



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
July 18, 2017

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, July 18, 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 Secretary of State Lawrence Denney presided in place of the Honorable Governor C.L. "Butch" Otter. The following members were present:

Honorable Attorney General Lawrence Wasden
Honorable State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, Secretary of State Denney recognized the presence of Attorney General Wasden, Controller Woolf and Superintendent Ybarra. Secretary of State Denney also noted the presence of a quorum.

1. Director's Report

A. Interest Rate on Department Transactions – July 2017

B. Timber Sale Activity and Information Report – June 2017

DISCUSSION: Attorney General Wasden noted cumulative harvest receipts are 101% of the five-year average, but commented that the five-year average spanned over 10 years is probably a lot higher. Director Schultz asked if Attorney General Wasden was referring to the revenue over five years, such as what the number would look like in a 10-year average. Attorney General Wasden confirmed this, stating that the harvest rate has increased, and harvest receipts are 101% of the five-year average, but that five-year rate would seem longer than five years if cuts were increased, so those numbers are going to look similar on a graph. Director Schultz affirmed that they are. Attorney General Wasden asked if the increased rate of harvest is still occurring. Director Schultz stated that it is and explained that 10 years ago, the volume being harvested was 212 MBF, which resulted in lower revenues and lower harvest volumes. The harvest was increased around 2009, so from 2009 to 2017 the range is higher.

Secretary of State Denney inquired if the countervailing duties coming down will raise the stumpage prices. Director Schultz explained that the Department typically tracks pretty closely, so if there is a slight dip in lumber price, there will be a slight dip in stumpage. Director Schultz stated that cedar prices currently average about \$600 per thousand higher than they were a year ago, and that when those cedar sales are complete there will be more revenue. The average price is \$1,800 per thousand. Director Schultz continued to say that he thinks there could be a little bump, but he will wait to see how the summer progresses and what is in the next quarterly report.

C. Division of Lands and Waterways Activity and Information Report – June 2017

D. Cottage Site Update

E. Fire Season Update

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

A. Manager's Report

DISCUSSION: Mr. Johnson reported that the distributions for 2018 are well-secured, reserves as of the end of the fiscal year averaged about seven years and every Endowment exceeded their desired maximum. Mr. Johnson stated that the Investment Board held a meeting on June 22, where it agreed to submit a legislative idea to the Governor's office that would increase board member per diem compensation. Mr. Johnson noted that the Board will be presented with a recommendation for distributions for FY2019 and that the Investment Board will debate what recommendation they send the Board at their August 11 meeting. The Land Board Audit Committee will also meet on August 11 to review the independent auditor's report and approve the Endowment Fund's FY2017 financial statements.

B. Investment Report

DISCUSSION: Mr. Johnson remarked that the month of June was mildly positive for the Fund, which is up 60 basis points. The Fund finished the year at 12.8%, and after additional adjustments from a custodian for some accrued income, it rounded up to 12.9%. Mr. Johnson stated that inflation averaged 1.8%, so the Fund had an 11% return above inflation. He described that one of the Endowment Fund Investment Board's key measures is to outperform inflation over time. At the end of the previous year, the Endowment Fund Investment Board was approximately half a percentage point away from that number, so it made up the cumulative deficit from last year and now has real income in excess of 10% that will flow to the earnings reserve funds.

Controller Woolf questioned how the Endowment Fund Investment Board's return compared to that of the Public Employee Retirement System of Idaho for the year. Mr. Johnson stated that the Endowment Fund Investment Board barely beat them, as the Public Employee Retirement System of Idaho's return came in at about 12.7%.

- **CONSENT**

3. **Disclaimer of Interest in Former Bed of the Snake River, Elmore County, Idaho** – Presented by Eric Wilson, Lands Bureau Chief, RPA

RECOMMENDATION: Direct the Department to issue a disclaimer of interest for the parcel totaling 0.97 acres of the former bed of the Snake River, and to require Elmore County to pay the remaining processing fee of \$300 or actual cost, whichever is greater, to the Department of Lands for this transaction.

DISCUSSION: Attorney General Wasden noted that there is a public right-of-way easement as well. Director Schultz affirmed that is correct, explaining that when handling a disclaimer of interest, the policy of the Board and the state has been to retain a 25-foot public right-of-way. This would allow the public legal access.

Controller Woolf, referring to the map included as Attachment 1, asked if block 34 and block 33 have been disclaimed and if Director Schultz knew anything about the neighboring lots. Director Schultz responded that as far as he knew, they have not been disclaimed and that disclaimers of interest are typically an applicant-driven process. Director Schultz commented that it is typical to receive another application soon after one neighbor finds out another neighbor has done it.

4. **Approval of Minutes** – June 20, 2017 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Attorney General Wasden to adopt and approve the consent agenda. Controller Woolf seconded the motion. The motion carried on a vote of 4-0.

- **REGULAR**

5. **Annual Review of Statement of Investment Policy** – Presented by Sally Haskins, Senior Vice President, Callan Associates, Larry Johnson, EFIB Manager of Investments and Kari Kostka, Strategic Planning Manager

RECOMMENDATION: The Department and the EFIB recommend approval of the revised Statement of Investment Policy for the combined Endowment assets.

DISCUSSION: None.

BOARD ACTION: A motion was made by Attorney General Wasden that the Land Board adopt the Department and the EFIB's recommendation to approve the revised Statement of Investment Policy for the combined Endowment assets. Controller Woolf seconded the motion. The motion carried on a vote of 4-0.

6. Annual Review of Strategic Reinvestment Plan – Presented by Sally Haskins, Senior Vice President, Callan Associates and Kari Kostka, Strategic Planning Manager

RECOMMENDATION: The Department recommends approval of the updated Strategic Reinvestment Plan recommendations submitted by Callan Associates in their memo dated July 5, 2017. The Department will continue to establish a pipeline of transactions for acquisition of timberland and farmland for the Public Schools Endowment. The Department will continue to implement a diligent investment process, which includes financial analysis of each potential transaction, and will report progress toward reinvestment to the Land Board quarterly. The Department will not invest any non-Public Schools Endowment Land Bank funds until the asset allocation/spending study is completed and any new recommendations are approved by the Land Board.

DISCUSSION: Attorney General Wasden stated it makes sense to take a pause on non-public schools until the Board gets some additional information and that he wants to concentrate on the investment in timberland or farmland for public schools. Attorney General Wasden described how Callan recommended investment in timberland and farmland, based on the specific asset mix and the risks the Board was attempting to address, because it helped the Board's overall portfolio. Attorney General Wasden said he wanted to make certain that was still the case. Ms. Kostka responded it is definitely still the case, as it will be a benefit to invest the funds into timberland and farmland for public schools, which helps balance the risk of the overall portfolio. Ms. Kostka stated that the Board still wants to be investing in lands, but the same ratio or proportion that is appropriate for Public Schools might not be appropriate for the smaller Endowments. She continued to say that per Callan and the analysis the Department has done so far, it is appropriate to continue to invest for Public Schools due to their overall land asset and the size of their portfolio.

Attorney General Wasden remarked that he would like to hear from Ms. Haskins. Ms. Haskins said the important part of the original recommendation stated that if there are investments to be made, they need to be made at or above hurdle rates that are accretive to the existing land investment returns. Ms. Haskins explained that hurdle rates were set to be appropriate over the longer term. The language is to invest 'at or above' the hurdle rate, so if something changes in the environment and investments can be found that are above the hurdle rate, those investments should be selected at the appropriate risk. Ms. Haskins stated that she hoped her explanation answered Attorney General Wasden's question. Attorney General Wasden confirmed that it did and asked if it was Ms. Haskins' recommendation that the Land Board do this. Ms. Haskins responded that it absolutely was.

Controller Woolf verified that the hurdle rates haven't changed, asking if they are still 3.5% for timber or 4.5% for ag land or farmland. Ms. Haskins confirmed that those numbers are correct.

BOARD ACTION: A motion was made by Controller Woolf that the Board adopt the Department recommendation to approve the updated Strategic Reinvestment Plan recommendations submitted by Callan Associates in their memo dated July 5, 2017. The Department will continue to establish a pipeline of transactions for acquisition of timberland and farmland for the Public Schools Endowment. The Department will continue to implement a diligent investment process, which includes financial analysis of each potential transaction, and will report progress toward

reinvestment to the Land Board quarterly. The Department will not invest any non-Public Schools Endowment Land Bank funds until the asset allocation/spending study is completed and any new recommendations are approved by the Land Board. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0.

- **INFORMATION**

NONE

At 9:30 a.m. a motion was made by Attorney General Wasden to resolve into Executive Session pursuant to Idaho Code § 74-206(1)(b) to consider the evaluation of a public official. 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; *Nay*: None; *Absent*: Otter.

- **EXECUTIVE SESSION**

- A. Idaho Code 74-206(1)(b) – 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. [TOPIC: Performance Evaluation – Director, Department of Lands]

At 9:41 a.m. the Board resolved out of Executive Session by unanimous consent. No action was taken by the Board during the Executive Session.

- **REGULAR**

- 7. **Personnel Matter** – *No Board Materials*

DISCUSSION: Attorney General Wasden reported that the Board discussed the quality of work Director Schultz performs and the tremendous effort he puts forward. Attorney General Wasden noted that Superintendent Ybarra specifically mentioned Director Schultz's effort to keep the Board informed and the many steps he takes to be available to answer questions. Attorney General Wasden continued to say that the Board genuinely appreciates the leadership Director Schultz demonstrates for the Department and the fact that he is willing to sit down, examine difficult issues, and find solutions. Attorney General Wasden said that he has watched Director Schultz include his staff in determining those solutions as well and stated that presentations to the Board are of great quality. Attorney General Wasden remarked that the Board believes it is past time they consider compensation issues and then thanked Director Schultz for his leadership and the congenial way he deals with difficult issues. The Board noticed the confidence Director Schultz had in dealing with fractious parties in front of the Legislature, and Attorney General Wasden stated he appreciates it. Controller Woolf echoed the comments of Attorney General Wasden. Secretary of State Denney stated that Attorney General Wasden covered all the points the Board discussed and that the Board wants Director Schultz to know how much they appreciate what he does for them. Superintendent Ybarra conveyed deep gratitude from herself as well as her staff,

