



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
November 18, 2014

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, November 18, 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 was attending to official duties out of state; the Honorable Governor Brad Little presided in his place. The following members were present:

Honorable Secretary of State Ben Yursa
Honorable Attorney General Lawrence Wasden (*via teleconference*)
Honorable State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Tom Luna

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

1. Director's Report

A. Interest Rate on Department Transactions – November 2014

DISCUSSION: None.

B. Timber Sale Activity and Information Report – October 2014

DISCUSSION: None.

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

DISCUSSION: Director Schultz referred to page 2 of the report, residential leases, and provided some background in terms of the number of residential assignments processed this year versus prior years. In 2011 the Department had a total of 18 assignments, 6 of those were arms length (i.e., not a family transfer); in 2012 there were 16 assignments, 10 were arms length; in 2013 there were 18 assignments, 9 were arms length. Already in 2014 the Department has had 27 assignments, 18 have been arms lengths, roughly double from the prior three years. Director Schultz pointed out an interesting detail that in 2011 average leasehold value (the amount lessees were being paid for the value of the lease when it was transferred) was averaging about \$153,000; in 2014 that average has been about \$32,000. As would be expected, as prices go up, the difference between what a buyer is willing to pay to simply acquire the lease goes down substantially.

D. Legal Matter Summary – October 2014

DISCUSSION: None.

2. Endowment Fund Investment Board Manager's Report – Presented by Dean Buffington, EFIB Chairman, Larry Johnson, EFIB Manager of Investments, and Tom Kealey, EFIB Audit Committee Chair

- A. Manager's Report
- B. Investment Report
- C. EFIB Annual Report

DISCUSSION: Chairman Buffington congratulated each of the Board members who were re-elected to their offices, and wished good tidings to Secretary of State Yursa and Superintendent Luna as they move on to the next chapters in their lives. Chairman Buffington remarked the Endowment Fund Investment Board (Investment Board) traditionally meets with the Land Board in May and November of each year to update the Board on Investment Board activities. Chairman Buffington introduced other members of the Investment Board: Gavin Gee, Vice-Chair; Representative Neil Anderson; Warren Bakes; Tom Kealey, Audit Committee Chair; Gary Mahn; Richelle Sugiyama; Senator Chuck Winder; Sue Simmons. Chairman Buffington also introduced Investment Board staff and several consultants: Larry Johnson, Manager of Investments; Chris Halvorson, Investment Officer; Laurel Fritz, Sr. Financial Specialist; Judy Shock, Administrative Assistant; Julie Weaver, Deputy Attorney General; Janet Becker-Wold, Callan Associates; and Scott Klitsch, CliftonLarsonAllen LLP. Governor Little thanked Chairman Buffington for his continued fine work in the Investment Board's well performing organization.

Mr. Johnson reviewed the Manager's Report and Investment Report, reporting no compliance issues or other significant actions to report. Mr. Johnson called attention to the chart on page 2 of the Manager's Report, a comparison of the Endowment Fund's performance against peers. The Endowment Fund ranks in the 4th percentile for the past ten year period; a low number is desired. Mr. Johnson explained much of the high performance may be attributed to the asset mix of the Fund. The Endowment Fund has 49% of its assets in U.S. equity funds; the average public fund as only 38% and the average foundation and endowment fund only 37% in U.S. equities. Relative to other asset classes such as fixed income and particularly real estate hedge funds and other alternatives, the U.S. equity has performed better over this time period. Mr. Johnson mentioned there will likely be periods in the future in which U.S. equities perform worse than international equities and that will affect Endowment Fund peer ranking.

Mr. Johnson reported October was a good month for the Fund, following a tough September; the Fund ended 1.6% in the positive for October, with a fiscal year to date return of 0.5%. Mr. Johnson stated investment managers are performing as expected in this market environment.

Mr. Johnson went through the EFIB Annual Report, commenting that the Land Board's Asset Management Plan has specific requirements for the Investment Board to report every year. The Investment Board tracked compliance with investment policy during Fiscal Year 2014 and thus far into Fiscal Year 2015; there were no material violations of policy and governance compliance guidelines. The Investment Board reviewed the investment policy in detail in February. Mr. Johnson noted the Investment Board held four regular meetings and three special meetings; average attendance was 89% for the seven meetings, which speaks highly of the dedication and commitment of the Investment Board members. In fact, four members had perfect attendance at all seven meetings. Mr. Johnson mentioned the report contained excerpts from the

Endowment Funds’ strategic plan: its mission, goals and objectives and also performance against some specific measures in the strategic plan regarding returns, balances and distributions.

Mr. Kealey reviewed the Fiscal Year 2014 Financial Statement Summary and associated Audit Summary. Mr. Kealey commended Mr. Johnson and the EFIB staff for their fair and accurate presentation of the statements. Mr. Kealey mentioned the EFIB has a new audit firm, CliftonLarsonAllen, LLP. Scott Klitsch is the manager of the Boise office. Mr. Kealey repeated Mr. Johnson's report of a good year for the Endowment Fund. Total fund balances were \$1.7 billion in the year ending June 30, 2014, up roughly \$284 million from the prior year or a 19% increase. Earnings Reserve was also up to \$345 million; receipts to the reserves from land were \$88 million up 18% from the prior year and distributions to beneficiaries were up to \$49 million. The Fund did very well against benchmark for this last year, and for the last three, five, seven, and ten years. With respect to the audit, Mr. Kealey stated the independent auditor report gave the Fund an unqualified opinion, which is the best that can be given. There is appropriate accounting for all the assets in the Fund. The independent auditor found no items to report on compliance and internal controls. There were no instances of non-compliance with laws and regulations, no material weaknesses or significant deficiencies in internal controls. The independent auditor also did an examination of the account processes between the Department of Lands and the Endowment Fund for transfers, etc.; they sampled different revenue and expense transactions and found no items to report. Controller Woolf expressed appreciation to Mr. Kealey and the Audit Committee for timely submission of the EFIB FY2014 Financial Statement to the Controller's Office in August for inclusion in the state's financial reports. Mr. Kealey concluded his presentation by thanking Superintendent Luna and Secretary of State Ysursa for their service and the opportunity to work with them these past years.

- **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. Long Spur Pole	CR-41-0090	3,650 MBF	575,350 LF	Clearwater	Ponderosa (Deary)
<u>SOUTH OPERATIONS</u>				<u>COUNTY</u>	<u>AREA OFFICE</u>
NONE					

4. October 15, 2014 Oil and Gas Lease Auctions – Staffed by Sid Anderson, Program Manager-Minerals and Commercial Leasing

RECOMMENDATION: Approve the results of the October 15, 2014 oil and gas lease auctions and direct the Department to issue the identified 11 oil and gas leases to the successful bidders.

5. Approval of Minutes – October 28, 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**

6. Callan Associates Asset Allocation and Governance Review Final Report – Presented by Janet Becker-Wold, Senior Vice President, Sally Haskins, Senior Vice President and James Van Heuit, Senior Vice President, Callan Associates

RECOMMENDATION: Accept Callan Associates final report as completion of contract.

DISCUSSION: Ms. Becker-Wold stated there were no significant changes to the report since Callan Associates' presentation in October, other than a few charts that needed minor updates, and some typographical errors. Ms. Becker-Wold noted the report was presented to the legislative Endowment Asset Issues Interim Committee on Friday, November 14 and seemed to be well received. Callan Associates received no substantial feedback or comment from the Land Board or the Interim Committee since those presentations.

Controller Woolf thanked Ms. Becker-Wold and her associates for the report and for correction of the few minor errors. Governor Little remarked the report was a much improved product from his initial reading of the first draft. Ms. Becker-Wold indicated a corrected, final report would be issued to the Board within a week.

Secretary of State Yursa thanked Ms. Becker-Wold and Callan Associates for their work to date, and noted Callan Associates may be providing additional consultation as the Land Board's Subcommittee on Endowment Investment Governance Strategy (Subcommittee) reviews the report and comes to the Board in December with recommendations, implementation plans and timeframes based on the report.

Governor Little asked Director Schultz what action is expected from the Board today. Director Schultz explained this contract was let under the authority of the Land Board. Today the Board is accepting this as the final report for completion of the contract. Director Schultz added to Secretary Yursa's comments; the Subcommittee's intention is to come back at the December Land Board meeting, bringing an implementation schedule with people, timeframes, and expectations for taking these ideas and implementing them over time. The Subcommittee will also look at the cost of implementation. With good recommendations comes a price tag and it will be important to understand and have an acceptance of common expectations.

Attorney General Wasden thanked Ms. Becker-Wold and Callan Associates for their fine work. This report has been needed in order to help the Board fulfill its fiduciary duty. Callan Associates took the assignment very seriously and the Board could not ask for a better recommendation. Attorney General Wasden remarked the report gives the Board a record that it can use and sustain its decision-making.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation and approve fulfillment of the contract and receipt of Callan Associates final report. Secretary of State Yursa seconded the motion. The motion carried on a vote of 5-0.

