



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
July 15, 2014

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, July 15, 2014 in the State Capitol Lincoln Auditorium (Room WW02) at 700 West Jefferson, Boise, Idaho. The meeting began at 9:00 a.m. The Honorable Governor C. L. "Butch" Otter presided. The following members were present:

Honorable Attorney General Lawrence Wasden
Honorable State Controller Brandon Woolf

For the record, Governor Otter recognized the presence of three Board members and the absence of Secretary of State Yursa and Superintendent Luna.

1. Director's Report

- A. Interest Rate on Department Transactions – July 2014
- B. Timber Sale Activity and Information Report – June 2014

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

DISCUSSION: Director Schultz provided the most recent update on 2015 cottage site lease applications. Priest Lake: 269 applications mailed to lessees; 258 have been received by the Department. Of the 258 received, 146 lessees (57%) are challenging appraisals. Challenge appraisals are due back to the Department by the end of October. The Department will submit a request for proposal for a third appraiser to be utilized in the event any challenge appraisals amounts are 10% outside of the initial appraisal. Director Schultz added the Priest Lake voluntary auction for 62 cabin site lots is scheduled for August 28 in Coeur d'Alene. Governor Otter asked if all 62 complete the process, they would all be auctioned? Director Schultz replied yes, and reminded the Board these 62 lessees were involved in the proposed exchanges last fall that were not approved. The Department recommended and the Board accepted moving forward to auction those lots that were in the exchange. There were more than 70; some of those folks dropped out and 62 are now in the process.

Governor Otter asked if the Department will finance any of these sales. Director Schultz stated no. Governor Otter inquired if the Board could legally finance any sales. Attorney General Wasden indicated the Board probably could but the Board has tried to avoid being a banker and it is probably in the best interest of the school children for the Board to not be the banker. Governor Otter commented the state would have great interest rates. Attorney General Wasden noted part of the issue is not just the interest rate but the costs of maintaining and servicing a contract become problematic because the Board and the Department are not efficient at doing that. Director Schultz suggested the alternative is to sell the lots and allow the Endowment Fund Investment Board (EFIB) to invest the proceeds, which returns would far exceed what the Board could charge as an interest rate.

Attorney General Wasden asked if the Department is recouping the costs associated with these transactions – in some instances one appraisal, some instances two appraisals, some instances it may be three appraisals. Director Schultz explained the fee structure set for the first two auctions at Payette that have occurred the Department charged 1% and for the upcoming auction at Priest Lake the Department is charging 1%. The Department is not recouping the auction fees for those three auctions. In April the Department came forward with a new fee structure. The new fee structure anticipates a \$1,000 application fee which will cover the cost of the appraisal for the land but does not quite cover the full cost of the improvements appraisal. The structure is that the first appraisal is paid for by the Department; the second appraisal (challenge) is paid for by the lessee and that fee is \$750. If a third appraisal is needed, that fee will be split between the Department and the lessee. Up until this time the Department has not fully covered the costs at a 1% fee. Going forward, the next auction at Payette would have a 5% fee plus \$1,000 application fee so the Department will be very close to fully covering costs.

D. Legal Matter Summary – June 2014

E. Fire Season Update – June 2014

DISCUSSION: Controller Woolf asked for an update from the recent activity of the lightning strikes over the last few days in Garden Valley and Lowman area. Director Schultz indicated those are not in the Department's protection area; they are in the Boise National Forest. The Director stated there were 18 strikes to his knowledge. The fire in Garden Valley there has been a helibase established; an incident command post has been established there. The Department has the potential to advise in a line officer capacity if state or private lands would be impacted by those fires. Governor Otter inquired about the Carey fire in Blaine County, adding it isn't in the Department's protection area either. Director Schultz stated he has no direct information on that but will provide following the meeting. Governor Otter noted his last report showed it had burned 650 acres and the only evacuations have been along the Payette in the Garden Valley area. Stephen Goodson, Governor's staff, checked online updates and stated the Carey fire had grown to 7,000 acres overnight due to erratic fire behavior.

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

A. Manager’s Report

DISCUSSION: Mr. Johnson reported that due to robust fund returns and excellent land revenues reserves are very strong at the end of the fiscal year and exceed 5 years target for all endowments. The Investment Board will issue a press release with investment results and a combined release reporting the income from the land base as well. Mr. Johnson noted the Investment Board will meet on August 14 to finalize recommendations on 2016 Endowment Fund distributions and adjustments to years of reserve targets. These recommendations will be presented to the Land Board for approval at its September meeting. The Audit Committee of the Investment Board will meet August 20 to review the independent auditor’s report and approve the 2014 financial statements which EFIB is preparing now. Mr. Johnson stated the Department of Fish and Game recently approached EFIB about managing \$25 million in three endowments to perpetually fund the mitigation of wildlife habitat lost to the construction of certain hydroelectric dams. The Investment Board will review that request at its August meeting. If it is approved by the Investment Board, EFIB will request permission of the Land Board to manage those funds which are being provided by the Bonneville Power Administration.

B. Investment Report

DISCUSSION: Mr. Johnson noted the month of June was very good for the Fund, which is up 1.8% giving a fiscal year to date return of 18.8% which is the Fund's 2nd highest in history. EFIB ended the year with over \$1.7 billion in assets which is a new record for the Fund. The Fund exceeded its benchmark in the fiscal year and over the last 5 years has done so at the rate of about 1.2% a year. Mr. Johnson commented in regard to future returns, with interest rates at an average of 2.5% for a 5 year bond it is likely that the Fund will earn between 6-7% over the next 10 years. Mr. Johnson said unfortunately there is no promise of a continuation of the 18 or 19% return. In fact over the last 5 years EFIB has earned 14.6% and over the last 10 years about 8.5% in the Endowment Fund.

• **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. Betwixt	CR-10-0420	1,525	MBF	Bonner	Priest Lake (Coolin)
B. Bare Bones	CR-10-0427	1,730	MBF	Bonner/ Boundary	Priest Lake (Coolin)
C. Clagstone OSR	CR-20-0307	990	MBF	Bonner	Pend Oreille (Sandpoint)
D. Last Patch	CR-30-0616	2,825	MBF	Shoshone	St. Joe (St. Maries)
<u>SOUTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
NONE					

4. Approval of Minutes – June 17, 2014 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt and approve the Consent Agenda. Controller Woolf seconded the motion. The motion carried on a vote of 3-0.

• **REGULAR**

5. Payette Lake 2014 Voluntary Auction II – Presented by Kate Langford, Bureau Chief-Real Estate Services

DEPARTMENT RECOMMENDATION: Direct the Department to prepare, market, and auction the cottage sites listed in Attachment 2. The auction date shall be in late 2014. The appraised value of the land shall be used for the published minimum bid amount for each lot.

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 Department recommendation that is direct the Department to prepare, market, and auction the cottage sites listed in Attachment 2; the auction date shall be in late 2014; the appraised value of the land shall be used for the published minimum bid amount for each lot. Controller Woolf seconded the motion. The motion carried on a vote of 3-0.

6. Revised Recommended Minimum Balance for Reclamation Fund – Presented by Eric Wilson, Program Manager-Minerals

DEPARTMENT RECOMMENDATION: Direct the Department to establish the reasonable minimum balance for the Reclamation Fund at the 90% confidence level, or \$1,408,000, and continue actuarial audits of the fund every five years.

DISCUSSION: None.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation that is direct the Department to establish the reasonable minimum balance for the Reclamation Fund at the 90% confidence level, or \$1.408 million, and continue actuarial audits of the fund every five years. Controller Woolf seconded the motion. The motion carried on a vote of 3-0.

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

- **INFORMATION**

7. **Grazing Market Rent Study** – Presented by Diane French, Program Manager-Grazing, Agriculture, Conservation and Dr. Neil Rimbey, Extension Professor/Range Economist, University of Idaho

DISCUSSION: Governor Otter asked if in the grazing survey presented there was any variation for multiple ownership of the animals. For example, if two or three folks come together, each with their own herds or each with their own cattle, all grazing the same land and then they split them up by brand later. Dr. Rimbey replied there were a few group leases included in the survey but he did not recall if there were variations and offered to check results and reply following the meeting. Controller Woolf inquired, of the respondents in the survey, is there a breakdown of how much was on private versus public land. Dr. Rimbey replied the general leases were on private lands. The initial question to respondents was 'do you lease private grazing'? But, that said, there are quite a few whole ranch leases which may include public lands.

At 9:51 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: Wasden, Woolf, Otter; Nay: None; Absent: Ysursa, Luna.

- **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: Airport 7]

At 10:19 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 10:19 a.m. a motion was made by Attorney General Wasden to adjourn. Controller Woolf seconded the motion. The motion carried on a vote of 3-0. Meeting adjourned.

