



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

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
August 15, 2017

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, August 15, 2017, 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 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 (*via teleconference*)
Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, Governor Otter recognized the presence of all Board members, including Controller Woolf via conference call.

1. Director's Report

- A. Interest Rate on Department Transactions – August 2017
- B. Timber Sale Activity and Information Report – July 2017
DISCUSSION: Attorney General Wasden inquired if Director Schultz knew why there was an up bid price on the five timber sales that sold at auction. Director Schultz responded that he was not aware of a specific cause and that it is not uncommon that the Department has a 50%-60% up bid in many cases.
- C. Division of Lands and Waterways Activity and Information Report – July 2017
- D. Cottage Site Update
- E. Fire Season Update
DISCUSSION: Governor Otter asked if there are plans to start salvaging areas that had burned. Director Schultz answered that most of the ground that burned on state protection was

rangeland. Those areas within the Department's forest protective districts had scattered timber; there has not been any major timber burn on state lands yet. Mr. Foss added that there were some burnout operations on top in the wooded area, but burning the underbrush was controlled. Governor Otter inquired about reseeding. Craig Foss, Division Administrator-Forestry and Fire, responded that the Department works closely with the Department of Fish and Game on that matter; he will look into it and get back to the Governor on what the plans are for reseeding.

F. Land Revenue Forecast

- **CONSENT**

2. Approval of Minutes – July 18, 2017 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Attorney General Wasden to adopt and approve the consent agenda. Secretary of State Denney seconded the motion. The motion passed on a vote of 5-0.

- **REGULAR**

3. 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 for 2018 and 2019 are very well secured. The Investment Board met August 2nd and agreed to terminate the international equity mandate of a manager and they have interviewed two possible replacement managers. The Investment Board is in the process of negotiating a final contract with them. Mr. Johnson stated that there have been no compliance or legal issues or areas of concern to report. Mr. Johnson said that the Land Board Audit Committee met August 11th to review the independent auditor's report, which they approved, as well as the financial statements, and there were no issues identified there. He continued to say that the Chairman of the Audit Committee will be at the November Land Board meeting to give a full report and the auditor will also be present to answer any questions.

B. Investment Report

DISCUSSION: Mr. Johnson remarked that the month of July was good to the Fund, which was up 1.8% with returns in both equities and fixed income. Mr. Johnson described that the month of August has not gone as well, as the Fund is down 40 basis points. The fiscal year-to-date return dropped from 1.8% at the end of July to 1.4% as of the day prior.

C. FY2019 Distributions and Transfer

RECOMMENDATION: Approve the recommended distributions totaling \$78.2 million and transfers totaling \$129.5 million.

DISCUSSION: Mr. Johnson stated that at its August 11th meeting the Investment Board approved the recommendations developed by EFIB staff. He detailed that every beneficiary has an increase with an average of 6.4%. Mr. Johnson said that because the Fund had a good year, the Investment Board has an opportunity to reinvest some of that income in the corpus of the Fund to make up for population and inflation, and in some cases, even beyond that. The Fund has a real return of 11%. The Investment Board's guidelines for determining when they have income in the Fund are based on returns above inflation. Mr. Johnson explained that the Fund had a 12.86% nominal gain and inflation was at 1.84%. The real return of 11% is significantly better than the long-term expectation of around 4%. Mr. Johnson reported that the Investment Board supports an increase of 6.4% or \$4.7 million and transfer of \$130 million of excess reserves to the Permanent Fund to offset population growth and boost distributions.

Governor Otter asked when the last time the Fund was ever in trouble on a distribution. Mr. Johnson responded that in 2003 there were three instances of catastrophic failure. The EFIB Manager of Investments at the time had to inform the beneficiary they would not receive their check because they had run out of reserves. Mr. Johnson recounted that when the Investment Board started out in 2000, reserves were very low, and then the stock market and timber market went down. Mr. Johnson assured that the Investment Board is far from facing that situation today.

Governor Otter asked if the Investment Board is still running a five-year reserve at this calculation. Mr. Johnson explained that the Investment Board starts with seven years in most cases and five years for some endowments. Mr. Johnson stated the Investment Board believes that should something like 2000 happen again, they can survive it without having to cut distributions. Governor Otter recalled an instance in 2010 where a leap of faith was taken on Public Schools, which received another \$22 million in addition to the \$33 million it normally received. Governor Otter then asked if the Fund is fully recovered from that occurrence. Mr. Johnson responded yes and stated that the Public School Fund had its full complement of reserves.

Mr. Johnson remarked that at this meeting he would normally ask the Land Board to determine how much of the transfer should be considered a permanent addition to capital and how much should offset past losses. Mr. Johnson said that the memo the Board was initially given showed that approximately \$4 million needed to be used to offset losses. Mr. Johnson continued to say that during the previous day, he discovered an error in that calculation and asked the Board to defer a decision on that issue. Mr. Johnson stated that he believes that all \$129 million can become a permanent addition to capital, but wants to have his fiscal officer and external auditors double-check the numbers. He noted that there is no real urgency to make that accounting split between permanent corpus and offset to losses. Attorney General Wasden asked Mr. Johnson to verify that while the Investment Board was recommending the Land Board approve a \$129.5 million transfer, the Land Board should hold off until it has additional information. Mr. Johnson stated that the \$129.5 million transfer can still be made; the issue is how much of that money should be reflected on the Investment Board's internal books as permanent corpus versus an offset to losses. The Board may make a decision on the approved distributions of \$78.2 million and the transfers of \$129.5 million, and defer their decision on classification with regard to the gain benchmark, which would not affect the first two items.

Governor Otter asked Mr. Johnson if the transfer goes to the beneficiary and if there are ever directives that go with how the money is spent. Mr. Johnson responded that to his knowledge, there have never been any directives. Governor Otter commented that several of the beneficiaries really need help on maintenance and it would be worthwhile if the Board could help them out, but currently there is not a way to do that. Mr. Johnson stated that in setting up the distribution policy, the Investment Board explored the idea of a one-time distribution to handle a special need. However, the Legislature has the constitutional authority to allocate monies. Mr. Johnson continued to say that the Investment Board recommends the Land Board focus on a sustainable level of distributions that beneficiaries can use for current operations, which puts the Legislature in a better situation to take one-time money and address one-time needs.

Director Schultz noted that the Board was taking public comment on this issue. Representative John Gannon commented that the state government is committed to a 60% go-on rate for students seeking post-secondary education, but the problem is cost. Representative Gannon encouraged the Board to postpone the transfer of the excess profit reserve to the Permanent Fund and see if there is a way the money can be used to get a tacit agreement between the Legislature and the Board to offset the cost of tuition increases or for scholarships. Governor Otter thanked Representative Gannon for his thoughts. Governor Otter noted that the Board could not guarantee that the money would be tagged for the 60% initiative; the Legislature can allocate the money at their discretion. Representative Gannon clarified that he was only addressing \$5.5 million out of the \$129 million transfer. Governor Otter noted again that the money can be given to the Legislature, but the Board cannot direct where it goes because there is no mechanism in place to ensure that.

Attorney General Wasden asked Mr. Johnson if he had thoughts on Representative Gannon's recommendation. Mr. Johnson stated that he appreciates Representative Gannon's intent, but from both a practicality and governance standpoint, it is difficult to ensure that the monies the Board designates for a specific use would be actually used for that purpose. Mr. Johnson also noted that the endowments are well suited for the ongoing funding of continuing operations because they're structured to generate a sustainable distribution over time. He compared the uncertainty of giving out extra money to the predictability of reinvesting the money back into the Fund so the distributions are permanently increased. Mr. Johnson concluded by stating the current approach of reinvesting money and raising the long-term distribution is the best approach for stability in governance and management of the Fund.

Governor Otter asked Mr. Johnson how money can be withdrawn from the Permanent Fund. Mr. Johnson responded that the Permanent Fund is designed never to be spent; there is no way to get money back out of the Permanent Fund per the Constitution. Governor Otter remarked that earnings are used to meet cash flow needs. Mr. Johnson said that is correct and that every time the Investment Board recommends a transfer, the distribution is automatically increased a little bit more to reflect the fact that capital has been set aside to permanently serve those beneficiaries.

Secretary of State Denney asked if the Land Board tells beneficiaries how to spend their distributions. Mr. Johnson responded that beneficiaries are not told how to spend their distributions. Secretary of State Denney inquired if the additional 7% beneficiaries are receiving this year could be used to reduce tuition or for repairing a roof. Mr. Johnson confirmed that it could. Governor Otter added that beneficiaries still have to go through the legislative process because they need spending authority.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the recommendation to approve the recommended distributions totaling \$78.2 million and transfers totaling \$129.5 million with two caveats: first, the \$4 million will be accurately accounted for in Investment Board internal books and the Land Board will receive a report from the Investment Board next month; and secondly, a determination of the gain benchmark will be deferred until that time. Superintendent Ybarra seconded the motion. The motion passed on a vote of 5-0.

4. FY2019 Budget Enhancements – Presented by Debbie Buck, Financial Officer

RECOMMENDATION: Direct the Department to include these enhancement requests in the Fiscal Year 2019 budget proposal due on September 1, 2017.

DISCUSSION: Secretary of State Denney asked if any of the \$3.5 million on the Good Neighbor Authority request is reimbursed by the Forest Service. Ms. Buck answered that the Department is reimbursed for all of the costs it puts into the program and there is a 10% administration fee on top of that which can be used to launch future Good Neighbor Authority projects. Director Schultz added that the entirety of the \$3.5 million would be funded from timber sales revenues and that the range professional to assist the BLM with grazing permit renewals would come from funding committed to the Department by the BLM. Director Schultz also detailed the benefits of the Good Neighbor Authority, stating that the Department is looking at a minimum increase of ongoing sustainable yield from the national forest of an additional 100 MMBF over the next five to 10 years.

Governor Otter asked for confirmation that the Good Neighbor Authority will result in an additional 100 MMBF of saw logs. Director Schultz replied that is the goal. Governor Otter commented that Mr. Groeschl reported a few months ago that there was a 200-million-foot import buffer and that the Board will not be cannibalizing Endowment Lands, which is one of the big concerns. Director Schultz noted that Mr. Groeschl indicated that the state's milling infrastructure is currently at 78%; there is capacity in the existing infrastructure to take on greater volume. Director Schultz outlined three benefits from the Good Neighbor Authority: increasing the health of the forests, reducing fire hazards and boosting rural economies. Governor Otter asked if the Good Neighbor Authority is targeting some of the older growth that is over 28 inches, and if so, where it would go. Director Schultz answered that old growth will not necessarily be targeted in this policy. Director Schultz explained the way the process works on federal lands is those timber sales are designed locally with input from collaborative groups; the Department also participates. The primary focus on these sales is looking at insect and disease issues and fire hazard issues. Governor Otter clarified that he was asking what will happen with the extra-large logs that most carriages in Idaho are not able to carry and if there

was a market for those. Mr. Groeschl stated there may be up to 4 million acres of designated insect and disease areas, which is where the Good Neighbor Authority is focusing their projects. He described that some of the stands have large trees in them, which are sometimes removed and other times left for reseeded. Mr. Groeschl detailed that silvicultural treatments are developed as part of the projects and with the sales that have been sold so far there has not been any difficulty marketing various products, including some of the larger material.

Governor Otter recalled that of the initial inventory of 18 million acres that were examined, 12 million acres of concern were identified. Mr. Groeschl stated that of the 12.6 million acres the Governor is referring to, 8.8 million were at high-risk. He continued to say that approximately half of the 8.8 million acres have been identified under the Healthy Forests Restoration Act as insect and disease areas. Mr. Groeschl described that these areas are the focus for Good Neighbor Authority projects under the authorities provided in the Farm Bill. Director Schultz reiterated that the state is not proposing taking over federal lands, but rather assisting with the management of the federal lands in a collaborative fashion. The Department is only taking on the projects being offered. Director Schultz stated that increasing the pace and scale of active management on the national forest has widespread benefits to the Endowments, private lands and the Idaho economy.

Controller Woolf asked Ms. Buck if she anticipated any changes to the budget or any additional enhancement units before September 1st. Ms. Buck responded that although the budget is fluid and there are two weeks left before it is submitted, she does not anticipate any changes.

BOARD ACTION: For the record, Governor Otter stated the Chair will not vote on this item.

A motion was made by Attorney General Wasden to direct the Department to include these enhancement requests in the Fiscal Year 2019 budget proposal due on September 1, 2017. Secretary of State Denney seconded the motion. The motion passed on a vote of 4-0. Governor Otter recused himself from voting on this item.

At 9:58 a.m. a motion was made by Attorney General Wasden to resolve into Executive Session pursuant to Idaho Code § 74-206(1)(d) to consider records that are exempt from disclosure as provided in chapter 1, title 74, Idaho Code. Attorney General Wasden requested that a roll call vote be taken and that the Secretary record the vote in the minutes of the meeting. Secretary of State Denney seconded the motion. Roll Call Vote: Aye: Denney, Wasden, Woolf, Ybarra, Otter; Nay: None; Absent: None.

- **EXECUTIVE SESSION**

- A. Idaho Code 74-206(1)(d) – to consider records that are exempt from disclosure as provided in chapter 1, title 74, Idaho Code. [TOPIC: Commercial Property Disposition]

For the record, Governor Otter departed the meeting at 10:29 a.m.

At 10:42 a.m. the Board resolved out of Executive Session by unanimous consent. No action was taken by the Board during the Executive Session.

- **REGULAR**

- 5. **Commercial Property Disposition – Approval for Sale** – Presented by Ryan Montoya, Bureau Chief-Real Estate Services

RECOMMENDATION: Direct the Department to offer the ten (10) properties for sale at auction in Ada County.

DISCUSSION: Attorney General Wasden asked Mr. Montoya if he was aware of the small endowments study and if he knew when the Land Board would see information from it. Mr. Montoya responded that Callan Associates is currently performing a small endowment study to determine the correct asset allocation as well as reinvestment in some of the smaller endowments. Mr. Montoya stated the report will be provided by Callan at the November Land Board meeting. Attorney General Wasden asked if some of the parcels that are being proposed fall within the gambit of the smaller endowments. Mr. Montoya confirmed that most of the properties are owned by the small endowments. Attorney General Wasden asked if Mr. Montoya thought it was advisable for the Land Board to have the information from the small endowment study when they make their decision. Mr. Montoya responded that he thinks it would be a prudent and useful tool to determine the proper way to look at this asset, especially considering if Callan will recommend retaining or spending the smaller endowments' funds for real property.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board direct the Department to offer the identified ten (10) properties for sale at auction in Ada County no earlier than December of 2017 and, by this note, that the Board retains the authority to remove any parcel from the sale, and direct the Department to provide the Board additional information concerning these parcels, including information from the small Endowments study that will be delivered in November, and any additional marketing information from Idaho Falls or any other location. Superintendent Ybarra seconded the motion. The motion passed on a vote of 4-0.

- **INFORMATION**

NONE

There being no further business before the Board, at 10:52 a.m. a motion to adjourn was made by Attorney General Wasden. Superintendent Ybarra seconded the motion. The motion carried on a vote of 4-0. Meeting adjourned.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ C. L. "Butch" Otter

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

