



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
May 16, 2017

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, May 16, 2017, 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 State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, Governor Otter recognized the presence of all Board members with the exception of Attorney General Lawrence Wasden.

1. Director's Report

- A. Interest Rate on Department Transactions – May 2017
- B. Timber Sale Activity and Information Report – April 2017
DISCUSSION: Governor Otter inquired if there was going to be any duty on saw logs, noting that 200 MMBF of stumpage comes into Idaho, but he is not aware how much of that comes from Canada. Director Schultz replied that between 100-200 MMBF per year comes into Idaho to be processed, but he is not sure how much of that is from Canada. Director Schultz stated logs also come from Oregon, Washington and Montana. Director Schultz said that the Department would research the issue and get back to the Land Board.
- C. Division of Lands and Waterways Activity and Information Report – April 2017
- D. Cottage Site Update
- E. LSO Audit Summary

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

DISCUSSION: Chairman Buffington stated that today is one of two regularly scheduled meetings of the Investment Board with the Land Board. Chairman Buffington introduced Investment Board members in attendance: Representative Neil Anderson, Warren Bakes, Gary Mahn, Richelle Sugiyama and the two newest members, Jerry Aldape and Mary Hughes. Chairman Buffington noted the absence of Senator Chuck Winder due to travel, but commented that the Senator would be joining the Investment Board meeting later that day via teleconference. Chairman Buffington then introduced Larry Johnson.

A. Manager's Report

DISCUSSION: Mr. Johnson first introduced representatives from Callan Associates: Janet Becker-Wold and Sally Haskins. EFIB staff members Chris Halvorson, Michelle Watts and Liz Wieneke were in attendance as well.

Mr. Johnson reported that distributions are well-secured. Reserves average 5.5 years and are in good shape, and there were no significant actions to report.

B. Investment Report

DISCUSSION: Mr. Johnson reported that both equity and fixed income markets were up during April. The total fund was up 1.3%, and the fiscal year-to-date return through April was at 10.6%. Mr. Johnson remarked that this was good, relative to long-term expectations of a little over 6% return.

Governor Otter wondered why 10.6% was printed in red on the report. Mr. Johnson explained that it is compared to 10.9%, which is the benchmark to measure how active managers are adding value or not adding value. Mr. Johnson commented that this last fiscal year-to-date, there was not added value and that is why the number is in red. Mr. Johnson continued on to say that the Fund is up almost one percent through yesterday and that the fiscal year-to-date number is now hovering around 11.6%.

C. Semi-Annual Report

DISCUSSION: Mr. Johnson remarked that the Endowment Fund balance for the first nine months increased 7.5%, or almost \$137 million; the Fund balance now stands at almost \$2 billion. Earnings reserves are even with year-end, even with the \$47 million that was transferred back to principal to offset inflation and population growth. Earnings reserves received from endowment lands are up 11% for the same period in 2016 and the total investment return for 9 months was 9.3%. Mr. Johnson commented that all of the coverage ratios, which estimate how many years of distributions are in reserve to protect against a downturn in land income or fund income, are at or above the target level that the Investment Board believes is the maximum reserves needed. In a comparison of Endowment Fund performance versus other public plans, over the last 10 years, seven years, and five years, the Endowment Fund ranking has been above average.

Mr. Johnson mentioned the School Bond Credit Enhancement Program, which boosts the ratings of school bonds to the highest possible rating — AAA. Mr. Johnson noted that the state also has a guarantee program, but it can only guarantee to the level of the state's credit rating, which is AA+; this is the second best possible rating. Mr. Johnson commented that the AAA rating saves about .05% in interest rates on average; this adds up to a lot of money over the life of the bond. Mr. Johnson stated that this credit issuance is backed by a pledge of \$300 million of the assets of the Public School Endowment Fund. The Investment Board guarantees to bondholders that it will make a payment if the school district cannot, guaranteeing payments of approximately \$50 million per year on over \$400 million of outstanding debt.

Governor Otter asked if a payment has ever been made. Mr. Johnson responded no, and as far as he knows, there is no school in the nation that has permanently defaulted on a school bond. Mr. Johnson described that there have been some rare circumstances under which guarantors had to temporarily make payments; for instance, following Hurricane Katrina when taxpayers left and no property taxes were paid. Districts did not have the money to make the payments; however, people moved back, industry restarted, the districts caught up on payments and repaid guarantors. Mr. Johnson stated that is what may happen under the Investment Board's credit program, but there is no real permanent risk of loss. Mr. Johnson noted that the Investment Board charges a fee to compensate the Fund for making a non-cancellable guarantee, which generated about \$18,000 of income over the last 10 1/2 months. Issuers save between 5-15 times the fees paid for that guarantee in terms of lower interest rate.

- **CONSENT**

- 3. Land Transfer – Idaho Division of Veterans Services – Staffed by Tracy Schaner, Deputy Director, Division of Veterans Services, and David Taylor, Deputy Director, Health & Welfare**

RECOMMENDATION: As land trustee on behalf of IDVS, approve the land transfer for Idaho Division of Veterans Services pursuant to Idaho Code § 65-108 and the Memorandum of Agreement.

DISCUSSION: Governor Otter inquired if there are any deceased veterans or family members ready to use the cemetery. Ms. Schaner responded that the Division of Veterans Services has not taken applications or done any registration for the second cemetery. Ms. Schaner explained that applications and pre-registrations for that area will be accepted once groundbreaking occurs. Secretary of State Denney asked how the Department of Health and Welfare came to own the land and if it was once part of the State Hospital South property. Mr. Taylor confirmed that the Department of Health and Welfare obtained the land when State Hospital South was formed in the 1880's and acquired more land as the need grew.

- 4. Driggs Armory Surplus Property – Staffed by Colonel Thomas Rasmussen, State Military Division, and Captain James Anderson, State Military Division**

RECOMMENDATION: Direct the Idaho Department of Lands to offer the Driggs property for disposition pursuant to Idaho Code § 58-331, *et seq.*

DISCUSSION: None.

5. State Participation as a Member of Clearwater-Potlatch Timber Protective Association (CPTPA) and Southern Idaho Timber Protective Association (SITPA) – Staffed by Tom Schultz, Director

RECOMMENDATION: The Department recommends that the State continue to participate as a member of the Clearwater-Potlatch Timber Protective Association and Southern Idaho Timber Protective Association.

DISCUSSION: Governor Otter asked what the Department pays per acre. Director Schultz responded that the Department pays an assessment tied to volume, around \$1.12 per acre. Director Schultz stated that the total cost is approximately \$600,000 per year. Director Schultz did not know how much of that went to the Timber Protective Associations (TPAs) but offered to provide that information to the Board. Governor Otter asked if \$600,000 was for everything. Director Schultz confirmed that is for all endowment lands.

6. Authorization for Issuance of Deficiency Warrants to Pay Fire Suppression Costs in FY 2018 – Staffed by Tom Schultz, Director

RECOMMENDATION: Authorize the Department to issue deficiency warrants necessary to pay the fire suppression costs beyond the \$151,600 appropriation for fiscal year 2018.

DISCUSSION: None.

7. Approval of Minutes – April 18, 2017 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Controller Woolf that the Board approve and adopt the Consent Agenda. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0.

• **REGULAR**

8. Timberland Acquisition Advisor – Presented by Ryan Montoya, Bureau Chief-Real Estate Services; and Sally Haskins, Senior Vice President, Callan Associates

RECOMMENDATION: Direct the Department to proceed with the contracting, in substantially the form attached hereto, of Northwest Management Inc. and its affiliate Northwest Rural Properties to act as the State Board of Land Commissioners' Timberland Acquisition Advisor.

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 Controller Woolf that the Board direct the Department to proceed with the contracting, in substantially the form attached hereto, of Northwest Management Inc. and its affiliate Northwest Rural Properties to act as the State Board of Land Commissioners' Timberland Acquisition Advisor. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0.

- **INFORMATION**

NONE

At 10:01 a.m. a motion was made by Controller Woolf to resolve into Executive Session pursuant to Idaho Code § 74-206(1)(d) to consider records that are exempt from disclosure under Idaho Code § 74-107 (1) and (3). Controller Woolf requested that a roll call vote be taken and that the Secretary record the vote in the minutes of the meeting. Secretary of State Denney seconded the motion. Roll Call Vote: Aye: Denney, Woolf, Ybarra, Otter; Nay: None; Absent: Wasden.

- **EXECUTIVE SESSION**

A. Idaho Code 74-206(1)(d) – to consider records that are exempt from disclosure as provided in chapter 1, title 74, Idaho Code. [TOPIC: Ruby Creek Acquisition]

At 10:33 a.m. the Board resolved out of Executive Session by unanimous consent. No action was taken by the Board during the Executive Session.

There being no further business before the Board, at 10:33 a.m. a motion to adjourn was made by Controller Woolf. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0. 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 June 20, 2017 regular Land Board meeting.