



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
October 17, 2017

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, October 17, 2017, in the Capitol, Lincoln Auditorium, Lower Level, West Wing, 700 W. Jefferson St., Boise, Idaho. The meeting began at 9:02 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
Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, Governor Otter recognized the presence of all Board members.

1. Director's Report

A. Interest Rate on Department Transactions – October 2017

B. Timber Sale Activity and Information Report – September 2017

DISCUSSION: Attorney General Wasden noted that while cumulative harvest volume is around 83%, harvest receipts are at approximately 99%. Attorney General Wasden asked why that was happening and how it compares to harvest receipt levels. Director Schultz responded that a lot of activity this year has been related to the weather; for September there was a 15 MMBF drop off from the previous month, which was an indicator of the onset of fall weather. Director Schultz said he did not think there is any indication something in the market has changed. There is a drop off in harvest volume, but the volume sold is still the same. The sales contract typically allows for three years to harvest that volume. Director Schultz said prices are holding, and the Department is receiving better than average prices for its timber. Director Schultz re-emphasized that even though the Department is at 83% of the harvest level, it is receiving 99% of the revenue. Director Schultz mentioned that private contracts have different obligations, so market conditions may drive when logs are removed; operators may want to remove private timber first. The Department does not have a preference as to when wood is removed

as long as it is within that three-year contract window. Director Schultz said that every month state timber is not harvested, interest is being paid on it. There is a built-in incentive to harvest quickly, or a substantial amount of money in interest will be paid.

Governor Otter asked how the interest rate is established. Director Schultz said it was established by Board policy years ago and that it has not been adjusted recently; it is currently 6%. Governor Otter inquired if harvest was slowed down this year due to fire danger. Director Schultz responded that there were hoot owl restrictions, which limited operating times for logging, but no outright closures.

C. Division of Lands and Waterways Activity and Information Report – September 2017

D. Land Bank Fund

E. Fire Season Update

DISCUSSION: Controller Woolf stated that there was still some money in a fund previously set aside from the Legislature and asked what the remaining balance would be after the net obligation of \$16.5 million and after the other expenditures are done. Director Schultz explained that the Department anticipates about a \$13 million surplus in that deficiency warrant fund, but in some cases, it can take up to three years to get a bill from the Forest Service. Governor Otter commented that it can sometimes take that long to get payment as well, which Director Schultz confirmed.

Director Schultz asked Mr. Foss to update the Board on which crews had been sent to California. Mr. Foss stated the California Office of Emergency Management notified the Idaho Office of Emergency Management that they were needing strike team resources. A strike team consisting of a strike team leader and five engines were sent Sunday [October 15]. Governor Otter noted that 25 units were requested, but they only got five, and asked if more will be dispatched. Mr. Foss explained that there are two means of ordering resources for a disaster – the ROSS system through the National Interagency Fire Center and emergency compacts between states. Mr. Foss said that the Department tried to line up two strike teams, but only one was sent. The Department had an additional four engines lined up to go, but in the end they were not needed. Mr. Foss added that the Department's fire bureau chief will meet with the Office of Emergency Management to work on a plan to improve communication going forward.

Director Schultz mentioned that many of these assets come from rural fire departments rather than the Department of Lands. Mr. Foss elaborated on the Director's comment, saying that the Sand Hollow Fire Department sent two engines, the Parma Fire Department sent one, the Kuna Fire Department sent one and the Department's Southwest Forest Protective District sent one. Governor Otter said he had read in a report that morning that Coeur d'Alene sent two engines as well. Mr. Foss responded that if they went, it was not through the Department's order.

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

A. Manager's Report

B. Investment Report

DISCUSSION: Mr. Johnson reported that Endowment distributions are well-secured and that reserves are strong. There were no areas of concern or legal matters to report. Mr. Johnson said the Investment Board will meet on October 30 and interview two global equity managers with the objective of replacing Lazard. The Investment Board will attend the November Land Board meeting, and the chair of the Land Board Audit Committee will give a full report of the independent audit of the Endowment Fund financial statements and procedures related to the Endowment Land Income Statement.

Mr. Johnson remarked that the month of September was good for the Fund, as it was up 1.6%. The total Fund ended up almost 4% fiscal year-to-date. The positive market action has continued so far in October. Mr. Johnson stated that as of the day prior, the fiscal year-to-date was at 5.1%, and that all of the managers are performing as the Investment Board would have expected. Mr. Johnson introduced Keith Bruch, a representative of LSV in Chicago, Illinois, who was in attendance. LSV is one of the Endowment Funds investment managers.

Mr. Johnson pointed out some of the data on LSV's performance, stating they have had a 5.6% return so far this fiscal year. This year, LSV has also outperformed their benchmark index by 2.5% and outperformed by 1.5% per year over the last 3 years. Mr. Johnson congratulated LSV and expressed appreciation for their performance.

Governor Otter commented that the Dow was only 40 points short of hitting 22,000 that morning and asked if the Investment Board was considering moving into a different model because equities have been rising and the price/earnings ratio is incredible in some instances. Mr. Johnson responded that the Investment Board looks at those issues every quarter and that they will certainly look at it at their November meeting. The Investment Board generally does not make changes based on their outlook of the market because its track record of doing so is poor. Mr. Johnson stated that the Investment Board does not typically change its asset mix, but it does monitor the expected return of equities versus fixed income. Currently, the Fund is about 66% equity and 26% fixed income. The Investment Board looks at the long-term measures of expected performance for both bonds and stocks. If those are getting out of kilter, the Investment Board may dial back its equity exposure. Mr. Johnson stated that so far, most of those measures say that while price/earnings ratios are very high for some companies, bond interest rates are very low. The companies' equities do not have to do very well to beat bonds and that continues to be what the Investment Board's measures show.

- **CONSENT**

3. Results of September 21, 2017 Grazing Conflict Auction – *Staffed by Jason Laney, Program Manager-Grazing, Ag, Conservation*

RECOMMENDATION: Direct the Department to award the grazing lease G700280 to Timmerman Grazing Association.

4. Idaho Parks and Recreation Surplus Property (Vardis Fisher) – Staffed by Josh Purkiss, Program Manager-Real Estate Services

RECOMMENDATION: Direct the Idaho Department of Lands to offer the 14.46 acre Property for disposition pursuant to Idaho Code § 58-331 *et seq.*

DISCUSSION: Governor Otter asked what the water rights were sold for. Governor Otter said he also would like to know how many acre-feet. Keith Hobbs, operations administrator for the Department of Parks and Recreation introduced himself and said he did not have that information with him. Governor Otter asked if Mr. Hobbs has been on the property. Mr. Hobbs confirmed that he has. Governor Otter commented that the access to that 14-plus acres goes right through the hatchery. Mr. Hobbs clarified that there is a fish race on that northern end, which is privately held, and stated that access to those parcels comes from that north end near the Norwood subdivision in Hagerman. Governor Otter inquired if there is an easement for the 14.4 acres. Mr. Hobbs responded that, to his knowledge, there is not. Mr. Hobbs explained that there is public access to that property and that you do not have to cross private land to get there. Director Schultz assured that a purchaser would have access to those properties.

5. Disclaimer of Interest Request from Shiloh Management Services, Inc., Snake River – Staffed by Andrew Smyth, Program Manager-Public Trust

RECOMMENDATION: Direct the Department to issue a disclaimer of interest for one parcel totaling 1.347 acres of the former bed of the Snake River and to require Shiloh Management Services, Inc. to pay the remaining processing fee of \$300 or actual cost, whichever is greater, to the Department of Lands for this transaction.

DISCUSSION: Governor Otter said it is not unusual for the Board to exempt 25 feet for eventual public access and asked if it was exempted in this instance. Director Schultz stated that it was part of the deal. Governor Otter inquired if that is done just on the Boise River. Director Schultz replied that it is not only done on the Boise River. The Board adopted a policy to seek a 25-foot easement on disclaimers of interest some 20-plus years ago.

Governor Otter asked if Shiloh Management Services has been paying property taxes on it. Director Schultz replied that he does not know, but he would assume they have been, and said the Department will check on that and advise the Board.

6. Approval of Minutes – September 19, 2017 Regular Meeting

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

- **REGULAR**

7. Revised FY2019 Department of Lands Budget – Presented by Debbie Buck, Financial Officer

RECOMMENDATION: Approve the Agency FY 2019 Budget Request modification and additional enhancement request as outlined above with a net increase to the budget of \$429,700.

DISCUSSION: Controller Woolf asked Ms. Buck to explain the timing of the FY 2019 Budget Request modification. Ms. Buck stated the Department learned just recently that it is going to be approved for a grant from the Idaho Office of Emergency Management for 90% reimbursement of the Department's share of costs for replacement of the bridge. Prior to that approval, the Department was unable to put it into its budget as a request.

Governor Otter added part of that was the initial question of whether or not the federal government was going to recognize the state's disaster declaration. Governor Otter noted that Ada and Canyon counties were only recognized the week prior.

Director Schultz pointed out that Grayback Gulch is a highly used recreation area just south of Idaho City. Director Schultz noted there is another route to get into the area, but it is significantly longer. The bridge was out all summer and the public has missed the bridge. Director Schultz stated the Department is happy to cooperate with the Forest Service and Office of Emergency Management to get this work done.

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

A motion was made by Controller Woolf that the Board approve the Agency FY 2019 Budget Request modification and additional enhancement request as outlined above with a net increase to the budget of \$429,700. Attorney General Wasden seconded the motion. The motion passed on a vote of 4-0. Governor Otter recused himself from voting on this item.

- **INFORMATION**

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

- **Sage-Grouse Plan/Implementation** – Presented by Dustin Miller, Administrator, Office of Species Conservation, and Diane French, Division Administrator-Lands and Waterways

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.

