



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  
June 20, 2017

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, June 20, 2017, in the Capitol, Hearing Room EW42, Lower Level, East Wing, 700 W. Jefferson St., Boise, Idaho. The meeting began at 9:00 a.m. The Honorable C.L. "Butch" Otter was conducting business out of country; the Honorable Secretary of State Lawrence Denney presided in the Governor's absence. 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 Controller Woolf and Superintendent Ybarra and that Attorney General Lawrence Wasden was present via conference call. Secretary of State Denney also noted the presence of a quorum.

**1. Director's Report**

- A. Interest Rate on Department Transactions – June 2017
- B. Timber Sale Activity and Information Report – May 2017
- C. Division of Lands and Waterways Activity and Information Report – May 2017

D. Cottage Site Update

*DISCUSSION:* Secretary of State Denney inquired if the variation in appraised values comes from having different people appraise or average the lots. Director Schultz confirmed that is correct. Director Schultz explained that in 2013, the Department had four different appraisers working under the Uniform Standards of Professional Appraisal Practices, but their valuations were wildly varied. Director Schultz continued to say that for the last three years, the Department has had one appraiser doing essentially all the lots at both lakes, so there is a higher degree of consistency in the Department's process to obtain those values.

E. Oil and Gas Royalty Audit

*DISCUSSION:* Controller Woolf questioned if this audit is part of the way to help build the structure of oil and gas for Idaho's future and noted that the cost of the audit is probably more than what is being brought in from royalties and leases. Controller Woolf also asked what the audit provides going forward. Director Schultz clarified that he expects the price will be closer to \$30,000 and that he is confident the revenue coming in will exceed the cost of the audit. Director Schultz stated that when the royalties and bonuses paid are considered, the cost will be far less than revenues that have been produced from Oil and Gas. Director Schultz explained that the audit will help the Department understand what is being audited, what data needs to be collected and what information the Department doesn't have today. Director Schultz emphasized that the audit will help the program moving forward. He remarked that the statute was changed in the most recent legislative session and it prescribed to the Tax Commission that they are to audit severance taxes from oil and gas up to every three years. Director Schultz held that since production started in 2015, by the time the audit is finished, it will be 2018, which fits within that three-year timeline.

F. Return on Asset (ROA) Biannual Review

*For the record, Attorney General Lawrence Wasden asked to be excused during item F, as his presence was needed in another meeting. He thanked the Board members for allowing him to participate.*

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

A. Manager's Report

*DISCUSSION:* Mr. Johnson reported that distributions are well-secured and that estimated reserves are 5.5 years. Mr. Johnson commented that Irv Littman, a former vice president and treasurer for Boise Cascade, has been added to the Endowment Fund Investment Board and it is now full. Mr. Johnson also reminded the Board that the EFIB will be bringing a final recommendation on 2019 distributions to the Land Board's August meeting.

B. Investment Report

*DISCUSSION:* Mr. Johnson stated that the month of May was good for the Fund for a total return of 1.4%. Fiscal year to date return through the end of May put the Fund at 12.1%, which Mr. Johnson remarked was good. Mr. Johnson reported that managers are performing as expected, although Lazard and NFJ Investment Group have struggled. Mr. Johnson noted that EFIB staff and investment consultants have been reviewing Lazard and NFJ Investment Group and will be discussing them at their Thursday meeting.

Controller Woolf asked if the managers who are struggling are put on a watch list to monitor improvement for the next few months, or what action the EFIB takes as a board. Mr. Johnson stated that the EFIB first talks to the manager to get an explanation of their underperformance, which is often due to emotions in the market that run counter to their investment style. The EFIB then does its own analysis. Mr. Johnson commented that in this

case, both managers are having some challenges in terms of personnel and organizational structure. Mr. Johnson detailed that he, his investment officer and Callan have visited the NFJ Investment Group offices, and Callan has visited Lazard as well.

C. Preliminary View of FY2019 Distributions

- **CONSENT**

**3. Strategic Plan FY2018-FY2021 – Staffed by Kari Kostka, Strategic Planning Manager**

*RECOMMENDATION:* Direct the Department to submit the FY2018-FY2021 Strategic Plan to the Division of Financial Management by the July 3, 2017 deadline.

*DISCUSSION:* Controller Woolf noted that Article Nine (IX) Section Eight (8) of the Constitution says it is the Board's fiduciary duty to maximize long-term financial returns. Controller Woolf commented that he wasn't sure if it makes a difference whether the four priorities presented were reorganized to present that as the first one, but the Board's and the Department's goals should be aligned. Director Schultz responded that the list could be reorganized and shared insight on the thought process behind the structure. Director Schultz noted that when the EFIB brings in advisors to make presentations, they typically focus on three things: people, process and performance. Director Schultz described how it is important to have the right people in the right positions, the significance of having a differentiated process as opposed to a passive strategy and how performance is largely driven by having excellent people follow a consistent process. Director Schultz reaffirmed that the endowment piece could be moved up the list and explained that the customer focus portion is the qualitative piece to ensure the Department is fulfilling its internal and external obligations. Controller Woolf commented that people and process are critical, and that he is grateful for the staff at the Department.

**4. Approval of Minutes – May 16, 2017 Regular Meeting (Boise)**

*CONSENT AGENDA BOARD ACTION:* A motion was made by Controller Woolf that the Board approve and adopt the Consent Agenda with a change to Tab 3, Department of Lands Strategic Plan. Controller Woolf explained that the change is to reorder the numerical list of goals presented on page one of the memo: place Financial Stewardship as number one, followed by Customer Focus as number two, People as number three and Process as number four. Superintendent Ybarra seconded the motion. The motion carried on a vote of 3-0.

- **REGULAR**

**5. Asset Spending Study Proposal – Presented by Tom Schultz, Director**

*RECOMMENDATION:* Authorize the Secretary of the Land Board to enter into a Consultant Agreement amendment on behalf of the Land Board substantially in accordance with the Asset Spending Study Proposal shown here as Attachment 1.

*DISCUSSION:* Superintendent Ybarra asked if this amendment could change the distribution policy. Director Schultz confirmed that it could change the distribution policy, but said he did not anticipate it changing for public schools. Director Schultz continued to say that the cover ratios in the smaller trust can vary more than the five times the reserves that is recommended.

*BOARD ACTION:* A motion was made by Controller Woolf that the Board authorize the Secretary of the Land Board to enter into a Consultant Agreement amendment on behalf of the Land Board substantially in accordance with the Asset Spending Study Proposal shown here as Attachment 1. Superintendent Ybarra seconded. The motion carried on a vote of 3-0.

- **INFORMATION**

**6. Pre-Season Fire Forecast/Update – Presented by Fire Bureau**

A. Predictive Services Forecast – *Jeremy Sullens, Wildland Fire Analyst, NIFC*

B. Resource Readiness – *Craig Foss, Division Administrator, Forestry & Fire, IDL*

C. Rangeland Fire Protection Associations – *Rick Finis, South Idaho Fire Liaison, IDL*

*DISCUSSION:* Controller Woolf asked about the future of RFPAs and whether additional RFPAs will be coming on board or if any are lined up. Director Schultz responded that the formation of RFPAs is not driven by the Department, but rather by local interest. Director Schultz clarified that Rick Finis will meet with people who have expressed interest in starting an RFA. Mr. Finis added that there is talk of a couple more RFPAs forming in southeast Idaho, near the Bear Lake area.

Secretary of State Denney noted that a later fire season is expected in the timbered area but a more intense fire season is expected in rangeland areas. He inquired if there is any contingency plan for critical sage-grouse areas or how they will be handled. Director Schultz responded that the Department's protection for southern Idaho is fairly limited, so the sage grouse habitat is not a significant priority area. Secretary of State Denney inquired if it was the Bureau of Land Management's (BLM) responsibility. Director Schultz responded the BLM provides much of the protection and has plans in place. Director Schultz explained that as the season progresses, the BLM will pre-position some resources in Idaho areas that are at higher risk and have higher-quality sage-grouse habitat. Director Schultz emphasized that the priority still remains on firefighter safety and protecting homes and structures, so firefighters will not be put in harm's way to protect habitat. Mr. Finis added that one of the goals of establishing RFPAs is to keep as many fires small as possible through local response and quicker suppression activity.

Secretary of State Denney noted that the RFPAs are growing rapidly, as there are now nine of them. Director Schultz agreed, stating that the program started off with three but has since ballooned. Director Schultz described how word of mouth contributes to the formation of RFPAs, particularly during an annual meeting at the end of fire season where the RFPAs come together and word spreads about the program. Director Schultz commented that the Department thinks it is working great and feels it is a good example of appropriate use of

government, as both the state and federal government are helping private landowners. Director Schultz remarked that the logo says "neighbors helping neighbors," and that all parties involved in the RFPAs see themselves as neighbors, which impacts how ranchers view the agencies after working with them side by side.

- **EXECUTIVE SESSION**

NONE

There being no further business before the Board, at 10:02 a.m. a motion to adjourn was made by Controller Woolf. Superintendent Ybarra seconded the motion. The motion carried on a vote of 3-0. Meeting adjourned.

IDAHO STATE BOARD OF LAND COMMISSIONERS

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*/s/ C. L. "Butch" Otter*

C. L. "Butch" Otter  
President, State Board of Land Commissioners and  
Governor of the State of Idaho

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*/s/ Lawrence E. Denney*

Lawrence E. Denney  
Secretary of State

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*/s/ Thomas M. Schultz, Jr.*

Thomas M. Schultz, Jr.  
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the July 18, 2017 regular Land Board meeting.