement and make payment of the fines totaling \$10,500.

DISCUSSION: None.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation and, as per Idaho Code § 38-104(2), authorize CPTPA to sign the final OSHA Informal Settlement Agreement and make payment of the fines totaling \$10,500. Secretary of State Yursa seconded the motion. The motion carried on a vote of 5-0.

There being no further business before the Board, at 10:13 a.m. a motion was made by Attorney General Wasden to adjourn. Superintendent Luna seconded the motion. The motion carried on a vote of 5-0. Meeting adjourned.

