



## 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

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*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  
July 19, 2022

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, July 19, 2022 at the Capitol, Lincoln Auditorium (WW02), Lower Level, West Wing, 700 West Jefferson, Boise, Idaho, and via webinar. The meeting began at 9:08 a.m. The Honorable Secretary of State Lawrence Denney presided in place of Honorable Governor Brad Little who was managing other matters of state. The following members were in attendance:

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, Secretary of State Denney recognized the presence of four Land Board members at the physical location.

*[Editor's note: the Discussion portions, if any, for most 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 – June 2022
- B. Leases and Permits – June 2022

**Discussion:**

**Controller Woolf:** Director Miller, those five sales that did not sell at auction, and you mentioned Sand Mountain. Did you get good feedback from the timber industry of how we can adjust going forward?

**Director Miller:** Mr. Chairman and Controller Woolf, we are in regular contact with potential purchasers. When a sale does not sell, we want to know what the limiting factors were. With some of these sales, in particular Sand Mountain sale, that was a lot of small diameter timber that for whatever reason was not top of mind for purchasers of small diameter. It is not something they were interested in. That went to sale three times, so we are looking at possibly doing a direct sale to a purchaser just to move as much wood as possible. With some of these other sales, a number of things: road development costs were high in some places according to purchasers, there are some expensive harvesting systems that need to be put in place in some of these areas, cable assisted logging for example is very expensive, and the market is a bit saturated right now. We will be working with the purchasers on reassessing what we do next, reappraising a lot of these sales and moving them to auction at a later date. Certainly, making those adjustments and hoping we get people up to the table to bid on those.

**Trust Land Revenue**

- C. Fire Season Report
- D. Land Bank Fund

**Discussion:** None.

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

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

**Discussion:**

**Chris Anton:** Mr. Chairman and members of the Land Board, good morning. It was a challenging fiscal year as you see in your Board books. We were down 6.4% for the month of June which left us down 13% for the fiscal year. I think to understand the challenges of the year it is important to step back a couple of years, back to March of 2020 when Covid hit, quarantines were imposed to control the spread, the economy really contracted dramatically. The government stepped up to provide huge amounts of stimulus. On the fiscal side, checks were cut to individuals and businesses. The Federal Reserve cut interest rates to zero and provided huge liquidity to the financial markets by buying bonds and built up their balance sheet. All of that had a result of really boosting the economy and last fiscal year we were up about 30%. That continued through the first part of fiscal 2022; through November we were up 5%. The Federal Reserve continued their efforts to bring employment back to pre-pandemic levels. Near the end of the calendar year, it was clear that we had reached full employment, we were at 3.8%, but inflation was starting to really move out of control. It was clear that it was not a transitory issue that it was really something that needed to be addressed. The Federal Reserve changed courses; they started to communicate plans to increase interest rates and to reduce the size of their balance sheet. That had the effect of jacking up interest rates on fixed income, which meant fixed income prices came down. We saw investment grade bonds drop about 10% during the fiscal year, and yields move up. If you look at the yield on the 10-year Treasury, back in March of 2020 the yield was about 0.5%, it moved up to 3.4%; really a dramatic increase in bond yields. Similarly, the equity markets sold off over concerns that higher interest rates and inflation would begin to slow economic growth and put pressure on corporate profitability and potentially push the economy into recession. Given the decline we have seen in the markets, I think the markets have priced

kind of a mild recession at this point. The overall portfolio, as I mentioned earlier, declined 13%, equities were down 17.9%, fixed income was down 10.2%, and the only bright spot was our private real estate that was up 23.7%. It is actually up slightly higher than that because we had not accrued the 4th quarter numbers. If you look at DWS, one of our real estate managers, they were up 33% for the fiscal year. In terms of cap size, growth stocks did better than small- and mid-cap companies. Most of the pain was really in growth and technology stocks. As we have talked in this meeting before, Sands Capital, our large cap growth manager, was down 50% compared to our two large cap value managers, LSV and Boston Partners, who were down 8.4% and 3.6%, respectively. Overall, fixed income was down about the same as our benchmark; DoubleLine outperformed Western because they have shorter duration which is beneficial in a rising interest rate environment. So far this year, the market has been pretty flat; we are up about 0.5% and hopefully we will have some stability going forward.

Moving on to our reserves, at the end of the year, and these are preliminary numbers, our earnings reserve balances are estimated to be 5.9 years for public schools, and between 5.4 and 6.5 years of distributions for the other endowments. I want to commend the Land Board for their decision in August to increase the reserve level for public schools to 7 years; we are kind of back where we were, at 6 years. If we had not done that, we would be down about 4.9 years. While the reserves are down, we are certainly able to continue to make our distributions going forward. It is important to understand and keep in mind the impact of inflation. The statutes that govern how we manage the portfolio have this concept called the gain benchmark; the gain benchmark says that the permanent part of the endowment has to grow at least at the rate of inflation. Every year at the end of the fiscal year, earnings above inflation are moved into the reserves; if we have met our target reserve levels then this Board can approve moving the excess reserves into the permanent fund. If you think about what has happened in this fiscal year, we have not only had losses, but we have had excessive inflation. We have losses of 13% and the calculated inflation using a 12-month average is about 7.2%. We have roughly a 20% hole in the permanent fund that we will need to fill over subsequent years. That means that there will not be a lot of money flowing into the earnings reserves for possibly a period of several years. That is important to keep in mind, and based on that, I think there is a strong probability I will recommend to both the Investment Board and the Land Board that distributions in fiscal 2024 – which will be approved in August – will be consistent with those at the same level as the fiscal 2023 distributions. It is nice that we have these large reserves, but I want you to be aware of the impact that the losses and inflation has had on the portfolio.

**Attorney General Wasden:** Thank you very much, appreciate working with you over many years. So, what are you going to do to change the market? *[laughter]*

**Mr. Anton:** Tough question. I wish we had control. Obviously, we take a long-term perspective; we are diversified, and we essentially have to take what the market gives us. We are fairly aggressive and are able to do that because of the good work the Department of Lands does and the revenue coming in from the land assets, particularly the timber revenue. We are rather aggressive and there are going to be years when we are down, but as you have all seen the strategies paid off over the long term. We are going to be patient and hope that the Federal Reserve does not go overboard, hope there is an ability to control inflation without pushing us into a severe recession.

**Attorney General Wasden:** Thank you, that was a good answer.

**Secretary of State Denney:** In other words, we are about where we were two years ago.

**Mr. Anton:** If you think about last year, we were up 29.7% in fiscal 2021 and the gain was about \$750 million dollars. This year we are down 13% which is a little over \$400 million dollars. We are still in a better place than we were two years ago. It is always painful to see the numbers going down, and to come into the office every day and watch it go down – not much fun.

**Secretary of State Denney:** I would like to see it go up, too.

**Controller Woolf:** One quick question. On the Investment Report, where it has the green and red, the breakdown compared to the benchmarks, below that there is the market valuation of each of our areas, where real estate was \$327 million and 12% of our allocation. Is that real estate targeting, where it did so well, within the Investment Board's goals to keep in that range, that 12%, or do you see changes with that?

**Mr. Anton:** Our target allocation is currently 10%. In February the Investment Board approved increasing allocation from 8% to 10%. We tried to do that sooner but there were some concerns with Covid what was going to happen in the real estate market. On June 30th we moved \$70 million to a new manager; we were about 11% and it moved us up to 12% and that had been committed before the market really sold off. We are slightly over-allocated but part of that is because we made commitments in advance, and they draw the money, and when the market came down our percentage was slightly higher. Subsequent to year end, we received a distribution from one of our real estate managers that brought us down to 11%; we are about 1% higher than the target but within the allowable ranges per our investment policy.

**Controller Woolf:** Great, thank you.

### **Consent—Action Item(s)**

**3. Results of June 23, 2022 Minerals Lease Live Auction – Presented by Mike Murphy, Program Manager-Minerals Leasing**

**Recommendation:** Direct the Department to award mineral lease E800094 to Idaho Champion Resources, LLC.

**Discussion:** None.

**4. Approval of Draft Minutes – June 21, 2022 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 4-0.

## Regular—Action Item(s)

### 5. Proposed Legislation-2023 Session – Presented by Scott Phillips, Policy and Communications Chief

**Recommendation:** Approve the Department's 2023 legislative proposals.

**Discussion:** Secretary of State Denney asked how the Department selected these three statutes; what was the impetus that these were the necessary legislative changes? Secretary of State Denney was not questioning the need for the changes, just asking for background. Mr. Phillips replied that from an agency perspective, the Department is working to address the State's drive to ensure that operations pay for themselves when possible and that the Department does not find itself in a precarious position with no funding to address a very serious public safety issue in the future. Mr. Phillips said the two drivers for this are ensuring that the regulated activity pays its own way and is not subsidized by the general fund and preserving public safety.

**Board Action:** A motion was made by Attorney General Wasden that the Land Board approve the Department's 2023 legislative proposals. Controller Woolf seconded the motion. The motion carried on a vote of 4-0.

## Information

*Background information was provided by the presenter(s) indicated below. No Land Board action is required on the Information Agenda.*

### 6. Proposed Rule IDAPA 20.03.17, Rules Governing Leases on State-Owned Submerged Lands and Formerly Submerged Lands – Presented by Eric Wilson, Bureau Chief-Resource Protection and Assistance

**Discussion:** None.

Prior to adjournment, Controller Woolf expressed appreciation to the Department for drafting a letter of condolence on the Land Board's behalf for the passing of Donna Jones, a former state controller. Controller Woolf recognized and thanked Ms. Jones for her service to the state of Idaho, in particular her work on the Land Board, and her mentorship and friendship to Controller Woolf and all Land Board members. Controller Woolf mentioned that her family is planning a celebration of life in August and will inform Land Board members when that has been finalized. Controller Woolf remarked that Ms. Jones was a great pioneer who was the first female to lead the House Revenue and Taxation committee and also the first female state controller. Controller Woolf voiced admiration for Ms. Jones, her leadership, and remembered that she would say at the end of every meeting 'let's get back to work.' Controller Woolf stated that is what we will do today.

Attorney General Wasden commented that Ms. Jones was a surprise in that she had a challenging background, but as a member of the Land Board she dug in, she understood the responsibility the Land Board has, and she shocked the Attorney General with her level of understanding. Attorney General Wasden said he enjoyed working with Ms. Jones, traveling the state with her, and will continue to miss her. Attorney General Wasden acknowledged that Ms. Jones made a great contribution to this state and was a big part of this Land Board.

