

Subcommittee Presentation

by: Jeremy C. Chou
Givens Pursley LLP

Idaho Constitution, Article IX, Sec. 7

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.

Idaho Constitution Art. IX, Sec. 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, or which may hereafter be granted to or acquired by the state by or from the general government, under such regulations as may be prescribed by law, 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.

The Fiduciary Duty Is Subject To A Clear Abuse Of Discretion Standard

Said board is a constitutional agency charged with the administration of a public trust, and is vested with certain **discretionary power** in that behalf, and its discretion is invoked whenever it is called upon to “confirm or reject a sale or determine what bid for land is the highest,” and, **so long as the board is faithfully performing its duties under the law in the exercise of its discretion, this court has no authority to interfere** and adjudge a sale of timber or land illegal or void, unless **fraud appears in the sale, or a clear abuse of its legal discretion is shown.**

The board in accepting or rejecting a bid for state timber or land acts quasi judicially, and, **in the absence of manifest abuse of that discretion, the courts will not interfere.**

Barber Lumber Co. v. Gifford, 25 Idaho 654, 139 P. 557, 561 (1914) (emphasis added).

Court will not question the decision unless there is fraud or clear abuse of discretion

From all of the facts in this case, it is clear that the board did not exceed its discretion in making said sale, and as held in *Pike v. State Board*, supra, said board is the trustee or business manager for the state in making the sale of said timber, and, **on matters of policy, expediency, and business interest of the state, they were the sole and exclusive judges, so long as they did not run counter to the provisions of the Constitution or statute and no fraud was shown.** Under the law and the facts of this case, the board had the discretionary power to reject the bid made by Snow and accept the bid made by the Barber Lumber Company.

Barber Lumber Co., 139 P. at 562, 563 (emphasis added).

Callan

April 17, 2018



**Idaho State Board of Land
Commissioners**

Asset Allocation and Distribution
Study

Janet Becker-Wold, CFA
Fund Sponsor Consulting

Julia Moriarty, CFA
Capital Markets Research

Sally Haskins
Real Assets Consulting

Land Bank Cash and Future Land Sales: Summary Findings

- 3.5% land yield assumption
 - Depositing land sale proceeds into the financial asset portfolio is preferable under recommended reserve levels
 - Reinvesting land sale proceeds back into lands is preferable at current earnings reserve levels
 - Assets can be deployed easily and cheaply into the financial asset portfolio while land transactions require a lot of time and due diligence to complete
- Lands provide an important role in dampening the volatility of the total Endowment over long time periods
 - Expected returns must be considered in addition to the risk mitigation role
 - The Strategic Reinvestment Plan set minimum return thresholds to explicitly address return objectives vis-à-vis the financial asset opportunity
- The findings from this study are consistent with the Strategic Reinvestment Plan from 2016
 - Investment of Land Bank proceeds should consider the following factors:
 - *Comparison of risk adjusted returns and the net returns across asset types – timber, agriculture, stocks, bonds, and diversified commercial real estate (in financial asset portfolio)*
 - *Will the investment move the needle from a total portfolio perspective?*
 - *New investments should meet or exceed a real return hurdle rate of 3.5% for timberlands and 4.5% for farmland (new investments must be accretive)*

Outstanding Issues

- IDL has stated that there is a long lead time on large, potentially higher returning acquisitions and is concerned that moving assets too quickly from the Land Bank will make it challenging to secure these transactions
- IDL also sees the current Land Bank funds as a rare opportunity to redeploy capital into larger transactions than would normally be feasible
 - Reinvestment in lands helps to maintain the targeted allocation given growth in the financial asset portfolio
- Could Land Bank funds be outsourced to the EFIB and managed in a modestly more aggressive fashion to mitigate the cost of carry relative to what they are currently earning?
 - Funds are invested with an outside advisor under the authority of the State Treasurer and currently yield ~2%
- As expected land yields move toward 4.5%, land reinvestment becomes more compelling relative to the financial assets
 - From a cumulative distribution perspective with assumed land yields between 3.5% and 4.5%, there is a preference for financial assets if higher earnings reserve levels are implemented
 - Finding land investments in this yield range has proved challenging



STATE BOARD OF LAND COMMISSIONERS

C. L. "Butch" Otter, Governor and President of the Board
Lawrence E. Denney, Secretary of State
Lawrence G. Wasden, Attorney General
Brandon D Woolf, State Controller
Sherri Ybarra, Superintendent of Public Instruction

David Groeschl, Secretary to the Board

Be it remembered, that the following proceedings were had and done by the State Board of Land Commissioners of the State of Idaho, created by Section Seven (7) of Article Nine (IX) of the Constitution.

Final Minutes
State Board of Land Commissioners Regular Meeting
May 15, 2018

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, May 15, 2018, in the Capitol, Lincoln Auditorium, Lower Level, West Wing, 700 W. Jefferson St., Boise, Idaho. The meeting began at 9:02 a.m. The Honorable Governor C. L. "Butch" Otter presided. The following members were present:

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

For the record, Governor Otter recognized the presence of all Board members.

1. Director's Report

- A. Timber Sale Activity and Information Report – April 2018
- B. Division of Lands and Waterways Activity and Information Report – April 2018

• **CONSENT (ACTION)**

2. Gooding Hospital Surplus Property – Staffed by Sid Anderson, Program Manager-Residential

RECOMMENDATION: Declare the Land to be surplus and direct the Department to offer the former Gooding County Hospital District property for surplus property disposition in Ada County or Gooding County, in accordance with Idaho Code § 58-331 *et seq.*

DISCUSSION: Controller Woolf asked for verification that this property has no ties, and there is no relation, to the School for the Deaf and Blind. Deputy Attorney General Robert Follett affirmed that the deed does not identify any restriction for any purpose of the School for the Deaf and Blind. Mr. Follett noted that the property is located adjacent to other property owned by and for the benefit of the School for the Deaf and Blind but this surplus property appears to have been acquired as a separate parcel of property and not directly connected to the School for the Deaf

Mr. Anton commented that earnings reserves for all endowments are at their recommended levels with the exception of Ag College, which is slightly under; reserve levels will burgeon as fiscal year-end draws closer. Mr. Anton stated that the graphic on page 10 shows Endowment Fund performance over various periods of time; the Endowment Fund ranks above average for all periods, and is in the 9th percentile for the last 10-year period and 6th percentile for the last 15-year period. Mr. Anton conveyed that it is a testament to the continuity in Land Board and Investment Board management in achieving those results, being consistent and steadfast with asset allocation, being patient during difficult times, keeping costs low, hiring good managers and avoiding exotic strategies and mistakes. Mr. Anton expressed that the Land Board, Investment Board, and staff should be very pleased with results over the last 10-15 years.

Mr. Anton highlighted the School Bond Credit Enhancement Program administered by EFIB on behalf of Idaho schools. This program offers a credit enhancement that allows bond issuers to increase the bond rating from the state's AA+ rating to AAA. EFIB will provide up to \$1.2 billion in credit enhancement, with a \$40 million per school district limit; the enhancement is backed by \$300 million in Public School Endowment Fund assets. Mr. Anton explained the increased rating has the effect of reducing the interest rate by about 0.05%, which may not seem like much but with approximately \$756 million under guarantee, times 0.05%, it is about \$380,000 a year. That is rather significant and meaningful for the state and public schools. This year EFIB has provided \$50.5 million in new bond guarantees; eight different school districts have applied and two more are in process. Mr. Anton said EFIB charges a one-time application fee of \$500 and a guarantee fee of 0.02% – that is a one-time guarantee fee in the first year only and schools have the benefit of that higher credit rating going forward. Total revenue EFIB has generated is about \$19,400.

D. Earnings Reserve Levels

RECOMMENDATION: Modify the Land Board Distribution Policy to adopt the recommended new reserve levels.

DISCUSSION: Mr. Anton recalled that Callan LLC presented an update to the Land Board's Asset Allocation and Distribution Study at the April meeting. Included in the update were several recommendations, one of which EFIB suggests implementing today because it affects the fiscal year-end close process, and that is increasing reserve levels. Mr. Anton explained that the analysis and modeling done as part of Callan's study indicates the need to adjust the reserve level for Public School from five to six years and the reserve level for Charitable Institutions from five to seven years. In addition, a temporary boost in reserve levels to seven years for State Hospital South and Normal School was made in August 2017; that temporary increase should be made permanent. Mr. Anton summarized that these changes would result in Public School having six years of reserves and all other endowments having seven years of reserves. Mr. Anton remarked that the Investment Board believes these changes to be prudent. Controller Woolf asked, if this recommendation is implemented, will future distributions remain level or perhaps grow. Mr. Anton replied that this is a great time to consider change because of strong market performance; reserve levels can be enlarged and distributions will remain the same with perhaps modest enhancement.

Attorney General Wasden stated his understanding that the basis for this recommendation is two-fold: an analysis of the market by Callan, and the new asset mix that is a result of cottage site auction sales. Attorney General Wasden commented that the Board is contemplating potential risks and the ability to maintain constant payout to the beneficiaries. Mr. Anton agreed; given the expected decline in revenue from both investments and lands, in order to keep the same level of confidence in distributions it is appropriate to have larger reserve levels. Attorney General Wasden noted that the purpose of maintaining constancy in terms of distributions is to best serve the beneficiaries; they can count on that money rather than having some level of volatility which would cause them difficulty. Mr. Anton concurred; the beneficiaries rely on the annual distributions as a significant portion of their budgets, and the Land Board and Investment Board take seriously their roles in keeping distributions stable each year, if not increasing modestly.

Governor Otter recollected that annual disbursements from the Public School Fund have been in the \$32 million range, with an exception in 2010 of an additional \$22 million, and inquired if there has ever been a year that the distribution was reduced. Mr. Anton replied that to the best of his knowledge there was a period when the market was very volatile and distributions declined modestly; some years were held flat but for the most part there has been an increase every year.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board modify the Land Board Distribution Policy to adopt the recommended new reserve levels. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

7. Extension of Recruiting Process for Department of Lands' Director – Presented by Andrea Ryan, Human Resource Officer

RECOMMENDATION: The Department recommends extending the open, competitive recruitment for the Director of the Idaho Department of Lands using the following timeline. All candidates that applied during the first recruitment period shall be considered and do not need to re-apply.

Recruiting Timeline:

<u>Action</u>	<u>Dates</u>
Recruiting Extension Approved	May 15
Open Recruitment	May 16 – June 16
Applicant Screening	June 18 – July 6
Schedule Interviews/Reference Checks	July 6 – July 27
Interviews	August 3

DISCUSSION: Governor Otter noted that there were 57 applicants in the first recruitment period and inquired if they will be asked if they want to continue under consideration. Ms. Ryan responded that all applicants will be contacted and asked if they want to remain in the pool given the extended date. Attorney General Wasden stated he has no objection to the extension but wondered if it will provide ample time to gather additional applications. Ms. Ryan indicated that extending the recruitment process through the recommended date will be sufficient.

Callan

October 10, 2019



**Idaho State Board of Land
Commissioners**

**Strategic Reinvestment
Subcommittee Meeting**

Janet Becker-Wold, CFA
Denver Consulting

Subcommittee Questions – Asset Allocation (continued)

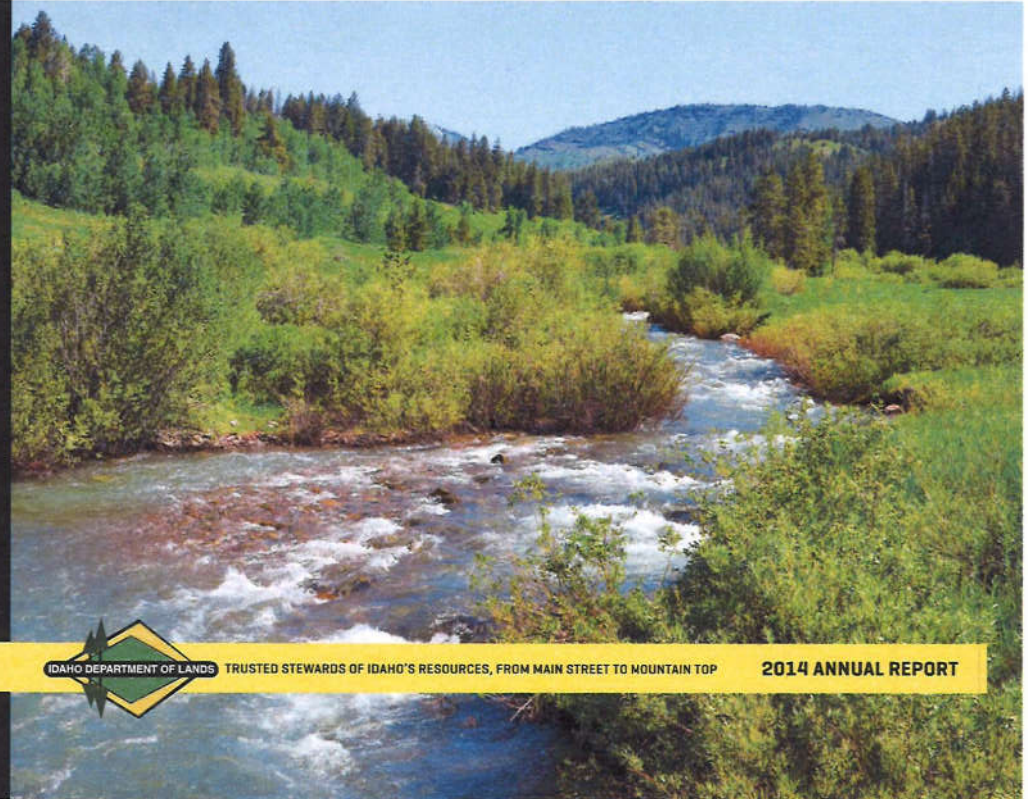
- Is the asset allocation what Callan recommends?
 - Callan is comfortable with the current target asset allocation given the future prudent deployment of Land Bank funds to get cash allocation down to 1% or so.
 - Lands and financial assets fall within the prescribed bands, while cash (Land Bank) is clearly over its 1% target
 - We recognize that as the financial assets have outperformed lands, they have grown in percent relative to the lands portfolio
- The 2018 study focused a decision making framework for deploying Land Bank Funds
 - The distribution policy objectives provided the guideposts for the 2018 study (see page 3)
 - The 2018 study re-visited the asset allocation and concluded that preference for financial assets versus land assets differs based on the assumed return from lands, the earnings reserve levels and primary objectives (e.g., growing real distributions; protection against a decline in distributions)
 - Focusing on cumulative real distributions, investment in the financial assets results in greater distributions in the expected and better-case outcomes while land reinvestment protects in poor capital market environments
 - Land reinvestment generally provides equal or better protection relative to the financial assets in terms of preventing a decline in distributions
 - Using a 3.5% net real hurdle rate, the study also concluded that deployment of Land Bank funds to the financial asset was preferable if the Land Board approved higher earnings reserves for Public Schools (500% to 600%) and Charitable Institutions (500% to 700%)
 - Study recognized the important role Lands play in dampening the volatility of the total Endowment
 - *Expected returns must be considered in addition to the risk mitigating role (meeting established hurdle rates)*



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IDAHO DEPARTMENT OF LANDS TRUSTED STEWARDS OF IDAHO'S RESOURCES, FROM MAIN STREET TO MOUNTAIN TOP

2014 ANNUAL REPORT

	School of Science	State Hospital South	University	Capitol	Total
Direct Program Revenue: *					
Forest Land	4,229,134	6,806,151	6,108,446	79,410	72,735,914
Agriculture Land	-	1,750	20,906	-	554,046
Grazing Land	53,271	8,321	60,080	[0]	2,160,442
Residential Real Estate	-	953,121	-	-	5,281,790
Commercial Real Estate	1,555	662,141	489,658	3,009	5,244,441
Non-Commercial Recreation	1,077	815	-	675	108,961
Conservation	-	78	6,452	-	116,208
Oil and Gas	61,884	25,520	92,741	-	1,154,176
Minerals	9,461	6,333	13,524	205	2,411,223
Total Revenue	4,356,392	8,464,230	6,792,008	83,298	89,767,221
Direct Program Expense:					
Forest Land	961,441	546,655	778,549	121,059	14,687,102
Agriculture Land	-	267	3,193	-	84,613
Grazing Land	23,756	3,711	26,793	[0]	963,445
Residential Real Estate	-	182,280	-	-	938,549
Commercial Real Estate	62	199,102	90,691	237	1,182,232
Non-Commercial Recreation	1	0	-	0	65
Conservation	-	14	1,124	-	20,245
Oil and Gas	931	384	1,396	-	17,368
Minerals	1,122	751	1,604	24	285,908
Total Program Expense	987,313	933,164	903,748	121,320	18,179,528
Program Margin	3,369,079	7,531,067	5,888,260	(38,021)	71,587,694
Less: Managerial Overhead:					
Forest Land	293,016	120,562	196,594	33,295	4,480,256
Agriculture Land	-	178	2,131	-	56,479
Grazing Land	10,404	1,625	11,734	[0]	421,955
Residential Real Estate	-	23,925	-	-	123,190
Commercial Real Estate	80	28,485	25,485	236	261,113
Non-Commercial Recreation	202	153	-	127	20,463
Conservation	-	12	954	-	17,189
Oil and Gas	219	90	329	-	4,093
Minerals	617	413	881	13	157,159
Total Managerial Overhead	304,539	175,444	238,109	33,672	5,541,896
Net Income by Program:					
Forest Land	2,974,677	6,138,934	5,129,904	(74,944)	53,568,557
Agriculture Land	-	1,304	15,592	-	412,955
Grazing Land	19,110	2,983	21,553	[0]	775,041
Residential Real Estate	-	746,915	-	-	4,220,051
Commercial Real Estate	1,412	434,555	379,689	2,536	3,801,096
Non-Commercial Recreation	874	662	-	548	88,452
Conservation	-	53	4,374	-	78,775
Oil and Gas	60,733	25,045	91,017	-	1,132,714
Minerals	7,723	5,169	11,090	167	1,968,156
Net Income	\$3,084,530	\$7,355,629	\$5,650,151	(471,693)	\$66,045,797



IDAHO DEPARTMENT OF LANDS

TRUSTED STEWARDS OF IDAHO'S RESOURCES, FROM MAIN STREET TO MOUNTAIN TOP

2018 ANNUAL REPORT



	School of Science	State Hospital South	University	Capitol***	Total
Asset Class/Endowment Revenue *					
Timberland	\$5,717,055	\$2,570,674	\$5,961,074	\$0	\$66,220,267
Farmland	0	2,275	17,028	0	425,596
Rangeland	55,409	109,856	32,114	0	2,943,898
Residential Real Estate	159	127,939	1	0	2,958,648
Commercial Real Estate	5	365,931	341,888	0	1,359,490
Oil and Gas Rentals and Bonuses	1,087	434	570	0	26,431
Minerals Rentals and Bonuses	2,159	585	1,754	0	78,583
Total Revenue	5,775,874	3,177,694	6,354,429	0	74,012,913
Less: Expenses**					
Timberland	1,553,803	921,765	1,187,701	157,432	22,598,202
Farmland	215	659	5,400	9	202,424
Rangeland	25,665	50,884	14,875	485	1,627,488
Residential Real Estate	9	294,292	0	0	1,717,454
Commercial Real Estate	1	253,281	161,185	0	996,439
Oil and Gas Rentals and Bonuses	6,420	2,563	3,368	11	156,071
Minerals Rentals and Bonuses	9,802	2,656	7,964	0	356,808
Total Expense	1,595,914	1,526,101	1,380,492	157,936	27,654,885
Net Income by Asset Class					
Timberland	4,163,251	1,648,910	4,773,373	[157,432]	43,622,064
Farmland	[215]	1,616	11,628	[9]	223,172
Rangeland	29,744	58,972	17,239	[485]	1,316,410
Residential Real Estate	151	[166,354]	1	[0]	1,241,194
Commercial Real Estate	4	112,650	180,703	0	363,051
Oil and Gas Rentals and Bonuses	[5,332]	[2,129]	[2,797]	[11]	[129,640]
Minerals Rentals and Bonuses	[7,643]	[2,071]	[6,210]	0	[278,224]
Total Net Income	\$4,179,959	\$1,651,594	\$4,973,936	(\$157,936)	\$46,358,027

***Unlike the other endowments, timber sale revenues accrue to the permanent fund rather than the reserve.

December 2018 Land Purchases

	Jamestown Forest Lands	Nordic Crystal Falls	Jackson Timberland Opportunities
Where:	Benewah Boundary Shoshone	Benewah Boundary Latah Shoshone	Benewah Boundary Bonner Latah Shoshone
Purchase Price total: \$42,245,628	\$17,146,401 \$1,325 an Acre	\$4,045,998.60 \$1,215 an Acre	\$21,053,229.75 \$1,325 an Acre
Size total: 32,123,95 acres	12,904.68 Acres	3,330.04 Acres	15,889.23 Acres
Reservations total: 65,244,620 BDFT for 5 years	Seller reserves right to sell 27,449,590 BDFT timber for 5 years.	Seller reserves right to sell 16,739,850 BDFT timber for 5 years.	Seller reserves right to sell 20,055,270 BDFT timber for 5 years.
Conservation Easements:	Yes. Listed on page 30 of due diligence report	Nordic pays Land \$12,800 per conservation easement admin. Yes. Page 25 of due diligence report.	Yes. Page 34 of due diligence report.

2018 | Idaho State Board of Land Commissioners



**Due Diligence Report:
Jackson Timberland Opportunities Parcels,**

Idaho Department of Lands

Background

Intended User and Use

The client and sole Intended User for this document is the Idaho State Board of Land Commissioners, the "Land Board".

The Intended Use of this report is to assist the Land Board in evaluating a potential timberland acquisition and making a statement of findings and recommendation as to whether the potential acquisition would meet the requirements outlined in the Statement of Investment Policy for Idaho Land Grant Endowments (July 17, 2018). This report is not an appraisal.

Purpose Statement

The purpose of this report is to summarize information on a timberland acquisition to determine the following:

- a) If the expected financial return generated by income exceeds the minimum hurdle rate of 3.5% real net;
- b) 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;
- c) Whether the transaction would facilitate improved management or improve the overall Endowment land ownership pattern in the area;
- d) The existence of any potential risks, including but not limited to environmental or title-related issues.

For timberland acquisitions, each property must be evaluated against 14 criteria to satisfy the threshold investment, including an ability to produce a 3.5% net real return. This report summarizes the results of the complete due diligence process and describes how the acquisition contributes to the Land Board's strategic objectives for its timberland portfolio as outlined in the Idaho State Board of Land Commissioners Endowment Lands Asset Management Plan (March 17, 2016).

Scope of Work

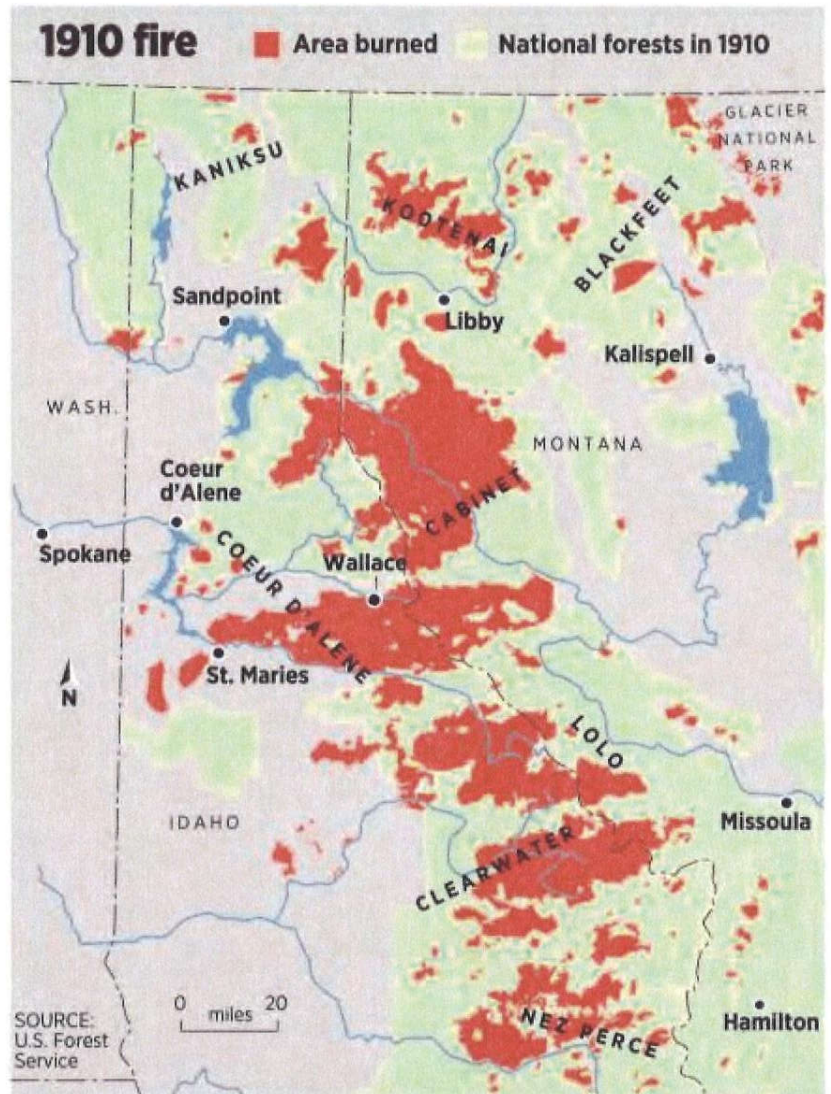
Northwest Management, Inc. and its subsidiary Northwest Rural Properties, LLC were contracted by the Idaho Department of Lands to provide both due diligence and real estate transaction services in conjunction with Idaho Department of Lands staff on behalf of the Endowment's land acquisition strategy. For the Jackson Timberland Opportunities Parcels, Northwest Management, Inc. conducted a preliminary timber valuation using inventory data provided by Molpus Woodlands Group, LLC, who manages the parcels on behalf of Jackson Timberland Opportunities, LLC. This information was combined with market data and regional information to provide an offer price recommendation to the State Forester for review and approval. Upon approval, the Idaho Department of Lands entered into the negotiation of terms for the Purchase and Sale Agreement. Once accepted, the Idaho Department of Lands, Northwest Management, Inc., and Northwest Rural Properties, LLC completed the due diligence

Risk Considerations not in the Callen Report

- Fire
- The prohibition of selling timberlands once purchased
- Private Industry no longer participating in public auctions

The Great Fire of 1910





SOURCE:
U.S. Forest
Service

MOLLY QUINN mollyq@spokesman.com

Once purchased, there is a statutory prohibition on selling the land:

Idaho Code Sect. 58-133. Acquisition, sale, lease, exchange or donation of public lands -- Creation and operation of land bank fund. (1) The state board of land commissioners may select and purchase, lease, receive by donation, hold in trust, or in any manner acquire for and in the name of the state of Idaho such tracts or leaseholds of land as it shall deem proper, and after inventory and classification as provided herein, shall determine the best use or uses of said lands: **provided, however, that all state-owned lands classified as chiefly valuable for forestry, reforestation, recreation and watershed protection are hereby reserved from sale and set aside as state forests.**

Idaho Constitution, Article IX, Sec. 7

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.**

Idaho Constitution Art. IX, Sec. 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, or which may hereafter be granted to or acquired by the state by or from the general government, **under such regulations as may be prescribed by law**, 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.

Stimson no longer participating in public auctions

- How does purchasing private land and making it public hurt the endowment?
- In 2018, 55 of 65 Idaho timber sales yielded just one or two bids. Stimson actually bid on 25 of sales.
- While Stimson did not win every bid, their participation added \$4.4 million dollars to the bids. \$4.4 million to the endowment.
- Unfair and unequal treatment will cause companies like Stimson to leave. They left California, reduced their operations in Oregon and in the past left Montana. Less competitive bidding will hurt the Endowment.