



## Idaho State Board of Land Commissioners

Brad Little, 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, Director and 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

May 21, 2019

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, May 21, 2019, in the State Capitol, Lincoln Auditorium (WW02), 700 W Jefferson Street, Boise, Idaho. The meeting began at 9:00 a.m. The Honorable Governor Brad Little presided. The following members were in attendance:

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, all Board members were present.

#### 1. **Department Report** – Presented by Dustin Miller, Director

##### **Endowment Transactions**

###### A. Timber Sales – April 2019

**Discussion:** Controller Woolf asked if the Department expects to reach 100% of its FY2019 target for pole sales by the end of the fiscal year. State Forester David Groeschl replied that the Department will reach the target, and will likely be slightly over that target, by fiscal year-end.

###### B. Leases and Permits – April 2019

**Discussion:** Governor Little referred to the Real Estate Services figure in the table on page 3, and asked if that is earnings or expense. Director Miller explained that the figure shown is income; it is the result of a buyer's premium that is paid at closing, for disposition of commercial and residential properties.

##### **Status Updates**

###### C. Cottage Sites Auction – Payette Lake ULA

**Discussion:** None.

**2. Endowment Fund Investment Board Report** – Presented by Dean Buffington, EFIB Chairman, and Chris Anton, EFIB Manager of Investments

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

**Discussion:** Chairman Buffington remarked that the Investment Board is pleased to attend this joint meeting to present EFIB's semi-annual report to the Land Board. Chairman Buffington announced Investment Board members in attendance: Senator Chuck Winder, Gary Mahn, Warren Bakes, Irv Littman, Jerry Aldape, and Richelle Sugiyama. Representative Neil Anderson was on business out of state, and Tom Wilford, the newest board member, planned to join the group shortly. Chairman Buffington indicated that following the Land Board meeting, the Investment Board will adjourn to EFIB offices and convene its regularly scheduled meeting. Attorney General Wasden thanked Chairman Buffington and all the members of the Investment Board for the tremendous effort put forward on behalf of the people of Idaho. Attorney General Wasden noted that the report is always well done—the Investment Board's work is well done. Attorney General Wasden stated that the investments made by EFIB make a great difference for the beneficiaries in Idaho.

Mr. Anton also thanked the Investment Board for their attendance and introduced several individuals that play important roles in the success of EFIB's program: Janet Becker-Wold, Callan; Julie Weaver, Attorney General's office; Michael Ray, investment manager for TimesSquare Capital Management; and Rhet Hulbert, investment manager for Clearwater Advisors. Mr. Anton acknowledged EFIB staff as well: Liz Wieneke, office manager; Kathy Van Vactor, fiscal officer; and Chris Halvorson, investment officer.

Mr. Anton reported that the portfolio continued to have a strong recovery from the December sell-off. The fund was up 2.8% for the month of April and 13.2% calendar year-to-date; the fund is up 6.2% fiscal year-to-date at the end of April. Mr. Anton mentioned that the global economy started to slow late in 2018 and the market sold off; fortunately the Federal Reserve indicated it would hold interest rates fixed, and central banks around the world put in place efforts to stimulate their economies, particularly in Europe and China. As investors gained confidence, a recovery in the global economy was anticipated late in 2019 and the market really took off. It has been a strong start to calendar year 2019. Mr. Anton commented that over the last couple of weeks, however, the market caught its breath—challenges to finalize the trade agreements with China resulted in a slight sell-off and the market was down a little bit. As of the close of the markets on May 20th, the fund was up 4% fiscal year-to-date—a couple of percentage points down from the end of April. Mr. Anton observed that fundamentally the U.S. economy still remains very strong: housing starts picked up, gross domestic product (GDP) was up 3.2% in the first quarter, unemployment was at a 50-year low at 3.6%, and inflation was very modest; all are good conditions for strong financial markets. Mr. Anton indicated that reserves are in a strong position with 5.8 years of reserves for public schools and between 6.3 and 8.1 years of reserves for the other endowment funds. Mr. Anton thanked Governor Little for his reappointments of Chairman Buffington and Senator Winder to the Investment Board and noted that their experience, and the continuity of their service, is really important to the Investment Board and investment fund; it is important to have continuity for consistency in terms of management approach. Mr. Anton informed the Land Board that EFIB sent out the investment consultant request for proposal; responses are due the end of May.

### C. Semi-Annual Report

**Discussion:** Mr. Anton highlighted portions of the semi-annual report. As of the end of March EFIB had nearly \$3.2 billion under management, which included about \$2.25 billion in the Land Grant Endowment, \$810 million for the State Insurance Fund, \$68.5 million for the Department of Environmental Quality (DEQ), \$32.8 million for the Fish and Game Department, and \$4.5 million for the Department of Parks and Recreation. Following the end of March, EFIB received an additional \$25 million for two new funds for DEQ, and received \$400,000 from the Department of Lands for the new forest legacy funds. Mr. Anton remarked that for the first nine months of the fiscal year, the total Land Grant Endowment Fund balance had increased \$48 million, or 2.2%. Earnings reserves were down modestly from \$570 million to \$513 million; that was primarily due the transfer of \$50 million at the beginning of the year from earnings reserves to the permanent fund; reserves are still in very good shape. Net earnings reserves, after expenses from the Department of Lands, totaled \$49.2 million—a very solid year—and the investment return for the first nine months was 3.3%. Mr. Anton pointed out the graph on page 8 that demonstrates how the fund balance has changed. In the last ten years, it has grown from less than \$900 million to over \$2.2 billion, which is fairly impressive. Mr. Anton commented that part of that growth is the result of EFIB's investment performance and referred to the chart on page 10 that shows the 10-year numbers and 15-year numbers; the fund grew at an average annual rate of almost 11% over the last ten years and ranked in the 7th percentile during that period. Those results are in large part due to the Investment Board and efforts from EFIB's consultants.

Mr. Anton mentioned that EFIB continues to provide school bond credit enhancement for public schools. It allows public schools to issue financing for new construction and increase the debt rating from AA+ to AAA, which saves schools approximately 5 basis points on interest rates. EFIB provides that enhancement on up to \$1.2 billion in bonds, with a limit of \$40 million per school district, and it is backed by \$300 million of the Public School Endowment Fund assets. Mr. Anton shared that as of the end of March, EFIB had guarantees on \$615 million in outstanding school bonds, and EFIB has nearly completed another three bond issues that will add \$46 million to that total. Governor Little observed that EFIB is using about half of its capacity on bond guarantees. Mr. Anton said that is correct. Governor Little clarified that the AAA rating lowers interest rates around 0.05%, not 0.05% points. Mr. Anton agreed and acknowledged the error in the report.

Attorney General Wasden called attention to page 9 which displays years of reserves and targets for each endowment fund. Attorney General Wasden stated it appears that all of the reserves are pretty close to target levels and there is a degree of confidence in the Land Board's ability to continue to make payments to the beneficiaries. Attorney General Wasden asked if EFIB has any concerns; are the levels within a reasonable margin of error for the number of years reserves in the funds. Mr. Anton explained that as EFIB closes the fiscal year, it first ensures that the permanent fund grows at inflation; any earnings above that move into the earnings reserves. As long as the fund stays at the numbers as of today, at 4%, there will be additional money moved from the permanent fund into the earnings reserves, which for most of the funds will top them off. Mr. Anton noted that Charitable may not quite reach its target level—that endowment has moved from a target of 5 years to 7 years—but overall levels will be at, or very close to, target reserves at the end of the fiscal year.

## Consent—Action Item(s)

### 3. **Land Transfer for Idaho Division of Veterans Services** – *Presented by Ryan Montoya, Bureau Chief-Real Estate Services; and Tracy Schaner, Deputy Chief Administrator, IDVS*

**Recommendation:** As land trustee, approve the land transfer on behalf of the Idaho Division of Veterans Services.

**Discussion:** Attorney General Wasden commented that there is a reversionary clause associated with this deed that requires providing services not later than May 1, 2027, and inquired if Idaho Division of Veterans Services (IDVS) anticipates any problems getting things on line before that date. Also, regarding the 25-year requirements of the reversionary clause, is there any expectation that this property would cease to be used as a veterans' home during that 25-year period. Ms. Schaner responded that IDVS does not see any concerns as far as the year 2027 date. IDVS has lined that out by timeline to make sure that it will be providing services prior to that date. Ms. Schaner said there is also no concerns that IDVS would not be providing services within that 25 year span. IDVS had to indicate that it will be providing services for at least 20 years to receive a grant from the Veterans Administration (VA). IDVS would not be moving forward with a grant opportunity if it was not able to meet that requirement. Ms. Schaner added that studies and research by IDVS have supported the viability of that.

Secretary of State Denney asked what the demand is for services; is there already a waiting list of veterans who want to move into this facility. Ms. Schaner replied that there is a high demand in that area. There are more than 17,000 veterans in northern Idaho; IDVS also accepts spouses. Within that catchment area, the closest other veterans' home is Spokane; it is an older home with double occupancy in each of the rooms. There is a desire to have single bedrooms—private rooms—and a new veterans' home in the area. Ms. Schaner noted that IDVS does have waiting lists for veterans' homes and does struggle with staffing—that is a nationwide concern—IDVS is working through those issues. Secretary of State Denney remarked that phase 2 would be an additional 64 rooms, and inquired how soon IDVS thinks that will be on the agenda. Ms. Schaner indicated that IDVS wanted to make sure it planned for future growth, and an expansion is very likely within 20 years, but future growth depends on the state's growth. IDVS planned ahead to avoid a similar circumstance as in Boise where IDVS is landlocked and cannot expand its veterans' facility. Governor Little remarked that this is a great project and noted that the Jacklin brothers would like to be there for the ribbon cutting. Governor Little suggested that IDVS make hay while the sun shines and get this home built.

### 4. **Disclaimer of Interest Request DI600288-Diamond S Farms, Boise River** – *Presented by Eric Wilson, Bureau Chief-Resource Protection and Assistance*

**Recommendation:** Direct the Department to issue a disclaimer of interest for one parcel totaling 12.81 acres of the former bed of the Boise River to Diamond S Farms, LLC following their payment to the Department of the remaining processing fee of \$300 or actual cost, whichever is greater.

**Discussion:** Governor Little asked if the Department knows what the actual costs are going to be; how close is it to \$300. Mr. Wilson responded that most of the field work takes place by area staff. The Department has a base fee of \$600: a \$300 application fee for an on-site inspection, and then either the remaining \$300, or the total sum of Department staff time, whichever is greater.

### 5. **Approval of Minutes** – April 16, 2019 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.

Following the vote, Superintendent Ybarra suggested that it would be appropriate for the Department to send a thank you letter to Jacklin Land Company for their donation of land to Idaho Division of Veterans Services for the veterans' home project in Post Falls. Superintendent Ybarra noted the new veterans' home is an extremely important effort. Attorney General Wasden seconded the recommendation and Governor Little so ordered.

### **Regular—Action Item(s)**

**6. Approve Timber Sales** – *Presented by Bill Haagenson, Division Administrator-Operations*

<b>Sale Name</b>	<b>Volume</b>	<b>County</b>	<b>Area Office</b>	<b>Region</b>
A. North Town	7,690 MBF	Clearwater	Clearwater	South Ops
B. Deer Meadow	3,820 MBF	Clearwater	Clearwater	South Ops

**Recommendation:** Approve the North Town and Deer Meadow timber sales.

**Discussion:** None.

**Board Action:** Attorney General Wasden, noting that these sales are economically and silviculturally justified, made a motion that the Board approve the Department recommendation, that is approve the North Town and Deer Meadow timber sales. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

**7. Omnibus Temporary and Proposed Rulemaking** – *Presented by Kari Kostka, Strategic Planning Manager*

**Recommendation:** Approve the Notices of Omnibus Rulemaking and authorize the Department to proceed with omnibus temporary and proposed rulemaking through executive administrative action to ensure administrative rules remain in effect after July 1, 2019.

**Discussion:** Attorney General Wasden thanked the Department for the excellent work staff has done and recognized that Ms. Kostka, as the rules officer, put in a lot of time and effort. Attorney General Wasden commended and conveyed thanks to Governor Little. The legislature provided a unique opportunity and challenge; Attorney General Wasden expressed appreciation for the leadership shown by Governor Little in helping the Department of Lands and many other agencies through this process. Governor Little acknowledged that it was a golden opportunity and affirmed that a great many dedicated people all over the state have been doing a lot of work on a very constrained time period. Governor Little seconded the Attorney General's compliments to everyone that worked on this project.

**Board Action:** A motion was made by Attorney General Wasden that the Board approve the Department recommendation, that is approve the Notices of Omnibus Rulemaking and authorize the Department to proceed with omnibus temporary and proposed rulemaking through executive administrative action to ensure administrative rules remain in effect after July 1, 2019. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

For the record, Governor Little requested that item 8 on the agenda be moved from the regular agenda to the information agenda and that a decision on the topic be postponed until the next meeting. Controller Woolf so moved. Attorney General Wasden seconded the motion, and indicated that prior to taking a vote, the Board needs to state on record the reason for the change. Governor Little recalled that he was Acting Chairman when the previous phase of this organizational structure was approved. Governor Little remarked this is a big structure change; the Board needs to be comfortable that it will make the Department more effective going forward. There is no need for hurry and the Board can simply have a conversation about it today. Governor Little said the structure change has been reviewed internally by the Department, and perhaps an outside organizational expert should also take a look; it is prudent for the Board to be careful moving forward. Attorney General Wasden noted that because it is prudence the Governor is pursuing, and there is not a time requirement for the Board to make a decision today, it is appropriate for the Board to postpone action on this item and allow more time for consideration. Governor Little added that there were additional changes made to the proposed structure just in the last day or two and he wants the Board to be comfortable with it. Controller Woolf's motion carried on a vote of 5-0.

## **Information**

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

### **8. Department of Lands Organizational Restructure – Presented by Dustin Miller, Director**

**Discussion:** Controller Woolf mentioned the current schematic has the Operations structure remaining as-is, but in previous examples of the organizational chart, it showed a new central operations chief with a few of the areas shifting in reporting structure. Controller Woolf asked why the change. Director Miller said the Department's leadership team, which includes bureau chiefs and area managers, has been deliberating on how to align the operations components better. One of the ideas was to create a central operations region to provide additional coverage and support for area offices within the north central part of the state. The Department has also discussed potential reporting structure changes between areas and bureaus, for example fire wardens and private forestry specialists are stationed at the area offices and currently report to area managers. There has been discussion about the pros and cons, instead, of having the fire wardens report to the fire bureau and the forestry specialists report to the timber bureau. The Department needs to engage in additional discussions with the full leadership team on that particular structure proposal. There is a likelihood that the operations reporting structure would remain the same. The Department believes at the division structure level, having the endowment mission and regulatory and assistance functions split out will create more efficiencies.

Governor Little inquired if the Department anticipates any savings with the new organization. Director Miller said it is too early to tell, but indicated it will help the Department with budgetary lopsidedness that it has now. As an example, in the Forestry and Fire Division, there are 223 FTEs.<sup>1</sup> The division budget is \$41.7 million. In the Lands and Waterways Division, there is a total of 46 FTEs and a budget of \$9.4 million. The Forestry and Fire Division holds five bureaus, which creates a significant management workload for the division administrator. Moving the timber

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<sup>1</sup> FTE = full-time equivalent

program into the new Trust Lands Division, currently the Lands and Waterways Division, addresses some of that unevenness. The proposed structure would better align the budgets based on the mission and programs, and would provide efficiencies in program delivery.

Superintendent Ybarra requested confirmation that although the Department cannot anticipate any cost savings, there will be no additional cost to implement this potential reorganization. Director Miller confirmed that the Department is not seeking additional FTEs or an additional appropriation for this organizational structure. The Department has the necessary resources to make this shift happen under its existing budget and FTE structure.

Governor Little expressed appreciation for the Board members support in moving this item to the information agenda. Governor Little remarked that there seems to be more questions than answers in certain areas of the proposed reorganization and asserted that the Board ought to have a list of those questions and proposed answers. Governor Little observed that he has not been in an organization that changed simply because one part of it was bigger than the other part. An organization puts functions in places where they get done in the most efficacious manner, not to have balance between supervisors. Governor Little asked that the Department work to address the questions prior to putting the organization restructure on a future agenda for action. Governor Little requested that the Department also retain an outside party to look at it from an effectiveness standpoint. Governor Little noted that the final answer could be just exactly as what is proposed; however, he requires more comfort with the questions that are unanswered at this point in time.

## **9. Land Board Subcommittee: Study of Reinvestment Strategy**

**Discussion:** Governor Little reported that following the last Land Board meeting, Attorney General Wasden and EFIB board member Irv Littman agreed to join the subcommittee to look at the current asset investment. Governor Little stated that given the magnitude of \$240 million to reinvest, there is a need for absolute certainty in the plan going forward: that the net-net to beneficiaries is what the Board wants it to be in the long term, and that the Board complies with its obligation to maximize returns to the endowments in the long-term. Governor Little mentioned that Mr. Littman was a former chief financial officer of Boise Cascade who knows about timberland investment and is very capable in the securities and investment field.

Attorney General Wasden commented that he is pleased to serve on this subcommittee and that it will be beneficial to the entire Land Board. Attorney General Wasden shared some ideas to consider in terms of how the subcommittee's discussion is focused: what are the Constitutional provisions and the legal aspects; what is the history—how did the Board arrive at its current strategic reinvestment plan; and what are the options going forward. Governor Little duly noted the Attorney General's suggestions.

## **Executive Session**

None

There being no further business before the Board, at 10:02 a.m. a motion to adjourn was made by Attorney General Wasden. Controller Woolf seconded the motion.

Prior to the vote, Secretary Denney asked for a moment of personal privilege and shared that this is the last Land Board meeting for his Chief Deputy, Tim Hurst, who is retiring. Secretary Denney explained that Mr. Hurst has worked in state and county government for 44 years and recognized Mr. Hurst for the work he has done for the State and counties of Idaho these many years. Governor Little observed that Mr. Hurst has a lot of history, not only in the Secretary of State's office, but with the Land Board and the people of Idaho. Governor Little offered his congratulations to Mr. Hurst, and remarked that the electorate of Idaho, and the beneficiaries of the Land Board, all owe Mr. Hurst a debt of gratitude for his years of service.

Attorney General Wasden's motion carried on a vote of 5-0. Meeting adjourned.

Idaho State Board of Land Commissioners

        
*/s/ Brad Little*

Brad Little  
President, State Board of Land Commissioners and  
Governor of the State of Idaho

        
*/s/ Lawrence E. Denney*

Lawrence E. Denney  
Secretary of State

        
*/s/ Dustin T. Miller*

Dustin T. Miller  
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the June 18, 2019 regular Land Board meeting.