



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
October 18, 2016

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, October 18, 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
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.

For the record, Director Schultz announced that public testimony will be accepted on agenda item 7 and asked that interested persons fill in the sign-in sheet provided on the table near the entrance doors.

1. Director's Report

A. Interest Rate on Department Transactions – October 2016

B. Timber Sale Activity and Information Report – September 2016

DISCUSSION: Attorney General Wasden commented on the cumulative harvest, noting that the Department is currently at 94% of the 5-year average. Attorney General Wasden observed that the percentage has been trending down. Director Schultz indicated that the Department is still selling about 250 MMBF per year. Director Schultz stated an average sale contract is 3 years and might be up to 5 years in some instances. That allows the purchaser to look at the markets and decide when to harvest to their benefit. The price that the purchaser bid on the sale is locked in and does not escalate or deescalate. There is a built-in incentive to not wait too long to harvest a sale because purchasers are paying interest every

month on that volume that is not harvested. Director Schultz remarked that the Department has not made any reductions in sale volume. This below average percentage is just an indication that there is a lot of volume under contract that is pending harvest.

C. Division of Lands and Waterways Activity and Information Report – September 2016

D. Cottage Site Auctions Update

E. Land Bank Fund Update

F. Final Fire Season Update

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 endowment reserves are well-secured. Mr. Johnson commented that after 15 years of service, Tom Kealey has retired from the Investment Board. There are no actions to report from the Investment Board.

B. Investment Report

DISCUSSION: Mr. Johnson reported that during the month of September the Fund was up 40 basis points (0.4%) for a fiscal-year-to-date return of 3.7%. Into October the markets have turned unfavorable. The Fund is down 1.6% and the current fiscal-year-to-date is 2.1%.

• **CONSENT**

3. Walker Ranch Geothermal Unitization Agreement – Staffed by Mike Murphy, Bureau Chief-Endowment Leasing

RECOMMENDATION: The Department recommends that the Land Board direct the Department to execute the Walker Ranch Geothermal Unitization Agreement.

4. Hooper Springs Transmission Line Easement – Staffed by John Nichols, Bureau Chief-Real Estate Services

RECOMMENDATION: Approve the sale of Easement No. ES 800039 with a value of \$108,400: \$98,400 easement appraisal; \$10,000 appraised merchantable timber.

5. Approval of Minutes – September 20, 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.

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

- **INFORMATION**

6. **Idaho Rangeland Resource Commission (IRRC) Grazing Survey Highlights** – *Presented by Gretchen Hyde, Executive Director, Idaho Rangeland Resource Commission*

- **REGULAR**

7. **Pending Rule IDAPA 20.02.14, Rules for Selling Forest Products on State-Owned Endowment Land** – *Presented by David Groeschl, Deputy Director/State Forester*

RECOMMENDATION: Approve the Pending Rule for IDAPA 20.02.14 as shown in Attachment 1 of this memo.

DISCUSSION: An audio recording 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 hold this recommendation for one (1) month until the Land Board meeting in November to give Board members an opportunity to review documents before they make a decision. Secretary of State Denney seconded the motion. The motion carried on a vote of 5-0.

8. **Acquisition Process and Advisor** – *Presented by David Groeschl, Deputy Director/State Forester*

RECOMMENDATION: Approve the acquisition process in substantially the form provided herein.

DISCUSSION: Secretary of State Denney asked what amount the Department is estimating for the acquisition advisor fee. Mr. Groeschl explained that the Department does not have an estimate at this time. The Department intends to work with Callan Associates to develop a Request for Proposal (RFP) with a scope of work and based on the responses received will be able to determine if there is sufficient funding in the current budget. Sally Haskins, Callan Associates, remarked that fees for the acquisition advisor would likely work one of two ways: an hourly rate or a success fee. Ms. Haskins strongly recommends that the Department use the hourly rate fee structure.

Secretary of State Denney noted that the Department has expertise in the area of timber and wondered if there is really a need to have an acquisition advisor for purchasing timber. Mr. Groeschl indicated that the Department will play an expert role in timber acquisition but commented that the acquisition advisor provides additional capacity to source and move more proposals through the pipeline; the Department does not presently have that capacity.

Controller Woolf asked if the acquisition advisors would come from a pool similar to the Board's land investment advisor pool. Mr. Groeschl noted that there may be land investment advisors in the current pool who will also put in a bid as an acquisition advisor; there may be some of the same advisors on both pools and some will be different.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation and approve the acquisition process as it was outlined. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

9. St. Maries Acquisition – Presented by Ryan Montoya, Program Manager-Real Estate

RECOMMENDATION: Direct the Department to pursue the acquisition of the St. Maries property; and direct the Department to hire a timberland advisor to perform tasks including, but not limited to, a due diligence analysis, recommendation regarding the acquisition, and recommendation regarding valuation.

DISCUSSION: Controller Woolf inquired about the expected time frame for the due diligence process. Mr. Montoya commented that there are substantial aspects to the due diligence that are already completed; for example there are already appraisals, review appraisals, and timber cruise. This would be presented to the advisor; that advisor will review and make its recommendation on whether additional documentation and evaluation is needed. The goal is to come back to the Land Board before the end of the year and request final approval.

Secretary of State Denney mentioned his understanding that this parcel is basically timberland. Mr. Montoya said that is correct. Secretary of State Denney commented that \$4.6 million seems like a large amount of money to pay for 1,400 acres of ground and asked about the anticipated return on investment. Mr. Montoya replied that the Department recognizes this transaction is expensive in comparison to other properties that the Department has considered acquiring and exchanging and emphasized that the land is highly timbered. The Department would like to hire a timberland advisor to review all of the due diligence information and recommend whether or not the land is at correct market value. Mr. Montoya noted that the Department's investment strategy sets the hurdle rate for timberland at 3.5%. Governor Otter inquired what would be a normal cap on this type of acquisition. Director Schultz responded that the cap rate is 3.5%. Director Schultz commented that the Department sees the acquisition as a good opportunity but would like to have an outside opinion. Governor Otter asked if money for the purchase will come from the Land Bank. Director Schultz stated that is correct. Attorney General Wasden remarked that it is appropriate to consider the acquisition and to have an outside consultant review.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation as outlined on page 3 of 3, item 9, on the agenda. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

- EXECUTIVE SESSION

NONE

There being no further business before the Board, at 11:09 a.m. a motion to adjourn was made by Attorney General Wasden. Secretary of State Denney seconded the motion. The motion carried on a vote of 5-0. Meeting adjourned.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ C. L. "Butch" Otter

C. L. "Butch" Otter
President, State Board of Land Commissioners and
Governor of the State of Idaho

/s/ Lawrence E. Denney

Lawrence E. Denney
Secretary of State

/s/ Thomas M. Schultz, Jr.

Thomas M. Schultz, Jr.
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the November 15, 2016 regular Land Board meeting.