



**Idaho State Board of Land Commissioners
Reinvestment Subcommittee**

Brad Little, Governor and Chair
Lawrence G. Wasden, Attorney General
Irving Littman

Final Minutes
Reinvestment Subcommittee
July 19, 2019

The Land Board Reinvestment Subcommittee meeting was held on Friday, July 19, 2019, in the State Capitol, Hearing Room WW54, Lower Level, West Wing, 700 W. Jefferson St., Boise, Idaho. The meeting began at 9:00 a.m. Governor Brad Little presided. The following members were in attendance:

Attorney General Lawrence Wasden
Mr. Irving Littman

For the record, all subcommittee members were present.

Governor Little thanked Attorney General Wasden for serving on this subcommittee, and thanked all the members of the Land Board for the opportunity to have the Reinvestment Subcommittee revisit reinvestment, and asset allocation methodology. Governor Little's goal is to have a higher comfort level in the strategy the Land Board is using to reinvest the enormous sum of money that will be available in the coming years, and what the Land Board is doing with that sacred trust. Governor Little introduced Mr. Irving Littman, the third member of this subcommittee. Mr. Littman also serves on the Endowment Fund Investment Board, and was treasurer for Boise Cascade. Governor Little noted that he and Mr. Littman served on the Community Foundation Investment Committee for a number of years, and Governor Little expressed confidence in Mr. Littman's advice and counsel on timber issues and financial investment issues.

Attorney General Wasden commented on behalf of the Land Board members that this is a welcome opportunity for the subcommittee to review, have discussions, and make recommendations to the full Land Board. Attorney General Wasden said that taking time to look at the history of reinvestment is a valuable endeavor.

Mr. Littman stated that he looks forward to learning more about the issues.

Governor Little mentioned that many things have changed since the asset allocation study done by Callan in 2014: standards for investment have changed; opportunities for investment have changed; the Endowment Fund did not have a real estate portfolio at that time; 2 1/4% was the acknowledged standard for inflation then. Governor Little remarked that the Endowment Fund Investment Board—Mr. Littman, Chairman Dean Buffington, and the other members—have done an incredible job, as has the Department of Lands. Governor Little noted that the Department has constraints, some are adverse, and some are beneficial. It would be helpful to have a deeper understanding of both.

Governor Little commented that Callan's 2018 report stated that investing in land is preferable because it generally provides equal and better protection. Governor Little said he found that

interesting given the fact that timber management organizations (TMOs) view Idaho forestland as an asset to divest rather than invest, and he wondered about Callan's recommendation that the Land Board reinvest in timberland. Governor Little mentioned he would like to know how real estate is valued—is it the income approach; is it fair market value; is it fair market value as determined by comparable sales. Governor Little also stated his interest in learning what standard was given to Department staff and the consultants on how to value the assets, and what instructions were given to the appraisers. Governor Little referred to Callan's 2014 report which stated that 'U.S. real estate could at best play only a modest role in improving the diversification of the portfolio, and there is no investment reason for an allocation primarily consisting or concentrated on a portion in Idaho properties.' Governor Little concurred with that statement, but recalled that at that time the focus was commercial property, and now the focus is on timberland properties. Governor Little questioned that if the lack of diversification for commercial properties was a problem, why is doubling-down in investment in timber properties the right thing. Governor Little commented that another area with uncertainty is cottage sites. Cottage site sales to date have been those lots that people wanted to buy and wanted to sell, more-or-less the low-hanging fruit; some of the cottage sites left are going to be a little bit harder to sell. Thought needs to be given to what happens with administrative costs when only a few cottage sites remain.

Attorney General Wasden remarked that it is essential to identify questions, as the Governor is doing. In answering those questions, it will be important to do several things. The subcommittee needs to look at Land Board and Department reinvestment history, look at the legal structure that brought the Land Board and Department to where they are now, and have Callan explain the very things that the Governor has mentioned, and why Callan made the recommendations they did. Attorney General Wasden said those steps will provide many answers, and Mr. Littman can provide much of the financial analytical structure; he has more expertise to offer in that arena. Attorney General Wasden noted that Department staff needs to have direction, sooner rather than later; the subcommittee cannot drag this out a long period of time. If the subcommittee can move this along, everyone is better served, because the Land Board has a limited amount of time to use funds in the Land Bank. If the Land Board is going to make purchases, or if the Land Board is not going to make purchases, the Department needs to know that.

Governor Little mentioned that timing is important in investment strategy, not only picking the right asset type, but buying at the right time. Governor Little commented that the problem the Land Board had competing in the commercial realm is almost exacerbated in the ag land area. Callan pointed out that the expertise the Department has in ag land is much different than their expertise in timberland; investing in ag land is a timing issue as with most asset types. Governor Little said he would like to know where the Department is on purchasing ag land going forward, and he is dubious about the Department's ability to be competitive in ag land, similar to commercial property.

Mr. Littman remarked that one of the key issues he would like to understand is the Constitutional and statutory structure that the Department and Land Board need to operate in: what restraints come from that and what opportunities. Mr. Littman also wants to understand the management objectives. Mr. Littman observed that the financial Endowment has been very well managed and generated an important return. Timberland provides a good diversification and long-term stability.

Governor Little noted the issue is does the Land Board continue with ag land and timberland; that is the current strategy, and whether overtly or covertly, the decision has been mainly to buy timberland. The next decision is does the Land Board put all of the Land Bank funds into timberland; Governor Little said that seems to be the intent. Or, does the Land Board split the funds and allow some to ladder into the different asset types the Endowment Fund manages, and put some of the funds in timber.

Mr. Littman indicated that he would also like a review with Callan; there are some issues of the source and consistency of data in a financial context for non-financial assets, and how they are integrated into the analysis and asset allocation process as they are for financial assets. The subcommittee needs to hear from Callan and know if there are specific resources that the Board's consultant or the subcommittee ought to seek on that subject for further understanding. A well thought-out strategic opportunity can increase the asset return, over a long period of time of a non-financial asset, or dilute it. Understanding what the potential is there has a lot to do with the market.

Governor Little mentioned that isolated timber parcels are an issue. Per Idaho Code, the Board cannot sell timberland. But what is a block of timberland worth where there are no mills around. Governor Little wondered how endowment timberland matches up with the head rig capacity of Idaho mills, because having timberland is only beneficial if there is someplace to sell it. Governor Little expressed pleasure with the Department's work on the Good Neighbor Authority; the Good Neighbor Authority is increasing the supply, which is competing with the fair market value of endowment timber. At the same time, however, as the Land Board takes state resources and does what needs to be done to get more revenue off of federal lands, how does that impact the bottom line net of endowment timberlands. The Land Board needs to be aware of that.

Attorney General Wasden said the scope of what the subcommittee is trying to accomplish is to make recommendations to the full Land Board about reinvestment. Subcategories under that scope are the specific questions that have been voiced here today. Attorney General Wasden outlined three steps. First will be to talk about the history and the legal structure; the office of the Attorney General will be prepared to do that. Second is to have Callan come and provide a thorough review of their reports, with opportunities for the subcommittee to ask them questions. There are a few questions that can only be addressed by our experts; it will be helpful to have Callan explain their recommendations to us. The third step is that the subcommittee will need some time to talk about all the information it is assimilating, and identify where the Board should go in the future. Attorney General Wasden suggested that one additional step in the process is to have an opportunity for the public to provide comment to the subcommittee.

Governor Little proposed that the subcommittee try to meet again with the next three weeks for its second meeting, and anticipated one more meeting after that, to be timed to make a recommendation to the Land Board.

Attorney General Wasden indicated his staff will be prepared to make the historical and legal background review at the next subcommittee meeting.

There being no further business, at 9:28 am a motion was made by Attorney General Wasden that the subcommittee adjourn. Mr. Littman seconded the motion. The motion carried on a vote of 3-0.

Idaho State Board of Land Commissioners
Strategic Reinvestment Subcommittee

/s/ Brad Little

Brad Little
Chairman, Strategic Reinvestment Subcommittee and
President, State Board of Land Commissioners and
Governor of the State of Idaho

The above-listed final minutes were approved by the Land Board's
Reinvestment Subcommittee at its November 13, 2019 meeting.