Land Board Governance Policy

This guidance document is not a new law. This document is an interpretation of existing law, except as authorized by Idaho Code or incorporated into a contract.

Agency Contact
Division Administrator – Trust Land Management

Contents
1. December 15, 2014 approved memo
   Governance Recommendations (modified on 9/15/2015)
   Summary of Board action: Adopted a governance structure for timber sale contracts, routine investment decisions, and other non-routine land investment decisions as recommended by the Subcommittee on Endowment Investment Governance Strategy.
   Note: Although this governance structure was modified on 9/15/2015, this approved memo provides background information for the current governance structure. See 12/15/2015 approved memo for current governance structure.

2. September 15, 2015 approved memo
   Modify Timber Sale Approval Process for Emergency Salvage Sales
   Summary of Board action: Modified the governance structure with an exception for salvage sales.

3. December 15, 2015 approved memo
   Governance Structure Review
   Summary of Board action: Clarified the current governance structure is a combination of the action originally approved on 12/15/2014 and the exception for salvage sales approved on 09/15/2015.

See approved memo for Governance Structure:
   I. Timber Sale Contracts
   II. Routine Land Investment Decisions
   III. Other Land Investment Decisions
SUBJECT

Governance Recommendations

BACKGROUND

The Subcommittee on Endowment Investment Governance Strategy (Subcommittee) provided a memorandum dated September 19, 2014 to Callan Associates making several recommendations regarding governance structure that were considered as part of the comprehensive strategy review. Callan Associates stated in their review, "Callan supports the delegation of authority to make decisions to Idaho Department of Lands (IDL) and the Director where appropriate. We defer to the Subcommittee and Land Board on what the applicable levels for each should be."¹

DISCUSSION

A brief discussion of the Subcommittee’s recommendation follows:

Timber Sale Contracts:

- It is recommended that the Land Board approve the annual timber sale plan and delegate authority to the Director of the Department of Lands to approve all individual timber sales that are within established Land Board policies. The Land Board would approve only those individual timber sales with exception(s) to established Land Board policies or where there are written citizen concerns. Examples of exceptions would be sales with clearcut harvest units that exceed 100 acres in size or where the development credits exceed 50% of net appraised value of the sale. Proposed timber sales that are routine and fall within current policies and governance guidelines would be listed in a separate table on the Director’s Monthly Timber Sale Activity Report, but would no longer require specific Land Board approval. This would expedite the individual timber sale approval process and time to market by 2-3 months for timber sales that fall within established guidelines and policies with no loss of governance oversight since the Land Board would still approve individual timber sales that are outside of established policies or where there is written citizen concern.

- The Subcommittee recommends that timber sale development costs that exceed 50% of the net appraised sale value (33% of the gross) must be approved by the Land Board with a thorough analysis and justification presented by the Director.

- Direct timber sales and timber salvage sales of less than 1 MMBF would continue to be approved by the Director without prior Land Board approval.

Routine Investment Decisions (Attachment 1):

- With regard to "routine" investments (e.g. access acquisition, forest and range improvements, reforestation, etc.), the Subcommittee concluded they are generally well-vetted by the current governance process, which includes approval of the annual IDL budget by both the Land Board and the Legislature. Furthermore, within IDL, there is a rigorous review of each routine project to ensure investment hurdle rates are attained or exceeded. The Subcommittee also recommends that an outside operational audit of IDL procedures for selecting and prioritizing routine projects would be prudent every 3-5 years to ensure those procedures reflect best practices.

Other Land Investment Decisions (Attachments 1 and 2):

- For other ("non-routine") investments (e.g. land disposal, land acquisition, new tenant improvements), the Subcommittee recommends having the Land Board utilize a Land Investment Advisor to provide and independently review any significant non-routine investment items proposed by IDL. For example, any non-routine investment IDL proposed above $100,000 would be reviewed by the Land Investment Advisor and approved by the Land Board. The Subcommittee also endorsed having IDL audited on the performance of every major investment project (e.g. over $1,000,000) after three (3) years and have the Land Investment Advisor review this post-audit.

**RECOMMENDATION**

The Subcommittee recommends that the Land Board adopt the following governance structure:

1) With regard to Timber Sale Contracts
   a) The Land Board approves the annual timber sale plan and delegates authority to the Director to approve individual timber sales that fall within established Land Board policies.
      i) Direct timber sales and salvage sales of less than 1 MMBF do not require Land Board approval.
   b) The Land Board approves only those individual sales that fall outside of established Land Board policies such as:
      i) sales with clear cut harvest units over 100 acres,
      ii) sales with development credits that exceed 50% of net appraised sale value (33% of the gross), or
      iii) sales where there are written citizen concerns.
   c) A table is added to the Director's Monthly Timber Sale Activity Report showing the proposed sales for the next month.

2) With regard to Routine Land Investment Decisions
   a) Transactions <$500,000 the IDL Director may authorize,
   b) Transactions >$500,000 require Land Board approval, and
   c) An audit of IDL procedures shall be conducted every 3-5 years.
3) With regard to Other Land Investment Decisions
   a) Transactions >$100,000 require Land Board approval and may require review by the
      Land Board's Land Investment Advisor at the Board's discretion,
   b) 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
   c) Transactions <$100,000 the IDL Director may authorize; however, those that are
      complex or controversial may be vetted by the Land Investment Advisor.

4) The outlined governance structure shall supersede all previous policy, operations
   memorandum and procedures that pertain to these governance issues.

BOARD ACTION

A motion was made by Attorney General Wasden that the Board adopt the Department
recommendation as outlined on Agenda Item 10B, pages 2 of 3 and 3 of 3, with the addition
that this be scheduled for review at the Board's December 2015 meeting. Secretary of State
Ysursa seconded the motion. The motion carried on a vote of 5-0.

ATTACHMENTS

1. Land Investment Categories
2. Reinvestment in Real Assets-Governance and Cash Flow Model
## Routine Land Investment Decisions
*(Including range of magnitude -- last three years)*

<table>
<thead>
<tr>
<th></th>
<th>Hi/Lo Range</th>
<th>Annual Ave.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grazing land improvements</td>
<td>$5,000-$6,800</td>
<td>$6,000</td>
</tr>
<tr>
<td>Building maintenance</td>
<td>$150,000-$270,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Forest improvements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access Acquisition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road Construction &amp; Maintenance</td>
<td>$5,400,000-$7,300,000</td>
<td>$6,470,000</td>
</tr>
<tr>
<td>Reforestation</td>
<td>$750,000-1,740,000</td>
<td>$1,210,000</td>
</tr>
<tr>
<td>Fire Hazard Treatment/Site Prep</td>
<td>$570,000-$790,000</td>
<td>$700,000</td>
</tr>
<tr>
<td>Other Forest Improvements*</td>
<td>$750,000-$1,230,000</td>
<td>$940,000</td>
</tr>
<tr>
<td><strong>Total Forest</strong></td>
<td></td>
<td>$9,320,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>$9,526,000</td>
</tr>
</tbody>
</table>

*Includes pruning, pre-commercial thinning, contracted site prep, etc.*

## Other Land Investment Decisions
*(Including range of magnitude -- last three years)*

<table>
<thead>
<tr>
<th></th>
<th>Hi/Lo Range</th>
<th>Annual Ave.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Disposal</td>
<td>$120,000-$12,000,000</td>
<td>$4,200,000</td>
</tr>
<tr>
<td>Development, Planning &amp; Entitlement</td>
<td>$830,000-$1,400,000</td>
<td>$1,080,000</td>
</tr>
<tr>
<td>Building Improvements - New Tenants</td>
<td>$35,000-$680,000</td>
<td>$410,000</td>
</tr>
<tr>
<td>Land Acquisition</td>
<td>$0-$180,000</td>
<td>$60,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>$5,750,000</td>
</tr>
</tbody>
</table>
Land Board Sells an asset
To Permanent Fund; Managed by EFIB

IDL determines need/opportunity to purchase an asset >$100,000

To Land Bank; For potential reinvestment

Preliminary Land Board Approval to Proceed with Analysis.

IDL Expert

Outside Expert

Land Investment Advisor evaluates

More Study

Transaction Occurs

IDA withdraws funds from the Land Bank

Land Board reviews recommendation

Yes

Preliminary Land Board Approval to Proceed with Analysis.

IDL determines need/opportunity to purchase an asset >$100,000
SUBJECT

Modify Timber Sale Approval Process for Emergency Salvage Sales

AUTHORITY

Timber sale approval process as recommended by the Endowment Investment Governance Strategy Subcommittee (EIGS) and approved by the Land Board on December 15, 2014 (Attachment 1).

BACKGROUND

On December 15, 2014, the Land Board adopted the current process for approving timber sale contracts as recommended by the EIGS. Individual timber sales are no longer approved by the Land Board unless an individual sale falls outside of an approved Land Board policy such as:

1. Sales with clearcut units over 100 acres (Attachment 2);
2. Sales with development credits that exceed 50% of net appraised sale value; or
3. Sales where there are written citizen concerns.

This was done to clarify and streamline the timber sale approval process while maintaining Land Board governance oversight and rigorous internal controls to insure quality assurance and control (QA/QC). IDL Operations and Bureau personnel review each sale to ensure alignment with policy and procedures and to ensure QA/QC requirements before approval of the sale by the Director or the Director’s designee (State Forester or Forest Management Bureau Chief).

DISCUSSION

Several thousand acres of forested endowment trust lands have burned this summer, requiring the need to expeditiously prepare and sell a number of salvage timber sales to recover the value of this burned timber and to start the forest recovery process. It is estimated that approximately 60 to 80 million board feet of burned timber will need to be salvaged.

Current administrative rule and Land Board policy clearly provide that the annual sale plan may be altered to respond to changing market conditions or to expedite the sale of damaged or insect infested forest products. Salvaging dead, burned trees within these fire areas will typically exceed the 100-acre clearcut threshold and, at times, may exceed the development credit threshold due to the reduced value of burned timber.

The 6000-acre Prairie Block that burned in 2013 is an example of a landscape-scale salvage effort. All merchantable burned and dead trees were harvested over the entire block except along drainages or other sensitive areas to provide large organic debris (LOD) recruitment and to minimize sediment movement. Planting will be completed this spring.
While clearcutting is a legitimate silvicultural prescription and setting a size threshold for approval is prudent for “green” timber sales, setting a size limit for salvage harvest units is arbitrary and nonsensical. When fires burn large landscape areas, keeping salvage units within the 100-acre size limit makes no biological or operational sense when most or all of the timber is dead and burned. The goal of fire salvage is to recover the value of these burned trees, reduce the threat of insect and disease outbreaks, protect the endowment asset from further environmental degradation and expedite forest recovery by planting.

It is often in the endowments’ best interest to harvest dead and dying timber as quickly as possible after a catastrophic event. Therefore, the Department recommends clarifying the current timber sale approval process to allow the Department to expeditiously approve salvage timber sales that exceed the 100-acre or development credit thresholds. While these individual salvage sales would not be approved by the Land Board, they would still go through the rigorous internal review process and be approved by the Director or State Forester. These salvage sales would also be included on the Director’s Monthly Timber Sale Activity Report that is presented to the Land Board each month.

RECOMMENDATION

The Department recommends that the Land Board approve modification to the timber sale approval procedures as underlined below:

1. The Department will present the Annual Timber Sale Plan to the Land Board for approval at the April Land Board meeting.
2. Except for salvage sales, the Department will present individual proposed timber sales that fall outside of established Land Board policies to the Land Board for approval such as:
   a. Sales with clearcut silvicultural prescription units which exceed 100 acres.
   b. Sales with development credits that exceed 50% of net appraised sale value (33% of gross sale value).
   c. Sales to which the Department has received written public comment.
3. Fire, wind, and insect and disease salvage sales are exempt from Item 2 requirements above.
4. The Department will display names of all proposed timber sales and salvage sales for the next month in the monthly Director’s Timber Sales Report.

BOARD ACTION

A motion was made by Attorney General Wasden that the Board adopt the Department recommendation as outlined in Item 12, page 2 of 2 (as stated above). Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

ATTACHMENTS

1. December 15, 2014 Approved Land Board Memo – Governance Recommendations
2. Land Board Clearcut Policy, 1984
SUBJECT

Governance Structure Review

BACKGROUND

On December 15, 2014, the Land Board adopted a governance structure as recommended by the Subcommittee on Endowment Investment Governance Strategy (Attachment 1). The motion required that the governance structure be reviewed by the Land Board at its December 2015 regular meeting.

On September 15, 2015, the Land Board approved a modification to the governance structure that allows the Department of Lands to conduct salvage sales due to fire, wind, and insect and disease on endowment lands that may exceed the 100-acre clearcut threshold and, at times, may exceed the development credit threshold due to the reduced value of burned timber (Attachment 2).

DISCUSSION

The following section outlines the governance structure currently in effect considering both the December 15, 2014 and the September 15, 2015 actions taken by the Land Board. The Department does not recommend any significant change to the current governance structure. However, for clarity, the Department does recommend that the Land Board approve the governance structure outlined below which is a combination of the actions approved on December 15, 2014 and September 15, 2015 with regard to governance structure.

I. Timber Sale Contracts

A. The Department will present the Annual Timber Sale Plan to the Land Board for approval each year at the April Land Board meeting.

B. Except for salvage sales, the Department will present individual proposed timber sales that fall outside of established Land Board policies to the Land Board for approval such as:

1. sales with clearcut silvicultural prescription units which exceed 100 acres,
2. sales with development credits that exceed 50% of net appraised sale value (33% of gross sale value), or
3. sales for which the Department has received written public comment.

C. Fire, wind, and insect and disease salvage sales are exempt from Item I.B. requirements above.
D. The Department will display names of all proposed timber sales and salvage sales for the next month in the monthly Director’s Timber Sales Report.

II. Routine Land Investment Decisions (e.g. access acquisition, forest and range improvements, reforestation, building maintenance)

A. Transactions <$500,000 the IDL Director may authorize.
B. Transactions >$500,000 require Land Board approval.
C. An audit of IDL procedures shall be conducted every 3-5 years.

III. Other Land Investment Decisions (e.g. land disposal, land acquisition, new tenant improvements)

A. Transactions <$100,000 the IDL Director may authorize; however, those that are complex or controversial may be vetted by the Land Investment Advisor.
B. Transactions >$100,000 require Land Board approval and may require review by the Land Board’s Land Investment Advisor at the Board’s discretion.
C. Transactions >$1,000,000 shall be subject to a post-audit every three (3) years. The Land Board's Land Investment Advisor shall review such transactions post-audit.

RECOMMENDATION

The Department recommends that the Land Board approve the governance structure as outlined above.

BOARD ACTION

A motion was made by Attorney General Wasden that the Board adopt the Department recommendation as outlined on page 2 of 2. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

ATTACHMENTS

1. December 15, 2014 Approved Memo
2. September 15, 2015 Approved Memo