



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

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

Draft Minutes
Reinvestment Subcommittee
April 10, 2020

The Land Board Reinvestment Subcommittee meeting was held on Friday, April 10, 2020, via teleconference only.¹ The meeting began at 1:32 p.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: Okay, Brad Little here. General Wasden are you on?

Irv, are you on?

Mr. Littman: I am, Governor.

Governor Little: All right. You might have to get closer to your speaker phone. Dustin, are you on?

Director Miller: Yes, I am here, Governor.

Governor Little: Okay, I will try General Wasden again?

Well, I guess we've got a quorum, but I am hesitant to start without Lawrence on the line. I assume he's within a minute. There's two of us, and I saw that Irv, you submitted a minor change in the minutes – they looked okay to me. If you'll make a motion, we'll approve the minutes while we wait for Lawrence.

Attorney General Wasden: I'm on, Governor; I didn't have the code.

Governor Little: There we go. Okay we're all on, Lawrence, Irv and I, and Director Miller are on. We're at the approval of the minutes.

Mr. Littman: I move approval of the minutes of the March 12th meeting.

Attorney General Wasden: Second.

Governor Little: It's been moved and seconded. All in favor say aye.

¹ Pursuant to Governor's proclamation, March 18, 2020.

All: Aye.

Governor Little: The minutes have been approved.

We are at a point in time where I am hopeful that we'll be able to make a recommendation to the Land Board at this point in time about what the policy should be going of the Board going forward. We are nothing but an advisory committee to the Land Board; I recognize that. There are several things that have been brought out during our deliberations. Of course, we've had a very dynamic change in all of the markets from the beginning of our first meeting to the consummation of our last. It's been a rodeo in the asset management business, as it has been in the land management business. The issue, the way I see it, and I want to hear from my two fellow subcommittee members about what we do going forward; where the market is; our recommendations we've had historically from Callan about what we do in assets. I appreciate everybody's good work and we've got some good options. As I talked to my fellow governors in other states, we're pretty blessed here in Idaho given what we have. It's a tough time for everybody in Idaho right now, but our central goal is the very, very long-term obligation that the Land Board members have to the beneficiaries. All of the input we've had has been to maintain our fiduciary obligations but to also realize that things change over time. Any good trustee basically has to be adaptive to the times they're in. I believe that our deliberations have pointed that out. Our asset mix, how we analyze and value those assets, it's a little different for a portfolio that's got different classes of assets and how you value those compared to just...financial assets can be marked day to day to the market, and that's where we are here in Idaho. We've got some other issues in Idaho about our current laws and some of the things we do that we have to recognize. I think everyone's goal is to continue to maximize that long-term return as our constitution says. At the last meeting, Chris [Anton] talked about how dynamic it was over at EFIB as far as the reinvestments. I think our very capable EFIB staff and [Investment] Board, which Irv sits on, has done a very good job, and following best practices the people of Idaho, and more importantly the beneficiaries in years to come, have been well served. Under these policies we did acquire the Packer 1 acquisition in late 2018 so that's been part of what we've done. We've sold a lot of the liquid, both commercial and cabin sites, and put those in the land Bank per the policy of the State of Idaho. The issue to me is what do we do going forward. Again, I appreciate the work of the committee, everybody that participated, as we look at the financial landscape as we go forward. Timber has averaged around \$75 million over the last 5 years and the Board adopted a new policy which we think will increase that return going forward. We still have some things that are...if we knew everything, which nobody does, anybody that anticipated this would have been a rocket scientist...but if you use good policy, you're well protected. Where we were at the last meeting, we were going to make a recommendation. We made the decision then to delay it until this meeting. We were anticipating we would be able to meet in person, but good policy dictates we're not able to do that. Everybody knows where I was and the recommendation that I intended to make as we go forward. I think that my recommendation was that we determine going forward what percent of the Land Bank fund goes into the procurement of real estate assets and what percent goes into financial assets. With that, I will stop for a minute and let my two other members talk about where they think we are today.

Attorney General Wasden: Governor, I am prepared to make a motion; I'm certainly interested in listening to Mr. Littman, but I'm prepared to make a motion.

Governor Little: Irv?

Mr. Littman: I guess we all are. Who goes first?

Attorney General Wasden: I guess I will, Governor.

Governor Little: Okay.

Attorney General Wasden: At its July 2018 meeting, the Land Board adopted what is known as Option A. Essentially, Option A provides that the Board, consistent with the reinvestment plan, identify transactions that meet established hurdle rates and set aside sufficient funds over an appropriate time horizon, and in fulfillment of the scope and purpose of this subcommittee to examine that decision and make recommendations to the full Board, I make a four-part motion:

- 1) That the full Board stay the course on Option A in order to maintain the Board's flexibility in applying funds to either land or financial investments;
- 2) That, pursuant to the suggestion of Mr. Irv Littman, the full Board request Callan to review the efficacy of the hurdle rates;
- 3) Recognizing that our normal processes for investment require our seeking advice from our retained experts, that the full Board also request Callan and EFIB review current market conditions and report to the full Board at its next monthly meeting to make any recommendations concerning investments in current financial markets;
- 4) That the Department of Lands prepare a letter of transmittal to the full Board outlining the subcommittee's recommendations, and I offer Darrell Early to assist the Department in preparing that letter.

That's my motion.

Governor Little: It's a little hard for me to analyze the width and breadth of it. I guess I have a question for you, General. Do you think that this committee, because we're not the full Land Board, do we have the authority to do all of those things?

Attorney General Wasden: What we're doing is recommending to the full committee...

Governor Little: Recommending to the Land Board.

Attorney General Wasden: Yes. We're recommending to the Land Board four things: 1) that we stay the course on Option A, that's our recommendation; 2) that we have Callan review the hurdle rates to make sure that they're appropriate; 3) that we also ask Callan and EFIB to examine the current financial market conditions and give us a recommendation of what we ought to be doing concerning the financial markets; the fourth element is that we transmit that to the full Land Board by a letter.

Governor Little: Okay, I got the first part. But we're making a recommendation to the Land Board. If we're making a recommendation to the Land Board that they do 2, 3, and 4, is that correct?

Attorney General Wasden: Yes.

Governor Little: Or are we asking for the study and as a subcommittee...is it all encompassed 1, 2, 3, and 4 under the heading of we make a recommendation to the Land Board to do 1, 2, 3, and 4? I guess the question is, as a subcommittee and not a functioning...we're not a quorum of the Board...do we have the authority to do all of that other than just pass questions?

Attorney General Wasden: Governor, my motion is that we make these 1, 2, 3, and 4 as recommendations to the Board. All we can do is recommend that the full Board take an action. So here's what I am recommending: I recommend that the full Board stay the course on Option A; we recommend that the full Board request Callan to review the efficacy of the hurdle rates; we recommend that the full Board ask Callan and EFIB to give us an analysis of current market conditions; and four, my motion is really for us, that we transmit that to the full Board via letter. We're making three recommendations to the Board.

Governor Little: For my simple mind, the multiple part of this...and I can't remember exactly what Option A was, I don't have it in front of me; I thought that would be the status quo. In essence, and please correct me if I am wrong, the recommendation is to maintain the status quo and study some stuff, is that right?

Attorney General Wasden: Basically, yes.

Mr. Littman: Governor.

Governor Little: Irv.

Mr. Littman: If we're following parliamentary procedure, do we need a second in order to discuss the motion...but I think our discussion at the last meeting, with Callan on the phone, that they reaffirmed their view on capital market expectations which they published in January, and that the hurdle rates made sense in the current environment. We discussed a process to revisit that annually.

Attorney General Wasden: I am certainly willing to remove that; I was just trying to accommodate your comments, Mr. Littman. If you are satisfied that we are doing that, which we are, then I am most happy to remove that portion. In view of that, let me restate a new motion, and that is a three-part motion:

- 1) That the full Board stay the course on Option A in order to maintain the Board's flexibility in applying funds to either land or financial investments;
- 2) Recognizing that our normal processes for investment require our seeking advice from our retained experts, that the full Board also request Callan and EFIB review current market conditions and report to the full Board at its next monthly meeting to make any recommendations concerning investments in current financial markets;
- 3) The Department prepare a letter of transmittal to the full Board outlining the subcommittee's recommendations, and again I offer Darrell Early to assist the Department in preparing that letter.

Governor Little: My inclination is, given the width and the breadth of the motion is, perhaps we could, instead of taking this as an encompassing motion, General, if we could take them one at a time is my...of course, all of them are recommendations to the Board anyway.

Attorney General Wasden: Right. So let me make this motion, Governor, since I don't yet have a second: it's a two-part motion: 1) that the full Board stay the course on Option A in order to maintain the Board's flexibility in applying funds to either lands or financial investments; and 2) that the Department of Lands prepare a letter of transmittal to the full Board outlining the subcommittee's

recommendations; again I offer Darrell Early to assist the Department in preparing that letter. My motion is stay the course on Option A and tell the full Board in a letter.

Governor Little: Okay, if I can clarify for my mind the motion basically says maintain the status quo and prepare a letter to that effect to send to the Board. Is that fair?

Attorney General Wasden: That's my motion, yes.

Governor Little: Okay. Irv, have you got any comments about that? If not, I've got an alternative motion which would have the second part, which would be that the committee draft a letter with the three of us to basically to look at that letter. I kind of understand having the Department do it, but this is really not a letter from the Department, it is a letter from the committee. The staff can participate in it, but it really ought to be a letter from the three of us. But, in my substitute motion, it's that we put 50% of the current Land Bank fund in the financial assets, which is different than Option A. That's an alternative motion.

Mr. Littman: I am comfortable with Option A, and the General's proposed motion, because it does say that the funds will go to financial assets unless very attractive and accretive investments are found within specific time periods which roll off. I note from the Land Bank aging report, in a little over a year-and-a-half about \$33 million will flow naturally if they're not properly invested. This does get us to the residual all flowing into that. But I understand your point, Governor, and I would be comfortable with...I would probably pick a lower number like \$50 million rather than 50% and move that into financial assets, recognizing that the markets have been disrupted and that may provide a constructive opportunity to put that money to work after it's fallen some.

Governor Little: Is that it, Irv? I don't want to cut you off. It's hard to tell without seeing you. I am comfortable with allowing your suggestion to be an amendment to my motion to instead of 50% of the assets to be \$50 million. Let me rephrase my motion: that out of the current land Bank fund, we move \$50 million into the financial assets and prepare a letter that encompasses some of General Wasden's comments in the first part of it, prepare a draft letter, circulate it between the three of us, and submit it to the Land Board. I am comfortable with that; I guess you could say I amended my motion.

Mr. Littman: Okay, and Governor, the inference then is that with the remaining funds you're comfortable reinforcing the existing strategy.

Governor Little: Yes, and, of course I think General Wasden's comments about hurdle rates and analysis of everything that we've been doing. This is a new reality, Irv, you know this you serve on the EFIB board and all of the other board's you've served on; every investment committee in the United States is looking at their hole card about what they've done, and it would be prudent for the State of Idaho to do the same.

Mr. Littman: Agreed. A small practical question, as I look at the Land Bank aging report, I see there are four different funds within the overall endowment with different aging; I can easily get confused about how a subset of that would be taken and reallocated directly to financial assets. I assume that Director Miller and Chris Anton from EFIB are best qualified to look at that and make specific allocations of where that \$50 million were to come from, out of the existing \$123 million in the Land Bank plus interest.

Governor Little: I would just assume it would be, from an aging standpoint, it would be the most current. I can pretty well guess what their recommendation would be.

Mr. Littman: That would end up with a different distribution in terms of among the different sub things; I would defer to that. I don't have anything to add other than question the mechanical process.

Governor Little: I go back to the latter part of the motion is that...if the motion that I spoke to is passed, then we take that, put it in draft form and circulate it, and then some of these unknowns we can put in there. In essence all we're doing is making a recommendation to the full Board anyway.

Mr. Littman: If I understand, you've amended your motion, I would second it.

Governor Little: We've got a motion in front of the subcommittee. Further discussion?

Attorney General Wasden: Yes, Governor. I will be voting no on this motion, because inherent in this motion is the fact that we've avoided seeking the advice of our experts in selecting a number. That's why my motion included that element. Instead of us just choosing a number out of the air, that we actually go to our experts – EFIB and Callan – and ask them what we ought to do with regard to the current marketplace. The motion that we have now before the subcommittee is to recommend that we just select a number; we don't know if that's the right number. I am going to be voting no on this motion, and I ask for the opportunity to write a minority report.

Governor Little: As a constitutionally elected member of the Land Board, you don't need to seek permission from the two of us to write a minority report. If you're insinuating that you're writing a minority report, does that mean you'd be included in drafting the letter from the majority?

Attorney General Wasden: No, I will be writing my own.

Governor Little: Okay. We have a motion in front of us. All in favor say aye.

Governor Little: Aye.

Mr. Littman: Aye.

Governor Little: All opposed.

Attorney General Wasden: Nay.

Governor Little: Okay. I'm somewhat disappointed that we didn't come to a better...we'll work through this as we go forward. What about, is there consensus, which would be my preference, that we review the hurdle rate.

Mr. Littman: Sure.

Attorney General Wasden: My understanding was that we do that anyway, that we do a review of that and that was a part of the discussion; that's why I included that in my original motion. But we do a review of that. I don't have a problem if we examine the hurdle rate, or actually that we recommend to the full Board that we do an examination of the hurdle rate.

Governor Little: We have consensus; we're making progress.

Mr. Littman: Governor, I wonder if there's a way to qualify your motion, maybe we can amend it to incorporate a validation review that would make General Wasden a little more comfortable with it.

Governor Little: Again, I will re-emphasize, we're just making a recommendation to the full Board. We'll circulate something between the three of us about how to review the hurdle rate and hopefully there'd be some consensus; that would be my recommendation. We've got reams of material about the hurdle rate, how do we value the assets, and so I think it is just prudent to review that.

Mr. Littman: Okay.

Governor Little: We passed the first motion. Is there any disagreement with just a motion that we ask the Board to review the hurdle rate? Whether it is embedded into the process now or not, I think that's good policy. I think just a general motion that the Board work with both Department of Lands and Callan to review the hurdle rate.

Mr. Littman: Agreed.

Governor Little: All in favor.

Mr. Littman: Aye.

Governor Little: Aye.

Attorney General Wasden: Aye.

Governor Little: I think I heard you say 'agreed,' Irv, so I'm going to consider that a second.

Mr. Littman: Yes, I did.

Governor Little: One of the other recommendations, and I'll make this motion...as I digested all of the information that we got from staff, when we looked at the totality of our return off of our timber assets...that the subcommittee make a recommendation that, as we look at assets to purchase, we look at increasing active production in Idaho. There are different classes of assets. If we've got two assets that are exactly alike and one of them increases active production in Idaho, and I don't believe that is part of any of the proposals, but it is some of the things we've heard, that we ask that the...of course this is not in deciding whether it's financial, this is in timberland management...that if all things being equal, we look at increasing active production in Idaho, because that helps everybody. It will help the return and it will add...our customers, the people that buy our product off of the land, that sends a signal to them that there's going to continue to be a wood basket for them to make capital investments to where they can actively compete for timber. The goal is to increase bidding for the endowment lands which I think is in everybody's best interest. Given the silence, I will make a motion that we make that recommendation to the Board.

Mr. Littman: I assume that's consistent with good forest management practices; we ought to seek the highest sustainable yield.

Governor Little: As I said, all things being equal, if it's ground that's currently being actively managed...we've got \$100 to spend and the \$100 can either go to ground that's already maximizing bidders for our product, and we have a choice of spending \$100 on a piece of ground that's going to increase the sustainability of the wood basket, that means we're going to have more bidders which is

really a long-term, it complies with the long-term part of our obligation. We want more bidders out there to maximize opportunities for us to sell future wood products off of our lands.

Attorney General Wasden: Governor.

Governor Little: General.

Attorney General Wasden: I guess I am confused by the motion. I don't know what it accomplishes. I've listened, but I am just not sure that I understand. The guiding principle here ought to be our fiduciary responsibility to the beneficiaries. If what you're proposing is consistent with that, great. But I can't really tell. Can you help me out?

Governor Little: Okay. You've got a million dollars and you can buy a million dollars' worth of land that hasn't been producing any timber, that hasn't been sustaining the saw mill, that hasn't been sustaining the logging industry, or you can take the million dollars and buy a piece of ground that is already producing opportunity. The long-term benefit is the fact that if one more mill is established at some point in time, that can bid on our logs, we're going to have more competition out there to get higher eventual returns for the entire endowment; that's the issue. If you don't do that, then you don't have as many bidders, and the more bidders you have the higher the eventual returns. In the short-term basis, you probably wouldn't, but this is really a long-term decision to maximize the amount of healthy bidders that we have for our product.

Attorney General Wasden: As a follow up question then, Governor, what are we recommending to the full Board?

Governor Little: This recommendation, if adopted by this committee and submitted to the Board, would be if we have two pieces of property, all things being equal, but one of them is going to increase the totality of production, that's going to be good because it might mean either: a) one new sawmill or, b) perhaps more importantly, not the loss of a sawmill somewhere, to we have multiple bidders and that's the goal of this.

Attorney General Wasden: Can I make a friendly amendment to your motion, Governor, that we include the language 'consistent with our fiduciary duty?'

Governor Little: Sure. That's as friendly as they get.

Attorney General Wasden: With that, has there been a second of this motion?

Governor Little: Nope.

Attorney General Wasden: With that friendly amendment, I will second your motion.

Governor Little: Very good. It's been moved and seconded that the subcommittee make a recommendation to the Land Board that they focus on acquisitions that increase total amount of working forests in Idaho consistent with our fiduciary duty. All in favor.

All: Aye.

Governor Little: None opposed. Unanimous. Are there any further motions?

Attorney General Wasden: I move that we adjourn and consider the subcommittee having fulfilled its obligation.

Mr. Littman: Second.

Governor Little: It's been moved and seconded that we adjourn. The motion to adjourn is non-debatable, but I will take the chairman's prerogative and thank you in particular, Irv, for all of your good work on this, and thank all of the members of the staff, EFIB and Callan for all of their good information. I was going to say we'll beg leave to sit again, but we're not even doing that. With that, all in favor say aye.

All: Aye.

Governor Little: Opposed nay. The ayes have it and we are adjourned. Thank you everyone.

Mr. Littman: Thanks, everyone, for the help; it's been fun.

Attorney General Wasden: Thanks, Governor.

There being no further business, at 2:10 pm a motion was made by Attorney General Wasden that the subcommittee adjourn, and that the subcommittee has fulfilled its obligation. Mr. Littman seconded the motion. The motion carried on a vote of 3-0.

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