



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
November 21, 2017

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, November 21, 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
Honorable Superintendent of Public Instruction Sherri Ybarra

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

Attorney General Wasden was recognized by Governor Otter for a point of personal privilege to introduce Jacob Buxton, a Nampa High School senior who was job shadowing the Attorney General.

1. Director's Report

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

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 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, Richelle Sugiyama, Jerry Aldape, Warren Bakes, Gary Mahn and Senator Chuck Winder. Chairman

Buffington welcomed Gavin Gee back to the Investment Board and recognized Mary Hughes for serving on the Board in Mr. Gee's absence. Chairman Buffington noted Larry Johnson is retiring at the conclusion of the Investment Board's meeting that day and introduced Chris Anton as the new Manager of Investments. Chairman Buffington also recognized Janet Becker-Wold of Callan Associates, and Branden Rudd, representing EFIB's auditor CliftonLarsonAllen.

Mr. Johnson stated that it has been his privilege to serve the beneficiaries of the state land grant trusts and thanked the Board members and Department staff for their support. Mr. Johnson said he believes Idaho has a great team managing its endowment trusts and that he was blessed by God to be added to that team 12 years ago. He noted that since then, the team has continued to strengthen the health of the trust and deliver some great financial results for the beneficiaries. Mr. Johnson stated that Chris Anton will be a great leader of EFIB staff and declared his full confidence they have the vision and talent to be great contributors to the team that will take the endowment trust to even higher levels of performance in the next few years. Mr. Johnson introduced members of the Investment Board staff who were present: Chris Halvorson, Investment Officer; Michelle Watts, Fiscal Officer; and Liz Wieneke, Office Manager.

A. Manager's Report

DISCUSSION: Mr. Johnson reported that reserves are strong and there are no legal or compliance issues to report. 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. Referring to page three of the manager's report, Mr. Johnson remarked on the performance of the Endowment Fund versus other public funds for the period ending September 2017. Rankings are shown for the past one, 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, and the round dot is the Idaho Endowment, which ranks 31st percentile where 1st is best and 100th is the worst. Looking across the other columns, Mr. Johnson noted that the Idaho Endowment ranks above-average for all other periods. For the last 10 years, the Endowment Fund ranks 14th percentile, with better performance than 86% of other public funds.

B. Investment Report

DISCUSSION: Mr. Johnson stated that through the end of October, the Fund earned 1.6%. Fiscal-year-to-date the Fund is up 5.5%. Active managers are generally performing as expected. Mr. Johnson reported that through yesterday in November, the Fund is up slightly, making fiscal-year-to-date 5.7%.

C. EFIB Annual Report

DISCUSSION: Mr. Johnson said 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 two 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 14 meetings during the year, which ended in October, with 88% attendance by the Investment Board members. Page

five lists all the clients for which the Investment Board manages funds; they represent about \$800 million in assets in addition to the \$2 billion that are in the Endowment Fund. The Investment Board believes that having additional clients increases buying power and economies of scale. Page 8 of the report has a summary of fiscal year 2017 results from financial statements. The total fund reached \$2 billion during the year, an increase of 11% from the year before. Earnings reserve, which protect the stability of the distribution, increased 28%. Receipts from lands dropped by 9% and distributions were up 12% to \$64 million. This year they will be 16% higher than that \$64 million, and approved distributions for the next fiscal year will be up another 6% in addition to that. For the year 2017, the Fund's investment gain was 12.9%, and for the last 5 years the average return was 6.3%. The Investment Board's total investment management expenses were 0.42%.

Gary Mahn, Chair of the Land Board Audit Committee, introduced the other audit committee members: State Controller Brandon Woolf, Tara Orr from the Attorney General's Office, Representative Neil Anderson and Jerry Aldape. Mr. Mahn explained that each year the Investment Board commissions an independent audit of its financial results to ensure prudent management and provide transparency to stakeholders. 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. Mr. Mahn ended by commenting that Mr. Johnson has done a superb job for the state of Idaho and that it has been an honor to work with him and watch him in action.

Governor Otter gave Mr. Johnson a letter of appreciation from the Board members and said they are thankful for the time that he has served.

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

• **CONSENT**

4. EFIB Management of the Blackfoot River Wildlife Endowment Fund – Staffed by Larry Johnson, EFIB Manager of Investments

RECOMMENDATION: Authorize the EFIB to manage the Blackfoot River Wildlife Endowment Fund under such terms as the EFIB and the Department of Fish & Game determine are appropriate.

DISCUSSION: Controller Woolf noted that Agrium was purchased on November 7 by Itafos, so paperwork should be anticipated.

5. Forest Legacy Projects – McArthur Lake East-Hancock and Hall Mountain-Hancock – Staffed by Craig Foss, Division Administrator-Forestry and Fire

RECOMMENDATION: Authorize the Idaho Department of Lands to acquire the McArthur Lake East and Hall Mountain Conservation Easements, comprising 5,040 acres.

DISCUSSION: Governor Otter asked what the property tax paid to Boundary County from these lands is and if it will continue to be paid. Mr. Foss responded that these lands will continue to operate as they have previously and pay the taxes that they are currently paying. Governor Otter said he assumed the county commissioners are in favor and Mr. Foss confirmed this. Director Schultz commented that taxes on forest land average \$2-3 per acres, and these eight sections of ground are approximately 5,000 acres; the property tax could be calculated from those figures. Director Schultz said Mr. Foss is correct that taxes on the current tax rate are not affected, but some of the critique historically has been that limiting development will not allow tax revenue to increase. Director Schultz remarked that the counter to that statement is that the cost of services being provided to these areas, such as through police and fire, have the potential to exceed the taxes that are generated.

Governor Otter asked if there would be any credit on habitat for caribou or lynx. Greg Servheen, Wildlife Program Coordinator at the Department of Fish and Game, responded that they are not directly related. Governor Otter inquired if endangered species, such as wolves, will be allowed to move there. Mr. Servheen said no and explained these lands will continue to be timber management lands. Attorney General Wasden noted that Attachment 4 indicates the Boundary County Board of Commissioners have written a letter of support for this project. Mr. Foss added that wildlife habitat is a consideration in the ranking of Forest Legacy projects statewide and nationally. Grizzly bear and lynx were specifically mentioned in this area.

6. Disclaimer of Interest Request from James Chris and Gerrie Alsip, Snake River, Owyhee County
– Staffed by Andrew Smyth, Program Manager-Public Trust

RECOMMENDATION: Direct the Department to issue a disclaimer of interest for one parcel totaling 4.59 acres of the former bed of the Snake River and to require James Chris and Gerrie Alsip 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 asked if the 25-foot public-use easement is defined in Means and Bounds, or if it is determined by the ordinary high water mark. Director Schultz confirmed that it is 25 feet from the high water mark. Governor Otter inquired about what happens if the high water mark moves. Director Schultz responded that the Department will be looking into that, but as of now, the public-use easement would move with the high water mark. Governor Otter commented that in time that could be somebody's back porch unless it is described in Means and Bounds. Mr. Wilson explained that the ordinary high water mark is described in Means and Bounds and the language in the easement states 25 feet from the ordinary high water mark. That 25 feet can adjust over time because rivers do not stay put. Mr. Wilson explained that in practice, landowners are eligible to apply for permits from the United States Army Corps of Engineers to maintain the riverbanks, which can help with erosion issues. Mr. Wilson said the goal is for the property lines to be adjusted once and the property owners are responsible for maintaining their banks. Governor Otter commented that permits are not always granted. Mr. Wilson said that is true, but the Department has had a good experience working with the Department of Water Resources and the Corps in matters regarding erosion.

7. Application for Dredge/Placer Permit No. P800352, Kirtley Creek Mining LLC – Staffed by Todd Drage, Program Manager-Minerals

RECOMMENDATION: Approve issuance of the attached permit (Attachment 2) subject to the plan submitted in the application, submission of the required reclamation bonding and compliance with the Rules and Regulations Governing Dredge and Placer Mining Operations in Idaho.

8. Application for Dredge/Placer Permit No. P310336, Patrick Reidt – Staffed by Todd Drage, Program Manager-Minerals

RECOMMENDATION: Approve issuance of the attached permit (Attachment 3) subject to the plan submitted in the application, submission of the required reclamation financial assurance and compliance with the Rules and Regulations Governing Dredge and Placer Mining Operations in Idaho.

9. Approval of Minutes – October 17, 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.

• **INFORMATION**

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

10. Implementation of Lake Protection Act on Lake Coeur d’Alene – Presented by Eric Wilson, Bureau Chief-Resource Protection and Assistance

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.

11. Grazing Rate Review Update – Presented by 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.

12. Callan Asset Allocation/Spending Study Update – Presented by Janet Becker-Wold, Senior Vice President and Manager-Fund Sponsor Consulting, Callan Associates

DISCUSSION: Governor Otter asked if historical values were taken into account during this process. Ms. Becker-Wold asked if Governor Otter was referring to the 2014 original study. Governor Otter clarified that he was referring to before that and recalled that since 2007, a five-year balance has been maintained in reserves. Attorney General Wasden commented reserves were below the five-year minimum several times. Governor Otter stated reserves caught up faster than he anticipated

and \$32 million per year has been routinely delivered. Governor Otter inquired why the process should change. Ms. Becker-Wold responded that a change has not been recommended yet and explained that the Fund is constructed to preserve consistent distributions. Callan is evaluating if reserves need to adjust in light of some declining revenue and how Land Bank assets should be divided.

Governor Otter said the Board has five years to determine if land sale revenue should be reinvested in land or moved to the permanent corpus. Governor Otter asked if Ms. Becker-Wold was analyzing if the Board should consider a financial asset that has some liquidity so that it may be sold in a declining year. Ms. Becker-Wold confirmed that is being considered and explained Callan takes liquidity, rate of return and risk into consideration given that the objective is a stable distribution. Ms. Becker-Wold explained risks associated with different management options, and said timber prices can go up and down and that timber is the primary source of revenue into the endowments. Governor Otter stated the endowments ended up with a lot more money from land sales, particularly the lake lots, than they have ever earned in any one year from the forest. Attorney General Wasden remarked that the Board determined the volatility of a payout is a significant factor because keeping distributions secure year after year is a priority for the beneficiaries. Attorney General Wasden commented that determining the mix that results in the greatest return and ameliorates volatility and risk is the objective. Ms. Becker-Wold agreed.

Governor Otter emphasized that the Board has five years to make a decision and asked if it should look at an area that can provide more liquidity with less risk than if it goes into the Permanent Fund. Ms. Becker-Wold asked the Governor to clarify his use of 'liquidity.' Governor Otter said he means cash flow; he stated the Board is faced with the choice of buying land or moving the money to the permanent corpus and asked if there should be a third option. Ms. Becker-Wold stated there are many components to consider in answering that question and it is Callan's objective to bring a recommendation before the Board in the first quarter of 2018.

Controller Woolf commented that another key part of this study is examining the role of the smaller endowments. Ms. Becker-Wold agreed and said this decision has a larger impact on the smaller endowments than it does on Public School. Governor Otter remarked that the smaller endowments normally keep a six or seven-year reserve for that reason. Ms. Becker-Wold responded that a six or seven-year reserve was appropriate when there was money coming in from cabin site leases, but now that it is gone, reserve levels need to be reevaluated.

Referring to Attachment 2 of Tab 3, Director Schultz explained that the numbers there illustrate there is more volatility on the funds side. Stable revenue from the lands' side is necessary to offset a year when performance of the Fund is down.

For the record, Attorney General Wasden stated that he had received a phone call from a citizen, Bob Sonnichsen, about the auction of commercial lands. Attorney General Wasden noted that he directed Mr. Sonnichsen to the Department to have his questions answered as the Attorney General did not have the information to respond.

At 12:18 p.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 under 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. Controller Woolf 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]

At 12:43 p.m. the Board resolved out of Executive Session by unanimous consent. No action was taken by the Board during the Executive Session.

- **REGULAR**

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

RECOMMENDATION: Direct the Department to offer the ten properties for sale at auction in Ada County on December 6, 2017.

DISCUSSION: Controller Woolf inquired if the counts indicating interest were unique hits or if someone could have looked at a property multiple times to come to those figures. Mr. Montoya explained that multiple parties can select different properties, so it might not be one person per property. One person can select multiple properties as well.

BOARD ACTION: A motion was made by Attorney General Wasden to adopt the Department Recommendation to direct the Department to offer the ten properties for sale at auction in Ada County on December 6, 2017, excluding the property listed as Office Building, 595 University Blvd., Idaho Falls. The motion failed for lack of a second.

A motion was made by Controller Woolf that the Board adopt the Department recommendation to direct the Department to offer the ten properties for sale at auction in Ada County on December 6, 2017. The motion failed for lack of a second.

Controller Woolf repeated his motion to adopt the Department recommendation to direct the Department to offer the ten properties for sale at auction in Ada County on December 6, 2017. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-1. Attorney General Wasden cast the opposing vote.

There being no further business before the Board, at 12:53 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.

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

/s/ Lawrence E. Denney

Lawrence E. Denney
Secretary of State

/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 December 19, 2017 regular Land Board meeting.