



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

FINAL Minutes
State Board of Land Commissioners Regular Meeting
December 15, 2015

Prior to the meeting a student choir from Capital High School entertained Land Board members with Christmas carols in the 2nd floor Capitol rotunda. Following the music, Land Board members presented the students with a check to Idaho's Public Schools in the amount of \$32,758,800, representing FY2016 distributions from the endowment trust to public schools. Land Board members, students and others in attendance then moved to the scheduled meeting room.

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, December 15, 2015, in the State Capitol, Hearing Room EW42, 700 West Jefferson 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.

Department of Lands Year in Review

Department of Lands' staff presented a video of 2015 Year in Review accomplishments.

Director Schultz commented that Department field staff does not always get the recognition deserved and remarked that the Department could not have these accomplishments without the work of staff all around the state. The Department has staff in 14 offices in towns across the state, all doing a wonderful job. This past year was a very successful year by any measure – in dollars and cents, stewardship, timber harvest, the Sage-grouse plan – all happening with support from staff throughout the state.

1. Director's Report

A. Interest Rate on Department Transactions – December 2015

DISCUSSION: Governor Otter remarked that federal interest rate may soon be increasing, and asked how long the Department's interest rate is in effect. Director Schultz replied it is effective for one month. Governor Otter noted that January may show an increase and Director Schultz agreed.

B. Timber Sale Activity and Information Report – November 2015

DISCUSSION: Attorney General Wasden commented on the announcement that Weyerhaeuser is purchasing Plum Creek Timber and wondered what the market impact might be as a result. Director Schultz responded the impact is unknown at this time. Weyerhaeuser will have a strong foothold and as there is more consolidation in the industry, with fewer potential bidders at the table, it could impact prices at some point. There may be target acquisitions in Idaho. Attorney General asked about the number of companies in Idaho, voicing concern about a monopoly. Director Schultz noted there is a good diversity of companies in Idaho. Governor Otter remarked about the potential of Weyerhaeuser building a new mill in Idaho and commented that Idaho is still importing up to 200 million board feet (MMBF) of saw logs from out of state, noting there is margin in the market.

Attorney General Wasden referred to cumulative harvest receipts, on page 4; the graph shows receipts are 109% of the 5-year average. Attorney General Wasden recalled that harvest volume was increased about six or seven years ago and asked if the increased harvest rate is affecting the average. Director Schultz replied there is some impact from the greater sales volume, but price per thousand board feet (MBF) is also a factor; for instance, the Department may have less harvest volume but higher price per MBF.

Controller Woolf asked about the impact of the fire salvage sales on annual timber harvest yields. The Department's target is 242 MMBF/year. Is there future impact when timber burns and salvage sales are added to harvest volume? Director Schultz replied that in the short term there may be lower harvest volume within a local region but across the state the Department is growing volume at a fairly high rate. Director Schultz stated the Department will be running sustained yield models in the next few years. Currently the sustained yield is 247 MMBF; whether it increases or decreases may be affected by short-term impact from fires, or insects and disease, but also by silvicultural practices and accurate data used in the modeling.

C. Division of Lands and Waterways Activity and Information Report – November 2015

DISCUSSION: None.

D. Cottage Site Voluntary Auction for Ownership Update

DISCUSSION: Governor Otter inquired if the Department has done a demographic analysis on competitive bidders in the cottage site auctions to determine if they are out-of-state or local. Director Schultz responded that an analysis has not been done. Approximately 75% of Priest Lake lessees live out-of-state; likely many auction bidders are also from out-of-state.

At Payette Lake, more lessees are locals and many are from the Boise area. Director Schultz offered to collect some data on demographics. Governor Otter confirmed that the cottage site lots are advertised on the internet; everybody has access to the information. Director Schultz said that is correct and added that of the lots that have a lessee in place, only 6% are receiving competitive bids. Most competitive bidding is happening on unleased lots.

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 distributions are well-secured; all endowment reserves are near their maximum targets. Mr. Johnson noted the Investment Board met in November and endorsed legislation that will increase the amount of bonds that can be guaranteed by the Public School Endowment; a copy is included in today's Board materials. Another piece of draft legislation is being written to clarify the Treasurer's authority to continue investing idle endowment funds as requested by the Investment Board. The Treasurer and several stakeholders are involved in drafting the legislation, working to have it complete for the start of the legislative session next month.

B. Investment Report

DISCUSSION: Mr. Johnson reported that markets in November were flat; a slight gain in the equity market was offset by a slight loss in fixed income. The Fund month-to-date is down almost 3% putting fiscal year-to-date at -3.9%. Currently calendar year-to-date the Fund is down 2.2%. Mr. Johnson remarked that investment managers are performing as expected.

Governor Otter asked if EFIB has discussed with the Treasurer the draft legislation that will increase the amount of bonds that can be guaranteed. If approved, and the Endowment is guaranteeing \$1.2 billion, up from \$800 million, will that affect the state's ability to borrow money at the lowest rate? Mr. Johnson indicated his understanding that because the Endowment Fund has its own separate set of funding from the state, it has no impact on the state's ability to borrow. Governor Otter commented that Moody's and others do consider the endowment reserve amounts and the Fund's ability to cover distributions; if there is a shortfall in the reserves then the General Fund would cover the difference. Mr. Johnson noted there has been that discussion with the Treasurer but he would confirm his understanding.

- **CONSENT**

3. Approval of Minutes – November 24, 2015 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**

4. Governance Structure Review – Presented by Bill Haagenson, Strategic Planning Manager

RECOMMENDATION: The Department recommends that the Land Board approve the governance structure as outlined above.

DISCUSSION: Governor Otter asked if the reference to timber salvage sales is generally in anticipation of fires and would the Department contemplate salvage sales due to insect infestation and disease. Mr. Haagenson replied the recent salvage sales are mostly due to fire, but salvage sales may be as a result of insect and disease damage as well.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation as outlined on page 2 of 2. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

5. FY2016 Fire Supplement Request – Presented by Donna Caldwell, Division Administrator-Support Services, and David Groeschl, State Forester and Deputy-Director-Forestry and Fire

RECOMMENDATION: Approve the Agency FY 2016 Supplemental and Annualization Budget Request in the amount of \$971,022 as outlined above.

DISCUSSION: State Forester Groeschl reviewed the Board memo and summarized that the greatest needs are focused on retaining, extending and/or increasing (in certain locations) operational fire line staffing levels and qualifications that have the greatest potential impact on improving initial attack response and capacity. Attorney General Wasden restated his understanding that this request will allow the Department to respond more rapidly, with a greater number of resources, ultimately reducing wild fire costs with early fire suppression. Mr. Groeschl affirmed that statement. Controller Woolf asked what the normal months of service are for fire seasonal employees. Mr. Groeschl responded that the Department has funding for a base of nine seasonals at each district: two at 8-months, four at 5-months and three at 3-months. The goal is to shift one from 5-months to 8-months to staff the engines 24/7. Mr. Groeschl said it will help the Department retain individuals with higher qualifications because an 8-month seasonal will receive benefits.

Superintendent Ybarra expressed appreciation that the Department recognizes the importance of "boots on the ground" people. Superintendent Ybarra remarked that the video presentation was beautiful in demonstrating how the Department's work affects public schools, and she thanked Mr. Groeschl for specifically mentioning Kamiah because the fires did affect school children. Superintendent Ybarra is pleased that the Department has worked and will continue working with Kamiah and other affected communities going forward.

Governor Otter commented that his usual practice is to recuse himself from voting on an agency budget prior to presenting the Governor's budget. Governor Otter stated he is making an exception to the rule because of the importance of fire suppression; it is important to get ahead of the growing curve of fire season, to get ahead of the expense. Governor Otter voiced his support for this supplemental request.

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

For the record, following the December 15, 2015 Land Board meeting, Department of Lands became aware that in the memo for agenda item 5, Forest and Range Fire Protection Budget Request-Supplemental for FY2016, the total dollars in the Recommendation had a transposition of numbers compared to the total dollars outlined in the table. The amount listed is \$971,022 rather than the correct amount of \$917,022. The Department requested guidance from legal counsel and was advised to notify the Land Board Commissioners of the transposition error, and also make note in the meeting minutes of the error and action taken. On December 21, 2015, the Department notified Land Board Commissioners of the error. The amount requested is less than the amount approved; therefore counsel recommends that further corrective action is not necessary.

- **INFORMATION**

NONE

At 9:53 a.m. a motion was made by Attorney General Wasden that the Board resolve into Executive Session pursuant to Idaho Code § 74-206(1)(b) for the purpose of conducting an evaluation of Tom Schultz, Director of the Idaho Department of Lands. 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.

- **EXECUTIVE SESSION**

- A. Idaho Code 74-206(1)(b)(d) – to consider the evaluation, dismissal or disciplining of, or to hear complaints or charges brought against, a public officer, employee, staff member or individual agent, or public school student; and to consider records that are exempt from disclosure as provided in chapter 1, title 74, Idaho Code. [TOPIC: Performance Evaluation – Director, Department of Lands]

At 10:31 a.m. the Board resolved out of Executive Session by unanimous consent. No action was taken by the Board during the Executive Session.

REGULAR

6. Personnel Action

BOARD ACTION: None taken.

There being no further business before the Board, at 10:32 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/ 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 January 19, 2016 regular Land Board meeting.