



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

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

FINAL Minutes  
State Board of Land Commissioners' Regular Meeting  
November 15, 2016

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, November 15, 2016, in the Capitol, Lincoln Auditorium, Lower Level, West Wing, 700 W Jefferson St., Boise, Idaho. The meeting began at 9:01 a.m. The Honorable Secretary of State Lawrence Denney presided in place of Governor C. L. "Butch" Otter who was attending to business out of state. The following members were present:

Honorable Attorney General Lawrence Wasden (*via teleconference*)  
Honorable State Controller Brandon Woolf  
Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, Secretary of State Denney recognized the presence of four Board members with Attorney General Wasden joining by conference call.

**1. Director's Report**

- A. Interest Rate on Department Transactions – November 2016
- B. Timber Sale Activity and Information Report – October 2016
- C. Division of Lands and Waterways Activity and Information Report – October 2016
- D. Cottage Site Auctions Update

**2. Endowment Fund Investment Board Manager's Report** – *Presented by Dean Buffington, Chairman, Endowment Fund Investment Board, and Larry Johnson, EFIB Manager of Investments*

Dean Buffington, Chairman of the Endowment Fund Investment Board, noted that this is one of the traditional semi-annual meetings the Investment Board has with the Land Board to report on current activities. Members in attendance included Chairman Buffington, Gavin Gee, Warren Bakes, Richelle Sugiyama and Gary Mahn; Representative Neil Anderson and Senator Chuck Winder were not able to attend. Chairman Buffington also recognized Janet Becker-Wold of Callan Associates, and Scott Klitsch, representing EFIB's auditor CliftonLarsonAllen.

A. Manager's Report

*DISCUSSION:* Mr. Johnson introduced members of the Investment Board staff who were present: Chris Halvorson, Investment Officer, and Michelle Watts, Fiscal Officer. Mr. Johnson also welcomed two representatives from Lazard Asset Management: Nick Bratt and Kerel Nurse. Mr. Johnson reported that reserves are strong and there are no legal or compliance issues. Mr. Johnson mentioned that the Citizen-Centric Report for the Land Grant Endowments is complete and copies have been distributed to each of the Land Board Members' offices. The report may be helpful in communications about the activities of the Land Board and the purpose of the state's Land Grant Endowments.

Referring to page 2 of the manager's report, Mr. Johnson remarked on the performance of the Endowment Fund versus other public funds for the period ending September 2016. Rankings are shown for the past one year, two, three, five, seven and 10 years. The first column shows results for the last year; the gray bar represents the range of returns for more than 100 public funds, the round dot is the Idaho Endowment, it ranks 20th percentile where 1st is best and 100th is the worst. Looking across the other columns Mr. Johnson noted that the Idaho Endowment ranks a little below average for the two- and three-year time periods but above average for the five-, seven- and 10-year time periods. For the last ten years the Endowment Fund ranks 6th percentile with better performance than 94% of other public funds.

B. Investment Report

*DISCUSSION:* Mr. Johnson stated that through the end of October, the Fund lost 1.7% due to weak equity markets. Fiscal-year-to-date the Fund is up 1.9%. Active managers are generally performing as expected in this market environment. Mr. Johnson reported that through yesterday in November, the Fund is up about 0.4%, making fiscal-year-to-date 2.3%.

C. EFIB Annual Report

*DISCUSSION:* Mr. Johnson stated that the Land Board's Investment Policy requires certain annual reporting from the Investment Board. A fiduciary such as the Land Board must ensure the experts to whom tasks are delegated actually perform the duties assigned. As shown on page 2 of this report, the Investment Board acknowledges that there were no material violations of investment policy or guidelines and that the Investment Board did recently review those guidelines. Mr. Johnson remarked that the Investment Board held six meetings during the year ended October, with 94% attendance by the nine Board members. Page 5 lists all the clients for which the Investment Board manages funds; they represent about \$700 million in assets in addition to the \$1.8 billion that are in the Endowment Fund. The Investment Board believes that having additional clients increases buying power and economies of scale, which is of benefit to not only those clients' endowments but to the Land Grant Endowments as well.

Mr. Gary Mahn, Chair of the Land Board Audit Committee stated that the Audit Committee was formed as a joint project between the endowment lands and the Endowment Fund in 2015. Members include State Controller Brandon Woolf, Tara Orr from the Attorney General's Office, Representative Neil Anderson, and Gary Mahn. Mr. Mahn reviewed the audit summary of the FY2016 results. The total Endowment Fund was \$1.8 billion, which is a decrease of 1% from the prior year. The earnings reserve portion increased 14% in 2016;

receipts from lands dropped modestly by 6%; distributions were up 8% to \$46 million. Mr. Mahn mentioned that distributions for the year 2017 will be 12% more than 2016, and distributions for 2018 will be up another 16%. For the year 2016 the Fund's investment loss was 0.2%; for the last 5 years the average return has been 7.1%. Total investment management expenses including all the managers and the administration of the Endowment Fund was 0.43%; less than one-half a percent. Mr. Mahn noted that each year the Investment Board commissions an independent audit of its financial results to ensure prudent management and provide transparency to stakeholders. The Investment Board is pleased with the result. Mr. Klitsch from CliftonLarsonAllen issued two formal reports on the Endowment Fund. The first gave an unqualified opinion that the financial statements were accurate; this is the highest possible rating. The second tested the agency's compliance and internal controls and found no issues to report.

Attorney General Wasden noticed that the financial statement for FY2016 reported a loss of 1%, about \$13 million. Attorney General Wasden asked if that is within the proper parameters – did the Board do something wrong i.e., fail to act, make a misstep, or is it just the vagaries in the marketplace?

Mr. Johnson explained that it is within normal parameters. With a portfolio that is invested about 70% in the equity market, historically it would lose money about 1 year out of 3. Over the long term equities are expected to outperform bonds; every quarter the Investment Board reexamines that assumption to make sure it is still valid.

**3. Joint EFIB-IDL Financial Reporting** – *Presented by Tom Schultz, Director*

- **CONSENT**

**4. Clagstone Meadows Forest Legacy Easement** – *Staffed by David Groeschl, State Forester and Deputy Director*

**RECOMMENDATION:** Authorize the Idaho Department of Lands to acquire the Clagstone Meadows Conservation Easement, comprising 14,432 acres.

**DISCUSSION:** Controller Woolf asked if Bonner County Commissioners are in support of this conservation easement. Director Schultz replied that early in the process there was support from the county; there was a change in commission members as the process went along, with some concerns raised then. In addition, there was considerable discussion and debate during the past legislative session regarding conservation easements. Since that time there has been an extensive outreach effort by Department staff, including on-the-ground meetings, taking commissioners out in the field, and there was a discussion within the last two weeks with the county. The Department does not have a written letter from Bonner County but there was verbal recognition of the project and verbal support at the last meeting. Anxiety around this has diminished over where it was during the legislative session.

**5. Results of October 11, 2016 Conflicted Grazing Lease Auctions** – Staffed by Jason Laney, Program Manager-Grazing, Ag, Conservation

*RECOMMENDATION:* Direct the Department to award the grazing lease to Canyon Cattle Company (G430017).

*DISCUSSION:* None.

**6. Results of October 19, 2016 Oil and Gas Lease Auction** – Staffed by Dave Schwarz, Program Manager-Mineral, Oil and Gas, Alternative Energy Leasing

*RECOMMENDATION:* Approve the results of the October 19, 2016 oil and gas lease auctions and direct the Department to issue the 225 oil and gas leases to the successful parties.

*DISCUSSION:* None.

**7. Approval of Minutes** – October 18, 2016 Regular Meeting (Boise)

*CONSENT AGENDA BOARD ACTION:* A motion was made by Controller Woolf that the Board adopt and approve the Consent Agenda. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0.

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

- **INFORMATION**

**8. Idaho Forest Products Commission Forest Survey Highlights** – Presented by Bob Moore, Principal, Moore Information

- **REGULAR**

**9. Maggie Butte Acquisition** – Presented by Ryan Montoya, Program Manager-Real Estate

*RECOMMENDATION:* Direct the Department to complete the acquisition as proposed using Land Bank funds held in trust for the Public School Endowment.

*DISCUSSION:* Controller Woolf remarked that this acquisition fits perfectly with the Land Board's work on governance structure, having outside experts review and confirm Department recommendations, setting the hurdle rate and identifying that a project meets and exceeds that rate. Controller Woolf thanked Director Schultz, Mr. Montoya, and all involved and commented that it is great to see this process working the right way.

Secretary of State Denney was curious about the three acres that were excluded due to a fence encroachment and asked what impact that has on the transaction. Mr. Montoya replied that there is minimal impact. The encroachment has been surveyed and will be excluded from the purchase; there is roughly three acres so the price will be reduced by approximately \$3,160. Secretary of State Denney wondered if Potlatch would keep that acreage. Mr. Montoya said his

understanding is that Potlatch may be in the process of selling it to the neighboring owner to resolve the encroachment completely.

*BOARD ACTION:* A motion was made by Controller Woolf that the Board approve the Department's recommendation to complete the acquisition as proposed using Land Bank funds held in trust for the Public School Endowment. Superintendent Ybarra seconded the motion. The motion carried on a vote of 4-0.

**10. Pending Rule IDAPA 20.03.16, Rules Governing Oil and Gas Leasing on Idaho State Lands – Presented by Mike Murphy, Bureau Chief-Endowment Leasing**

*RECOMMENDATION:* Direct the Department to submit the amended Proposed Rule as a Pending Rule to OAR for review by the 2017 Legislature.

*DISCUSSION:* None.

*BOARD ACTION:* A motion was made by Controller Woolf to direct the Department to submit the amended Proposed Rule as a Pending Rule to OAR for review by the 2017 Legislature. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0.

**11. Pending Rule IDAPA 20.02.14, Rules for Selling Forest Products on State-Owned Endowment Land**

- A. Department of Lands – Presented by David Groeschl, Deputy Director/State Forester
- B. McFarland Cascade – Presented by Harry Grant, Riddell Williams P.S., Legal Counsel

*RECOMMENDATION:* Repeal Sections 024 (Sale of Cedar Poles) and 025 (Pole Specifications) and accept proposed changes to all remaining sections in IDAPA 20.02.14 – *Rules for Selling Forest Products on State-Owned Endowment Lands* as a Pending Rule.

*DISCUSSION:* An audio recording 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 Attorney General Wasden that the Board approve the Department recommendation, Item 11, page 2 of 2, to repeal Sections 024 (Sale of Cedar Poles) and 025 (Pole Specifications) and accept the proposed changes to all remaining sections of IDAPA 20.02.14 – *Rules for Selling Forest Products on State-Owned Endowment Lands* as a Pending Rule. Controller Woolf seconded the motion. The motion carried on a vote of 4-0.

• **EXECUTIVE SESSION**

NONE

There being no further business before the Board, at 11:33 a.m. a motion to adjourn was made by Attorney General Wasden. Controller Woolf seconded the motion. The motion carried on a vote of 4-0. Meeting adjourned.

