



STATE BOARD OF LAND COMMISSIONERS

C. L. "Butch" Otter, Governor and President of the Board  
Lawrence E. Denney, Secretary of State  
Lawrence G. Wasden, Attorney General  
Brandon D. Woolf, State Controller  
Sherri Ybarra, Superintendent of Public Instruction

Tom Schultz, Secretary to the Board

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*Be it remembered, that the following proceedings were had and done by the State Board of Land Commissioners of the State of Idaho, created by Section Seven (7) of Article Nine (IX) of the Constitution.*

FINAL Minutes  
State Board of Land Commissioners' Regular Meeting  
May 17, 2016

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, May 17, 2016, in the State Capitol, Lincoln Auditorium, Lower Level, West Wing, 700 W Jefferson St., 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 Lawrence Denney  
Honorable Attorney General Lawrence Wasden  
Honorable State Controller Brandon Woolf  
Honorable Superintendent of Public Instruction Sherri Ybarra

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

**1. Director's Report**

- A. Interest Rate on Department Transactions – May 2016
- B. Timber Sale Activity and Information Report – April 2016
- C. Division of Lands and Waterways Activity and Information Report – April 2016
- D. Cottage Site Auctions Update

*DISCUSSION:* Controller Woolf asked if any unleased lots will be included in the June (Priest Lake) and August (Payette Lake) auctions. Director Schultz replied that one unleased lot at Payette Lake has been nominated and there may be several as well. Governor Otter asked for clarification of the \$26,000,000 estimated revenue for the upcoming auctions; that is the total of the appraised values. Director Schultz said that is correct and added that if there is competitive bidding, the total may be above that. Governor Otter stated the Department may not accept less than the appraised value for a lot; Director Schultz affirmed that statement.

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

*DISCUSSION:* Chairman Buffington stated that today is one of two regularly scheduled meetings of the Investment Board with the Land Board. Chairman Buffington introduced Investment Board members in attendance: Representative Neil Anderson, Warren Bakes, Tom Kealey, Gary Mahn, Sue Simmons, Richelle Sugiyama, and Senator Chuck Winder. Gavin Gee was not able to join due to other business needs. Chairman Buffington then introduced Larry Johnson. Attorney General Wasden expressed his appreciation to Chairman Buffington and all the Investment Board members for their dedicated service to the state of Idaho. Attorney General Wasden wanted to acknowledge the level of expertise the Investment Board brings to managing the Endowment Fund.

A. Manager's Report

*DISCUSSION:* Mr. Johnson first introduced representatives from Callan Associates: Janet Becker-Wold, Gene Podkaminer and Bill Howard. Other representatives present were John Harloe and Melodie Hunt from Barrow Hanley; and Ryan Hulbert with Clearwater Advisors. EFIB staff was all in attendance as well: Chris Halvorson, Michelle Watts and Judy Shock.

Mr. Johnson reported that Endowment Fund reserves are good; the Fund has had modestly weak returns but land revenues have been adequate. Mr. Johnson stated there are no issues to report.

B. Investment Report

*DISCUSSION:* Mr. Johnson remarked that the Fund in April was up almost 1%, primarily because of a rising stock market both offshore and domestically, making the fiscal year-to-date return -1.1%. Through the month of May the Fund has lost about 60 basis points, and year-to-date through yesterday now stands at -1.7%.

C. Semi-Annual Report

*DISCUSSION:* Mr. Johnson stated that the Endowment Fund is at approximately \$1.8 billion, the largest of the funds that EFIB manages. The Fund balance compared to end of June last year is down about 3% due to generally weak equity markets in the last nine months. Reserves are down just 7% at \$322 million but still relatively strong. Revenue receipts from endowment lands are down about 9% from the prior year, which was a very good year, so this year's earnings receipts are average; May and June are estimated to be above average. Mr. Johnson commented that investment returns for the first nine months was -2.0%; total assets for the endowments remain near the record level of a year ago. All of the endowments are very close to their maximum years of reserves required and distributions are secured. Mr. Johnson reported that the Endowment Fund performance versus peers – public plans – is above average in all periods longer than two years.

Mr. Johnson mentioned the School Bond Enhancement Program which boosts the credit rating of eligible voter approved school bonds to triple A, the highest possible rating. With that high rating districts receive about five basis points of additional savings. The rating of

the program was recently reviewed by Standard & Poor's which confirmed the triple A rating and informally commented that the Idaho School Bond Guaranty Program was one of the strongest in the nation.

- **CONSENT**

- 3. Emerald Creek Garnet P300350 Placer Mining Permit – Staffed by Todd Drage, Program Manager-Minerals**

*RECOMMENDATION:* Approve issuance of the permit subject to the plan submitted in the application, submission of the required \$18,000 bond and compliance with the Rules and Regulations Governing Dredge and Placer Mining Operations in Idaho.

*DISCUSSION:* None.

- 4. Idaho Fish and Game Surplus Property – Lawman Parcel – Staffed by Ryan Lay, Right of Way Agent-South Operations**

*RECOMMENDATION:* Direct the Department to execute a State Deed returning title of the remaining 204.09 acres of the Lawman Ranch Sites to Idaho Department of Fish and Game.

*DISCUSSION:* Governor Otter inquired if the Department knows what Fish and Game intends to do with the parcel. Director Schultz replied he has not specifically discussed it with Director Moore but believes it will be managed as it was prior to the proposed sale.

- 5. Approval of Minutes – April 19, 2016 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 5-0.

- **REGULAR**

- 6. Negotiated Rulemaking IDAPA 20.03.16, Rules Governing Oil and Gas Leasing on Idaho State Lands – Presented by Mike Murphy, Bureau Chief-Endowment Leasing**

*RECOMMENDATION:* Direct the Department to initiate Negotiated Rulemaking for IDAPA 20.03.16 – Oil and Gas Leasing on Idaho State Lands.

*DISCUSSION:* None.

*BOARD ACTION:* A motion was made by Attorney General Wasden that the Board approve the Department recommendation that is direct the Department to initiate Negotiated Rulemaking for IDAPA 20.03.16 – Oil and Gas Leasing on Idaho State Lands. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

**7. Investment Policy Statement** – Presented by Bill Haagenson, Strategic Planning Manager, and Sally Haskins, Senior Vice President-Real Assets Consulting, Callan Associates

*RECOMMENDATION:* The Department recommends approval of the Investment Policy Statement for the combined Endowment assets.

*DISCUSSION:* None.

*BOARD ACTION:* A motion was made by Attorney General Wasden that the Board adopt and approve the Department recommendation that is approval of the Investment Policy Statement for the combined Endowment assets. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

**8. Asset Management Plan** – Presented by Bill Haagenson, Strategic Planning Manager

*RECOMMENDATION:* The Department recommends approval of the Asset Management Plan for Endowment lands.

*DISCUSSION:* Attorney General Wasden noted that the memo mentions that there has been a change in direction in regard to commercial properties; Attorney General Wasden recollected that this change took place based upon a recommendation by Callan Associates as they examined the Endowment Fund's asset mix. The recommendation said certain kinds of property enhance the asset mix versus what is currently held and that is the basis upon which the Board made a change of direction. Mr. Haagenson stated that Attorney General Wasden's recollection is accurate. Controller Woolf asked how frequently the Asset Management Plan will be reviewed. Mr. Haagenson replied it is on a five-year review, but if conditions change a review may take place sooner.

*BOARD ACTION:* A motion was made by Controller Woolf that the Board adopt the Department's recommendation and approve the Asset Management Plan for the Endowment lands. Attorney General Wasden seconded the motion. The motion carried on a vote of 5-0.

**9. Strategic Reinvestment Plan** – Presented by Bill Haagenson, Strategic Planning Manager, and Sally Haskins, Senior Vice President-Real Assets Consulting, Callan Associates

*RECOMMENDATION:* The Department recommends approval of the Strategic Reinvestment Plan written by Callan Associates. The Department recommends that the Land Board authorize the Department to establish a pipeline of transactions for acquisition of timberland and opportunistic acquisition of farmland. The Department shall implement a diligent investment process including financial analysis of each potential transaction and report quarterly to the Land Board regarding progress towards reinvestment.

*DISCUSSION:* Attorney General Wasden remarked that it appears this plan is intended to leverage the stability of land assets against the volatility of market-based assets, increasing the types of returns and still giving the Land Board options. It is leveraging the best use of endowment assets. Ms. Haskins replied that is correct, and it also is about managing risk in the

portfolio by maintaining investments that create stable cash flow and also have low to negative correlations with the financial assets.

Attorney General Wasden mentioned that he reviewed the comments in opposition to this plan, and based on the Board's constitutional and fiduciary duty, which is its guiding principle, does the Department feel that any of the statements in opposition are consistent with the Board's fiduciary responsibilities outlined in the Constitution. Mr. Haagenson responded that his assessment is the comments represent the viewpoints of the individuals who submitted them rather than the constitutional obligation that the Board serves.

Governor Otter commented on the five-year limitation of the Land Bank Fund, wondering if that is adequate time to build sufficient capital in order to make acquisitions. Mr. Haagenson replied that the Department has discussed that and has some concerns; more time would be better, but the Department will operate under the five-year law and will do its best during that time period. Governor Otter noted that on a first-in, first-out rule, the available cash in the Land Bank for some of these acquisitions could start depleting after five years, and asked if the Department has suggestions on what length of time would be better. Mr. Haagenson said he did not have a suggestion on how much more time would be needed, but anything longer than five years would be helpful in terms of reinvestment.

Director Schultz commented that in Montana, their Land Bank has a ten-year stay before funds transfer. Director Schultz also mentioned that in Idaho the term first started at two years then went to five years, and several years ago there was a push to go from five to one; there may be risk in opening up this issue.

Director Schultz stated the Department's goal is to comply with the recommendation to create a pipeline; if there are not adequate sales on the marketplace then by default the money will transfer to the Permanent Fund, or the Board may take action to transfer it sooner. Director Schultz is optimistic the Department will fill a pipeline in the first year; beyond the first year is unknown. Director Schultz noted that revenue into the Land Bank will be staggered, as cottage sites are sold over the next several years. The Department also anticipates having input from brokers who will bring properties forward for evaluation that would go into the pipeline; to the extent that the Board gives affirmative direction to the Department that this is something they would consider, it is likely that marketplace representatives will bring transactions forward.

Attorney General Wasden wanted to make clear that Article IX, Section 4 of the Idaho Constitution provides for the establishment of the Land Bank but then it provides that the Legislature makes the determination as to the time; that limitation is imposed by statute so to change that it has to be done by statute. Governor Otter stated it is for that reason the subject should be investigated because implementation of these plans considerably changes the environment and activities within the Land Bank. Governor Otter did not recall a time when the Land Bank had as much money as now. Governor Otter commented that there is a real potential to suffer an opportunity cost here; for instance if the Department is short \$20 million in the Land Bank of making a timberland acquisition, which seems to be the best return on investment. Perhaps the limit could be a total of not more than \$50 million rather than a five-year limit. It is something that needs to be considered. Director Schultz indicated that the Department will have

more discussions over the next several months and if the Board gives such direction, the Department would work to draft appropriate legislation for the next session.

Controller Woolf asked if the Department has staff capacity to handle the type of workload that will be coming forward. Director Schultz replied that the Department has employed temporary staff and is looking at repurposing permanent staff to assist with the anticipated workload.

Secretary of State Denney mentioned an article he read which stated that since 2000 the Department has sold 100,000 acres. Secretary Denney could not remember any large sales and asked the Director to comment on that. Director Schultz asked the Board to refer to Tab 8 in their binders, Attachment 1, page 7 of the Asset Management Plan which shows endowment asset ownership through time in terms of acreage, between 1890 and 2015. In 1890 the state was granted 3.65 million acres. These acres can be traced back to the Admissions Bill. That is the original land grant. Through 1940 there was disposition of about 700,000 acres. Between 1911 and 1920 there was a total of 200,000 acres sold, mostly farmland.

Director Schultz indicated that the Department received a public records request and in response supplied information in a database that was raw data. Transactions in that database, it is difficult to differentiate between trades, land exchanges, and actual sales; acres were double counted through that public records request and a statement was made that the Department had sold one hundred thousand acres in the last 15 years. In fact, there were 60,000 acres sold between 1950 and 1960 but the Board held the note on those properties. It used to be the Department of Lands and Investments; it was not uncommon for the Land Board to hold the note when land was sold and in many cases those were 40-year mortgages. In 2000 those notes were finally paid off, but the 60,000 acres were sold 40 years before. The Department had additional acreages that were traded during the last 15 years but there has not been wholesale divestiture of land in the last 15 years.

Controller Woolf inquired if the reporter had verified with the Department after reviewing the raw data to confirm it. Director Schultz replied that an entity took the information received from the public records request and wrote a report and then a reporter based stories off of that report. The Department did not directly provide information for that report and did not see nor review the report. The Department intends to reach out to the entities to clarify the data used and the conclusions stated in that report. Governor Otter remarked that he would be interested in the facts stated by the Department.

**BOARD ACTION:** A motion was made by Controller Woolf that the Board adopt the Department's recommendation to approve the Strategic Reinvestment Plan written by Callan Associates and authorize the Department to establish a pipeline of transactions for acquisition of timberland and opportunistic acquisition of farmland. The Department shall also implement a diligent investment process including financial analysis of each potential transaction and report quarterly to the Land Board regarding progress towards reinvestment. Attorney General Wasden seconded the motion. The motion carried on a vote of 5-0.

