



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
September 18, 2018

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, September 18, 2018, 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.

Director Groeschl mentioned that a number of new employees were in attendance at the Land Board meeting as part of the Department's onboarding process.

1. Director's Report

Endowment Transactions

A. Timber Sales – August 2018

Discussion: Director Groeschl noted one correction to the report on page 1 in the Proposed Timber Sales for Auction table—Peterson Face has a volume of 2.5 MMBF; the advertised net value is \$742,798 dollars, not \$2,798 as shown.

B. Leases and Permits – August 2018

Discussion: None.

Status Updates

C. Cottage Site

Discussion: Controller Woolf inquired if all the lots sold that were advertised for the auction. Director Groeschl said, yes, all lots did sell at this auction.

D. Fire Season

Discussion: Governor Otter remarked that the number of human-caused fires continues to grow, seemingly every year, up to 183 this year. Governor Otter asked if the Department is doing a good enough job of alerting folks when they go into the forest, to be careful and not start a wildfire. Director Groeschl replied that the Department is looking at how to beef up its fire prevention messaging. Director Groeschl stated that all agencies, including the Department as well as the Forest Service and BLM, work diligently to get prevention messaging out to the public. Director Groeschl added that although Idaho is not currently in fire restrictions, a new release was sent out by the Department to remind hunters that even though there are no restrictions in place to make sure that their warming and cooking fires are out before they leave because there is still the threat of fire. Director Groeschl commented that Idaho has not yet had a season-ending event. Governor Otter asked if the Department keeps track of subsets of fire starts, such as discarded cigarette as opposed to a campfire that was not attended. Director Groeschl indicated the Department does have several categories—debris burning is one of the biggest ones; also things like campfires, intentionally set fires, equipment started fire, arson-type fires. If the Department can determine cause—if somebody flicks a cigarette butt along the highway the fire investigators can typically find some remnant of that. The Department does track human causes by category to better target its prevention messaging.

Governor Otter mentioned that not the most costly but one of the worst fires early on this season was a fire intentionally set by the Forest Service; it took two weeks before it was declared out of control. Governor Otter wondered if that is a human-caused fire. Director Groeschl said it was probably a prescribed burn that got away and it would be categorized as human-caused. Governor Otter inquired if there is an incident report in that event to record where the failure occurred: was it climate, wind; what did the Forest Service misjudge for that fire to get away like it did. Director Groeschl answered that he did not have details on that specific fire, but after every fire like that one there is an after-action review done by either the agency or the team that is managing the fire. The report from that review would capture lessons learned and what factors may need to be closely considered before conducting future controlled burns.

E. Resource Protection and Assistance

Discussion: None.

2. 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 reported that the endowment fund portfolio was up 1.5% for the month of August and is up 3.6% fiscal year-to-date, adding that through close of business yesterday, the fund was up 2.7%. Mr. Anton remarked that domestic equities had positive gains for the month while international and emerging market equities experienced losses. The U.S. economy continues to be the star of the global economic show, while international and emerging market equities are struggling; they have been under pressure due to rising interest rates, stronger dollar and trade tensions, and lower overall economic growth in the

rest of the world. Mr. Anton referred to Attachment B [Investment Report], the fiscal year-to-date results in the middle column show domestic equities up 6.9% and international equities up 1.8%; again, U.S. stock market has really outperformed. Calendar year-to-date, emerging markets are down almost 20%. Mr. Anton noted that investors have really been watching the yield curve—the yield on treasury bonds for different periods of maturities—because that is a leading economic indicator for potential recession. As the feds raise short-term rates, the difference between the 2-year treasury and the 10-year is only about 0.2%. Right now the 2-year treasury yield is at 2.8%, the 10-year is about 3%, so that is being closely monitored. Other than that there are not any real signs of a recession coming down the road; the U.S. economy is very strong.

Mr. Anton indicated that distributions for FY2019 and FY2020 are well secured. As of the end of August reserves are at least six times the anticipated distributions in FY2020. Mr. Anton advised that the transfer of \$50.3 million from the reserves into the permanent fund approved by the Land Board last month has been completed. Mr. Anton mentioned that on August 17th the Investment Board acted to terminate one of its global equity managers, Aberdeen Asset Management, and replace them with Wellington Global Opportunities; that transition should be complete this month. In conclusion, Mr. Anton noted that a special EFIB board meeting will be held on October 30th to interview fixed income managers. The Land Board was previously informed that the Investment Board elected to move 8% of the portfolio into an actively managed fixed income fund; EFIB expects approval of the fund manager at the conclusion of that meeting.

Consent—Action Item(s)

3. Results of July-August, 2018 Grazing Conflict Auctions – *Staffed by Jason Laney, Program Manager-Grazing, Ag, Conservation*

Discussion: Controller Woolf inquired if the Department keeps track of the characteristics of these allotments such as if they are fenced, is there water on them, is there easement access. Controller Woolf asked if the Department has a good understanding of the type of allotments these are, how they are different and why they were conflicted. Director Groeschl replied that the Department does look at the characteristics. Typically the improvement value would be fencing or stock water capability. Director Groeschl pointed out that for these conflicted leases, only one lease in the Southwest Supervisory Area had improvement value and that was for fencing on that allotment. Director Groeschl indicated that as the Department has looked at these over the years, staff has not found a real trend as to which ones receive a conflicted auction and which ones do not. It tends to be smaller pieces where there is a variety of private ground around them; some have access, some do not. Some have improvements on them, some do not. The Department has not really found any sort of correlation on grazing leases that receive a conflict auction.

Recommendation: Direct the Department to award the grazing leases to: Grassy Hills, LLC (G700294), 7 J Livestock (G700302), Oneida Farms, Inc. (G700297), Justin Posey (G700299), Forrest Arthur (G700304), and Warren Budell (G600247).

4. Approval of Minutes – August 17, 2018 Special Meeting (Boise)

5. Approval of Minutes – August 21, 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.

Governor Otter remarked that the Board is probably aware of the Supreme Court decision on federal water rights that the feds cannot have a water right because they cannot put it to beneficial use; they do not own the cattle. Governor Otter commented that in some cases state lands are dependent on a water right on federal lands. Governor Otter noted that it would be appropriate for the Department to ask somebody from Water Resources, probably the Director, to come and give the Board an update. Governor Otter said he can see the possibility where, however that turns out, it may not diminish the value of our state lands but the Board needs to be ready in case it does. There are over 17,000 water rights that the feds have, Forest Service and BLM; they are intermingled with state lands and it is important that this Board be informed. Director Groeschl offered to make the necessary arrangements.

Regular—Action Item(s)

Director Groeschl announced that testimony would be taken for agenda item 7-Proposed Legislation, and asked interested persons to add their names to the sign-in sheet available on the back table.

6. FY2020 Department of Lands Budget – Presented by Debbie Buck, Financial Officer

Recommendation: Approve the Department's FY 2020 budget request as submitted to the Division of Financial Management and the Legislative Services Office on Tuesday, September 4, 2018.

Discussion: None.

Board Action: For the record, Governor Otter stated the Chair will not vote on this item.

A motion was made by Controller Woolf that the Board adopt the Department's recommendation and approve the Department's FY 2020 budget request as submitted to the Division of Financial Management and the Legislative Services Office on Tuesday, September 4, 2018. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0. Governor Otter recused himself from voting on this item.

7. Proposed Legislation – Presented by Bill Haagenson, Deputy Director

Recommendation: The Department recommends the Land Board approve the legislative proposals and direct the Department to proceed with the 2019 executive agency legislation process.

Discussion, first legislative proposal: Testimony was provided by Mr. David Easley, president of the Idaho Forest Owners Association. Mr. Easley stated Idaho Forest Owners Association submitted a letter in support of the proposal, adding that their Board of Directors voted unanimously to support the proposed fee increase.

Discussion, second legislative proposal: Governor Otter asked about the definition of developed, wondering if that includes roads. Mr. Haagenson said it would not necessarily include roads, noting that the more common definition of developed as it pertains to conservation easements is other uses such as housing developments.

Board Action: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation to approve the legislative proposals and direct the Department to proceed with the 2019 executive agency legislation process. Controller Woolf seconded the motion. Governor Otter noted that the motion was for both issues; Attorney General Wasden concurred. The motion carried on a vote of 5-0.

Information

None

At 9:39 a.m. a motion was made by Attorney General Wasden to resolve into Executive Session pursuant to Idaho Code § 74-206(1)(c), § 74-206(1)(d) and § 74-206(1)(f) to acquire an interest in real property which is not owned by a public agency; to consider records that are exempt from disclosure as provided in chapter 1, title 74, Idaho Code; and to discuss the legal ramifications of and legal options for pending litigation or controversies not yet being litigated but imminently likely to be litigated. Attorney General Wasden requested that a roll call vote be taken and that the Secretary record the vote in the minutes of the meeting. Controller Woolf seconded the motion.

Roll Call Vote: *Aye:* Denney, Wasden, Woolf, Ybarra, Otter; *Nay:* None; *Absent:* None.

For the record, the Board took a brief recess prior to entering into Executive Session.

Executive Session

- A. Idaho Code § 74-206(1)(c)(d) – to conduct deliberations concerning labor negotiations or to acquire an interest in real property which is not owned by a public agency; and to consider records that are exempt from disclosure as provided in chapter 1, title 74, Idaho Code. [TOPIC: Acquisition(s)]

At 10:32 a.m. the Board resolved out of Executive Session by unanimous consent. No action was taken by the Board during the Executive Session.

Regular—Action Item(s)

8. Property Acquisition

Discussion: None.

Board Action: A motion was made by Attorney General Wasden that the Board authorize the Director of the Department of Lands to proceed with negotiation of purchase and sale agreements to acquire the lands identified as Projects One through Three during the Executive Session, upon prices and terms consistent with the Land Board Acquisition Policy adopted by this Board. Attorney General Wasden further moved that the Board authorize the Director to expend funds in excess of \$100,000 for such purpose from the Land Bank Fund. Controller Woolf seconded the motion. Governor Otter commented the vote is on two items. Attorney General

Wasden clarified the vote is on one matter, explaining that there are three projects involved in this single motion—Projects One, Two and Three. The motion carried on a vote of 5-0.

Board Action: A motion was made by Attorney General Wasden that the Board authorize the Director of the Department of Lands to proceed with negotiation of a contingent purchase and sale agreement to acquire the lands identified as Project Four during the Executive Session, upon prices and terms not to exceed the amount of \$375,000. Attorney General Wasden further moved that the Board authorize the Director to expend funds in excess of \$100,000 for such purposes from funds available to the Department for the payment of administrative costs and/or expenses of the endowments. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

There being no further business before the Board, at 10:36 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.

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/ Dustin T. Miller

Dustin T. Miller
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the October 16, 2018 regular Land Board meeting.