



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
November 16, 2021

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, November 16, 2021 at the Idaho Department of Lands, Garnet Conference Room, 300 N 6th Street, Suite 103, Boise, Idaho, and via webinar. The meeting began at 9:01 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, the Governor's Stage 4 Stay Healthy Guidelines, dated 5/11/2021, allowed for public meetings of any size with adherence to physical distancing and sanitation requirements. Governor Little and Controller Woolf were at the physical meeting location. Attorney General Wasden, Secretary of State Denney, and Superintendent Ybarra joined by webinar.

Prior to starting the meeting Governor Little requested, with consent of Land Board members, that the Endowment Land Exchange Policy agenda item be moved from the Regular (Action) agenda section to the Information agenda section. There were no objections and Governor Little so ordered the change.

[Editor's note: the Discussion portions, if any, for all agenda items are written in first-person format. This is not a verbatim transcript.]

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

Trust Land Revenue

A. Timber Sales – October 2021

Discussion:

Director Miller: On page five we put together a little narrative to give you more background of what's currently happening with our timber sales. In November, the Department had six sales that did not sell for various reasons. I won't go through it in great detail but some of the resounding themes include severity of burned timber in some sales, the complexity of the harvest system required in some sales, haul costs, and full log yards at the mills. Department staff will continue to work through these issues and reoffer these sales as soon as possible if they have not been reoffered already.

Controller Woolf: I want to thank the Department for putting that together. It was very helpful having what took place behind the scenes of all these that didn't sell and what the plan is going forward.

Governor Little: What I think is really important for us is that we look at what the problems were and address them, because time is of the essence on these salvage sales so that we get them out. One of the things, Director Miller, salvage sales are offered at a 90% discount to begin with, but if there's severity issues, we need to be able to price these things to where we get them moved, otherwise we'll have zero and then we'll have costs going in doing forest health projects afterward. This is a good start, but we ought to maybe work with the industry and figure out what works best so we can get those sales out the door and not mess up our other timber sales.

Attorney General Wasden: I have a question for the Director on this one. It appears to me that there's another alternative that at least needs to be considered, or perhaps the Department is already considering, and that is rather than listing these as a timber sale, to directly contract for removal. We certainly don't want to put ourselves in the position where we're losing money, but that is another possibility that may reduce costs and still produce and still provide proper management of these lands. I just wondered what the Director's thoughts are on that.

Director Miller: We do the best we can on the salvage sales as you know. We do have salvage minimums but as long as we get folks to the table to upbid those, it's good for everybody. The Department works expeditiously to cruise these sales, to advertise these sales and get them sold so we can get the wood moved as soon as possible. In some instances, a direct sale like you asked, General Wasden, is the best way to go to get some of the volume moved if that's our only alternative. Bill, do you want to expand on this a little bit.

Bill Haagenon: Thank you, Director. For the record, Bill Haagenon, Deputy Director for IDL. Just another update, about 78.5 million board feet of salvage is where we are at this point. We've sold about 42 million of that to date so the salvage sales are selling. In terms of the salvage minimums at 10% of the regional log prices, that is actually a minimum. We would not start there necessarily; we would try to sell it for more than that. Ultimately the logging costs can drive it down to that price and we may end up there; if possible, we will get more than that. We think the salvage effort is progressing very nicely. We are getting the sales sold, we are in communication with industry when we have a sale that we may be having some trouble selling,

we try to find out what the problems might be and address those problems and get it sold and we do it in a commercial way.

Governor Little: Bill, you can help me, if I remember the agenda item last month was for us to not charge interest. It was a request, we didn't do it, but I think to satisfy that there was some action that the Department was going to take to not charge interest on the green sales, so that they could deploy their capital to buy the salvage sales. Do I have that right?

Mr. Haagenon: Governor, the request from industry was to defer interest on an equivalent amount of green volume; there was no action taken on that. No interest has been deferred.

Governor Little: But I think we ought to look at all of this, to General Wasden's question; sometimes losing a little money is better than losing a lot of money. Those of us in the cattle industry know that very well. Let's go ahead and have the dialogue because you're saying you've got about 60% of the salvage timber sold, well that 40% that's not sold may end up being a liability to the state rather than an asset; let's do our due diligence as we go forward.

Director Miller: Governor, so far from what sold of our salvage sales we're looking at about a 35% loss of value is what we've calculated. We'll keep looking at this and like always strive to get the most value we can out of the salvage sales.

Trust Land Revenue

B. Leases and Permits – October 2021

Discussion:

Governor Little: My understanding is that a county couldn't take an action on state land that would in essence devalue it. Did I miss something?

Director Miller: I believe that is correct, Governor, but this land hasn't changed hands yet; we need to work through this issue right now since it hasn't changed hands. Josh, do you want to expand on that a little bit.

Josh Purkiss: Thank you, Director. Governor, members of the Board, for the record Josh Purkiss, Real Estate Services Bureau Chief. That is one of the questions being asked right now by legal counsel. As we look at this exchange and with the recent passing of the new ordinance, with us taking title, pretty quickly thereafter there could be an argument that we should follow that ordinance.

Governor Little: Maybe I misunderstood. Is this ground we're acquiring, rather than ground we're disposing of?

Mr. Purkiss: Yes, it is.

Governor Little: I thought this was ground we were disposing of. If it's ground we're acquiring, I think we've got a problem.

Mr. Purkiss: Governor, that's part of the problem we're working through with the AG's Office.

Governor Little: Don't you just have to do another valuation?

Mr. Purkiss: Between the Boise County ordinance and the easement on this property...the easement has some future obligations to road construction and maintenance for the land on the back side of the hill going over Horseshoe Bend to allow emergency access and potential for more subdivisions, so we're digging into that. Between that and the Boise County ordinance it's either the potential of a new appraisal or maybe switching the lands involved in the exchange depending on where we get.

Status Updates

C. Timberland and Rangeland Asset Class Valuations

Discussion: None.

2. Endowment Fund Investment Board Report – Presented by Tom Wilford, Chairman; Chris Anton, Manager of Investments; Jerry Aldape, Chair, Audit Committee; Paul Niedermuller, CliftonLarsonAllen

- Introduction of Endowment Fund Investment Board
 - A. FY2021 Annual Report
 - B. Land Board Audit Committee Report
 - C. Manager's Monthly Report

Discussion:

Tom Wilford: Good morning, Governor, members of the Land Board; for the record I am Tom Wilford, the chair of the Endowment Fund Investment Board. Traditionally the Endowment Fund Investment Board attends the May and November Land Board meetings to help ensure strong communications between us. We welcome the opportunity to be here today. Before we begin our presentation, I'd like to introduce our Investment Board, important partners, and our staff. First the Investment Board members: Jerry Aldape, who is also chair of the Land Board Audit Committee, Dr. Bob Donaldson, Joe Forney; Representative Steve Harris is not able to be with us today, Irv Littman; Richelle Sugiyama who is the vice chair of the Endowment Fund Investment Board, Senator Chuck Winder is also not here today, he's the chair of our Compensation Committee, and Brian Yeargain. Our legal counsel, Julie Weaver, was not able to make it today. Our investment consultant, Callan, is represented by Janet Becker-Wold; our auditor CliftonLarsonAllen, partner Paul Niedermuller is here today. Then our Investment Board staff: Chris Anton, manager of investments, Chris Halvorson, the investment officer, Kathy Van Vactor, the fiscal officer, and Liz Wieneke, the office manager. Today Chris Anton will provide a summary of our fiscal year 2021 financial results, Jerry Aldape and Paul Niedermuller will talk about the fiscal year 2021 audit and agreed-upon procedures effective for both the Endowment Fund Investment Board and the Idaho Department of Lands.

Chris Anton: Governor, members of the Land Board, good morning. Included in your book is our annual report today. I just want to highlight some of the key performance metrics. Fiscal year 2021 was a very strong year for the land grant endowment fund. The endowment fund grew by 29.7% or \$711.6 million which left us at a fiscal year-end balance of \$3.1 billion in the fund. Earnings reserve levels exceeded targets at fiscal year-end which allowed the Land Board to both increase the reserve level for the Public School fund to seven years and transfer \$486.4 million from earnings reserves into the permanent fund. This transfer increases the permanent fund gain

benchmark and positions the fund for larger beneficiary distributions in the future. The endowment fund had investment returns of 29.7% which ranked in the top 15th percentile when compared to our peers in the Callan public funds sponsored database. Cost to manage the fund totaled \$12.1 million or 0.39% of assets. Net land revenue grew by 25.5% to \$59.6 million as the Idaho Department of Lands advanced its forest asset management plan to sustainably increase the annual volume of timber harvested and benefited from strong stumpage prices. Beneficiary distributions increased by 4.5% to \$84.5 million and the Land Board has approved distributions of \$88.1 million and \$100.3 million in fiscal years 2022 and 2023 respectively. All in all, it was a pretty fantastic year. I wish we could have a few more like that but pleased to provide these results to you today. Governor, I will turn the floor over to Jerry Aldape. Jerry as you know, chairs the Land Board Audit Committee.

Governor Little: That's what happens when you're the last guy to the meeting, Jerry.

Jerry Aldape: Governor and Land Board members, let me introduce myself. I am Jerry Aldape and I'm head of the audit committee for the Land Board and the endowment fund. The members of our Land Board Audit Committee are Tom Wilford, Brian Yeargain, Robyn Lockett from the Attorney General's office, and Brandon Woolf, our State Controller. Each year the Endowment Fund Investment Board commissions an independent audit of its financial results, and the Idaho Department of Lands conducts certain agreed-upon procedures to ensure accurate financial reporting, and solid internal controls and transparency to its stockholders, which is the state. The Land Board Audit Committee met with representatives from the independent auditors CliftonLarsonAllen, with members of EFIB, and Idaho Department of Lands staff on August 11th and September 15th of 2021 to review these results of these procedures. I am pleased to report that EFIB's audit financial reports and IDL's agreed-upon procedures were reviewed and accepted by the Land Board Audit Committee. We end up with an unmodified opinion. I am going to turn the presentation over to Paul Niedermuller. He will talk about their part of the audit. Thank you.

Paul Niedermuller: Thank you, Mr. Aldape. For the record, Paul Niedermuller, principal for CliftonLarsonAllen, or CLA. CLA issued three formal reports to the EFIB and Idaho Department of Lands. The first of those reports, as Mr. Aldape mentioned, was an unmodified opinion on the financial statements. These opinions are representation by a professional independent party of the auditor, that the financial statements are presented fairly in all material respects, the financial position of the state of Idaho endowment fund as of and for the year ended June 30, 2021 as well as 2020. The second report which is included within those financial statements is a review of government auditing standards and this is a review of the internal controls over financial reporting and compliance with certain provisions of law, regulations, and contracts; we are happy to report there were no items of significance reported as a result of the work over the government auditing standards. The final report that CliftonLarsonAllen provided is that we conducted certain agreed-upon procedures that were performed over the Idaho Department of Lands and again we had no findings to report on our work. CLA is a national firm with a local office here in Boise and we value the relationship with the state of Idaho.

Attorney General Wasden: I wanted to make sure from your perspective that you had full cooperation from the Department of Lands and from the EFIB.

Mr. Niedermuller: Mr. Attorney General, we absolutely did and we appreciated all of their coordination through the entire process. Thank you.

Attorney General Wasden: Thank you and I had no doubt that would be the answer but I just wanted to make record of it.

Governor Little: A question for Chairman Aldape, is there anything that you or your audit committee saw that's outside of the purview of what you do? Is there any question that we're not asking the Investment Board that we should ask on either EFIB or Lands?

Mr. Aldape: I think our audit committee is very thorough. We're hard on Paul in making sure we want this discussed, we want that discussed; we have a very detailed list. Then he works with both entities to make sure that everything is coming out the way he wants and the way we want. We asked the same question the Attorney General asked. If there's any difficulty, any hesitancy, between either party we want to know. Everything is in a great level and objective plane.

Governor Little: I do have a question for Chris or Tom. I see this morning's paper that CalPERS is going to start borrowing money to make their pension fund solvent and start leveraging up. I know we're not doing that in Idaho, but do you view, and maybe Janet can talk about it, do you view some of the actions by other big funds, whether they be endowment funds or pension funds – because you're leveraging the market – as creating risk in the market that might change what we want to do with the EFIB portfolio?

Mr. Wilford: I'll start with the fact that, first of all advice from Janet and Callan, we have a very diversified portfolio and some of the problems that are being addressed across the nation right now have to do with regular pension plans which sometimes are invested heavily in fixed income assets. Fixed income assets and U.S. treasuries and things of that sort pay practically nothing right now, so the forecasts and having to meet pension liabilities in the future are impacted by that. I will ask Janet to make some comments, please.

Ms. Becker-Wold: Morning. Yeah, pension funds...since we're in a really low interest rate environment, pension funds find it attractive to issue pension obligation bonds because they can issue them at a very inexpensive interest rate. It's an arbitrage opportunity because they have to be able to invest those funds back in the pension and earn in excess of the cost of those bonds in order for that to be effective. It's a pretty dangerous thing to do in my opinion, but many pension funds are heavily underfunded. However, this year, the fiscal year ended June, your returns of almost 30% were pretty common amongst equity-heavy pension funds as well so they saw big improvements in their funded status for this particular fiscal year end in June. Leverage is a tricky thing. Every portfolio has some leverage in it, yours does too in your real estate portfolio; it's not that you are completely without, it's just a whole different level of risk when you lever your entire portfolio. But there are some people, some plans, who are at a funded status where they need to take a more dramatic move and in those cases they are taking that risk in order to improve their funded status. As you know it becomes an obligation to the states.

Governor Little: Janet my question is, I know we're in good shape because of our leverage, if other players in the market are leveraged and then things go badly, what impact will that have on either our fixed income portfolio or our securities?

Ms. Becker-Wold: Well, I hate to bring up an ugly situation, but Orange County in 1998 levered their bond portfolio, rates went differently and it bankrupted the county. So, that can be bad for municipal bonds in particular if it's a local issue and their debt ratings get downgraded; we've seen that actually happen in the past in a similar rate environment. I don't think that it's systemic enough to create an issue for you. I think you are very diversified.

Governor Little: Alright thanks, Janet.

Mr. Anton: Governor, members of the Land Board, we'll move on now to the monthly report. As you recall, through August we had seven straight monthly increases in the equity markets and in September we had a modest sell-off which brought us to slightly above break even. As you see in your book, we were up 3.4% in October which brought us to 3.6% fiscal year-to-date; through yesterday (November 15) we were up 5.1% so we're off to a good start in the year. Global equity markets rebounded in October primarily due to a strong start to the quarterly corporate earnings announcement season. The vast majority of companies reported earnings higher than anticipated. Large cap stocks led the rally with the best performance in consumer discretionary and energy sectors. We've all seen what's going on at the gas pump and in the energy sector and they got a large rally. Despite the strong earnings however, there are signs that the U.S. and the global economy is beginning to normalize or beginning to move down to a more sustainable level. We've experienced very rapid growth coming out of the pandemic primarily due to all the fiscal and monetary stimulus. We're starting to see that roll over; that doesn't mean we're not growing at a solid rate, but the growth rate is slowed to a more normal level. The Federal Reserve finds itself in a very difficult place. They want to continue to support economic growth and continue to push to achieve full employment, which has really been challenging, yet inflation is showing itself to be more persistent than they had anticipated. The Federal Reserve announced just recently that they will begin tapering their bond buying program this month and delay consideration of interest rate hikes until mid to late next year; kind of delay a decision on inflation and wait and see where we're at next year. It will be interesting to see how all of that plays out, but there is a lot of nervousness in the market at this point. That's a quick overview.

Governor Little: Chris, I know that Callan does this all the time, do we know relative to comparable endowments, the same size portfolio, where we rank? What percentile EFIB ranks?

Mr. Anton: Yes, we have that in our report today. As I mentioned in the annual report, last year we were 15th percentile. I think fiscal year-to-date for the first quarter we were a little lower than that. Here we go, Richelle is helping me out. We ranked the 32nd percentile during the quarter. It is hard to take a look at it just for one quick snapshot but that's where we were.

Governor Little: Where are we in the last three years?

Mr. Anton: The 3 year number we're in the top 4th percentile; the 5 year number the top 7th percentile; 10 year number the top 7th percentile; 15 year number the top 6th percentile.

Governor Little: I don't want to create a family feud, but where's PERSI.

Mr. Anton: PERSI's done very well. To Janet's point earlier, PERSI found itself over 100% funded and was able to reduce their return expectations which has positioned the portfolio to be able to remain fairly conservatively invested. As you mentioned, a lot of funds are looking at their capital markets assumptions, they see interest rates very low, so returns for fixed income look to be

lower than they have been historically. They see equity valuations high and they're chasing it by using leverage or reducing or almost eliminating fixed income and they've just gotten more aggressive which can be very dangerous. PERSI, through good governance and management, has been able to remain conservative and reduce their return expectations and remain fully funded. Richelle says for three years they've been ranked in the 15th percentile.

Governor Little: We're very proud of both of you. The state of Idaho is very well served, not only the people today but the people in five and ten years because of all the good work of the Investment Board and staff; congratulations.

Mr. Anton. Our next Investment Board meeting is on February 17th. We're very well reserved. In the annual report it showed that we were significantly above the reserve levels and that's what allowed the Land Board, when they met in August, to approve distributing those excess reserves. Today we're right at our target reserve levels, slightly ahead and in good shape.

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

Discussion:

Governor Little: We don't include the last recession in our 3 and 6 years; let's reach back 10. I know it will take a little while but reach back 10 and 20 years. If you don't run the numbers with the recession in them, you're not looking at the big picture. All those people that were on the phone a minute ago will tell you recessions happen; we ought to be prudent and be aware of it.

Mr. Haagenon: Governor, we established this reporting structure, at least for natural tracking mechanisms, for fiscal year 2016; to go back before that time for the land assets would be a bit of apples and oranges.

Governor Little: But we could include the fiscal assets.

Mr. Haagenon: Yes.

Governor Little: And of course the land assets aren't as volatile as the fiscal assets.

Consent—Action Item(s)

4. Approval of Draft Minutes – October 19, 2021 Regular Meeting (Boise)

Consent Agenda Board Action: A motion was made by Attorney General Wasden that the Land 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. Adoption of Pending Rules—Omnibus Rulemaking – Presented by Scott Phillips, Policy and Communications Chief

Recommendation: Adopt the Department's omnibus proposed rules as pending rules and approve the Department's Notices of Omnibus Rulemaking for Adoption of Pending Rules and Pending Fee Rules.

Discussion:

Controller Woolf: A question for Mr. Phillips. At the very end you mentioned the Oil and Gas and its part being included. Is there any discussion of separating that out to a separate rule and having it differently? Do you see any concerns of this being tied together?

Scott Phillips: Governor, members of the Board, Controller Woolf, I think it makes sense to keep the rules where they are within IDAPA for the Idaho Oil and Gas Conservation Commission. It's an entity that the Department of Lands helps support administratively. It fits within our model.

Board Action: A motion was made by Attorney General Wasden that the Land Board adopt the Department's omnibus proposed rules as pending rules and approve the Department's Notices of Omnibus Rulemaking for Adoption of Pending Rules and Pending Fee Rules. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

6. Statement of Investment Policy Annual Review – Presented by Jim Elbin, Division Administrator-Trust Land Management

Recommendation: Approve the revised Statement of Investment Policy.

Discussion:

Attorney General Wasden: I have a question concerning the table that was reconstructed on page 7; I guess it's something for us to think about. Our financial assets, the target allocation is 58%, our actual allocation is in excess of 63%; timberlands, our target allocation is at 39%, we're at the very bottom end of that at 31.69%; rangeland, our target allocation is 2%, we're at 1.29%; cash equivalence, the target allocation is 1% and we're a little bit higher on that one. My question is not for today, but for us to think about, are our targets really where we need to be? I am not sure that we're ever going to meet those targets and I wonder if we ought to rethink where that ought to be. That's a bigger question than what we can handle today, but I just wonder if we're ever going to be able to hit those target ranges with the changes that we've seen in terms of our asset mix as opposed to our asset allocation. If there's comment on that, I would certainly be interested in it but I think it is something in the long range we need to think about.

Jim Elbin: We had that very discussion when we were updating that table because of those concerns and just different market influences and likelihood of acquisition...all of those things were taken into consideration. We will discuss it further internally, but as we go to the land asset management plan, which will be the next item on the agenda, what we're doing land management wise addresses some of that.

Mr. Haagenon: Governor, if I may, Bill Haagenon. The asset allocation study was last done in 2014 and the recommendation in the investment policy is that it is revisited approximately every 8 years; that is the exact wording in the document. We would be due for a revision of the asset allocation study if the Land Board desires that and that is certainly something that we can do, working with EFIB.

Governor Little: Are we scheduled to do something next year?

Mr. Haagenon: It would be 2022, Governor, yes.

Attorney General Wasden: Governor, I would make that request from myself, I think that would be a good thing.

Governor Little: I think we're scheduled to do it next year and I think any investor that has a good stock portfolio, like EFIB does, is at the higher range of their securities right now. If the security market normalizes, we're going to be a lot closer to our target than we ever want to be. I have a question on page 8. The edits on page 8 where we moved our nominal return from 6.69 to 5.8, that's a 20% change; can you explain that?

Mr. Haagenon: Basically, it was that Callan adjusted their 10-year market assumptions in early 2021 which resulted in the returns that you see there.

Governor Little: That change is based on Callan's forecast going forward.

Mr. Haagenon: That's correct.

Governor Little: I think what that means is in 2022 when we look at those targets, it's going to make a difference in how those targets reflect, which is General Wasden's question.

Superintendent Ybarra: On page 28, C., the policy description, I just want someone to refresh my memory. They struck off the 6 years of the earnings reserves for future distributions and we put in 7 years; if I remember correctly was that because it would result in an increase in the distribution in a steady amount of money to public schools.

Governor Little: Because the Public School endowment is so big there's a lot more stability there. We basically had it at 6 so we could make distributions at an earlier time. Part of the reason we had it at a lower level was because of the size of the Public School endowment compared to the volatility; when I was on the EFIB board we used to discuss that the size of EFIB was such that 6 was okay. Now we are at 7 but that means the distributions will be equivalent going forward.

Superintendent Ybarra: Governor, it sounds like the stability conversation that I remember is kind of how you just explained it. Thank you.

Governor Little: Talk to your fellow superintendents about their endowments; they'll all be covetous of what you have here in Idaho.

Mr. Elbin: Another big change is the hurdle rate for timberland acquisitions was reduced from 3.5% to 3.25 based on a letter from Callan to the Land Board in 2020. Discussion with Callan in the interim indicated that they think it is unlikely that the rate would go any lower and 3.25 is still appropriate for timberland. We also talked about changing timing of review of the Strategic Reinvestment Plan to every three years because of its strategic nature and ongoing Land Board oversight of any potential acquisitions that come forward. The draft statements were accepted by the Investment Subcommittee on September 7, 2021 and the Department's recommendation is for the Land Board to approve the revised Statement of Investment Policy.

Governor Little: Well, as reluctant as I am I will tell you a story about Brad. When Brad was a student, he was told you're supposed to get an internal rate of return and one of the best ways to get an internal rate of return is lower the value of the asset. You don't make any more money but you look better on paper by changing the valuation of your assets or your hurdle rate. I kind of understand what we're doing but we ought to be cognizant that the move from 3.5 to 3.25 opens up the possibilities but it doesn't create real money. If you value your range ground at \$5 an acre, you can make money on it.

Board Action: A motion was made by Attorney General Wasden that the Land Board approve the Department recommendation and approve the revised Statement of Investment Policy. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

7. Asset Management Plan Review – *Presented by Jim Elbin, Division Administrator-Trust Land Management*

Recommendation: Approve the 2021 Endowment Lands Asset Management Plan.

Discussion: None.

Board Action: A motion was made by Attorney General Wasden that the Land Board adopt the Department recommendation and approve the 2021 Endowment Lands Asset Management Plan. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

8. Priest Lake New Residential Lots – *Presented by Josh Purkiss, Bureau Chief-Real Estate Services*

Recommendation: Approve auctioning the 18 new residential lots at Priest Lake. The auctions will be held in locations appropriate for each site, including Ada, Bonner, Kootenai, or Valley counties.

Discussion:

Controller Woolf: Is it broken out into a time frame? Will 18 be at the same time or will they be at different segments of time when these 18 would be put up for auction?

Mr. Purkiss: Governor, members of the Board, Mr. Controller, the plan is to work with our third-party advisors to determine the best time to take these lots forward for disposition. Depending what's happening in the current real estate market, it could be advantageous to bring a large percentage of them this coming year, but it really depends on what's happening with the market and the recommendation by the third-party advisors. In addition, there are a number of lots included in what we call the Clambake subdivision; we want to do some additional analysis for the potential to generate additional revenue for adjacent endowment land, so there's a potential that we don't divest those three lots. We will work through a plan with our third-party advisors.

Controller Woolf: Thank you, Mr. Purkiss. You have these 18 that are identified. Off the top of your head, what other types of ULA would we have at both Priest and Payette for potential down the road, based on one of our other agenda items?

Mr. Purkiss: As far as what has been approved by the Board? Or are we speaking of what is unapproved?

Controller Woolf: Well, there's these 18 that we've identified to help; if I am understanding the Department's thoughts on this, having these 18 helps the auction of those ones that are existing. Are we going to be back here in a year or two asking for more ULAs to come up before us to put on the auction block?

Mr. Purkiss: Thank you for the clarification. These 18 lots are part of a lot-solution process that was done in 2012; these are the remnant parcels that have been already subdivided and had the access and everything kind of perfected to where we can move forward with a disposition process. Before we come back with more ULAs, because even Payette were basically exiting what was left of our ULA lots, we would have to go through kind of a lot-solution development, subdivide endowment land and come back with a completely different plan. It would take a couple of steps to actually build a plan, to actually come back and ask for approval for additional ULAs in the future.

Board Action: A motion was made by Attorney General Wasden that the Land Board approve the Department recommendation that is approve auctioning the 18 new residential lots at Priest Lake, the auctions to be held in locations appropriate for each site including Ada, Bonner, Kootenai, or Valley counties. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

Information

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

9. **Endowment Land Exchange Policy** – Presented by Jim Elbin, Division Administrator-Trust Land Management

Discussion:

Governor Little: I think this is really important. This is the right thing for us to do, but I wasn't willing to adopt it without a little more time for the Board and other people to look at it. The first thing that jumped off the page to me is the \$1,000 fee. If you're trading 40 acres for 40 acres, or 23,000 acres for 23,000 acres, I think a one size fee needs to be looked at; that was the first thing. Then there's part of the review that kind of smells and looks like an appraisal but is not an appraisal, and then there's another part that is an appraisal. Then there's always the sticky deal of who determines highest and best use; I think highest and best use is basically in an open market, a free market, which we don't have in state lands because of the fact that there's a constitutional limit on how many acres anybody can buy. It is a problem, particularly when we don't keep bare land. You have a million and a half acres; we don't even value the bare land on it and everybody else highest and best use does. These are all kind of questions. I really applaud the staff for working on this. At the Board level we need to have our competent legal counsel review the issue of what is a disguised sale and what are the court proceedings on a disguised sale. In essence, with the limit on acres we can sell in the constitution, it kind of looks and smells like a duck to me when we do some of these things that are a disguised sale. That's what this is all talking about. This is something that is really important, it's relative to everything we do. I applaud the staff for bringing it up, but I think we need to put a few more fingerprints on it, look at part of it before we go forward.

Controller Woolf: I appreciate those comments. From the first draft I had seen, on page 4 of 5 at the very top, item D where it talked about notification, I appreciate the Department adding in that communication with the public and the surrounding neighbors that are being impacted. That's a key part that's been added, thank you for putting that in there.

Governor Little: Any other Board members have comments on this? Hearing none, Director, let's get this out and redline part of it. Really kind of the big issue is we're not doing disguised sales, but land exchanges are disguised sales and maybe the Attorney General's legal staff can tell me what the problem is, because it kind of looks and smells like a duck to me.

Director Miller: Point taken.

10. Future of Cottage Site Leasing – *Presented by Josh Purkiss, Bureau Chief-Real Estate Services*

Discussion:

Controller Woolf: Mr. Purkiss, you mentioned that there's 48 potentially that haven't participated, or said that they don't want to participate in the VAFO going forward. Do you understand the particulars or details behind that, of their interest to not participate in the VAFO and where they may go in one of these? You're looking to gather information from them, but do you have more specific details on their reasons why?

Mr. Purkiss: It's almost all resource driven. The majority of people that are left don't have the resources to participate in the VAFO process and they're looking for options for the future to lease the land or lease the cottage site. I think the longer term provides some stability but also hopefully generates more revenue. I know there's been some feedback about having a longer term lease than every five years; there's a lot of angst and anxiety when those terms are coming up and there's the potential for a conflict and losing it. If we can structure a longer term lease that protects the endowments, generates maybe a little bit more revenue, or at least provides them options for lower rent and higher rent depending on what fits their needs.

Controller Woolf: Thank you. The Department came up with these three options. Are there other options you had on the table that didn't make the final cut here?

Mr. Purkiss: There's always the option of a mandatory auction at the end of 2024. From our perspective, that was a no go. I think providing people the option to continue to lease and flexibility to potentially join auctions as their situations change was kind of a win-win.

Attorney General Wasden: I am concerned about maintaining these leases going forward; we are committing to managerial costs, management costs, for a very small number of parcels that really aren't going to produce that much money. I am concerned about whether that's really in the best interest of the beneficiary. I just point that out.

Governor Little: Further questions. I would just add, given the way the market is for resort property right now, if they were having challenges four years ago buying a lot, they have real challenges now. I am very empathetic to the problem. As we go forward, when we talk to them, keep in mind the General's question about how we maintain our fiduciary duty and minimize ongoing administrative costs. If we tell them we're going to try to work with them, to maintain our return, how can they help us minimize administrative costs might help us go forward.

Executive Session

None

There being no further business before the Land Board, at 10:30 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.

Idaho State Board of Land Commissioners

/s/ Brad Little

Brad Little
President, State Board of Land Commissioners and
Governor of the State of Idaho

/s/ Lawrence E. Denney

Lawrence E. Denney
Secretary of State

/s/ Dustin T. Miller

Dustin T. Miller
Director

<p>The above-listed final minutes were approved by the State Board of Land Commissioners at the January 18, 2022 Land Board meeting.</p>
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