



Idaho State Board of Land Commissioners

Brad Little, Governor and President of the Board

Phil McGrane, Secretary of State

Raúl R. Labrador, Attorney General

Brandon D Woolf, State Controller

Debbie Critchfield, 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 21, 2023

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, November 21, 2023 at the State Capitol, Lincoln Auditorium WW02, Lower Level, West Wing, 700 West Jefferson St., 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 Phil McGrane
Honorable Attorney General Raúl Labrador
Honorable State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Debbie Critchfield

Governor Little, Secretary of State McGrane, Attorney General Labrador, and Controller Woolf attended at the physical location. Superintendent Critchfield attended via Zoom webinar.

For the record, a motion was made by Secretary of State McGrane to amend the agenda pursuant to Idaho Code § 74-204(4)(c) to move agenda item 7 *Statement of Investment Policy Annual Review*, and item 8 *Strategic Reinvestment Annual Review*, from the Regular section to the Information section. Secretary of State McGrane explained his reason for the change is that these two items represent main responsibilities of the Land Board and determine the Department's plan for the year; a majority of Land Board members are new this year and have not delved deeply into these documents. Moving these from action items to informational items will give members time to more thoroughly review both documents, and the Land Board will revisit these as action items at the next meeting. Governor Little stated the motion will be treated as unanimous consent. No objections were made; Governor Little so ordered.

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

Trust Land Revenue

- A. Timber Sales – October 2023
- B. Leases and Permits – October 2023

Discussion: None.

2. Endowment Fund Investment Board – Presented by Tom Wilford, Chairman, and Chris Anton, Manager of Investments

Introduction: Mr. Wilford introduced members of the Endowment Fund Investment Board who were present at the meeting, including Bob Donaldson, Joe Forney, Irv Littman, Mary Pat Thompson, Rep. Kenny Wroten, and Brian Yeargain. Mr. Wilford noted that Jerry Aldape and Sen. Chuck Winder were not able to attend. Mr. Wilford also mentioned EFIB staff who were present: Chris Anton, Chris Halvorson, and Kathy Van Vactor. Mr. Wilford turned the time over to Mr. Anton to discuss the reports.

- A. FY2023 Annual Report
- B. Land Board Audit Committee Report
- C. Manager's Monthly Report

Discussion: Mr. Anton began with the FY2023 annual report, stating that fiscal year 2023 was a very good year for the fund, which grew by 8.2% (\$223 million) and ended the year with a balance of \$2,947,000,000 as of June 30, 2023. In addition, reserves were very strong at the end of the year. All but Public School and State Hospital South had balances above their target reserve levels and that allowed the Land Board, subsequent to year end at the August meeting, to approve the transfer of \$28.1 million from earnings reserves into the permanent fund. The endowment fund had investment gains of 10.9% during the year which ranked in the top 22nd percentile in Callan's public fund sponsored database. Costs to manage the fund totaled \$11.4 million or 0.39% of assets, an extremely competitive level. Land revenue declined by 5.8% to \$53.2 million. Still, there was a significant increase in beneficiary distributions of 13.9% to \$100.3 million. Attorney General Labrador asked how distributions increased with the decline in revenue. Mr. Anton explained that revenue from lands comes into the fund, but distributions are 5% of the year-end balance. Although revenue coming in went down, there were investment gains; the fund balance grew during the fiscal year which allowed an increase in distributions. It is a three year average of the balance at fiscal year-end; over that time the balance has grown. Governor Little remarked that State Hospital South is the only fund with more than a 5% distribution and given the fact that they are below target, is the Investment Board considering making a recommendation to the Land Board on the payout. State Hospital South is a beneficiary of rental income from the cabin sites and cabin sites have been largely disposed; is the Investment Board considering changing that recommendation to the Land Board? Mr. Anton responded that EFIB has not done that analysis at this point. The reserves have stayed very strong, but EFIB will take that under advisement and look into that.

Mr. Anton moved onto the Land Board Audit Committee report. Members of the Land Board Audit Committee include Tom Wilford, Brian Yeargain, Jerry Aldape from EFIB; Robin Lockett from the Attorney General's Office and State Controller Brandon Woolf. Mr. Anton stated that 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, solid internal controls, and transparency to all of its stakeholders. The Land Board Audit Committee met twice during the fiscal year with representatives from CliftonLarsonAllen, EFIB's independent auditor, as well as EFIB and Department staff, on April 25, 2023 to plan the audit and again on August 17, 2023 to review the results of the audit. EFIB's audited financial statements and the Department's agreed upon procedures were reviewed and accepted by the Land Board Audit Committee. CliftonLarsonAllen

provided an unmodified, or clean, opinion of the financial statements. These opinions are representation by a professional independent third party that the financial statements are presented fairly in all material respects for the fiscal years ended June 30, 2023 and 2022. In addition, CliftonLarsonAllen tested the agency's internal controls over financial reporting and compliance with certain provisions of law, regulations, and contracts and found no issues to report. CliftonLarsonAllen conducted certain agreed upon procedures for the Idaho Department of Lands and had no findings to report. It was a very clean report for both agencies. Mr. Anton advised that every five years, per policy, EFIB issues a Request for Proposal (RFP) for audit services. This was the fifth year of CliftonLarsonAllen's contract. In late September EFIB distributed an RFP to five different audit firms. Two submitted proposals, received by EFIB on November 15th. An Audit Committee meeting is scheduled on December 8th to review those proposals.

Going through the monthly reports, Mr. Anton mentioned a big change from October to November. Through October 31st the fund was down -2.7% for the month, and down -6% fiscal year-to-date. Through yesterday, 11/20, the fund is down -0.2%. During the month of October, economic data was very strong; GDP was 4.9% and a significant amount of treasuries were put onto the market. The Federal Reserve is reducing its balance sheet; the Treasury, with the large deficit the nation is running, has been selling a large number of long-term bonds. That put pressure on the treasury markets, drove down prices and drove up yields. With higher bond yields, bonds were down, and the stock market was down as well for three consecutive months. The view was that the economy would stay strong, it would be difficult for the Federal Reserve to fight inflation, the rates would be high for a long time, and it would push the economy into a recession. That was the outlook in August, September, and October, pushing the market down. When the Federal Reserve met at the beginning of November, they kept the Federal Reserve fund's rate flat, but more importantly, determined the rate is balanced, just about right to taper inflation without pushing the country into recession. Raise rates more, it might quickly slow inflation but hurt employment. Cut rates too soon, inflation might come back. That perspective was confirmed later in the month when headline inflation came out at flat month over month, and at 3.2% year over year. Inflation continues to moderate, a little softening in the labor market although it is still healthy, and the market flipped its viewpoint: inflation is coming down, maybe rates will come down sooner than anticipated, and that caused this reversal in the market. EFIB is pleased to be back to a healthier place. Mr. Anton referred to the red and the green colors in the investment report. There is more red than normal in this report, which implies that fund performance is below the benchmark. For the most part managers have exceeded the benchmark, but it has been a strange market: most of the investment returns on the equity side have been driven by the S&P 500 top seven large high-growth companies; they are up 50-60%; the bottom 493 are flat. That suggests investing in things other than large cap growth will not do as well as the benchmark. On the domestic equity side, all EFIB managers beat their benchmarks, but are considerably below, particularly on the one-year number, because the endowment fund has an overweight to mid and small cap relative to the Russell 3000 benchmark. It is an intentional overweight on behalf of the Investment Board to mid and small cap because over the long term those companies have the ability to grow more quickly than the large companies and add better return. This is an odd period of time dominated by large cap growth companies.

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

Discussion: None.

Consent—Action Item(s)

4. Results of October 4, 2023 Commercial Recreation Lease Live Auction – Presented by Jason Laney-
Section Manager-Real Estate

Discussion: None.

Recommendation: Direct the Department to award commercial recreation lease M300014 to the high bidder, Bryan Peterson.

5. Results of October 4, 2023 Residential Cottage Site Lease Live Auction – Presented by Jason Laney-
Section Manager-Real Estate

Discussion: None.

Recommendation: Direct the Department to award residential cottage site lease R100406 to the high bidder, Kristina France.

6. Approval of Draft Minutes – October 17, 2023 Regular Meeting (Boise)

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

Regular—Action Item(s)

7. Disclaimer of Interest Request DI200000-Fodge Pulp, Inc., Kootenai River – Presented by Mick
Thomas, Division Administrator-Minerals, Navigable Waterways, Oil and Gas

Recommendation: Direct the Department to issue a Disclaimer of Interest for two parcels totaling 5.121 acres of the former bed of the Kootenai River, to Fodge Pulp, Inc. following their payment to the Department of the remaining processing fee of \$300.

Discussion: Governor Little noted the remaining fee is \$300 and inquired if additional costs will be addressed considering the applicant would like to close this expeditiously. Mr. Thomas replied that any additional costs will be tracked by the Department and passed on to the applicant.

Board Action: A motion was made by Controller Woolf that the Land Board approve the recommendation and direct the Department to issue a Disclaimer of Interest for two parcels totaling 5.121 acres of the former bed of the Kootenai River, to Fodge Pulp, Inc. following their payment to the Department of the remaining processing fee of \$300. Secretary of State McGrane seconded the motion. The motion carried on a vote of 5-0.

8. Adoption of Pending Fee Rule IDAPA 20.03.01, Rules Governing Dredge and Placer Mining Operations in Idaho – Presented by Eric Wilson, Bureau Chief-Resource Protection and Assistance

Recommendation: Adopt the pending fee rule for IDAPA 20.03.01 *Rules Governing Dredge and Placer Mining Operations in Idaho*.

Discussion: Secretary of State McGrane noticed the memo says no written comments received and inquired if the substantive comments attached to the memo were questions asked by stakeholders in the meetings; is that document a summary of those conversations. Mr. Wilson responded that those were comments received during the negotiated rulemaking process from people who attended the meetings. Secretary of State McGrane wondered if it was safe to say those comments were deemed not specifically relevant to the rule changes at hand. Mr. Wilson replied that some of the comments were pertinent, but the Department believed some of the changes would violate statute and some were directly against the Zero-Based Regulation guidance the Department received.

Board Action: A motion was made by Controller Woolf that the Land Board adopt the pending fee rule. Governor Little seconded the motion. The motion carried on a vote of 5-0.

9. Adoption of Pending Fee Rule IDAPA 20.03.03, Rules Governing Administration of the Reclamation Fund – Presented by Eric Wilson, Bureau Chief-Resource Protection and Assistance

Recommendation: Adopt the pending fee rule for IDAPA 20.03.03 *Rules Governing Administration of the Reclamation Fund*.

Discussion: None.

Board Action: A motion was made by Controller Woolf that the Land Board adopt the pending fee rule. Superintendent Critchfield seconded the motion. The motion carried on a vote of 5-0.

10. Adoption of Pending Fee Rule IDAPA 20.03.05, Navigable Waterways Mineral Leasing in Idaho – Presented by Eric Wilson, Bureau Chief-Resource Protection and Assistance

Recommendation: Adopt the pending fee rule for IDAPA 20.03.05 *Navigable Waterways Mineral Leasing in Idaho*.

Discussion: None.

Board Action: A motion was made by Controller Woolf that the Land Board adopt the pending fee rule. Superintendent Critchfield seconded the motion. The motion carried on a vote of 5-0.

Governor Little asked Director Miller if raising these fees means decreasing the appropriations for the Department of Lands and commented it ought to show up somewhere in the budget process. The narrative is the Department is raising fees because permittees and lessees are not covering agency costs, which indicates that those costs are being covered out of other Land Board functions. Governor Little observed the Department will likely get this question at the legislature. Director Miller said the Department is cognizant of the costs, and what increasing these fees means for citizens of the state. The goal is to ensure sufficient funds in dedicated accounts to run these

programs. Eric and his team have done a great job analyzing the costs and making sure the Department is charging the right amount while being very prudent with those dollars. Governor Little remarked he is not opposed to the fee increases, just anticipating some of the debate.

11. Adoption of Pending Rule IDAPA 20.05.01, Recreational Use of Endowment Land – *Presented by Todd Wernex, Program Manager-Recreation*

Recommendation: Adopt the pending rule for IDAPA 20.05.01 *Rules Pertaining to the Recreational Use of Endowment Land*.

Discussion: None.

Board Action: A motion was made by Superintendent Critchfield that the Land Board adopt the pending rule. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

12. Adoption of Pending Rule IDAPA 20.01.01, Rules of Practice and Procedure Before the State Board of Land Commissioners – *Presented by Dustin Miller, Director*

Recommendation: Adopt the pending rule for IDAPA 20.01.01 *Rules of Practice and Procedure Before the State Board of Land Commissioners*.

Discussion: None.

Board Action: A motion was made by Controller Woolf that the Land Board adopt the pending rule. Secretary of State McGrane seconded the motion. The motion carried on a vote of 5-0.

Information

13. Statement of Investment Policy Annual Review – *Presented by Bill Haagenson, Deputy Director*

Discussion: Controller Woolf pointed to page 23, Transition of Lands, and recalled that transition refers to asset classes where, for example, it may be initially identified as timberland, but might have a higher and better use if changed to a different asset class. What is the process? How is the public made known, how does it work through the Department, and when does it end at the Land Board making the decision on that change. Mr. Haagenson indicated the Department wants to revisit that process with the Board in terms of how it will play out in the future. The most important asset to address is timberland. The Department must be clear on any reclassifications of timberland into a different asset class because there is a statute that may be applicable regarding the sale of timberland. In the near future, the Department will present a request for Land Board direction on how to move forward with reclassifications. Secretary of State McGrane mentioned his interest in further conversation, including history of this policy and prioritization of what asset classes the Land Board wanted to invest in versus what it may not want to invest in, and how this reflects Land Board direction moving forward. Governor Little stated the Land Board will review the Investment Policy at its next meeting.

14. Strategic Reinvestment Plan Review – *Presented by Bill Haagenson, Deputy Director*

Discussion: None.

