



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

David Groeschl, 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
February 20, 2018

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, February 20, 2018, in the Borah Building, 2nd Floor Courtroom, Room 214, 204 North 8th Street, 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.

Prior to presentation of the Director's Report, Attorney General Wasden remarked he had a motion to amend the agenda to remove the Executive Session matter that was scheduled. Attorney General Wasden explained he is making that request because he believes Board members need additional time to consider that item.

A motion was made at 9:01 a.m. by Attorney General Wasden to amend the meeting agenda pursuant to Idaho Code § 74-204(4)(c) to remove the final agenda item, a proposed Executive Session. Governor Otter inquired if Attorney General Wasden was moving the Executive Session to a specified meeting date. Attorney General Wasden responded that is up to the Chair. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

1. Director's Report

A. Interest Rate on Department Transactions – Final Report

DISCUSSION: Attorney General Wasden said it is important to realize that the Board was essentially financing the purchase of these lands; the Board was in the finance business in that regard. Attorney General remarked it is good that it now comes to an end but wanted to

recognize that much of the history of the Board as it was originally constituted in the Constitutional Convention was to compete in the marketplace by financing the purchase of lands.

B. Timber Sale Activity and Information Report – January 2018

DISCUSSION: Governor Otter inquired how Good Neighbor Authority [GNA] money is handled and if it goes into a special account. Director Groeschl responded that program income generated from GNA timber sales goes into a Supplemental Project Account for that particular national forest. For example, funds from the Jasper timber sale will go into the Panhandle National Forest account. Director Groeschl explained that the Forest Service reimburses Department expenses and some of the proceeds go to the Forest Service as minimum stumpage payments. The money paid to the Forest Service is subject to 25% receipts back to the county. The rest of the funds in the project account are used for restoration work on that forest. Governor Otter asked who cuts the checks to the counties. Director Groeschl replied that the Forest Service issues them.

C. Division of Lands and Waterways Activity and Information Report – January 2018

D. Legislative Update

DISCUSSION: Governor Otter asked how royalties would be credited to mineral companies' rental payments. Director Groeschl explained that under the current structure, mineral companies make an annual rental payment of approximately \$1 per acre; on a 160-acre lease, annual rent would be \$160. If there is production throughout the year, the mineral companies also make royalty payments based on production. Director Groeschl said annual rents go into Earnings Reserve and royalty payments go into the Permanent Fund because minerals are a depletable resource. Director Groeschl stated that current statute allows mineral companies to credit royalty payments against their annual rental payment. Thus, instead of paying the royalty payment, if it were \$60, the company could credit that against the annual payment. The Department would transfer \$60 from Earnings Reserve into the Permanent Fund. Director Groeschl commented this is the only lease program where the Department allows royalty payments to be credited against annual rents. Typically, royalties go into the Permanent Fund, and administration costs are deducted from annual rent. Governor Otter noted that in other programs, the royalty payments would be received in addition to rent; Director Groeschl confirmed that is the case. Director Groeschl indicated that the Department has roughly 240 mineral leases and about 19 of them choose to credit their royalty payment against annual rent. Most mining companies pay their annual rent at the beginning of the year and then make their royalty payments in addition to their rent. Director Groeschl said it is an issue the Department attempted to resolve with House Bill 373.

Governor Otter questioned how the Department audits the amount of royalty owed. Director Groeschl responded that it is based on the production report for what has been removed. If the mineral companies choose the option to credit the royalty payment against the annual rent, once the annual rent has been fully depleted, they start making royalty payments, which go directly into the Permanent Fund. Director Groeschl stated a transfer from Earnings Reserve to the Permanent Fund is made to ensure the Fund is kept whole, but that leaves little revenue in Earnings Reserve to deduct management expenses.

Governor Otter asked why it is done this way. Why rent is not paid to cover management and royalty paid as the price of extraction, due to the loss of value for the state. Director Groeschl said that is how it works in all other of the Department's leasing programs where there is a permanent removal of a resource, such as oil and gas. The annual rent payment is made and then the royalties go into the Permanent Fund. Director Groeschl commented that current statute allows for this in the minerals leasing program; the Department is attempting to change it because none of the other programs function in that manner. Governor Otter asked what the Department was trying to do. Director Groeschl stated it was a simple change to strike one sentence in a section of code; with that change, annual rent payments would be made and in addition royalty payments would be paid based on production. Governor Otter remarked that is how it should be.

Secretary of State Denney, returning to the discussion on agenda item 1B, asked how many projects are currently under contract under the Good Neighbor Authority and what the volume, acreage and board feet were. Director Groeschl responded that there are currently 11 projects under contract. They cover a little over 10,000 acres of area to be treated and the volume is approximately 65 MMBF. It is expected to generate about \$14-15 million in value over the next two to three years. Mr. Groeschl said additional projects are also being considered.

Governor Otter recalled that 1.8 million acres were identified as appropriate for Good Neighbor Authority. Director Groeschl explained that the original designation submitted to the Secretary of Agriculture in 2014 was for 50 proposed areas totaling 1.8 million acres. The Panhandle National Forest, Nez Perce-Clearwater National Forest and Payette National Forest have since designated additional insect and disease areas; instead of 1.8 million, the total now stands at 4.5 million. Director Groeschl noted that this is beneficial, as it allows the Forest Service to apply some of the streamlined National Environmental Policy Act (NEPA) categorical exclusions for projects up to 3,000 acres as well as some other streamlined NEPA decision-making processes. Governor Otter asked if categorical exclusions allowed for roads. Director Groeschl said that it allows for temporary new roads for harvesting, and for road maintenance, but it does not permit road reconstruction of permanent roads or new construction of permanent roads. Director Groeschl added that the goal under the 2018 Farm Bill is to allow for reconstruction of existing roads to help improve watersheds and fish passage. Governor Otter questioned what the process was for using Good Neighbor Authority for fire salvage. Director Groeschl used the Woodrat Salvage as an example, explaining that harvest on that 2015 fire salvage is about 90% complete. When the sale is done, the Forest Service will do the slash abatement and planting. The funds generated from the sale have helped pay for the seedlings and forest recovery and restoration work to be done by the Forest Service.

Secretary of State Denney noted that over 4 million acres of land that needs treatment has been identified and 10,000 are currently under contract; there is a lot of work still to do. Secretary of State Denney asked how much time was left before that timber is worthless. Director Groeschl clarified that designation simply means those areas are at high risk of insect and disease or meet a certain fire condition class code. He explained that right now, the Forest Service is treating about 15,000 acres a year. The objective is to double that and to be treating

30,000 acres a year within the next 10 years. Secretary of State Denney asked if enough money will be generated from the timber sales to continue to expand the program. Director Groeschl said the goal within the next five years is to make the program completely self-sustaining and funded out of program income that is generated by these projects.

2. Endowment Fund Investment Board Manager's Report – Presented by Chris Anton, EFIB Manager of Investments

- A. Manager's Report
- B. Investment Report

DISCUSSION: Mr. Anton reported that January was another strong month in the equity markets. The Endowment Fund portfolio was up 3.6% for the month and 12.1% year-to-date. Mr. Anton described significant volatility in the markets in late January and early February, noting the markets were down approximately 10% in total, ironically in response to good news, as job reports account for at or very near full employment. There are signs of inflation, primarily on the wage side, and interest rates are going up. Mr. Anton stated that the economy is still very strong and that the rate increases are natural. Mr. Anton said reserves are solid, over five times reserves for both FY2018 and FY2019 are in place.

There were no significant actions to report from the last Investment Board meeting. Mr. Anton informed the Land Board that the Investment Board made a modest change to the asset allocation by moving approximately 4% from domestic equities to international equities, as U.S. equity valuations appear to be a bit stretched. In addition to providing further diversification, international equities are slightly behind the U.S. in terms of economic recovery, so the Investment Board believes it will last longer.

Mr. Anton reported that the Investment Board met with representatives from the Department of Fish and Game regarding investing proceeds for two new funds Fish and Game received from Bonneville Power Administration. The total — about \$7.8 million — relates to maintaining and preserving habitat near the Albeni Falls Dam in northern Idaho. Mr. Anton stated that the Investment Board recommends approval of the investment mandate for these two funds. Governor Otter asked if those would be short-term equities. Mr. Anton responded they would not be short-term equities; they would be invested in the general Endowment Fund. Mr. Anton explained that the Investment Board is not developing any kind of a custom portfolio, so any income will be used for the preservation efforts. Governor Otter inquired if the money is for hatcheries or fish habitat. Mr. Anton answered that during the construction of the dam, there was some damage to the habitat and the income will be used for mitigation and to preserve that habitat.

Mr. Anton mentioned that the Investment Board had its budget setting meeting this morning and their budget for FY2019 was approved.

Controller Woolf commented that it is great to continue to add and build economies of scale with additional funds. In reference to House Bill 460, Controller Woolf noted a municipality in southeast Idaho received a gift and by statute is limited on being able to put that into the Treasurer's Office; that municipality is looking to add it to the Endowment Fund for the

Investment Board to manage. Controller Woolf asked at what point it becomes a diminishing return on the Investment Board's staffing or bandwidth to handle more money coming in. Mr. Anton responded that this was discussed considerably at the Investment Board's last meeting. The Investment Board does not want to construct custom portfolios, but if the money is long-term and can be invested using the same strategy in use today, the Investment Board can do that very efficiently through its custodian. The Investment Board sets up an account and the money is invested in the overall pool, which requires very little staff effort. Mr. Anton said the Investment Board is not seeking new business, but if it can be of assistance and there are no conflicts in the way, EFIB staff is here to provide support.

Governor Otter commented that \$7 million is not that much more when compared to \$2.25 billion. Mr. Anton stated that the Investment Board can set up separate accounts with its trustees and comingle the funds so it is invested in the same portfolio as the \$2.2 billion with little effort. Governor Otter expressed the concern is whether the Endowment beneficiaries are paying for activities that cost the Fund money and asked who is paying for the \$7 million to be managed. Mr. Anton answered that the Investment Board charges Fish and Game for fund management. The costs for the custodians, consultants and Investment Board staff are all spread pro rata across all participants.

Governor Otter inquired if the end of the month is the only time the Investment Board marks to market. Mr. Anton responded that the Investment Board marks to market daily; EFIB staff can look at performance every day. All fund managers have separately managed accounts within EFIB's trust account, and EFIB holds individual securities; other than some real estate that is in a private fund, staff can see balances daily. Governor Otter asked Mr. Anton if he had an estimate of the price/earnings ratio in the portfolio. Mr. Anton said that on the domestic equity side, for large U.S. companies, the average is approximately 21 to 22 times earnings; for small companies, it is closer to 40. On the international side, in emerging markets, it is about two-thirds of that. Mr. Anton explained that valuations on the U.S. side appear to be fairly steep, so the Investment Board was not surprised to see some volatility in the marketplace. However, there are a lot of factors in the economy that could continue to drive corporate profits. Corporate earnings are growing at a very rapid rate, which seems to support those type of valuations.

- **CONSENT**

- 3. Albeni Falls Dam (Lake Pend Oreille) Endowments** – *Presented by Chris Anton, EFIB Manager of Investments*

RECOMMENDATION: Authorize the EFIB to provide investment management for the Albeni Falls Dam Endowments under such terms as the EFIB and the Department of Fish & Game determine are appropriate.

4. Approval of Minutes – January 16, 2018 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. Recruiting Process for Department of Lands' Director – Presented by Andrea Ryan, Human Resource Officer

RECOMMENDATION: The Department recommends the following process and timeline for conducting an open, competitive recruitment for the Director of the Idaho Department of Lands.

1. Recruiting

- a. Time Frame: March 1, 2018 – April 15, 2018
- b. Pay Range: \$129,000 – \$139,000 (\$62.02 – \$66.83)
- c. Recruiting Sources:
 - i. Passive Advertising
 1. Standard Boards: DHR, IDL, and DOL websites
 2. Social Media: Facebook, LinkedIn, and Twitter
 3. Specialty Boards: TheLadders, Indeed, SAF
 - ii. Active Search
 1. Leverage Current Leadership: Leverage current leadership connections on LinkedIn
 2. Seek Referrals: Internal and external outreach
 3. Specialty Resume Databases: Indeed, TheLadders, and eforester.org, to build targeted recruitment campaigns
- d. Announcement Language: Recommended language (Attachment 1)

2. Applicant Screening

- a. Idaho Department of Lands Human Resources receives the applicants' resumes and cover letters, tracks them, and conducts a pre-assessment based on defined criteria. Applicants who meet criteria will be provided to the Land Board to select interviewees.
- i. Recommended Criteria:
 1. Total years of management experience
 2. Total years of experience in natural resources field
 3. Highest position held
 - a. Company size
 4. Degree(s) attained

3. References

- a. IDL Human Resources will conduct reference checks for all selected interviewees and will provide a written report for the Land Board prior to the interview date.

4. Interviews

- a. IDL Human Resources will schedule interviews for the selected applicants on May 22, 2018 in the Garnet Conference room in the IDL Staff office. IDL Human Resources will provide recommendations for interview questions.

5. Post Interview

- a. IDL Human Resources will provide the Land Board with an offer letter to present to the chosen applicant.
- b. Prior to announcing, IDL Human Resources will conduct a background check and credit check of the applicant who is offered the position.
- c. Prior to announcing, IDL Human Resources will notify all unsuccessful interviewed applicants.
- d. IDL Human Resources and IDL Public Information Officers will draft and distribute a press release for the Land Board. Concurrently, an internal announcement will be drafted and distributed to agency personnel.

6. Recruiting Timeline

<u>Action</u>	<u>Dates</u>
Recruiting Plan Approved	February 20
Open Recruitment	March 1 – April 15
Applicant Screening	April 15 – April 30
Schedule Interviews/Reference Checks	April 30 – May 18
Interviews	May 22

DISCUSSION: Governor Otter inquired if Attachment 1 will be the job posting that is provided to everyone interested in the position. Ms. Ryan responded that Attachment 1 is the full announcement that will be put in the Applicant Tracking System through the Department of Labor's website. A shorter posting will be used for more public websites such as Indeed.com.

Governor Otter commented that the Director is referred to as 'him' or 'his' throughout the announcement and suggested that it be made gender-neutral. Ms. Ryan explained that it is common practice to use 'his' or 'her' but not 'his/her,' as it gets repetitive; she recommended they maintain the full announcement as written.

Controller Woolf asked Ms. Ryan to step through the interview process in more detail. Will Land Board staff be involved in the interview process and will the May 22 interviews be documented as a separate meeting? Ms. Ryan said the last time the Department hired a director, the Board held hour-long interviews with half-hour breaks in between each. It was noticed as a special meeting. Ms. Ryan stated she could not recall if Land Board staff was involved, but they can be. The decision was made during that special meeting, what the offer was going to be and to whom.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board approve the Department recommendation concerning the hiring process as outlined in Tab 5 of the Board materials. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

