



## **Idaho 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  
Dustin T. Miller, Secretary to the Board

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*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  
November 20, 2018

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, November 20, 2018, 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 Brad Little presided in place of the Honorable Governor C. L. "Butch" Otter who was conducting state business out of the country. 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.

Director Dustin Miller congratulated all of the Board members on their successful elections and said he looks forward to working with each of them.

### **1. Department Report**

#### **Endowment Transactions**

A. Timber Sales – October 2018

**Discussion:** None.

B. Leases and Permits – October 2018

**Discussion:** None.

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

Dean Buffington, Chairman of the Endowment Fund Investment Board, described this as one of the two semi-annual meetings the Investment Board has with the Land Board to report on current activities. Chairman Buffington commented that following the EFIB presentation, the Investment Board would depart for their own scheduled board meeting. Members in attendance included Chairman Buffington, Jerry Aldape, Warren Bakes, Gavin Gee, Gary Mahn and Irv Littman. Representative Neil Anderson and Senator Chuck Winder will join later at the

Investment Board's meeting; Richelle Sugiyama is not present due to a death in her family. Chairman Buffington noted that Chris Anton, EFIB Manager of Investments, and Paul Niedermuller, a partner at CliftonLarsonAllen, will be presenting the EFIB reports this morning. Attorney General Wasden expressed gratitude to Chairman Buffington for his leadership of the Investment Board and recognized all the Investment Board members for the expertise that they bring to bear in the work that they do.

Mr. Anton acknowledged several individuals at the meeting—Julie Weaver, Deputy Attorney General; Janet Becker-Wold, Callan; Paul Niedermuller and Branden Rudd, CliftonLarsonAllen; Duff Daniels and Jon Tringale, WCM Investment; and Liz Wieneke, EFIB Office Manager.

A. EFIB Annual Report

**Discussion:** Mr. Anton highlighted some of the key results for the year, saying that overall it was a very good year. The Endowment Fund grew by 8.8% with a year-end balance of \$2.2 billion. Earnings reserves for all but one of the endowments exceeded target levels at the end of the fiscal year, which allowed EFIB to move \$50.3 million into the permanent fund and increase the gain benchmark. EFIB investments were up 9.9% during the fiscal year. In reviewing the Callan public fund database EFIB investment returns ranked in the top 12th, 30th, and 20th percentiles for the 1-, 3-, and 5-year periods. Mr. Anton stated that during the year EFIB made a few modest changes to the endowment portfolio—EFIB shifted 4% from domestic equities into global equities, hired two global investment managers, Fiera Capitol and Wellington Global Opportunities, and recently elected to move 11% of the fixed income into an actively-managed core-plus strategy for which EFIB selected two managers, DoubleLine Capital and Western Asset Management. Investment costs grew overall but as a percent of the portfolio declined to 0.38%. The net revenue from the Idaho Department of Lands increased by 10.6% to \$45.8 million, despite the sales of cabin sites, due mostly to larger volumes of timber harvests and strong selling prices. EFIB also increased the distributions to beneficiaries by 16.3% to \$73.5 million during the year; the Land Board approved distributions of \$78.2 million in fiscal year 2019 and \$80.9 million in fiscal year 2020. Mr. Anton mentioned that the school bond guarantee program under the credit enhancement program increased by 23.8% to \$667 million dollars due to considerable levels of construction for schools during the year.

B. Manager's Report; and

C. Investment Report

**Discussion:** Mr. Anton reported that in terms of performance October was a rough month. The Fund was down 6.1% during the month of October and ended October minus 2.8%. Through yesterday, the Fund is down 3% fiscal year-to-date.

Attorney General Wasden asked what EFIB intends to do about that. Mr. Anton conveyed several reasons why the market was down and then shared where the market may be headed. The Fund experienced declines both in equity and fixed income in the month of October as volatility returned to the markets. Financial markets were shaken by a number of variables; some of the important ones were rising interest rates and signs of inflation picking up; a hawkish tone by the Federal Reserve; trade tensions and a moderating Chinese economy; uncertainty surrounding the mid-term elections; and concern that the tech rally, which has driven much of the market in 2018, might be peaking. The economic divergence

between the U.S. and the rest of the world continues. The U.S. economy remains very strong. Unemployment is at record low levels but despite that there is concern about a trade war and about interest rates increasing too much; due to those concerns the market has been volatile. Mr. Anton believes there is still time left in this economic expansion; the fundamentals are very strong. While there is volatility today, it does not feel like the underlying economy is deteriorating significantly. Corporate profits remain strong. EFIB is hopeful that this period of volatility can be weathered and there will be some growth in the balance of the fiscal year. Of course, there is no guarantee of that. While it is painful being down 3%, the reality is it is fairly modest. Earnings reserves are strong and can withstand this type of volatility which is why the reserves are in place.

Mr. Anton mentioned that the Investment Board held a special meeting on October 30th. The Investment Board interviewed active fixed-income managers and chose two managers, Western Asset Management and DoubleLine Capital. EFIB is in the process of implementing those strategies and expects to have that in place in early December. The Investment Board approved changes to its investment policy statement to accommodate the strategies of those fixed-income managers. In February, when there is an update to the Land Board investment policy, EFIB will at that time update the appendix that includes its investment policy.

Mr. Anton indicated that it is customary during the November meeting for the Land Board Audit Committee to provide the Land Board with a report on the EFIB audit and the agreed-upon procedures for the Idaho Department of Lands. Mr. Anton thanked the members of the Land Board Audit Committee for all their diligent efforts during the year. The committee asked that Paul Niedermuller, who is a partner with CliftonLarsonAllen, present the audit report for the year.

Mr. Niedermuller reported that CliftonLarsonAllen presented the results of the EFIB audit and the Idaho Department of Lands agreed-upon procedures to the Land Board Audit Committee on August 16, 2018. That committee is chaired by Gary Mahn, and includes State Controller Brandon Woolf, and representative of the Attorney General's office, Tara Orr, Representative Neil Anderson, and Jerry Aldape. The Endowment Fund Investment Board's financial statements and the audit report were reviewed and accepted by the Land Board Audit Committee. Mr. Niedermuller noted that each year, that State of Idaho Endowment Fund commissions an independent audit of its financial results to insure accurate financial reporting, solid internal controls, and transparency to its stake holders. The Audit Committee is pleased with the results. CliftonLarsonAllen issued three formal reports. CliftonLarsonAllen provided an unmodified opinion—a clean opinion—in all material respects over the financial statements as presented for the years ending June 30, 2018 and 2017. CliftonLarsonAllen further tested the agency's internal controls over financial reporting and compliance with certain provisions of laws, regulations and contracts, and found no issues to report. And finally, CliftonLarsonAllen conducted certain agreed-upon procedures for the Idaho Department of Lands and again had no findings to report. CliftonLarsonAllen is a national CPA firm with a local office here in Boise; its relationship with the State of Idaho is highly valued. Attorney General Wasden said the Board greatly appreciates the report and asked if there is anything looking into the future that CliftonLarsonAllen needs from the Land Board that would assist with proper audit functions. Mr. Niedermuller replied not at this time.

**3. Performance Review of Total Endowment** – Presented by Dustin Miller, Director

**Discussion:** None.

**Consent—Action Item(s)**

**4. Forest Legacy Project, Kootenai Valley-Stimson** – Staffed by Craig Foss, Division Administrator-Forestry and Fire

**Recommendation:** Authorize the Idaho Department of Lands to acquire the Kootenai Valley-Stimson Conservation Easement, comprising 795 acres.

**Discussion:** Attorney General Wasden asked for verification that this is a voluntary action by the owner of the property and that the Department has not received any opposition. Mr. Foss responded yes, the forest legacy program requires a willing seller and willing buyer. The landowner maintains ownership of the land; they are selling certain rights, which are contained in the easement terms, and the Department monitors adherence to the terms. Mr. Foss stated the Department is not aware any opposition to this easement.

**5. Approval of Minutes** – October 16, 2018 Regular Meeting (Boise)

**Consent Agenda Board Action:** A motion was made by Attorney General Wasden that the Board adopt and approve the Consent Agenda as presented. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

**Regular—Action Item(s)**

**6. Bond Assurance Fund Recommended Minimum Balance** – Presented by Todd Drage, Program Manager-Minerals Regulatory

**Recommendation:** To ensure an adequate balance is maintained within the Bond Assurance Fund, the Department recommends that the Land Board adopt a recommended minimum balance of \$1,682,200.

**Discussion:** None.

**Board Action:** A motion was made by Attorney General Wasden that the Board adopt the recommended minimum balance of \$1,682,200. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

**7. Cedar Sale Pilot Program Extension** – Presented by David Groeschl, Deputy Director

**Recommendation:** Authorize the Department to extend the Cedar Sale Pilot Program for two years (June 30, 2021) with flexibility on the number of cedar poles offered under each sale approach.

**Discussion:** For the record, Attorney General Wasden disclosed that he had a conversation with representatives of McFarland Cascade yesterday [November 19, 2018] to verify that they did not have any objection. Attorney General Wasden said his understanding is they do not object to this extension request.

Controller Woolf asked if an additional two years will be sufficient to gather the harvest information; will there be enough harvesting in those two years to combine with the sale data. Mr. Groeschl replied that two additional years of sales under the program along with the sales already sold will give the Department enough harvest data and sale data for a valid comparison. If needed, the Department could request an additional extension of one more year, but a two-year extension should provide the harvest data needed.

**Board Action:** A motion was made by Attorney General Wasden that the Board adopt the Department recommendation, that is authorize the Department to extend the Cedar Sale Pilot Program for two years, to June 30, 2021, with flexibility on the number of cedar poles offered under each sale approach. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

**8. Assignment of State Lease M-5042 (Tamarack) – Presented by Mike Murphy, Bureau Chief-Endowment Leasing**

Mr. Murphy recognized the efforts of the Attorney General's office in this process, specifically Angela Kaufmann, Kay Christensen, Sherm Furey, Darrell Early, and Robert Follett. Mr. Murphy remarked that these individuals put in many late and weekend hours to bring this to fruition; the Department certainly appreciates their work.

**Recommendation:** The Department recommends the Land Board approve the assignment and assumption of Lease No. M-5042 from Tamarack Municipal Association, Inc. (TMA) to Tamarack Mountain Operations, LLC (TMO) in Attachment 1.

**Discussion:** For the record, Attorney General Wasden disclosed that he had conversations with representatives of Tamarack Mountain Operations and Imperium yesterday [November 19, 2018] to verify that they were comfortable with the lease terms.

Controller Woolf expressed his understanding that the current lease has eight more years remaining on the existing contract, payment will be provided for the current year, and assurances were given for payment of three more years beyond the current. Mr. Murphy affirmed the Controller's understanding.

Attorney General Wasden acknowledged the commendations offered to his staff and agreed they worked very diligently. Attorney General Wasden added that there was support and cooperation from Land Board staff members and Department of Lands' staff as well; there was a lot of heavy lifting all around in this regard and Attorney General Wasden thanked everyone.

**Board Action:** A motion was made by Attorney General Wasden that the Board adopt the Department recommendation, that is approve the assignment and assumption of lease number M-5042 from Tamarack Municipal Association to Tamarack Mountain Operations, LLC as provided in Attachment 1. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

**Information**

None

