

State Board of Land Commissioners Open Meeting Checklist

Meeting Date: November 20, 2018

Regular Meetings

10/24/18	Notice of Meeting posted in prominent place in IDL's Boise Headquarters office five (5) calendar days before meeting.
10/24/18	Notice of Meeting posted in prominent place in IDL's Coeur d'Alene Headquarters office five (5) calendar days before meeting.
10/24/18	Notice of Meeting posted in prominent place at meeting location five (5) calendar days before meeting.
10/24/18	Notice of Meeting emailed/faxed to list of media and interested citizens who have requested such notice five (5) calendar days before meeting.
10/24/18	Notice of Meeting posted electronically on IDL's public website www.idl.idaho.gov five (5) calendar days before meeting.
11/16/18	Agenda posted in prominent place in IDL's Boise Headquarters office forty-eight (48) hours before meeting.
11/16/18	Agenda posted in prominent place in IDL's Coeur d'Alene Headquarters office forty-eight (48) hours before meeting.
11/16/18	Agenda posted in prominent place at meeting location forty-eight (48) hours before meeting.
11/16/18	Agenda emailed/faxed to list of media and interested citizens who have requested such notice forty-eight (48) hours before meeting.
11/16/18	Agenda posted electronically on IDL's public website www.idl.idaho.gov forty-eight (48) hours before meeting.
12/22/17	Annual meeting schedule posted – Director's Office, Boise and Staff Office, CDA

Special Meetings

	Notice of Meeting and Agenda posted in a prominent place in IDL's Boise Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted in a prominent place in IDL's Coeur d'Alene Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted at meeting location twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda emailed/faxed to list of media and interested citizens who have requested such notice twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted electronically on IDL's public website www.idl.idaho.gov twenty-four (24) hours before meeting.
	Emergency situation exists – no advance Notice of Meeting or Agenda needed. "Emergency" defined in Idaho Code § 74-204(2).

Executive Sessions *(If only an Executive Session will be held)*

	Notice of Meeting and Agenda posted in IDL's Boise Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted in IDL's Coeur d'Alene Headquarters office twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda emailed/faxed to list of media and interested citizens who have requested such notice twenty-four (24) hours before meeting.
	Notice of Meeting and Agenda posted electronically on IDL's public website www.idl.idaho.gov twenty-four (24) hours before meeting.
	Notice contains reason for the executive session and the applicable provision of Idaho Code § 74-206 that authorizes the executive session.

Renee Miller

Recording Secretary

November 16, 2018

Date



Idaho 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

Dustin T. Miller, Secretary to the Board

NOTICE OF PUBLIC MEETING NOVEMBER 2018

The Idaho State Board of Land Commissioners will hold a Regular Meeting on Tuesday, November 20, 2018 in the **State Capitol, Lincoln Auditorium (WW02), Lower Level, West Wing, 700 W Jefferson St., Boise**. The meeting is scheduled to begin at 9:00 AM (Mountain).

Please note meeting location.

This meeting will be streamed live via audio at this website address <http://idahoptv.org/insession/other.cfm>

First Notice Posted: 10/24/2018-IDL Boise; 10/24/2018-IDL CDA

This notice is published pursuant to § 74-204 Idaho Code. For additional information regarding Idaho's Open Meeting law, please see Idaho Code §§ 74-201 through 74-208.

Idaho Department of Lands, 300 N 6th Street, Suite 103, Boise ID 83702, 208.334.0242



Idaho 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
Dustin T. Miller, Secretary to the Board

State Board of Land Commissioners Regular Meeting
November 20, 2018 – 9:00 AM (MT)
Final Agenda
Capitol, Lincoln Auditorium (WW02), 700 W. Jefferson St., Boise, Idaho

1. Department Report

Endowment Transactions

- A. Timber Sales – October 2018
- B. Leases and Permits – October 2018

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

- A. EFIB Annual Report
- B. Manager's Report
- C. Investment Report

3. Performance Review of Total Endowment – *Presented by Dustin Miller, Director*

Consent—Action Item(s)

4. Forest Legacy Project, Kootenai Valley-Stimson – *Staffed by Craig Foss, Division Administrator-Forestry and Fire*

5. Approval of Minutes – October 16, 2018 Regular Meeting (Boise)

Regular—Action Item(s)

6. Bond Assurance Fund Recommended Minimum Balance – *Presented by Todd Drage, Program Manager-Minerals Regulatory*

7. Cedar Sale Pilot Program Extension – *Presented by David Groeschl, Deputy Director*

8. Assignment of State Lease M-5042 (Tamarack) – *Presented by Mike Murphy, Bureau Chief-Endowment Leasing*

Information

None

Executive Session

None

State Board of Land Commissioners
Final Agenda
Regular Meeting (Boise) – November 20, 2018
Page 1 of 1

Idaho Statutes

TITLE 74 TRANSPARENT AND ETHICAL GOVERNMENT

CHAPTER 2 OPEN MEETINGS LAW

74-206. EXECUTIVE SESSIONS -- WHEN AUTHORIZED.[EFFECTIVE UNTIL JULY 1, 2020] (1) An executive session at which members of the public are excluded may be held, but only for the purposes and only in the manner set forth in this section. The motion to go into executive session shall identify the specific subsections of this section that authorize the executive session. There shall be a roll call vote on the motion and the vote shall be recorded in the minutes. An executive session shall be authorized by a two-thirds (2/3) vote of the governing body. An executive session may be held:

(a) To consider hiring a public officer, employee, staff member or individual agent, wherein the respective qualities of individuals are to be evaluated in order to fill a particular vacancy or need. This paragraph does not apply to filling a vacancy in an elective office or deliberations about staffing needs in general;

(b) To consider the evaluation, dismissal or disciplining of, or to hear complaints or charges brought against, a public officer, employee, staff member or individual agent, or public school student;

(c) To acquire an interest in real property which is not owned by a public agency;

(d) To consider records that are exempt from disclosure as provided in [chapter 1, title 74](#), Idaho Code;

(e) To consider preliminary negotiations involving matters of trade or commerce in which the governing body is in competition with governing bodies in other states or nations;

(f) To communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. The mere presence of legal counsel at an executive session does not satisfy this requirement;

(g) By the commission of pardons and parole, as provided by law;

(h) By the custody review board of the Idaho department of juvenile corrections, as provided by law;

(i) To engage in communications with a representative of the public agency's risk manager or insurance provider to discuss the adjustment of a pending claim or prevention of a claim imminently likely to be filed. The mere presence of a representative of the public agency's risk manager or insurance provider at an executive session does not satisfy this requirement; or

(j) To consider labor contract matters authorized under section 67-2345A [[74-206A](#)](1)(a) and (b), Idaho Code.

(2) The exceptions to the general policy in favor of open meetings stated in this section shall be narrowly construed. It shall be a violation of this act to change the subject within the executive session to one not identified within the motion to enter the executive session or to any topic for which an executive session is not provided.

(3) No executive session may be held for the purpose of taking any final action or making any final decision.

History:

[74-206, added 2015, ch. 140, sec. 5, p. 371; am. 2015, ch. 271, sec. 1, p. 1125.]

STATE BOARD OF LAND COMMISSIONERS

November 20, 2018
Endowment Transactions

Timber Sales

During October 2018, the Department of Lands sold five endowment timber sales at auction. The endowment net sale value represents a 9% up bid over the advertised value.

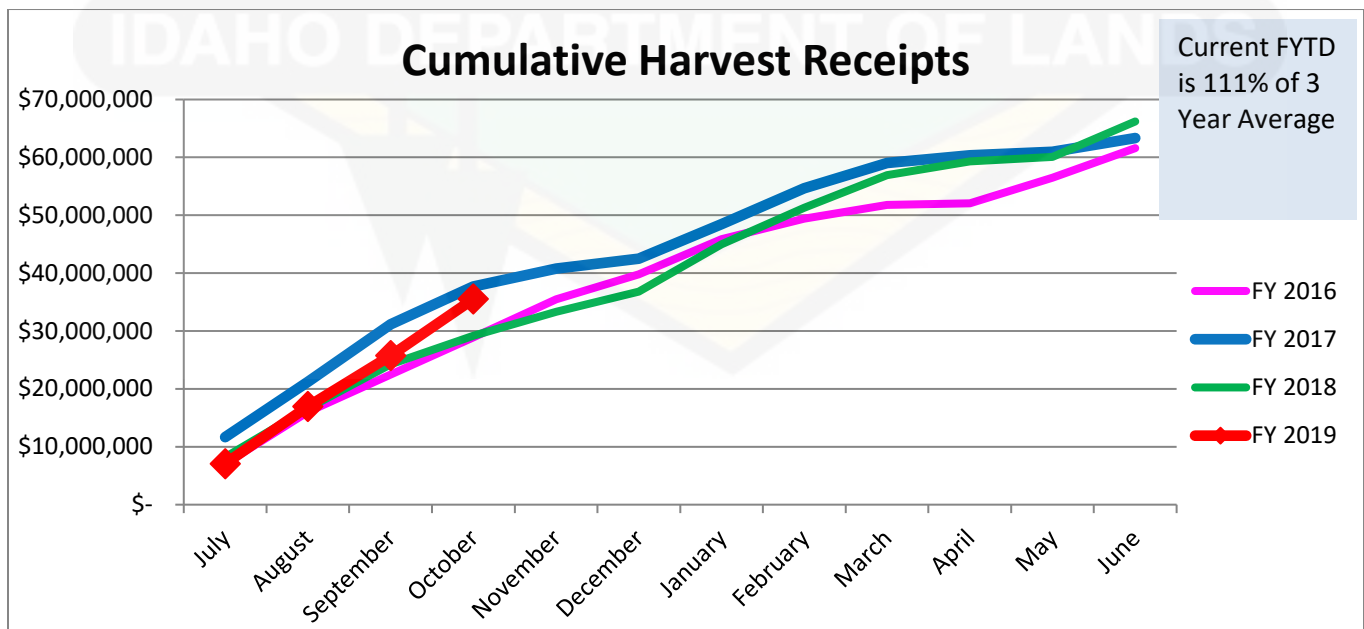
TIMBER SALE AUCTIONS								
SALE NUMBER	SAWLOGS MBF	POLES LF	POLES MBF	CEDAR PROD MBF	PULP MBF	APPRAISED NET VALUE	SALE NET VALUE	NET \$/MBF
TS204331	2,120					\$ 471,428.50	\$ 511,867.00	\$241.45
TS504332	1,580					\$ 328,177.96	\$ 330,797.20	\$209.37
TS504333	4,400					\$ 723,238.74	\$ 880,395.60	\$200.09
TS204334	2,505					\$ 742,798.00	\$ 742,798.00	\$296.53
TS504335	545					\$ 64,251.90	\$ 64,251.90	\$117.89
	11,150	0	0	0	0	\$2,329,895.10	\$2,530,109.70	\$226.92

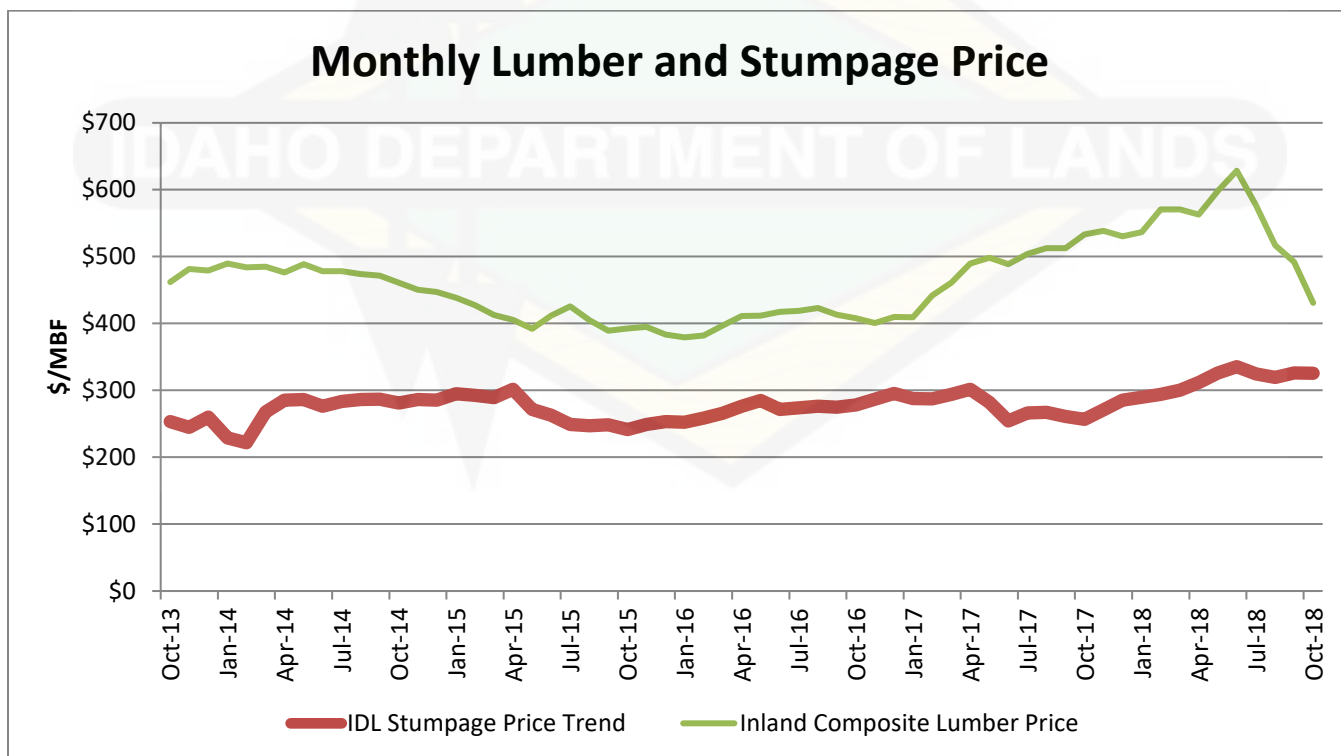
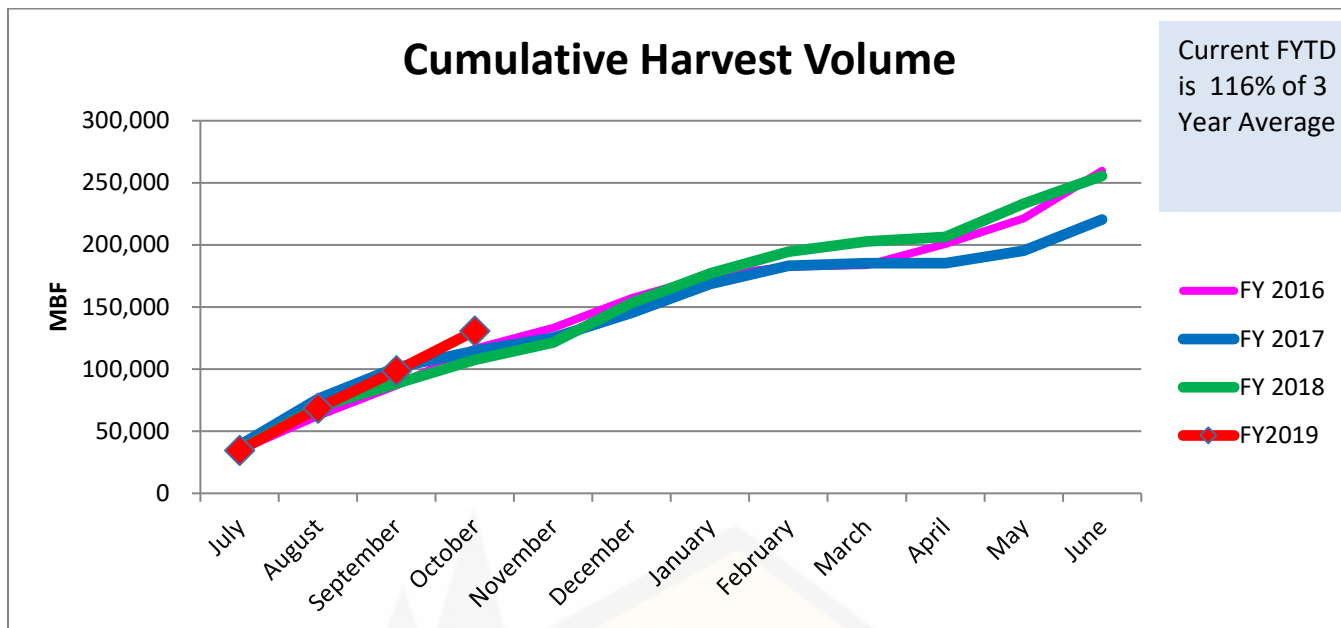
PROPOSED TIMBER SALES FOR AUCTION				
North Operations				
Sale Name	Volume MBF	Advertised Net Value	Area	Estimated Auction Date
Beavertail (P&R/F&G)	905	\$21,782	Mica	11/14/2018

VOLUME UNDER CONTRACT AS OF OCTOBER 31, 2018			
	Total	Public School	Pooled
Active Contracts	181		
Estimated residual volume (MBF)	422,436	267,212	155,224
Estimated residual length (LF)	286,390	261,514	24,876
Estimated residual weight (Ton)	571,074	364,875	206,199
Total Residual MBF Equivalent	527,919	334,957	192,962
Estimated residual value	\$163,105,243	\$102,245,537	\$60,859,706
Residual Unit Value (\$/MBF)	\$ 308.96	\$ 305.25	\$ 315.40

TIMBER HARVEST RECEIPTS					
	October		FY to date	November Projected	
	Stumpage	Interest	Harvest Receipts	Stumpage	Interest
Public School	\$ 4,693,460.41	\$ 495,838.78	\$ 19,892,817.29	\$ 4,220,968.17	\$ 513,244.95
Pooled	\$ 4,064,631.62	\$ 512,594.46	\$ 15,633,115.47	\$ 3,861,385.52	\$ 402,152.56
General Fund	\$ 1.67	\$ 0.00	\$ 689.17	\$ 1.67	\$ 0.00
TOTALS	\$ 8,758,093.70	\$ 1,008,433.24	\$ 35,526,621.93	\$ 8,082,355.36	\$ 915,397.51

STATUS OF FY 2019 TIMBER SALE PROGRAM						
	MBF Sawlog				Number Poles	
	Public School	Pooled	All Endowments		Public School	Pooled
Sold as of October 31, 2018	64,752	34,987	99,739		5,191	7,947
Currently Advertised	8,556	9,434	17,990		0	0
In Review	17,166	924	18,090		0	0
Did Not Sell	668	5,692	6,360		0	0
TOTALS	91,142	51,037	142,179		5,191	7,947
FY-2019 Sales Plan			256,000			
Percent to Date			56%			66%





IDL Stumpage Price Line is a 6 month rolling average of the net sale price.

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS

November 20, 2018
Endowment Transactions

Leases and Permits

Similar to September, the uptick in mineral leases issued during October are the result of the Department continuing to process mineral leases previously on hold during development of a revised mineral lease template. Of the six mineral leases offered, two leases were issued for precious metals to DeLamar Mining and Nevada Select Royalty, LLC, and four leases were issued for construction related commodities. A conservation lease, issued to the Idaho Water Resource Board, is for a groundwater recharge site located northeast of Shoshone near Richfield. One residential cottage site lease was issued to a lessee with an expiring lease. This lease offering was consistent with the Land Board's direction, presented during the December 2017 regular Land Board meeting, to offer any lessee that has not yet participated in the VAFO process an opportunity to apply for a lease through 2024, subject to the conflict application process.

FISCAL YEAR 2019 – LEASING & PERMITTING TRANSACTIONS BY MONTH – through October 31, 2018													
ACTIVITY	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
SURFACE													
Agriculture	-	-	-	-									0
• Assignments	-	-	1	-									1
Communication Sites	1	1	1	1									4
• Assignments	-	1	-	1									2
Grazing	2	10	1	11									24
• Assignments	-	2	1	2									5
Residential	-	1	2	1									4
• Assignments	1	1	-	-									2
Alternative Energy	-	-	-	-									0
Industrial	-	-	-	-									0
Military	2	-	-	-									2
Office/Retail	-	-	-	-									0
• Assignments	1	-	-	-									1
Recreation	-	-	-	-									0
Conservation	1	-	-	1									2
Geothermal	-	-	-	-									0
Minerals	-	-	7	6									13
• Assignments	-	-	1	-									1
• Exploration	5	-	-	-									5
Non-Commercial Recreation	-	-	-	-									0
Oil & Gas	-	-	-	-									0
Land Use Permits	6	8	7	5									26
TOTAL INSTRUMENTS	19	24	21	28									92

Real Estate

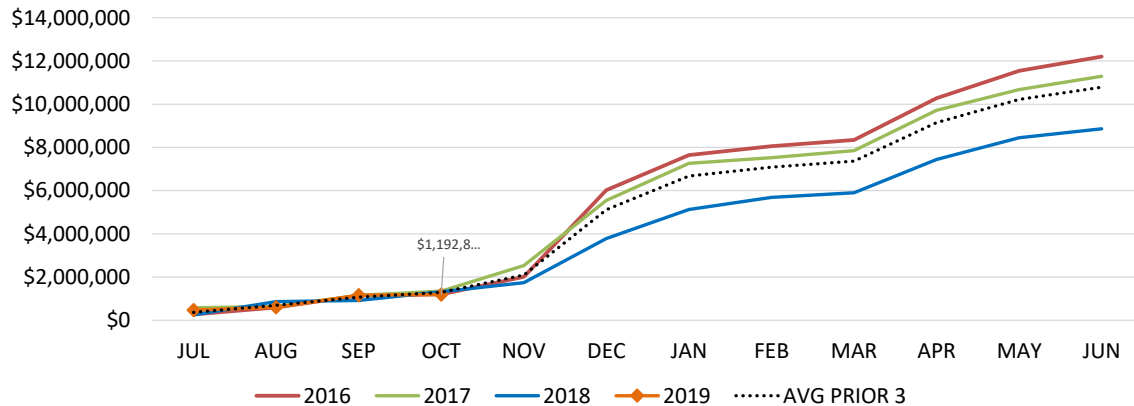
Deeds issued in October are from the Priest Lake cottage site auction held on August 24 and 25, 2018. As of November 5, 2018, the Department has closed on 48 out of the 51 cottage site properties sold. Three cottage site closings were extended with a closing date anticipated by the end of November.

FISCAL YEAR 2019 – REAL ESTATE TRANSACTIONS BY MONTH – through October 31, 2018													
ACTIVITY	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
Deeds Acquired	1	-	-	-									1
Deeds Granted	8	1	14	30									53
Deeds Granted - Surplus	-	-	-	-									0
Easements Acquired	-	-	2	-									2
Easements Granted	1	1	2	-									4

LANDS AND WATERWAYS DIVISION 2019 FYTD GROSS REVENUE through October 31, 2018	
ACTIVITY	REVENUE
SURFACE	
Agriculture	\$4,058
Communication Sites	\$228,514
Grazing	\$149,119
Residential	-\$227,340
COMMERCIAL	
Alternative Energy	\$0
Industrial	\$3,275
Military	\$57,770
Office/Retail	\$602,688
Recreation	\$14,161
OTHER	
Conservation	\$1,000
Geothermal	\$1,280
Minerals	\$31,304
Non-Commercial Recreation	\$4,175
Oil & Gas	\$2,646
RE/Buyer's Premium	\$320,246
TOTAL FYTD REVENUE	\$1,192,896

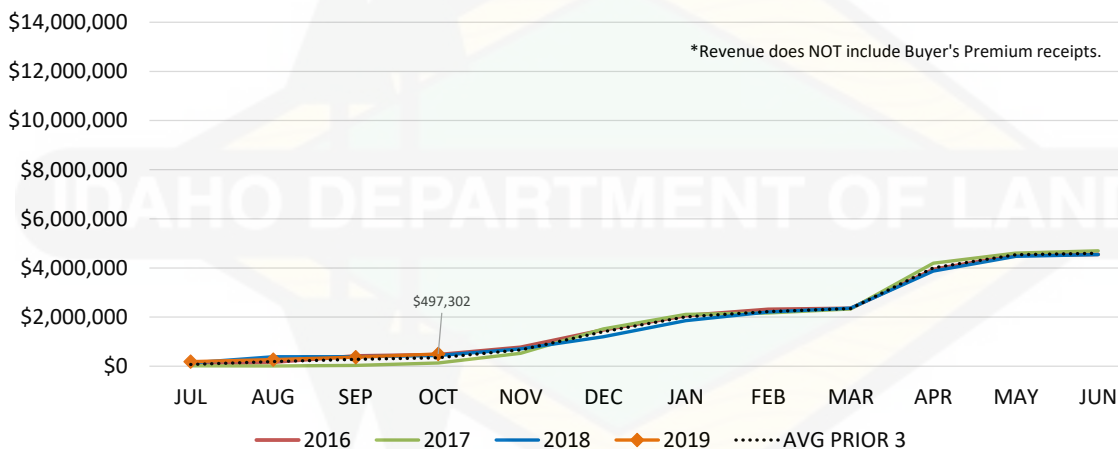
Cumulative L&W Program Receipts - Earnings Reserve
ALL PROGRAMS
FY16 - FYTD19

Current FYTD is
92% of 3 Year
Average



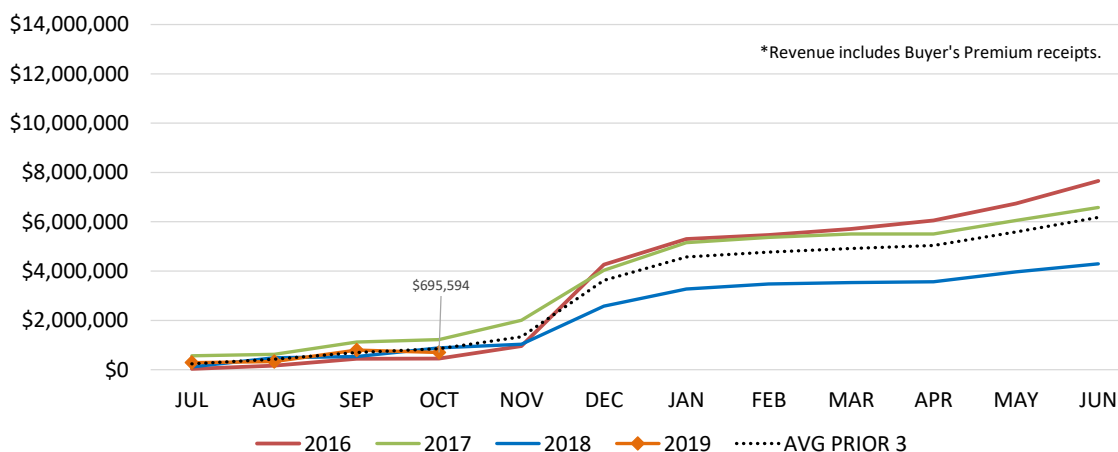
Cumulative L&W Program Receipts - Earnings Reserve
NO COMMERCIAL RETAIL OR RESIDENTIAL REVENUE* INCLUDED
FY16 - FYTD19

*Revenue does NOT include Buyer's Premium receipts.

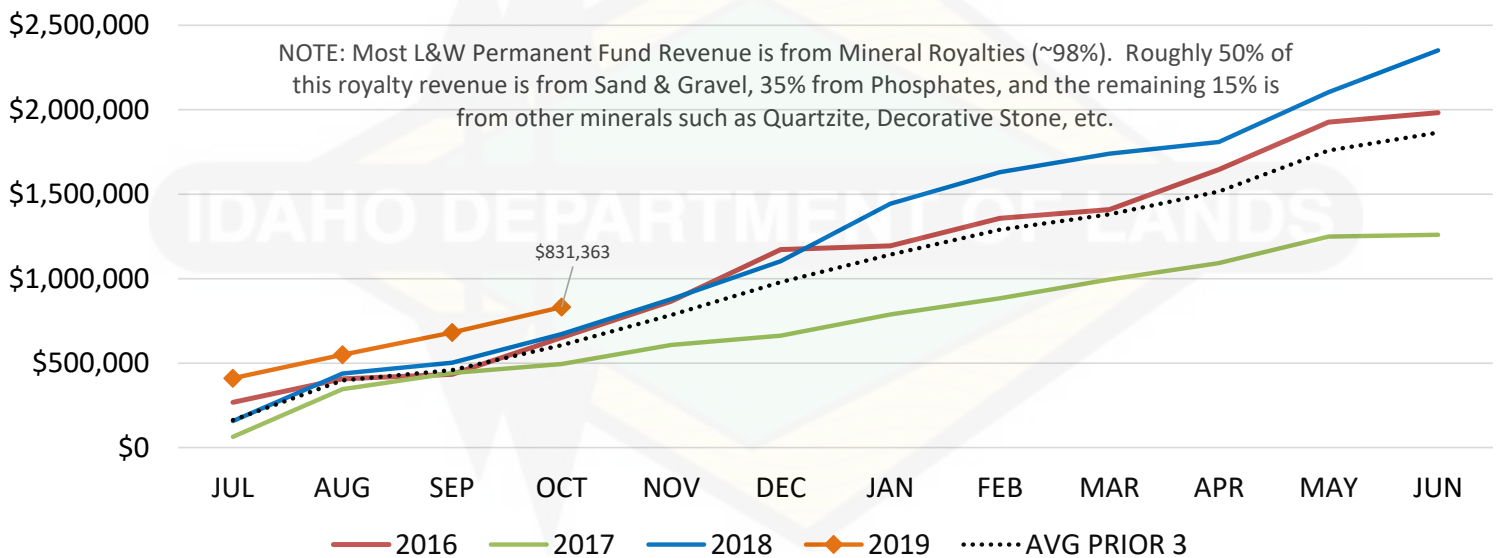


Cumulative L&W Program Receipts - Earnings Reserve
ONLY COMMERCIAL RETAIL AND RESIDENTIAL REVENUE* INCLUDED
FY16 - FYTD19

*Revenue includes Buyer's Premium receipts.



Cumulative L&W Permanent Fund Revenue/Royalties (Does NOT include Land Bank Revenue) FY16 - FYTD19



Annual Report to the Board of Land Commissioners



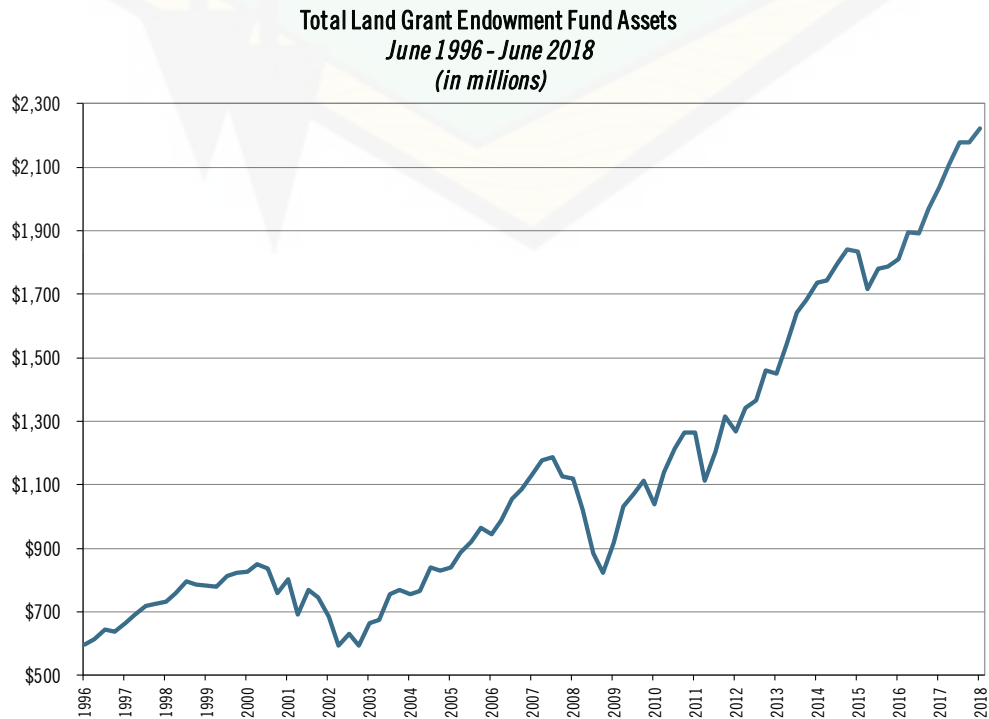
November 20, 2018

Summary

Fiscal 2018 was a strong year for the Endowment Fund Investment Board. The Endowment Fund grew by 8.8% and ended the year with a balance of \$2.2 billion. Earnings reserves levels at the end of the fiscal year exceeded targets, which allowed us to move \$50.3 million into the permanent fund and increase the gain benchmark. The investment portfolio gained 9.9%, which placed it in the top 12th percentile in the Callan Public Fund Sponsor Database. We made some refinements to our asset allocation during the year and recently hired a new global equity manager and two fixed income managers. While the costs to manage our investments grew on an absolute basis due to higher levels of assets, costs declined as a percentage of assets to 0.38%. Net land revenue grew by 10.6% to \$45.8 million as growing timber harvests and strong selling prices more than offset lost revenue from the sale of cabin sites. Distributions to beneficiaries increased 16.3% to \$73.5 million and the Board of Land Commissioners has approved distributions of \$78.2 million and \$80.9 million in fiscal years 2019 and 2020, respectively. The balance of bonds outstanding under the State of Idaho's Credit Enhancement Program grew by 23.8% to \$667.6 million. Overall, it was a very good year!

Change in Net Position and Fund Balance

Changes in the net position of the Endowment Fund are the result of investment gains or losses in the Endowment Fund portfolio and revenue generated from land assets less beneficiary distributions and Department of Lands and EFIB expenses. The Endowment Fund balance changed by \$165.5 million, \$205.7 million and -\$12.4 million during the fiscal years ended June 30, 2018, 2017 and 2016, respectively. Net position and fund balance totaled \$2,201 million, \$2,036 million and \$1,830 million as of June 30, 2018, 2017 and 2016, respectively.



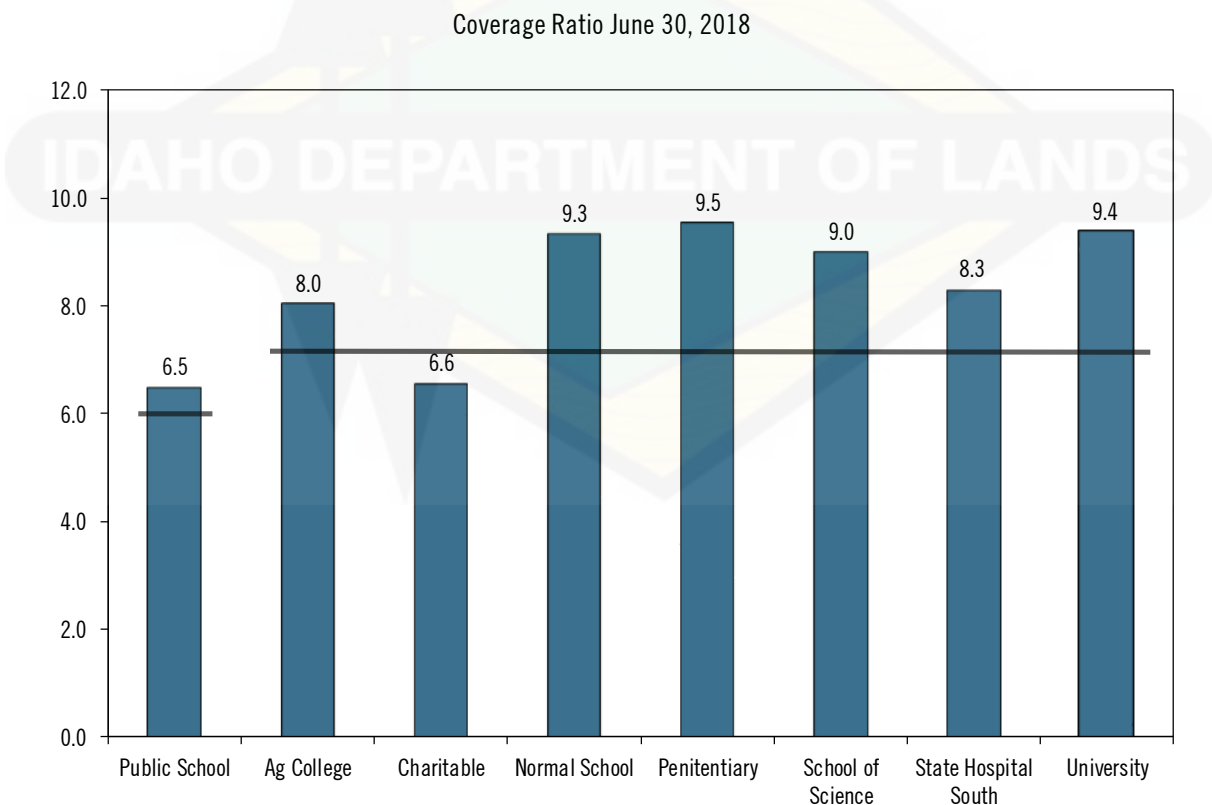
Earnings Reserves

The Board of Land Commissioners has established target earnings reserve levels for each of the Earnings Reserve Funds. The target earnings reserve levels equate to six years of beneficiary distributions for Public School and seven years of beneficiary distributions for Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and the University of Idaho. When earnings reserves exceed the target earnings reserve levels, excess amounts may be transferred from Earnings Reserve Funds into the corresponding Permanent Funds.

Total earnings reserve levels were \$569.2 million, \$569.7 million and \$444.4 million as of June 30, 2018, 2017 and 2016, respectively. As of June 30, 2018, the earnings reserve balances for all of the Endowment Funds, with the exception of Charitable Institutions, were at or above target earnings reserve levels.

Early in fiscal 2019, the Board of Land Commissioners approved the transfer of \$50.3 million in Earnings Reserves above target levels into the Permanent Funds and made the transfer part of the gain benchmark.

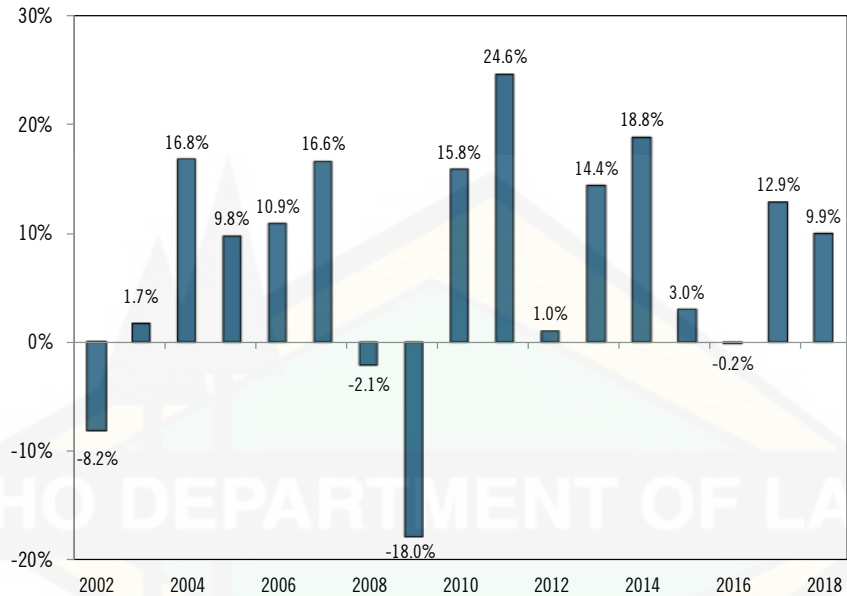
The table below highlights the earnings reserve levels of each Endowment Fund.



Investment Results

The Endowment Fund portfolio generated investment returns before fees of 9.9%, 12.9% and -0.2% in fiscal years end June 30, 2018, 2017 and 2016, respectively. The average annual investment returns were 9.9%, 7.4% and 8.7% during the last one, three and five-year periods. These investment returns ranked in the top 12th, 30th and 24th percentile in the Callan Public Fund Sponsor Database for the one, three and five-year periods.

Annual Gross Fund Return



Annualized (gross of fees, ending June 30, 2018)

	FY 2018	3 Years	5 Years	7 Years	10 Years
Total Fund	9.9%	7.4%	8.7%	8.3%	7.6%
<i>Benchmark (38% Russell 3000, 19% ACWI ex-US, 9% ACWI, 8% ODCE, 26% BBC Aggregate)</i>	8.5%	7.3%	8.5%	8.0%	7.0%
Total Equity	13.9%	9.6%	11.1%	10.4%	8.5%
Domestic Equity	17.2%	11.8%	13.5%	13.3%	11.1%
Large Cap.	16.7%	12.0%	13.9%	13.7%	11.2%
Mid Cap.	16.4%	10.3%	12.0%	11.7%	9.5%
Small Cap.	21.5%	12.8%	13.8%	13.1%	13.6%
International Equity	9.2%	5.7%	6.8%	4.1%	2.7%
Global Equity	8.8%	6.1%	7.0%	6.5%	----
<i>MSCI ACWI Index</i>	11.3%	8.8%	10.0%	8.5%	6.4%
Real Estate (net of fees)	7.2%				
<i>NCREIF ODCE Index</i>	8.1%				
Fixed Income	0.0%	1.8%	2.2%	2.5%	3.7%
<i>Benchmark (85% BBC U.S. Aggregate, 15% BBC U.S. TIPS)</i>	0.0%	1.8%	2.2%	2.5%	3.6%

Change In Fund Asset Allocation

The target asset allocation for the Endowment Fund portfolio is 66.0% equity, 26.0% fixed income, and 8.0% real estate. In fiscal year 2018, the EFIB approved a modest shift from U.S. equity into international and global equity. The equity portion of the portfolio currently includes 38.0% U.S. equity, 19.0% international equity and 9.0% global equity. The EFIB also approved investing the fixed income portion of the portfolio as follows; 11% Bloomberg Barclay's Aggregate Index, 11% actively managed Core Plus strategy and 4% in Treasury Inflation Protected Securities.

Investment Management

The EFIB engages the services of an investment consultant who acts as an independent fiduciary and provides advice in areas such as investment policies and guidelines, asset allocation strategies, portfolio risk/return modeling and hiring and monitoring of investment managers. Callan has served as EFIB's investment consultant since 2007.

The EFIB engages investment managers who are given full discretion to make investment decisions subject to policies and guidelines specific to the investment strategy they are managing. As of June 30, 2018, the EFIB engaged sixteen investment managers including; Aberdeen Asset Management, Barrow Hanley, Boston Partners, Clearwater Advisors, Deutsche Asset Management, Eagle Asset Management, Fiera Capital, LSV Asset Management, Northern Trust Investments, Sands Capital, Systematic Financial Management, TimesSquare Capital Management, Schroders, State Street Global Advisors, UBS Realty Investors and WCM Investment Management.

In early fiscal 2019, EFIB replaced Aberdeen Asset Management with Wellington Global Opportunities and is in the process of adding two Core Plus fixed income managers – DoubleLine Capital and Western Asset Management.

The EFIB engages Northern Trust Company for custodial services. Northern Trust Company is responsible for custodial services such as the safekeeping of assets, trade settlement, accounting, security valuation and proxy voting.

Total Cost of Investment Management

The total cost for investment management was \$9.1 million, \$7.8 million and \$7.6 million in fiscal years 2018, 2017 and 2016, respectively. Investment management expenses as a percentage of year-end Endowment Fund assets equates to 0.38%, 0.42% and 0.43% in fiscal years 2018, 2017 and 2016, respectively. The table below provides a breakdown of investment management expenses.

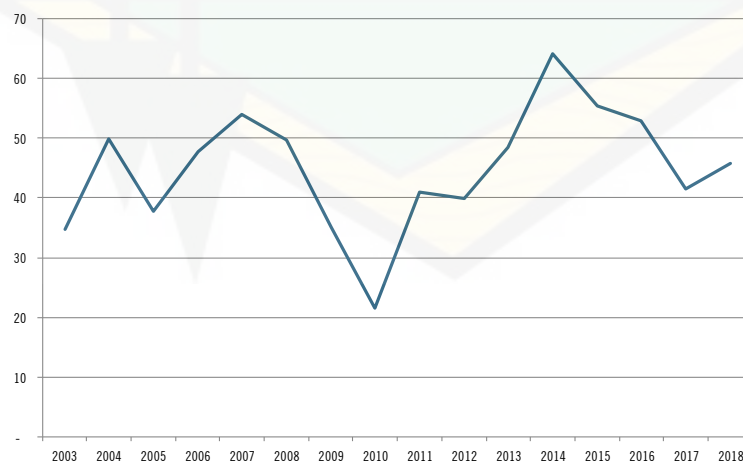
Total Cost of Investment Management

Investment Management Operating Costs	2018	2017	2016
Internal Investment Costs	\$ 572,161	\$ 440,031	\$ 463,018
Outside investment manager and legal fees	7,977,192	7,391,512	6,795,101
Custody Expense	483,911	455,540	333,451
Consultant and auditor fees	249,511	261,256	303,978
Subtotal	9,282,775	8,548,339	7,895,550
Less manager fees deducted from NAV	589,487	765,658	388,114
Total cash expenditures	8,693,288	7,782,681	7,507,436
Change in Manager Fee Accrual	434,283	49,635	78,317
Total Accrual Basis Expense	<u>\$9,127,571</u>	<u>\$7,832,316</u>	<u>\$ 7,585,753</u>

Net Land Revenue

Net land revenue (land revenue less Department of Lands expenses) totaled \$45.8 million, \$41.4 million and \$52.0 million in fiscal years 2018, 2017 and 2016, respectively. The declines in net land revenue in fiscal years 2015, 2016 and 2017 are primarily the result of the sales of leased cabin sites located near Payette and Priest Lakes. The increase in net land revenue in fiscal 2018 is primarily due to efforts by the Department of Lands to increase sustainable timber harvests.

Net Land Revenue for Earnings Reserves (in \$ millions)



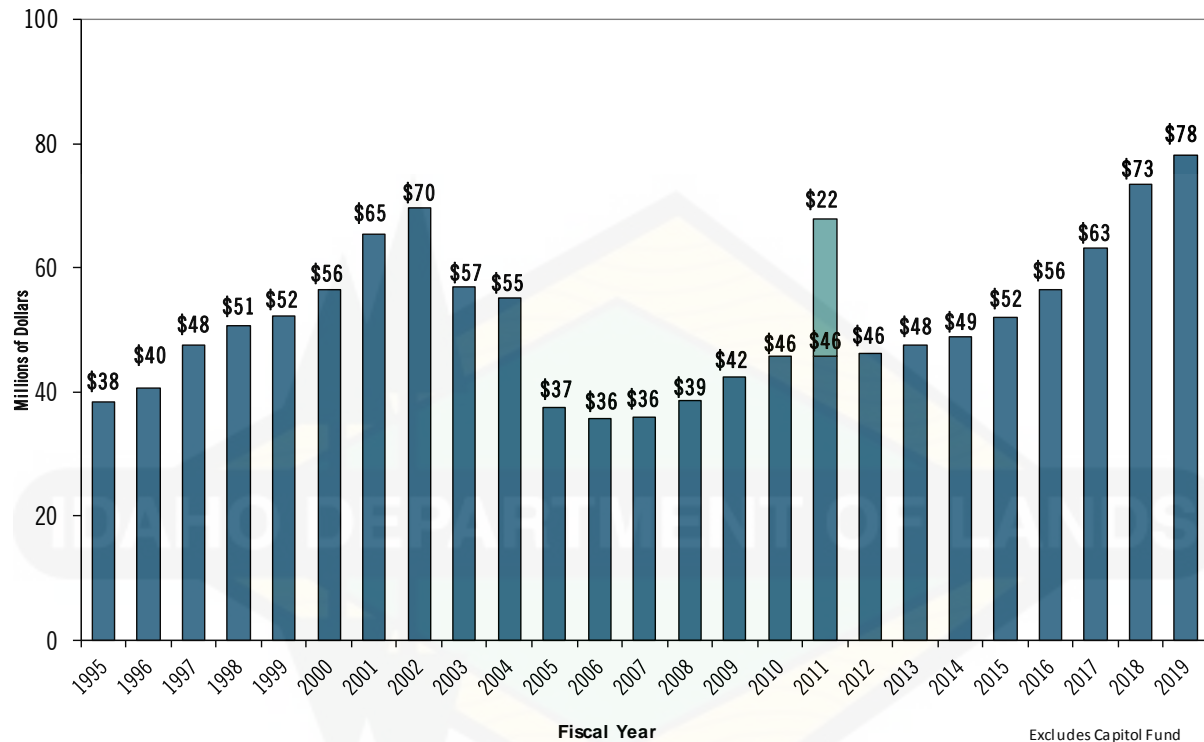
Distributions To The Beneficiaries

The Endowment Fund exists to provide distributions to beneficiaries in perpetuity. For all endowments, except Capitol Permanent, the State Board of Land Commissioners has established a distribution policy. The current policy establishes annual distributions at a rate of 5% of the three-year moving average Permanent Fund balance (7% for State Hospital South) and allows for adjustments to the distributions based on factors including the amount in the Earnings Reserve Funds and transfers to the Permanent Funds.

Distributions to land-grant beneficiaries totaled \$73.5 million, \$63.2 million and \$56.5 million in fiscal years 2018, 2017 and 2016, respectively. The Board of Land Commissioners approved distributions of \$78.2 million and \$80.9 million in fiscal years 2019 and 2020, respectively. The table below provide a summary of land-grant beneficiary distributions.

Beneficiary Distributions 1995-2019

(includes special Public School distribution in 2011 of \$22M)



On July 1, 2004, the Capitol Permanent Fund was pooled with the Endowment Fund for investment purposes. Additions to the Capitol Permanent Fund include revenue from its lands as well as investment income. The EFIB authorizes distributions from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund. Distribution from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund totaled \$1.39 million, \$1.38 million and \$1.28 million in fiscal years 2018, 2017 and 2016, respectively. Distributions from the Capitol Maintenance Reserve Fund are determined by the Capitol Commission, subject to legislative appropriation. Distributions from the Capital Maintenance Reserve Fund to the Capitol Commission were \$396,000, \$500,000 and \$400,000 in fiscal years 2018, 2017 and 2016, respectively.

Credit Enhancement Program

On July 1, 2002, the State of Idaho's Credit Enhancement Program for school district bond financing was established. This program, in accordance with Idaho Code Section 57-728 and in conjunction with Idaho Code Chapter 53, Title 33, requires the Public School Endowment Fund to purchase up to \$300 million in notes of the State that may be issued to avoid default on school district bonds. This credit enhancement allows eligible voter-approved school bonds to be issued with AAA ratings, which is above the State's AA+ rating. The enhanced credit rating results in lower borrowing costs for Idaho school districts. EFIB has committed to provide credit enhancement on up to \$1.2 billion in school bonds, with a limit of \$40 million per school district. There were \$667.6 million, \$539.3 million and \$466.9 million in bonds guaranteed by the Credit Enhancement Program as of June 30, 2018, 2017 and 2016, respectively.



INDEPENDENT AUDITORS' REPORT

Endowment Fund Investment Board
State of Idaho Endowment Funds
Boise, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Idaho Endowment Funds governmental fund and governmental activities administered by the Endowment Fund Investment Board (the EFIB), a component unit of the State of Idaho, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the State of Idaho Endowment Funds' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State of Idaho Endowment Funds governmental fund and governmental activities as of June 30, 2018 and 2017, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-matter

As discussed in Note 1, the financial statements of The State of Idaho Endowment Funds are intended to present the financial position and the changes in financial position of The State of Idaho Endowment Funds. The financial statements do not purport to, and do not, represent the financial position or changes in financial position, of the State of Idaho as of June 30, 2018 and 2017. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Idaho Endowment Funds' basic financial statements. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules included on pages 40 through 43 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedules included on pages 44 and 45 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2018, on our consideration of State of Idaho Endowment Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of State of Idaho Endowment Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering State of Idaho Endowment Funds' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boise, Idaho
August 21, 2018



IDAHO DEPARTMENT OF LANDS

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Endowment Fund Investment Board
State of Idaho Endowment Funds
Boise, Idaho

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the EFIB), a component unit of the State of Idaho, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the State of Idaho Endowment Funds' basic financial statements, and have issued our report thereon dated August 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the State of Idaho Endowment Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Idaho Endowment Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Idaho Endowment Funds' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Idaho Endowment Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Idaho Endowment Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boise, Idaho
August 21, 2018

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Idaho Department of Lands
Boise, ID

We have performed the procedures enumerated below, which were agreed to by Idaho Department of Lands, solely to assist you with respect to the allocation procedures for the year ended June 30, 2018. Management is responsible for the allocation procedures. The sufficiency of these procedures is solely the responsibility of the party specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and the associated findings are as follows:

Procedures

1. Revenues: Obtain IBIS Report 'Endowment Revenue by Beneficiary' and the DAFR 8180 reports and perform the following for the year ended June 30, 2018:
 - a. Agree revenue in total by each of the nine endowments per the IBIS report to the Department of Lands (DOL) Income Statement.
 - b. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology outlined in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2018 for revenues.
 - c. Agree revenues in total for each of the recalculated seven asset classes to the DOL Income Statement.

Findings

1. None noted.

Procedures

2. Project Expense: Obtain IBIS Report 'Expenditure Search' including project codes for Real Estate Services and the Timber Project Allocations, Support Services excel spreadsheet and perform the following for the year ended June 30, 2018:
 - a. Agree project expenses in total by each of the nine endowments per the above reports to the DOL Income Statement.
 - b. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology included in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2018 for project expenses.
 - c. Agree project expenses in total for each of the recalculated seven asset classes to the DOL Income Statement.
 - d. Obtain listing of projects with transactions recorded to project expense during the year ended June 30, 2018 and agree total to project expense on DOL income statement for the year ended June 30, 2018.
 - i. Obtain defined project allocation percentages for each project selected and recalculate recorded allocation to respective endowments.
 - ii. Report any discrepancies

Findings

2. None noted.

Procedures

3. Non-Project Expense: Obtain DAFR 8290 Report and perform the following for the year ended June 30, 2018:
 - a. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology outlined in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2018 for non-project expenses.
 - b. Agree non-project expenses in total for each of the recalculated seven asset classes to the DOL Income Statement.
 - c. Recalculate the allocation of the total non-project expenses by asset class to each of the nine endowments based on the methodology included in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2018 for project expenses.
 - d. Agree non-project expenses by endowment for each of the recalculated nine endowments to the DOL Income Statement.

Findings

3. None noted.

Procedures

4. Overhead: Obtain DAFR 8290 Report and perform the following for the year ended June 30, 2018:
 - a. Agree total overhead per the IBIS report to the DOL Income Statement.
 - b. Recalculate the allocation of the total overhead expenses to each of the nine endowments and each of the seven asset classes based on the methodology included in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2018 for overhead.

Findings

4. None noted.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion on the allocation procedures outlined in our engagement letter dated May 15, 2018 for the year ended June 30, 2018. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Idaho Department of Lands and is not intended to be and should not be used by anyone other than this party.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boise, Idaho
August 21, 2018

The logo of the Idaho Department of Lands is a large, stylized diamond shape. It features a light green center, a yellow border, and a grey outer border. A horizontal grey bar with rounded ends is superimposed across the middle of the diamond, containing the text "IDAHO DEPARTMENT OF LANDS" in white, bold, sans-serif capital letters.

IDAHO DEPARTMENT OF LANDS

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS



M. Dean Buffington :: Chairman
Jerry F. Aldape Irving Littman
Neil A. Anderson Gary L. Mahn
Warren R. Bakes Richelle A. Sugiyama
Gavin M. Gee Chuck Winder

Chris J. Anton :: Manager of Investments

Monthly Report to the Board of Land Commissioners

Investment performance through October 31, 2018

Month: - 6.1% Fiscal year: -2.8%

We experienced significant declines in both equity and fixed income investments during October as volatility returned. Financial markets were shaken by rising interest rates and signs of growing inflation, a hawkish tone by the Fed, trade tensions, a moderating Chinese economy, uncertainty surrounding U.S. mid-term elections and concerns that the tech rally may be peaking. The economic divergence between the U.S. and the rest of the world continues to intensify. Economic growth in the U.S. and corporate profits remain robust, but investors are cautious as the Fed attempts to ward off inflation through gradual increases in interest rates without stalling out the business cycle. There appears to be time left for positive expansion and growth.

Status of endowment fund reserves

Distributions for FY2019 and FY2020 are well secured. For all endowments, estimated reserves as of October 2018 were at least 6 times the size of the anticipated FY2020 distributions.

Significant actions of the Endowment Fund Investment Board

Meetings: The EFIB Board held a special meeting on October 30th to interview fixed income managers. The Board approved a change to our fixed income asset allocation to include 11% in the Bloomberg Aggregate Index, 11% in actively managed Core Plus strategies and 4% in TIPS. The Board decided to split the Core Plus strategy evenly between DoubleLine Capital and Western Asset Management.

Compliance/legal issues, areas of concern

Material deviations from Investment Policy or compliance guidelines for investment managers: During the special meeting on October 30th, the Board approved revisions to the Investment Policy statement to support the implementation of Core Plus fixed income strategies.

Material legal issues: None.

Changes in board membership or agency staffing: None.

Upcoming issues/events

The EFIB Board will be attending the Land Board meeting on November 20th.

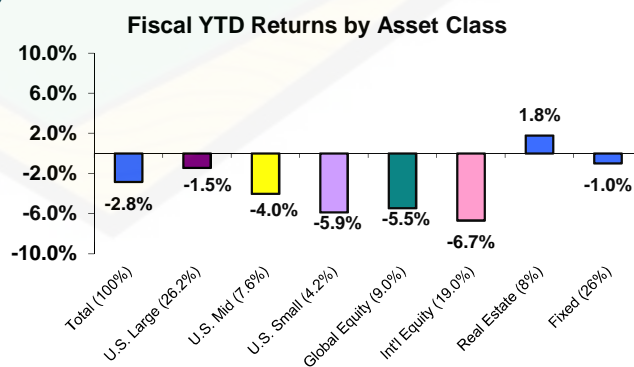
THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

	<u>Month</u>	<u>FYTD</u>
Beginning Value of Fund	2,264,299,446	2,189,851,992
Distributions to Beneficiaries	(6,517,200)	(26,068,800)
Land Revenue net of IDL Expenses	9,775,711	29,482,895
Change in Market Value net of EFIB Expenses	<u>(131,468,250)</u>	<u>(57,176,380)</u>
Current Value of Fund	2,136,089,707	2,136,089,707

<u>October-18</u>	<u>Fiscal Year to Date</u>	<u>Last Five Years</u>
Total Fund 38% R3 19% Ax 9% AC 26% BB 8% OD	Total Fund 38% R3 19% Ax 9% AC 26% BB 8% OD	Total Fund 38% R3 19% Ax 9% AC 26% BB 8% OD
Total Fixed 85% BB Agg, 15% TIPS	Total Fixed 85% BB Agg, 15% TIPS	Total Fixed 85% BB Agg, 15% TIPS
Total Equity 38% R3 19% Ax 9% AC	Total Equity 38% R3 19% Ax 9% AC	Total Equity 38% R3 30% Ax 9% AC
Domestic Equity Russell 3000 (R3)	Domestic Equity Russell 3000 (R3)	Domestic Equity Russell 3000 (R3)
Global Equity MSCI ACWI (AC)	Global Equity MSCI ACWI (AC)	Global Equity MSCI ACWI (AC)
Int'l. Equity MSCI ACWI ex-US (Ax)	Int'l. Equity MSCI ACWI ex-US (Ax)	Int'l. Equity MSCI ACWI ex-US (Ax)
Real Estate	Real Estate	

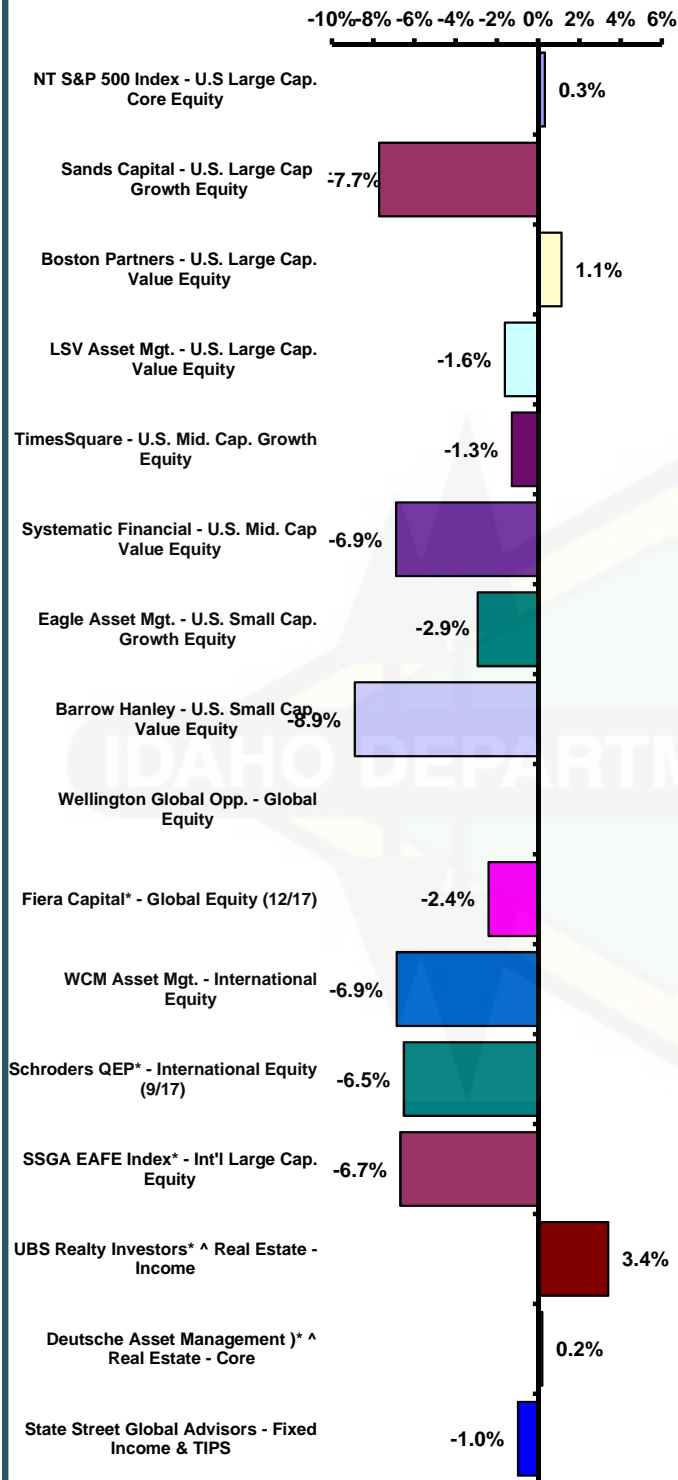
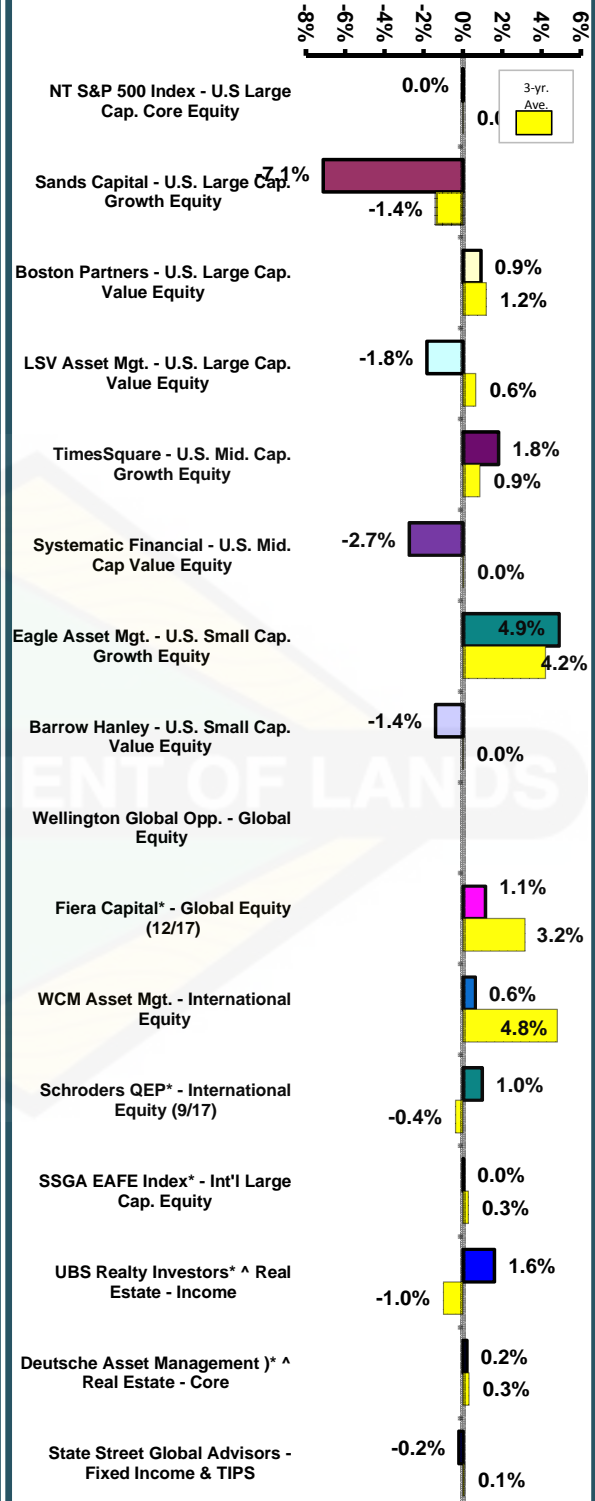
	<u>Mkt Value</u>	<u>Allocation</u>
Domestic Equity	\$ 822.6	38.5%
Large Cap	563.8	26.4%
Mid Cap	165.5	7.7%
Small Cap	93.3	4.4%
Global Equity	185.7	8.7%
Int'l Equity	383.2	17.9%
Fixed Income	543.2	25.4%
Real Estate	180.6	8.5%
Cash	<u>20.8</u>	<u>1.0%</u>
Total Fund	\$ 2,136.1	100.0%

**Endowment Fund Staff Comments:**

The fund was down 6.1% for the month, 0.9% under the benchmark. The Russell 3000 index was down 7.4%, Russell Midcap down 8.3% and Russell 2000 (small cap) down 10.9%. International equities (MSCI ACWI ex-US) were down 8.1%. Value outperformed Growth, while Domestic equity outperformed International equity. Bonds, as measured by the BBC Aggregate index, were down 0.8% and TIPS were down 1.4%. 6 of 13 active managers beat their benchmark this month. On a FYTD basis, the fund is down 2.8%, 0.8% under benchmark, and 8 of 13 active managers beat their benchmark.

INVESTMENT REPORT

FYTD Manager Returns

Manager Relative Returns
Fiscal YTD and 3-Yr Ave. Annualized*

* ITD return used when manager has less than 3 years. ^ Most recent valuation.

STATE BOARD OF LAND COMMISSIONERS

November 20, 2018

Subject

Performance Review of Total Endowment

Background

As part of the Asset Allocation and Governance Review reported by Callan Associates (Callan) on November 24, 2014, Callan recommended that: (1) a total return be calculated by aggregating the market values and cash flows of the financial assets and the Department's land assets, and (2) an independent outside financial audit on the land portfolio be performed annually.

The revised Statement of Investment Policy, adopted by the Land Board on July 17, 2018, requires that performance reports be generated by the General Consultant (Callan) annually for review by the Land Board (Attachment 1). Investment performance reports include the performance of the Endowment and asset classes measured against performance benchmarks outlined in the Statement of Investment Policy and EFIB Investment Policy.

The Land Board Audit Committee met May 21, 2018, and determined the Agreed-Upon Procedures for the endowment land income statement review established in 2016 would also be used for the year ending June 30, 2018.

Discussion

Callan calculated a total return of the financial portfolio and the land asset returns for the fiscal year ending June 30, 2018 (Attachment 2). The combined net return was calculated to be 7.86%, which is above the target return of 5.00% but below last year's return of 8.59%. The combined return was calculated by including a land asset net return of 5.48% (up from 3.69% in fiscal year 2017) and a financial asset net return of 9.51% (down from 12.5% in fiscal year 2017). Callan also compiled a report of the land returns by asset class for the fiscal year ending June 30, 2018 (Attachment 3).

Following review of the endowment land income statement, CliftonLarsonAllen LLP provided an Independent Accountants' Report on Applying Agreed-Upon Procedures to the Land Board Audit Committee on August 16, 2018, with no findings (Attachment 4).

Attachments

1. Statement of Investment Policy, page 31
2. Investment Manager Returns
3. Investment Measurement Service Quarterly Review
4. Independent Accountants' Report on Applying Agreed-Upon Procedures

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

X. Key Documents

To assist the Land Board, EFIB Staff, and IDL Staff, the following key documents will be produced or reviewed according to the schedule in Exhibit 2.

Exhibit 2: Key Documents

Document Name	Document Source	Review Schedule
Performance Review of Fund	General Consultant and EFIB Staff	Monthly and Quarterly
Performance Review Total Endowment	General Consultant, IDL Staff, and EFIB Staff	Annually
Statement of Investment Policy	General Consultant, IDL Staff, and EFIB Staff <i>Reviewed by Investment Sub-Committee</i>	Annually
IDL Program Business Plans	IDL Staff	1-5 Years as specified in each plan
IDL Asset Management Plan	IDL Staff	Every 5 Years
Strategic Reinvestment Plan	General Consultant <i>Reviewed by Investment Sub-Committee</i>	Annually
IDL Strategic Plan	IDL Staff	Annually
Asset Allocation	General Consultant	Every 8 years
Monthly Timber Sale Activity Report	IDL Staff	Monthly
Annual Timber Sale Plan	IDL Staff	Annually
Ten Year Forecast of Land Income	IDL Staff	Annually
IDL Annual Budget	IDL Staff	Annually
EFIB Strategic Plan	EFIB Staff	Annually
EFIB Meeting Report	EFIB Staff	Annually
Audit Committee Report	Audit Committee	Annually

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

Investment Manager Returns

The table below details the rates of return for the Fund's investment managers over various time periods ended June 30, 2018. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended June 30, 2018

	Last Year	Last 3 Years
EFIB Plan (Net)	9.51%	7.02%
EFIB Target	8.45%	7.25%
Land (Net)	5.48%	4.23%
Total Plan + Land	7.86%	5.86%
CPI + 3.5%	6.59%	5.24%



IDAHO DEPARTMENT OF LANDS

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

June 30, 2018

Idaho Board of Land Commissioners

**Investment Measurement Service
Quarterly Review**

The logo of the Idaho Department of Lands is a large, stylized diamond shape. It features a light green center, surrounded by a yellow border, and a grey outer border. The text "IDAHO DEPARTMENT OF LANDS" is written in white, bold, capital letters across the middle of the diamond.

IDAHO DEPARTMENT OF LANDS

Information contained herein includes confidential, trade secret and proprietary information. Neither this Report nor any specific information contained herein is to be used other than by the intended recipient for its intended purpose or disseminated to any other person without Callan's permission. Certain information herein has been compiled by Callan and is based on information provided by a variety of sources believed to be reliable for which Callan has not necessarily verified the accuracy or completeness of or updated. This content may consist of statements of opinion, which are made as of the date they are expressed and are not statements of fact. This content is for informational purposes only and should not be construed as legal or tax advice on any matter. Any decision you make on the basis of this content is your sole responsibility. You should consult with legal and tax advisers before applying any of this information to your particular situation. Past performance is no guarantee of future results. For further information, please see Appendix for Important Information and Disclosures.

Table of Contents

June 30, 2018

Total Land Portfolio

Asset Allocation Across Investment Managers	2
Investment Manager Performance	3

Individual Accounts

Total Land Portfolio	6
Farmland	7
Commercial Real Estate	8
Rangeland	9
Residential Real Estate	10
Timberland	11
Land Bank	12

Callan Research/Education	13
---------------------------	----

Disclosures	16
-------------	----



IDAHO DEPARTMENT OF LANDS



Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2018, with the distribution as of June 30, 2017. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

Asset Distribution Across Investment Managers

	June 30, 2018		Net New Inv.	Inv. Return	June 30, 2017	
	Market Value	Weight			Market Value	Weight
Farmland	24,665,240	1.66%	(425,596)	1,439,236	23,651,600	1.63%
Commercial Real Estate	12,683,625	0.86%	(9,773,755)	3,464,490	18,992,890	1.31%
Rangeland	61,000,000	4.11%	(2,943,898)	2,943,898	61,000,000	4.20%
Residential Real Estate	82,057,200	5.53%	(38,723,979)	30,173,196	90,607,983	6.24%
Timberland	1,180,824,151	79.61%	(66,220,265)	66,220,265	1,180,824,151	81.36%
Land Bank	122,059,701	8.23%	44,265,832	1,514,081	76,279,788	5.26%
Total Land Portfolio Assets	\$1,483,289,917	100.0%	\$(73,821,661)	\$105,755,166	\$1,451,356,412	100.0%

IDAHO DEPARTMENT OF LANDS

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flows and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

Investment Manager Returns

The table below details the rates of return for the Fund's investment managers over various time periods ended June 30, 2018. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended June 30, 2018

	Fiscal Year	Last 2 Years	Last 3 Years
Farmland	6.10%	4.01%	5.42%
Farmland (Net)	5.23%	3.25%	4.66%
Commercial Real Estate	30.91%	29.77%	22.03%
Commercial Real Estate (Net)	23.32%	23.40%	16.49%
Rangeland	4.95%	4.96%	4.97%
Rangeland (Net)	2.19%	1.90%	1.94%
Residential Real Estate	37.20%	20.77%	14.88%
Residential Real Estate (Net)	34.68%	18.88%	13.12%
Timberland	5.75%	5.70%	5.63%
Timberland (Net)	3.75%	3.63%	3.66%
Land Bank	1.50%	1.16%	0.88%
Land Bank (Net)	1.50%	1.16%	0.88%
Total Land excluding - Land Bank	7.84%	6.90%	6.41%
Total Land excluding - Land Bank (Net)	5.74%	4.77%	4.37%
Total Land Portfolio (Gross)	7.43%	6.60%	6.18%
Total Land Portfolio (Net Nominal)	5.48%	4.58%	4.23%
Total Land Portfolio (Net Real Return)	2.55%	2.29%	2.36%
CPI All Urban Cons	2.87%	2.25%	1.83%

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flows and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cash flows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

Investment Manager Returns

The table below details the rates of return for the fund's investment managers over various time periods ended June 30, 2018. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized.

Returns for Periods Ended June 30, 2018

	Fiscal Year			Last 3 Years		
	Inc%	App%	Tot%	Inc%	App%	Tot%
Farmland (Net)	0.90	4.28	5.23	1.20	3.42	4.66
Commercial Real Estate (Net)	2.25	20.78	23.32	3.49	12.67	16.49
Rangeland (Net)	2.19	0.00	2.19	1.94	0.00	1.94
Residential Real Estate (Net)	1.38	32.85	34.68	2.41	10.48	13.12
Timberland (Net)	3.75	0.00	3.75	3.66	0.00	3.66
Total Land excluding - Land Bank (Net)	3.47	2.23	5.74	3.43	0.91	4.37
Total Land Portfolio (Net Nominal)	3.34	2.09	5.48	3.35	0.86	4.23

IDAHO DEPARTMENT OF LANDS



**Total Land Portfolio
Real Estate Portfolio
Quarterly Changes in Market Value**

	Beg. of Period Market	+ Capital Contri- butions	+ Accounting Income	- Mgmt. Fees	+ Appre- ciation	- Dist. of Income & Real. Gains	- Return of Capital	= End of Period Market
09/2015	1,443,485,863	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,443,836,373
12/2015	1,443,836,373	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,444,186,883
03/2016	1,444,186,883	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,444,537,394
06/2016	1,444,537,394	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,444,887,904
09/2016	1,444,887,904	17,424,042	32,190,512	8,130,079	(0)	24,850,095	16,715,247	1,444,807,037
12/2016	1,444,807,037	18,903,334	15,698,109	7,356,406	1,328,500	8,309,338	18,830,890	1,446,240,346
03/2017	1,446,240,346	22,212,151	19,044,141	5,379,154	3,715,150	13,609,788	22,112,365	1,450,110,481
06/2017	1,450,110,481	2,138,318	8,164,265	7,920,565	1,040,305	2,151,292	25,100	1,451,356,412
09/2017	1,451,356,412	7,987,519	25,025,187	7,148,261	22,668,989	17,852,656	7,770,000	1,474,267,190
12/2017	1,474,267,190	27,995,332	15,811,240	6,762,941	0	8,717,002	27,995,332	1,474,598,487
03/2018	1,474,598,487	8,541,139	22,386,935	5,296,596	5,419,200	16,719,764	8,490,000	1,480,439,401
06/2018	1,480,439,401	78,855	12,198,615	7,934,209	2,245,000	3,737,745	0	1,483,289,917
	1,443,485,863	132,231,779	224,611,100	81,262,870	37,768,744	144,654,676	128,890,023	1,483,289,917

IDAHO DEPARTMENT OF LANDS

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

Farmland Real Estate Portfolio Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri- butions	+	Accounting Income	-	Mgmt. Fees	+	Appre- ciation	-	Distri- butions	=	End of Period Market
09/2015	22,300,000		0		120,774		42,052		337,900		78,722		22,637,900
12/2015	22,637,900		0		120,774		42,052		337,900		78,722		22,975,800
03/2016	22,975,800		0		120,774		42,052		337,900		78,722		23,313,700
06/2016	23,313,700		0		120,774		42,052		337,900		78,722		23,651,600
09/2016	23,651,600		33,835		250		34,085		0		0		23,651,600
12/2016	23,651,600		0		317,855		156,334		0		161,521		23,651,600
03/2017	23,651,600		0		95,266		(86,168)		0		181,434		23,651,600
06/2017	23,651,600		1,815		45,299		47,114		0		0		23,651,600
09/2017	23,651,600		26,045		2,000		28,045	1,013,640			0		24,665,240
12/2017	24,665,240		0		184,432		24,082		0		160,350		24,665,240
03/2018	24,665,240		0		193,527		36,305		0		157,222		24,665,240
06/2018	24,665,240		68,355		45,637		113,992		0		0		24,665,240
	22,300,000		130,050		1,367,363		521,998		2,365,240		975,415		24,665,240

IDAHO DEPARTMENT OF LANDS

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

Commercial Real Estate Real Estate Portfolio Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri- butions	+	Accounting Income	-	Mgmt. Fees	+	Appre- ciation	-	Dist. of Income & Real. Gains	-	Return of Capital	=	End of Period Market
09/2015	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
12/2015	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
03/2016	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
06/2016	31,502,435		0		599,175		305,676		0		293,500		0		31,502,435
09/2016	31,502,435		0		1,299,490		635,627		0		663,863		0		31,502,435
12/2016	31,502,435		69,844		344,145		413,989		0		0		0		31,502,435
03/2017	31,502,435		0		422,777		339,925		3,715,150		82,852		17,265,000		17,952,585
06/2017	17,952,585		0		340,718		(42,035)		1,040,305		382,753		0		18,992,890
09/2017	18,992,890		0		316,491		256,468		(140,000)		60,023		0		18,852,890
12/2017	18,852,890		0		670,074		391,642		0		278,432		0		18,852,890
03/2018	18,852,890		51,139		174,715		225,854		0		0		8,490,000		10,362,890
06/2018	10,362,890		0		198,210		122,475		2,245,000		0		0		12,683,625
	31,502,435		120,983		6,163,321		3,566,648		6,860,455		2,641,921		25,755,000		12,683,625

IDAHO DEPARTMENT OF LANDS

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

Rangeland Real Estate Portfolio Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri- butions	+	Accounting Income	-	Mgmt. Fees	+	Appre- ciation	-	Distri- butions	=	End of Period Market
09/2015	61,000,000		0		742,508		439,390		0		303,118		61,000,000
12/2015	61,000,000		0		742,508		439,390		0		303,118		61,000,000
03/2016	61,000,000		0		742,508		439,390		0		303,118		61,000,000
06/2016	61,000,000		0		742,508		439,390		0		303,118		61,000,000
09/2016	61,000,000		418,712		15,744		434,456		0		0		61,000,000
12/2016	61,000,000		0		651,041		417,971		0		233,070		61,000,000
03/2017	61,000,000		99,786		366,069		465,855		0		0		61,000,000
06/2017	61,000,000		0		1,943,241		668,142		0		1,275,099		61,000,000
09/2017	61,000,000		0		298,769		285,833		0		12,936		61,000,000
12/2017	61,000,000		0		388,362		375,616		0		12,746		61,000,000
03/2018	61,000,000		0		495,725		347,673		0		148,052		61,000,000
06/2018	61,000,000		0		1,761,042		618,366		0		1,142,676		61,000,000
	61,000,000		518,498		8,890,026		5,371,474		0		4,037,050		61,000,000

IDAHO DEPARTMENT OF LANDS

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

Residential Real Estate Real Estate Portfolio Quarterly Changes in Market Value

	Beg. of Period Market	+	Capital Contri- butions	+	Accounting Income	-	Mgmt. Fees	+	Appre- ciation	-	Dist. of Income & Real. Gains	-	Return of Capital	=	End of Period Market
09/2015	149,700,000		0		1,313,522		497,503		(0)		816,019		6,737,772		142,962,228
12/2015	142,962,228		0		1,313,522		497,503		0		816,019		6,737,772		136,224,456
03/2016	136,224,456		0		1,313,522		497,503		(0)		816,019		6,737,772		129,486,683
06/2016	129,486,683		0		1,313,522		497,503		0		816,019		6,737,772		122,748,911
09/2016	122,748,911		381,271		(180,856)		200,415		0		0		16,590,224		106,158,687
12/2016	106,158,687		0		2,567,931		520,013		1,328,500		2,047,918		16,327,104		91,160,083
03/2017	91,160,083		0		1,067,980		278,000		0		789,980		527,000		90,633,083
06/2017	90,633,083		0		733,100		239,660		0		493,440		25,100		90,607,983
09/2017	90,607,983		191,474		215,266		406,740		21,795,349		0		7,770,000		104,633,332
12/2017	104,633,332		0		1,377,513		479,530		0		897,983		27,995,332		76,638,000
03/2018	76,638,000		0		780,233		332,140		5,419,200		448,093		0		82,057,200
06/2018	82,057,200		0		585,635		499,043		0		86,592		0		82,057,200
	149,700,000		572,745		12,400,889		4,945,552		28,543,049		8,028,082		96,185,849		82,057,200

IDAHO DEPARTMENT OF LANDS

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

**Timberland
Real Estate Portfolio
Quarterly Changes in Market Value**

	Beg. of Period Market	+	Capital Contri- butions	+	Accounting Income	-	Mgmt. Fees	+	Appre- ciation	-	Distri- butions	=	End of Period Market
09/2015	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
12/2015	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
03/2016	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
06/2016	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
09/2016	1,174,000,000		0		31,000,749		6,825,496		0		24,175,253		1,174,000,000
12/2016	1,174,000,000		2,503,786		11,714,928		5,848,099		0		5,866,829		1,176,503,786
03/2017	1,176,503,786		4,320,365		16,937,064		4,381,542		0		12,555,522		1,180,824,151
06/2017	1,180,824,151		2,111,403		4,896,281		7,007,684		0		0		1,180,824,151
09/2017	1,180,824,151		0		23,950,872		6,171,175		0		17,779,697		1,180,824,151
12/2017	1,180,824,151		0		12,859,562		5,492,071		0		7,367,491		1,180,824,151
03/2018	1,180,824,151		0		20,321,021		4,354,624		0		15,966,397		1,180,824,151
06/2018	1,180,824,151		0		9,088,810		6,580,333		0		2,508,477		1,180,824,151
	1,174,000,000		8,935,554		193,707,024		66,857,198		0		128,961,229		1,180,824,151

IDAHO DEPARTMENT OF LANDS

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

**Land Bank
Real Estate Portfolio
Quarterly Changes in Market Value**

	Beg. of Period Market	+	Capital Contri- butions	+	Accounting Income	+	Appre- ciation	-	Dist. of Income & Real. Gains	-	Return of Capital	=	End of Period Market
09/2015	4,983,428		6,737,772		12,610		0		0		0		11,733,810
12/2015	11,733,810		6,737,772		12,610		0		0		0		18,484,193
03/2016	18,484,193		6,737,772		12,610		0		0		0		25,234,575
06/2016	25,234,575		6,737,772		12,610		(0)		0		0		31,984,958
09/2016	31,984,958		16,590,224		55,135		0	10,979		125,023			48,494,315
12/2016	48,494,315		16,329,704		102,209		0	0		2,503,786			62,422,442
03/2017	62,422,442		17,792,000		154,985		0	0		4,320,365			76,049,062
06/2017	76,049,062		25,100		205,626		0	0		0			76,279,788
09/2017	76,279,788		7,770,000		241,789		0	0		0			84,291,577
12/2017	84,291,577		27,995,332		331,297		0	0		0			112,618,206
03/2018	112,618,206		8,490,000		421,714		0	0		0			121,529,920
06/2018	121,529,920		10,500		519,281		0	0		0			122,059,701
	4,983,428		121,953,949		2,082,477		0	10,979		6,949,174			122,059,701

IDAHO DEPARTMENT OF LANDS

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.



Research and Educational Programs

The Callan Institute provides research to update clients on the latest industry trends and carefully structured educational programs to enhance the knowledge of industry professionals. Visit www.callan.com/library to see all of our publications, and www.callan.com/blog to view our blog "Perspectives." For more information contact Corry Walsh at 312.346.3536 / institute@callan.com.

New Research from Callan's Experts



Handle With Extreme Care: Callan's Take on Cryptocurrencies | In this paper, author Mark Wood provides a brief overview of cryptocurrencies and addresses primary considerations for potential investors.

He describes why Callan does not currently recommend our clients allocate to cryptocurrency investment strategies, and where we see the greatest future potential in this space.

Risk Parity: Silver Bullet or a Bridge Too Far? | In this chapter from the CFA Institute's book "Multi-Asset Strategies: The Future of Investment Management," Callan's Greg Allen describes risk parity strategies, a category of investment strategies in which capital is allocated across asset classes so that each contributes an equal amount of volatility to the portfolio's total volatility.

China A-Shares: Key Issues for Investors to Consider | China is opening up its securities markets to more non-Chinese institutional investors. In particular, expanded access to China A-shares creates new opportunities for investors. But investing in China presents a set of risks that range from the country's slowing GDP growth to stock trading suspensions. Although China A-shares present an attractive opportunity, implementation is challenged by a shallow manager universe and high fees.

June 2018 Regional Workshop Summary: Governance Alpha | Investment committees face complex challenges overseeing institutional investment funds. They must navigate myriad laws and regulations, select the right managers and strategies, monitor their portfolios, and ensure their funds can deliver the returns needed for their beneficiaries. Governance describes the policies and practices established to guide these decisions. What if implementing the

astute governance required to meet these challenges also resulted in better portfolio performance? At this workshop, Callan experts described the most effective institutional fund governance practices and explored new research that connects strong plan governance with performance (i.e., governance alpha), and reviewed how investment managers fit into this framework.

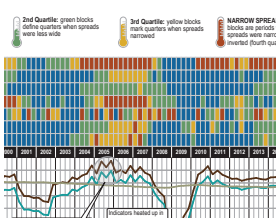
Quarterly Periodicals

Private Markets Trends | This newsletter offers the latest data on activity in private equity fundraising, buyouts, venture capital, and returns for this asset class.

Market Pulse Flipbook | A quarterly market reference guide covering investment and fund sponsor trends in the U.S. economy, U.S. and non-U.S. equities and fixed income, alternatives, and defined contribution.

Capital Market Review | This quarterly publication provides analysis and a broad overview of the economy and public and private market activity each quarter across a wide range of asset classes.

Active vs. Passive Report | This series of charts maps active managers alongside relevant benchmarks over the last two decades.



Real Estate Indicators: Too Hot to Touch or Cool Enough to Handle? | Callan's Real Assets Consulting group identifies seven indicators—based on spreads in real estate and fixed income markets—that, combined with

an understanding of prevailing market dynamics, have helped signal when the institutional real estate market is overheated or cooled.

Events

Miss out on a Callan conference or workshop? Event summaries and speakers' presentations are available on our website: www.callan.com/library/

Callan's **October Regional Workshops** will be held on October 16 in New York and October 18 in Atlanta. Please visit the Events page on our website (www.callan.com/events/) for additional information.

Callan's **2019 National Conference** will be held January 28-30, 2019. Mark your calendars for this upcoming event!

For more information about events, please contact Barb Gerraty: 415.274.3093 / gerraty@callan.com

The Center for Investment Training Educational Sessions

The Center for Investment Training, better known as the "Callan College," provides a foundation of knowledge for industry professionals who are involved in the investment decision-making process. It was founded in 1994 to provide clients and non-clients alike with basic- to intermediate-level instruction. Our next sessions are:

Introduction to Investments

Chicago, October 2-3, 2018

Atlanta, October 23-24, 2018

This program familiarizes fund sponsor trustees, staff, and asset management advisers with basic investment theory, terminology, and practices. It lasts one-and-a-half days and is designed for individuals who have less than two years of experience with asset-management oversight and/or support responsibilities. Tuition for the Introductory "Callan College" session is \$2,350 per person. Tuition includes instruction, all materials, breakfast and lunch on each day, and dinner on the first evening with the instructors.

Customized Sessions

The "Callan College" is equipped to customize a curriculum to meet the training and educational needs of a specific organization. These tailored sessions range from basic to advanced and can take place anywhere—even at your office.

Learn more at www.callan.com/events/callan-college-intro or contact Kathleen Cunnie: 415.274.3029 / cunnie@callan.com

Education: By the Numbers

525

Attendees (on average) of the Institute's annual National Conference

50+

Unique pieces of research the Institute generates each year

3,700

Total attendees of the "Callan College" since 1994

1980

Year the Callan Institute was founded



"Research is the foundation of all we do at Callan, and sharing our best thinking with the investment community is our way of helping to foster dialog to raise the bar across the industry."

Greg Allen, CEO and CRO



List of Callan's Investment Manager Clients

Confidential – For Callan Client Use Only

Callan takes its fiduciary and disclosure responsibilities to clients very seriously. We recognize that there are numerous potential conflicts of interest encountered in the investment consulting industry and that it is our responsibility to manage those conflicts effectively and in the best interest of our clients. At Callan, we employ a robust process to identify, manage, monitor and disclose potential conflicts on an on-going basis.

The list below is an important component of our conflicts management and disclosure process. It identifies those investment managers that pay Callan fees for educational, consulting, software, database or reporting products and services. We update the list quarterly because we believe that our fund sponsor clients should know the investment managers that do business with Callan, particularly those investment manager clients that the fund sponsor clients may be using or considering using. Please note that if an investment manager receives a product or service on a complimentary basis (e.g. attending and educational event), they are not included in the list below. Callan is committed to ensuring that we do not consider an investment manager's business relationship with Callan, or lack thereof, in performing evaluations for or making suggestions or recommendations to its other clients. Please refer to Callan's ADV Part 2A for a more detailed description of the services and products that Callan makes available to investment manager clients through our Institutional Consulting Group, Independent Adviser Group and Fund Sponsor Consulting Group. Due to the complex corporate and organizational ownership structures of many investment management firms, parent and affiliate firm relationships are not indicated on our list.

Fund sponsor clients may request a copy of the most currently available list at any time. Fund sponsor clients may also request specific information regarding the fees paid to Callan by particular fund manager clients. Per company policy, information requests regarding fees are handled exclusively by Callan's Compliance Department.

Manager Name
Acadian Asset Management LLC
AEGON USA Investment Management
Affiliated Managers Group, Inc.
Alcentra
AllianceBernstein
Allianz Global Investors
Allianz Life Insurance Company of North America
American Century Investments
Apollo Global Management
AQR Capital Management
Ares Management LLC
Ariel Investments, LLC
Atlanta Capital Management Co., LLC
Aviva Investors Americas
AXA Investment Managers
Baillie Gifford International, LLC
Baird Advisors
Baron Capital Management, Inc.
Barrow, Hanley, Mewhinney & Strauss, LLC
BlackRock
BMO Global Asset Management
BNP Paribas Asset Management
BNY Mellon Asset Management
Boston Partners
Brandes Investment Partners, L.P.
Brandywine Global Investment Management, LLC
BrightSphere Investment Group (FKA Old Mutual Asset)
Brown Brothers Harriman & Company
Cambiar Investors, LLC
Capital Group
Carillon Tower Advisers
CastleArk Management, LLC
Causeway Capital Management
Chartwell Investment Partners

Manager Name
ClearBridge Investments, LLC
Cohen & Steers Capital Management, Inc.
Columbia Threadneedle Investments
Columbus Circle Investors
Credit Suisse Asset Management
DePrince, Race & Zollo, Inc.
Deutsche Asset Management
Diamond Hill Capital Management, Inc.
Dimensional Fund Advisors LP
Doubleline
Duff & Phelps Investment Management Co.
EARNEST Partners, LLC
Eaton Vance Management
Epoch Investment Partners, Inc.
Fayez Sarofim & Company
Federated Investors
Fidelity Institutional Asset Management
Fiera Capital Corporation
First Eagle Investment Management, LLC
First Hawaiian Bank Wealth Management Division
Fisher Investments
Franklin Templeton
Fred Alger Management, Inc.
GAM (USA) Inc.
Global Evolution USA
GlobeFlex Capital, L.P.
GMO
Goldman Sachs Asset Management
Green Square Capital LLC
Guggenheim Investments
GW&K Investment Management
Harbor Capital Group Trust
Hartford Funds
Hartford Investment Management Co.

Manager Name
Heitman LLC
Henderson Global Investors
Hotchkis & Wiley Capital Management, LLC
HSBC Global Asset Management
Income Research + Management, Inc.
Insight Investment Management Limited
Intech Investment Management, LLC
Invesco
Investec Asset Management
Ivy Investments
J.P. Morgan
Janus Henderson Investors
Jennison Associates LLC
Jensen Investment Management
Jobs Peak Advisors
KeyCorp
Lazard Asset Management
Legal & General Investment Management America
Lincoln National Corporation
LMCG Investments, LLC
Longview Partners
Loomis, Sayles & Company, L.P.
Lord Abbett & Company
Los Angeles Capital Management
LSV Asset Management
MacKay Shields LLC
Macquarie Investment Management (MIM)
Manulife Asset Management
McKinley Capital Management, LLC
MFS Investment Management
MidFirst Bank
Mondrian Investment Partners Limited
Montag & Caldwell, LLC
Morgan Stanley Investment Management
Mountain Lake Investment Management LLC
MUFG Union Bank, N.A.
Natixis Investment Managers
Neuberger Berman
Newton Investment Management
Nikko Asset Management Co., Ltd.
Northern Trust Asset Management
Nuveen Investments, Inc.
OFI Global Asset Management
O'Shaughnessy Asset Management, LLC
P/E Investments
Pacific Investment Management Company
Pathway Capital Management
Peregrine Capital Management, Inc.
Perkins Investment Management

Manager Name
PGIM
PGIM Fixed Income
PineBridge Investments
Pioneer Investments
PNC Capital Advisors, LLC
Principal Global Investors
Private Advisors, LLC
Putnam Investments, LLC
QMA
RBC Global Asset Management
Regions Financial Corporation
Robeco Institutional Asset Management, US Inc.
Rockefeller & Co., Inc.
Rothschild Asset Management, Inc.
Russell Investments
Santander Global Facilities
Schroder Investment Management North America Inc.
Smith Graham & Co. Investment Advisors, L.P.
Smith Group Asset Management
South Texas Money Management, Ltd.
Standard Life Investments Limited
State Street Global Advisors
Stone Harbor Investment Partners, L.P.
Sun Life Investment Management
T. Rowe Price Associates, Inc.
The Boston Company Asset Management, LLC
The London Company
The TCW Group, Inc.
Thompson, Siegel & Walmsley LLC
Thornburg Investment Management, Inc.
Tri-Star Trust Bank
UBS Asset Management
VanEck
Velanne Asset Management Ltd.
Versus Capital Group
Victory Capital Management Inc.
Virtus Investment Partners, Inc.
Vontobel Asset Management, Inc.
Voya
WCM Investment Management
WEDGE Capital Management
Wellington Management Company, LLP
Wells Capital Management
Western Asset Management Company
Westfield Capital Management Company, LP
Westwood Holdings Group
William Blair & Company

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Idaho Department of Lands
Boise, ID

We have performed the procedures enumerated below, which were agreed to by Idaho Department of Lands, solely to assist you with respect to the allocation procedures for the year ended June 30, 2018. Management is responsible for the allocation procedures. The sufficiency of these procedures is solely the responsibility of the party specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and the associated findings are as follows:

Procedures

1. Revenues: Obtain IBIS Report 'Endowment Revenue by Beneficiary' and the DAFR 8180 reports and perform the following for the year ended June 30, 2018:
 - a. Agree revenue in total by each of the nine endowments per the IBIS report to the Department of Lands (DOL) Income Statement.
 - b. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology outlined in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2018 for revenues.
 - c. Agree revenues in total for each of the recalculated seven asset classes to the DOL Income Statement.

Findings

1. None noted.

Procedures

2. Project Expense: Obtain IBIS Report 'Expenditure Search' including project codes for Real Estate Services and the Timber Project Allocations, Support Services excel spreadsheet and perform the following for the year ended June 30, 2018:
 - a. Agree project expenses in total by each of the nine endowments per the above reports to the DOL Income Statement.
 - b. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology included in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2018 for project expenses.
 - c. Agree project expenses in total for each of the recalculated seven asset classes to the DOL Income Statement.
 - d. Obtain listing of projects with transactions recorded to project expense during the year ended June 30, 2018 and agree total to project expense on DOL income statement for the year ended June 30, 2018.
 - i. Obtain defined project allocation percentages for each project selected and recalculate recorded allocation to respective endowments.
 - ii. Report any discrepancies

Findings

2. None noted.

Procedures

3. Non-Project Expense: Obtain DAFR 8290 Report and perform the following for the year ended June 30, 2018:
 - a. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology outlined in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2018 for non-project expenses.
 - b. Agree non-project expenses in total for each of the recalculated seven asset classes to the DOL Income Statement.
 - c. Recalculate the allocation of the total non-project expenses by asset class to each of the nine endowments based on the methodology included in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2018 for project expenses.
 - d. Agree non-project expenses by endowment for each of the recalculated nine endowments to the DOL Income Statement.

Findings

3. None noted.

Procedures

4. Overhead: Obtain DAFR 8290 Report and perform the following for the year ended June 30, 2018:
 - a. Agree total overhead per the IBIS report to the DOL Income Statement.
 - b. Recalculate the allocation of the total overhead expenses to each of the nine endowments and each of the seven asset classes based on the methodology included in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2018 for overhead.

Findings

4. None noted.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion on the allocation procedures outlined in our engagement letter dated May 15, 2018 for the year ended June 30, 2018. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Idaho Department of Lands and is not intended to be and should not be used by anyone other than this party.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boise, Idaho
August 21, 2018

The logo of the Idaho Department of Lands is a large, stylized diamond shape. It features a light blue center, surrounded by a yellow border, and a grey outer border. The text "IDAHO DEPARTMENT OF LANDS" is written in white, bold, capital letters across the middle of the diamond.

IDAHO DEPARTMENT OF LANDS

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS

November 20, 2018

Consent Agenda

Subject

Authorization to purchase a Forest Legacy Program conservation easement, known as Kootenai Valley-Stimson, comprising 795 acres of privately-owned forestland in Boundary County

Background

- The Idaho State Board of Land Commissioners has directed the Idaho Department of Lands to acquire such interests by voluntary, cooperative means and to create a conservation easement pursuant to Idaho Code, Title 36, Chapter 1, and Title 55, Chapter 21.
- The Cooperative Forestry Assistance Act (16 U.S.C. §§2101 et seq.), established the federal Forest Legacy Program to protect environmentally-important forestlands threatened with conversion to non-forest use.
- The Forest Legacy Program is funded through the Land and Water Conservation Fund (LWCF) which was established by Congress in 1965, in part, to assist states in conserving vital working lands, wildlife habitats, and outdoor recreation. These are not taxpayer dollars, but a small portion of the royalties paid by energy companies drilling for oil and gas on public land on the Outer Continental Shelf.

Discussion

The Forest Legacy Program (FLP)—a federal program in partnership with states—seeks to keep working forests working (Attachment 1). Through the receipt of federal grant money, Idaho's FLP purchases conservation easements on private forestlands that might otherwise be converted to non-forest uses. Idaho's FLP conservation easements are designed to conserve the economic and environmental values that forestlands provide *without removing the property from private ownership*.

The FLP is an entirely voluntary program that offers willing landowners the opportunity to capture part of the "development value" of their land while receiving assurance that the forest will remain a working forest forever. Idaho's FLP conservation easements restrict development and subdivision, require sustainable forestry practices through a Forest Stewardship Plan, and protect other environmental values. Federal grant funds provide up to 75 percent of the program costs for the purchase of conservation easements on private forestlands with a 25 percent non-federal match requirement.

The table below summarizes project costs. Through an FLP grant, the Department will contribute funds towards the purchase price (75%) of the appraised conservation easement value plus other project costs. The balance of the easement value represents the landowner's donation, or match, of 25%.

Appraised CE Value	Estimated Project Costs*	Project Total	FLP Contribution	Landowner Donation
\$1,140,000	\$66,310	\$1,206,310	\$904,733	\$301,577

*Reimbursable project expenses include: mineral assessment (\$2,600), baseline report (\$7,150), contract staff fees (estimated at \$15,000), attorney fees (estimated at \$10,000), appraisal (\$27,000), title insurance (\$3,060), and escrow fees (\$1,500).

The Kootenai Valley-Stimson project is consistent with the goals and objectives of Idaho's FLP and will protect the following significant conservation values:

- **Working Forest:** Idaho's Forest Action Plan identifies the area where project lands are located as some of the highest-priority areas for forestland protection in the state. Project lands are capable of producing hundreds of thousands of board feet per year on a sustainable basis, playing an important role in the survival of North Idaho's remaining milling facilities and the communities they support.
- **Wildlife Habitat:** Project lands contain some of the most valuable wildlife habitat in Idaho, supporting several threatened and endangered species and numerous other rare and sensitive Idaho species. This project area is vital to supporting wildlife dispersal, migration, and genetic exchange between the Selkirk and Purcell Mountain ecosystems.
- **Free Public Recreation:** The conservation easement terms ensure that these lands will remain accessible to the general public for non-commercial recreational uses including hunting, trapping, fishing, biking, hiking, cross-country skiing and wildlife viewing.
- **Landscape Scale Conservation Impact:** Project lands are located near two previous FLP purchases (1,400 acres), the 2,800-acre Kootenai National Wildlife Refuge, the 2,200-acre Ball Creek nature preserve, and US Forest Service lands (Attachment 2).

These forestlands have substantial and significant conservation and economic values that are of great importance to the people of Idaho and the protection of these values will yield a significant public benefit; the Department has received public support (Attachment 3).

Recommendation

Authorize the Idaho Department of Lands to acquire the Kootenai Valley-Stimson Conservation Easement, comprising 795 acres.

Board Action

Attachments

1. Forest Legacy Program Fact Sheet
2. Map
3. Public Support



THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS



Forest Legacy Program

Fact Sheet

The Forest Legacy Program (FLP) is a program that seeks to protect privately owned, economically and environmentally important forestlands that are threatened by conversion to non-forest uses. FLP is a voluntary program that, through the purchase of conservation easements, operates on the "willing buyer, willing seller" principle. Lands covered by a FLP conservation easement stay in private ownership and continue to be managed for traditional uses such as forest management.

1. What is a conservation easement?

- A legal instrument through which certain rights, such as subdivision and development, are transferred from a landowner to a non-profit organization or government agency. The grantee organization does not gain the right to subdivide or develop; rather, it holds those restrictions "in trust" and ensures that no one uses the rights restricted by the grantor. A conservation easement is perpetual and runs with the land. Idaho Code Title 55, Chapter 21 is Idaho's Uniform Conservation Easement Act.

2. Where does FLP funding come from?

- Federal FLP grant funds **are not** tax-payer dollars.
- FLP is funded through the Land and Water Conservation Fund (LWCF), which was established in 1965, in part, to assist states in conserving vital working lands, wildlife habitats and outdoor recreation.
- Each year, a small percentage of royalties paid by energy companies drilling for oil and gas on public land on the Outer Continental Shelf is deposited into the LWCF account in the federal treasury. The premise of LWCF is essentially to protect one natural resource in exchange for the depletion of another.
- The U.S. Forest Service (USFS) administers the program at the national level and provides grants from LWCF to states to carry out the FLP.

3. What qualifies projects for consideration?

- Meets FLP's primary objective to keep working forests working
- 75% forested
- Privately owned
- 5 acres or larger
- Includes a minimum 25% non-federal match
- Must be within a Priority Landscape Area as identified in Idaho's Forest Action Plan
- Must be carried out in partnership with another state agency or land trust organization

4. How are projects evaluated and selected?

- Projects are evaluated using the following criteria:
 - Importance: criteria reflect the environmental, economic and social values the forest provides
 - Threat: criteria evaluate the likelihood of conversion from forest to non-forest uses that would result in a loss of forest values and public benefits
 - Strategic: criteria reflect the relevance to conservation efforts in a broader perspective (contributes to a conservation strategy and complements other intact forests)
- Projects are evaluated and ranked by a national review panel in Washington DC. The review panel, comprised of 6 state agency representatives and 6 USFS representatives from across the U.S., is tasked with ranking all projects submitted nationwide.

5. How are conservation easement values determined?

- A conservation easement purchase price is determined by an appraisal which conforms to the guidelines of two professional appraisal standards: the Uniform Standards of Professional Appraisal Practice (USPAP) and the Uniform Appraisal Standards of Federal Land Acquisitions (UASFLA or "Yellow Book"). Prior to the acquisition, the FLP requires an independent appraisal review.
- Appraisers meet rigorous private and federal appraisal standards, education, and training and must have considerable experience appraising projects of the same type and complexity.

6. How are federal funds conveyed for Forest Legacy acquisitions?

- Federal funds are directly distributed by the USFS to a title company that handles the closing transaction and recording of the conservation easement.
- The federal funding used to purchase a conservation easement *cannot* be higher than the appraised fair market value.

7. Who holds title to the FLP easement?

- The State of Idaho

8. How do conservation easements impact property taxes?

- The property is still in private ownership and taxed as such. Current property taxes are not impacted.

9. Do these FLP conservation easement acquisitions result in any impact on the state general fund?

- No. Project funds are allocated directly from the USDA Forest Service for the conservation easement purchase. No general fund dollars are used for the acquisition, nor are they used to fund administration of the Idaho FLP.

Idaho Forest Legacy Program

Program Goals

- Identify high priority forestlands in Idaho
- Maintain the cultural and economic stability of rural communities by conserving *working* forest landscapes
- Conserve and/or enhance water quality
- Maintain unique forest habitats
- Protect and provide habitat for native fish, wildlife and plants
- Protect the social values that forests provide such as public recreation, scenic, cultural and historical values

Program Objectives

- Promote wildlife connectivity between undeveloped areas
- Focus efforts on projects with large areas of contiguous forest
- Promote sustainable forest management practices
- Contribute to a large scale organized conservation plan
- Protect Threatened and Endangered species habitat
- Complement previous investments in forestland conservation

To Date Statistics (October 2018)

32 conservation easement purchases: 95,929 acres

11 donated conservation easements: 2,797 acres

Federal Funds: \$37,761,725

Non-Federal Cost-Share: \$22,088,204

37% non-federal cost-share

86,200 acres open to public recreation, free of charge, in perpetuity

Pending Project Grants

FFY2016 Hall Mountain/Kootenai Valley: 3,281 acres (Boundary County) – Funded

FFY2019 Boundary Connections II: 2,344 acres (Boundary County) – Ranked #12 Nationally

FFY2019 Schweitzer Mountain: 5,831 acres (Bonner County) – Application Status

###

For more information, visit:

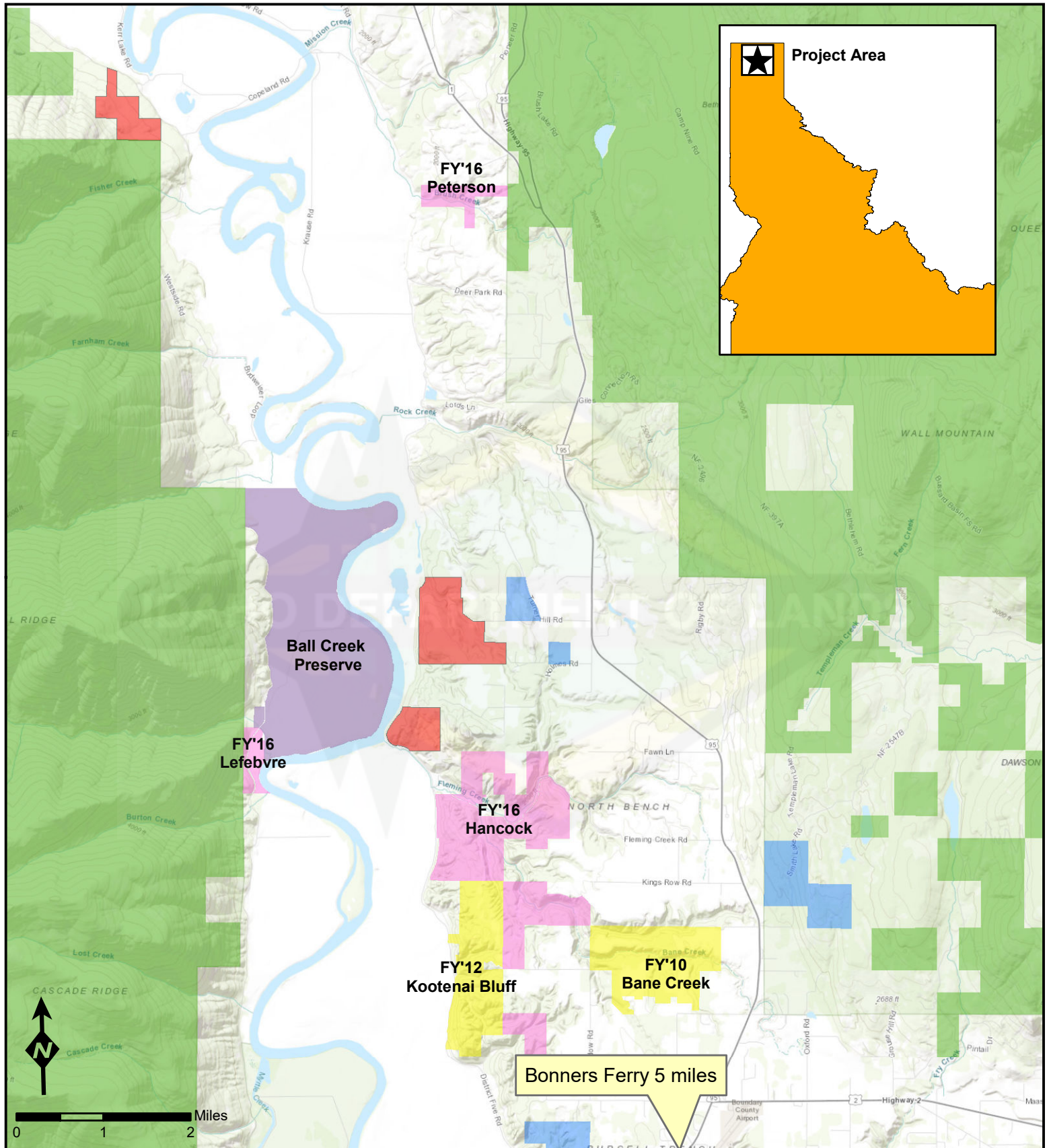
<http://www.idl.idaho.gov/forestry/forest-legacy/index.html>

This institution is an equal opportunity provider.

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

FY2016 Kootenai Valley-Stimson Proposed Conservation Easement Boundary County, Idaho



- Kootenai Valley-Stimson
- Existing FLP Conservation Easement
- Pending FLP Conservation Easement

- USFS
- IDL Endowment
- Other Conservation Land



Karen Sjoquist - 10/29/2018



THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

Public Support of the FY2016 Stimson-Kootenai Valley Project in Boundary County

The following local, state and federal government agencies and local, state and regional conservation organizations have provided written letters in support of the purchase of a conservation easement on the Stimson project lands:

- United States Senator Mike Crapo
- United States Senator James Risch
- Idaho State Senator Shawn Keough
- Boundary County Board of Commissioners
- City of Bonners Ferry
- The Kootenai Tribe of Idaho
- Kootenai Valley Resource Initiative
- US Forest Service
- US Fish and Wildlife Service
- Bureau of Land Management
- Idaho Department of Fish and Game
- Yellowstone to Yukon Initiative
- The Vital Ground Foundation
- Idaho Conservation League
- Trust for Public Land
- Inland Northwest Land Conservancy
- Idaho Forest Group
- Foust, Inc.
- Idaho Forest Owners Association
- Bane Creek FLP Landowners
- Boundary Connections FLP Landowners

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS



Idaho 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

Dustin T. Miller, 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.

Draft Minutes

State Board of Land Commissioners Regular Meeting

October 16, 2018

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, October 16, 2018, in the Capitol, Lincoln Auditorium, Lower Level, West Wing, 700 W. Jefferson St., Boise, Idaho. The meeting began at 9:03 a.m. The Honorable Governor C. L. "Butch" Otter presided. The following members were present:

Honorable Secretary of State Lawrence Denney

Honorable State Controller Brandon Woolf

Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, Governor Otter recognized the presence of four Board members and noted the absence of Attorney General Wasden who was attending to out-of-state business.

Director Dustin Miller commented that this was his first Land Board meeting as the new director for Idaho Department of Lands and he is excited to be here. Director Miller thanked the previous director, Tom Schultz, for his leadership and guidance, and for his encouragement. Director Miller expressed appreciation to Deputy Director David Groeschl for his leadership and guidance, and for keeping the Department moving forward this year while the Land Board was in search of a new director. Director Miller also recognized the Department's executive staff and others for their phenomenal help and guidance during his first couple of weeks at the agency.

1. Director's Report

Endowment Transactions

A. Timber Sales – September 2018

Discussion: None.

B. Leases and Permits – September 2018

Discussion: None.

Status Updates

C. Fire Season-Final

Discussion: Governor Otter asked if there is any money left in the fire fund, recalling that there was a plus-balance last year. Deputy Director Groeschl stated that at the 2018 legislative session, JFAC [Joint Finance-Appropriations Committee] appropriated an additional \$20 million into the deficiency warrant account in anticipation of the 2018 fire season; the amount was based on a three-year average. Mr. Groeschl noted that expenses for this year's fire season will be very near the amount appropriated; all the funds are obligated. The money that was in the deficiency warrant account prior to the 2018 appropriation is committed for expenses from previous fire season billings. Governor Otter inquired if the Department has anything in its budget for next year. Mr. Groeschl replied no; JFAC will review the deficiency account during the next legislative session, and if there are general funds available, they may choose to pre-fund the account again, based on a three-year average. Governor Otter remarked it could be a good way to set aside surplus, too.

D. Land Bank Fund

Discussion: Governor Otter mentioned that the Board has had prior discussions about potentially extending the five-year hold to ten years or someplace in between, and asked if the Department is prepared to offer anything to the legislature this year. Deputy Director Groeschl indicated that the Department always keeps that on its radar but at this time given the pipeline of acquisitions the Department has under consideration, it is feasible to continue to operate under the five-year window. If staff was to see the five-year window becoming an issue with transactions and negotiations, the Department would bring that concern forward. Right now, staff is comfortable operating within the five-year timeframe and believes those acquisitions that meet or exceed the Land Board's objectives can be negotiated and closed within that period.

2. Endowment Fund Investment Board Manager's Report – Presented by Chris Halvorson, EFIB Investment Officer

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

Discussion: Mr. Halvorson reported that the month of September was a pretty quiet month in the equity markets. There were slightly negative returns from bonds as inflation and higher interest talk filtered its way into the market. The U.S. is still very strong, with a robust GDP growth and a healthy economy. Looking out at the rest of the world, there are trade concerns, weather concerns, Brexit in England, negative interest rates in Japan, tariff talks and systemic risk in China; the United States for the most part is the best of the economies in the world. Mr. Halvorson noted the U.S. does have some forward-looking concerns, particularly with inflation. Effects of this inflation concern have been noticeable in October to date; last week the Dow Jones was down about 1,300 points. Mr. Halvorson stated that fiscal year-to-date return was 3.5% at the end of September. The market is down about 4.9% for the month of October so far, resulting in a slight fiscal year-to-date loss of 1.6% for the Fund. Mr. Halvorson mentioned that EFIB recently transitioned an equity manager—Aberdeen Asset Management was replaced by Wellington Global. On October 30th the Investment Board will meet to interview some core fixed-income managers.

Consent—Action Item(s)

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

Recommendation: Direct the Department to complete the surplus land sale as proposed.

Discussion: Governor Otter asked for the appraised amount of the property. Mr. Purkiss replied that the appraisal was for the armory and the land, for a total of \$675,000. Governor Otter inquired if an auction was required for this sale. Mr. Purkiss said that if a tax-supported agency declares interest, then an auction is not necessary. The county is a tax-supported agency.

- 4. Approval of Minutes** – September 18, 2018 Regular Meeting (Boise)

Consent Agenda Board Action: A motion was made by Controller Woolf that the Board adopt and approve the Consent Agenda as presented. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0.

Regular—Action Item(s)

- 5. Pending Rule IDAPA 20.04.01, Rules Pertaining to Forest Fire Protection** – *Presented by Craig Foss, Division Administrator-Forestry and Fire*

Recommendation: Authorize the Department to adopt the pending rule to update IDAPA 20.04.01 *Rules Pertaining to Forest Fire Protection*.

Discussion: Controller Woolf mentioned the background of this negotiated rulemaking, which started following the 2015 fire season with the after-action report, and continued with follow-up meetings in 2016, 2017, and 2018. Controller Woolf noted that the Department has received comments and feedback from loggers and log haulers and asked if the Department feels that there is good consensus with the direction moving forward. Mr. Foss responded that the Department received extensive comments from both non-industrial private forest owners and from forest operators. One of the concerns heard from non-industrial private forest owners was whether this would apply to any activity that takes place in the woods. The Department clarified that it is only for Option 2 or greater activities, which means a significant amount of logging activity. For much of the day-to-day stuff that they tend to do, sanitation and normal clean-up, many of these rules would not apply. Mr. Foss noted that the Department also learned from industrial landowners that they put contract language in place after the 2015 fire season requiring water-handling equipment for operations on their lands. The Department made sure that the rule language being incorporated aligns with those requirements on industrial land so that industrial landowners would not have to retrofit to match this rule set. That adjustment really brought the industrial landowners and the larger operators on board; the Department does feel that there is support for this rule set.

Board Action: A motion was made by Controller Woolf that the Board authorize the Department to adopt the pending rule to update IDAPA 20.04.01 *Rules Pertaining to Forest Fire Protection*. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0.

6. Pending Rule IDAPA 20.03.01, Dredge and Placer Mining Operations in Idaho – *Presented by Eric Wilson, Bureau Chief-Resource Protection and Assistance*

Recommendation: Authorize the Department to adopt the pending rule to update IDAPA 20.03.01 *Dredge and Placer Mining Operations in Idaho*.

Discussion: Governor Otter inquired if DEQ [Department of Environmental Quality] was involved in the negotiated meetings. Mr. Wilson answered that DEQ was not involved; however, the Department looked to DEQ's surface and groundwater quality standards and made sure those references are in this rule. Mr. Wilson emphasized that the Department specifically adopted the state water quality standards.

Board Action: A motion was made by Controller Woolf that the Board authorize the Department to adopt the pending rule to update IDAPA 20.03.01 *Dredge and Placer Mining Operations in Idaho*. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0.

7. Pending Rule IDAPA 20.03.02, Rules Governing Exploration, Surface Mining, and Closure of Cyanidation Facilities – *Presented by Eric Wilson, Bureau Chief-Resource Protection and Assistance*

Recommendation: Authorize the Department to adopt the pending rule to update IDAPA 20.03.02 *Rules Governing Exploration, Surface Mining, and Closure of Cyanidation Facilities*.

Discussion: None.

Board Action: A motion was made by Controller Woolf that the Board authorize the Department to adopt the pending rule to update IDAPA 20.03.02 *Rules Governing Exploration, Surface Mining, and Closure of Cyanidation Facilities*. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0.

8. Pending Rule IDAPA 20.03.04, Rules for the Regulation of Beds, Waters, and Airspace Over Navigable Lakes in the State of Idaho – *Presented by Eric Wilson, Bureau Chief-Resource Protection and Assistance*

Recommendation: Authorize the Department to adopt the pending rule to update IDAPA 20.03.04 *Rules for the Regulation of Beds, Waters, and Airspace Over Navigable Lakes in the State of Idaho*.

Discussion: Controller Woolf asked if the Department is going to pursue further research regarding the dock rights issue. Mr. Wilson stated the Department's original proposal was simply to strike dock rights because they were not defined in the rule and it is very ambiguous as to what they mean. Ambiguity leads people into disagreements and then litigation occurs. One participant proposed a definition of dock rights, but the Department was not comfortable with that definition as it incorporated historical uses. There is no easy way to determine if those historical uses were in conformance with the rule or not; the Department does not want to allow people to continue historical uses that may not be in conformance with law. The Department determined its best path forward was to leave dock rights in for now and if that comes up in enforcement or litigation between parties as to what dock rights means then a court will decide at that time.

Governor Otter commented that does not seem to provide a solution for those people that believe they have dock rights, whether they are historical, or garages are too high, or the dock is too wide, or whatever the problem. Mr. Wilson remarked that in regard to dock rights, the term the Department uses and that most case law uses is actually littoral rights. If an individual lives adjacent to the lake then he has littoral rights—the right to wharf out, to protect banks from erosion and several other things. Dock rights could include a whole host of things, some of which the Department specifically prohibits—the use of easements to allow somebody to construct a dock on another person's property; that is specifically prohibited. Individuals could interpret dock rights to include easements; there is a multitude of real estate terms and real estate transactions that the Department cannot embrace. Real estate folks are very creative; they come up with new terms and new ways of granting rights that they believe are appropriate and they will outpace any effort of the Department to regulate those types of conveyances. Dock rights is a term that has been undefined for over ten years; it has not come up yet but when it does then the Department will have to address it.

Governor Otter asked how use rights are handled by other agencies such as Fish and Game which has docks placed in public waterways; people pay a certain fee to park and launch their boats. Mr. Wilson explained that public access points are typically on state, federal, county, or city-owned lands and they have littoral rights. They have the right to wharf out, they have the right to apply for encroachment permits, and those types of applications are greatly encouraged to provide access points to these publicly-owned lands. More access points means more public use out on the lakes and that is definitely something that the Department supports.

Secretary of State Denney asked if it would make sense to get people together and actually define what dock rights are so that the Department and the Board do not have to wait and let the courts define them. Secretary of State Denney wondered if the views are so divergent that it cannot be done. Mr. Wilson remarked that the views are pretty divergent. The Department had a similar discussion ten years ago when this term was first put into rules; the real estate folks were very emphatic at that point that the term be included. It is not a term that the Department uses; the Department uses the term littoral rights because that is defined in case law. The Department could work with real estate professionals and homeowner associations to try to come up with a definition of dock rights but the viewpoints are very divergent.

Governor Otter encouraged Mr. Wilson and Department staff to reach out and try to come to some resolve and not wait to go to court for every dock going out into the public waterways which would require hiring more attorneys general; the Board does not want to do that. Mr. Wilson said he also favored having as few people litigate as possible and again stated the term that the Department uses, and that is used in almost every application and every case that comes to the Department, is littoral rights.

Governor Otter asked what littoral rights means. Mr. Wilson clarified that littoral rights give individuals the ability to wharf out into the lake to access the lake. Sometimes people lease out their littoral rights and that is allowed as long as it is a long-term lease agreement. For instance, state cottage sites and federal cottage sites, those are long-term lease instruments; those folks have littoral rights to encroach out into the lake on their lots. Mr. Wilson stated that the Department does not want people who own 200 front-feet to lease out just 100 feet of their property; they already have their own dock out there on their property, so their littoral rights have already been exercised. The Department frequently sees attempts by people to try to chop

up their individual littoral rights into separate dock rights, or littoral rights, or easements, or the myriad other means used by real estate professionals, and that is not appropriate. When a property has an encroachment, littoral rights have been exercised, and there is no longer the ability to put a second, third or fourth dock on that property.

Board Action: A motion was made by Controller Woolf that the Board authorize the Department to adopt the pending rule to update IDAPA 20.03.04 Rules for the Regulation of Beds, Waters, and Airspace Over Navigable Lakes in the State of Idaho; Controller Woolf also instructed the Department to continue to work with the Attorney General's office and other appropriate parties to answer the dock rights question. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0.

Information

None

Executive Session

None

There being no further business before the Board, at 9:52 a.m. a motion to adjourn was made by Controller Woolf. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0. Meeting adjourned.

IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS

November 20, 2018

Regular Agenda

Subject

Reclamation Bond Assurance Fund Recommended Minimum Balance

Background

Pursuant to Idaho's Surface Mining Act (SMA), Idaho Code, Title 47, Chapter 15, all mining operations in the state of Idaho are required to obtain bonding to cover the reclamation acts as defined by the SMA. Historically this was accomplished by obtaining a traditional bond in the form of a surety bond, cash, certificate of deposit, or a bank letter of credit. However, in the early 2000's, after a period of significant bankruptcies in the mining industry, it became difficult for small mine operators to obtain such bonding. As a result, in 2002, the state created Idaho's Reclamation Bond Assurance Fund (Bond Assurance Fund) under Idaho Code, Title 47, Chapter 18.

The Bond Assurance Fund essentially acts as a self-insurance program for the state to provide affordable bonding to small businesses and mining operations while covering the requirements of the SMA. Participation requires a yearly payment by the operator into the fund. The payment amount is based on the acreage of disturbance at the mining operation. The Idaho Department of Lands (Department) administers the Bond Assurance Fund under the Minerals Regulatory Program.

Discussion

In 2011, the Department contracted an actuarial analysis of the Bond Assurance Fund and the minimum fund balance was then set at just over \$1.4 million. The Department currently has a fund balance of almost \$2 million. Recent increases in operator participation, anticipated defaults, and an increase in the costs associated with reclamation justified the Department's decision to conduct a fund actuarial analysis during 2018. The Department contracted with Willis Towers Watson to conduct the analysis and evaluate the current recommended minimum balance. The objectives of the 2018 analysis were to review the previous 2011 analysis, consider what would be a reasonable minimum balance based on current participation by operators, and determine a potential change to the minimum and maximum balances of the fund.

Results of the 2018 actuarial analysis are shown in the table below. The analysis presents three scenarios of potential liability, representing both the frequency and the severity of claims, to illustrate a range of possibilities. In addition, three confidence levels of 75 percent, 90 percent, and 95 percent were analyzed to determine the potential for annual losses exceeding the respective amounts of the three scenarios.

Self-insurance programs generally maintain a surplus at the high-end, between the 90 percent to 95 percent confidence levels, to reduce the risk of overdrawing the program fund. The prior minimum balance was set at the 90 percent confidence interval.

Scenarios	Frequency and Severity		
	Low	Medium	High
Average Annual Loss	\$209,177	\$ 445,226	\$ 693,266
75% Confidence	\$309,000	\$ 672,000	\$1,031,000
90% Confidence	\$545,100	\$1,135,200	\$1,682,200
95% Confidence	\$703,100	\$1,453,300	\$2,199,200

Recommendation

To ensure an adequate balance is maintained within the Bond Assurance Fund, the Department recommends that the Land Board adopt a recommended minimum balance of \$1,682,200.

Board Action

Attachments

1. 2018 Status of Bond Assurance Fund

2018 Status of Bond Assurance Fund

Bond Assurance Fund Participants				
	Reclamation Plans (IDAPA 20.03.02.069)		Dredge and Placer Permits (IDAPA 20.03.01)	
	Plans	Acres	Permits	Acres
Bond Assurance Fund	620	31,815	8	241

Bond Assurance Fund 2018 Revenue			
Disturbance (ACRES)	Annual Fee (\$)	Total	Total Annual Fee (\$)
Mineral Leases	\$100	88	\$8,800
2 acres or less	\$100	191	\$19,100
> 2 acres ≤ 5 acres	\$200	184	\$36,800
> 5 acres ≤ 10 acres	\$250	135	\$33,750
> 10 acres ≤ 15 acres	\$300	64	\$19,200
> 15 acres ≤ 20 acres	\$350	30	\$10,500
> 20 acres ≤ 25 acres	\$400	15	\$6,000
> 25 acres ≤ 30 acres	\$450	20	\$9,000
> 30 acres ≤ 35 acres	\$500	8	\$4,000
> 35 acres ≤ 40 acres	\$550	8	\$4,400
TOTAL		743	\$151,550

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS

November 20, 2018

Regular Agenda

Subject

Extension of Cedar Sale Pilot Program

Background

During the 2017 legislative session, the Rules for Selling Forest Products on State-Owned Endowment Lands (IDAPA 20.02.14) were amended to remove specific cedar pole sale requirements. Since the repeal of the cedar pole rules, the Department has continued to offer at least 20,000 cedar poles annually as directed by the 1986 Land Board Policy and the Cedar Sale Pilot Program (Attachments 1 and 2).

Under the Cedar Sale Pilot Program, the Department agreed to offer approximately 10,000 cedar poles annually under a single-entry sale approach and approximately 10,000 cedar poles under a dual-entry approach.

The number of cedar poles expected to be sold in FY18 and FY19 under each approach is estimated to be 23,000 cedar poles under the single-entry approach and 38,940 cedar poles under the dual-entry approach for a two-year combined total of 61,940 cedar poles. A summary of cedar sales sold to date is provided in Attachment 3.

Discussion

The Cedar Sale Pilot Program was scheduled to end on June 30, 2019. While several cedar sales have been sold with several more scheduled in FY19, very few of the sales have been harvested to date. The weighted-average sale value of cedar (\$/MBF) for single-entry sales was \$975.12/MBF compared to \$829.52/MBF for dual-entry sales, a difference of \$145.60/MBF. Likewise, the weighted-average non-cedar sawlog price was also higher on single-entry sales at \$255.71/MBF compared to \$231.39/MBF for dual-entry sales.

In order to have a more robust comparison of sale and harvest data for cedar sales, the Department recommends extending the Cedar Sale Pilot Program for two years to June 30, 2021. This would allow more time for harvest completion and a better comparison of sold versus harvested volumes and values of both single- and dual-entry cedar sales.

In addition to extending the Cedar Sale Pilot Program, the Department also recommends allowing more flexibility on the number of cedar poles offered under each sale approach. The Department will offer a total of 20,000 cedar poles annually for FY20 and FY21 with approximately 5,000 to 15,000 cedar poles offered annually using the single-entry approach and 5,000 to 15,000 cedar poles offered annually using the dual-entry approach. All other Cedar Sale Pilot Program criteria will remain the same.

Recommendation

Authorize the Department to extend the Cedar Sale Pilot Program for two years (June 30, 2021) with flexibility on the number of cedar poles offered under each sale approach.

Board Action

Attachments

1. 1986 Cedar Pole Land Board Policy
2. Cedar Sale Pilot Program – Letter to McFarland Cascade dated January 27, 2017
3. Summary of Cedar Sales

The logo of the Idaho Department of Lands is a large, stylized diamond shape. It features a light green center, a yellow border, and a grey outer border. A horizontal bar with rounded ends is superimposed across the middle of the diamond, containing the text "IDAHO DEPARTMENT OF LANDS" in white, uppercase letters.

IDAHO DEPARTMENT OF LANDS

Jerry Evans moved that the Wapi land exchange, as proposed by the department and agreed to by the Bureau of Land Management, be approved. Jim Jones seconded the motion. The motion passed unanimously.

Cedar Pole Rules & Regulations

Joe Hinson, representing the Idaho Forest Industry, was present. Don Jones provided the background for these proposed rules which were before the Board for final adoption.

Mr. Jones said that following the Board meeting of November 1985, the department staff went back and worked with the various cedar pole companies and some of the sawmill operators to try to resolve some of the objections that had been raised on the original set of rules that were brought to the Board. They have succeeded in drafting a set of rules that seem to satisfy the department and industry's needs. The rules were developed and entered into the formal rule-making process. Comments were received from only two companies, and consequently no hearing was required. The comments were minor and did not substantially affect the content of the original rules. One comment that dealt with changing minor terms in the pole specification was adopted into the proposal. A suggestion that poles be sold based on bids on total lineal feet was not adopted because this was a big stumbling block in the original set of rules. The department feels the rules are now in good order and are ready for Board review and approval.

Joe Hinson commented that the sawmills and cedar pole industry along with the department have worked very hard in bringing about some compromise measures. This has been done and the parties are in agreement. The pole companies did ask him to emphasize that they would like some assurance that the historic level of 20,000 poles per year be maintained.

The Governor commended Don Jones for doing such good work.

Stan Hamilton commented that the department was advised by the Board and legislative counsel that the request that 20,000 poles per year be offered for sale was not appropriate to put in the rules. Jerry Evans said that he was one of the Board members that did not want that in the rules, but he thinks in the annual sale plan it should be reflected as policy of the Board.

Jerry Evans moved to adopt and approve the proposed rules and regulations. Pete Cenarrusa seconded. The motion passed unanimously.

Slash Rate

Mr. Hamilton explained that the hazard management or treatment of slash is an extremely complicated program with monies going to fund various programs such as insect and disease and erosion programs. About a year ago the department presented a draft set of rules that would have provided that the department get an increased portion of the slash rate for administrative costs. The slash program has also carried a large part of the fire program over the years. The department briefed IFC on the problems. As a result, over the last few months, department staff and industry representatives have spent a considerable amount of time in learning how the program worked. There are several programs involved, and now the Forest Practices Act is becoming involved. The department had drafted a bill that possibly could have gone to this session of the legislature, but there are too many unanswered questions about the slash program and the monies and how they are used. So that effort has been abandoned. The department is asking for the Board's advice and guidance in continuing to work on a program for the next session. Mr. Hamilton said, however, that the department is looking to going forward to this legislative session with legislation relating to the Forest Practices Act.

Joe Hinson, representing the Forest Industry Council, said that they have been working with the department since November on this. The first thing they learned was that the relationship between the department's slash/hazard management program and fire program and other programs was very complex. Their first objective was to save money which they think they can do best by treating only the slash which truly contributes to a fire hazard; second, to do a better job in dealing with private landowners in helping them with their forest management problems; third, to make some progress in improving their ability to protect water quality. He feels they are very close to putting all of that into one piece of legislation, but feels it would be best to wait until the next session. He thinks that Mr. Hamilton will be talking about some interim measures for now.

Mr. Hamilton said that the department would come back to the Board in March with interim measures to keep the program operating for the rest of the year without having an adverse impact on the fire program. He said that one of the major duties of the department is the administration of the Forest Practices Act. In order to deal with some of the water quality laws and to be responsive to those, the department is looking for some changes in the current Forest Practices Act that would provide the department with stronger enforcement rules. Over the last several years, the department has used woodland foresters as part-time FPA foresters. The department has already committed the use of some of the assistant fire wardens who are in the field all the time to train them as eyes and ears for the FPA. The department is already committed to bringing its own timber sales into full compliance with the FPA. He will ask Don Jones to go over various proposed changes.

Don Jones went over the specific changes to be included in the proposed legislation.

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

ADMINISTRATION
DIRECTOR'S OFFICE
 300 North 6th St Suite 103
 Post Office Box 83720
 Boise ID 83720-0050
 Phone: (208) 334-0200
 Fax: (208) 334-2339



STATE BOARD OF LAND COMMISSIONERS
 C. L. "Butch" Otter, Governor
 Lawrence E. Denney, Secretary of State
 Lawrence G. Wasden, Attorney General
 Brandon D. Woolf, State Controller
 Sherri Ybarra, Sup't of Public Instruction

January 27, 2017

SENT VIA US MAIL AND EMAIL

Mr. Jon Younce, Vice President
 McFarland Cascade Holdings, Inc.
 P.O. Box 1496
 Tacoma, WA 98401-1496

Jon,

In light of the Land Board's decision to remove IDAPA 20.02.14.024 & 025 from the Rules for Selling Forest Products on State-Owned Endowment Lands, I want to share with you the Department plans for offering cedar poles.

In order to evaluate how best to meet our fiduciary obligation to maximize the long-term return to the endowment beneficiaries, the Department plans to conduct a two-year pilot program that compares different methods of selling cedar poles through both a single- and dual-entry approach. Consistent with the existing Board policy of offering 20,000 cedar poles per year, approximately 10,000 poles will be offered each year under the single-entry approach and approximately 10,000 poles each year will be offered under the dual-entry approach. The data gathered during this two-year pilot program on these two sale methods will help the Department determine the most efficient, effective and profitable approach to selling cedar poles on state-owned endowment lands.

The table below describes the criteria for the single- and dual-entry approaches for selling cedar poles over the next two Fiscal Years (2018 & 2019).

Single-Entry Approach	Dual-Entry Approach
<ul style="list-style-type: none"> The Department will offer approximately 10,000 cedar poles annually in FY2018 and FY2019 using a single-entry approach. Single-entry timber sales will have a minimum of 25% cedar by volume. These sales will be identified in the Annual Sale Plan for each fiscal year. All marked or designated species/products would be removed by the Purchaser as per the Department's silvicultural prescription. The cedar (sawlogs & poles) and the mixed non-cedar sawlogs would be 	<ul style="list-style-type: none"> The Department will offer approximately 10,000 cedar poles annually in FY2018 and FY2019 using a dual-entry approach. These pole sales will be identified in the Annual Sale Plan for each fiscal year. All marked or designated cedar pole quality trees would be removed along with any "incidental" volume of unmarked sawlog trees to gain access to the poles and for skidding, landing and road building needs. The cedar (sawlogs & poles) and the mixed non-cedar sawlogs would be

Single-Entry Approach		Dual-Entry Approach
separate biddable items and sold on either an MBF or Cubic Foot basis.		<p>separate biddable items and sold on either an MBF or Cubic Foot basis.</p> <ul style="list-style-type: none">• Upon completion of the pole sale, a second sale will be conducted to harvest the remaining trees to meet the Department's silvicultural objectives.

This two-year pilot program will end on June 30, 2019. After completion of this two-year pilot program, the Department will evaluate the sale information comparing these two methods of selling cedar poles. Based upon the data, the Department will establish a long-term cedar pole policy consistent with its fiduciary obligation.

Please do not hesitate to contact David Groeschl if you have any further questions.

Sincerely,



Thomas R. Schultz, Director
Idaho Department of Lands

C: David Groeschl, Deputy Director
Land Board Members & Staff
Craig Foss, Division Administrator of Forestry & Fire
Jim Elbin, Forest Management Bureau Chief
Archie Gray, Wood Accountability Program Manager

Summary of Cedar Sales

Fiscal Year	Sale Name	Sale Type	Total MBF**	Cedar MBF	# Poles	Status	Cedar \$/MBF	nonCedar \$/MBF**
2018*	Priest Blessed Poles	Dual-entry	6,665	4,170	18,500	Sold	\$ 784.40	\$ 177.33
2018	Cold Poles	Dual-entry	955	630	2,300	Sold	\$ 842.00	\$ 189.74
2018	Blue Pole	Dual-entry	1,315	555	750	Sold	\$ 920.00	\$ 206.00
2018	Lightning Pole	Dual-entry	175	90	390	Sold	\$ 870.90	\$ 214.56
2018	Schwartz Pole	Dual-entry	2,230	1,815	5,000	Sold	\$ 840.60	\$ 929.36
2019	Anchor Nine Cedar	Dual-entry	7,390	4,855	8,000	Sold	\$ 851.40	\$ 183.86
	Dual-Entry TTD:		18,730	12,115	34,940		\$ 829.52	\$ 231.39
2018	Curtis Poles Plus	Single-entry	2,580	1,115	2,000	Sold	\$ 805.70	\$ 177.43
2018	Preacher's Plunge	Single-entry	3,260	2,125	3,000	Sold	\$ 1,120.55	\$ 105.08
2018	Alder Pole	Single-entry	4,125	1,750	3,200	Sold	\$ 712.30	\$ 170.03
2018	Shattuck Pole	Single-entry	10,275	2,600	6,800	Sold	\$ 1,189.00	\$ 300.00
2019	Purdue Cedar	Single-entry	6,325	1,555	5,000	Sold	\$ 836.00	\$ 287.00
	Single-Entry TTD:		26,565	9,145	20,000		\$ 975.12	\$ 255.71
2019	High Country Cedar	Dual-entry	1,200		2,000	Proposed		
2019	South Brickel Cedar	Dual-entry	400		2,000	Proposed		
2019	Cedar Remix	Single-entry	5,100		3,000	Proposed		

Total Proposed Dual-Entry Cedar Poles FY18-19: 38,940
Total Proposed Single-Entry Cedar Poles FY18-19: 23,000
Total: 61,940

* FY 2017 sale sold under the pilot program guidelines

** includes mandatory cedar products

THIS PAGE INTENTIONALLY LEFT BLANK

IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS

November 20, 2018

Regular Agenda

Subject

Assignment of Commercial Lease M-5042 – Tamarack Resort

Background

On May 14, 2002, the Land Board approved a lease with Westrock Associates, LLC (State Lease), for a term of ten (10) years, with provisions for up to a forty-nine (49) year lease in the event of a legislative amendment. The State Lease authorized the use of six hundred and forty (640) acres of Public School endowment trust land and one thousand four hundred and eighty-four (1,484) acres of State Hospital South endowment trust land for the operation of a ski hill and golf course.

Since that time:

- On June 10, 2003, the State Lease was assigned to Tamarack Resort, LLC (TRLLC).
- On May 19, 2006, TRLLC granted a mortgage (Mortgage) to Credit Suisse AG, Cayman Islands Branch, as collateral agent for certain lenders (Credit Suisse).
- Following a default of the Mortgage, Credit Suisse foreclosed on the Mortgage.
- In 2013, Bank of America Leasing & Capital, LLC (BALC), a creditor of TRLLC, removed the Wildwood ski lift. TRLLC was obligated by the terms of the State Lease to replace the lift or remove the associated concrete pads.
- A sheriff's sale was held March 10, 2014. New TR Acquisition Co., LLC (New TRAC) acquired all interest in that portion of the collateral assigned to New TRAC by Credit Suisse, including TRLLC's right and interest in the State Lease.
- On October 2, 2014, the Land Board held a special meeting and approved the Assignment and Assumption Agreement of Commercial Lease No. M-5042 to New TRAC, which contained additional terms and conditions.
- On October 11, 2016, Tamarack Municipal Association, Inc. (TMA) executed an Assignment and Assumption Agreement of Commercial Lease No. M-5042 with New TRAC, under which TMA acquired all of New TRAC's right, title and interest in, and assumed all of New TRAC's obligations under the State Lease, subject to the Land Board's approval.
- On March 21, 2017, the Land Board approved the assignment and assumption of the State Lease by TMA from New TRAC.

- TMA has operated the State Lease property and operated the ski hill under the State Lease for TRLLC, Credit Suisse and/or New TRAC during the 2010-11, 2011-12, 2012-13, 2013-14, and 2014-15 ski seasons, and on its own behalf in the 2016-17, and 2017-18 ski seasons. TMA has also managed all-season operations during the 2012 lease year to the present.

Discussion

On September 10, 2018, the Department received a request from TMA to assign the lease to Tamarack Mountain Operations, LLC (TMO). The Department then performed a review of the following items:

- All taxes and assessments affecting any real property used in the ski hill operations related to the State Lease, including any local improvement districts (LIDs), are current.
- All required insurance is in place through February 1, 2019.
- All real property used in the ski hill operations related to the State Lease is free and clear of any lien or encumbrance.
- There are current defaults on the State Lease that will be resolved in accordance with the terms and conditions of the proposed assignment and assumption agreement with TMO. The manner in which those defaults will be resolved is set forth on page 3 of this memorandum.

The Department requested financial information and documentation related to:

- TMA's operation of the State Lease and resort operations.
- Compliance issues related to the existing State Lease terms and potential default items that need to be addressed either by TMA or TMO.
- TMO's financial viability and ability to successfully operate the resort, and to satisfy the obligations of the State Lease now and in the future.

Based on the review of the information provided, the Department is recommending approval of the assignment and assumption of the State Lease from TMA to TMO, which contains the following conditions:

- **Mid-Mountain Lodge.** On or before December 31, 2024, TMO shall complete or remove the Mid-Mountain Lodge and restore the leased land to its condition immediately prior to construction of the Mid-Mountain Lodge, to the extent reasonably practicable.
- **Restoration of Wildwood Ski Lift.** On or before December 31, 2024, TMO shall replace the Wildwood Ski Lift, or remove the concrete pads on which the ski lift poles rested either in their entirety, or so that they are no less than three feet below the surface of the land, subject to Department approval.

- **Taxes and Assessments.** TMO has promised and represented that all taxes, assessments, interest and penalties related to the Leased Premises are current and paid in full, and that it will timely pay and keep current any future taxes, assessments, interest and penalties.
- **Construction Plans and Estimates.** TMO shall provide the location and description of existing improvements to the Department within 18 months of the date of this Assignment and Assumption Agreement, and must continue to provide information regarding the location and description of existing improvements as that information is discovered. TMO must also provide annual construction plans and cost estimates for all future construction activities on the Leased Premises.
- **Optional Percentage Rent.** The Department waives the Optional Percentage Rent related to Golf Course Gross Receipts and operating requirements for the golf course, because neither TMO nor its affiliates own or control 15 holes of the golf course. However, TMO agrees that if the Golf Course becomes operational under the State Lease, the provisions of Article II.C of the State Lease will be reinstated and in force.
- **Title and Ownership of Improvements, Water Rights and License Property.** TMO shall provide proof of ownership of all improvements, water rights, license property and ski hill facilities within 60 days of execution of the assignment agreement. If the lease is terminated for any reason (other than that the lease is renewed after appropriate procedures and TMO remains the sole Lessee), the existing water right permit, which is currently in the licensing process, will be split to reflect the State's ownership of points of diversion or places of use on the Leased Premises. There is also an existing application for water right permit that will be amended to include the State as a co-owner if that application includes a point of diversion or place of use on the Leased Premises. Any new applications for a water right permit which include a point of diversion or place of use on the Leased Premises must reflect that the State is a co-owner, and those rights will be split upon termination of the lease as described above. The Department will hold an easement for access to any points of diversion which provide water to the Leased Premises, but which are not located on the Leased Premises. This includes any water conveyance structures and systems.
- **Prepayment of Rent.** TMO will pay, in full, the lease payments for the year 2019, in the amount of \$298,719.92.
- **Assurances.** Prior to the Department's execution of the assignment agreement, TMO must pay or provide acceptable security to the Department for a deposit in the amount of \$896,159.76 to be held by IDL. The deposit will be forfeited if there is a default in rent payments and a failure to cure. The deposit may be in the form of:
 1. Cash
 2. A First position Deed of Trust on real property, acceptable to the Department in its discretion, and free and clear of any lien or encumbrance, unless IDL otherwise

agrees. The appraised value of the real property must be at least \$900,000. If this form of deposit is used, TMO must execute a promissory note and deed of trust, in a form acceptable to the Department, within 60 days of execution of the assignment agreement.

3. A bond or letter of credit in a form acceptable to the Department.

During the lease term, TMO may request that the Department accept a replacement form of deposit.

- **Additional Reclamation Bonding.** The Department is currently holding \$781,000 in reclamation funds to secure the reclamation of the Leased Premises in the event of the termination of the State Lease. Within six months of execution of the assignment agreement, Lessor must provide an updated Reclamation Plan, including an estimate of the cost of reclamation. Upon the Department's agreement with the plan, TMO must furnish an additional bond in the amount of any reclamation costs exceeding \$781,000.
- **Performance Bonds.** TMO must also provide payment and performance bonds, each in the full contract amount, for each contract TMO enters into for construction of improvement on IDL land.

Recommendation

The Department recommends the Land Board approve the assignment and assumption of Lease No. M-5042 from Tamarack Municipal Association, Inc. (TMA) to Tamarack Mountain Operations, LLC (TMO) in Attachment 1.

Board Action

Attachment

1. Assignment and Assumption Agreement

**ASSIGNMENT AND ASSUMPTION AGREEMENT
OF
COMMERCIAL LEASE NO. M-5042**

This Assignment & Assumption of Commercial Lease No. M-5042 (the “**Agreement**”), dated effective as of November __, 2018, is entered into by and among the **STATE BOARD OF LAND COMMISSIONERS**, acting by and through the **IDAHO DEPARTMENT OF LANDS**, whose mailing address is 300 N. 6th Street, Boise, Idaho 83702 (“**Lessor**”); **TAMARACK MUNICIPAL ASSOCIATION, INC.**, an Idaho non-profit corporation (“**TMA**” or “**Assignor**”), whose mailing address is 311 Village Drive PMB 3003, Tamarack, Idaho 83615; and **TAMARACK MOUNTAIN OPERATIONS, LLC**, an Idaho limited liability company, whose mailing address is 311 Village Drive PMB 3026, Tamarack, Idaho 83615 (“**TMO**” or “**Assignee**”). Hereinafter, Lessor, TMA and TMO shall be referred to as the “**parties**”.

RECITALS

WHEREAS, “**Commercial Lease No. M-5042**” was originally executed by and between Westrock Associates, L.L.C., a Delaware limited liability company, as lessee, and Lessor, dated June 11, 2002 (a true and correct copy of the State Lease is attached as **Exhibit “A”** and incorporated herein by reference).

WHEREAS, “**Addendum No. 1 to Commercial Lease No. M-5042**”, dated June 10, 2003, was executed by and between Lessor and Tamarack Resort, L.L.C. (“**TRLIC**”), as lessee, formerly known as Westrock Associates, L.L.C. (a true and correct copy of which is attached hereto as **Exhibit “B”** and incorporated herein by reference).

WHEREAS, on June 20, 2003, Lessor and TRLIC entered in to that certain “**Summary of License Granted Under Commercial Lease No. M-5042**” (the “**Summary of License**”, a true and correct copy of which is attached hereto as **Exhibit “C”** and incorporated herein by reference).

WHEREAS, on August 5, 2005, Lessor and TRLIC executed that certain “**Modification No. 2 to Commercial Lease No. M-5042**” (a true and correct copy of which is attached hereto as **Exhibit “D”** and incorporated herein by reference).

WHEREAS, on May 2, 2006, Lessor and TRLIC executed that certain “**Modification No. 3 to Commercial Lease No. M-5042**” (a true and correct copy of which is attached hereto as **Exhibit “E”** and incorporated herein by reference).

WHEREAS, on May 19, 2006, TRLIC assigned the State Lease to Credit Suisse AG, Cayman Islands Branch, as collateral agent for certain lenders (“**Agent**”), pursuant to that certain Mortgage, Leasehold Mortgage, Security Agreement, Assignment of Rents and Leases and Financing Statement dated May 19, 2006 (the “**Mortgage**”), and recorded on May 19, 2006 in the official records of Valley County, Idaho as Instrument No. 308953 and on May 22, 2006 in the official records of Adams County, Idaho as Instrument No. 111741, as collateral for loans made by the Lenders (as defined in the Mortgage) to TRLIC. Lessor consented to such assignment

pursuant to that certain Landlord Estoppel and Agreement dated as of May 15, 2006, between Lessor and Agent, for the benefit of Lenders.

WHEREAS, in March 2008, Agent, at the direction and for the benefit of Lenders, commenced a foreclosure action against TRLLC, entitled In re Tamarack Resort Foreclosure and Related Proceedings, District Court of the Fourth Judicial District, State of Idaho, County of Valley, Case No. CV-08-114C (“State Court Action”). On March 10, 2014, the Sheriff of Valley County, Idaho, held a sheriff’s sale (“Sheriff’s Sale”) pursuant to a judgment and decree of foreclosure entered in the State Court Action. Agent was the successful bidder at the Sheriff’s Sale. Prior to the issuance of the Certificate of Sale (as defined below), Agent assigned to TMO, pursuant to that certain Assignment of Certificate of Sale Upon Foreclosure On Initial Tamarack Property (the “Assignment”), Agent’s right to acquire the interests of TRLLC in, to and under the State Lease pursuant to a certificate of sale issued by the Sheriff of Valley County, Idaho, on March 10, 2014, which certificate was recorded in the official records of Valley County, Idaho on March 11, 2014 as Instrument No. 383729 and in the official records of Adams County, Idaho on March 12, 2014 as Instrument No. 126462 (the “Certificate of Sale”). The Assignment was recorded in the official records of Valley County, Idaho on March 10, 2014 as Instrument No. 383699 and in the official records of Adams County, Idaho on March 11, 2014 as Instrument No. 126459.

WHEREAS, in October 2014, the State Lease was assigned to, and the obligations assumed by New TR Acquisition, Co, LLC (“New TRAC”) pursuant to that certain “**Assignment and Assumption Agreement of Commercial Lease No. M-5042**” to which Lessor granted its consent on October 2, 2016, (a true and correct copy of which is attached hereto as **Exhibit “F”** and incorporated herein by reference).

WHEREAS, on or about September 30, 2016, New TRAC and TMA entered into that certain “**Assignment and Assumption Agreement of Commercial Lease no. M-5042**” (a true and correct copy of which is attached hereto as **Exhibit “G”** and incorporated herein by reference), and on May 26, 2017, the Land Board consented to the assignment to, and the assumption of, the State Lease by TMA.

WHEREAS, the documents identified as Exhibits A (Commercial Lease No. M-5042), B (Addendum No. 1 to Commercial Lease No. M-5042), C (Summary of License Granted Under Commercial Lease No. M-5042), D (Modification No. 2 to Commercial Lease No. M-5042), E (Modification No. 3 to Commercial Lease No. M-5042), F. (Assignment to New TRAC), and G (Assignment to TMA), are herein and hereinafter collectively referred to as the “**State Lease**”.

WHEREAS, pursuant to the terms of the State Lease, Lessor has the final approval of any subsequent or successor lessee.

AND WHEREAS, TMA, as the Assignor and current approved Lessee, and TMO, as the Assignee and proposed successor Lessee, have, has requested that Lessor approve TMO as the Lessee pursuant to the State Lease. Hereinafter, and upon the Lessor’s Consent, TMO shall be the “**Lessee**”.

NOW THEREFORE, for and in consideration of the promises, covenants, conditions and agreements herein contained, the parties hereby agree as follows:

1. **Assignment & Assumption; Consent.** TMA hereby assigns to TMO, and TMO hereby assumes, all of the rights, interests, duties, liabilities and obligations of Lessee pursuant to the State Lease and the terms and conditions set forth herein. Lessor hereby approves such assignment on the terms and conditions set forth in this Agreement. In the event of any conflict between the terms of this Agreement and the terms of the State Lease, the terms of this Agreement shall control to the extent of such inconsistency.
2. **Sublease for Operations.** If TMO intends to sublease the operation of any portion of the Leased Premises (as defined in the State Lease), then TMO shall first seek the approval of Lessor for a sublease with an acceptable operator for the operation of the Leased Premises. Approval of such a sublease shall be in accordance with by Article X.B of the State Lease.
3. **Prior and Current Defaults.** In the assignment and assumption of the rights and obligations of the State Lease, TMO has assumed the obligations of prior lessees', TRLLC, New TRAC and TMA, in the State Lease including obligations relating to prior defaults and agreed resolution for those defaults, which are set forth herein. TMA and Lessor represent that the following issues relating to prior and known defaults or issues of noncompliance with the terms and conditions of the State Lease are the only known issues of default or noncompliance. The parties agree that the following known prior and current defaults or issues of noncompliance shall be waived subject to resolution as follows:
 - a. **Mid-Mountain Lodge.** On or before December 31, 2024, TMO shall complete the Mid-Mountain Lodge, or remove it entirely from the Leased Premises and restore the Leased Premises to the extent reasonably practical to their condition immediately prior to construction operations of said Mid-Mountain Lodge. If TMO assigns or requests an assignment of this Agreement to any new party or entity at any time prior to December 31, 2024, and if the Mid-Mountain Lodge is not completed, as evidenced by a certificate of occupancy, then TMO or its proposed assignee or successor-in-interest shall, prior to any approval of any such assignee or successor-in-interest by Lessor, provide in favor of Lessor a bond or letter of credit in an amount sufficient to remove the Mid-Mountain Lodge from the Leased Premises and to restore that portion of the Leased Premises to the extent reasonably practical to its condition as it existed immediately prior to construction operations of the Mid-Mountain Lodge. The amount of any such bond or letter of credit shall equal the difference between (x), Sixty-Nine Thousand Dollars (\$69,000.00), which is the amount that Lessor has allocated from the previously liquidated reclamation bond for the removal of Mid-Mountain Lodge and restoration of that portion of the Leased Premises as set forth above, and (y), the amount estimated to remove and restore same at the time of any assignment as set forth in this Paragraph 3.a. The acceptance of any estimated amount required for any reclamation bond shall not in any way diminish or limit any bonding or reclamation obligations required pursuant to the State Lease. Nothing herein affects Section VIII.C of the State Lease.

- b. **Restoration of Wildwood Ski Lift.** The Authorization for Ski Lift Financing Commercial Lease No. M-5042, authorized the construction of certain ski lifts, including that certain ski lift identified as the Wildwood Lift. In the event of its removal, TRLLC, as lessee, was required to replace and restore the removed ski lift. The Wildwood Lift was removed in 2013 pursuant to the enforcement of that certain Authorization for Ski Lift Financing Commercial Lease No. M-5042 between Lessor and TRLLC, including the Warranty Bill of Sale and Master Lease Agreement Number: 16789-09000, the subject of the Authorization for Ski Lift Financing Commercial Lease No. M-5042, between TRLLC and Banc of America Leasing & Capital, LLC (“BALC”). On or before December 31, 2024, TMO shall either replace the Wildwood Lift removed by BALC, or remove the concrete pads upon which the ski lift poles rested for the Wildwood Lift, or remove so much of the concrete pads such that each concrete pad is no less than three (3) feet below the surface of the land. Prior to any removal or reduction of the concrete pads, TMO shall obtain the prior written approval from Lessor for such removal or reduction of the concrete pads and Lessor may require some or all of the concrete pads to be removed. If TMO assigns or requests an assignment of this Agreement to any new party or entity at any time prior to December 31, 2024, and if the Wildwood Lift has not been replaced or the concrete pads removed as set forth herein, then TMO or its proposed assignee or successor-in-interest shall, prior to any approval of any such assignee or successor-in-interest by Lessor, provide in favor of Lessor a bond or letter of credit in an amount sufficient to remove the concrete pads from that portion of the Leased Premises and to restore that portion of the Leased Premises to the extent reasonably practical to its condition as it existed immediately prior to construction operations at the time of the initial construction of the Wildwood Lift. The amount of any such bond or letter of credit shall equal the difference between (x) One Hundred and Two Thousand Dollars (\$102,000.00), which is the amount that Lessor has allocated from the previously liquidated reclamation bond for the removal of the Wildwood Ski Lift and restoration of that portion of the Leased Premises as set forth above, and (y) the amount estimated to remove and restore same at the time of any assignment as set forth in this Paragraph 3.b. The acceptance of any estimated amount required for any reclamation bond shall not in any way diminish or limit any bonding or reclamation obligations required pursuant to the State Lease. Nothing herein shall affect Section VIII.C of the State Lease.
- c. **Taxes and Assessments.** TMO promises and represents that all taxes, assessments, interest and penalties related to the Leased Premises are current and paid in full and all taxes, assessments, interest and penalties shall be timely paid and kept current, as set forth in Article XII of the State Lease. Taxes and assessments, and associated penalties, interest and fees thereon, related to the real and personal property the subject of the License, which real property is identified as the Licensed Property, and the personal property identified as the Ski Hill License Facilities (as defined in the Lease and in the Summary of License), shall be paid, settled or otherwise satisfied no later than the following:

- i. Thirty (30) days following service of a Notice of Pending Issue of Tax Deed in respect thereof by any governmental authority, if applicable to the nature of the tax or assessment; provided further, that TMO shall provide copies of any such notice of delinquency for nonpayment of any such taxes or assessments or tax deed.
 - ii. Thirty (30) days prior to any applicable foreclosure sale or the execution against any such property or property right pursuant to any legal remedy of any party; provided further, that TMO shall provide copies of any such notice of foreclosure, foreclosure sale, or other actions seeking any such legal remedy or execution against any of the property the subject of the License.
- d. **Construction Plans and Estimates.** Past failures to provide construction plans for Improvements on the Leased Premises as well as cost estimates for the years 2010 through 2018 are hereby waived subject to the following requirement to provide additional information on the location of Improvements. TMO shall provide annual construction plans and cost estimates in accordance with the terms of the State Lease for all future construction activities upon the Leased Premises, including final as-built information if different than information provided in the submitted construction plans. Within eighteen (18) months of the date of this Agreement, TMO will make commercially reasonable efforts to locate and provide to Lessor such information that prior owners and their agents may have regarding existing Improvements and shall provide such information to Lessor. TMO shall also provide such information as acquired throughout the course of its activities as such information becomes known or is discovered by TMO. Information relating to the prior Improvements and structures on the Lease Premises include, but is not limited to, the following: the nature and location of above- and below-ground structures and Improvements, and the engineering specifications thereof, including, but not limited to:
 - i. **Location and Description of Existing Improvements.** TMO shall provide to Lessor detailed engineering description and location information with regard to the following located on the Leased Premises, and those located on the Licensed Property:
 - 1. All above and below ground infrastructure, including, but not limited to, origin of all water sources, water holding structures and capacities, and delivery systems.
 - 2. All above and below ground equipment and utilities, including, but not limited to, cables, wires, pipes, fiber optics, gas lines, electrical and transmission lines.
 - 3. All structures related to the zip line.
 - 4. All improvements, as built, for which no accurate or complete plans and information has previously been provided to Lessor.
- e. **Optional Percentage Rent.** The following identified provisions of Article II.C., "Optional Percentage Rent", of the State Lease relating specifically to Golf Course Gross Receipts and Lessee's operating requirements for the Golf Course set forth in

Article II.C.5.(b), including green fees and other access fees, and golf cart rentals; and relating to proration of gross receipts from golf related activities set forth in Article II.C.5.(g)(i), are hereby waived with the exception of any income generated by the three golf holes, or portions thereof, which are included in the description of the Leased Premises pursuant to the State Lease. This waiver is granted because (1) with the exception of the three identified golf holes, the golf course is currently owned by a party or entity completely unrelated to, and unaffiliated with, TMO; (2) the golf course is not under the direction or control of TMO; and, (3) TMO plays no role in the operation or management of the golf course and receives no income therefrom with the exception of any income related to the three identified golf holes. Failure to operate the golf course during such period as Lessee or its affiliates do not own or control the remaining holes is hereby waived; however, if at any point in the future, TMO or the then Lessee under the State Lease, or any person or entity related to, owned, controlled or under common control by TMO or said Lessee, or an affiliate thereof, operate or manage the Golf Course or receive any proceeds therefrom in addition to any income derived from the three identified golf holes, then this waiver shall automatically terminate, and all terms of the State Lease affecting such property, including, but not limited to, Article II.C.5.(b) and C.5.(g)(i) shall then be applicable in full. The provisions of this Paragraph 3.e. apply only in the event the State elects to convert to Optional Percentage Rent pursuant to Article II.C of the State Lease.

f. Title and Ownership of Improvements, Water Rights, Licensed Property and Ski Hill License Facilities.

- i. The State Lease requires all Improvements, water rights, and the real and personal property the subject of the License, the Licensed Property, and the Ski Hill License Facilities, respectively, to be owned by the lessee in accordance with the State Lease. Prior to this Agreement, title and ownership of the Improvements, water rights, the Licensed Property, and the Ski Hill License Facilities, was transferred voluntarily by TMA or by operation of law or legal process to non-lessee parties in default of the terms of the State Lease. TMO represents that all right, title and interest in all Improvements, water rights, the Licensed Property and Ski Hill License Facilities related to the operation of the State Lease and/or located on the Leased Premises and the Licensed Property are currently in the name of TMO, as of the date of this Agreement, and TMO shall provide proof of such ownership by providing copies of such documents to Lessor within sixty (60) days of the execution of this Agreement. Hereafter, all right, title and interest in the Improvements shall at all times be and remain in the name of the Lessee of the State Lease.
- ii. Water is currently being used on the Leased Premised under water right permit 65-22357 ("Permit). The Permit contains one point of diversion ("POD") located on the Leased Premises and several PODs located off the Leased Premises. A portion of the place of use ("POU") for the Permit is also located on the Leased Premises. Proof of Beneficial Use for the Permit has been submitted to the Idaho Department of Water Resources ("IDWR"), but the Permit has not yet been licensed. The State Lease requires that Lessor be

named as the owner of water rights with PODs or POU's located on the Leased Premises.

Given the nature of the Permit, and the fact that final proof associated with the Permit has yet to be recognized and licensed by IDWR, any formal division of ownership of the Permit or license in accordance with the terms and conditions of the State Lease should occur at the time of a termination of the State Lease. Therefore, Lessee agrees to a split of the Permit or license between Lessor and Lessee upon termination of the State Lease for any reason, based on the amount of water then being derived from, diverted to, and used upon and for the benefit of the Leased Premises, as further set forth in Paragraphs 3.f.ii.1 through 4, below.

Within the context of this Assignment and Assumption Agreement, termination of the State Lease for any reason will include termination due to TMO's default, but will not apply to situations in which the State Lease is renewed and TMO remains the sole Lessee.

Application for Permit 65-23750 ("Application") also contains PODs and POU on the Leased Premises. Whether Lessee must withdraw or amend the Application will be determined in accordance with Paragraph 3.f.ii.4, below.

1. Ownership of Permit 65-22357 and Application for Permit 65-23750.

Prior to this Agreement, ownership of the Permit and the Application was transferred by TMA to non-lessee parties in default of the terms of the State Lease which require that all property subject to the State Lease be held in the name of Lessee and/or Lessor only. To cure this default, TMO shall provide proof that it owns the Permit and Application by providing documents to Lessor within sixty (60) days of the execution of this Agreement demonstrating such ownership. Hereinafter, all right, title, and interest in the water rights shall at all times be and remain in the name of Lessee of the State Lease or in the name of the State of Idaho Department of Lands.

2. Acquisition of New Water Rights on the Leased Premises.

The State Lease requires that all new water rights acquired or developed on the Leased Premises shall be owned by the State of Idaho. Any new water right application(s) filed by Lessee with the Idaho Department of Water Resources ("IDWR") after the date of this Agreement which contain either a point of diversion ("POD") or place of use ("POU") on the Leased Premises must provide for co-ownership of the water right to be held jointly between Lessee and the State of Idaho Department of Lands. Lessee shall be solely responsible for filing fees, attorney fees, experts, and other resources necessary to complete the administrative process of acquiring a water right license. Upon acquisition of a permit, Lessee shall be

responsible for putting the water to beneficial use within the development period and for submitting proof of beneficial use to IDWR. Lessee shall be required to measure and monitor the amount of water being used under the water right, including measurement of the amount of water being used only on the Leased Premises.

- a. New Water Rights on the Leased Premises with POD and POU on the Leased Premises Only.

At the time of termination of the State Lease for any reason, any water right acquired by Lessee as co-owner with the State of Idaho after the date of this Agreement that contains a POD and POU on the Leased Premises only shall be transferred into the name of the State of Idaho Department of Lands as the sole owner.

- b. New Water Rights on the Leased Premises with POD off the Leased Premises, but POU on the Leased Premises.

At the time of termination of the State Lease for any reason, any water right acquired by Lessee as co-owner with the State of Idaho Department of Lands after the date of this agreement that contains POD(s) off state land, but a POU that includes the Leased Premises, ownership of said right shall be split between the Lessee and the State of Idaho Department of Lands. The quantity of water split into the name of the State of Idaho Department of Lands shall be determined by the measurement/monitoring records kept by Lessee demonstrating the amount of water being used on the Leased Premises only. The POU of the portion of the split in the State of Idaho Department of Lands' name shall include only the Leased Premises. The portion of the split in the State of Idaho Department of Lands' name may include PODs off the Leased Premises if those PODs provide water used on the Leased Premises. If POD(s) off the Leased Premises provide water to the Leased Premises, then Lessee shall provide an easement or right of way acceptable to Lessor that provides for Lessor's continuing access to any POD located off the Leased Premises. The easement or right of way shall also include provisions for the continuing operation and maintenance of conveyances structures, wells or pumps that are acceptable to Lessor, as further described in Paragraph 3.f.iv, below. The POU and POD(s) for the portion split into the name of the Lessee shall not be on or contain any portion of the Leased Premises.

3. Water Right Permit 65-22357.

- a. Lessee shall be solely responsible for demonstrating proof of beneficial use under the Permit so as to secure a license from IDWR.
- b. Lessee must provide ongoing measurement and monitoring of the quantity of water being used under the Permit or subsequently-issued license that is derived from, diverted to, or being used upon the Leased Premises including monitoring after a license is issued. Lessee shall provide yearly updates to Lessor regarding the quantity of water being used on the Leased Premises.
- c. To the extent the Permit is licensed with either POD(s) or POU(s) on the Leased Premises, ownership of the Permit shall be split between Lessee and the State of Idaho Department of Lands upon termination of the State Lease for any reason as follows:

The quantity of water that will be split into the sole ownership of the State of Idaho Department of Lands shall be determined by the quantity of water being used on the Leased Premises, based upon the measurement and monitoring conducted in accordance with Paragraph 3.f.ii.3.b. The POU of the portion of the Permit split into the State of Idaho Department of Lands' sole ownership shall include only the Leased Premises. However, the portion of the Permit split into the State of Idaho Department of Lands' sole ownership may include POD(s) on private land to the extent such POD(s) divert water for use on the Leased Premises.
- d. Lessee shall cooperate fully with Lessor in filing a transfer application and providing any necessary documentation to effect the ownership split described in Paragraph 3.f.ii.3.c, above. Lessee shall provide an easement or right of way acceptable to Lessor that provides for Lessor's continuing access to any POD located off the Leased Premises and for the continuing operation and maintenance of any conveyance structures, pumps, or wells, as further described in Paragraph 3.f.iii, below. The portion of the Permit split into Lessee's name shall not include a POU or POD(s) on the Leased Premises.

4. Water Right Application 65-23750.

If the Application includes either a POD or POU on the Leased Premises, the Application shall be amended to include the State of Idaho as a co-owner of the application. Lessee shall be solely responsible (consistent with Paragraph 3.f.ii.3 above) for pursuing the Application through licensing. If the Application is ultimately licensed, ownership of the water right be split in accordance with Paragraph 3.f.ii.3, above.

- iii. In order to protect the interests of Lessor, Lessee shall not alienate any water rights now existing or which may come into existence during the term of this lease term which rights are derived from, diverted to, or used upon the leased premises.
- iv. Within sixty (60) days from the date of the execution of this Agreement, TMO shall provide Lessor an easement for access, including ingress and egress, provided for herein shall also include the right to use and maintain the easement area and all necessary water delivery infrastructure and systems which may be necessary for the intended purpose of enjoying the water rights, including, but not limited to, all infrastructure and systems located over, under and across any and all Licensed Property and all other privately-owned property upon which any necessary water delivery infrastructure may exist, extending from any and all necessary points of diversion to the place of use on the Leased Premises for all uses of water used on the Leased Premises. The easement may be recorded within the county records as Lessor sees fit.

4. **Additional Conditions Required For Lessor's Approval of Assignment.** In order to protect the interests of Lessor, the following shall be required additional terms and conditions of the State Lease:

- a. **Prepayment of Rent for 2019 Lease Year.** Within five (5) days of the approval of this Agreement by the State Board of Land Commissioners, Lessee shall pay in full and in advance all required lease payments for the lease year 2019 in the amount of \$298,719.92, which would otherwise be due and payable on or before January 1, 2019.
- b. **Assurances.** Prior to the execution of this Agreement by Lessor, TMO shall pay or provide acceptable security to Lessor for a deposit in the amount of Eight Hundred Ninety-Six Thousand Seven Hundred Nineteen Dollars and 92/100 (\$896,159.76) to be held by Lessor for the primary purpose of securing an amount in the event of a default in the timely payment of rent as the same becomes due and owing in an amount equal to approximately three (3) annual lease payments and to partially compensate Lessor in the event of Lessee's default. The deposit shall be forfeited in the event of a default in the payment of rent and failure to cure within the time provided in the terms of the State Lease, or upon the termination of the State Lease by reason of a default of Lessee. Annual rent payments shall be timely made each and every year as they accrue. This deposit is not intended to be a replacement for the obligation to pay rent. The forfeiture of this deposit shall in no way effect or be treated as a cure in any default or failure to pay any lease payment as the same becomes due, and in the event of a default in the payment of rent, in addition to the forfeiture of the deposit, Lessor shall be entitled to pursue any and all legal remedies then available to Lessor pursuant to this Agreement or at law against Lessee for failure to pay rent and/or for any other default, including, but not limited to, filing a legal action for collection or termination of the State Lease. If all rent payments are made without default in a timely manner, and are received by Lessor, without being

late, prior to the 1st day of January of each year such payment is due through and including the lease payment due January 1, 2022, then within sixty (60) days from January 1, 2022; and, provided there is no material default in the State Lease, said deposit shall be returned to Lessee. If any rent payment up to and including the rent payment due prior to January 1, 2022, is paid late, even though such payment is ultimately cured by Lessee, then Lessor shall continue to hold the deposit through the end of the term of the State Lease in December 2026; and, if there are no material defaults at that time, then said deposit shall be refunded to Lessee within sixty (60) days of January 1, 2027; otherwise, said deposit shall be forfeited to Lessor. The deposit may be in any of the following forms:

- i. Cash.
- ii. First position Deed of Trust on real property acceptable to Lessor in Lessor's discretion, with marketable title free and clear of any lien or encumbrance unless acceptable to Lessor in Lessor's discretion, and with a current appraised value of at least \$900,000. TMO would execute a Promissory Note and Deed of Trust for certain real property, all of which to be in form acceptable to Lessor, within sixty (60) days from the date of the execution of this Agreement.
- iii. Bond or letter of credit in form acceptable to Lessor.

If an acceptable deposit is initially made by Lessee, then Lessee shall have the option during the term of the deposit, as described above, of requesting that Lessor accept a replacement form of deposit, in one of the above-identified forms of deposit then acceptable to Lessor; and, upon receipt of the replacement deposit, the previously held form of deposit shall be released and/or returned to Lessee, depending of the form of said deposit. For example, if Lessee initially establishes a deposit using a promissory note and deed of trust on a particular piece of property, and thereafter desires to develop, sell or otherwise dispose of such property; and, if Lessee provides a cash deposit, acceptable bond or letter of credit, or provides a deed of trust on other acceptable real property, then following the receipt of the replacement deposit, Lessor would agree to release the prior deposit in the form of secured real property with a deed of reconveyance.

- c. **Reclamation Bond.** Lessor currently holding \$781,000 in reclamation funds to secure the reclamation of the Leased Premises in the event of the termination of the State Lease. Within six (6) months after execution of this Agreement, TMO shall provide Lessor with an updated Reclamation Plan addressing the reclamation required pursuant to Article III.B.3 of the State Lease with respect to all Improvements completed or then under construction, which Reclamation Plan shall include TMO's estimate of the cost of reclamation set forth in such Reclamation Plan. Upon Lessor's agreement with the estimated cost of such reclamation, TMO shall promptly furnish a bond for the amount by which the cost of such reclamation exceeds \$781,000, if any, and the parties shall thereafter adjust the amount of the bond annually pursuant to the procedures set forth in the State Lease. Failure to provide such information to the reasonable satisfaction of Lessor shall constitute a default of the State Lease.

- d. **Performance Bonds.** Lessee shall furnish good and sufficient payment and performance bonds, each in the full contract amount, which bonds may be acquired by Lessee or by Lessee's contractors for each contract for construction of Improvements on the Leased Premises adequately assignable and enforceable by Lessor. Such bonds shall be in favor of Lessor, or in the name of both Lessor and Lessee, and shall be enforceable by both or either Lessor or Lessee to protect against loss due to the failure of Lessee or Lessee's contractor's to complete such construction in accordance with the approved plans, or Lessee's failure to pay contractors, or Lessee's contractor's failure to pay subcontractors and others who may provide goods and services to Lessee relative to any work affecting the Leased Premises. The period of liability of the bonds shall not be terminated until the completion of construction of the respective Improvements to be constructed on the Leased Premises in question and the expiration of the timeframe under applicable law for filing of lien claims with respect to such construction has expired.
5. **Conditions Precedent.** Landlord's consent to this Agreement shall not be effective until the executed Agreement is delivered to TMA and TMO by the Director of the Idaho Department of Lands (or his designee). Such delivery shall not occur until the conditions set forth on Exhibit "H" hereto have been fulfilled, or assurances provided with respect thereto, in each case to the satisfaction of the Director.
6. **Recitals are Contractual in Nature.** The recitals set forth in this Agreement are contractual in nature and are not intended to constitute mere recitals.
7. **Authority.** All parties executing this Agreement represent and warrant that they have full and complete authority to execute this Agreement on behalf of the party represented.
8. **Notices.** All notices required or permitted to be given to Assignor, Lessee or to Lessor under this Agreement or the State Lease, respectively, shall be given in accordance with the terms hereof, or Article XXI of the State Lease, or for any reason to Assignor, Lessee or to Lessor at the following address:
9. **To TMA:**
- Tamarack Municipal Association, Inc.
311 Village Drive, PMB 3003
Tamarack ID 83615
- with a copy to:
Stephen J Lord
409 West Jefferson Street
Boise ID 83702

To TMO:

Tamarack Mountain Operations LLC
c/o _____
311 Village Drive, PMB 3026
Tamarack, ID 83615
Attention: Project Manager

with a copy to:

Hawley Troxell Ennis & Hawley
Michael M. Stoddard
877 Main Street, Suite 1000
Boise, ID 83702

To LESSOR:

Idaho Department of Lands
Leasing Program Manager
300 N. 6th Street
Suite 103
PO Box 83720
Boise, Idaho 83702-0050

with a copy to:

Office of the Attorney General
Deputy Attorney General
Natural Resources Division
700 W State Street, 2nd Floor
Boise, Idaho 83702

8. **Governing Law and Attorney Fees.** This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Idaho. If any party hereto commences an action against any other party to enforce any of the terms hereof or to obtain damages for any alleged breach of any of the terms hereof, the losing party or parties agree to pay the prevailing party or parties all costs, expenses and reasonable attorney fees incurred therein by the prevailing party or parties, which amount shall be included as part of the judgment therein rendered. Nothing contained in this provision shall in any way alter or amend the attorney fee provision in the State Lease.
9. **Execution of Counterparts & Assignments.** This Agreement may be executed in counterparts. Each counterpart shall be deemed an original, and all counterparts shall be deemed the same instrument with the same effect as if all parties hereto had signed the same signature page. Any assignment of this Agreement shall be in accordance with the terms and conditions set forth in the State Lease.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

TMO: TAMARACK MOUNTAIN OPERATIONS, LLC
an Idaho limited liability company

By: _____
Its: _____

STATE OF _____)
) ss.
County of _____)

On this _____ day of _____, in the year 2018, before me a Notary Public in and for said State, personally appeared _____, known, or identified to me, to be the authorized signatory of _____, the limited liability company that executed the instrument or the person who executed the instrument on behalf of _____, a Delaware limited liability company, and acknowledged to me that such limited liability company executed the same as managing member of _____, a limited liability company, and acknowledged to me that said person executed the same as authorized signatory for and on behalf of _____.

(Seal)

Notary Public for the State of _____
Residing at: _____
My Bond expires: _____

TMA: TAMARACK MUNICIPAL ASSOCIATION, LLC
an Idaho limited liability company

By: _____
Its: _____

STATE OF _____)
) ss.
County of _____)

On this _____ day of _____, in the year 2018, before me a Notary Public in and for said State, personally appeared _____, known, or identified to me, to be the authorized signatories of _____, the limited liability company that executed the instrument or the person who executed the instrument on behalf of, a limited liability company, and acknowledged to me that such limited liability company executed the same.

(Seal)

Notary Public for the State of _____
Residing at: _____
My Bond expires: _____

LESSOR: STATE BOARD OF LAND COMMISSIONERS

IN WITNESS WHEREOF, I, **C.L. "BUTCH" OTTER**, the Governor of the State of Idaho and President of the State Board of Land Commissioners, have hereunto signed my name and caused the Great Seal of the State of Idaho and the Seal of the State Board of Land Commissioners to be hereunto affixed, this ____ day of _____, 2018.

Governor of Idaho and President of the
State Board of Land Commissioners

COUNTERSIGNED:

Secretary of State

Director, Department of Lands

STATE OF IDAHO)
) ss.
County of Ada)

On this _____ day of _____, in the year 2018, before me a Notary Public in and for said State, personally appeared **C.L. “BUTCH” OTTER**, known to me to be the Governor of the State of Idaho and President of the State Board of Land Commissioners, and **LAWRENCE E. DENNY**, known to me to be the Secretary of State of the State of Idaho, and **DUSTIN T. MILLER**, known to me to be the Director of the Department of Lands of the State of Idaho, who executed the said instrument and acknowledged to me that such State of Idaho executed the same.

(Seal)

Notary Public for the State of Idaho
Residing at: _____
My Bond expires: _____

EXHIBIT “A”

COMMERCIAL LEASE NO. M-5042

See attached.



EXHIBIT “B”
ADDENDUM NO. 1

See attached.



EXHIBIT “C”
SUMMARY OF LICENSE

See attached.



EXHIBIT “D”
MODIFICATION NO. 2

See attached.



EXHIBIT “E”
MODIFICATION NO. 3

See attached.



EXHIBIT “F”

ASSIGNMENT TO NEWTRAC

See attached.



EXHIBIT “G”
ASSIGNMENT TO TMA

See attached.



EXHIBIT “H”

CONDITIONS PRECEDENT

1. Payment of the lease payment for lease year 2019, normally due and payable on or before January 1, 2019, shall be paid in advance within five (5) days following the approval of the assignment by the State Board of Land Commissioners in accordance with Section 4.a, above.
2. All right, title and interest in and to the Improvements, water rights, Licensed Property and Ski Hill License Facilities is transferred to and held in the name of Lessee, and copies of such ownership documents is provided to Lessor within sixty (60) days from the date of the execution of the Assignment and Assumption Agreement in accordance with Section 3.f.i of the Assignment and Assumption Agreement.
3. All assignment and conveyance instruments conveying the water rights to TMA, and all such instruments conveying such water rights from TMA to TMO, and filed with IDWR within sixty (60) days from the date of the execution of the Assignment and Assumption Agreement in accordance with Section 3.f.ii.1 and 2 of the Assignment and Assumption Agreement.
4. An easement in a form acceptable to Lessor is executed and recorded in the records of Valley County and Adams County providing Lessor access over all land upon which water delivery is located which provide water from the respective points of diversion to the place of use on the Leased Premises within sixty (60) days of the execution of the Assignment and Assumption Agreement in accordance with Section 3.f.iv of the Assignment and Assumption Agreement.
5. A deposit in the amount of \$896,159.76 is provided in favor of Lessor in accordance with Section 4.b of the Assignment and Assumption Agreement.