



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

David Groeschl, 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
May 15, 2018

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, May 15, 2018, 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. Timber Sale Activity and Information Report – April 2018
- B. Division of Lands and Waterways Activity and Information Report – April 2018

• **CONSENT (ACTION)**

2. Gooding Hospital Surplus Property – *Staffed by Sid Anderson, Program Manager-Residential*

RECOMMENDATION: Declare the Land to be surplus and direct the Department to offer the former Gooding County Hospital District property for surplus property disposition in Ada County or Gooding County, in accordance with Idaho Code § 58-331 *et seq.*

DISCUSSION: Controller Woolf asked for verification that this property has no ties, and there is no relation, to the School for the Deaf and Blind. Deputy Attorney General Robert Follett affirmed that the deed does not identify any restriction for any purpose of the School for the Deaf and Blind. Mr. Follett noted that the property is located adjacent to other property owned by and for the benefit of the School for the Deaf and Blind but this surplus property appears to have been acquired as a separate parcel of property and not directly connected to the School for the Deaf

and Blind. Superintendent Ybarra mentioned that she is Chairman on the School for the Deaf and Blind's Board; Superintendent Ybarra stated their Board was briefed by their attorney with this information and understands that no ties or relation exist between the property and School for the Deaf and Blind.

3. Bonners Ferry Armory Surplus Property (Idaho Military Division) – Staffed by Josh Purkiss, Program Manager-Real Estate

RECOMMENDATION: Direct the Department to offer the Bonners Ferry Readiness Center for surplus property disposition in Ada County or Boundary County, in accordance with Idaho Code § 58-331 *et seq.*

DISCUSSION: None.

4. Application for Dredge/Placer Permit No. P310335, Curtis Matteson – Staffed by Todd Drage, Program Manager-Minerals

RECOMMENDATION: Approve issuance of the attached permit subject to the plan submitted in the application and submission of the required Bond Assurance Fund fee to cover 10 acres of disturbance.

DISCUSSION: None.

5. Approval of Minutes – April 17, 2018 Regular Meeting (Boise)

CONSENT AGENDA BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt and approve the Consent Agenda. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

• **REGULAR (ACTION)**

6. Endowment Fund Investment Board Manager's Report – Presented by Dean Buffington, EFIB Chairman and Chris Anton, EFIB Manager of Investments

DISCUSSION: Chairman Buffington remarked that the Investment Board is pleased to attend this joint meeting today to present EFIB's semi-annual report to the Land Board. Chairman Buffington mentioned that following the Land Board meeting, the Investment Board will adjourn to EFIB offices and convene its regularly scheduled meeting. Chairman Buffington announced Investment Board members in attendance included Senator Chuck Winder, Representative Neil Anderson, Director of Finance Gavin Gee, Gary Mahn, Warren Bakes, Irv Littman and Jerry Aldape. Chairman Buffington shared the absence of Richelle Sugiyama due to the death of her father.

Attorney General Wasden requested by unanimous consent that the Land Board members join the Investment Board members in sending a letter to Richelle with their condolences at the passing of her father. Governor Otter so ordered. Chairman Buffington noted that it would be done. Chairman Buffington then introduced Chris Anton to present the reports.

- A. Manager's Report; and
- B. Investment Report

DISCUSSION: Mr. Anton thanked Chairman Buffington and the Investment Board members for their participation today. Mr. Anton introduced EFIB staff: Chris Halvorson, Investment Officer, Michelle Watts, Fiscal Officer, and Liz Wieneke, Office Manager. Mr. Anton welcomed several guests in attendance: Janet Becker-Wold, Senior Vice President, Callan LLC, and Josie Lewis and Michael Raab, investment managers for Sands Capital. Mr. Anton stated that the market has been increasingly volatile since January but despite that volatility, strong corporate earnings and a strong economy overall have allowed EFIB to have a solid performance.

Mr. Anton reported that for the month of April the Endowment Fund was up 0.2% and fiscal year-to-date is up 8.6%. Mr. Anton added that as of close of business yesterday, the Fund is up 10.5%. The Investment Board feels good about investment results; the economy remains strong with inflation and interest rates at historically low levels although modest increases are starting to occur. Mr. Anton said that distributions from earnings reserves are well-secured for FY2018 and FY2019. At the end of March, the endowments had at least five times their annual distributions in place.

Mr. Anton noted that the Investment Board is holding a regular meeting today, as mentioned by Chairman Buffington, and the first Land Board Audit Committee meeting will be held next week as part of fiscal year-end planning. Mr. Anton commented that he feels very fortunate to work with the dedicated and thoughtful members of the Investment Board and is enjoying the experience. Mr. Anton referred to the Investment Report, stating that 11 of 13 investment managers are performing ahead of their benchmarks year to date. Mr. Anton drew attention to page 2 of the report, remarking that Sands Capital has exceeded their benchmark by 8.3% through March, and they are up 31.4% fiscal year-to-date, having a terrific year.

- C. Semi-Annual Report

DISCUSSION: Mr. Anton observed that the Investment Board attends the Land Board meetings in May and November each year to provide its semi-annual update. In the report, Mr. Anton referenced EFIB's mission statement and pointed out total assets overseen by EFIB which are slightly over \$3 billion, including \$2.2 billion in Land Grant Endowments, \$739 million in State Insurance Fund, \$65.6 million for DEQ Bunker Hill Water Treatment, \$24 million for Idaho Fish and Game Endowments, and \$4 million for Idaho Parks and Recreation Endowments. Mr. Anton stated that the Land Grant Endowments Fund increased \$142 million, or 7%, and explained that although investments were up over 8%, several variables affect the overall balance: investment gains, revenue from the endowment lands, expenses for IDL and EFIB, and distributions made to the beneficiaries. Earnings reserves decreased from \$570 million to \$458 million, primarily due to a transfer of \$128 million to the permanent fund early in the fiscal year. Mr. Anton reported that net earnings reserve receipts from endowment lands revenue were \$37.5 million and investment returns were 8.3% for fiscal year-to-date. Land Grant Endowment Fund assets growth is very impressive over the past 20 years; assets have nearly quadrupled from \$600 million in 2003 to \$2.2 billion in 2018.

Mr. Anton commented that earnings reserves for all endowments are at their recommended levels with the exception of Ag College, which is slightly under; reserve levels will burgeon as fiscal year-end draws closer. Mr. Anton stated that the graphic on page 10 shows Endowment Fund performance over various periods of time; the Endowment Fund ranks above average for all periods, and is in the 9th percentile for the last 10-year period and 6th percentile for the last 15-year period. Mr. Anton conveyed that it is a testament to the continuity in Land Board and Investment Board management in achieving those results, being consistent and steadfast with asset allocation, being patient during difficult times, keeping costs low, hiring good managers and avoiding exotic strategies and mistakes. Mr. Anton expressed that the Land Board, Investment Board, and staff should be very pleased with results over the last 10-15 years.

Mr. Anton highlighted the School Bond Credit Enhancement Program administered by EFIB on behalf of Idaho schools. This program offers a credit enhancement that allows bond issuers to increase the bond rating from the state's AA+ rating to AAA. EFIB will provide up to \$1.2 billion in credit enhancement, with a \$40 million per school district limit; the enhancement is backed by \$300 million in Public School Endowment Fund assets. Mr. Anton explained the increased rating has the effect of reducing the interest rate by about 0.05%, which may not seem like much but with approximately \$756 million under guarantee, times 0.05%, it is about \$380,000 a year. That is rather significant and meaningful for the state and public schools. This year EFIB has provided \$50.5 million in new bond guarantees; eight different school districts have applied and two more are in process. Mr. Anton said EFIB charges a one-time application fee of \$500 and a guarantee fee of 0.02% – that is a one-time guarantee fee in the first year only and schools have the benefit of that higher credit rating going forward. Total revenue EFIB has generated is about \$19,400.

D. Earnings Reserve Levels

RECOMMENDATION: Modify the Land Board Distribution Policy to adopt the recommended new reserve levels.

DISCUSSION: Mr. Anton recalled that Callan LLC presented an update to the Land Board's Asset Allocation and Distribution Study at the April meeting. Included in the update were several recommendations, one of which EFIB suggests implementing today because it affects the fiscal year-end close process, and that is increasing reserve levels. Mr. Anton explained that the analysis and modeling done as part of Callan's study indicates the need to adjust the reserve level for Public School from five to six years and the reserve level for Charitable Institutions from five to seven years. In addition, a temporary boost in reserve levels to seven years for State Hospital South and Normal School was made in August 2017; that temporary increase should be made permanent. Mr. Anton summarized that these changes would result in Public School having six years of reserves and all other endowments having seven years of reserves. Mr. Anton remarked that the Investment Board believes these changes to be prudent. Controller Woolf asked, if this recommendation is implemented, will future distributions remain level or perhaps grow. Mr. Anton replied that this is a great time to consider change because of strong market performance; reserve levels can be enlarged and distributions will remain the same with perhaps modest enhancement.

Attorney General Wasden stated his understanding that the basis for this recommendation is two-fold: an analysis of the market by Callan, and the new asset mix that is a result of cottage site auction sales. Attorney General Wasden commented that the Board is contemplating potential risks and the ability to maintain constant payout to the beneficiaries. Mr. Anton agreed; given the expected decline in revenue from both investments and lands, in order to keep the same level of confidence in distributions it is appropriate to have larger reserve levels. Attorney General Wasden noted that the purpose of maintaining constancy in terms of distributions is to best serve the beneficiaries; they can count on that money rather than having some level of volatility which would cause them difficulty. Mr. Anton concurred; the beneficiaries rely on the annual distributions as a significant portion of their budgets, and the Land Board and Investment Board take seriously their roles in keeping distributions stable each year, if not increasing modestly.

Governor Otter recollected that annual disbursements from the Public School Fund have been in the \$32 million range, with an exception in 2010 of an additional \$22 million, and inquired if there has ever been a year that the distribution was reduced. Mr. Anton replied that to the best of his knowledge there was a period when the market was very volatile and distributions declined modestly; some years were held flat but for the most part there has been an increase every year.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board modify the Land Board Distribution Policy to adopt the recommended new reserve levels. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

7. Extension of Recruiting Process for Department of Lands' Director – Presented by Andrea Ryan, Human Resource Officer

RECOMMENDATION: The Department recommends extending the open, competitive recruitment for the Director of the Idaho Department of Lands using the following timeline. All candidates that applied during the first recruitment period shall be considered and do not need to re-apply.

Recruiting Timeline:

<u>Action</u>	<u>Dates</u>
Recruiting Extension Approved	May 15
Open Recruitment	May 16 – June 16
Applicant Screening	June 18 – July 6
Schedule Interviews/Reference Checks	July 6 – July 27
Interviews	August 3

DISCUSSION: Governor Otter noted that there were 57 applicants in the first recruitment period and inquired if they will be asked if they want to continue under consideration. Ms. Ryan responded that all applicants will be contacted and asked if they want to remain in the pool given the extended date. Attorney General Wasden stated he has no objection to the extension but wondered if it will provide ample time to gather additional applications. Ms. Ryan indicated that extending the recruitment process through the recommended date will be sufficient.

Governor Otter wondered why the hiring review group felt that 57 applicants was not adequate. Ms. Ryan noted that some individuals conveyed to Land Board staff that they were unable or unwilling to apply given extenuating circumstances. Governor Otter surmised that the primary elections were the hindrance.

BOARD ACTION: A motion was made by Attorney General Wasden that the Board adopt the Department recommendation to extend the recruitment period. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

- **INFORMATION**

NONE

- **EXECUTIVE SESSION**

NONE

There being no further business before the Board, at 9:40 a.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/ David Groeschl

David Groeschl
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the June 19, 2018 regular Land Board meeting.