Final Minutes
Reinvestment Subcommittee
October 10, 2019

The Land Board Reinvestment Subcommittee meeting was held on Thursday, October 10, 2019, in the State Capitol, Hearing Room EW40, Lower Level, East Wing, 700 W. Jefferson St., Boise, Idaho. The meeting began at 8:33 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: The Land Board Strategic Reinvestment Subcommittee will come to order. For the most part, I think everybody knows why we're here, and for me, as the new guy, I think that the policy of the Land Board on what to do, I guess it's a $150 million dollar question now. It was a $250 million dollar, but part of that's been put in the permanent fund and part of it's been put in the Land Bank; that to me is the big question. I'm the new one and I know the Board spent a lot of time over the past few years studying it; I know that the EFIB, they've been a part of that, and I just think it's prudent for us at this juncture, you know different things have happened in the market, different things have happened in the value of timberland, and I just think it's good to make everybody have a higher comfort level with the policy that is going forward. I know we'll hear it from Darrell in a minute, but the ultimate question, which in Land Board in the state of Idaho, is should the current plan be revised, changed, or the no action alternative. It's all about getting that maximum long-term return to the beneficiaries which I think everybody in Idaho agrees with. With that, General.

Attorney General Wasden: Governor, I would just note that all members of the subcommittee are present; just wanted to make sure that is on the record.

Governor Little: Roll call will show after a lengthy discussion that we're all here.

Mr. Littman: And to that, I think we ought to acknowledge the tenacity and patience of Renée Miller in working with everybody's calendar in making it happen. And I gather she's not done, so thanks.

Governor Little: And if I have a regret, it's the fact that it's taken this long. And at the end of the meeting, when we wrap up, we'll hopefully get our arms around, because we did make a commitment to have the public comment; we'll definitely do that at the next meeting. But, I'd like to shorten this rather than lengthen it. We'll listen intently to all the presenters that we have this morning and go forward. Anything else?

Attorney General Wasden: Governor, short is good.

Governor Little: Absolutely. I'm all in. All right, Darrell.

Mr. Darrell Early: Governor, members of the committee, for the record my name is Darrell Early, Deputy Attorney General with the Natural Resources Division of the Office of the Attorney General. At your request I'm here today to provide a hopefully short presentation on the statutory and constitutional boundaries that govern the actions of the Land Board with respect to its investment of resources. I have a few slides up here I'm going to try to move through quickly and give you time to ask any questions. So with that, I'll start.

[Editor's Note: Minutes do not capture Mr. Early's presentation of each slide, just questions from the subcommittee members after the presentation concluded.]

Mr. Early: With that, my formal presentation is over. Among the materials that I've provided to you in your notebooks is a summary that was prepared in 2014 by my predecessor, Clive Strong, of basically the history of endowment reform up to that point in time. I think now that I've had more time to read it, my office is going to endeavor to bring that forward to 2020, and some of the more recent decisions that have come out of the Board over the last four or five years to do that. For your benefit, that document is printed in your binder, but it's actually a hyperlinked document, so everything that's in blue in that material, there is a hyperlink on the electronic document. Unfortunately the electronic document is so large I can't email it to anybody, so I have burned it onto thumb drives and I will provide each of you a copy of it. I've already provided one to the Attorney General. Governor, I've given one to your attorney, Mr. Wonderlich, and Mr. Littman I will provide one to you, so that as you read that, you can, if you're interested, click on the document that's linked and it will take you directly to that reference in there. I offered that to you because it does provide a significant amount of context to the discussion that you're having in this committee, and I think it will be very helpful for you all to take a look at that and take a look at some of those references along the way. With that, I'll stand for questions.

Governor Little: Thank you. General.

Attorney General Wasden: I don't have anything, Governor.

Governor Little: I've got a couple. We amended the constitution in the 80s and inserted the words "long-term." As I read some of those citations, they were pre-constitutional amendment, and I get Western Watersheds being kind of one of the sideboards, you know, the court was pretty plain that it says…and it actually was talking to the legislature about what kind of broad discretion. The Watersheds is one side of it, but some of those cases that you cited, when you do your re-drill down on Clive's work, for the decision we have here today, it isn't a big deal, but I think it is for the Land Board and for the legislature going forward. Part of the problem that the Land Board had in the 70s and 80s was the fact that it was being determined by just the return and not the maximum long-term, and when the public and the legislature amended the constitution, that would be helpful for me. And then something peaked my interest right at the end when you talked about 68-502(1), you said the word "taxes." Would that ever be considered as taxes, ad valorem taxes, that go to the counties? I was surprised the word "taxes" was in there because obviously we don't pay taxes.

Mr. Early: Governor, members of the board, the Uniform Investor Act is applicable to all trustees, not just to this body, and so a trustee in management of an asset, if an exchange or a decision by that trustee is going to have adverse tax consequences on the trust, that's what that provision is typically interpreted to apply to, not necessarily to adverse tax consequences on other people outside. Again, the duty of undivided loyalty to the beneficiaries means that you cannot look to somebody that's not the beneficiary and say is this going to have an adverse impact on them; you have to look at it, is it going to have an adverse impact on the trust and the endowment.

Governor Little: I'm all in, but if the beneficiary is the Benewah County School District, is our undivided loyalty only to the trust, what's in that box, or do we go a little broader and go to the beneficiary, which is public schools, and the tax consequences has a negative impact there; where's that line?

Mr. Early: That raises the question of who is the beneficiary, and off the top of my head I know there's a case that talks about this; I will get you the answer on this issue.

Governor Little: Perfect.

Mr. Early: But the question of the duty of loyalty, and again this goes back to an individual school district is not the only beneficiary of this, so you have to look at all of the school districts, and all of the endowments, and the ability of the endowments as a whole to meet their obligations to every school district across the state.

Governor Little: I get it. When we get to the end of the ditch, I think that's what the conclusion will be.

Mr. Early: My recollection is there's a case out there that talks about who is the beneficiary, and off the top of my head I can't recall the case exactly, but I will get that and I will provide that to your counsel and to everybody for their benefits.

Governor Little: All right. Irv.

Mr. Littman: This was very helpful; thank you. And thanks for the Strong memo as well; good background. So, are there additional statutes and so forth that impose constraints on the freedom of action of either the EFIB or the Land Board, in terms of managing the assets – selling the land?

Mr. Early: There are certain statutes; for example, there is the statute that prohibits the sale of timberland that has been passed by the Idaho legislature. The constitutionality of those kinds of statutes have not necessarily been, to my knowledge, challenged. There's always a question about how far the legislature can go in cabining. Now the constitution does say in Section 8 – Article IX, Section 8 – that the legislature does have a role in this, and so what that role is, and how far the legislature can go in cabining the discretion of this Board has always been a tension. For example, in the Watersheds case, the court found no, this goes too far because the legislature is directing the Board, by statute, to violate its fiduciary duty, its duty of loyalty. So, it's always going to come down to those kinds of tests. I believe there are several different statutes out there that talk about how lands are to be leased, or how lands are to be sold along the way. But, for the most part, the Board has broad discretion in terms of selling land, with the exception of timberland, and again it's to do so with the best interests of the endowments in mind, under the prudent investor rule.

Mr. Littman: But the existing statute is specific to timberland?

Mr. Early: That's my recollection, yes.

Attorney General Wasden: Governor and Darrell, also, and you've mentioned it, but the requirement of disposal at public auction also has an impact on our ability to transact because it lengthens the time.

We can't just simply sell a piece; you have to go through a process for an auction in order to dispose of that, and that includes leases as we've found out.

Mr. Early: Yes. That's in the constitution itself to start with…

Attorney General Wasden: It's not a statute.

Mr. Early: …and that's been litigated on several occasions over the years as to what that means. The Barber Lumber case raised that question; because of the way it was awarded, there was question, and in fact one of the dissenting opinions notes that the land was offered for public auction under basically a cash offer, and this bidder brought additional terms and additional consideration to the table that wasn't cash, and the other bidder never got noticed that that was even something they should be thinking about. There was a question about whether or not in that case, and the dissenting opinion pointed out that this probably violated the public auction requirement, because it changed the terms of the auction. The Barber Lumber case is actually probably questionable in many ways as a precedent today, because of the Watersheds case. One of the factors the Barber Lumber Company case focused on was the idea that this other bidder, the Barber Lumber Company, had brought the notion that they were going to build this short line railroad up into the endowment lands, and the Board took that into account and said, that's going to increase the long-term returns because it's going to make more endowment land accessible; we'll be able to harvest more timber off of these other lands, and that was what they took into account. But, interestingly enough, they also took into account things like taxes, and the local public interest, and things like that, and again, the dissent in that case points out you're not supposed to look at any of that stuff. We should only be looking at what's in front of us today, not these other things. And in light of the Watersheds case, the Barber Lumber Company case could be looked at in an entirely new light, in the modern era, and might not come out the same way. There is still the argument that this increase in value to the other endowment lands might be a relevant consideration because of its long-term value to the endowments.

Governor Little: And long-term wasn't in the constitution when Barber was discussed.

Mr. Early: No, it wasn't, but there's a lot of criticism of Barber Lumber that basically that was, in some respects, a political vote at the time, and the entity, if you read the facts of the case, the entity that came forward was from out of state, and was using out-of-state banks, and there was a whole bunch of discussion about that kind of stuff by the Board, as to, at the time, as to why they didn't like this bidder, and there's a flavor to that case that in light of the modern era and the modern case law, I doubt would come out the same way, if it were to come before the Idaho Supreme Court in this modern era.

Governor Little: Other questions. Mr. Early, thank you very much, as always. Janet, are you giving your next…we're just almost right on schedule.

Ms. Janet Becker-Wold: Yes, sir, I think I am next. Thank you very much. For the record, Janet Becker-Wold from Callan. Thank you for having us here and giving us an opportunity to clarify some of the questions that were asked of us. I put together a very brief presentation, and the focus of this brief presentation was specifically to address the questions that we received from Nate Fisher on behalf of the committee. I'm sure there are many other issues that you might want to discuss; I brought everything we've ever done for the Land Board with me, in case you have additional questions. But that's kind of how this presentation is laid out.

[Editor's Note: Minutes do not capture Ms. Becker-Wold's presentation of each slide, just questions from the subcommittee members after the presentation concluded.]

Attorney General Wasden: I hate to interrupt you, but it's on that point…the fact that the timber market is moving slower is actually to our advantage because we're able to sort of stabilize the risk factors in the equity markets. I want to make sure I understand what you're saying.

Ms. Becker-Wold: And that is more due to the private nature of it, right, that's it's not been marked to market, exactly. And the corollary inside the financial assets would be the commercial real estate portfolio that the Endowment Fund Investment Board (EFIB) invests in, because that's commercial real estate. It is buildings, and apartments, and that sort of thing. And they get appraised by third party appraisers once a year, and they get appraised by the organizations themselves every quarter, so you can see the steps; you know, every quarter there's an adjustment up or down, but it's every quarter. When you look at the equity market, it's every minute of every day, so the fact that you have an asset that is not being priced daily just dampens the volatility of the entire trust, absolutely. It's more due to the private nature of it.

Governor Little: Questions.

Mr. Littman: Janet, could you elaborate a little bit on the distinction in hurdle rates, looking back at the memo from last summer, to 2018, timberland versus other lands. Other lands had a higher hurdle rate.

Ms. Becker-Wold: Because the risk was higher, so we assigned a little bit higher hurdle rate to ag. And those are the only two we even evaluated was timber and agriculture, because those were the two categories that Department of Lands had said they may have some interesting transactions in.

Mr. Littman: It's relative to the perceived volatility.

Ms. Becker-Wold: Right, because the timber we felt was a little more of a…it was an area that the Department of Lands had a lot of expertise in, it's something where we could kind of quantify the income on, and the ag was a little bit more of an unknown, so we assigned a little bit higher return to accommodate the little bit higher risk that we perceived to be there.

Mr. Littman: When you looked at the total asset allocation going back a couple years, you constrained it by the amount of ownership in the total trust.

Ms. Becker-Wold: I'm sorry, Irv, I'm not understanding your question.

Mr. Littman: Well, if you look at other institutional clients that may choose to invest in timberland, how do you help them get at the right decision in terms of what percentage that ought to play, either in an endowment or pension fund?

Ms. Becker-Wold: I want to make sure I caveat that by saying that is not relevant here. Because this was given to you, this is part of who you are as a state, it's an important part of the trust. So we wouldn't sit back and say to any other institutional client you should have fifty percent of your assets in timber, because their objectives are different; this is a constraint on the management of the trust. Attorney General Wasden's staff basically said, you can't sell this, so you have it, you can only manage it as best you can to meet your fiduciary obligations. But you have the financial assets that you can change. And now I will answer your question.

Mr. Littman: I understand that.

Ms. Becker-Wold: Okay, I just wanted to make sure, because what we would do for them is not particularly connected here.

Mr. Littman: It would be helpful if we understood how an institutional investor would look at timberland.

Ms. Becker-Wold: Right. So, if you take an institutional pool of money, let's say a pension fund, because I think that's an easy example and something that everybody can relate to. If you look at that pool of assets, their objective is to pay their benefit obligations. Their liabilities are pension payments for everyone that is in the plan. And it's going to go on into perpetuity, so it's a long-dated trust. But their liabilities are very different from yours. Your liabilities are not set in stone, per se, they are related to what you can afford to pay, because you're paying distributions from a trust. There, like the name says, it's a defined-benefit plan, meaning the benefits are committed and they're in stone, and they have to be paid. They have a very defined liability stream, so that's different. Their time horizon is very similar: very long/very long. But their liabilities are very different. So what you would do in that situation as a pension, you would say my actuary tells me that in order for me to be able to pay those obligations, I have to earn 7%. And then you go to your assets and you say, how do I squeeze this pool of assets hard enough to earn 7%, and then you design your asset allocation with that objective. But, the risk also comes into it, because as you know, if you put all your money in private equity and public equities, when you lose money, you can lose a lot of money, and it takes almost two times the return to get it back. So there's a real concept of winning by not losing that is a very easy way to think about cutting off what we call the left tail of risk, the really bad scenarios. The market goes down like 2008, 40%; we don't want that to happen. So we build an asset allocation for a pool like a public pension fund to say, we need to grow because we've got to pay this 7%, but we can't afford to take a 40% down year, so you add asset classes that balance each other out, sort of like what we've done in the endowment pool. You have some equities that provide your growth. Private equity: growth. Bonds: stability. Real estate: stability. And then you balance that out and you do the best you can. Because where we are now of course is that the capital markets expectations for a pension fund that's invested approximately 65/35 or 70/30 equities and fixed income, the expected return on that portfolio right now is closer to 6.3%. And while they may want to get to 7%, the risk that you would have to take to get there is more than anybody could sleep at night. So, it's a compromise; it's always a compromise. But where timber would come in would be in a role of a real asset category that would go with real estate, TIPS,[1] and other kind of hard assets in infrastructure. And we would create that as a pool to diversify the equity risk and to provide an inflation hedge, where they may not have one imbedded in it like you do with timber.

Mr. Littman: But it's used in terms of construction of the total portfolio to look at risk and return, and…

Ms. Becker-Wold: Yes, but all of it is in relationship to…

Mr. Littman: …and diversification, in terms of bonds, and…

[1] Treasury Inflation-Protected Security

Ms. Becker-Wold: Right, diversification, reasonable amount of risk in a return that can at least get you as far as you can go with the risk you can tolerate.

Governor Little: General.

Attorney General Wasden: Governor. Thanks, Janet. In the 2014 study, as that unfolded, there was a great controversy concerning commercial property and there was some comments, I'd like to get your view on them. One comment made to me was, well you Land Board don't need to invest in the marketplace because there's lots of other places you can make money. And I was quite shocked at that, because I'd certainly like to know what that place was, because that's the place I'd like to put my money.

Ms. Becker-Wold: Talking about the lands portfolio, just for clarification?

Attorney General Wasden: I'm just talking about…

Ms. Becker-Wold: In general.

Attorney General Wasden: …in general. So, no matter where we are, in the lands portfolio, or in the equities portfolio, we're in a marketplace, and there's no other place for us to fulfill our constitutional duty to obtain the maximum long-term financial return. So my question to you is, am I correct in that view?

Ms. Becker-Wold: I think so, if I understand your question, which is, yes, you're limited to the investments that are available.

Attorney General Wasden: Yes, limited to those investments that are available. There was also a concept of, well, you shouldn't be in competition. And, so, as I responded to that, it doesn't matter which marketplace we're in, we're in competition. When we're in commercial real estate marketplace, we're competing with people in the commercial real estate marketplace. When we're in timberlands, we're competing with people who are in timberlands. When we're in ag lands, we're competing with people who are in ag lands. When we're in the equities market, we're actually competing with other people in the equities market. We can't avoid this concept of competition, because it's how a marketplace is made, and it's how we get a return. Do you agree with that?

Ms. Becker-Wold: Yes, but I have to just add one point for historical perspective, which is that we didn't formally opine on the competition aspect of it. That was a political aspect of it that the Land Board was acutely aware of at the time. Our logic…

Attorney General Wasden: Well, I want to do a follow-up on that question.

Ms. Becker-Wold: But our logic behind the commercial real estate was primarily two-fold. One was the determination of whether or not IDL [Idaho Department of Lands] had the appropriate expertise to maintain and grow the commercial real estate portfolio; that was a question that the Land Board had. And the other one was, does it make sense from a risk return perspective to have only Idaho commercial real estate, or did it make sense to have it implemented in a different way that could provide a similar return with lower risk, which was to put it in the Endowment Fund Investment Board portfolio and get more diversified. Those were Callan's issues.

Attorney General Wasden: And in that regard, again the competition issue, it doesn't matter whether you're investing in commercial real estate some other location, or you're doing it by REITs,[2] or whatever way in which you do it, you're still competing with other elements in the marketplace.

Ms. Becker-Wold: Absolutely. Because your commercial real estate portfolio, they're out buying properties, they're bidding against other funds, of course.

Attorney General Wasden: Exactly. And in the same way if you buy a share of Shell Oil, you're competing with other people wanting to purchase Shell Oil stock, too, in the very same way. And so there's no way to avoid that competition element, because that's actually the process by which you get a return is the whole concept of that competition. And so, in the 2014 study, and I remember this very clearly, there's a statement that says your asset allocation, your investment portfolio, really likes timber. And my recollection of that is that it's because we had some volatility in the marketplace and what the land assets did was ameliorated that level of risk. It's the very thing you were talking about and that is that it allowed us to not experience the downside loss in the short term, and we were able to then stabilize that income stream. Is that your recollection?

Ms. Becker-Wold: That is absolutely the case and still is the case.

Attorney General Wasden: Okay, and that was my follow-up question, is that still the case. And…

Ms. Becker-Wold: And that's why we're not trying to make a suggestion that you make some sort of reduction in lands. What we're just saying is the incremental dollar that goes in needs to be accretive. That's the only thing we're thinking of, and the risk. The overall risk.

Attorney General Wasden: And thus the hurdle rates that say, okay, if you're going to invest in here, you've got to have lands that actually produce the money that create the effect that we're trying to achieve.

Ms. Becker-Wold: Exactly. And again on the risk side, though, is that we did mitigate some of the risk that the lands could have taken on in some more significant role by increasing the reserves. Because remember you've got a number of things you can do as a Board that can manage the risk, and the reserves is a very powerful way of doing that.

Attorney General Wasden: So, one more question, and maybe this is better directed to Darrell than you, but I'm interested in your thoughts. If we were to make a choice to invest, based upon what the politics are, as opposed to the financial impacts, would we be violating our fiduciary duty?

Ms. Becker-Wold: I think you know the answer to that question.

Attorney General Wasden: I do. I do know the answer to that question.

Ms. Becker-Wold: You just want me to go on record and say yes.

Attorney General Wasden: Yes, I do; thank you.

Ms. Becker-Wold: Politics can't be involved.

[2] Real Estate Investment Trusts

Attorney General Wasden: Okay, thank you.

Ms. Becker-Wold: But how you define that, as your office has pointed out, can be interpreted differently under different circumstances.

Attorney General Wasden: Right. Exactly.

Ms. Becker-Wold: That was the consultant's answer.

Mr. Littman: This might be a better question for Department of Lands, but it seems that to really understand the impact on what lands does to impact the total ability to make distributions, and recognizing that we are not going to sell timberland, that we're looking at the cash flow that's going to come off the management of that timberland, from stumpage sales and so forth. So, have we ever looked at what's the stream of that, what's the volatility of that cash flow?

Ms. Becker-Wold: Yes. That was an important component of the study in 2018, is Julia looked at the volatility in 2014 of those land revenues compared to the volatility of the revenues now; the Department of Lands provided us with a significant amount of data on that so we could do an evaluation of that volatility.

Mr. Littman: And that was included in your analysis of the reserves?

Ms. Becker-Wold: Yes, it was. It was included throughout.

Governor Little: Have we hit the reserve levels?

Ms. Becker-Wold: Yes, you are at all the recommended reserve levels. We've had great returns in the markets, and you were able to do that and increase distributions this year. Just want that to go on the record.

Governor Little: If I look back at your work before, that even at a 3.5% hurdle rate, Callan's recommendations were if we met those reserve levels, to invest the Land Bank money in the financial assets. Do I have that correct?

Ms. Becker-Wold: That's what we had in the study, yes. We also did make comment in there as well that there was a role for lands on the worse case scenarios for the ability to not lower reserves. I just want to make sure that also gets stated.

Governor Little: And of course I go back and forth about this, but, if we're in the back of our mind thinking about the worst case scenario, you know, 300 basis point increase in interest rates, which would darn sure have an impact on housing and the price of lumber and it would have a big impact on the market, that balance coefficient, counter-cyclical, at some point in time, when everything goes to hell, everything goes to hell. Do I have that right?

Attorney General Wasden: I'm not going.

Ms. Becker-Wold: Governor Little, they go to hell in a different time; they go at different times. They don't all go at the same time, which is what we hope. You know, we're in kind of a unique situation, and I'm not trying to dodge your question, but we're in a unique situation right now where equities are very highly valued, bonds are extremely highly valued, and real estate is arguably pretty valued, too. So, there's risk across the system right now and I think that the economy is starting to feel it. We have the trade and tariff wars, we have a lot of stuff going on, slow growth in Europe, etc., so we could be entering this period now where you have a risk across. So there are periods of time when equities have been highly valuated but bond rates are higher, which means that they can go lower. You know, the ten-year treasury, I don't know where it is today, but it's been bouncing around about 150, which is low, which means the Federal Reserve has very little room to move rates down to stimulate the economy at this point, so they may have to go to fiscal policy, and then if they do, that could be very good for the timber portfolio because if there's construction – I don't know how much timber is involved in government infrastructure projects – but there's a number of things that we can't anticipate that could happen, so we just try to position the portfolio to not get too highly impacted by any one of those potential scenarios: high inflation, rising rates, falling equities. We've tried to balance everything and that's why we did this whole trust view is to take into account the key role that lands plays in all of that, which is this more steady income. And it will respond differently to the markets at different times than the equity market will, or the bond market, so the idea is to spread things out. Don't put your eggs all in one basket, so to speak. We've tried our best overall, over many years, to do that and it's been pretty effective. If you look at the overall returns of the trust, they've been very good. You are the model for other states. I work with two other states and one right now is trying very hard to implement your model, and they are having some troubles because of their constitution, but you're held up as the model for land trusts in terms of how you balance these risks out.

Governor Little: Well, we want to stay in that category.

Ms. Becker-Wold: I can't imagine that you would not.

Governor Little: So, you stated in 2018 that TIMOs[3] are basically a little reluctant because they think, and of course a TIMO has a different role than we do, but the bottom line is if they're going to spend a dollar in timberland, Idaho's not their preferred target state. Is that correct?

Ms. Becker-Wold: I believe…and again, this was Sally's thing, so I will try to channel her right now, but in our conversation with her, they did it as part of the preface, the update memo that was presented to the Land Board in conjunction with the strategic reinvestment plan, and she did do a survey on that, and they did say that. But her conclusion from that is that gives you an advantage.

Governor Little: No competition.

Ms. Becker-Wold: Because they're not here, they're somewhere else. And if they don't want the type of timber that Idaho produces, they'll get it in Georgia or wherever they want, but that gives you less competition, which means maybe you can charge higher prices. I don't know how that plays through, that would clearly be a question for the Department of Lands, but I think that was her general conclusion from that, is that gives you an advantage. A window, maybe.

Governor Little: For the most part, we're price takers, we're not price makers. Even though we'd like to be.

Ms. Becker-Wold: I'm sorry, I'm not a timber expert. I won't even try to go there.

[3] Timber Investment Management Organizations

Mr. Littman: Janet, if I could come back to the hurdle rate; maybe this is a question for Sally. This is last summer – the 3.5% hurdle rate is viewed as that minimum threshold for a timberland acquisition to be accretive, or to not be dilutive.

Ms. Becker-Wold: And that's on a real basis.

Mr. Littman: On a real basis. And that's exactly what I'm asking. So, in the memo, it describes 3.5% which equates to 6.75% gross nominal return, and 2.25% inflation. Is the rest of that…that doesn't add, so there's a piece missing. Is that the student population adjustment?

Ms. Becker-Wold: That's possible. I'm going to try to find that right now in the document. I assume that's what she did, that she probably put in a 0.2 or 0.3% for student population growth, or it might have even been higher.

Mr. Littman: It looks like it's about a percent.

Ms. Becker-Wold: Can I have Sally get back to you on this, Irv?

Mr. Littman: Yes, an email, to help us understand that, because that's kind of at the heart of…[*unintelligible*]

Ms. Becker-Wold: Absolutely, I'm happy to have her get back to the committee.

Mr. Littman: That says that given the capital market assumptions that Callan was using for us and other clients, that 3.5%, given the perceived risk and the alternatives, that's kind of a point of indifference.

Ms. Becker-Wold: Right. And as I mentioned earlier, and I think this is an important thing for us to consider, is that we do an asset allocation update for the Endowment Fund Investment Board annually, to sort of re-benchmark what our current forward ten-year look is. So that is probably up for adjustment, because as the capital markets have outperformed so dramatically, our expectation now going forward is going to be lower for the endowment fund, which means that the hurdle rates should also be adjusted at some point as well. We haven't done that work, and we haven't even completed our expectations for this year yet, but I'm thinking that given the fact that the capital markets have done so well, the equity returns could come down a little bit. We try to do that every year on the endowment fund, so we can make adjustments if we need to. We don't generally make big adjustments, but that's possible, yes.

Mr. Littman: And as the Governor pointed out, the only data you had that was scrubbed at all was based on the total U.S. market that includes all regions and timberlands.

Ms. Becker-Wold: We did try to do adjustments where we could on the risk and return, and that's all outlined in great detail in the 2014 study, exactly how we came up with all those assumptions, the proxies we used, all the numbers that we evaluated, the standard deviations, everything, is all outlined in a huge amount of detail.

Mr. Littman: Okay, but important for us to understand that there's huge variations in the characteristics of commercial timberland by region, and within a region, so to some extent, that's the one area where we don't have as extensive of data as we do on all the other asset classes.

Ms. Becker-Wold: Exactly. And so we had to use the national index as a proxy, and then we made adjustments to try to accommodate a single market, which is a riskier market, actually, because it's less diversified. But all of that is in there and we outlined it very clearly, exactly what all the adjustments were and why.

Mr. Littman: Thank you.

Governor Little: Janet, if we're going to go back and look at that, I would suggest, or I guess I would ask if it was your recommendation…when you buy an asset type you can't sell, statutorily, is different than everything else that's over at the EFIB; every asset there: TIPS, REITs, any global whatever it is, the board can make the recommendation, you or one of your advisors makes a recommendation, they can do that. It's hard to buy an asset type that you can't sell, and so when you're comparing it, is there a way to milk that out of the decision to buy an asset type that you can't sell?

Ms. Becker-Wold: That's a very unique situation that you're in. Yes, there is an illiquidity component to that; that creates additional risk because you can't change it. I would defer much of this to IDL; I think that's the way they look at it, is that we won't buy it unless it will add some value to what we already have. In other words, if it's a right-of-way, or a continuous property, or you're consolidating a piece, or whatever you're doing, and again this is not my area…I'm sure that's fore in their mind, in addition to the potential return that they have to consider by virtue of their obligation as fiduciaries, and yours, to do that. And I'm sure that when they calculate everything out – and they also have advisors that work with them on acquisitions – they have to be considering this, because that's part of the overall cost and management of lands. But I don't know how you quantify it, except to do what we kind of did, which was in the 2018 study try to look at what we could in terms of knowing that once it goes into lands, it's there forever.

Governor Little: But I would argue that there's a certain class, that's right adjacent to you, that there's great margins in when you purchase it, but as I've known a few large landowners and all they ever wanted to do was buy what was next to them, and where do you draw that line. If you buy what's next to you that adds great value to what you already have, that's one thing, but if you just have a policy I'm going to buy whatever's next to me, there's a big difference in that.

Ms. Becker-Wold: Governor Little, that's a conversation with IDL. We have no opinion or no transparency into that issue.

Governor Little: But this goes to the greater question, what do we do with $150 million?

Ms. Becker-Wold: Well, we tried to give you our best thoughts in the 2018 study.

Governor Little: Anything else.

Attorney General Wasden: Just a thank you.

Governor Little: Thanks, Janet.

Ms. Becker-Wold: Thank you.

Governor Little: Chris.

Mr. Littman: Can I ask a follow-up question to Mr. Early? Does the prohibition against sale of timberland, statutory prohibition, does that apply to after-acquired timberland?

Mr. Early: It's my understanding it does.

Mr. Littman: As well as the original.

Mr. Early: Right. There's no constitutional provision in either the Admissions Act or in the Idaho Constitution that prohibits the sale of timberland, and in fact there probably were transactions back in the day where some of that timberland was conveyed away. I don't recall exactly when that statutory prohibition went into effect, off the top of my head. I can get that information to you. And we certainly sell other types of land, ag land, and grazing.

Mr. Littman: It's just timberland, and it doesn't matter whether it's to be acquired or in the portfolio.

Governor Little: Ag lands not included in that, is it?

Mr. Early: Not to my knowledge.

Governor Little: It's just timberland.

Mr. Early: Just timberland.

Attorney General Wasden: Darrell, recognizing that the statutory provision exists, and the potential that it poses to interfere with the fiduciary duty of the Land Board, if the disposal of a parcel of timberland was in the best interest of the beneficiaries, that statutory provision would have to give way to the constitutional fiduciary duty; do you agree?

Mr. Early: I believe there's case law that would support that; some of the cases that are referenced in there talk about the ability of the legislature to control and cabin. Balanced against that, though, we have to remember that there is language in the constitution that gives the legislature a role in this, and so where the court is going to draw that line and say this is interfering with and causing a violation of the fiduciary duty, as they did in the Watersheds case, versus were they properly exercising their role to judiciously locate and provide for the disposition of those lands. And that's the language in Article IX, Section 8 that will be the focal point of that. And I would defer opining on what the Idaho Supreme Court might do in that circumstance.

Attorney General Wasden: Thank you.

Governor Little: Chris.

Mr. Chris Anton: Governor, members of the Strategic Reinvestment Committee, good morning, my name is Chris Anton, I am the Manager of Investments for the Endowment Fund Investment Board. I was asked to respond to two questions, and their schedule is hopefully in your materials; I know the print is a little small. So I'll provide an overview and certainly respond to any questions you may have.

The first question was to outline the diversification, or the investment strategy, for the Endowment Fund portfolio, often referred to today as the financial assets. The first page shows what we call our Asset Allocation; this is included both in the EFIB and the Land Board investment policy. And as you can see in this schedule, we currently have an allocation of 66% to equities, 8% to real estate, and 25% to fixed income. The equity allocation can be broken down further into 38% for domestic or U.S. equities, 19% for international, and 9% for global. So again we have a bias toward U.S. stocks. And then we have a breakdown of the U.S. piece into large, mid and small, and we have a slight bias relative to the market toward mid- and small-cap companies. So that's a breakdown. I can get into more detail; we have about 19 different managers that help us implement this strategy that specialize in each of the areas in that allocation.

The second question I was asked to respond to is to provide an overview of ten years of financial history for EFIB. These numbers are a simple summary of our audited financials. They reflect revenue coming into EFIB from the Department of Lands, the investment gains or losses that we've realized, the distributions to beneficiaries, and then ultimately what the balance of the endowment portfolio is. The first section of the schedule are additions to the earnings reserve funds. The vast majority of revenue generated by the Department of Lands goes into the earnings reserve funds for each of the beneficiaries. And those revenues include such things as timber revenue, grazing lease revenue, other ground leases such as the cabin site revenue from leases; those all go into the earnings reserve funds. You can see the trends; the revenue grew from about $44.4 million in 2010 and peaked in 2014 at $87.9 million, and for the fiscal year that just ended June 30th was $69.3 million. We also pay out of the earnings reserve funds expenses, both the Department of Lands expenses and EFIB expenses, so you can see the expenses incurred by the Department of Lands to manage those land assets and to generate those revenues. The net land revenue going into the earnings reserve has grown from about $21.4 million in 2010, peaked in 2014 at $64.1 million and in the year that just ended, 2019, was around $40 million. The decline can be spoken to more specifically by the Department of Lands but is primarily the result of the sale of commercial real estate that generated consistent revenue, and the sale of the cabin sites, which also was a strong source of revenue for the beneficiaries. The second category are additions to the permanent fund. If the Department of Lands sells land, or generates revenue that is a depletion of the value of the land, so from natural gas or mineral royalties as an example, those are added to the permanent fund so they retain and become part of the whole trust. Those numbers typically run, as you can see, about $2-3 million a year with the exception of 2015 when some of the revenue that was generated from the sale of commercial sites was moved from the Land Bank into the permanent fund. The next section of the report highlights our investment performance. As Janet indicated earlier, it's been a very strong ten-year period. You can see every year, with the exception of 2016 where we had a very modest loss, we had gains on our investments, and then you can see EFIB's expenses to manage the investment process. Currently those expenses are running about $9 million a year. Of that total, around $700,000 is the cost related to the EFIB team. Most of those expenses are to pay the managers who are helping us manage the fund, to pay the custodian, and to pay our consulting expenses. Finally, you can see the distributions out to the beneficiaries, and they've grown consistently during this entire period from about $45.9 million to $78.4 million in 2019. And as you know, I think we approved a little over $84 million for 2021. There was one year in fiscal 2011 where a special $22 million distribution was approved for public schools. The results are pretty impressive of what you and the team have done. The endowment fund balance was $920 million at the beginning of fiscal 2010, which would have been July 1, 2009. And we closed on June 30, 2019 with a balance of $2.3 billion.

So the growth again is the result of outstanding efforts by the Department of Lands to bring in revenue, that's added and helped us make many of our beneficiary payments, and very strong financial markets that have allowed the portfolio to grow. As that grows, our distributions to beneficiaries continue to grow each year. That's a high level overview of our results and what we've experienced the last ten year. With that, I'll stand for any questions you may have.

Attorney General Wasden: This is an oversimplification, I understand, but because we have a fiduciary duty that is an ongoing duty, so we have a duty to the current beneficiaries and we also have a duty to future beneficiaries, I'm thinking about the asset mix that we have, with the Endowment Fund Investment Board portfolio, as well as the land assets. Based upon that, it's within the parameters of meeting that fiduciary duty to the current beneficiary, as well as to the future beneficiary, and it accounts for inflation and increase in school student population. So, is it your recommendation and your view, and I realize you only have half this puzzle, but do those two components work together in your view?

Mr. Anton: Governor, Mr. Attorney General, yes, I think our structure is very well thought out, and I say that in a couple respects. First of all, as we've looked at other land grant structures, the thought that went in during endowment reform of setting up this structure is pretty remarkable. And I say that for a couple of reasons: first, each year we have to grow the permanent fund at least at the rate of inflation. If we have years when that doesn't happen, we make it up. We then move earnings above inflation into the reserve funds to make sure we have adequate and sufficient reserves to manage volatility and keep distributions to beneficiaries consistent. And if the levels in the reserve funds exceed those target reserve levels, we move that money back into the permanent fund, and that's allowed the permanent fund to grow not only at the rate of inflation and population growth, we've exceeded both of those numbers historically as a result of these. In terms of the integration of lands and the endowment fund, it works very effectively because the revenue from lands allows us to pay some of those beneficiary distributions. If you look at the ratios at the bottom of that schedule, you see that in many years, the revenue generated by lands covered all of the distributions, which allowed us to preserve our investment returns, grow the fund, grow distributions. So they all work together cohesively as a nice systematic cycle. So, since we have those reserves, since we have the extra revenue coming in from lands, to your question, we are able to invest fairly aggressively. We have looked at the asset allocation of other land grant institutions and we are on the more aggressive side with 68% equities, so we are going to have more volatility, we are going to have down years, but what we've seen is it's allowed us to generate greater returns than most of our competitors, other land grant institutions. In fact, we've been in the top 10% when compared to all of those institutions, and it's because we have those reserves, because we have money coming in from lands, that we're allowed to invest more aggressively. I don't know if that answers your question.

Attorney General Wasden: Absolutely; thank you.

Governor Little: Chris, from an accounting standpoint, if you look at land receipts from a gap basis, and Mr. Littman can correct me if I get out on a limb here, but when you sell assets, wouldn't it be prudent to say this is normal operating income, you know, commercial leases, timber, on a sustained basis, versus when we sell, as it showed up here…we've probably sold eighty percent of our cabin sites, and eighty percent of our commercial property. Shouldn't that be on a different line, because it skews a statistical analysis given the fact that you're selling.

Mr. Anton: Governor, members of the committee, so at EFIB, we recognize revenue when it comes to us, and it comes to us when it's transferred, currently monthly, from the Treasurer's office. So, as the cabin sites have been sold, we haven't recognized any of that revenue; it's currently in the Treasurer's office. I think the balance, you'll see in the Land Board meeting on Tuesday, is around $115 million. We only recognize that revenue when a decision is made by the Land Board to move it over, and that's what happened in 2015, and it is accounted for separately as a transfer directly into the permanent for those beneficiaries. Keep in mind that each beneficiary has both a permanent fund and an earnings reserve fund, and if there is sale of assets, or depletion of assets, on their land, it goes directly into the permanent fund and is accounted for separately.

Governor Little: Other questions. Thank you.

Mr. Anton: Thank you.

Governor Little: Mr. Miller, or David. There's the winner.

Mr. David Groeschl: Governor, members of the subcommittee, for the record, my name is David Groeschl, Deputy Director for the Department of Lands. I will attempt to keep my comments brief and then stand for any questions.

Governor Little: You've got about five minutes, so if you can do it in three, that would be perfect.

Mr. Groeschl: To date there have been four acquisitions, all timberland acquisition, 36,000 acres, roughly $50 million in acquisitions. As Chris mentioned, $46 million has already been transferred into the permanent fund. We have evaluated a number of transactions over the last three to four years, roughly. A number of those did not meet certain criteria, whether it was the return threshold, or other factors that we were looking at. It is a very disciplined process like any investor would make, and I would like to clear up a couple of misconceptions. TIMOs as has been referenced here, timber investment management organizations, are not fleeing Idaho because this is not a good place to invest. In fact, I have spoken to those TIMOs, and I have also spoken to other investors, and they see Idaho as an attractive place to invest. That is why, as you understand from previously, one company expressed great concern about competition, us buying timberland in Idaho, because this is a desirable place to invest, both from the markets, the political environment, the tax environment here in Idaho; this is a valuable place to invest for these investment groups. The reason some of these TIMOs are disposing of their property is because of investment cycles. Their investments have come mature; their clients have indicated to them how long they want to hold that investment. Those investments are five to fifteen years in length; when they hit maturity, those TIMOs look to divest of that for that client, and then reinvest for that client somewhere else. There are other investors, then, who look at acquiring those lands when they're looking at divesting of it. Years ago we were asked to look at the lands that have been purchased by DF Development down in southern Idaho; we did not purchase or even attempt to make an offer on those because they did not meet our investment goals, as far as the return rate, the markets, and other issues associated with those properties. The lands that we have purchased thus far, the four properties, have all been focused in strong market areas, good transportation, more competition, and good milling infrastructure if you will. So that's where our focus has been, and that's where other investors are also looking at investing. That's why the TIMOs and REITs are looking at their cores being in those same areas that we are looking at. There's been a number of questions asked when the LEV calculation was done, land expectation value that Janet mentioned. There are a few things that have come up. One is the fire expenses. Fire was part of the valuation process, both in determining the original value of the timberland and the different assets. So on fire, we pay a fire assessment of 60 cents an acre, like all private land owners; we pay the FPA assessment now of 13 cents an acre; and any negligent fires that started on IDL on the endowment ground we pay those expenses as well. No private entity pays for suppression costs other than when it is a negligent fire, same as IDL. So we treat the endowments like private lands when it comes to paying the assessments and paying for negligent fires. Those costs are all reflected in the LEV calculation as well as in the timberland valuation when we're looking at acquisitions. Another piece of this is when we look at making an acquisition and we do a discounted cash flow analysis. The question of the ability to sell or not sell the property is taken into account when we make an acquisition decision and we do the discounted cash flow. For example, if it were timberland that we could sell, we would build in incremental land sale values into the cash flow model like the private sector does. They put incremental land sales in theirs, they peel off higher and better use properties that they can capture additional value on. IDL cannot, so that is not factored into our discounted cash flow, and that is conservative on our part because we can't sell it. They actually have a competitive advantage when it comes to buying timberland because of their ability to not only manage it and derive stumpage revenue. That is all we can derive off of the property basically is stumpage revenue, versus incremental land sales that they build into their cash flow model. So it is taken into consideration when we do the discounted cash flows and we do a range of discount rates from 3.5% to 6%. The four properties that we purchased will yield expected returns from 4 to 6%. The goal was to not only meet the hurdle rate, but to exceed it so that we got an uplift in the entire portfolio and it's based solely on stumpage revenue. When the LEV calculation was done, it also included about nine percent other revenue from layered revenue on our timberlands. So we have stumpage revenue, that's about 91% of our revenue from timberlands, then we have communication sites, we have grazing leases and permits, we have recreational revenue coming in, commercial recreation revenue. That's about 9%. That was not factored into the discounted cash flow models that were developed for the four acquisitions. So again, those expected returns are conservative because we did not build in the 9% additional revenue that we may earn off those properties. In addition, those models were developed by two outside, independent experts – timberland experts that do business not only in Idaho but in the Pacific Northwest. Those discounted cash flow models and the assumptions that went into them were rigorously debated and developed independent with the two advisors to evaluate those properties. Again those are the four properties that met the criteria, those were the acquisitions that were made; there were many that did not, both timberland and farmland. In addition to the statutory prohibition on selling timberlands, another complicating factor that we do take into account is the constitutional acreage limitations to any one entity. It is 320 acres for most of the endowments, and I believe it is 160 acres for University of Idaho endowment. When we evaluated farmland properties, those farmland properties could not meet or exceed the 4.5% net return because many of those farmland properties when they are larger – 1,000-, 2,000-, 3,000-, 4,000-acre properties – are basically operated as a unit. The complicating factor is you would have to do a discounted cash flow with a terminal value in it, meaning you would sell that asset in 10-20 years in order to capture the appreciated value of that property, in order to meet that 4.5% net real. We could not meet the hurdle rate based just on management revenue like we can on timberland. That's why we've made no farmland purchases to date, plus we knew to sell a three- or four-thousand acre operation like that we would bump up against the constitutional acreage limitations which made it very difficult then. You're busting up a whole farm operation in order to meet the constitutional acreage limitations; that is part of the complicating factor. So I wanted to conclude by basically saying this is a complex situation. I could talk about the impacts to counties, and talk about the school distributions, and the ad valorem tax rate versus the distribution to the school districts within each of those counties, and some of the other economic direct, indirect, and induced that are generated from endowment land management. But suffice it to say that IDL has been focused on implementing the Land Board's approved reinvestment strategy and looking for those opportunities to invest in timberland and farmland as directed in that reinvestment strategy and our focus has been on our fiduciary obligation to the endowments for the long term. While we take all of those secondary pieces into account, our focus has been to meet that long-term return to the endowments. With that, I will stand for any questions.

Governor Little: Questions. David, on Packers 1, it's different than our legacy land portfolio; have we done an analysis given the fact that some of that Packers 1 timber was pledged to the seller versus the state? Have all of those hurdles that you talked about in the 9% that's over there…as we look forward of what we do with this $150 million that's burning a hole in our pocket, have we done a post-Packers 1 analysis on what we think the cash flow is going to be?

Mr. Groeschl: Governor, members of the subcommittee, yes that was all part of the discounted cash flow looking at the timber reservation by the three clients there. So those timber reservation…that value was actually zeroed out in the discounted cash flow, and the remaining timber volume and the growth that was occurring was all part of the discounted cash flow. So with that, the expected return rate well-exceeded…it was in that 4-6% range that I mentioned earlier. The other thing, the immediate benefit of that property as well…we don't look just because of the adjacency, we look at the market conditions of where that property is located. That property also resulted in an increase in our forest asset on our sustained yield, on our existing land base, of about 10 million board feet a year because of the sustained yield effect by bringing 32,000 acres of young growing stock into the model and into our existing land base. It allowed us to address the large older size classes quicker because we had that younger growing stock in place. That bumped our sustained yield by 10 million board feet, which should generate an addition $3 million a year just from that increase or that sustained yield effect – so that is an immediate benefit of bringing that property into the portfolio.

Governor Little: That was all pre-sale, have we done anything post-sale on Packers?

Mr. Groeschl: Governor, members of the subcommittee, the wood stock modeling was done after the acquisition was done. We had no idea what the uplift to our existing land base would be in our existing sustained yield when we purchased the property. When we make an acquisition decision it is solely based on meeting the return expectations for that property, not the uplift or additional value that we achieve by bringing it into our existing land base.

Governor Little: So the analysis that is taking place now, the $135,000 that the Land Board either talked about or didn't talk about at the last Land Board meeting, that will not do some of the analysis that you're talking about you did after. I guess explain to me, when we go out and assess a piece of ground to purchase, I just assumed that we factored all of those items into there. But now you're saying that after Packers 1 you did some of the analysis as how it affected your entire sustainable production afterwards…so I'm a little confused on this.

Mr. Groeschl: Governor, members of the subcommittee, when we evaluate a particular property we have to value that property on its merits, so the due diligence that's done on that property looks at the existing merchantable volume on that timber and looks at the age/size class distribution of the timber across that property – looks at access, looks at if there's any environmental issues there – and then we develop a discounted cash flow model with different discount rates to look at, what's the potential range of that property. We have to make an investment decision solely based on whether or not that property will yield the kind of return that we're looking for; Callan has given us as a minimum hurdle rate which is 3.5% net real. We evaluate the property on its own merits. There's many times when we get additional value that we then model separately, if you will, from the evaluation of that property. So if that property unlocks value to our existing timberland by providing access, or it allows us to address some of our inventory imbalance on our existing land base, the older to larger size class and address that quicker, all of those are evaluated separately and taken into consideration, but it does not influence the decision of whether or not we buy that piece of property. That's why when we make an acquisition, the benefit derived to the endowments is usually greater than just that property as a stand-alone analysis or evaluation. There are added benefits to the endowments that have occurred.

Governor Little: That's new to me. I thought the 3.5% hurdle rate included everything, but you're saying it does not.

Mr. Groeschl: The 3.5% net real is the hurdle rate that we are expected to meet and when we do those evaluations and models, then those models are evaluated by outside experts. They actually develop the models and we have them review each other's models to see if they make sense, as well as internally, but they have to stand alone to meet the 3.5%. When I say that those investments all are expected to yield 4-6%, those were as stand-alone properties, but they will likely yield more than that because of the additional benefit that they provide to the existing endowment land base.

Governor Little: Okay. Mr. Littman.

Mr. Littman: I may take more time than allowed. David, when you talk about the 4-6% return for these, is that real return?

Mr. Groeschl: Governor, Mr. Littman, members of the subcommittee yes, those are net real returns.

Mr. Littman: So you've adjusted it for your inflation expectations and have you included this factor that we're going to talk about later of the growth in school population. When we talk about real return it has to be after inflation and after accommodating the student population growth. Are those numbers you've incorporated in the calculations?

Mr. Groeschl: Governor, Mr. Littman, members of the subcommittee, they are adjusted for inflation. Inflation is already taken into account, those are net real. The overall distributions and the growth of the entire corpus, the permanent fund, has to take into account inflation and growth of student population. The discounted cash flow analysis that we do, and the decision criteria that goes into making an acquisition, does not take into account student growth.

Mr. Littman: The Land Bank has about $120 million now, is that correct?

Mr. Groeschl: About $115 million currently.

Mr. Littman: As sales occur it'll grow. Can you provide us some data on the scope of the issue we're talking about relative to the acreage, timberland acreage owned today; using reasonable expectations, what would be the growth if all of that were reinvested in timberland? How much more timberland would we grow as a percentage of existing land base?

Mr. Groeschl: Governor, Mr. Littman, members of the subcommittee, if all of the expected Land Bank funds, the $115 million and what's expected to go in over the next three to four year…if it were in the $150 million range, the additional land that could be acquired from that, again, it would depend on the value of the land that we're purchasing. But if it is in the same ballpark of what we've been purchasing, and it's in that $1,300 to $1,400 range, you would be looking at anywhere from 100,000 to 130,000 acres, depending on values of those properties. Stepping back, when we look at what the endowments were originally given at statehood, it was 3.65 million; 1.2 million has been sold, 400 million of that was agricultural lands, the remaining roughly 800,000 acres was timberland and rangeland combination. So when you look at it in the scope of everything, it puts maybe ten percent back into the endowment portfolio. One of the goals that Callan had given us as they looked at the asset allocation, as Janet mentioned, was where we're currently at versus what the goal would be to keep the range of timberland within thirty to fifty percent of the total asset value of the permanent fund. That would require an investment of this magnitude because over time as the permanent fund grows, the land asset value becomes a smaller and smaller portion of that. So in order to keep it in that range, and to create the ballast to the volatility of the financial assets as Janet mentioned, we also have to find a mechanism to grow the land asset side. There are only about three ways to do that. One is to gain access to locked lands to increase the value of that land; another way is to layer revenue streams off that land; and the other way is to buy land and to add that asset if it meets or exceeds the hurdle rates. Those are the three ways to build the value of those land assets.

Mr. Littman: It could conceivably add about ten percent to the acreage of timberland. Spending the full amount of cash available, and expected to be in the near term, could add ten percent to the timberland acreage, using some reasonable assumptions of price. You talked about that you haven't invested in farmland and rangeland and explained some of the issues there; is that still in your plan – to what extent have you focused resources on farmland and rangeland?

Mr. Groeschl: Governor and Mr. Littman, members of the subcommittee, we continue to evaluate farmland opportunities and timberland opportunities. The rangeland has never been a component of it because it has never been considered an institutional grade type of investments. There's several issues with rangeland in doing that. But farmland and timberland have been considered institutional grade investments that the endowments should look at. So that's where our focus has been. Those are the two asset types we continue to evaluate.

Mr. Littman: So to simplify the analysis, rangeland is basically off the table. Farmland is on the table, but hasn't been executed.

Mr. Groeschl: That's correct.

Mr. Littman: You mentioned the experts you draw on, could you name some of the consultants.

Mr. Groeschl: Governor, Mr. Littman, members of the subcommittee, when we were looking at governance structure and looking at reinvestment, Callan put out an RFP[4] for timberland advisors and farmland advisors. We currently have two timberland advisors that we have worked with. One is Mason, Bruce, and Girard; the other one is Northwest Management, and their real estate arm is Northwest Rural Properties. Those are the two timberland advisors that we've been working with. There are others that we have used as subcontractors to assist in doing some of the due diligence work. On the farmland side we're also using one of the advisors to evaluate farmland properties for us. I do not have the name of that advisor off the top of my head.

Governor Little: General.

Attorney General Wasden: Nothing.

Governor Little: Thanks, David. Closing thoughts, comments.

Attorney General Wasden: Governor.

Governor Little: General.

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[44] Request for Proposal

Attorney General Wasden: I noticed that we do have some draft minutes; we have not adopted those. There's not an item on the agenda to do so. I suggest that we hold that over to our next meeting to adopt the draft minutes.

Governor Little: Okay. Further comments. With the committee's permission, let's try within the next three or four days to set a time for our next meeting so we don't have the delay that we did. The next meeting, I think that I already talked about having a public comment period. We will just use the same protocol that we use at Land Board meetings as far as public comment. People will need to sign up and dependent upon how many people sign up will determine what the length of time is. Anything else? Are there any action items that the committee wants us to address? I think, Darrell, a couple of those legal analyses, particularly what of those founding documents and court cases would have been altered by the insertion of the word long-term into the constitution? From my standpoint, I think I get it. I don't see anything that we're going do that's going to get us outside of our constitutional side boards. If there's anything else…

Mr. Littman: I would appreciate just a short memo on what are the statutory constraints including this 320-acre…the auction process that get in the way. I'm not sure I've got all that.

Attorney General Wasden: We will make certain that that is provided. Actually, Darrell will make certain that that is provided.

Governor Little: Because we do have both statutory and constitutional constraints.

There being no further business, at 10:52 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.