



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

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
August 16, 2016

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, August 16, 2016, in the Capitol, Lincoln Auditorium, Lower Level, West Wing, 700 W Jefferson St., Boise, Idaho. The meeting began at 9:00 a.m. The Honorable Governor C. L. "Butch" Otter presided. The following members were present:

Honorable Secretary of State Lawrence Denney (*via teleconference*)
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, with Secretary of State Denney joining via conference call.

1. Director's Report

- A. Interest Rate on Department Transactions – August 2016
- B. Timber Sale Activity and Information Report – July 2016
- C. Division of Lands and Waterways Activity and Information Report – June/July 2016

D. Cottage Site Auctions

DISCUSSION: Controller Woolf asked for the current balance in the Land Bank Fund. Director Schultz replied the balance is approximately \$31 million. Over the next several weeks, as all the Priest Lake lots from the recent auction are closed, the balance will increase to about \$50 million. Governor Otter inquired about receiving a regular report on aging of the money in the Land Bank Fund. Director Schultz offered to include an update on the Land Bank Fund at future meetings.

E. Fire Season Update

DISCUSSION: Governor Otter mentioned that several months ago Mr. Groeschl had reported that the moisture content was at the lowest since 1928 and asked if that was for last year. Mr. Groeschl replied that in 2015 Idaho was at an all-time low as far as soil moisture; 1,000-hour fuel moistures and even live vegetation moistures were very low last year. This year is much better; the Department monitors various sites for both soil moisture content at different layers within the soil profile and fuel moistures, both live and dead. Mr. Groeschl stated that northern Idaho is in pretty good shape with soil moisture, 1,000-hour fuel moistures and live fuel moistures being about average this year north of the Salmon River. Humidity recovery this year is also much better. In northern Idaho in particular humidity recovery in the mornings is very good; there is dew on the grass. Last year from mid-June into early October there was no dew on the vegetation. South of the Salmon River this year the conditions are drier and humidity recovery is not occurring.

Controller Woolf asked if there are any state endowment lands in or near where the Pioneer Fire is burning. Mr. Groeschl noted that no endowment timberlands have burned due to the Pioneer Fire. There are endowment timberlands to the west of that fire and the Department is watching that area closely but at this point none of the endowment timberlands have been affected by the Pioneer fire. Governor Otter clarified that "to the west" means towards Garden Valley. Mr. Groeschl said that is correct.

F. Land Revenue Forecast

DISCUSSION: Governor Otter commented that Good Neighbor Authority (GNA) operations are getting underway and asked if the Department has accounting in place for when timber is harvested from those federal lands; will proceeds from GNA timber sales be part of the Department's accounting. Mr. Groeschl responded that the Department has set up an accounting process to track money paid to the Forest Service, to cover Department administrative costs and to deposit net proceeds from the sales into supplemental accounts that will be set up for each forest. As money is generated, the Department will be able to spend it on other GNA projects. Director Schultz added that revenue from the GNA projects will not be comingled with endowment revenue.

- **CONSENT**

2. Request to Surplus Idaho Department of Fish and Game Property – Pine Flat – Staffed by Gregg Servheen and Steve Elam, Idaho Department of Fish and Game

RECOMMENDATION: Direct the Idaho Department of Fish and Game to solicit interest in purchase of the forty (40) acre Pine Flat site property pursuant to Idaho Code § 58-332.

DISCUSSION: Governor Otter asked if history of ownership is known for this parcel. Mr. Elam stated that the Fish and Game purchased the property in 1943. There was an exchange of 121 acres with the Forest Service in the 1990s and the remainder is this 40-acre parcel.

3. McArthur Lake East Molpus Conservation Easement – Staffed by Craig Foss, Acting Division Administrator-Forestry and Fire

RECOMMENDATION: Authorize the Idaho Department of Lands to acquire the McArthur Lake East-Molpus Conservation Easements, comprising 5,548 acres.

DISCUSSION: Attorney General Wasden asserted his understanding that this is private property and the owner of this private property is taking action of their own accord for this conservation easement. Director Schultz stated that is correct; the Department is just facilitating the transaction.

4. Approval of Minutes – June 21, 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**

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

A. Manager’s Report

DISCUSSION: Mr. Johnson stated that distributions for FY2017 and 2018 are well secured. Average reserves are about 4.5 times the FY2017 distributions, and for the first time Public School reserves have reached their target of 5 years. Mr. Johnson commented that the Land Board Audit Committee met on August 11th and approved the 2016 Endowment Fund financial statements; copies will be distributed to Land Board members soon.

B. Investment Report

DISCUSSION: Mr. Johnson noted that July was a good month for the endowments. The total Fund was up 3.1%; to date in August it is up 80 basis points. The Fund is up 4% fiscal year-to-date as of August 15th.

Mr. Johnson remarked that the Investment Board met on August 11th and for a variety of reasons the Investment Board made the decision to discharge INTECH. The main reason for that is that the structure of the portfolio had a bit of an overweight toward companies that are focused more on growth as opposed to value; the Investment Board wanted to move the portfolio back to a more neutral position. Mr. Johnson noted that INTECH is a growth manager; the Investment Board decided to discharge INTECH and then spread the funds out among the other four large cap managers. The S&P Index Fund will pick up a little more asset, as will Sands, Boston Partners, and LSV. Mr. Johnson stated that the Investment Board also voted to discharge the two specific emerging markets mandates, Capital International and Grantham Mayo, and move those funds to a developed market index fund. Capital and Grantham are the two smallest managers, and over time the portfolio has developed an

overweight toward emerging market stocks; the Investment Board felt it prudent to move back more to a neutral position, and discharging those two small managers was the most effective and prudent way to do that.

C. FY2018 Distributions and Transfer

RECOMMENDATION: Approve the recommended distributions totaling \$73,483,200 and transfers totaling \$47,395,000.

DISCUSSION: Mr. Johnson reported that at its August 11th meeting the Investment Board reviewed the recommendations developed by EFIB staff. The Investment Board supports an increase of \$10.3 million (28%) for the FY2018 Public School distribution and recommends holding the FY2018 distributions for all other endowments at their current levels. Mr. Johnson noted that the Investment Board also recommends transferring approximately \$47.4 million of Earnings Reserves for Public School to its Permanent Fund effective September 1, since this endowment will have more than its target level of five years in its reserves. Mr. Johnson stated the recommended distributions and transfers appear to be achievable and represent an appropriate balance between the interests of current and future beneficiaries, taking into account the current level of earnings reserves and expected future Fund returns and land revenues.

Governor Otter commented on the \$26 million difference between high and low scenarios for year 2020 in the Land Revenue Forecast that Director Schultz presented earlier. Governor Otter asked if that was reflected in the EFIB report. Mr. Johnson noted that EFIB takes the low scenario land revenue forecast from the Department, assuming the low case on timber revenue and zero Fund appreciation. Mr. Johnson also commented that perhaps the Department's report shows net revenue and the EFIB report is gross revenue.

Attorney General Wasden observed that the transfer to the permanent fund of \$47.3 million is a gift that keeps on giving because it goes into the distribution calculation and it does impact the effect of population growth and inflation on public schools.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt and approve the recommendation of distributions totaling \$73,483,200 and transfers totaling \$47,395,000. Superintendent Ybarra seconded the motion. The motion carried on a vote of 5-0.

6. FY2018 Budget Enhancements – Presented by Debbie Buck, Financial Officer

RECOMMENDATION: Direct the Department to include these enhancement requests in the Fiscal Year 2018 budget proposal due on September 1, 2016.

DISCUSSION: Controller Woolf asked about Decision Unit 11 – are the FTEs identified there a continuation of the process that started last year. Ms. Buck replied yes; this is a group of part-time temporary staff that works year-round and FTE conversion began for these types of positions last year. Controller Woolf remarked that Decision Unit 12, Project Learning Tree (PLT),

working with the Idaho Forest Products Commission, has not been a request for the past few years. The request is for General Fund. Controller Woolf wondered if PLT could receive funding from sources other than General Fund. Ms. Buck replied that prior to 2008 the Forest Products Commission was given trustee and benefit payments from the General Fund through the Department. When holdbacks began in 2008-2009, that funding was cut in half the first year then stopped altogether the next year and this is an effort to replicate the way it was funded before those holdbacks occurred.

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 approve the Department recommendation and direct the Department to include these enhancement requests in the FY2018 budget proposal due on September 1, 2016. Controller Woolf seconded the motion. The motion carried on a vote of 4-0, with Governor Otter recused from this vote.

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

- **INFORMATION**

- 7. **Proposed Rule IDAPA 20.02.14, Rules for Selling Forest Products on State-Owned Endowment Lands** – *Presented by Archie Gray, Program Manager-Sale Administration and Scaling*

- Presentation by McFarland Cascade (Stella-Jones)

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

- 9. **Commercial Disposition Update** – *Presented by Ryan Montoya, Program Manager-Real Estate*

- **EXECUTIVE SESSION**

NONE

There being no further business before the Board, at 10:38 a.m. a motion to adjourn was made by Attorney General Wasden. Controller Woolf seconded the motion. The motion carried on a vote of 5-0. Meeting adjourned.

