



Idaho State Board of Land Commissioners

Brad Little, 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.

Final Minutes
State Board of Land Commissioners Regular Meeting
September 15, 2020

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, September 15, 2020 in the State Capitol, House Hearing Room EW42, 700 W Jefferson Street, Boise, Idaho. The meeting began at 9:03 a.m. The Honorable Governor Brad Little presided. The following members were in attendance:

Honorable Governor Brad Little
Honorable Secretary of State Lawrence Denney
Honorable Attorney General Lawrence Wasden
Honorable State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, all Board members were present.

1. Department Report – *Presented by Dustin Miller, Director*

Trust Land Revenue

A. Timber Sales – August 2020

Discussion: Governor Little asked why the Bacon Salvage sale was cancelled. Director Miller replied that the sale was not cancelled; it was completed. Cancelled is nomenclature used in the industry for a completed sale. Referring to page 2 of the report, volume under contract residual value, Governor Little noted the Department's 3-year average is \$288/MBF and the total is \$246/MBF. The graph shows timber price is up, but even more compelling is the future market is up 120%; Governor Little said it seems a little ironic that the Department is below the 3-year average with record high timber prices. Director Miller explained that much of the volume under contract right now is for sales that are less than five years old. Governor Little requested an aging report on the timber sales.

Governor Little appreciated the tussock moth update and wondered if the Forest Service is trying to get some salvage done around Sagehen. Governor Little remarked it is good that the Department highlight for the public what it did with this tussock moth sale; interest in forest health is very high today, just look out the window [smoky conditions], and the Department should talk about what a significant reduction of risk that salvage was. Governor Little inquired

about the sales that are on the queue and what kind of value the Department expects to get for those trees, if they were defoliated a year ago. Deputy Director Bill Haagenon answered that the latest round of sales the Department is working on for salvage represents the last of the volume that the Douglas-fir tussock moth would have affected. There is some delay in the effect of the insect and the Department captures the salvage as that progresses. There is still time to salvage that volume similar to the other sales the Department has done.

B. Leases and Permits – August 2020

Discussion: None.

Status Updates

C. Fire Season Report

Discussion: Governor Little asked about the \$20 million; is that the forecast through the end of the season or is that an estimate. Governor Little mentioned there is \$40 or \$50 million in the deficiency suppression pool; does the Department have a forecast number of what expenditures are going to be at the current burn rate towards the end of the season. How much of that \$50 million is going to be at risk? Director Miller responded there is not an estimate on that. Director Miller stated the cash balance in the deficiency fund is about \$44.5 million and costs right now are approximately \$20.3 million. The Department's obligation of that is \$18.8 million. Fire season came on late this year, but the Department is hopeful in the next two or three weeks to start seeing some season-ending events. Department firefighters do a phenomenal job at initial attack and trying to keep these fires small and manageable, to keep them Type 3 team or less and minimize those costs. Governor Little questioned the difference between a Type 2 or Type 3 team; what are cost differences and are those Type 2 and Type 3 teams federal administrators of the fires. Josh Harvey, Bureau Chief-Fire Management, described the fire type classifications:

- Type 5 fire example is a single tree lightning strike, manageable with an engine and 3 personnel;
- Type 4 incident is slightly more complex; there are multiple types of resources on it: hand crews, engines, higher level of qualification for the individual that is the incident commander. This type of fire might be broken into smaller pieces for easier management. Aircraft would include a helicopter and maybe a retardant delivery system of a single engine air tanker [SEAT].
- Type 3 fire rises to an incident management team. This team consists of an incident commander (IC), operations plans chief, logistics chief, and finance chief. The overall management is getting much more complex. There are multiple types of resources and 150 to 200+ people on the incident. It involves values at risk: structures, infrastructure, powerlines, highways being impinged, etc. At the onset of a Type 3 incident, expenses are a couple hundred thousand dollars. Costs may exceed \$1 million but normally do not exceed \$2 million.
- Type 2 incidents may have a 50-man roster of the incident management team, not exclusively federal folks working on that. The Type 2 team that is currently managing the Sunnyside Complex out of Orofino consists of many Department of Lands personnel in command positions. The two operations chiefs on that team are Department staff. Incidents like that consist of multiple fires that one team is managing: multiple resources, heavy airtankers that cost \$30,000 to \$40,000 per drop, Type 1 helicopters that when

sitting on the ground are \$20,000 per day or more, anywhere from 300 to 900+ individuals in the camp working the fire line.

- Type 1 fires, current examples are fires in Oregon and California. There have been Type 1 incidents here in Idaho. These are multi-million-dollar incidents, typically exceeding the \$5 million mark or much higher and include extensive evacuations, potential loss of life, and severe damage to infrastructure.

Mr. Harvey indicated fires in Idaho typically involve Type 3 and Type 2 teams. The Department's Type 2 teams are very highly qualified and capable of managing large, complex incidents that can include loss of life and damage to infrastructure. Fires within the Department's protection areas tend to be slightly smaller in acreage and Type 1 incidences are infrequent. Mr. Harvey summarized that expenses range from a few hundred dollars on a Type 5 fire to millions of dollars on Type 1 and Type 2 incidents. Governor Little thanked Mr. Harvey for the helpful descriptions. Governor Little asked for crib notes on the fire types for future reference.

Governor Little mentioned he has been in communications with Idaho's Office of Emergency Management, Oregon, Washington, and California. Idaho is quite fortunate that early on, the Department and federal land managers decided to get on every one of these fires immediately. Idaho had better weather than those states. Governor Little commented Idaho has good fire management, but some is up to God and be thankful for that. Governor Little indicated that Idaho sent some local crews into Oregon; it is important, and it was the right thing to do this year particularly given the stresses from the COVID virus. Governor Little asked that Mr. Harvey tell all of the Department's crews the Board is very proud of them. Not only are the people of Idaho proud that the fires are out, taxpayers are proud that the Department has not needed to spend all \$45 million in the deficiency fund.

D. Cottage Sites Auction – Priest Lake Results

Discussion: Governor Little inquired about the timeline between the appraisal and the sale. The fact that values are off by 35%--is it the appraisers or the timing of the appraisals. Mr. Sid Anderson, Program Manager-Real Estate, replied that the appraisals were complete in May 2020. Timing varies depending on the auction cycle, but typically the auction is held three or four months after the appraisals are completed.

Controller Woolf observed that ten of the lots had up-bids and inquired if there was anything different about this auction compared to auctions in the past or is it just a hot market.

Mr. Anderson commented that this was a much more exciting auction than generally occurs for Priest Lake lots. At Payette Lake, there has been quite a bit of competition for lots; at Priest Lake there has been very little competition in the past. Mr. Anderson said that with the previous 281 lots sold, only 10 were competitively bid. The Department anticipated more bidding action than normal based on the marketing phase and the interest that was shown. There were a couple of lots where competition was neighbor against neighbor or family against family, which was unfortunate. Most of this the Department can only attribute to the market conditions in society due to COVID and the riots. If people want somewhere remote to get away from those worries, Priest Lake is the place.

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

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

Discussion: Mr. Anton remarked that equity markets continue to exhibit very strong positive momentum and all of the major U.S. indices reached all-time highs in the month of August. The portfolio was up 3.3% for the month and up 7.4% fiscal-year-to-date through August 31. Through yesterday [September 14] the portfolio was up 6.1%. Mr. Anton mentioned that at the recent Jackson Hole Economic Policy Symposium, Chairman Jerome Powell indicated that the Federal Reserve would aim for inflation that averages 2% over time, rather than a 2% cap, which implies a plan to keep interest rates low for a considerable period of time in order to drive higher unemployment and higher levels of inflation. This low interest rate environment has caused many investors to shift funds from fixed income into equity markets and other alternatives trying to seek greater returns because of the low interest rates. Investors, in particular, have been enamored by the technology and the large growth stocks and that is part of what has driven the market to these all-time highs. Mr. Anton stated there are signs the economy continues to improve. Earnings in the last quarter, for many cases, were better than anticipated. It seems a bit odd that the financial markets seem to have declared victory that COVID-19 is over since markets are at all-time highs. There has been this immediate bounce back, but Mr. Anton observed there still appears to be some uncertainty where things are headed. The next two months should be interesting as schools reopen and as the election process kicks into full gear. Mr. Anton said it will not be surprising to see volatility in the markets as witnessed over the last couple of months. Overall, the portfolio is in good standing.

Mr. Anton pointed out in the Investment Report, page 2, that the fund is ahead of the benchmark for fixed income and a little behind primarily in U.S. equities, driven by two things. One is a technical measurement issue that the fund is compared to the Russell 3000 benchmark; as the large cap stocks have become a bigger part of the market, the fund's weighting in mid- and small-cap companies is greater than the index. The fund's mid- and small-cap companies have underperformed somewhat. Part of the underperformance is not a management issue, but a structural asset allocation issue. The second is that endowment fund managers significantly outperformed last fiscal year. Managers did a nice job identifying companies that would be stable and strong during the pandemic and recover most quickly. As endowment funds reached these all-time highs, the markets have been really driven out by retail investors that are pouring into a large number of the index funds and driving all stocks up. Those high-flyers moved first and have not moved quite as quickly as the market reached the peaks.

In terms of upcoming events, Mr. Anton reported that the Investment Board is holding a special meeting on September 24th, an educational session for the Investment Board to consider investment opportunities related to infrastructure. The yield on the ten-year treasury is at 0.67% and inflation is 1.6% which is a negative real yield on fixed income and that is 26% of the endowment portfolio. The gain benchmark requires the portfolio to grow at least at the rate of inflation. The Investment Board is considering if it makes sense to look at some alternatives that have good cash flow, maybe are not quite as risky as the equity part of the portfolio but give greater returns in the traditional fixed income.

Consent—Action Item(s)

3. Idaho State Historical Society/Botanical Garden Lease – *Presented by Janet Gallimore, Executive Director, Idaho State Historical Society*

Recommendation: Approve the restated lease between the Idaho State Historical Society and the Idaho Botanical Garden.

Discussion: Director Gallimore communicated that the Idaho State Historical Society [ISHS] and the Botanical Garden have had an ongoing relationship since 1984. The Idaho Botanical Garden became part of the Old Idaho Penitentiary Historic District under the first lease shown in Attachment 1 of the Board materials. The original 50-year lease was very general and left much to interpretation and, sometimes, to misunderstanding. The Idaho Botanical Garden and ISHS agency staff worked to clarify roles and enhance site operations over time through MOUs; both parties have a strong collaborative relationship. ISHS had excellent relationships with former Directors Rundberg and Wiersema, and now with current Director Erin Anderson. Director Gallimore indicated that the restated lease establishes a new 50-year term as noted on page 3. This will enhance the long-term self-sustainability for the Idaho Botanical Garden and the restated lease annual rent is based upon a 2019 Valbridge Property Advisor's Estimate of Market Rate. The discounted lease rate recognizes the public educational value that the Idaho Botanical Garden brings to the Old Pen Historic District and the state. Director Gallimore shared that the Botanical Garden presently serves over 150,000 visitors annually and offers education and public programming to more than 13,000 school kids and 2,000 adults. Currently the lease revenue helps ISHS support operations of the Old Pen Historic District, which is funded primarily through non-general fund sources under the administrative guidance of the Idaho State Historical Society. The Old Pen Historic District's budget is approximately \$470,000 which is earned from admissions receipts in the annual amount of \$350,000, building and property rental revenues including those from the Garden and CWI (College of Western Idaho) and others in the amount of \$80,000, and communication tower receipts in the amount of \$40,000. Director Gallimore mentioned this restated lease was authored by Deputy Attorney General Jenifer Marcus and was approved by the State Historical Society Board of Trustees on August 20, 2020 and the Board of the Idaho Botanical Garden on August 27, 2020. Director Gallimore commented that the Old Idaho Penitentiary is one of the top tourism destinations in Idaho and is quite unique as it is one of only four territorial prisons in the United States open to the public. Adding to its uniqueness is the feature of the Idaho Botanical Garden; both organizations are great collaborators in building and promoting the Old Pen Historic District as a historic, cultural, environmental, and educational destination of regional and national importance.

Governor Little remarked that fifty years is a long time and asked if the lease allows either party to look at some other condition if both parties agreed to it. Governor Little noted the fact that it is not endowment land makes it a little helpful. Director Gallimore agreed that fifty years is a long lease term and it is somewhat unusual; both boards grappled with that, understanding that the Botanical Garden, in order to fundraise the capital money to invest in the site, has donors who want a longer term security for donated funds. That was one of the driving factors to the length of the lease. The original lease was for fifty years as well. The lease terms require the premises to be appraised every 10 years then the lease amount readjusted to the higher of either 25% of the market value or whatever the lease rate is at that point. The lease will not go for fifty years without adjusting to market conditions to be fair to the State and to be fair to the Garden. Governor Little supposed if it was to the benefit of both parties to make a change other than the

lease rate that it could be done; that is usually standard in a lease. Director Gallimore stated there is a provision in this lease for an annual meeting of both boards and also a default clause in case anything happens with stipulation for what buildings and structures would come to the State and what would have to be removed by the Botanical Garden.

Attorney General Wasden thanked Director Gallimore for her presentation, and for her work at the Historical Society. Attorney General Wasden observed that in the past there has been misunderstanding between the Botanical Garden and the Historical Society and expected that this lease, as it is proposed, will help resolve those issues for smooth operations in the future. Director Gallimore clarified that those misapprehensions were well in the past and primarily had to do with a lack of understanding about the nature of a historic district and the nature of renovation of buildings. There is provision in this lease that outlines that any restoration of historic buildings will be done within the confines of the Secretary of the Interior's standards and that archaeology would be done on the site if there was anything moving into the ground. Director Gallimore assured the Attorney General and the Board that in the last 15 years there have been no misunderstandings between the Historical Society and the Botanical Gardens.

4. Approval of Draft Minutes – August 18, 2020 Regular Meeting (Boise)

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

Regular—Action Item(s)

5. FY2022 Department of Lands Budget – Presented by Donna Caldwell, Division Administrator-Business Services

Recommendation: Approve the Department's FY2022 budget request as submitted to Division of Financial Management and Legislative Services Office on Friday, August 28, 2020.

Discussion: Controller Woolf recalled that when the Board approved the Department's budget last month, the Department was asked to identify the savings or potential loss associated with engine bosses, as requested in the first decision unit. Controller Woolf asked if there has been opportunity for analysis or if additional time is needed. Ms. Caldwell responded that the Department does need more time. It is a difficult question because fire seasons are extremely variable. Depending on what is happening during the season, it could save a great deal, or it could save little. Division Administrator Craig Foss explained last month that one of the Department's goals is to have better retention of those engine boss positions which are frequently lost to federal agencies that can provide them more security. Ms. Caldwell remarked that the Department wants to be able to compete and keep those staff members. By doing that, costs of retraining are reduced which is about \$50,000 for each of the engine bosses. In addition, fire crews are safer and more efficient because they build experience. They understand the Department's way of doing things, they learn the grounds, they learn the operational needs of the agency on various kinds of fires. Josh Harvey mentioned in his presentation earlier in this meeting about the different type teams...there is potential to have an engine boss call in a Type 2 or Type 3 team too early or not early enough. That can have devastating effects on the general fund in terms of costs. The Department is working to determine an effectual method to illustrate the cost savings or potential loss.

Board Action: A motion was made by Controller Woolf that the Board adopt and approve the Department's FY2022 budget request as submitted to the Division of Financial Management and Legislative Services Office on Friday, August 28, 2020. Attorney General Wasden seconded the motion. The motion carried on a vote of 4-0. For the record, Governor Little was recused from this vote.

6. Proposed Legislation – *Presented by Scott Phillips, Policy and Communications Chief*

Recommendation: The Department recommends the Land Board approve these legislative proposals and direct the Department to proceed with the 2021 executive agency legislation process.

Discussion: Attorney General Wasden inquired why the Scaling Board does not want to participate in PERSI. Mr. Phillips replied it was brought to the Department's attention by the State Controller's office. It typically costs more to process an individual transaction than the amount of the transaction itself; it is an efficiency-saving matter. Governor Little commented that he thought all Board honorariums had been switched out of PERSI participation. Governor Little explained that if a person qualifies for PERSI it has other effects; it is actually a federal tax law issue. Governor Little said perhaps the Controller's staff can research and added that he has been involved in 20 changes in honorariums and it is the right thing to do.

Board Action: A motion was made by Attorney General Wasden that the Board adopt and approve the Department's recommendation that is approve the legislative proposals and direct the Department to proceed with the 2021 executive agency legislation process. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

Information

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

7. Bond Assurance Fund Update – *Presented by Mick Thomas, Division Administrator-Minerals, Public Trust, Oil & Gas*

Discussion: None.

Executive Session

None

There being no further business before the Board, at 10:00 a.m. a motion to adjourn was made by Attorney General Wasden. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

