



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

Tom Schultz, Secretary to the Board

FINAL Minutes
State Board of Land Commissioners Regular Meeting
November 24, 2015

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, November 24, 2015, in the State Capitol, Lincoln Auditorium (WW02), at 700 West Jefferson Street, Boise, Idaho. The meeting began at 1:30 p.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 four Board members at the meeting's start and recognized Superintendent Ybarra as she joined the meeting at 1:33 p.m.

1. Director's Report

A. Interest Rate on Department Transactions – November 2015

DISCUSSION: Director Schultz noted that the Department was once called the Department of Lands and Investments and the agency carried loans for individuals who purchased state land. This transaction interest rate was used then. The Department has two remaining land sale certificates that were funded under this historical process; both will mature in the next four years. Attorney General Wasden added a historical fact that the Constitutional debates centered on this issue. The Land Board was in competition with commercial banks for lending money on agricultural lands; it's an interesting historical holdover from the founding of the Board in 1890 and our Constitutional Convention in 1889.

B. Timber Sale Activity and Information Report – October 2015

DISCUSSION: Secretary of State Denney asked if the Department has extended the harvest time on any green timber sales to accommodate fire salvage operations. Director Schultz replied that the Department has not adopted a general policy; extensions would be considered on a case-by-case basis. Director Schultz stated there has been discussion, but he is not aware of any contract extensions at this time.

C. Division of Lands and Waterways Activity and Information Report – October 2015

D. Cottage Site Voluntary Auction for Ownership Update

DISCUSSION: Controller Woolf commented that the first year of the 3-Year Voluntary Auction for Ownership Plan (VAFO) is completed and asked for the Director's perspective on the process – is administration of the plan sufficient, what will the market sustain going forward, are any adjustments needed with either VAFO or unleased lots auctions. Director Schultz remarked his general sense is that the plan to date has gone extremely well. The Department has clear direction with the 3-Year Plan and staff has implemented the plan very well this past year. In addition, the 3-Year Plan has allowed the Department to communicate clear expectations to the lessees, which helps alleviate their concerns and enables a smooth process. Director Schultz stated the Department will bring an updated plan to the Board in early 2016 that will include any procedural changes to further facilitate the process. Director Schultz noted that the number of leased lots available in each auction cycle is not expected to lessen, except that most of those at Payette Lake will be through the process by the end of next year. At that point, the number of Priest Lake lots in an auction cycle will increase. Director Schultz does expect greater interest in auctions of unleased lots.

Governor Otter inquired about the process if a lessee decided at some point during the lease term that they no longer wanted to lease. Would that lot be auctioned? Director Schultz responded that one option is the lessee could find an interested person to acquire the lease and the lease could be assigned. Another option is the lessee could choose to sign a land-use permit that would allow the lessee a set amount of time to market the improvements and attract interest for someone to potentially purchase the lot during an auction cycle. Governor Otter asked if the Department has a hardship or death provision. Director Schultz replied there is not a hardship or death provision; the process would be the same as described above. Governor Otter asked if the Department aids lessees in the marketing. Director Schultz indicated that the Department does not directly assist with marketing. The Department has a contract with a broker who lists these lots on their website and actively promotes the lots to interested and prospective buyers. Governor Otter inquired if a person had expressed interest in a lease by bidding on a lot, is that information available to any broker who requests it. Mike Murphy, Bureau Chief-Endowment Leasing, acknowledged that, yes, it is available to anyone through a public records request.

E. Final Fire Season Update

DISCUSSION: A verbatim transcript is available by request to the Department of Lands, Attn: Land Board Recording Secretary, PO Box 83720, Boise, Idaho 83720-0050 or by email to public_records_request@idl.idaho.gov.

2. Endowment Fund Investment Board Manager's Report – Presented by Larry Johnson, EFIB Manager of Investments

Dean Buffington, Chairman of the Endowment Fund Investment Board, noted that this is the second of two meetings the Investment Board has with the Land Board each year. Chairman

Buffington commented that the regular meeting of the Investment Board was held on November 17 and unfortunately most of the Investment Board members were not able to attend the rescheduled Land Board meeting. Members in attendance included Chairman Buffington, Richelle Sugiyama and Gary Mahn. Scott Klitsch, representing EFIB's auditor CliftonLarsonAllen, was also in attendance. Attorney General Wasden thanked Chairman Buffington and all the members of the Investment Board for the expertise, time and effort they bring to help with the accomplishments of the Land Board with regard to school children of the state.

A. Manager's Report

DISCUSSION: Mr. Johnson reported that Endowment Fund reserves are in great shape and distributions are well-secured. Mr. Johnson noted that at the Investment Board's meeting on November 17, two pieces of potential legislation were reviewed. The first would increase the amount of school bonds that can be guaranteed by the Public School Endowment, and the second legislation would clarify that the Treasurer has the authority to continue the past practice of investing idle endowment funds as requested by the EFIB. Mr. Johnson anticipates bringing drafts of those two pieces of legislation for Land Board review at its next regular meeting in December. Mr. Johnson stated there are no compliance issues to report.

Mr. Johnson remarked on the performance of the Endowment Fund relative to peers as shown on page 2 of the Manager's Report. Based on a survey of several hundred peer groups, including public pension, endowment and foundation funds, a range of returns is shown (gray bars) and the Endowment Fund's ranking is identified with a blue dot. Smaller numbers are better in the rankings. While the most recent year's ranking is not terrific, the Fund ranks in the 6th percentile for 10 years, and above average for 3, 5 and 7 years' returns. Mr. Johnson explained one driver is asset allocation. The table at the bottom of page 2 compares the Endowment Fund to other funds in that respect. Governor Otter asked if a comparison of fund performance is done as well; i.e., growth in U.S. Equity v. growth in Non-U.S. Equity v. growth in Fixed Income. Mr. Johnson stated that over the ten years, U.S. Equity has outperformed Non-U.S. Equity which in turn has outperformed Fixed Income.

Attorney General Wasden, referring to the statement on the first page of the report that reserves were at least 4.5 times the size of approved FY2017 distributions, inquired which of the funds are below the 5-year mark. Mr. Johnson replied that one is Public School, and his recollection is Charitable Institutions is the second. Attorney General Wasden asked that Mr. Johnson confirm the information and provide to him following the meeting. Mr. Johnson said he would do so.

B. Investment Report

DISCUSSION: Mr. Johnson noted that returns for October were very good. U.S. Equity in October had its best month in about 4 years; that was a great benefit to the overall Fund portfolio and generated 5.5% return. Fiscal year-to-date return at the end of October was -1.1%, and remains such to date in November. Mr. Johnson commented that all fund manager's are performing as expected in current market conditions.

Mr. Johnson introduced EFIB staff in attendance – Judy Shock and Chris Halvorson.

C. EFIB Annual Report

DISCUSSION: Mr. Johnson highlighted from the annual report that the Investment Board is in compliance with policy and there were no material violation. The Investment Board held five meetings during the year ended in October, with 96% attendance by Board members, an indication of the seriousness with which Investment Board members take their responsibilities.

Mr. Gary Mahn, who serves on the EFIB Audit Committee, presented the Audit Summary. Mr. Mahn mentioned that other Audit Committee members include Tom Kealey, Chair, Representative Neil Anderson, Tara Orr and Controller Brandon Woolf. Mr. Mahn provided data from the Financial Statement Summary: the Endowment Fund from FY2014 to FY2015 increased \$98 million (6%). The Earnings Reserve balances increased \$43 million (12%). The receipts to reserves from Department of Lands decreased from \$88 million to \$83 million. Distributions to beneficiaries increased from \$49 million to \$52 million, up \$3 million or 6%. The investment return before fees was 3% for the year, 11.9% for the last three years and a gain of 12% for the last five years. Expenses including investment manager fees were less than half a percent, 0.44% of year end net assets.

Mr. Mahn reported that the Investment Board received a clean opinion on the Financial Statement from CliftonLarsonAllen; all the assets have been accounted for, the independent audit report on compliance and internal controls found no items to report; there were no instances of non-compliance with laws and regulations, no material weaknesses or significant deficiencies in internal controls. Mr. Mahn mentioned this year there was a separate consulting report performed by CliftonLarsonAllen, an examination of the Department of Lands' accounting processes. Representative samples of various revenue and expense transactions booked by the Department of Lands were examined; a full audit was not conducted. The auditor found no issues to report.

- **CONSENT**

3. Termination of Bishops' House Lease – Staffed by Janet Gallimore, Executive Director, Idaho State Historical Society and Jenifer Marcus, Deputy Attorney General

RECOMMENDATION: Approve the Bishops' House Lease Termination Agreement by and between the Friends of the Bishops' House ("Lessee") and the Idaho State Board of Land Commissioners ("Lessor").

DISCUSSION: Governor Otter asked if this termination is a mutual agreement. Director Schultz responded that the Bishops' House concurs; the agreement was negotiated with Idaho State Historical Society.

4. Approval of Minutes – October 20, 2015 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt and approve the Consent Agenda. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

- **REGULAR**

5. **Land Board Sage-grouse Plan** – Presented by Diane French, Deputy Director-Lands and Waterways, Cally Younger, Associate Counsel to the Governor, and Dustin Miller, Administrator, Office of Species Conservation

RECOMMENDATION: The Department recommends implementation of the LB SG Plan as a component of the overall state of Idaho Sage-grouse conservation strategy and plan.

DISCUSSION: A verbatim transcript is available by request to the Department of Lands, Attn: Land Board Recording Secretary, PO Box 83720, Boise, Idaho 83720-0050 or by email to public_records_request@idl.idaho.gov.

BOARD ACTION: A motion was made by Controller Woolf that the Board adopt the Department's recommendation to implement the Land Board Sage-Grouse Plan as a component of the overall state of Idaho Sage-grouse conservation strategy and plan.

- **INFORMATION**

NONE

- **EXECUTIVE SESSION**

NONE

There being no further business before the Board, at 2:56 p.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. Meeting adjourned.

