



Land Board forges new direction, implements plan for future investments

In This News Release

[New investment policy & implementation plan](#)
[Modified governance structure](#)
[Land Bank](#)

December 15, 2014

(BOISE) - The State Board of Land Commissioners (Land Board) approved a bundle of recommendations today that enables its members to **make better, more informed investment decisions and improve accountability, transparency, and oversight** of those decisions.

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The recommendations came after a year of meetings held by a Land Board-appointed subcommittee and input received from hired independent third-party investment consultant Callan Associates.

In summary, **the Land Board formalized a position to no longer acquire commercial buildings, to continue managing existing commercial buildings and lowest return grazing land but consider disposal as attractive opportunities arise, and to acquire more timberlands that meet or exceed predicted statewide returns.** The changes will be completed through the creation of a new, high-level investment policy and a revision of the existing Asset Management Plan - the guiding document on how to strategically and profitably manage endowment lands.

The **Land Board also voted to focus its role to making higher level policy decisions, and delegate more routine land management decisions** to experts at the Idaho Department of Lands (IDL). It **created new working groups and authorized the hiring of more outside consultants and auditors** to improve independent oversight.

The changes are expected to cost \$645,000 in FY16 and will range from \$500,000 to \$600,000 per year on an ongoing basis.

New investment policy and plan to implement experts' report

A new investment policy statement and Asset Management Plan for endowment lands and funds will be created, with general concepts driving long term strategy, such as **no longer acquiring commercial buildings; disposing of or continuing to manage existing commercial buildings and lowest return grazing land over time; and acquiring more timberlands that meet or exceed predicted statewide returns.**

The Land Board voted to **sunset the Subcommittee on Endowment Investment Governance Strategy** - the group that has been working with Callan Associates over the past year on the recommendations brought to the full Land Board today - and **establish a new Investment Subcommittee** that will work with outside consultants to improve oversight and accountability of investment decisions.

The Land Board also **added an audit committee** to oversee an expanded program of outside audits.

As part of its decisions, the Land Board also directed IDL to **discontinue mass land appraisals** for timberland, rangeland and agricultural land, and **instead measure performance using the "land expectation value" approach.** That method is based on discounted cash flows and was endorsed by the Policy Analysis Group of the University of Idaho.

To ensure IDL has the resources to block up land holdings and acquire access to stranded parcels, the Land Board will maintain a balance of \$5 million in the Land Bank Fund while **plans are drafted on where to reinvest the proceeds from any sales of endowment land, including cottage sites.**

[Read more on the new investment policy here.](#)

In November representatives of Callan Associates presented their [Asset Allocation and Governance Review report](#) to the Land Board. The report was developed after several months of working with a Land Board subcommittee to examine ways to manage the lands and funds as one. The Land Board voted to accept the report in November, and today it voted to implement the report over the coming year.

The implementation plan for the Callan report, including timelines and cost expectations, accompanied the Land Board's decision.

[Read more on the implementation plan here.](#)

Modified governance structure

The Land Board voted to narrow its oversight focus to higher policy and strategic issues, delegating more routine decisions to IDL while reserving its authority to review non-routine or special investments.

The Land Board will still approve the annual timber sale plan, but after today it will not regularly approve direct timber sales and fire salvage sales, delegating authority to the director to approve individual timber sales that fall within established policies. However, the Land Board will continue to approve sales that propose something that falls outside of established policies.

For routine investment decisions, such as forest and range improvements and access acquisitions, the director will authorize transactions of less than \$500,000 and the Land board will consider transactions of more than \$500,000. Additionally, an operational audit of IDL procedures will be conducted every 3-5 years to ensure IDL management represents best practices.

For non-routine or special investment decisions, such as land acquisitions and disposals or new tenant improvements in commercial buildings, the IDL director will authorize transactions less than \$100,000. Transactions greater than \$100,000, and those that are complex or controversial, will require Land Board approval and may be reviewed by the Land Board's new land investment advisor. The performance of major transactions, those that exceed \$1 million, will be audited after three years.

The Land Board will review the governance structure again in December 2015.

[Read more here.](#)

Land Bank

The Land Board also voted to transfer all but \$5 million in the Land Bank Fund to the Permanent Fund in order to take advantage of higher interest rates and increased returns.

The Land Bank is where proceeds from the sale of endowment lands reside and the money in it must be spent on acquiring new lands. The balance in the Land Bank is \$26.5 million, money that came mostly from recent auctions of cottage sites. The Permanent Fund is the corpus. It can never be spent and continues to grow over time. The interest from the Permanent Fund flows to the Earnings Reserve, the fund from which public schools and other endowment beneficiaries receive distributions.

A balance of \$5 million was left in the Land Bank to give the Land Board the ability to readily approve acquisitions that block up or improve access to existing endowment lands. A balance of \$5 million will be maintained in the Land Bank Fund while **plans will be drafted on how to manage the proceeds from the sale of cottage sites, commercial buildings, and grazing lands.**

[Read more here.](#)

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