



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
August 14, 2014

The regular meeting of the Idaho State Board of Land Commissioners was held on Thursday, August 14, 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 Yursa
Honorable Attorney General Lawrence Wasden
Honorable State Controller Brandon Woolf

For the record, Governor Otter recognized the presence of four Board members and the absence of Superintendent Luna. Superintendent Luna was unable to join the Land Board meeting due to a conflicting commitment with the State Board of Education.

1. Director's Report

- A. Interest Rate on Department Transactions – August 2014
- B. Timber Sale Activity and Information Report – July 2014
- C. Division of Lands and Waterways Activity and Information Report – July 2014
- D. Legal Matter Summary – July 2014
- E. Fire Season Update – July 2014

DISCUSSION: Governor Otter asked about the fire cost; looking back 2 years ago, the state had 1,700,000 acres – Trinity Ridge, Halstead, Mustang – those three fires were one million acres alone. Governor Otter expressed that acreage burned then was much more than so far this year and the costs then were not nearly what they have already reached. Director Schultz commented statewide this year about 200,000 acres have burned, compared to the 1.7 million acres as mentioned by the Governor. Many of the fires that occurred 2 years ago were federal fires, so the state did not necessarily have costs associated with those fires. This year more than 25% of those 200,000 acres that are being suppressed are Department

responsibility. The Department has hired four type 2 teams and one Type 1 at Whiskey Fire Complex. Costs for the first several days are probably \$300,000-\$400,000 per day for a Type 1 team. Within a week costs may approximate about \$1 million a day. The more complex teams that are brought in, costs go up substantially.

Governor Otter then asked if those acres are all state land or part of the 6.2 million acres agreement. Director Schultz replied it is part of the 6.2 million acre agreement, which includes both federal and private acreage. Governor Otter inquired if our salvage teams are mobilized. Director Schultz stated the salvage teams are always mobilized. However, of acres burned to date this year only 5,000 acres are on state land and most of that has been range land. There is not much timber to salvage as of yet on state lands.

F. Land Revenue Forecast

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

A. Manager's Report

DISCUSSION: Mr. Johnson stated that with good news on endowment land revenues as well as recent good returns in the fund endowment, distributions for the next several years are well secured. Mr. Johnson mentioned the Investment Board is meeting later this morning to develop recommendations on fiscal year 2016 distributions and related reserve levels and transfers. The final recommendation will be presented to the Land Board next month.

Mr. Johnson also noted at its meeting today the Investment Board will be considering the Department of Fish and Game's proposal that the Investment Board manage approximately \$25 million of endowments to perpetually fund wildlife habitat that is lost due to the construction of certain hydroelectric dams. Depending on those discussions today it is likely the Investment Board next month as well will request that the Land Board grant authority to manage those endowments.

Mr. Johnson stated there are no compliance issues to report. Mr. Johnson mentioned that next week the Endowment Funds Audit Committee will be meeting to review the independent auditor's report on Endowment Fund financial statements and to approve the fiscal year 2014 statements. Those should be published by early next month and will be provided to Land Board members.

Governor Otter asked if the Fish and Game endowment will be managed for liquidity; will Fish and Game be able to access some of the \$25 million when they need it. Mr. Johnson replied yes, the idea is that the fund will support the ongoing management of fencing, roads, weed spraying and the like. Controller Woolf asked if Investment Board staff will be able to manage an additional portfolio as far as workload. Mr. Johnson said yes, due to economies of scale, there is little difference between managing a fund worth several million and one worth one billion. Mr. Johnson anticipates most of this money will be invested alongside the land grand endowment fund.

Governor Otter asked if the Fish and Game fund will be managed similar to the Endowment Fund; will only the earnings be spent. Mr. Johnson responded the Investment Board will need to clarify this with the representative of Fish and Game today. The Investment Board will be operating under constraints placed by the Grantor of the Trust, which is Bonneville Power Administration (BPA). Mr. Johnson was not certain what constraints BPA may put on the distribution of principal but at this point Mr. Johnson is not aware of any. During down times, the Investment Board would not be prohibited from withdrawing small amounts from the principal if necessary; therefore the Fish and Game fund will not be as sensitive to reserve levels as the land grant endowments which have constitutional prohibitions against any distribution of principal.

B. Investment Report

DISCUSSION: Mr. Johnson reported the month of July was a weak month for the Fund with a loss of 1.2% to start off the fiscal year. The Fund has gained about 0.6% this month; fiscal year to date the Fund has sustained a loss of just a little over half a percent.

- **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. Cougar Gulch OSR | CR-22-5030 | 1,365 | MBF | Kootenai | Mica (Coeur d'Alene) |
| B. North Lindstrom OSR | CR-30-0611 | 5,990 | MBF | Benewah | St. Joe (St. Maries) |
| C. Twice Bitten Ton | CR-30-0617 | 18,116 | TON | Shoshone | St. Joe (St. Maries) |
| D. Assembled Oviatt | CR-41-0061 | 31,215 | TON | Clearwater | Ponderosa (Deary) |
| E. Bullistic | CR-41-0079 | 8,190 | MBF | Clearwater | Ponderosa (Deary) |
| F. Cherry Picken | CR-41-0080 | 3,565 | MBF | Latah | Ponderosa (Deary) |
| <u>SOUTH OPERATIONS</u> | | | | <u>COUNTY</u> | <u>AREA OFFICE</u> |
| G. Milwaukee Seed | CR-40-1139 | 3,125 | MBF | Clearwater | Clearwater (Orofino) |
| H. North Suttler | CR-42-5065 | 1,865 | MBF | Idaho | Maggie Creek (Kamiah) |
| I. Hydro Seed | CR-42-5066 | 6,140 | MBF | Clearwater | Maggie Creek (Kamiah) |

4. Approval of Minutes – July 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 4-0.

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

- **INFORMATION**

5. Governance Subcommittee Update – Presented by Larry Johnson, EFIB Manager of Investments

- **REGULAR**

6. Land Bank Fund Transfer – Presented by Secretary of State Ben Yursa, Chairman-Endowment Investment Governance Strategy Subcommittee

RECOMMENDATION:

1. Authorize the Treasurer to immediately transfer the current Land Bank balances (approximately \$12.5 million) to the respective endowments' Permanent Funds.
2. Authorize the Department to transfer future proceeds from the sale of Public School land to the Land Bank, if the balance is less than \$10 million. All additional proceeds should be immediately deposited in the Public School Permanent Fund. This policy is an interim recommendation pending completion of the comprehensive strategy review.
3. Authorize the Department to immediately deposit future proceeds from the sale of any other endowment's land in its Permanent Fund.

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 following two-part recommendation: 1) authorize the Treasurer to transfer the current Land Bank balances, which are approximately \$12.5 million, to the respective endowments' Permanent Funds; and 2) at the December 2014 Land Board meeting, review and consider the Subcommittee on Endowment Investment Governance's recommendation to transfer all current and future Land Bank receipts to the Permanent Funds excepting up to \$10 million in Public School receipts in light of the recommendations in Callan's forthcoming Comprehensive Strategy Review. Secretary of State Yursa seconded the motion. Governor Otter asked for clarification about part 3 of the Department recommendation; is that part of the Controller's motion. Controller Woolf replied no, the Board has the opportunity to wait until December when Callan's review will be complete. The motion carried on a vote of 4-0.

7. Reclamation Fund Spending Authorization – Presented by Eric Wilson, Program Manager-Minerals

RECOMMENDATION: Authorize spending from the Reclamation Fund for program administration costs provided that the Fund level is above the reasonable minimum balance.

DISCUSSION: None.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation that is to authorize spending from the Reclamation Fund for program administration costs provided that the Fund level is above the reasonable minimum balance. Secretary of State Yursa seconded the motion. Governor Otter asked how the \$100,000 would be spent. Director Schultz explained the anticipated expenditures are shown in Attachment 2. The motion carried on a vote of 4-0.

8. FY2016 Budget Proposal – Presented by Donna Caldwell, Division Administrator-Support Services

RECOMMENDATION: Direct the Department to include these supplemental and enhancement requests in the Fiscal Year 2016 budget proposal due on September 2, 2014.

DISCUSSION: Attorney General Wasden asked if within budgeting requests for this year, among the enhancements or otherwise, there is a request for sufficient funding to fix the problem that Department computers cannot calculate interest. Director Schultz responded yes, that issue will be addressed. The Department has requested \$1 million (\$250,000 of which was appropriated in FY2015) for a business process review and architectural analysis of Department systems and the Department will be implementing an information management system following the review and analysis. Controller Woolf commented that on Priority 2 this is the first phase for land information management system (LIMS). It is the final Phase 3 on Priority 1 (timber) and then on Priority 2 (lands and waterways) this is Phase 1; Controller Woolf asked how many phases are proposed for Priority 2. Ms. Caldwell replied the Department anticipates it will possibly be only a one phase implementation taking 1 to 2 years. The Department just finalized the contract for the business review process, so it is difficult to determine exactly what the final costs and implementation timeline would be, but Ms. Caldwell noted the Department expects that it will be much shorter than with timber.

BOARD ACTION: For the record, Governor Otter stated the Chair will not vote on this item.

A motion was made by Attorney General Wasden that the Board adopt the Department recommendation that is direct the Department to include the outlined supplemental enhancement requests in the Fiscal Year 2016 budget proposal due on September 2nd, 2014. Controller Woolf seconded the motion. The motion carried on a vote of 3-0, with Governor Otter recused for this vote.

9. Carey Act Land Sale – Presented by Kate Langford, Bureau Chief-Real Estate Services, and Renee Bettis, Land Records Supervisor

RECOMMENDATION:

1. Accept the Quit Claim Deed from Idaho Department of Water Resources for the subject property identified herein; and
2. Authorize sale of the subject property in accordance with requirements listed in Idaho Code Title 58.

DISCUSSION: Secretary of State Yursa inquired how much money is in the Carey Act Fund and who administers it or invests it. Mr. Tim Luke, Department of Water Resources, stated he did not have the exact information but believes the balance to be around \$12,000. Governor Otter asked when the last time any activity occurred with the fund. Mr. Luke noted there has not been a Carey Act project initiated in the state of Idaho since about 1924. Mr. Luke added there have been some lands deeded to the state of Idaho as a result of the Carey Act Program over the years, but probably not since the 50's or 60's. Secretary of State Yursa asked Mr. Luke to send him a note with the fund amount when he has the information.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation that is accept the Quit Claim Deed from Idaho Department of Water Resources for the subject property identified herein and authorize sale of the subject property in accordance with requirements listed in Idaho Code Title 58. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 4-0.

10. Proposed 2015 Legislation (Navigable Waters) – Presented by Tom Schultz, Director

RECOMMENDATION: Direct the Department to proceed with the proposed changes for the next legislative session.

DISCUSSION: Governor Otter asked if the Department contemplates a tool to call back some of those funds if a time was experienced when expenses were higher than revenues in the fund and several million dollars had already transferred into the fund. Director Schultz responded the Department would have a reserve, money set aside, and not necessarily forego all General Fund funding right now. Currently the Department spends about \$560,000 of General Fund. What would probably be prudent would be to wean off the General Fund by shifting to dedicated funding and ensure that it was sustainable over time. Controller Woolf asked what the next steps will be for the Department, if the Board approves this item today. Director Schultz replied the Department will submit a concept proposal to the Division of Financial Management (DFM). The concept is vetted through DFM and then the Department gets either approval or disapproval to proceed with that concept. The Department would then proceed with a bill draft, circulating to Land Board members and staff to review. Assuming it was agreeable the Department would proceed with having the draft bill introduced to Legislative Services Office (LSO) and then work through the legislative process, including identifying House and Senate sponsors on the floor. Attorney General Wasden stated his support for this legislation concept and asked the Department to have a legal review making certain it is consistent with constitutional statutory requirements.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt and approve the Department recommendation that is direct the Department to proceed with the proposed changes for the next legislative session. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 4-0.

• **EXECUTIVE SESSION**

NONE

There being no further business before the Board, at 10:18 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.

