

## State Board of Land Commissioners Open Meeting Checklist

Meeting Date: November 17, 2020

### Regular Meetings

11/9/2020	Notice of Meeting posted in prominent place in IDL's Boise Headquarters office five (5) or more calendar days before meeting.
11/13/2020	Revised Notice
11/16/2020	2nd Revised Notice
11/9/2020	Notice of Meeting posted in prominent place in IDL's Coeur d'Alene Headquarters office five (5) or more calendar days before meeting.
11/13/2020	Revised Notice
11/16/2020	2nd Revised Notice
11/9/2020	Notice of Meeting posted in prominent place at meeting location five (5) or more calendar days before meeting.
11/13/2020	Revised Notice
11/16/2020	2nd Revised Notice
11/9/2020	Notice of Meeting emailed/faxed to list of media and interested citizens who have requested such notice five (5) or more calendar days before meeting.
11/13/2020	Revised Notice
11/16/2020	2nd Revised Notice
11/9/2020	Notice of Meeting posted electronically on IDL's public website <a href="http://www.idl.idaho.gov">www.idl.idaho.gov</a> five (5) or more calendar days before meeting.
11/13/2020	Revised Notice
11/16/2020	2nd Revised Notice
11/12/2020	Agenda posted in prominent place in IDL's Boise Headquarters office forty-eight (48) hours before meeting.
11/13/2020	Revised Final Agenda
11/16/2020	2nd Revised Final Agenda
11/12/2020	Agenda posted in prominent place in IDL's Coeur d'Alene Headquarters office forty-eight (48) hours before meeting.
11/13/2020	Revised Final Agenda
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11/13/2020	Revised Final Agenda
11/16/2020	2nd Revised Final Agenda
12/9/2019	Land Board annual meeting schedule posted – Boise Director's office, Coeur d'Alene staff office, and IDL's public website <a href="http://www.idl.idaho.gov">www.idl.idaho.gov</a>

*Renee Jacobsen*

Recording Secretary

November 16, 2020

Date

## Special Meetings

	Notice of Meeting and Agenda posted in a prominent place in IDL's Boise Director's office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted in a prominent place in IDL's Coeur d'Alene staff office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted at meeting location twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda emailed/faxed to list of media and interested citizens who have requested such notice twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted electronically on IDL's public website <a href="http://www.idl.idaho.gov">www.idl.idaho.gov</a> twenty-four (24) hours before meeting.
	Emergency situation exists – no advance Notice of Meeting or Agenda needed. "Emergency" defined in Idaho Code § 74-204(2).

## Executive Sessions *(If only an Executive Session will be held)*

	Notice of Meeting and Agenda posted in IDL's Boise Director's office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted in IDL's Coeur d'Alene staff office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda emailed/faxed to list of media and interested citizens who have requested such notice twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted electronically on IDL's public website <a href="http://www.idl.idaho.gov">www.idl.idaho.gov</a> twenty-four (24) hours before meeting.
	Notice contains reason for the executive session and the applicable provision of Idaho Code § 74-206 that authorizes the executive session.

IDAHO DEPARTMENT OF LANDS



## **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, Secretary to the Board

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# **REVISED NOTICE OF PUBLIC MEETING NOVEMBER 2020**

The Idaho State Board of Land Commissioners will hold a Regular Meeting on Tuesday, November 17, 2020 in the State Capitol, Lincoln Auditorium (WW02), Lower Level, West Wing, 700 W Jefferson St., Boise. The meeting is scheduled to begin at 9:00 AM (Mountain).

**The State Board of Land Commissioners will conduct this meeting by virtual means;  
at least one Board member will attend the meeting at the physical location.**

This meeting is open to the public. Due to the Governor's [Stage 2 Stay Healthy Order](#), dated 11/13/2020, gatherings, including public meetings, are limited to 10 persons or less in physical attendance. Individuals are highly encouraged to watch online or join via teleconference.

Meeting will be streamed live at <https://www.idahoptv.org/shows/idahoinsession/>

All in-person attendees must comply with current COVID-19 safety protocols for public gatherings in the City of Boise, including but not limited to wearing face coverings and observing physical distancing. Physical distancing measures reduce the meeting room's normal attendance capacity.<sup>1</sup>

Members of the public may listen to the meeting via teleconference, using the following:

Dial toll-free: 1-877-820-7831

Enter passcode: 2479959, followed by (#) key

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<sup>1</sup> [www.cityofboise.org/departments/mayor/coronavirus-covid-19-information/](http://www.cityofboise.org/departments/mayor/coronavirus-covid-19-information/) AND [www.cdhd.idaho.gov/dac-coronavirus](http://www.cdhd.idaho.gov/dac-coronavirus)

Third Notice Posted: 11/16/2020-IDL Boise; 11/16/2020-IDL CDA  
Second Notice Posted: 11/13/2020-IDL Boise; 11/13/2020-IDL CDA  
First Notice Posted: 11/9/2020-IDL Boise; 11/9/2020-IDL CDA

This notice is published pursuant to § 74-204 Idaho Code. For additional information regarding Idaho's Open Meeting law, please see Idaho Code §§ 74-201 through 74-208.

Idaho Department of Lands, 300 N 6th Street, Suite 103, Boise ID 83702, 208.334.0242

Public comment will be accepted on these informational agenda items:

- Trident Holdings, LLC Presentation
- Payette Endowment Lands Strategy Update

Advanced sign-up is required.

#### **Public Comment Procedure**

Public comment may be submitted in the following manner:

- In writing prior to the meeting. Written comments will be included in the meeting record.
  - Email: [comments@idl.idaho.gov](mailto:comments@idl.idaho.gov)
  - Mail: Idaho Department of Lands  
Attn: Land Board Secretary  
PO Box 83720  
Boise ID 83720-0050
- By Zoom webinar during the Land Board meeting.
  - Advanced sign-in is required, *no later than Monday, November 16th, 10:00 AM (MT).*
  - Notify Renée Jacobsen ([rjacobsen@idl.idaho.gov](mailto:rjacobsen@idl.idaho.gov)) if you wish to provide comment.
    - Webinar connection details will be provided with confirmed sign-in.
    - Please submit registration no later than 8:00 PM (MT) on November 16th.
- Presentations will be given for items 8 and 9, then public comment will be taken.
- A measured amount of time will be allocated for public comment.
- Remarks will be limited to 3 minutes per individual or group representative.
  - Groups, associations, organizations, etc. with multiple members in attendance must select one individual as spokesperson.
- The Land Board may conclude testimony at its discretion, in consideration of Board members' time.

Third Notice Posted: 11/16/2020-IDL Boise; 11/16/2020-IDL CDA  
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State Board of Land Commissioners Regular Meeting

November 17, 2020 – 9:00 AM (MT)

Second Revised Final Agenda

Capitol, Lincoln Auditorium (WW02), Lower Level, West Wing, 700 W. Jefferson St., Boise, Idaho

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**Public comment will be accepted on agenda items 8 and 9 and will be via Zoom webinar.**

**Advanced sign-up is required; deadline extended to 11/16/20 @ 10 AM (MT). See details on page 2.**

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

#### Trust Land Revenue

- A. Timber Sales – October 2020
- B. Leases and Permits – October 2020

### 2. Endowment Fund Investment Board Report – Presented by Dean Buffington, Chairman, Endowment Fund Investment Board, Chris Anton, EFIB Manager of Investments, Tom Wilford, Chair, Land Board Audit Committee, and Braden Rudd, CliftonLarsonAllen

- A. FY2020 Annual Report
- B. Manager's Monthly Report
- C. Land Board Audit Committee Report

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

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<sup>1</sup> [www.cityofboise.org/departments/mayor/coronavirus-covid-19-information/](http://www.cityofboise.org/departments/mayor/coronavirus-covid-19-information/) AND [www.cdhd.idaho.gov/dac-coronavirus](http://www.cdhd.idaho.gov/dac-coronavirus)

## Consent—Action Item(s)

4. **Statement of Investment Policy Annual Review** – *Presented by Bill Haagenson, Division Administrator-Operations*
5. **Approval of Draft Minutes** – October 20, 2020 Regular Meeting (Boise)

## Regular—Action Item(s)

6. **Forest Legacy-Clagstone Meadows Conservation Easement Partial Extinguishment** – *Presented by Craig Foss, State Forester and Division Administrator-Forestry and Fire*
7. **Due Diligence for DeAtley (Lolo Creek) Land Exchange** – *Presented by Josh Purkiss, Program Manager-Real Estate*

## Information

8. **Trident Holdings, LLC Request for Audience** – *Presented by Alec Williams, Manager, Trident Holdings LLC, and David New, President, Growing Excellence Inc.*
9. **Payette Endowment Lands Strategy Update** – *Presented by Ryan Montoya, Bureau Chief-Real Estate Services*

## Executive Session

None

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### Public Comment Procedure – Agenda Items 8 and 9 Only

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- The Land Board may conclude testimony at its discretion, in consideration of Board members' time.



# Idaho Statutes

TITLE 74  
TRANSPARENT AND ETHICAL GOVERNMENT  
CHAPTER 2

OPEN MEETINGS LAW

74-206. EXECUTIVE SESSIONS – WHEN AUTHORIZED. (1) An executive session at which members of the public are excluded may be held, but only for the purposes and only in the manner set forth in this section. The motion to go into executive session shall identify the specific subsections of this section that authorize the executive session. There shall be a roll call vote on the motion and the vote shall be recorded in the minutes. An executive session shall be authorized by a two-thirds (2/3) vote of the governing body. An executive session may be held:

(a) To consider hiring a public officer, employee, staff member or individual agent, wherein the respective qualities of individuals are to be evaluated in order to fill a particular vacancy or need. This paragraph does not apply to filling a vacancy in an elective office or deliberations about staffing needs in general;

(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;

(c) To acquire an interest in real property not owned by a public agency;

(d) To consider records that are exempt from disclosure as provided in chapter 1, title 74, Idaho Code;

(e) To consider preliminary negotiations involving matters of trade or commerce in which the governing body is in competition with governing bodies in other states or nations;

(f) To communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. The mere presence of legal counsel at an executive session does not satisfy this requirement;

(g) By the commission of pardons and parole, as provided by law;

(h) By the custody review board of the Idaho department of juvenile corrections, as provided by law;

(i) To engage in communications with a representative of the public agency's risk manager or insurance provider to discuss the adjustment of a pending claim or prevention of a claim imminently likely to be filed. The mere presence of a representative of the public agency's risk manager or insurance provider at an executive session does not satisfy this requirement; or

(j) To consider labor contract matters authorized under section 74-206A (1)(a) and (b), Idaho Code.

(2) The exceptions to the general policy in favor of open meetings stated in this section shall be narrowly construed. It shall be a violation of this chapter to change the subject within the executive session to one not identified within the motion to enter the executive session or to any topic for which an executive session is not provided.

(3) No executive session may be held for the purpose of taking any final action or making any final decision.

(4) If the governing board of a public school district, charter district, or public charter school has vacancies such that fewer than two-thirds (2/3) of board members have been seated, then the board may enter into executive session on a simple roll call majority vote.

History:

[74-206, added 2015, ch. 140, sec. 5, p. 371; am. 2015, ch. 271, sec. 1, p. 1125; am. 2018, ch. 169, sec. 25, p. 377; am. 2019, ch. 114, sec. 1, p. 439.]

## STATE BOARD OF LAND COMMISSIONERS

November 17, 2020

Trust Land Revenue

### Timber Sales

During October 2020, the Department of Lands sold five endowment timber sales at auction. The endowment net sale value represents a 71.6% up bid over the advertised value. The Caribou Conks Pulp sale did not sell at second auction. This sale will be held until the pulp market improves.

TIMBER SALE AUCTIONS								
Sale Name	Area	Sawlogs MBF	Cedar Prod MBF	Pulp MBF	Appraised Net Value	Sale Net Value	Net \$/MBF	Purchaser
Hunt Ridge OSR	Mica	4,925			\$ 464,519.00	\$ 677,700.00	\$137.60	IFG Timber LLC
Brickel Sawlog	Mica	5,400			\$ 637,475.00	\$ 1,369,114.00	\$253.54	IFG Timber LLC
Cougar Saw Log	Mica	1,905			\$ 156,492.00	\$ 250,012.00	\$131.24	Stimson Lumber Co
Packer Summit Salvage	SWI	10,330			\$ 422,270.50	\$ 658,115.00	\$63.71	IFG Timber LLC
Devils Fork	PL	3,000			\$ 283,654.50	\$ 416,815.00	\$138.94	IFG Timber LLC
<b>Endowment</b>		<b>25,560</b>	<b>0</b>	<b>0</b>	<b>\$ 1,964,411.00</b>	<b>\$ 3,371,756.00</b>	<b>\$131.92</b>	

PROPOSED TIMBER SALES FOR AUCTION				
Sale Name	Volume MBF	Advertised Net Value	Area	Estimated Auction Date
<b>North Operations</b>				
Chop Cedar	5,955	\$ 1,430,789	St. Joe	11/10/2020
Upper Crystal	7,145	\$ 1,299,665	St. Joe	11/17/2020
Some Help OSR	4,895	\$ 1,291,951	St. Joe	11/17/2020
<b>Totals</b>	<b>17,995</b>	<b>\$ 4,022,404</b>		
<b>South Operations</b>				
Meadow Marsh II IDP&R	825	\$ 106,311	Payette Lakes	11/2/2020
Crystal GNA Ton	4,600	\$ 594,204	Payette Lakes	11/5/2020
Silverback	6,605	\$ 905,951	Clearwater	11/12/2020
Hodson Point OSR	1,380	\$ 198,283	Clearwater	11/12/2020
West Shanghai Cedar	4,275	\$ 2,134,847	Clearwater	11/12/2020
<b>Totals</b>	<b>17,685</b>	<b>\$ 3,939,595</b>		

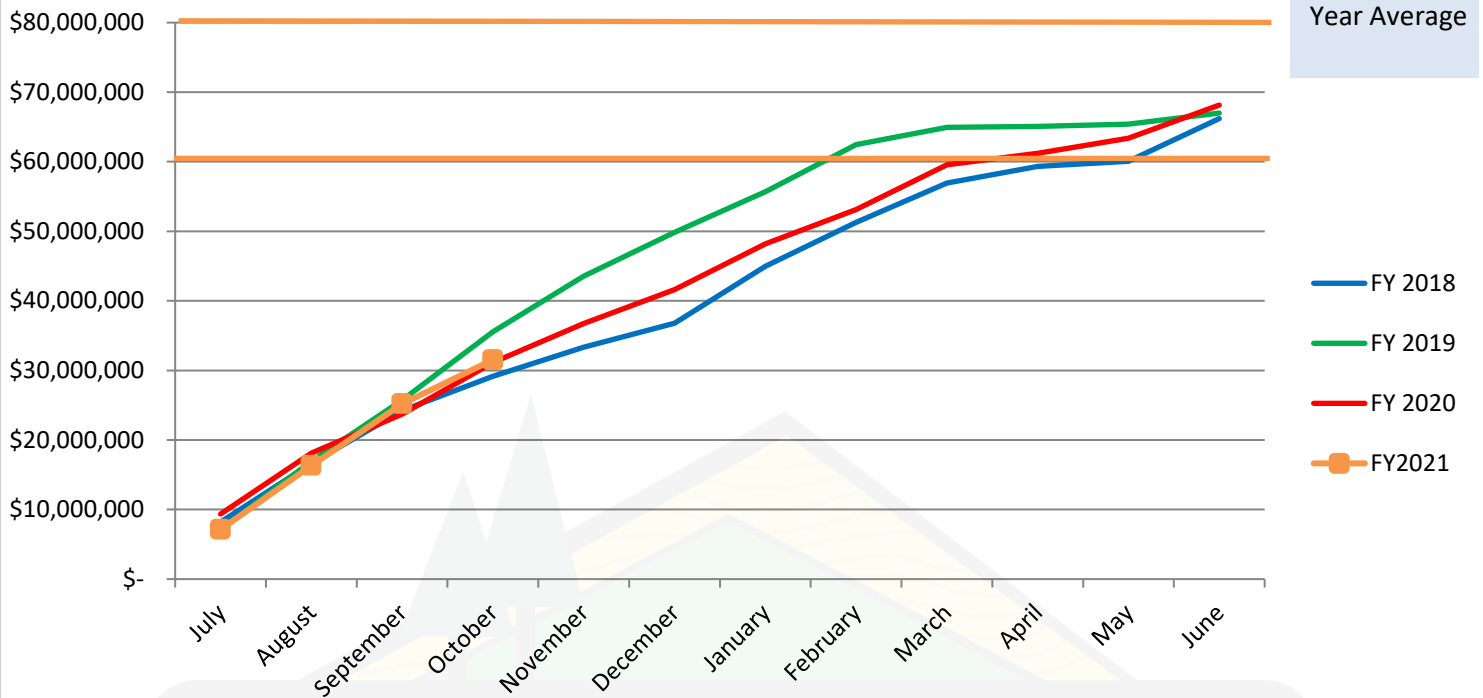
VOLUME UNDER CONTRACT as of October 31, 2020				
	Public School	Pooled	Total	3 Year Avg.
Active Contracts			174	177
Total Residual MBF Equivalent	341,391	236,111	577,502	520,842
Estimated residual value	\$80,409,728	\$60,570,757	\$140,980,485	\$147,517,159
Residual Value (\$/MBF)	\$235.54	\$256.54	\$244.12	\$283.33

	TIMBER HARVEST RECEIPTS				
	October		FY to date	November Projected	
	Stumpage	Interest	Harvest Receipts	Stumpage	Interest
Public School	\$ 3,778,093.86	\$ 496,599.29	\$ 22,000,726.14	\$ 2,896,157.30	\$ 337,187.78
Pooled	\$ 1,877,059.24	\$ 171,300.70	\$ 9,527,271.32	\$ 1,227,996.89	\$ 115,261.70
General Fund	\$ 3,272.73	\$ 124.25	\$ 7,068.36	\$ 5,734.66	\$ 450.63
<b>TOTALS</b>	\$ 5,658,425.83	\$ 668,024.24	\$ 31,535,065.82	\$ 4,129,888.85	\$ 452,900.11

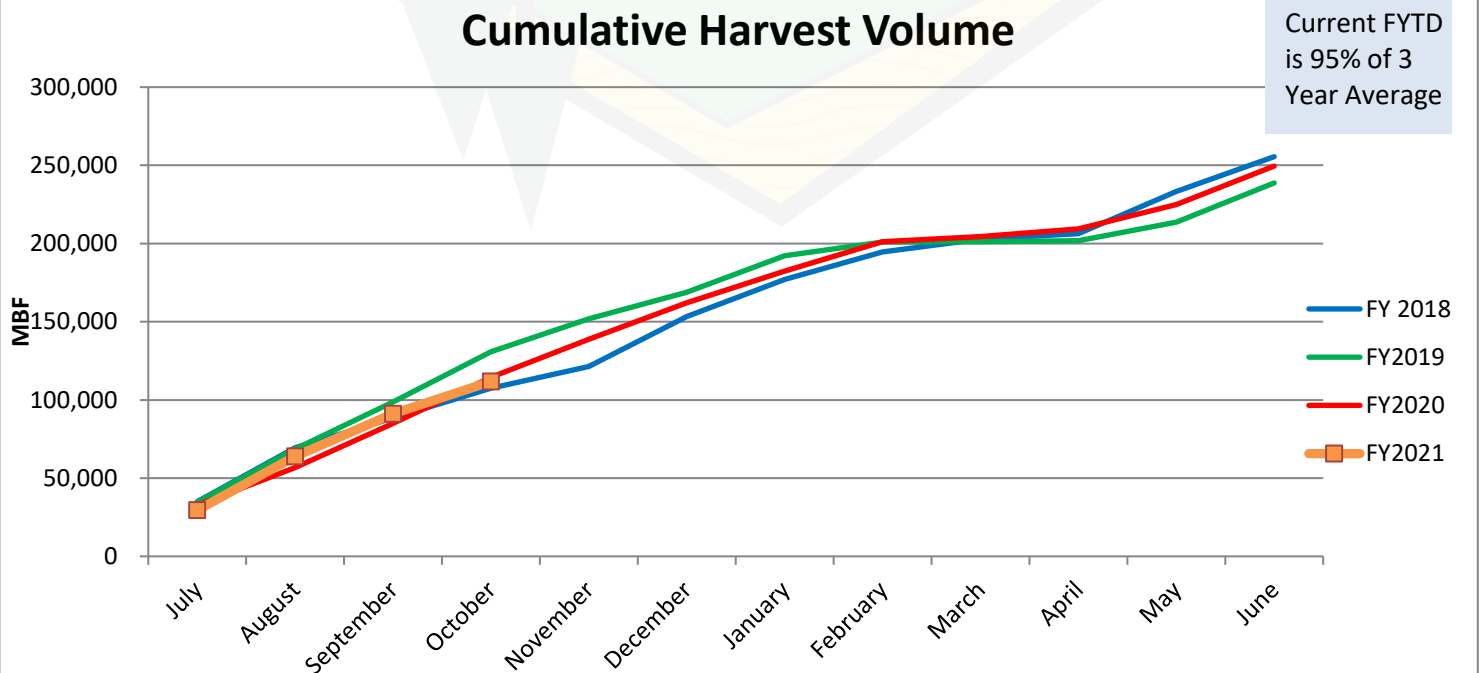
	STATUS OF FY 2021 TIMBER SALE PROGRAM					
	MBF Sawlog			Number Poles		
	Public School	Pooled	All Endowments	Public School	Pooled	All Endowments
Sold as of October 31, 2020	36,652	30,537	67,189	2,462	8,386	10,848
Currently Advertised	19,815	17,065	36,880	12,622	603	13,225
In Review	27,535	3,685	31,220	0	0	0
Did Not Sell <sup>1</sup>	0	0	0	0	0	0
<b>TOTALS</b>	84,002	51,287	135,289	15,084	8,989	24,073
FY2021 Sales Plan			284,238			28,810
Percent to Date			48%			84%

<sup>1</sup> After three attempts at auction.

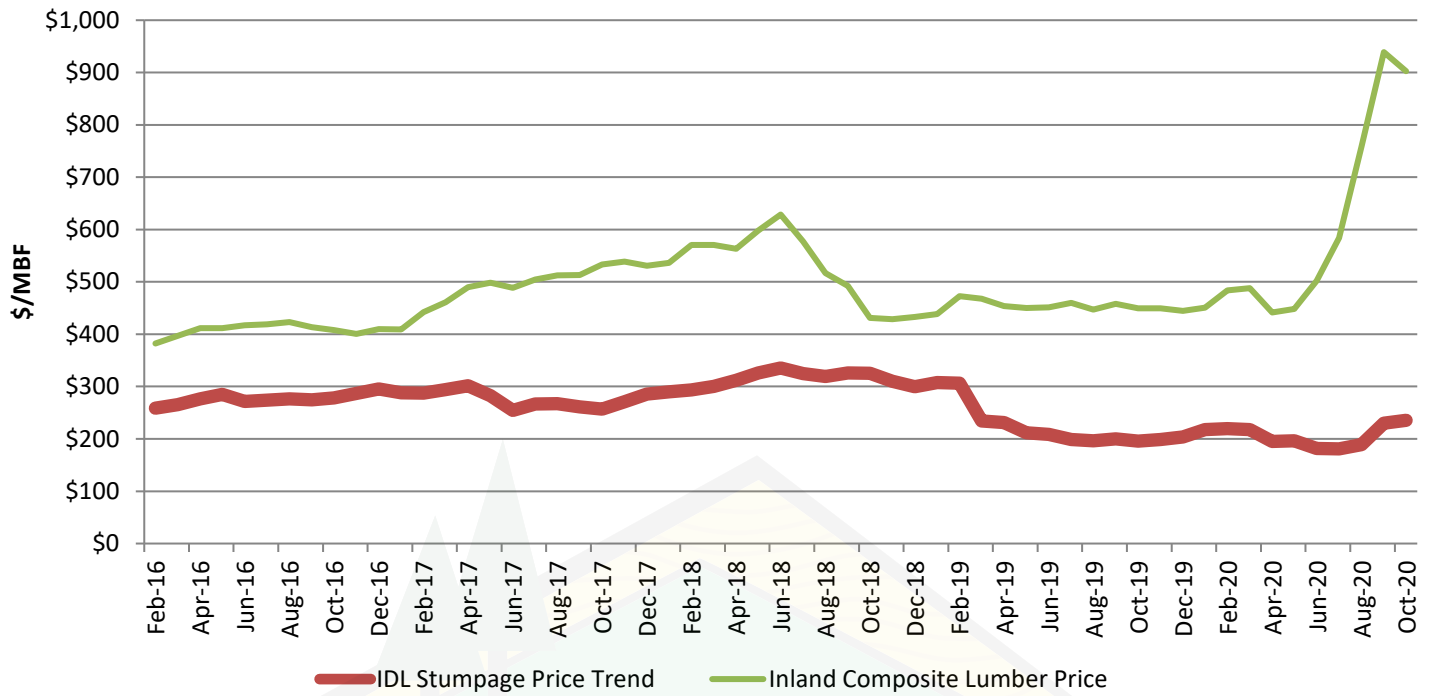
## Cumulative Harvest Receipts



## Cumulative Harvest Volume



## Monthly Lumber and Stumpage Price

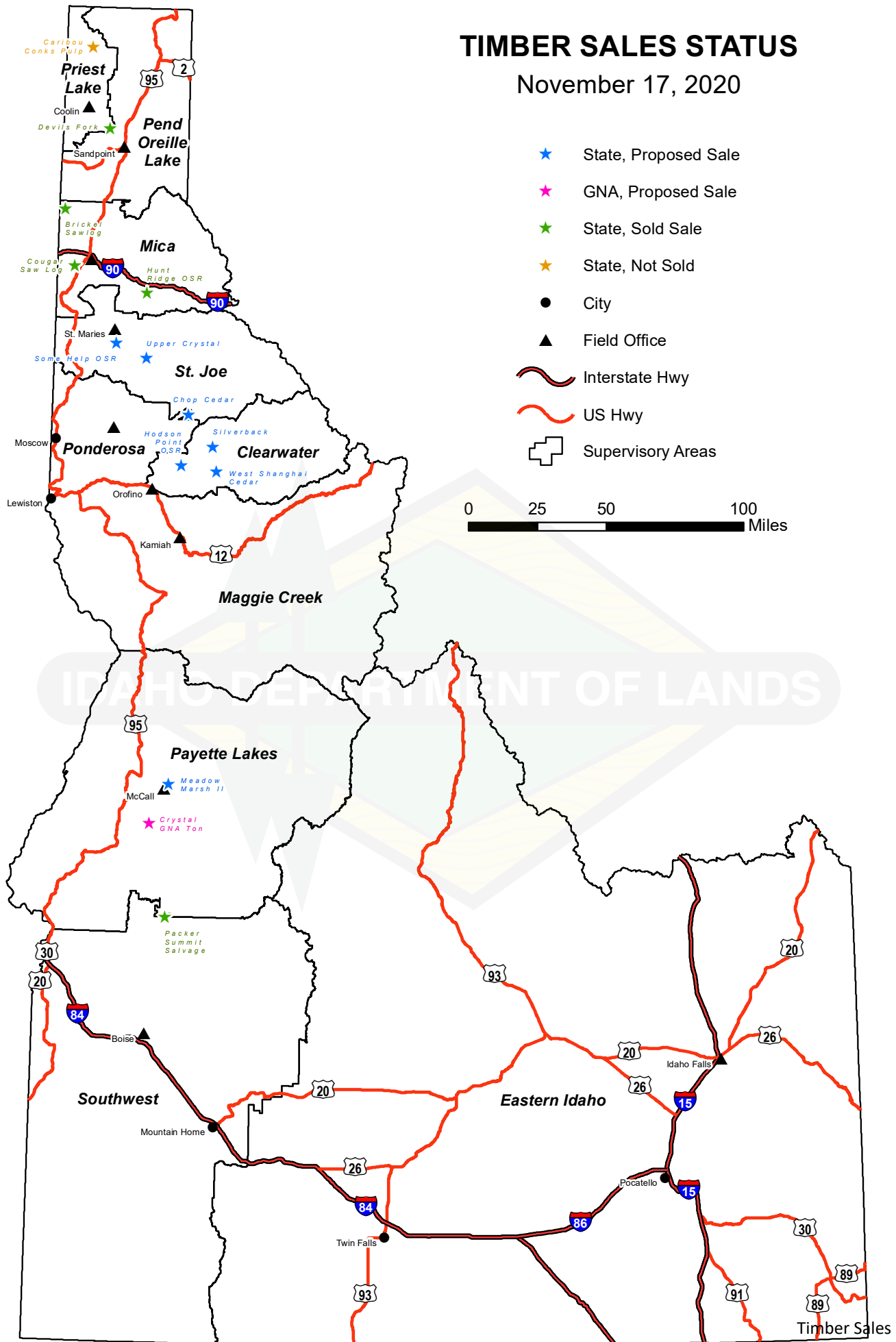


IDL Stumpage Price Line is a 6-month rolling average of the net sale price.

IDAHO DEPARTMENT OF LANDS

# TIMBER SALES STATUS

November 17, 2020





# STATE BOARD OF LAND COMMISSIONERS

November 17, 2020  
Endowment Transactions

## Leases and Permits

FISCAL YEAR 2021 – LEASING & PERMITTING TRANSACTIONS BY MONTH – through October 31, 2020														
ACTIVITY	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	EST	FYTD
<b>SURFACE</b>														
Agriculture	-	-	-	-									1	0
Assignments	-	-	-	-									1	0
Communication Sites	-	-	-	-									31	0
Grazing	7	2	1	1									14	11
Assignments	-	3	4	-									32	7
Residential	-	2	4	-									18	6
Assignments	-	1	1	2									18	4
<b>COMMERCIAL</b>														
Alternative Energy	-	-	-	-									1	0
Industrial	-	-	-	-									6	0
Military	-	-	-	-									4	0
Office/Retail	-	-	-	-									2	0
Recreation	-	-	-	-									11	0
Assignments	-	-	-	-									-	0
<b>OTHER</b>														
Conservation	-	-	-	-									0	0
Assignments	-	-	-	-									-	0
Geothermal	-	-	-	-									4	0
Minerals	13	-	-	1									57	14
Assignments	-	-	-	-									-	0
Non-Comm Recreation	-	-	-	-									-	0
Oil & Gas	-	-	-	-									0	0
<b>PERMITS</b>														
Land Use Permits	10	5	12	6									NA	33
<b>TOTAL INSTRUMENTS</b>	<b>30</b>	<b>13</b>	<b>22</b>	<b>10</b>									<b>NA</b>	<b>75</b>

## Real Estate

FISCAL YEAR 2021 – REAL ESTATE TRANSACTIONS BY MONTH – through October 31, 2020													
ACTIVITY	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FYTD
Deeds Acquired	-	-	-	-									0
Deeds Granted	-	-	9	6									15
Deeds Granted - Surplus	-	-	-	-									0
Easements Acquired	-	-	-	-									0
Easements Granted	-	-	-	-									0
Assignments	-	1	-	-									1

Transaction Notes : Fifteen of the eighteen cottage sites have closed from the Priest Lake auction held in August.

### Land Exchanges :

Owyhee Land Exchange - IDL plans to present for final approval at December's Land Board meeting.

Avimor Land Exchange - due diligence procurement process (appraisals, phase 1, title commitment).

Idaho Forest Group Land Exchange - due diligence procurement process (appraisals, phase 1, title commitment).

**TRUST LAND MANAGEMENT DIVISION**  
**2021FYTD GROSS REVENUE - ACTUAL AND FORECASTED**  
**through October 31, 2020**

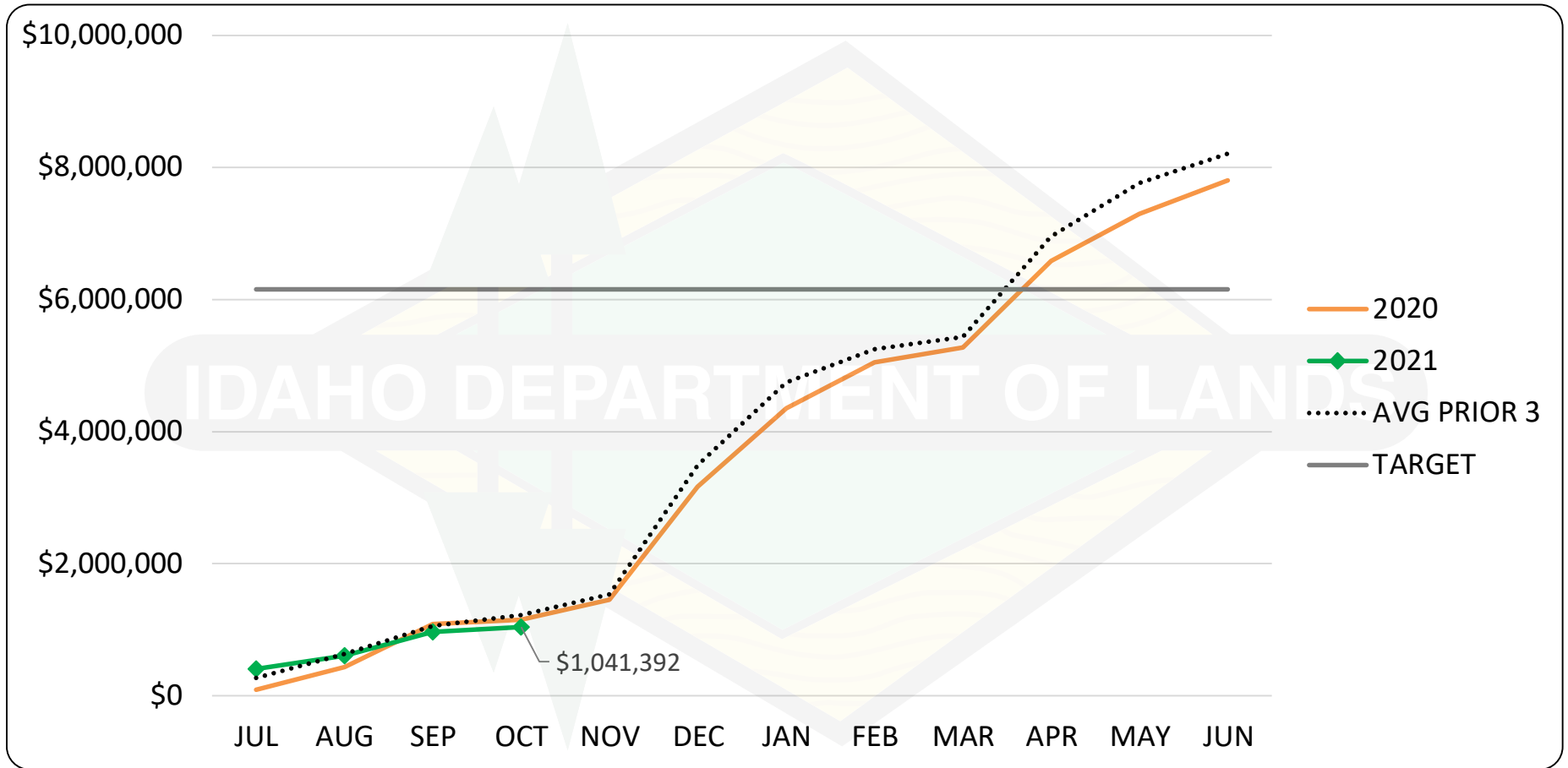
	ACTUAL RECEIPTS AS OF 10.31.2020	REVENUE EXPECTED BY 10.31.2020**	REVENUE EXPECTED BY 06.30.2021
<b>SURFACE</b>			
AGRICULTURE	\$ 3,362	\$ 8,423	\$ 471,740
COMMUNICATION SITES	\$ 46,142	\$ 70,617	\$ 548,359
GRAZING	\$ 23,630	\$ 22,853	\$ 1,822,510
RESIDENTIAL	\$ (14,009)	\$ 47,474	\$ 1,450,328
<b>COMMERCIAL</b>			
COMMERCIAL ENERGY RESOURCES	\$ 4,364	\$ -	\$ 12,715
COMMERCIAL INDUSTRIAL	\$ 12,656	\$ 19,800	\$ 73,313
COMMERCIAL MILITARY	\$ -	\$ -	\$ 62,438
COMMERCIAL OFFICE/RETAIL	\$ 557,094	\$ 478,809	\$ 997,011
COMMERCIAL RECREATION	\$ 234,108	\$ 236,496	\$ 470,323
<b>OTHER</b>			
CONSERVATION LEASES	\$ 100	\$ -	\$ 103,951
GEOTHERMAL	\$ -	\$ 1,000	\$ 5,000
MINERAL	\$ 17,098	\$ 10,966	\$ 70,492
NON-COMMERCIAL RECREATION	\$ 2,761	\$ 1,300	\$ 52,129
OIL AND GAS LEASES	\$ 6,759	\$ 1,026	\$ 13,133
<b>Sub Total</b>	<b>\$ 894,065</b>	<b>\$ 898,764</b>	<b>\$ 6,153,441</b>
*LAND SALES/RECORDS	\$ 147,327		
*REAL ESTATE SERVICES	\$ -		
<b>Grand Total</b>	<b>\$ 1,041,392</b>		

\* These categories are not included in the annual forecast.

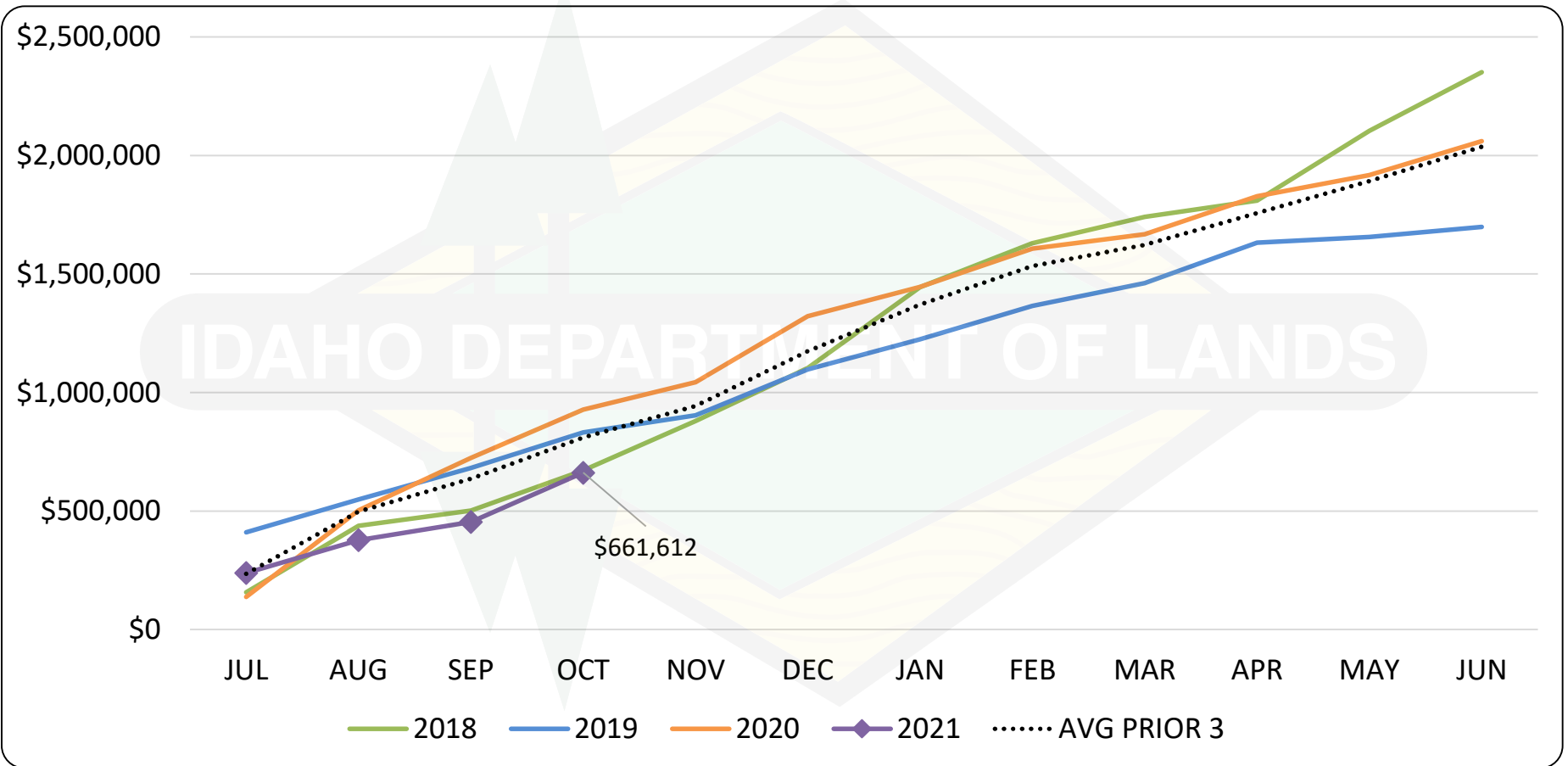
\*\* These figures are based on "normal" timing of revenue/billing throughout the year.

NOTE: The Department prepares the annual endowment revenue forecast by ASSET CLASS (not by Program). For this table, we have attempted to further breakdown the forecast by program by applying trend data.

## Cumulative Trust Land Program Receipts - Earnings Reserve - All Programs FY2020 - FYTD2021



Cumulative Trust Land Permanent Fund Revenue/Royalties  
(Does NOT include Land Bank Revenue)  
FY18 - FYTD21



# Annual Report to the Board of Land Commissioners



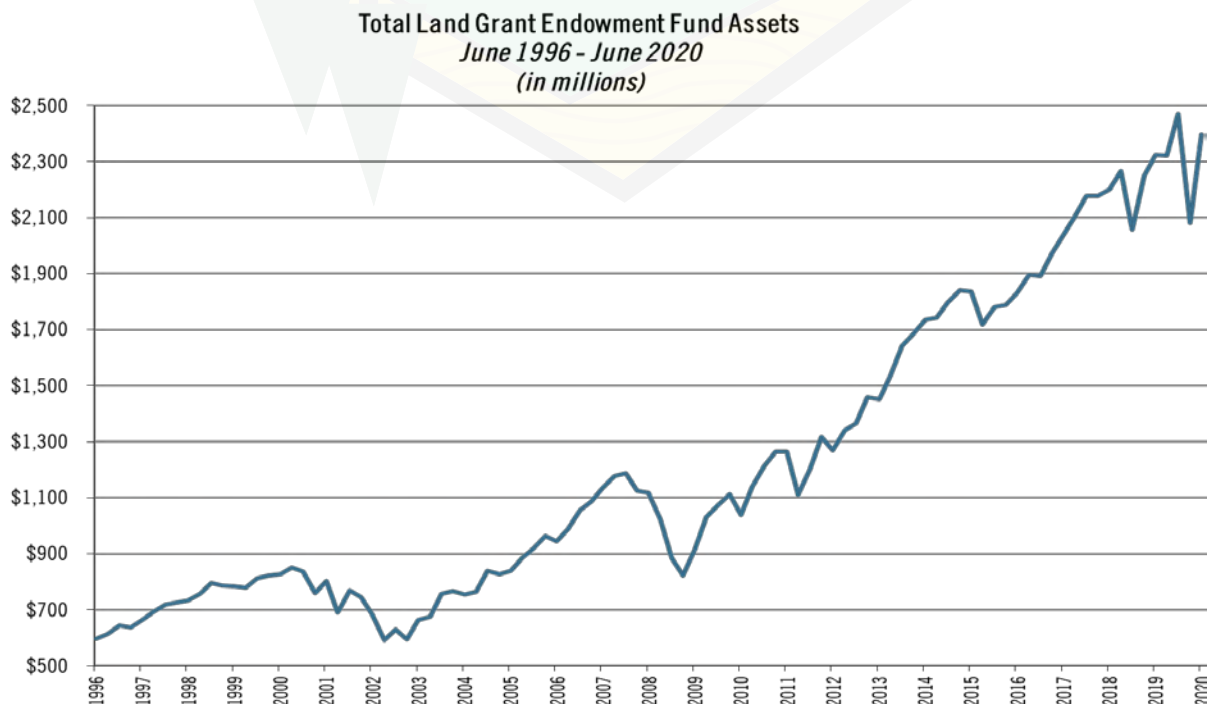
November 17, 2020

## SUMMARY OF RESULTS

Fiscal 2020 was a strong year for the Land Grant Endowment Fund despite the COVID-19 worldwide pandemic. The Endowment Fund grew by 3.0% or \$72.2 million to \$2,396 million as of June 30, 2020. Earnings reserve levels exceeded targets at fiscal year-end, which allowed the Land Board to approve the transfer of \$18.7 million from earnings reserve into the permanent fund. This transfer increased the gain benchmark and position the fund for larger beneficiary distributions in the future. The Endowment Fund had investment returns of 5.2%, which ranked the performance of the Endowment Fund in the top 15<sup>th</sup> percentile in the Callan Public Fund Sponsor Database. Costs to manage the fund totaled \$11.5 million, or 0.48% percent of assets, reflecting a greater portion of the fund invested through investment managers rather than passive index funds. Net land revenue grew by 18.8% to \$47.5 million as the Idaho Department of Lands advanced its Forest Asset Management Plan to sustainably increase the volume of timber harvested. Beneficiary distributions increased 3.5% to \$80.9 million and the Land Board approved distributions of \$84.5 million and \$88.1 million in fiscal years 2021 and 2022, respectively.

## CHANGES IN NET POSITION AND FUND BALANCE

Changes in the net position of the Endowment Fund are the result of investment gains or losses in the Endowment Fund portfolio, revenue generated from land assets, beneficiary distributions and Department of Lands and EFIB expenses. The Endowment Fund increased by \$72.2 million, \$122.5 million and \$165.5 million during the fiscal years ended June 30, 2020, 2019 and 2018, respectively. Net position and fund balance totaled \$2,396 million, \$2,324 million and \$2,201 million as of June 30, 2020, 2019 and 2018, respectively.

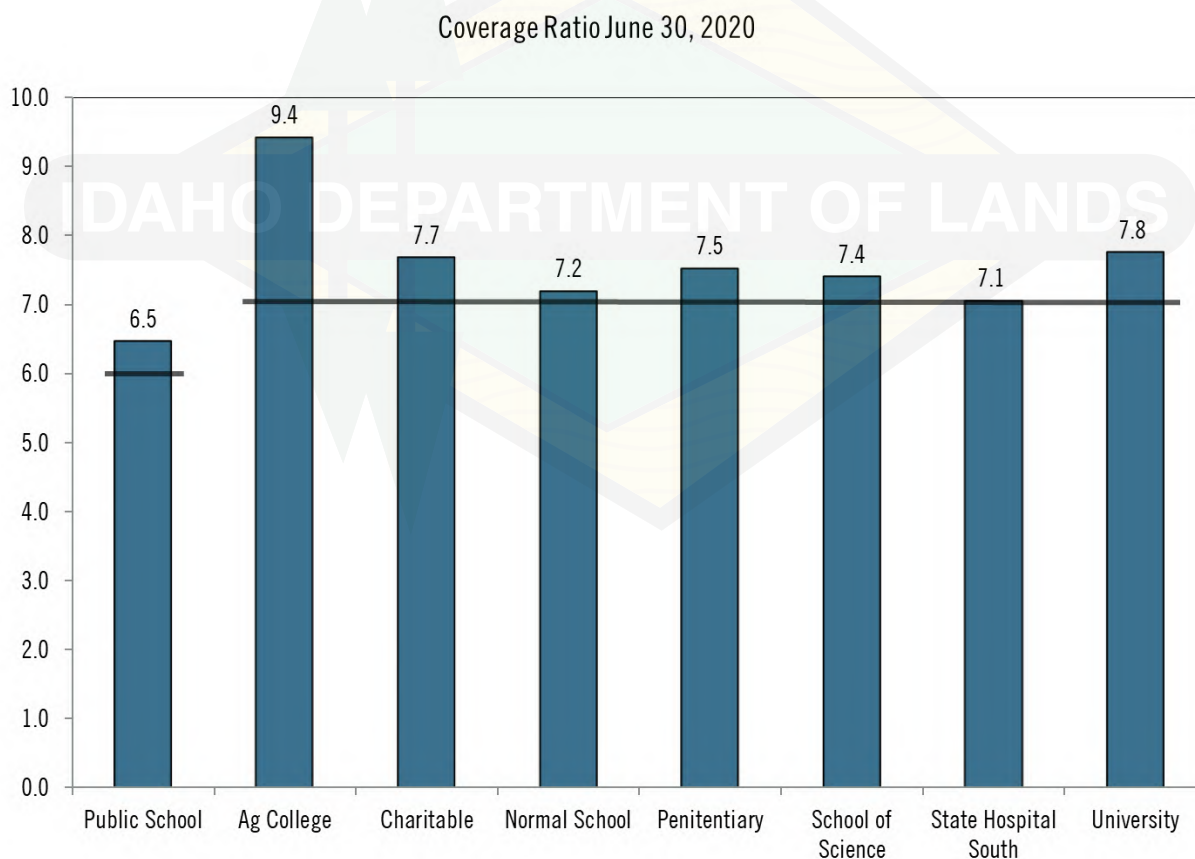


## EARNINGS RESERVES

The Idaho State Board of Land Commissioners has established target earnings reserve levels for each of the Earnings Reserve Funds. The target earnings reserve levels equate to six years of beneficiary distributions for Public Schools and seven years of beneficiary distributions for Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and the University of Idaho. When earnings reserves exceed the target earnings reserve levels, excess amounts may be transferred from Earnings Reserve Funds into the corresponding Permanent Funds.

Total earnings reserve levels were \$589.3 million, \$604.6 million and \$569.2 million as of June 30, 2020, 2019 and 2018, respectively. As of June 30, 2020, the earnings reserve balances for all of the Endowment Funds were at or above target earnings reserve levels.

The table below highlights the earnings reserve levels of each Endowment Fund.

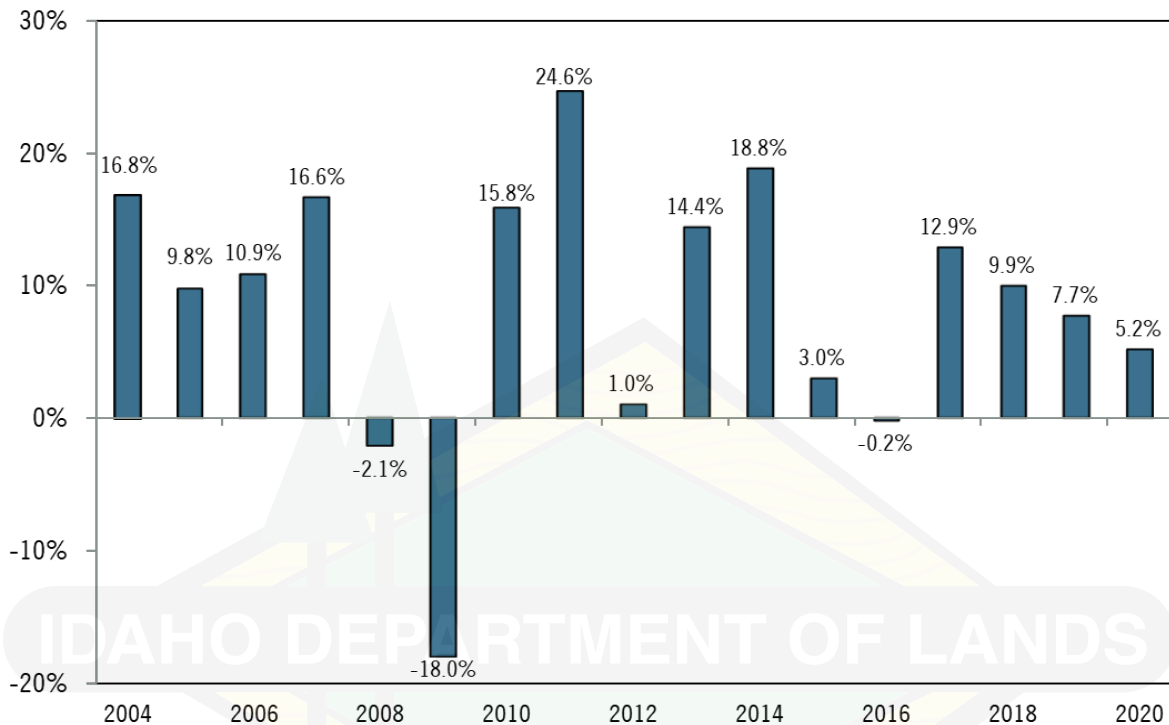


## INVESTMENT RESULTS

The Endowment Fund portfolio generated investment returns before fees of 5.2%, 7.7% and 9.9% in fiscal years end June 30, 2020, 2019 and 2018, respectively. The average annual investment

returns were 5.2%, 7.6%, 7.0%, and 9.5% during the last one, three, five and ten-year periods. These investment returns ranked in the top 15<sup>th</sup>, 6<sup>th</sup>, 15<sup>th</sup> and 9<sup>th</sup> percentile in the Callan Public Fund Sponsor Database for the one, three, five and ten-year periods.

### Annual Gross Fund Return



### Annualized (gross of fees, ending June 30, 2020)

	<u>FY 2020</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>
<b>Total Fund</b>	5.2%	7.6%	7.0%	8.0%	9.5%
<i>Benchmark (38% Russell 3000, 19% ACWI ex-US, 9% ACWI, 8% ODCE, 26% BBC Aggregate)</i>	4.9%	6.8%	6.7%	7.7%	9.0%
<b>Total Equity</b>	4.4%	8.5%	8.1%	9.6%	11.5%
Domestic Equity	5.2%	9.9%	9.6%	11.4%	13.9%
Large Cap.	5.5%	10.2%	10.0%	11.9%	14.3%
Mid Cap.	4.2%	9.8%	8.8%	10.4%	12.8%
Small Cap.	5.7%	8.2%	8.4%	10.3%	13.8%
International Equity	2.0%	5.6%	5.0%	5.9%	6.2%
Global Equity	5.8%	8.1%	6.8%	7.2%	8.5%
<i>MSCI ACWI Index</i>	2.1%	6.1%	6.5%	7.8%	9.2%
<b>Total Real Estate (net of fees)</b>	5.6%	6.4%			
<i>NCREIF ODCE Index</i>	3.9%	5.9%			
<b>Total Fixed Income</b>	6.7%	4.8%	3.9%	3.6%	3.6%
<i>Benchmark (85% BBC U.S. Aggregate, 15% BBC U.S. TIPS)</i>	8.7%	5.3%	4.2%	3.8%	3.8%



## ASSET ALLOCATION

The target asset allocation for the Endowment Fund portfolio is 66% equity, 26% fixed income, and 8% real estate. The equity portion of the portfolio currently includes 38% U.S. equity, 19% international equity and 9% global equity. The fixed income portion of the portfolio includes 11% in the Bloomberg Barclay's Aggregate Index, 11% in an actively managed core plus strategies and 4% in Treasury Inflation Protected Securities. The real estate portion of the portfolio includes 4% in a core real estate strategy and 4% in a participating mortgage loan fund.

## INVESTMENT MANAGEMENT

The EFIB engages the services of an investment consultant who acts as an independent fiduciary and provides advice in areas such as investment policies and guidelines, asset allocation strategies, portfolio risk/return modeling and hiring and monitoring of investment managers. Callan has served as EFIB's investment consultant since 2007. They were reappointed in 2019 after a national consultant search.

The EFIB engages investment managers who are given full discretion to make investment decisions subject to policies and guidelines specific to the investment strategy they are managing. As of June 30, 2020, the EFIB engaged nineteen investment managers including; Barrow Hanley, Boston Partners, Clearwater Advisors, DWS Investment Management, DoubleLine Capital, Eagle Asset Management, Fiera Capital, LSV Asset Management, Northern Trust Investments, Sands Capital, TimesSquare Capital Management, Schroders, State Street Global Advisors, Sycamore/Victory Capital, UBS Realty Investors, Vanguard, WCM Investment Management, Wellington and Western Asset Management.

The EFIB engages Northern Trust Company for custodial services. Northern Trust Company is responsible for the safekeeping of assets, trading, accounting, security valuation and proxy voting.

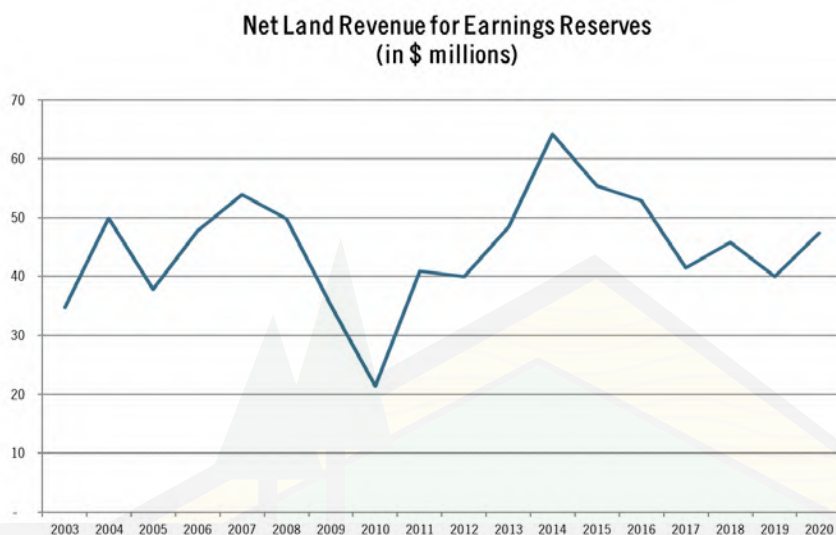
## COST OF INVESTMENT MANAGEMENT

The cost for investment management was \$11.6 million, \$9.1 million and \$9.1 million in fiscal years 2020, 2019 and 2018, respectively. Investment management expenses as a percentage of year-end Endowment Fund net positions equates to 0.48%, 0.39% and 0.41% in fiscal years 2020, 2019 and 2018, respectively. The table below provides a breakdown of investment management expenses.

<b>Cost of Investment Management</b>			
<b>Investment Management Operating Costs</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Internal Investment Costs	\$ 534,709	\$ 511,841	\$ 572,161
Outside investment manager and legal fees	10,038,882	8,853,754	7,977,192
Custody Expense	1,184,565	826,571	483,911
Consultant and auditor fees	208,029	329,112	249,511
Subtotal	11,966,185	10,521,278	9,282,775
Less Manager fees charged directly	(995,343)	(925,337)	(589,487)
Total expenditures	10,970,842	9,595,941	8,693,288
Change in Manager Fee Accrual	571,476	(512,909)	432,666
Total Accrual Basis Expense	<u>\$ 11,542,318</u>	<u>\$ 9,083,032</u>	<u>\$ 9,125,954</u>

## NET LAND REVENUE

Net land revenue (land revenue less Department of Lands expenses) totaled \$47.5 million, \$40.0 million and \$45.8 million in fiscal years 2020, 2019 and 2018, respectively. Net land revenue increased in fiscal 2020 due to greater timber harvest volumes. The decline in net land revenue since the peak in fiscal 2014 is the result of the sales of leased cabin sites located near Payette and Priest Lakes and lower timber prices.



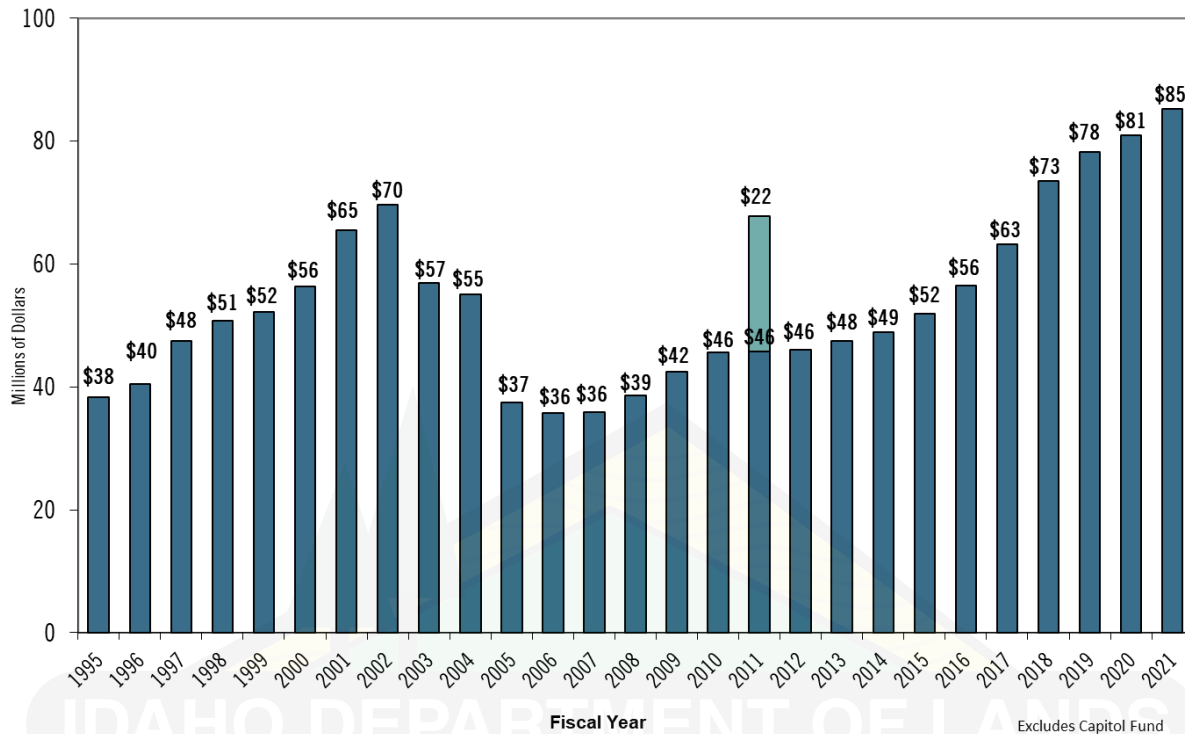
## BENEFICIARY DISTRIBUTIONS

The Endowment Fund exists to provide distributions to beneficiaries in perpetuity. For all endowments, except Capitol Permanent, the Idaho State Board of Land Commissioners has established a beneficiary distribution policy. The current policy provides for annual distributions at a rate of 5% of the three-year moving average of the Permanent Fund balance (with the exception of State Hospital South which is 7%) and allows for adjustments to the distributions based on factors including the level of Earnings Reserve Funds and transfers to the Permanent Funds.

Distributions to land-grant beneficiaries totaled \$80.9 million, \$78.2 million and \$73.5 million in fiscal years 2020, 2019 and 2018, respectively. The Board of Land Commissioners approved distributions of \$84.5 million and \$88.1 million in fiscal years 2021 and 2022, respectively. The table below provides a summary of land-grant beneficiary distributions.

## Beneficiary Distributions 1995-2021

*(includes special Public School distribution in 2011 of \$22M)*



On July 1, 2004, the Capitol Permanent Fund was pooled with the Endowment Fund for investment purposes. Additions to the Capitol Permanent Fund include revenue from timber lands, license plate royalties, and investment income. The EFIB authorizes distributions from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund. Distribution from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund totaled \$1.41 million, \$1.41 million and \$1.39 million in fiscal years 2020, 2019 and 2018, respectively. Distributions from the Capitol Maintenance Reserve Fund are determined by the Capitol Commission, subject to legislative appropriation. Distributions from the Capital Maintenance Reserve Fund to the Capitol Commission were \$325,000, \$250,000 and \$396,000 in fiscal years 2020, 2019 and 2018, respectively.

### CREDIT ENHANCEMENT PROGRAM

On July 1, 2002, the State of Idaho's Credit Enhancement Program for school district bond financing was established. This program, in accordance with Idaho Code Section 57-728 and in conjunction with Idaho Code Chapter 53, Title 33, requires the Public School Endowment Fund to purchase up to \$300 million in notes of the State that may be issued to avoid default on school district bonds. This credit enhancement allows eligible voter-approved school bonds to be issued

with AAA ratings, which is above the State's AA+ rating. The enhanced credit rating results in lower borrowing costs for Idaho school districts. EFIB has committed to provide credit enhancement on up to \$1.2 billion in school bonds, with a limit of \$40 million per school district. There were \$618.9 million, \$655.4 million and \$667.6 million in bonds guaranteed by the Credit Enhancement Program as of June 30, 2020, 2019 and 2018, respectively.

## **COVID-19**

During the year ended June 30, 2020 the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global financial markets, supply chains, businesses and communities and consequently may impact various parts of operations and financial results. Management believes appropriate actions have been taken to mitigate the negative impact, however, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events near fiscal year-end and are still developing.

The logo of the Idaho Department of Lands is a large, stylized diamond shape. It features a light green center, a yellow border with a wavy pattern, and a grey outer border. A grey banner with the text "IDAHO DEPARTMENT OF LANDS" in white capital letters is superimposed over the center of the diamond.

IDAHO DEPARTMENT OF LANDS



M. Dean Buffington :: Chairman  
Jerry F. Aldape      Gary L. Mahn  
Warren R. Bakes      Richelle A. Sugiyama  
Steven C. Harris      Thomas J. Wilford  
Irving Littman      Chuck Winder  
Chris J. Anton :: Manager of Investments

## Monthly Report to the Board of Land Commissioners

### Investment performance through October 31, 2020

**Month: -1.0%      Fiscal year: 4.6 %**

Equity markets were in the green until mid-month but sold off meaningfully in the final few days. Volatility in the equity markets resulted primarily from concern over heightened COVID-19 infections, uncertainty surrounding the election and the impasse in Congress with the critical second round of fiscal stimulus. The second/third wave of COVID-19 cases depressed investor sentiment and led to a selloff in global equities, particularly in areas that experienced the sharpest rise in cases (UK, Europe and U.S.). China's success at controlling the spread of the virus and the rebound of their economy, boosted Chinese equities and its currency. Despite the growing rate of infection, the reopening of economies, support from the Fed and the first round of fiscal stimulus have resulted in improving economic conditions. GDP, employment and manufacturing data have improved considerably from the depths of the quarantines, but we are still not back to pre-pandemic levels. A second round of fiscal stimulus is necessary to prevent the economic recovery from stalling. Most believe the second round of stimulus will happen, but the magnitude and nature of the stimulus will be shaped by the outcome of the elections.

### Status of endowment fund reserves

Distributions for FY2021 and FY2022 are well secured.

### Significant actions of the Endowment Fund Investment Board

None.

### Compliance/legal issues, areas of concern

**Material deviations from Investment Policy:** None.

**Material legal issues:** None.

**Changes in board membership or agency staffing:** None.

### Upcoming issues/events

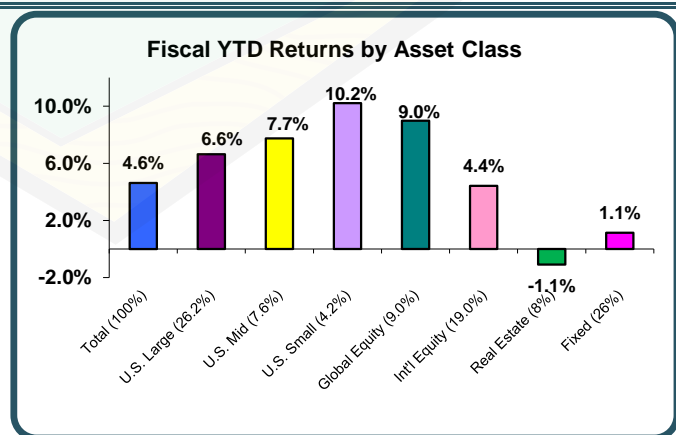
EFIB Board Meeting – November 17, 2020

	Month	FYTD
<b>Beginning Value of Fund</b>	<b>\$ 2,519,882,976</b>	<b>\$ 2,395,398,968</b>
Distributions to Beneficiaries	(7,043,400)	(28,173,600)
Land Revenue net of IDL Expenses	12,220,158	25,072,087
Change in Market Value net of Investment Mgt. Expenses	(26,966,147)	105,796,132
<b>Current Value of Fund</b>	<b>\$ 2,498,093,587</b>	<b>\$ 2,498,093,587</b>

<u>Gross Returns</u>	<u>Current Month</u>	<u>Calendar Y-T-D</u>	<u>Fiscal Y-T-D</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
<b>Total Fund</b>	<b>-1.0%</b>	<b>3.0%</b>	<b>4.6%</b>	<b>7.6%</b>	<b>7.3%</b>	<b>8.2%</b>	<b>8.6%</b>
Total Fund Benchmark*	-1.6%	1.8%	3.8%	6.1%	6.3%	7.7%	8.1%
<b>Total Fixed</b>	<b>-0.5%</b>	<b>5.0%</b>	<b>1.1%</b>	<b>5.2%</b>	<b>4.9%</b>	<b>4.0%</b>	<b>3.4%</b>
85% BB Agg, 15% TIPS	-0.5%	6.6%	0.5%	6.6%	5.1%	4.1%	3.5%
<b>Total Equity</b>	<b>-1.3%</b>	<b>2.3%</b>	<b>6.6%</b>	<b>9.0%</b>	<b>8.2%</b>	<b>9.9%</b>	<b>10.4%</b>
38% R3 19% Ax 9% AC	-2.2%	-0.6%	5.8%	5.7%	6.5%	9.1%	9.8%
<b>Domestic Equity</b>	<b>-0.7%</b>	<b>3.3%</b>	<b>7.3%</b>	<b>10.3%</b>	<b>9.7%</b>	<b>11.2%</b>	<b>12.9%</b>
Russell 3000 (R3)	-2.2%	3.1%	6.9%	10.1%	10.0%	11.5%	12.8%
<b>Global Equity</b>	<b>-2.5%</b>	<b>6.9%</b>	<b>9.0%</b>	<b>13.6%</b>	<b>9.0%</b>	<b>9.7%</b>	<b>7.8%</b>
MSCI ACWI (AC)	-2.4%	-1.1%	5.5%	4.9%	5.5%	8.1%	7.9%
<b>Int'l. Equity</b>	<b>-1.7%</b>	<b>-1.9%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>4.8%</b>	<b>7.1%</b>	<b>4.8%</b>
MSCI ACWI ex-US (Ax)	-2.1%	-7.5%	4.0%	-2.6%	-0.2%	4.3%	3.4%
<b>Real Estate</b>			<b>-1.1%</b>	<b>2.3%</b>	<b>5.3%</b>		
			-1.8%	3.0%	4.7%		

\* Benchmark: 38% Russell 3000 19% ACWI ex-US 9% AC 26% BB Agg. 8% ODCE

	<u>Mkt Value (\$M)</u>	<u>Allocation</u>
<b>Domestic Equity</b>	<b>\$ 943.9</b>	<b>37.8%</b>
Large Cap	644.6	25.8%
Mid Cap	190.8	7.6%
Small Cap	108.5	4.3%
<b>Global Equity</b>	<b>234.7</b>	<b>9.4%</b>
<b>Int'l Equity</b>	<b>459.6</b>	<b>18.4%</b>
<b>Fixed Income</b>	<b>649.8</b>	<b>26.0%</b>
<b>Real Estate</b>	<b>191.8</b>	<b>7.7%</b>
<b>Cash</b>	<b>19.3</b>	<b>0.8%</b>
<b>Total Fund</b>	<b>\$ 2,498.1</b>	<b>100%</b>



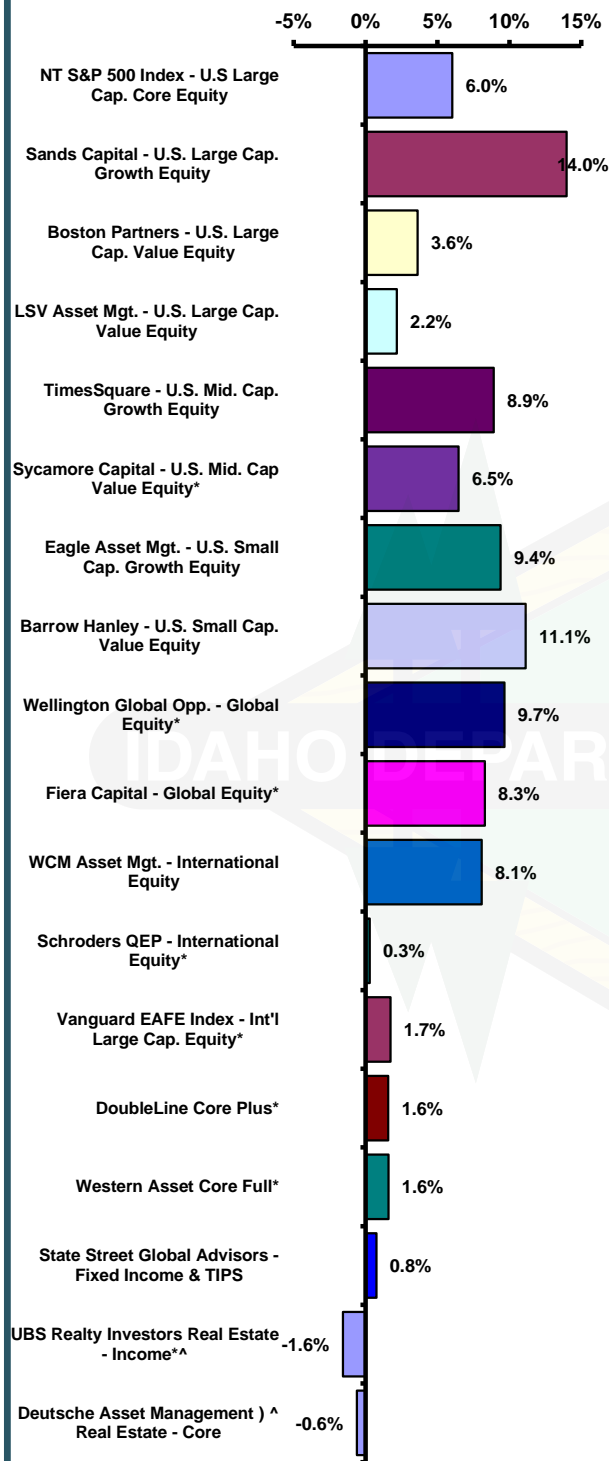
## Endowment Fund Staff Comments:

Equity markets were in the green until mid-month but sold off meaningfully in the final few days. Volatility in the equity markets resulted primarily from concern over heightened COVID-19 infections, uncertainty surrounding the election and the impasse in Congress with the critical second round of fiscal stimulus. The second/third wave of COVID-19 cases depressed investor sentiment and led to a selloff in global equities, particularly in areas that experienced the sharpest rise in cases (UK, Euro area and U.S.). China's success at controlling the spread of the virus and the rebound of their economy, boosted Chinese equities and its currency. Despite the growing rate of infection, the reopening of economies, support from the Fed and the first round of fiscal stimulus have resulted in improving economic conditions. GDP, employment and manufacturing data have improved considerably from the debts of the quarantines, but we are still not back to pre-pandemic levels. A second round of fiscal stimulus is necessary to prevent the economic recovery from stalling. Most believe the second round of stimulus will happen, but the magnitude and characteristics of the stimulus will be shaped by the outcome of the elections.

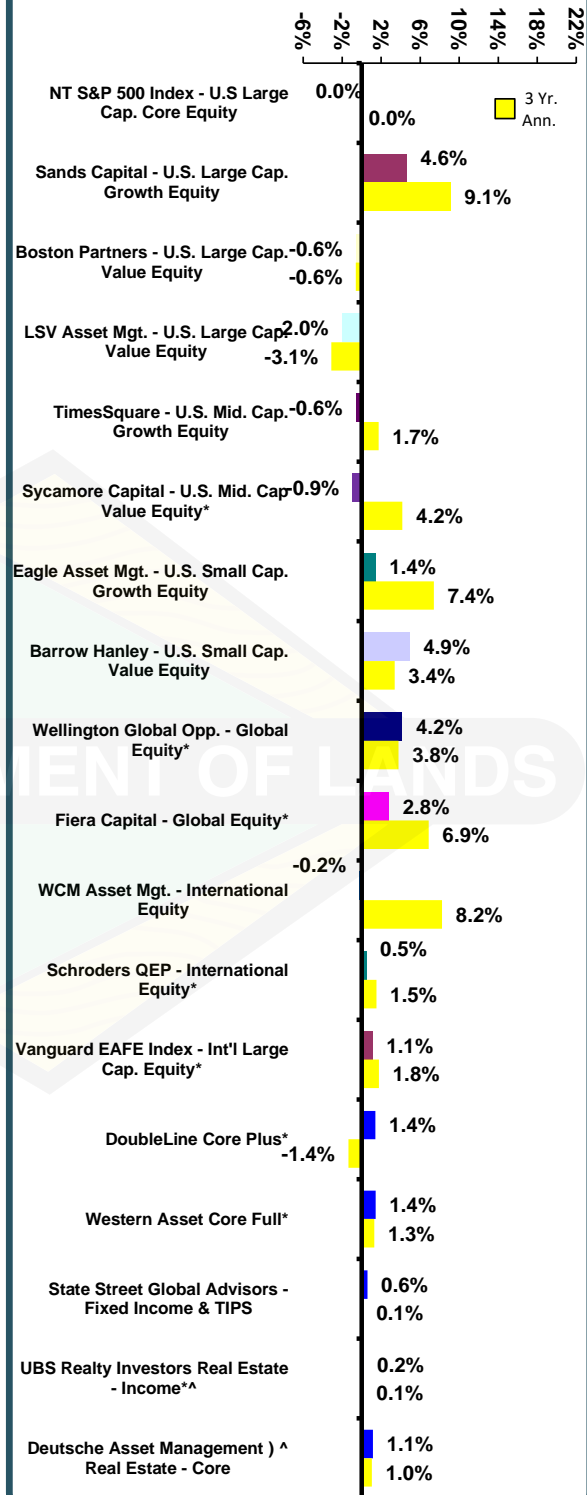
October 31, 2020

# INVESTMENT REPORT

## FYTD Manager Returns



## Manager Relative Returns Fiscal YTD and 3-Yr Ave\*



\*ITD return used when manager has less than 3 years. ^ Most recent valuation.



**State of Idaho Endowment Fund**  
**IDAHO DEPARTMENT OF LANDS**

*REPORT OF  
INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019*

*Administered by the Endowment Fund Investment Board*





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## INDEPENDENT AUDITORS' REPORT

Endowment Fund Investment Board  
State of Idaho Endowment Funds  
Boise, Idaho

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the State of Idaho Endowment Funds governmental fund and governmental activities administered by the Endowment Fund Investment Board (the EFIB), a component unit of the State of Idaho, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the State of Idaho Endowment Funds' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State of Idaho Endowment Funds governmental fund and governmental activities as of June 30, 2020 and 2019, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis-of-matter***

As discussed in Note 1, the financial statements of The State of Idaho Endowment Funds are intended to present the financial position and the changes in financial position of The State of Idaho Endowment Funds. The financial statements do not purport to, and do not, represent the financial position or changes in financial position, of the State of Idaho as of June 30, 2020 and 2019. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Idaho Endowment Funds' basic financial statements. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules included on pages 41 through 44 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedules included on pages 45 and 46 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2020, on our consideration of State of Idaho Endowment Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of State of Idaho Endowment Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering State of Idaho Endowment Funds' internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Boise, Idaho  
August 18, 2020

The logo of the Idaho Department of Lands is a large, stylized diamond shape. It features a light green center, a yellow border, and a grey outer border. A grey banner with the text "IDAHO DEPARTMENT OF LANDS" in white capital letters is superimposed over the center of the diamond.

IDAHO DEPARTMENT OF LANDS

The Management Discussion and Analysis highlights the financial performance of the State of Idaho Land Grant Endowment Fund (“Endowment Fund”) for the fiscal years ended June 30, 2020, 2019 and 2018.

## **BACKGROUND**

When Idaho became the 43<sup>rd</sup> state in 1890, the Congress of the United States endowed certain lands to be used to generate income for education and other important purposes. At statehood, 3.6 million acres of land were granted to the State of Idaho (“State”) and 2.4 million acres remain. Proceeds from the sale of land and income generated by the land have accumulated in the Endowment Fund which provides financial support for beneficiaries.

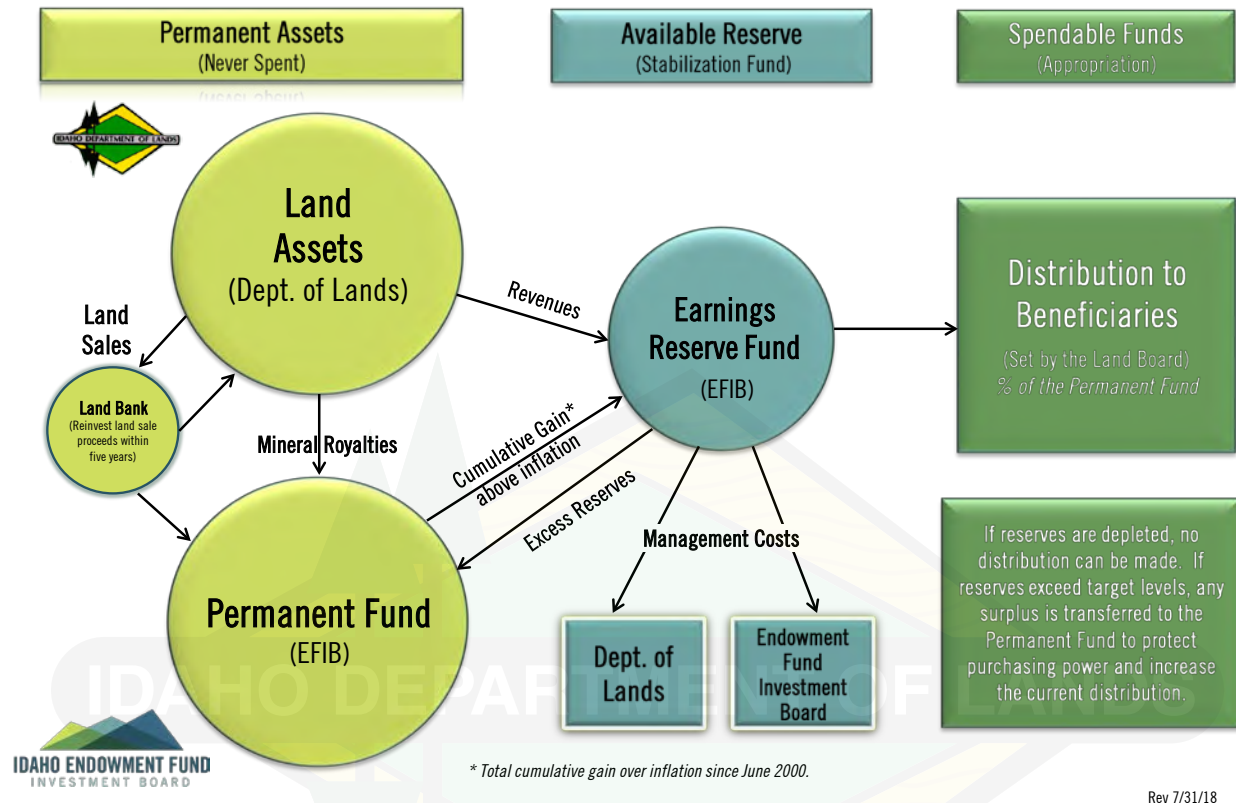
The Endowment Fund supports the following beneficiaries: Public Schools, University of Idaho Agricultural College, Charitable Institutions (Idaho State University, Juvenile Corrections Center, State Hospital North, Veterans’ Home, School for the Deaf and Blind), Normal School (Idaho State University, Lewis-Clark State College), Penitentiary, University of Idaho School of Science, State Hospital South, University of Idaho and the Capitol Permanent Fund.

The Endowment Fund Investment Board (“EFIB”) was created by the 1969 Idaho Legislature and charged with administration and investment management responsibilities for the Endowment Fund according to policies established by the Idaho State Board of Land Commissioners. In addition, EFIB provides investment management services for funds associated with other state agencies including SIF (formerly known as the State Insurance Fund), Idaho Department of Environmental Quality, Idaho Department of Fish and Game, Idaho State Parks & Recreation and the Idaho Department of Lands. Financial results related to non-Land Grant Endowment Funds are not included in these financial statements.

## **THE ENDOWMENT FUND STRUCTURE**

The Endowment Fund is structured to include Permanent Funds and Earnings Reserve Funds for each beneficiary. The Permanent Funds are to remain intact and grow at least at the rate of inflation. Under legislation passed by the 1998 Idaho Legislature, Earnings Reserve Funds were established to pay distributions to beneficiaries and cover expenses for the Department of Lands and EFIB. Most land revenue is considered an addition to the Earnings Reserve Funds, while distributions to beneficiaries and payment of Department of Lands and EFIB expenses are depletions. Each June 30, the proportionate change in market value of the Endowment Fund portfolio is allocated to each endowment’s Earnings Reserve Fund and gains up to the rate of inflation to each endowment’s Permanent Fund. This allocation methodology is specified in Idaho Code Section 57-720 and reflected in the following table.

## STRUCTURE OF IDAHO'S ENDOWMENT ASSETS



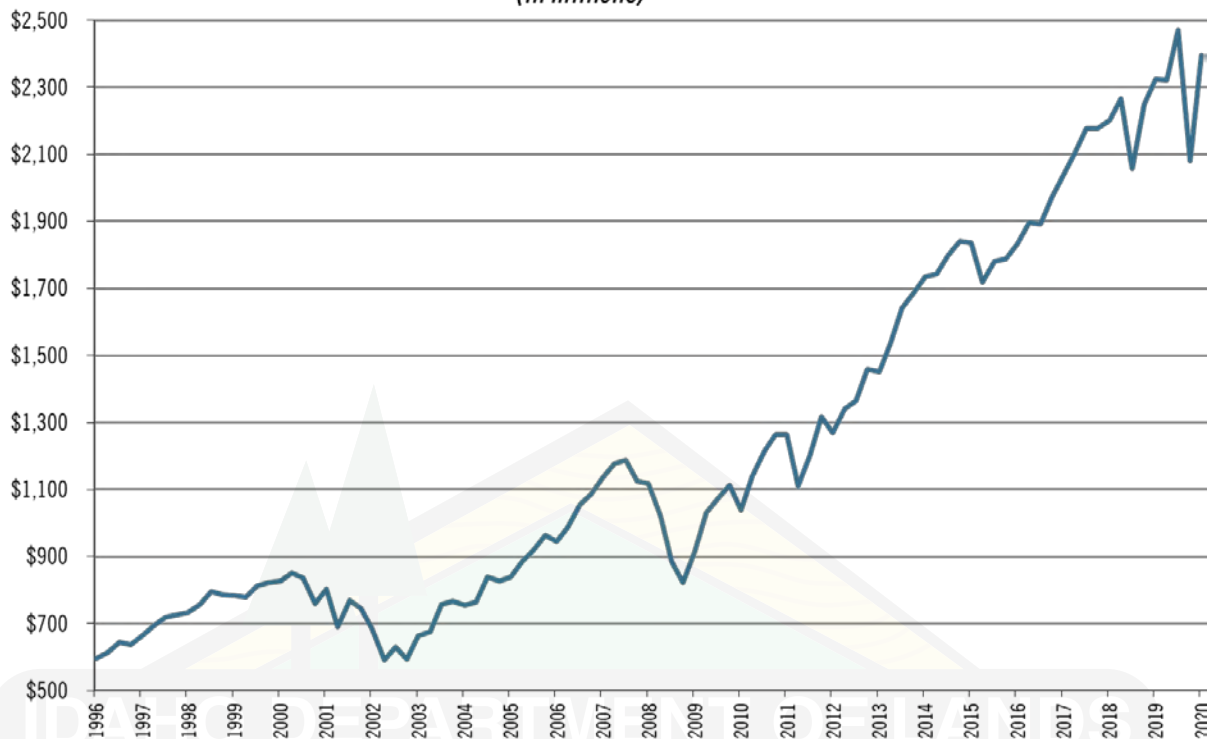
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## FINANCIAL HIGHLIGHTS:

## CHANGES IN NET POSITION AND FUND BALANCE

Changes in the net position of the Endowment Fund are the result of investment gains or losses in the Endowment Fund portfolio, revenue generated from land assets, beneficiary distributions and Department of Lands and EFIB expenses. The Endowment Fund increased by \$72.2 million, \$122.5 million and \$165.5 million during the fiscal years ended June 30, 2020, 2019 and 2018, respectively. Net position and fund balance totaled \$2,396 million, \$2,324 million and \$2,201 million as of June 30, 2020, 2019 and 2018, respectively.

Total Land Grant Endowment Fund Assets  
*June 1996 - June 2020*  
(in millions)



## EARNINGS RESERVES

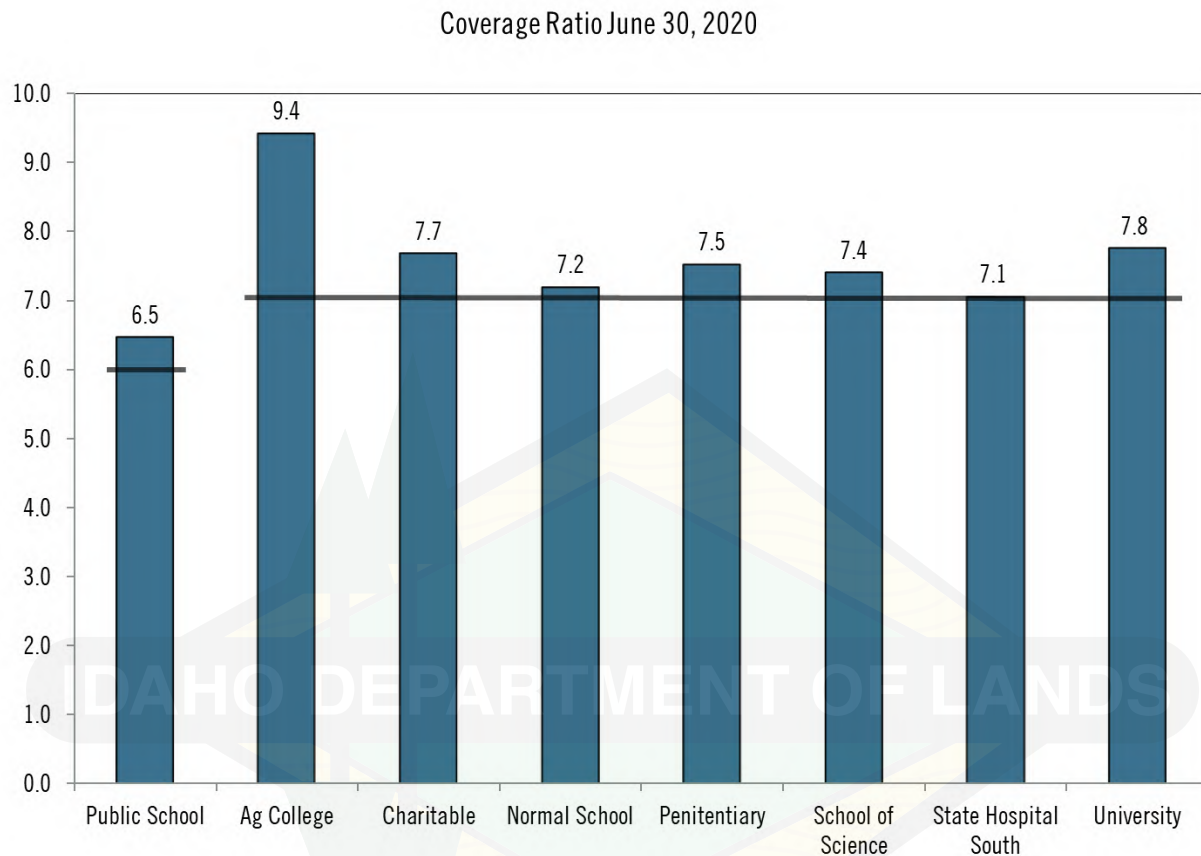
The Idaho State Board of Land Commissioners has established target earnings reserve levels for each of the Earnings Reserve Funds. The target earnings reserve levels equate to six years of beneficiary distributions for Public Schools and seven years of beneficiary distributions for Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and the University of Idaho. When earnings reserves exceed the target earnings reserve levels, excess amounts may be transferred from Earnings Reserve Funds into the corresponding Permanent Funds.

Total earnings reserve levels were \$589.3 million, \$604.6 million and \$569.2 million as of June 30, 2020, 2019 and 2018, respectively. As of June 30, 2020, the earnings reserve balances for all of the Endowment Funds were at or above target earnings reserve levels.



*Earnings Reserves cont.:*

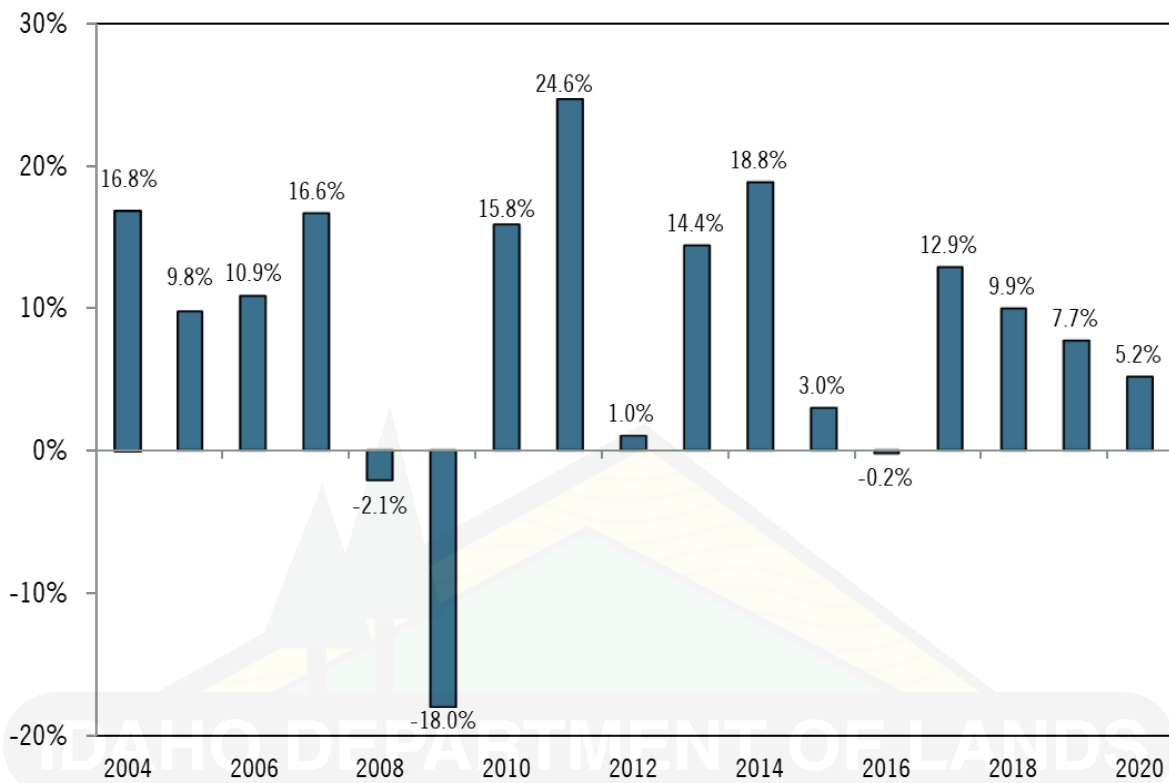
The table below highlights the earnings reserve levels of each Endowment Fund.



## INVESTMENT RESULTS

The Endowment Fund portfolio generated investment returns before fees of 5.2%, 7.7% and 9.9% in fiscal years end June 30, 2020, 2019 and 2018, respectively. The average annual investment returns were 5.2%, 7.6%, 7.0%, and 9.5% during the last one, three, five and ten-year periods. These investment returns ranked in the top 15<sup>th</sup>, 6<sup>th</sup>, 15<sup>th</sup> and 9<sup>th</sup> percentile in the Callan Public Fund Sponsor Database for the one, three, five and ten-year periods.

## Annual Gross Fund Return



## Annualized (gross of fees, ending June 30, 2020)

	<u>FY 2020</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>
<b>Total Fund</b>	5.2%	7.6%	7.0%	8.0%	9.5%
<i>Benchmark (38% Russell 3000, 19% ACWI ex-US, 9% ACWI, 8% ODCE, 26% BBC Aggregate)</i>	4.9%	6.8%	6.7%	7.7%	9.0%
<b>Total Equity</b>	4.4%	8.5%	8.1%	9.6%	11.5%
Domestic Equity	5.2%	9.9%	9.6%	11.4%	13.9%
Large Cap.	5.5%	10.2%	10.0%	11.9%	14.3%
Mid Cap.	4.2%	9.8%	8.8%	10.4%	12.8%
Small Cap.	5.7%	8.2%	8.4%	10.3%	13.8%
International Equity	2.0%	5.6%	5.0%	5.9%	6.2%
Global Equity	5.8%	8.1%	6.8%	7.2%	8.5%
<i>MSCI ACWI Index</i>	2.1%	6.1%	6.5%	7.8%	9.2%
<b>Total Real Estate (net of fees)</b>	5.6%	6.4%			
<i>NCREIF ODCE Index</i>	3.9%	5.9%			
<b>Total Fixed Income</b>	6.7%	4.8%	3.9%	3.6%	3.6%
<i>Benchmark (85% BBC U.S. Aggregate, 15% BBC U.S. TIPS)</i>	8.7%	5.3%	4.2%	3.8%	3.8%

## ASSET ALLOCATION

The target asset allocation for the Endowment Fund portfolio is 66% equity, 26% fixed income, and 8% real estate. The equity portion of the portfolio currently includes 38% U.S. equity, 19% international equity and 9% global equity. The fixed income portion of the portfolio includes 11% in the Bloomberg Barclay's Aggregate Index, 11% in an actively managed core plus strategies and 4% in Treasury Inflation Protected Securities. The real estate portion of the portfolio includes 4% in a core real estate strategy and 4% in a participating mortgage loan fund.

## INVESTMENT MANAGEMENT

The EFIB engages the services of an investment consultant who acts as an independent fiduciary and provides advice in areas such as investment policies and guidelines, asset allocation strategies, portfolio risk/return modeling and hiring and monitoring of investment managers. Callan has served as EFIB's investment consultant since 2007. They were reappointed in 2019 after a national consultant search.

The EFIB engages investment managers who are given full discretion to make investment decisions subject to policies and guidelines specific to the investment strategy they are managing. As of June 30, 2020, the EFIB engaged nineteen investment managers including; Barrow Hanley, Boston Partners, Clearwater Advisors, DWS Investment Management, DoubleLine Capital, Eagle Asset Management, Fiera Capital, LSV Asset Management, Northern Trust Investments, Sands Capital, TimesSquare Capital Management, Schroders, State Street Global Advisors, Sycamore/Victory Capital, UBS Realty Investors, Vanguard, WCM Investment Management, Wellington and Western Asset Management.

The EFIB engages Northern Trust Company for custodial services. Northern Trust Company is responsible for the safekeeping of assets, trading, accounting, security valuation and proxy voting.

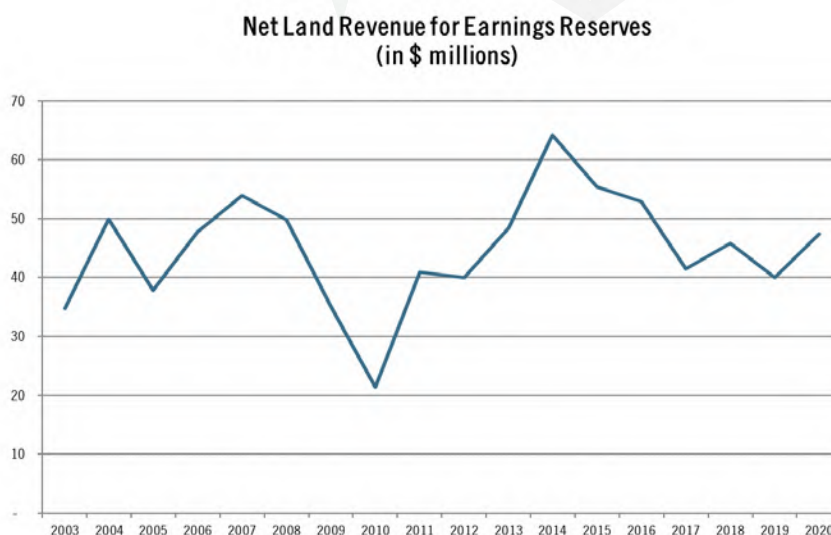
## COST OF INVESTMENT MANAGEMENT

The cost for investment management was \$11.6 million, \$9.1 million and \$9.1 million in fiscal years 2020, 2019 and 2018, respectively. Investment management expenses as a percentage of year-end Endowment Fund net positions equates to 0.48%, 0.39% and 0.41% in fiscal years 2020, 2019 and 2018, respectively. The table below provides a breakdown of investment management expenses.

Cost of Investment Management			
Investment Management Operating Costs	2020	2019	2018
Internal Investment Costs	\$ 534,709	\$ 511,841	\$ 572,161
Outside investment manager and legal fees	10,038,882	8,853,754	7,977,192
Custody Expense	1,184,565	826,571	483,911
Consultant and auditor fees	208,029	329,112	249,511
Subtotal	11,966,185	10,521,278	9,282,775
Less Manager fees charged directly	(995,343)	(925,337)	(589,487)
Total expenditures	10,970,842	9,595,941	8,693,288
Change in Manager Fee Accrual	571,476	(512,909)	432,666
Total Accrual Basis Expense	\$ 11,542,318	\$ 9,083,032	\$ 9,125,954

## NET LAND REVENUE

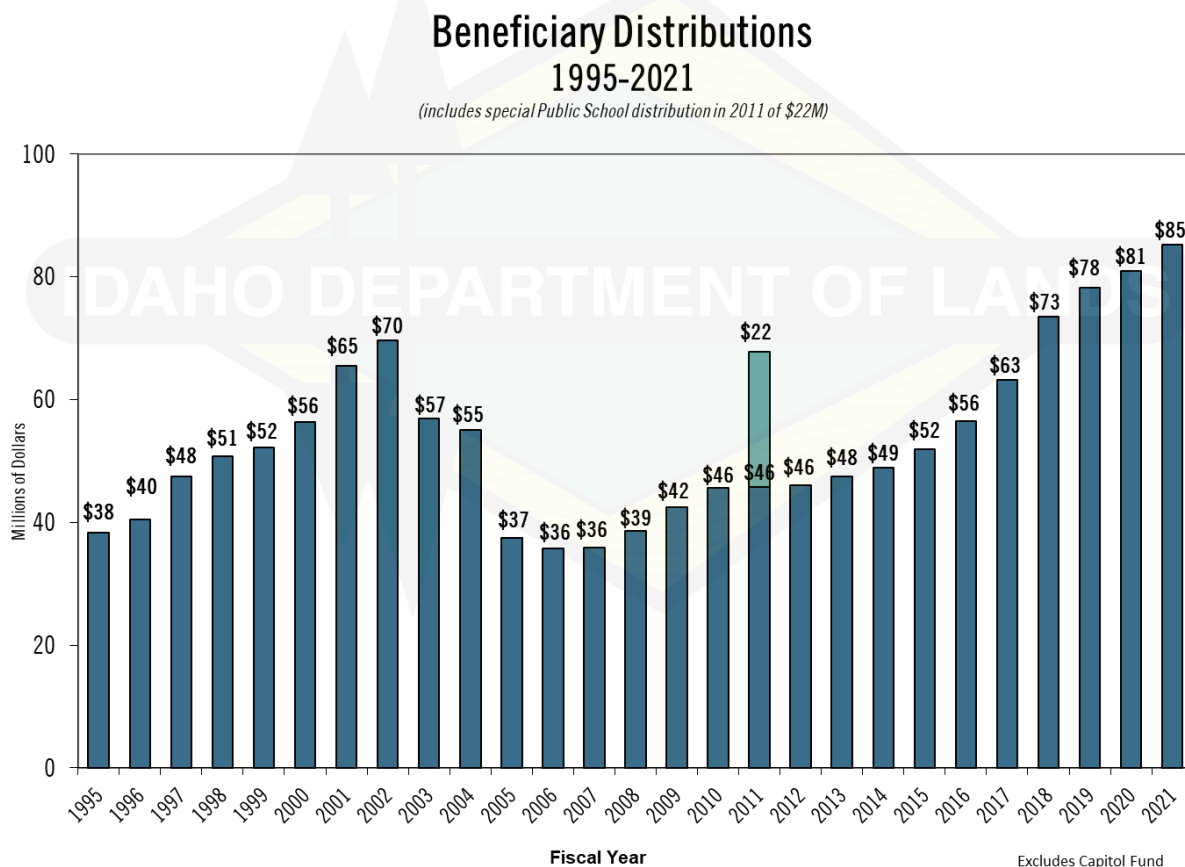
Net land revenue (land revenue less Department of Lands expenses) totaled \$47.5 million, \$40.0 million and \$45.8 million in fiscal years 2020, 2019 and 2018, respectively. Net land revenue increased in fiscal 2020 due to greater timber harvest volumes. The decline in net land revenue since the peak in fiscal 2014 is the result of the sales of leased cabin sites located near Payette and Priest Lakes and lower timber prices.



## BENEFICIARY DISTRIBUTIONS

The Endowment Fund exists to provide distributions to beneficiaries in perpetuity. For all endowments, except Capitol Permanent, the Idaho State Board of Land Commissioners has established a beneficiary distribution policy. The current policy provides for annual distributions at a rate of 5% of the three-year moving average of the Permanent Fund balance (with the exception of State Hospital South which is 7%) and allows for adjustments to the distributions based on factors including the level of Earnings Reserve Funds and transfers to the Permanent Funds.

Distributions to land-grant beneficiaries totaled \$80.9 million, \$78.2 million and \$73.5 million in fiscal years 2020, 2019 and 2018, respectively. The Board of Land Commissioners approved distributions of \$84.5 million and \$88.1 million in fiscal years 2021 and 2022, respectively. The table below provides a summary of land-grant beneficiary distributions.



On July 1, 2004, the Capitol Permanent Fund was pooled with the Endowment Fund for investment purposes. Additions to the Capitol Permanent Fund include revenue from timber lands, license plate royalties, and investment income. The EFIB authorizes distributions from the Capitol

Permanent Fund to the Capitol Maintenance Reserve Fund. Distribution from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund totaled \$1.41 million, \$1.41 million and \$1.39 million in fiscal years 2020, 2019 and 2018, respectively. Distributions from the Capitol Maintenance Reserve Fund are determined by the Capitol Commission, subject to legislative appropriation. Distributions from the Capital Maintenance Reserve Fund to the Capitol Commission were \$325,000, \$250,000 and \$396,000 in fiscal years 2020, 2019 and 2018, respectively.

## **CREDIT ENHANCEMENT PROGRAM**

On July 1, 2002, the State of Idaho's Credit Enhancement Program for school district bond financing was established. This program, in accordance with Idaho Code Section 57-728 and in conjunction with Idaho Code Chapter 53, Title 33, requires the Public School Endowment Fund to purchase up to \$300 million in notes of the State that may be issued to avoid default on school district bonds. This credit enhancement allows eligible voter-approved school bonds to be issued with AAA ratings, which is above the State's AA+ rating. The enhanced credit rating results in lower borrowing costs for Idaho school districts. EFIB has committed to provide credit enhancement on up to \$1.2 billion in school bonds, with a limit of \$40 million per school district. There were \$618.9 million, \$655.4 million and \$667.6 million in bonds guaranteed by the Credit Enhancement Program as of June 30, 2020, 2019 and 2018, respectively.

## **COVID-19**

During the year ended June 30, 2020 the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global financial markets, supply chains, businesses and communities and consequently may impact various parts of operations and financial results. Management believes appropriate actions have been taken to mitigate the negative impact, however, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events near fiscal year-end and are still developing.

## **USING THIS ANNUAL REPORT**

The annual report consists of the independent auditors' report, financial statements, notes to the financial statements and supplementary schedules. The financial statements, notes to the financial statements and supplementary schedules are prepared by the EFIB staff and are intended to give the reader a complete understanding of the Endowment Fund. The financial statements consist of the Governmental Balance Sheets and Statements of Net Position, the Governmental Statements of Revenues, Expenditures and Changes in Governmental Fund Balances and the Statements of Governmental Activities. The notes to the financial statements are an integral part of the financial statements and provide additional information on the Endowment Fund and its operations.

STATE OF IDAHO ENDOWMENT FUND  
GOVERNMENTAL BALANCE SHEETS AND STATEMENTS OF NET POSITION -  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2020 AND 2019



<b>Assets:</b>	2020	2019
Investments, at Fair Value	\$ 2,408,053,808	\$ 2,322,739,061
Receivable for Unsettled Trades	42,317,286	45,247,663
Receivable From Idaho Department of Lands	2,949,976	2,532,470
Accrued Interest and Dividends Receivable	5,009,368	7,505,090
Prepaid Expenses to the Department of Lands	2,270,227	1,966,355
<b>Total Assets</b>	<b>\$ 2,460,600,666</b>	<b>\$ 2,379,990,639</b>
<b>Liabilities:</b>		
Payable for Unsettled Trades	\$ 62,013,517	\$ 54,287,704
Investment Manager Expenses Payable	2,304,755	1,645,823
<b>Total Liabilities</b>	<b>64,318,271</b>	<b>55,933,527</b>
<b>Fund Balances:</b>		
Nonexpendable - Permanent Funds	1,806,951,268	1,719,504,105
Expendable - Earnings Reserve Funds	589,331,126	604,553,007
<b>Total Fund Balances</b>	<b>2,396,282,394</b>	<b>2,324,057,112</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,460,600,666</b>	<b>\$ 2,379,990,639</b>

*The EFIB has no liabilities, that are different from modified accrual to full accrual basis, so the balances in the Statement of Net Position are the same as the fund balances in the Governmental Balance Sheet.*

<b>Statement of Net Position:</b>		
Restricted for Permanent Trust - Nonexpendable	\$ 1,806,951,268	\$ 1,719,504,105
Restricted for Permanent Trust - Expendable	589,331,126	604,553,007
<b>Total Net Position - Governmental Activities</b>	<b>\$ 2,396,282,394</b>	<b>\$ 2,324,057,112</b>

See Notes to Financial Statements

STATE OF IDAHO ENDOWMENT FUND  
GOVERNMENTAL STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN  
GOVERNMENTAL FUND BALANCES AND STATEMENTS OF GOVERNMENTAL ACTIVITIES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019



**Revenues:**

	2020	2019
Receipts from the Department of Lands		
Permanent Receipts	\$ 3,060,341	\$ 2,701,162
Earnings Reserve Receipts	75,906,052	69,352,297
Income from Investments	114,486,770	167,392,206
<b>Total Revenues</b>	<b>193,453,163</b>	<b>239,445,665</b>

**Expenditures:**

Department of Lands Expense	28,442,563	29,399,699
EFIB Expense	11,542,318	9,083,032
<b>Total Expenditures</b>	<b>39,984,881</b>	<b>38,482,731</b>

<b>Revenues over Expenditures</b>	153,468,282	200,962,934
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**Other Financing Uses**

Distributions to Beneficiaries	81,243,000	78,456,400
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<b>Net Increase in Fund Balance</b>	<b>72,225,282</b>	<b>122,506,534</b>
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<b>Fund Balance - Beginning of Year</b>	<b>2,324,057,112</b>	<b>2,201,550,578</b>
<b>Fund Balance - End of Year</b>	<b>\$ 2,396,282,394</b>	<b>\$2,324,057,112</b>

There were no expenses which require the use of current financial resources. The amount for the Change in Net Position (shown below) is the same amount as shown above in the Governmental Statement of Revenues, Expenditures and Changes in Governmental Fund Balances.

<b>Change in Net Position - Government Activities</b>	<b>\$ 72,225,282</b>	<b>\$ 122,506,534</b>
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## NOTE 1 - GENERAL DESCRIPTION OF THE FUND

The Endowment Fund Investment Board (the EFIB) is charged with administration and investment management responsibilities for the State of Idaho Endowment Fund (the “Endowment Fund”), which is comprised of Permanent and Earnings Reserve Funds for beneficiaries including Public School, Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and University of Idaho Endowment Funds, as well as the Capitol Permanent Fund and Capitol Maintenance Reserve Fund.

The Endowment Fund is part of the State of Idaho’s financial reporting and is included in the State’s Comprehensive Annual Financial Report (CAFR). The Endowment Fund is invested according to investment policies established by the Idaho State Board of Land Commissioners.

The EFIB has no control over assets held by the Idaho Department of Lands (IDL); therefore, the EFIB gives accounting recognition only when transactions related to endowment land assets are completed by IDL.

### Endowment Fund Investment Reform Legislation

On July 1, 2000, the EFIB significantly changed operations and reporting of the Endowment Fund, under legislation enacted by the Idaho Legislature in 1998.

The legislation provides that:

- (1) The EFIB, as trustees, will control, manage and invest the Endowment Fund according to policies established by the Idaho State Board of Land Commissioners.
- (2) The application of the Uniform Prudent Investor Act replaces the previous, more restrictive, investment criteria.
- (3) An Earnings Reserve Fund was established to create a buffer to preserve the Permanent Fund balances.
- (4) Administrative costs are to be paid from earnings of the Endowment Fund instead of from annual General Fund appropriations.
- (5) Distributions to beneficiaries are determined by the Idaho State Board of Land Commissioners and are to be paid from the Earnings Reserve Funds, which include investment earnings, net capital gains and certain receipts from IDL.

In March 2004, legislation was enacted which establishes an objective that the Permanent Funds of each endowment grow from June 2000 levels at least at the cumulative rate of inflation plus deposits. Further, it provides that any income and market appreciation of the Permanent Funds can only be transferred to the Earnings Reserve Funds if that objective has been achieved.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

### *Financial Reporting Entity*

The financial statements reflect the assets of the Endowment Fund and are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

The Endowment Fund is part of the State reporting entity based on certain GASB criteria. These statements present only the Endowment Fund and are not intended to present the financial position and results of operations of the State in conformity with generally accepted accounting principles in the United States of America.

### *Basis of Presentation*

The Endowment Fund is accounted for and reported as a Permanent Fund as defined by GASB and uses the modified accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenditures are recognized when they are incurred. The statement of net position and the statement of activities display information about the Endowment Fund and includes the financial activity of the overall reporting entity. These statements report all activities of the Endowment Fund as a governmental type activity. Given the type of assets and liabilities held by Endowment Fund, there are no adjustments required to convert from modified accrual basis to full accrual basis as required by GASB.

### *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### *Investments*

According to policies established by the State Board of Land Commissioners, the EFIB is authorized to invest the Endowment Fund in certain fixed income, real estate and equity investments as defined by the investment policy of the EFIB and consistent with Idaho Code Section 57-723. This section states in part, "The EFIB and its investment manager(s) or custodian(s) shall be governed by the Idaho Uniform Prudent Investor Act (Chapter 5, Title 68, Idaho Code), and shall invest and manage the assets of the respective trusts in accordance with that act and the Idaho constitution." In accordance with this code section, the EFIB's investment policy, specifies that the Endowment Funds may be invested in equities (63% to 69% of the investment portfolio, with a target of 66%), fixed income (23% to 29% of the investment portfolio, with a target of 26%), and real estate (4% to 12% of the investment portfolio, with a target of 8%).

The following is a list of investments by asset class allowed by the general investment policy:

- (1) Cash Equivalents: Treasury bills; money market funds; STIF funds; commercial paper; banker's acceptances; repurchase agreements; certificates of deposit.
- (2) Fixed Income: U.S. government and agency securities; bank loans; corporate notes and bonds; residential mortgage backed bonds; commercial mortgage backed bonds; municipal bonds, infrastructure securities, USD and non-USD fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other "early tranche" CMO's; Sequential pay CMO's; collateralized loan obligations, asset backed securities; convertible notes and bonds; Securities defined under Rule 144A and Section 4(2) of Securities Act of 1933; or any other fixed income securities eligible for inclusion in the Bloomberg Barclays U.S. TIPS Index or Bloomberg Barclays Aggregate Bond Index.
- (3) Equities: Common stocks; convertible preferred stocks; preferred stocks; REITS; American depository receipts (ADRs); stocks of non-U.S. companies (ordinary shares).
- (4) Real Estate: Domestic, private, open-end, core comingled funds, REITS.
- (5) ETFs, Mutual Funds and Collective Funds which invest in securities as allowed in this statement or as permitted in Investment Manager Guidelines. Investment managers will advise the MOI of their intent to utilize ETFs prior to their purchase, what specific ETFs they intend to use and the purposes they serve.
- (6) Futures, Options and Swaps: The EFIB may approve the use of financial index futures and options in order to adjust the overall effective asset allocation of the entire portfolio or it may use swaps, futures or options to hedge interest rate or currency exposure. For example, S&P 500 and 10-Year Treasury futures are used to equitize idle cash and to passively rebalance the portfolio. Futures and options positions are not to be used for speculation, and the EFIB must specifically approve the program for each type of use. Derivative exposure must have sufficient cash, cash equivalents, offsetting derivatives or other liquid assets to cover such exposures. Investment securities are stated at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date. Purchase and sale transactions are recorded on the trade date.
- (7) Derivative securities: Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, and interest rate swaps, among others. The EFIB will take a conservative posture on derivative securities in order to maintain its risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. Unless a specific type of derivative security is allowed in the Investment Manager Guidelines, the Investment Manager(s) must seek written permission from the EFIB to include derivative

investments in the Fund's portfolio. The Investment Manager(s) must present detailed written information as to the expected return and risk characteristics of such investment vehicles.

(8) Investment securities are stated at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date. Purchase and sale transactions are recorded on the trade date.

In fiscal years 2020 and 2019, the EFIB utilized equity and fixed income index futures for cash equitization and passive rebalancing. Index futures obligate the buyer to purchase an asset (or the seller to sell an asset) at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset and are standardized to facilitate trading on a futures exchange.

The table below summarizes the various contracts in the portfolio as of June 30, 2020. The notional value of these instruments is not recorded in the financial statements.

Derivatives	Expiration Date	Contracts	Notional Value	Unrealized Gain/(Loss)	Required Margin
10-Year Treasury Notes	Sept. 2020	249	\$34,645,158	\$74,157	\$655,160
Swaps	Various	21	\$76,846,619	(\$1,387,482)	
Equity Contracts	Various	2	12,255	\$2,059	
Foreign Exchange Contracts	Various	57	-	(\$63,961)	

The table below summarizes the various contracts in the portfolio as of June 30, 2019. The notional value of these instruments is not recorded in the financial statements.

Derivatives	Expiration Date	Contracts	Notional Value	Unrealized Gain/(Loss)	Required Margin
10-Year Treasury Notes	Sept. 2019	211	\$26,956,753	\$169,532	\$254,888
E-Mini S&P 500 Index	Sept. 2019	76	\$11,124,832	\$112,860	\$523,699
MSCI EAFE	Sept. 2019	71	\$6,812,980	\$150,443	\$34,006
Swaps	Various	23	\$52,424,720	(\$843,486)	
Fixed Income Derivatives	Various	4	(8,472)	\$3,553	

#### *Expendable and Nonexpendable Net Position*

The net position of the Earnings Reserve Funds is the expendable assets of the Endowment Fund. These expendable assets are used for distributions to beneficiaries and distributions for expenses of the EFIB and the IDL. The net position of the Permanent Funds is the nonexpendable assets.

### *Income from Investments*

Income from investments is recognized when earned and includes interest, dividends, other income, and market appreciation (realized and unrealized). Income from investments is allocated and distributed to each fund participating in the investment pool in the same ratio that each fund's average daily balance bears to the total daily balance of all funds. Income from investments is recorded on an accrual basis.

Within each endowment, income from investments is further allocated to its Permanent Fund and Earnings Reserve Fund in accordance with Idaho Code Sections 57-723A and 57-724A. The definition of "income" to be allocated depends on whether or not the Permanent Fund portion of an endowment fund has exceeded, at the end of the fiscal year, its "Gain Benchmark" as defined in statute.

The Gain Benchmark, as specified in Idaho Code Section 57-724, represents the desired or targeted value of principal or corpus in each endowment fund (excluding Capitol Permanent). It is determined by starting with the balance at June 30, 2000, and adding deposits (mainly extracted minerals from endowment land), the annual impact of inflation (based on the Consumer Price Index – All Urban (CPI)), and certain reinvested income (transfers from Earnings Reserve designated by the Land Board as a permanent increase in corpus). The level of the Gain Benchmark determines whether income from investments in the Permanent Fund should be retained to offset inflation and previous losses or is eligible to be transferred to the Earnings Reserve as distributable income. The Permanent Funds at the end of FY2020 and 2019 were at the gain benchmark.

### *Losses in Principal of the Permanent Funds*

At the end of each fiscal year, the EFIB is required to calculate whether the market values of the Permanent Funds are below the principal or Loss Benchmark level as defined in statute (June 30, 2000 value adjusted for deposits – primarily revenues from extracted minerals and proceeds of land sales).

A loss in principal of the Public School Permanent Fund is made up as follows:

- (1) The State Board of Land Commissioners may transfer any funds in the Public School Earnings Reserve Fund that they determine will not be needed for administrative costs or scheduled distributions in the following fiscal year to the Public School Permanent Fund, to make up for any prior losses in value.
- (2) If funds transferred from the Earnings Reserve Fund are insufficient to make up all losses in value to the Public School Permanent Fund, the remaining loss shall be made up, within ten years, by legislative transfer or appropriation. If subsequent gains, as determined pursuant to the statute, or transfers from the Earnings Reserve Fund, make

up for any remaining loss before this ten-year period expires, then no legislative transfer or appropriation shall be necessary.

A loss in principal of the Permanent Funds other than the Public School Permanent or Capitol Permanent Funds shall be made up from Earnings Reserve Fund monies that the State Board of Land Commissioners determines will not be needed for administrative costs or scheduled distributions to each endowment's respective beneficiary.

Federal law requires that losses to the Agricultural College fund must be made up by the State, but the requirement to restore losses to that endowment has not been established in statute.

There is no statutory requirement to make up losses or calculate a Gain or Loss Benchmark in the Capitol Permanent Fund.

#### *Distributions to Beneficiaries*

With the exception of the Capitol Funds, distributions to the other eight beneficiaries are authorized annually by the State Board of Land Commissioners and are made in equal installments on approximately the 10th of each month. Distributions to the Capitol Maintenance Reserve Fund from the Capitol Permanent Fund are authorized by the EFIB and distributed in July of each fiscal year. Distributions from the Capitol Maintenance Reserve Fund are authorized by the Capitol Commission.

#### *Pensions*

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to or deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, see Note 10.

#### *Other*

Investments have risks that the other parties to securities transactions do not fulfill their contractual obligations. The EFIB attempts to minimize such risks by diversifying the portfolio investments, monitoring investment grade and quality, and purchasing primarily investment grade fixed income securities.

The EFIB does not intend to use market timing as an investment strategy. However, the investment policy provides the flexibility for tactical asset allocation using capitalizations, investment styles, sectors, and other factors.



### NOTE 3 - INVESTMENTS

Investments at June 30, 2020 and 2019:

Fund Investments	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Aberdeen Asset Management	\$ -	\$ -	\$ 7,434	\$ 7,434
Allianz NFJ	-	-	12,352	12,353
Barrow, Hanley	42,463,241	46,436,271	38,230,311	46,436,728
Boston Partners	113,094,586	118,151,212	98,144,930	109,984,866
Clearwater Advisors	1,540,684	1,540,684	3,088,708	3,088,708
DoubleLine Capital - Core Plus	135,910,122	138,149,707	116,542,596	121,500,293
Eagle Asset Management	37,240,569	52,002,733	38,258,172	51,971,250
Fiera Capital Global	84,829,166	106,959,666	92,318,675	111,877,929
Lazard Asset Management	-	-	8,998	8,998
LSV Asset Management	112,929,311	114,966,087	87,659,964	109,146,185
NTGI S&P 500 Index	162,567,912	264,402,846	157,870,016	260,583,651
Northern Trust Money Market Fund*	20,200,616	20,200,616	7,783,898	7,783,898
RREEF America REIT II IN	89,707,056	99,067,100	86,689,091	95,811,931
Sands Capital Management	65,941,117	128,396,676	60,995,658	117,444,467
Schroders QEP International Value	218,290,702	199,165,688	213,420,797	200,789,793
State Street Global Advisors	291,220,134	313,271,066	325,732,752	320,625,010
State Street EAFE Index Funds	-	-	249,160	249,160
Sycamore Capital Mid Cap	92,447,423	84,583,243	88,624,378	90,129,023
TimesSquare Capital Management	69,450,029	92,441,331	71,929,996	94,781,837
UBS Trumbull Property	88,431,611	92,327,684	88,858,110	94,230,709
Vanguard Dev Market Index Fund	47,253,029	46,014,661	41,244,599	42,254,669
WCM Focused Growth	148,422,796	225,746,902	144,473,678	205,645,418
Wellington Global	95,657,919	108,096,742	99,864,687	107,455,367
Western Asset Management - US Core	132,029,563	136,436,663	117,170,197	121,879,343
<b>Total Fund Investments</b>	<b>2,049,627,586</b>	<b>2,388,357,578</b>	<b>1,979,179,157</b>	<b>2,313,699,020</b>
Pending Trades:				
Receivable for Investments Sold	(42,317,286)	(42,317,286)	(45,247,662)	(45,247,663)
Payable for Investments Purchased	62,013,517	62,013,517	54,287,704	54,287,704
<b>Total Net Investments</b>	<b>\$ 2,069,323,816</b>	<b>\$ 2,408,053,808</b>	<b>\$ 1,988,219,199</b>	<b>\$ 2,322,739,061</b>

\*This is cash that is not allocated to an investment manager

**CUSTODIAL CREDIT RISK** - The EFIB minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to EFIB ownership and further to the extent possible, be held in the EFIB's name. At June 30, 2020, all Endowment Fund investments were insured or registered investments, or investments held by the EFIB or their agent in the EFIB's name.

The State Treasurer, per the State Constitution, is the custodian of the investments of the Public School Endowment Fund. Investments for the Endowment Fund are held under a safekeeping agreement with the Trust Department of the Northern Trust Company.

**CONCENTRATION OF CREDIT RISK** – The EFIB minimizes exposure to concentration of credit risk by establishing concentration of credit risk limits in investment manager portfolio guidelines. As of June 30, 2020 and 2019, the Endowment Fund did not hold any credit positions exceeding 5% of the total portfolio, other than securities issued or guaranteed by the United States government.

As of June 30, 2020 and 2019, the Endowment Funds held \$82.3 million and \$64.0 million, respectively, in a comingled Treasury-only money market fund rated AAAM by S&P with a modified adjusted duration of 0.1 years. These balances as of June 30, 2020 and 2019, include \$20.0 million and \$7.7 million of general cash and \$62.3 million and \$56.3 million of cash held in accounts allocated to the Funds' bond and equity managers, respectively.

As of June 30, 2020 and 2019, the Endowment Fund's fixed income investments had the following characteristics:

**Credit Ratings Summary by Market Value-Moody's**  
As of June 30, 2020

Investment Type	Modified Duration	Aaa	Aa	A	Baa	Ba	B	>B	Agy	NR/Not Available	Total
Asset Backed Securities	3.1	\$ 388,584	\$ 811,300	\$ 1,211,381	\$ 1,934,519	\$ 358,141	\$ 767,446	\$ 2,133,235	\$ 2,989,384	\$ 1,963,820	\$ 12,557,810
Commercial Mortgage-Backed	4.3	4,092,248	1,375,276	1,139,577	854,954	407,506	2,548,295	2,580,569	-	886,499	13,884,924
Corporate Bonds	8.0	2,026,339	10,107,567	54,163,854	65,931,512	9,314,517	3,479,704	2,785,027	-	782,193	148,590,713
Corporate Convertible Bonds	4.4	-	-	-	54,897	179,805	-	-	-	-	234,702
Funds - Corporate Bond	0.5	-	10,998,824	-	-	-	-	-	-	-	10,998,824
Funds - Government Agencies	1.0	-	-	-	-	-	-	-	10,214,925	-	10,214,925
Funds - Other Fixed Income	0.5	164,780	-	-	221,289	4,177,444	16,334,935	286,346	-	45,113	21,229,907
Government Agencies	4.1	6,146,887	650,424	576,946	-	121,223	-	-	283,517	310,596	8,089,592
Government Bonds	8.8	119,958,590	1,211,866	1,397,829	11,316,463	1,066,205	192,597	309,437	3,254,364	-	138,707,352
Government Mortgage Backed Securities	2.6	2,249,965	-	-	-	-	-	-	100,644,598	302,115	103,196,678
Gov't-issued Commercial Mortgage-Backed	6.0	-	-	-	-	-	-	-	2,453,352	-	2,453,352
Index Linked Government Bonds	7.5	89,568,241	-	-	-	-	-	-	-	-	89,568,241
Municipal/Provincial Bonds	10.7	90,628	1,448,903	301,302	192,536	-	-	-	-	190,164	2,223,532
Non-Government Backed C.M.O.s	3.6	-	-	-	-	-	-	3,457,458	-	7,221,421	10,678,880
<b>Total</b>		<b>\$ 224,686,262</b>	<b>\$ 26,604,160</b>	<b>\$ 58,790,889</b>	<b>\$ 80,506,170</b>	<b>\$ 15,624,841</b>	<b>\$ 23,322,977</b>	<b>\$ 11,552,072</b>	<b>\$ 119,840,140</b>	<b>\$ 11,701,921</b>	<b>\$ 572,629,432</b>

**Credit Ratings Summary by Market Value-Moody's**  
As of June 30, 2019

Investment Type	Modified Duration	Aaa	Aa	A	Baa	Ba	B	>B	Agy	NR/Not Available	Total
Asset Backed Securities	2.2	\$ 1,453,073	\$ -	\$ 10,579,418	\$ 934,957	\$ -	\$ -	\$ 663,048	\$ -	\$ 1,834,475	\$ 15,464,971
Commercial Mortgage-Backed	2.0	5,092,272	960,557	8,443,687	-	-	1,107,284	-	-	434,897	16,038,697
Corporate Bond Fund	3.6	-	11,801,232	-	-	-	-	-	-	-	11,801,232
Corporate Bonds	7.4	2,384,893	6,683,109	38,310,007	57,734,557	9,967,693	9,089,164	671,395	-	1,000,005	125,840,823
Corporate Convertible Bonds	5.5	-	-	-	-	193,176	15,037	-	-	558,981	767,194
Government Agencies	4.5	6,717,378	601,548	532,884	682,542	-	-	-	48,793	118,244	8,701,389
Government Agencies Fund	4.6	-	-	-	-	-	-	-	8,903,448	-	8,903,448
Government Bonds	7.2	122,631,510	214,720	3,844,326	3,461,394	1,817,972	737,118	-	-	1,312,476	134,019,516
Government Mortgage Backed Securities	4.7	-	-	-	-	-	-	-	111,221,956	563,549	111,785,505
Gov't-issued Commercial Mortgage-Backed	2.9	393,052	-	-	-	-	-	-	2,098,957	-	2,492,009
Index Linked Government Bonds	8.2	90,835,699	-	-	-	-	-	-	-	-	90,835,699
Municipal/Provincial Bonds	9.3	82,181	1,446,355	277,648	108,956	76,557	-	-	-	86,287	2,077,984
Non-Government Backed C.M.O.s	1.6	-	-	-	-	-	3,169,079	3,144,723	-	-	6,313,802
Other Fixed Income Fund	4.6	-	-	-	-	-	17,233,345	-	-	-	17,233,345
<b>Total</b>		<b>\$ 229,590,058</b>	<b>\$ 21,707,521</b>	<b>\$ 61,987,970</b>	<b>\$ 62,922,406</b>	<b>\$ 12,055,398</b>	<b>\$ 31,351,027</b>	<b>\$ 4,479,166</b>	<b>\$ 122,273,154</b>	<b>\$ 5,908,914</b>	<b>\$ 552,275,614</b>

\*The Ba column includes bonds that are split rate and meet the minimum requirement of one of the two ratings agencies specified in the EFIB Statement of Investment Policy.



CREDIT RISK - EFIB Investment policy limits fixed income securities to: U.S. government and agency securities; bank loans; corporate notes and bonds; residential mortgage backed bonds; commercial mortgage backed bonds; municipal bonds, infrastructure securities, USD and non-USD fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other “early tranche” CMO’s; Sequential pay CMO’s; collateralized loan obligations, asset backed securities; convertible notes and bonds; Securities defined under Rule 144A and Section 4(2) of Securities Act of 1933; or any other fixed income securities eligible for inclusion in the Bloomberg Barclays U.S. TIPS Index or Bloomberg Barclays Aggregate Bond Index.

INTEREST RATE RISK - Managers will provide EFIB with the expected portfolio duration in their portfolio guidelines. If the duration of the portfolio differs from expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.



IDAHO DEPARTMENT OF LANDS

FOREIGN CURRENCY RISKS – The EFIB’s Investment Policy Statement permits investments in international equities. The Endowment Fund’s exposure to foreign currency risk is as follows:

Investment and Country	Currency	2020 Fair Value	2019 Fair Value
Equities and Cash			
Argentina	ARS	\$ 107,267	\$ 106,498
Australia	AUD	18,096,544	12,692,607
Brazil	BRL	3,276,350	6,847,786
Canada	CAD	14,854,535	14,530,265
Chile	CLP	429,692	929,371
Chinese Yuan	CNY	(2,498,903)	(1,136,196)
Chinese Yuan (HK)	CNH	1,967,522	594,505
Czech Republic	CZK	322,237	75,898
Denmark	DKK	10,032,263	9,999,901
European Monetary Union	EUR	71,499,752	93,911,841
Great Britain	GBP	46,940,642	51,856,676
Hong Kong	HKD	39,343,160	38,733,333
Hungary	HUF	884,677	264,951
India	INR	234,095	1,174,742
Indonesia	IDR	2,975,439	2,030,775
Israel	ILS	490,869	1,563,197
Japan	JPY	57,851,564	55,808,074
Malaysia	MYR	1,130,763	1,613,931
Mexico	MXN	9,411,791	10,268,562
New Zealand	NZD	278,735	66,171
Norway	NOK	2,051,759	5,741,175
Philippines	PHP	26,931	-
Poland	PLN	1,972,608	1,075,956
Russia	RUB	1,861,284	2,792,516
Singapore	SGD	3,056,288	3,447,937
South Africa	ZAR	2,678,500	3,801,434
South Korea	KRW	9,088,669	9,070,925
Sweden	SEK	8,272,639	5,928,903
Switzerland	CHF	43,026,067	49,940,763
Taiwan	TWD	11,474,015	6,687,196
Thailand	THB	3,170,077	2,879,182
Turkey	TRY	1,777,183	2,452,436
Total Fund Investments		\$ 366,085,013	\$ 395,751,311

#### NOTE 4 – INCOME FROM INVESTMENTS

Per Idaho Code Section 57-724A, income distributed to the Earnings Reserve Fund includes the Permanent Fund's total cumulative income (interest, dividends and market appreciation/depreciation) above its Gain Benchmark (original principal, adjusted for deposits and inflation). The Permanent Fund retains any income to the extent of inflation and any cumulative losses carried forward from the previous year.

The Components of income from investments for Fiscal Year 2020 and their allocation are shown below:

**Permanent Fund Income**  
For the Fiscal Year Ended June 30, 2020

Endowment	Net Increase in Fair Value	Income Retained to Offset Inflation or Losses *	Cap Perm Fund Interest and Dividends	Total Investment Income
Public School	\$ -	\$ 16,709,233	\$ -	\$ 16,709,233
Agricultural College	-	501,073	-	501,073
Charitable	-	1,905,391	-	1,905,391
Normal School	-	1,719,274	-	1,719,274
Penitentiary	-	807,560	-	807,560
School of Science	-	1,738,350	-	1,738,350
State Hospital South	-	1,455,075	-	1,455,075
University of Idaho	-	1,543,442	-	1,543,442
Capitol Permanent **	973,756	-	639,967	1,613,723
<b>Total</b>	<b>\$ 973,756</b>	<b>\$ 26,379,399</b>	<b>\$ 639,967</b>	<b>\$ 27,993,122</b>

\* For all Permanent funds (except Capitol Permanent), any cumulative total income vs. the Gain Benchmark is allocated to the Earning Reserve Fund as part of Allocation of Permanent Fund Gain in the table below).

\*\*The Capitol Permanent Fund retains its interest and dividends.

**Earnings Reserve Fund Income**  
For the Fiscal Year Ended June 30, 2020

Endowment	Net Increase in Fair Value	Interest, Dividends and Other Income	Allocation of Permanent Fund Gain *	Total Investment Gain
Public School	\$ 9,283,622	\$ 28,109,424	\$ 15,936,884	\$ 53,329,929
Agricultural College	405,606	880,444	451,435	1,737,486
Charitable	1,269,213	3,272,673	1,729,067	6,270,953
Normal School	1,052,844	2,957,650	1,623,943	5,634,437
Penitentiary	515,736	1,427,590	807,738	2,751,064
School of Science	1,099,168	3,058,144	1,742,256	5,899,569
State Hospital South	1,250,323	2,706,807	1,286,356	5,243,486
University of Idaho	1,016,188	2,684,659	1,497,390	5,198,237
Capitol Maintenance **	254,962	173,525	-	428,487
<b>Total</b>	<b>\$ 16,147,662</b>	<b>\$ 45,270,916</b>	<b>\$ 25,075,070</b>	<b>\$ 86,493,648</b>

\* All Endowments (except Capitol Permanent), are allocated the Permanent Fund's total cumulative income over the Gain Benchmark.

\*\*The Capitol Maintenance Fund retains its proportionate share of interest and dividends and the net increase or decrease in fair value.

The Components of income from investments for Fiscal Year 2019 and their allocation are shown below:

**Permanent Fund Income**  
For the Fiscal Year Ended June 30, 2019

Endowment	Net Increase in Fair Value	Income Retained to Offset Inflation or Losses *	Cap Perm Fund Interest and Dividends	Total Investment Income
Public School	\$ -	\$ 21,271,898	\$ -	\$ 21,271,898
Agricultural College	-	622,334	-	622,334
Charitable	-	2,472,656	-	2,472,656
Normal School	-	2,095,866	-	2,095,866
Penitentiary	-	942,509	-	942,509
School of Science	-	2,075,119	-	2,075,119
State Hospital South	-	1,884,551	-	1,884,551
University of Idaho	-	1,817,889	-	1,817,889
Capitol Permanent **	1,658,766	-	710,342	2,369,108
<b>Total</b>	<b>\$ 1,658,766</b>	<b>\$ 33,182,822</b>	<b>\$ 710,342</b>	<b>\$ 35,551,930</b>

\* For all Permanent funds (except Capitol Permanent), any cumulative total income vs. the Gain Benchmark is allocated to the Earning Reserve Fund as part of Allocation of Permanent Fund Gain in the table below).

\*\*The Capitol Permanent Fund retains its interest and dividends.

**Earnings Reserve Fund Income**  
For the Fiscal Year Ended June 30, 2019

Endowment	Net Increase in Fair Value	Interest, Dividends and Other Income	Allocation of Permanent Fund Gain *	Total Investment Gain
Public School	\$ 16,008,198	\$ 31,171,179	\$ 34,004,921	\$ 81,184,298
Agricultural College	507,656	946,360	1,036,119	2,490,135
Charitable	1,988,178	3,612,065	3,828,201	9,428,444
Normal School	1,869,995	3,289,449	3,596,672	8,756,116
Penitentiary	951,499	1,567,183	1,733,548	4,252,230
School of Science	2,067,625	3,374,869	3,682,906	9,125,400
State Hospital South	2,090,692	3,032,344	2,927,371	8,050,407
University of Idaho	1,735,564	2,970,068	3,295,826	8,001,458
Capitol Maintenance **	385,727	166,061	-	551,788
<b>Total</b>	<b>\$ 27,605,134</b>	<b>\$ 50,129,578</b>	<b>\$ 54,105,564</b>	<b>\$ 131,840,276</b>

\* All Endowments (except Capitol Permanent), are allocated the Permanent Fund's total cumulative income over the Gain Benchmark.

\*\*The Capitol Maintenance Fund retains its proportionate share of interest and dividends and the net increase or decrease in fair value.

The components of Interest, Dividends and Other Income are shown below:

Income From Investments	2020	2019
Interest, Other Income and Fees	\$ 17,248,224	\$ 23,392,927
Dividends	28,662,659	27,446,993
<b>Total</b>	<b>\$ 45,910,883</b>	<b>\$ 50,839,920</b>

## NOTE 5 – CLIENT EXPENSES

Four clients, representing eleven additional perpetual funds in Fiscal Year 2020 and ten funds in Fiscal Year 2019, are included in the same comingled investment pool as the Endowment Fund and their assets totaled \$144 million and \$136 million as of June 30, 2020 and 2019, respectively. These balances are not included in the EFIB financial statements.

In fiscal year 2020, expenses of the EFIB were paid from the Earnings Reserve Funds and by the EFIB's other clients. The portions paid by the other clients were paid under investment management contracts and are not considered an expenditure of the Endowment Funds and are therefore not included as expenditures or as reimbursements in these financial statements. Total expenses were \$623,655 and \$402,320 for the fiscal years ended June 30, 2020 and 2019, respectively.

## NOTE 6 – BENEFICIARY DISTRIBUTIONS

Distributions to beneficiaries for the Fiscal Years ended June 30, 2020 and 2019 are shown below.

Beneficiary	Total Fund Distributions	
	2020	2019
Public School	\$ 51,260,000	50,325,600
Agricultural College	1,466,000	1,447,200
Charitable Institutions	5,754,000	5,754,000
Normal School	4,946,000	4,410,000
Penitentiary	2,247,000	2,193,600
School of Science	4,930,000	4,826,400
State Hospital South	5,955,000	5,024,400
University of Idaho	4,360,000	4,225,200
Subtotal	80,918,000	78,206,400
Capitol Maintenance	325,000	250,000
Total Distributions	\$ 81,243,000	\$ 78,456,400

Pursuant to Idaho Code Section 66-1106, the Charitable Institutions Endowment Fund income is distributed to five institutions according to the factors shown below. Distributions to these sharing institutions for the years ended June 30, 2020 and 2019, were as follows:

Charitable Institutions			
Beneficiaries	Factor	2020 Distribution	2019 Distribution
Idaho State University Fund	8/30	\$ 1,534,400	\$ 1,534,400
State Juvenile Corrections Institutions Fund	8/30	1,534,400	1,534,400
School for the Deaf and Blind Fund	1/30	191,800	191,800
Veterans Home Fund	5/30	959,000	959,000
State Hospital North Fund	8/30	1,534,400	1,534,400
Total		<u>\$ 5,754,000</u>	<u>\$ 5,754,000</u>

Pursuant to Idaho Code Section 33-3301B, the Normal School Endowment Fund Income is distributed to the two institutions shown below. Distributions to these sharing institutions for the years ended June 30, 2020 and 2019:

Normal School			
Beneficiaries	%	2020 Distribution	2019 Distribution
Idaho State University, Pocatello	50%	\$ 2,473,000	\$ 2,205,000
Lewis-Clark State College, Lewiston	50%	2,473,000	2,205,000
Total		<u>\$ 4,946,000</u>	<u>\$ 4,410,000</u>

#### NOTE 7 – CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICT BONDS

On July 1, 2002, the State of Idaho's Credit Enhancement Program for school district bonds became effective. This program, in accordance with Idaho Code Section 57-728 and in conjunction with Idaho Code Chapter 53, Title 33, currently requires the Public School Endowment Fund to purchase up to \$300 million in notes of the State of Idaho that are issued to avoid the default of a voter-approved school district bond that has been guaranteed by the program.

The capacity of the School Bond Credit Enhancement Program to guaranty payments on general obligation school bonds is \$300 million and the bond principal that can be guaranteed is \$1.2 billion. The maximum available to any one district for bond principal is \$40 million.

As of June 30, 2020, \$618.9 million of bonds guaranteed by the Credit Enhancement Program remained outstanding. Expected principal and interest payments in the coming year total \$67.8 million. As of June 30, 2019, \$655.4 million of bonds guaranteed by the Credit Enhancement Program remained outstanding.

The Public School Endowment Fund would only be required to loan monies to the State to make payments on school bonds after several other potential funding sources have been exhausted. If a school district does not make timely prepayment of debt service on guaranteed bonds, the State Treasurer is required to make the payment, if possible, by intercepting monies due to that school district from the State, including General Fund payments and distributions from the Public School Endowment Fund. If these funds are not sufficient to meet the debt service payment, the State Treasurer is required to utilize any available funds from the state sales tax account. If all these sources prove insufficient to make the payment, the Treasurer may borrow the remaining amount from the Public School Endowment Fund, at a rate of 400 basis points above one-year Treasury Bills. This loan from the Endowment Fund would be repaid by the intercept of future state funds due to the school district and other sources.

Since July 2009, the EFIB has charged an application fee to offset administrative costs and a guaranty fee that is deposited in the Public School Endowment Fund for providing the ongoing credit enhancement. Application fees for fiscal year 2020 totaled \$1,000 and guaranty fees, included in Income from Investments, totaled \$4,435. Application fees for fiscal year 2019 totaled \$3,000 and guaranty fees, included in Income from Investments, totaled \$27,286.

#### **NOTE 8 – BUDGETARY COMPARISON**

Budgets are adopted on a cash basis for the Endowment Fund. The budget for administrative expenses (personnel, operating and capital outlay) from the Earnings Reserve Funds is approved by the legislature on an annual basis. Expenses for consulting fees, bank custodial fees, and portfolio-related external costs are continually appropriated by the Idaho Legislature on an annual basis. The EFIB is not required by law to adopt or publish an overall budget for operations.

#### **NOTE 9 – MISCELLANEOUS REVENUE**

By law, certain miscellaneous State revenue is required to be deposited in the Public School Permanent Fund:

- Unclaimed estates, dividends and stock certificates from Idaho corporations (Idaho Constitution Section 4 Article IX)
- Five percent of federal land sales, net of sale expenses (Section 7 of the Idaho Admission Bill)
- Anonymous political contributions in excess of \$50 (Idaho Code Section 67-6610)
- Unqualified election expenses of political parties paid from state income tax funds (Idaho Code Section 34-2505)
- Royalties arising from extraction of minerals from navigable waterways (Idaho Code Section 58-104)



In fiscal year 2020, the Public School Permanent Fund received \$69,223 representing the net proceeds from the sale of federal land in Idaho. Also, in fiscal 2020, the Public School Permanent Fund received \$230 representing a donation from an unclaimed estate property.

In fiscal year 2019, the Public School Permanent Fund received \$21,592 representing the net proceeds from the sale of federal land in Idaho. Also, in fiscal 2019, the Public School Permanent Fund received \$210 representing a donation from a class action suit and a private citizen chose to direct the proceeds to the Idaho School Public Endowment.

These miscellaneous revenues are included in Receipts from the Department of Lands.

The Capitol Maintenance Reserve Fund receives a portion of the additional fees charged for the special Idaho Capitol vehicle license plate (Idaho Code Section 49-420A). In fiscal 2020 and 2019, this revenue totaled \$92,885 and \$84,455, respectively and is included in Receipts from Department of Lands.

## **NOTE 10 – PENSION AND OTHER POST-EMPLOYMENT BENEFITS**

### *Plan Description*

The EFIB contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at [www.persi.idaho.gov](http://www.persi.idaho.gov).

Responsibility for administration of the Base Plan is assigned to the PERSI Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

### *Pension Benefits*

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per



year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

#### *Member and Employer Contributions*

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) if current rates are actuarially determined to be inadequate or in excess to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate. As of June 30, 2020 and 2019, the rate was 6.79%. The employer contribution rate is set by the Retirement Board and was of covered compensation. The EFIB's contributions were \$48,282 and \$41,752, for the fiscal years ended June 30, 2020 and 2019, respectively.

The EFIB portion of the net pension liability was calculated and determined to be immaterial to the financial statements and the EFIB has no legal obligation to fund this shortfall. The EFIB has determined to not include the net pension liability and associated deferred inflow and outflow of resources on its financial statements. The EFIB's proportionate share of the net pension liability can be found on the PERSI website.

## NOTE 11 – LAND BANK

The Land Bank Fund was established under Idaho Code Section 58-133 to allow the State Board of Land Commissioners to hold proceeds from the sale of state endowment land pending the purchase of other Idaho land for the benefit of the beneficiaries of that endowment. These proceeds may be held for a period not to exceed five years from the effective date of the sale. Funds in the Land Bank are invested in the State Treasurer's Idle Pool and any investment earnings are added to the original proceeds. Land Bank Fund assets are not included in the balances of the Endowment Funds since they are being held primarily for purchase of land that will be managed by IDL. The authority to acquire land using Land Bank assets rests with the State Board of Land Commissioners.

As of June 30, 2020 and 2019, the Land Bank Fund balances were \$130.8 million and \$110.4 million, respectively. No funds were transferred out of the fund during fiscal year 2020. The Land Bank balances by endowment, as of June 30, 2020 were as follows:

FY Quarter Received	Land Bank As of June 30, 2020				Total	FY Quarter Expires
	Public School	Normal School	State Hospital South	University of Idaho		
2017-02	2,852,032	2,161,254	9,515,446	-	14,528,732	2022-02
2017-03	5,766,250	10,431,970	1,593,780	-	17,792,000	2022-03
2017-04	-	25,100	-	-	25,100	2022-04
2018-01	-	3,331,000	4,439,000	-	7,770,000	2023-01
2018-02	27,869,832	-	125,500	-	27,995,332	2023-02
2018-03	-	2,000,712	829,888	5,650,029	8,480,629	2023-03
2018-04	10,500	-	-	-	10,500	2023-04
2019-01	-	2,428,000	1,442,000	-	3,870,000	2024-01
2019-02	25,136,124	-	-	-	25,136,124	2024-02
2019-03	-	-	-	-	-	2024-03
2019-04	-	-	-	-	-	2024-04
2020-01	-	2,582,500	1,670,000	-	4,252,500	2025-01
2020-02	12,793,400	-	-	-	12,793,400	2025-02
2020-03	866,000	-	-	-	866,000	2025-03
2020-04	52,134	-	-	-	52,134	2025-04
Total Principal Remaining	75,346,272	22,960,536	19,615,614	5,650,029	123,572,451	
Interest	4,347,664	1,259,505	1,310,555	271,982	7,189,705	
Land Bank Cash Balance with Interest	\$ 79,693,936	\$ 24,220,041	\$ 20,926,169	\$ 5,922,011	\$ 130,762,156	

These balances relate to land sales made in fiscal years 2017, 2018, 2019 and 2020. If by the end of the fifth year, the proceeds from a land sale have not been spent or encumbered to purchase other land within the State, the proceeds are deposited in the Permanent Fund along with accumulated investment earnings.

## NOTE 12 - INVESTMENTS MEASURED AT FAIR VALUE

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

*Level 1* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair market value measurement. There were no Level 3 assets to report.

STATE OF IDAHO ENDOWMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019



Investments Measured at Fair Value  
Investments by Fair Value Level

	Fair Value Measurements Using 6/30/2020 (value before accruals)			
	Total Investments	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
<b>Debt Securities</b>				
Asset Backed Securities	\$ 12,557,810	\$ -	\$ 12,557,810	\$ -
Commercial Mortgage-Backed	13,884,924	-	13,884,924	-
Corporate Bonds	148,590,713	-	148,590,713	-
Corporate Bond Fund	234,702	-	234,702	-
Corporate Convertible Bonds	10,998,824	-	10,998,824	-
Government Agencies	10,214,925	-	10,214,925	-
Government Agencies Fund	21,229,907	-	21,229,907	-
Government Bonds	8,089,592	-	8,089,592	-
Government Mortgage Backed Securities	138,707,352	-	138,707,352	-
Gov't-issued Commercial Mortgage-Backed	103,196,678	-	103,196,678	-
Index Linked Government Bonds	2,453,352	-	2,453,352	-
Municipal/Provincial Bonds	89,568,241	-	89,568,241	-
Non-Government Backed C.M.O.s	2,223,532	-	2,223,532	-
Other Fixed Income Fund	10,678,880	-	10,678,880	-
Total Debt Securities	572,629,432	-	572,629,432	-
<b>Preferred Stock Securities</b>				
Consumer Discretionary	187,359	187,359	-	-
Financials	276,114	276,114	-	-
Total Preferred Stock Securities	463,473	463,473	-	-
<b>Equity Securities</b>				
Communication Services	135,548,311	135,548,311	-	-
Consumer Discretionary	181,195,359	181,195,359	-	-
Consumer Staples	86,064,369	86,064,369	-	-
Energy	36,778,543	36,778,543	-	-
Financials	189,247,405	189,247,405	-	-
Health Care	243,482,159	243,482,159	-	-
Industrials	181,614,627	181,614,627	-	-
Information Technology	334,239,956	334,239,956	-	-
Materials	74,901,488	74,901,488	-	-
Other	302,811	302,811	-	-
Real Estate	27,539,258	27,539,258	-	-
Utilities	22,374,911	22,374,911	-	-
Common Stock Fund	48,618,466	48,618,466	-	-
Equity ETFs	683,299	683,299	-	-
Total Equity Securities	1,562,590,962	1,562,590,962	-	-
<b>Derivatives</b>				
Futures Contracts	74,157	74,157	-	-
Exchange Cleared Swaps	(1,459,330)	(1,459,330)	-	-
Swaps	71,848	71,848	-	-
Equity Contracts	2,059	2,059	-	-
Foreign Exchange Contracts	(63,961)	(63,961)	-	-
Total Derivatives	(1,375,227)	(1,375,227)	-	-
Total Investments by Fair Value Level	\$ 2,134,308,640	\$ 1,561,679,208	\$ 572,629,432	\$ -
<b>Investments Measured at amortized cost</b>				
Money Market Fund	82,350,385			
<b>Investments Measured at the Net Asset Value (NAV)</b>				
Real Estate (private)	191,394,784			
Total Investments	\$ 2,408,053,808			

STATE OF IDAHO ENDOWMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019



Investments Measured at Fair Value  
Investments by Fair Value Level

	Fair Value Measurements Using 6/30/2019 (value before accruals)			
	Total Investments	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
<b>Debt Securities</b>				
Asset Backed Securities	\$ 15,464,972	\$ -	\$ 15,464,972	\$ -
Commercial Mortgage-Backed	16,038,697	-	16,038,697	-
Corporate Bonds	125,840,823	-	125,840,823	-
Corporate Bond Fund	11,801,232	-	11,801,232	-
Corporate Convertible Bonds	767,194	-	767,194	-
Government Agencies	8,701,389	-	8,701,389	-
Government Agencies Fund	8,903,448	-	8,903,448	-
Government Bonds	134,019,516	-	134,019,516	-
Government Mortgage Backed Securities	111,785,505	-	111,785,505	-
Gov't-issued Commercial Mortgage-Backed	2,492,009	-	2,492,009	-
Index Linked Government Bonds	90,835,699	-	90,835,699	-
Municipal/Provincial Bonds	2,077,983	-	2,077,983	-
Non-Government Backed C.M.O.s	6,313,802	-	6,313,802	-
Other Fixed Income Fund	17,233,345	-	17,233,345	-
Total Debt Securities	552,275,614	-	552,275,614	-
<b>Preferred Stock Securities</b>				
Consumer Discretionary	895,399	895,399	-	-
Financials	868,824	868,824	-	-
Materials	84,039	84,039	-	-
Other	50,450	50,450	-	-
Total Preferred Stock Securities	1,898,712	1,898,712	-	-
<b>Equity Securities</b>				
Communication Services	118,897,176	118,897,176	-	-
Consumer Discretionary	174,220,714	174,220,714	-	-
Consumer Staples	93,274,660	93,274,660	-	-
Energy	62,915,023	62,915,023	-	-
Financials	221,656,495	221,656,495	-	-
Health Care	194,219,921	194,219,921	-	-
Industrials	207,023,582	207,023,582	-	-
Information Technology	275,245,114	275,245,114	-	-
Materials	67,903,225	67,903,225	-	-
Real Estate	32,325,435	32,325,435	-	-
Utilities	21,626,251	21,626,251	-	-
Common Stock Fund	43,057,094	43,057,094	-	-
Equity ETFs	2,156,216	2,156,216	-	-
Total Equity Securities	1,514,520,906	1,514,520,906	-	-
<b>Derivatives</b>				
Futures Contracts	432,835	432,835	-	-
Exchange Cleared Swaps	(843,486)	(843,486)	-	-
Fixed Income - Derivative Options	3,553	3,553	-	-
Total Derivatives	(407,098)	(407,098)	-	-
Total Investments by Fair Value Level	\$ 2,068,288,134	\$ 1,516,012,520	\$ 552,275,614	\$ -
<b>Investments Measured at amortized cost</b>				
Money Market Fund	64,175,874			
<b>Investments Measured at the Net Asset Value (NAV)</b>				
Real Estate (private)	190,275,053			
Total Investments	\$ 2,322,739,061			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is described below.

## NET ASSET VALUE (NAV)

Real estate investment fund - This type includes two real estate funds; UBS TPI and DB RAR II invest primarily in U.S. commercial real estate. Net Asset Value (NAV) is determined in accordance with accounting principles generally accepted in the United States, NCREIF Real Estate Information Standards, and market-based accounting rules where appropriate and applicable. Net Asset Value (NAV) is based on the fund's gross asset value less the value of any debt or other outstanding liabilities, whether held directly or indirectly through another entity or entities, anticipated distributions and similar items, as determined by the Advisor at its discretion.

Investments Measured at the NAV for 2020:

Investments Measured at the NAV 6/30/2020				
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<i>Real Estate Funds</i>				
UBS TPI	\$ 92,327,684	-	Quarterly	60 Days
DB RAR II	99,067,100	-	Quarterly	45 days
Total Investments measured at the NAV	<u>\$ 191,394,784</u>			

Investments Measured at the NAV for 2019:

Investments Measured at the NAV 6/30/2019				
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<i>Real Estate Funds</i>				
UBS TPI	\$ 95,201,353	-	Quarterly	60 Days
DB RAR II	95,073,700	-	Quarterly	45 days
Total Investments measured at the NAV	<u>\$ 190,275,053</u>			

## NOTE 13 - COMMITMENTS

For endowments other than the Capitol Funds, the Board of Land Commissioners has approved, and the legislature has appropriated, the following distributions to beneficiaries for FY 2021.

	<b>FY 2021</b>
Public School	\$ 52,586,400
Agricultural College	1,551,600
Charitable Institutions	5,991,600
Normal School	5,334,000
Penitentiary	2,500,800
School of Science	5,420,400
State Hospital South	6,369,600
University of Idaho	4,766,400
<b>Total</b>	<b>\$ 84,520,800</b>

The EFIB authorizes distributions from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund, effective July 1 of each fiscal year. For fiscal year 2021, the EFIB authorized a regular distribution of \$1,561,900 based on approximately 5% of the Capitol Permanent Fund balance.

## NOTE 14 - SUBSEQUENT EVENTS

On August 18, 2020, the Board of Land Commissioners approved beneficiary distributions for fiscal year 2022. Fiscal year 2022 beneficiary distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2021 session.

<b><u>Beneficiaries</u></b>	<b><i>Distributions Proposed FY 2022</i></b>
Public School	\$ 54,798,000
Agricultural College	1,660,000
Charitable Institutions	6,179,000
Normal School	5,487,500
Penitentiary	2,689,500
School of Science	5,735,500
State Hospital South	6,425,000
University of Idaho	5,102,000
<b>Total</b>	<b><u>\$88,076,500</u></b>

On August 18, 2020, the Board of Land Commissioners also approved a \$18,685,000 transfer from Earnings Reserve Funds into Permanent Funds, effective September 1, 2020.



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## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Endowment Fund Investment Board  
State of Idaho Endowment Funds  
Boise, Idaho

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the EFIB), a component unit of the State of Idaho, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the State of Idaho Endowment Funds' basic financial statements, and have issued our report thereon dated August 18, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered the State of Idaho Endowment Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Idaho Endowment Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Idaho Endowment Funds' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Idaho Endowment Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Idaho Endowment Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Boise, Idaho  
August 18, 2020



**IDAHO ENDOWMENT FUND**

INVESTMENT BOARD

IDAHO DEPARTMENT OF LANDS

## **Supplementary Schedules**

STATE OF IDAHO ENDOWMENT FUND  
 SUPPLEMENTARY SCHEDULE OF STATEMENT OF NET POSITION BY ENDOWMENT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020



	Public School	Agricultural College	Charitable Institutions	Normal School
<b>PERMANENT NET POSITION</b>				
Permanent Net Position, beginning of year	\$ 1,068,216,995	\$ 32,033,498	\$ 121,811,144	\$ 109,912,760
Program Revenues:				
Receipts from Dept. of Lands	2,215,899	-	24,136	21,787
Income from Investments	16,709,233	501,073	1,905,391	1,719,274
Total Program Revenue	18,925,132	501,073	1,929,528	1,741,061
Transfer to Earnings Reserve	-	-	-	-
Transfer from Earnings Reserve	37,691,000	298,000	1,531,000	3,546,000
Increase in Net Position	56,616,132	799,073	3,460,528	5,287,061
Permanent Net Position, end of year	1,124,833,127	32,832,571	125,271,671	115,199,821
<b>EARNINGS RESERVE NET POSITION</b>				
Earnings Reserve Net Position, beginning of year	353,209,008	11,158,803	43,472,540	40,884,451
Program Revenues:				
Receipts from Dept. of Lands	49,915,577	4,076,344	5,960,176	2,832,841
Income from Investments	53,329,929	1,737,486	6,270,953	5,634,437
Total Program Revenues	103,245,506	5,813,830	12,231,129	8,467,278
Program Expenses:				
Distribution for Expenses-Lands	20,096,551	364,207	1,516,289	1,702,039
Distribution for Expenses-EFIB	7,067,723	219,670	822,554	743,686
Distributions to Beneficiaries	51,260,000	1,466,000	5,754,000	4,946,000
Total Program Expenses	78,424,273	2,049,877	8,092,843	7,391,725
Net Program Revenue	24,821,233	3,763,953	4,138,286	1,075,553
Transfer to Permanent Fund	(37,691,000)	(298,000)	(1,531,000)	(3,546,000)
Transfer from Permanent Fund	-	-	-	-
Increase/(Decrease) in Net Position	(12,869,767)	3,465,953	2,607,286	(2,470,447)
Earnings Reserve Net Position, end of year	340,339,241	14,624,756	46,079,826	38,414,004
<b>TOTAL NET POSITION</b>	<b>\$ 1,465,172,367</b>	<b>\$ 47,457,327</b>	<b>\$ 171,351,497</b>	<b>\$ 153,613,825</b>

STATE OF IDAHO ENDOWMENT FUND  
SUPPLEMENTARY SCHEDULE OF STATEMENT OF NET POSITION BY ENDOWMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020



Penitentiary	School of Science	State Hospital South	University of Idaho	Capitol	Total
\$ 51,627,123	\$ 111,132,328	\$ 93,022,547	\$ 98,671,862	\$ 33,075,848	\$ 1,719,504,105
759	42,676	2,255	6,660	746,169	3,060,341
807,560	1,738,350	1,455,075	1,543,442	1,613,723	27,993,122
808,319	1,781,027	1,457,330	1,550,102	2,359,892	31,053,463
-	-	-	-	(1,409,300)	(1,409,300)
3,201,000	6,969,000	29,000	4,538,000	-	57,803,000
4,009,319	8,750,027	1,486,330	6,088,102	950,592	87,447,163
55,636,442	119,882,355	94,508,877	104,759,964	34,026,440	1,806,951,268
20,706,467	44,911,424	44,615,842	37,903,053	7,691,419	604,553,007
1,880,876	3,577,628	3,114,735	4,454,990	92,885	75,906,052
2,751,064	5,899,569	5,243,486	5,198,237	428,487	86,493,648
4,631,939	9,477,196	8,358,221	9,653,227	521,372	162,399,700
701,397	1,569,026	1,331,250	977,750	184,054	28,442,563
359,661	769,532	681,788	673,953	203,753	11,542,319
2,247,000	4,930,000	5,955,000	4,360,000	325,000	81,243,000
3,308,058	7,268,558	7,968,038	6,011,703	712,807	121,227,881
1,323,881	2,208,639	390,183	3,641,524	(191,434)	41,171,818
(3,201,000)	(6,969,000)	(29,000)	(4,538,000)	-	(57,803,000)
-	-	-	-	1,409,300	1,409,300
(1,877,119)	(4,760,361)	361,183	(896,476)	1,217,866	(15,221,882)
18,829,349	40,151,063	44,977,025	37,006,577	8,909,285	589,331,126
\$ 74,465,791	\$ 160,033,418	\$ 139,485,902	\$ 141,766,541	\$ 42,935,725	\$ 2,396,282,394

STATE OF IDAHO ENDOWMENT FUND  
SUPPLEMENTARY SCHEDULE OF STATEMENT OF NET POSITION BY ENDOWMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019



	Public School	Agricultural College	Charitable Institutions	Normal School
<b>PERMANENT NET POSITION</b>				
Permanent Net Position, beginning of year	\$ 1,026,454,837	\$ 30,030,117	\$ 119,315,621	\$ 101,133,968
Program Revenues:				
Receipts from Dept. of Lands	1,333,260	47	22,867	148,926
Income from Investments	21,271,898	622,334	2,472,656	2,095,866
Total Program Revenue	22,605,158	622,381	2,495,523	2,244,792
Transfer to Earnings Reserve	-	-	-	-
Transfer from Earnings Reserve	19,157,000	1,381,000	-	6,534,000
Increase in Net Position	41,762,158	2,003,381	2,495,523	8,778,792
Permanent Net Position, end of year	1,068,216,995	32,033,498	121,811,144	109,912,760
<b>EARNINGS RESERVE NET POSITION</b>				
Earnings Reserve Net Position, beginning of year	326,716,780	11,642,692	37,767,021	41,156,208
Program Revenues:				
Receipts from Dept. of Lands	40,577,973	353,519	4,255,953	4,313,659
Income from Investments	81,184,298	2,490,135	9,428,444	8,756,116
Total Program Revenues	121,762,271	2,843,654	13,684,397	13,069,775
Program Expenses:				
Distribution for Expenses-Lands	20,214,419	329,399	1,578,923	1,811,576
Distribution for Expenses-EFIB	5,573,025	169,943	645,955	585,956
Distributions to Beneficiaries	50,325,600	1,447,200	5,754,000	4,410,000
Total Program Expenses	76,113,044	1,946,542	7,978,878	6,807,532
Net Program Revenue	45,649,227	897,111	5,705,519	6,262,244
Transfer to Permanent Fund	(19,157,000)	(1,381,000)	-	(6,534,000)
Transfer from Permanent Fund	-	-	-	-
Increase/(Decrease) in Net Position	26,492,227	(483,889)	5,705,519	(271,756)
Earnings Reserve Net Position, end of year	353,209,008	11,158,803	43,472,540	40,884,451
<b>TOTAL NET POSITION</b>	<b>\$ 1,421,426,003</b>	<b>\$ 43,192,301</b>	<b>\$ 165,283,683</b>	<b>\$ 150,797,211</b>

STATE OF IDAHO ENDOWMENT FUND  
SUPPLEMENTARY SCHEDULE OF STATEMENT OF NET POSITION BY ENDOWMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019



Penitentiary	School of Science	State Hospital South	University of Idaho	Capitol	Total
\$ 45,479,855	\$ 100,132,842	\$ 90,937,187	\$ 87,720,455	\$ 31,143,131	\$ 1,632,348,013
759	21,367	200,809	3,518	969,609	2,701,162
942,509	2,075,119	1,884,551	1,817,889	2,369,108	35,551,930
943,268	2,096,486	2,085,360	1,821,407	3,338,717	38,253,092
-	-	-	-	(1,406,000)	(1,406,000)
5,204,000	8,903,000	-	9,130,000	-	50,309,000
6,147,268	10,999,486	2,085,360	10,951,407	1,932,717	87,156,092
51,627,123	111,132,328	93,022,547	98,671,862	33,075,848	1,719,504,105
20,933,338	43,412,680	41,696,992	39,649,788	6,227,066	569,202,565
4,179,895	8,311,526	1,899,554	5,374,762	85,455	69,352,297
4,252,230	9,125,400	8,050,407	8,001,458	551,788	131,840,276
8,432,125	17,436,926	9,949,961	13,376,220	637,243	201,192,572
982,244	1,607,970	1,462,532	1,239,965	172,671	29,399,699
279,151	600,812	544,180	527,791	156,219	9,083,032
2,193,600	4,826,400	5,024,400	4,225,200	250,000	78,456,400
3,454,995	7,035,182	7,031,112	5,992,956	578,890	116,939,130
4,977,130	10,401,745	2,918,849	7,383,264	58,353	84,253,442
(5,204,000)	(8,903,000)	-	(9,130,000)	-	(50,309,000)
-	-	-	-	1,406,000	1,406,000
(226,870)	1,498,745	2,918,849	(1,746,736)	1,464,353	35,350,442
20,706,468	44,911,424	44,615,842	37,903,053	7,691,419	604,553,007
\$ 72,333,591	\$ 156,043,753	\$ 137,638,389	\$ 136,574,914	\$ 40,767,268	\$ 2,324,057,112

STATE OF IDAHO ENDOWMENT FUNDS  
SCHEDULE OF THE GAIN BENCHMARK  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020



<i>Endowment</i>	<i>Fiscal Year</i>	<i>Beginning Benchmark</i>	<i>Deposits</i>	<i>Reinvested Income</i>	<i>Inflation Impact</i>	<i>Ending Benchmark</i>
Public School	2001-2019	555,954,750	64,462,917	158,635,000	289,164,328	1,068,216,995
	2020	1,068,216,995	2,215,899	37,691,000	16,709,233	1,124,833,127
Agricultural College	2001-2019	14,787,041	58,187	9,340,000	7,848,270	32,033,498
	2020	32,033,498	-	298,000	501,073	32,832,571
Charitable Institutions	2001-2019	54,513,960	325,723	37,776,000	29,195,461	121,811,144
	2020	121,811,144	24,136	1,531,000	1,905,391	125,271,671
Normal School	2001-2019	47,258,942	12,111,015	25,109,000	25,433,803	109,912,760
	2020	109,912,760	21,787	3,546,000	1,719,274	115,199,821
Penitentiary	2001-2019	18,258,289	26,228	22,999,000	10,343,606	51,627,123
	2020	51,627,123	759	3,201,000	807,560	55,636,442
School of Science	2001-2019	54,836,451	321,280	27,760,000	28,214,597	111,132,328
	2020	111,132,328	42,676	6,969,000	1,738,351	119,882,355
State Hospital South	2001-2019	23,442,162	16,410,458	37,166,000	16,003,927	93,022,547
	2020	93,022,547	2,255	29,000	1,455,075	94,508,877
University	2001-2019	42,442,536	276,675	33,339,000	22,613,651	98,671,862
	2020	98,671,862	6,660	4,538,000	1,543,442	104,759,964

STATE OF IDAHO ENDOWMENT FUNDS  
SCHEDULE OF THE GAIN BENCHMARK  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019



<i>Endowment</i>	<i>Fiscal Year</i>	<i>Beginning Benchmark</i>	<i>Deposits</i>	<i>Reinvested Income</i>	<i>Inflation Impact</i>	<i>Ending Benchmark</i>
Public School	2001-2018	555,954,750	63,129,657	139,478,000	267,892,430	1,026,454,837
	2019	1,026,454,837	1,333,260	19,157,000	21,271,898	1,068,216,995
Agricultural College	2001-2018	14,787,041	58,140	7,959,000	7,225,936	30,030,117
	2019	30,030,117	47	1,381,000	622,334	32,033,498
Charitable Institutions	2001-2018	54,513,960	302,856	37,776,000	26,722,805	119,315,621
	2019	119,315,621	22,867	-	2,472,656	121,811,144
Normal School	2001-2018	47,258,942	11,962,089	18,575,000	23,337,937	101,133,968
	2019	101,133,968	148,926	6,534,000	2,095,866	109,912,760
Penitentiary	2001-2018	18,258,289	25,469	17,795,000	9,401,097	45,479,855
	2019	45,479,855	759	5,204,000	942,509	51,627,123
School of Science	2001-2018	54,836,451	299,913	18,857,000	26,139,478	100,132,842
	2019	100,132,842	21,367	8,903,000	2,075,119	111,132,328
State Hospital South	2001-2018	23,442,162	16,209,649	37,166,000	14,119,376	90,937,187
	2019	90,937,187	200,809	-	1,884,551	93,022,547
University	2001-2018	42,442,536	273,157	24,209,000	20,795,762	87,720,455
	2019	87,720,455	3,518	9,130,000	1,817,889	98,671,862





## **INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES**

Idaho Department of Lands  
Boise, ID

We have performed the procedures enumerated below, which were agreed to by Idaho Department of Lands, solely to assist you with respect to the allocation procedures for the year ended June 30, 2020. Management is responsible for the allocation procedures. The sufficiency of these procedures is solely the responsibility of the party specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and the associated findings are as follows:

### **Procedures**

1. Revenues: Obtain IBIS Report 'Endowment Revenue by Beneficiary' and the DAFR 8180 reports and perform the following for the year ended June 30, 2020:
  - a. Agree revenue in total by each of the nine endowments per the IBIS report to the Department of Lands (DOL) Income Statement.
  - b. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology outlined in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2020 for revenues.
  - c. Agree revenues in total for each of the recalculated seven asset classes to the DOL Income Statement.

### **Findings**

1. None noted.

### **Procedures**

2. Project Expense: Obtain IBIS Report 'Income Statement Expense Query – FYE Final' which includes the Support Services, Timber, Lands and Waterways and Residential expenditures and project codes in an excel workbook and perform the following for the year ended June 30, 2020:
  - a. Agree project expenses in total by each of the nine endowments per the above reports to the DOL Income Statement.
  - b. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology included in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2020 for project expenses.
  - c. Agree project expenses in total for each of the recalculated seven asset classes to the DOL Income Statement.

- d. Obtain listing of projects with transactions recorded to project expense during the year ended June 30, 2020 and agree total to project expense on DOL income statement for the year ended June 30, 2020.
  - i. Obtain defined project allocation percentages for each project selected and recalculate recorded allocation to respective endowments.
  - ii. Report any discrepancies

**Findings**

2. None noted.

**Procedures**

3. Non-Project Expense: Obtain DAFR 8290 Report and perform the following for the year ended June 30, 2020:
  - a. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology outlined in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2020 for non-project expenses.
  - b. Agree non-project expenses in total for each of the recalculated seven asset classes to the DOL Income Statement.
  - c. Recalculate the allocation of the total non-project expenses by asset class to each of the nine endowments based on the methodology included in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2020 for project expenses.
  - d. Agree non-project expenses by endowment for each of the recalculated nine endowments to the DOL Income Statement.

**Findings**

3. None noted.

**Procedures**

4. Overhead: Obtain DAFR 8290 Report and perform the following for the year ended June 30, 2020:
  - a. Agree total overhead per the IBIS report to the DOL Income Statement.
  - b. Recalculate the allocation of the total overhead expenses to each of the nine endowments and each of the seven asset classes based on the methodology included in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2020 for overhead.

**Findings**

4. None noted.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion on the allocation procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Idaho Department of Lands and is not intended to be and should not be used by anyone other than this party.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Boise, Idaho  
August 18, 2020

The logo of the Idaho Department of Lands is a large, stylized diamond shape. It features a light green center with a yellow border. The diamond is set against a background of a light gray mountain range. A horizontal banner across the middle of the diamond contains the text "IDAHO DEPARTMENT OF LANDS" in white, uppercase letters.

IDAHO DEPARTMENT OF LANDS

# STATE BOARD OF LAND COMMISSIONERS

November 17, 2020

## Subject

Performance Review of Total Endowment

## Background

As part of the Asset Allocation and Governance Review in 2014, Callan LLC (Callan) recommended that a total return be calculated for the endowment portfolio by aggregating the market values and cash flows of the financial assets and the land assets.

The revised Statement of Investment Policy adopted by the Land Board in July 2018 requires that performance reports be generated annually by the General Consultant, Callan, for review by the Land Board.

## Discussion

Callan calculated the total return of the financial assets and the land assets for the fiscal year ending June 30, 2020 (Attachment 1). The combined net return was 4.31%, below last year's return of 5.75%. The combined return includes the land asset net return of 3.60% (up from 3.32% in fiscal year 2019) and the financial asset net return of 4.69% (down from 7.14% in fiscal year 2019).

Callan also compiled a report of the land returns by asset class for the fiscal year ending June 30, 2020 (Attachment 2).

## Attachments

1. Investment Manager Returns
2. Investment Measurement Service Quarterly Review

## Investment Manager Returns

The table below details the rates of return for the Fund's investment managers over various time periods ended June 30, 2020. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended June 30, 2020

	Last Year	Last 3 Years	Last 5 Years
<b>EFIB Plan (Net)</b>	<b>4.69%</b>	<b>7.10%</b>	<b>6.57%</b>
EFIB Target	4.92%	6.85%	6.77%
<b>Land (Net)</b>	<b>3.60%</b>	<b>4.13%</b>	<b>3.92%</b>
<b>Total Plan + Land</b>	<b>4.31%</b>	<b>5.96%</b>	<b>5.53%</b>
CPI + 3.5%	4.15%	5.22%	5.06%



IDAHO DEPARTMENT OF LANDS



June 30, 2020

**Idaho Board of Land Commissioners**

**Investment Measurement Service  
Quarterly Review**



**IDAHO DEPARTMENT OF LANDS**

Information contained herein includes confidential, trade secret and proprietary information. Neither this Report nor any specific information contained herein is to be used other than by the intended recipient for its intended purpose or disseminated to any other person without Callan's permission. Certain information herein has been compiled by Callan and is based on information provided by a variety of sources believed to be reliable for which Callan has not necessarily verified the accuracy or completeness of or updated. This content may consist of statements of opinion, which are made as of the date they are expressed and are not statements of fact. This content is for informational purposes only and should not be construed as legal or tax advice on any matter. Any decision you make on the basis of this content is your sole responsibility. You should consult with legal and tax advisers before applying any of this information to your particular situation. Past performance is no guarantee of future results. For further information, please see Appendix for Important Information and Disclosures.

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IDAHO DEPARTMENT OF LANDS





## Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2020, with the distribution as of June 30, 2019. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

### Asset Distribution Across Investment Managers

	June 30, 2020		Net New Inv.	Inv. Return	June 30, 2019	
	Market Value	Weight			Market Value	Weight
Farmland	26,861,460	1.80%	(406,708)	1,927,168	25,341,000	1.70%
Commercial Real Estate	13,096,822	0.88%	(2,622,104)	1,156,604	14,562,322	0.98%
Rangeland	61,000,000	4.08%	(3,264,098)	3,264,098	61,000,000	4.10%
Residential Real Estate	38,561,166	2.58%	(18,222,629)	2,715,095	54,068,700	3.63%
Timberland	1,223,274,980	81.90%	(69,289,869)	69,289,869	1,223,274,980	82.17%
Land Bank	130,762,156	8.76%	17,963,234	2,388,374	110,410,548	7.42%
<b>Total Land Portfolio Assets</b>	<b>\$1,493,556,584</b>	<b>100.0%</b>	<b>\$(75,842,174)</b>	<b>\$80,741,208</b>	<b>\$1,488,657,550</b>	<b>100.0%</b>

IDAHO DEPARTMENT OF LANDS

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flows and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

## Investment Manager Returns

The table below details the rates of return for the Fund's investment managers over various time periods ended June 30, 2020. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended June 30, 2020

	Fiscal Year	Last 2 Years	Last 3 Years	Last 5 Years
Farmland	7.62%	6.00%	6.04%	5.66%
Farmland (Net)	6.83%	5.28%	5.26%	4.90%
Commercial Real Estate	9.02%	8.64%	15.61%	16.49%
Commercial Real Estate (Net)	4.46%	3.45%	9.69%	11.09%
Rangeland	5.47%	5.38%	5.24%	5.13%
Rangeland (Net)	1.89%	1.89%	1.99%	1.92%
Residential Real Estate	6.63%	5.52%	15.17%	11.04%
Residential Real Estate (Net)	1.53%	1.41%	11.47%	8.28%
Timberland	5.80%	5.79%	5.78%	5.70%
Timberland (Net)	3.85%	3.78%	3.77%	3.71%
Timberland (Net Real Return)	3.19%	2.60%	2.02%	2.11%
Land Bank	2.01%	2.19%	1.96%	1.40%
Land Bank (Net)	2.01%	1.79%	1.70%	1.25%
Total Land excluding - Land Bank	5.85%	5.76%	6.45%	6.15%
Total Land excluding - Land Bank (Net)	3.74%	3.61%	4.32%	4.06%
<b>Total Land Portfolio (Gross)</b>	<b>5.54%</b>	<b>5.47%</b>	<b>6.12%</b>	<b>5.90%</b>
Total Land Portfolio (Net Nominal)	3.60%	3.46%	4.13%	3.92%
Total Land Portfolio (Net Real Return)	2.94%	2.28%	2.37%	2.33%
CPI All Urban Cons	0.65%	1.15%	1.72%	1.56%

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flows and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cash flows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

## Investment Manager Returns

The table below details the rates of return for the fund's investment managers over various time periods ended June 30, 2020. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized.

### Returns for Periods Ended June 30, 2020

	Fiscal Year			Last 5 Years		
	Inc%	App%	Tot%	Inc%	App%	Tot%
Farmland (Net)	0.78	6.00	6.83	1.07	3.79	4.90
Commercial Real Estate (Net)	3.70	0.73	4.46	3.32	7.58	11.09
Rangeland (Net)	1.89	0.00	1.89	1.92	0.00	1.92
Residential Real Estate (Net)	(0.82)	2.37	1.53	1.27	6.93	8.28
Timberland (Net)	3.85	0.00	3.85	3.71	0.00	3.71
Total Land excluding - Land Bank (Net)	3.55	0.18	3.74	3.44	0.61	4.06
<b>Total Land Portfolio (Net Nominal)</b>	<b>3.43</b>	<b>0.17</b>	<b>3.60</b>	<b>3.34</b>	<b>0.57</b>	<b>3.92</b>

IDAHO DEPARTMENT OF LANDS



## Total Land Portfolio Real Estate Portfolio Quarterly Changes in Market Value

	<b>Beg. of Period Market</b>	<b>+ Capital Contri- butions</b>	<b>+ Accounting Income</b>	<b>- Mgmt. Fees</b>	<b>+ Appre- ciation</b>	<b>- Dist. of Income &amp; Real. Gains</b>	<b>- Return of Capital</b>	<b>= End of Period Market</b>
09/2015	1,443,485,863	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,443,836,373
12/2015	1,443,836,373	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,444,186,883
03/2016	1,444,186,883	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,444,537,394
06/2016	1,444,537,394	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,444,887,904
09/2016	1,444,887,904	17,424,042	32,190,512	8,130,079	(0)	24,850,095	16,715,247	1,444,807,037
12/2016	1,444,807,037	18,903,334	15,698,109	7,356,406	1,328,500	8,309,338	18,830,890	1,446,240,346
03/2017	1,446,240,346	22,212,151	19,044,141	5,379,154	3,715,150	13,609,788	22,112,365	1,450,110,481
06/2017	1,450,110,481	2,138,318	8,164,265	7,920,565	1,040,305	2,151,292	25,100	1,451,356,412
09/2017	1,451,356,412	7,987,519	25,025,187	7,148,261	22,668,989	17,852,656	7,770,000	1,474,267,190
12/2017	1,474,267,190	27,995,332	15,811,240	6,762,941	0	8,717,002	27,995,332	1,474,598,487
03/2018	1,474,598,487	8,541,139	22,386,935	5,296,596	5,419,200	16,719,764	8,490,000	1,480,439,401
06/2018	1,480,439,401	78,855	12,198,615	7,934,209	2,245,000	3,737,745	0	1,483,289,917
09/2018	1,483,289,917	4,427,157	27,185,702	7,787,652	1,058,260	19,372,629	3,870,000	1,484,930,755
12/2018	1,484,930,755	67,627,619	27,115,724	7,470,723	635,124	19,508,037	67,586,953	1,485,743,509
03/2019	1,485,743,509	399,277	17,226,842	6,758,073	0	10,504,483	0	1,486,107,072
06/2019	1,486,107,072	6,569,563	5,390,356	7,746,173	0	1,663,268	0	1,488,657,550
09/2019	1,488,657,550	4,738,506	25,378,329	7,305,825	1,520,460	17,889,361	4,252,500	1,490,847,159
12/2019	1,490,847,159	13,148,892	20,454,696	7,201,795	0	12,942,040	12,793,400	1,491,513,512
03/2020	1,491,513,512	1,322,706	20,787,792	5,109,919	0	15,502,537	866,000	1,492,145,554
06/2020	1,492,145,554	82,794	11,608,931	8,195,122	991,000	3,024,439	52,134	1,493,556,584
	1,443,485,863	230,548,293	379,759,472	138,838,152	41,973,588	245,061,470	218,311,010	1,493,556,584

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

## Farmland Real Estate Portfolio Quarterly Changes in Market Value

	<b>Beg. of Period Market</b>	<b>+</b>	<b>Capital Contri- butions</b>	<b>+</b>	<b>Accounting Income</b>	<b>-</b>	<b>Mgmt. Fees</b>	<b>+</b>	<b>Appre- ciation</b>	<b>-</b>	<b>Distri- butions</b>	<b>=</b>	<b>End of Period Market</b>
09/2015	22,300,000		0		120,774		42,052		337,900		78,722		22,637,900
12/2015	22,637,900		0		120,774		42,052		337,900		78,722		22,975,800
03/2016	22,975,800		0		120,774		42,052		337,900		78,722		23,313,700
06/2016	23,313,700		0		120,774		42,052		337,900		78,722		23,651,600
09/2016	23,651,600		33,835		250		34,085		0		0		23,651,600
12/2016	23,651,600		0		317,855		156,334		0		161,521		23,651,600
03/2017	23,651,600		0		95,266		(86,168)		0		181,434		23,651,600
06/2017	23,651,600		1,815		45,299		47,114		0		0		23,651,600
09/2017	23,651,600		26,045		2,000		28,045		1,013,640		0		24,665,240
12/2017	24,665,240		0		184,432		24,082		0		160,350		24,665,240
03/2018	24,665,240		0		193,527		36,305		0		157,222		24,665,240
06/2018	24,665,240		68,355		45,637		113,992		0		0		24,665,240
09/2018	24,665,240		28,429		3,783		32,212		675,760		0		25,341,000
12/2018	25,341,000		0		268,519		29,938		0		238,581		25,341,000
03/2019	25,341,000		0		92,268		38,806		0		53,462		25,341,000
06/2019	25,341,000		17,078		46,317		63,395		0		0		25,341,000
09/2019	25,341,000		6,818		23,432		30,250		1,520,460		0		26,861,460
12/2019	26,861,460		0		260,698		53,276		0		207,422		26,861,460
03/2020	26,861,460		0		74,463		33,249		0		41,214		26,861,460
06/2020	26,861,460		30,660		48,115		78,775		0		0		26,861,460
	22,300,000		213,035		2,184,958		881,899		4,561,460		1,516,094		26,861,460

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

# Commercial Real Estate Real Estate Portfolio Quarterly Changes in Market Value

	<b>Beg. of Period Market</b>	<b>+</b>	<b>Capital Contri- butions</b>	<b>+</b>	<b>Accounting Income</b>	<b>-</b>	<b>Mgmt. Fees</b>	<b>+</b>	<b>Appre- ciation</b>	<b>-</b>	<b>Dist. of Income &amp; Real. Gains</b>	<b>-</b>	<b>Return of Capital</b>	<b>=</b>	<b>End of Period Market</b>
09/2015	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
12/2015	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
03/2016	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
06/2016	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
09/2016	31,502,435		0		1,299,490		635,627		0		663,863		0		31,502,435
12/2016	31,502,435		69,844		344,145		413,989		0		0		0		31,502,435
03/2017	31,502,435		0		422,777		339,925		3,715,150		82,852		17,265,000		17,952,585
06/2017	17,952,585		0		340,718		(42,035)		1,040,305		382,753		0		18,992,890
09/2017	18,992,890		0		316,491		256,468		(140,000)		60,023		0		18,852,890
12/2017	18,852,890		0		670,074		391,642		0		278,432		0		18,852,890
03/2018	18,852,890		51,139		174,715		225,854		0		0		8,490,000		10,362,890
06/2018	10,362,890		0		198,210		122,475		2,245,000		0		0		12,683,625
09/2018	12,683,625		0		547,489		123,176		0		424,313		0		12,683,625
12/2018	12,683,625		40,666		201,040		241,706		0		0		0		12,683,625
03/2019	12,683,625		78,448		136,408		214,856		0		0		0		12,683,625
06/2019	12,683,625		1,878,697		130,604		122,115		0		8,489		0		14,562,322
09/2019	14,562,322		0		235,904		149,796		0		86,108		1,560,500		13,001,822
12/2019	13,001,822		0		487,229		135,221		0		352,008		0		13,001,822
03/2020	13,001,822		0		140,558		102,366		0		38,192		0		13,001,822
06/2020	13,001,822		0		197,913		188,332		95,000		9,581		0		13,096,822
	31,502,435		2,118,794		8,240,466		4,844,216		6,955,455		3,560,612		27,315,500		13,096,822

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

## Rangeland Real Estate Portfolio Quarterly Changes in Market Value

	<b>Beg. of Period Market</b>	<b>+</b>	<b>Capital Contri- butions</b>	<b>+</b>	<b>Accounting Income</b>	<b>-</b>	<b>Mgmt. Fees</b>	<b>+</b>	<b>Appre- ciation</b>	<b>-</b>	<b>Distri- butions</b>	<b>=</b>	<b>End of Period Market</b>
09/2015	61,000,000		0		742,508		439,390		0		303,118		61,000,000
12/2015	61,000,000		0		742,508		439,390		0		303,118		61,000,000
03/2016	61,000,000		0		742,508		439,390		0		303,118		61,000,000
06/2016	61,000,000		0		742,508		439,390		0		303,118		61,000,000
09/2016	61,000,000		418,712		15,744		434,456		0		0		61,000,000
12/2016	61,000,000		0		651,041		417,971		0		233,070		61,000,000
03/2017	61,000,000		99,786		366,069		465,855		0		0		61,000,000
06/2017	61,000,000		0		1,943,241		668,142		0		1,275,099		61,000,000
09/2017	61,000,000		0		298,769		285,833		0		12,936		61,000,000
12/2017	61,000,000		0		388,362		375,616		0		12,746		61,000,000
03/2018	61,000,000		0		495,725		347,673		0		148,052		61,000,000
06/2018	61,000,000		0		1,761,042		618,366		0		1,142,676		61,000,000
09/2018	61,000,000		199,366		237,272		436,638		0		0		61,000,000
12/2018	61,000,000		0		635,741		533,906		0		101,835		61,000,000
03/2019	61,000,000		0		510,128		507,905		0		2,223		61,000,000
06/2019	61,000,000		0		1,780,339		527,962		0		1,252,377		61,000,000
09/2019	61,000,000		0		640,720		407,518		0		233,202		61,000,000
12/2019	61,000,000		355,492		146,409		501,901		0		0		61,000,000
03/2020	61,000,000		0		915,943		368,220		0		547,723		61,000,000
06/2020	61,000,000		0		1,561,026		834,043		0		726,983		61,000,000
	61,000,000		1,073,356		15,317,604		9,489,567		0		6,901,393		61,000,000

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.



# Residential Real Estate Real Estate Portfolio Quarterly Changes in Market Value

	<b>Beg. of Period Market</b>	<b>+ Capital Contri- butions</b>	<b>+ Accounting Income</b>	<b>- Mgmt. Fees</b>	<b>+ Appre- ciation</b>	<b>- Dist. of Income &amp; Real. Gains</b>	<b>- Return of Capital</b>	<b>= End of Period Market</b>
09/2015	149,700,000	0	1,313,522	497,503	(0)	816,019	6,737,772	142,962,228
12/2015	142,962,228	0	1,313,522	497,503	0	816,019	6,737,772	136,224,456
03/2016	136,224,456	0	1,313,522	497,503	(0)	816,019	6,737,772	129,486,683
06/2016	129,486,683	0	1,313,522	497,503	0	816,019	6,737,772	122,748,911
09/2016	122,748,911	381,271	(180,856)	200,415	0	0	16,590,224	106,158,687
12/2016	106,158,687	0	2,567,931	520,013	1,328,500	2,047,918	16,327,104	91,160,083
03/2017	91,160,083	0	1,067,980	278,000	0	789,980	527,000	90,633,083
06/2017	90,633,083	0	733,100	239,660	0	493,440	25,100	90,607,983
09/2017	90,607,983	191,474	215,266	406,740	21,795,349	0	7,770,000	104,633,332
12/2017	104,633,332	0	1,377,513	479,530	0	897,983	27,995,332	76,638,000
03/2018	76,638,000	0	780,233	332,140	5,419,200	448,093	0	82,057,200
06/2018	82,057,200	0	585,635	499,043	0	86,592	0	82,057,200
09/2018	82,057,200	329,362	249,555	578,917	382,500	0	3,870,000	78,569,700
12/2018	78,569,700	0	756,605	543,893	635,124	212,712	25,136,124	54,068,700
03/2019	54,068,700	320,829	529,033	849,862	0	0	0	54,068,700
06/2019	54,068,700	0	443,413	41,011	0	402,402	0	54,068,700
09/2019	54,068,700	479,188	(3,659)	475,529	0	0	2,692,000	51,376,700
12/2019	51,376,700	0	1,011,713	450,284	0	561,429	12,793,400	38,583,300
03/2020	38,583,300	457,506	385,625	843,131	0	0	866,000	37,717,300
06/2020	37,717,300	0	425,416	358,076	896,000	67,340	52,134	38,561,166
	149,700,000	2,159,630	16,198,590	9,086,255	30,456,673	9,271,965	141,595,507	38,561,166

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

# **Timberland Real Estate Portfolio Quarterly Changes in Market Value**

	<b>Beg. of Period Market</b>	<b>+</b>	<b>Capital Contri- butions</b>	<b>+</b>	<b>Accounting Income</b>	<b>-</b>	<b>Mgmt. Fees</b>	<b>+</b>	<b>Appre- ciation</b>	<b>-</b>	<b>Distri- butions</b>	<b>=</b>	<b>End of Period Market</b>
09/2015	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
12/2015	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
03/2016	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
06/2016	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
09/2016	1,174,000,000		0		31,000,749		6,825,496		0		24,175,253		1,174,000,000
12/2016	1,174,000,000		2,503,786		11,714,928		5,848,099		0		5,866,829		1,176,503,786
03/2017	1,176,503,786		4,320,365		16,937,064		4,381,542		0		12,555,522		1,180,824,151
06/2017	1,180,824,151		2,111,403		4,896,281		7,007,684		0		0		1,180,824,151
09/2017	1,180,824,151		0		23,950,872		6,171,175		0		17,779,697		1,180,824,151
12/2017	1,180,824,151		0		12,859,562		5,492,071		0		7,367,491		1,180,824,151
03/2018	1,180,824,151		0		20,321,021		4,354,624		0		15,966,397		1,180,824,151
06/2018	1,180,824,151		0		9,088,810		6,580,333		0		2,508,477		1,180,824,151
09/2018	1,180,824,151		0		25,565,025		6,616,709		0		18,948,316		1,180,824,151
12/2018	1,180,824,151		42,450,829		24,456,789		5,501,880		0		18,954,909		1,223,274,980
03/2019	1,223,274,980		0		15,276,769		4,827,971		0		10,448,798		1,223,274,980
06/2019	1,223,274,980		4,673,788		2,317,902		6,991,690		0		0		1,223,274,980
09/2019	1,223,274,980		0		23,812,783		6,242,732		0		17,570,051		1,223,274,980
12/2019	1,223,274,980		0		17,882,294		6,061,113		0		11,821,181		1,223,274,980
03/2020	1,223,274,980		0		18,638,361		3,762,953		0		14,875,408		1,223,274,980
06/2020	1,223,274,980		0		8,956,431		6,735,896		0		2,220,535		1,223,274,980
	1,174,000,000		56,060,171		330,613,378		113,598,142		0		223,800,427		1,223,274,980

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# Land Bank Real Estate Portfolio Quarterly Changes in Market Value

	<b>Beg. of Period Market</b>	<b>+ Capital Contri- butions</b>	<b>+ Accounting Income</b>	<b>- Mgmt. Fees</b>	<b>+ Appre- ciation</b>	<b>- Dist. of Income &amp; Real. Gains</b>	<b>- Return of Capital</b>	<b>= End of Period Market</b>
09/2015	4,983,428	6,737,772	12,610	0	0	0	0	11,733,810
12/2015	11,733,810	6,737,772	12,610	0	0	0	0	18,484,193
03/2016	18,484,193	6,737,772	12,610	0	0	0	0	25,234,575
06/2016	25,234,575	6,737,772	12,610	0	(0)	0	0	31,984,958
09/2016	31,984,958	16,590,224	55,135	0	0	10,979	125,023	48,494,315
12/2016	48,494,315	16,329,704	102,209	0	0	0	2,503,786	62,422,442
03/2017	62,422,442	17,792,000	154,985	0	0	0	4,320,365	76,049,062
06/2017	76,049,062	25,100	205,626	0	0	0	0	76,279,788
09/2017	76,279,788	7,770,000	241,789	0	0	0	0	84,291,577
12/2017	84,291,577	27,995,332	331,297	0	0	0	0	112,618,206
03/2018	112,618,206	8,490,000	421,714	0	0	0	0	121,529,920
06/2018	121,529,920	10,500	519,281	0	0	0	0	122,059,701
09/2018	122,059,701	3,870,000	582,578	0	0	0	0	126,512,279
12/2018	126,512,279	25,136,124	797,030	619,400	0	0	42,450,829	109,375,204
03/2019	109,375,204	0	682,236	318,673	0	0	0	109,738,767
06/2019	109,738,767	0	671,781	0	0	0	0	110,410,548
09/2019	110,410,548	4,252,500	669,149	0	0	0	0	115,332,197
12/2019	115,332,197	12,793,400	666,353	0	0	0	0	128,791,950
03/2020	128,791,950	865,200	632,842	0	0	0	0	130,289,992
06/2020	130,289,992	52,134	420,030	0	0	0	0	130,762,156
	4,983,428	168,923,307	7,204,476	938,073	0	10,979	49,400,003	130,762,156

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## Research and Educational Programs

The Callan Institute provides research to update clients on the latest industry trends and carefully structured educational programs to enhance the knowledge of industry professionals. Visit [www.callan.com/library](http://www.callan.com/library) to see all of our publications, and [www.callan.com/blog](http://www.callan.com/blog) to view our blog “Perspectives.” For more information contact Barb Gerraty at 415-274-3093 / [institute@callan.com](mailto:institute@callan.com).

### New Research from Callan’s Experts

#### **Coping with COVID-19: How Work Is Evolving for Investment Managers**

| Callan surveyed over 100 investment managers regarding how their firms were responding to the COVID-19 pandemic, focusing on office closures and reopenings, work-from-home approaches, business travel, and meetings. Respondents reflected a wide variety of firms by location, employee size, assets under management, and ownership structure.

**Breaking Bad: Better Call Hedge Funds?** | In his latest *Hedge Fund Monitor*, Callan’s Jim McKee discusses four opportunities for hedge fund investors arising from the market dislocations stemming from the COVID-19 pandemic.

#### **Real Estate Indicators: Too Hot to Touch or Cool Enough to**

**Handle?** | Callan’s Real Assets Consulting group identifies seven indicators, based on spreads in real estate and fixed income markets, that, combined with an understanding of prevailing market dynamics, have helped signal when the institutional real estate market is overheated or cooled.

### Blog Highlights

#### **Guidance on Substantial Workforce Cuts and DC Plan Terminations**

| Employers that reduce their workforce or discontinue defined contribution (DC) plan eligibility for certain employee groups may experience an inadvertent “partial plan termination.” If not properly managed, this event could result in a disqualification of the entire plan.

#### **‘Social Washing’ and How COVID-19 Has Emphasized the**

**‘S’ in ESG** | While ESG-savvy investors are most likely familiar with “greenwashing,” which refers to the misrepresentation of environmental impact, the term “social washing” has gained new prominence as the investment community evaluates corporations’

responses to the sudden challenges presented by the coronavirus. Social washing refers to statements or policies that make a company appear more socially responsible than it actually is.

**Nonprofits and the Pandemic: What to Do Now** | For nonprofits, this environment creates unique challenges, with many organizations not only contending with the health crisis but also the impact of portfolio returns on their organization’s ability to fund grants, provide scholarships, and support programs and operations essential to their constituents. At the same time, these organizations face a potential decline in philanthropic contributions.

### Quarterly Periodicals

**Private Equity Trends, 1Q20** | A high-level summary of private equity activity in the quarter through all the investment stages

**Active vs. Passive Charts, 1Q20** | A comparison of active managers alongside relevant benchmarks over the long term

**Market Pulse Flipbook, 1Q20** | A quarterly market reference guide covering trends in the U.S. economy, developments for institutional investors, and the latest data on the capital markets

**Capital Market Review, 1Q20** | Analysis and a broad overview of the economy and public and private market activity each quarter across a wide range of asset classes

**Hedge Fund Quarterly, 1Q20** | Commentary on developments for hedge funds and multi-asset class (MAC) strategies

**Real Assets Reporter, 1Q20** | In this quarter’s edition, we discuss the implications of the COVID-19 pandemic on the prospects for farmland investments. In addition, it includes analysis of the performance of real estate and other real assets in 1Q20.

## Events

Miss out on a Callan conference or workshop? Event summaries and speakers' presentations are available on our website: [www.callan.com/library/](http://www.callan.com/library/)

Please mark your calendar and look forward to upcoming invitations:

### Upcoming Webinars

#### August 20

*Credit Dislocation—Opportunities in Private Credit*

For more information about events, please contact Barb Gerraty: 415-274-3093 / [gerraty@callan.com](mailto:gerraty@callan.com)

### Education: By the Numbers

**50+**

Unique pieces of research the Institute generates each year

**525**

Attendees (on average) of the Institute's annual National Conference

**3,700**

Total attendees of the "Callan College" since 1994

## Education

Founded in 1994, the "Callan College" offers educational sessions for industry professionals involved in the investment decision-making process.

### Introduction to Investments—Virtual

This program familiarizes institutional investor trustees and staff and asset management advisers with basic investment theory, terminology, and practices. It is held over three days with virtual modules of 2.5-3 hours. This course is designed for individuals with less than two years of experience with asset-management oversight and/or support responsibilities. Tuition is \$950 per person and includes instruction and digital materials.

**Next Session: October 13-15, 2020**

Additional information including registration can be found at: [www.callan.com/cc-introduction-virtual/](http://www.callan.com/cc-introduction-virtual/)

### Introduction to Investments—In Person

This program familiarizes institutional investor trustees and staff and asset management advisers with basic investment theory, terminology, and practices. It lasts one-and-a-half days and is designed for individuals with less than two years of experience with asset-management oversight and/or support responsibilities. Tuition is \$2,350 per person and includes instruction, all materials, breakfast and lunch on each day, and dinner on the first evening with the instructors.

Additional information including dates and registration can be found at: [www.callan.com/callan-college-intro-2/](http://www.callan.com/callan-college-intro-2/)



"Research is the foundation of all we do at Callan, and sharing our best thinking with the investment community is our way of helping to foster dialogue to raise the bar across the industry."

Greg Allen, CEO and Chief Research Officer



## List of Callan's Investment Manager Clients

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Amundi Pioneer Asset Management

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Ariel Investments, LLC

Aristotle Capital Management, LLC

Atlanta Capital Management Co., LLC

Aviva Investors Americas

AXA Investment Managers

Baillie Gifford International, LLC

Baird Advisors

Baron Capital Management, Inc.

### Manager Name

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BMO Global Asset Management

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Boston Partners

Brandes Investment Partners, L.P.

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BrightSphere Investment Group

Brown Brothers Harriman & Company

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Carillon Tower Advisers

CastleArk Management, LLC

Causeway Capital Management LLC

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Cohen & Steers Capital Management, Inc.
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Columbus Circle Investors
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D.E. Shaw Investment Management, L.L.C.
DePrince, Race & Zollo, Inc.
Diamond Hill Capital Management, Inc.
Dimensional Fund Advisors LP
Doubleline
Duff & Phelps Investment Management Co.
DWS
EARNEST Partners, LLC
Eaton Vance Management
Epoch Investment Partners, Inc.
Fayez Sarofim & Company
Federated Hermes, Inc.
Fidelity Institutional Asset Management
Fiera Capital Corporation
First Hawaiian Bank Wealth Management Division
First State Investments
Fisher Investments
Fortress Investment Group
Franklin Templeton
Fred Alger Management, Inc.
GAM (USA) Inc.
GCM Grosvenor
Glenmeade Investment Management, LP
GlobeFlex Capital, L.P.
Goldman Sachs
Green Square Capital Advisors, LLC
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GW&K Investment Management
Harbor Capital Group Trust
Hartford Investment Management Co.
Heitman LLC
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HPS Investment Partners, LLC
Income Research + Management, Inc.
Insight Investment Management Limited
Intech Investment Management, LLC

Manager Name
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Invesco
Investec Asset Management North America, Inc.
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Jennison Associates LLC
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Legal & General Investment Management America
Lincoln National Corporation
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Los Angeles Capital Management
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MackKay Shields LLC
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Mondrian Investment Partners Limited
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Versus Capital Group

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WCM Investment Management

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Wellington Management Company LLP

Wells Fargo Asset Management

Western Asset Management Company LLC

Westfield Capital Management Company, LP

William Blair &amp; Company LLC

# STATE BOARD OF LAND COMMISSIONERS

November 17, 2020

Consent Agenda

## Subject

Statement of Investment Policy Annual Review

## Question Presented

Shall the Land Board approve the revised Statement of Investment Policy for the combined Endowment assets?

## Background

In November 2014, the Land Board accepted the Asset Allocation and Governance Review from Callan LLC (Callan). The report included a recommendation to develop:

A comprehensive Investment Policy Statement...for the combined Trust that identifies the investment objectives, risk management processes, risk tolerance (including connecting the risk taken in the asset allocation with that expressed in the distribution policy), the adopted asset allocation and rebalancing ranges, decision-making and the roles of each party involved in the investment process, how performance will be monitored and measured for each asset type, and the establishment of appropriate metrics and peer groups where relevant for both the land and financial assets.

Callan, working with the Idaho Department of Lands (Department) and the Endowment Fund Investment Board (EFIB), developed a Statement of Investment Policy for the combined Endowment assets, which was approved by the Land Board at the May 17, 2016 meeting. The Statement of Investment Policy and appendices are subject to annual review and approval by the Land Board's Investment Subcommittee and the Land Board.

## Discussion

The Department and EFIB worked with Callan to review and revise the Statement of Investment Policy and appendices (Attachment 1), previously approved at the July 17, 2018 meeting, to make corrections, align with current practices, and provide clarity. Revisions include:

- Addition of Callan's updated 2020 market expectations for the financial asset portfolio.
- The most recent version of the EFIB Statement of Investment Policy.
- Minor revisions to text throughout the document to provide clarity or make corrections.

The changes to the Statement of Investment Policy were approved by the Investment Subcommittee on November 5, 2020.

### **Recommendation**

Approve the revised Statement of Investment Policy.

### **Board Action**

### **Attachments**

1. Revised Statement of Investment Policy and appendices (redlined)



# Statement of Investment Policy

## Idaho Land Grant Endowments

As overseen by the:

**Idaho Board of Land Commissioners**



INCLUDES FUNDS MANAGED BY THE ENDOWMENT FUND INVESTMENT BOARD

INCLUDES LAND MANAGED BY THE IDAHO DEPARTMENT OF LANDS

~~July 17, 2018~~ November 17, 2020

This Statement of Investment Policy was initially published May 17, 2016 and is updated annually. The policy superseded the State Trust Lands Asset Management Plan dated December 20, 2011.

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## **I. Introduction**

The State Board of Land Commissioners (Land Board) hereby establishes this Statement of Investment Policy (Statement) for the investment and management of the land grant endowment assets (Endowment Assets or Endowment) of the State of Idaho. The Endowment Assets were created by The Idaho Admissions Act in 1889 which granted the new state approximately 3,600,000 acres of land for the sole purpose of funding fourteen specified beneficiaries including nine different trusts or endowments.

This Statement provides policies for the investment and management of financial and land assets which together comprise the Endowment Assets. Financial Assets consist primarily of the invested revenues from the endowment lands (collectively, Financial Assets). Land Assets include timberland, rangeland, farmland, commercial real estate, residential (cabin sites) real estate, minerals, and oil and gas (collectively, Land Assets) located in Idaho.

## **II. Purpose**

This Statement of Investment Policy is set forth by the Land Board to accomplish the following:

- Establish a clear understanding for all involved parties regarding the management and investment goals and objectives for the Endowment Assets.
- Offer guidance and limitations to all involved parties regarding the management and investment of Endowment Assets.
- Define and assign the responsibilities of participants involved in the investment process.
- Establish a basis for evaluating investment and management results.
- Manage Endowment Assets according to prudent standards as established in the Idaho Constitution and trust law.
- Establish the relevant investment horizon for which the Endowment Assets will be managed.

## **III. Constitutional and Statutory Requirements**

The investment and management of the Endowment Assets will be in accordance with the Idaho Constitution, all applicable laws of the State of Idaho, and other pertinent legal restrictions. In the event this Statement is inconsistent with Constitutional or Statutory Requirements (Requirements), those Requirements will control.

### **A. Land Board**

Article IX, Section 7 of the Constitution establishes the Land Board: “The governor, superintendent of public instruction, secretary of state, attorney general and state controller shall constitute the state board of land commissioners, who shall have the direction, control and disposition of the public lands of the state, under such regulations as may be prescribed by law.”



## **B. Sole Interest of the Beneficiaries**

All Endowment Assets of the State of Idaho must be managed “in such manner as will secure the maximum long-term financial return” to the trust beneficiaries.

## **C. Prudent Investments and Fiduciary Duties**

The Land Board and its agents, including staff, the Idaho Department of Lands (IDL), the Endowment Fund Investment Board (EFIB), consultants, advisors, and investment managers shall exercise the judgment and care of a prudent investor as required under the prudent investor rule set forth in the Uniform Prudent Investor Act (Act), Idaho Code §§ 68-501 to 68-514.

Endowment Assets shall be invested and managed with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert acting in like capacity and familiar with such matters would use in the investment and management of assets of like character with like aims.

The Act states, in part, that: “A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution”; and, “A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.”

The duty of prudence requires trustees to bring the appropriate level of expertise to the administration of the trust. An implied duty of trustees is also to preserve and protect the assets with a long-term perspective sensitive to the needs of both current and future beneficiaries.

## **D. Sales, Exchanges, and the Land Bank**

Article IX, Section 8 of the Idaho Constitution includes the following restrictions regarding the sale of lands:

- All land must be disposed of via public auction
- A maximum of 100 sections (64,000 acres) of state lands may be sold in any year
- A maximum of 320 acres may be sold to any one individual, company, or corporation [\(160 acres for University endowment lands per Article IX, Section 10\)](#)
- No state lands may be sold for less than the appraised price
- Granted or acquired lands may be exchanged on an equal value basis with other lands subject to certain restrictions
- Forest and certain other land may not be sold per Idaho Code § 58-133, which states, “All state-owned lands classified as chiefly valuable for forestry, reforestation, recreation, and watershed protection are reserved from sale and set aside as state forests.”

Article IX, Section 4 of the Idaho Constitution provides for the deposit of the proceeds from the sale of school lands into a land bank fund to be used to acquire other lands within the state for the benefit of endowment beneficiaries, subject to a time limit established by the legislature.

Idaho Code § 58-133 provides conditions for use of the Land Bank Fund. In summary, the Land Bank Fund exists to hold the proceeds from the sale of state endowment land pending the purchase of other land in Idaho for the benefit of the endowment beneficiaries. Funds in the Land Bank, including earnings, are continually appropriated to the Land Board. If the funds have not been utilized for land acquisition within five years, they are transferred to the permanent endowment fund of the respective endowment. The Land Board may transfer any portion of the funds in the Land Bank to the permanent fund at any time.

## **E. Other Constitutional Requirements and Statutes**

Additional constitutional articles and state statutes are described throughout this Statement. [Appendix A](#) includes the entirety of the constitutional articles and statutes that apply to the investment and management of Endowment Assets.

# **IV. Investment Goals**

## **A. General Objective**

The stated mission for Endowment Assets is to provide a perpetual stream of income to the beneficiaries by managing assets with the following objectives:

- Maximize long-term financial return at a prudent level of risk.
- Provide relatively stable and predictable distributions to the beneficiaries.
- Constrain distributions to protect future generations' purchasing power.
- Maintain sufficient liquidity for anticipated expenditures.

## **B. Considerations**

Primary considerations impacting the fulfillment of the investment mission and objectives include the following:

- Constitutional and statutory requirements as noted previously. Constitutional restrictions are considered permanent given the process required to amend the Constitution (approval by a two-thirds majority in the House of Representatives and Senate followed by ratification by the citizens of Idaho via a general election ballot or a constitutional convention).
- Managing revenue and profit-generating activities within a government agency.
- Each trust holds its Financial Assets in a commingled pool (with shares owned by several trusts) but its Land Assets in specific and unique tracts.

## **C. Investment Return Objective**

As perpetual assets, per State Constitution and statute, the Endowment has a perpetual investment horizon. The investment return objective for the Endowment Assets is to earn over a long period an annualized real return, net of fees, expenses, and costs, above spending and inflation (per Idaho Code § 57-724) as well as population growth (per Land Board policy). Given the current financial and land asset mix, the Endowment is expected to earn a real net return of 3.5% annually over the long term.

## **D. Distribution Policy**

The Distribution Policy adopted by the Land Board (further described in Section VIII) sets annual distributions to beneficiaries. The interaction of investment and distribution policies should balance the needs of current and future beneficiaries. The Land Board's policy is to distribute a conservative estimate of long-term sustainable income and hold sufficient reserves of undistributed income to absorb down cycles in endowment earnings. It is a priority to avoid reductions in distributions because most beneficiaries depend on endowment distributions to fund ongoing operations.

# **V. Investment Risk and Strategic Asset Allocation**

## **A. Asset Class Diversification Asset Classes**

Risk, as it relates to stability of distributions, shall be managed primarily by holding reserves of undistributed income. Risk, as it relates to the volatility of earnings of the Endowment Assets, shall be managed primarily through diversification. Subject to land disposal restrictions and the statutory prohibition on selling timberland, the Endowment Assets will be diversified both by asset class and within asset classes to the extent practical. The purpose of diversification is to provide reasonable assurance that no single asset class will have a disproportionate impact on the Endowment. Both quantitative measures and qualitative judgment will be used in assessing and managing risk.

## **B. Review of Asset Classes and Asset Allocation**

In setting strategic asset allocations, the Land Board will focus on ensuring the Endowment Assets' expected long-term returns will meet expected long-term obligations with a prudent level of risk. Approximately every eight years, the Land Board will evaluate the asset allocation mix and conduct an asset allocation study (last completed in 2014) to determine the long-term strategic allocations to meet risk/return objectives.

Significant changes in capital market assumptions, portfolio characteristics, timber income expectations, or the Distribution Policy may cause the Land Board to accelerate the timing of an asset allocation study. For example, the illiquidity of much of the Land Assets may require the target asset mix of the Financial Assets be adjusted due to significant land sales or acquisitions or the appreciation of the Financial Assets at a faster or slower rate than the appreciation of the Land Assets.

EFIB will review the Distribution Policy annually. When key assumptions in the Distribution Policy, such as expected earnings and volatility change, EFIB will recalculate the risk of shortfalls in future distributions and provide recommendations on policy adjustments to the Land Board.

## C. Strategic Asset Allocation

The Land Board commissioned a governance and asset allocation study in 2014 and accepted the recommendations included in the Callan Asset Allocation and Governance Report (Callan Report). This section summarizes the major conclusions of the asset allocation portion of the Callan Report. The purpose of the asset allocation study was to evaluate current and potential asset allocation mixes incorporating Land Assets with Financial Assets to evaluate expected return and volatility of the portfolio.

The Land Board commissioned a second Callan study in 2017 to provide further analysis and refinement on the asset allocation work completed in 2014. The primary goal of the follow-up study was to determine for each endowment the best and highest use of assets in the Land Bank—reinvestment into traditional land assets (timberland or farmland) or transfer to the financial asset portfolio. The Land Board accepted the results from the study and elected to pursue Option A from Callan’s Options to Consider (page 33 of the report), which reads:

Option A: Consistent with the Reinvestment Plan, identify potential transactions that meet established hurdle rates and set aside sufficient funds over appropriate time horizon (immediately move money that will either “mature” prior to the transaction or exceeds what is required).

- Recognizes the importance of land in the total Endowment and attempts to maintain land’s target allocation (41%)

The Land Board approved the asset mix from the Callan Report presented in Exhibit 1 below:

**Exhibit 1: Strategic Asset Allocation**

Asset Class	Target Asset Allocation	Range	Actual Allocation June 30, <del>2017</del> 2020	Expected 10 Year Compounded Return <sup>1,2</sup>	Implied Real Net Return <sup>3</sup>
Financial Assets	58%	50-65%	<del>59.2</del> 61.6%	6.34%	4.0515%
IDL Timberland	39%	30-50%	<del>33.2</del> 31.5%	5.70%	3.45%

<sup>1</sup> Based on Callan’s 2014 Asset Allocation and Governance Review and ~~2018~~2020 capital market expectations.

<sup>2</sup> Compounded Returns are measured over long time periods and reflect the reduction in return that comes from variations around the average return (“volatility drag”). It is stated on a nominal basis before inflation but after all fees and costs associated with managing the investment(s) have been deducted from the return.

<sup>3</sup> Real net return is the nominal net rate of return after deduction of inflation. The inflation assumption is 2.25%.

IDL <del>Grazing</del> <del>Land</del> <u>Rangeland</u>	2%	0-5%	1.67%	3.00%	0.75%
Cash Equivalents –Land Bank	1%	0-5%	2.13.4%	2.00%	-0.25%
Residential Real Estate	0%	N/A	2.61.0%	N/A	
Asset Class	Target Asset Allocation	Range	Actual Allocation June 30, 2017	Expected 10 Year Compounded Return	Implied Real Net Return
Idaho Commercial Real Estate	0%	N/A	0.53%	N/A	
Other Land	N/A	N/A	0.7%	N/A	
Total	100%			6.69%	4.44%
Expected Risk (Standard Deviation)				9.28%	
Inflation Assumption				2.25%	

- The Target Asset Allocation percentages were established in December 2014 with the following exceptions:
  - A Diversified US Real Estate (Commercial Property) target allocation was adopted by EFIB in October 2015 and implemented in 2016 in the Financial Assets portfolio.
  - The asset allocation study did not include residential real estate because of an approved disposition plan adopted by the Land Board.
  - The asset allocation study did not include commercial real estate given its limited size and low likelihood that it should be expanded due to the following:
    - Difficulty profitably managing the asset given certain constitutional and statutory constraints.
    - Lack of a compelling investment rationale for a concentrated position in Idaho commercial properties considering other alternatives available, including increasing investment in timberland or the Financial Assets.
    - The Land Board adopted a plan in February 2016 to divest most commercial real estate managed by IDL and has implemented a substantial portion of that plan.
- The ranges for land investments reflect the inherent illiquidity in these land types combined with an inconsistent supply of land for purchase and restrictions on sales, all of which impact the ability to rebalance land investments.
- Although it is not an institutional asset class, grazing land (now called “rangeland” in IDL documents) was included in the asset allocation study due to its large absolute number of acres and its illiquidity.

The Expected 10-Year Compounded Return and Risk, as specified in Exhibit 1 above, are based on Callan Associates' ~~2018-2020~~ capital market assumptions for each asset class and the total Endowment using the target asset allocations. Over a 10-year period, Callan indicates the target asset allocation should generate a nominal return in excess of 6.~~693~~% net of fees. Using an inflation assumption of 2.25% results in an expected real net return of 4.~~9544~~%. The volatility level (standard deviation) associated with this asset mix is approximately 9.28%. The Expected 10-Year Compounded Return and Risk was developed with reference to the observed long-term relationships among major institutional asset classes.

The Land Board recognizes the actual 10-year return can deviate significantly from this expectation—both positively and negatively.

The Land Board acknowledges the link between the Target Asset Allocation and the Distribution Policy. If an asset allocation mix is selected that deviates from the risk and return in the current Target Asset Allocation, the Land Board, in consultation with EFIB, will assess the impact on the Distribution Policy and change the Distribution Policy as necessary. In broad terms, changes in long-term expected income will impact the estimated level of sustainable distributions while changes in risk, as measured by volatility of income, will impact the desired level of reserves.

EFIB will review the asset allocation for the Financial Assets per the EFIB Investment Policy and present it to the Land Board as an informational item.

## **D. Strategic Policies**

In addition to asset allocation, the Land Board may from time to time authorize or adopt strategic policies. “Strategic Policies” are actions by the Land Board to allow investment in asset types that have not been singled out as “asset classes” in the asset allocation process, to overweight a particular sector within an asset class, or to employ particular strategies in the investment of the Endowment Assets. The purposes of these actions are either to increase the return above the expected return or to reduce risk. Any such policy would include consideration of the change in risk, the change in return, and the impact on the Distribution Policy.

## **VI. Investment Governance Structure**

The Idaho Constitution provides that the endowment funds are held in trust and administered by the Land Board as trustees. The Constitution further provides that the Idaho Legislature may establish a statutory structure for administration that is consistent with the nature of the trusts. Accordingly, the Idaho Legislature created a structure that established EFIB as the manager of the Financial Assets, established the appropriations process for the payment of trust management expenses, and created IDL to serve as the manager of the Idaho Land Assets of each trust. The constitutional and statutory provisions, together with Land Board policy, establish the governance structure for Endowment Assets.

## A. Land Board Responsibility

Management of the Endowment Assets is entrusted to the Land Board which serves as the sole fiduciary of both the Land Assets and Financial Assets. The Land Board is ultimately responsible for all management and investment activities. The powers and duties of the Land Board are fully described in Idaho Code § 58-104.

In exercising ~~this responsibility~~ **these responsibilities**, in addition to EFIB and IDL, the Land Board may hire personnel and agents and delegate investment functions to those personnel and agents consistent with constitutional and statutory provisions. Where the Land Board does not or cannot delegate investment powers or duties, the Land Board will either satisfy itself that it is familiar with such matters, or will retain persons who are familiar with such matters to consult or assist the Land Board in the exercise of those responsibilities. Where the Land Board delegates a responsibility, it will be delegated to a person who is familiar with such matters, and the Land Board will monitor and review the actions of those to whom responsibilities are delegated.

### 1. General Roles and Responsibilities

The Land Board's general role and responsibilities regarding investments include, but are not limited to the following:

- Direct and oversee the conduct and operations of EFIB and IDL.
- Appoint and consult with expert advisors (including EFIB and IDL) for each critical function for which the Land Board has responsibility. In this context, the term "expert advisor" shall mean a person engaged in the business for which he holds himself out to be an expert and who is experienced in that field.
- Plan and establish strategic policies to coordinate the management of state endowment lands with the management of the endowment funds.
- Provide reports on the status and performance of state endowment lands and the respective endowment funds to the state affairs committees of the Senate and the House of Representatives within fourteen days after a regular session of the legislature convenes.
- Make strategic decisions, primarily concerning asset allocation, and establish and/or approve endowment land asset investment and management policies and strategies.
- Periodically review this master investment policy and any sub-policies.
- Monitor the compliance of EFIB and IDL with the investment policies and strategy determined by the Land Board and the execution of the strategy.
- Hire agents in addition to IDL and EFIB to assist the Land Board in the implementation of strategy or investment policies.
- Approve the IDL annual budget request for consideration by the governor and legislature (including review of appropriation requests to IDL from Earnings Reserves).
- Approve allocation of Earnings Reserve Funds as provided in Idaho Code § 57-723A (Distribution Policy), specifically how much is: distributed annually to beneficiaries; retained for future distribution; and, transferred to the Permanent Fund to build corpus.



- Approve the annual timber sale plan and certain timber sales that fall outside of the IDL director's authority.
- Review the IDL director's monthly timber sale activity report showing the proposed sales for the next month.
- Approve large routine land investment decisions that exceed the authority of the IDL director.
- Approve certain other land investment decisions that exceed the authority delegated to the IDL director.
- Approve rulemaking and legislation for IDL.
- Review decisions of the IDL director upon appeal in contested matters.

## **2. Land Board Investment Subcommittee**

### ***a) Structure of the Investment Subcommittee***

The Land Board established and authorized the Subcommittee in December 2014. The current composition of the Subcommittee is one EFIB member (selected by the EFIB chair), the EFIB manager of investments, and the IDL director.

### ***b) General Roles and Responsibilities of the Investment Subcommittee***

The Investment Subcommittee provides review and advice to the Land Board. The primary purpose of the Investment Subcommittee is to coordinate consideration of investment issues that cross both the Land Assets and the Financial Assets, including the following:

- Administer the contract for the general consultant and other consultants, as assigned by the Land Board.
- Work with the general consultant to identify the Land Board's advisor(s) and consultants, including the Land Investment Advisor(s), Land Acquisition Advisor(s), Commercial Real Estate Broker, and the Land Board's Commercial Real Estate Investment Advisor.
- Work with the general consultant and recommend the Statement of Investment Policy and Asset Management Plan to the Land Board.
- Recommend policy regarding implementation of land exchanges on endowment lands.
- Recommend policy (consistent with Idaho Code § 58-133) regarding the use of proceeds from the disposal of assets (e.g., cabin sites, commercial real estate, grazing lands). This may include deposit in the Permanent Fund or holding of proceeds in the Land Bank Fund to acquire additional endowment land assets in Idaho (excluding commercial buildings), access to currently owned endowment lands, or to block-up ownership of endowment lands.

## **3. Use of Outside Experts**

The Land Board employs outside advisors and consulting firms to provide specialized expertise, assist IDL with transactions, and verify or review IDL's and EFIB's investment and operational activities and procedures.

### ***a) Non-Discretionary Investment Consultants***



The Land Board may hire a qualified independent consultant or consultants (including a general consultant) for strategic and annual plan reviews, review of new investment initiatives, investment policy development and review, asset allocation, advisor selection and monitoring, and performance measurement. Investment consultants will be fiduciaries with respect to the services provided and will act in a non-discretionary capacity with no decision-making authority.

***b) Commercial Real Estate Advisor***

The Land Board may use a commercial real estate advisor to advise on the Idaho commercial property portfolio or transition properties. The commercial real estate advisor will provide analysis and management expertise on the retention, leasing, disposition, and management of the properties. The commercial real estate advisor will be a fiduciary with respect to the services provided and act in a non-discretionary capacity with no decision-making authority.

***c) Land Acquisition Advisors***

The Land Board may use land acquisition advisors to source land acquisitions, facilitate completion of due diligence work, and make recommendations. Due diligence services may include appraisals, review appraisals, timber cruise and check cruise, financial evaluation, mineral and water right identification, encumbrance review, survey, and title review. Land acquisition advisors will be fiduciaries with respect to the services provided and act in a non-discretionary capacity with no decision-making authority.

***d) Land Investment Advisor***

The Land Board may use a land investment advisor(s) to independently review certain land investment decisions proposed by IDL (land disposal, land acquisition, exchange, and new tenant improvements) that are over \$100,000. The land investment advisor will review the post-audit completed by IDL for transactions over \$1,000,000. The land investment advisor may be used for independent review of IDL procedures. The land investment advisor will be a fiduciary with respect to the services provided and act in a non-discretionary capacity with no decision-making authority.

***e) Auditor***

Idaho Code § 57-720 requires the Financial Assets of the endowment be reviewed by an independent auditor. [The independent auditor also reviews the application of agreed upon procedures for the IDL income statement.](#) To oversee this process, and any other audits it deems prudent, the Land Board has established the Land Board Audit Committee, consisting of the attorney general (or designee), the state controller (or designee), and three members of EFIB, appointed by its Chair.

## **B. Investment Governance and Investment Policy for the Financial Assets**

Idaho Code § 57-718 created EFIB which formulates policy for and manages the investment of the Financial Assets, which consists primarily of the invested revenues from the endowment lands. As permitted in Idaho Code § 57-720, the fund assets of all nine endowments, both Permanent Funds and Earnings Reserve Funds, may be combined in a single investment pool.

## **1. Mission of EFIB**

The mission of EFIB is to provide professional investment management services to its stakeholders consistent with its constitutional and statutory mandates.

## **2. Structure of EFIB**

Per Idaho Code § 57-718, EFIB consists of nine members appointed by the governor and confirmed by the Senate. These members are one state senator, one state representative, one professional educator, and six members of the public familiar with financial matters.

## **3. General Roles and Responsibilities of EFIB and Agents**

With a citizen board and small staff, EFIB will make strategic allocations and generally avoid making tactical calls. The Board and staff will concentrate on the following activities:

- Making strategic decisions, primarily concerning asset allocation.
- Establishing investment policy for the funds.
- Recommending Distribution Policy and transfers of Earnings Reserves to the Land Board.
- Establishing Distribution Policy for the Capitol Permanent Fund.
- Selecting, monitoring, and terminating investment managers, consultants, and custodians.
- Selecting and directing staff.
- Approving an investment management expense budget from Earnings Reserves for consideration by legislative appropriation.
- Overseeing a credit enhancement process to reduce interest rates on Idaho school bonds through the pledge of certain assets of the Public School Endowment Fund.
- Maintaining a reporting system that provides a clear picture of the status of the Financial Assets.

## **4. Professional Staff**

EFIB will maintain a staff with investment expertise, including a Manager of Investments (MOI) who is a fiduciary to EFIB. The MOI is responsible for directing and monitoring the investment management of the Financial Assets.

## **5. Use of Outside Experts**

The Financial Assets will be invested by professional investment firms. No funds will be managed internally. EFIB will also employ one or more outside consulting firms to provide specialized expertise and assist in, among other things, asset allocation, manager selection and monitoring, and performance measurement.

## **6. Investment Policy Statement for Financial Assets**

EFIB will maintain a detailed Investment Policy that pertains specifically to the management and investment of the Financial Assets ([Appendix C](#)). The Land Board is not required to approve this investment policy as this duty is delegated to EFIB.

## C. Investment Governance for Land Assets

Idaho Code § 58-101 created IDL to serve as the internal investment and asset manager of the Land Assets of each trust. This role includes authorization to make certain investment decisions consistent with the established governance structure and includes day-to-day operating responsibilities for the Land Assets. This is in contrast to the EFIB structure where implementation and day-to-day decision making is delegated to external investment managers subject to approved guidelines and contracts.

The Land Assets include timberland, rangeland, farmland, commercial real estate, residential (cabin sites) real estate, minerals, and oil and gas (collectively “Land Assets”) located in Idaho.

### 1. Mission of IDL

The mission of IDL is to professionally and prudently manage Idaho’s Land Assets to maximize long-term financial returns to public schools and other trust beneficiaries and to provide professional assistance to the citizens of Idaho to use, protect, and sustain their natural resources. IDL also has various regulatory, technical assistance, and resource protection roles.

### 2. Structure of IDL

IDL operates under the direction of the Land Board and is the administrative arm of the Idaho Oil and Gas Conservation Commission. IDL is led by a director who is employed by and is directed by the Land Board. The director’s staff includes a deputy director ~~(State Forester)~~, a division administrator for Forestry and Fire (currently serves as State Forester), a division administrator for Lands and Waterways, Trust Land Management, a division administrator for Minerals, Public Trust, and Oil and Gas, a division administrator ~~of for~~ Operations ~~(Chief Operations Officer)~~, a division administrator for Business Support Services, a policy and communications chief, and a human resources officer—collectively, the executive staff. Each of the positions identified above supervises various professional, technical, and administrative support staff.

### 3. General Roles and Responsibilities

IDL manages more than 2.4 million acres of Idaho Land Assets (and additional acreage of retained mineral rights) under a constitutional mandate to maximize long-term financial returns for the sole benefit of public schools and certain other state institutions enumerated in statute.

The director and staff will concentrate on the following investment-related activities:

- Serving as the instrumentality of the Land Board.
- Implementing the strategic direction established by the Land Board concerning Land Assets.
- Making strategic decisions (where authorized) and providing recommendations to the Land Board concerning management of Land Assets.
- Establishing policies and procedures for IDL programs.
- Selecting and directing staff.

- Developing a land and resource management expense budget from Earnings Reserves for Land Board approval and consideration for legislative appropriation. Earnings Reserves is only a portion of the IDL budget.
- Monitoring and reporting progress toward strategic goals, including preparing an annual income statement following agreed upon procedures and calculating annual returns for major asset classes and all asset classes combined.

Decision-making authority for endowment land asset management resides with the Land Board except as delegated to the IDL director. Program management resides with the director's staff and their subordinates. IDL establishes policies and procedures for routine programmatic activities at the bureau and program levels.

IDL has delegated authority to approve the following:

- Normal timber sales that fall within established Land Board policies and salvage sales.
  - Exceptions include sales with clear-cut harvests over 100 acres; sales with development credits exceeding 50% of the net appraised value or 33% of the gross appraised value; and sales with written citizen concerns.
- Approval of certain routine land investment decisions. Routine land investment decisions include access acquisition, forest and range improvements, reforestation, and building maintenance.
  - Transactions <\$500,000 the IDL director may authorize.
  - Transactions >\$500,000 require Land Board approval.
- Approval of certain other land investment decisions. Other land investment decisions include land disposal, land acquisition, and new tenant improvements.
  - Transactions <\$100,000 the IDL director may authorize.
  - Transactions >\$100,000 require Land Board approval.

#### **4. Professional Staff**

IDL staff consists of trained professionals and technical experts in various fields, such as forestry, range, real estate, minerals, oil & gas, fire, accounting, finance, procurement, GIS, IT, and other specialties. IDL staff members who are involved with management of Endowment Assets or related accounting or financial management are fiduciaries.

#### **5. Use of Outside Experts**

IDL may use outside experts at its discretion and the Land Board's discretion. IDL may use the Land Board's expert advisors when in need of the special expertise provided by the advisors and when the use of a specific advisor will not conflict with the Land Board's use of the advisor. IDL may review information and recommendations provided to the Land Board by outside experts including the Commercial Real Estate Investment Advisor, Commercial Real Estate Broker, Land Acquisition Advisor(s), and the Land Investment Advisor(s). The chart in [Appendix E](#) below depicts the relationship between the Land Board, IDL, and outside experts.

## **D. Role of the Legislature**

The Idaho Legislature is responsible for the following:

- Enacting laws to establish the methodology for restoring losses to the Public School and Agricultural College funds.
- Appropriating Earnings Reserve Funds for operation of IDL and EFIB.
- Considering approved endowment distributions in setting beneficiary appropriations.
- Establishing the statutory structure for administration of endowment assets that is consistent with the nature of the trusts and the constitutional duties of the Land Board.

## **VII. Asset Class Policies for Land Assets**

### **A. Investment Objective for the Land Assets**

The primary objective for the Land Assets is the generation of maximum long-term return at a prudent level of risk using traditional land grant asset types. The Land Assets diversify the Financial Assets given the low correlations of timberland and rangeland to public capital markets. The Land Assets also lower the volatility of the total investment portfolio considering timberland and rangeland returns have historically exhibited lower volatility than equity asset classes. During periods of negative financial returns, Land Assets can provide a positive revenue stream to help maintain Earnings Reserves and stable Endowment distributions.

Investment objectives are long-term return objectives. The investment objective for the land portfolio recognizes that timberland is a primary driver of the overall return for land and that income from timberland and, to a lesser degree, all other lands are the primary generator of investment returns. The individual investment objectives for timberland, rangeland, and farmland reflect the long-term investment characteristics (return, correlation, and volatility) compared to other asset classes. Investment objectives also consider the existing base of land holdings along with management constraints, notably sales restrictions, acreage limitations, and the rent-setting and leasing processes. The return objectives should not be viewed in isolation but in relationship to one another.

The Land Assets are managed to achieve a real net return target of at least 3% over a long-term holding period (Land Assets Return Objective). The Land Assets Return Objective includes both income and appreciation, is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit), and net of inflation as measured by the Consumer Price Index. While the Land Assets Return Objective includes both income and appreciation, the return is expected to be generated primarily from income.

Specific investment objectives and guidelines for each land category are summarized below. The Land Board shall review periodically its expectations for the land categories and assess how the updated expectations affect the probability that the Endowment will achieve the established investment objectives.

## B. Key Elements of the Land Strategy

### 1. Active and Profitable Management

Land Assets are actively managed based on profitability, which means that some parcels will be managed more intensively than others. The portfolio is managed by IDL and, except in unusual circumstances, no external managers are used. Active management includes the following primary activities:

- Maximize net income while protecting and enhancing the long-term value and productivity of the Land Assets. (IDL shall produce a quarterly income statement which allows for evaluation of income versus management and operating expenses by trust beneficiary, program, and asset class as a way to evaluate returns and profitability.)
- Acquire, through purchase or trade, land whose expected risk adjusted return meets or exceeds the return objectives outlined in this Statement and whose uses are aligned with IDL's management expertise.
- Dispose, through sale or trade, land whose expected long-term return does not meet the return objectives outlined in this Statement.
- Make incremental investments to enhance the value of existing assets when the expected risk adjusted return is favorable.

### 2. Leverage is Prohibited

Debt is not used in acquisition of Land Assets. All assets are unencumbered by debt.

### 3. Diversification

There is limited ability to diversify the Land Assets by geography, land type, investment style, investment manager (IDL is the sole manager), or vintage year since most Land Assets were acquired at statehood. Diversification of income source shall be pursued by encouraging multiple bidders for timber sales. There is limited opportunity to actively diversify the tenant base in rangeland, commercial real estate, residential real estate, farmland, and other land types that are leased as leases are simply awarded to the highest bidder.

Timberland shall be managed ~~to produce~~for age class and species diversity across the timberland asset to maximize long-term returns. An individual timber stand may have trees of similar age, but other timber stands represent other age classes, ensuring a relatively even flow of forest products over time. An even flow of various forest products is considered a priority to maintain a vibrant and diverse customer base to maximize the sale prices of timber over time and resulting income distributions. Offering a variety of timber sale sizes, types, and locations across the state also helps to maintain a diverse customer base. Geographic diversity of the land base ~~over the state~~and intensive forest management provides ~~some~~ protection against catastrophic fire, disease, and insect outbreak.

### 4. Illiquidity and Rebalancing

Land Assets represent a large part of the total Endowment portfolio and are illiquid compared to publicly traded equities. Strategic rebalancing to maintain the total Endowment portfolio within the

desired asset allocation ranges will be actively pursued where possible through sales, exchanges, and acquisitions. However, constitutional and statutory requirements regarding land sales and exchanges limit the ability to rebalance the Land Asset portion of the portfolio.

## **C. Timberland**

### **1. Definition**

Timberland is defined as land capable of growing successive crops of commercial forest products for harvest.

### **2. Overall Financial Objective and Benchmark**

The return on timberland comes from biological growth, upward product class movement, timber price appreciation and land price appreciation. The overall objective of timberland investments is to attain a real net income return of at least 3% over a long-term holding period. The net income return target is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), and net of all fees and costs of program management (e.g., legal and audit). Timberland (and real net income) is expected to appreciate over time at the rate of inflation, as measured by the Consumer Price Index. An appreciation target is not as relevant as the income return target since timberland cannot be sold and the appreciation component cannot be realized.

### **3. Allowable Investments**

Timberland in Idaho and investments in timberland improvements, including but not limited to planting seedlings, spraying, pre-commercial thinning, fertilization, intermediate silvicultural treatments, road construction, and maintenance projects are allowed, as are investments in easements or other means of achieving cost-effective access to productive timberlands.

New timberland acquisitions shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the following:

- If the expected financial return generated by income exceeds the minimum hurdle rate of 3.5% real net;
- Whether the return profile is sufficient relative to the risk taken, including an analysis of the transaction in terms of long-term financial return and risk to the Endowment;
- Whether the transaction would facilitate improved management or improve the overall Endowment land ownership pattern in the area;
- The existence of any potential risks, including but not limited to environmental or title-related issues.

Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. The presence of minerals including sand and gravel can enhance the net return from timberland. Land Bank funds used for acquisition can only be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Reinvestment Plan.



New investments in timberland must be owned 100% by the endowment. Joint ventures are not allowed. Acquisition of land with a conservation easement in place is allowed provided the Land Board has full decision-making authority regarding implementation of land management practices.

#### **4. Considerations**

Idaho Code § 58-133 requires that all state-owned lands classified as chiefly valuable for forestry, reforestation, recreation, and watershed protection be reserved from sale and set aside as state forests. Timberland can be exchanged but only for other timberland.

IDL has an established public involvement process, approved by the Land Board, which requires that annual timber sale plans be published and public comment opportunities be made available. Small sales (less than 1,000,000 board feet or less than \$150,000 in value) and salvage sales are exempt from the policy.

#### **5. Management**

Timberland is directly managed by IDL. Management shall comply with all applicable laws, such as the Idaho Forest Practices Act. Management objectives include the following:

- Manage the timberland asset prudently, efficiently, and with accountability to the beneficiaries.
- Reduce risk and increase prospects for sustainable annual income.
- Achieve a rate of return consistent with policy objectives.
- Produce forest products that meet market demands.
- Identify and acquire additional timberlands that maintain or enhance the value of the timberland asset class.
- Identify and dispose of or transition underperforming timberland assets to increase economic performance and improve land asset diversity.
- Achieve financial and forest health objectives identified in the Asset Management Plan, Forest Business Plan (and any related annual plans developed), and the Forest Asset Management Plan.

#### **6. Valuation**

The land expectation value (LEV) method (constant real annual cash flow / real annual discount rate) approach or other commercially acceptable methods approved by the Land Board shall be used for the valuation of the timberland asset class. The timberland asset class shall be valued using the LEV method every three years by an independent expert for the purpose of calculating program returns, not for the purpose of acquisition or disposition of specific timberland parcels. MAI appraisals must be used for valuation of individual parcels in the event of an exchange.

#### **7. Monitoring Standards**

IDL will report cash flows for the timberland asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation (based on LEV), and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent



independent valuation will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

## **D. Rangeland**

### **1. Definition**

Rangeland is defined as lands supporting natural vegetation—generally grasses, forbs, and small brush suitable for grazing by domestic livestock and wildlife.

### **2. Overall Financial Objective and Benchmark**

The overall objective of rangeland investments is to attain a real net return of at least 0.3% over a long-term holding period. The 0.3% real net rate of return includes primarily income and is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit) and net of inflation as measured by the Consumer Price Index. Given its low expected return, rangeland is not an institutional asset class.

### **3. Allowable Investments**

Selective investment in Idaho rangeland is allowed, subject to the desired asset allocation and the recommendations of the Callan Report. Additional investment may take the form of investments in rangeland improvements and easements or other means of access to improve productivity. Rangeland improvements refers to actions that improve the manageability and productivity of the asset including but not limited to fencing, weed control, access improvement, and water development.

New investments shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the following:

- If the expected financial return generated by income exceeds the minimum hurdle rate of a 3.5% real net return;
- Whether the return profile is sufficient relative to the risk taken, including an analysis of the transaction for long-term financial return and risk to the Endowment;
- Whether the transaction would facilitate improved management or improve the overall Endowment land ownership pattern in the area;
- The existence of any potential risks, including but not limited to environmental or title-related issues.

Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. Land Bank funds used for acquisition can only to be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Reinvestment Plan.

### **4. Considerations**

Idaho Code § 58-138 requires that the written agreement of a lessee be obtained prior to entering into an exchange involving leased lands.

Rangeland may be sold or exchanged subject to acreage limitations—a lifetime maximum of 320 acres may be sold to any one individual, company, or corporation. For rangeland, this limitation is a significant barrier to repositioning or reducing the size of the rangeland portfolio given its size at over 1.4 million acres. Any disposal of rangeland should consider its optionality for future conversion to a higher and better use, including reclassification and potential mineral extraction. Some endowments are restricted to a lifetime maximum of 160 acres sold to any one individual, company, or corporation. Article IX of the Idaho Constitution describes the limitations on the sale of endowment land.

## **5. Management**

Rangeland is directly administered by IDL. Livestock forage productivity and availability varies significantly across the state due to factors such as climate, vegetation types, topography, and access to water. Some Endowment parcels are of sufficient size and productivity to stand alone as a grazing unit; however, most are managed in a manner consistent with adjoining federal and private lands because of normal livestock and grazing management practices. Some rangeland parcels are leased in combination with timberland uses. The presence of minerals such as sand and gravel can enhance the net return from rangeland. Management objectives for rangeland include the following:

- Manage the rangeland asset prudently, efficiently, and with accountability to the beneficiaries.
- Develop and manage long-term grazing leases that achieve a rate of return consistent with policy objectives and market rates.
- Identify and dispose of or transition underperforming rangeland assets to increase economic performance and improve land asset diversity.
- Minimize contractual and environmental risks.
- Identify programmatic or statutory changes that maximize income.
- Achieve objectives identified in the Asset Management Plan and the Grazing Program Business Plan.

## **6. Valuation**

The land expectation value (LEV) method (constant real annual cash flow/real annual discount rate) approach shall be used for the valuation of rangeland. Rangeland shall be valued using the LEV method every three years by an independent expert. MAI appraisals must be used for individual parcels in the event of an exchange or sale.

## **7. Monitoring Standards**

IDL will report cash flows for the rangeland asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

## **E. Residential Real Estate (AKA “Cottage Sites”)**

### **1. Definition**

Idaho has leased residential sites since 1932. These properties are vacant endowment land where lessees are authorized to construct and own improvements, typically cabins and single-family homes.

### **2. Overall Financial Objective and Benchmark**

Leases shall be at least 4% of the appraised value ~~until sold at auction~~. The overall objective of residential real estate investments is to attain, for each sale, net distributions to the endowment that are at or above appraised value and cover all costs of the sale and internal management costs.

### **3. Allowable Investments**

The Land Board and IDL are implementing a disposition strategy for the residential portfolio subject to a long-term plan that was approved in December 2010 and subsequently revised in 2016. Future investment in cottage sites is not allowed with the exception that current land may be transitioned to cottage site lots and sold.

### **4. Considerations**

While the Land Board has directed a disposition strategy for the residential portfolio, complete disposition is unlikely in the next five years. The viability of an ongoing lease program, with consideration of ongoing related expenses, shall be evaluated by IDL and reviewed by the Land Board as the current disposal process is completed.

### **5. Management**

Cottage sites are directly managed by IDL. Management objectives include the following:

- Execute the approved Cottage Site Plan to unify the estate in a business savvy manner to maximize return to the endowments.
- For the duration of the cottage site leasing program, develop and manage residential leases that appropriately compensate the endowments.
- Identify additional high-value (undeveloped) residential sites for potential auction to maximize return to the endowments.
- Identify and transition residential sites that may return more value to the trust if transitioned to a higher and better use.

### **6. Valuation**

All properties will be appraised to establish lease rates prior to sale. Until reappraisal, existing appraisal data will be used for valuation of the asset class.

### **7. Monitoring Standards**

IDL will report cash flows for the residential real estate asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All

return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

## **F. Farmland**

### **1. Definition**

Farmland is defined as land under cultivation or capable of being cultivated. The farmland asset includes lands used for cultivating grains, vegetables, and hay, as well as vineyards and orchards.

### **2. Overall Financial Objective and Benchmark**

The overall objective of farmland investments is to attain a real net return of 4% over a long-term holding period. The rate of return includes both income and appreciation, is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit), and net of inflation as measured by the Consumer Price Index.

### **3. Allowable Investments**

Investments in Idaho farmland, improvements such as irrigation or structures, and easements or other means of access to productive farmlands are allowed.

New investments shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine if the expected financial return from income and appreciation exceeds the minimum hurdle rate of 4.5% real net and whether the return profile is sufficient relative to the risk taken. The due diligence process includes an analysis of to analyze the transaction in terms of long-term financial return and risk to the Endowment and determines the existence of any potential risks including but not limited to environmental or title-related issues. Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. Land Bank funds used for acquisition can only to be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Reinvestment Plan.

Investments in farmland must be owned 100% by the Endowment. Joint ventures are not allowed. Acquisition of land with a conservation easement in place is allowed provided the Land Board has full decision-making authority regarding implementation of land management practices.

### **4. Considerations**

Farmland may be sold or exchanged subject to acreage limitations—a lifetime maximum of 320 acres may be sold to any one individual, company, or corporation (160 acres for the University endowment). ~~Some endowments are restricted to a lifetime maximum of 160 acres sold to any one individual, company, or corporation.~~ Article IX of the Idaho Constitution describes the limitations on the sale of endowment land.

## 5. Management

The asset class is directly managed by IDL through agriculture leases which may be cash, crop share, or flex with adjustment based on yield or price. Some agriculture parcels are leased in combination with grazing uses. Management objectives include the following:

- Achieve return consistent with policy objective.
- ~~Identify and acquire additional farmland.~~
- Focus on income and current cash yield through the management of existing properties. ~~and the acquisition of additional farmland.~~ Cash lease structure will be preferred.
- Enroll endowment lands in federal agricultural programs when appropriate.
- Achieve objectives identified in the Asset Management Plan for Endowment Assets (and any related plans developed) and the Farmland Program Business Plan.

## 6. Valuation

~~Properties will be valued~~ The portfolio will be valued internally by IDL using NASS Farmland Data. This is appropriate as farmland holdings only represent approximately 1.7% (\$25 million) of ~~are a small portion of the~~ Endowment Assets. All properties shall be valued by an MAI appraiser prior to sale.

## 7. Monitoring Standards

IDL will report cash flows for the farmland asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be used adjusted for capital expenditures, sales, and acquisitions during the reporting period.

## G. Idaho Commercial Real Estate

### 1. Definition

Idaho Commercial Real Estate is a discrete portfolio of office buildings, parking lots, retail, and other properties located in Idaho.

### 2. Overall Financial Objective and Benchmark

The majority of the Idaho Commercial Real Estate portfolio was sold as recommended by the Commercial Real Estate Advisor and approved by the Land Board in February 2016. Of the properties identified in the 2016 sales plan that did not sell, IDL will continue to pursue prudent disposition as recommended. Certain properties may be retained by the Land Board for strategic purposes.

### 3. Allowable Investments

Effective December 2014, no new Idaho Commercial Real Estate properties may be acquired. There may be expenditures to maintain or re-position existing properties in preparation for sale or lease. Leasing of existing endowment lands for commercial and industrial purposes will continue.

#### **4. Management**

The portfolio is overseen by IDL and managed primarily through outside agents, including hiring and oversight of property managers and leasing agents, approving leases and budgets, approving capital expenditures, and executing capital plans. The Commercial Real Estate Advisor may be used to assist in advising, hiring, and managing property managers.

#### **5. Valuation**

All properties will be valued by appraisal prior to sale. In the interim, the value established by the Commercial Real Estate Advisor will be used for performance measurement and evaluation purposes.

#### **6. Monitoring Standards**

IDL will report cash flows for the commercial real estate asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. Property will be valued using a combination of appraised values and values established by the Commercial Real Estate Advisor. The most recent independent value will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

### **H. Minerals/Oil & Gas**

#### **1. Definition**

Mineral resources are concentrations of materials that are of economic interest in or on the crust of the earth. Oil and gas reserves and resources are defined as volumes that will be commercially recovered in the future.

#### **2. Overall Financial Objective and Benchmark**

The asset class will be managed prudently to maximize financial return while complying with all applicable laws and regulations. Royalty payments are transferred to the Permanent Fund while other payments, such as lease or bonus payments, go to the Earnings Reserve Fund.

#### **3. Allowable Investments**

Acquisition of mineral rights together with or independent of surface rights is allowed. Acquisition of mineral rights together with surface rights is preferred to avoid a split estate. Acquisition of mineral rights is expected to occur primarily through land exchanges.

#### **4. Management**

The asset class is directly managed by IDL and management shall comply with all applicable federal and state statutes, such as the federal Clean Water Act, Idaho Surface Mining Act, Oil and Gas Conservation Act, and Idaho Dredge and Placer Mining Protection Act. Management objectives include the following:

- Manage the mineral asset prudently, efficiently, and with accountability to the endowments.
- Minimize contractual and environmental risks associated with extractive industries.

- Lease lands for potential mineral products that capitalize on market demands.
- Retain mineral rights when land parcels are disposed.
- Seek opportunities to unify the mineral estate.
- Identify programmatic or statutory changes that maximize income from mineral assets.

## 5. Valuation

The value of Idaho's mineral estate is unknown at this time. Determining the type and volume of locatable minerals in Idaho could be achieved with a cooperative effort between the Idaho Department of Lands, Idaho Geological Survey, and the mineral industry. ~~There is no known, effective way of accurately valuing the Endowment's mineral assets.~~

## 6. Monitoring Standards

IDL will report cash flows for the minerals asset class to the general consultant for performance reporting purposes. All net income calculations will be net of all fees and expenses of managing the asset class. Because receipts from minerals extracted flow directly to the Permanent Fund, they are not included in IDL's report of return on assets. The receipts are reported in IDL's annual report.

## I. Transition of Lands

### 1. Definition

Lands within traditional asset classes already owned by the Endowment may become suitable for a higher and better use than the current asset classification. Often these properties exhibit high property values and low annual revenues (underperforming), and may be encroached upon by urban development. The major data sources used to identify lands suitable for transition may include:

- Appraised values above the value normally indicative of the current use.
- Regional land-use planning studies.
- Resource trends and demographic changes.

### 2. Overall Financial Objective and Benchmark

The objective for lands identified as potential transition lands will be to lease the parcels, typically for commercial and/or industrial uses, or sell the parcels. Evaluation of the options for lease or sale will be completed on a case-by-case basis. Once the land is transitioned, it will be identified under the predominant revenue producing asset class.

### 3. Allowable Investments

Lands suited for transition are those currently owned by the endowments. Lands should not be acquired where the primary reason for acquisition is transition. In select cases, improvements such as obtaining zoning and other entitlements may be pursued for ground leasing purposes, to maximize value, or to ready the parcel for sale.

Investment in improvements shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the long-term financial



return and risk to the Endowment; whether the return profile is sufficient relative to the risk taken; whether the transaction would facilitate improved management; and the existence of any potential risks including but not limited to environmental or title-related issues. Investments in improvements posing any significant risk as described in the due diligence analysis shall be avoided.

#### **4. Management**

Transitional activities will focus first on land at the high-end of market values (best markets) and then on land possessing best market potential within the next five to ten years (emerging markets). Transition plans will identify land holdings in the best markets, identify emerging markets, and, to the extent practical, parcels held in these markets. Land holdings in the best markets will also include a plan for achieving value potential. Timely disposition of parcels suitable for transition will be a management objective to increase asset value and, where the parcels are not income-producing, reduce their “drag” on performance.

Underperforming assets may also present transition opportunities. IDL will identify and analyze such lands to determine the best solution to ~~resolving~~resolve the underperformance. Such analysis will consider:

- Whether management costs can be minimized;
- Whether the lands can be managed differently to increase performance;
- Whether the parcel has the potential for a higher and better use; and
- ~~Who is~~Whether the endowment is the best long-term owner of the asset.

#### **5. Valuation**

Properties suitable for transition will be valued based on the traditional asset class to which they belong or as transitioned. Properties will be valued by appraisal prior to sale or on a predetermined schedule pursuant to the terms of the lease or other approved plan.

#### **6. Monitoring Standards**

IDL will report cash flows for the lands suitable for transition, together with the asset class in which the lands currently exist, to the general consultant for performance reporting purposes. Lands with potential for transition currently classified as rangeland will be monitored and reported as part of the rangeland asset class. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be used adjusted for capital expenditures, sales, and acquisitions during the reporting period.



## **J. Land Bank**

### **1. Definition**

The Land Bank Fund (Land Bank) exists to hold the proceeds from the sale of state endowment land (pending the purchase of other land) or to transfer to the Financial Assets for the benefit of the endowment beneficiaries, per Idaho Code § 58-133.

### **2. Overall Financial Objective and Benchmark**

The Land Board does not control the investment of the funds held in the Land Bank. The Land Bank is invested by the State Treasurer under a financial objective or benchmark established by the Treasurer.

### **3. Considerations**

Funds deposited in the Land Bank, including interest, are continually appropriated to the Land Board. If the funds have not been utilized for land acquisition within five years, they are transferred to the Permanent Fund of the appropriate endowment unless the five-year time limit is extended by the legislature.

Land Bank funds may be used to acquire lands within traditional asset classes. Land Bank funds may also be used to secure access to endowment lands through purchase of easements or parcels of land. When purchasing a parcel of land in order to obtain access, the acquired parcel may in some cases produce minimal financial return. An easement may represent an expense without any resulting income directly related to the acquisition. In those cases, the evaluation of the acquisition and the projected returns would consider the additional net income that can be attributed to the access secured, rather than the financial return of only the access parcel.

### **4. Allowable Investments**

Land Bank funds are invested by the State Treasurer in the IDLE pool. IDLE funds are invested according to the IDLE Investment Policy.

### **5. Management**

IDL, in its capacity as the administrative arm of the Land Board, manages deposits to and withdrawals from the Land Bank. Fees for investment management are deducted by the Treasurer.

### **6. Valuation**

The Land Bank is valued by the State Treasurer.

### **7. Monitoring Standards**

IDL will report balances and cash flows for the Land Bank to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. Transaction history will be used to account for expenditures and deposits into the Land Bank. For purposes of transparency, the balance in the Land

Bank shall be reported as a contingent asset in the notes of the financial statements for the Financial Assets.

## **VIII. Distribution Policy**

### **A. Objectives**

The ultimate purpose of Idaho's land grant endowments is to provide a perpetual stream of income to the beneficiaries. To guide the determination of future distributions for Idaho endowments, the following objectives, in priority order, are established by the Land Board:

- Avoid reductions in total endowment distributions.
- Maintain adequate Earnings Reserves to protect distributions from temporary income shortfalls.
- Grow distributions and permanent corpus faster than inflation and population growth.

### **B. Considerations**

In determining distributions, the Land Board, with assistance from EFIB, considers the following for each endowment:

- Actual and expected return on the fund and income from the land.
- Expected volatility of fund and land income.
- Adequacy of distributable reserves to compensate for volatility of income.
- Each beneficiary's ability to tolerate declines in distributions.
- Need for inflation and purchasing power protection for future beneficiaries.
- Legal restrictions on spending principal.

### **C. Policy Description**

Based on the above objectives and considerations and the expected returns of the entire portfolio (lands and funds), the Land Board establishes the following Distribution Policy:

- Distributions are determined individually for each endowment (currently 5% for all endowments except State Hospital South at 7%).
- Distributions are calculated as a percent of the three-year rolling average Permanent Fund balance for the most recently completed three fiscal years. The Land Board may adjust this amount depending on the amount in the Earnings Reserves, transfers to the Permanent Fund, and other factors.
- The levels of Earnings Reserves deemed adequate for future distributions are:
  - 6 years – Public School
  - 7 years – All other endowments (Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and University of Idaho)

- The Land Board may transfer any balance in an Earnings Reserve Fund in excess of an adequate level to the corresponding Permanent Fund and designate whether the transfer will or will not increase the Gain Benchmark.
- The principal of the permanent endowment funds, adjusted for inflation, will never be distributed, to protect the future purchasing power of the beneficiaries.

The Distribution Policy was developed based on many analyses, assumptions, and constraints, and its administration requires interpretation of nuances. EFIB has documented these in the Distribution Principles included in [Appendix G](#).

## **IX. Monitoring and Reporting**

### **A. Philosophy**

The Land Board and its agents shall use a variety of compliance, verification, and performance measurement tools to monitor, measure, and evaluate how well the Endowment Assets are being managed. Monitoring, reporting, and evaluation frequencies shall range from real-time performance to daily, weekly, monthly, quarterly, semi-annual, and annualized performance.

The Land Board seeks to answer three fundamental fiduciary questions through the performance monitoring and reporting system:

- Are the assets being prudently managed? More specifically, are assets being managed in accordance with established laws, policies, and procedures, and are IDL and EFIB (and by extension the EFIB's investment managers) in compliance with established policies and their mandates?
- How have the assets performed relative to Land Board approved investment objectives?
- Are the assets being profitably managed? More specifically, has performance affected distributions positively and advanced security of the corpus?

### **B. Deviation from Policies**

If there is a deviation from Land Board investment policies, the IDL and EFIB staff are required to provide the Land Board with a report explaining how the deviation was discovered, the reasons for the deviation, and the impact on endowment performance, if any, and steps taken to mitigate future instances.

## **C. Financial Assets**

### **1. Reporting at EFIB Level<sup>4</sup>**

The EFIB Investment Policy requires that performance reports be generated by the investment consultant at least quarterly and communicated to EFIB staff and the EFIB Board. The investment performance of the total Financial Assets, as well as asset class components, will be measured against commonly accepted performance benchmarks as outlined in the EFIB Investment Policy. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement.

Investment managers shall be reviewed regularly, by EFIB staff and the general fund consultant, regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

### **2. EFIB Reporting to the Land Board**

Each month, EFIB staff will provide the following to the Land Board:

- Investment performance, both absolute and relative to benchmark.
- An evaluation of the sufficiency of Earnings Reserve balances (measured by coverage ratio: reserve balance divided by the distribution).
- A summary of any significant actions by EFIB.
- Any compliance/legal issues, areas of concern, or upcoming events.

Part-way through the fiscal year, typically at the May meeting, EFIB shall provide the Land Board with a brief financial summary of fiscal year-to-date activity.

After the end of the fiscal year, typically at the November meeting, EFIB shall provide the Land Board with the following:

- A financial summary for the recently completed fiscal year.
- The report of the Land Board Audit Committee regarding control deficiencies identified by the independent auditor.
- An update on EFIB's Strategic Plan.
- Investment performance for the fund versus strategic (longer-term) measures.
- A report on EFIB meetings, including number of meetings and attendance.

## **D. Land Assets**

### **1. IDL Internal Processes**

IDL staff shall report to the director using the standard reports as described below that are provided to the Land Board. All of the information is reviewed by the director prior to submission to the Land Board.

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<sup>4</sup> EFIB Investment Policy (see [Appendix C](#)). Management and approval of this policy is a duty delegated to EFIB.

Each program administered by IDL is managed by a bureau chief and a program manager. Policies and procedures governing daily activities are in place at the bureau or program level but are generally implemented by operations staff.

Decisions related to routine investment and management decisions are typically made at the area office level (or program level) with review by both the operations chiefs and bureau chiefs, subject to the established governance structure.

In the case of more complex investment and management decisions, staff involvement typically includes area office staff, operations chiefs, bureau chiefs, and executive staff to assure adequate due diligence and independent review. More than one member of the executive staff is likely to be involved in the analysis of the information and the final decision. Where necessary, the director retains final decision-making authority as delegated by the Land Board and described in the established governance structure.

## **2. IDL Reporting to the Land Board**

Each month, IDL reports the following:

- ~~Timber sale activity and information.~~
- ~~Lands and Waterways~~ Trust Land Management Division activity and information including timber sale revenue and activity, and non-timber revenue and activity.
- Updates for ongoing special projects as needed.
- Legal and compliance issues and their status.
- Information necessary for Land Board review and approval of specific items.

IDL also reports the Land Bank Fund balance to the Land Board quarterly.

As previously described, IDL functions under the authority of the Land Board with the Land Board having final approval of many of IDL's policies and management decisions, up to and including review and approval of the IDL budget request prior to submission.

Each month, IDL brings matters forward for Land Board review and approval. Items are discussed first with senior Land Board staff members then placed on the consent agenda, where routine items may be approved without discussion, or the regular agenda, which addresses policy and programmatic items the Land Board may wish to discuss prior to making a decision.

Certain confidential matters may be presented for the Land Board in executive session at the discretion of the Land Board, pursuant to Idaho Code § 74-206.

IDL also produces an annual report to the Land Board, the state affairs committees of the legislature, as well as the public. IDL's overall strategic plan is updated annually and presented to the Land Board prior to submission to the Division of Financial Management.

The Land Board requires IDL staff to prepare and deliver an Asset Management Plan and Business Plans for each land type that explain how the Land Assets will be managed to achieve the Land Board approved investment objectives. This provides the Land Board a focused opportunity to:

- Question and comment on IDL staff's investment and management plans.
- Request additional information and support about IDL staff's investment and management intentions.
- Express its confidence and approval in the Strategic Plan, Asset Management Plan, and Business Plans.

The Land Board requires certain IDL procedures to be audited every 3-5 years:

- Land Transactions >\$1,000,000 shall be subject to a post-audit every three (3) years, and the Land Board's Land Investment Advisor shall review such post-audit and provide a report to the Land Board.

## **E. Total Endowment**

Performance reports generated by the general consultant shall be compiled annually for review by the Land Board. The investment performance of the Endowment, as well as asset class components, will be measured against performance benchmarks outlined in this Statement of Investment Policy and the EFIB Investment Policy.

A large, faint watermark of the Idaho Department of Lands logo is centered on the page. The logo features a stylized mountain peak and a sunburst design, with the text "IDAHO DEPARTMENT OF LANDS" overlaid in a bold, sans-serif font.

IDAHO DEPARTMENT OF LANDS

## X. Key Documents

To assist the Land Board, EFIB Staff, and IDL Staff, the following key documents will be produced or reviewed according to the schedule in Exhibit 2.

**Exhibit 2: Key Documents**

Document Name	Document Source	Review Schedule
<b>Performance Review of Fund</b>	General Consultant and EFIB Staff	Monthly and Quarterly
<b>Performance Review Total Endowment</b>	General Consultant, IDL Staff, and EFIB Staff	Annually
<b>Statement of Investment Policy</b>	General Consultant, IDL Staff, and EFIB Staff <i>Reviewed by Investment Sub-Committee</i>	Annually
<b>IDL Program Business Plans</b>	IDL Staff	1-5 Years as specified in each plan
<b>IDL Asset Management Plan</b>	IDL Staff	Every 5 Years
<b>Strategic Reinvestment Plan</b>	General Consultant <i>Reviewed by Investment Sub-Committee</i>	Annually
<b>IDL Strategic Plan</b>	IDL Staff	Annually
<b>Asset Allocation</b>	General Consultant	Every 8 years
<b>Monthly Timber Sale Activity Report</b>	IDL Staff	Monthly
<b>Annual Timber Sale Plan</b>	IDL Staff	Annually
<b>Ten Year Forecast of Land Income</b>	IDL Staff	Annually
<b>IDL Annual Budget</b>	IDL Staff	Annually
<b>EFIB Strategic Plan</b>	EFIB Staff	Annually
<b>EFIB Meeting Report</b>	EFIB Staff	Annually
<b>Audit Committee Report</b>	Audit Committee	Annually

## **XI. Appendices:**

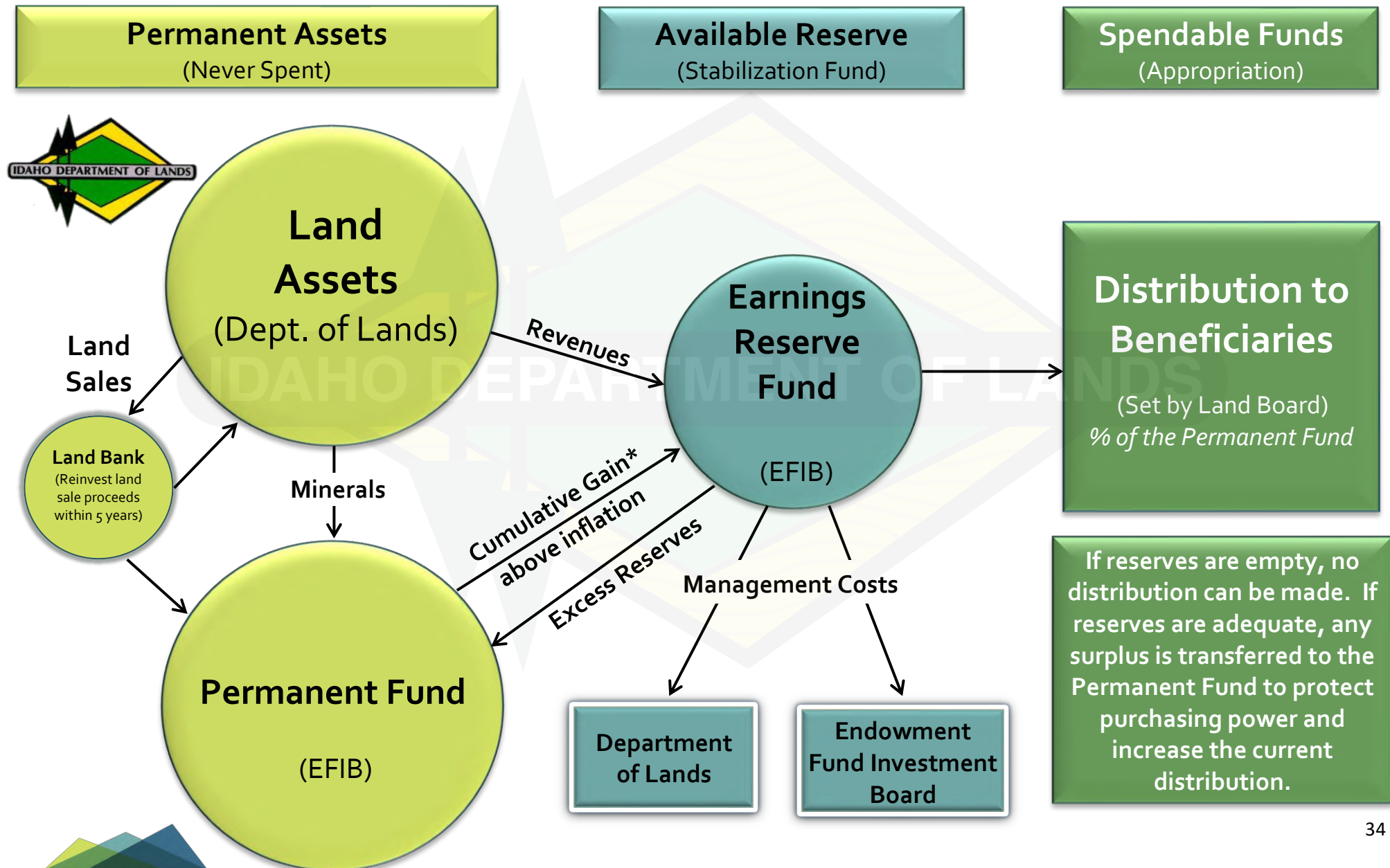
- A. Structure of the Endowment**
- B. Constitution and State Statutes**
- C. EFIB Investment Policy**
- D. Use of External Advisors**
- E. Decision-Making Structure Chart**
- F. ~~Real Estate Acquisition Flow Chart~~**
- G. EFIB's Distribution Principles**



IDAHO DEPARTMENT OF LANDS



# STRUCTURE OF IDAHO'S ENDOWMENT ASSETS



## **B. Constitution and State Statutes**

### **Constitution of the State of Idaho**

#### [ARTICLE IX](#) EDUCATION AND SCHOOL LANDS

[SECTION 3](#) PUBLIC SCHOOL PERMANENT ENDOWMENT FUND TO REMAIN INTACT

[SECTION 4](#) PUBLIC SCHOOL PERMANENT ENDOWMENT FUND DEFINED

[SECTION 7](#) STATE BOARD OF LAND COMMISSIONERS

[SECTION 8](#) LOCATION AND DISPOSITION OF PUBLIC LANDS

[SECTION 10](#) STATE UNIVERSITY – LOCATION, REGENTS, TUITION, FEES AND LANDS

[SECTION 11](#) INVESTING PERMANENT ENDOWMENT FUNDS

### **Idaho Statutes**

#### [TITLE 57](#) PUBLIC FUNDS IN GENERAL

[CHAPTER 7](#) INVESTMENT OF PERMANENT ENDOWMENT AND EARNINGS RESERVE FUNDS

#### [TITLE 58](#) PUBLIC LANDS

[CHAPTER 1](#) DEPARTMENT OF LANDS

[CHAPTER 2](#) INDEMNITY LIEU LAND SELECTIONS

[CHAPTER 3](#) APPRAISEMENT, LEASE, AND SALE OF LANDS

[CHAPTER 4](#) SALE OF TIMBER ON STATE LANDS

[CHAPTER 5](#) STATE PARKS AND STATE FORESTS

[CHAPTER 6](#) RIGHTS OF WAY OVER STATE LANDS

[CHAPTER 12](#) PUBLIC TRUST DOCTRINE

[CHAPTER 13](#) NAVIGATIONAL ENCROACHMENTS

## C. EFIB Investment Policy

### **ENDOWMENT FUND INVESTMENT BOARD**

#### **XII. Commingled Pool Investment Policy**

**Date Established: 2000**

**Last Reviewed: August 2020**

**Last Revised: August 2020**

#### **This Statement of Investment Policy is applicable to:**

Public School Permanent Fund and Earnings Reserve Fund  
Agricultural College Permanent Fund and Earnings Reserve Fund  
Charitable Permanent Fund and Earnings Reserve Fund  
Normal Schools Permanent Fund and Earnings Reserve Fund  
Penitentiary Permanent Fund and Earnings Reserve Fund  
School of Science Permanent Fund and Earnings Reserve Fund  
State Hospital South Permanent Fund and Earnings Reserve Fund  
University Permanent Fund and Earnings Reserve Fund  
Capitol Permanent Fund and Maintenance Reserve Fund  
Department of Environmental Quality Bunker Hill Endowment Fund Trust  
Department of Environmental Quality Asarco Endowment Fund Trust  
Department of Environmental Quality Hecla Endowment Fund Trust  
Department of Fish & Game Southern Idaho Mitigation Endowment Trust  
Department of Fish & Game Craig Mountain Wildlife Mitigation Trust  
Department of Fish & Game Blackfoot Wildlife Mitigation Trust  
Department of Fish & Game North Idaho Wildlife Mitigation Trust  
Department of Fish & Game North Idaho Wildlife Mitigation Operational Trust  
Department of Parks & Recreation Ritter Island Endowment Fund  
Department of Parks & Recreation Trail of the Coeur d'Alene's Endowment Fund  
Idaho Department of Lands - Forest Legacy Stewardship Endowment Fund

#### **Statement of Philosophy**

This statement of investment policy is set forth by the Endowment Fund Investment Board (EFIB) to:

- Define and assign the responsibilities of all involved parties;
- Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets;
- Offer guidance and limitations to all involved parties regarding the investment of Fund assets;
- Establish a basis for evaluating investment results;
- Manage Fund assets according to prudent standards as established in common trust law; and,
- Establish the relevant investment horizon for which the Fund assets will be managed.

### **Statement of Investment Policy**

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the EFIB will review the policy annually.

### **Investment Objectives**

In order to meet its objectives, the investment strategy of the EFIB is to emphasize total return; that is, the aggregate return from capital appreciation, dividend and interest income. The primary objectives are:

- To maintain the purchasing power of the Fund – In order to maintain fair and equitable inter-generational funding, state statute has mandated that the real value of the corpus be protected from inflation;
- To maximize total return over time at an acceptable level of risk;
- To provide relatively smooth and predictable distributions to the beneficiaries; and
- To maintain sufficient liquidity for anticipated expenditures.

### **General Investment Principles**

- Investments shall be made solely in the interest of the beneficiaries of the Funds;
- The Funds shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims;
- Investment of the Funds shall be diversified as to minimize the risk of large permanent losses.
- The EFIB will employ one or more investment managers of varying styles and philosophies to support the Funds' objectives;
- Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return; and,
- The investment manager(s) should, at all times, be guided by the principles of "best price and execution" and that the Funds' best interests are the primary consideration.

### **Assignment of Responsibility**

- Responsibility of the Manager of Investments ("MOI") - The MOI serves as a fiduciary and is empowered by the Board to make certain decisions and take appropriate action regarding investment of the Funds' assets. The responsibilities of the MOI include:
  - Developing sound and consistent investment policy guidelines;
  - Establishing reasonable investment objectives;
  - Selecting qualified investment managers after consultation with the EFIB board;
  - Communicating the investment policy guidelines and objectives to the investment managers;
  - Monitoring and evaluating performance results to assure that the policy guidelines are being met;
  - Selecting and appointing custodian(s);
  - Discharging investment managers after consultation with the EFIB board; and,
  - Taking any other appropriate actions.

- Responsibility of the Investment Consultant(s) - The investment consultant shall be hired by the EFIB. The consultant serves as a non-discretionary advisor to the EFIB that confers with staff. The consultant will offer advice concerning the investment management of the Funds' assets. The investment consultant will act as a fiduciary with respect to the services it provides. The advice will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the investment consultant include, but are not limited to:
  - Assisting in the development and on-going review of the investment policy, asset allocation strategy, performance of the investment managers, and designing objectives and guidelines;
  - Supporting portfolio optimization and other investment techniques to determine the appropriate return/risk characteristics of the Funds;
  - Conducting investment manager searches when requested by the MOI;
  - Monitoring the performance of the investment manager(s) to provide both the MOI and the Board with the ability to determine the progress toward achieving investment objectives;
  - Communicating matters of policy, manager research, and manager performance to the MOI and the Board;
  - Reviewing the Funds' investment history, historical capital markets performance and the contents of this investment policy statement with any newly appointed members of the Board.
- Responsibility of the Investment Manager(s) - As a fiduciary, each investment manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in either this statement or in their specific Manager Guidelines.

### **Delegation of Authority**

The MOI is a fiduciary to the EFIB and is responsible for directing and monitoring the investment management of Funds' assets. As such, the MOI is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

- Investment Manager - An investment manager hired by the EFIB must be registered with the Securities and Exchange Commission under the Investment Act of 1940, unless inapplicable, or in the case of a banking organization with the Office of the Comptroller of the Currency. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Funds' investment objectives. This includes mutual fund or any collective fund portfolio managers.
- Custodian - Any custodian hired by the EFIB will maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and affect receipt and delivery following purchases and sales. Any custodian will also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts. Any custodian will provide at a minimum monthly reporting of assets and transactions to the MOI and provide the MOI with any additional

data requests. Any custodian will administer proxy statements and corporate action claims on behalf of EFIB.

Additional specialists may be employed by the MOI with approval by the EFIB to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

The MOI will not have control over investment decisions. Managers will be held responsible and accountable to achieve the objectives outlined in their specific guidelines. While it is not believed the limitations will hamper investment manager decisions, each manager should request in writing any modifications they deem appropriate.

All expenses for such experts must be customary and reasonable, and will be borne by the Funds as deemed appropriate and necessary.

### **Marketability of Assets**

Based on the Fund's long-term liquidity requirements, the EFIB desires securities with readily ascertainable market values that trade in liquid markets but recognizes that some allowable assets are valued less frequently by industry established appraisal methods, and may be reported on a lagged basis.

### **Investment Guidelines**

#### **Allowable Assets**

<u>Cash Equivalents or other Liquid Assets:</u>	<u>Treasury bills; money market funds; STIF funds; commercial paper; banker's acceptances; repurchase agreements; certificates of deposit.</u>
<u>Fixed Income:</u>	<u>US government and agency securities; bank loans; corporate notes and bonds; residential mortgage backed bonds (agency and non-agency); commercial mortgage backed bonds; municipal bonds, infrastructure securities, USD and non-USD fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other "early tranche" CMO's; Sequential pay CMO's; collateralized loan obligations, asset backed securities; convertible notes and bonds; Securities defined under Rule 144 A and Section 4(2) of the Securities Act of 1933; or any other fixed income securities eligible for inclusion in the Bloomberg Barclays U.S. TIPS Index or Bloomberg Barclays Aggregate Bond Index.</u>
<u>Equities:</u>	<u>Common stocks; convertible preferred stocks; preferred stocks; REITS; American depository receipts (ADR's); stocks of non-US companies (ordinary shares);</u>



<u>Real Estate:</u>	<u>Domestic, private, open-end, core commingled funds, REITS</u>
<u>ETF's, Mutual or Collective Funds:</u>	<u>ETF's, Mutual Funds, and Collective Funds which invest in securities as allowed in this statement or as permitted in Investment Manager Guidelines. Investment managers will advise the MOI of their intent to utilize ETFs prior to their purchase, what specific ETFs they intend to use and the purposes they serve.</u>
<u>Futures, Options and Swaps:</u>	<u>The EFIB may approve the use of financial index futures and options in order to adjust the overall effective asset allocation of the entire portfolio or it may use swaps, futures or options to hedge interest rate or currency exposure. For example, S&amp;P 500 and 10-Year Treasury futures are used to equitize idle cash and to passively rebalance the portfolio. Futures and options positions are not to be used for speculation, and the EFIB must specifically approve the program for each type of use. Derivative exposure must have sufficient cash, cash equivalents, offsetting derivatives or other liquid assets to cover such exposures.</u>

**Derivatives:** Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, and interest rate swaps, among others. The EFIB will take a conservative posture on derivative securities in order to maintain its risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. Unless a specific type of derivative security is allowed in the Investment Manager Guidelines, the Investment Manager(s) must seek written permission from the EFIB to include derivative investments in the Fund's portfolio. The Investment Manager(s) must present detailed written information as to the expected return and risk characteristics of such investment vehicles.

### **Prohibited Assets**

Prohibited investments include, but are not limited to the following:

- Commodities
- Futures Contracts except as described in previous section "Futures, Options and Swaps";
- Naked Options;
- Residual Tranche CMOs; and
- Purchases of securities on margin and short-sale transactions are prohibited.

### **Asset Allocation Guidelines**

Investment management of the assets of the commingled endowment pool shall be in accordance with the following asset allocation guidelines:

- Aggregate Fund Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Range</u>	<u>Target</u>	<u>Rebalance Point</u>	<u>Benchmark</u>
<u>Equities</u> <u>Domestic Equities</u>	<u>61% - 71%</u> <u>33% - 43%</u>	<u>66%</u> <u>38%</u>	<u>+/-5%</u> <u>+/-5%</u>	<u>MSCI All Country World Index</u> <u>Russell 3000 Index</u>
<u>Large Cap</u> <u>Growth</u> <u>Core</u> <u>Value</u>	<u>22.2%-30.2%</u>	<u>26.2%</u> <u>5%</u> <u>11.3%</u> <u>9.9%</u>	<u>+/-4%</u>	<u>Russell 1000 Index</u> <u>Russell 1000 Growth Index</u> <u>S&amp;P 500 Index</u> <u>Russell 1000 Value Index</u>
<u>Mid Cap</u> <u>Growth</u> <u>Value</u>	<u>4.6%-10.6%</u>	<u>7.6%</u> <u>3.8%</u> <u>3.8%</u>	<u>+/-3%</u>	<u>Russell Mid Cap Index</u> <u>Russell Mid Cap Growth</u> <u>Russell Mid Cap Value</u>
<u>Small Cap</u> <u>Growth</u> <u>Value</u>	<u>2.2%-6.2%</u>	<u>4.2%</u> <u>2.1%</u> <u>2.1%</u>	<u>+/-2%</u>	<u>Russell 2000 Index</u> <u>Russell 2000 Growth Index</u> <u>Russell 2000 Value Index</u>
<u>International Equities</u> <u>Growth</u> <u>Value</u> <u>Developed Markets</u> <u>Index Fund</u>	<u>15% - 23%</u>	<u>19%</u> <u>8.5%</u> <u>8.5%</u> <u>2%</u>	<u>+/-4%</u>	<u>MSCI ACWI ex-US</u> <u>MSCI ACWI ex-US Growth</u> <u>MSCI ACWI ex-US Value</u> <u>MSCI EAFE Index</u>
<u>Global Equity</u>	<u>6% - 12%</u>	<u>9%</u>	<u>+/-3%</u>	<u>MSCI All Country World Index</u>
<u>Real Estate</u>	<u>6% - 10%</u>	<u>8%</u>	<u>+/-2%</u>	<u>NCREIF ODCE Index</u>
<u>Fixed Income</u> <u>Core Plus Bond Active</u> <u>Aggregate Bond Index</u> <u>US Tips Index</u> <u>Cash and Equivalents</u>	<u>23% - 29%</u>	<u>26%</u> <u>11%</u> <u>11%</u> <u>4%</u> <u>0%</u>	<u>+/-3%</u>	<u>BB Aggregate Bond Index</u> <u>BB Aggregate Bond Index</u> <u>BB Aggregate Bond Index</u> <u>BB US TIPS Index</u> <u>3-month Treasury Bill Index</u>

### **Rebalancing of Fund Assets**

Understanding that different asset classes will perform at different rates, the MOI and the investment consultant will closely monitor the asset allocation shifts caused by performance. Therefore:

- The MOI will review the relative market values of the asset classes whenever there is to be a net contribution to the Fund and will generally place the new monies under investment in the category(ies) which are furthest below the target allocation in this policy and/or use the opportunity to rebalance the portfolio; and,
- The MOI and investment consultant will review the asset allocation quarterly and during periods of severe market change to assure that the target allocation is maintained. If an



asset class is outside the allowable range, the MOI, with input from the investment consultant, will take appropriate action to redeploy assets taking into account timing, costs and other investment factors.

### **Guidelines for Fixed Income Investments and Cash Equivalents**

- The average credit quality of the fixed income portfolio must be investment grade or higher. Individual fixed income securities may be rated below investment grade.
- The average duration of the fixed income portfolio may range from 2-8 years.
- Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

### **Investment Performance Review and Evaluation**

Performance reports generated by the investment consultant shall be compiled at least quarterly and communicated to the EFIB for review. The investment performance of the total Fund, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The EFIB intends to evaluate investment managers over at least a three-year period.

Each manager shall maintain a portfolio consistent with characteristics similar to those of the composite utilized for their retention. Investment performance will be measured on a total return basis, which is defined as dividend and interest income plus realized and unrealized capital gains. Each manager will be evaluated in part by regular comparison to a peer group of other managers employing statistically similar investment style characteristics. It is expected that each manager will perform above the peer group median and the appropriate index over rolling three-year periods with respect to both return and risk.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results. The EFIB reserves the right to terminate a manager for any reason.

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### **GASB 40 Reporting Requirements**

Purpose: The Governmental Accounting Standards Board has identified that state and local governments have deposits and investments which are exposed to risks that may result in losses. GASB Statement number 40 (GASB 40) is intended to inform users of the financial statements about the risks that could affect the ability of a government entity to meet its obligations. GASB 40 has identified general deposit and investment risks as credit risk, including concentration of credit risk and custodial credit risk, interest rate risk, and foreign currency risk and requires disclosures of these risks and of policies related to these risks. This portion of the Investment Policy addresses the monitoring and reporting of those risks.

In general, the risks identified in GASB 40, while present, are diminished when the entire portfolio is viewed as a whole. Specifically, the risks identified and the measurements required is poorly transferable, if at all, to portfolios like the EFIB, which is dominated by equity exposure.

It is the policy of the EFIB that the risks addressed in GASB 40 are to be monitored and addressed primarily through the guidelines agreed to by those managers, and by regular disclosures in reports by managers of levels of risks that may exceed expected limits for those portfolios.

- Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations to the EFIB. GASB 40 requires disclosure of credit quality ratings of investments in debt securities as described by nationally recognized statistical rating organizations.

Policy: The Investment Guidelines section of this Investment Policy provides credit quality and maturity guidelines for fixed income and cash equivalent investments. Managers are required to comply with the Investment Policies set forth by the EFIB.

- Custodial Credit Risk: The risk that in the event of a financial institution or bank failure, the Fund would not be able to recover the value of their deposits and investments that are in the possession of an outside party.

Policy: The EFIB minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to the EFIB ownership and further to the extent possible, be held in the Fund' name.

- Concentration of Credit Risk: The risk of loss that may be attributed to the magnitude of a government's investment in a single issue.

Policy: Managers will provide the EFIB with expected concentration of credit risk exposures in their portfolio guidelines. If the concentration of credit risk exceeds expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board. For the portfolio as a whole, staff will report to the Board at a regular Board meeting if the exposure to a non-US government guaranteed credit exceeds 5% of the total EFIB portfolio.

- Interest Rate Risk: The risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk to the EFIB's fixed income portfolio is monitored using the effective duration methodology. Effective duration measures the volatility of the price of a bond given a change in interest rates, taking into account any optionality in the underlying bond.

Policy: Managers will provide the EFIB with the expected portfolio duration in their portfolio guidelines. If the duration of the portfolio differs from expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

- Foreign Currency Risk: The risk that changes in exchange rates will adversely impact the fair value of an investment. The EFIB's currency risk exposures, or exchange rate risk, reside within the international equity and fixed income investment holdings.

Policy: The EFIB permits investing up to 40% of the total portfolio in international securities. The EFIB recognizes that international investments (equity or fixed income) will have a component of currency risk associated with them. The individual manager guidelines will outline the expected currency exposures (either specifically or through ranges of security exposures to particular currency areas) of the underlying portfolio and if the actual currency exposure differs from the expected, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

## **ENDOWMENT FUND INVESTMENT BOARD**

### **Comingled Pool Investment Policy**

**Date Established:** ~~2000~~

**Last Reviewed:** ~~February 2018~~

**Last Revised:** ~~February 2018~~

#### **This Statement of Investment Policy is applicable to:**

- ~~Public School Permanent Fund and Earnings Reserve Fund~~
- ~~Agricultural College Permanent Fund and Earnings Reserve Fund~~
- ~~Charitable Permanent Fund and Earnings Reserve Fund~~
- ~~Normal Schools Permanent Fund and Earnings Reserve Fund~~
- ~~Penitentiary Permanent Fund and Earnings Reserve Fund~~
- ~~School of Science Permanent Fund and Earnings Reserve Fund~~
- ~~State Hospital South Permanent Fund and Earnings Reserve Fund~~
- ~~University Permanent Fund and Earnings Reserve Fund~~
- ~~Capitol Permanent Fund and Maintenance Reserve Fund~~
- ~~Department of Environmental Quality Bunker Hill Endowment Fund Trust~~
- ~~Department of Fish & Game Southern Idaho Mitigation Endowment Trust~~
- ~~Department of Fish & Game Craig Mountain Wildlife Mitigation Trust~~
- ~~Department of Fish & Game Blackfoot Wildlife Mitigation Trust~~
- ~~Department of Parks & Recreation Ritter Island Endowment Fund~~
- ~~Department of Parks & Recreation Trail of the Coeur d'Alene's Endowment Fund~~

#### **Statement of Philosophy**

~~This statement of investment policy is set forth by the Endowment Fund Investment Board (EFIB) to:~~

- ~~• Define and assign the responsibilities of all involved parties;~~
- ~~• Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets;~~
- ~~• Offer guidance and limitations to all involved parties regarding the investment of Fund assets;~~
- ~~• Establish a basis for evaluating investment results;~~
- ~~• Manage Fund assets according to prudent standards as established in common trust law; and,~~
- ~~• Establish the relevant investment horizon for which the Fund assets will be managed.~~

## **Investment Objectives**

In order to meet its objectives, the investment strategy of the EFIB is to emphasize total return; that is, the aggregate return from capital appreciation, dividend and interest income. The primary objectives are:

- To maintain the purchasing power of the Fund — In order to maintain fair and equitable inter-generational funding, state statute has mandated that the real value of the corpus be protected from inflation;
- To maximize total return over time at an acceptable level of risk;
- To provide relatively smooth and predictable distributions to the beneficiaries; and
- Maintain sufficient liquidity for anticipated expenditures.

## **General Investment Principles**

- Investments shall be made solely in the interest of the beneficiaries of the Funds;
- The Funds shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims;
- Investment of the Funds shall be diversified as to minimize the risk of large permanent losses.
- The EFIB will employ one or more investment managers of varying styles and philosophies to support the Funds' objectives;
- Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, return; and,
- The investment manager(s) should, at all times, be guided by the principles of "best price and execution" and that the Funds' best interests are the primary consideration.

## **Assignment of Responsibility**

- Responsibility of the Manager of Investments ("MOI") — The MOI serves as a fiduciary and is empowered by the Board to make certain decisions and take appropriate action regarding investment of the Funds' assets. The responsibilities of the MOI include:
  - Developing sound and consistent investment policy guidelines;
  - Establishing reasonable investment objectives;
  - Selecting qualified investment managers after consultation with the EFIB executive committee;
  - Communicating the investment policy guidelines and objectives to the investment managers;
  - Monitoring and evaluating performance results to assure that the policy guidelines are being met;
  - Selecting and appointing custodian(s);
  - Discharging investment managers after consultation with the EFIB executive committee; and,
  - Taking any other appropriate actions.

- ~~Responsibility of the Investment Consultant(s)~~ The investment consultant shall be hired by the EFIB. The consultant serves as a non-discretionary advisor to the EFIB that confers with staff. The consultant will offer investment advice concerning the investment management of the Funds' assets. The investment consultant will act as a fiduciary with respect to the services it provides. The advice will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the investment consultant include:
  - ~~Assisting in the development and on-going review of the investment policy, asset allocation strategy, performance of the investment managers, and designing objectives and guidelines;~~
  - ~~Supporting portfolio optimization and other investment techniques to optimize the return/risk characteristics of the Funds;~~
  - ~~Conducting investment manager searches when requested by the MOI;~~
  - ~~Monitoring the performance of the investment manager(s) to provide both the MOI and the Board with the ability to determine the progress toward achieving investment objectives;~~
  - ~~Communicating matters of policy, manager research, and manager performance to the MOI and the Board;~~
  - ~~Reviewing the Funds' investment history, historical capital markets performance and the contents of this investment policy statement with any newly appointed members of the Board.~~
- ~~Responsibility of the Investment Manager(s)~~ As a signed fiduciary, each investment manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement and in their specific Manager Guidelines.

### **Delegation of Authority**

The MOI is a fiduciary to the EFIB and is responsible for directing and monitoring the investment management of Funds' assets. As such, the MOI is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

- ~~Investment Manager~~ An investment manager hired by the EFIB must be registered with the Securities and Exchange Commission under the Investment Act of 1940, unless inapplicable, or in the case of a banking organization with the Office of the Comptroller of the Currency. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Funds' investment objectives. This includes mutual fund or any collective fund portfolio managers.
- ~~Custodian~~ Any custodian hired by the EFIB will maintain possession of securities owned by the Fund, collect dividend and interest payments, and redeem maturing securities, and effect receipt and delivery following purchases and sales. Any

~~custodian will also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts. Any custodian will provide at a minimum monthly reporting of assets and transactions to the MOI and provide the MOI with any additional data requests.~~

~~Additional specialists may be employed by the MOI with approval by the EFIB to assist in meeting its responsibilities and obligations to administer Fund assets prudently.~~

~~The MOI will not have control over investment decisions, with the exception of specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objectives outlined in their specific guidelines. While it is not believed that the limitations will hamper investment manager decisions, each manager should request in writing any modifications that they deem appropriate. Any deemed fiduciaries must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Funds as deemed appropriate and necessary.~~

### **Marketability of Assets**

~~Based on the Fund's long-term liquidity requirements, the EFIB desires securities with readily ascertainable market values that trade in liquid markets but recognizes that some allowable assets are valued less frequently by industry established appraisal methods, and may be reported on a lagged basis.~~

### **Investment Guidelines**

#### **Allowable Assets**

~~-~~

<del>Cash Equivalents:</del>	<del>Treasury bills; money market funds; STIF funds; commercial paper; banker's acceptances; repurchase agreements; certificates of deposit.</del>
<del>Fixed Income:</del>	<del>US government and agency securities; corporate notes and bonds; mortgage backed bonds; fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other "early tranche" CMO's; asset backed securities; or any other fixed income security eligible for inclusion in the Bloomberg Barclays U.S. TIPS Index or Bloomberg Barclays Aggregate Bond Index.</del>
<del>Equities:</del>	<del>Common stocks; convertible notes and bonds; convertible preferred stocks; preferred stocks; American depository receipts (ADR's); stocks of non-US companies (ordinary shares); non-investment grade bonds.</del>



Real Estate	<del>Domestic, private, open-end, core commingled funds, REITS</del>
ETF's, Mutual or Collective Funds:	<del>ETF's, Mutual Funds, and Collective Funds which invest in securities as allowed in this statement are also permitted. Investment managers will advise the MOI of their intent to utilize ETFs prior to their purchase, what specific ETFs they intend to use and the purposes they serve.</del>
Futures and Options:	<del>As described in Futures and Options section below.</del>

### **Futures and Options**

~~The EFIB may approve the use of financial index futures and options in order to adjust the overall effective asset allocation of the entire portfolio. For example, S&P 500 and 10-Year Treasury futures are used to equitize idle cash and to passively rebalance the portfolio. Futures and options positions are not to be used for speculation, and the EFIB must specifically approve the program for each type of use. No long or short futures or option positions may be established, unless the portfolio has sufficient cash reserves to either fund purchase or deliver securities under the contract.~~

### **Derivative Investments**

~~Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The EFIB will take a conservative posture on derivative securities in order to maintain its risk adverse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. Unless a specific type of derivative security is allowed in the Investment Manager Guidelines, the Investment Manager(s) must seek written permission from the EFIB to include derivative investments in the Fund's portfolio. The Investment Manager(s) must present detailed written information as to the expected return and risk characteristics of such investment vehicles.~~

### **Prohibited Assets**

~~Prohibited investments include, but are not limited to the following:~~

- ~~• Commodities~~
- ~~• Futures Contracts except as described in previous section "Futures and Options";~~
- ~~• Naked Options;~~
- ~~• Interest Only (IO), Principal Only (PO), and Residual Tranche CMOs; and~~
- ~~• Purchases of securities on margin and short-sale transactions are prohibited.~~

## Asset Allocation Guidelines

Investment management of the assets of the Endowment Fund shall be in accordance with the following asset allocation guidelines:

### ● Aggregate Fund Asset Allocation Guidelines (at market value)

Asset Class	Range	Target	Rebalance Point	Benchmark
Equities —Domestic Equities	63%-69% 33%-43%	66.0% 38.0%	+ 3% + 5%	MSCI All Country World Index Russell 3000 Index
Large Cap —Growth —Core —Value	21%-31% 3%-7% 9%-13% 8%-12%	26.2% 5.0% 11.3% 9.9%	+/- 5%	Russell 1000 Index Russell 1000 Growth Index S&P 500 Index Russell 1000 Value Index
Mid-Cap —Growth —Value	4%-12% 2%-6% 2%-6%	7.6% 3.8% 3.8%	+/- 4%	Russell Mid-Cap Index Russell Mid-Cap Growth Russell Mid-Cap Value
Small Cap —Growth —Value	3%-7% 1%-3% 1%-3%	4.2% 2.1% 2.1%	+/- 2%	Russell 2000 Index Russell 2000 Growth Index Russell 2000 Value Index
International Equities —Developed Growth —Developed Value —Developed Markets Index Fund	15%-23% 4%-10% 4%-10% 1%-3%	19.0% 8.5% 8.5% 2.0%	+/- 4%	MSCI ACWI EX-US (ND) Index MSCI EAFE Growth (ND) Index MSCI EAFE Value (ND) Index MSCI EAFE Index
Global Equity	5%-13%	9.0%	+/- 4%	MSCI All Country World Index
Real Estate	4%-12%	8.0%	+/- 4%	NCREIF ODGE Index
Fixed Income —Aggregate Bond —US Tips	23%-29% 20%-24% 3%-5%	26.0% 22.0% 4.0%	+/- 3%	BB Aggregate Bond Index BB Aggregate Bond Index BB-US TIPS Index
Cash and Equivalents	0-5%	0%		3-month Treasury Bill Index

## Rebalancing of Fund Assets

Understanding that different asset classes will perform at different rates, the MOI and the investment consultant will closely monitor the asset allocation shifts caused by performance. Therefore:

- The MOI will review the relative market values of the asset classes whenever there is to be a net contribution to the Fund and will generally place the new monies under investment in the category(ies) which are furthest below the target allocation in this policy; and,



- ~~The MOI and investment consultant will review the asset allocation quarterly and during periods of severe market change to assure that the target allocation is maintained. If an asset class is outside the allowable range, the MOI, with input from the investment consultant, will take appropriate action to redeploy assets taking into account timing, costs and other investment factors.~~

### **Guidelines for Fixed Income Investments and Cash Equivalents**

- ~~Securities must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, S&P and Fitch; when a rating from only two agencies is available, the lower is used; when only one agency rates a bond, that rating is used.~~
- ~~Fund assets may be invested only in commercial paper rated A1 (or equivalent) or better.~~
- ~~The fixed income weighted average portfolio maturity may not exceed that of the Fixed Income benchmark by more than .5 years.~~
- ~~Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.~~

### **Investment Performance Review and Evaluation**

~~Performance reports generated by the investment consultant shall be compiled at least quarterly and communicated to the EFIB for review. The investment performance of the total Fund, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The EFIB intends to evaluate the manager over at least a three-year period, but reserves the right to terminate a manager for any reason.~~

~~Each manager shall maintain a portfolio consistent with characteristics similar to those of the composite utilized for their retention. Investment performance will be measured on a total return basis, which is defined as dividend and interest income plus realized and unrealized capital gains. Each manager will be evaluated in part by regular comparison to a peer group of other managers employing statistically similar investment style characteristics. It is expected that each manager will perform above the peer group median and the appropriate index over rolling three-year periods with respect to both return and risk.~~

~~Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.~~

~~—~~

### **Investment Policy Review**

~~To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the EFIB will review the policy annually.~~

## **~~GASB 40 Reporting Requirements~~**

~~Purpose: The Governmental Accounting Standards Board has identified that state and local governments have deposits and investments which are exposed to risks that may result in losses. GASB Statement number 40 (GASB 40) is intended to inform users of the financial statements about the risks that could affect the ability of a government entity to meet its obligations. GASB 40 has identified general deposit and investment risks as credit risk, including concentration of credit risk and custodial credit risk, interest rate risk, and foreign currency risk and requires disclosures of these risks and of policies related to these risks. This portion of the Investment Policy addresses the monitoring and reporting of those risks.~~

~~In general, the risks identified in GASB 40, while present, are diminished when the entire portfolio is viewed as a whole. Specifically, the risks identified and the measurements required is poorly transferable, if at all, to portfolios like the EFIB, which is dominated by equity exposure.~~

~~It is the policy of the EFIB that the risks addressed in GASB 40 are to be monitored and addressed primarily through the guidelines agreed to by those managers, and by regular disclosures in reports by managers of levels of risks that may exceed expected limits for those portfolios.~~

- ~~● Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations to the EFIB. GASB 40 requires disclosure of credit quality ratings of investments in debt securities as described by nationally recognized statistical rating organizations.~~

~~Policy: The Investment Guidelines section of this Investment Policy provides credit quality and maturity guidelines for fixed income and cash equivalent investments. Managers are required to comply with the Investment Policies set forth by the EFIB.~~

- ~~● Custodial Credit Risk: The risk that in the event of a financial institution or bank failure, the Fund would not be able to recover the value of their deposits and investments that are in the possession of an outside party.~~

~~Policy: The EFIB minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to the EFIB ownership and further to the extent possible, be held in the Fund' name.~~

- ~~● Concentration of Credit Risk: The risk of loss that may be attributed to the magnitude of a government's investment in a single issue.~~

~~Policy: Managers will provide the EFIB with expected concentration of credit risk exposures in their portfolio guidelines. If the concentration of credit risk exceeds expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board. For the portfolio as a whole, staff will report to the Board at a regular Board meeting if the exposure to a non-US government guaranteed credit exceeds 5% of the total EFIB portfolio.~~

- ~~Interest Rate Risk: The risk that changes interest rates will adversely affect the fair value of an investment. Interest rate risk to the EFIB's fixed income portfolio is monitored using the effective duration methodology. Effective duration measures the volatility of the price of a bond given a change in interest rates, taking into account the optional underlying bond.~~

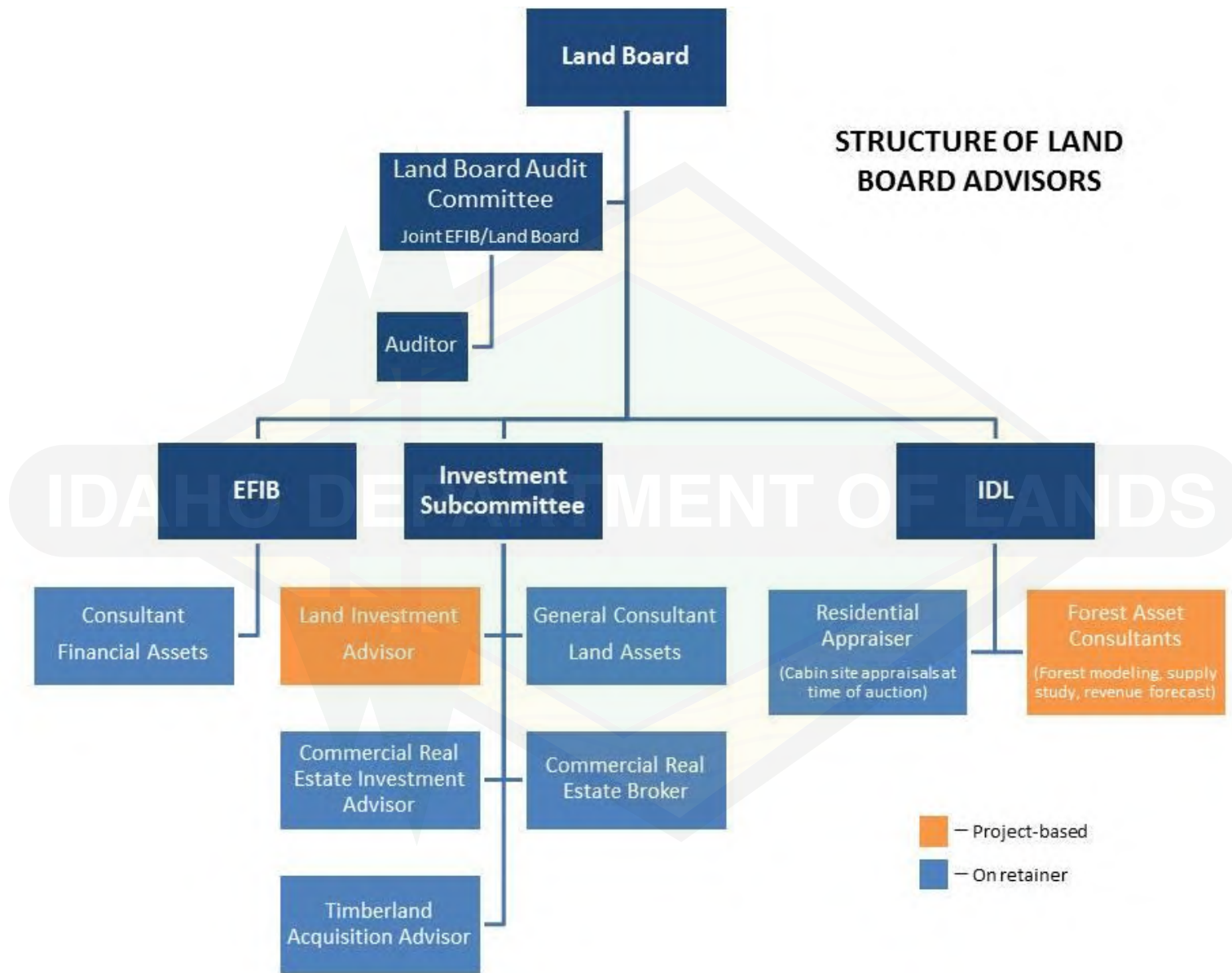
~~Policy: Managers will provide the EFIB with the expected portfolio duration in their portfolio guidelines. If the duration of the portfolio differs from expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.~~

- ~~Foreign Currency Risk: The risk that changes exchange rates will adversely impact the fair value of an investment. The EFIB's currency risk exposures, or exchange rate risk, primarily reside within the international equity investment holdings.~~

~~Policy: The EFIB permits investing up to 30% of total investments in international equities. No foreign fixed income securities are permitted except currency. The EFIB recognizes that international investments (equity or fixed income) will have a component of currency risk associated with it. The individual manager guidelines will outline the expected currency exposures (either specifically or through ranges of security exposures to particular currency areas) of the underlying portfolio and if the actual currency exposure differs from the expected, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.~~

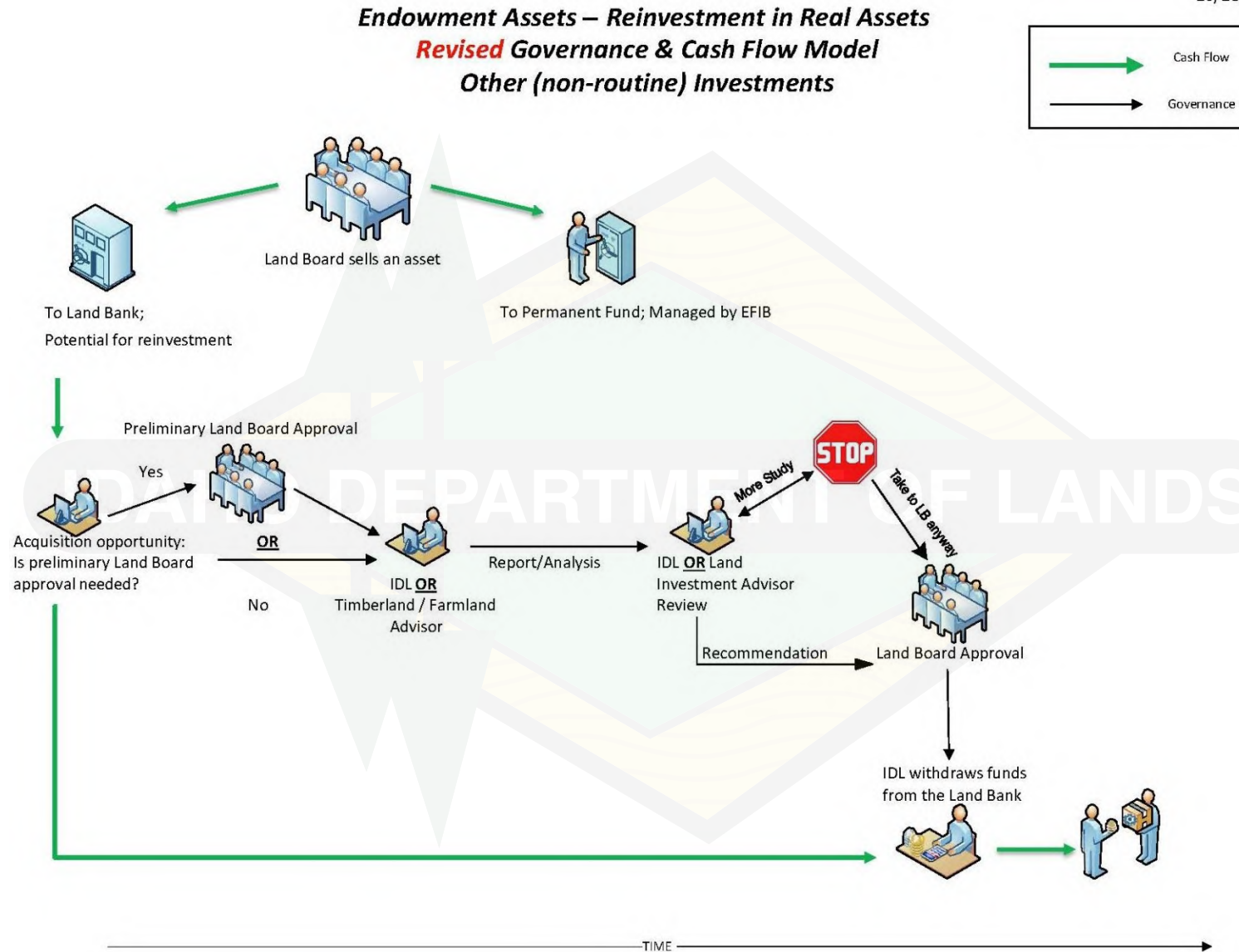
IDAHO DEPARTMENT OF LANDS

## D.A. Use of External Advisors



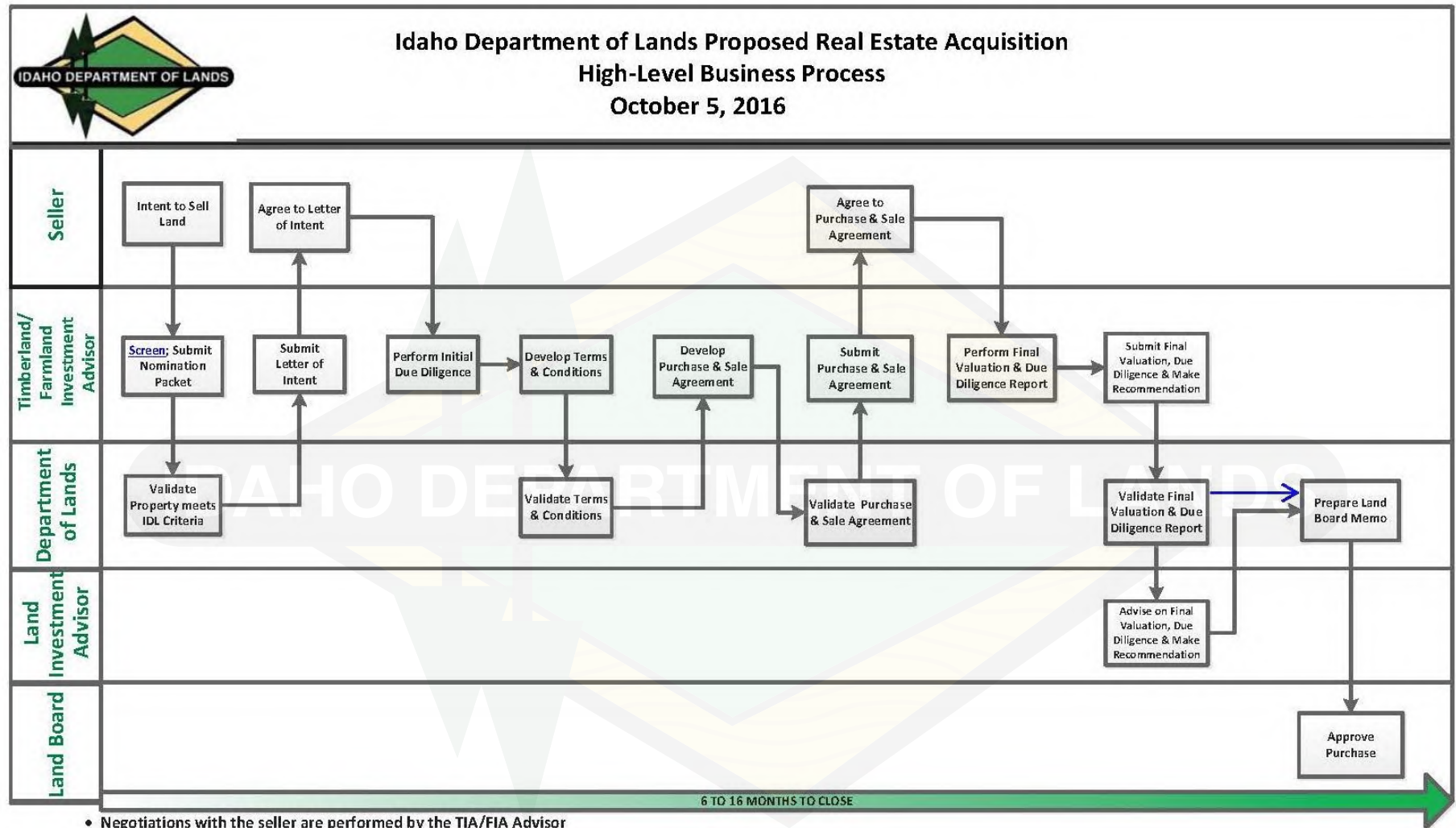
## E.B. Decision-Making Structure Chart

10/18/2016



v1014

## F.C. Real Estate Acquisition Flow Chart



- Negotiations with the seller are performed by the TIA/FIA Advisor
- Purchase denials will be tracked for reporting
- Purchase approval pipeline process will be tracked for reporting



## **Summary of Idaho Endowment Fund Distribution Principles, Policy and Background**

By the Endowment Fund Investment Board – Updated July 17, 2018

### **Mission of Idaho Endowments: Provide a Perpetual Stream of Income<sup>i</sup>**

To achieve this mission, Distribution Policy must balance four conflicting objectives:

- Maximize total return over time at a prudent level of risk
- Provide relatively stable and predictable distributions
- Constrain distributions to protect future generations' purchasing power
- Maintain sufficient liquidity for anticipated expenditures

### **Priorities for Allocating Income**

To balance the interests of current and future beneficiaries, the Land Board established the following priorities for allocating endowment revenues and gains:

- First Priority: Avoid reductions in total endowment distributions
- Second Priority: Maintain adequate Earnings Reserves to protect the current level of distributions from temporary income shortfalls
- Last Priority: Increase both distributions and Permanent Fund corpus faster than inflation and population growth

### **Distribution Policy Management Principles**

- Distribute a conservative estimate of long-term sustainable income every year
- Maintain distributions when income temporarily falls below long-term expectations by saving up income in a reserve when it exceeds expectations
- Grow both distributions and permanent corpus proportionately, more than offsetting losses from inflation and dilution from population growth by reinvesting sufficient income back into principal

### **Constraints on Wasting Principal (Corpus Growth Objectives)**

A major risk any endowment faces is that assets will be depleted to satisfy the beneficiary's current needs at the expense of long-term needs. Many states have succumbed to pressure to spend down their endowment funds. Idaho has several protections in place to mitigate this pressure: <sup>ii</sup>

- Federal law and state Constitution: Prohibits spending original principal, including the proceeds of land sales
- State statute: Requires that principal grow at least at the rate of inflation before any market appreciation of the Permanent Fund can be considered distributable income<sup>iii</sup>
- Land Board policy objective: Requires that principal grow faster than the rate of inflation and population growth<sup>iv</sup>

### **Determining Annual Distributions<sup>v</sup>**

Distributions are initially calculated as a percent (the policy distribution rate<sup>vi</sup>), multiplied by the Permanent Fund balance<sup>vii</sup> (three-year-average to partly smooth variation in the equity markets)

- Current policy distribution rates are 5% for all endowments except State Hospital South (7%)

Distributions may be further adjusted, up or down, to reflect the reserve balance (and any other relevant factors):

- If reserves are adequate, distributions are maintained even when the Permanent Fund shrinks (actual rate > policy rate)
- If reserves are not fully sufficient (not at target), distributions are maintained even when the Permanent Fund rises (actual rate < policy rate)
- If reserves are unusually low, distributions may be reduced (actual rate < policy rate)

### **Honoring Beneficiaries' Strong Preference for Sustainable Distributions**

Beneficiaries and legislators clearly indicate that a reduction in distributions (if actual income turns out to be low) is much more difficult for them to adjust to than it is to temporarily forego an increase if actual income turns out higher than a conservative expectation. Therefore, it is prudent to base both the policy distribution rate and the annual distribution on a conservative expectation of fund and land earnings<sup>viii</sup>.

### **Determining Transfers to the Permanent Fund<sup>ix</sup>**

Excess income is converted to (transferred to) Permanent Fund corpus when reserves are deemed fully sufficient: i.e. exceed targeted years<sup>x</sup> of the planned distribution (six years for Public School and seven years for all other endowments).

### **Measuring the Balance of Current and Future Beneficiaries' Interests**

Over time, balance is achieved when all (and only all) "real" income is distributed.

Balance is specifically measured by the following relationship:<sup>xi</sup>

- o Actual distributions *plus* growth in reserves  
equals
- o Actual income (land & fund), *minus* income converted to principal

### **Earnings Reserves Serve Two Roles**

The Earnings Reserve is not a "rainy day" fund to be drawn down when other state revenues falter. Its purpose is to be a:

1. Buffer against volatility in land income and fund return – a bank for unusually high earnings to be used to maintain distributions in lean times
2. Benchmark to determine when spendable reserves are fully sufficient so that any additional earnings can be reinvested in permanent principal (to maintain purchasing power and sustainably increase distributions)

### **Investment of the Earnings Reserve Fund**

Because the fund intends to hold an adequate level of reserves into perpetuity, this long investment horizon allows reserves to be invested in the same risk/return portfolio mix as the Permanent Fund



- In extreme cases, low reserves may require moving the reserves to a more conservative asset mix (which may lock in losses)

### **Role of Endowment Distributions in the Overall Appropriation Process**

Endowment distributions only satisfy a small portion of each beneficiary's annual spending needs, so those needs are essentially irrelevant in determining distributions. The EFIB recommends the Legislature address total beneficiary needs and short-term variations in tax receipts<sup>xii</sup> so that distributions can be stable and growing, based solely on the long-term earning capacity of the endowment. A consistent, high-returning asset mix cannot be maintained if distributions vary based on tax revenues.

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## **Endnotes**

<sup>i</sup> The Mission can also be restated in a more measurable form:

The Idaho Endowments will maximize the prudent distribution if they:

- Earn strong real income in the fund and from the land
- Maintain adequate reserves to prevent reductions in distributions
- Reinvest income to protect future purchasing power

<sup>ii</sup> To ensure these strict legal protections of the future beneficiary do not overrule the interests of the current beneficiary, Land Board policy requires that distributions grow proportionately with principal over the long term.

<sup>iii</sup> The statutory method for achieving inflation protection is measured by the "Gain Benchmark" (June 2000 original principal, adjusted for deposits and inflation). The cumulative total appreciation below inflation must be retained in the Permanent Fund, but any excess (measured at fiscal year-end) flows to Earnings Reserve as income, generally in September (this can be a large amount in one year or zero for several years).

<sup>iv</sup> The Land Board policy objective of keeping up with population growth:

- Makes real per capital distributions equivalent, current vs. future
- Is achieved by transferring (reinvesting) sufficient excess retained income from Reserves to Permanent Fund principal so it can never be spent

The current assumed population growth is 1.8% per year, except for Public School which is assumed to be 1.0% per year.

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<sup>v</sup> Distributions can be changed at any time, but, to facilitate the budget process, are usually determined annually at the August Land Board meeting for the following fiscal year.

<sup>vi</sup> The policy distribution rate is based primarily on a conservative estimate of expected total income. When expected long-term earnings change significantly, the policy distribution rate should change (see note 10). However, to protect the corpus, the policy rate should not be raised (i.e. distributions constrained) if Permanent Fund balance objectives have not been achieved.

<sup>vii</sup> Calculating distributions as a percentage of the Permanent Fund is both a mechanism and an incentive to balance the interests of current and future beneficiaries. This structure ensures that:

- In normal conditions, distributions to current beneficiaries increase proportionately with the permanent fund balance
- Increases in distributions are sustainable (supported by sufficient permanent assets)
- Holding excess reserves is discouraged

Transfers from Earnings Reserve, both historical and approved but not completed, are added to the annual amounts used in calculating the three-year average Permanent Fund balance.

<sup>viii</sup> To reflect the desired conservative bias in setting policy distribution rates:

- Policy distribution rates should be increased only based on a conservative “downside” forecast of long-term income: e.g. 25<sup>th</sup> percentile fund earnings and 20<sup>th</sup> percentile land revenue forecasts
- Policy distribution rates should be reduced if the current rate can only be justified with optimistic earnings and revenue forecasts. Ideally, the reduction in the rate would be accomplished by holding the distribution (in dollars) constant for a long period. However, an immediate cut in the absolute dollars would be required if reserves are low.

To reflect a conservative bias in setting annual distributions, the viability of a proposed distribution is tested by forecasting the coverage ratio over the next three years based on a “low” forecast of timber earnings and a 2% fund return.

It is impossible to eliminate the possibility of a reduction in distributions, but the policy is designed to allow at least two years warning of a potential reduction, consistent with the time lags inherent in the state budgeting process. If a fund is unable to make an appropriated distribution, that would be considered a catastrophic failure of the process. In the past, three endowments have experienced catastrophic failures (i.e. had insufficient reserves to pay promised distributions): Public School (2003), Ag College (2005) and Charitable Institutions (2005).

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<sup>ix</sup> Transfers of excess reserves to the Permanent Fund are generally approved annually at the August Land Board meeting, based on balances as of the previous year end and approved distributions for the next fiscal year, but actually done in September

Requiring that reserves which exceed a sufficient or target level be converted to corpus (i.e. transferred to the Permanent Fund) reduces the temptation to:

- Make large, one-time distributions of accumulated income to the detriment of future beneficiaries
- Hoard income to avoid an increase in distributions that would automatically result from a conversion

<sup>x</sup> The determination of how many years of reserves are sufficient was based on the combined volatility of fund returns and net land revenues, which is heavily influenced by the fact that in a severe equity downturn (once every 25 years), no distributable income would be available from the Permanent Fund for about five years because the Permanent Fund would retain all of its income to rebuild the corpus. A temporary increase in the years of reserve, above the targeted level, may be called for if there is a temporary reduction in expected income (e.g. timber harvest is predicted to be unusually low). Reserves for the three endowments with cabin site dispositions will be allowed to rise up to a year above target, pending an update of the distribution models to reflect the impact of the dispositions on the desired reserve levels.

<sup>xi</sup> There will always be temporary deviations from this balance because actual income after inflation will vary from the expectations used to establish the distribution rate.

<sup>xii</sup> The Land Board has the legal authority to consider a beneficiaries' other sources of revenue in setting distributions and therefore could attempt to adjust distributions in response to changes in tax receipts or fund income. However, only the Legislature has the Constitutional responsibility and authority to balance a beneficiary's total spending in excess of endowment distributions with tax revenues. When endowment distributions decline, the Legislature can choose to provide tax revenues to maintain the total level of spending they believe is appropriate. When endowment distributions rise, the Legislature can choose to reduce tax revenues to maintain the level of total spending they believe is optimal. The Land Board has no control over tax revenues and would be unable, without the Legislature's consent, to adjust distributions in response to changes in tax receipts. Also, the Legislature is in a better position than the Land Board to balance a beneficiary's unfunded needs with all other expenditure requests and options to increase or decrease tax revenues.



## 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, 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.*

### Draft Minutes State Board of Land Commissioners Regular Meeting October 20, 2020

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, October 20, 2020 in the State Capitol, Lincoln Auditorium (WW02), 700 W Jefferson Street, Boise, Idaho. The meeting began at 9:02 a.m. The Honorable Governor Brad Little presided. The following members were in attendance:

Honorable Governor Brad Little  
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 Land Board members were present.

Director Miller recognized six Department employees, from multiple area offices around the state, who are in Boise participating in a quarterly onboarding event. It is an opportunity to become acquainted with the executive team and other staff in the Boise office. Attending a Land Board meeting is a key part of the experience. Attorney General Wasden welcomed everyone.

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

##### **Trust Land Revenue**

- A. Timber Sales – September 2020
- B. Leases and Permits – September 2020

**Discussion:** None.

##### **Status Updates**

- C. Fire Season Report – Final
- D. Cottage Sites Auction – Priest Lake Results

**Discussion:** None.

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

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

**Discussion:** Mr. Anton reported that equity markets took a little breather during the month of September. The portfolio was down 1.6% during the month, which left it up 5.6% fiscal year-to-date. The confidence of equity investors was shaken by the emergence of heightened COVID-19 infections, the contentious U.S. presidential election, and the fiscal stimulus stalemate that is taking place in Congress. According to data on Johns-Hopkins' website this morning [October 20], there are now more than 40.5 million confirmed cases of COVID-19 worldwide and over 1.1 million related deaths. The infection rate began to accelerate again in Europe and in 34 U.S. states; the 7-day moving average is now higher than it was a month ago. While a lot of people have learned to live with it, the nation is still dealing with the challenges of the virus. President Trump's nomination of Amy Coney Barrett to replace Justice Ruth Bader Ginsburg on the Supreme Court seemed to chill the discussions taking place between Democrats and Republicans to provide additional fiscal stimulus during the month. Today is the day they supposedly get it done if they are going to complete it before the election. The markets are up today, apparently optimistic legislators will reach a solution. Mr. Anton stated all this is important because retail sales growth is beginning to slow and there are some challenges with labor markets. Significant hiring has occurred since the crisis, however there were roughly 20 million laid off during the height of the closures. About half of those people are still unemployed. It is important to get some stimulus back in the economy. Federal Reserve Chairman Jerome Powell has warned Congress on several occasions that the economy will suffer if lawmakers fail to act, underscoring the fact that small businesses and lower-income households require more support. Chairman Powell remarked, "The downturn has not fallen equally on all Americans. Those least able to bear the burden have been the most affected." Mr. Anton commented that Governor Little is fully aware of that; the Governor has taken actions in the state of Idaho to provide stimulus to some of those lower income families. Mr. Anton observed there is a lot of hope that Congress will reach an agreement. The President recognizes it is important and the markets are sending a message that an agreement needs to occur to keep the economy moving forward in a strong manner. As a result of the optimism, markets have come back somewhat during the month of October. As of yesterday [October 19] the portfolio is up 8.5%. Mr. Anton noted that in terms of significant actions of the Endowment Fund Investment Board, the Investment Board held a special meeting in September to learn more about possible investment opportunities in infrastructure and plans to continue those discussions at its November meeting. The November meeting will be a joint meeting with the Land Board; the Investment Board plans to join the first part of the meeting. EFIB will present its annual report as well as its audit and financial statements during that meeting.

### **Consent—Action Item(s)**

- 3. Results of September 2020 Grazing Lease Live Auction** – *Presented by Ryan Montoya, Bureau Chief-Real Estate Services*

**Recommendation:** Direct the Department to award grazing lease G800481 to the high bidder, Thomas Katsilometes.

**Discussion:** None.

- 4. Approval of Draft Minutes** – September 15, 2020 Regular Meeting (Boise)

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

### **Regular—Action Item(s)**

- 5. Adoption of Pending Fee Rules–Omnibus Rulemaking** – *Presented by Scott Phillips, Policy and Communications Chief*

**Recommendation:** Adopt the Department's proposed fee rules including the amended IDAPA 20.03.02, Rules Governing Mined Land Reclamation, as pending fee rules and approve the Department's Notice of Omnibus Rulemaking – Adoption of Pending Fee Rule.

**Discussion:** None.

**Board Action:** A motion was made by Attorney General Wasden that the Land Board adopt and approve the Department's recommendation that is adopt the Department's proposed fee rules including the amended IDAPA 20.03.02, Rules Governing Mined Land Reclamation, as pending fee rules and approve the Department's Notice of Omnibus Rulemaking – Adoption of Pending Fee Rule. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

- 6. Approval of Pocono Poke Cedar Timber Sale** – *Presented by Jim Elbin, Division Administrator-Trust Land Management*

**Recommendation:** Approve the Pocono Poke Cedar timber sale.

**Discussion:** None.

**Board Action:** A motion was made by Attorney General Wasden that the Land Board approve the Pocono Poke Cedar timber sale. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

- 7. FY2022 Revised Budget Enhancements** – *Presented by Debbie Buck, Financial Officer*

**Recommendation:** Approve the Department's FY2022 Budget Request modification and additional enhancement requests.

**Discussion:** Attorney General Wasden observed that the Land Board previously approved the budget that was submitted and wanted to ascertain that the enhancements the Land Board is now seeing were either requested by DFM or were done in accordance with and in cooperation



with DFM. Ms. Buck replied that the Department worked with DFM and the Governor's office to come to these requests. Controller Woolf asked if these additional five requests were ones that the Department had planned on ahead of time until the economic impact of the pandemic; they were on the radar but put on hold. Ms. Buck responded that these decision units were discussed at the Department level by the Director and executive staff. Guidance came from DFM that no new general fund requests would be accepted through the budget; staff determined these requests were still important but would not be submitted. When DFM guidance changed, it gave the Department an opportunity to re-discuss them.

**Board Action:** A motion was made by Controller Woolf that the Land Board adopt and approve the Department's FY2022 budget request modification and additional enhancement requests. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0. For the record, Governor Little was recused from this vote.

**8. Idaho Forest Group Land Exchange** – *Presented by Josh Purkiss, Program Manager-Real Estate*

**Recommendation:** Approve proceeding with due diligence for the IFG land exchange proposal.

**Discussion:** Attorney General Wasden requested clarification that this is simply for due diligence, that the Land Board is not approving the exchange at this point and if a problem is identified, the Department will notify the Land Board. Mr. Purkiss replied that is correct; this is strictly due diligence and the Department will come back to the Land Board seeking approval for closing.

**Board Action:** A motion was made by Attorney General Wasden that the Land Board adopt and approve the Department's recommendation that is approve proceeding with due diligence for the Idaho Forest Group land exchange proposal. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

**9. Avimor Land Exchange** – *Presented by Josh Purkiss, Program Manager-Real Estate*

**Recommendation:** Approve proceeding with due diligence for the Avimor land exchange proposal.

**Discussion:** Governor Little, viewing Attachment 4, asked if everything in yellow is going to Avimor. Mr. Purkiss responded that all of the scattered endowment land is going to Avimor, as well as four 40s on the large southern block. Governor Little inquired if all of Sections 35, 36 and 2 would be traded. Mr. Bill Haagenson, Deputy Director, clarified that Sections 35 and 36 will remain in Department ownership and Section 2 will be exchanged. Mr. David Lehman, representing Avimor, added the rest of that block is an existing gravel pit being leased to Avimor. When the gravel has been mined from there, Avimor will likely come back and request another exchange. Governor Little mentioned this is the first he has heard of a gravel pit. Attorney General Wasden again asked for clarification that this is just due diligence and the Department will come back to the Land Board with a recommendation at some point either to engage in the exchange or not. Mr. Purkiss answered that is correct; this is only approval to proceed with due diligence. The Department anticipates coming back in 6 months for approval to proceed with closing.

**Board Action:** A motion was made by Attorney General Wasden that the Land Board adopt and approve the Department's recommendation that is approve proceeding with due diligence for the Avimor land exchange proposal. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

**10. Grazing Rate Formula and 2021 Grazing Lease Rate** – Presented by Ryan Montoya, Bureau Chief-Real Estate Services

**Recommendation:** Direct the Department to coordinate with Land Board staff, gather and review pertinent information, engage with stakeholders, and conduct any other work necessary to recommend a grazing rate method to the Land Board no later than July 2021.

**Discussion:** Attorney General Wasden voiced his concern that this recommendation just kicks this can down the road again. In times past, when the Land Board addressed some of these issues, the Department did not have sufficient time to give legally required notice of any change. It appears with a drop-dead date of July 2021, and the intent to get a recommendation to the Land Board before that, there should be enough time. Attorney General Wasden said he wants to verify that the Department would have sufficient time to communicate any changes to meet the statutory requirements and not end up with its back against the wall again. Attorney General Wasden stated he wants to make certain that stakeholders are engaged, that someone does not come in at the last moment and say wait a minute, the Department did not talk to us. Attorney General Wasden asked for a level of comfort with what the Land Board and Department are trying to do. Mr. Montoya addressed the first concern, stating the required time to provide notification of the grazing rate change usually comes at the October Land Board. Bringing it to the July 2021 meeting would allow any comments or any questions that the Land Board has to be addressed and answered prior to the October 2021 meeting at which the 2022 grazing rate would be set. The Department believes that provides ample time to bring a recommendation and address any additional questions that the Land Board may have. Mr. Montoya spoke to the Attorney General's second comment, saying the idea is to include industry folks and other stakeholders; there would be a group within the Department that would organize that type of relationship and information gathering as needed.

Controller Woolf inquired if Mr. Montoya feels there is ample time between now and next July for Department staff to work on this, complete that study, review it, and return back to the Land Board. Mr. Montoya expressed confidence that it will provide ample time. There is significant data that has already been provided in other studies: the 2012 study, the 2015 study, and also the Wyoming study; Department staff can meet that deadline. Controller Woolf pointed out the memo talks about the Land Board directing the Department to move forward with the study; does the Land Board also need to approve the \$7.07 grazing rate for this upcoming calendar year; Controller Woolf noted that is not in the memo. Mr. Montoya replied that historically the Department provides the next calendar year AUM rate as an information-only item notifying the Land Board of the amount and if it was a decrease or an increase.

Secretary of State Denney inquired if the Department has any idea why there was such a low participation rate from the lessees on the Wyoming study. Mr. Montoya responded with a quote from the study itself because that summed it up better than anything, "It remains a mystery as to why the ranching community would not want to be involved, however one can only speculate that ranchers may have been reluctant due to fear of their grazing rates increasing as a result of this study." Secretary of State Denney commented that ranchers may stand a greater risk because if the Land Board does not have the data, does not have the information to make an informed decision, it may not be in the ranchers' best interest. Secretary of State Denney suggested the Department should try to relay to them that maybe having this information is in their best interest. Mr. Montoya mentioned that the Department made multiple attempts; staff



urged the lessees to participate in this study. Over the course of a year, there were hundreds of letters that were sent out initially to the population that was drawn. There were 800 lessees provided to University of Wyoming; a hundred of those were randomly selected to receive the questionnaires and interviews. Only 22 responses were received. A second attempt and ultimately more calls and then another set of letters went out to all the lessees asking for participation. Mr. Montoya noted that this has been an ongoing issue for almost a decade. The Department continues to fall back on these issues. The University of Wyoming made a good faith effort to get as many responses as possible.

Director Miller pointed out that Attachment 2 is a memo from Jason Laney that lays out the chronology of the multiple attempts that were made between both the University of Wyoming and the Department to contact the lessees, as well as a list of concerns that were documented by the Department with the study. As Mr. Montoya indicated, there are likely multiple reasons why there was a reluctance to participate in the study. Some may have thought it was junk mail and ended up in the wastebasket a couple of times. Director Miller commended the Department's leasing division for the multiple attempts that were made.

**Board Action:** A motion was made by Attorney General Wasden that the Land Board adopt and approve the Department's recommendation that is direct the Department to coordinate with Land Board staff, gather and review pertinent information, engage with stakeholders, and conduct any other work necessary to recommend a grazing rate method to the Land Board no later than July 2021. Controller Woolf seconded the motion. The 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.*

- 11. Minerals Regulatory Status Update** – Presented by Mick Thomas, Division Administrator-Minerals, Public Trust, Oil & Gas

**Discussion:** None.

- 12. Winter Dock Storage on North Idaho Lakes** – Presented by Mick Thomas, Division Administrator-Minerals, Public Trust, Oil & Gas

**Discussion:** None.

- 13. Endowment Leasing Status Update** – Presented by Ryan Montoya, Bureau Chief-Real Estate Services

**Discussion:** None.

At 10:15 a.m., a motion was made by Attorney General Wasden to resolve into Executive Session pursuant to Idaho Code § 74-206(1)(f) for the purpose of communicating with legal counsel for the Land Board to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. Attorney General Wasden requested that a roll call vote be taken, and that the Secretary record the vote in the minutes of the meeting. Attorney General Wasden recognized this Executive Session is to discuss lease E310021. Controller Woolf seconded the motion. *Roll Call Vote: Aye: Denney, Wasden, Woolf, Ybarra, Little; Nay: None; Absent: None.*

## **Executive Session**

- A. Idaho Code § 74-206(1)(f) – to communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. The mere presence of legal counsel at an executive session does not satisfy this requirement. [TOPIC: Minerals Lease E310021]

At 11:21 a.m., a motion was made by Attorney General Wasden that the Land Board resolve out of Executive Session. Attorney General Wasden requested that the official minutes of the meeting reflect that no action was taken by the Land Board during Executive Session. Controller Woolf seconded the motion. Attorney General Wasden asked that a roll call vote be taken, and that the Secretary record the vote in the minutes of the meeting. *Roll Call Vote: Aye: Denney, Wasden, Woolf, Ybarra, Little; Nay: None; Absent: None.*

## **Regular—Action Item(s)**

### **14. Minerals Lease E310021**

**Discussion:** Darrell Early, Division Chief of the Natural Resources Division of the Office of the Attorney General and counsel to the Land Board, advised the Land Board that this is an action item on a mineral lease in north Idaho that has been pending. Prior to turning the matter over to the Board for discussion and action, Mr. Early extended sincere thanks to his staff: Angela Kauffman, Joy Orr, Steve Strack and Robert Follett. Mr. Early mentioned this was a team effort by almost his entire division to prepare for this executive session. Director Miller added that this action item pertains to mineral lease E310021.

**Board Action:** A motion was made by Controller Woolf that the Department and the Office of the Attorney General continue negotiations with the vendor for 30 more days and report back at that time. Governor Little seconded the motion. Attorney General Wasden stated that he would be voting no on the motion; there is not sufficient deadline in the motion to identify what action the Land Board will take. Attorney General Wasden remarked that having the Department and the Office of the Attorney General report back in 30 days does not give finality here. Governor Little inquired if the Attorney General had a substitute motion.

A motion was made by Attorney General Wasden that the Land Board direct the Department to place this matter, lease E310021, for public auction. The motion failed for lack of a second.

Governor Little noted that Controller Woolf's original motion was still on the table. Governor Little observed that the Attorney General brought up a good point and added that he was sympathetic to the Attorney General's analysis about what 30 more days of negotiation would

accomplish. Governor Little asked the Controller if he wanted to add language to his motion. Attorney General Wasden offered another substitute motion.

A motion was made by Attorney General Wasden that the Land Board direct the Department and the Office of the Attorney General to make a final offer to the bidder on this lease, to allow them 30 days to sign the lease as it was offered in June [2020], that if the lease is not signed within those 30 days the negotiations will then have ended, and this matter would be put forward for public auction. Superintendent Ybarra seconded the motion. The motion carried on a vote of 3-2; *Aye*: Woolf, Ybarra, Denney; *Nay*: Little, Wasden.

The substitute motion by Attorney General Wasden having passed, no vote was taken on the original motion from Controller Woolf.

There being no further business before the Land Board, at 11:27 a.m. a motion to adjourn was made by Attorney General Wasden. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.



IDAHO DEPARTMENT OF LANDS

# STATE BOARD OF LAND COMMISSIONERS

November 17, 2020

Regular Agenda

## Subject

Approval of partial conservation easement extinguishment and sale in lieu of condemnation on a portion of the Clagstone Meadows Conservation Easement in Bonner County

## Question Presented

Shall the Land Board authorize extinguishment of approximately 13.7 acres of the Clagstone Meadows Conservation Easement to allow for sale in lieu of condemnation by the Idaho Transportation Department?

## Background

- The Idaho Department of Lands (IDL) purchases conservation easements through the Forest Legacy Program for the purpose of keeping working forests working. To date, Idaho's Forest Legacy Program (FLP) consists of 54 conservation easements across 100,867 acres in Idaho (Attachment 1).
- In 2016, IDL and the Idaho Department of Fish and Game (IDFG) acquired the Clagstone Meadows Conservation Easement (CE) from Stimson Lumber Company. The CE held by the State of Idaho (jointly IDL and IDFG), protects 14,432 acres in Bonner County across several non-contiguous parcels, one of which is bisected by U.S. Highway 95 (Attachment 2).
- In 2019, IDL received notice from the Idaho Transportation Department (ITD) of its intent to acquire approximately 13.7 acres of land currently encumbered by the CE (Attachment 3). The purpose of the acquisition is to expand U.S. Highway 95 and frontage roads to improve safety and maintain traffic to meet increased travel demands on this major regional freight corridor.

## Discussion

IDL consulted with ITD, IDFG, Stimson Lumber and IDL's legal counsel and determined that there is no better location for the construction; however, under the terms of the CE, subdivision of the Clagstone Meadows property is prohibited. Based on this determination and the extinguishment provisions within the CE document, IDL's legal counsel advised that condemnation is inevitable and a partial CE extinguishment and sale in lieu of condemnation is therefore justifiable.

IDL followed all federal grant requirements which included receiving approval from all original project funders, receiving an acceptable appraisal in conformance with federal appraisal standards, and notifying USDA Secretary Sonny Perdue.

As determined by the appraisal, ITD offer letter, and the proceed terms outlined in the CE document, the final sale proceeds will be distributed as follows:

Type	Amount
Just Compensation for Land: 12.116 acres (fee simple)*	\$ 84,812.00
Incentive Payment	\$ 8,481.20
<b>Total Consideration</b>	<b>\$ 93,293.20</b>

Distribution	Amount
Stimson Lumber Company (57%)	\$ 53,177.12
IDL (73% of 43%)	\$ 29,284.74
IDFG (27% of 43%)	\$ 10,831.34

\*The actual fee simple land owned by Stimson Lumber is 12.116 acres; 1.599 acres were already within ITD right-of-way.

In accordance with federal grant requirements and the CE terms, IDL must use the proceeds from the sale to acquire FLP-eligible interests in lands of equal or greater value. IDL intends to use these proceeds in its next FLP conservation easement acquisition.

## Recommendation

Authorize the partial conservation easement extinguishment and sale in lieu of condemnation on approximately 13.7 acres of the Clagstone Meadows Conservation Easement in Bonner County.

## Board Action

## Attachments

1. FLP Fact Sheet
2. Site Map
3. ITD letter, September 3, 2019



# Forest Legacy Program

## Fact Sheet

The Forest Legacy Program (FLP) is a program that seeks to protect privately owned, economically and environmentally important forestlands that are threatened by conversion to non-forest uses. FLP is a voluntary program that, through the purchase of conservation easements, operates on the “willing buyer, willing seller” principle. Lands covered by a FLP conservation easement stay in private ownership and continue to be managed for traditional uses such as forest management.

### 1. What is a conservation easement?

- A legal instrument through which certain rights, such as subdivision and development, are transferred from a landowner to a non-profit organization or government agency. The grantee organization does not gain the right to subdivide or develop; rather, it holds those restrictions “in trust” and ensures that no one uses the rights restricted by the grantor. A conservation easement is perpetual and runs with the land. Idaho Code Title 55, Chapter 21 is Idaho’s Uniform Conservation Easement Act.

### 2. Where does FLP funding come from?

- Federal FLP grant funds **are not** tax-payer dollars.
- FLP is funded through the Land and Water Conservation Fund (LWCF), which was established in 1965, in part, to assist states in conserving vital working lands, wildlife habitats and outdoor recreation.
- Each year, a small percentage of royalties paid by energy companies drilling for oil and gas on public land on the Outer Continental Shelf is deposited into the LWCF account in the federal treasury. The premise of LWCF is essentially to protect one natural resource in exchange for the depletion of another.
- The U.S. Forest Service (USFS) administers the program at the national level and provides grants from LWCF to states to carry out the FLP.

### 3. What qualifies projects for consideration?

- Meets FLP’s primary objective to keep working forests working
- 75% forested
- Privately owned
- 5 acres or larger
- Includes a minimum 25% non-federal match
- Must be within a Priority Landscape Area as identified in Idaho’s Forest Action Plan
- Must be carried out in partnership with another state agency or land trust organization

### 4. How are projects evaluated and selected?

- Projects are evaluated using the following criteria:
  - Importance: criteria reflect the environmental, economic and social values the forest provides

- Threat: criteria evaluate the likelihood of conversion from forest to non-forest uses that would result in a loss of forest values and public benefits
- Strategic: criteria reflect the relevance to conservation efforts in a broader perspective (contributes to a conservation strategy and complements other intact forests)
- Projects are evaluated and ranked by a national review panel in Washington DC. The review panel, comprised of 6 state agency representatives and 6 USFS representatives from across the U.S., is tasked with ranking all projects submitted nationwide.

5. How are conservation easement values determined?

- A conservation easement purchase price is determined by an appraisal which conforms to the guidelines of two professional appraisal standards: the Uniform Standards of Professional Appraisal Practice (USPAP) and the Uniform Appraisal Standards of Federal Land Acquisitions (UASFLA or “Yellow Book”). Prior to the acquisition, the FLP requires an independent appraisal review.
- Appraisers meet rigorous private and federal appraisal standards, education, and training and must have considerable experience appraising projects of the same type and complexity.

6. How are federal funds conveyed for Forest Legacy acquisitions?

- Federal funds are directly distributed by the USFS to a title company that handles the closing transaction and recording of the conservation easement.
- The federal funding used to purchase a conservation easement *cannot* be higher than the appraised fair market value.

7. Who holds title to the FLP easement?

- The State of Idaho

8. How do conservation easements impact property taxes?

- The property is still in private ownership and taxed as such. Current property taxes are not impacted.

9. Do these FLP conservation easement acquisitions result in any impact on the state general fund?

- No. Project funds are allocated directly from the USDA Forest Service for the conservation easement purchase. No general fund dollars are used for the acquisition, nor are they used to fund administration of the Idaho FLP.

## ***Idaho Forest Legacy Program***

### Program Goals

- Identify high priority forestlands in Idaho
- Maintain the cultural and economic stability of rural communities by conserving *working* forest landscapes
- Conserve and/or enhance water quality
- Maintain unique forest habitats
- Protect and provide habitat for native fish, wildlife and plants
- Protect the social values that forests provide such as public recreation, scenic, cultural and historical values

### Program Objectives

- Promote wildlife connectivity between undeveloped areas
- Focus efforts on projects with large areas of contiguous forest
- Promote sustainable forest management practices
- Contribute to a large scale organized conservation plan
- Protect Threatened and Endangered species habitat
- Complement previous investments in forestland conservation

### To Date Statistics (April 2020)

39 conservation easement purchases: 97,594 acres

15 donated conservation easements: 3,273 acres

Federal Funds: \$40,047,450

Non-Federal Cost-Share: \$23,249,740

36% non-federal cost-share

87,200 acres open to public recreation, free of charge, in perpetuity

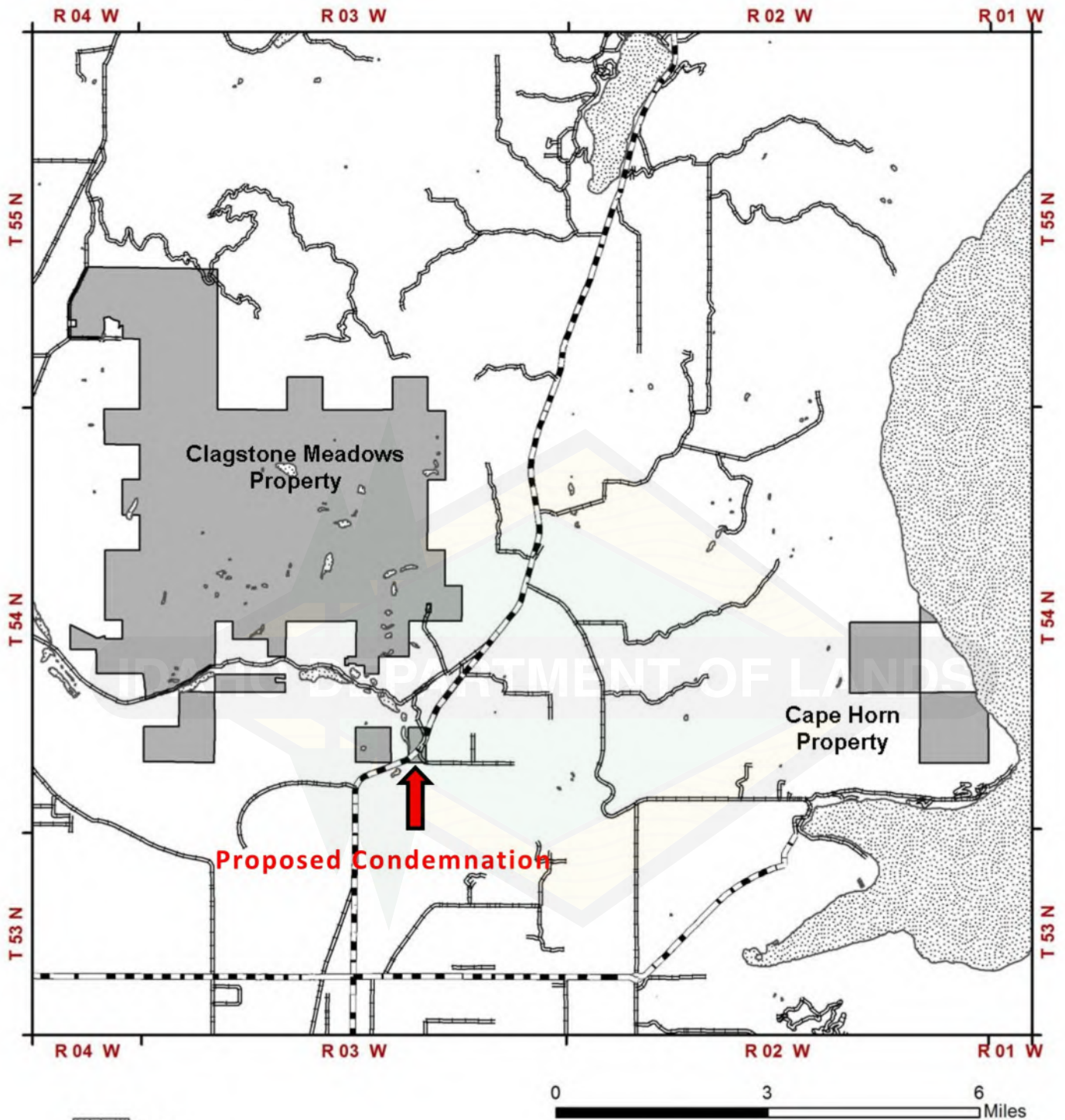
###

For more information, visit:

<http://www.idl.idaho.gov/forestry/forest-legacy/index.html>

This institution is an equal opportunity provider.





Map Date January 2016

This map is not a survey and must not be construed as one. The information imparted with this map is meant to assist the Parties in their efforts to clearly depict property boundaries and other property attributes. Property boundaries, while approximate, were established using the best information available to the Idaho Department of Lands.



**Your Safety • Your Mobility  
Your Economic Opportunity**

**IDAHO TRANSPORTATION DEPARTMENT**

P.O. Box 7129 • Boise, ID 83707-1129  
(208) 334-8000 • [itd.idaho.gov](http://itd.idaho.gov)

September 3, 2019

Karen Sjoquist  
Forest Legacy Coordinator  
Idaho Department of Lands  
2550 Highway 2 West  
Sandpoint, Id 83864

RE: US-95, Granite North & Frontage Roads, Bonner Co; Project No. A020(350)

**Subject: Right of Way Acquisition, Stimson Lumber Co Conservation Easement (parcel 50880)**

Dear Ms. Sjoquist,

The Idaho Transportation Department is acquiring right of way for an upcoming major construction project on US-95 from milepost 451.1 to 454.1, just north of the town of Athol. One of the parcels that we are needing to acquire right of way from for the project is owned by Stimson Lumber Company out of Coeur D'Alene. This property is part of the Clagstone Meadows Conservation Easement that was recorded with Bonner County Idaho on December 16, 2016.

The basis for this project is to improve safety along US-95 and to maintain traffic along the route as travel demands increase. US-95 is the primary thoroughfare for traffic travelling between Coeur d'Alene and other areas of Northern Idaho, and it is a major regional freight corridor. Improvements in this project include widening it to a divided highway with two lanes in each direction and constructing frontage roads on both sides of US-95, which will eliminate multiple at-grade crossings along the corridor to separate local traffic from highway traffic.

ITD has determined that 12.116 acres of property is needed from the Stimson Lumber Co parcel and the Clagstone Conservation Easement in order to construct the project. In the attached right of way exhibit you will notice the property is already bisected by US-95, and that the right of way needed is on both sides of present US-95.

We are going to be starting appraisals for other parcels in the project area this month and we would like to begin on the Stimson Lumber Co parcel as soon as possible. Upon specific request from IDOL, ITD is pursuing a contract with a specific appraiser with conservation easement experience. In the meeting held on August 28, 2019, you mentioned the need to send a summary to IDOL's Deputy Attorney General's Office. Please contact myself (208)334-4420 or Amy Schroeder (208)334-8206 if you have any questions and to set up a follow up meeting with both departments if needed.

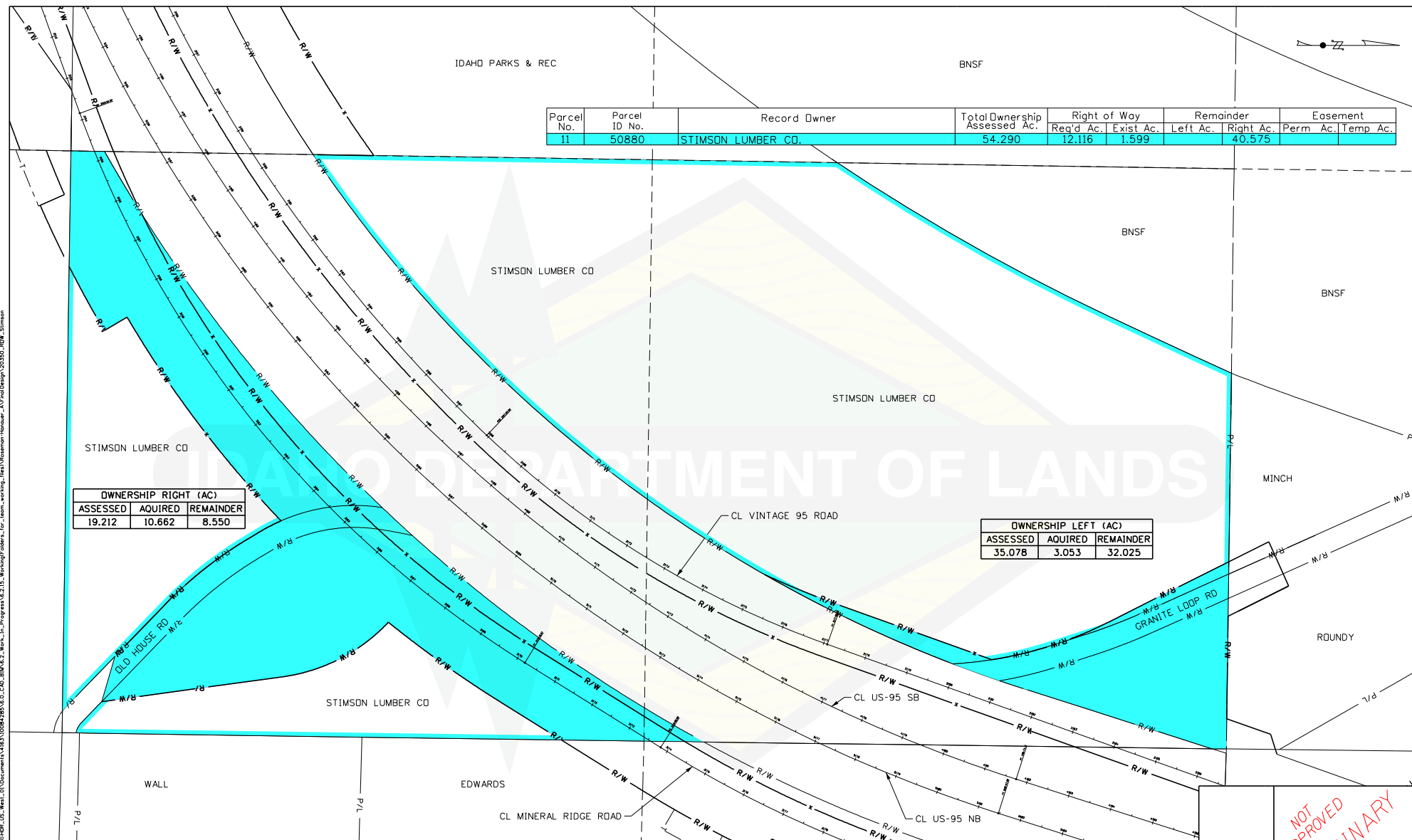
Sincerely,

Merrill Sharp  
Project Manager

Enclosures

cc: Amy Schroeder, ITD Transportation Program Manager  
Chance Cole, ITD District 1 Project Manager  
Kathy Cousins, IDFG  
Barry Dexter, Stimson Lumber Company





Parcel No.	Parcel ID No.	Record Owner	Total Ownership Assessed Ac.	Right of Way		Remainder		Easement	
				Req'd Ac.	Exist Ac.	Left Ac.	Right Ac.	Perm Ac.	Temp Ac.
11	50880	STIMSON LUMBER CO.	54.290	12.116	1.599		40.575		

OWNERSHIP RIGHT (AC)		
ASSESSED	AQUIRED	REMAINDER
19.212	10.662	8.550

OWNERSHIP LEFT (AC)		
ASSESSED	AQUIRED	REMAINDER
35.078	3.053	32.025

21512 PM  
07/17/2019  
PLOTTER: HP DesignJet T1100  
FILENAME: \\na\work\20350\20350\_RWDW.dwg

REVISIONS			DESIGNED
NO.	DATE	BY	DESCRIPTION
			DESIGN CHECKED
			DETAILED
			DRAWING CHECKED

SCALES SHOWN ARE FOR 11" X 17" PRINTS ONLY
CADD FILE NAME 20350_RWDW.dwg
DRAWING DATE JULY 2019

**IDAHO  
TRANSPORTATION  
DEPARTMENT**



**IDT**

PROJECT NO.
A020(350)

STIMSON R/W PLAN
US-95, GRANITE NORTH & FRONTAGE RDS, BONNER CO

<b>English</b>
COUNTY BONNER
KEY NUMBER 20350
SHEET 1 OF 1

**NOT  
APPROVED  
PRELIMINARY  
FOR  
CONSTRUCTION**

# STATE BOARD OF LAND COMMISSIONERS

November 17, 2020

Regular Agenda

## Subject

Request Approval to proceed with due diligence for DeAtley land exchange

## Question Presented

Shall the Land Board authorize the Department to proceed with due diligence for the proposed land exchange?

## Background

In February 2020, the Idaho Department of Lands (Department) received an application for a land exchange from the Lodge at Lolo Creek, LLC (Lodge). Brien DeAtley, managing partner of the Lodge, is proposing exchanging 629 acres of land it owns adjacent to Weippe for 568 acres of endowment land located 9 miles to the south (Attachment 1). Area staff and Department leadership have reviewed the proposal and believe it warrants further formal evaluation via the due diligence process.

The Charitable Institute endowment land, proposed for exchange, consists of approximately 568 acres, referred to as the "Endowment Lands". The Endowment Lands are located in Idaho County. The DeAtley property consists of 629 contiguous acres in Clearwater County. The land exchange would consolidate the endowment land adding to a block of approximately 33,000 acres of timberland. Attachment 2 shows both the Endowment Lands and the DeAtley property.

## Discussion

This proposed land exchange would improve the long-term value and block up endowment grazing land.

Specific benefits of the exchange include:

- Block up Endowment Land: Currently, the Endowment Land is a 568-acre block that is surrounded by private land. The proponent's land will add 629 acres to a much larger block of land.
- Return on Asset: While a return on asset (ROA) cannot be finalized until due diligence work is completed, it is anticipated that the long-term ROA for the DeAtley property as timberland will be higher than the endowment property since it is larger in size and closer to an established road system.
- County Tax Assessments: As a result of the proposed exchange, there would be an estimated \$850 reduction to Clearwater County tax rolls due to the State's

exemption from property taxes. As part of the due diligence process, the Department will seek comments from the Clearwater County Commissioners. Conversely, Idaho County would add a parcel to its tax roll, forecasted to generate approximately \$750 per year.

Upon Land Board approval, the next steps for the land exchange would be for the Department to perform due diligence consistent with the following (also listed in Attachment 3):

- Order a preliminary title report to review the legal descriptions and the current exceptions to title on the properties.
- Complete a Phase 1 Environmental Site Assessment to review the environmental history of the property. The report is intended to identify actual and potential problems based on a review of historical documentation, regulatory agency databases, and a physical on-site investigation.
- Verify the properties have legal access.
- The property will require a timber cruise to determine the species, quality, and quantity of harvestable timber. Enough data must be obtained to create a statistically reliable sample for the timber modeling.
- Review the existence of any endangered species at the site. The presence of threatened/endangered species can significantly reduce the value of a property.
- A real estate appraisal will be completed by a Member of the Appraisal Institute (MAI) appraiser to determine the market value for the property. Appraisals will be reviewed by a second MAI appraiser to verify the report meets Uniform Standards of Professional Appraisal Practice (USPAP).
- Review the recorded surveys, verify survey pins are placed at the corners, and determine if there is a need to order a survey.

Based on review of the due diligence, Department leadership will approve or terminate the land exchange for further consideration. If Department leadership approves, it will be brought back to the Land Board for final approval to proceed.

## **Recommendation**

Approve proceeding with due diligence for the DeAtley land exchange proposal.

## **Board Action**

## **Attachments**

1. DeAtley land exchange application
2. DeAtley land exchange parcel map
3. Due diligence checklist



# EXCHANGE APPLICATION

Land exchange process is used by Idaho Department of Lands to evaluate land exchange proposals for Endowment Lands. Please provide all information to ensure that the Exchange Application is complete.

## Exchange Application Instructions:

- Meet with the appropriate Area Manager prior to filing a Exchange Application (See list of Area Offices on Page 3)
  - Submit a completed Exchange Application and \$1,000 Application Fee to the appropriate Supervisory Area Office
- Note: Please read Exchange Application Information carefully for additional terms and conditions prior to filing

## Exchange Application Fee: \$1,000.00 (Nonrefundable)

**APPLICANT DATA:** The full legal name of the Applicant or the business entity name on file with the Idaho Secretary of State. Certificate of Good Standing must be provided for all business entities.

Applicant or Business Name: Lodge at Lolo Creek, LLC	Contact Name: Brien N. DeAtley
	Position or Title: Managing Member
Street Address: 4307 Snake River Avenue	Mailing Address (if different from Street Address):
City: Lewiston	PO Box (if applicable)
State: ID	Zip +4: 83501
Email Address(es): brien@deatleycrushing.com	Work Phone: 208 743-6550
Website Address(es):	Cell/Mobile: 509 780-2031
Fax: 208 743-6474	Home Phone: NA

The applicant must provide the following information:

- Describe and list Idaho Department of Lands parcels and Applicant's parcels on Attachment A.
- Provide maps showing or portraying the IDL and Applicant's parcels listed on Attachment A.

I hereby certify that I am the Applicant or the Authorized Representative of the Applicant and that the information contained in the Exchange Application is true and correct to the best of my knowledge, and acknowledge that falsification of any information contained herein, or provided herewith, will be grounds for rejection of the Exchange Application and forfeiture of any fees paid.

Brien N DeAtley  
Signature

2-26-2020

Date

Brien N. DeAtley  
Print/Type Name

Managing Member  
Title (if applicable)

### IDL Staff Use Only

Instrument # \_\_\_\_\_ Project # \_\_\_\_\_ \$ \_\_\_\_\_ TC: 104 PCA: 11487 Subsidiary: 3204750

#### SUPERVISORY AREA

- ☐ Exchange Application Reviewed  
☐ Exchange Application for Submittal  
☐ Exchange Application Denied

#### OPERATIONS CHIEF

- ☐ Exchange Application Reviewed  
☐ Exchange Application Authorized for Submittal  
☐ Exchange Application Denied

Area Manager

Date

Operations Chief

Date

Attach III Exchange Application

pg 1 of 6

ATTACHMENT 1



## **EXCHANGE APPLICATION TERMS AND CONDITIONS**

(Please read carefully before completing)

### **IMPORTANT CONSIDERATIONS:**

All endowment land transactions must be in accordance with the Idaho Department of Lands (IDL) mandate to assure the highest and best use of the land and to act in the best interest of the endowments.

Endowment land exchange is subject to the following Idaho Constitution or statutory reference:

1. Idaho Constitution - Article IX, Sections 8 and 10
2. Idaho Admissions Act - Section 5 (b)
3. Idaho Code Sections 58-104 (8), 58-138, 58-505

Submission of this application does not guarantee that the land will be exchanged. The Land Board or Director may determine that a land exchange would not be in the best interest of the endowments at any point prior to the execution of a Final Land Exchange Agreement; at which point the application would be denied.

Prior to filing an Exchange Application, the applicant is required to schedule a pre-application meeting with the Area Supervisor in the appropriate area. See list of area offices on Page 3 of the Exchange Application.

### **TRANSACTION COSTS BORNE BY THE APPLICANT**

1. Exchange Application Fee: \$1,000.00 The Exchange Application Fee is nonrefundable.
2. Transaction costs such as appraisal, survey, or Phase 1 Environmental Site Assessment (ESA) necessary to exchange properties are generally borne by the applicant but may be negotiated subject to Asset Management Steering Committee direction.
3. All endowment land will be appraised as though with all purpose legal access.

### **APPLICATION PROCESS**

Each Exchange Application is reviewed on a case by case basis. Evaluation of the application includes but is not limited to an analysis of: income potential to the endowment; proposed use; impact to adjacent endowment lands, access, proximity to existing development; parcel size; and conformance with local regulations are taken into consideration when evaluating the merits of each application.

Endowment lands shall be exchanged only after completion of a comprehensive staff evaluation and an agreement to initiate has been executed; a formal appraisal has been prepared and accepted; a satisfactory exchange package has been negotiated between IDL and the applicant; receipt of State Land Board approval and completion of a Land Exchange Agreement has been executed.

The Department will strive to process Exchange Applications through close of escrow within 6 months after an Agreement to Initiate the Exchange has been executed. However, the time frame will vary depending on the complexity of the exchange transaction and Department priorities as defined by the Asset Management Plan and the Land Board.



## IDL Property

Parcel	Twp	Rge	Section	Subdivision	Acres	County	Type of Land (forest, range, agriculture, commercial, residential)	Name and street address of adjacent property owners	Fund (IDL Staff)
A	34N	5E	23 -24		568	Idaho	VACANT TIMBER GROUND	Helena Snyder PO Box 912 Kamiah, ID 83536	
B								Scott Jungert 380 Moughmer Poit Rd Cottonwood, ID 83522	
C								David Snyder PO Box 912 Kamiah Idaho 83536	
D								Michaewl Dunning 762 Caribel Road Kamiah, ID 83536	
E								Lodge at Lolo Creek 4307 Snake River Ave Lewiston ID 83501	
F									

## Applicant's property interest offered for Exchange

☒ Yes   ☐ No   Fee simple: surface plus subsurface  
☐ Yes   ☐ No   Subsurface minerals only  
☐ Yes   ☐ No   Surface only  
☐ Yes   ☐ No   Other \_\_\_\_\_

## Current use:

A	<u>Vacant recently logged timber ground</u>
B	
C	
D	
E	
F	

## Provide additional information about parcels.

A	
B	
C	
D	
E	
F	

## Attachment A

### Applicant's Property

Parcel	Twp	Rge	Section	Subdivision	Acres	County	County Parcel No.	Type of Land (forest, range, agriculture, commercial, residential)	Name and street address of adjacent property owners
A	35N	4E	3 & 10		629	Clearwater	RP35N04E03002	Vacant	Idaho Dept of Lands
B									Donald Ebert PO Box 52 Weippe, Idaho 83553
C									Potlatchdeltic Forest Hold 601 W 1 <sup>st</sup> Ave, Ste. 1600, Spokane, WA. 99201
D									Hutchins 58 Ranch, LLC 497 Musselshell Rd., Weippe, ID 83553
E									Larry Willis PO Box 421 Weippe, ID 83553
F									WEIS Towers, LLC PO Box 711, Roslyn, WA 98941

### Applicant's property interest offered for Exchange

☒ Yes   ☐ No   **Fee simple: surface plus subsurface**  
☐ Yes   ☐ No   **Subsurface minerals only**  
☐ Yes   ☐ No   **Surface only**  
☐ Yes   ☐ No   **Other \_\_\_\_\_**

### Current use and surrounding uses:

A	<u>Vacant timber ground surrounded by same, with exception of Willis Residence and Weis communication Tower</u>
B	
C	
D	
E	
F	



Are you willing to obtain any required land and/or mineral interest application at your expense? ☐ Yes ☒ No

Are you currently leasing the property for any use? ☐ Yes ☒ No

If yes, please describe lease \_\_\_\_\_ F&G Access Yes Program \_\_\_\_\_

Provide a complete listing of improvements/structures for the applicant's property.

NONE

Provide an estimated market value for the applicant's property.

\$800K - \$900K

Provide a complete listing of any dumps or other hazmat issues for the applicant's property.

NONE Known, Have not performed any improvements nor any other activity since purchasing this property in 2016

Provide a complete listing of any easements that affect the applicant's property title.

State of Idaho has easement for access through property

Does applicant's property have legal access? ☒ Yes ☐ No

If yes, please describe access \_\_\_\_\_

Does applicant's property have any water rights? ☐ Yes ☒ No

If yes, please list water right numbers that apply.

Lodge at Lolo Creek LLC has not filed any waters rights documents with the state of Idaho and is not aware of any such event by others. Lodge at Lolo Creek would request that State of Idaho notify and remove any such rights filed presently (regards the subject IDOL trade property).



## SPECIAL WARRANTY DEED

THIS INDENTURE made this 26 day of July, 2016, by and between POTLATCH LAND & LUMBER, LLC, a Delaware Limited Liability Company, party of the first part, hereinafter referred to as "Grantor," THE LODGE AT LOLO CREEK, LLC, party of the second part, hereinafter referred to as "Grantee," whose address is P. O. Box 759, Lewiston, Idaho 83501.

WITNESSETH, That,

The said Grantor, for and in consideration of the sum of ONE DOLLAR (\$1.00) and other good and valuable consideration, lawful money of the United States of America to it in hand paid by the said Grantee, the receipt of which is hereby acknowledged, has bargained and sold, and by these presents does bargain, sell, convey and confirm unto said Grantee, and to its heirs and assigns forever, all of the following described real property situate in the County of Clearwater, State of Idaho, to wit:

Township 35 North, Range 4 East, Boise Meridian, Clearwater County, Idaho

Section 3: Government Lots 1, 2, 3 & 4, SW1/4NE1/4, W1/2 SE1/4NE1/4, SW1/4NW1/4, S1/2 SE1/4, NW1/4 SW1/4, S1/2 SW1/4

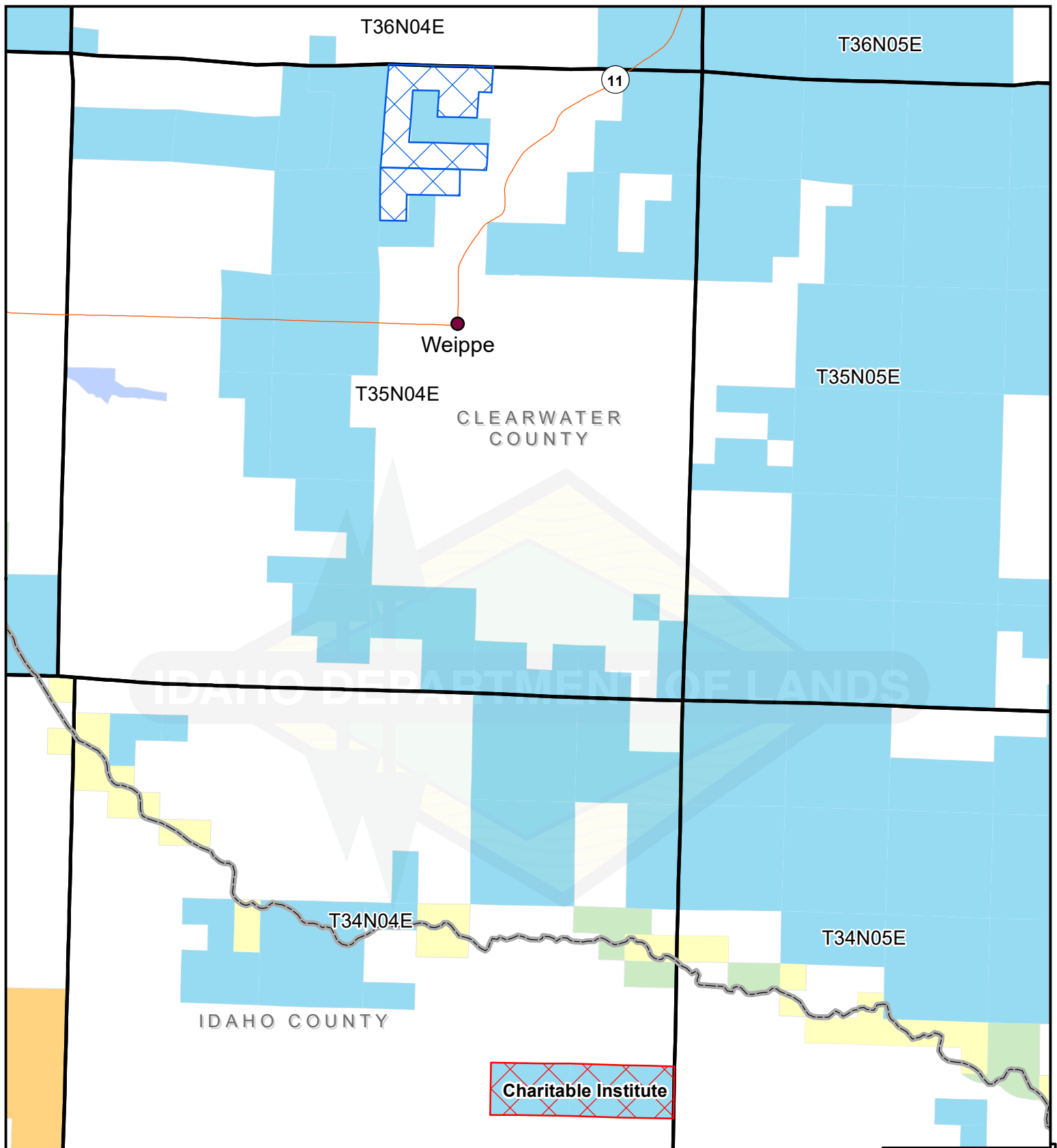
Section 10: NW1/4 NE1/4, N1/2 NW1/4, SW1/4 NW1/4

TOGETHER with all and singular the tenements, hereditaments and appurtenances thereunto belonging or in anywise appertaining.

SUBJECT TO:











1. Taxes and assessments for the year 2016 and thereafter, and such rights, easements, covenants, restrictions as appear of record or by use upon the premises, and zoning





## DeAtley Land Exchange

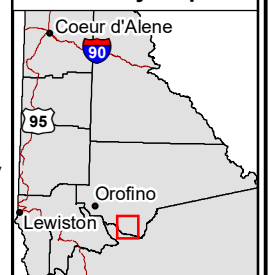
11/3/2020

- |   |  |
|---|--|
|  IDL to Acquire |  Endowment Land |
|  IDL to Dispose |  BLM            |
|  State Highway  |  USFS           |
|  County         |  Tribal Land    |
|   |  Other State    |
|   |  Private        |



**Disclaimer:**  
This map has been compiled using the best information available to the Idaho Department of Lands at the time and may be updated and/or revised without notice.  
In situations where known accuracy and completeness is required, the user has the responsibility to verify the accuracy of the map and the underlying data sources.

### Vicinity Map



# Due Diligence Checklist

**“Due Diligence”** is a broad term that business, real property professionals and real estate attorneys use. The term is used here to refer to the inspection and investigation of real property being considered for acquisition. Due diligence is conducted to assist the buyer in making an informed purchase decision. Items considered under due diligence vary with each property type. The following checklist is a reference used to identify documents and conditions that should be considered in the purchase of real property.

       **Commitment for Title Insurance (All Properties).** A commitment for title insurance (Preliminary Title Report) should be obtained soon after the Purchase Sale Agreement is executed. This document includes the legal description for the property and provides a list of all current exceptions to title on the property such as property owner, unpaid taxes, easements, options to purchase, judgments, mortgages, recorded liens, deed of trust, timber harvest rights, mineral rights, water rights. The title review process is used to determine the condition of the title to be transferred to the buyer at closing, as well as identifying any potential title problems.

       **Phase One Environmental Site Assessment (Phase One ESA) (All Properties).** The Phase One ESA provides the buyer an overview of the environmental condition and environmental history of the property. The report is intended to identify actual and potential problems (e.g. contamination by hazardous substances, leaking underground storage tanks, landfills, etc.) based primarily on a review of historical use documentation, regulatory agency databases and a physical on-site investigation. If environmental conditions or potential environmental conditions are discovered during the investigation, the report will generally recommend specific follow-up testing, remediation and/or studies. A Phase One ESA typically does not include specific inspections for asbestos, lead paint, mold, radon, or wetland delineation. The final report has four components including: Records Review; Site Reconnaissance; Interviews with present and past owners, operators, occupants of the property and local government officials; and a Narrative Report.

       **Access (All Properties).** Evaluate the adequacy of access and determine whether additional rights may be obtained as part of an exchange or purchase transaction at closing. There are five (5) access classifications:

- 1) **Public Use Access:** A permanent public access typically from a county road, state or Federal highway, which has an approved approach designated for the purpose of which the property is currently being used, or designated for its current zoning. Width of approach needs to be sufficient for the properties designated use.
- 2) **Full Legal Administrative Access:** A designated permanent easement specifically identified for access to property for all management activities and access is transferable.

- 3) **Limited Legal Administrative Access:** A designated temporary or permanent access limited for specific activities that would be non-transferable. (Such as Timber harvest, for maintenance access, irrigation.)
- 4) **Physical Access:** Properties where there is an existing road to or across the property, but no permanent legal access is recorded. The road may be designated on a county map. The existing road may be primitive, in poor condition, or currently unusable.
- 5) **No Access:** Property with no legal or physical access established or identified by a recorded document or a county map.

\_\_\_\_\_ **Utilities (All Properties).** Identify existing utility infrastructure located on or adjacent to property such as power, water/well, septic/sewer, phone, natural gas, hot water, solar, wind and if they are provided by city services or located on site. Identify the capacity of the utilities; are they major transmission facilities which would encumber future use or development of the property, or are they of a capacity which could enhance the property for future development

\_\_\_\_\_ **Production Data (All Properties).** Obtain production information associated with the property being considered for purchase. Examples of production data for some property types:

- 1) **Cropland.** Parcel acreage, farmable acres, non-farmable acres, commodities grown, yields, total production, price per unit, and crop rotation. If the property will be acquired subject to a lease; name of tenant, term of lease, and type of lease (i.e. cash or crop share).
- 2) **Timberland.** Total acreage; delineation of acreage used for commercial timber, plantation, non-commercial timberland, and non-stocked; estimated timber volumes by species (i.e. MBF), and mean annual increment (MAI).
- 3) **Rangeland.** Parcel acreage, animal unit months (AUM's) of forage, season of use.
- 4) **Commercial.** Property operating data including cash flow analysis, vacancy rates, operating costs, rent vs. market rent, existing leases and lease terms.

\_\_\_\_\_ **Mineral Rights (All Properties).** The terms "mineral lands," "mineral," "mineral deposits," "deposit," and "mineral right," as used herein is construed to mean and include all coal, oil, oil shale, gas, phosphate, sodium, asbestos, gold, silver, lead, zinc, copper, antimony, geothermal resources, salable minerals, and all other mineral lands, minerals or deposits of minerals of whatsoever kind or character. This includes "salable minerals," meaning a mineral substance that can be taken from the earth and that has a value in and of itself separate and apart from the earth. The potential of mineral lands should be evaluated on annual rental, the amount of royalty, the basis upon which the royalty shall be computed and such other details as necessary in the interest of the state.

Determine whether the property to be acquired excludes mineral rights. To the extent that the mineral rights have been severed from fee ownership, determine to what extent, if any, those severed rights affect the use and value of the property by the buyer. Prior to purchase, determine who owns the mineral rights and what the owner's intent is regarding use and development of the mineral estate.



\_\_\_\_\_ **Water Rights (All Properties).** The constitution and statutes of the state of Idaho declare all the waters of the state, when flowing in their natural channels, including the waters of all natural springs and lakes within the boundaries of the state, and ground waters of the state, to be public waters. A water right is the right to divert the public waters of the state of Idaho and put them to a beneficial use, in accordance with one's priority date. Beneficial uses include such uses as domestic use, irrigation, stock-watering, manufacturing, mining, hydropower, municipal use, aquaculture, recreation, fish and wildlife, among others. The amount of the water right is the amount of water put to beneficial use. Determine the scope and nature of any water rights related to the property. If a property is fully serviced by water and sewer utility service, water rights will not be an issue. If water rights for the property have been separated from the fee interest or come from an off-site source, the purchase and sale agreement must address the transfer of necessary rights to the buyer at closing. The Idaho Department of Water Resources maintains a website to research water rights within the state of Idaho.

\_\_\_\_\_ **Physical Improvements (All Properties).** Improvements include buildings, fences, ponds, spring developments, and real property fixtures that are permanently part of the land. Improvements are generally attached to, embedded in or permanently resting on the land and cannot be removed without substantially damaging an improvement or the real property with which it is being used. An inventory of physical improvements on the property and who owns or claims to own the improvements will be made prior to requesting an appraisal.

\_\_\_\_\_ **Approvals and Entitlements (All Properties).** Determine the regulatory status of proposed property, and if it is based on the type or types of uses currently being made of the land. Review the current zoning, potential zoning, areas of impact, proposed future growth, any restrictive covenants or proposed restrictions which would encumber the property and its utilization in its highest and best use. Confirm that the existing use of the property complies with applicable zoning, building and life safety codes. Determine which land use entitlements will be necessary for intended use of the property.

\_\_\_\_\_ **Personal Property (All Properties).** Identify within the Purchase Sale Agreement what personal or intangible property will be included in the purchase. For example, furniture, trade fixtures, equipment, sprinkler pipe, pumps, etc. that are necessary for the buyer's use of the property. Determine any third party security interest in any of the personal property. Assess the need to purchase or transfer permits or licenses required to operate the property or related equipment and fixtures (e.g. franchises, trademarks, patents, copyrights, liquor licenses, etc.)

\_\_\_\_\_ **Rights-of-Way (Easement) Impacts (All Properties).** Rights-of-way are temporary or permanent property rights that have been either granted or acquired, for roads, utilities, or public use access. These are often conveyed through an easement and may or may not be recorded. In addition to roads and utilities some more obscure examples include:

- 1.) Conservation easements – limits the amount and type of development that can occur on a property in order to preserve its productive capacity and open character while keeping the property in the landowner's ownership and control.
- 2.) Solar/Scenic easements – protect an owner's view shed or path of sunshine and generally restrict the height of building construction.
- 3.) Airspace easement – permits the area above the surface of property to permit an imposition upon such property from excessive noise, vibration, discomfort, inconvenience, etc. that consequently reduces market value. Generally used for airport impact areas but can also apply to bridges and walkways.
- 4.) Maintenance easement – permits an individual to cross onto the property of another for the purpose of maintaining something owned or controlled by the dominant estate owner, such as, irrigation ditches, canals, culverts, power lines, water lines, etc.

\_\_\_\_\_ **Endangered Species (All Properties).** The Endangered Species Act of 1973, as amended, is one of the most far-reaching wildlife conservation laws ever enacted by any nation. The presence of threatened/endangered or potentially threatened/endangered species may significantly restrict the development potential, other potential uses, and market value of a property.

\_\_\_\_\_ **Copies of all leases affecting the property (All Properties).** Review all leases having an effect on the future use of or income from the property. For state lands involved in an exchange, ensure a land exchange addendum is signed by the lessee.

\_\_\_\_\_ **Appraisals and Appraisal Review (All Properties).** A real estate appraisal is required for all property types to determine the market value for the property or property rights or interest being disposed or acquired. At a minimum the appraisal is prepared in compliance with the *Uniform Standards of Professional Appraisal Practice (USPAP)*. Appraisals will be independently reviewed by IDL or another appraiser to ensure compliance with USPAP and to determine the adequacy and appropriateness of the report.

\_\_\_\_\_ **Property Boundary Survey (Optional).** Obtain copies of recorded Records of Survey for the property, if available. If a survey is necessary it should be initiated immediately after the Purchase and Sale Agreement has been executed to allow time to address any potential title problems identified by the survey prior to closing.

\_\_\_\_\_ **Timber Rights (Timberland).** Determine who has the legal right to harvest the timber on a parcel of land. A seller of forestland can choose to include or exclude timber rights as part of a fee ownership sale. Such rights can be severed for a specific period of time or permanently transferred.

\_\_\_\_\_ **Timber Cruise/Harvest/Road analysis and Check Cruise (Timberland).** Forested properties with merchantable timber being considered for acquisition will require a timber cruise to determine the quality and quantity of harvestable timber. The cruise will identify tree species and measurements within each plot. Sufficient plots must be

measured to obtain a statistically reliable sample for estimated gross volume, defect, piece size, general stand information, net merchantable volume, etc.

       **Conservation Reserve Program (Agriculture/Timberland).** Determine if the property is eligible for and currently enrolled in a variety of farm and agriculture programs. What is the impact in ownership change to enrollment eligibility? There are currently five (5) areas which can receive payment, including:

- 1) Wildlife Habitat Incentives (WHIP)
- 2) Wetland Reserve Program (WRP)
- 3) Forestry Incentive Program (FIP)
- 4) Farmland Protection Program (FPP)
- 5) Environmental Quality Incentives Program (EQIP)

       **Architecture/Engineering Analysis (Properties with Buildings).** Acquisition of properties with business related structures requires an analysis by architectural and engineering professionals to determine the condition of the building and identify any potential problem areas, such as deferred maintenance and necessary repairs. Such analysis will typically consider, but is not limited to an analysis of: structural integrity; roof, electrical, plumbing and HVAC systems age and condition; Americans with Disabilities Act (ADA), fire and safety code compliance; general service and maintenance logs; parking area requirements and surface age and condition; review of Phase One Environmental Site Assessment; and testing for asbestos, lead paint, or mold issues. If work is performed on improvements prior to closing, obtain copies of any design and construction drawings and contracts and determine whether the seller's rights under those contracts are assignable to the buyer. Ensure proper lien waivers have been obtained by the seller for work performed prior to closing.

**PreserveMcCall.com**

info@preservemccall.org

The Preserve McCall Campaign  
P.O. Box 4261  
McCall, ID 83638-9998



# Proposal Outline

Idaho Department of Lands Submission

NOVEMBER 2020

ID





# IDAHO DEPARTMENT OF LANDS

## PRESERVE McCALL

The master plan ("Land Use Plan" or "The Plan") discussed herein is presented as one of numerous potential alternative solutions to the overall Land Management Strategy. The Plan is based on a preliminary analysis of the lands around Payette Lake and the planning process is ongoing. As such, the land uses, and final acreage allocations are subject to further refinement. The values included in this presentation reflect Preserve McCall's current understanding of potential land uses and are meant to further discussions of The Plan with the Idaho Department of Lands and other stakeholders.

Throughout these materials, the term "park" is used to describe the overall master plan strategy. In the context of these materials, "park" describes a general sense of contiguous green area for public benefit to include access, recreation, and conservation. In the context of these materials, "park" does not reflect a specific type of ownership or management.





"...going to the mountains is going home; that wildness is a necessity"

- John Muir







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## Idaho Constitution and Statute on Land Exchanges

# Executive Summary

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Preserve McCall offers a plan to protect recreation and wildlands in Valley County by exchanging private harvestable timberland in northern Idaho for acreage in Valley County owned by Idaho's state education endowment.

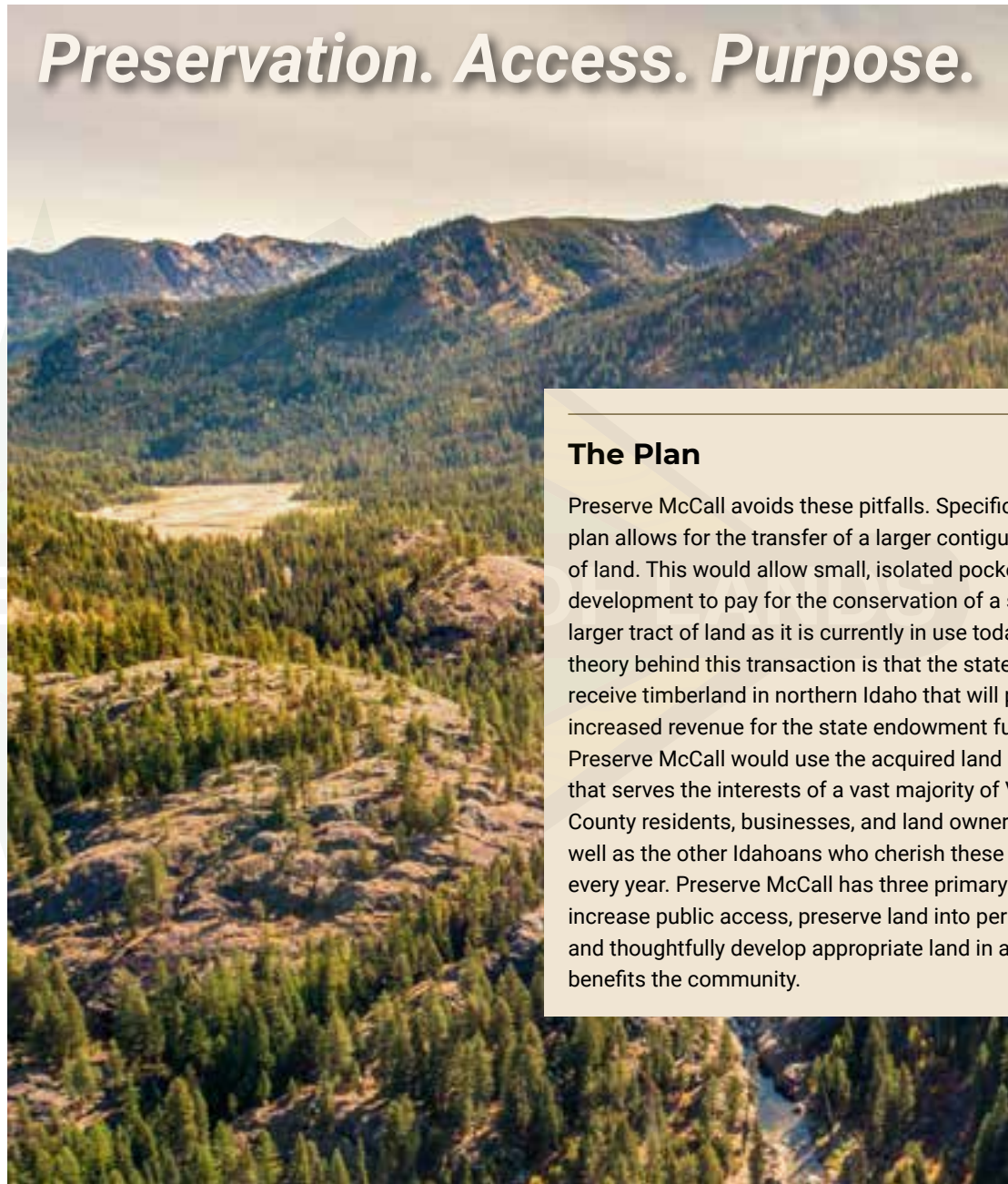


## Current Situation

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The Idaho State Board of Land Commissioners manages state-owned endowment lands to fund public education in Idaho, among other beneficiaries. Some of that land in Valley County, specifically around Payette Lake and Little Payette Lake, offers limited profitability for the state due to its particular terrain, location, and the restricted ability to harvest timber from it. If this land is sold by the state, such as through its auction program, the Idaho Constitution limits dispositions to no more than 320 acres to any one buyer. Our concern is that selling this land to multiple entities in 320-acre parcels could result in a patchwork of privately-owned plots that could seriously limit public access and conservation, and lead to haphazard development contrary to the values of the McCall community and its master plan.

## *Preservation. Access. Purpose.*



## The Plan

Preserve McCall avoids these pitfalls. Specifically, the plan allows for the transfer of a larger contiguous parcel of land. This would allow small, isolated pockets of development to pay for the conservation of a single, larger tract of land as it is currently in use today. The theory behind this transaction is that the state would receive timberland in northern Idaho that will produce increased revenue for the state endowment fund, while Preserve McCall would use the acquired land in a way that serves the interests of a vast majority of Valley County residents, businesses, and land owners, as well as the other Idahoans who cherish these areas every year. Preserve McCall has three primary goals: increase public access, preserve land into perpetuity, and thoughtfully develop appropriate land in a way that benefits the community.

## Public Access

The Preserve McCall plan prioritizes improvements to public access across multiple sites around Payette Lake, Little Payette Lake, and the Lake Fork area. One of the most important benefits of the public land around Valley County is the ability for Idahoans from all walks of life to recreate in a variety of ways, some unique to central Idaho. In McCall, hikes end with huckleberries, and some hunters scout for elk, while others seek morrells. Whether it's snowmobiling or strapping on touring skis, it all starts with access to public lands. Preserve McCall is committing to improve public access to the lake, to these endowment acres, and to the surrounding uphill Forest Service lands.

## Preservation

This plan also proposes creating additional public use, ideally through the expansion of Ponderosa State Park, or through the creation of an adjacent park managed by the city, county, or a separate park authority. The multiple uses for this park could include expanded day-use camping, longer-term camping with improvements, as well as new and improved trail systems and recreational areas. An expanded park also sets aside beach access and preserves views of the lake for the public. There are multiple viewsheds and beloved recreational spots that would be protected and preserved with Preserve McCall's plan.

## Development with Purpose

The economic driver of the plan is thoughtful, diverse, and purposeful development that meets the needs of the community. Phased development could include residential development, workforce housing near downtown McCall, a community recreation center, and other opportunities for the community. While honoring the hard work they already perform in this arena, Preserve McCall will partner with McCall and Valley County to determine the best development plans to serve the community with a goal of low-density solutions, maintained access to the lake, and improved city infrastructure to meet the challenges of growth. Of the total acres exchanged, a minority would be developed for private use, over time, while Valley County would benefit from one of the largest efforts to protect recreation and wildlands in state history.

## Conclusion

Preserve McCall is proposed by Trident Holdings, a group of community-minded advocates, investors, development professionals, conservationists, and operators with generations-long connections to Valley County. The plan is informed by a sincere desire to serve the needs of all Idahoans who would like to enjoy this special place for generations to come, in its most natural and sustainable form.



# Land Use Plan

*Stewardship of Lands Around  
Payette Lake in Perpetuity*









# Overview

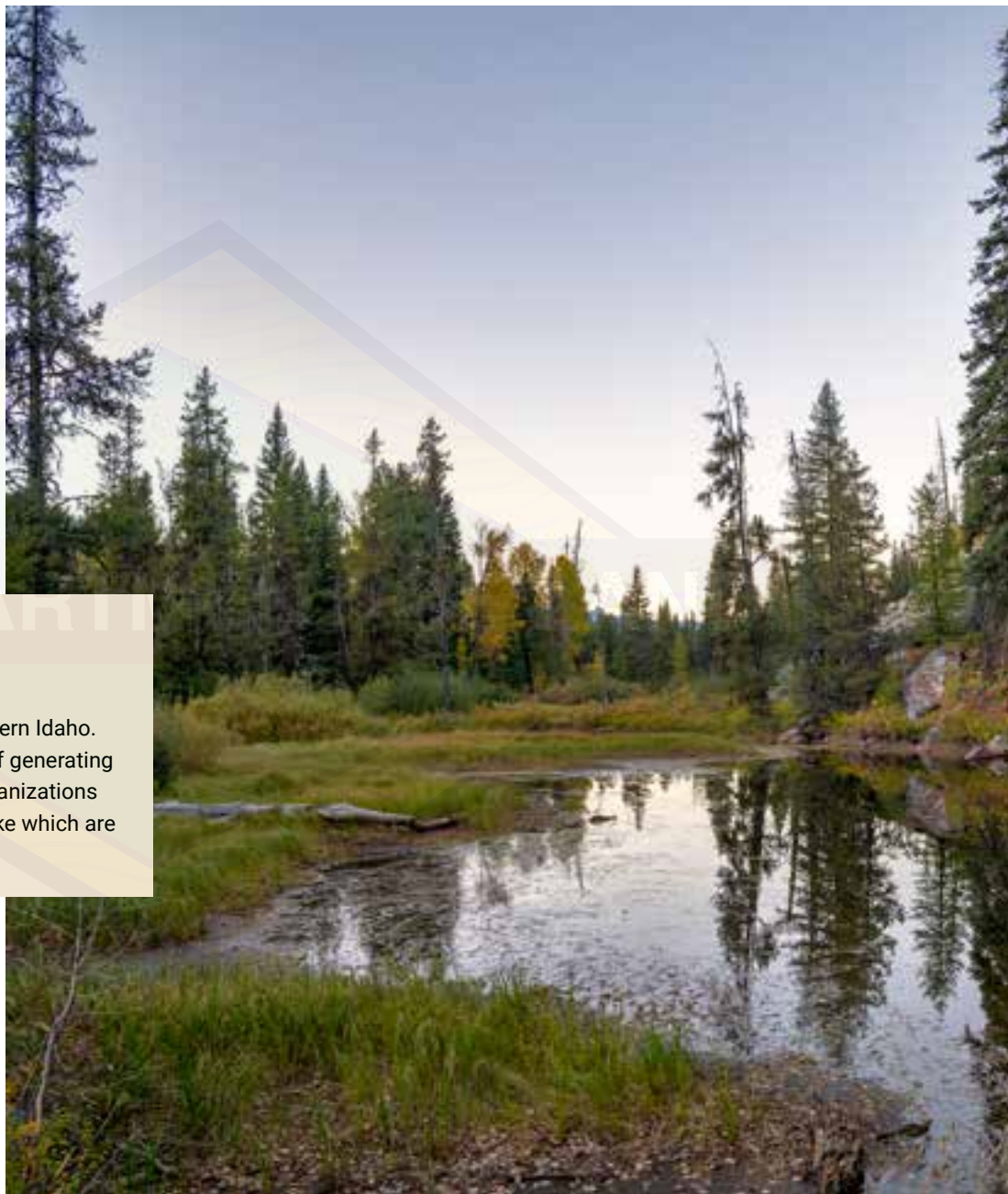
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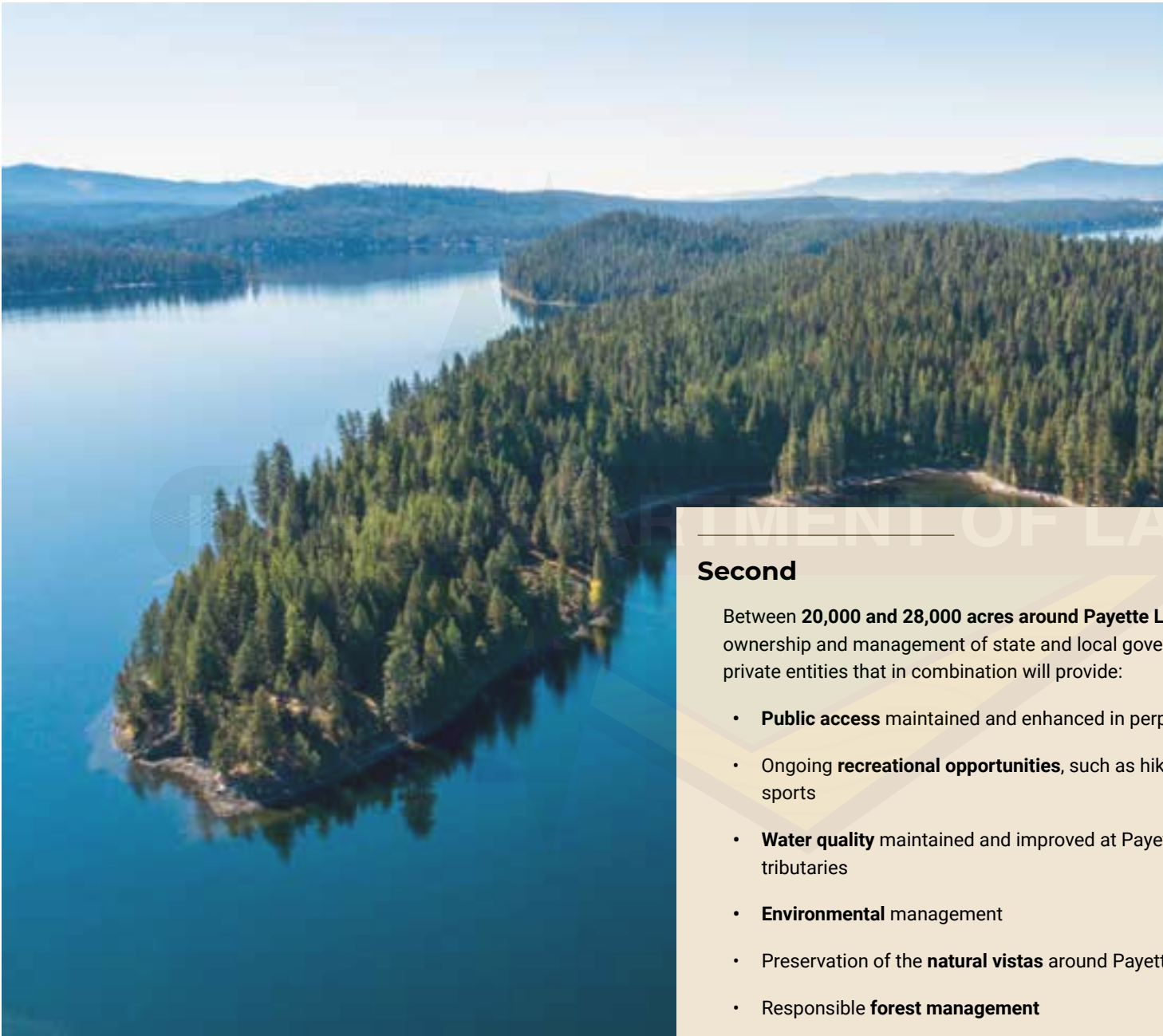
The McCall Land Exchange Proposal (Proposal) is intended to benefit the Idaho state endowment land trust, the lands within which are managed by the Idaho Department of Lands (the endowment arrangement is herein referred to as “IDL”), as well as its beneficiaries, the school children of Idaho, the City of McCall, Valley County, and all residents of the state of Idaho. The proposal provides certainty about the land uses around Payette Lake and enhances financial returns for IDL.

*The proposal is in two parts:*

## First

IDL receives **productive timberlands** spread across northern Idaho. IDL can make full use of this land to **realize its mission** of generating returns that financially support many institutions and organizations in the State, in contrast with IDL’s land around Payette Lake which are constrained by visual and environmental concerns.





## Second

Between **20,000 and 28,000 acres around Payette Lake are preserved** under the potential ownership and management of state and local governmental entities, land trusts, and private entities that in combination will provide:

- **Public access** maintained and enhanced in perpetuity
- Ongoing **recreational opportunities**, such as hiking, camping, hunting, and winter sports
- **Water quality** maintained and improved at Payette Lake, Little Payette Lake, and their tributaries
- **Environmental** management
- Preservation of the **natural vistas** around Payette and Little Payette Lakes
- Responsible **forest management**

To fund the Proposal, a limited amount of development will occur in targeted areas.





# Land Management Strategy

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**This substantial dedication of land and the funding to manage it in perpetuity is made possible through the limited development of land for conservation based residential and hospitality uses** set within remarkable natural settings and connected to recreational resources (hiking, biking, skiing, boating, etc.). This development is anticipated to take place over several decades and market cycles. The locations of these potential development lands is the result of a comprehensive, preliminary analysis of natural and man-made factors present on and adjacent to the Land.

In addition, two in-town parcels of approximately 80 acres each would be targeted to **housing and community facilities for full-time residents of McCall.**



Disclaimer: In the context of this presentation, the term park is used to describe a general sense of contiguous green area for public benefit. It is not to indicate any specific type of ownership or management. It is also does not indicate consent or endorsement from the Idaho Department of Parks and Recreation.



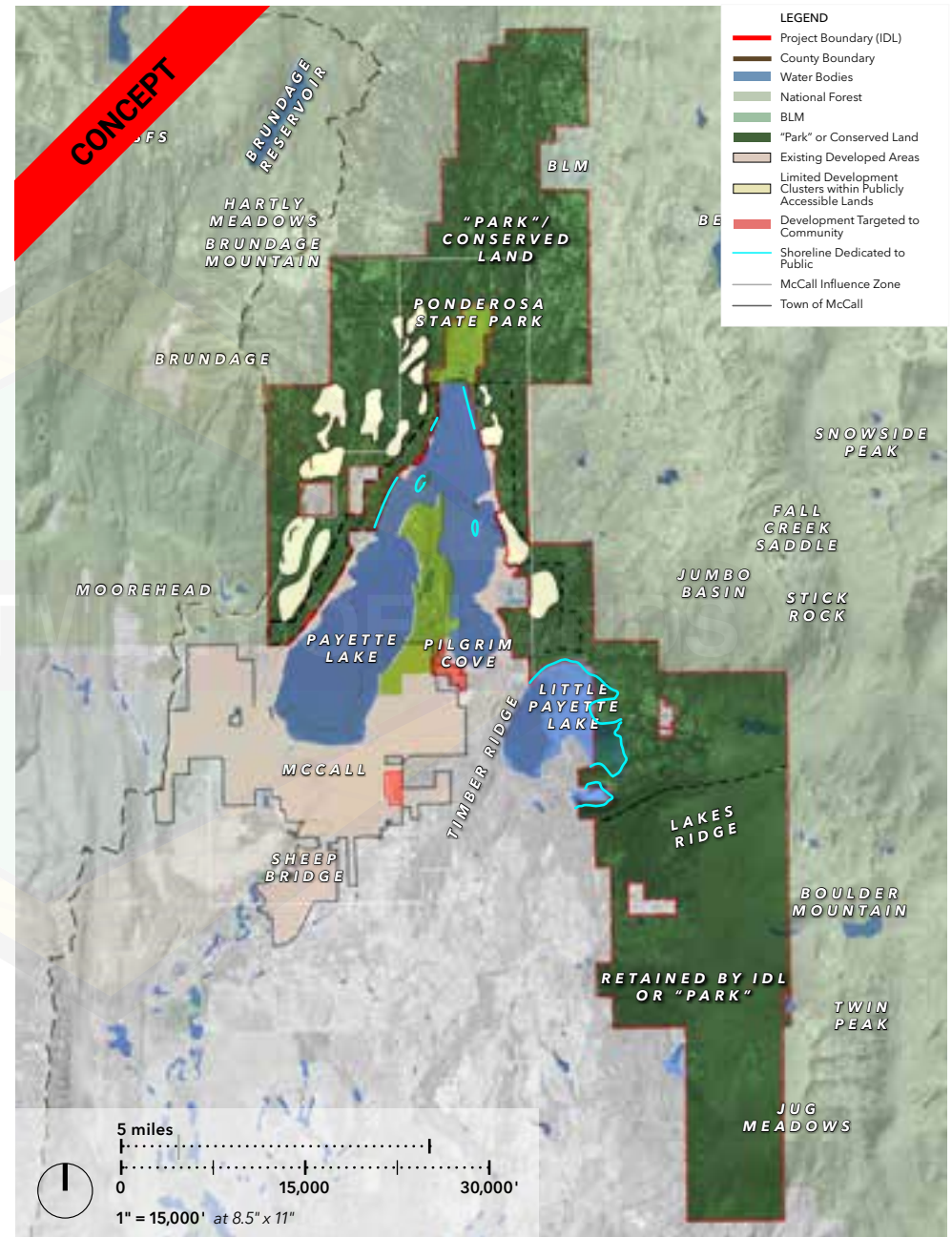
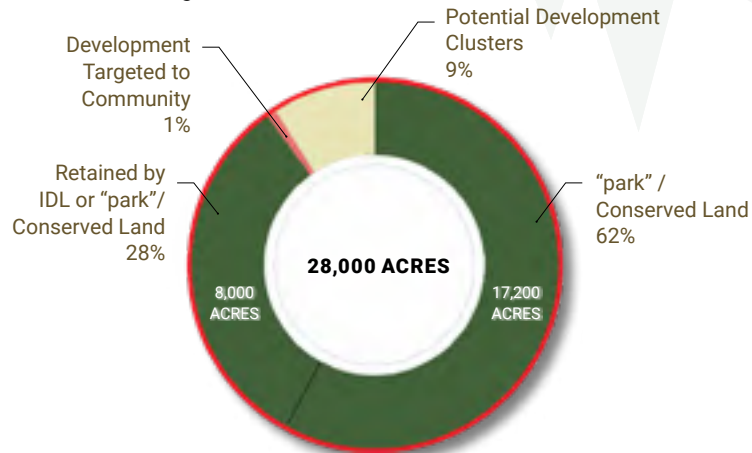


Improving public access through limited clusters of development, permanent conservation, and expanded recreation

## The Plan

The Plan for Preserve McCall is comprised of four elements:

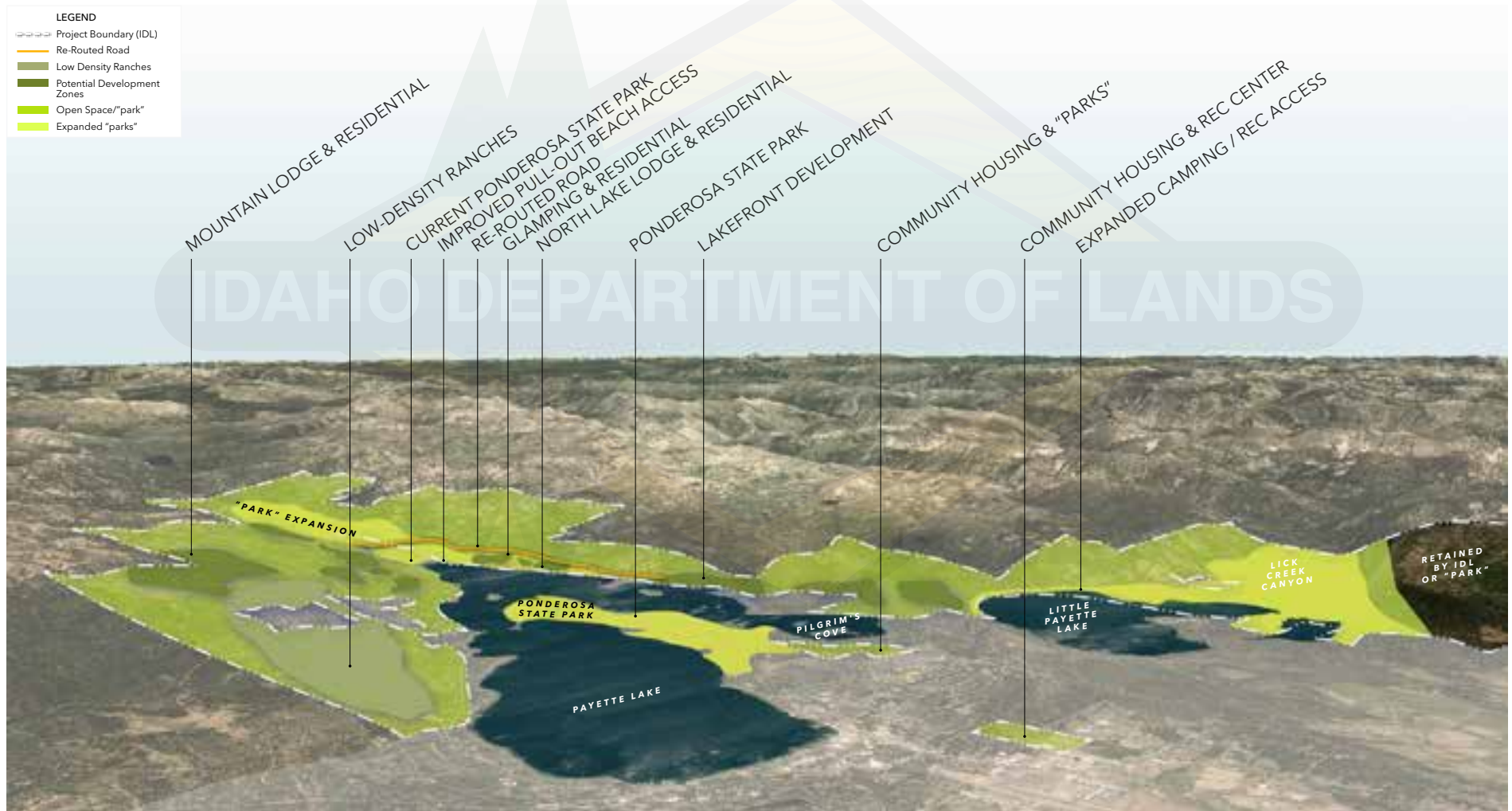
1. The **"park"**: ~17,200 acres of land owned and managed to provide **permanent public access**
2. Development within and consistent with the **McCall Area Comprehensive Plan**, including:
  - **Residential** lands targeted towards local community use on approximately 1% of the 28,000 acres
  - Land dedicated to the City for the establishment of a new **Recreation Center**
  - **Lakefront land** for increased public access, residential, and hospitality uses
3. **Limited clusters of development** set within lands that will be preserved for public access, conservation, and recreation
4. Certain lands may **remain with IDL as productive timberlands** or would otherwise be **included as part of the "park"**; while the size of these lands is to be determined, an assumption of 8,000 acres has been made throughout



Land Use Plan: Option 1

The organization of the Plan addresses the **challenges** faced by residents and visitors of the region today, as well as the **long-term objectives** shared by residents and visitors for management of the **ecological, aesthetic and recreational stewardship of the land**, including:

1. Expanded **recreational access** and potential funding source for management of the “park” and other dedicated open spaces
2. Connection to and enhancement of **areas of ecological value**
3. Safeguarding the **viewsheds** from Payette and Little Payette Lakes and the City of McCall
4. **Permanent public access** to the vast majority of the land, including the dedication of 4.5 miles of lake frontage on Little Payette Lake and nearly 2 miles of lake frontage on Payette Lake



Community Features of Land Use Plan



## Land Inventory

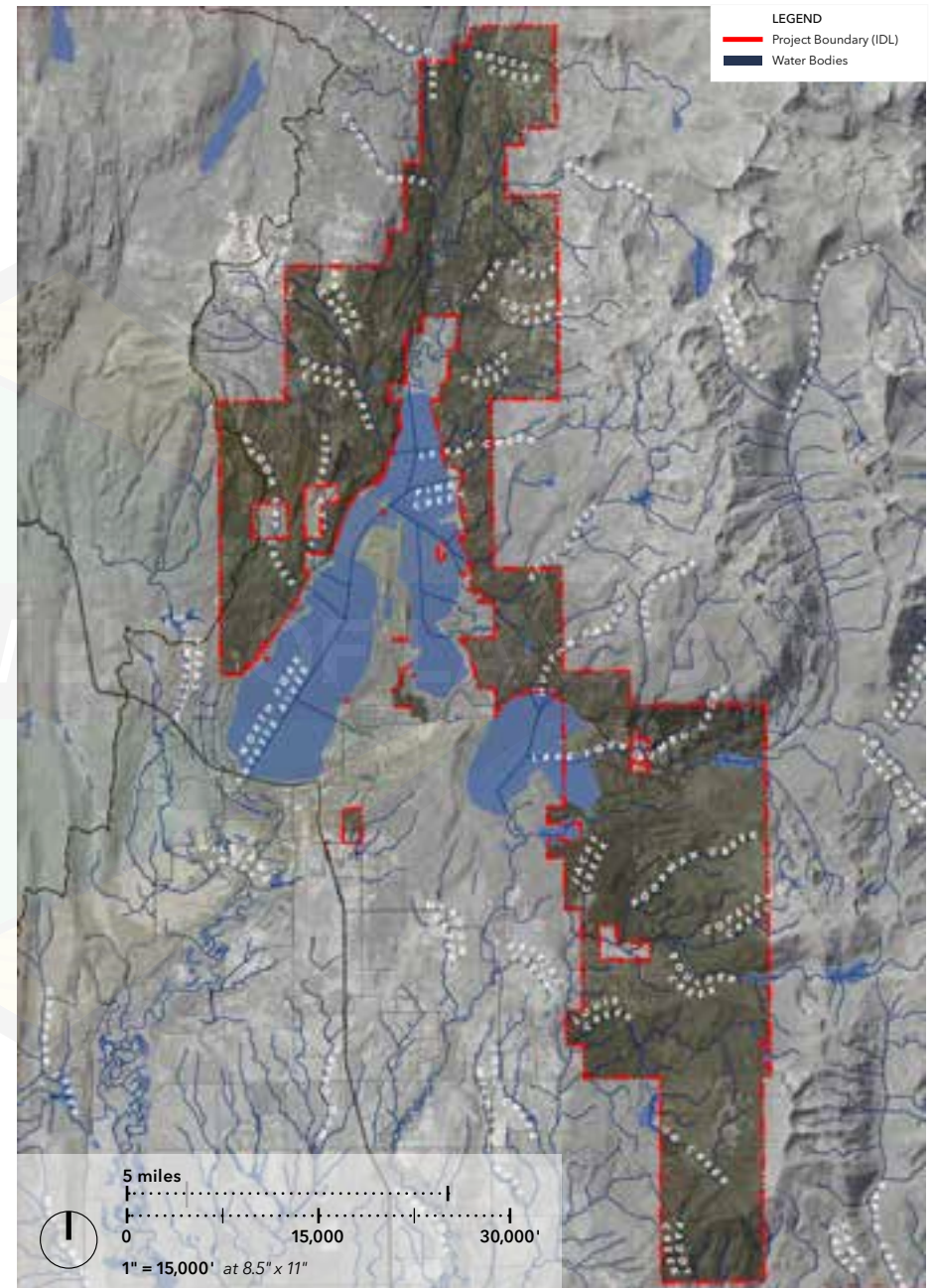
The process to prepare the Plan began with understanding the land and its natural resources. Significant features and patterns of the land were inventoried and recorded as a series of resource maps that provided the principal tools for generating the Plan. The focus was on:

**Water Quality Protection** - identifying the creeks and watersheds that feed into Payette Lake and Little Payette Lake because of the importance of water quality to the area.

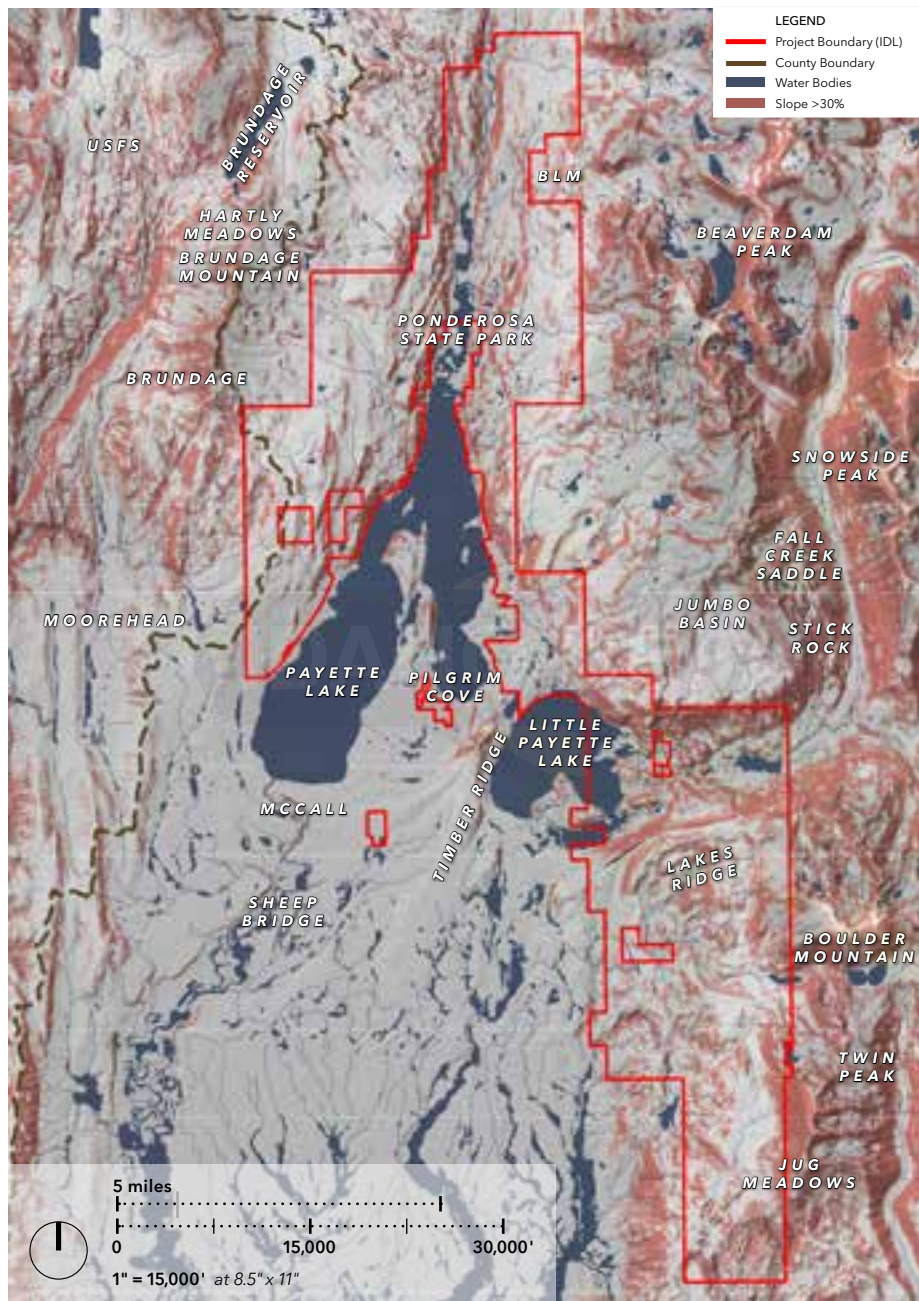
**Visual Resource Protection** - to ensure that the visual quality of the forested setting around the lake is maintained.

**Habitat Management** - Preserve McCall has prepared an interrelated resource map of wildlife habitat to protect the complex land mosaic used by wildlife.

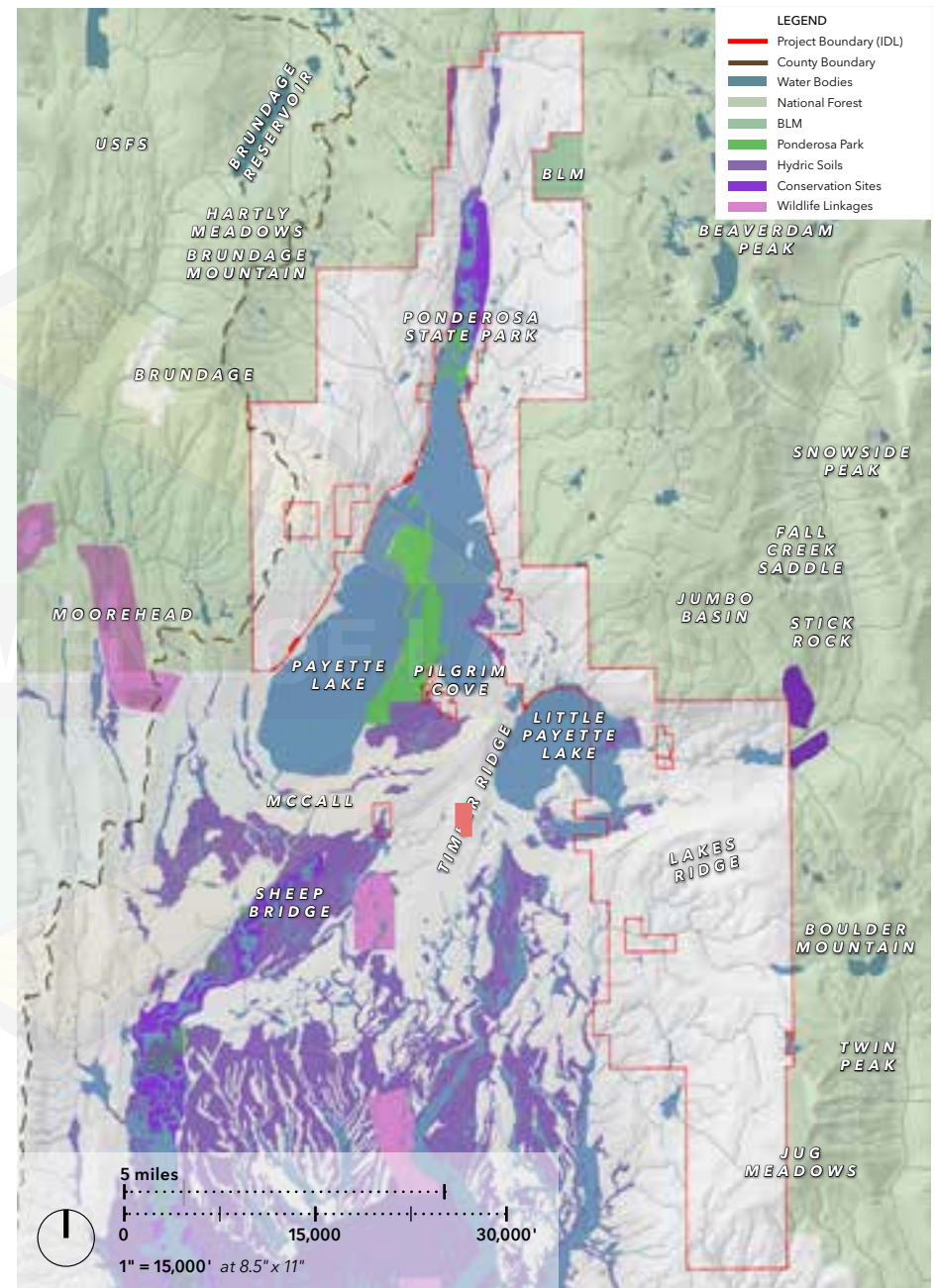
**Expansion of Recreation** - understanding how the network of recreation uses can be maintained and expanded on land with appropriate slopes.







Slope



Ecology & Soils

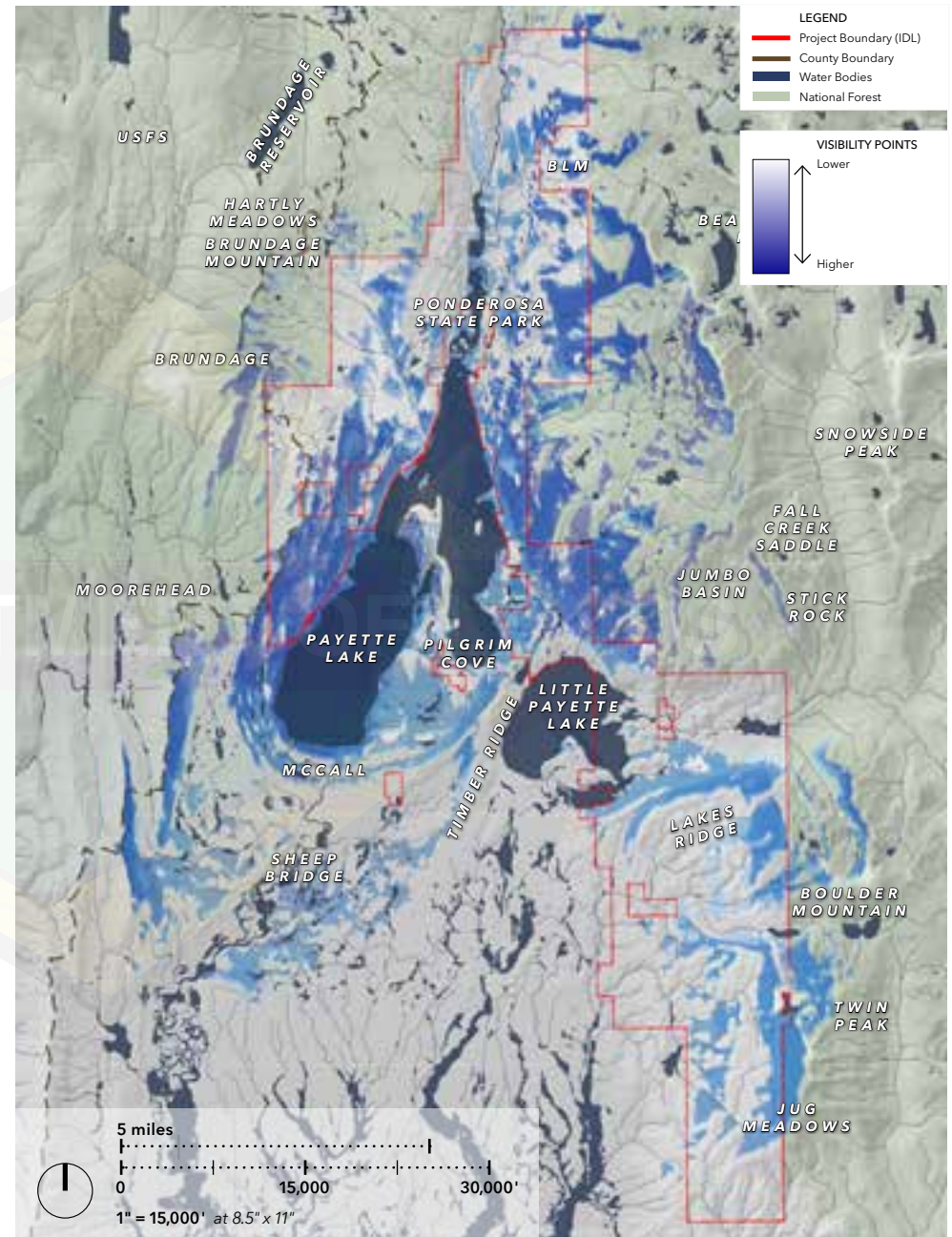


Celebrating panoramic vistas along the lake and throughout the surrounding mountains

## Protecting the Viewshed

Much of McCall's distinctive character is derived from the **panoramic vistas** across the lake and towards forested hillsides and mountains. The significance of the visual resource is stated as Goal 4 of the McCall Area Comprehensive Plan: "Ensure that new development protects the treasured views of Payette Lake and adjacent landscapes...". The Proposal supports this important regional goal.

In recognition of this importance, a rigorous analysis has been undertaken to assess significant viewsheds. The summary plan, shown on the opposite page, compiles visual land areas from various viewpoints – in McCall, in Ponderosa Park, and on Payette Lake. **Darker blue colors indicate points visible from more viewpoints.** This information has been used to guide decisions on protecting the viewshed and where new land uses can be **located to minimize their visual impact.**



Viewshed Analysis from Payette Lake and Downtown McCall

***Protecting the Setting that has Attracted People for Generations***



Payette Lake and Downtown McCall in 1932



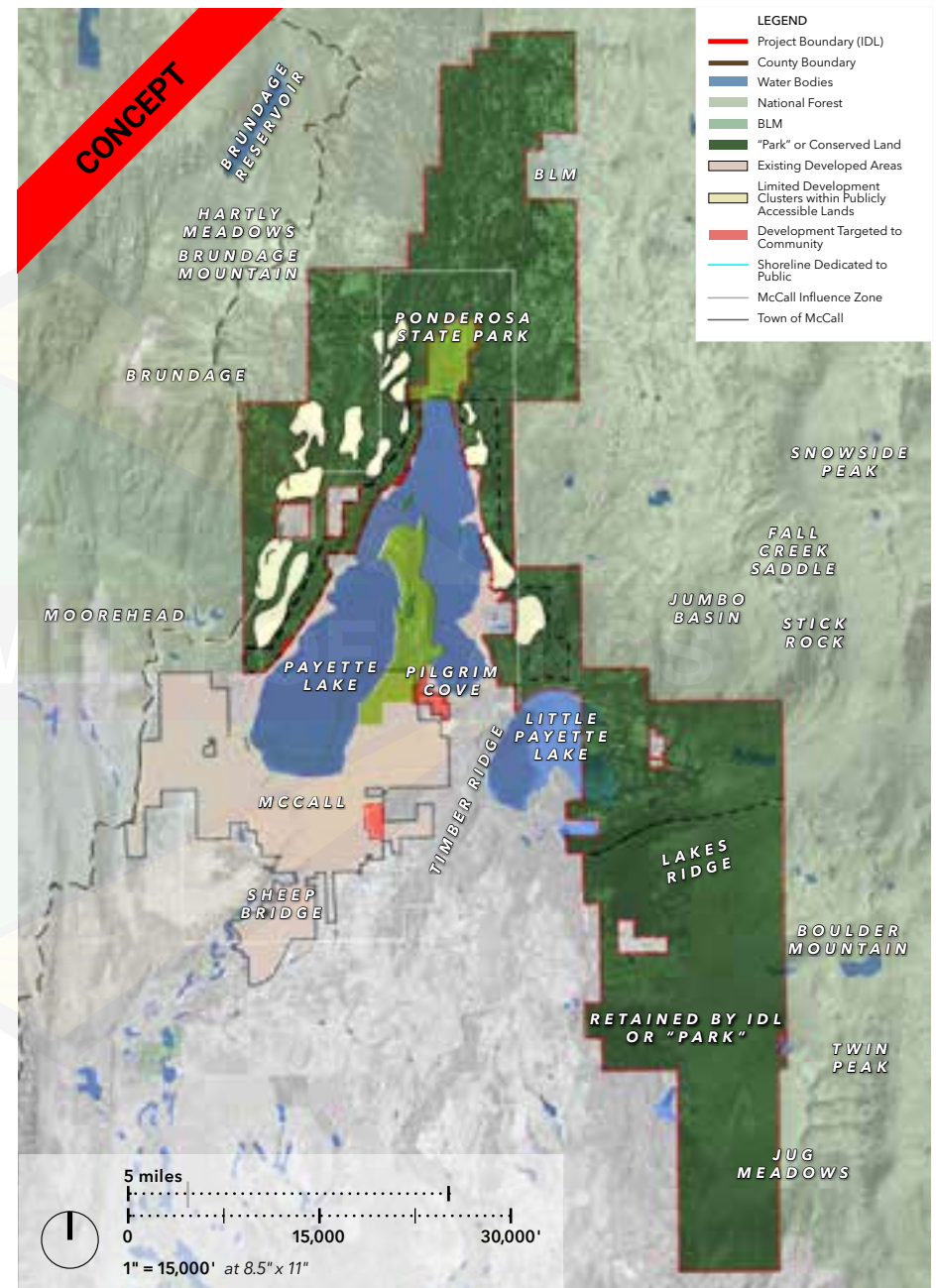
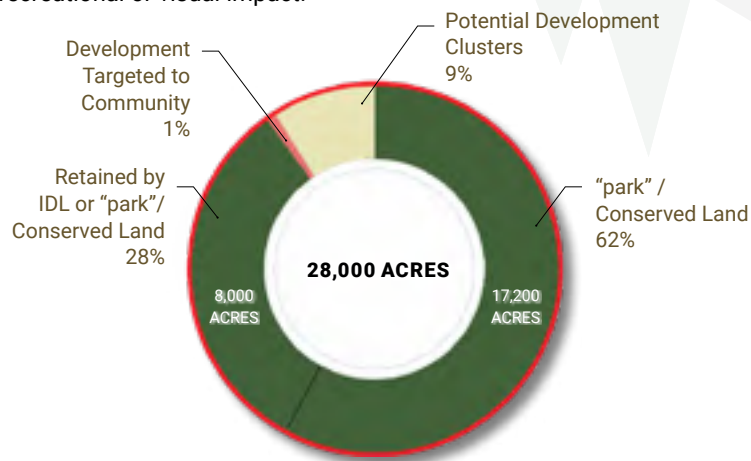
## Land Use Plan Options

The land inventory establishes a **framework to manage the land resources for recreation and conservation**. Within that framework, a **range of alternatives** exist for locating development that will fund the land exchange. Three potential approaches are shown:

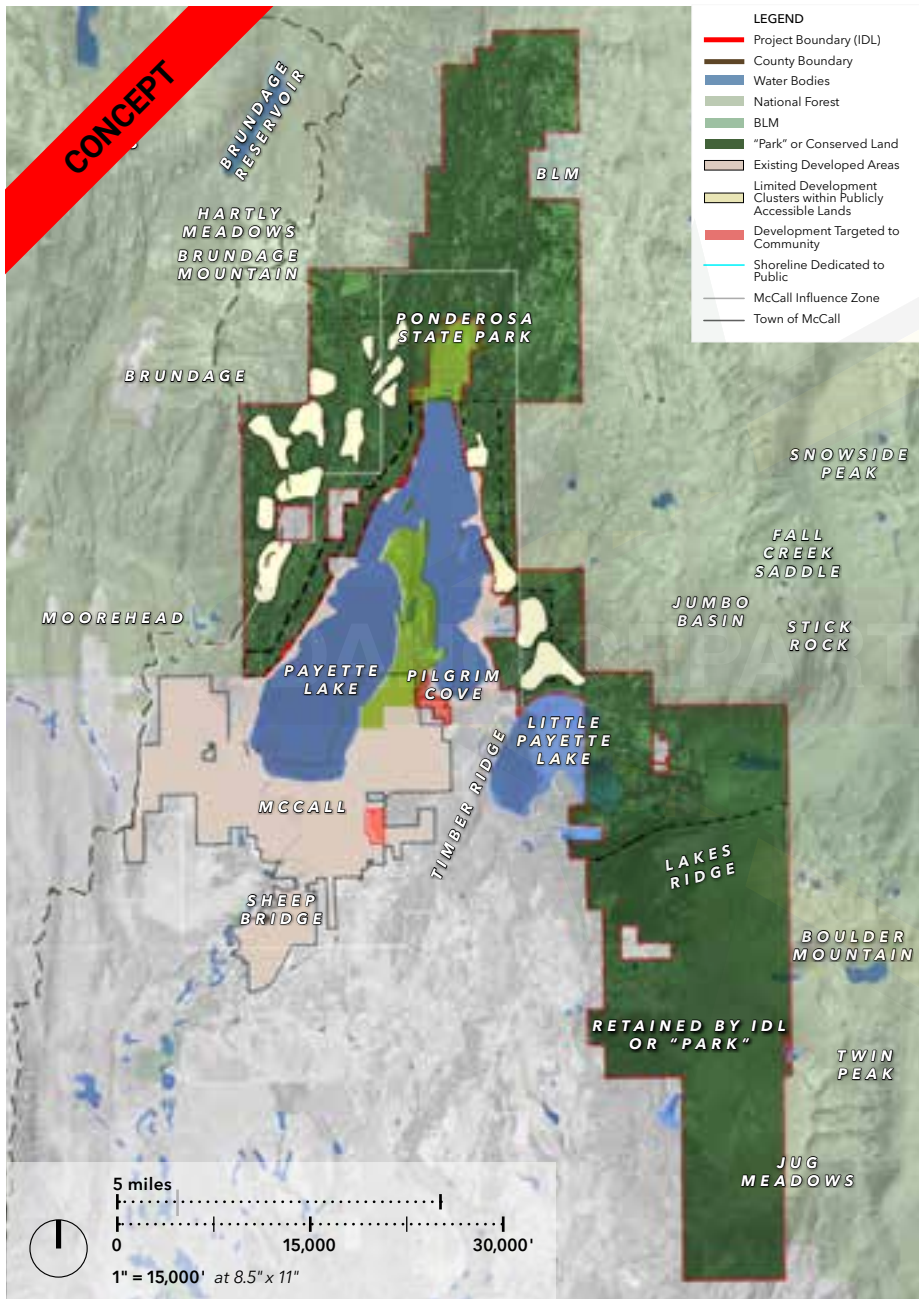
- Option 1** Where development areas are **closer to the City of McCall**
- Option 2** Where development areas are located **farther from Payette Lake**
- Option 3** Where development areas are **south of the north unit of Ponderosa State Park**

These three options are preliminary and do not convey the full range of possibilities. Preserve McCall anticipates **working with local residents, the City of McCall, and Valley County**, among others, to shape a preferred approach.

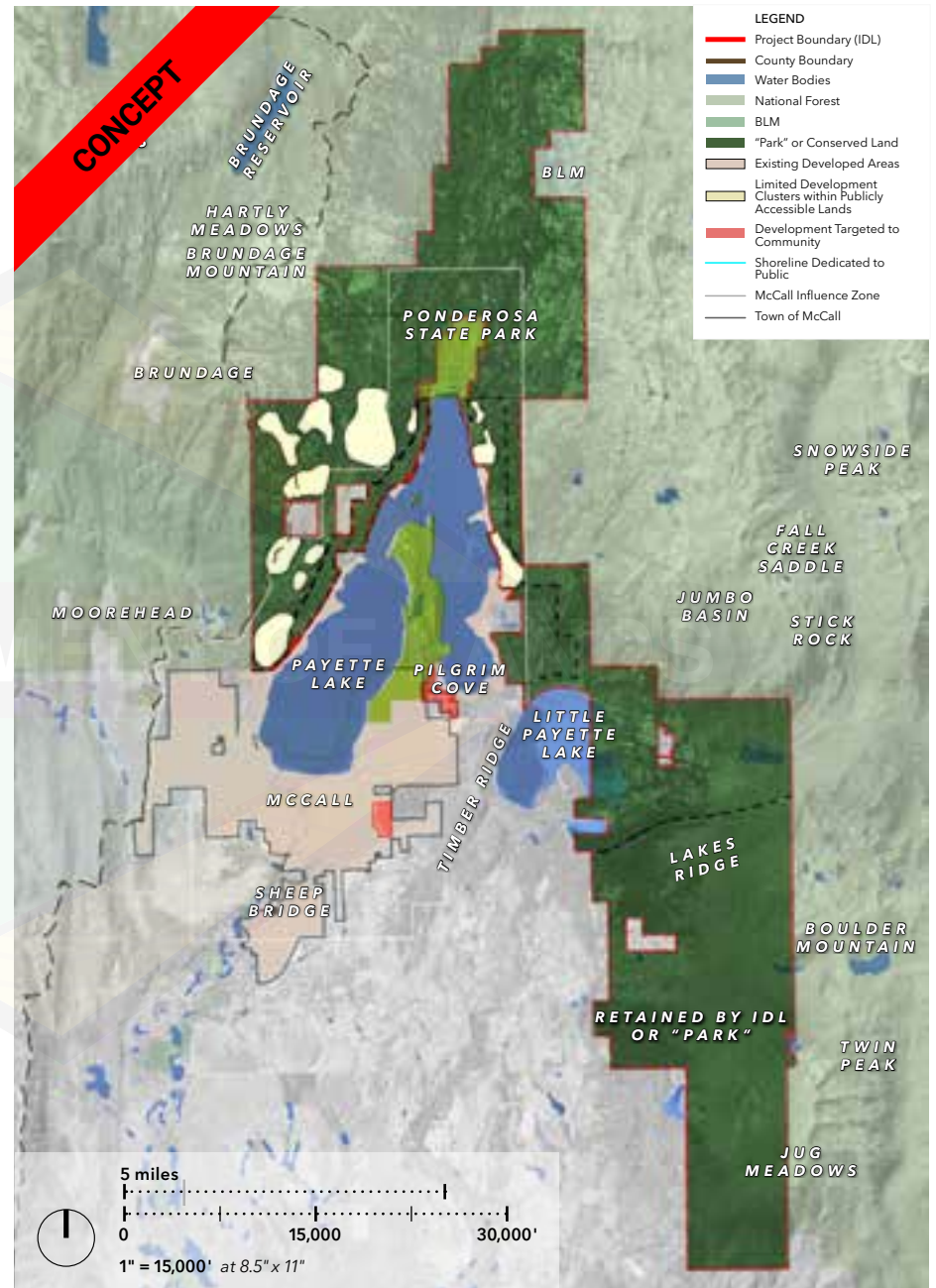
If Preserve McCall successfully incorporates community input, the end result will not necessarily be any of the options shown here. The result of this collaboration will be a **plan that protects the land from further subdivision** that might occur in a random, piecemeal manner with limited consideration for recreational or visual impact.



Potential Land Use Plan: Option 1



Potential Land Use Plan: Option 2



Potential Land Use Plan: Option 3



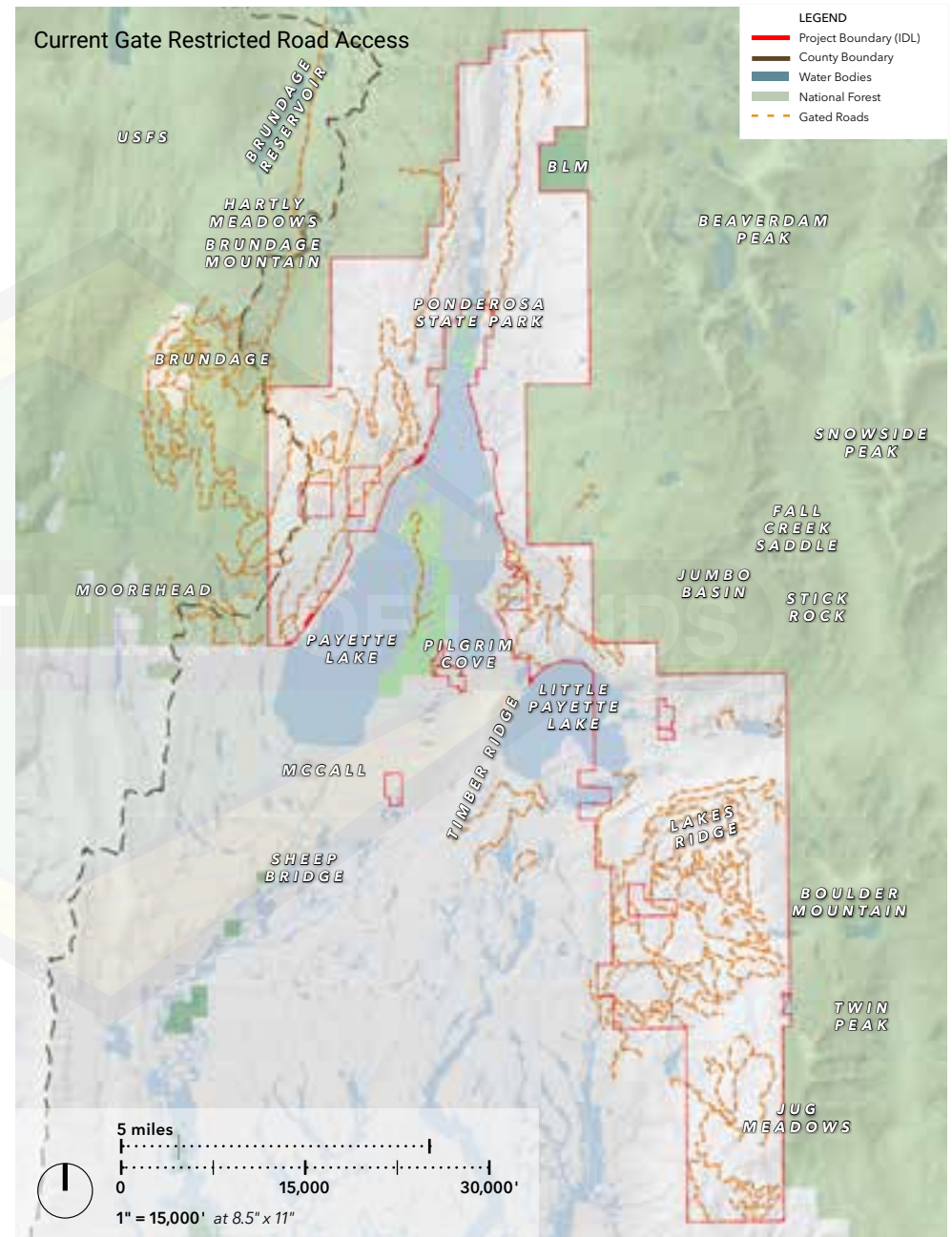
Improving public access and protecting beloved local recreation sites

## Enhance Recreational Access

The lands around Payette Lake support a wide variety of recreational activities. Mountain biking, camping, hunting, skiing, snowmobiling, and hiking on the miles of trails are all popular with residents and a draw to the region.

While many trailheads and access points exist currently, additional access would enhance public recreation on the land. Preserve McCall is committed to working with local and regional recreation groups to:

- Identify **new trailhead locations**, along with parking and other features
- Prepare an overall **"Trail Master Plan"** designed for the specific ways that hikers, mountain bikers, and snowmobilers, among others, use the land
- **Improve boat ramps** and associated parking and restrooms to reduce congestion that exists today
- **Diversify camping and campgrounds**, ranging from RV camps, to glamping, youth camp areas, and wilderness tent camp sites
- **Improve access** to surrounding U.S. Forest Service lands



Source: onX GPS Maps

## The “park”

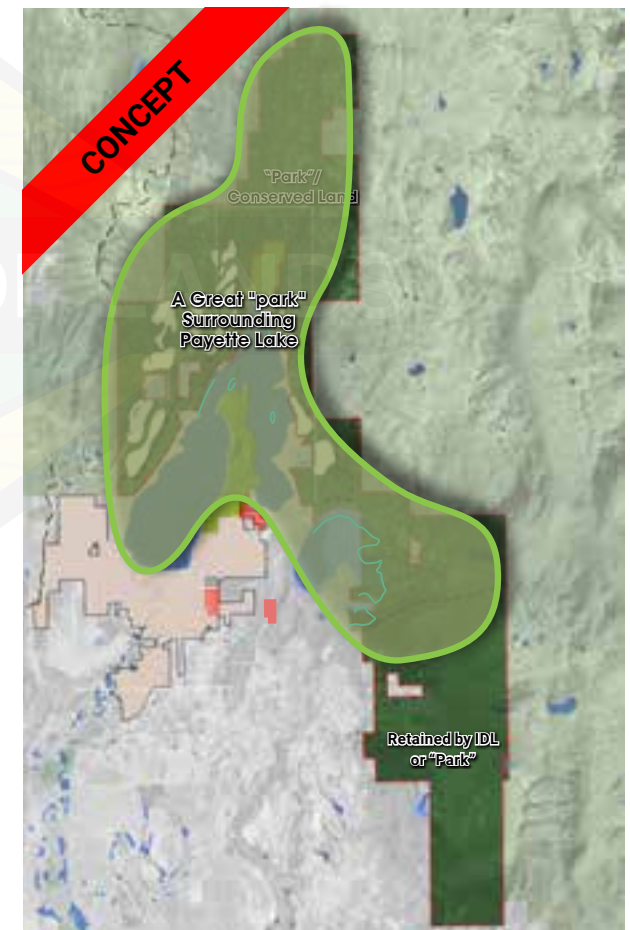


The plan proposes that approximately 17,200 acres across, or 62% of IDL's ~28,000 acre landholding, be **dedicated in perpetuity as “park” land** and continue to provide a wide **range of recreation, combined with proper land management and conservation.**

**Ownership and management of the “park” land would be transferred to a public or nonprofit entity** (or several entities) whose primary mission is to operate the “park” land for recreation and conservation. The entity (or entities) would operate the “park” independent from the project applicant and provide stable management in perpetuity. Preserve McCall envisions **partnering with local or regionally-based entities** and has initiated preliminary discussions to begin to outline that path forward.

Disclaimer: In the context of this presentation, the term Park is used to describe a general sense of contiguous green area for public benefit. It is not to indicate any specific type of ownership or management.

***Approximately 17,200 Acres  
of Permanently Dedicated  
“park” Land Around  
Payette Lake***



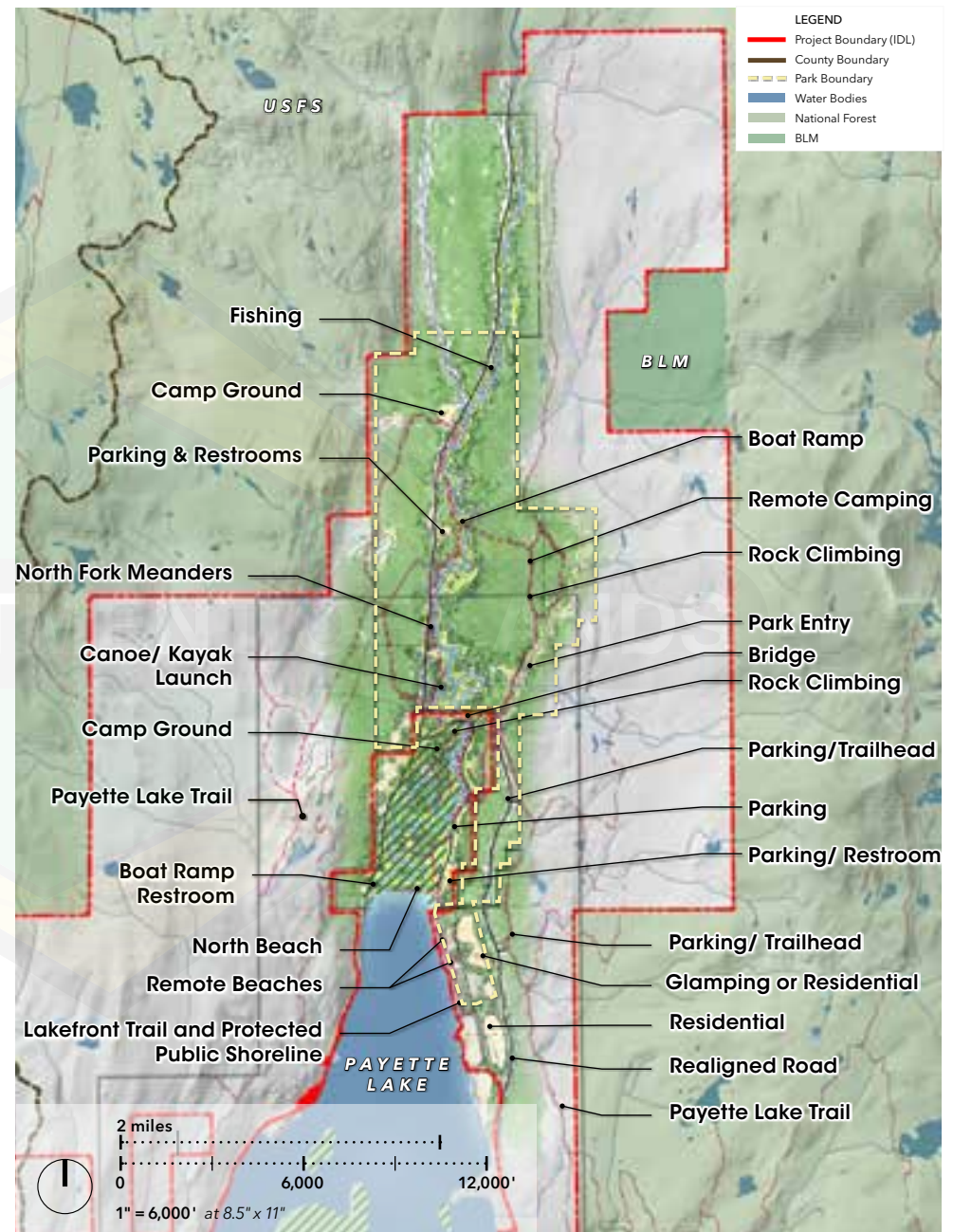
Concept: “park” Surrounding Payette Lake



## North Beach

The Plan contemplates a prominent “park” area near North Beach. This area could be logical for an expansion of the North Beach Unit of Ponderosa State Park. This would allow additional and more diverse recreational uses and improve the setting as a recreation destination, including:

- Securing more of the North Fork for **kayaking and non-motorized boating**
- **Additional trails** along the North Fork
- **Expanded campground** and tent camping areas
- **Reducing congestion** by dispersing visitors over a larger area
- The **relocation of East Side Road** at the northeastern part of Payette Lake for **additional public access points**, a new 2 mile long lakefront trail, and a more park-like character by **removing vehicular traffic and improving the lake's water quality**



Plan for North Beach “park” Area



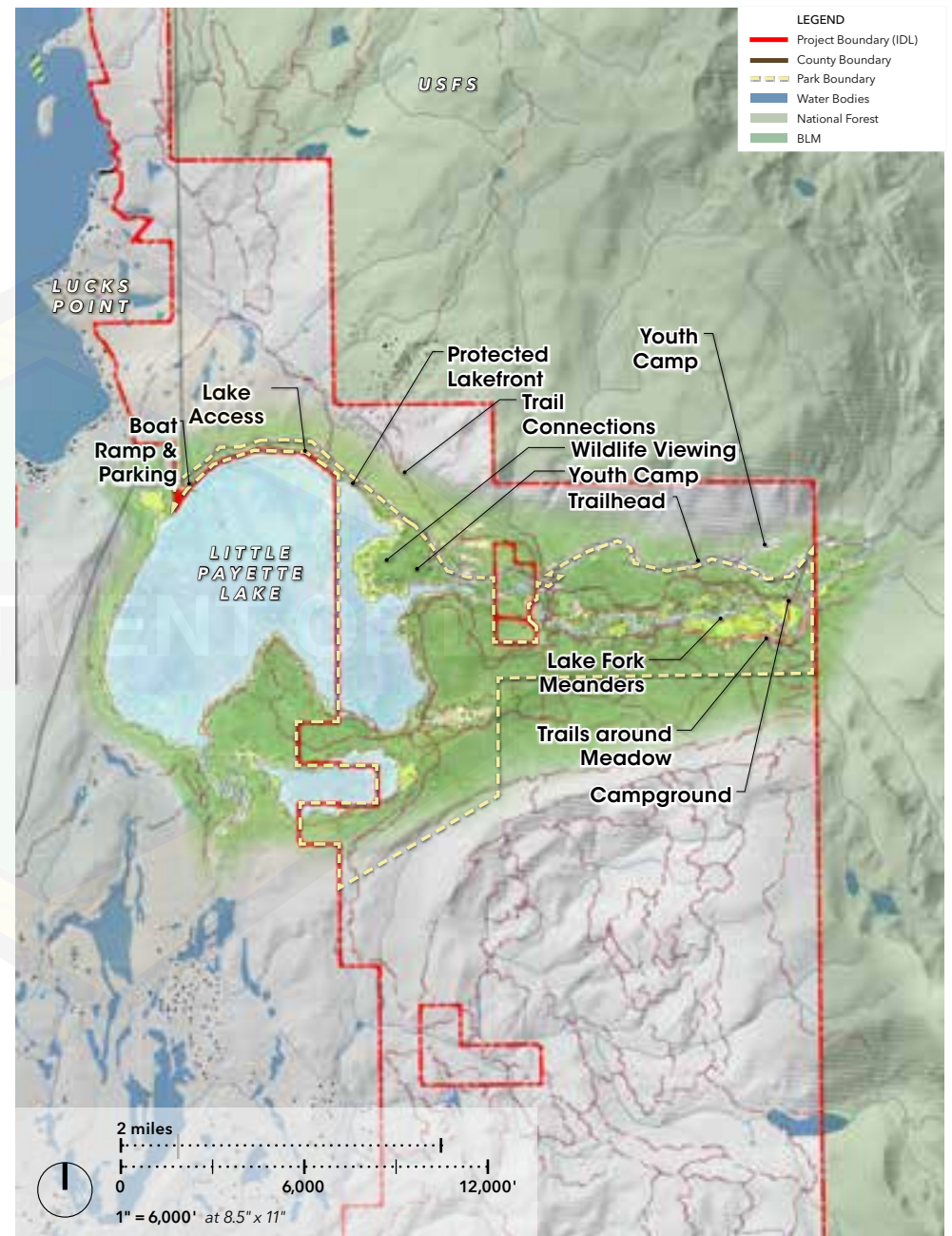
Plan for North Beach "park" Area



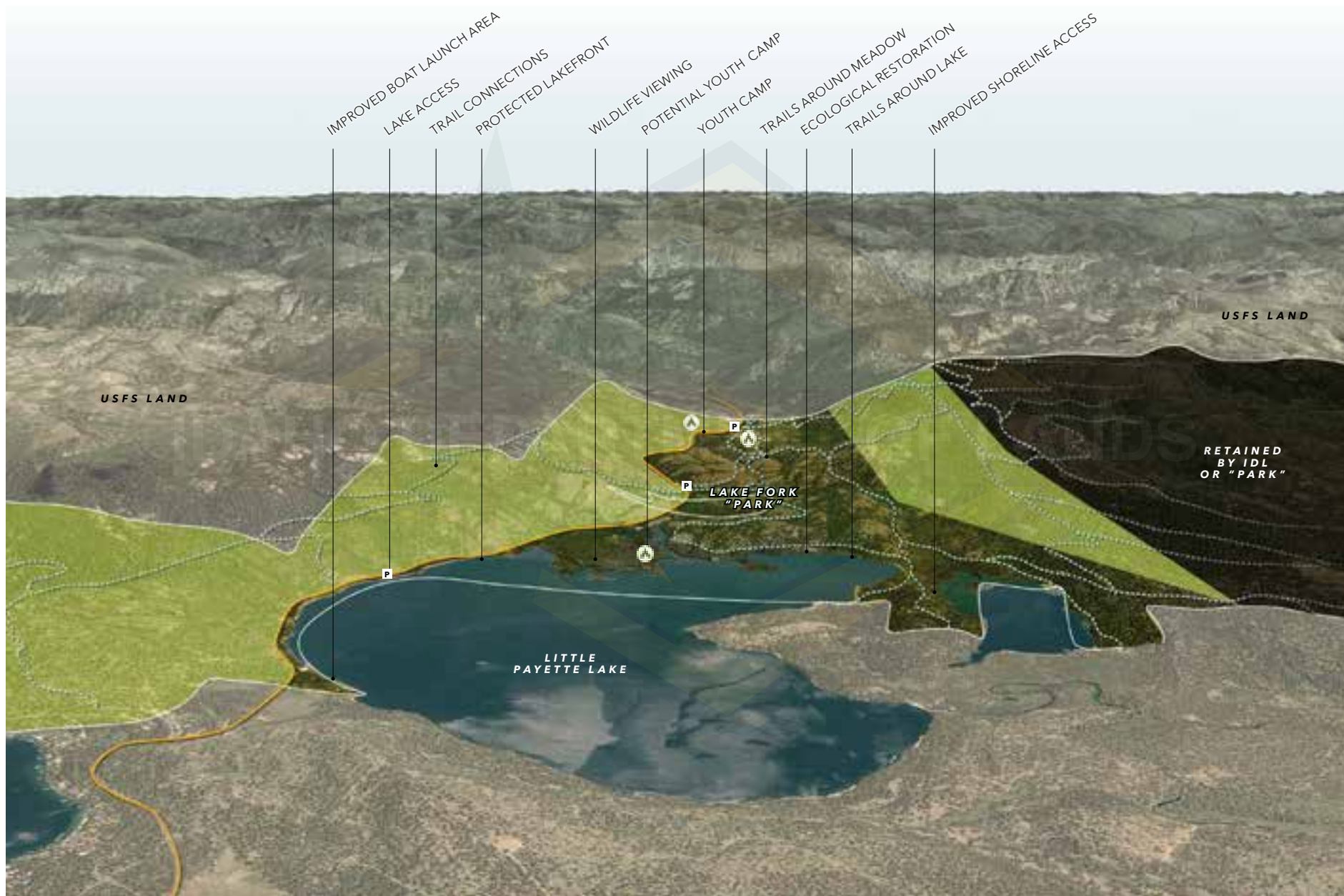
## Lake Fork

Lake Fork and Little Payette Lake are unique geological areas that offer additional recreation opportunities. The Plan contemplates this area becoming a **more prominent “park” area**, which could be logical as a new Lake Fork Unit of Ponderosa State Park.

- 4.5 miles of **lakefront** on Little Payette Lake permanently preserved for **public access and recreation**.
- **Additional trails** along Lake Fork, with a new trail connection to Payette Lake
- **Improved boat ramp** facilities at Little Payette Lake
- **Camping** areas
- **Land set aside** for youth groups



Plan for Lake Fork “park” Area



Plan for Lake Fork "Park" Area







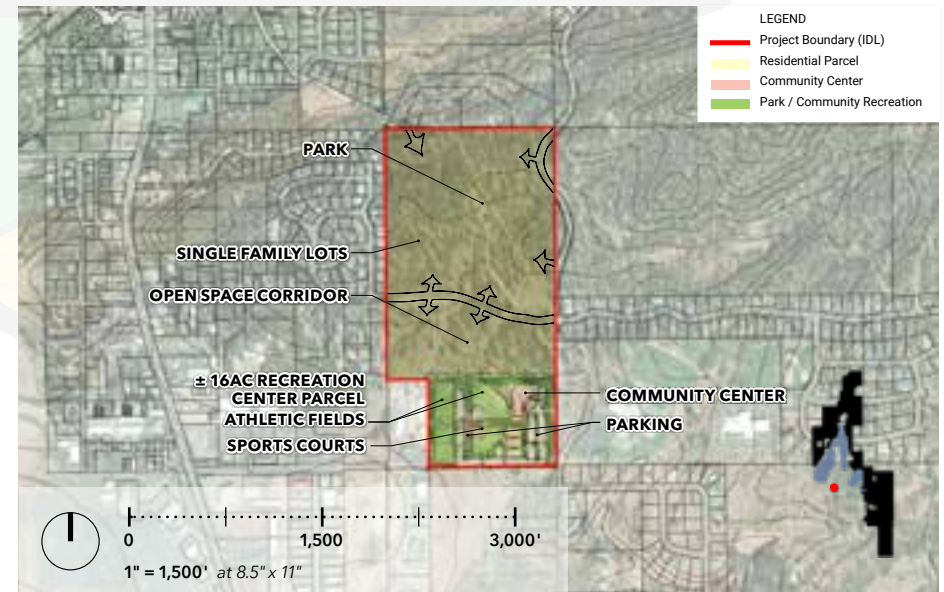
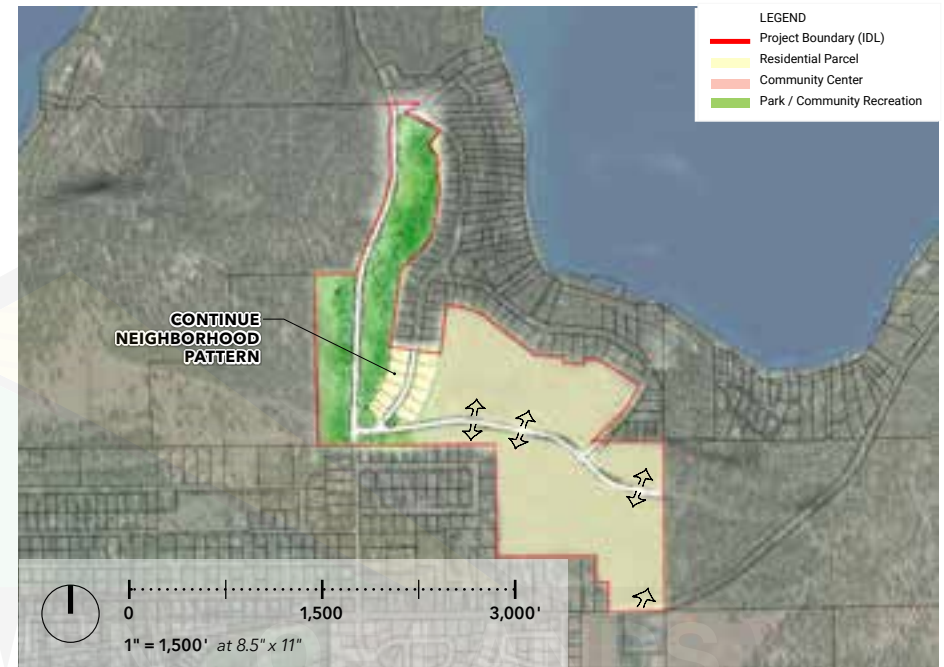
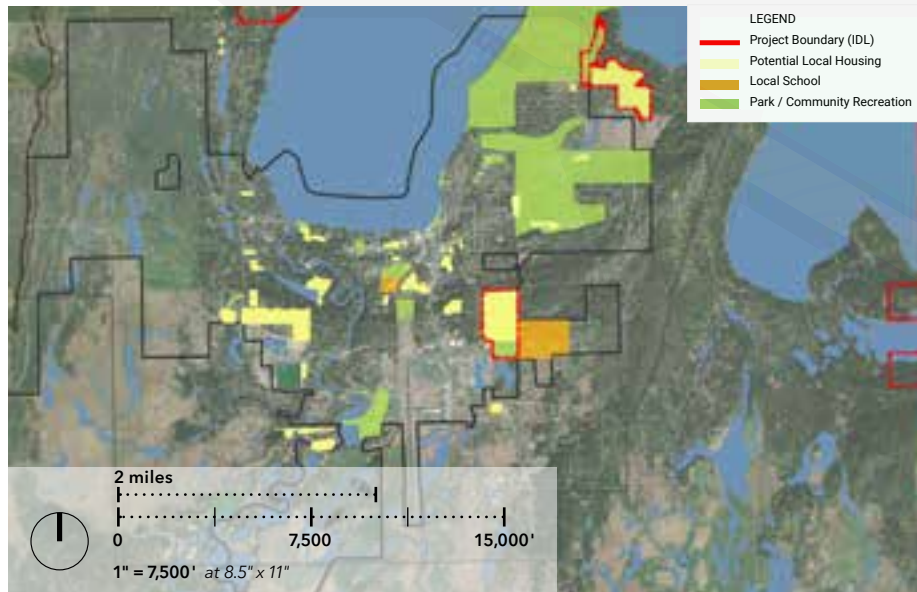




## Secure Land to Develop Housing for Locals

Like many mountain recreation communities, McCall and Valley County have increasingly struggled to **provide affordable housing to support a local workforce** while at the same time **avoiding sprawl and retaining a small-town character**. There is no simple solution. A strong “no growth” position displaces the local workforce, grows pressure elsewhere in the region, increases commute times, and prices out local workers from becoming homeowners. A strong “pro growth” position risks changing the special character of McCall and the surrounding areas.

IDL owns two parcels within the City of McCall: an ~80 acre parcel off Deinhard Lane and an ~80 acre parcel off Lick Creek Road. Both parcels are forested and unused except as passive open space. **Including these parcels in the land exchange would secure land for moderate and low-income households to live in the city as part of a comprehensive regional workforce housing strategy.**





## Recreation Center

The in-town parcel at Deinhard Lane has the potential for use as a community resource. Uses could include a **multi-use community recreation center, in addition to workforce housing**. Possible uses include baseball, softball and soccer fields, tennis and pickleball courts, and a community center with all-season uses.

Similar facilities have been constructed in **other mountain recreation communities** and have become **notable places for the community to gather, play, and relax**.



Durango, CO Recreation Center



Breckenridge, CO Recreation Center



Avon, CO Recreation Center

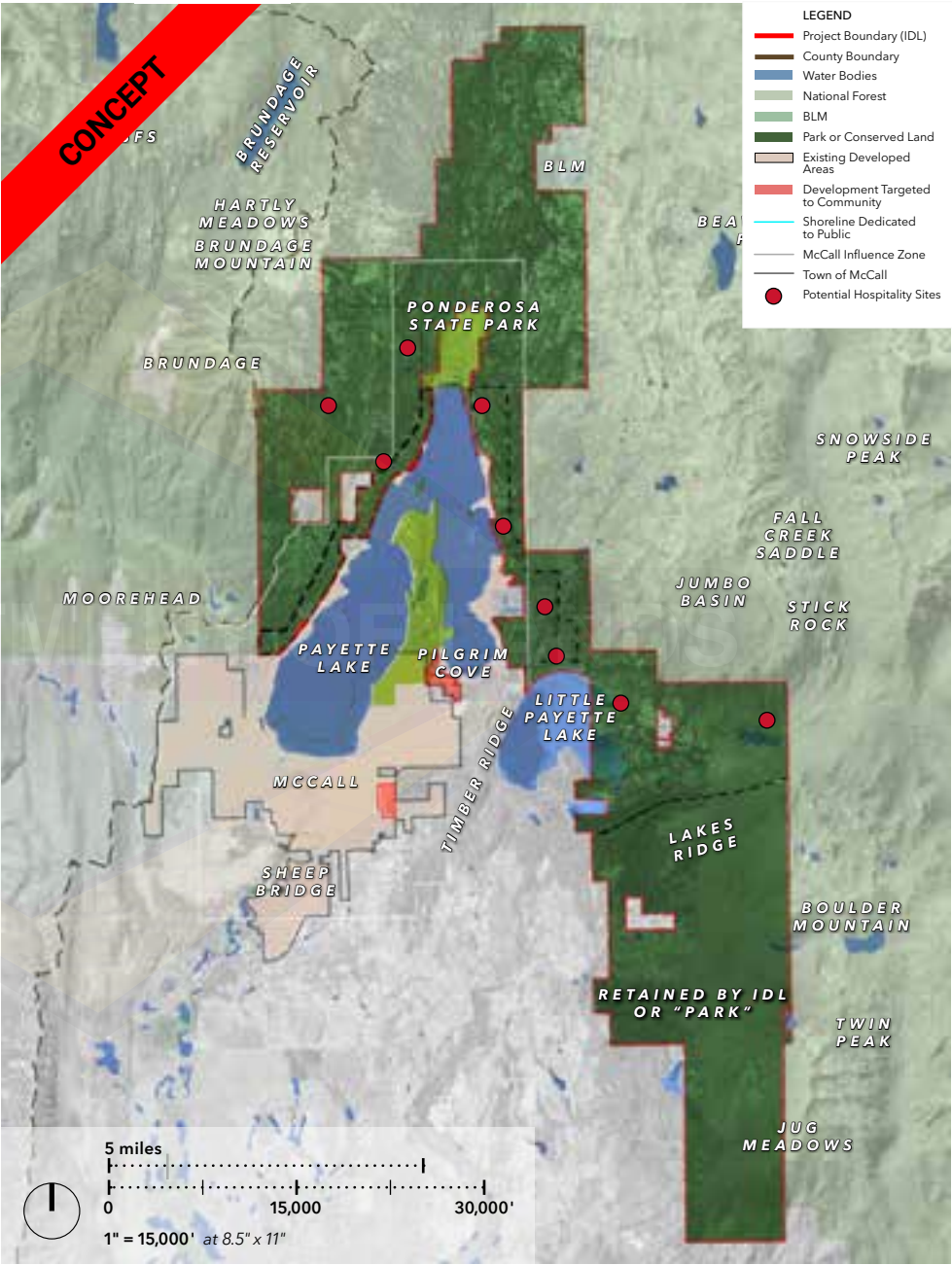
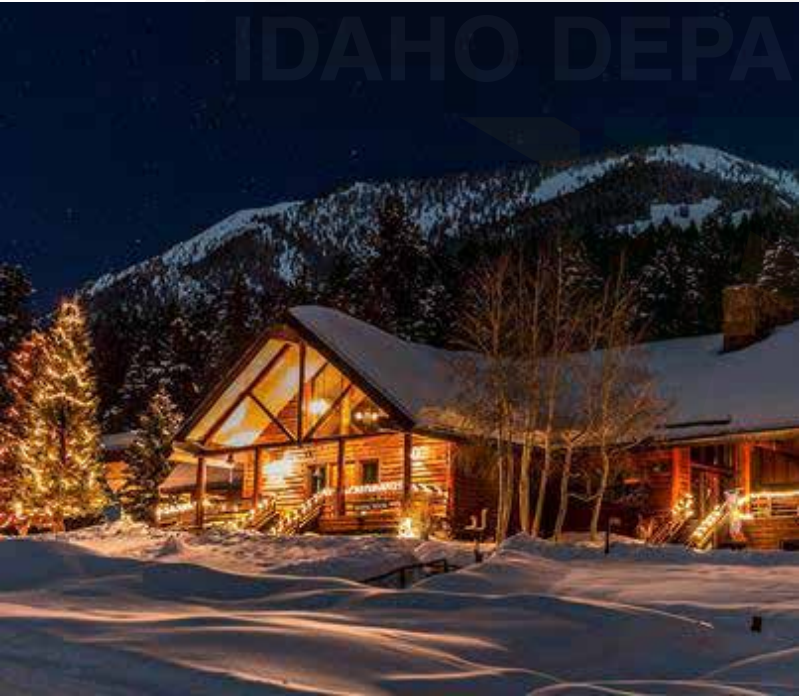


Enhancing recreational access through limited tourism opportunities

Lodging & Hospitality

Within the clusters of development identified in this proposal, there would likely be one or more **hospitality offerings ranging from luxury hotels, spa, glamping and full-service camping to a meeting and conference center, clubhouses, youth camps and retreats.** Sites have been preliminarily identified which **combine attributes of views, natural beauty and access.**

These lodging and hospitality offerings would be likely **sources of revenue to fund the on-going operations and maintenance of “Park”** as well as potential sources of tax revenue for the City of McCall and Valley County.



Potential Lodging, Hospitality, and RV Camping Sites



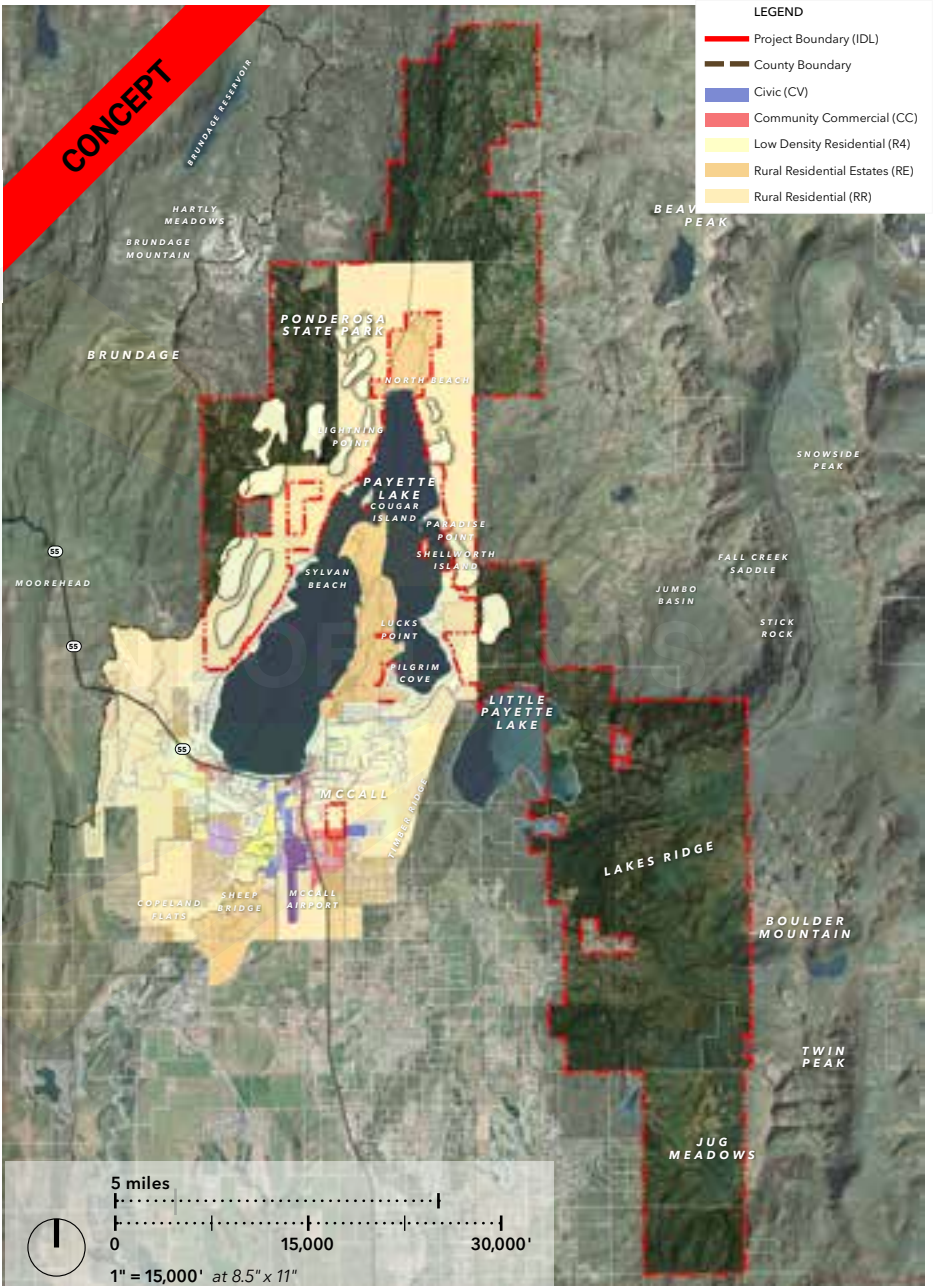




Balancing regional growth with a long-term supply of high-quality development

## Local Control of the Planning and Development of the Land

Much of the proposed development falls within the McCall Impact Area and continues established and logical development patterns around the lake. Oversight of development on the Land would be subject to an **entitlement process and approvals by the City of McCall and Valley County** to ensure that the amount and phasing of development, the balance of primary and secondary housing, and the **impacts of development are appropriately mitigated.**



McCall Zoning





Sustainable management of the land's vast resources

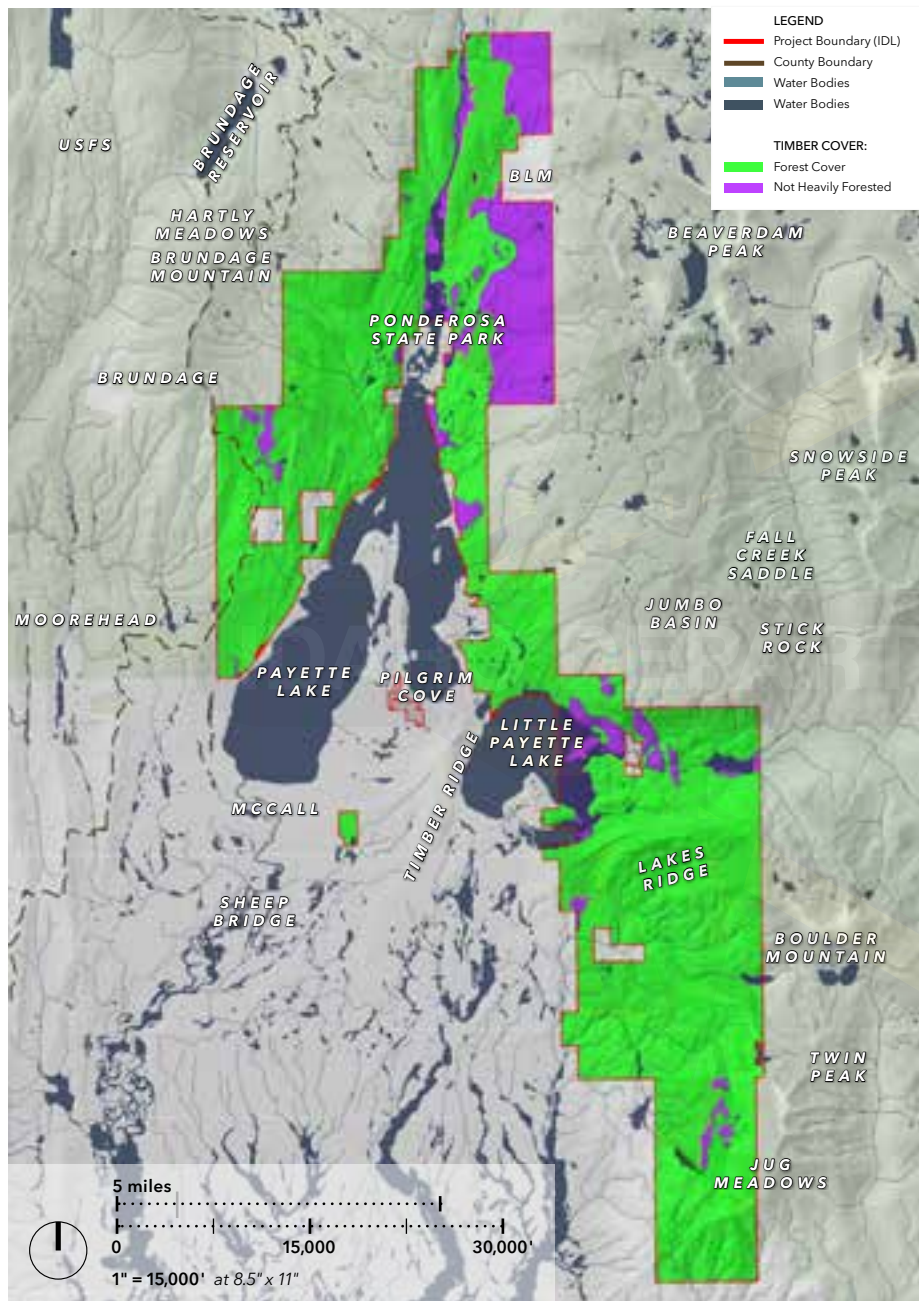
## Maintain Access to Timber Resources

Some areas of the exchange lands are **suitable for ongoing timber management**. These areas are generally the land south of Little Payette Lake that have lower impact on visual quality, road access, and more profitable soil and slope conditions. A comprehensive analysis of the economic potential timber asset is now underway by IDL.

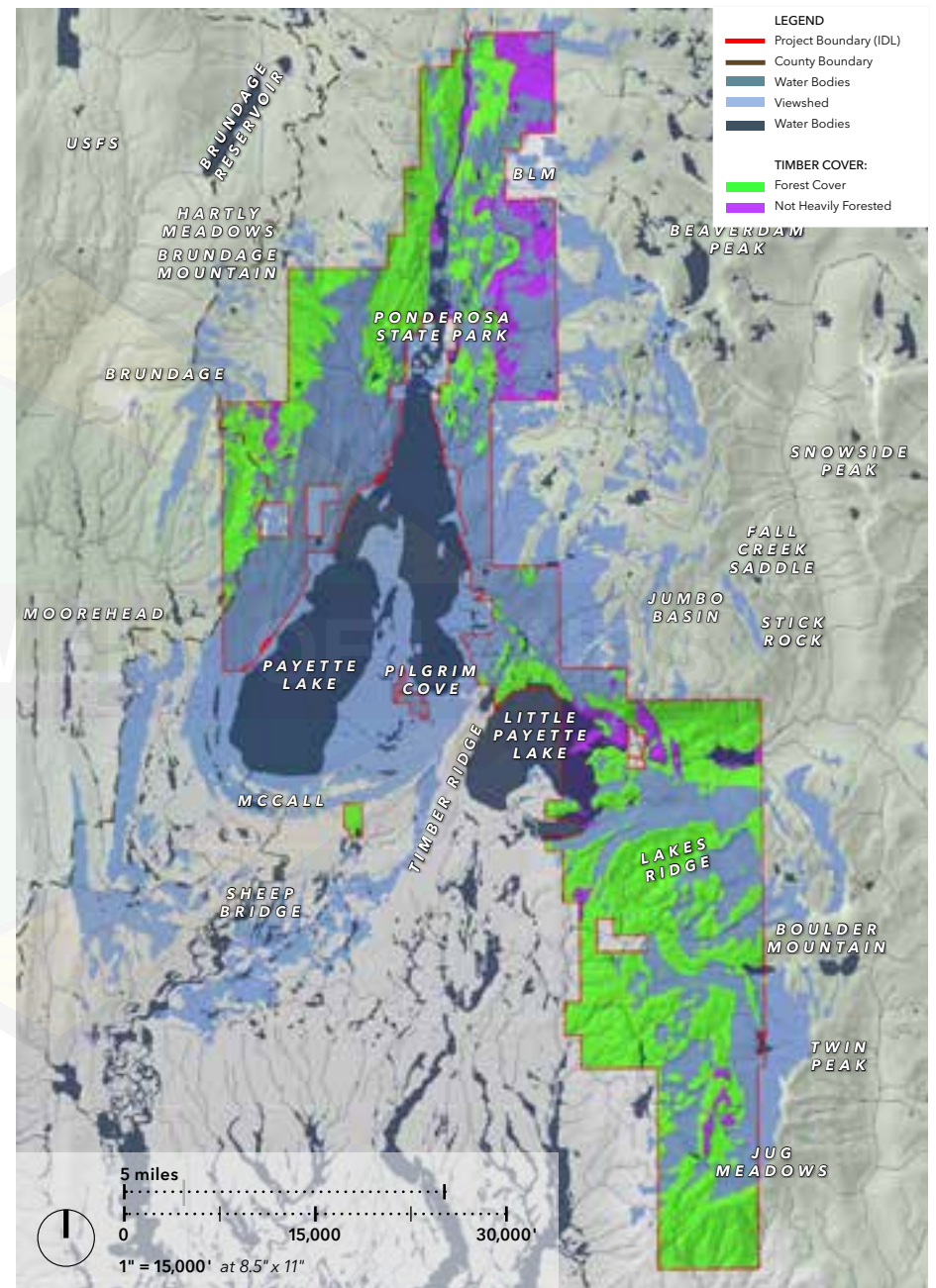
**The Plan is flexible as to the outcome of these lands.** One scenario is that IDL retain these lands. An alternative scenario is that these lands are included in the "park". Preserve McCall anticipates **discussions with IDL and others** on the preferred outcome of these lands, which will likely continue logging operations on this acreage in keeping with healthy forest management..







Forest Cover



Viewshed Analysis over Forest Cover



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## Managing the Land in Perpetuity

The goal of the Plan is to establish a land use pattern and resource management practices that will **protect the land year after year**. This framework will provide:

- More **profitable timberland for IDL** in northern Idaho
- **Public access** to the vast majority of the land in perpetuity
- **Certainty about the future of the land** for the residents of McCall and Valley County
- **New recreational opportunities** and experiences for all Idahoans

Conservation priorities were determined based on three key factors:

- Their direct recommendation from state documents and/or datasets
- The adjacency to these key areas as well as the watersheds upon which they exist
- Their overall ecological value.

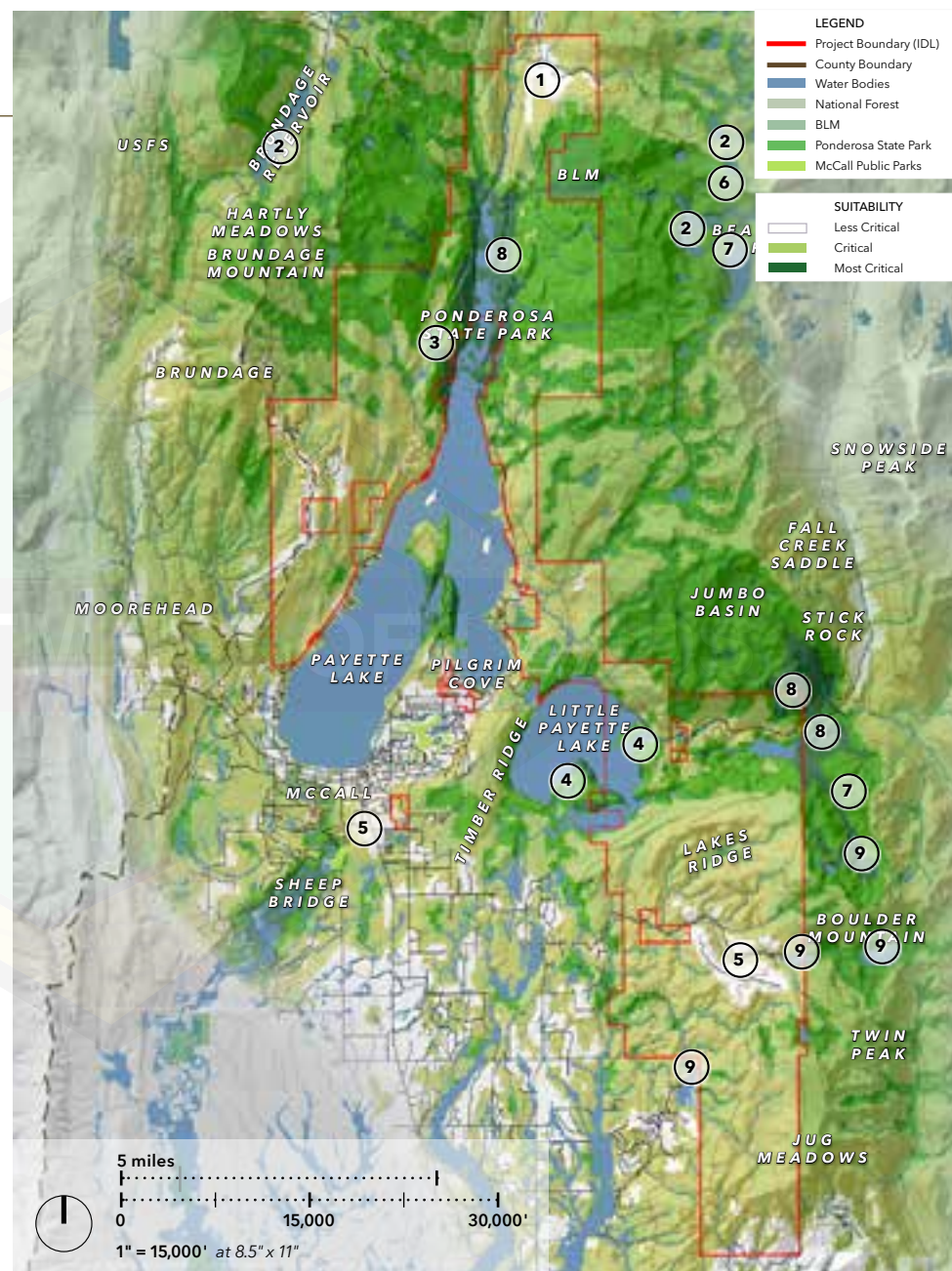
The highest priority items were determined based on state recommendations in the Strategic Habitat Conservation in Idaho (2017)<sup>1</sup> report outlining key conservation priorities for the state. Areas with endangered species were given particularly high priority. Adjacent areas and the watersheds in which these key features exist were also prioritized for their ability to promote the health of these critical ecosystems. Overall ecological value was also considered for certain areas that were not mentioned in any state documentation. These areas were selected based on various factors; some of which include remote and unfragmented habitat, riparian areas, and streams flowing to waters containing salmonid populations.



<sup>1</sup> US Fish & Wildlife Service (2017). Strategic Habitat Conservation in Idaho: A Priority Conservation Strategy 2017. Retrieved from: [https://www.fws.gov/idaho/documents/SHC/IFWOstrategicframework\\_10August2017\\_FINAL-6c\\_lo-res.pdf](https://www.fws.gov/idaho/documents/SHC/IFWOstrategicframework_10August2017_FINAL-6c_lo-res.pdf)

## Conservation Priorities

1. Although these areas are shown as Less Critical according to the Habitat Suitability Analysis, they provide important connectivity to the greater conservation network. Protection should be considered in these areas.
2. Waterways outside the project boundary sustain populations of salmonids that are a high priority for conservation.
3. Several areas adjacent and north of Payette Lake support (or have the potential to support) ponderosa pine - an important tree species in the region.
4. Through the Habitat Suitability Analysis, the wetland surrounding Little Payette Lake has been identified as one of the top 60 wetlands to protect in Idaho.<sup>2</sup>
5. White areas (less critical) tend to represent highly developed areas or locations close to roads that do not have a strong ecological value.
6. On the east side of the property boundary, a high concentration of wetlands, being relatively remote, wildlife migration corridors, and connectivity to the greater network of protected areas contributes to higher conservation value.
7. Watersheds of high importance due to the number of key ecological features they sustain.
8. Areas surrounding conservation sites are important to protect in addition to the conservation site itself.
9. Waterways sustaining populations of salmonids are of high priority for conservation.



<sup>2</sup> Murphy, C., J. Miller, and A. Schmidt. 2012. Idaho wetland conservation prioritization plan – 2012. Prepared for Idaho Department of Parks and Recreation. Idaho Department of Fish and Game, Boise, ID.

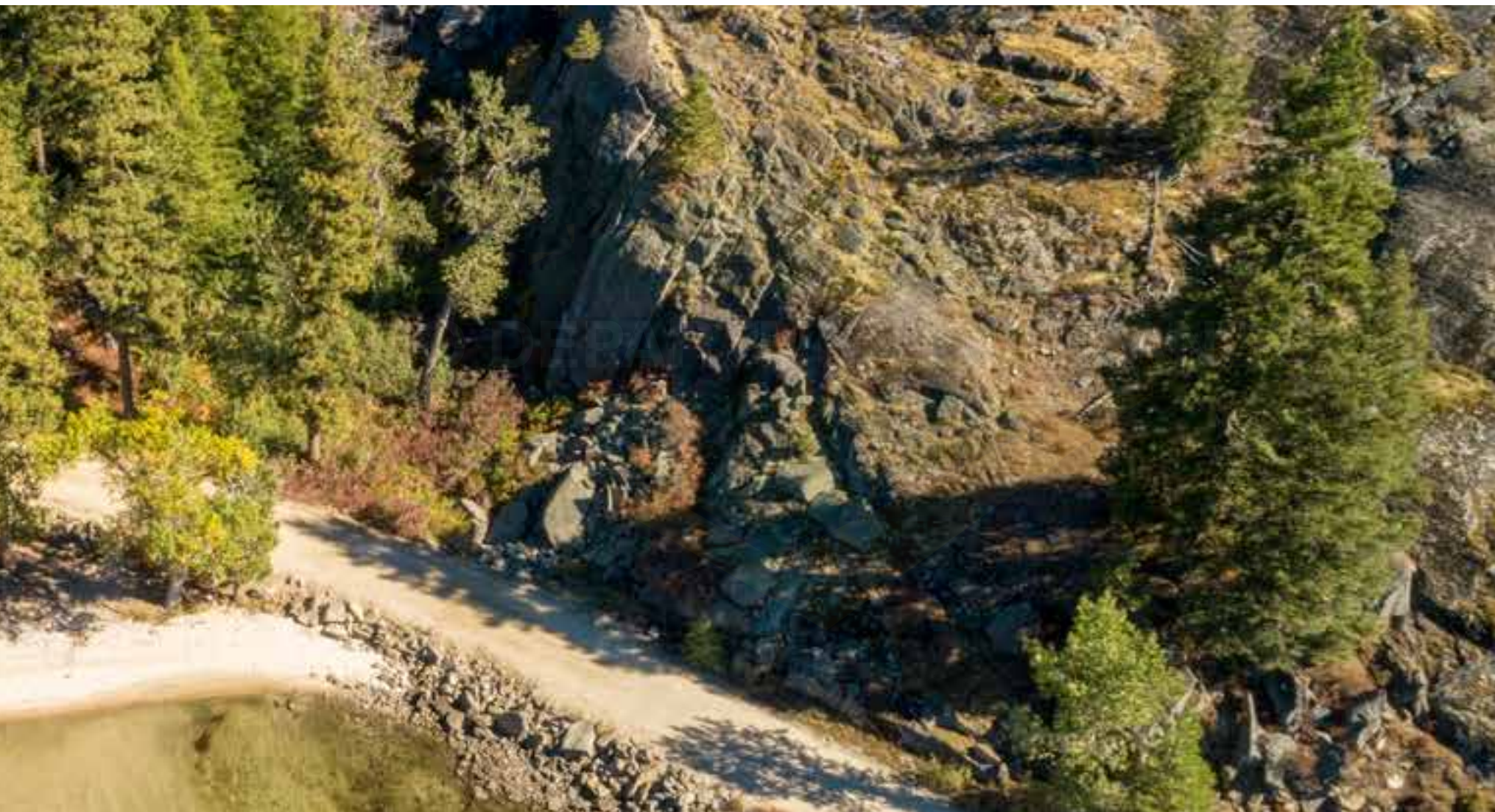


# Conservation Plan

*Protect the Future of Our Land*





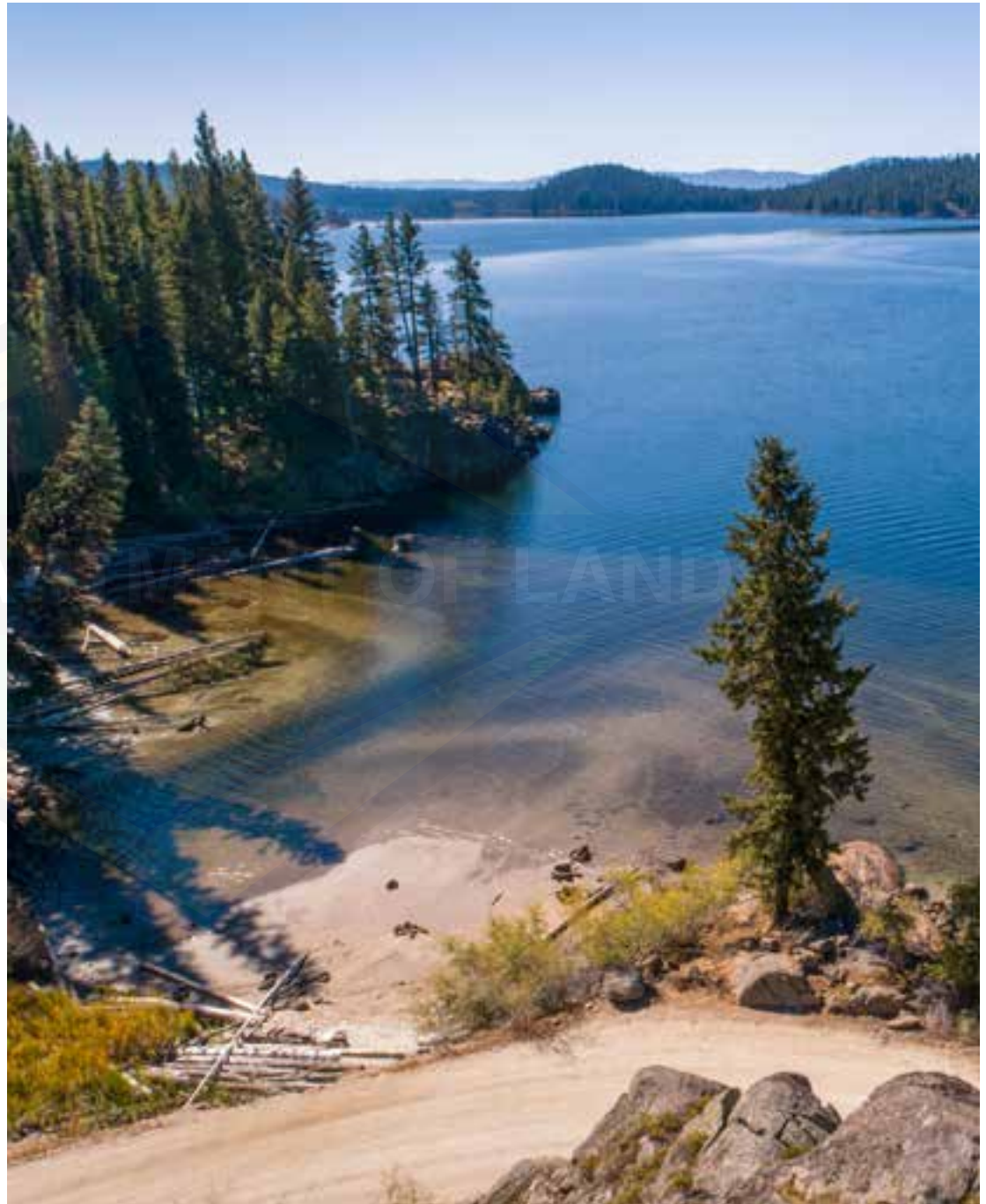




# Conservation Plan & Alternatives

Preserve McCall will continue recreational access to the majority of the proposed exchange lands by implementing one or more land conservation strategies. Preserve McCall has engaged conservation experts BenchMark Advisors and Singing Stream Conservation Consultants to advise on avenues for achieving this goal. Numerous local, regional, and national conservation-focused groups have been engaged to explore options for working together in these efforts and early conversations have been positive.

Over the coming months, Preserve McCall and its advisers will refine a path forward to assuring conservation and public access for recreation.









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## 1. Conservation Plan

Optimally, some portion of the acreage surrounding Ponderosa State Park and Little Payette Lake, if not all of it, would become a park through a direct grant to the Idaho Department of Parks and Recreation. Preserve McCall has requested to work with this agency to explore this possibility. Alternatively, Preserve McCall is pursuing additional options with local, regional, state and national conservation entities whereby these same lands could be conserved through a combination of structures.

The viability of each of these approaches to preserve access would depend upon the ability of the property's stewards to provide responsible forest management in a way that does not impose an untenable financial burden upon a private conservator or governmental agency. Making available the necessary level of economic support for this continued access for the foreseeable post-exchange future will provide value for the state's endowment by not imposing the burden of infrastructure and maintenance costs upon it. This low-impact approach makes the exchange an attractive option for achieving the Land Board's objectives.



## 2. Exchange Agreement

The proposed exchange agreement will contain a series of interdependent covenants, each of which will become binding only after occurrence of another. The exchange agreement will also serve as the master agreement for a series of contracts that contain the terms of real property transactions, forest management on conservation lands, financing, infrastructure creation, and all other material elements of thoughtful conservation and development upon which this exchange proposal hinges. At a minimum, the exchange agreement will contain: a plan for conservation of land through work with a state agency or conservation partner or other conservation method, establishment of a fund for infrastructure and maintenance, establishment of a fund for payment in lieu of property taxes on timberlands put under state ownership in northern Idaho, and performance of maintenance of conserved lands.





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### 3. Payment in Lieu of Taxes

Preserve McCall will identify sources of income to replace funds that would have been provided by property taxes paid on lands that are put under state ownership or otherwise protected. This trust would terminate upon its depletion, but would create a buffer to ease the loss of tax revenues for coffers of the counties where these newly state-owned timberlands are situated.



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### 5. Other Agreements

In addition to the agreements described here, Preserve McCall anticipates negotiating and entering into numerous other agreements, pertaining to developing designated development parcels, and selling properties to end users. Following the exchange, portions of the former endowment lands will lie within the McCall Impact Area and Valley County. The work Preserve McCall intends to perform will also require development agreements, real estate purchase and sale contracts, utility and transportation easements, road sharing agreements, and other more granular-level land use, public-private, and commercial marketing contracts as are typical in operations such as Preserve McCall's.



### 4. Community Stakeholders

In response to feedback from stakeholder groups, Preserve McCall is also exploring the potential for a community agreement which would set forth its obligations to the community surrounding the exchange parcels and to end users. Elements of this proposed agreement could be a part of a conservation easement, the terms of a fee grant to a public agency, or the exchange agreement.



# Future Forest Management Objectives

In order to maintain productive access for current timber leaseholders, the forested portions of the exchange lands identified for conservation will be managed for a certain period of time under a forest, aesthetics, and recreation plan which seeks to sustainably maintain the health, vigor, and aesthetic qualities of these forests.

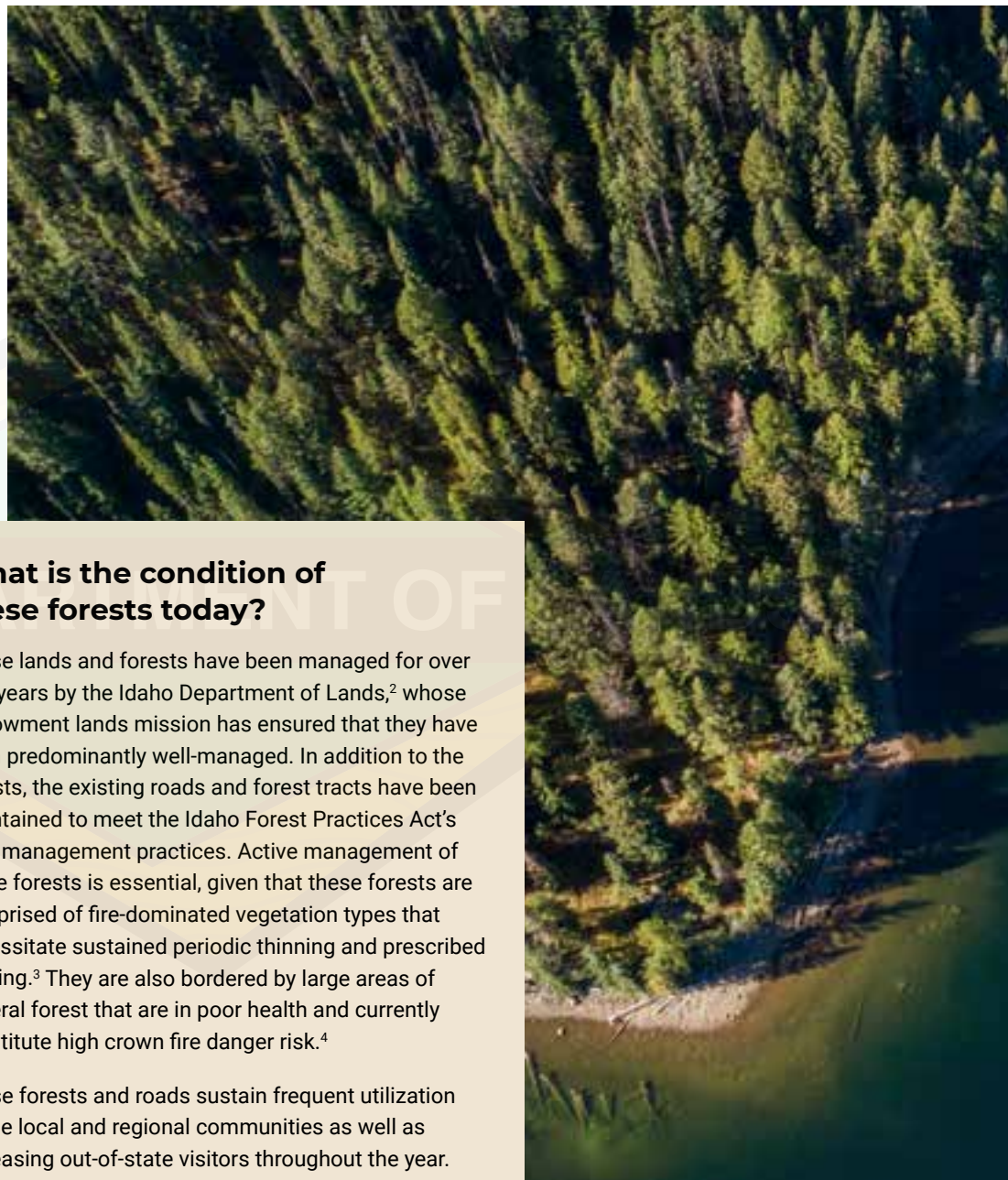
This plan will cover all facets of maintaining an already thriving forest, including, among others, provisions for healthy growth, fire prevention and management, and maintenance of access for end users, especially those who currently enjoy such access, such as snowmobilers, bicyclists, equestrians, and hikers.

The following is very simply a statement of future forest management objectives and brief description of the broad silvicultural regimes which are appropriate to the mixed conifer and fire disturbance ecological vegetation types that dominate the lands<sup>1</sup> concerned.

## What is the condition of these forests today?

These lands and forests have been managed for over 100 years by the Idaho Department of Lands,<sup>2</sup> whose Endowment lands mission has ensured that they have been predominantly well-managed. In addition to the forests, the existing roads and forest tracts have been maintained to meet the Idaho Forest Practices Act's best management practices. Active management of these forests is essential, given that these forests are comprised of fire-dominated vegetation types that necessitate sustained periodic thinning and prescribed burning.<sup>3</sup> They are also bordered by large areas of Federal forest that are in poor health and currently constitute high crown fire danger risk.<sup>4</sup>

These forests and roads sustain frequent utilization by the local and regional communities as well as increasing out-of-state visitors throughout the year.



## Proposed Forest Management Objectives

### 1. Density

Maintain the mean stand density of each management unit<sup>5</sup> at less than 90 square feet of basal area per acre<sup>6</sup> in order to **sustain forest vigor, soil summer moisture availability, and natural tree regeneration of the tree species appropriate to the forest type**, taking into account increasingly drier and warmer climatic conditions.

### 2. Wildfire Danger

**Maintain the level of wildfire danger at low to medium** on a sustained basis. Maintain forest roads to allow for any fire outbreak to be accessed by ground-based equipment within two hours.

### 3. Forest Health

Manage the forests in order to **maintain the health of all age classes** within each management unit.<sup>5</sup>

### 4. Forest Aesthetics

**Maintain the aesthetics of the forests** where it does not compromise other objectives. This includes slash management and maximum openings associated with group selection harvesting of higher elevation forest types.

### 5. Recreation

Maintain forest roads and trails to better than Idaho Forest Practices' standards<sup>7</sup> by **connecting, where feasible, forest trails that enhance walking, biking, cross country skiing and designated snowmobile use**.

### 6. Regeneration

**Foster tree regeneration** where visual and sound screening supports real estate development objectives.

### 7. Inventory

**Undertake a comprehensive forest inventory and a management unit<sup>5</sup> level forest management plan.** This plan will identify targeted uses as well as forest and vegetation management for the next 100 years of each management unit<sup>5</sup> level.

### 8. Habitat

**Maintain a diversity** of early forest and mid-succession wildlife habitats.

<sup>1</sup> MAPPING RELATIVE FIRE REGIME CONDITION CLASS FOR THE WESTERN UNITED STATES. James P. Menakis, Forester, Fire Effects Unit; Melanie Miller, Fire Ecologist, Bureau of Land Management; Thomas Thompson, GIS Specialist, Fire Effects Unit Fire Sciences Laboratory, Rocky Mountain Research Stations, Forest Service USDA

<sup>2</sup> Idaho Department of Lands <https://www.idl.idaho.gov/about-us/understanding-endowment-land/>

<sup>3</sup> Wildland Fire Management: Are actively managed forests more resilient than passively managed forests? Jay O'Laughlin, Ph.D., Professor and Director College of Natural Resources Policy Analysis Group University of Idaho, Moscow

<sup>4</sup> Idaho Department of Lands Forest Action Plan <https://www.idl.idaho.gov/forestry/forest-action-plan/>

<sup>5</sup> Management unit is geographic land area normally of a few hundred acres to which common forest management prescriptions are applied.

<sup>6</sup> Suggested Stocking Levels for Forest Stands In Northeastern Oregon and Southeastern Washington: An Implementation Guide for The Umatilla National Forest David C. Powell Silviculturist USFS 1999

<sup>7</sup> Idaho Forest Practices Act, <https://www.idl.idaho.gov/forestry/forest-practices-act/>



# Community Engagement

*Act on the Voices of Valley County*







# Results of Community Polling

Preserve McCall recently commissioned a public opinion survey of adults in Valley and Adams County on the subject of a proposed plan to exchange thousands of acres of state endowment land for more profitable timber acreage in north Idaho. The survey, conducted by GS Strategy Group, highlighted three central findings that are key to understanding how area residents view such an exchange, and why.

The survey was conducted from July 13-16, 2020 of 250 adults in Valley and Adams Counties. The survey was conducted by phone, with 50% of respondents contacted via landline phone and 50% via cell phone and has a margin of error of +/- 6.15%. The respondents accurately reflect the geographic and demographic profile of the area.

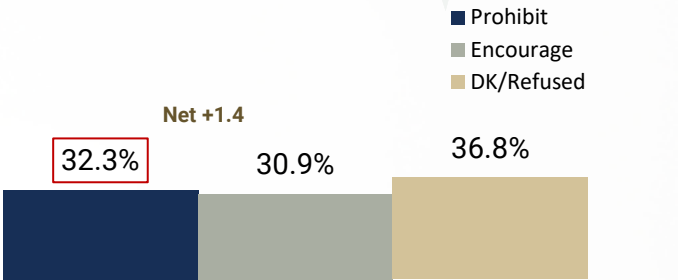


## Less Than 1/3 of Residents Staunchly Oppose Development

### Future Development

Which comes closest to your opinion about future development in Adams and Valley County?

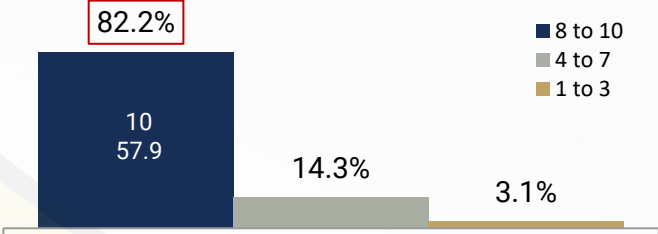
- We should **prohibit** any new development no matter what
- We should **encourage** all feasible development projects to grow the economy here



There was significantly less concern about future development in the area. When offered the choice between prohibiting any new development or encouraging feasible development projects to grow the economy, only 32% of respondents said to prohibit any new development no matter what. The majority of respondents were instead split between encouraging feasible development projects and not taking a position. Support for encouraging development was strongest among Republicans, Adams County residents, and Valley County residents who live outside of the City of McCall.

# Protecting Access to Public Lands is A Top Priority

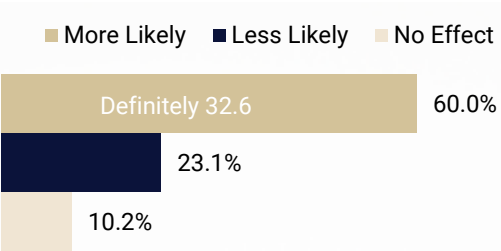
Survey respondents indicated overwhelming concern about protecting access to public lands. When asked how concerned they were about protecting access to public lands on a scale of 1 to 10, with 1 being not at all concerned and 10 being highly concerned, 82% responded with an 8, 9, or 10. More than half – 58% - said they were 10/10 concerned about protecting public land access. This prioritization of public access was underscored elsewhere in the survey when potential reduction of public access was identified as the clear top concern respondents had about the proposed land exchange plan.



**Protecting Access to Public Land**  
On a scale of 1 to 10 with 1 being not at all concerned and 10 being highly concerned, please indicate how concerned you are about protecting access to public lands?

*If you knew the following were true, would you be more likely or less likely to favor Preserve McCall’s land exchange plan? If it would not affect your support one way or the other, just say so.*

The land exchange plan will permanently protect Idahoans’ ability to use the area for public recreation.



## Learning the Plan Protects Access Increases Support

As respondents learned key details about the plan, their support for it increased dramatically. This is particularly the case when they learned the plan would permanently protect Idahoans’ ability to use the area for public recreation. 60% of respondents said that information made them more likely to support the plan, while nearly 1/3 of respondents said it made them definitely more likely.

# Ongoing Community Engagement

Preserve McCall is committed to respecting and incorporating the City of McCall's and Valley County's community values in the master planning process.

Over the last several months, Preserve McCall has met with various community stakeholders, including conservation, recreation, and economic groups as well as many individual community members. We understand, and these conversations confirmed, that it is critical that we continue to listen to the community, explore and recognize its needs, and ensure that our plan addresses these needs.

For example, through conversation with community groups, we have come to better appreciate the affordable housing challenges facing McCall. With these learnings, we have been able to identify land parcels that are well-suited to help address this challenge by developing housing that would serve the local population.

Through ongoing engagement with the community, Preserve McCall hopes to continue to identify opportunities to add value to the community and help craft creative solutions to existing challenges.



## Methodology

Moving forward, Preserve McCall will work with the community to build a formal process to continuously engage and involve them in the development of the master plan for the exchange lands. We anticipate this ongoing process to be active in some form throughout the life of this project.

At the outset, we envision a three-step process:

### 1. Identification of issues and concerns

Answer the question, "What is important to the community in the continued development of the master plan?"

### 2. Development of a range of master plan options

Leverage the information gathered in Step 1 and provide ongoing feedback to outline master plan options that address a variety of community needs and wants.

### 3. Select a master plan

Review the merits of the master plan options and come to a decision on the best path forward.

Preserve McCall will utilize numerous methods throughout this process:

- One-on-one meetings
- Small group meetings
- Open houses
- Surveys and mailings
- Actively monitored website engagement

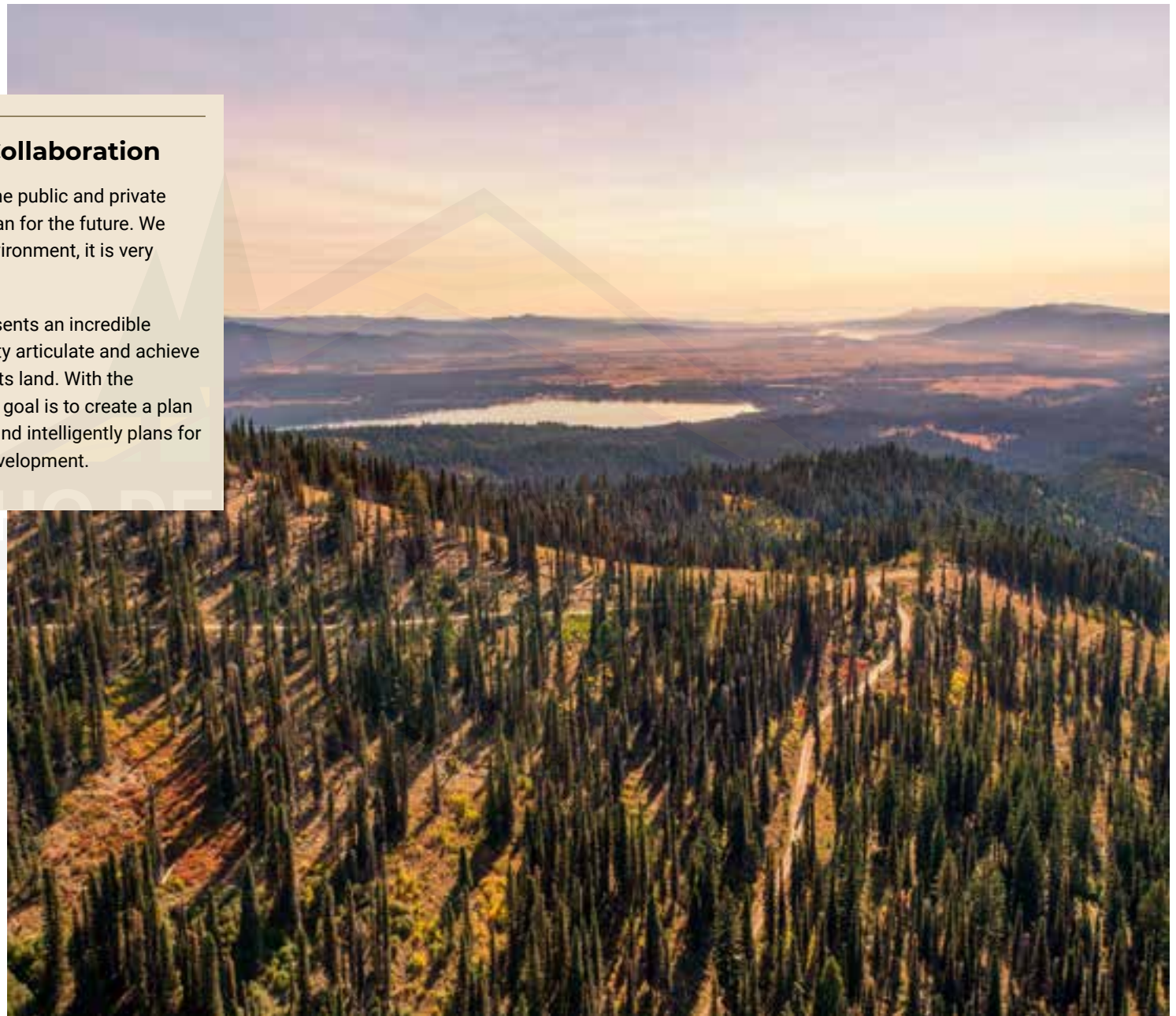
This process will respect all social distancing protocols.



## Public and Private Collaboration

Preserve McCall believes that the public and private sectors can work together to plan for the future. We acknowledge that in today's environment, it is very difficult to find a middle ground.

Preserve McCall's proposal presents an incredible opportunity to help Valley County articulate and achieve the best plans for the future of its land. With the guidance of the community, our goal is to create a plan that safeguards public access and intelligently plans for future growth and economic development.





# Economic Analysis

## *Ensuring Sustainable Growth*

IDAHO



Disclaimer: The information presented here is for illustrative purposes only and is based upon Preserve McCall's internal projections and analysis. Any conclusions or figures made a part of this document or discussion of it should not be relied upon for any purpose outside this presentation. Preserve McCall and Trident Holdings LLC, their employees, and their agents assume no liability for any errors or omissions in the content of this presentation. The information contained in this presentation is provided on an "as is" basis with no guarantees of completeness, accuracy, usefulness, or timeliness and without any warranties of any kind whatsoever, express or implied. As but one example, this economic analysis excludes from consideration certain parcels within McCall's city limits that are contemplated earlier in the land use planning materials, and which may or may not be included in the final exchange application. This analysis also lacks incorporation of IDL internal and/or non-public data, which would affect results, for example.





# Economic Benefits to Idaho Endowment Beneficiaries

Preserve McCall proposes to work with the Idaho Department of Lands (IDL) to develop a land and timber asset exchange of financially underperforming Idaho endowment lands in the Payette Lake area. The proposed exchange involves Preserve McCall acquiring designated “timberlands” from IDL endowment lands and a small number of unleased residential lots in Valley County, Idaho. Preserve McCall will exchange these lands with IDL for privately-owned commercial timberlands in north Idaho that exceed IDL’s return threshold of 3.5%. These north Idaho timberlands will become new endowment timberlands.



## Research Focus

SMART Forest Solutions® was asked to perform an economic analysis of the proposed Preserve McCall land asset exchange under the Idaho Constitution, the State Board of Land Commissioner’s (Land Board) Statement of Investment Policy - Idaho Land Grant Endowments (SIP), and recent subcommittee findings and recommendations.

## Summary of Findings

- Research indicates the specific “economically impaired” lands subject to this exchange (~20,000 acres in Valley County) are underperforming the State’s desired long-term return of 3.5%, contrary to the Idaho Constitution and Land Board Policy. Rather, these lands are a major cost center to the endowment, costing an estimated \$282,200 annually.
- The proposed exchange is estimated to generate more than \$2.49 million per annum of net revenues, returns and cost savings. This annual benefit, which existing assets cannot provide, represents \$74.4 million of real net present value to beneficiaries, notably Idaho schools and universities. Moreover, the endowment will receive an additional incremental, accretive \$36.0 million value from non-exchange portfolio reallocations to meet Callan targets. Put simply, because the exchange provides the endowment with profitable lands for minimal cost, less Land Bank funds will be needed for timberland purchases to achieve target allocations, and more funds can be invested in higher-returning, non-timber instruments like equities. This represents \$107.3 million in total real net present value for beneficiaries.
- Acquiring north Idaho timberlands near mid-rotation will increase timber revenues from existing endowment forests for several decades (estimated at \$11.0 million of present value, or nearly \$387,000 annually). IDL’s policy manages endowment timberlands to a non-declining statewide timber harvest, so buying younger, mid-rotation trees enables the state to harvest more of its existing, older portfolio now.
- The proposed exchange will improve physical and legal accessibility to existing north Idaho endowment lands. Opening this access makes it possible to harvest endowment lands that are currently encircled or blocked, unlocking existing timberlands asset value (conservatively estimated at a present value of nearly \$2.9 million).
- Obtaining income-earning timberlands from this exchange reduces reliance on the Earnings Reserve through reduction in total asset income volatility.
- IDL’s potential alternatives do not offer comparable returns. Neither a campaign to auction various smaller high-value parcels piecemeal nor a strategy of using only Land Bank funds to buy North Idaho timberlands outright (while retaining this cost center) would replicate the proposed exchange’s returns .
- Preserve McCall is deeply committed to working with all parties involved, particularly local governments in Valley County and McCall, to fulfill community requests for conservation and public access, and intends to bring additional year-round employment and economic development to the region. Preserve McCall also developed a potential term escrow fund structure to address tax-based concerns of northern Idaho counties.

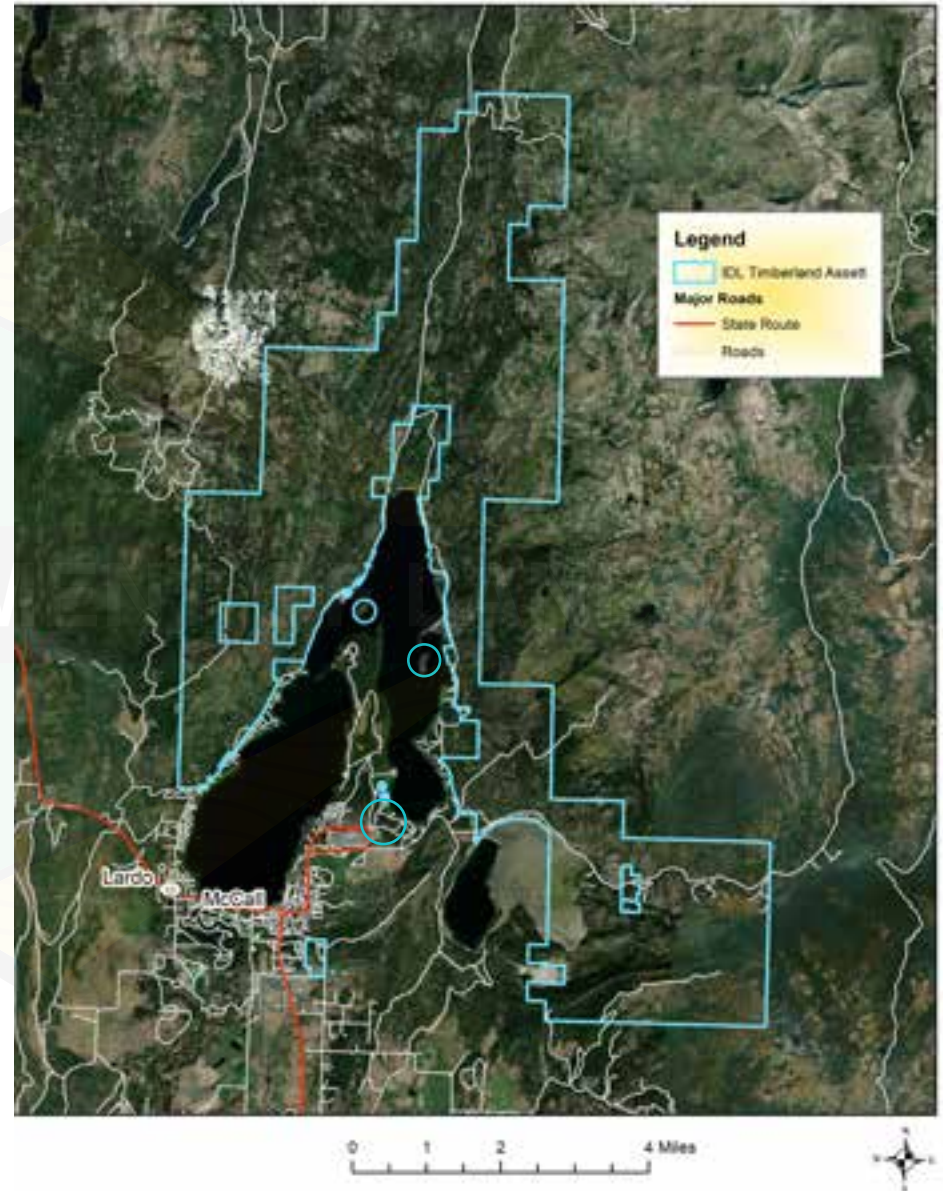


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## Asset Exchange Proposal

Through concurrent three-party agreements, this proposal exchanges economically-constrained forested and a small number of unimproved and unleased lake lot land assets of several Idaho endowment beneficiaries in the Payette Lakes region. These would be exchanged for North Idaho working forests adjacent or in proximity to endowment forests within strong and growing timber market regions. This exchange explicitly supports the Land Board's July 2018 Statement of Investment Policy (SIP).

The exchange will follow IDL-defined exchange procedures. Following IDL and the Land Board approval in concept of such an exchange, Preserve McCall and IDL staff will cooperatively identify endowment lands within the Payette and Little Payette regions best suited for eventual exchange. Upon completion of this joint planning initiative, Preserve McCall will also finalize options to acquire suitable working forests for each endowment beneficiary from private forest owners adjacent or in proximity to endowment properties in north Idaho.





## Exchange Proposal Alignment to Policy and Objectives

The proposed exchange explicitly supports the Idaho State Board of Land Commissioners Statement of Investment Policy and the Idaho Department of Lands Forest Asset Management Plan Goals and Objectives:

As outlined in the July 17, 2018 SIP (p. 2),

"Article IX, Section 8 of the Idaho Constitution includes the following restrictions regarding the sale of lands:

- All land must be disposed of via public auction
- A maximum of 100 sections (64,000 acres) of state lands may be sold in any year
- A maximum of 320 acres may be sold to any one individual, company, or corporation
- No state lands may be sold for less than the appraised price
- Granted or acquired lands may be exchanged on an equal value basis with other lands subject to certain restrictions
- Forest and certain other land may not be sold per Idaho Code § 58-133, which states, "All state-owned lands classified as chiefly valuable for forestry, reforestation, recreation, and watershed protection are reserved from sale and set aside as state forests."

The SIP also defines the Board's asset allocation objectives, including those for increasing timberland assets (pgs. 5-6 of SIP replicated here).

### STRATEGIC ASSET ALLOCATION

Asset Class	Target Asset Allocation	Range	Actual Allocation June 30, 2017	Expected 10-yr Compounded Return <sup>1,2</sup>	Implied Real Net Return <sup>3</sup>
Financial Assets	58%	50-65%	59.2%	6.3%	4.05%
IDL Timberland	39%	30-50%	33.2%	5.70%	3.45%
IDL Grazing Land	2%	0-5%	1.7%	3.00%	0.75%
Cash Equivalents - Land Bank	1%	0-5%	2.1%	2.00%	-0.25%
Residential Real Estate	0%	N/A	2.6%	N/A	
Idaho Commercial Real Estate	0%	N/A	0.5%	N/A	
Other Land	N/A	N/A	0.7%	N/A	
Total	100%		100%	6.69%	4.44%
Expected Risk (Standard Deviation)				9.28%	
Inflation Assumptions				2.25%	

The policy further defines land asset objectives explicitly, including the role of such assets in reducing overall volatility of endowment investment revenue and therefore the level of the Endowment Earnings Reserve, as follows (text selected from SIP p. 13-16):

*"VII. Asset Class Policies for Land Assets*

*A. Investment Objective for the Land Assets*

*The primary objective for the Land Assets is the generation of maximum long-term return at a prudent level of risk using traditional land grant asset types. The Land Assets diversify the Financial Assets given the low correlations of timberland and rangeland to public capital markets. The Land Assets also lower the volatility of the total investment portfolio considering timberland and rangeland returns have historically exhibited lower volatility than equity asset classes. During periods of negative financial returns, Land Assets can provide a positive revenue stream to help maintain Earnings Reserves and stable Endowment distributions.*

*Investment objectives are long-term return objectives. The investment objective for the land portfolio recognizes that timberland is a primary driver of the overall return for land and that income from timberland and, to a lesser degree, all other lands are the primary generator of investment returns. The individual investment objectives for timberland, rangeland, and farmland reflect the long-term investment characteristics (return, correlation, and volatility) compared to other asset classes. Investment objectives also consider the existing base of land holdings along with management constraints, notably sales restrictions, acreage limitations, and the rent-setting and leasing processes. The return objectives should not be viewed in isolation but in relationship to one another.*

*The Land Assets are managed to achieve a real net return target of at least 3% over a long-term holding period (Land Assets Return Objective). The Land Assets Return Objective includes both income and appreciation, is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit), and net of inflation as measured by the Consumer Price Index. While the Land Assets Return Objective includes both income and appreciation, the return is expected to be generated primarily from income.*

*New timberland acquisitions shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the following:*

- If the expected financial return generated by income exceeds the minimum hurdle rate of 3.5% real net;*
- Whether the return profile is sufficient relative to the risk taken, including an analysis of the transaction in terms of long-term financial return and risk to the Endowment;*
- Whether the transaction would facilitate improved management or improve the overall Endowment land ownership pattern in the area;*
- The existence of any potential risks, including but not limited to environmental or title-related issues.*

*Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. The presence of minerals including sand and gravel can enhance the net return from timberland. Land Bank funds used for acquisition can only to be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Reinvestment Plan."*



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## Payette Lakes Forest and Recreational Lake Lot Land Assets

IDL, on behalf of the endowment beneficiaries, manages approximately 105,022 acres of forested lands within the IDL Payette Lakes Supervisory Area.

Of the total, over 27,000 acres in the IDL Payette Lake's Supervisory Area are designated as "secondary forests."<sup>2</sup> This means these lands are economically impaired due to legal or physical access, low forest productivity, or Land Board aesthetic management policies limiting timber harvesting and road construction. By statute the forested lands cannot be sold for other purposes and can only be exchanged for other forested lands.<sup>3</sup>

By Land Board Policy and IDL forest management plans, endowment secondary forest lands within the Payette Lakes viewscape have undergone minimal harvesting for decades.<sup>4</sup> These lands are therefore constrained in recouping IDL's current annual \$14.11 per acre per year

of timberland management expenses as of 2019.<sup>5</sup>

Although endowment-appraised timberlands land values are not publicly available, land values of similar unimproved but operable forest tax appraised properties<sup>6</sup> in Valley County, having lake views, range from \$98-\$2800 per acre depending on parcel acreage. These endowment secondary forest lands are therefore constrained from achieving the desired 3.5% real return on assets until exchanged. This economic return is estimated to range from 1.3% to negative 11.0% per annum depending on the land plus timber values assigned.



<sup>2</sup> IDL 2007 Forest Asset Management - MANAGEMENT GUIDELINES FOR ENDOWMENT TRUST FOREST LANDS WITHIN THE SECONDARY BASE

<sup>3</sup> Idaho Code § 58-133 requires that all state-owned lands classified as chiefly valuable for forestry, re-forestation, recreation, and watershed protection be reserved from sale and set aside as state forests. Timberland can be exchanged but only for other timberland.

<sup>4</sup> IDL 2014-2019 Timber Sale Annual Reports

<sup>5</sup> IDL Payette District July 2020 Financial Summary

<sup>6</sup> Valley County 2019 Tax Assessment Database for forested parcels greater than 40 acres, with lake views







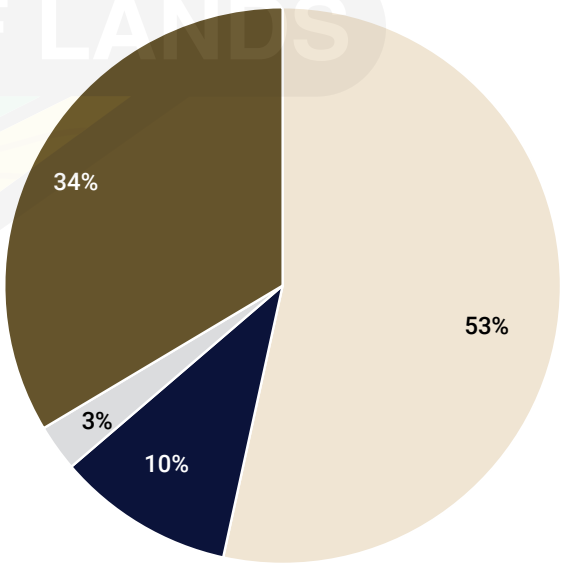
## 2019 Payette Lakes Endowment Forest Lands Real Rates of Return

The potential exchange of these forested lands for forests capable of meeting the Land Board's policy objective of 3.5% per annum real rate of return on timberland assets is viable and a financially sound opportunity. This represents a potential land exchange of up to 20,000 forested acres and 16.1 acres of platted lots.



### Proposed Exchange's Annual \$3.9M Per Annum Endowment Income Represents \$115.4M in Portfolio Net Present Value

- Annuity Net Revenues (*Acquired north Idaho Timberlands*)
- Immediate allowable cut benefits (*existing endowment's mature primary forests*)
- Improve legal and physical access (*existing endowment lands*)
- Portfolio reallocation to Callan-targeted non-timber assets (*see separate economic analysis*)



## Estimated Financial Benefits Summary Preserve McCall Proposed Exchange

Financial Exchange Benefits	Acres Contributing	Net Cash Income Per Acre Per Annum	Annual Net Income	Net Present Value <sup>7</sup>	Implied Net Cash Return on Exchange Assets
Annuity Net Revenues (Acquired north Idaho Timberlands)	31,150	\$64.43	\$2,006,229	\$57,320,840	4.03%
Immediate allowable cut benefits (existing endowment mature primary forests)	Existing endowment primary forest acres over 80 years old	N/A	\$386,594	\$11,045,543	0.78%
Improve legal and physical access (existing endowment lands)	1,583	\$64.43	\$101,966	\$2,913,303	0.20%
Portfolio reallocation to Callan-target non-timber assets <sup>8</sup> (see separate economic analysis)	N/A	N/A	\$1,211,613	\$36,008,011	2.43%
<b>TOTAL</b>			<b>\$3,706,402</b>	<b>\$107,287,697</b>	<b>7.44%</b>

<sup>7</sup> Discount Rate for benefits i-iv is the 3.5% real net return target for timberlands. Discount rate for benefit v is the endowment's 3.36% real weighted average portfolio return excluding timberlands. Real forecasted rates of return were adjusted using Callan's inflation projections of 2.25%.

<sup>8</sup> Eliminated expenses from this exchange are likely much greater than this, because this estimated reduction is based only on the 12,000 acres IDL identifies as secondary forest around Payette Lake, not the full administrative expense for the entire encumbered exchange area.

Note: See Benefits to the Endowment's Performance and Asset Reallocation Section for more detail on this particular exchange benefit.

## Northern Idaho Target Exchange Timberlands

Preserve McCall identified and is contracting with a variety of large private forest owners known to be interested in divesting mid-rotation forest lands adjacent or in proximity to Endowment lands. These operable forest lands reside within six counties in western north central and northern Idaho. Market prices for fully accessible and operable mid-rotation (pole size) forests within these counties ranged from \$1,200 to \$1,800 per acre in 2020 . The proposed land exchange would focus on acquiring highly-productive mid-rotation forest lands adjacent or in proximity to existing endowment forests.

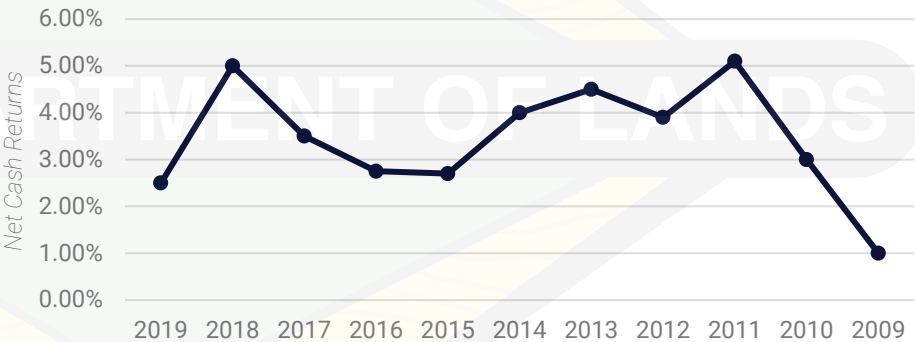
Potential real cash stand-alone returns on these timberlands at current market prices range from 3.6-4.0% per annum, exceeding the Land Board’s asset class target of 3.5% real cash returns.

SMART Forest Solutions’ analysis of 2019 PNW trends in commercial timberlands cash returns on assets and Idaho market region’s timber prices strongly supports the Land Board’s investment policy to significantly increase the endowment’s acreage of working forests.

Nominal prices were converted to constant 2019 dollars using the GDP implicit price deflator. Trend line was developed as base case projections and adjustments to the trends incorporated based on team analysis. The

range of delivered log price compound annual growth rates for purposes of evaluating potential property returns ranged from 0.62% to 0.93% real, averaging 0.73% real.

SURVEY OF RETURNS ON TIMBERLANDS  
INVESTMENTS IN THE PACIFIC NORTHWEST



Source: National Council of Real Estate Investment Fiduciaries



# Northern Idaho Delivered Log Prices

Tree Species	2010-2019				2019
	Min	Median	Average (\$/MBF)	Max	Average
Douglas Fir/W Larch	277	386	365	402	385
Grand Fir/W Hemlock	274	366	352	389	385
Lodgepole Pine	275	370	352	388	367
Ponderosa Pine	280	299	310	357	280
Spruce	279	366	353	400	348
Western White Pin	286	332	326	337	337

Source: Northwest Management Inc.





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## Additional, Significant Benefits of Endowment Timberlands Acquisition

**Allowable Cut Benefit** - IDL, in constructing its forest asset management plans, explicitly seeks to minimize the risk of declines in annual distributions to endowment beneficiaries and, by extension, minimize the total endowment earnings reserve. To achieve this, IDL Forest Asset Management Plans maintain a non-declining timber harvest policy. Given the age class structure of the endowment's forests, acquiring mid-rotation forests would facilitate near-term increases in timber harvests. IDL forest asset management planning during 2007-2008 identified improvements in real rates of return on investment of 0.15-0.47% through such acquisitions. Moreover, timber harvest net cash receipts of the acquiring supervisory areas would rise by +\$386,000 per annum (commencing immediately) by purchasing 31,000 acres of mid-rotation forests over five years.<sup>2</sup>

**Physical and Legal Access** - In 2007 IDL identified approximately 220,000 acres of "secondary" endowment forests. Preserve McCall is unaware of the actual acreage of forested lands classified as secondary resulting from legal or physical access constraints. However, analysis of proposed north Idaho exchange forest lands highlights the opportunities to return modest acreages of these forests to operable and accessible status.

While the benefit of improving access is very specific to potential exchange lands, the benefits are significant.







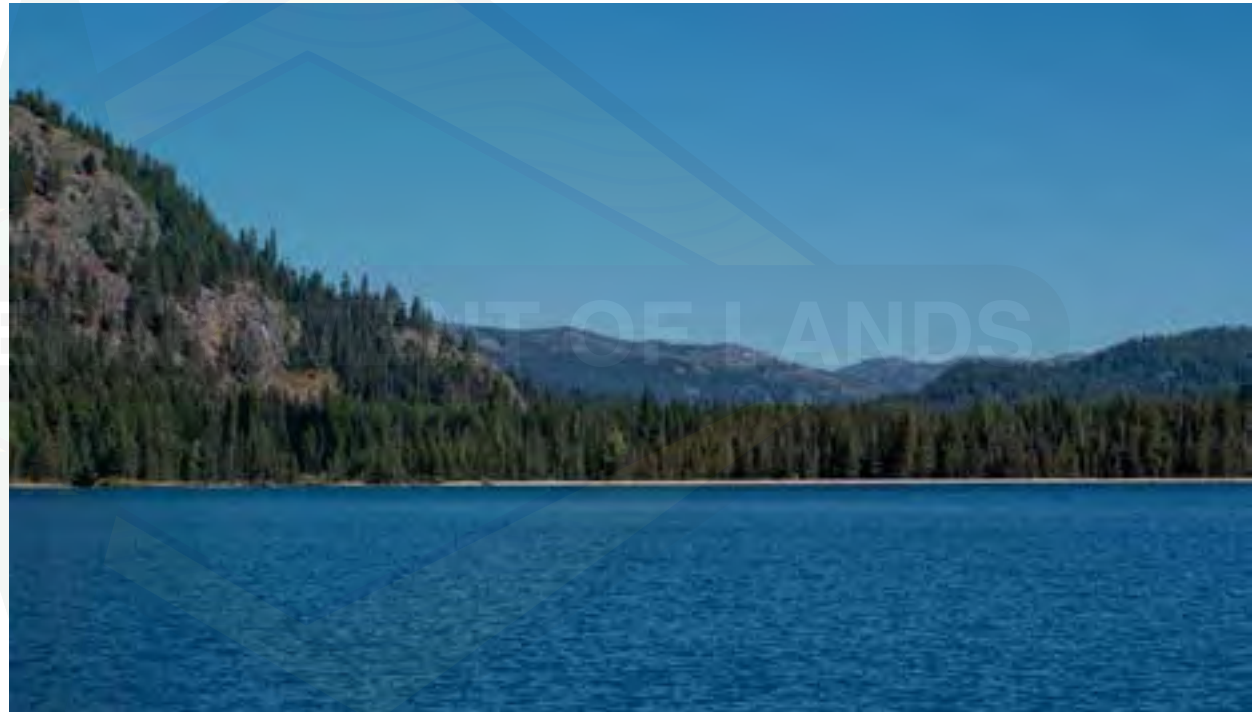
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## Financial Benefits Comparison

Comparison of Financial Benefits of Preserve McCall's Proposed Land Exchange to Endowment Acquisition through Expenditure of Land Bank Funds

The endowment acquisition of timberlands via exchange or expenditure of Land Bank funds provides many of the same near and long-term financial benefits. However, the exchange of underperforming secondary forests has two very significant additional benefits, beyond what Land Bank purchases alone can provide:

- Per the Land Board's and IDL's use of the Land Expectation Value methodology in determining its annual timberlands asset value, any reduction in net losses improves both the remaining endowment timberlands values per acre and near- and long-term net cash returns on asset.





There is one large additional (but difficult to quantify) source of value from Preserve McCall's proposed exchange that Land Bank purchases alone cannot produce. Per Callan's recommendations, IDL values timberland assets using "Land Expectation Value". This longstanding formula ( $LEV = \text{Constant Real Annual Cash Flow} / \text{Real Annual Discount Rate}$ ) determines, in a standardized method, the long-term sustained value of the underlying land. This is not, in fact, an income-based asset valuation, which would equally take into account annual revenues and expenses, but then would also annually charge for the rotation or perpetuity land rent (at the discount rate) based on the underlying land value (from LEV or an appraisal).

This may at first seem complex, but it is important. It means that, in reality, the Endowment has three classes of timberland assets:

1. **Original Federal land grant acres** (for which the state of Idaho and its endowment invested zero dollars). Therefore, not charging annual land rent is correct, and a net present asset income based valuation is proper. LEV works fine for these lands.
2. **Land Bank Fund cash acquired acres.** For these acres annual land rents should be expensed in their asset income valuation.
3. **Preserve McCall's Exchange Proposal.** The endowment also invests zero cash and therefore, as with the Federal land grant timberland acres, would properly have zero annual land rent charged in calculating a net present asset income based valuation.

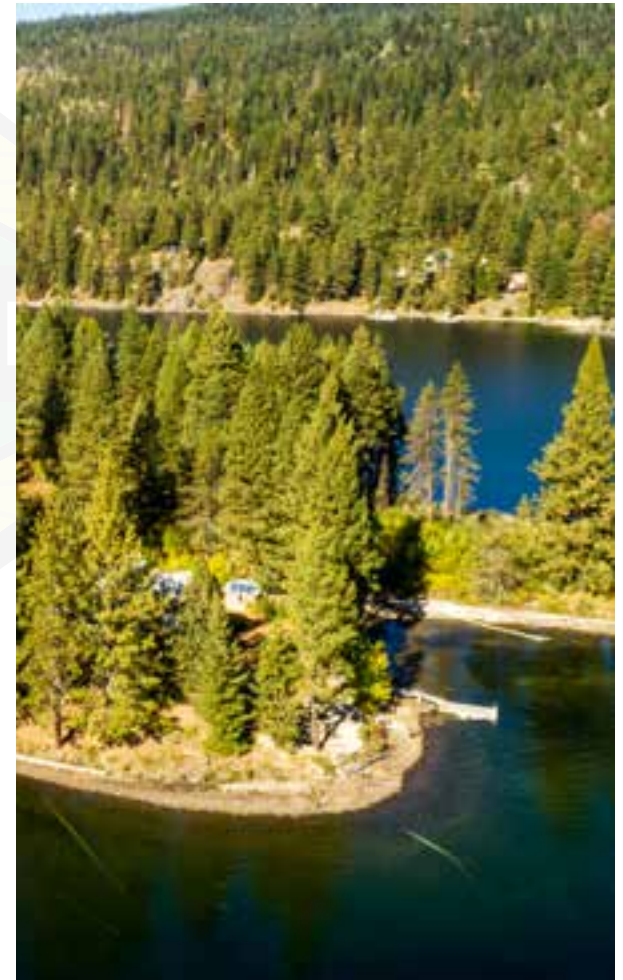
These asset classes—with Land Bank purchases on one side, and Federal grants plus Preserve McCall's proposal on the other — have very different annual returns on investment, even for identical acres. IDL, when it values properties for cash acquisition, does take bare land value into account. However, it then ignores that value in its future LEV based asset reporting. This overstates true returns. By contrast, returns from Preserve McCall's proposed exchange avoid this pitfall.

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## Conclusion

It is the authors' expert opinion that this proposed land exchange provides far superior financial returns to endowment beneficiaries over a Land Bank expenditure-only strategy and continued 2020-2021 auctions of unoccupied Payette Lake lots.

Preserve McCall's proposed lands exchange will significantly improve financial returns to endowment beneficiaries while also supporting the economic growth of Valley County, Idaho. SMART Forest Solutions and Preserve McCall look forward to working with the Idaho Department of Lands staff to implement this proposed exchange.





# Payette District Financials

## Payette Lakes Supervisory Area Summary of Land Management Revenue and Expenses (All Data is Approximate)

### Timber Management (approximately 100,000 acres)

Average annual management expenses (FY 2017-2019): \$1,411,000<sup>1</sup>

Average annual gross revenue (FY 2017-2019): \$2,644,274

Average annual net revenue (FY 2017-2019): \$1,233,274

In the McCall Impact Area and the larger vicinity of about 28,000 acres, IDL expects to offer 57.3 million board feet of timber at auction over the next 10 years with an estimated gross revenue of \$9.1 million.

### Endowment Leasing (Entire Payette Lakes Supervisory Area)

Average annual management expenses (FY 2018-2020): \$249,609<sup>1</sup>

Average annual gross revenue (FY 2018-2020): \$794,630

Average annual net revenue (FY 2018-2020): \$545,021

### Approximate McCall Impact Area Revenue (Approx. 5,500 acres)

(See Table 1 on page 2)

<sup>1</sup> Includes estimated bureau and overhead expenses

Table 1

Approximate Endowment Revenue by Asset Class and Activity within the McCall Area of Impact<sup>2</sup>

Asset	Activity	Endowment	Acres	Annual Income	Income Per Acre
Residential RE (Impact Area)	Cottage Site	SHS	5.00	\$138,494.00	\$27,698.80
		NS	0.25	\$3,056.00	\$12,224.00
		PS	3.00	\$28,706.00	\$9,568.67
Commercial RE (City Limits)	Office	PS	5.00	\$16,869.00	\$3,373.80
	Retail	PS	0.18	\$41,990.00	\$233,277.78
	Communication	PS	0.25	\$10,227.00	\$40,908.00
Timberland (Impact Area)	Communication	SHS	0.25	\$10,227.00	\$40,908.00
	Recreation	NS	22.00	\$2,000.00	\$90.91
	Recreation	PS	6.00	\$2,000.00	\$333.33
	Recreation	Mixed	1105.00	\$1,000.00	\$0.90
	Recreation	Mixed	19.85	\$1,000.00	\$50.38
	Grazing	Mixed	3258.00	\$742.31	\$0.23
	Mineral	Mixed		\$30,100.00	
Timber Harvest		Mixed		\$187,573.00	\$34.10
Total Annual Revenue				\$473,984.31	

<sup>2</sup> The revenue in this table is included in the gross revenue numbers of the Payette Lakes Supervisory Area on page 1.



For decades, IDL has annually reported statewide revenues and expenses, in detail by Endowment and by asset class. In addition, timber sales by district have long been reported.

The preceding Summary of Land Management Revenue & Expenses for the Payette Lakes Supervisory Area has been utilized by Preserve McCall's consultants to revise and significantly improve its March 2020 *Proposed Land Exchange: Economic Benefits to Idaho Endowment Beneficiaries*.



## Observations & Questions

Analysis of this supplemental information provided by IDL (shown on the previous page) has prompted several questions that readers of this economic analysis should bear in mind:

1. The district-wide 2017-2019 Timber Management Net Revenue is stated as \$12.33 per acre. Yet, the McCall Impact Area, nearly all of which falls within the IDL aesthetics policy viewshed, is stated to have an annual Timber Harvest Revenue of \$34.10 per acre. This suggests timber revenue within the McCall Impact area is almost three times higher than timber revenue across the entire district, even though most of the district is not encumbered by this policy.
2. The summary also states: "In the McCall Impact Area and the larger vicinity of about 28,000 acres, IDL expects to offer 57.3 million board feet of timber at auction over the next 10 years with an estimated gross revenue of \$9.1 million." This means that 28,000 acres of the district's 100,000 acres of forests (28%), of which 12-17,000 acres are within the lake's viewshed which constrains harvesting volumes and commercial viability, will produce 34% of the gross timber management revenue for the entire district. In addition, at no time during the last twenty years has harvested volume met the now projected ten-year future harvest volume.
3. Based on the district's financial summary, the annual timberlands Management Expenses for the district are \$14.11 per acre. This in contrast to the statewide average reported in IDL's 2019 Annual Report of \$23.22 per acre for the 1,030,049 acres in the timberland asset class. It is unclear what characteristics of the Payette Lakes Advisory Area make its administration by IDL so much less expensive than other areas statewide.

Source: Idaho Department of Lands, Payette Lakes Supervisory Area Financials

# Benefits to the Endowment's Performance and Asset Reallocation

Authors: Brent Lawson<sup>1</sup> and David New<sup>2</sup>

Increase in Year-One Forecasted Portfolio Return, ex-IDL Timberland	\$1,211,613
Present Value of Exchange's Accretive Value to Portfolio, ex-IDL Timberland*	\$36,008,011
Increase in Year-One Portfolio Forecasted Return	\$1,882,828
Present Value of Exchange's Accretive Value to Portfolio**	\$48,196,995
Difference in Year-10 Real Portfolio Value after Land Exchange	\$73,039,479

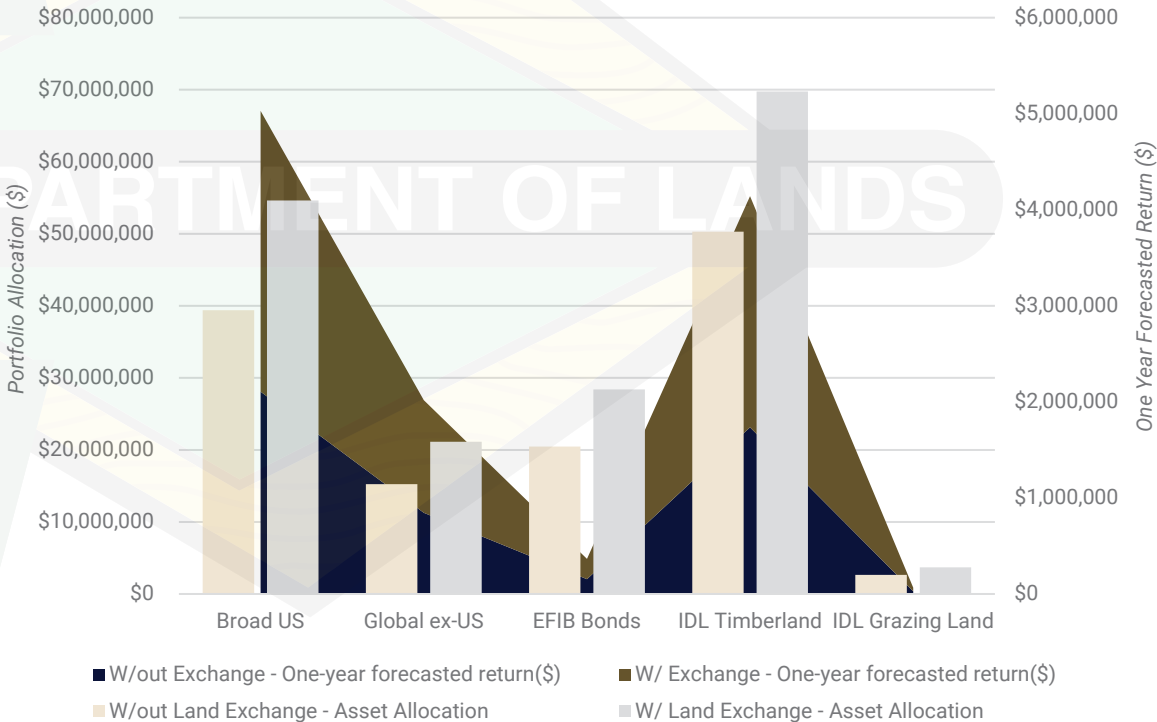
\*Discount rate equals the portfolio, ex-IDL timberland real forecasted rate of return of 3.36% and total portfolio real forecasted rate of return of 3.91%. Real forecasted rates of return were adjusted using Callan's inflation projections of 2.25%. This maintains consistency with the real rates of return in the preceding Economic Benefits Section.

\*\* The year one accretive value excludes returns from IDL timberland assets. These returns are accounted for in the Benefits Section. This methodology was utilized in an effort to avoid double counting timberland returns. However, the forecasted return on the \$13.7m delta (\$63.9m - \$50.2m - timberland allocation w/ Exchange and w/out Exchange) is not accounted for. Thus, the portfolio reallocation effect is even higher than presented above.

## Key Findings

The Land Exchange-enabled portfolio reallocation effect unlocks additional capital to be invested in higher-yielding asset classes, including US & Global equities, generating higher forecasted returns. Without the Land Exchange, the portfolio's one-year forecasted return, ex-IDL timberland return, is **\$3,132,133**. With the Land Exchange, the portfolio's one-year forecasted return, ex-IDL timberland return, is **\$4,343,746**. The accretive value to Endowment beneficiaries is **\$1,211,613**, or **\$36 million** in net present value.

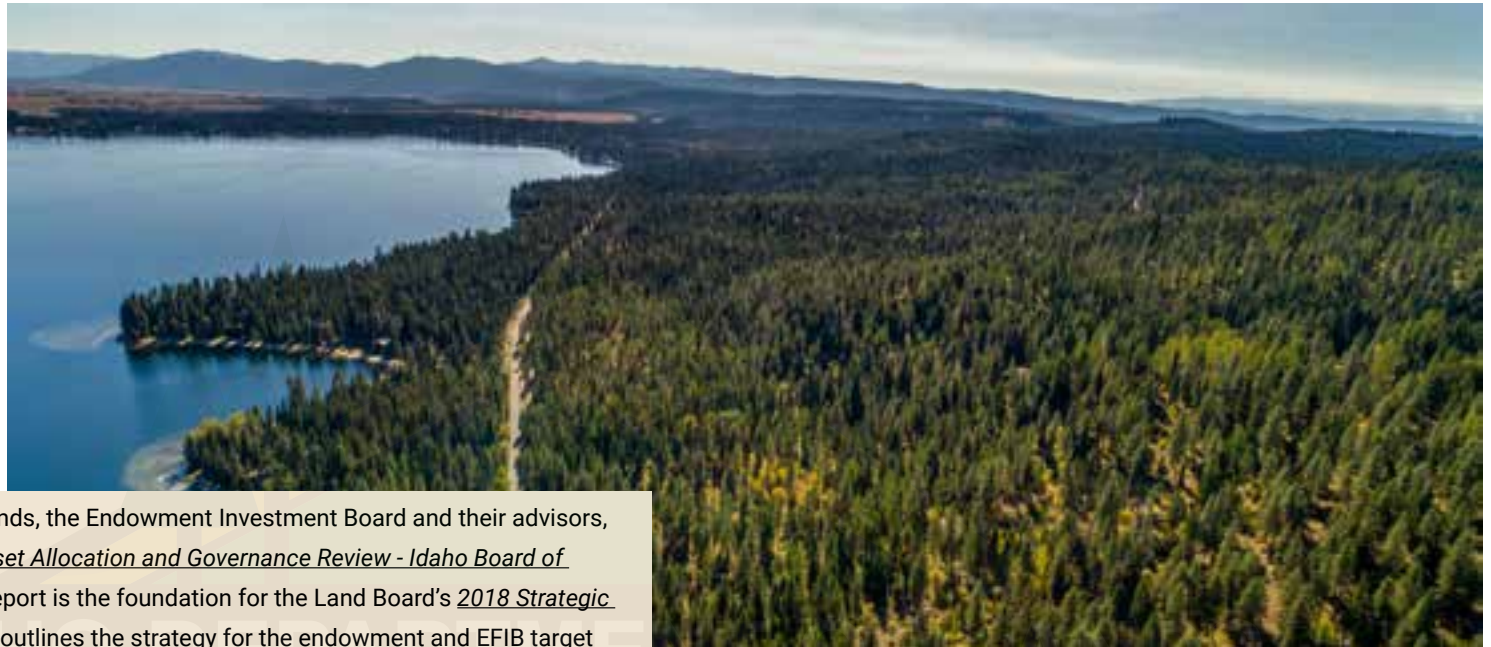
### \$1.21 million greater one-year forecasted portfolio return as a result of Land Exchange enabled portfolio reallocation











In 2014 the Idaho Department of Lands, the Endowment Investment Board and their advisors, the Callan Group, completed the *Asset Allocation and Governance Review - Idaho Board of Land Commissioners* report.<sup>3</sup> This report is the foundation for the Land Board's *2018 Strategic Investment Policy*.<sup>4</sup> The 2014 report outlines the strategy for the endowment and EFIB target asset allocations. Preserve McCall's proposed timberland exchange allows the endowment to more quickly achieve the Callan recommended portfolio allocation targets, and in following those recommendations, simultaneously increase equity investments.

When assuming a \$128.79 million Land Bank Reserve, an estimated \$49.82 million timberland exchange,<sup>5</sup> and maintaining the Callan recommended asset allocation, the land exchange implicitly increases the total available, fungible assets for investment to \$178.61 million. The land exchange is accretive to the overall portfolio as the endowment will only be required to invest an additional \$19.93 million in timberlands (plus the \$49.82 million land exchange) to meet the target allocation (39%). The Land Bank Reserve will now have the capacity to invest the remaining \$128.79 million as recommended by Callan's portfolio allocations<sup>6</sup>, excluding the timberland allocation which has already been filled. The endowment will achieve the benefits of the 3.45% forecasted real compounded return<sup>7</sup> (Callan Projected Returns, adjusted for inflation) on the newly-acquired timberland assets (both land exchange and non-land exchange<sup>8</sup>) while simultaneously increasing equity exposure at their higher forecasted rates of return (Broad US – 5.35% and Global ex-US – 5.55%, real compounded returns).





With the proposed land exchange, the endowment portfolio receives profitable lands for negligible cost,<sup>9</sup> needs to buy less lands with its Land Bank funds to achieve Callan's target allocations, and therefore has more funds to invest in equity instruments. When following the Callan asset allocation guidelines, after adding the additional timberland investments, the Portfolio may increase its equity investments as follows:

Without Land Exchange	Equity Investment Allocation (\$)	\$54,616,518
With Land Exchange	Equity Investment Allocation (\$)	\$75,744,000
Increase	Equity Investment Allocation (\$) (+ %)	\$21,127,482 (+16%)

As mentioned, the proposed land exchange provides the opportunity for the endowment to achieve several aims at once. This exchange speeds the Land Board's ability to follow and achieve Callan's expert-recommended allocation strategy, and in doing so, allocate significantly more funds to equities (per Callan's percentage targets).

The \$49.82 million Land Exchange implicitly increases the total investable, fungible assets to \$178.61 million (\$128.8 million Land Bank Reserve). Given higher investable assets, and while maintaining the Callan asset allocation recommendations, the \$49.82 million Land Exchange fills 71.4% of the IDL Timber allocation, requiring less investment in timberland. This effect shifts the remaining capital to higher returning asset classes, including equities.

# Exhibits

## Exhibit 1:

### Endowment Allocation (6/2014)<sup>10</sup>

Asset Class	Allocation (\$ mm)	Allocation (%)
Domestic Equity	902	31%
Int'l Equity	349	12%
EFIB Fixed	469	16%
IDL Timberland	1,152	39%
IDL Grazing Land	61	2%
Cash	17	1%
Portfolio	2,950	100%

## Exhibit 2:

### Callan Projected Returns<sup>11</sup>

Asset Class	Uncompounded Return	Compounded Return	Real Return
Broad US	9.15	7.60	5.35
Global ex-US	9.80	7.80	5.55
EFIB Bonds	3.06	3.00	0.75
Real Estate	7.35	6.20	3.95
Private Equity	13.55	8.50	6.25
IDL Timberland	6.25	5.70	3.45
IDL Grazing Land	3.50	3.30	1.05
Cash Equivalents	2.00	2.00	-0.25
Inflation	2.25	2.25	

### Exhibit 3:

### Summary Results of Portfolio Analysis<sup>12</sup>

	Without Land Exchange	Equity Investment Allocation (\$)	\$54,616,518
	With Land Exchange	Equity Investment Allocation (\$)	\$74,744,000
	<i>Increase</i>	Equity Investment Allocation (\$) (+ %)	\$21,127,482 (+16%)
	Without Land Exchange	Equity Investment Forecasted Y1 Return (\$)	\$2,952,457
	With Land Exchange	Equity Investment Forecasted Y1 Return (\$)	\$4,094,566
	<i>Increase</i>	Equity Investment Forecasted Y1 Return (\$)	\$1,142,108
		Discount Rate (Equity portfolio WA rate of return) <sup>13</sup>	5.41%
NPV of Accretive Value to <u>Equities</u> from Exchange-enabled Reallocation			\$21,127,482
	Without Land Exchange	Portfolio Forecasted Y1 Return (\$), ex-IDL Timberland Return	\$3,132,133
	With Land Exchange	Portfolio Forecasted Y1 Return (\$), ex-IDL Timberland Return	\$4,343,746
	<i>Increase</i>	Portfolio Forecasted Y1 Return (\$), ex-IDL Timberland Return	\$1,211,613
		Discount Rate (ex-IDL portfolio WA rate of return)	3.36%
NPV of Accretive Value to <u>ex-IDL Portfolio</u> from Exchange-enabled Reallocation			<b>\$36,008,011</b>
	Without Land Exchange	Total Portfolio Forecasted Y1 Return (\$)	\$4,867,288
	With Land Exchange	Total Portfolio Forecasted Y1 Return (\$)	\$6,750,116
	<i>Increase</i>	Additional Total Portfolio Forecasted Y1 Return (\$)	\$1,882,828
		Discount Rate (portfolio WA rate of return)	3.91%
NPV of Accretive Value to <u>Portfolio</u> from Exchange-enabled Reallocation			\$48,196,995



## Exhibit 4:

### One-year Asset Allocation Impacts | With & Without Land Exchange

#### Scenario 1 - Without Land Exchange

Land Bank Reserve	\$128,791,950
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Asset Class	% Allocation	\$ Allocation	One-year compounded real return (%)	One-Year forecasted portfolio value (\$)	One-year forecasted return (\$)
Broad US	31%	\$39,379,776	5.35%	\$41,486,594	\$2,106,818
Global ex-US	12%	\$15,236,743	5.55%	\$16,082,382	\$845,639
EFIB Bonds	16%	\$20,475,737	0.75%	\$20,629,305	\$153,568
Real Estate	0%	\$0	3.95%	\$0	\$0
Private Equity	0%	\$0	6.25%	\$0	\$0
IDL Timberland	39%	\$50,294,348	3.45%	\$52,029,503	\$1,735,155
IDL Grazing Land	2%	\$2,663,156	1.05%	\$2,691,119	\$27,963
Cash Equivalents	1%	\$742,191	-0.25%	\$740,335	(\$1,855)
	100%	\$128,791,950	3.78%	\$133,659,238	\$4,867,288

**One-Year Forecasted Gain \$4,867,288**

**One-Year Forecasted Rate of Return 3.78%**

**Scenario 2 - With Land Exchange**

Land Bank Reserve	<b>\$128,791,950</b>
Land Exchange Assets	<b>\$49,821,000</b>
Total Investable Assets	<b>\$178,612,950</b>

Asset Class	% Allocation	Land Exchange	Available assets - % allocation	Available assets - \$ allocation	Total allocation	One-year compounded return (%)	One-Year forecasted portfolio value (\$)	One-year forecasted return (\$)
Broad US	31%		42%	\$54,613,180	\$54,613,180	5.35%	\$57,534,985	\$2,921,805
Global ex-US	12%		16%	\$21,130,820	\$21,130,820	5.55%	\$22,303,581	\$1,172,761
EFIB Bonds	16%		22%	\$28,396,432	\$28,396,432	0.75%	\$28,609,405	\$212,973
Real Estate	0%		0%	\$0	\$0	3.95%	\$0	\$0
Private Equity	0%		0%	\$0	\$0	6.25%	\$0	\$0
IDL Timberland	39%	<b>\$49,821,000</b>	15%	<b>\$19,928,871</b>	\$69,749,871	3.45%	\$72,156,241	\$2,406,371
IDL Grazing Land	2%		3%	\$3,693,353	\$3,693,353	1.05%	\$3,732,133	\$38,780
Cash Equivalents	1%		1%	\$1,029,295	\$1,029,295	-0.25%	\$1,026,722	<b>(\$2,573)</b>
	100%	\$49,821,000	100%	\$128,791,950	\$178,612,950	3.91%	\$185,363,066	\$6,750,116

**One-Year Forecasted Gain** **\$6,750,116**  
**One-Year Forecasted Rate of Return** **3.78%**

**One-Year Delta in Portfolio Return, ex-Land Exchange Timberland Return (\$)** **\$1,211,613**  
**Discount rate (portfolio return, ex-Timberland return)** **3.36%**

**Net Present Value (NPV) of Accretive Value to Portfolio, ex-IDL Timberland, from Land Exchange-enabled Reallocation** **\$36,008,011**

## Exhibit 5:

### Ten-Year Forecasted Endowment Performance | With & Without Land Exchange<sup>14</sup>

Scenario 1 - Without Land Exchange				1	2	3	4	5	6	7	8	9	10
Asset Class	% Allocation	\$ Allocation	Compounded real return	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Broad US	31%	\$39,379,776	5.35%	\$41,486,594	\$43,706,127	\$46,044,404	\$48,507,780	\$51,102,946	\$53,836,954	\$56,717,231	\$59,751,603	\$62,948,314	\$66,316,048
Global ex-US	12%	\$15,236,743	5.55%	\$16,082,382	\$16,974,954	\$17,917,064	\$18,911,461	\$19,961,047	\$21,068,885	\$22,238,208	\$23,472,429	\$24,775,149	\$26,150,169
EFIB Bonds	16%	\$20,475,737	0.75%	\$20,629,305	\$20,784,025	\$20,939,905	\$21,096,954	\$21,255,182	\$21,414,595	\$21,575,205	\$21,737,019	\$21,900,047	\$22,064,297
Real Estate	0%	\$0	3.95%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Private Equity	0%	\$0	6.25%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IDL Timberland	39%	\$50,294,348	3.45%	\$52,029,503	\$53,824,521	\$55,681,467	\$57,602,477	\$59,589,763	\$61,645,610	\$63,772,383	\$65,972,530	\$68,248,583	\$70,603,159
IDL Grazing Land	2%	\$2,663,156	1.05%	\$2,691,119	\$2,719,375	\$2,747,929	\$2,776,782	\$2,805,938	\$2,835,401	\$2,865,172	\$2,895,257	\$2,925,657	\$2,956,376
Cash Equivalents	1%	\$742,191	-0.25%	\$740,335	\$738,485	\$736,638	\$734,797	\$732,960	\$731,127	\$729,300	\$727,476	\$725,658	\$723,843
Portfolio	100%	\$128,791,950		\$133,659,238	\$138,747,486	\$144,067,408	\$149,630,252	\$155,447,836	\$161,532,572	\$167,897,499	\$174,556,314	\$181,523,406	\$188,813,893
% Gain				3.78%	3.81%	3.83%	3.86%	3.89%	3.91%	3.94%	3.97%	3.99%	4.02%

**Ten-Year Forecasted Real Gain without Land Exchange \$60,021,943**

Scenario 2 - With Land Exchange				1	2	3	4	5	6	7	8	9	10
Asset Class	% Allocation	\$ Allocation	Compounded real return	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Broad US	31%	\$54,613,180	5.35%	\$57,534,985	\$60,613,107	\$63,855,908	\$67,272,199	\$70,871,262	\$74,662,874	\$78,657,338	\$82,865,506	\$87,298,810	\$91,969,296
Global ex-US	12%	\$21,130,820	5.55%	\$22,303,581	\$23,541,429	\$24,847,979	\$26,227,042	\$27,682,642	\$29,219,029	\$30,840,685	\$32,552,343	\$34,358,998	\$36,265,923
EFIB Bonds	16%	\$28,396,432	0.75%	\$28,609,405	\$28,823,975	\$29,040,155	\$29,257,956	\$29,477,391	\$29,698,472	\$29,921,210	\$30,145,619	\$30,371,711	\$30,599,499
Real Estate	0%	\$0	3.95%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Private Equity	0%	\$0	6.25%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
IDL Timberland	39%	\$69,749,871	3.45%	\$72,156,241	\$74,645,632	\$77,220,906	\$79,885,027	\$82,641,060	\$85,492,177	\$88,441,657	\$91,492,894	\$94,649,399	\$97,914,803
IDL Grazing Land	2%	\$3,693,353	1.05%	\$3,732,133	\$3,771,320	\$3,810,919	\$3,850,934	\$3,891,368	\$3,932,228	\$3,973,516	\$4,015,238	\$4,057,398	\$4,100,001
Cash Equivalents	1%	\$1,029,295	-0.25%	\$1,026,722	\$1,024,155	\$1,021,595	\$1,019,041	\$1,016,493	\$1,013,952	\$1,011,417	\$1,008,888	\$1,006,366	\$1,003,850
Portfolio	100%	\$178,612,950		\$185,363,066	\$192,419,618	\$199,797,461	\$207,512,198	\$215,580,217	\$224,018,731	\$232,845,823	\$242,080,489	\$251,742,683	\$261,853,373
% Gain				3.78%	3.81%	3.83%	3.86%	3.89%	3.91%	3.94%	3.97%	3.99%	4.02%

**Ten-Year Forecasted Real Gain with Land Exchange \$133,061,423**

**Ten-Year DELTA: Real Portfolio Return with Land Exchange (\$) \$73,039,479**

# Endnotes

<sup>1</sup> Yale University, B.A. in Economics

<sup>2</sup> Purdue University, B.A. in Forestry Science

<sup>3</sup> Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014

<sup>4</sup> Statement of Investment Policy. Idaho Land Grant Endowments, July 2018

<sup>5</sup> This estimated exchange value is a preliminary estimate. The valuation for exchanged lands will depend on eventual appraisals, to ensure the exchange is performed on a value-for-value basis. This early value estimate is also not the basis for doing the exchange in any way, but rather an attempt to show to the Land Board and IDL the general order of magnitude that the exchange offers broader endowment portfolio returns.

<sup>6</sup> Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014. Table 4: Endowment Asset Allocation (Financial and IDL) – 6/30/2014.

<sup>7</sup> Ibid. Table 1: Callan Capital Market Projections: Projected Returns and Risks.

<sup>8</sup> The Portfolio Return, ex-IDL Timberland does not include the incremental returns on the delta between the IDL Timberland allocation in Scenario 1 (\$50.3mm) and Scenario 2 (\$63.9mm), or \$13.6mm in additional value. Using the 3.45% forecasted IDL Timberland rate of return on this incremental value yields an additional \$469,703 of forecasted return, which is not captured in this analysis.

<sup>9</sup> These costs will include, among other transaction costs, the costs for due diligence and appraisal.

<sup>10</sup> Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014

<sup>11</sup> Ibid.

<sup>12</sup> The analysis assumes land exchange occurs in Q1 2021. The analysis reflects return estimates for 2021. The land exchange assumes no costs for the endowment (see footnote v) and the basis in the Exchange timberlands are \$0.

<sup>13</sup> WA – weighted average rate of return. This is the total portfolio rate of return weighting each asset class return by the portfolio weight of each asset class.

<sup>14</sup> Ten-Year Forecasted Gain with Land Exchange is calculated as the difference between the portfolio ending value with the additional value of Land Exchange assets versus the original Endowment funds available (\$128.8 mm).

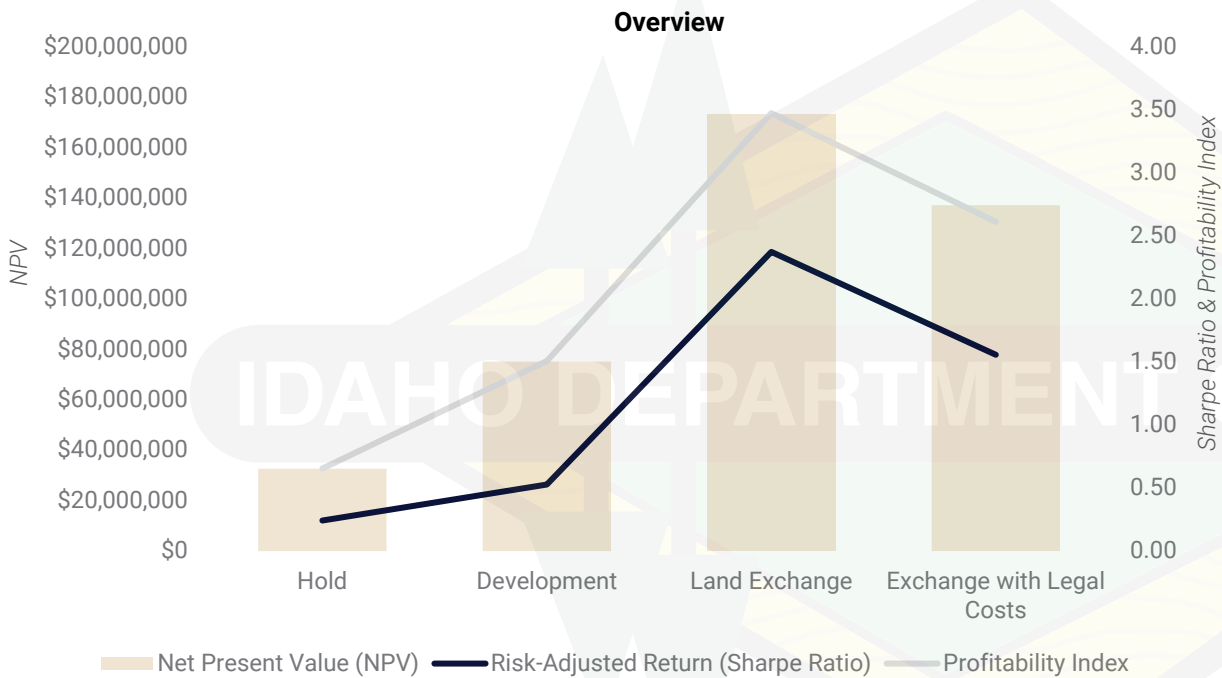


IDAHO DEPARTMENT OF LANDS



# Asset Valuation Scenario Analysis

Authors: Brent Lawson,<sup>1</sup> Spencer Klingman,<sup>2</sup> and David New<sup>3</sup>



## Key Findings

Profitability metrics across all four scenarios express a positive correlation – meaning, the Land Exchange offers the Endowment both the greatest cash flow distributions, as exemplified by the higher NPV and Profitability Index, and the greatest risk-adjusted returns, as exemplified by higher Sharpe Ratios.



Δ Appraisal Value/acre	\$/acre	Total Appraised Value	Multiplier			
			Hold	Development	Land Exchange	Land Exchange w/ Legal
-\$500	\$1,300	\$39,821,000	0.81x	1.87x	3.54x	2.61x
\$0	\$1,800	\$49,821,000	0.66x	1.51x	3.47x	2.61x
\$500	\$2,300	\$59,821,000	0.55x	1.26x	3.43x	2.61x
\$1,000	\$2,800	\$69,821,000	0.48x	1.09x	3.40x	2.61x
\$1,500	\$3,300	\$79,821,000	0.43x	0.96x	3.38x	2.62x
\$2,000	\$3,800	\$89,821,000	0.38x	0.86x	3.36x	2.62x
\$2,500	\$4,300	\$99,821,000	0.35x	0.78x	3.34x	2.62x

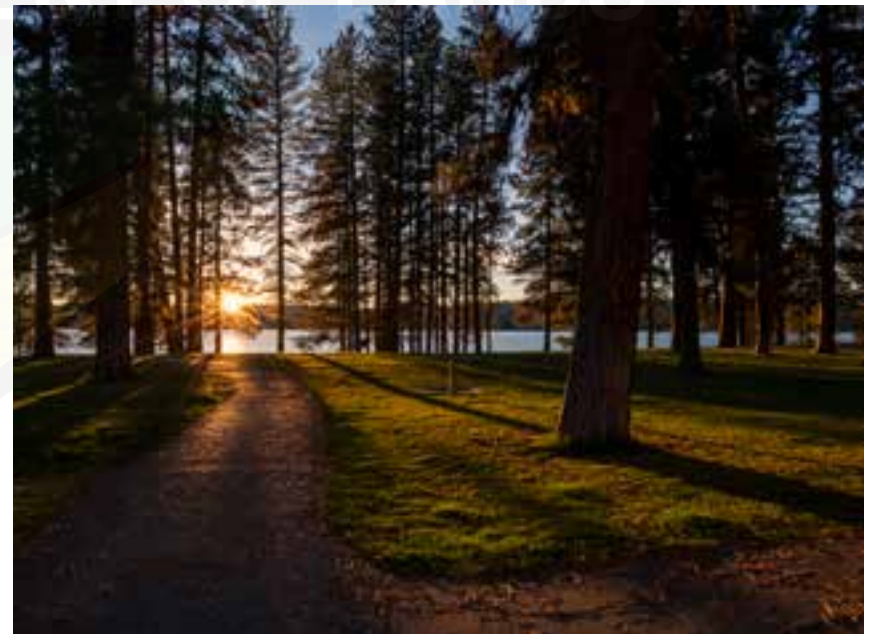
Note: Multiplier<sup>o</sup> defined as NPV divided by total cash outlays.

## Objective

The purpose of this analysis is to quantitatively estimate and analyze the profitability of various investment and management strategies for the Idaho Endowment's timberland and residential holdings in the Payette Lakes region. Considering the Endowment land holdings, constitutional mandates, and relevant topics discussed in Land Board meetings, the following long-term management strategies have been identified and thus examined in this analysis:

1. **Hold** – Idaho Department of Lands (IDL) and the Endowment continue ownership and management of the existing timberland holdings and sell the remaining residential lots (cottage sites).
2. **Development** – The IDL staff undertakes a residential development process internally by installing necessary infrastructure - roads, power, septic systems, water utilities, traffic control, planning and zoning – to sell the feasible residential acreage.
3. **Land Exchange** – The IDL executes the proposed exchange by acquiring higher income producing timberland assets in northern Idaho and in course reduces administrative costs on the Payette Lakes region assets.
4. **Land Exchange with Legal Costs & Time Delays** – The Land Exchange scenario (item 3 above) with additional legal costs and time delays, dragging initial cash flows from the subject project (detailed assumptions included below).

Scenario analyses of this nature provide the reader with a modest understanding of profitability related to the various opportunities available to Idaho's Endowment. We recognize the insufficiency of long-term forecasting models; nevertheless, we believe the analysis can be directionally useful. Numerous forecasting methodologies accepted in the real estate investment industry have been employed in this analysis. At every junction, conservative assumptions have been made related to base-line acre values, income returns, growth rates, development costs, and inflation expectations. In course, it is our belief that the resulting profitability estimates are sensible and prudent in nature.



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## Methodology

For the avoidance of doubt, we have described the methodologies exercised in this scenario analysis below.

1. **Net Present Value (NPV)** – The NPV metric, described as a monetary value, represents the present value of future cash flows minus the scenario's initial cash outlay. The present value is derived from discounting the future cash flows by a rate representing the aggregate opportunity cost of the institution contemplating the scenario. The discount rate for the NPV metric has been assumed at the Endowment portfolio asset weighted real return forecast of 3.78%.<sup>4</sup>
2. **Internal Rate of Return (IRR)** – The IRR metric, described as a percentage value, represents the discount rate that results in the sum of the present value of cash flows equal to the initial scenario outlay. Put simply, the IRR represents the discount rate necessary to render an NPV of zero. This metric is less subjective than NPV as no discount rate on the future cash flows are assumed. Instead, this metric provides the implied discount rate representing the institution's return on investment.
3. **Payback Period** – The Payback Period, described as a year count, calculates the time it takes for the initial scenario outlay to be recovered through cash flows generated by the same scenario. This metric is simple and intuitive. It provides the reader with a time estimate on profitability and is a strong indicator of liquidity.
4. **Profitability Index** – The Profitability Index, described as a ratio, represents the value received in exchange for one unit of currency invested in any given scenario. This is also commonly referred to as the "benefit-cost" ratio. It provides the reader with an estimate of profitability for every dollar invested.
5. **Sharpe Ratio** – The Sharpe Ratio describes the anticipated excess return of the scenario relative to the risk-free rate of return for every unit of risk assumed. Risk is measured as the standard deviation of the relevant return drivers for each specific scenario.



While each methodology provides the reader with a meaningful profitability metric representing any given scenario, consideration of all relevant methodologies and an appreciation for the respective strengths of each provides the reader with a more holistic, comprehensive evaluation.

**Figure 1:**

### Scenario Analysis

Figure 1 demonstrates the Net Present Values, Internal Rates of Return, Payback Period, Profitability Index, and Sharpe Ratios for each of the four strategies analyzed. Figure 1 illustrates the positive correlation observable between the various profitability metrics as it relates to any given scenario.

Beginning Year: 2021

Years of Analysis: 80

Scenario	Hold	Development	Land Exchange	Exchange with Legal Costs
Timberland disposition year	2100	2100	2100	2100
Residential disposition year	2030	2030	n/a	n/a
Development disposition year	n/a	2021 - 2080	n/a	n/a
Net Present Value (NPV)	\$32,645,972	\$75,099,490	\$172,992,427	\$137,141,554
Internal Rate of Return (IRR)	2.01%	5.52%	9.19%	6.44%
Payback Period	45.93	17.16	12.65	21.84
Profitability Index	0.66	1.51	3.47	2.61
Risk-Free Rate - Real (One-Year)	1.21%	1.21%	1.21%	1.21%
Risk (Standard Deviation)	3.32%	8.18%	3.36%	3.36%
Risk-Adjusted Return (Sharpe Ratio)	0.24	0.53	2.37	1.56

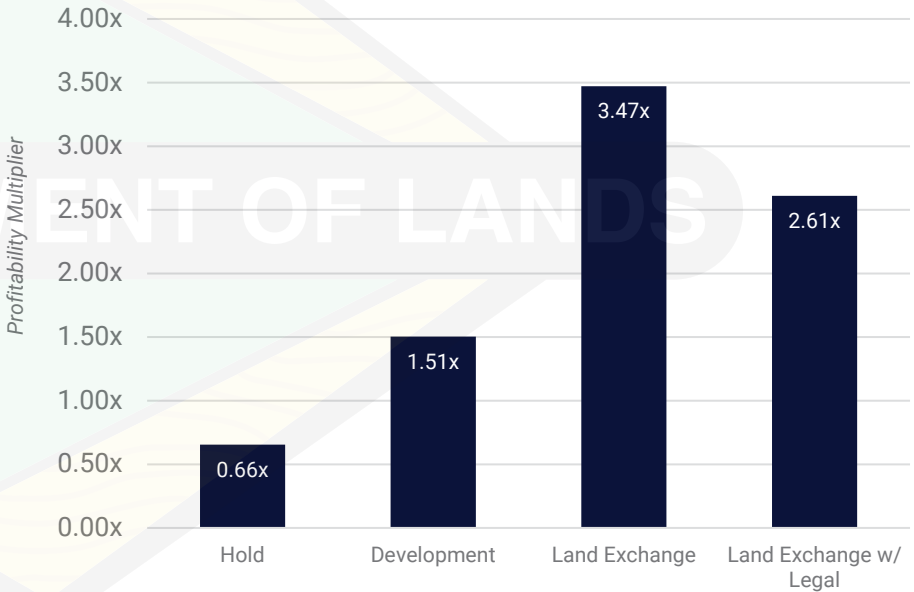


# Model Assumptions

The following model assumptions are included in all four scenarios:

- 1. Timing** - The analysis begins as of January 1, 2021 and analyzes an 80-year period, with December 31, 2100 as the terminal year (Note: This differs from the perpetuity values in the section before. Aligning terminal value years makes the different scenarios comparable). An 80-year period of analysis was selected to reduce the appreciated terminal value of timberland assets. By extending the assumed terminal values, the primary drivers of the discounted cash flow (DCF) analysis are derived from timberland annual net incomes and disposition of key residential properties (existing cottage sales and/or development parcel sales).
- 2. Real Returns** – All appreciation rates, growth rates and return metrics are stripped of the Callan Inflation assumption of 2.25%<sup>5</sup> to provide real rates of return. This methodology was adopted to maintain consistency with real rates of return analyzed in the previous section and the Endowment’s real portfolio rate of return of 3.78%.<sup>6</sup>
- 3. Discount Rate** – The Endowment Fund real weighted-average portfolio return of 3.78% was utilized as the discount rate. This discount rate accurately reflects the Endowment’s current asset allocation and Callan’s projected returns. The discount rate accounts for opportunities in all asset classes. To provide color on the sensitivity of the discount rate, NPV results are analyzed with various discount rates ranging from 2.8% - 4.8% in Exhibits A, B, C, and D.
- 4. Internal Rate of Return (IRR)** - The current value of the Payette Lakes timberland holdings is approximated at \$49,821,000. This value per acre may be adjusted as additional appraisal resources are allocated to the project. The figure was used as the initial investment for all scenarios. Although the Endowment will not incur this acquisition expenditure (the Endowment currently owns the assets), an assumption on current value is necessary for the profitability analysis of each scenario.

The figure below reveals one of the key metrics - the Profitability Index - in plain form. The Profitability Index, or the Multiplier, expresses the value received in exchange for one unit of currency invested. This demonstrates the expected value from each scenario given the assumed initial investment of \$49.821 million. We view this as a simple representation of the magnitude of difference between the available strategies presented to the Endowment.



In an effort to address questions regarding the Payette Lakes Endowment land valuations, we have presented the following sensitivity tables for NPV, IRR, Sharpe Ratio, and the Profitability Index. We currently assess the Payette Lakes timberland assets at \$1,800 per acre for the 20,000 acres (with additional value of \$13.82mm on the cottage sites included in the proposed land exchange). However, the below tables allow the reader to adopt their own timberland valuation methodology, as reflected by the Payette Lakes value per acre. This additional optionality allows the reader to attribute their personal views and analyze the associated profitability metrics for each scenario.

Summary Total			NPV			
$\Delta$ Appraisal Value/acre	\$/acre	Total Appraised Value	Hold	Development	Land Exchange	Land Exchange w/ Legal
-\$500	\$1,300	\$39,821,000	\$32,175,386	\$74,635,266	\$140,823,588	\$110,867,864
\$0	\$1,800	\$49,821,000	\$32,645,972	\$75,099,490	\$172,992,427	\$137,141,554
\$500	\$2,300	\$59,821,000	\$33,116,558	\$75,563,714	\$205,161,266	\$163,415,244
\$1,000	\$2,800	\$69,821,000	\$33,587,144	\$76,027,938	\$237,330,105	\$189,688,934
\$1,500	\$3,300	\$79,821,000	\$34,057,729	\$76,492,163	\$269,498,944	\$215,962,625
\$2,000	\$3,800	\$89,821,000	\$34,528,315	\$76,956,387	\$301,667,783	\$242,236,315
\$2,500	\$4,300	\$99,821,000	\$34,998,901	\$77,420,611	\$333,836,621	\$268,510,005

Summary IRR			IRR			
$\Delta$ Appraisal Value/acre	\$/acre	Total Appraised Value	Hold	Development	Land Exchange	Land Exchange w/ Legal
-\$500	\$1,300	\$39,821,000	2.69%	6.81%	9.38%	6.48%
\$0	\$1,800	\$49,821,000	2.01%	5.53%	9.19%	6.44%
\$500	\$2,300	\$59,821,000	1.59%	4.63%	9.06%	6.42%
\$1,000	\$2,800	\$69,821,000	1.30%	3.97%	8.97%	6.41%
\$1,500	\$3,300	\$79,821,000	1.10%	3.47%	8.91%	6.39%
\$2,000	\$3,800	\$89,821,000	0.94%	3.07%	8.85%	6.39%
\$2,500	\$4,300	\$99,821,000	0.82%	2.74%	8.81%	6.38%

Summary SR			Sharpe Ratio			
$\Delta$ Appraisal Value/acre	\$/acre	Total Appraised Value	Hold	Development	Land Exchange	Land Exchange w/ Legal
-\$500	\$1,300	\$39,821,000	0.45	0.69	2.43	1.57
\$0	\$1,800	\$49,821,000	0.24	0.53	2.37	1.56
\$500	\$2,300	\$59,821,000	0.12	0.42	2.33	1.55
\$1,000	\$2,800	\$69,821,000	0.03	0.34	2.31	1.54
\$1,500	\$3,300	\$79,821,000	-0.03	0.28	2.29	1.54
\$2,000	\$3,800	\$89,821,000	-0.08	0.23	2.27	1.54
\$2,500	\$4,300	\$99,821,000	-0.12	0.19	2.26	1.54

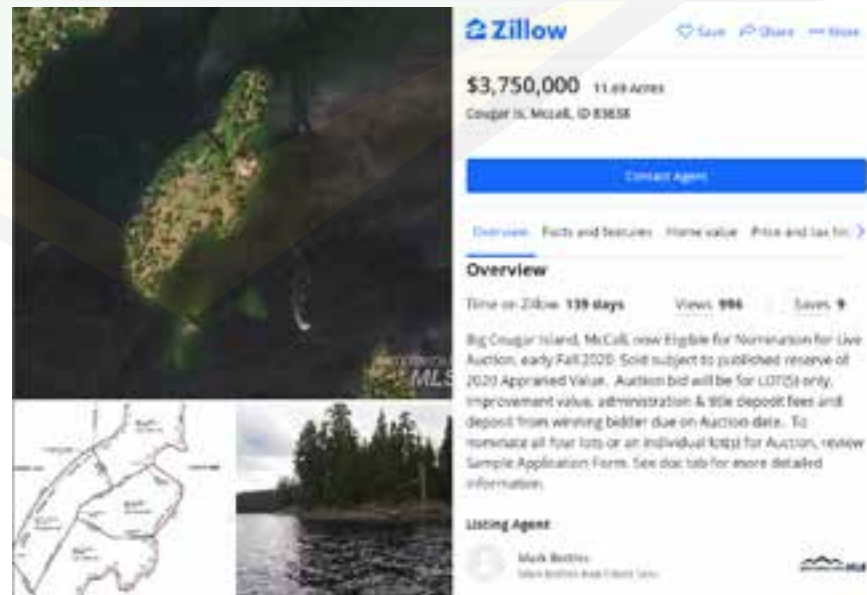
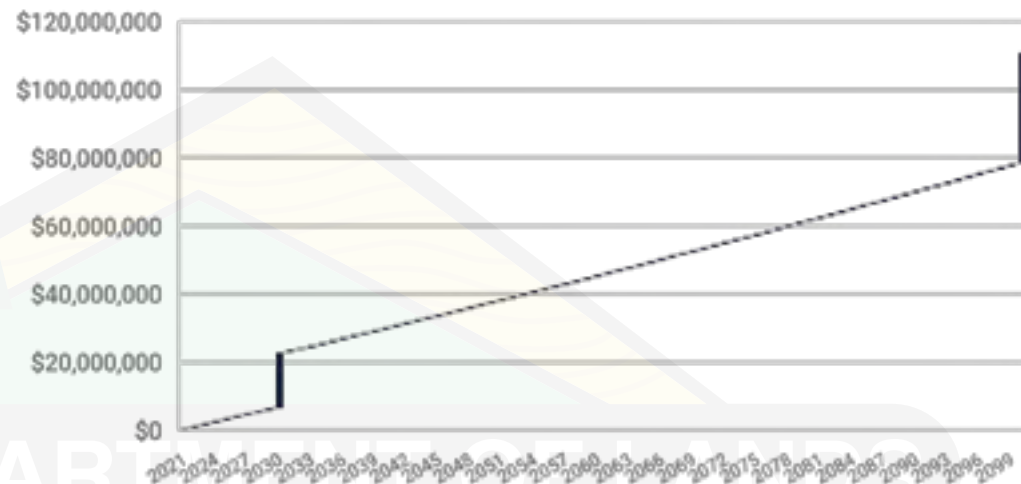
Summary Multiplier (NPV/Cash Outlays)			Multiplier			
$\Delta$ Appraisal Value/acre	\$/acre	Total \$	Hold	Development	Land Exchange	Land Exchange w/ Legal
-\$500	\$1,300	\$39,821,000	0.81x	1.87x	3.54x	2.61x
\$0	\$1,800	\$49,821,000	0.66x	1.51x	3.47x	2.61x
\$500	\$2,300	\$59,821,000	0.55x	1.26x	3.43x	2.61x
\$1,000	\$2,800	\$69,821,000	0.48x	1.09x	3.40x	2.61x
\$1,500	\$3,300	\$79,821,000	0.43x	0.96x	3.38x	2.62x
\$2,000	\$3,800	\$89,821,000	0.38x	0.86x	3.36x	2.62x
\$2,500	\$4,300	\$99,821,000	0.35x	0.78x	3.34x	2.62x

## Scenario One: Hold

The Hold scenario assumes the Endowment maintains ownership and the current management plan for the Payette Lake assets. As per the Payette Lakes Supervisory area, we project the Hold strategy will generate \$367,800 net income per annum from the Endowment Impact Area forests - timber activity. We project the Endowment Impact Area non-timber revenues from timberland acreage (communication, recreation, grazing and mineral lease) will generate \$112,364 in net income per annum. Finally, we project the Endowment Impact Area – lease activity from non-timberland to generate \$239,308 in net income per annum. Each of these revenue generating activities are maintained throughout the hold period. Over the long-run, the net incomes are grown at a 2.5% nominal, or 0.25% real appreciation rate to reflect the long-term pricing tailwinds for the subset of assets.

Given the current endowment of unsold cottage sites included in the Land Exchange proposal,<sup>8</sup> the Hold scenario assumes the Endowment will complete the disposition of the remaining 14.9 lake front acres (8 sites) and 1.2 non-lake front acres (3 sites) in 2030. Sales were analyzed using a seven-year regression analysis, then extrapolated for the remaining cottage sites as of 2020. The predictive value for lake front parcels was estimated \$911,316 per acre. The predictive value for non-lake front parcels was estimated at \$200,000 per acre. These valuations were used as the starting values for per acre disposition calculations. Free market transaction per square foot and per acre values over the 2013-2019 period were also analyzed to cross check the rationale behind the predictive value

Scenario One: Hold  
Cumulative Cash Flow Time Series



Selling unleased properties, Zillow, retrieved 25 October 2020

estimates. We confirmed the historical sales in the open market corroborate our valuation methodology. The valuation figures were in line. The residential values are appreciated at the five-year historical McCall residential appreciation rate of 1.31% real, or 3.56% nominal.<sup>9</sup> We utilized the historical growth rate proxy based on the 2015-2020 free-market transactions.<sup>10</sup> This analysis further supports the regression analysis and predictive values as outlined above. We view the long-term growth rates as a generous assumption, given the most recent five-year period represents a rather aggressive residential bull market. Finally, we recognize historical valuations are not indicative of future results as by definition, the future is unknown. We do not attempt to adjust long-term trends in this analysis and suggest the methodology fairly represents long-term valuations.

The analysis assumes the timberland acreage will be held for eventual sale. The timberland holdings of 20,000 acres were assigned a valuation of \$1,800 per acre. We currently believe this valuation to be in-line with market, given conversations with appraisers and forestry consultants.<sup>11</sup> It is critical to note that these valuations are subject to change upon the official IDL appraisal. The roughly 5,000 non-viewshed timberland acres are forecasted to grow at the 20-Year NCREIF Appreciation Index - compounded annual growth rate (CAGR) of 3.66% nominal, or 1.41% real.<sup>12</sup> Given discussions with forestry consultants, we suggest the ~15,000 viewshed timberland acres are impaired timberlands, thus are not expected to appreciate at the same rate. We have ascribed a 0.0% nominal growth rate (-2.25% real) to the viewshed acres.<sup>13</sup> The NCREIF Earnings before Interest, Taxes, Depreciation, Depletion, and Amortization (EBITDDA)<sup>14</sup> Index returns are excluded from long-term timberland asset growth rates as the annual earnings are reflected in the annual real return figures as presented above. The terminal value of the Endowment's 5,000 non-viewshed timberland holdings in 2100, assuming the 3.66%



NCREIF Appreciation Index growth rate is \$5,459 per acre (real). The terminal value of the ~15,000 viewshed acres, assuming the 0.0% nominal growth rate is \$298 per acre (real). To clarify, the terminal value does not suggest the IDL disposes of the timberland assets. The terminal value simply represents the timberland value in perpetuity. Due to the nature of discounting over 80-years, the terminal values of the timberland assets are not significant drivers to the NPV analysis.

With the exception of year 2030 and 2100, where upon the residential acres and timberland are assumed to be

sold, respectively, the Hold scenario generates modest positive cash flow due to the lower timber productivity and high administrative costs. This return profile is considered particularly risky given the majority of years are anticipated to be slightly productive, thus placing a disproportionate reliance on only a few events which may or may not materialize to expectation. Further critical thought should be given to the prospects of the terminal valuations in the year 2100. If there is even the potential for the related timberland acres to be unproductive, the terminal value estimated at best use will suffer a considerable loss of value.



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## Scenario Two: Development

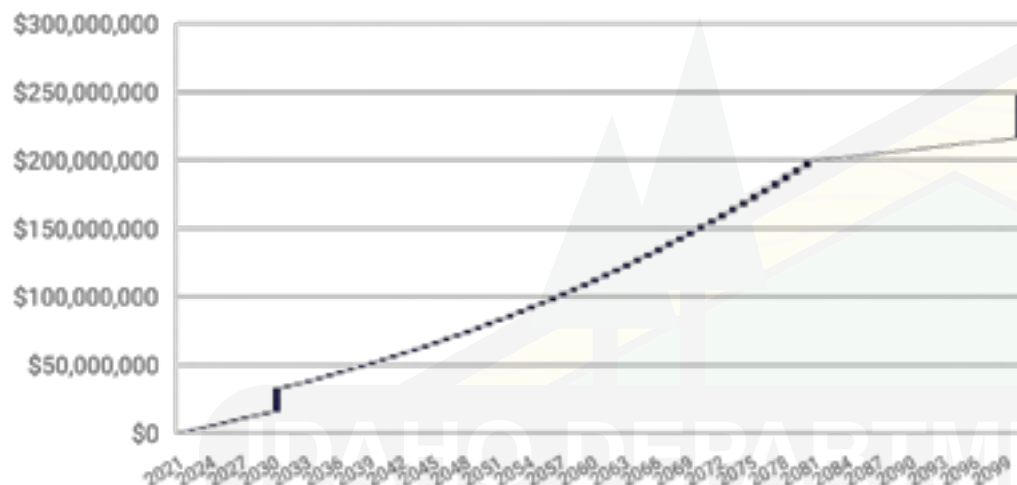
In the Development scenario, the same assumptions for Payette Lakes timberland assets and existing residential sales are maintained as in Scenario One. The scenario analyzes the returns if the Idaho Department of Lands staff undertakes the residential development project internally. The development project is scaled throughout the analysis period, meaning, we assume the Endowment will develop 24 acres per year for the next 60 years (2021-2080). Anecdotally, we have learned IDL recently considered developing 120 acres into 130 residential properties. If we assume the project will take 5 years to complete, this equates to 24 acres per year. In the Scenario Two analysis, the development project yields 1,440 total acres, or 7.20% of the ~20,000 acres of the proposed Land Exchange. Developing 1,440 acres of currently classified timberlands into residential properties is a prudent assumption given the size of the McCall and greater Idaho residential markets. The “absorption rate”, or the rate at which new homes sell in a specific market over a period of time, will be the primary constraint in a development project of this scale. We believe the pace of development and total acreage developed is in-line with the market’s current capacity to absorb new housing.

The analysis assumes the IDL staff will develop only the necessary infrastructure to sell bare land residential properties (horizontal development). This does not include the construction of homes or improvements (vertical development). The infrastructure expenses include, but are not limited to, roads, retainer walls, community wells, neighborhood water lines, fire hydrants, power lines, individual domestic wells, individual septic systems, TOPOS engineering, traffic control, permits, zoning, safety & compliance standards (fire and emergency systems), IDL staff salaries and general contractor expenses. In conversations with community architects and residential development firms, infrastructure costs for a development of this scale would cost roughly \$163,476 per acre on the low end and \$285,738 per acre on the high end.<sup>15</sup> We assume 0.5 acre lots, resulting in 2,880 units over the 60-year period. The development costs per unit are \$81,738 on the lower bound and \$142,869 on the higher bound. Due to the scaled development approach, infrastructure development costs are appreciated at a 3.00% nominal growth rate, or 0.75% real growth rate. The all-in development costs, including the inflationary effects, over 60 years is \$295,920,705. This may be a considerable expense for the Endowment to incur from the Endowment’s current, and future, cash assets. The Endowment would take a substantial risk incurring the

development costs on an investment in a residential real estate market, which has historically been volatile in nature. Residential development risk is analyzed using a proxy as defined by a 50% weight to the average rolling three-year standard deviation of McCall residential market and a 50% weight to the average rolling three-year standard deviation of USA Framing Lumber prices. The proxy’s standard deviation is 8.18% (Lumber – 5.80% and Residential 10.56%).<sup>16</sup> Therefore, the significant investment is concentrated on a risk that is not guaranteed to produce the forecasted returns (demonstrated below). In other words, the Endowment would be making a capital-intensive investment on risk factors that have been volatile in nature. The expected payout from the development is far from guaranteed.

It is worth noting, these development costs would require resources to be allocated away from traditional Endowment Fund portfolio investments, including domestic and international equities. Finally, residential developments of this scale and nuance require specialized expertise and significant coordination. The required time investment and long, but relatively shallow learning curve associated with development, may not be the best use of IDL staff. Such an undertaking would likely compete with current IDL staff responsibilities to the Endowment and beneficiaries.

**Scenario Two: Development**  
Cumulative Cash Flow Time Series



Once developed, the analysis assumes residential acres will be sold at valuations of \$200,000 per acre. This is a favorable assumption given the Endowment's non-lake front cottage site median sale was \$4.33 per square foot, or \$188,722 per acre. The feasibility of continued lake-front property development is a serious concern due to the lack of availability of lake front parcels – most of the lake front parcels have been sold through cottage site auctions. We assume all development acres will be non-lake front. The per acre valuations are appreciated at the same 3.56% McCall residential nominal growth rate, or 1.31% real, through the development period (as outlined above). In addition to the 1,440 development acres, the remaining cottage sites are assumed to be sold in 2030 at the same valuations as outlined in Scenario One. The timberland terminal value methodology is the same as outlined in Scenario One, besides the 1,440 developed acres subtracted from the viewshed timberland acres.



IDL's application for 130 residential unit sewer expansion assessment

**PAYETTE LAKES RECREATIONAL WATER AND SEWER DISTRICT**  
**AGREEMENT FOR SEWER COMMITTED MODEL SERVICES**

APPLICANT: Idaho State Department of Lands (Siti Anderson)  
 PHONE: 208-334-4229  
 ADDRESS: 300 N 6th st  
 Boise, ID 83720

DESCRIPTION OF PROPERTY TO BE SERVED:  
 77-120 acres of Endowment Lands adjacent to the lake on the east side of Payette Lake.  
 Located in 19M, 3E, Sec 26.

PROPERTY OWNERS: Idaho State Department of Lands

TYPE OF FACILITIES TO BE SERVED: Residential/Commercial

DESCRIPTION OF FACILITIES (e.g. number of residences; type of establishment):  
 If the bottleneck does stream from this site were served how many EDUs would be available before another bottleneck began to form elsewhere in the system?  
 What would it take to get to approximately 130 EDUs available in this location?

DEPOSIT OF \$300 REQUIRED for minimum anticipated costs to the District

APPLICATION RECEIVED BY: Paul Cap  
 DATE: 1.6.2020

DEPOSIT REMITTED: \$300.00  
 DATE PAID: 1.6.2020 CHECK NO.: 129977675

Applicant agrees to reimburse the Payette Lakes Recreational Water and Sewer District for any costs incurred to model sewer capacity for the property described. Costs include services provided by J-C-B Engineers or their subsidiaries, District staff time and incidental costs.

[Signature] 1/6/2020  
 Applicant signature Date

Attachments/Exhibits attached to application:

Deposit \_\_\_\_\_  
 Final Fees billed \_\_\_\_\_  
 Balance Due \_\_\_\_\_  
 Date Paid in Full \_\_\_\_\_

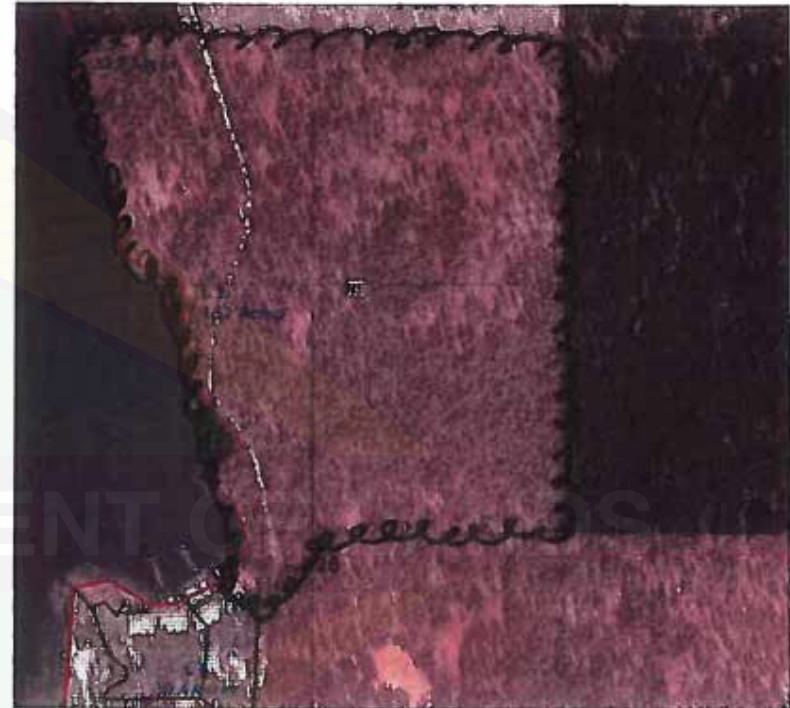
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Commitment Model 34-1400

v. 3018-01

IDL's application for 130 residential unit sewer expansion assessment

Attachment A



IDL's application for 130 residential unit sewer expansion assessment

Holding Endowment lands for eventual residential development through internal efforts appears attractive at first glance; however, the feasibility of implementation, concentrated development risk, magnitude of capital expenses and overall inferior long-term returns demonstrates the development approach to be less attractive than the Land Exchange alternative. As exemplified by a lower Sharpe Ratio, the IDL Development scenario also offers lower *risk-adjusted* returns to the Endowment.

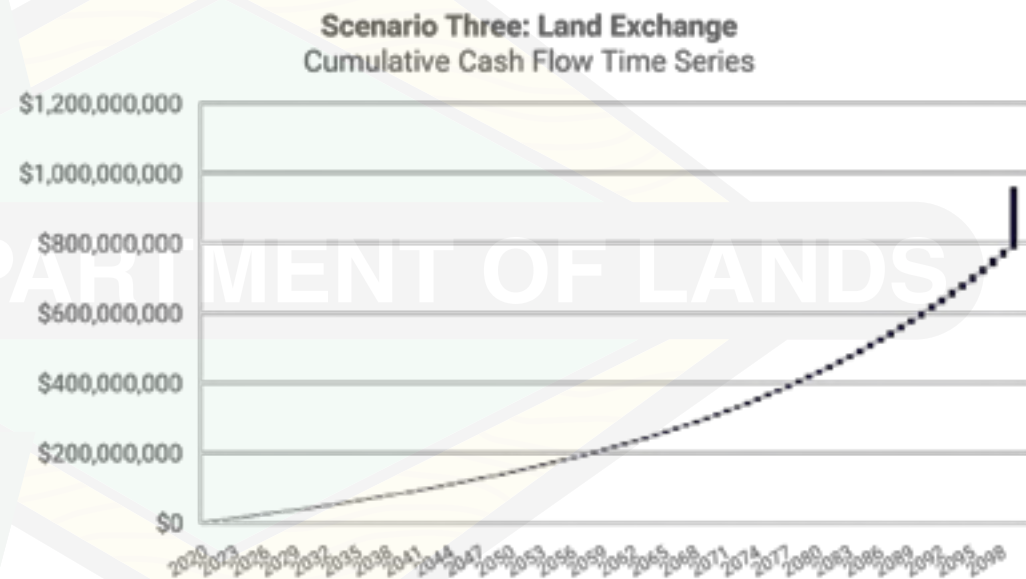




### Scenario Three: Land Exchange

The proposed Land Exchange, primarily outlined in the Economic Benefits to Idaho Endowment Beneficiaries section, thoughtfully addresses the economic benefits of the Land Exchange to the Endowment. The Exchange Lands in northern Idaho are assumed to deliver a \$64.43 net return per acre per annum, or \$2,006,229 in net revenues per annum on 31,000 proposed candidate acres.<sup>17</sup> This revenue stream is grown at a 2.5% nominal growth rate, or 0.25% real growth rate, to reflect long-term trends in timber pricing. Over the long run, we believe this is a conservative, prudent assumption for timber prices.

The immediate allowable cut benefit for the Endowment portfolio resulting from the acquisition of northern Idaho exchange assets is conservatively estimated at \$386,594. This immediate cut benefit is projected to last through the entire investment period as the older trees that will be harvested will continue to cycle through the Endowment unit mix. In other words, the older trees that are harvested will be replanted, and the unit mix of the Exchange Land timber holdings will continue to cycle through the Endowment's unit age mix. The Endowment asset profile will continue to materialize this benefit for the 80-year hold. This effect is appreciated at a base 2.25% growth rate, in-line with inflation.



The improved legal and physical access effect for the northern Idaho timber assets is valued at \$64.43 per acre for 1,583 acres - yielding \$101,966 in annual net income. We view this as a conservative assumption given our understanding of proposed north Idaho exchange lands. The physical access effect is appreciated at a 2.25% nominal growth rate, in-line with inflation.

Finally, the portfolio reallocation to Callan-targeted non-timber assets is projected at \$1,211,613 per annum. This assumption will be held throughout the entire analysis period, as the portfolio will continue to yield these benefits as asset allocations perform. The growth of the portfolio reallocation is in-line with the Endowment's forecasted portfolio real rate of return of 3.78%.<sup>18</sup> The portfolio reallocation benefit will be maintained through the period of analysis.

Timberland assets are assigned a valuation of \$1,600 per acre. A more detailed per acre valuation exercise will be conducted during the Land Exchange asset due diligence period. Given the \$1,600 per acre timberland valuations in northern Idaho, and currently assumed \$49,821,000 Land Exchange value, roughly 31,000 acres would be acquired in northern Idaho. It is critical to note these valuation estimates are subject to change as appraisal valuations are materialized; the acreage count may change in unison. The Land Exchange scenario also includes the assumption that the Endowment will hold timberland assets in perpetuity after 2100. The historical Earnings before Interest, Taxes, Depreciation, Depletion, and Amortization (EBITDDA)<sup>19</sup> Index returns are excluded from long-term timberland asset growth rates because the Land Exchange assets EBITDDA is included in the annuity net income per annum calculations, as demonstrated above. Timberland holdings are appreciated at the 3.66%

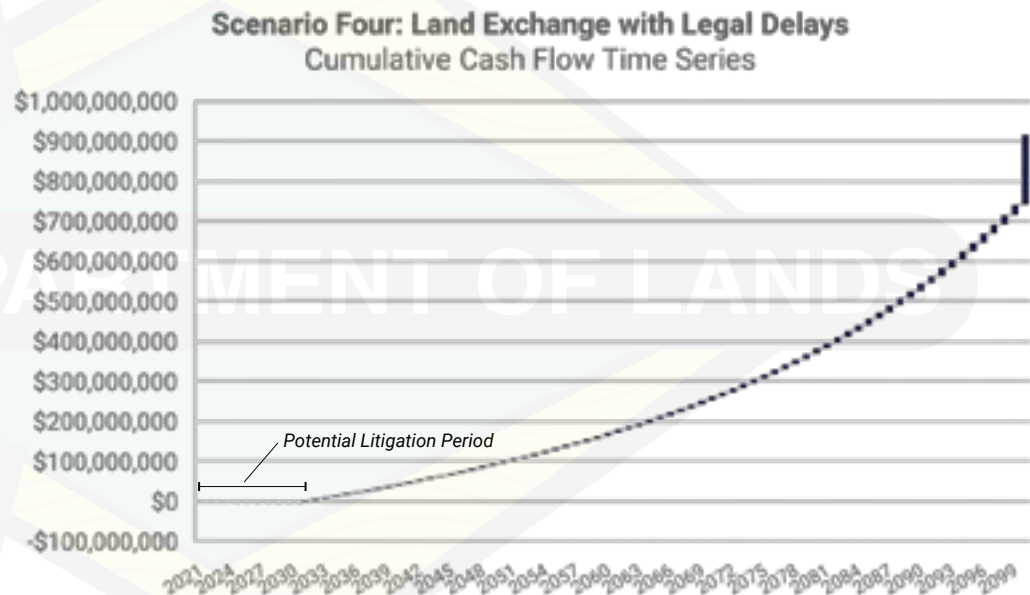


NCREIF Appreciation Index growth rate. The terminal value of timberland assets in 2100 after ascribing the real appreciation rate is \$4,852 per acre. Due to the compounding nature of the discount rate over 80 years, the terminal values for timberland assets are not significant drivers to the NPV analysis.



# Scenario Four: Land Exchange with Legal Costs & Time Delays

The final scenario assumes the proposed Land Exchange (same assumptions as Scenario Three), with the addition of significant legal costs and extensive time delays. This scenario assumes legal costs to be \$1 million per year, for a ten-year exchange process. The analysis maintains the year 2021 combined \$719,471 in annual net income from the timber revenue from timberland, non-timber revenue from timberland, and non-timberland acreage revenue, until the Land Exchange is executed. This effect slightly offsets the negative cash flows through the 10-year delay process. Despite the \$10 million in legal expenses and time delays, both considered unlikely and without known reasons now, the “delayed” Land Exchange nevertheless proves more attractive relative to any other Endowment alternative.



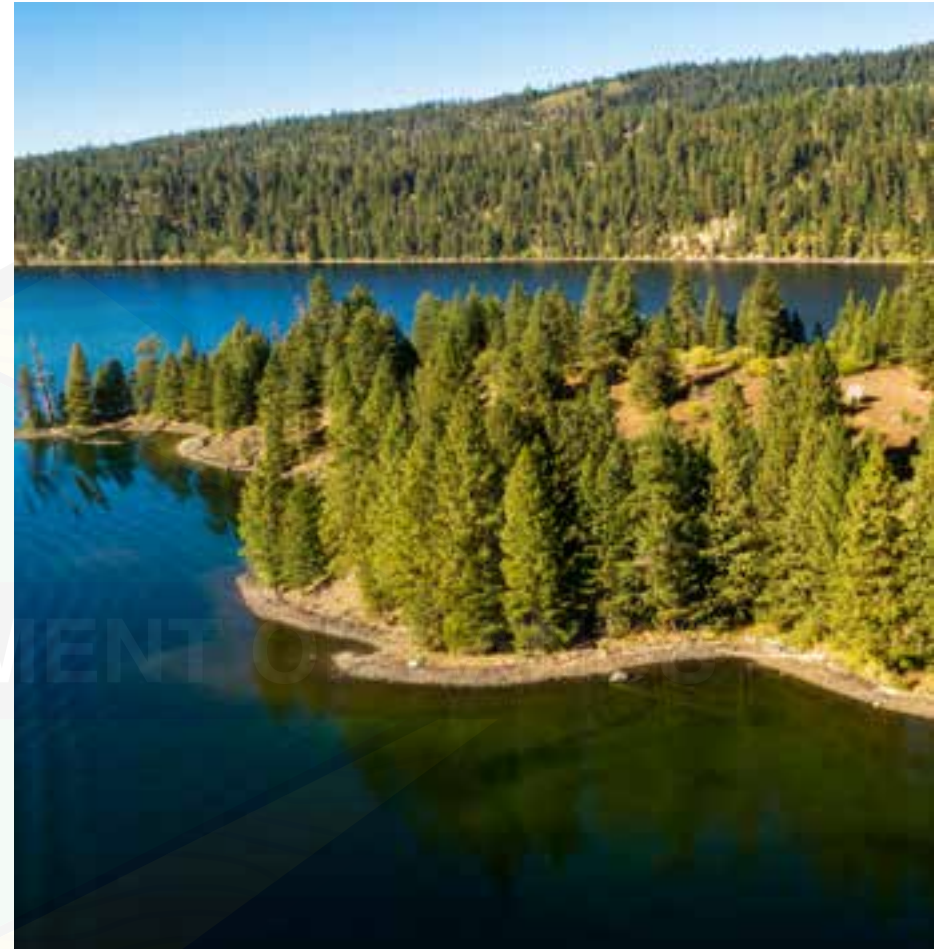
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## Conclusion

The scenario analysis suggests the execution of the Land Exchange proposal creates the greatest value for the Endowment relative to any currently available alternative. When comparing the Land Exchange opportunity to the Hold scenario, the Land Exchange offers \$140.35 million greater value to the Endowment. When comparing the Endowment's most aggressive strategy, Development, to the Land Exchange, the net present value of the Land Exchange still exceeds the alternative by \$98.08 million. Even assuming extensive legal costs and time delays for the execution of the Land Exchange, the bear case Land Exchange scenario still exceeds the Hold alternative by \$104.49 million and the Development alternative by \$62.23 million.

The Land Exchange strategy dramatically increases annual cash flow distributions for Endowment beneficiaries, while simultaneously reducing concentrated risk profiles in residential markets and development processes. The Land Exchange's annual cash flow distributions inherently diversify the risk profile of the Endowment. In the Hold and Development scenarios, the majority of the success of each project rests on the success of the residential sales (existing acreage and development acreage). In any asset class, or portfolio management opportunity set, an investment thesis of this nature creates an isolated, concentrated risk profile that generates a less attractive risk-adjusted returns. Put plainly, to undertake the Hold or Development scenario, the Endowment would be placing a focused bet on a residential real estate market, which has traditionally been considered a secondary market.

Furthermore, by undergoing development internally, the Endowment, by constitution, would need to reclassify the Payette Lake holdings into the Real Estate asset class. This forces the Endowment to purchase additional timberland investments from their Land Bank Reserve funds to maintain the Callan recommended asset allocations. The residential development would require a substantial undertaking, drawing extensive staff costs, consultant fees, and raw material costs. This may be viewed as counter to the highest and best use of IDL staff time.



In conclusion, the proposed Land Exchange provides the Endowment an attractive opportunity to smooth annual cash flow distributions for Endowment beneficiaries, diversify the investment risk profile, and offer long-term land appreciation value. Through this analysis, the net present value calculations, complemented by other industry standard profitability metrics, quantitatively display how no other Endowment alternative creates as much value on a nominal and risk-adjusted basis to the portfolio's beneficiaries as the proposed Land Exchange.



# Exhibits

## Exhibit A: Scenario One: Hold - NPV Analysis - Discount Rate & Years of Analysis

Years	Discount rate				
	2.8%	3.3%	3.78%	4.3%	4.8%
20	\$23,613,714	\$22,626,144	\$21,692,436	\$20,809,140	\$19,973,058
40	\$30,583,260	\$28,692,626	\$26,980,443	\$25,425,082	\$24,007,952
60	\$34,816,958	\$32,036,885	\$29,627,153	\$27,523,672	\$25,675,015
80	\$41,029,075	\$36,361,538	\$32,645,972	\$29,636,658	\$27,157,977

## Exhibit B: Scenario Two: Development - NPV Analysis - Discount Rate & Years of Analysis

Years	Discount rate				
	2.8%	3.3%	3.78%	4.3%	4.8%
20	\$42,271,982	\$40,436,539	\$38,710,447	\$37,086,019	\$35,556,178
40	\$68,370,263	\$63,091,402	\$58,404,901	\$54,231,544	\$50,503,836
60	\$90,394,035	\$80,444,102	\$72,103,574	\$65,066,204	\$59,089,356
80	\$96,556,939	\$84,735,214	\$75,099,490	\$67,163,523	\$60,561,582

## Exhibit C: Scenario Three: Land Exchange - NPV Analysis - Discount Rate & Years of Analysis

Years	Discount rate				
	2.8%	3.3%	3.78%	4.3%	4.8%
20	\$66,226,322	\$63,382,066	\$60,719,946	\$58,226,229	\$55,888,331
40	\$122,360,720	\$112,088,588	\$103,043,403	\$95,056,300	\$87,983,724
60	\$175,906,553	\$154,214,307	\$136,248,949	\$121,280,692	\$108,733,883
80	\$249,434,943	\$206,123,111	\$172,992,427	\$147,358,042	\$127,289,733

## Exhibit D: Scenario Four: Land Exchange with Legal Costs - Discount Rate & Years of Analysis

Years	Discount rate				
	2.8%	3.3%	3.78%	4.3%	4.8%
20	\$28,835,364	\$26,774,647	\$24,869,073	\$23,106,047	\$21,474,068
40	\$84,969,762	\$75,481,170	\$67,192,530	\$59,936,118	\$53,569,461
60	\$138,515,595	\$117,606,888	\$100,398,077	\$86,160,510	\$74,319,620
80	\$212,043,985	\$169,515,693	\$137,141,554	\$112,237,860	\$92,875,470

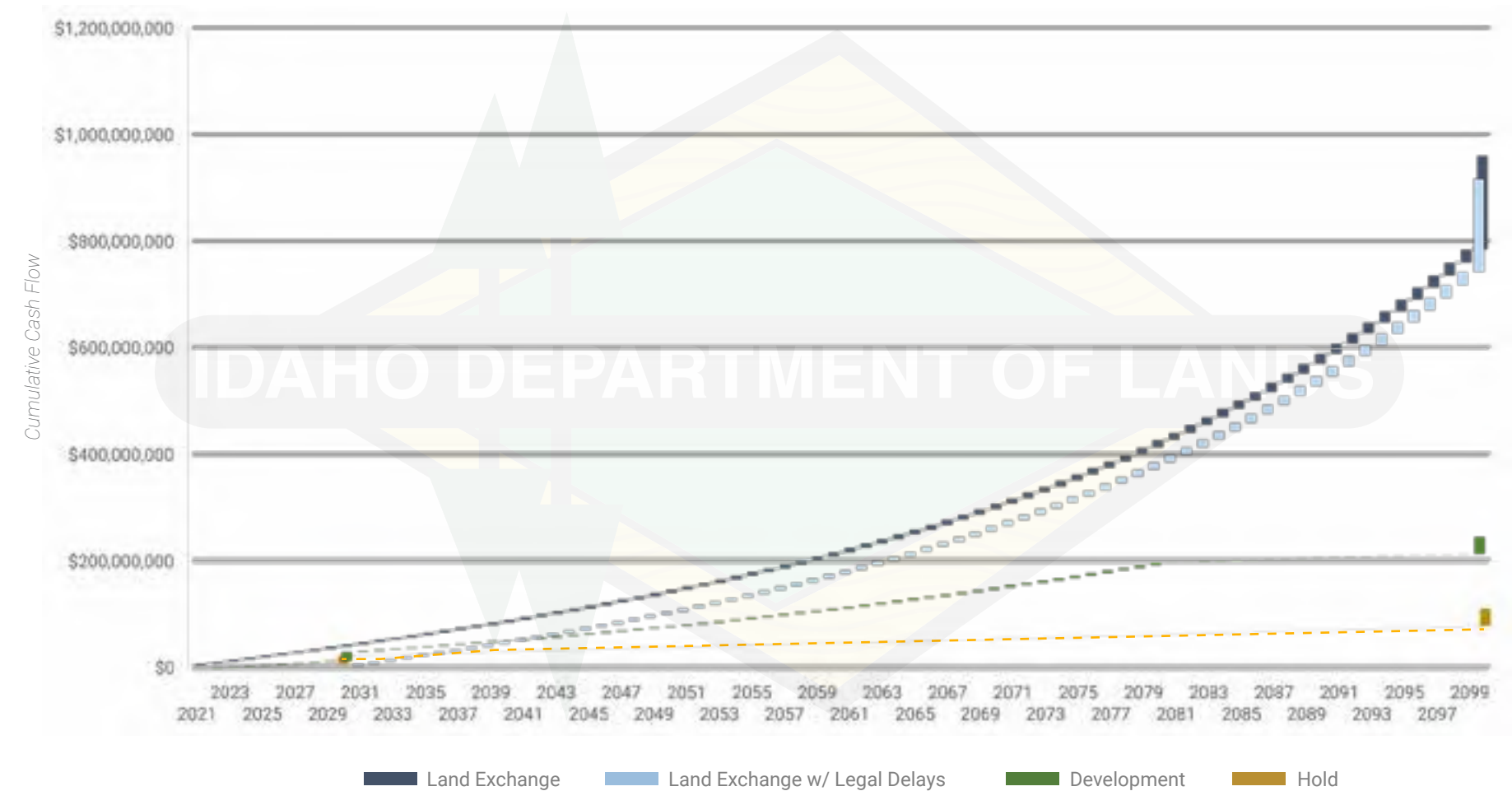
## Model

### Inputs

Timing	
Base year	2021
Years of analysis	80
Land terminal value year - Timber	2100
Terminal year of analysis	2100
Begin Date	12/31/2020
End Date	12/31/2100

Metrics	
Inflation*	2.25%
Discount rate**	3.78%
***	

Asset Valuation Scenario Analysis



## Scenario 1

### Hold

Acreage Assumptions		Residential Valuation	
Timberland - Nonviewshed acres	5,000	Lake Front - value/acre (future sales)	\$911,316
Timberland - Viewshed acres	15,000	Non-Lake Front - value/acre (future sales)	\$200,000
Lake Front - acres	14.90	Residential appreciation rate	3.56%
Lake Front - quantity homes	8.0 ~		
Non Lake Front - acres	1.2		
Non Lake Front - quantity homes	3.0 ~		
Residential total acres	16.1		
Timing		Timberland Valuation	
Disposition Year - Residential	2030	Timber price index - appreciation rate	3.66%
Disposition Year - Timberland	2100	Timber total index - appreciation rate	8.75%
		Timber viewshed acreage - appreciation rate	0.00%
Net Income			
Endowment Impact Area forests timber revenues - acres	20,000		
Endowment Impact Area forests timber revenues - return/acre	\$18.39		
Endowment Impact Area forests timber revenues as annual NET cash	\$367,800		
Growth rate	2.50%		
Endowment Impact Area non timber revenues from Timberland - acres	20,000		
Endowment Impact Area non timber revenues from Timberland - \$/acres	\$5.62		
Endowment Impact Area non timber revenues from Timberland - NET cash	\$112,364		
Growth rate	2.50%		
Endowment Impact Area Lease NET Revenue from Non-Timberland assets	13.68		
Endowment Impact Area Lease NET Revenue from Non-Timberland assets	\$17,493		
Endowment Impact Area Lease NET Revenue from Non-Timberland assets	\$239,308		
Growth rate	2.50%		

## Scenario 2

### Development

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#### Timing Assumptions

Begin Year - Development	2021
End Year - Development	2080
Disposition year - Timberland	2100
Disposition year - Residential (existing)	2030
Acres developed/year	24
Total acres developed	1,440
% of acres developed	7.20%

---

#### Valuation

Residential value/acre - base	\$200,000
Residential appreciation rate	3.56%
Development cost per acre (lower bound)	\$163,476
Development cost growth rate	3.00%
Total acres developed	1,440

Total Development CapEx (Today's \$)	-\$235,405,309
Total Development CapEx (Inflation)	-\$295,920,705
Development Cost per acre	See 'Development Budget Assumptions'





### Scenario 3

#### Land Exchange

	Acres contributing	Net return/acre/annum (\$)	Net income per annum (\$)	Net present value (NPV)	Rate (%)	Growth rate (%)
Year 1 value		\$49,821,000				
Annuity net revenues	31,138	\$64.43	\$2,006,229	\$57,320,840	4.03%	2.50%
Exchange Allowable Cut Improvement on IDL Northern Districts	n/a	n/a	\$386,594	\$11,045,541	0.78%	2.25%
Improve legal and physical access	1,583	\$64.43	\$101,966	\$2,913,303	0.20%	2.25%
Portfolio reallocation to Callan targets	n/a	n/a	\$1,211,613	\$36,008,011	2.43%	3.78%
Total		\$49,821,000	\$3,706,402	\$107,287,695	7.44%	
Timberland - Appreciation (nominal)		3.66% ++				
Timberland - Appreciation (real)		1.41%				

### Scenario 4

#### Land Exchange w/ Legal Costs

Hours legal work/annum	2,000
Hourly rate	\$500
Total legal costs per year	\$1,000,000
Beginning year	2021
Ending year	2030
Total time delay	10



## Development Budget

### Assumptions

	Per Unit		Per 2880 Unit Development	
	Lower Bound	Upper Bound	Lower Bound	Upper Bound
Septic system/lot	\$25,000	\$50,000	\$72,000,000	\$144,000,000
Well water/lot	\$30,000	\$45,000	\$86,400,000	\$129,600,000
Community Wells (fire)	\$500,000	\$1,000,000	\$500,000	\$1,000,000
Community underground pipe	\$2,900,000	\$4,000,000	\$2,900,000	\$4,000,000
Overhead power lines (15-mile development)	\$13,700,000	\$19,000,000	\$13,700,000	\$19,000,000
Roadways/lineal foot	\$110	\$200	\$3,394,827	\$6,187,600
Engineering Fees	\$100,000	\$300,000	\$100,000	\$300,000
TOPOS	\$50,000	\$100,000	\$50,000	\$100,000
SWPPP	\$150,000	\$300,000	\$150,000	\$300,000
Traffic Control	\$200,000	\$350,000	\$200,000	\$350,000
Permits	\$50,000	\$100,000	\$50,000	\$100,000
Overhead/Staff Costs	\$120,000	\$240,000	\$34,560,000	\$69,120,000
General Contractor Costs	\$21,400,483	\$37,405,760	\$21,400,483	\$37,405,760
<b>Total Development Cost</b>			\$235,405,309	\$411,463,360
<b>Acres</b>			1,440	1,440
<b>Total Development Cost per Acre</b>			\$163,476	\$285,738
<b>Total Development Cost per Unit</b>			\$81,738	\$142,869

# Endnotes

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## Scenarios

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<sup>1</sup> Real Asset Investment Consultant, Yale University Economics

<sup>2</sup> CPA, Westchester Group Investment Management, Inc. – Finance Director

<sup>3</sup> Purdue University, B.A. in Forestry Science

<sup>4</sup> Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014

<sup>5</sup> Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014

<sup>6</sup> Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014

<sup>7</sup> Economic Benefits Section (preceding section), Smart Forest Solutions.

<sup>8</sup> Payette Cottage Sites Info 3-3-2020

<sup>9</sup> McCall Residential Housing market analysis – per square foot valuations, per acre valuations, growth rates, and standard deviation calculations were calculated by the Endowment's historic cottage site sales information.

<sup>10</sup> Valley County RealQuest Sales: SFR & Residential sales data from 2015-2020, annual observations.

<sup>11</sup> Smart Forest Solutions – Forestry Consultant

<sup>12</sup> NCREIF Northwest Timberland Values: 20-year analysis, quarterly observations.

<sup>13</sup> Smart Forest Solutions – Forestry Consultant

<sup>14</sup> EBITDDA – The Earnings before Interest, Tax, Depreciation, Depletion, and Amortization accounts for the natural pest and disease effects of timber management.

<sup>15</sup> Road construction is the greatest unknown. Road design was based on “flat designs”, excluding the need for massive fills or bridges. A design of 26 feet width, 12” of base pit run, 4” of gravel, and a 2.5” mat of asphalt was utilized.

<sup>16</sup> McCall Residential Historical Sales: Valley County RealQuest Sales Data – years 2015-2020, annual observations. Lumber Price: UNECE USA Framing Lumber – years 2000-2019, monthly observations - <http://www.unece.org/forests/output/prices.html>.

<sup>17</sup> SFS Phase I Economic Report, Smart Forest Solutions - Precise valuations and acreage counts will be concretely established at a later date.

<sup>18</sup> Asset Allocation and Governance Review Idaho Board of Land Commissioners. Janet Becker-Wold, Sally Haskins, James Van Heuit, October 17, 2014. – Portfolio weighted compounded real returns equals 3.78%.

<sup>19</sup> EBITDDA – The Earnings before Interest, Tax, Depreciation, Depletion, and Amortization accounts for the natural pest and disease effects of timber management.

+Portfolio One-year expected return as the growth rate for the Portfolio reallocation to Callan Targets (real)

++The 20-year compounded annual growth rate (CAGR) of the NCREIF Index was selected as the appropriate timberland appreciation rate.

We believe this rate most accurately reflects the stabilized appreciation of institutional grade timberland investments. The beginning 10-12 years of the Index reflects a much higher price appreciation rate due to the immature institutional industry and lack of competition. The more recent 20-year perspective serves as a directionally useful proxy in the long-term price appreciation of timberland asset values.

^Assumes an initial cost of \$49.8mm for each scenario in IRR analysis.

~ Represents available Endowment cottage site properties included in the Exchange proposal as of 2020.

~~ Analysis from residential market in McCall and national secondary residential markets.

Note: Implied Net Cash Return on Exchange Assets (Economic Report Jun 2019)

## Model

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\*Callan inflation assumptions.

\*\*Discount rate utilized is the forecasted real return of the Endowment's portfolio (Callan recommended asset allocations).

\*\*\*Model input assumptions run through each scenario.





# Idaho Constitution and Statute on Land Exchanges







# Idaho Constitution and Statute on Land Exchanges

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Disclaimer: This summary is not an exhaustive representation of the law of land exchanges in Idaho or intended to be construed as legal advice.



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## Idaho Constitution on Endowment Lands

ID Constitution, Article IX, §8

“It shall be the duty of the state board of land commissioners to provide for the location, protection, sale or rental of all the lands heretofore . . . and in such manner as will secure the **maximum long term financial return to the institution to which granted** or to the state if not specifically granted; provided, that no state lands shall be sold for less than the appraised price.

. . . [T]he legislature shall provide for the sale of said lands from time to time and for the sale of timber on all state lands and for the faithful application of the proceeds thereof in accordance with the terms of said grants; provided, that not to exceed one hundred sections of state lands shall be sold in any one year, and **to be sold in subdivisions of not to exceed three hundred and twenty acres of land to any one individual, company or corporation**. The legislature shall have power to authorize the state board of land commissioners **to exchange granted or acquired lands of the state on an equal value basis for other lands** under agreement with the United States, local units of government, corporations, companies, individuals, or combinations thereof.”





## Idaho Code on Land Exchanges

### ID Code §58-138. EXCHANGE OF STATE LAND.

“(1) The state board of land commissioners may at its discretion, when in the state’s best interest, exchange, and do all things necessary to exchange fee simple title . . . for lands of equal value, public or private[.] The parties dealing with the state in such an exchange transaction shall not be prohibited from purchasing or selling assets related to accomplishing the transaction before, simultaneously or after said transaction, provided that all such prior and simultaneous purchases and sales are expressly provided for in the exchange agreement.

(5) Prior to the exchange of any state endowment lands pursuant to this section, the state board of land commissioners shall have an appraisal and review appraisal conducted of the lands it desires to exchange along with an appraisal and a review appraisal of the lands it is proposing to acquire in the exchange.

(6) In determining the fair market value of state endowment lands to be exchanged and acquired pursuant to this section, the state board of land commissioners shall consider all relevant information and circumstances including, but not limited to, the appraisals and review appraisals required by the provisions of subsection (5) of this section and any evidence that enhances or detracts from their reliability.”





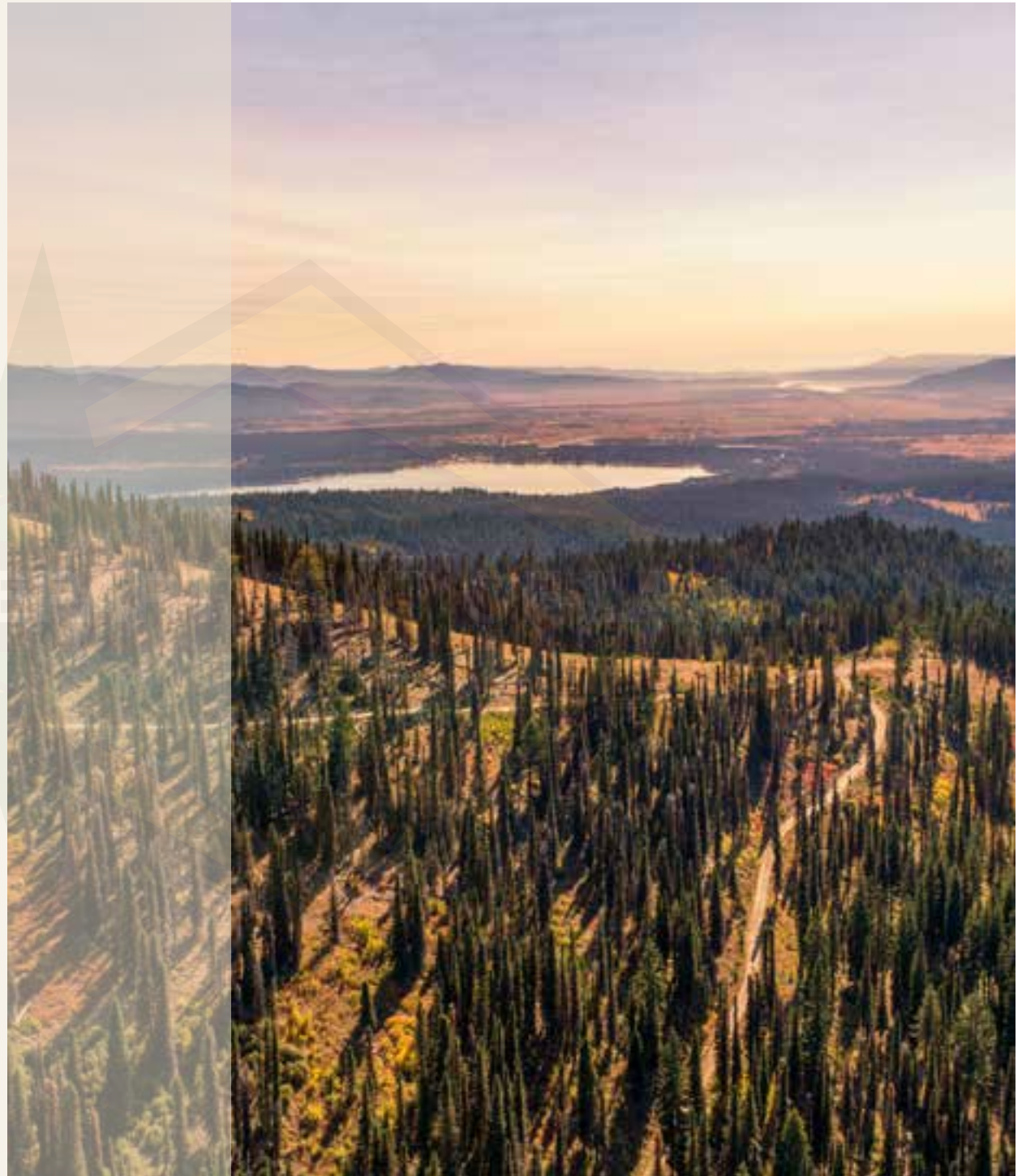




**Preserve McCall**

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# **STATE BOARD OF LAND COMMISSIONERS**

November 17, 2020

Information Agenda

## **Subject**

Payette Endowment Lands Strategy – Update

## **Background**

At the State Board of Land Commissioners' (Land Board) Regular Meeting on June 16, 2020, the Idaho Department of Lands (Department) was directed to prepare a plan for the management of endowment lands in the vicinity of the City of McCall (Payette Endowment Lands Strategy).

## **Discussion**

Since the June 16, 2020 Land Board meeting, the Department has been preparing a conceptual draft of the Payette Endowment Lands Strategy to present to the Land Board. The intention of the plan is to describe the current situation affecting the endowment lands, explain what that means, identify potential action, and assess the next steps.

Attachment 1 provides a concept of the Payette Endowment Lands Strategy. The concept is a result of internal guidance and historical plans, City of McCall comprehensive planning documents, other state endowment land plans addressing similar issues, and Idaho regulations and laws.

The Department has been working with and receiving feedback from numerous stakeholders. Due to the high level of public interest, the Department will provide a public input period prior to presenting to the Land Board for final plan approval. The following is a revised schedule:

- November 17, 2020 – present draft plan/concept to the Land Board
- December 15, 2020 – present draft written plan to the Land Board
- January 2021 – public comments to Land Board and open comment period
- February / March 2021 – Department finalization of plan and presentation to Land Board.

## **Attachments**

1. Payette Endowment Lands Strategy Presentation



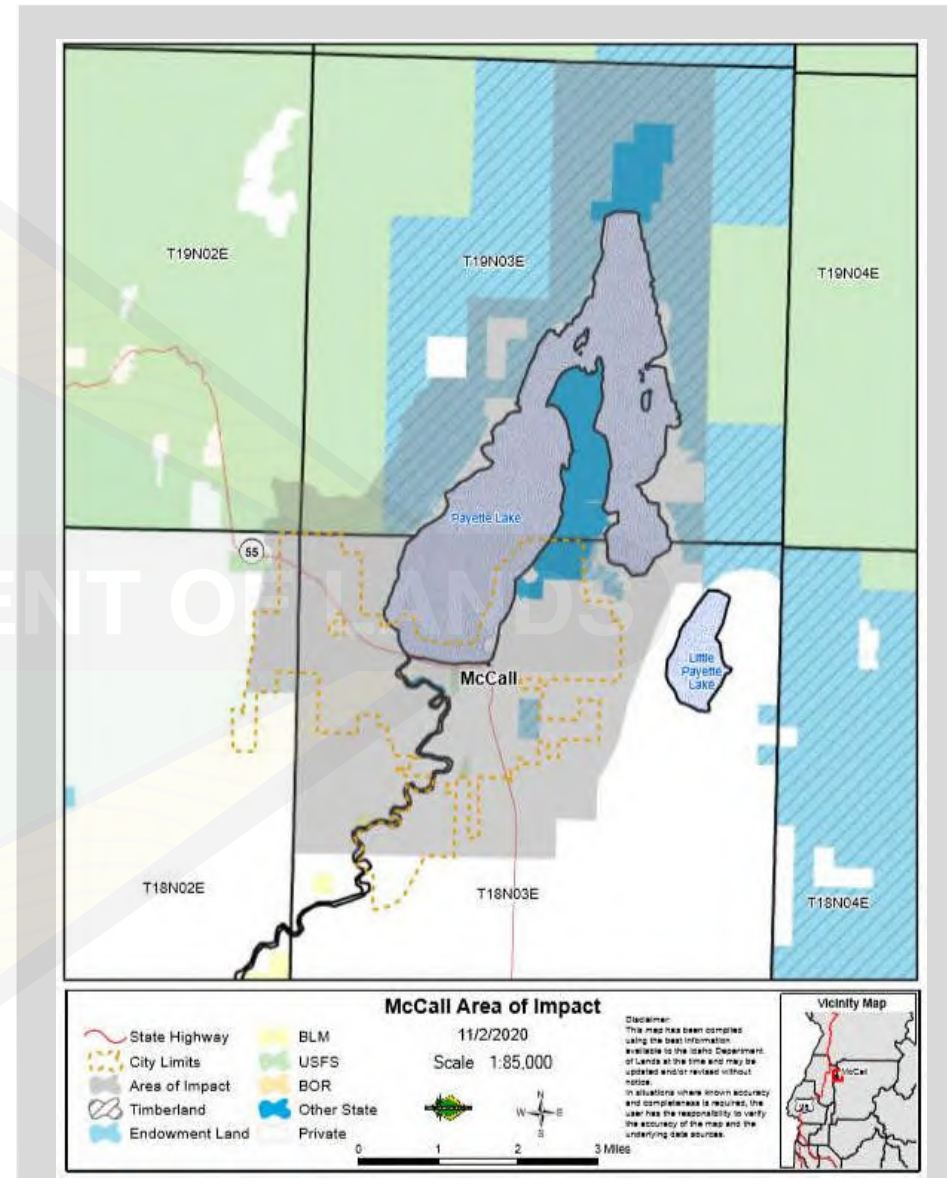


# Payette Endowment Lands Strategy

November 17, 2020  
Idaho State Board of Land  
Commissioners

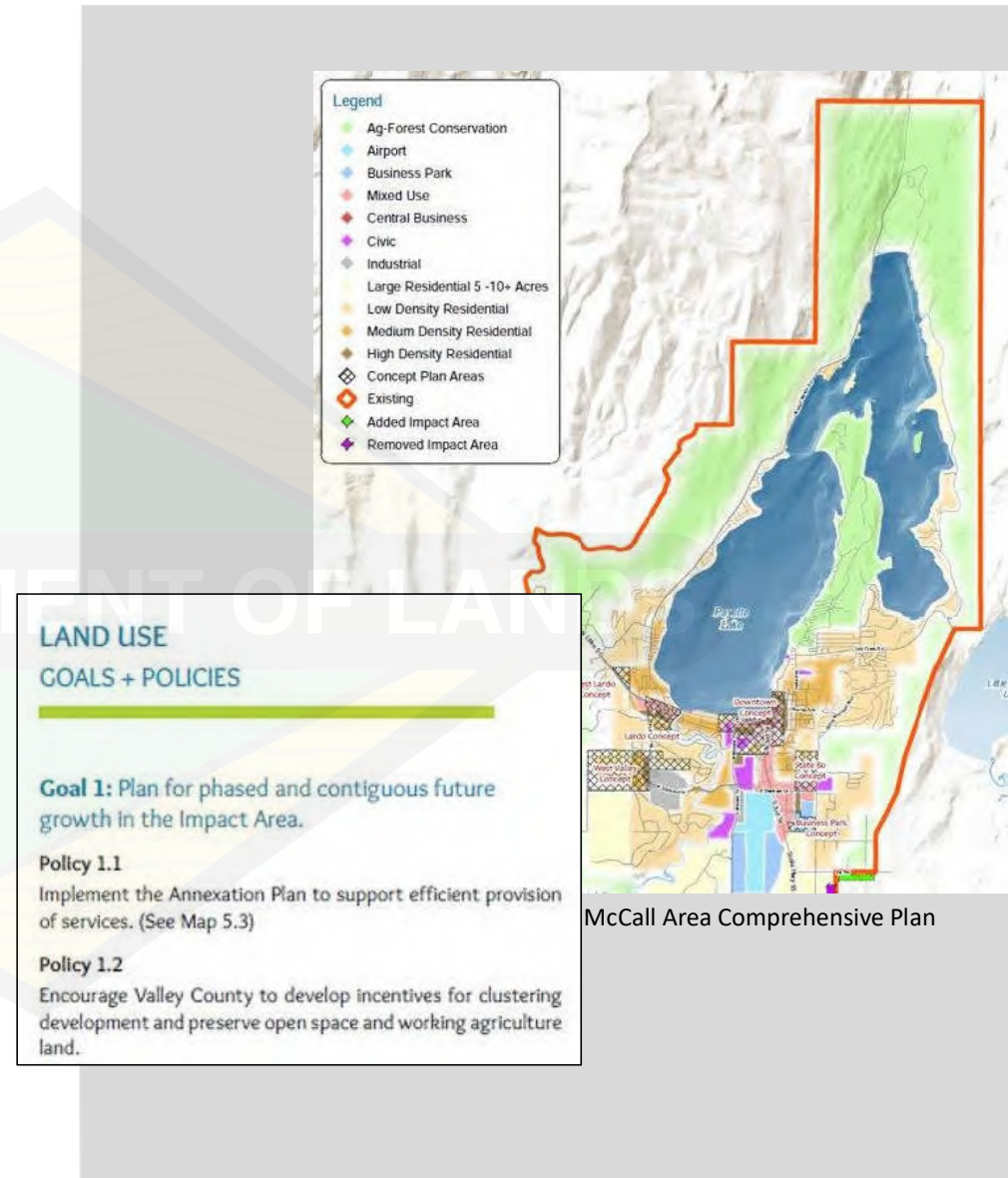
# Introduction

- There are approximately 183,000 acres under IDL's Payette Lakes Area Office management.
- Of those, approximately 74,000 acres are classified, managed, and hold commensurate value as primary timberlands.
- Approximately 5,000 acres sit within McCall's designated Area of Impact, are classified as timberland assets, but are surrounded by higher valued land types.



# Introduction

- Endowment lands within the area of impact are either zoned for uses other than timberland or identified as areas for growth in the future.
- Proximity to urban areas make traditional timber management difficult due to view sheds, public safety, and conflicts with adjacent uses (i.e. residential, recreation, etc.).
- These lands have potential for higher revenue generating uses through leasing or disposition (exchange or sale).





# Problem Statement

There is a continuing need to evaluate and discuss the future of endowment lands within and immediately outside of the City of McCall's growth and impact areas.

- Underperforming assets (timberland)
- Revenue vs asset value - commensurate with appropriate asset returns
- Inconsistency between current asset classification and local planning
- Public's understanding of the endowment mission



# Management Directives

- Idaho Code §§ 68-501 to 68-514 Uniform Prudent Investor Act (Act)
  - Invest and manage trust assets as a prudent investor would.
  - Individual asset decisions must be evaluated in the context of the trust portfolio as a whole and an overall investment strategy having risk and return objectives reasonably suited to the trust.
- Mission Statement
  - To professionally and prudently manage Idaho's endowment assets to maximize long-term financial returns to public schools and other trust beneficiaries and to provide professional assistance to the citizens of Idaho to use, protect, and sustain their natural resources.

# Land Board Approved Directives

- Asset Management Plan (2016)
  - Provides strategic direction to IDL for the management of endowment lands.
- Callan Reinvestment Plan (2016/2018)
  - Identify transactions that meet established hurdle rates and set aside sufficient funds over an appropriate time horizon.
- Statement of Investment Policy (2018)
  - Establish a clear understanding regarding the management and investment goals and objectives for the endowment assets.
  - Establish a basis for evaluating investment and management results.
  - Establish the relevant investment horizon for which the endowment assets will be managed.

# Transition Lands

- The Land Board approved Statement of Investment Policy (“Policy”) and the Asset Management Plan (AMP) provide for IDL to identify potential lands that can be classified as transition lands.
- Transitioning lands requires broader planning in the context of surrounding uses and market conditions but will be specific to individual sites.

**“Lands within traditional asset classes already owned by the Endowment may become suitable for a higher and better use than the current asset classification. Often these properties exhibit high property values and low annual revenues (underperforming) and may be encroached upon by urban development.”**

# Timber Management

- Timber Management in the Payette Lakes Supervisory Area aligns with the Land Board approved Forest Asset Management Plan (FAMP) and 2021 Harvest Plan.
  - The Payette Lakes Supervisory Area managed timberlands are expected to meet net income ratio and return on investment goals under the updated FAMP.
- Timberlands are also available for exchange and other activities.
  - Example: Grazing leases, recreation, communication sites, conservation leases/easements, mining, etc. on timberland asset classified lands.
  - Timberlands can be exchanged in accordance with Idaho Code § 58-138.



# The Plan

- Transition lands in a community context require long-range evaluation.
  - Immediate management decisions need to be made in the context of long-term community and market contexts.
- A phased approach allows revenue generation today, while considering potential future opportunities and trends.

## Phase 1 – Short Term Plan

- Transition properties that are ready

## Phase 2 – Medium Term Plan

- Properties that are on the near horizon and/or need additional studies

## Phase 3 – Long Term Plan

- Develop broader suite of management options to maximize long-term revenue to value

## Phase I – Short Term Plan (1-5 years)

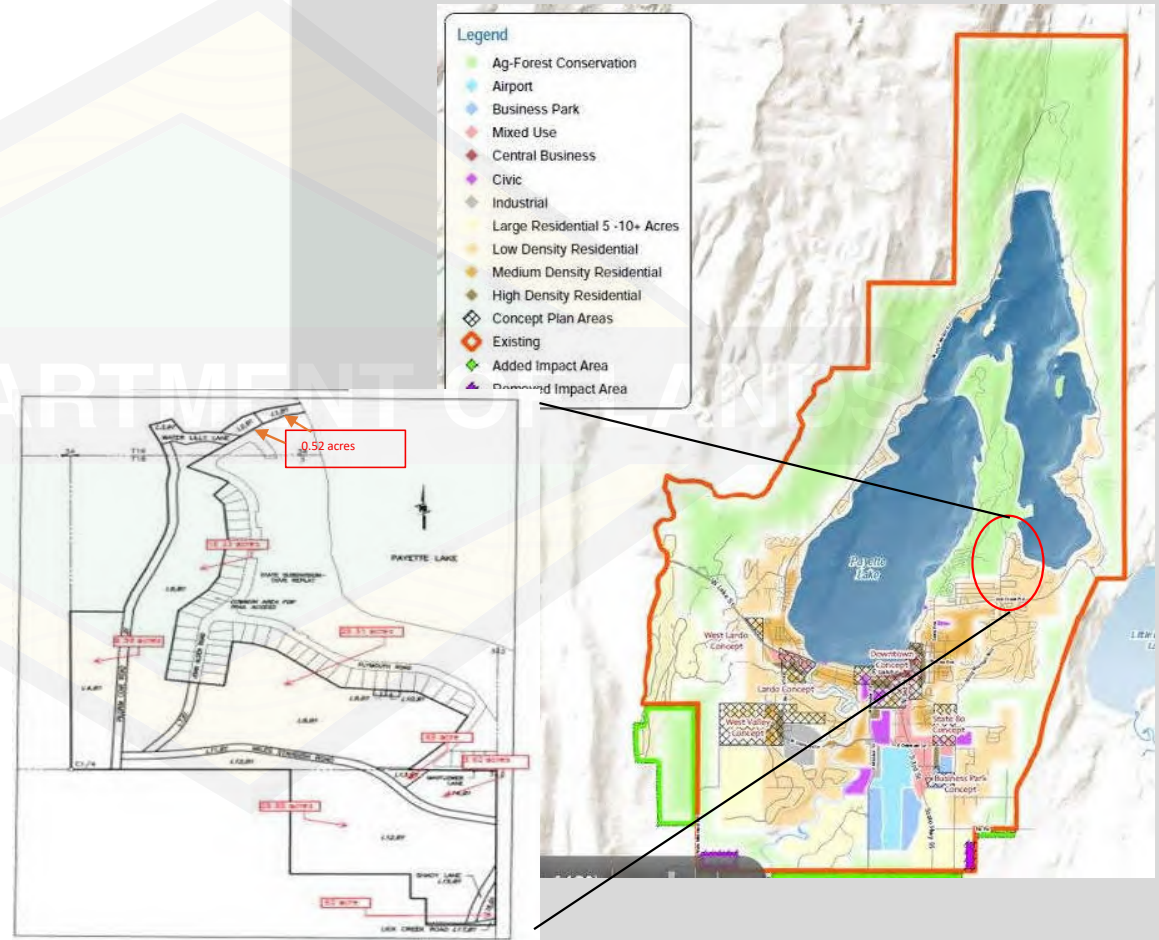
- Transition those properties that are ready
  - Underperforming asset
  - Higher and better uses
  - Surrounding uses, utilities, infrastructure, and zoning prescribe and promote potential uses
  - Market conditions provide for absorption opportunities
- Revenue generated from transition closes the financial “gap.”

### **Management Options:**

- Traditional lease types
- New leasing opportunities
  - Wholesale disposition
  - Land exchange

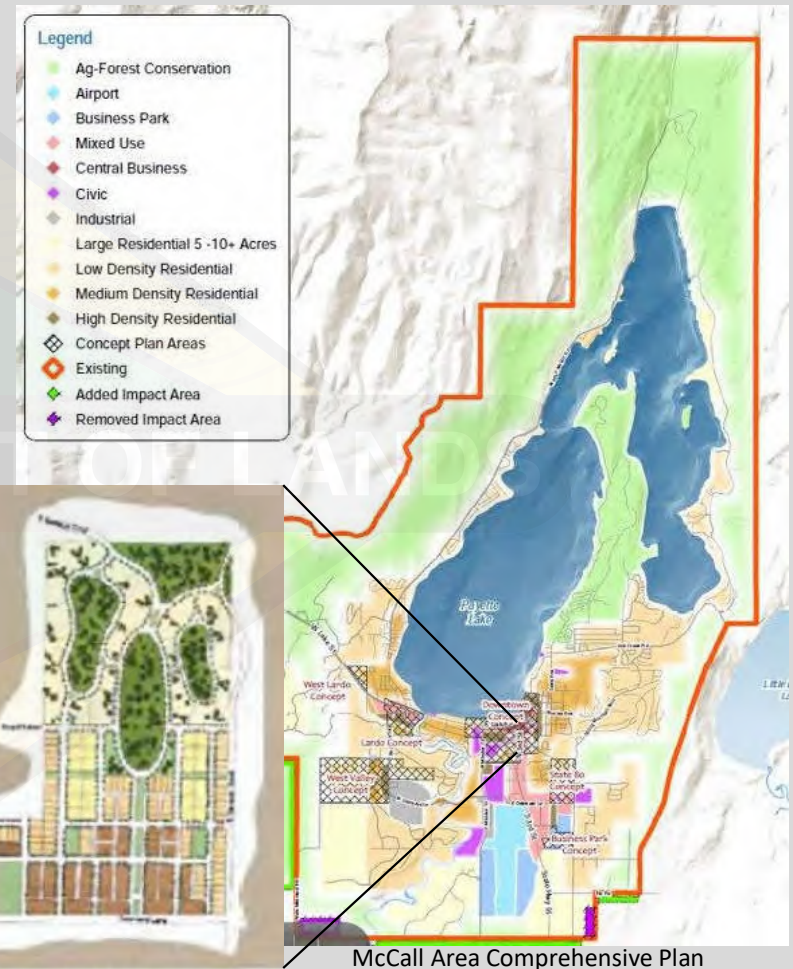
# Phase I Example - White Pine Heights

- Preliminary plat for future redevelopment or disposition.
- Nine vacant and unimproved lots that are not part of the cottage site auction process.
  - 85.82 acres with parcels from .52 to 28.50 acres
  - Road frontage
  - Utilities
  - Surrounding residential uses



# Phase I Example- Deinhard

- 80 acres located adjacent to existing commercial area
  - 10 acres commercial zoning designation
  - 70 acres R4 residential zoning designation
- Road frontage on two sides
- Within the city limits
- Existing utilities available to site
- Proximity to airport, highway, and downtown corridor





## Phase II – Medium Term Plan (5-10 years)

Properties that are on the near horizon and/or need additional studies.

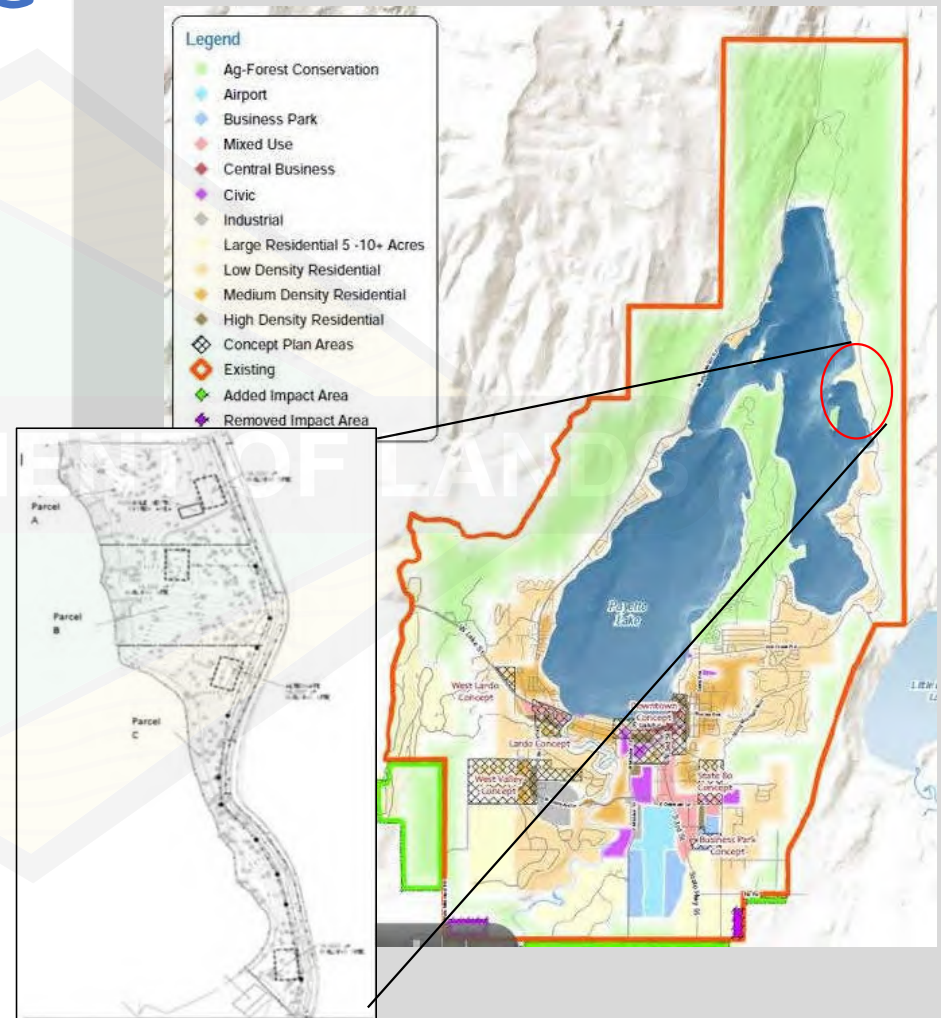
- Parcel specific planning to determine maximum revenue opportunity.
- Use external experts to help evaluate real estate planning.
- Jurisdictional and other agency coordination, as needed.
- Work with stakeholders to establish coordination and cooperation within constitutional limitations and mandate.

### **Value add opportunities:**

- **Annexation**
- **Preliminary platting**
- **Entitlement & utilities**
- **Zoning**
- **Access**
- **New lease types**

# Phase II Example - Parcel G

- Uses available due to the size, nature, and value of the property.
  - Mixed use
  - Medium density residential
  - Low density residential
- Issues
  - Zoning
  - Utilities (Sewer)
  - Infrastructure
  - Topography
  - Neighboring Uses
  - Upland restrictions
  - Access to the lake



## Phase III – Long Term Plan (10+ years)

Develop policy and planning mechanisms to create more consistency between endowment land classification/management and local planning visions.

- Develop broader suite of management options to maximize long-term revenue to value.
- Work with local land use jurisdictions to assure endowment lands are appropriately zoned and understood.
- Facilitated discussions with stakeholders to establish coordination and cooperation within constitutional limitations and mandate.

### DEVELOPMENT POTENTIAL

The McCall Area has substantial land available for additional growth<sup>1</sup>. Developable lands are located within the City limits and in the Area of Impact<sup>2</sup>, and development is also possible on adjacent Idaho state lands. These areas include vacant, undeveloped, or redevelopable residential lands.

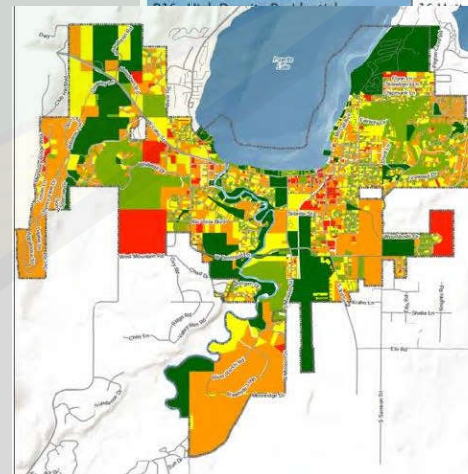
One measure used to understand the potential for development in the future is a build-out analysis. While it is unlikely that every parcel within the planning area will be developed to its maximum potential, analyzing and understanding the extent of development potential is useful. Based on the current undeveloped land within each zoning district, the McCall Area (City limits and Impact Area) has capacity for an estimated additional 13,400 residential dwelling units (Table 4.1) that, based on

the 2015 American Community Survey average household size of 2.91, could accommodate approximately 38,000 additional people.

This is a scenario for planning purposes and is not an adopted policy. Even if these estimates are reduced, the analysis points to an obvious conclusion—there is available land for significant additional residential development within the McCall Area. This development potential affords the City an opportunity to create and maintain efficient land use patterns that reduce the need for inefficient roads and utility infrastructure. Strategically placed local services, retail, and recreation areas could also reduce the lengths of trips for residents and facilitate walking and bicycling as alternatives to auto use.

Table 4.1: Residential Development Build-out Analysis based on Current Zoning

ZONING DISTRICT	Units per Acre	Acres of Developable Land	Additional Units at Maximum Build-out
R1 - Residential (1 Acre)	1 Units/Acre	1,277 Acres	1,277
		0.75 Acres	12
		1,838 Acres	7,352
		524 Acres	4,192
		1,509 Acres	301.8
		2,656 Acres	265.6
			13,400.4



McCall Area Comprehensive Plan

# Implementation

- Move forward with marketing for Phase I properties with the intention to be transitioned for increased revenue.
  - Third party expert assistance and recommendations.
  - Land Board approval where proposed uses are different from traditional management.
- Identify Phase II and III properties.
  - Parcel specific planning
  - Value add opportunities (annexation, entitlement, etc.)
  - Market analysis
  - Expert assistance
- Coordinate additional planning for Phase II and III properties, with updates to local jurisdiction planning documents.



# Closing the Gap

- There is a financial gap between revenue generation and asset value commensurate with timberland.
- A phased approach to transition lands allows IDL to meet mandates and goals in the short to medium term.
- Phase I property transitions provide the time and resources to address broader context of aligning endowment land management in the context of community development.
- Willingness to work with stakeholders to identify opportunities that will close financial gaps and allow IDL to hold lands in current management.
- Examine other opportunities (land exchanges, conservation easements, etc.) that will increase revenue.

# Next Steps

- November Land Board – information update
- December Land Board – draft of written plan presented to Land Board
- December-January (2021) – allow for public comment
- February – present to Land Board for final approval of plan
- Remove moratorium on non-traditional leasing types
- Begin marketing and accepting applications
- Work through any outstanding or pending lease applications
- Begin the process for Phase II and III properties for individual site plans
- Begin discussions with local jurisdictions and stakeholders on ideas/concepts for revenue producing activities



Thank you