



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

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 16, 2016

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, February 16, 2016, in the Borah Building, 2nd Floor Courtroom (Room 214), 304 N. 8th Street, Boise, Idaho. The meeting began at 9:00 a.m. The Honorable Governor Brad Little presided in place of Governor C. L. "Butch" Otter who was attending to business out of state. 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 Little recognized the presence of all Board members.

1. Director's Report

- A. Interest Rate on Department Transactions – February 2016
- B. Timber Sale Activity and Information Report – January 2016
- C. Division of Lands and Waterways Activity and Information Report – January 2016
- D. Cottage Site Voluntary Auction for Ownership Update
- E. Legislative Update

DISCUSSION: In reference to H0464, page 2, lines 24-29, Governor Little wondered if the fees would ever be more than the income and result in a negative return. Mr. Jace Perry with the State Treasurer's Office explained that the fee structure would remain as currently in place, half a basis point (0.047%). That fee is taken out after the earnings are calculated on the idle pool. The earning for the last month was 62 basis points (0.65%). Mr. Perry remarked the

likelihood of the fees exceeding the returns would be minimal. Governor Little asked if the bill had passed the House. Director Schultz did not think it had been voted on yet.

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

A. Manager's Report

DISCUSSION: Mr. Johnson remarked that Endowment reserves are doing quite well as the strength in the timber market has offset some of the weakness experienced in the fund market. Mr. Johnson noted the Investment Board met on Wednesday, February 10th; no significant actions were taken and there were no compliance or legal issues to report. The reappointments of three Investment Board members (Dean Buffington, Senator Chuck Winder and Representative Neil Anderson) were confirmed by the Senate on February 10th.

Mr. Johnson reported on four pieces of legislation of interest to the Investment Board: a bill sponsored by the EFIB to expand the capacity of the credit enhancement program to guarantee school bonds; that has been printed and will be up for a hearing in the Senate State Affairs Committee. The second item permits the Investment Board to manage the Opportunity Scholarship Fund on behalf of the State Board of Education and that has passed the Senate and is up for a vote in the House. The third item permits the Investment Board to manage certain assets of the Environmental Protection Trust Fund on behalf of the Department of Environmental Quality. That is printed and is up for a hearing in the Senate. And the fourth item is the bill previously discussed by Director Schultz and Mr. Perry, to give the Treasurer clear authority to invest endowment funds.

B. Investment Report

DISCUSSION: Mr. Johnson introduced Amanda Montgomery, a representative of the Allianz NFJ International Equity Fund. Ms. Montgomery is an investment manager from Dallas. Mr. Johnson reported that January was a tough month for the Fund, with a loss of 4.4%, putting fiscal YTD through the end of January at -7.1%. Mr. Johnson noted February has continued to be challenging. The Fund is down another 3% through yesterday; fiscal YTD return currently stands at -9.8%. Mr. Johnson commented that is not unusual volatility for a fund that is 70% equity.

Attorney General Wasden, recognizing current market conditions and the tremendous volatility, asked if managers are doing everything possible to turn the Fund from a negative to a positive return. Mr. Johnson responded yes. The Investment Board meets every quarter and does a thorough review of the portfolio and each manager. In addition, EFIB's outside investment consultant, Callan Associates, does a similar review.

Governor Little inquired about the potential impact to timber prices if Canada goes to negative interest rates. Mr. Johnson commented that as the Canadian dollar weakens it is in essence a price increase for Canadian lumber prices. It is then easier to sell into the U.S. market; timber growers get more Canadian dollars, they can ship further, take a bigger discount in the market and take more of the market share. Mr. Johnson noted that is a concern, particularly with weakening Far Eastern markets where a good amount of Canadian

exports off the West Coast are sold. The Canadians have suffered, especially in Western Canada, tremendous bug kill of their timberlands, which has restricted some of the timber supply. Mr. Johnson stated he has not looked recently at whether Canadian mills are operating at or near capacity and whether a further decline in the Canadian dollar will allow mills to sell even more or whether they are selling as much as they can now.

- **CONSENT**

- 3. **Big Creek Land Exchange Land Advisor** – *Staffed by Ryan Montoya, Program Manager-Real Estate*

DISCUSSION: Attorney General Wasden remarked this is a great opportunity for the Board to test the system without much risk and it provides a measure of objectivity to test the Board's own objectivity. Attorney General Wasden acknowledged the wise thought on the part of the Department to bring this valuable tool forward for Board consideration.

RECOMMENDATION: Direct the Department to enter into a Land Investment Advisor contract with DRPforestry on behalf of the Land Board, to review the Department's due diligence analysis and provide a recommendation to the Land Board on this land exchange.

- 4. **Approval of Minutes** – January 19, 2016 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. **Commercial Real Estate Business Plans** – *Presented by Bill Haagenson, Strategic Planning Manager*

RECOMMENDATION: The Department recommends approval of the following items related to the Land Board's commercial real estate portfolio:

1. Acceptance of the final commercial real estate business plans as developed by the Commercial Real Estate Advisor.
2. Disposal of the twelve commercial properties and four parking lots as specified in the business plans using a process consistent with the Idaho Constitution and Idaho Code.
3. Retention of the Capitol Park Plaza building, the adjacent parking lot, and the Hoff parking lot.
4. The Department will use the Land Board's Commercial Real Estate Advisor to manage the disposal process and provide continued assistance and expertise.

5. The Department and/or the Commercial Real Estate Advisor will procure other real estate service providers, including broker(s), needed to complete the disposal process.
6. The business plans and the disposal strategy will be reviewed annually or when changing real estate market conditions may dictate.
7. The Department will update the Land Board on the status of the disposals prior to the first auction and at other significant times during the process.

DISCUSSION: A verbatim transcript 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 Attorney General Wasden that the Board adopt the Department recommendation as outlined on page 2 of 3 of agenda item 5. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

6. Cottage Site Voluntary Auction for Ownership (VAFO) 4-Year Plan: 2016-2019 – Presented by Mike Murphy, Bureau Chief-Endowment Leasing

RECOMMENDATION: Approve the Department's proposed 4-Year VAFO Plan and approve the auctioning of future cottage sites in locations appropriate for each site to include Ada, Bonner, Kootenai, or Valley Counties.

DISCUSSION: A verbatim transcript 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 Attorney General Wasden that the Board adopt the Department recommendation as outlined on page 3 of 4 of agenda item 6. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

7. Cottage Site Auction Fees – Presented by Mike Murphy, Bureau Chief-Endowment Leasing

RECOMMENDATION: Approve the Department's proposed replacement fee structure for VAFOs and ULAs with an immediate effective date for all cycles, including 2016.

DISCUSSION: None.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation as outlined on page 2 of 3 of agenda item 7. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

8. Owyhee Land Exchange: Restated Agreement to Initiate – Presented by Ryan Montoya, Program Manager-Real Estate

RECOMMENDATION: 1) Direct IDL to enter into the RATI with the BLM for the Owyhee land exchange; and 2) Direct IDL to follow the Sage-Grouse Plan's recommendation to commit to a deferral on leasing of lands within the Owyhee land exchange for mineral development until December 31, 2017.

DISCUSSION: None.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board approve the Department recommendation as outlined on page 2 of 3 of agenda item 8. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

- **INFORMATION**

NONE

- **EXECUTIVE SESSION**

NONE

There being no further business before the Board, at 9:54 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 March 15, 2016 regular Land Board meeting.