



Idaho 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
August 21, 2018

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, August 21, 2018, in the Capitol, Lincoln Auditorium, Lower Level, West Wing, 700 W. Jefferson St., Boise, Idaho. The meeting began at 9:01 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

Endowment Transactions

A. Timber Sales – July 2018

Discussion: Director Groeschl noted one correction to the report on page 2 in the Proposed Timber Sales for Auction table—the volume for the Blue Pole sale is 1,315 MBF with an advertised net value of \$521,195. The Area is Pend Oreille Lake and the auction date is August 28, 2018.

B. Leases and Permits – July 2018

Discussion: None.

Status Updates

C. Land Revenue Forecast

Discussion: Controller Woolf noticed on the Four-Year Income Forecast for School of Science, year 2022 numbers are much lower, trending down from 2018. Controller Woolf asked why the decline in forecast for School of Science. Director Groeschl explained that the first three years of the revenue forecast are heavily reliant on the volume under contract. At years four and beyond, those numbers are based on the Department's ten-year sale plan; there is less certainty around the sales that will be included or not included in that sale plan. Director Groeschl stated that the ten-year sale plan is currently being updated; the Department is looking at a new sustained yield and those numbers in 2022 will likely change.

D. Fire Season

Discussion: None.

Consent (Action)

2. **Approval of Minutes** – July 17, 2018 Regular Meeting (Boise)

3. **Approval of Minutes** – August 3, 2018 Special 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 (Action)

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

A. Manager's Report; and

B. Investment Report

Discussion: Mr. Anton remarked that fiscal year 2019 started off in positive territory driven by continued economic expansion in the U.S. and the anticipation of strong corporate earnings. During the month of July the Fund was up 2.1%; through the close of the market yesterday the Fund was up 2.3% so the new fiscal year is off to a good start. Gross domestic product increased by 4.1% during the second calendar quarter led by consumer and business spending and a surge in exports in anticipation of retaliatory tariffs from China. The extra exports added about 1% to GDP so GDP was running a little over 3% so the economy remained very strong. The labor markets in the U.S. are strong; unemployment stands at 4%. Mr. Anton noted that the strengthening dollar and trade tensions between the U.S. and its global trading partners however put pressure on international and emerging market equities. They did see a modest recovery during the month of July, but this fiscal year most of our emerging market and international equities are down.

Mr. Anton commented that distributions for fiscal years 2019 and 2020 are well-secured. All endowment reserves as of July 2018 are at least six times the fiscal 2020 distributions. Mr. Anton reported that the Investment Board met on August 17th and elected to terminate one of its global equity managers, Aberdeen Asset Management, and replace them with Wellington Global Opportunities. That decision was really driven by underperformance over a long period of time. The Investment Board also approved the beneficiary distributions for 2020, the transfer of reserves back to the permanent fund, and the classification of those transfers back to the permanent fund, all of which will be presented to the Land Board today in agenda item 4C. The Land Board Audit Committee met on August 16th. They reviewed the Independent Auditor's Report and they approved the audited financial statements for EFIB as well as the agreed-upon procedures for the Department of Lands. Mr. Anton stated that the auditors and the Audit Committee were very complimentary of Debbie Buck and the accounting staff at Department of Lands as well as Michelle Watts and the EFIB staff. The Audit Committee will provide their report to the Land Board during the November meeting.

C. FY2020 Distributions and Transfers

Recommendation: EFIB recommends that the Land Board approve a 3.5% increase in beneficiary distributions or a total of \$80,918,000 in FY2020, transfer \$50,309,000 from earnings reserve funds to permanent funds and designate the transfers as additions to the gain benchmarks (or permanent corpus).

Discussion: Mr. Anton went through his presentation, describing the Land Board's distribution policy, the investment performance and revenue generated in fiscal year 2018, steady revenue over the next three years with \$155 million of timber pre-sold, and coverage ratio for all funds in earnings reserve. Mr. Anton said all funds are at their target reserve levels except Charitable Institutions, which was increased from five to seven years and has reached a level of 6.6 years to date. Mr. Anton reviewed the calculation for moving excess reserves to the permanent fund and described the Investment Board' recommendation. Attorney General Wasden expressed concern about Charitable Institutions which is not at full reserve level and asked, in light of the recommendation to increase distributions, how does that affect Charitable Institutions and will that fund reach seven years in earnings reserve fairly soon. Mr. Anton replied that Charitable increased its reserves from five years to six-and-a-half years by the end of fiscal year 2018. The fund is healthy but because the new target level was not quite reached, the Investment Board recommends keeping the fund's distribution flat for fiscal year 2020.

Board Action: A motion was made by Attorney General Wasden that the Board adopt the recommendation as listed. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

5. **FY2020 Budget Enhancements** – *Presented by Debbie Buck, Financial Officer*

Recommendation: Direct the Department to include the enhancement requests as outlined in Attachment 1 in the Fiscal Year 2020 budget proposal due on September 4, 2018.

Discussion: Governor Otter observed that the Department will now have 12 positions totally assigned to Good Neighbor Authority [GNA] and wondered what portion of capital expenditures for these 12 staff can be covered by GNA revenue. Director Groeschl indicated that there are no GNA staff located at the St. Maries office, but the Department is contemplating what to do for other facilities that will be housing GNA staff—what proportion that GNA would potentially have to cover for those FTEs. Governor Otter asked if the Department has developed a formula for assigning those costs to GNA. Director Groeschl responded that there is a cost assigned for capital outlay associated with vehicles that are being used by GNA staff. Governor Otter inquired about seedling coolers. Director Groeschl stated that currently the Forest Service is growing and storing seedlings in their own cooler facilities; the Department has not taken on any of that cost for them.

Board Action: A motion was made by Attorney General Wasden that the Board approve and adopt the Department recommendation that is to direct the Department to include the enhancement requests as outlined in Attachment 1 in the Fiscal Year 2020 budget proposal due on September 4, 2018. Controller Woolf seconded the motion. For the record, Governor Otter recused himself from this vote. The motion carried on a vote of 4-0.

For the record, Director Groeschl offered a point of clarification—during the presentation of agenda item 5 on the first enhancement item, the Right-of-Way Agent, Sr., it was mentioned that 30% of endowment lands do not have legal access. The next agenda item states that 96% of endowment lands have recreational access. Director Groeschl explained the distinction between the two percentages: 30% of endowment lands do not have legal motorized access for management purposes; 96% of endowment lands can be accessed by foot, water or vehicle—often where they border federal land—but that does not necessarily mean that 96% have legal access by road.

6. Land Board Recreation Policy – Presented by Bill Haagenson, Deputy Director

Recommendation: The Department recommends approval of the Land Board Recreation Policy.

Discussion: Governor Otter remarked that most endowment lands are adjacent to, or even land-locked by federal lands and asked if the Department has instituted any process under RS4077 law to access those lands. Director Groeschl replied that the Department is working with the Forest Service and the Bureau of Land Management to acquire access across federal lands under the cost share program; those supplements take a fair amount of effort and time and that is why priority 1 of the budget enhancements is to hire somebody that can focus on working with federal partners to secure access across federal lands to endowment lands. Director Groeschl noted that there is also some private lands that need reciprocal easements. Referring to bullet point five, Governor Otter asked what other agencies the Department is considering. Mr. Haagenson said that Parks and Recreation is a good example. Governor Otter mentioned Fish and Game and Water Resources; Mr. Haagenson agreed any of those are potential options.

Board Action: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation and approve the Land Board Recreation Policy. Controller Woolf seconded the motion. Controller Woolf commented that that the key part here based on the last legislative session is that the Department is working to let the public know that endowment lands are open for recreational use while retaining fiscal, prudent management for the future. Governor Otter inquired about protocols for allowing organizations such as Rotary, those that are immediately adjacent to federal lands and endowment lands, recreational potential to do anything on them, establish trailheads or lavatory facilities or something similar. Mr. Haagenson remarked that the Department has a recreation specialist on staff, Todd Wernex, who is already working with groups in that regard. Mr. Haagenson gave an example in the Sandpoint area where there is heavy OHV use; the Department is working to redesign the trail system and provide restrooms. The net impact will be to decrease the number of miles of trail while providing a quality experience for the users. Governor Otter restated the Attorney General's motion. The motion carried on a vote of 5-0.

7. Recreation Access Agreement – Presented by Bill Haagenson, Deputy Director

Recommendation: The Department recommends approval of the Memorandum of Agreement Regarding Recreational Access on State Endowment Lands in substantially the form attached hereto.

Discussion: Attorney General Wasden observed that both the Fish and Game Commission and the Land Board need to approve the agreement, and it appears the Land Board is first. Mr. Haagenson said that is correct. Attorney General Wasden wanted to make it clear that even with Land Board approval, the Fish and Game Commission also has to approve the agreement. Mr. Haagenson said yes, they will need to take action. Secretary of State Denney asked how

much cash Fish and Game is compensating. Mr. Haagenson indicated that of the \$579,000, Fish and Game is offering a net total of two conservation officers as the in-kind contribution—it is not two new positions, but portions of existing conservation officers, a net total of two positions. It will be based on the previous year's costs for salary and benefits which presently totals \$212,000. Secretary of State Denney questioned that the Department is giving Fish and Game credit for what they are already doing. Mr. Haagenson noted it will lead to an increased presence and a more effective relationship between the two agencies in terms of enforcement.

Controller Woolf asked if the Fish and Game Commission agrees in principle even though they have not yet voted on the agreement. Mr. Ed Schriever, Deputy Director at Fish and Game, reported that he and Director Virgil Moore have worked closely with the Fish and Game Commission over the last 18 months on this agreement in concept. The Fish and Game Commission has been briefed and this item is currently on the agenda for their Thursday meeting [August 23] in anticipation of the Land Board's action today.

Governor Otter questioned what fund will be paying the expense. Mr. Schriever communicated that the Fish and Game Commission has a long history of providing hunting, fishing and trapping access in the state of Idaho. Securing access to public land and also finding access on private land with willing private landowners who enroll their acres in the Access Yes program, both so hunters and anglers can access public lands or actually hunt on those private lands. There are multiple places in Title 36 that direct the Commission to provide access for legal fishing, hunting and trapping across the state; there are other places in Title 36 that establish set-aside accounts using license dollars for only the purpose of providing access. Mr. Schriever said that most recently the 2017 Legislature in the passage of House Bill 230 established a fund—an endorsement on fishing and hunting licenses—that funds depredation prevention and depredation compensation both in the amount of \$500,000. Those obligations are met first and then any additional funds earned by that license endorsement go to a set-aside to provide fishing, hunting and trapping access by agreement or easement only. The 2017 Legislature followed the passage of House Bill 230 with a trailer bill that added \$1 million in spending authority to Fish and Game's budget to put those dollars on the ground. It is currently funded; it is currently appropriated and the Commission is envisioning how to advance access for hunting, fishing and trapping in the state. Primarily it is these license funds that will be applied to this program pending Commission approval. Mr. Schriever noted that also available for this are some unappropriated Pittman-Robertson federal funds that come from the sale of hunting equipment, guns and ammunition.

Director Groeschl commented on the question that came up about why the Department would credit Fish and Game for what they already do. Mr. Groeschl clarified that right now the Department works with industrial timberland owners and with some supervisory areas to pay for contractors who patrol certain blocks of endowment lands that are intermingled or adjacent to industrial landowners who are doing the same. There is very little-to-no enforcement authority associated with those contractors. At times the Department tries to work with local law enforcement when issues occur; it is very difficult at times to get them engaged because they have a lot going on as well, whereas Fish and Game peace officers have the full ability—they are working out in those rural areas, they know the ground and the Department can work with them on enforcement issues in which they are not currently engaged. The Department does see a benefit to this collaboration.

Governor Otter mentioned that the state is still owed approximately a thousand acres by the federal government for land lost to wilderness or monument designation. Governor Otter inquired if the Department will make sure to get easements on those new lands, and how will the agreement be adjusted for the new lands. Mr. Haagenson replied that getting access to any new lands, regardless of how acquired, is a high priority for the Department. The agreement can be adjusted; it is intended to be reviewed and adjusted every five years and that can be done at any time if there is a change to the acreage. Governor Otter asked for the number of acres owed by the federal government. Mr. Haagenson did not readily have that figure but said it will be provided.

Controller Woolf noted that the memo states the \$367,000 cash payment will be distributed to the appropriate endowments and asked if that is true of the full amount or will any be used for trail maintenance or access or something of that nature. Mr. Haagenson answered that it will all go into the endowments' earnings reserves as appropriate.

Board Action: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation and approve the Memorandum of Agreement Regarding Recreational Access on State Endowment Lands in substantially the form attached here as Attachment 1. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

8. Grazing Rate Methodology – Presented by Diane French, Division Administrator-Lands and Waterways

Recommendation: The Department recommends adoption of Option 1 or Option 2.

Option 1	Option 2
<p>A) Land Board adopts the RSQ formula with a base fee index value of 2.15, representing 65% of the USDA-NASS published IDPLLR.</p> <p>B) Land Board adopts a 4-year phase-in of the base fee index value as follows: <u>2019:</u> RSQ index value set at 1.65; representing 50% of the 2017 USDA-NASS IDPLLR; 2019 state AUM rate set at \$8.96/AUM. <u>2020:</u> RSQ index value set at 1.81; representing 55% of the 2018 USDA-NASS IDPLLR. <u>2021:</u> RSQ index value set at 1.98; representing 60% of the 2019 USDA-NASS IDPLLR. <u>2022:</u> RSQ index value set at 2.15; representing 65% of the 2020 USDA-NASS IDPLLR.</p>	<p>A) Land Board adopts a grazing rate that represents 65% of the USDA-NASS published IDPLLR.</p> <p>B) Land Board adopts a 4-Year Phase-in as follows: <u>2019:</u> State AUM rate set at \$8.96/AUM representing 50% of the 2017 USDA-NASS IDPLLR. <u>2020:</u> State AUM rate set at 55% of the 2018 USDA-NASS IDPLLR. <u>2021:</u> State AUM rate set at 60% of the 2019 USDA-NASS IDPLLR. <u>2022:</u> State AUM rate set at 65% of the 2020 USDA-NASS IDPLLR.</p>
<p>C) Department annually tracks USDA-NASS published data and provides the Land Board with an annual update on trends using 2017 data as the baseline. Annual updates would include 2017 baseline trend data and show the following: Total # AUMs under lease Total # of acres under lease Total gross revenue</p>	<p>C) Same as Option 1</p>

<p>AUMs, acres, and gross revenue identified under Timberland Asset</p> <p>AUMs, acres, and gross revenue identified under Rangeland Asset</p> <p>State endowment trust land AUMs and acres surrounded 100% by private land</p> <p>State endowment trust land AUMs and acres surrounded by federal lands</p> <p>State endowment trust land AUMs and acres with full management or legal access</p>	
<p>D) Department conducts a 5-year review summarizing all data during CY2023 and presents to Land Board to reconsider the established benchmark of a 35% discount from the IDPLLR and the ongoing use of RSQ formula.</p>	<p>D) Department conducts a 5-year review summarizing all data during CY2023 and present to Land Board to reconsider the established benchmark of a 35% discount from the IDPLLR.</p>

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 Secretary of State Denney that the Board continue with the status quo and develop numbers on total costs so the Board can set the rate based on total cost rather than a formula that is a political decision. Governor Otter seconded the motion for discussion. Following discussion, Governor Otter repeated the motion that the Board will continue with the status quo to have more time to gather more information, or wait for the \$500,000 Wyoming study. The motion carried on a vote of 4-1. Attorney General Wasden cast the dissenting vote and asked that his vote be recorded in the meeting minutes.

Information

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

9. Oil and Gas Royalty Audit – Presented by Mike Murphy, Bureau Chief-Endowment Leasing

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.

For the record, at 11:47 a.m. the Board went at ease subject to call of the Chair. At 11:48 a.m. the Governor called the meeting to order, and a motion was made by Attorney General Wasden that the Board amend the agenda to eliminate the executive session which was included on the meeting agenda. Attorney General Wasden noted the reason is that the matter referenced was taken care of by the Board at its last special meeting [Friday, August 17, 2018] at which the Board selected a director. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

