



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
February 18, 2014

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, February 18, 2014 in the second floor courtroom of the Borah Building, 304 North 8th Street, Boise. 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
Honorable Superintendent of Public Instruction Tom Luna

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

1. Director's Report

A. Interest Rate on Department Transactions – February 2014

DISCUSSION: Director Schultz noted the interest rate on Department transactions for this month is again 4.25%, as it has been the prior two months.

B. Timber Sale Activity and Information Report – January 2014

DISCUSSION: Director Schultz stated that the Department had one timber sale at auction last month with a 120% up bid. The Department has almost \$100 million worth of volume under contract and that volume is just over 437 MMBF. Director Schultz remarked the Department generated more than \$6.4 million between stumpage and interest payments in January and is projecting another \$8 million in February. Director Schultz commented that both IFG and Bennett Lumber are making some capital investments and improvements which will ultimately help the Department's prices as there is more capacity within the state and just outside the state to process timber. Governor Otter asked what the Department's maximum capacity is for production. Director Schultz replied the capacity in the state is a billion board feet right now, plus or minus. Historic levels were 1.6 to 2 billion board feet; given the decline in the number of mills, capacity has not decreased substantially due to technology. Director Schultz noted the Department is at 72% of its sawlog sales target and 50% of cedar pole sales for FY2014. Director Schultz remarked the Department is nearing \$55 million in cumulative harvest receipts received

year to date, close to 150% of the 5 year average. Every month with the exception of January has been above the 5 year average. The Department is projecting about another \$8 million in receipts for February and expects cumulative receipts will be above \$60 million at the end of February. It has been a phenomenal year for the timber program. Cumulative harvest volume to date is about 260 MMBF which is almost 130% of the 5 year average. Director Schultz mentioned stumpage prices dipped somewhat, down to \$225/MBF.

C. Division of Lands and Waterways Activity and Information Report – January 2014

DISCUSSION: Director Schultz indicated the Department issued quite a number of one year lease extensions. Director Schultz summarized the status of cottage site leases: a total of five leases – 4 at Priest Lake and 1 at Payette Lake – where the Department received payment but no lease in place. There is one cottage site at Payette Lake for which the Department received a signed lease but no payment. Department staff has followed up with those folks on the phone and with letters. Director Schultz commented the Department has made significant progress, recalling how the merits of the one year lease were debated; it helped ease the Department and lessees through this transition period with very little non-compliance, marking it a success.

D. Legal Matter Summary – January 2014

DISCUSSION: None.

E. Legislative Update

DISCUSSION: Governor Otter asked about the amendment to Senate Bill 1277 – Exchange of State Land. Director Schultz replied the amendment seems to address the issue of disguised sales more clearly. Attorney David Leroy had issued an opinion questioning the constitutionality of the bill. Governor Otter asked what opinion the Attorney General issued. Attorney General Wasden stated his office has not issued an opinion on the bill.

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

A. Manager's Report

DISCUSSION: Mr. Johnson stated reserves are strong. All endowments have at least 5 years with the exception of Public School which is up to 4.7 years, an increase over a year ago. No significant actions were taken by the Investment Board. Mr. Johnson advised that progress continues in State of Idaho Department of Environmental Quality's (DEQ) negotiations with the Coeur d'Alene Tribe related to the Bunker Hill water treatment plant and endowment. If negotiations should come to fruition then the Investment Board would take over management of a \$50 million endowment that would be used by DEQ to operate that plant. The Investment Board will likely ask for Land Board approval in March to give the Investment Board authority over that endowment. Mr. Johnson also informed the Board that at its next meeting in March EFIB will be presenting a draft of an RFP for consultants to assist the Land Board in the Comprehensive Endowment Strategy Review.

B. Investment Report

DISCUSSION: Mr. Johnson reported the month of January was unkind to the Fund; it lost 2.1% due to weakness in the equity market both domestically and internationally. Fiscal year to date returned 10.4%, a little over a hundred basis points above the bench marks where active managers continue to add value. Mr. Johnson remarked that thus far in February the Fund is up 2.4% and is back to a fiscal year to-date number of 13%.

Governor Otter asked for a quick report on EFIB's budget presentation this morning. Mr. Johnson indicated the budget was approved but there were some dissenting votes; 13-7. Mr. Johnson noted there seemed to be some concern about the Investment Board having continuous appropriation authority to pay for manager fees and consultant fees as those are incurred. Normally those motions are approved with unanimous consent; in this case there was an objection but authority was granted by a vote of 14 to 6. Governor Otter inquired how the Investment Board would be able to manage mid-year if it didn't have continuing authority to change management. Mr. Johnson replied it would be significantly more difficult; the Investment Board would have to arrange for changes if fees were to go up after legislative approval, or the Legislature would have to set a budget with a lot of cushion in it.

- **CONSENT**

3. Timber Sales for Approval – Staffed by Eric Besaw, Regional Operations Chief-North, and Kurt Houston, Regional Operations Chief-South

<u>NORTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
NONE					
<u>SOUTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
A. Elk Ridge Pole	CR-40-1121	45	MBF	Clearwater	Clearwater (Orofino)
		2,667	Poles		
B. Huckleberry Poles	CR-40-1095	665	MBF	Clearwater	Clearwater (Orofino)
		2,415	Poles		

DISCUSSION: None

4. Lava Hot Springs Foundation – Approval of New Fee Rate for an Easement for a Hydro Plant on Foundation Grounds – Staffed by Mark Lowe, Director, Lava Hot Springs Foundation, and Adam Warr, Deputy Attorney General

RECOMMENDATION: It is the recommendation of the Lava Hot Springs Foundation to approve the First Addendum to State of Idaho Easement No. 5402.

DISCUSSION: Controller Woolf asked the Department to confirm this is for easement purposes and not for the lease which would need Board of Examiners approval. Director Schultz responded it is for the easement, not a lease. The original easement said it was to be renegotiated after a period of time. This is the renegotiation of the fees and it is tied to CPI going forward. Governor Otter asked what the cycle is for renegotiation. Director Schultz replied it is every 20 years.

5. Results of January 16, 2014 Oil and Gas Lease Auction – Staffed by Sid Anderson, Program Manager-Commercial Energy and Minerals

DEPARTMENT RECOMMENDATION: Approve the results of the January 16, 2014 oil and gas lease auctions and direct the Department to issue the identified 123 oil and gas leases to the successful bidder/applicant AM Idaho, LLC.

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

6. Approval of Minutes – January 21, 2014 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**

7. Valuations at Payette Lake and Priest Lake – Presented by Patrick Hodges, Deputy Director-Lands and Waterways

DEPARTMENT RECOMMENDATION: Approve the appraised values for the cottage sites as indentified in Attachment 3 of this document.

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

BOARD ACTION: A motion was made by Attorney General Wasden that the Board table this matter subject to the call of the Chair no later than Friday, February 28th. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 5-0.

8. Recommendation on Distribution Policy – Presented by Larry Johnson, EFIB Manager of Investments

EFIB RECOMMENDATION: Increase the Distribution Policy rate for State Hospital South from 6% of the Permanent Fund to 7% and increase its FY 2015 distribution to \$3,625,400 from the previously approved \$3,228,000.

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

BOARD ACTION: A motion was made by Attorney General Wasden that the Board approve the recommendation that is increase the distribution policy rate for State Hospital South from 6% of the permanent fund to 7% and increase its Fiscal Year 2015 distribution to \$3,625,400 from previously approved \$3,228,000. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 5-0.

9. Recommendations of Endowment Investment Governance Strategy Subcommittee – Presented by Secretary of State Ben Yursa, Chairman-Endowment Investment Governance Strategy Subcommittee

SUBCOMMITTEE RECOMMENDATION: Consistent with the action taken at the December 17, 2013 meeting, the Subcommittee recommends that the Land Board 1) suspend the portions of the Asset Management Plan and the Mid-term Strategy related to property acquisitions, including commercial property; and 2) continue to consider property acquisitions for the purposes of obtaining access for currently owned endowment lands, and blocking up of ownership of endowment lands.

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

BOARD ACTION: A motion was made by Controller Woolf that the Board adopt the Subcommittee recommendations that is consistent with the action taken at the December 17, 2013 meeting, the Subcommittee recommends that the Land Board 1) suspend the portions of the Asset Management Plan and the Mid-term Strategy related to property acquisitions, including commercial property; and 2) continue to consider property acquisitions for the purposes of obtaining access for currently owned endowment lands, and blocking up of ownership of endowment lands. Secretary of State Yursa seconded the motion. The motion carried on a vote of 5-0.

- **INFORMATION**

NONE

At 11:33 a.m. a motion was made by Attorney General Wasden to resolve into Executive Session pursuant to Idaho Code § 67-2345(1) subsection (f) 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. Controller Woolf seconded the motion. Roll Call Vote: *Aye:* Yursa, Wasden, Woolf, Luna, Otter; *Nay:* None; *Absent:* None.

- **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: Mineral Rights]
- 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: 10 Barrel Impact Fee]

