



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
December 19, 2017

Prior to the meeting, a Capital High School student choir 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 \$47,049,600, representing FY2018 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 19, 2017, in the State Capitol, Lincoln Auditorium, Lower Level, West Wing, 700 West Jefferson Street, Boise, Idaho. The meeting began at 9:08 a.m. The Honorable Governor C. L. "Butch" Otter presided. 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, Governor Otter recognized the presence of all Board members with the exception of Secretary of State Lawrence Denney.

Department of Lands Year in Review

Department of Lands' staff presented a video of 2017 Year in Review accomplishments.

1. Director's Report

A. Interest Rate on Department Transactions – December 2017

B. Timber Sale Activity and Information Report – November 2017

DISCUSSION: Governor Otter inquired about the status of the sustainable yield program. Director Schultz said the Department's target volume is 247 MMBF of saw logs and that number is currently being evaluated. The Department will be recalculating it as part of its LIMS software implementation; a full recalculation is anticipated within the next two years. The Department is

planning on coming forward in Spring of 2018 and making some recommendations to increase the harvest in the short term until that model can be replicated across the entire state.

Governor Otter recalled that in 2007 sustainable yield was 2 billion board feet behind and there was concern about larger logs because few mills had the carriage capacity to handle them. Director Schultz explained that in the early 2000s, the Department was harvesting 165 MMBF a year; the number eventually expanded to 247 MMBF. The Department increased harvest and targeted some of those larger trees to address the additional standing volume, which was reduced by several hundred million board feet. Director Schultz said more aggressive harvest creates younger age classes of stands, which grow at a faster rate. Director Schultz said there is not a swift drop in the overall standing volume, but the Department sees a different age class distribution. Director Schultz asked David Groeschl, State Forester and Deputy Director of Forestry and Fire at the Idaho Department of Lands, to speak on this issue. Governor Otter asked if those younger stands sequester more carbon. Director Schultz confirmed they do.

Mr. Groeschl explained that Director Schultz just described the sustained yield effect. Mr. Groeschl stated that when the Department calculated sustained yield in 2007 and 2008, it was at a rotation length of about 100 years. The Department is now looking at 65-year rotations and a 36 percent growth response is anticipated. Mr. Groeschl said the result is a healthy and thrifty forest. There is less risk of loss to insect and disease mortality as well as internal decay.

Governor Otter commented that he met with Forest Service Chief Tony Tooke and Department of Agriculture Secretary Sonny Perdue and they were very impressed with Idaho's Good Neighbor Authority program. Governor Otter told Mr. Groeschl he is doing a great job and said the Good Neighbor Authority became a model for the West.

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

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

- A. Manager's Report
- B. Investment Report

DISCUSSION: Mr. Anton reported that the Endowment Fund continues to perform well; the Fund is up 1.4% for the month of November and 7% for the fiscal year-to-date. At the close of markets the day prior, the Fund was up further to 7.9%, so it has been a very strong year. Mr. Anton commented that global financial markets are strong and economic growth can be seen across the globe. Investors are excited for potential tax reform in the United States that could provide additional stimulus. Mr. Anton stated distributions for FY2018 and FY2019 are well-secured and in place.

Mr. Anton reported that the transition from one of the Investment Board's global equity managers, Lazard, to another company, Fiera, has been complete. Mr. Anton noted the Investment Board is already seeing good results from Fiera. Mr. Anton also stated the Investment Board is seeking Legislative approval to increase their Board per diem compensation from \$50 to \$100.

Attorney General Wasden commented that when he and Governor Otter began working as part of the Land Board, the Fund was around \$1.7 billion and now it is about \$2.2 billion. Attorney General Wasden congratulated the Investment Board and the Department for the \$500 million in additional value, saying it has been a tremendous job.

- **CONSENT**

3. **Hayden Lake Surplus Property (Fish and Game)** – Staffed by Josh Purkiss, Program Manager-Real Estate Services

RECOMMENDATION: Direct the Department to offer the Hayden Lake Park property for disposition pursuant to Idaho Code § 58-331 et seq.

4. **Approval of Minutes** – November 21, 2017 Regular Meeting (Boise)

5. **Approval of Minutes** – December 5, 2017 Special 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 4-0.

- **REGULAR**

6. **Cottage Site Leasing Plan** – Presented by Mike Murphy, Bureau Chief-Endowment Leasing

RECOMMENDATION: Approve the Department's recommended Cottage Site Leasing Plan, which includes the following key elements:

- As the staggered cottage site leases expire (beginning on December 31, 2018), new leases will be offered through December 31, 2024, using the cottage site lease template (Attachment 9);
- An appeal process will be available to non-conflicted applicants for new leases (Attachment 6);
- A One-Year Land Use Permit will be offered for 2019 VAFO participants with a 2018 expiring lease; and
- A Two-Year Land Use Permit will be offered as an option to those parties not wishing to enter into a lease through 2024.

DISCUSSION: Attorney General Wasden stated he wanted to ensure the Department is comfortable with the appeal process on the valuation. Mr. Murphy responded that the Department is comfortable, noting that Steve Hall (Hall-Widdoss) is in place. Mr. Murphy explained that the lessees have seen the values through the VAFO procedure and Mr. Hall uses the same appraisal instructions. Mr. Murphy said he feels everyone is becoming more comfortable with the process. The Department has confidence the appraisals Mr. Hall is completing are compliant with the Uniform Standards of Professional Appraisal Practice.

Governor Otter asked who pays for the appraisals. Mr. Murphy answered that the lessee or the applicant pays for the appraisal if they are in the VAFO process. If they are not in the VAFO process, the Department pays.

Director Schultz noted no audience members are speaking on this issue and said that speaks volumes on the leadership of the Board and the execution by the Department. Director Schultz stated Mr. Murphy has done an excellent job, and that he and Ms. Tamara Armstrong met with folks involved in the VAFO process at Priest Lake. Director Schultz said he considers it a success story. Attorney General Wasden commented that few issues have been as contentious as cottage sites and the fact that it has been resolved in this way is really remarkable.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department's recommended Cottage Site Leasing Plan as outlined in agenda item 6, page 3 of 3. Controller Woolf seconded the motion. The motion carried on a vote of 4-0.

- **INFORMATION**

Background information was provided by the presenter indicated below. No Board action is required on the Information Agenda.

7. Oil and Gas Lease Royalty Audit – Presented by Mike Murphy, Bureau Chief, Endowment Leasing

DISCUSSION: Controller Woolf asked about the cost of the contract with Opportune. Mr. Murphy stated the contract was \$94,000. Mr. Murphy explained that in developing the scope of work for this project, the Department contacted other oil and gas producing states such as Texas, North Dakota and Colorado. When states are in full production, it is not unusual for an auditing process to exceed \$250,000. The Department scaled back the scope of work for auditing in Idaho because there are a small number of wells and low production.

8. Results of December 6, 2017 Commercial Property Auctions and Caine Center Update – Presented by Ryan Montoya, Bureau Chief-Real Estate Services

DISCUSSION: Governor Otter, noting that the research performed on that property involved sheep diseases, asked if there were any environmental problems with the property and if they had been cleaned up. Mr. Montoya responded that they there was Scrapie contamination, but the University of Idaho performed remediation. Governor Otter inquired if the Department received a bill of health. Mr. Montoya confirmed that it had.

Director Schultz commented that the Battelle building sold for \$5.3 million, which was a \$125,000 up bid. When the building was acquired in 2012, it was done so through a land exchange process and the value placed on the property was \$6.1 million. Director Schultz explained that although the building sold for less than it was worth when acquired, it generated rentals totaling \$2.9 million while in the Department's possession. The nominal return to the beneficiaries was over \$2.1 million.

9. Financial Stewardship Update – Presented by Donna Caldwell, Division Administrator-Support Services

- **EXECUTIVE SESSION**

NONE

There being no further business before the Board, at 10:13 a.m. a motion to adjourn was made by Attorney General Wasden. Controller Woolf 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/ David Groeschl

David Groeschl
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the January 16, 2018 regular Land Board meeting.