



## 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  
August 16, 2022

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, August 16, 2022 at the State Capitol, Lincoln Auditorium (WW02), Lower Level, West Wing, 700 West Jefferson, Boise, Idaho, and via webinar. The meeting began at 9:00 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 State Controller Brandon Woolf  
Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, four Land Board members were present at the physical location; Attorney General Wasden was absent.

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

**Discussion:**

**Controller Woolf:** Director, you mentioned in the Timber Sales report the three endowment timber sales that did not sell at auction. Is that anything of concern and how are you going forward with those?

**Director Miller:** Nothing to be real concerned of right now. The Sand Mountain was a salvage sale from the fire we had at Leland Complex up north last summer. It is a salvage sale, small diameter; it was difficult to get that one sold. We will try to go direct sale to get that volume moved. The West Benton sale has been paused. The market is a little saturated and there is also concern over insect activity affecting the cedar poles. We will be reassessing that sale and offering later on down the road.

**Governor Little:** Very good.

#### **Status Updates**

- C. Fire Season Report
- D. Land Revenue Forecast
- E. Resource Protection and Assistance Report

#### **Discussion:**

**Director Miller:** Adding to item C, Fire Season Report, we recently had one fire that was being managed by our own Type 3 Incident Management team. Currently this 45-acre fire is 100% contained and was turned back over to the Priest Lake Area. Just to give you some real time information, Governor, and Land Board members, we had some weather late last week that brought substantial thunderstorm activity into the region but with some moisture this has changed the numbers in front of you. As of August 15th, there have been a total of 134 fires in IDL protection, 80 of which were human caused and 54 were lightning caused. Our folks have been very busy the last the few days, but they have caught everything. Very impressed with the speed of our crews to get these fires put out. July was much warmer than the average and this pattern has continued into August. As mentioned, fire frequency is increasing, and an above-average fire season is predicted for the state to the end of September. Many of our seasonal firefighters are now leaving to go back to school so we will be relying on our non-fire staff to participate in suppression activities for the duration of the fire season. Currently the only fire restrictions in place are in Central Idaho. The largest fire in the state outside of IDL protection is being managed by a Type 1 Incident Management team. This is the Moose Fire on the Salmon-Challis National Forest. This fire is over 78,000 acres and 34% contained. IDL has sent a number of resources to this fire.

#### **Consent—Action Item(s)**

##### **2. Approval of Draft Minutes – July 19, 2022 Regular Meeting (Boise)**

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

## Regular—Action Item(s)

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

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

#### Discussion:

**Chris Anton:** Good morning, members of the Land Board, thank you for having me. Financial markets staged a modest recovery in July and in early August as quarterly profits surprised to the upside and were largely resilient to the economic slowing. The portfolio is up 6% during July and through yesterday we are up 8.9%. A growing number of economic indicators have started to reflect slowing of consumer demand, but strong employment has allowed the Federal Reserve to continue the process of raising rates to calm inflation. Since I wrote this report, we have seen inflation hopefully peak, came down from about 9.2% to 8.5%. The market is reflecting anticipation of that rate continuing to decline in the months going forward. The yield curve however has inverted meaning that short-term yields are higher than long-term yields and historically that has been a leading indicator of a recession. Time will tell if the Federal Reserve can calm inflation without pushing us into a recession. Anyway, off to a good start so far in this new fiscal year. At the end of fiscal year '22 our reserve levels stood at 5.9 years for Public School and about 6.9 years for the other endowments. Using yesterday's balance, given that we are up 8.9%, I think Public School reserves are up to about 6.5 years and other funds are between 6 and 7 years of reserves.

- C. Reclass FY2022 Earnings Reserve Transfer

**Recommendation:** Approve reclassification of the FY2022 Earnings Reserve Transfer of \$486,409,000 to exclude it from the Gain Benchmark.

#### Discussion:

**Governor Little:** The calculation of inflation is 7.1%. I know we have State code, what code section determines that? Because our other job of trying to figure out whether land works, we have a 2.5% inflation. Here we put in 7.1%. Square that for me.

**Chris Anton:** Governor, yes, the same code section I referenced earlier today [Idaho Code § 57-724] defines the way inflation is calculated. It compares the 12-month average of the CPI for the prior fiscal year. The headline CPI as I have talked about is at 8.5-9%. This is kind of comparing a 12-month average to a 12-month average. We have to earn above that before anything can move into the earnings reserves fund. That challenge continues into the new fiscal year.

**Governor Little:** We have done multiple studies and I think our baseline for buying timber ground we still have a 2.5% inflation in there. Does the Investment Board have any particular advice for us about what we should do with that?

**Chris Anton:** I think if you talk with Callan, or you look at what the financial markets are implying in terms of what inflation will be longer term, for example, at the difference between

the nominal treasury and the CHIPS yield, it implies that inflation over the next 10 years will come down to average about 2.5%, so that assumes a fairly steep decline in inflation. We are all hoping we will begin to see that later this year. That seems to be what most people are saying is the longer-term inflation rate, even though we have a problem today.

**Controller Woolf:** Chris, you talked about where we last year as a Board, we approved that transfer of the \$486 million. Help me understand the timing of why this is now versus then; the transfer was made I think September 1 a year ago. How does that timing work?

**Chris Anton:** According to statute, transfers for the sale of land...land bank transfers automatically go into the permanent fund and mineral royalties, which are depletions of land assets, automatically go into the permanent fund. For this transfer we have discretion. I will take the fault. When I looked back historically, we tended to treat these transfers as additions to the gain benchmark. When I made my recommendation, I had that on there; however, those transfers have typically been relatively small numbers. It has not made a big difference. This is a huge number because we made 30% last year. To be honest, I did not fully think it through. When it came to the process of closing the books and looking at what that gain benchmark number really was going to be with that transfer, it is a big deal, it is a big issue. That prompted me to go back and do the research and the statute does not indicate any reason why we should add that to the gain benchmark. In terms of timing, as we are closing the fiscal year, we have discussed this with our auditors and if we make the decision now, we can still make the reclassification in fiscal year '22, in the last fiscal year.

**Governor Little:** In your background, you said a year ago almost to the day, we approved the transfer of \$486 million over there and now we are talking about not doing the transfer of \$486 million.

**Chris Anton:** We are not talking about not doing the transfer. The transfer is still approved, was done in the last fiscal year in September. It is just a matter of how we report that transfer in our closing books at the end of the fiscal year. The money is in the permanent fund, but we are not going to add it to the gain benchmark. It is an accounting issue that we can adjust in the fiscal year; even though we are in August now, we are technically still in the fiscal year, from an accounting perspective.

**Board Action:** A motion was made by Controller Woolf that the Land Board approve reclassification of the FY2022 Earnings Reserve Transfer of \$486,409,000 to exclude it from the Gain Benchmark. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0.

#### D. FY2024 Beneficiary Distributions

**Recommendation:** The Endowment Fund Investment Board recommends that the Land Board approve FY2024 beneficiary distributions of \$100,315,000.

#### **Discussion:**

**Chris Anton:** Moving to item D, the question before the Land Board is shall the Land Board approve beneficiary distributions of \$100,315,000 in fiscal year '24? Included in your packet is a PowerPoint and I will go through this quickly. First, a review of the distribution policy. The Land

Board has adopted the following principles: first, that we distribute 5% of a 3-year average of each permanent fund annually with the exception of State Hospital South which is 7%.

**Governor Little:** Part of the reason State Hospital South historically is 7% is because of cabin site income; they had a lot of money coming from cabin sites. As we go through cabin sites, is there going to be a point in time when we want to move that 7% down or are they solvent enough that they will be fine?

**Chris Anton:** I think it is worth revisiting that percentage. That mathematical calculation certainly can be adjusted by the Land Board because we need to take into consideration our level of reserves, transfers, and any other relevant factors. For example, if we anticipated timber revenue dropping significantly, we certainly do not after we saw Jim's presentation earlier, but we may want to adjust that amount. The goal is to maintain earnings reserves at the target levels, which is 7 years of beneficiary distributions, and to consider transferring any excess earning reserves back to the permanent fund. During fiscal year 2022 the portfolio had a loss of 13% and inflation of 7.2% so a real loss of 20.2%. Department of Lands generated \$56.5 million in net revenue and ended the year with a strong backlog of \$151.1 million dollars of timber pre-sold. Earnings reserves dropped below the target levels as you will see on the next page. We were at 5.8 years of reserves for Public School and between 5.4 and 6.7 years for the other beneficiaries. Table 5 shows the history of distributions and I think it is important to realize that from fiscal year '22 to fiscal year '23 we had a 13.8% increase, from \$88.1 million to \$100.3 million in this fiscal year. Today the Investment Board is recommending that the Land Board hold beneficiary distributions flat in fiscal year '24 at \$100,315,000. The rationale for this is that earning reserves are below target levels. We still are facing significant inflation hurdle. Financial markets are expected to remain volatile given the uncertainty surrounding our ability to fight inflation without pushing us into a recession.

**Controller Woolf:** I know the Investment Board made this recommendation; if we were following our policy, what would the dollar amount distribution have normally been?

**Chris Anton:** Governor, Controller Woolf, if we followed the 5% calculation the number would be \$106.4 million.

**Board Action:** A motion was made by Controller Woolf that the Land Board approve FY2024 beneficiary distributions of \$100,315,000. Secretary of State Denney seconded the motion. The motion carried on a vote of 4-0.

#### **4. FY2024 Department of Lands Budget Enhancements – Presented by Dustin Miller, Director**

**Recommendation:** Direct the Department to include the enhancement requests as outlined in Attachment 1 in the Fiscal Year 2024 budget proposal due on September 1, 2022.

**Discussion:**

**Controller Woolf:** I am glad Representative Troy is here is to help us get through these budget discussions and help her JFAC friends understand this. One high level question, Director, what is the method or process of how you determine what the funding source will be for these? How do you determine general fund versus earnings reserve versus dedicated?

**Director Miller:** I will take a stab at answering, then turn it over to Debbie Buck for additional information. With the fire decision units, for example, the dedicated funding account is currently headed towards a deficit spending situation; that dedicated account is paid into by the timberland owners who pay \$0.60 an acre, as do the endowments. Ideally, we would like to pay for more resources out of that, but we are just unable to. Also, these are suppression resources we are talking about in a lot of these decision units, many of those have typically gone on the general fund for the enhancement request. I will kick it over to Debbie to talk a little bit more about some of those details given which programs are paid out of the various funding sources.

**Debbie Buck:** Good morning, Governor, Land Board, for the record my name is Debbie Buck. I am the Finance Officer for the Department of Lands. In addition to what the Director has said, some of the acres in our state are assessed and they pay into the assessments and that is what becomes our dedicated funding source. The other funding source we have is general fund and we do protect land that is not assessed. Historically, we have balanced that between the acres of protection that are not assessed and the ones that are assessed. That is how some of our requests get on to general fund. The other thing that is important to mention here is a lot of our capital outlay requests start with general fund and then we charge a rate when we send those vehicles out to fires or to our federal partner fires. That rate goes into the WERF fund and then in the future the WERF fund will be replacing that equipment.

**Controller Woolf:** One more question. We approved last year the STAR report, said do several of these and take them forward. The Department made the decision there were so many of them they probably would not be able to get all of them through fiscal year '23. Now that we are doing some of these and we are asking for a supplemental, does the Department have the capacity to do these if you were able to receive these as supplementals.

**Director Miller:** Governor and Mr. Controller, yes, I believe we do. We did a lot of planning over the last several months trying to address our needs, taking a look at what the Land Board approved last year that we could not get done and having conversations about trying to get a jump start on procurement of resources needed to continue to modernize the fire program. Having these as supplementals, assuming we get through the legislative process with them, will enable us to get a jump start on the purchasing and give us more time ahead of fire season. I believe we do have the capacity to implement all of these decision units this fiscal year. Last year was just a challenge given the number of things that were included in the budget request, which we greatly appreciate because that gave us a big boost in our efforts to modernize the program. We have evaluated this, and we do have the capacity to implement these actions for FY23 assuming there is carryover authority, as well as the FY24 line items.

**Board Action:** A motion was made by Controller Woolf that the Land Board direct the Department to include the enhancement requests as outlined in Attachment 1 in the Fiscal Year 2024 budget proposal due on September 1, 2022. Secretary of State Denney seconded the motion. For the record, Governor Little recused himself from this vote. The motion carried on a vote of 3-0.

## Information

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

- 5. Future of Cottage Site Leasing: 2025 Plan** – Presented by Josh Purkiss, Bureau Chief-Real Estate Services

**Discussion:** None.

- 6. University of Idaho CAFE Project Proposal** – Presented by Josh Purkiss, Bureau Chief-Real Estate Services, IDL; Scott Green, President, University of Idaho; Brent Olmstead, CALS Director of Government Relations, UI; Brian Foisy, Chief Financial Officer, UI; and Kent Nelson, General Counsel, UI

**Discussion:**

**Governor Little:** Beginning of Josh's note had the proceeds of \$23,250,000; how does that square with the \$17,250,000 up there?

**Brian Foisy:** We have \$17,250,000 plus the line at the very bottom, Governor, the \$6 million; those two numbers together are the \$23,250,000 from the auction proceeds. In fact, I will discuss those now, sir. The proposal as currently configured assumes the University will convey to the Land Board, at the appraised value of \$6,000,000, two parcels of land, one that the University currently owns, and one currently owned by the Idaho Dairymen's Association that they intend to convey to the University. That accounts for the bottom line there of \$6,000,000. Again, the proposal as currently configured assumes that the University will further convey to the Land Board other non-land real assets that would be constructed on the dairy site and of course that is the balance of the \$23,250,000 to the \$17,250,000 that you see there.

**Governor Little:** Mr. Nelson, does everybody agree this is in full compliance with the Morrill Act? Are there differing opinions?

**Kent Nelson:** I do not believe there are.

**Controller Woolf:** Not sure if it is a question for Mr. Nelson or Mr. Foisy, but of the \$17.25 million that will go for construction – I do not know if you have the answers today or if in preparation for next month – is that a portion of a building, is that the milk parlor, is it a couple of the others, and by then will we be able to identify. I do not think the University of Idaho nor the Land Board itself want to have that we are 0.8 owners of the milk parlor, and you are 0.2. That is one thing to look at.

**Kent Nelson:** Governor, Controller Woolf, we anticipate that we will have specifically identified assets that are complete in and of themselves that would be owned by the endowment and others specifically identified. We may not hit \$17,250,000 on the nail but we will be as close as we can.

## Executive Session

None

There being no further business before the Land Board, at 10:27 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.

Idaho State Board of Land Commissioners

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*/s/ Brad Little*

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

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*/s/ Lawrence E. Denney*

Lawrence E. Denney  
Secretary of State

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*/s/ Dustin T. Miller*

Dustin T. Miller  
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the September 20, 2022 Land Board meeting.