



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
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
May 22, 2014

The regular meeting of the Idaho State Board of Land Commissioners was held on Thursday, May 22, 2014 in the State Capitol Lincoln 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 Ysursa
Honorable Attorney General Lawrence Wasden
Honorable State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Tom Luna (*via teleconference*)

For the record, Governor Otter recognized the presence of all Board members, with Superintendent Luna joining the meeting via conference phone at 9:02 a.m.

1. Director's Report

- A. Interest Rate on Department Transactions – May 2014
- B. Timber Sale Activity and Information Report – April 2014
DISCUSSION: Governor Otter asked if the increase in price per MBF is a result of increased retail user activity or a result of reduced harvest. Director Schultz replied there is typically a good correlation between lumber price and stumpage price. Lumber mills may be paying a bit more right now as they are trying to increase their supply.
- C. Division of Lands and Waterways Activity and Information Report – April 2014
DISCUSSION: Director Schultz provided an update of the Cottage Site Program fiscal year to date. At Priest Lake of 354 leased lots: 348 have executed leases, 1 pending lease, 3 pending assignments and 2 non-renewals. At Payette Lake of 151 leased lots: 114 have executed leases, 31 lots have sold at auction, 1 pending assignment and 5 non-renewals.

Moving forward to the lease effective for 2015: at Priest Lake, 269 applications were mailed; 258 were received back (96% of what was mailed out). 251 applications were received on time, 7 were received after the deadline, and will be re-advertised for the potential for a conflict lease application process. Of those received, 113 accepted the appraised value (44%); 145 decided to challenge the appraisal process (56%).

Lessees may choose one of two appraisers to perform the challenge appraisal and must pay the \$750 price of the appraisal. Of those 258 applications received, 70 also returned signed leases for 2015. At Payette Lake 16 applications were mailed for this year going forward. Everybody prior to these 16 had already signed a long term lease. All 16 have accepted their value and all 16 of those have already returned their 2015 lease.

Governor Otter inquired if the Department still pays for the first appraisal if the challenge appraisal shows a major correction. Director Schultz replied that the first appraisals are paid for and considered final. Governor Otter asked if the first appraisals also cost \$750 each. Director Schultz indicated they were between \$300 and \$500 apiece. If the second appraisals come back with a significant discrepancy – if they are within 10% then the Department will average those numbers, if they are outside of 10% then yet a third appraiser may be hired to look at those first two numbers. If a third appraisal is done, the cost will be split between the Department and the lessee.

Attorney General Wasden requested an update on the status of the voluntary auctions, both at Priest Lake and Payette Lake. Director Schultz responded the Priest Lake auction is scheduled for August 28th in Coeur d'Alene. 62 lessees are currently continuing in that process. Director Schultz commented that average values for many of those lots are in the \$400,000 - \$500,000 range which would mean approximately \$30 million in revenue to start with at auction. Director Schultz stated post cards were mailed to Payette Lake lessees on Friday, May 16 soliciting interest in an auction. The Department will accept up to 30 applications for participation in this next auction, which would be the 2nd auction this calendar year at Payette Lake. The Department will bring a proposal to the Board in July or August with a recommended mix of lakefront and second tier lots.

Director Schultz then mentioned lease conflicts in programs other than cottage sites. A total of 8 out of 130 grazing leases were conflicted, which is about 6% of those that were available. There was 1 out of 4 cropland leases also conflicted. Those conflict processes will occur over the summer and results will come to the Board this fall for approval.

D. Legal Matter Summary – April 2014

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

A. Manager's Report

DISCUSSION: Mr. Johnson stated distributions are well secured with the reserves in place. There are no compliance or legal issues to mention. Mr. Johnson noted the Investment Board met on May 21st to interview the finalist for the asset allocation and governance consulting study; there will be more discussion on that later in this meeting.

The EFIB expects to bring a request for permission to manage the \$50 million Bunker Hill Endowment Treatment Fund at the next Land Board meeting.

B. Investment Report

DISCUSSION: Mr. Johnson reported the Fund more or less broke even for the month of April. Fiscal year to date through the end of April was 14.6%. In May the Fund has gained half a percentage point thus far, to 15.1%. All investment managers are performing as expected.

C. Semi-Annual Report

DISCUSSION: Mr. Johnson stated the Land Board Asset Management Plan calls for the Investment Board to make two reports yearly to the Land Board. EFIB presents a semi-annual report in May with the full annual report in November. Mr. Johnson reviewed the report as printed in the Board materials.

Attorney General Wasden referred to the graph on slide 9 showing coverage ratios in earnings reserves as of March 31, 2014 and commented that finally all reserves are at 5 years or more. Attorney General Wasden asked if the Investment Board is considering whether some of those funds should be moved into the permanent funds while maintaining that 5 year time coverage. Mr. Johnson responded that the Investment Board did have a conversation about that at its meeting yesterday and that information will be shared with the Land Board at its June meeting. Mr. Johnson noted that at this point numbers are preliminary; the guidelines in statute specify that final calculations will be done at the end of June. In general terms, EFIB is expecting between a 5 and 6% in the total distribution next year if balances at the end of June are the same as the end of March.

Attorney General Wasden commented that recently there has been some discussion about the Fund losing a considerable amount of money in the 2008 period but Fund numbers now are quite favorable. Attorney General asked what efforts EFIB can undertake or has undertaken to communicate with the public the success in the Endowment Fund. Mr. Johnson replied the EFIB has published its financial statements and he has made presentations to several groups. Mr. Johnson thought a press release had been issued as well. Attorney General Wasden asked Mr. Johnson to confirm the press release and to consider additional public outreach regarding the success of the Fund. Mr. Johnson stated he would do so.

• **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>
A. Lucky Again	CR-10-0416	1,130	MBF	Bonner	Priest Lake (Coolin)
B. Junta OSR	CR-10-0423	1,800	MBF	Bonner	Priest Lake (Coolin)
C. Lookout Below	CR-10-0431	1,160	MBF	Boundary	Priest Lake (Coolin)
D. Molar Ton	CR-20-0319	5,756	Tons	Boundary	Pend Oreille (Sandpoint)
E. Sand Mountain OSR	CR-21-3028	2,775	MBF	Boundary	Pend Oreille (Sandpoint)
F. Merry Pole	CR-30-0621	650	MBF	Shoshone	St. Joe (St. Maries)
		2,279	Poles		
G. Fry Creek	CR-41-0085	7,040	MBF	Latah	Ponderosa (Deary)

<u>SOUTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
H. Expulsion	CR-42-5084	990	MBF	Idaho	Maggie Creek (Kamiah)
I. Island North Ton	CR-50-0169	10,913	Tons	Adams	Payette Lakes (McCall)
J. Horse Fir Ton	CR-50-0174	6,287	Tons	Adams	Payette Lakes (McCall)
K. Grizzly Creek Ton	CR-80-0112	49,912	Tons	Caribou	Eastern (Idaho Falls)

4. Results of April 17, 2014 Oil and Gas Auction – Staffed by Sid Anderson, Program Manager-Commercial Energy and Minerals

DEPARTMENT RECOMMENDATION: Approve the results of the April 17, 2014 oil and gas lease auctions and direct the Department to issue the identified 136 oil and gas leases to the successful bidder/applicant AM Idaho, LLC.

DISCUSSION: Governor Otter inquired about the minimum price for a lease. Director Schultz responded the minimum price is a dollar per acre. Bidders are bidding a bonus on top of that, so if only one person shows up the tract will be leased with no bonus and one dollar per acre. Governor Otter then asked aside from the right to go in and explore does the Department maintain a working interest? Director Schultz replied the Department earns a 12.5% royalty on the state tracts that are being leased. There is also a severance tax in the state; the severance tax would accrue to the State and the royalty goes to the endowment beneficiary. Governor Otter asked what is the amount of the severance tax. Director Schultz stated it is 2.5%.

5. State Participation as a Member of Clearwater-Potlatch Timber Protective Association (CPTPA) and Southern Idaho Timber Protective Association (SITPA) – Staffed by David Groeschl, State Forester and Deputy Director-Forestry and Fire

DEPARTMENT RECOMMENDATION: The Department recommends that the State continue to participate as a member of the Clearwater-Potlatch Timber Protective Association and Southern Idaho Timber Protective Association.

DISCUSSION: None.

6. Authorization for Issuance of Deficiency Warrants to Pay Fire Suppression Costs in FY 2015 – Staffed by David Groeschl, State Forester and Deputy Director-Forestry and Fire

DEPARTMENT RECOMMENDATION: Authorize the Department to issue deficiency warrants necessary to pay the fire suppression costs beyond the \$151,600 appropriation for fiscal year 2015.

DISCUSSION: None.

7. Approval of Minutes – April 15, 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**

8. Endowment Governance Subcommittee Consultant – Presented by Larry Johnson, EFIB Manager of Investments

RECOMMENDATION: The EFIB is scheduled to meet May 21, 2014 to finalize its recommendation to the Land Board. EFIB staff has recommended to the Investment Board that Callan be retained for the mandate.

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 adopt the recommendation that is that the Board select Callan to be retained for the mandate. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

For the record, Superintendent Luna excused himself from the meeting at 10:25 a.m. to attend another commitment.

Secretary of State Ysursa asked for State Forester Groeschl to provide a quick update of the recent action by the U.S. Secretary of Agriculture Vilsack regarding the Farm Bill. Attorney General Wasden stated it was not on the agenda and is not an action item. Secretary of State Ysursa noted it was referenced in the April 15, 2014 draft minutes approved in today's Consent Agenda. The Board concurred a brief update would be allowed.

Mr. Groeschl reported the Department worked with several collaboratives and forest supervisors throughout the State of Idaho and identified 50 proposed treatment areas totaling a little over 1.8 million acres that met the criteria of the Farm Bill. These proposed treatment areas were submitted by the Governor on March 31st to Secretary Vilsack as authorized under the Farm Bill. Earlier this week Secretary Vilsack approved all 50 proposed treatment areas with a slight modification to 1 of the proposed treatment areas. The Department does not have the details yet as to why the modification but is checking into that. Mr. Groeschl mentioned that at this time there are no new appropriated dollars for these designations as provided for under the Farm Bill however, it is the Department's understanding that the Forest Service will be prioritizing their current funding levels over the next several years to focus on conducting treatments within these proposed treatment areas.

Governor Otter inquired when the Board could expect the executive white paper previously requested explaining what was submitted and action going forward. Mr. Groeschl apologized to the Board for the delayed response and stated within the next 2 weeks the Board will receive electronically an executive summary of the Farm Bill, what was submitted and the designations by the Secretary of Agriculture as well as a matrix table of how the management varies on state trust lands vs. federal lands. Governor Otter expressed his compliments to Mr. Groeschl, the collaborative and the team. Idaho was the first to submit its plan; it has been used as a pro forma by the Western Governors Association and 11 states have commented what a great product it is. Secretary of State Ysursa also thanked Mr. Groeschl.

9. Approval to Auction Lots on East Watertower Street, Meridian ID – Presented by Roger Titmus, Strategic Business Analyst

DEPARTMENT RECOMMENDATION: Direct the Department to market the above referenced property and conduct an auction for Lots 5, 6, and 7, which will be auctioned only as a unit at the total appraised value for all three lots of \$394,500.00. Lot 4 will be auctioned only if lots 5, 6, and 7 sell at auction. Lot 4 will be auctioned, if at all, at the appraised value of \$131,000.00.

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 Department recommendation with the modification that each lot be offered individually. Secretary of State Yursa seconded the motion. The motion carried on a vote of 4-0.

10. Negotiated Rulemaking, IDAPA 20.03.16, Oil and Gas Leasing – Presented by Mike Murphy, Bureau Chief-Endowment Leasing

DEPARTMENT RECOMMENDATION: Authorize the Department to enter into negotiated rulemaking for IDAPA 20.03.16 - *Oil and Gas Leasing on Idaho State Lands*.

DISCUSSION: Controller Woolf asked if the Department at some point would move the legal authority to create these IDAPA rules to the newly established Oil and Gas Conservation Commission. Director Schultz clarified that these rules are regarding leasing of endowment lands; the Department would not envision these actions going under the Commission. The Commission's role is strictly regulatory; the Land Board retains all leasing oversight, no differently than if this was a grazing piece of land or selling a cottage site. This is within the discretion and responsibility of the Board.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation and authorize the Department to enter into negotiated rulemaking concerning oil and gas leasing on Idaho state lands. Controller Woolf seconded the motion. The motion carried on a vote of 4-0.

• **INFORMATION**

NONE

• **EXECUTIVE SESSION**

NONE

There being no further business before the Board, at 10:41 a.m. a motion was made by Attorney General Wasden to adjourn. Controller Woolf seconded the motion. The motion carried on a vote of 4-0. Meeting adjourned.

