

State Board of Land Commissioners Open Meeting Checklist

Meeting Date: November 16, 2021

Regular Meetings

11/3/2021 11/12/2021	Meeting Notice posted in prominent place in IDL's Boise Director's office five (5) or more calendar days before meeting. Revised notice posted.
11/3/2021 11/12/2021	Meeting Notice posted in prominent place in IDL's Coeur d'Alene staff office five (5) or more calendar days before meeting. Revised notice posted.
11/3/2021 11/12/2021	Meeting Notice posted in prominent place at meeting location five (5) or more calendar days before meeting. Revised notice posted.
11/3/2021 11/12/2021	Meeting Notice emailed/faxed to list of media and interested citizens who have requested such notice five (5) or more calendar days before meeting. Revised notice posted.
11/3/2021 11/12/2021	Meeting Notice posted electronically on IDL's public website www.idl.idaho.gov five (5) or more calendar days before meeting. Revised notice posted.
11/10/2021 11/12/2021 11/15/2021	Agenda posted in prominent place in IDL's Boise Director's office forty-eight (48) hours before meeting. Revised agenda posted. Proposed amended agenda posted.
11/10/2021 11/12/2021 11/15/2021	Agenda posted in prominent place in IDL's Coeur d'Alene staff office forty-eight (48) hours before meeting. Revised agenda posted. Proposed amended agenda posted.
11/10/2021 11/12/2021 11/15/2021	Agenda posted in prominent place at meeting location forty-eight (48) hours before meeting. Revised agenda posted. Proposed amended agenda posted.
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11/10/2021 11/12/2021 11/15/2021	Agenda posted electronically on IDL's public website www.idl.idaho.gov forty-eight (48) hours before meeting. Revised agenda posted. Proposed amended agenda posted.
5/6/2021	Land Board annual meeting schedule posted – Boise Director's office, Coeur d'Alene staff office, and IDL's public website www.idl.idaho.gov .

Special Meetings

	Meeting Notice and Agenda posted in a prominent place in IDL's Boise Director's office twenty-four (24) hours before meeting.
	Meeting Notice and Agenda posted in a prominent place in IDL's Coeur d'Alene staff office twenty-four (24) hours before meeting.
	Meeting Notice and Agenda posted at meeting location twenty-four (24) hours before meeting.
	Meeting Notice and Agenda emailed/faxed to list of media and interested citizens who have requested such notice twenty-four (24) hours before meeting.
	Meeting Notice and Agenda posted electronically on IDL's public website www.idl.idaho.gov twenty-four (24) hours before meeting.
	Emergency situation exists – no advance Meeting Notice or Agenda needed. "Emergency" defined in Idaho Code § 74-204(2).

Executive Sessions *(If only an Executive Session will be held)*

	Meeting Notice and Agenda posted in IDL's Boise Director's office twenty-four (24) hours before meeting.
	Meeting Notice and Agenda posted in IDL's Coeur d'Alene staff office twenty-four (24) hours before meeting.
	Meeting Notice and Agenda emailed/faxed to list of media and interested citizens who have requested such notice twenty-four (24) hours before meeting.
	Meeting Notice and Agenda posted electronically on IDL's public website www.idl.idaho.gov twenty-four (24) hours before meeting.
	Notice contains reason for the executive session and the applicable provision of Idaho Code § 74-206 that authorizes the executive session.


Recording Secretary

November 15, 2021

Date



Idaho State Board of Land Commissioners

Brad Little, Governor and President of the Board
Lawrence E. Denney, Secretary of State
Lawrence G. Wasden, Attorney General
Brandon D Woolf, State Controller
Sherri Ybarra, Superintendent of Public Instruction
Dustin T. Miller, Secretary to the Board

REVISED NOTICE OF PUBLIC MEETING NOVEMBER 2021

The Idaho State Board of Land Commissioners will hold a Regular Meeting on Tuesday, November 16, 2021 at **Idaho Department of Lands Office, Garnet Conference Room, 300 N. 6th St., Suite 103, Boise, Idaho**. The meeting is scheduled to begin at 9:00 AM (Mountain).

Please note revised physical location.

The State Board of Land Commissioners will conduct this meeting in person and by virtual means. This meeting is open to the public. No public comment will be taken.

Meeting will be streamed live via IPTV: <https://www.idahoptv.org/shows/idahoinsession/>

Members of the public may register to attend the Zoom webinar through this link:
https://idl.zoom.us/webinar/register/WN_wGINAbJVQw-R-K-xTfPHFQ

The Governor's [Stage 4 Stay Healthy Guidelines](#) dated 5/11/2021 allows for public meetings of any size with adherence to physical distancing and sanitation requirements. Individuals are encouraged to watch online or via webinar. All in-person attendees must comply with current COVID-19 safety protocols for public gatherings in the City of Boise, including but not limited to guidance regarding face coverings and social distancing.

Physical distancing measures reduce the meeting room's normal attendance capacity.¹

¹ www.cityofboise.org/departments/mayor/coronavirus-covid-19-information/ AND www.cdhd.idaho.gov/dac-coronavirus



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State Board of Land Commissioners Regular Meeting
November 16, 2021 – 9:00 AM (MT)
Amended Final Agenda

Idaho Department of Lands Office, Garnet Conference Room, 300 N. 6th St., Suite 103, Boise, Idaho

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1. Department Report – Presented by Dustin Miller, Director

Trust Land Revenue

- A. Timber Sales – October 2021
- B. Leases and Permits – October 2021

Status Updates

- C. Timberland and Rangeland Asset Class Valuations

2. Endowment Fund Investment Board Report – Presented by Tom Wilford, Chairman; Chris Anton, Manager of Investments; Jerry Aldape, Chair, Audit Committee; Paul Niedermuller, CliftonLarsonAllen

- Introduction of Endowment Fund Investment Board
 - A. FY2021 Annual Report
 - B. Land Board Audit Committee Report
 - C. Manager's Monthly Report

¹ www.cityofboise.org/departments/mayor/coronavirus-covid-19-information/ AND www.cdhd.idaho.gov/dac-coronavirus

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

Consent—Action Item(s)

4. **Approval of Draft Minutes** – October 19, 2021 Regular Meeting (Boise)

Regular—Action Item(s)

5. **Adoption of Pending Rules—Omnibus Rulemaking** – *Presented by Scott Phillips, Policy and Communications Chief*
6. **Statement of Investment Policy Annual Review** – *Presented by Jim Elbin, Division Administrator-Trust Land Management*
7. **Asset Management Plan Review** – *Presented by Jim Elbin, Division Administrator-Trust Land Management*
8. **Priest Lake New Residential Lots** – *Presented by Josh Purkiss, Bureau Chief-Real Estate Services*

Information

9. **Endowment Land Exchange Policy** – *Presented by Jim Elbin, Division Administrator-Trust Land Management*
10. **Future of Cottage Site Leasing** – *Presented by Josh Purkiss, Bureau Chief-Real Estate Services*

Executive Session

None

IDAHO DEPARTMENT OF LANDS



Idaho State Board of Land Commissioners

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Executive Session

None



Idaho Statutes

Idaho Statutes are updated to the web July 1 following the legislative session.

TITLE 74
TRANSPARENT AND ETHICAL GOVERNMENT
CHAPTER 2
OPEN MEETINGS LAW

74-206. EXECUTIVE SESSIONS – WHEN AUTHORIZED. (1) An executive session at which members of the public are excluded may be held, but only for the purposes and only in the manner set forth in this section. The motion to go into executive session shall identify the specific subsections of this section that authorize the executive session. There shall be a roll call vote on the motion and the vote shall be recorded in the minutes. An executive session shall be authorized by a two-thirds (2/3) vote of the governing body. An executive session may be held:

(a) To consider hiring a public officer, employee, staff member or individual agent, wherein the respective qualities of individuals are to be evaluated in order to fill a particular vacancy or need. This paragraph does not apply to filling a vacancy in an elective office or deliberations about staffing needs in general;

(b) To consider the evaluation, dismissal or disciplining of, or to hear complaints or charges brought against, a public officer, employee, staff member or individual agent, or public school student;

(c) To acquire an interest in real property not owned by a public agency;

(d) To consider records that are exempt from disclosure as provided in chapter 1, title 74, Idaho Code;

(e) To consider preliminary negotiations involving matters of trade or commerce in which the governing body is in competition with governing bodies in other states or nations;

(f) To communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. The mere presence of legal counsel at an executive session does not satisfy this requirement;

(g) By the commission of pardons and parole, as provided by law;

(h) By the custody review board of the Idaho department of juvenile corrections, as provided by law;

(i) To engage in communications with a representative of the public agency's risk manager or insurance provider to discuss the adjustment of a pending claim or prevention of a claim imminently likely to be filed. The mere presence of a representative of the public agency's risk manager or insurance provider at an executive session does not satisfy this requirement; or

(j) To consider labor contract matters authorized under section 74-206A (1)(a) and (b), Idaho Code.

(2) The exceptions to the general policy in favor of open meetings stated in this section shall be narrowly construed. It shall be a violation of this chapter to change the subject within the executive session to one not identified within the motion to enter the executive session or to any topic for which an executive session is not provided.

(3) No executive session may be held for the purpose of taking any final action or making any final decision.

(4) If the governing board of a public school district, charter district, or public charter school has vacancies such that fewer than two-thirds (2/3) of board members have been seated, then the board may enter into executive session on a simple roll call majority vote.

History:

[74-206, added 2015, ch. 140, sec. 5, p. 371; am. 2015, ch. 271, sec. 1, p. 1125; am. 2018, ch. 169, sec. 25, p. 377; am. 2019, ch. 114, sec. 1, p. 439.]

STATE BOARD OF LAND COMMISSIONERS

November 16, 2021

Trust Land Revenue

Timber Sales

During October 2021, the Department of Lands sold five endowment timber sales at auction. The endowment net sale value represents a 25% up bid over the advertised value. Three sales, Benton South Cedar Salvage, Hey Wilson Cedar, and Something Fishy had competitive bidding. The remaining two sales sold at the appraised value.

TIMBER SALE AUCTIONS								
Sale Name	Area	Sawlogs MBF	Cedar Prod MBF	Pulp MBF	Appraised Net Value	Sale Net Value	Net \$/MBF	Purchaser
Barn Creek Cedar Salvage	POND	310			\$ 139,342.00	\$ 139,342.00	\$449.49	Waddell Logging LLC
Benton South Cedar Salvage	CLW	9,325			\$ 1,590,883.50	\$ 1,627,307.50	\$174.51	IFG Timber LLC
Wild Scott Cedar Salvage	SJ	2,525	340		\$ 462,784.50	\$ 462,784.50	\$161.53	Alta Forest Products
Hey Wilson Cedar	SJ	3,580			\$ 1,591,355.50	\$ 1,870,844.45	\$522.58	Alta Forest Products
Something Fishy	MICA	6,910			\$ 1,822,451.00	\$ 2,931,398.00	\$424.23	IFG Timber LLC
Endowment		22,650	340	0	\$ 5,606,816.50	\$ 7,031,676.45	\$305.86	

IDAHO DEPARTMENT OF LANDS

PROPOSED TIMBER SALES FOR AUCTION				
Sale Name	Volume MBF	Advertised Net Value	Area	Estimated Auction Date
North Operations				
Forgotten Wood Ton	4,125	\$744,396.00	Pend Oreille Lake	11/2/2021
Lightning	2,325	\$946,024.50	Pend Oreille Lake	11/2/2021
Eagle Blowdown	675	\$132,590.00	Cataldo	11/3/2021
White Schwartz Cedar	1,465	\$562,884.50	Ponderosa	11/9/2021 2nd auction
Windy Bear Salvage	260	\$59,091.50	Priest Lake	11/10/2021 2nd auction
Bear Creek OSR	4,560	\$875,315.00	Cataldo	11/17/2021
Cold Alder Cedar	8,250	\$3,233,020.00	Ponderosa	11/23/2021
Wilson West	8,860	\$2,923,946.00	St. Joe	11/30/2021
Loopy Line and Tractor Cedar	6,385	\$1,383,945.50	St. Joe	11/30/2021 2nd auction
TOTALS	36,905	\$9,477,267.50		
South Operations				
Benton Ridge Cedar Salvage	7,390	\$1,039,181.00	Clearwater	11/1/2021 2nd auction
Goose Bay Ton	7,030	\$1,140,676.65	Payette Lakes	11/16/2021
TOTALS	14,420	\$2,179,857.65		

VOLUME UNDER CONTRACT as of October 31, 2021

	Public School	Pooled	Total	3 Year Avg.
Active Contracts			180	175
Total Residual MBF Equivalent	309,888	203,052	512,940	551,286
Estimated residual value	\$78,134,824	\$54,971,858	\$133,106,682	\$149,834,270
Residual Value (\$/MBF)	\$252.14	\$270.73	\$259.50	\$272.81

TIMBER HARVEST RECEIPTS

	October		FY to date	November Projected	
	Stumpage	Interest	Harvest Receipts	Stumpage	Interest
	Public School	\$ 5,846,655.70	\$ 751,086.34	\$ 23,208,544.27	\$ 4,575,537.03
Pooled	\$ 3,666,734.71	\$ 417,060.43	\$ 13,993,126.44	\$ 2,126,044.15	\$ 224,084.52
General Fund	\$ 1.43	\$ 0.00	\$ 6.10	\$ 1.43	\$ 0.00
TOTALS	\$ 9,513,391.84	\$ 1,168,146.77	\$ 37,201,676.81	\$ 6,701,582.61	\$ 635,253.02

Status of FY2021 Timber Sale Program

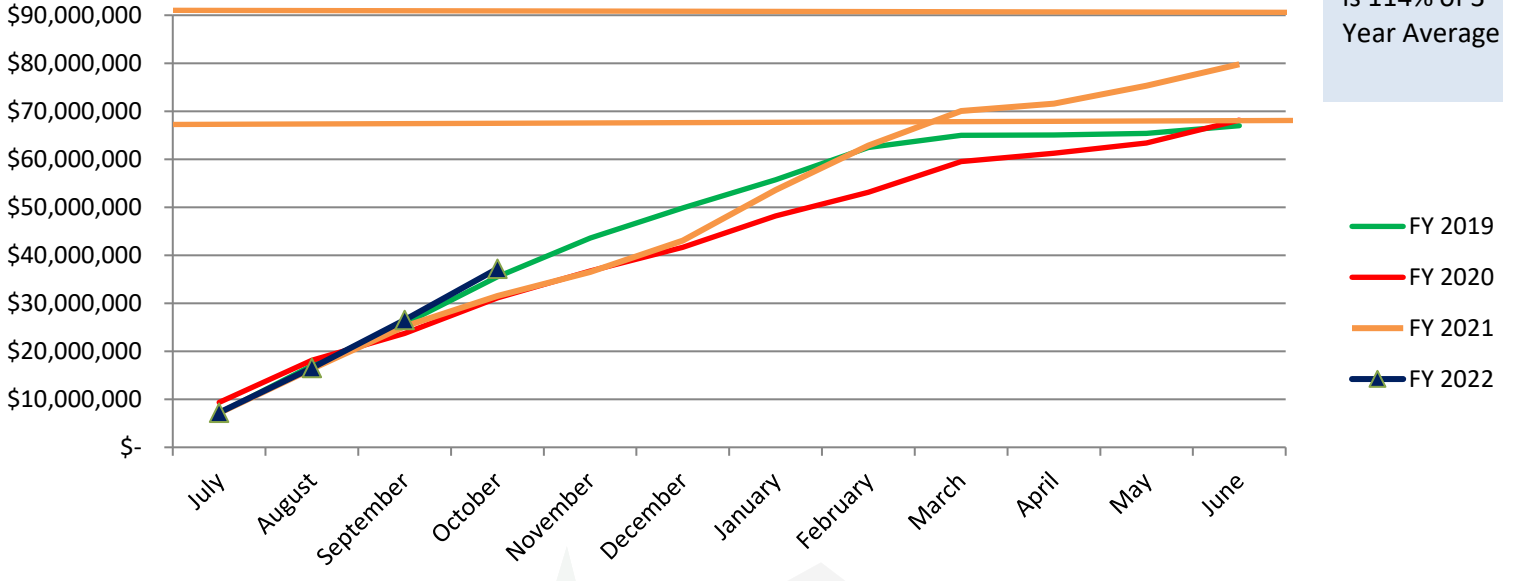
	MBF Sawlog			Number Poles		
	Public School	Pooled	All Endowments	Public School	Pooled	All Endowments
	Sold as of October 31, 2021	170,584	113,198	283,782	17,976	12,254
Currently Advertised	2,417	2,143	4,560	0	0	0
In Review	0	0	0	0	0	0
Did Not Sell ¹	0	0	0	0	0	0
TOTALS	173,001	115,341	288,342	17,976	12,254	30,230
FY2021 Sales Plan			284,238			28,810
Percent to Date			101%			105%

Status of FY2022 Timber Sale Program

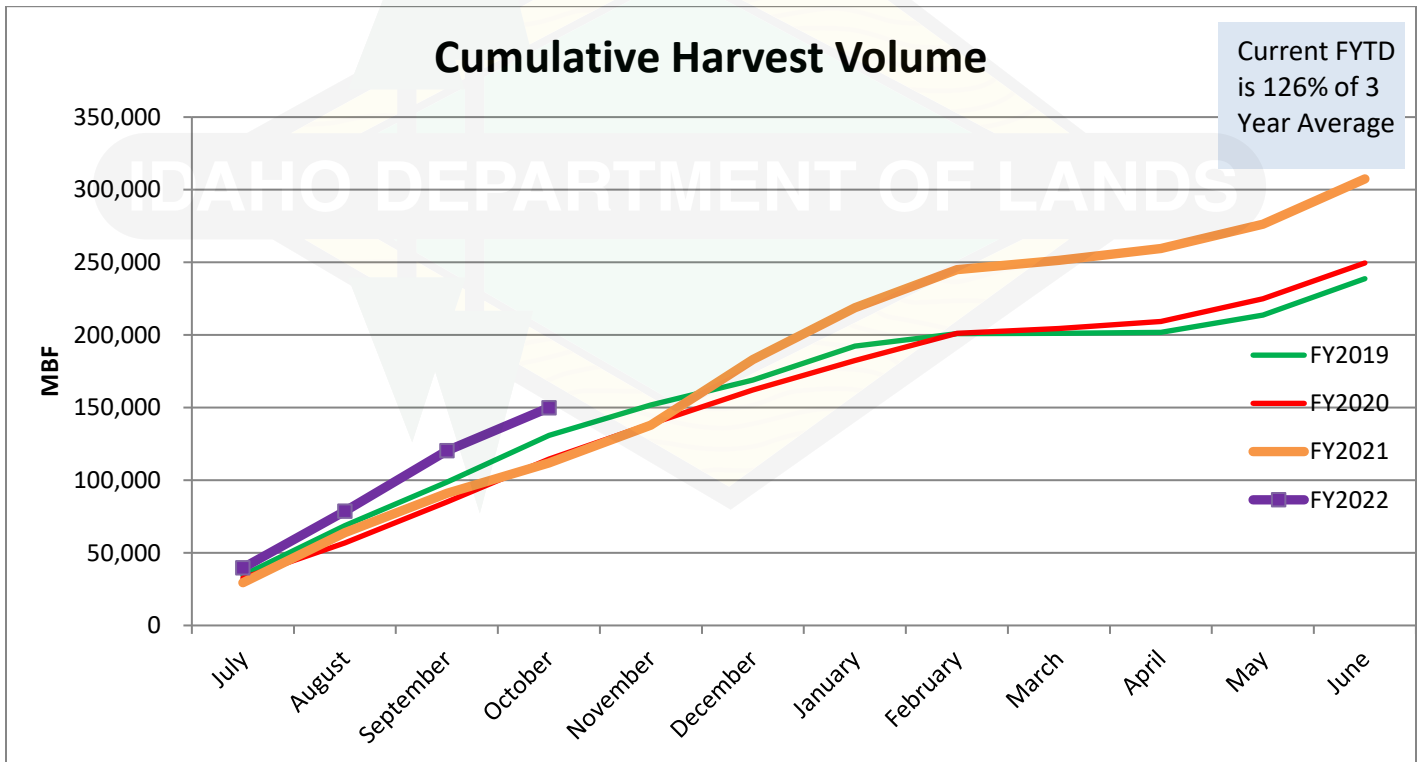
	MBF Sawlog			Number Poles		
	Public School	Pooled	All Endowments	Public School	Pooled	All Endowments
	Sold as of October 31, 2021	34,318	30,157	64,475	13,574	4,855
Currently Advertised	21,838	25,185	47,023	3,240	3,430	6,670
In Review	23,134	7,652	30,786	4,650	4,040	8,690
Did Not Sell ¹	0	0	0	0	0	0
TOTALS	79,290	62,994	142,284	21,464	12,325	33,789
FY2022 Sales Plan			311,195			20,600
Percent to Date			46%			164%

¹ After three attempts at auction.

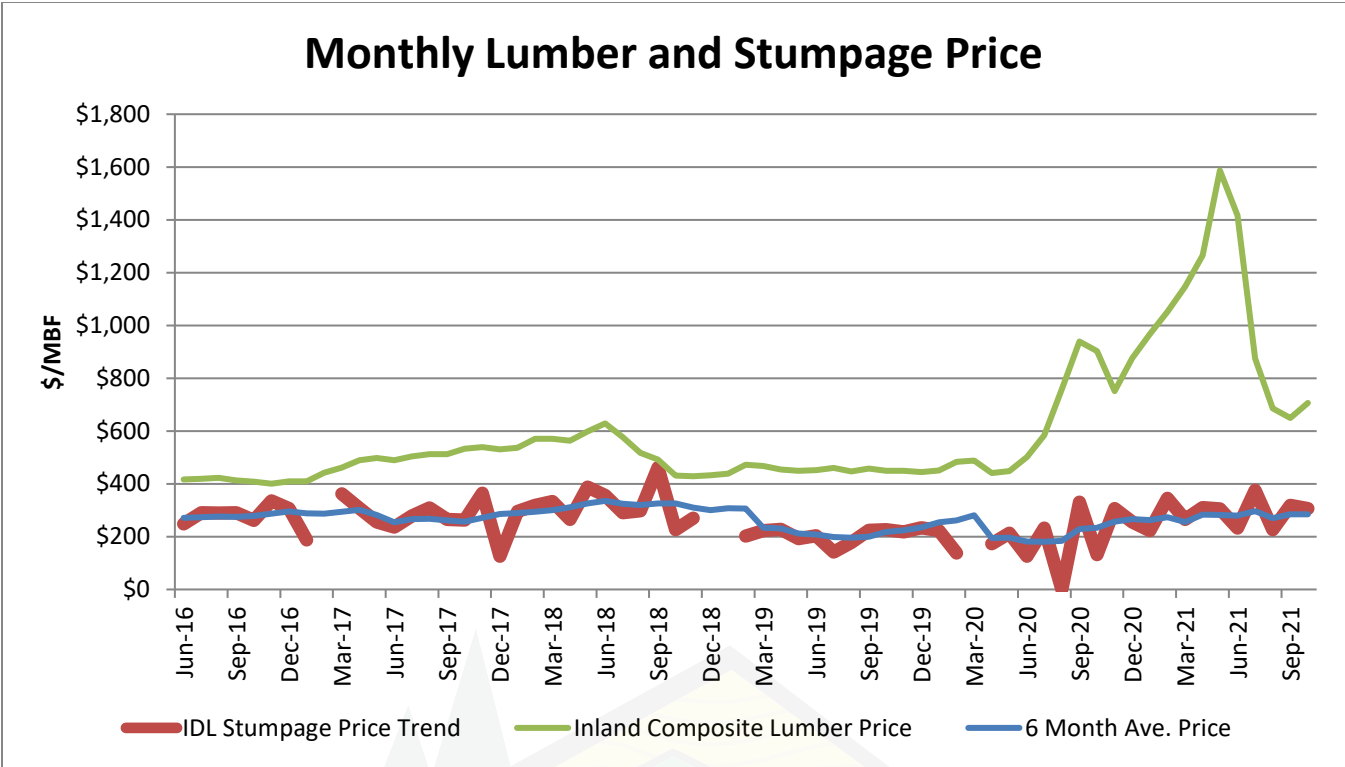
Cumulative Harvest Receipts



Cumulative Harvest Volume



Monthly Lumber and Stumpage Price



October 2021 6 month average price is \$284.55.
 October 2020 6 month average price was \$234.10.



In November, the Department of Lands had six sales that did not sell at auction due to various reasons. These sales included two fire salvage sales, one blowdown salvage sale, and three green sales.

The Little Pioneer Fire Salvage sale has been advertised twice with no success. Feedback received from prospective purchasers was the severity of the burnt timber, scattered volume in three units, difficult line ground, and too high of a beginning sale price even though prices were at salvage sale minimums. The Pend Oreille Supervisory Area will remove the low volume per acre units, the line ground areas, and reoffer the sale a third time with the volume reduced to 785 MBF. The units removed will be sold with the direct sale program.

The Benton West Cedar Salvage sale did not sell at the first auction attempt. Logistics played a key role in this sale not selling. The access road to this sale is the access road to the sold Benton North Cedar Salvage sale that was purchased by Stella Jones. Purchasers did not want to block the access road and deny Stella Jones the opportunity to haul timber from their sale. The Clearwater Supervisory Area will reoffer this sale in the spring of 2022.

The French Hog Salvage sale did not sell at the first auction attempt. This is a blowdown salvage sale containing six units with three units having very low volume per acre being harvested. The sale was also appraised using 3rd quarter delivered log prices that were higher than the current market dictated. The Ponderosa Supervisory Area will reappraise this sale, remove the three low volume per acre units, and reoffer the sale a second time. The units removed will be sold with the direct sale program.

The Paragon Cedar sale was a green sale that did not sell at the first auction attempt. The sale was appraised using 3rd quarter delivered log prices, and these prices were too high for the current market. This sale is being reappraised by the Ponderosa Supervisory Area and will be offered for auction again in December.

The Loopy Line and Tractor Cedar sale did not sell at the first auction attempt. The delivered log prices were generated from the 3rd quarter, and the hauling price was inadequate for the sale location. The St. Joe Supervisory Area has reappraised this sale using updated 4th quarter delivered log prices and has increased the hauling allowance for the sale. The sale will be offered a second time in November.

The Flemming Mica Salvage sale did not sell at the first auction attempt. This sale is an Overstory Removal sale, has low volume per acre, and is 50% line ground. The sale was appraised using 3rd quarter delivered log prices which were higher than the current market dictated. The St. Joe Supervisory Area will reappraise this sale by using 4th quarter delivered log prices and increase the logging allowance for the sale. The sale will be offered a second time at auction in late November/early December.

Log yard inventories at mills within IDL's operating region are impacting the price of our sales and if sales are sold during the first auction period. As lumber prices were hitting historic highs throughout the year, mills were receiving logs from private landowners to take advantage of high log prices. In some instances, the mills had so much excess inventory, that they did not accept any more private logs until the start of the 4th quarter.

For the month of November, the following sales have already sold:

Benton Ridge Cedar Salvage sold to IFG Timber LLC at the appraised value.

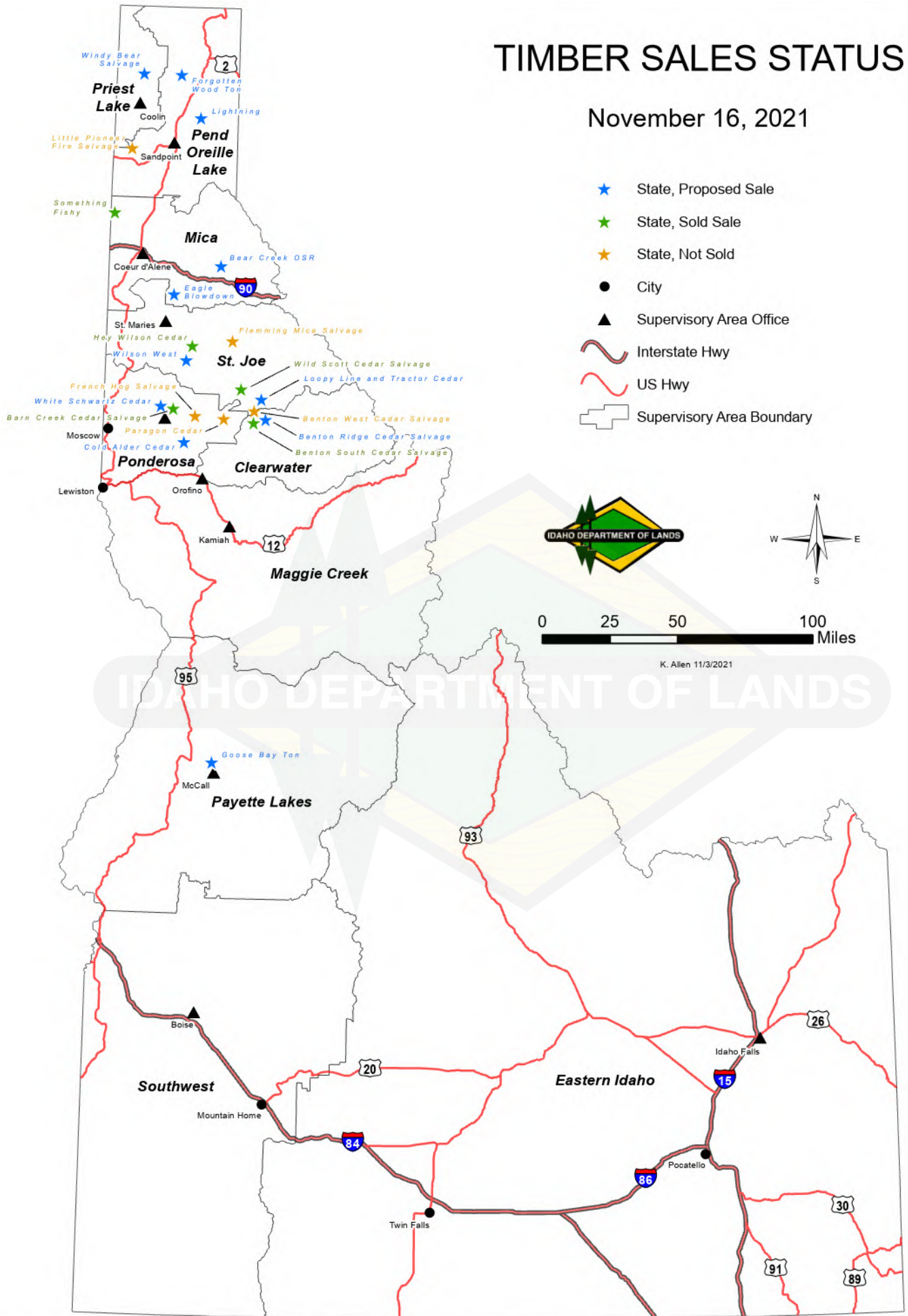
Forgotten Wood Ton sold to IFG Timber LLC at the appraised value.

Lightning sold to Alta Forest Products with competitive bidding from Stimson Lumber Company.

Eagle Blowdown sold to Layton Logging & Excavating at the appraised value.

TIMBER SALES STATUS

November 16, 2021



STATE BOARD OF LAND COMMISSIONERS

November 16, 2021

Endowment Transactions

Leases and Permits

FISCAL YEAR 2022 – LEASING & PERMITTING TRANSACTIONS BY MONTH – through October 31,													
ACTIVITY	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FYTD
SURFACE													
Agriculture	-	-	-	-									0
Assignments	-	-	-	-									0
Communication Sites	-	-	2	-									2
Grazing	-	3	2	5									10
Assignments	2	-	1	-									3
Residential	1	-	1	-									2
Assignments	-	-	1	-									1
COMMERCIAL													
Alternative Energy	-	-	-	-									0
Industrial	-	-	-	-									0
Military	-	-	-	-									0
Office/Retail	-	-	-	-									0
Recreation	-	-	-	-									0
Assignments	-	-	-	-									0
OTHER													
Conservation	-	-	-	-									0
Assignments	-	-	-	-									0
Geothermal	-	-	-	-									0
Minerals	-	-	-	2									2
Assignments	-	-	-	-									0
Non-Comm Recreation	-	-	-	-									0
Oil & Gas	-	-	-	-									0
PERMITS													
Land Use Permits	9	9	9	1									28
TOTAL INSTRUMENTS	12	12	16	8	0	0	0	0	0	0	0	0	48

Real Estate

FISCAL YEAR 2022 – REAL ESTATE TRANSACTIONS BY MONTH – through October 31, 2021													
ACTIVITY	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FYTD
Deeds Acquired	-	-	-	3									3
Deeds Granted	-	-	5	13									18
Deeds Granted - Surplus	-	-	-	-									0
Easements Acquired	-	-	-	2									2
Easements Granted	-	-	-	5									5

Notes:

Land Exchanges

[Idaho Forest Group Land Exchange](#) Working with IFG to resolve title issue.

[Avimor Land Exchange](#) Working with Avimor to resolve two issues identified on the title commitment.

[EIRSWD](#) Closing scheduled to take place end of January 2022.

Auctions

[Caldwell Land](#) Auction scheduled for November 10, 2021.

[Payette Lake Unleased Lots](#) Offering six unleased for auction December 2, 2021.

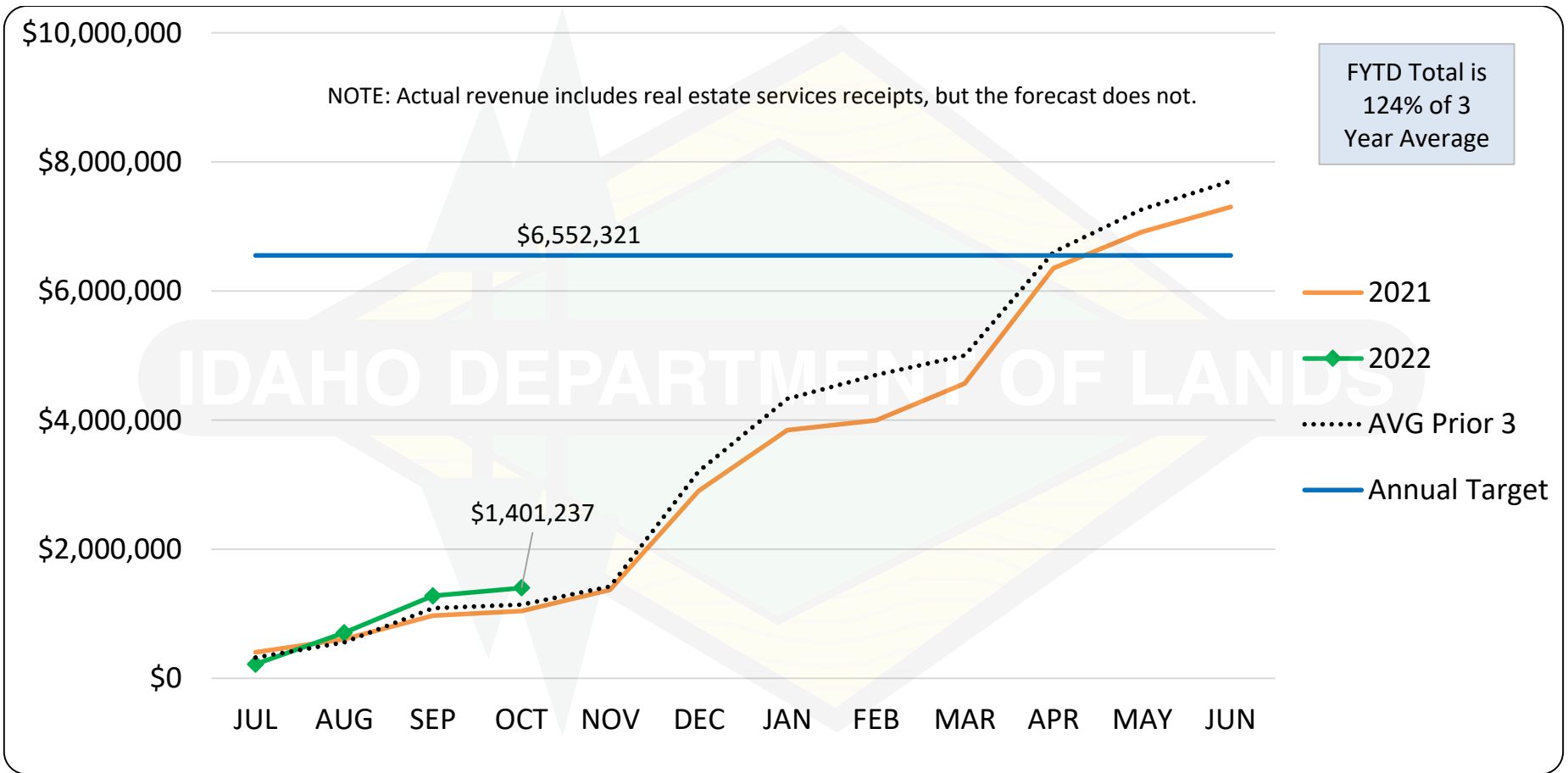
TRUST LAND MANAGEMENT DIVISION
FY2022 GROSS REVENUE (non-timber) - ACTUAL AND FORECASTED
through October 31, 2021

	ACTUAL RECEIPTS AS OF 10.31.2021	REVENUE EXPECTED BY 10.31.2021**	REVENUE EXPECTED BY 06.30.2022
SURFACE			
AGRICULTURE	\$ 2,650	\$ 8,700	\$ 491,700
COMMUNICATION SITES	\$ 190,799	\$ 101,100	\$ 1,011,000
GRAZING	\$ 57,128	\$ 76,000	\$ 1,817,000
RESIDENTIAL	\$ (32,648)	\$ (34,300)	\$ 1,303,345
COMMERCIAL			
COMMERCIAL ENERGY RESOURCES	\$ -	\$ -	\$ 21,859
COMMERCIAL INDUSTRIAL	\$ 29,653	\$ 4,573	\$ 84,967
COMMERCIAL MILITARY	\$ -	\$ -	\$ 91,463
COMMERCIAL OFFICE/RETAIL	\$ 610,227	\$ 561,463	\$ 923,859
COMMERCIAL RECREATION***	\$ 446,661	\$ 397,400	\$ 531,800
OTHER			
CONSERVATION LEASES	\$ 8,580	\$ -	\$ 65,000
GEO THERMAL	\$ 250	\$ -	\$ -
MINERAL	\$ 5,195	\$ 13,459	\$ 105,403
NON-COMMERCIAL RECREATION	\$ 10,850	\$ 2,300	\$ 98,452
OIL AND GAS LEASES	\$ 465	\$ 715	\$ 6,473
Sub Total	\$ 1,329,811	\$ 1,131,410	\$ 6,552,321
*LAND SALES/RECORDS	\$ -		
*REAL ESTATE SERVICES	\$ 71,426		
Grand Total	\$ 1,401,237		

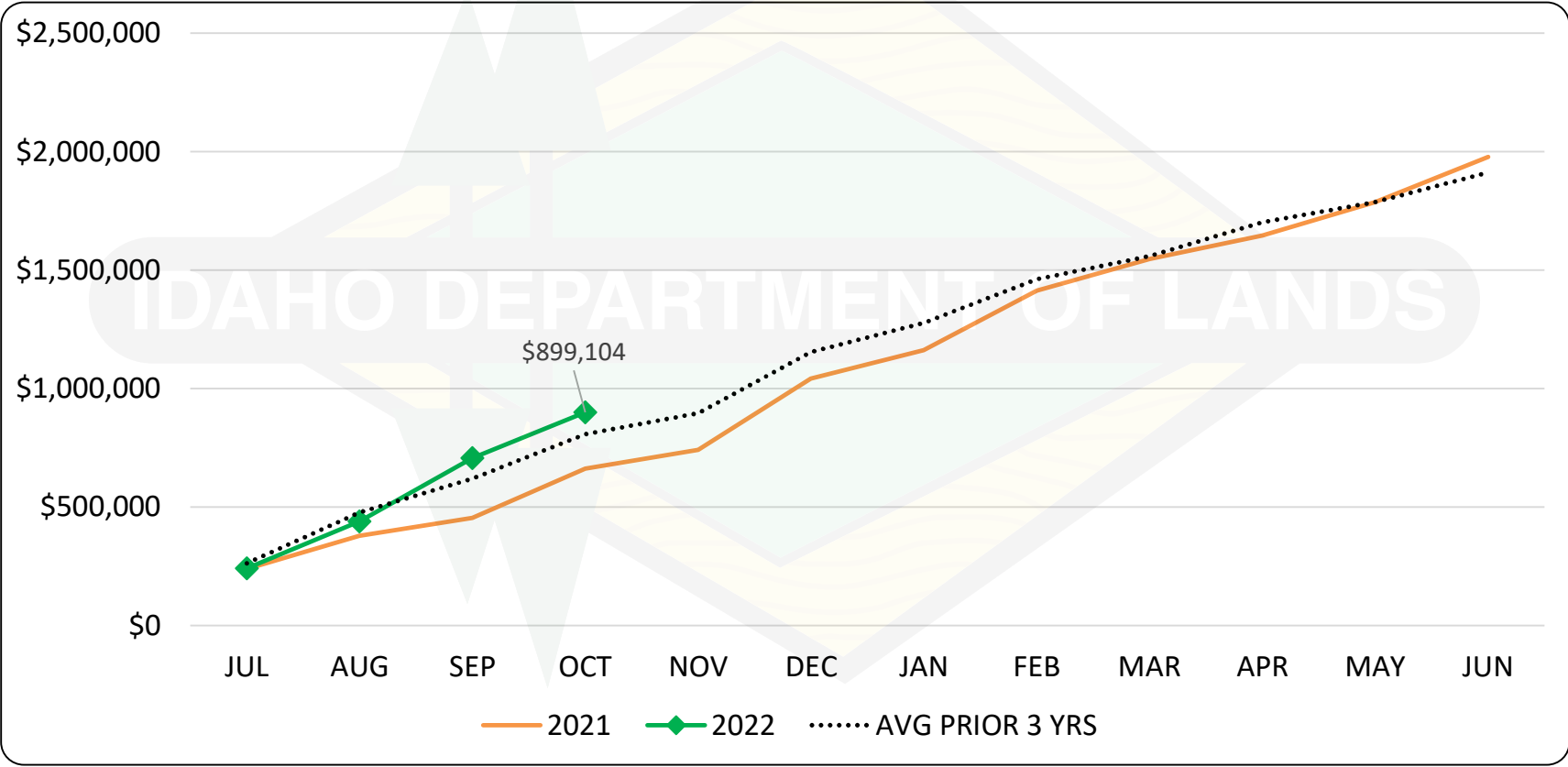
* These categories are not included in the annual forecast.

** These figures are based on "normal" timing of revenue/billing throughout the year.

Cumulative Trust Land Program Receipts Earnings Reserve - All Programs excluding Timber FY 2021 - FYTD 2022



Cumulative Trust Land Permanent Fund Revenue/Royalties
 (Does NOT include Land Bank or Timber Program Revenue)
 FY 2021 - FYTD 2022



STATE BOARD OF LAND COMMISSIONERS

November 16, 2021

Timberland and Rangeland Asset Class Valuations

Background

At the November 17, 2020 Land Board meeting during the Statement of Invest Policy Annual Review, the Department of Lands (Department) was directed to update the land value portion of the portfolio to better reflect recent acquisitions and harvest increases from the Forest Asset Management Plan. The Department contracted with Mason, Bruce, & Girard (MB&G), an approved Land Board Land Investment Advisor, through a competitive bid process to perform an updated land valuation. The valuation was based on Discounted Cash Flow (DCF) for both asset types.

Timberland

Timberland valuation used data from the 2019 FAMP centered at the midpoint of planning periods representing 328 MMBF/year from FY2023 to FY2038, a step down to 284 MMBF/year from FY2038 to FY2043, and 240 MMBF/year thereafter. Depth of analysis went much further in accounting for historical costs and incomes than the previous valuation.

The 2014 Callan report established an overall value of \$1.17 billion on 980,764 timberland acres (\$1,174/ac), using a discount rate of 4%. This calculation assumed a perpetual harvest of 240 MMBF per year, with stumpage constant at \$240/MBF. Reconciling MB&G's report with Callan produces a new value of \$1.56 billion (a \$386.7 million increase) for 1,010,764 timberland acres (\$1,543.39/ac).

Rangeland

In 2014, Callan used 285,000 AUMs, a \$6.77 AUM rate, and 1.4 million acres to arrive at a value of \$61 million (\$43.57/acre) at a 1.25% discount rate. In the new update, rangeland was evaluated using 1,426,321 acres for a total value of \$63.4 million (\$44.45/ac) using a 1.25% discount (comparable to the 2014 Callan report). This value represents using a baseline of \$7.07 per AUM plus a \$0.64 per AUM bid premium. Sensitivity analysis utilizing AUM rates of \$6.00 to \$12.00/AUM was performed. In comparison to timberland, rangeland when utilizing the different AUM rates at a 4% discount rate, ranged in value from \$8.8 million (\$6/AUM) to \$47.5 million (\$12/AUM) total asset value.

Summary

Timberland acquisitions, an updated Forest Asset Management Plan, better stumpage prices, and improved cost accounting produced a \$386.7 million (\$369.39/ac) increase in asset value. Rangeland data was also improved and with a reduction in AUMs to match current lease totals and an increase in AUM rate over the previous valuation, increased in value by \$2.4 million (\$0.88/ac). Total Timberland value is \$1.56 billion and Rangeland value is \$63.4 million. The new valuations will be incorporated into FY2022 financial reporting.

**Annual Report to the
Board of Land Commissioners**



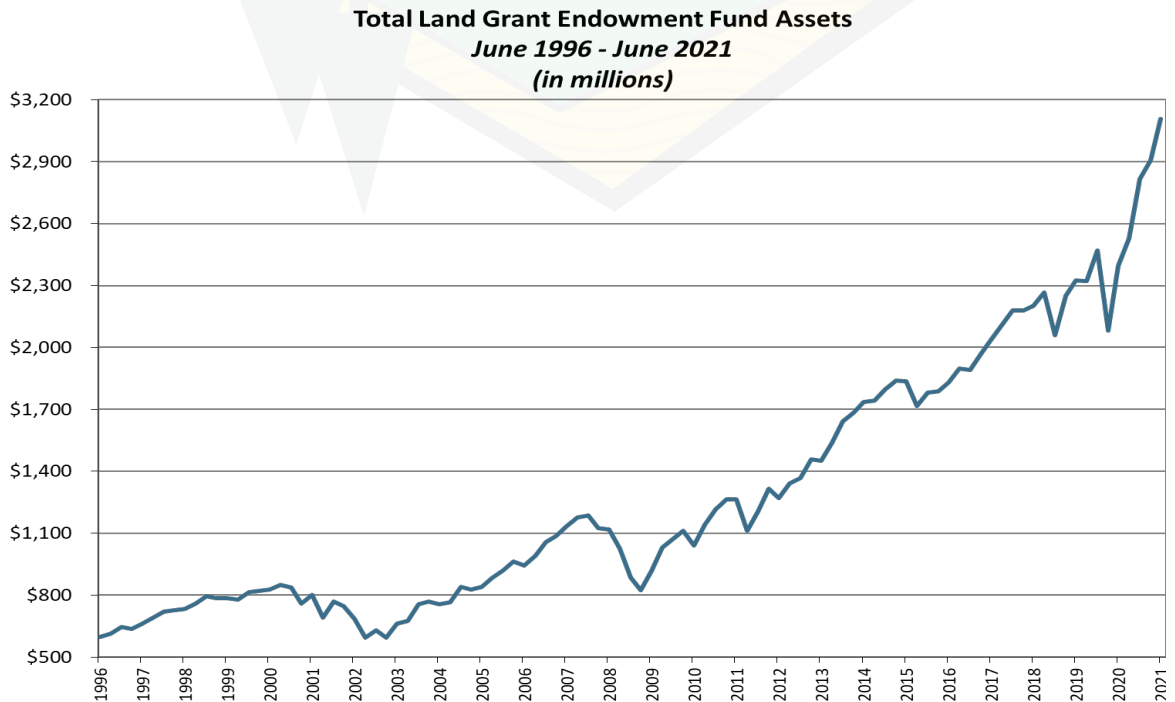
November 16, 2021

SUMMARY OF RESULTS

Fiscal 2021 was a very strong year for the Land Grant Endowment Fund. The Endowment Fund grew by 29.7% or \$711.6 million to \$3,108 million as of June 30, 2021. Earnings reserve levels exceeded targets at fiscal year-end, which allowed the Idaho State Board of Land Commissioners (“Land Board”) to both increase the Public School target earnings reserve level to seven years of distributions and transfer of \$486.4 million from earnings reserve into the permanent fund. This transfer increased the permanent fund gain benchmark and positioned the fund for larger beneficiary distributions in the future. The Endowment Fund had investment returns of 29.7%, which ranked in the top 15th percentile when compared to peers in the Callan Public Fund Sponsor Database. Costs to manage the fund totaled \$12.1 million, or 0.39% percent of assets. Net land revenue grew by 25.5% to \$59.6 million as the Idaho Department of Lands advanced its Forest Asset Management Plan to sustainably increase the annual volume of timber harvested and benefited from strong stumpage prices. Beneficiary distributions increased 4.5% to \$84.5 million and the Land Board approved distributions of \$88.1 million and \$100.3 million in fiscal years 2022 and 2023, respectively.

CHANGES IN NET POSITION AND FUND BALANCE

Changes in the net position of the Endowment Fund are the result of investment gains or losses in the Endowment Fund portfolio, revenue generated from land assets, transfers from the Land Bank, beneficiary distributions and Department of Lands and EFIB expenses. The Endowment Fund balance increased by \$711.6 million, \$72.2 million and \$122.5 million during the fiscal years ended June 30, 2021, 2020 and 2019, respectively. Net position and fund balance totaled \$3,108 million, \$2,396 million and \$2,324 million as of June 30, 2021, 2020 and 2019, respectively.

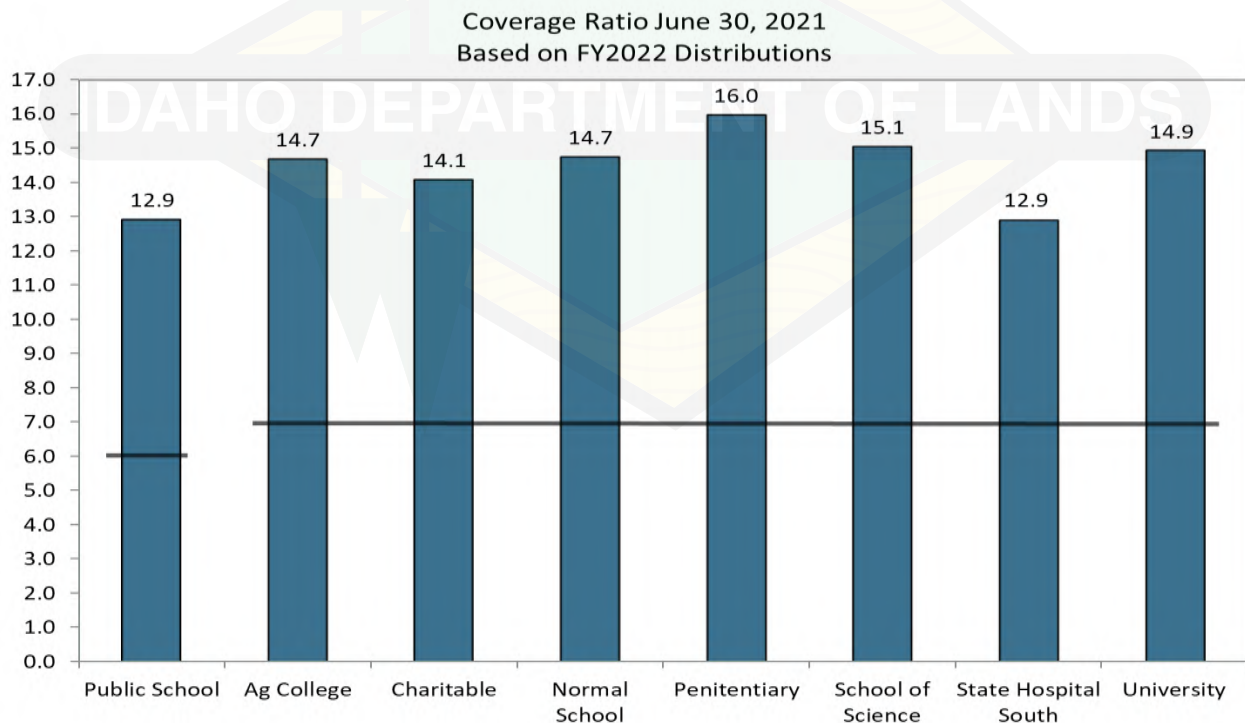


EARNINGS RESERVES

The Land Board has established target earnings reserve levels for each of the Earnings Reserve Funds. At the end of the fiscal year, target earnings reserve levels equated to six years of beneficiary distributions for Public School and seven years of beneficiary distributions for Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and the University of Idaho. Subsequent to fiscal year-end, the Land Board increased the target earnings reserve level of Public School to seven years. When earnings reserves exceed the target earnings reserve levels, excess amounts may be transferred from Earnings Reserve Funds into the corresponding Permanent Funds. Subsequent to fiscal year-end, the Land Board approved the transfer of \$486.4 million from earnings reserve funds into permanent funds to bring reserves down to target levels.

Total earnings reserve levels were \$1,198.8 million, \$589.3 million and \$604.6 million as of June 30, 2021, 2020 and 2019, respectively. As of June 30, 2021, the earnings reserve balances for all Endowment Funds were at or above target earnings reserve levels.

The table below highlights the earnings reserve levels of each Endowment Fund.

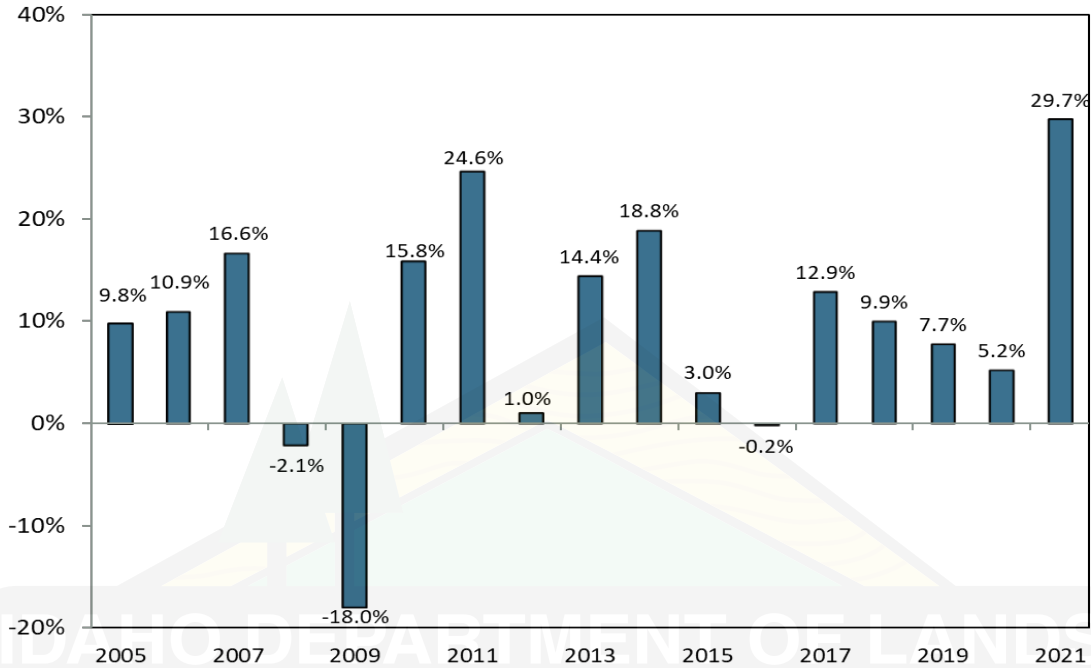


INVESTMENT RESULTS

The Endowment Fund portfolio generated investment returns before fees of 29.7%, 5.2% and 7.7% in fiscal years end June 30, 2021, 2020 and 2019, respectively. The average annual investment returns were

29.7%, 13.7%, 12.8%, and 9.9% during the last one, three, five and ten-year periods. These investment returns ranked in the top 15th, 4th, 7th and 11th percentile in the Callan Public Fund Sponsor Database for the one, three, five and ten-year periods.

Annual Gross Fund Returns



Annualized Gross Fund Returns, ending June 30, 2021

	FY 2021	3 Years	5 Years	7 Years	10 Years
Total Fund	29.7%	13.7%	12.8%	9.4%	9.9%
<i>Benchmark (38% Russell 3000, 19% ACWI ex-US, 9% ACWI, 8% ODCE, 26% BBC Aggregate)</i>	26.0%	12.3%	11.6%	8.8%	9.3%
Total Equity	45.4%	17.5%	17.1%	12.0%	12.5%
Domestic Equity	48.8%	18.8%	18.8%	14.0%	14.9%
Large Cap.	47.2%	18.9%	18.7%	14.2%	15.3%
Mid Cap.	49.7%	19.2%	18.3%	13.0%	13.9%
Small Cap.	55.4%	16.9%	19.4%	13.9%	14.2%
International Equity	41.1%	15.0%	14.4%	8.3%	7.3%
Global Equity	40.9%	17.9%	15.2%	9.6%	9.8%
<i>MSCI ACWI Index</i>	39.3%	14.6%	14.6%	9.8%	9.9%
Total Real Estate (net of fees)	1.8%	4.7%	5.4%		
<i>NCREIF ODCE Index</i>	2.3%	4.9%	6.2%		
Total Fixed Income	2.4%	5.6%	3.2%	3.3%	3.4%
<i>Fixed-Income Benchmark (85% BBC U.S. Aggregate, 15%</i>	0.7%	5.5%	3.2%	3.3%	3.4%

ASSET ALLOCATION

The target asset allocation for the Endowment Fund portfolio is 66% equity, 26% fixed income, and 8% real estate. The equity portion of the portfolio currently includes 38% U.S. equity, 19% international equity and 9% global equity. The fixed income portion of the portfolio includes 11% in the Bloomberg Barclay's Aggregate Index, 11% in an actively managed core plus strategies and 4% in Treasury Inflation Protected Securities. The real estate portion of the portfolio includes 4% in a private core real estate strategy and 4% in a participating mortgage loan fund.

INVESTMENT MANAGEMENT

The EFIB engages the services of an investment consultant who acts as an independent fiduciary and provides advice in areas such as investment policies and guidelines, asset allocation strategies, portfolio risk/return modeling and hiring and monitoring of investment managers. Callan has served as EFIB's investment consultant since 2007. They were reappointed in 2019 after a national consultant search.

The EFIB engages investment managers who are given discretion to make investment decisions subject to policies and guidelines specific to the investment strategy they are managing. As of June 30, 2021, the EFIB engaged eighteen investment managers including; Barrow Hanley, Boston Partners, Clearwater Advisors, DoubleLine Capital, DWS, Eagle Asset Management, Fiera Capital, LSV Asset Management, Northern Trust Investments, Sands Capital, Schroders, State Street Global Advisors, Sycamore/Victory Capital, TimesSquare Capital Management, UBS Realty Investors, WCM Investment Management, Wellington and Western Asset Management.

The EFIB engages Northern Trust Company for custodial services. Northern Trust Company is responsible for the safekeeping of assets, trade settlement, accounting, security valuation and proxy voting.

COST OF INVESTMENT MANAGEMENT

The cost for investment management was \$12.1 million, \$11.6 million and \$9.1 million in fiscal years 2021, 2020 and 2019, respectively. Investment management expenses as a percentage of year-end Endowment Fund net positions equates to 0.39%, 0.48% and 0.39% in fiscal years 2021, 2020 and 2019, respectively. The table below provides a breakdown of investment management expenses.

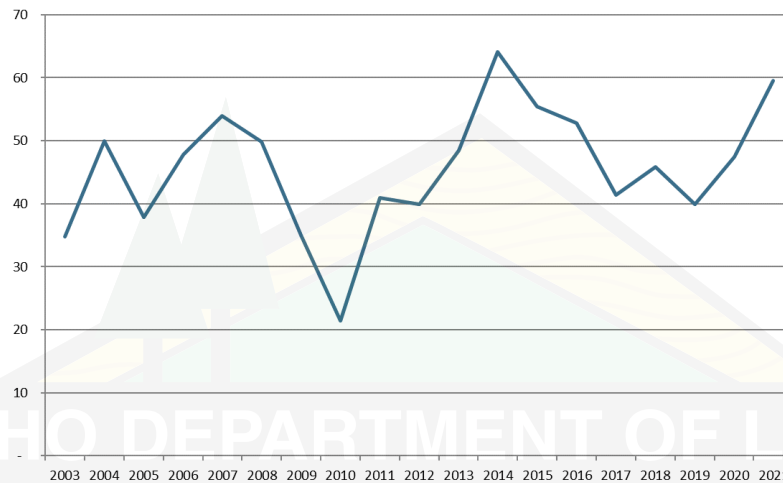
Cost of Investment Management

Investment Management Operating Cost	2021	2020	2019
Internal Investment Costs	\$ 523,664	\$ 534,709	\$ 511,841
Outside investment manager and legal fees	10,811,662	10,038,882	8,853,754
Custody Expense	932,146	1,184,565	826,571
Consultant and auditor fees	257,529	208,029	329,112
Subtotal	12,525,001	11,966,185	10,521,278
Less Manager fees charged directly	(1,006,707)	(995,343)	(925,337)
Total expenditures	11,518,294	10,970,842	9,595,941
Change in Manager Fee Accrual	535,488	571,476	(512,909)
Total Accrual Basis Expense	\$ 12,053,782	\$ 11,542,318	\$ 9,083,032

NET LAND REVENUE

Net land revenue (land revenue less Department of Lands expenses) totaled \$59.6 million, \$47.5 million and \$40.0 million in fiscal years 2021, 2020 and 2019, respectively. Net land revenue increased in fiscal 2021 due to greater timber harvest volumes and strong stumpage prices. The decline in net land revenue since the peak in fiscal 2014 is primarily the result of the sales of cabin sites located near Payette and Priest Lakes that provided lease revenue. In May of 2021, the Land Board authorized the transfer of \$31,785,592 from the Land Bank to the Permanent Fund.

**Net Land Revenue for Earnings Reserves
(in \$ millions)**



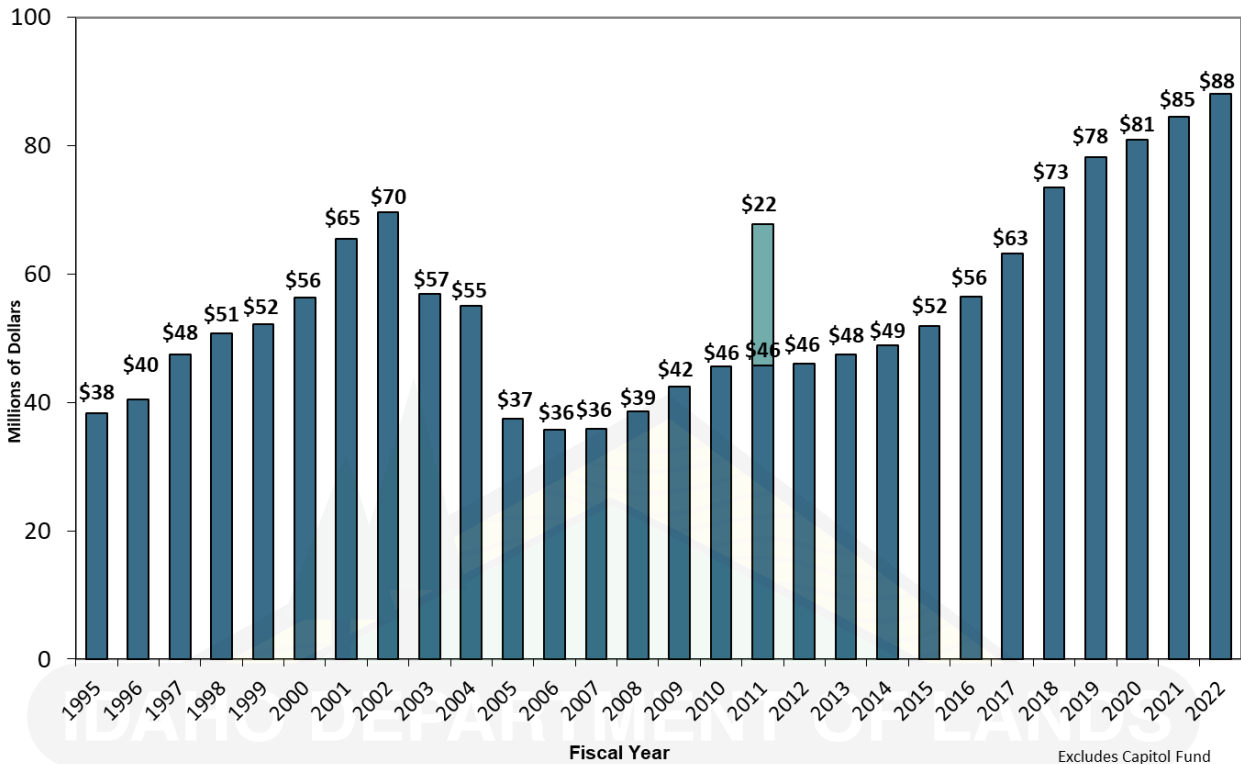
BENEFICIARY DISTRIBUTIONS

The Endowment Fund exists to provide distributions to beneficiaries in perpetuity. For all endowments, except Capitol Permanent, the Idaho State Board of Land Commissioners has established a beneficiary distribution policy. The current policy provides for annual distributions at a rate of 5% of the three-year moving average of the Permanent Fund balance, with the exception of State Hospital South which is 7%, and allows for adjustments to the distributions based on factors including the level of Earnings Reserve Funds and transfers to the Permanent Funds.

Distributions to land-grant beneficiaries totaled \$84.5 million, \$80.9 million and \$78.2 million in fiscal years 2021, 2020 and 2019, respectively. The Board of Land Commissioners approved distributions of \$88.1 million and \$100.3 million in fiscal years 2022 and 2023, respectively. The table below provides a summary of land-grant beneficiary distributions.

Beneficiary Distributions 1995-2022

(includes special Public School distribution in 2011 of \$22M)



On July 1, 2004, the Capitol Permanent Fund was pooled with the Endowment Fund for investment purposes. Additions to the Capitol Permanent Fund include revenue from timber lands, license plate royalties, and investment income. The EFIB authorizes distributions from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund. Distribution from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund totaled \$1.56 million, \$1.41 million and \$1.41 million in fiscal years 2021, 2020 and 2019, respectively. Distributions from the Capitol Maintenance Reserve Fund are determined by the Capitol Commission, subject to legislative appropriation. Distributions from the Capital Maintenance Reserve Fund to the Capitol Commission were \$2,450,000, \$325,000 and \$250,000 in fiscal years 2021, 2020 and 2019, respectively.

CREDIT ENHANCEMENT PROGRAM

On July 1, 2002, the State of Idaho’s Credit Enhancement Program for school district bond financing was established. This program, in accordance with Idaho Code Section 57-728 and in conjunction with Idaho Code Chapter 53, Title 33, requires the Public School Endowment Fund to purchase up to \$300 million in notes of the State that may be issued to avoid default on school district bonds. This credit enhancement allows eligible voter-approved school bonds to be issued with AAA ratings, which is above the State’s AA+

rating. The enhanced credit rating results in lower borrowing costs for Idaho school districts. EFIB has committed to provide credit enhancement on up to \$1.2 billion in school bonds, with a limit of \$40 million per school district. There were \$608.1 million, \$618.9 million and \$655.4 million in bonds guaranteed by the Credit Enhancement Program as of June 30, 2021, 2020 and 2019, respectively.

RISKS

The COVID-19 pandemic is having significant effects on global financial markets, supply chains, businesses and communities and consequently may impact various parts of operations and financial results. Management believes appropriate actions have been taken to mitigate the negative impact, however, the full impact of COVID-19 is unknown and cannot be reasonably estimated as events associated with the Delta variant are still developing.

The Endowment Fund is aware that macroeconomic and geopolitical risks broadly affect financial markets and it works closely with its consultant and investment managers to monitor important trends and address risks assumed in the portfolio. It also recognizes the recent escalation of cyber security risk and consistently reviews and monitors best practices used to mitigate these risks.

The logo for the Idaho Department of Lands is a large, semi-transparent watermark centered on the page. It features a stylized mountain range in the background with a central diamond shape containing a sun and a river. Overlaid on this is a horizontal banner with the text "IDAHO DEPARTMENT OF LANDS" in white, uppercase letters.

IDAHO DEPARTMENT OF LANDS



State of Idaho Endowment Fund
IDAHO DEPARTMENT OF LANDS

*REPORT OF
INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020*

Administered by the Endowment Fund Investment Board



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INDEPENDENT AUDITORS' REPORT

Endowment Fund Investment Board
State of Idaho Endowment Funds
Boise, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Idaho Endowment Funds governmental fund and governmental activities administered by the Endowment Fund Investment Board (the EFIB), a component unit of the State of Idaho, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the State of Idaho Endowment Funds' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the State of Idaho Endowment Funds governmental fund and governmental activities as of June 30, 2021 and 2020, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-matter

As discussed in Note 1, the financial statements of The State of Idaho Endowment Funds are intended to present the financial position and the changes in financial position of The State of Idaho Endowment Funds. The financial statements do not purport to, and do not, represent the financial position or changes in financial position, of the State of Idaho as of June 30, 2021 and 2020. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Idaho Endowment Funds' basic financial statements. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules included on pages 41 through 44 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedules included on pages 45 and 46 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2021, on our consideration of State of Idaho Endowment Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of State of Idaho Endowment Funds' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering State of Idaho Endowment Funds' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boise, Idaho
August 18, 2021

The logo for the Idaho Department of Lands is a large, stylized diamond shape. It features a light green center with a yellow border, all set against a grey background. The text "IDAHO DEPARTMENT OF LANDS" is written in white, bold, capital letters across the middle of the diamond.

IDAHO DEPARTMENT OF LANDS

The Management Discussion and Analysis highlights the financial performance of the State of Idaho Land Grant Endowment Fund (“Endowment Fund”) for the fiscal years ended June 30, 2021, 2020 and 2019.

BACKGROUND

When Idaho became the 43rd state in 1890, the Congress of the United States endowed certain lands to be used to generate income for education and other important purposes. At statehood, 3.6 million acres of land were granted to the State of Idaho (“State”) and 2.4 million acres remain. Proceeds from the sale of land and income generated by the land have accumulated in the Endowment Fund which provides financial support for beneficiaries.

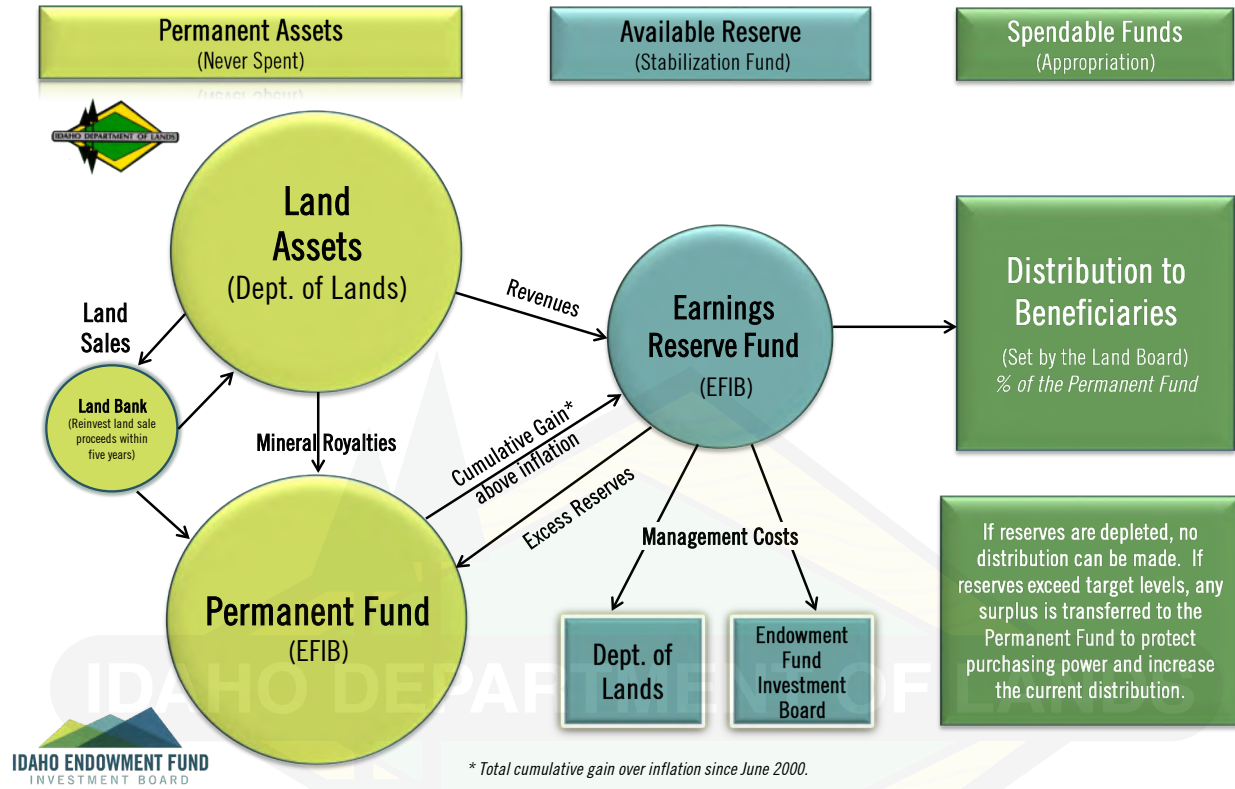
The Endowment Fund supports the following beneficiaries: Public Schools, University of Idaho Agricultural College, Charitable Institutions (Idaho State University, Juvenile Corrections Center, State Hospital North, Veterans’ Home, School for the Deaf and Blind), Normal School (Idaho State University, Lewis-Clark State College), Penitentiary, University of Idaho School of Science, State Hospital South, University of Idaho and the Capitol Permanent Fund.

The Endowment Fund Investment Board (“EFIB”) was created by the 1969 Idaho Legislature and charged with administration and investment management responsibilities for the Endowment Fund according to policies established by the Idaho State Board of Land Commissioners. In addition, EFIB provides investment management services for funds associated with other state agencies including SIF (formerly known as the State Insurance Fund), Idaho Department of Environmental Quality, Idaho Department of Fish and Game, Idaho State Parks & Recreation and the Idaho Department of Lands. Financial results related to non-Land Grant Endowment Funds are not included in these financial statements.

THE ENDOWMENT FUND STRUCTURE

The Endowment Fund is structured to include Permanent Funds and Earnings Reserve Funds for each beneficiary. The Permanent Funds are to remain intact and grow at least at the rate of inflation. Under legislation passed by the 1998 Idaho Legislature, Earnings Reserve Funds were established to pay distributions to beneficiaries and cover expenses for the Idaho Department of Lands and EFIB. Most land revenue is considered an addition to the Earnings Reserve Funds, while distributions to beneficiaries and payment of Idaho Department of Lands and EFIB expenses are depletions. Each June 30, the proportionate change in market value of the Endowment Fund portfolio is allocated to each endowment’s Earnings Reserve Fund and gains up to the rate of inflation to each endowment’s Permanent Fund. This allocation methodology is specified in Idaho Code Section 57-720 and reflected in the following table.

STRUCTURE OF IDAHO'S ENDOWMENT ASSETS

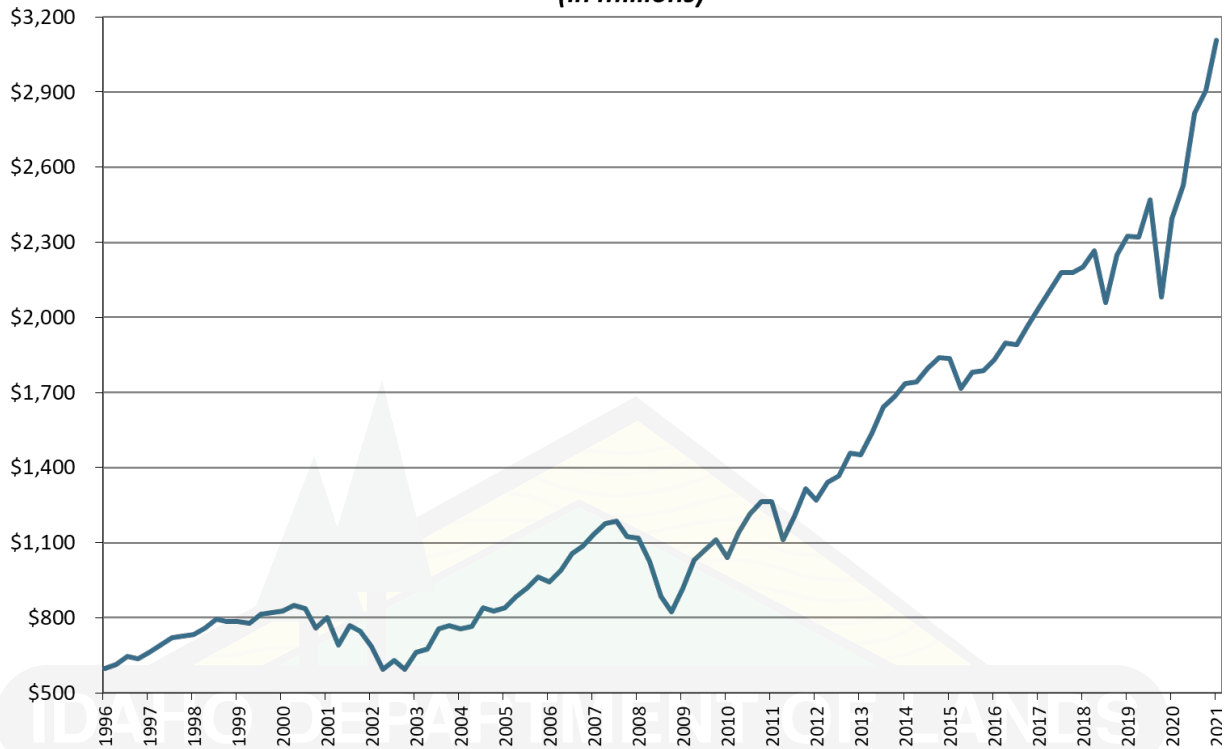


FINANCIAL HIGHLIGHTS:

CHANGES IN NET POSITION AND FUND BALANCE

Changes in the net position of the Endowment Fund are the result of investment gains or losses in the Endowment Fund portfolio, revenue generated from land assets, beneficiary distributions and Department of Lands and EFIB expenses. The Endowment Fund increased by \$711.6 million, \$72.2 million and \$122.5 million during the fiscal years ended June 30, 2021, 2020 and 2019, respectively. Net position and fund balance totaled \$3,108 million, \$2,396 million and \$2,324 million as of June 30, 2021, 2020 and 2019, respectively.

Total Land Grant Endowment Fund Assets
June 1996 - June 2021
(in millions)



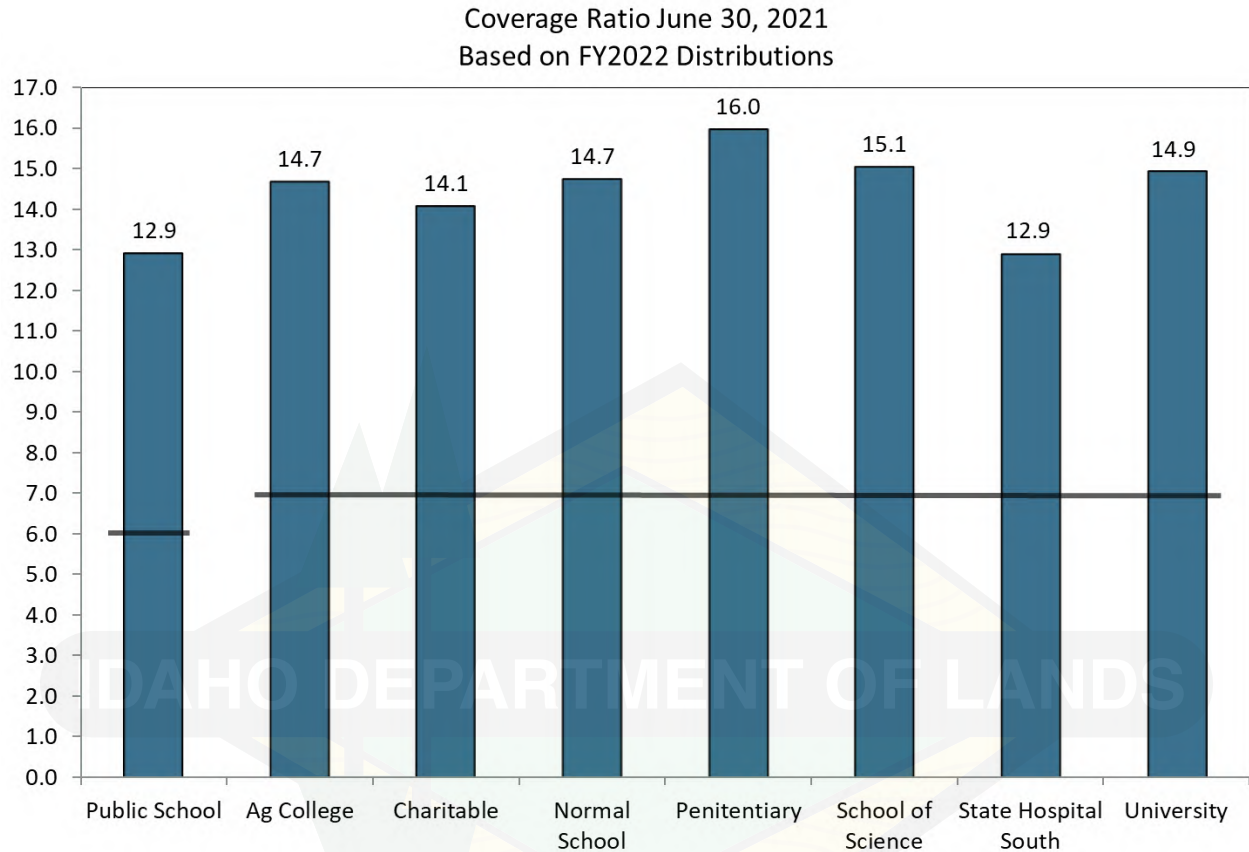
EARNINGS RESERVES

The Idaho State Board of Land Commissioners has established target earnings reserve levels for each of the Earnings Reserve Funds. The target earnings reserve levels equate to six years of beneficiary distributions for Public Schools and seven years of beneficiary distributions for Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and the University of Idaho. When earnings reserves exceed the target earnings reserve levels, excess amounts may be transferred from Earnings Reserve Funds into the corresponding Permanent Funds.

Total earnings reserve levels were \$1,198.8 million, \$589.3 million and \$604.6 million as of June 30, 2021, 2020 and 2019, respectively. As of June 30, 2021, the earnings reserve balances for all of the Endowment Funds were at or above target earnings reserve levels.

Earnings Reserves cont.:

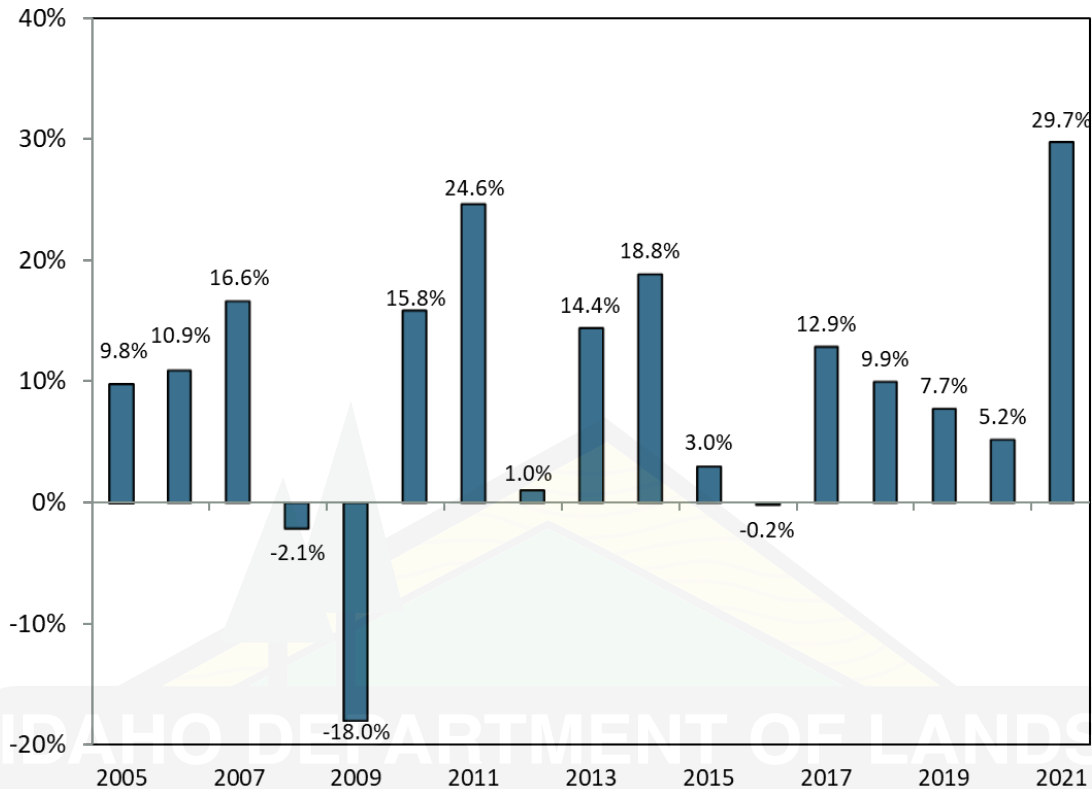
The table below highlights the earnings reserve levels of each Endowment Fund.



INVESTMENT RESULTS

The Endowment Fund portfolio generated investment returns before fees of 29.7%, 5.2% and 7.7% in fiscal years end June 30, 2021, 2020 and 2019, respectively. The average annual investment returns were 29.7%, 13.7%, 12.8%, and 9.9% during the last one, three, five and ten-year periods. These investment returns ranked in the top 15th, 4th, 7th and 11th percentile in the Callan Public Fund Sponsor Database for the one, three, five and ten-year periods.

Annual Gross Fund Returns



Annualized Gross Fund Returns, ending June 30, 2021

	FY 2021	3 Years	5 Years	7 Years	10 Years
Total Fund	29.7%	13.7%	12.8%	9.4%	9.9%
<i>Benchmark (38% Russell 3000, 19% ACWI ex-US, 9% ACWI, 8% ODCE, 26% BBC Aggregate)</i>	26.0%	12.3%	11.6%	8.8%	9.3%
Total Equity	45.4%	17.5%	17.1%	12.0%	12.5%
Domestic Equity	48.8%	18.8%	18.8%	14.0%	14.9%
Large Cap.	47.2%	18.9%	18.7%	14.2%	15.3%
Mid Cap.	49.7%	19.2%	18.3%	13.0%	13.9%
Small Cap.	55.4%	16.9%	19.4%	13.9%	14.2%
International Equity	41.1%	15.0%	14.4%	8.3%	7.3%
Global Equity	40.9%	17.9%	15.2%	9.6%	9.8%
<i>MSCI ACWI Index</i>	39.3%	14.6%	14.6%	9.8%	9.9%
Total Real Estate (net of fees)	1.8%	4.7%	5.4%		
<i>NCREIF ODCE Index</i>	2.3%	4.9%	6.2%		
Total Fixed Income	2.4%	5.6%	3.2%	3.3%	3.4%
<i>Fixed-Income Benchmark (85% BBC U.S. Aggregate, 15%</i>	0.7%	5.5%	3.2%	3.3%	3.4%

ASSET ALLOCATION

The target asset allocation for the Endowment Fund portfolio is 66% equity, 26% fixed income, and 8% real estate. The equity portion of the portfolio currently includes 38% U.S. equity, 19% international equity and 9% global equity. The fixed income portion of the portfolio includes 11% in the Bloomberg Barclay's Aggregate Index, 11% in an actively managed core plus strategies and 4% in Treasury Inflation Protected Securities. The real estate portion of the portfolio includes 4% in a core real estate strategy and 4% in a participating mortgage loan fund.

INVESTMENT MANAGEMENT

The EFIB engages the services of an investment consultant who acts as an independent fiduciary and provides advice in areas such as investment policies and guidelines, asset allocation strategies, portfolio risk/return modeling and hiring and monitoring of investment managers. Callan has served as EFIB's investment consultant since 2007. They were reappointed in 2019 after a national consultant search.

The EFIB engages investment managers who are given full discretion to make investment decisions subject to policies and guidelines specific to the investment strategy they are managing. As of June 30, 2021, the EFIB engaged eighteen investment managers including; Barrow Hanley, Boston Partners, Clearwater Advisors, DoubleLine Capital, DWS, Eagle Asset Management, Fiera Capital, LSV Asset Management, Northern Trust Investments, Sands Capital, Schroders, State Street Global Advisors, Sycamore/Victory Capital, TimesSquare Capital Management, UBS Realty Investors, WCM Investment Management, Wellington and Western Asset Management.

The EFIB engages Northern Trust Company for custodial services. Northern Trust Company is responsible for the safekeeping of assets, trade settlement, accounting, security valuation and proxy voting.

COST OF INVESTMENT MANAGEMENT

The cost for investment management was \$12.1 million, \$11.6 million and \$9.1 million in fiscal years 2021, 2020 and 2019, respectively. Investment management expenses as a percentage of year-end Endowment Fund net positions equates to 0.39%, 0.48% and 0.39% in fiscal years 2021, 2020 and 2019, respectively. The table below provides a breakdown of investment management expenses.

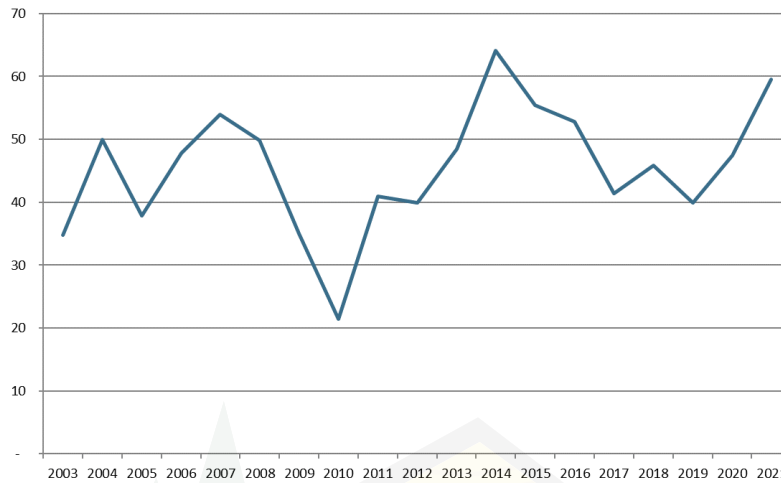
Cost of Investment Management

Investment Management Operating Cost	2021	2020	2019
Internal Investment Costs	\$ 523,664	\$ 534,709	\$ 511,841
Outside investment manager and legal fees	10,811,662	10,038,882	8,853,754
Custody Expense	932,146	1,184,565	826,571
Consultant and auditor fees	257,529	208,029	329,112
Subtotal	12,525,001	11,966,185	10,521,278
Less Manager fees charged directly	(1,006,707)	(995,343)	(925,337)
Total expenditures	11,518,294	10,970,842	9,595,941
Change in Manager Fee Accrual	535,488	571,476	(512,909)
Total Accrual Basis Expense	\$ 12,053,782	\$ 11,542,318	\$ 9,083,032

NET LAND REVENUE

Net land revenue (land revenue less Department of Lands expenses) totaled \$59.6 million, \$47.5 million and \$40.0 million in fiscal years 2021, 2020 and 2019, respectively. Net land revenue increased in fiscal 2020 due to greater timber harvest volumes. The decline in net land revenue since the peak in fiscal 2014 is the result of the sales of leased cabin sites located near Payette and Priest Lakes and lower timber prices. In May of 2021, the Land Board authorized the transfer of \$31,785,592 from the Land Bank to the Permanent Fund.

**Net Land Revenue for Earnings Reserves
 (in \$ millions)**



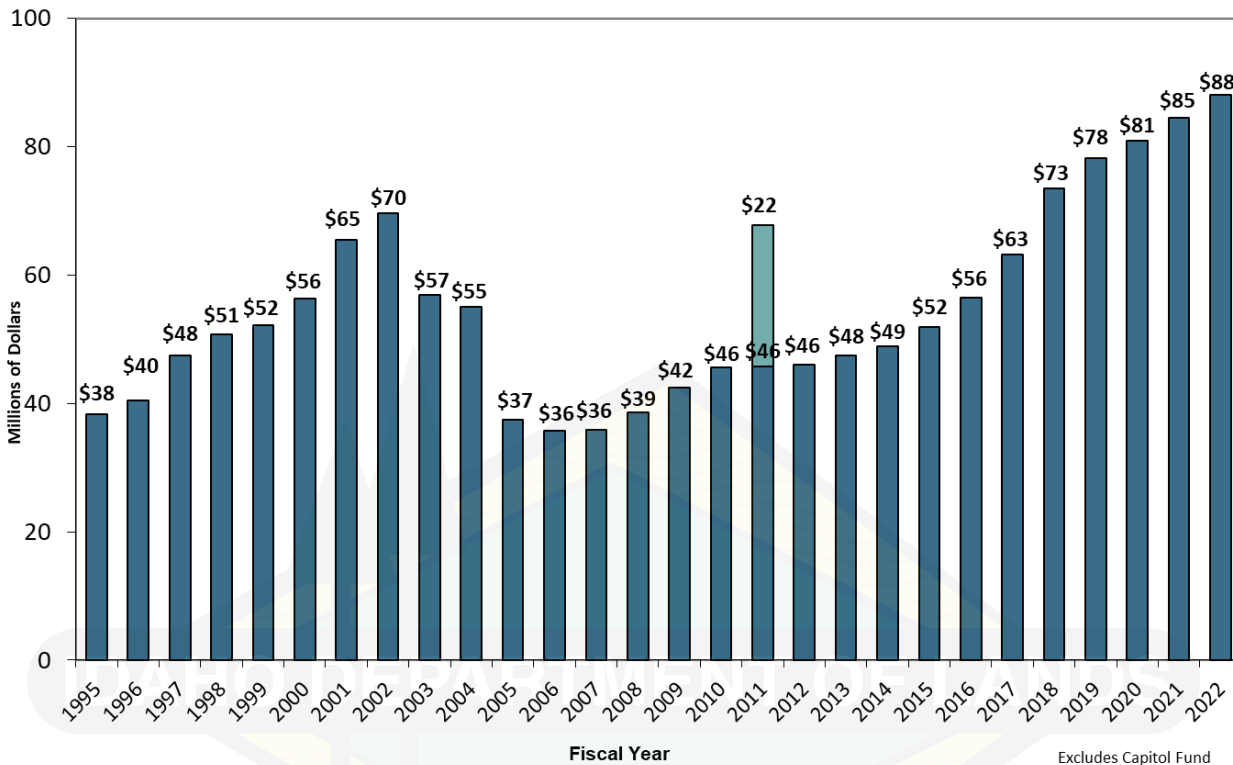
BENEFICIARY DISTRIBUTIONS

The Endowment Fund exists to provide distributions to beneficiaries in perpetuity. For all endowments, except Capitol Permanent, the Idaho State Board of Land Commissioners has established a beneficiary distribution policy. The current policy provides for annual distributions at a rate of 5% of the three-year moving average of the Permanent Fund balance (with the exception of State Hospital South which is 7%) and allows for adjustments to the distributions based on factors including the level of Earnings Reserve Funds and transfers to the Permanent Funds.

Distributions to land-grant beneficiaries totaled \$84.5 million, \$80.9 million and \$78.2 million in fiscal years 2021, 2020 and 2019, respectively. The Board of Land Commissioners approved distributions of \$88.1 million and \$100.3 million in fiscal years 2022 and 2023, respectively. The table below provides a summary of land-grant beneficiary distributions.

Beneficiary Distributions 1995-2022

(includes special Public School distribution in 2011 of \$22M)



On July 1, 2004, the Capitol Permanent Fund was pooled with the Endowment Fund for investment purposes. Additions to the Capitol Permanent Fund include revenue from timber lands, license plate royalties, and investment income. The EFIB authorizes distributions from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund. Distribution from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund totaled \$1.56 million, \$1.41 million and \$1.41 million in fiscal years 2021, 2020 and 2019, respectively. Distributions from the Capitol Maintenance Reserve Fund are determined by the Capitol Commission, subject to legislative appropriation. Distributions from the Capital Maintenance Reserve Fund to the Capitol Commission were \$2,450,000, \$325,000 and \$250,000 in fiscal years 2021, 2020 and 2019, respectively.

CREDIT ENHANCEMENT PROGRAM

On July 1, 2002, the State of Idaho's Credit Enhancement Program for school district bond financing was established. This program, in accordance with Idaho Code Section 57-728 and in conjunction with Idaho Code Chapter 53, Title 33, requires the Public School Endowment Fund

to purchase up to \$300 million in notes of the State that may be issued to avoid default on school district bonds. This credit enhancement allows eligible voter-approved school bonds to be issued with AAA ratings, which is above the State's AA+ rating. The enhanced credit rating results in lower borrowing costs for Idaho school districts. EFIB has committed to provide credit enhancement on up to \$1.2 billion in school bonds, with a limit of \$40 million per school district. There were \$608.1 million, \$618.9 million and \$655.4 million in bonds guaranteed by the Credit Enhancement Program as of June 30, 2021, 2020 and 2019, respectively.

RISKS

The COVID-19 pandemic is having significant effects on global financial markets, supply chains, businesses and communities and consequently may impact various parts of operations and financial results. Management believes appropriate actions have been taken to mitigate the negative impact, however, the full impact of COVID-19 is unknown and cannot be reasonably estimated as events associated with the Delta variant and are still developing.

The Endowment Fund is aware that macroeconomic and geopolitical risks broadly affect financial markets and it works closely with its consultant and investment managers to monitor important trends and address risks assumed in the portfolio. It also recognizes the recent escalation of cyber security risk and consistently reviews and monitors best practices used to mitigate these risks.

USING THIS ANNUAL REPORT

The annual report consists of the independent auditors' report, financial statements, notes to the financial statements and supplementary schedules. The financial statements, notes to the financial statements and supplementary schedules are prepared by the EFIB staff and are intended to give the reader a complete understanding of the Endowment Fund. The financial statements consist of the Governmental Balance Sheets and Statements of Net Position, the Governmental Statements of Revenues, Expenditures and Changes in Governmental Fund Balances and the Statements of Governmental Activities. The notes to the financial statements are an integral part of the financial statements and provide additional information on the Endowment Fund and its operations.

STATE OF IDAHO ENDOWMENT FUND
 GOVERNMENTAL BALANCE SHEETS AND STATEMENTS OF NET POSITION -
 GOVERNMENTAL ACTIVITIES
 JUNE 30, 2021 AND 2020



Assets:	2021	2020
Investments, at Fair Value	\$ 3,117,669,982	\$ 2,408,053,809
Receivable for Unsettled Trades	48,432,418	42,317,286
Receivable From Idaho Department of Lands	2,327,982	2,949,976
Accrued Interest and Dividends Receivable	6,715,855	5,009,368
Prepaid Expenses to the Department of Lands	7,141,576	2,270,227
Total Assets	<u>\$3,182,287,813</u>	<u>\$2,460,600,666</u>
 Liabilities:		
Payable for Unsettled Trades	\$ 71,605,011	\$ 62,013,517
Investment Manager Expenses Payable	2,840,242	2,304,755
Total Liabilities	<u>74,445,253</u>	<u>64,318,272</u>
 Fund Balances:		
Nonexpendable - Permanent Funds	1,909,079,493	1,806,951,268
Expendable - Earnings Reserve Funds	1,198,763,067	589,331,126
Total Fund Balances	<u>3,107,842,560</u>	<u>2,396,282,394</u>
 Total Liabilities and Fund Balances	<u>\$3,182,287,813</u>	<u>\$2,460,600,666</u>

The EFIB one liability that is not included in the Statement of Net Position, which makes it different from modified accrual to full accrual basis. The difference is the Lease payable that is required to be disclosed through GASB Statement No. 87. The Lease liability for 2021 and 2020 were \$76,667 and \$115,000, respectively. This liability is offset by a corresponding asset, Lease - Right to Use, and therefore not included in the Statement of Net Position.

Statement of Net Position:		
Restricted for Permanent Trust - Nonexpendable	\$ 1,909,079,493	\$ 1,806,951,268
Restricted for Permanent Trust - Expendable	1,198,763,067	589,331,126
Total Net Position - Governmental Activities	<u>\$ 3,107,842,560</u>	<u>\$ 2,396,282,394</u>

See Notes to Financial Statements

STATE OF IDAHO ENDOWMENT FUND
 GOVERNMENTAL STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
 GOVERNMENTAL FUND BALANCES AND STATEMENTS OF GOVERNMENTAL ACTIVITIES
 FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020



Revenues:	2021	2020
Receipts from the Department of Lands		
Permanent Receipts	\$ 34,401,055	\$ 3,060,341
Earnings Reserve Receipts	86,471,855	75,906,052
Income from Investments	716,607,386	114,486,770
Total Revenues	837,480,296	193,453,163
 Expenditures:		
Department of Lands	26,895,548	28,442,563
EFIB	12,053,782	11,542,318
Total Expenditures	38,949,330	39,984,881
 Revenues over Expenditures	798,530,966	153,468,282
 Other Financing Uses		
Distributions to Beneficiaries	86,970,800	81,243,000
Net Increase in Fund Balance	711,560,166	72,225,282
 Fund Balance - Beginning of Year	2,396,282,394	2,324,057,112
Fund Balance - End of Year	\$3,107,842,560	\$ 2,396,282,394

There were no expenses which require the use of current financial resources. The amount for the Change in Net Position (shown below) is the same amount as shown above in the Governmental Statement of Revenues, Expenditures and Changes in Governmental Fund Balances. The EFIB expense amount does reflect the cost of principal and interest for the Lease Payable and the Right of Use under GASB 87. For FY 2021 and 2020, the principal paid was \$38,334, and \$38,334, the interest paid was \$8,812, and \$7,439, respectively.

Change in Net Position - Government Activities	\$ 711,560,166	\$ 72,225,282
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See Notes to Financial Statements

NOTE 1 - GENERAL DESCRIPTION OF THE FUND

The Endowment Fund Investment Board (the EFIB) is charged with administration and investment management responsibilities for the State of Idaho Endowment Fund (the “Endowment Fund”), which is comprised of Permanent and Earnings Reserve Funds for beneficiaries including Public School, Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and University of Idaho Endowment Funds, as well as the Capitol Permanent Fund and Capitol Maintenance Reserve Fund.

The Endowment Fund is part of the State of Idaho’s financial reporting and is included in the State’s Comprehensive Annual Financial Report (CAFR). The Endowment Fund is invested according to investment policies recommended by the EFIB Board and established by the Idaho State Board of Land Commissioners.

The EFIB has no control over assets held by the Idaho Department of Lands (IDL); therefore, the EFIB gives accounting recognition only when transactions related to endowment land assets are completed by IDL.

Endowment Fund Investment Reform Legislation

On July 1, 2000, the EFIB significantly changed operations and reporting of the Endowment Fund, under legislation enacted by the Idaho Legislature in 1998.

The legislation provides that:

- (1) The EFIB, as trustees, will control, manage and invest the Endowment Fund according to policies established by the Idaho State Board of Land Commissioners.
- (2) The application of the Uniform Prudent Investor Act replaces the previous, more restrictive, investment criteria.
- (3) An Earnings Reserve Fund was established to create a buffer to preserve the Permanent Fund balances.
- (4) Administrative costs are to be paid from earnings of the Endowment Fund instead of from annual General Fund appropriations.
- (5) Distributions to beneficiaries are determined by the Idaho State Board of Land Commissioners and are to be paid from the Earnings Reserve Funds, which include investment earnings, net capital gains and certain receipts from IDL.

In March 2004, legislation was enacted which establishes an objective that the Permanent Funds of each endowment grow from June 2000 levels at least at the cumulative rate of inflation plus deposits. Further, it provides that any income and market appreciation of the Permanent Funds can only be transferred to the Earnings Reserve Funds if that objective has been achieved.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The financial statements reflect the assets of the Endowment Fund and are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

The Endowment Fund is part of the State of Idaho reporting entity based on certain GASB criteria. These statements present only the Endowment Fund and are not intended to present the financial position and results of operations of the State of Idaho in conformity with generally accepted accounting principles in the United States of America.

Basis of Presentation

The Endowment Fund is accounted for and reported as a Permanent Fund as defined by GASB and uses the modified accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenditures are recognized when they are incurred. The statement of net position and the statement of activities display information about the Endowment Fund and includes the financial activity of the overall reporting entity. These statements report all activities of the Endowment Fund as a governmental type activity. Given the type of assets and liabilities held by Endowment Fund, there are no adjustments required to convert from modified accrual basis to full accrual basis as required by GASB.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

According to policies established by the State Board of Land Commissioners, the EFIB is authorized to invest the Endowment Fund in certain fixed income, real estate and equity investments as defined by the investment policy of the EFIB and consistent with Idaho Code Section 57-723. This section states in part, "The EFIB and its investment manager(s) or custodian(s) shall be governed by the Idaho Uniform Prudent Investor Act (Chapter 5, Title 68, Idaho Code), and shall invest and manage the assets of the respective trusts in accordance with that act and the Idaho constitution." In accordance with this code section, the EFIB's investment policy, specifies that the Endowment Funds may be invested in equities (61% to 71% of the investment portfolio, with a target of 66%), fixed income (23% to 29% of the investment portfolio, with a target of 26%), and real estate (6% to 10% of the investment portfolio, with a target of 8%).

The following is a list of investments by asset class allowed by the general investment policy:

- (1) Cash Equivalents: Treasury bills; money market funds; STIF funds; commercial paper; banker's acceptances; repurchase agreements; certificates of deposit.
- (2) Fixed Income: U.S. government and agency securities; bank loans; corporate notes and bonds; residential mortgage backed bonds; commercial mortgage backed bonds; municipal bonds, infrastructure securities, USD and non-USD fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other "early tranche" CMO's; Sequential pay CMO's; collateralized loan obligations, asset backed securities; convertible notes and bonds; Securities defined under Rule 144A and Section 4(2) of Securities Act of 1933; or any other fixed income securities eligible for inclusion in the Bloomberg Barclays U.S. TIPS Index or Bloomberg Barclays Aggregate Bond Index.
- (3) Equities: Common stocks; convertible preferred stocks; preferred stocks; REITS; American depository receipts (ADRs); stocks of non-U.S. companies (ordinary shares).
- (4) Real Estate: Domestic, private, open-end, core comingled funds, REITS.
- (5) ETFs, Mutual Funds and Collective Funds which invest in securities as allowed in this statement or as permitted in Investment Manager Guidelines. Investment managers will advise the MOI of their intent to utilize ETFs prior to their purchase, what specific ETFs they intend to use and the purposes they serve.
- (6) Futures, Options and Swaps: The EFIB may use financial index futures and options in order to adjust the overall effective asset allocation of the entire portfolio or it may use swaps, futures or options to hedge interest rate or currency exposure. For example, S&P 500 and 10-Year Treasury futures may be used to equitize idle cash and to passively rebalance the portfolio. Futures and options positions are not to be used for speculation, and the EFIB must specifically approve the program for each type of use. Derivative exposure must have sufficient cash, cash equivalents, offsetting derivatives or other liquid assets to cover such exposures. Investment securities are stated at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date. Purchase and sale transactions are recorded on the trade date.
- (7) Derivative securities: Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, and interest rate swaps, among others. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. Unless a specific type of derivative security is allowed in the Investment Manager Guidelines, the Investment Manager(s) must seek written permission from the EFIB to include derivative investments

in the Fund's portfolio. The Investment Manager(s) must present detailed written information as to the expected return and risk characteristics of such investment vehicles.

(8) Investment securities are stated at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date. Purchase and sale transactions are recorded on the trade date.

In fiscal years 2021 and 2020, the EFIB utilized equity and fixed income index futures for cash equitization and passive rebalancing. Index futures obligate the buyer to purchase an asset (or the seller to sell an asset) at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset and are standardized to facilitate trading on a futures exchange.

The table below summarizes the various contracts in the portfolio as of June 30, 2021. The notional value of these instruments is not recorded in the financial statements.

Derivatives	Expiration Date	Contracts	Notional Value	Unrealized Gain/(Loss)	Required Margin
10-Year Treasury	Sept. 2021	411	\$54,497,739	\$289,862	\$1,105,303
Swaps	Various	22	\$70,881,021	\$1,125,281	
Equity Contracts	Various	1	7,427	\$0	
Foreign Exchange Cont	Various	54	8,354,005	\$385,472	

The table below summarizes the various contracts in the portfolio as of June 30, 2020. The notional value of these instruments is not recorded in the financial statements.

Derivatives	Expiration Date	Contracts	Notional Value	Unrealized Gain/(Loss)	Required Margin
10-Year Treasury	Sept. 2020	249	\$34,645,158	\$74,157	\$655,160
Swaps	Various	21	\$76,846,619	(\$1,387,482)	
Equity Contracts	Various	2	12,255	\$2,059	
Foreign Exchange Cont	Various	57	-	(\$63,961)	

Expendable and Nonexpendable Net Position

The net position of the Earnings Reserve Funds is the expendable assets of the Endowment Fund. These expendable assets are used for distributions to beneficiaries and distributions for expenses of the EFIB and the IDL. The net position of the Permanent Funds is the nonexpendable assets.

Income from Investments

Income from investments is recognized when earned and includes interest, dividends, other income, and market appreciation (realized and unrealized). Income from investments is allocated and distributed to each fund participating in the investment pool in the same ratio that each fund's average daily balance bears to the total daily balance of all funds. Income from investments is recorded on an accrual basis.

Within each endowment, income from investments is further allocated to its Permanent Fund and Earnings Reserve Fund in accordance with Idaho Code Sections 57-723A and 57-724A. The definition of "income" to be allocated depends on whether or not the Permanent Fund portion of an endowment fund has exceeded, at the end of the fiscal year, its "Gain Benchmark" as defined in statute.

The Gain Benchmark, as specified in Idaho Code Section 57-724, represents the desired or targeted value of principal or corpus in each endowment fund (excluding Capitol Permanent). It is determined by starting with the balance at June 30, 2000, and adding deposits (mainly extracted minerals from endowment land), the annual impact of inflation (based on the Consumer Price Index – All Urban (CPI)), and certain reinvested income (transfers from Earnings Reserve designated by the Land Board as a permanent increase in corpus). The level of the Gain Benchmark determines whether income from investments in the Permanent Fund should be retained to offset inflation and previous losses or is eligible to be transferred to the Earnings Reserve as distributable income. The Permanent Funds at the end of FY2021 and 2020 were at the gain benchmark.

Losses in Principal of the Permanent Funds

At the end of each fiscal year, the EFIB is required to calculate whether the market values of the Permanent Funds are below the principal or Loss Benchmark level as defined in statute (June 30, 2000 value adjusted for deposits – primarily revenues from extracted minerals and proceeds of land sales).

A loss in principal of the Public School Permanent Fund is made up as follows:

- (1) The State Board of Land Commissioners may transfer any funds in the Public School Earnings Reserve Fund that they determine will not be needed for administrative costs or scheduled distributions in the following fiscal year to the Public School Permanent Fund, to make up for any prior losses in value.
- (2) If funds transferred from the Earnings Reserve Fund are insufficient to make up all losses in value to the Public School Permanent Fund, the remaining loss shall be made up, within ten years, by legislative transfer or appropriation. If subsequent gains, as determined pursuant to the statute, or transfers from the Earnings Reserve Fund, make up for any remaining loss before this ten-year period expires, then no legislative transfer or appropriation shall be necessary.

A loss in principal of the Permanent Funds other than the Public School Permanent or Capitol Permanent Funds shall be made up from Earnings Reserve Fund monies that the State Board of Land Commissioners determines will not be needed for administrative costs or scheduled distributions to each endowment's respective beneficiary.

Federal law requires that losses to the Agricultural College fund must be made up by the State, but the requirement to restore losses to that endowment has not been established in statute.

There is no statutory requirement to make up losses or calculate a Gain or Loss Benchmark in the Capitol Permanent Fund.

Distributions to Beneficiaries

With the exception of the Capitol Funds, distributions to the other eight beneficiaries are authorized annually by the State Board of Land Commissioners and are made in equal installments on approximately the 10th of each month. Distributions to the Capitol Maintenance Reserve Fund from the Capitol Permanent Fund are authorized by the EFIB and distributed in July of each fiscal year. Distributions from the Capitol Maintenance Reserve Fund are authorized by the Capitol Commission.

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to or deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, see Note 10.

Other

Investments have risks that the other parties to securities transactions do not fulfill their contractual obligations. The EFIB attempts to minimize such risks by diversifying the portfolio investments, monitoring investment grade and quality, and purchasing primarily investment grade fixed income securities.

The EFIB does not intend to use market timing as an investment strategy. However, the investment policy provides the flexibility for tactical asset allocation using capitalizations, investment styles, sectors, and other factors.

NOTE 3 - INVESTMENTS

Investments at June 30, 2021 and 2020:

Fund Investments	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Barrow, Hanley	\$ 39,369,636	\$ 63,693,476	\$ 42,463,241	\$ 46,436,271
Boston Partners	110,293,234	153,702,774	113,094,586	118,151,212
Clearwater Advisors	1,773,500	1,773,500	1,540,684	1,540,684
DoubleLine Capital - Core Plus	171,994,662	173,660,108	135,910,122	138,149,707
Eagle Asset Management	46,734,973	69,938,505	37,240,569	52,002,733
Fiera Capital Global	86,198,904	146,027,509	84,829,166	106,959,666
Lazard Asset Management	260	260	-	-
LSV Asset Management	106,477,023	150,477,512	112,929,311	114,966,087
NTGIS & P 500 Index	165,675,084	360,350,820	162,567,912	264,402,846
Northern Trust Money Market Fund*	13,988,385	13,988,385	20,200,616	20,200,616
RREEF America REIT II IN	91,438,249	103,910,932	89,707,056	99,067,100
Sands Capital Management	94,938,404	169,960,114	65,941,117	128,396,676
Schroders QEP International Value	231,454,462	261,321,013	218,290,702	199,165,688
State Street Global Advisors	414,750,037	433,663,884	291,220,134	313,271,066
State Street EAFE Index Funds	4,448	4,448	-	-
Sycamore Capital Mid Cap	92,405,031	116,838,687	92,447,423	84,583,243
Times Square Capital Management	88,247,501	124,968,491	69,450,029	92,441,331
UBS Trumbull Property	90,757,522	98,485,369	88,431,611	92,327,684
Vanguard Dev Market Index Fund	48,804,594	62,506,649	47,253,029	46,014,661
WCM Focused Growth	149,989,430	270,627,184	148,422,796	225,746,902
Wellington Global	119,517,522	143,695,182	95,657,919	108,096,742
Western Asset Management - US Core	166,876,357	174,902,588	132,029,563	136,436,663
Total Fund Investments	2,331,689,218	3,094,497,390	2,049,627,586	2,388,357,578
Pending Trades:				
Receivable for Investments Sold	(48,432,418)	(48,432,418)	(42,317,286)	(42,317,286)
Payable for Investments Purchased	71,605,011	71,605,011	62,013,517	62,013,517
Total Net Investments	\$ 2,354,861,810	\$ 3,117,669,982	\$ 2,069,323,816	\$ 2,408,053,809

*This is cash that is not allocated to an investment manager

CUSTODIAL CREDIT RISK - The EFIB minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to EFIB ownership and further to the extent possible, be held in the EFIB's name. At June 30, 2021, all Endowment Fund investments were insured or registered investments, or investments held by the EFIB or their agent in the EFIB's name.

The State Treasurer, per the State Constitution, is the custodian of the investments of the Public School Endowment Fund. Investments for the Endowment Fund are held under a safekeeping agreement with the Trust Department of the Northern Trust Company.

CONCENTRATION OF CREDIT RISK – The EFIB minimizes exposure to concentration of credit risk by establishing concentration of credit risk limits in investment manager portfolio guidelines. As of June 30, 2021 and 2020, the Endowment Fund did not hold any credit positions exceeding 5% of the total portfolio, other than securities issued or guaranteed by the United States government.

As of June 30, 2021 and 2020, the Endowment Funds held \$82.3 million and \$64.0 million, respectively, in a comingled Treasury-only money market fund rated AAAM by S&P with a modified adjusted duration of 0.1 years. These balances as of June 30, 2021 and 2020, include \$20.0 million and \$7.7 million of general cash and \$62.3 million and \$56.3 million of cash held in accounts allocated to the Funds' bond and equity managers, respectively.

As of June 30, 2021 and 2020, the Endowment Fund's fixed income investments had the following characteristics:

Credit Ratings Summary by Market Value-Moody's
 As of June 30, 2021

Investment Type	Modified Duration	Aaa	Aa	A	Baa	Ba	B	>B	Agy	NR/Not Available	Total
Asset Backed Securities	3.4	\$ 634,598	\$ 557,342	\$ 887,041	\$ 16,727,126	\$ -	\$ 2,059,074	\$ 5,202,441	\$ -	\$ 1,587,164	\$ 27,654,786
Commercial Mortgage-Backed	4.5	4,100,776	832,798	11,850,948	752,120	121,352	1,456,371	-	-	1,874,057	20,988,422
Corporate Bonds	7.9	2,529,872	10,723,126	59,478,117	87,573,730	11,657,856	4,311,568	1,700,990	-	3,850,159	181,825,418
Corporate Convertible Bonds	3.7	-	-	-	54,040	-	193,964	-	-	198,671	446,675
Funds - Corporate Bond	3.8	-	11,846,050	-	-	-	-	-	-	-	11,846,050
Funds - Government Agencies	7.0	-	-	-	-	-	-	-	8,455,481	-	8,455,481
Funds - Other Fixed Income	2.0	342,914	-	-	199,211	1,833,019	30,079,719	222,031	-	81,711	32,758,605
Government Agencies	4.6	10,034,763	1,356,973	746,391	-	594,955	-	-	352,422	139,278	13,224,781
Government Bonds	8.0	177,312,240	1,405,749	1,999,948	15,522,069	1,980,446	405,119	-	3,935,614	892,540	203,453,726
Government Mortgage Backed Secur	4.3	-	-	-	91,385	-	-	-	128,742,710	179,219	129,013,314
Gov't-issued Commercial Mortgage-B	5.9	-	-	-	-	-	-	-	3,146,659	-	3,146,659
Index Linked Government Bonds	5.0	118,513,322	-	-	-	-	-	-	-	-	118,513,322
Municipal/Provincial Bonds	9.4	412,664	1,827,743	307,763	224,268	-	-	-	-	463,315	3,235,752
Non-Government Backed C.M.O.s	4.0	-	-	7,266,981	-	-	-	-	3,886,535	812,819	11,966,336
Total		\$ 313,881,149	\$ 28,549,781	\$ 82,537,189	\$ 121,143,949	\$ 16,187,628	\$ 38,505,815	\$ 11,011,997	\$ 144,632,886	\$ 10,078,933	\$ 766,529,327

Credit Ratings Summary by Market Value-Moody's
 As of June 30, 2020

Investment Type	Modified Duration	Aaa	Aa	A	Baa	Ba	B	>B	Agy	NR/Not Available	Total
Asset Backed Securities	3.1	\$ 388,584	\$ 811,300	\$ 1,211,381	\$ 1,934,519	\$ 358,141	\$ 767,446	\$ 2,133,235	\$ 2,989,384	\$ 1,963,820	\$ 12,557,810
Commercial Mortgage-Backed	4.3	4,092,248	1,375,276	1,139,577	854,954	407,506	2,548,295	2,580,569	-	886,499	13,884,924
Corporate Bonds	8.0	2,026,339	10,107,567	54,163,854	65,931,512	9,314,517	3,479,704	2,785,027	-	782,193	148,590,713
Corporate Convertible Bonds	4.4	-	-	-	54,897	179,805	-	-	-	-	234,702
Funds - Corporate Bond	0.5	-	10,998,824	-	-	-	-	-	-	-	10,998,824
Funds - Government Agencies	1.0	-	-	-	-	-	-	-	10,214,925	-	10,214,925
Funds - Other Fixed Income	0.5	164,780	-	-	221,289	4,177,444	16,334,935	286,346	-	45,113	21,229,907
Government Agencies	4.1	6,146,887	650,424	576,946	-	121,223	-	-	283,517	310,596	8,089,592
Government Bonds	8.8	119,958,590	1,211,866	1,397,829	11,316,463	1,066,205	192,597	309,437	3,254,364	-	138,707,352
Government Mortgage Backed Securities	2.6	2,249,965	-	-	-	-	-	-	100,644,598	302,115	103,196,678
Gov't-issued Commercial Mortgage-Backed	6.0	-	-	-	-	-	-	-	2,453,352	-	2,453,352
Index Linked Government Bonds	7.5	89,568,241	-	-	-	-	-	-	-	-	89,568,241
Municipal/Provincial Bonds	10.7	90,628	1,448,903	301,302	192,536	-	-	-	-	190,164	2,223,532
Non-Government Backed C.M.O.s	3.6	-	-	-	-	-	-	3,457,458	-	7,221,421	10,678,880
Total		\$ 224,686,262	\$ 26,604,160	\$ 58,790,889	\$ 80,506,170	\$ 15,624,841	\$ 23,322,977	\$ 11,552,072	\$ 119,840,140	\$ 11,701,921	\$ 572,629,432

*The Ba column includes bonds that are split rate and meet the minimum requirement of one of the two ratings agencies specified in the EFIB Statement of Investment Policy.

CREDIT RISK - EFIB Investment policy limits fixed income securities to: U.S. government and agency securities; bank loans; corporate notes and bonds; residential mortgage backed bonds; commercial mortgage backed bonds; municipal bonds, infrastructure securities, USD and non-USD fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other “early tranche” CMO’s; Sequential pay CMO’s; collateralized loan obligations, asset backed securities; convertible notes and bonds; Securities defined under Rule 144A and Section 4(2) of Securities Act of 1933; or any other fixed income securities eligible for inclusion in the Bloomberg Barclays U.S. TIPS Index or Bloomberg Barclays Aggregate Bond Index.

INTEREST RATE RISK - Managers will provide EFIB with the expected portfolio duration in their portfolio guidelines. If the duration of the portfolio differs from expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.



IDAHO DEPARTMENT OF LANDS

FOREIGN CURRENCY RISKS – The EFIB’s Investment Policy Statement permits investments in international equities. The Endowment Fund’s exposure to foreign currency risk is as follows:

Investment and Country	Currency	2021 Fair Value	2020 Fair Value
Equities and Cash			
Argentina	ARS	\$ 78,982	\$ 107,267
Australia	AUD	16,156,726	18,096,544
Brazil	BRL	8,585,547	3,276,350
Canada	CAD	20,080,705	14,854,535
Chile	CLP	285,859	429,692
Chinese Yuan	CNY	(2,716,323)	(2,498,903)
Chinese Yuan (HK)	CNH	530,655	1,967,522
Czech Republic	CZK	193,145	322,237
Denmark	DKK	12,779,517	10,032,263
European Monetary Union	EUR	96,455,042	71,499,752
Great Britain	GBP	58,199,470	46,940,642
Hong Kong	HKD	57,610,838	39,343,160
Hungary	HUF	579,395	884,677
India	INR	237,737	234,095
Indonesia	IDR	2,990,765	2,975,439
Israel	ILS	565,447	490,869
Japan	JPY	74,146,943	57,851,564
Malaysia	MYR	1,088,224	1,130,763
Mexico	MXN	6,429,800	9,411,791
New Zealand	NZD	285,827	278,735
Norway	NOK	3,904,709	2,051,759
Philippines	PHP	36,196	26,931
Poland	PLN	1,927,002	1,972,608
Russia	RUB	3,860,543	1,861,284
Singapore	SGD	1,865,961	3,056,288
South Africa	ZAR	2,390,829	2,678,500
South Korea	KRW	18,489,283	9,088,669
Sweden	SEK	17,037,300	8,272,639
Switzerland	CHF	54,491,984	43,026,067
Taiwan	TWD	19,215,670	11,474,015
Thailand	THB	2,121,509	3,170,077
Turkey	TRY	2,251,170	1,777,183
Total Fund Investments		\$ 482,156,456	\$ 366,085,013

NOTE 4 – INCOME FROM INVESTMENTS

Per Idaho Code Section 57-724A, income distributed to the Earnings Reserve Fund includes the Permanent Fund’s total cumulative income (interest, dividends and market appreciation/depreciation) above its Gain Benchmark (original principal, adjusted for deposits and inflation). The Permanent Fund retains any income to the extent of inflation and any cumulative losses carried forward from the previous year.

The Components of income from investments for Fiscal Year 2021 and their allocation are shown below:

Permanent Fund Income
 For the Fiscal Year Ended June 30, 2021

Endowment	Net Increase in Fair Value	Income Retained to Offset Inflation or Losses *	Cap Perm Fund Interest and Dividends	Total Investment Income
Public School	\$ -	\$ 25,890,301	\$ -	\$ 25,890,301
Agricultural College	-	755,708	-	755,708
Charitable	-	2,883,380	-	2,883,380
Normal School	-	2,651,556	-	2,651,556
Penitentiary	-	1,280,585	-	1,280,585
School of Science	-	2,759,334	-	2,759,334
State Hospital South	-	2,175,312	-	2,175,312
University of Idaho	-	2,411,282	-	2,411,282
Capitol Permanent **	8,989,347	-	807,266	9,796,613
Total	\$ 8,989,347	\$ 40,807,458	\$ 807,266	\$ 50,604,070

* For all Permanent funds (except Capitol Permanent), any cumulative total income vs. the Gain Benchmark is allocated to the Earnings Reserve Fund as part of Allocation of Permanent Fund Gain in the table below.

**The Capitol Permanent Fund retains its interest and dividends.

Earnings Reserve Fund Income
 For the Fiscal Year Ended June 30, 2021

Endowment	Net Increase in Fair Value	Interest, Dividends and Other Income	Allocation of Permanent Fund Gain *	Total Investment Gain
Public School	\$ 90,136,525	\$ 36,003,209	\$ 281,947,172	\$ 408,086,906
Agricultural College	3,282,747	1,160,340	8,866,554	13,309,641
Charitable	11,757,057	4,174,909	31,519,666	47,451,632
Normal School	10,420,410	3,778,140	31,679,626	45,878,177
Penitentiary	6,200,882	1,861,194	13,658,819	21,720,895
School of Science	12,051,876	3,926,701	29,440,604	45,419,181
State Hospital South	11,997,304	3,438,697	26,182,982	41,618,983
University of Idaho	10,613,967	3,472,558	26,064,126	40,150,650
Capitol Maintenance **	2,148,176	219,075	-	2,367,251
Total	\$ 158,608,945	\$ 58,034,823	\$ 449,359,548	\$ 666,003,316

* All Endowments (except Capitol Permanent), are allocated the Permanent Fund's total cumulative income over the Gain Benchmark.

**The Capitol Maintenance Fund retains its proportionate share of interest and dividends and the net increase or decrease in fair value.

The Components of income from investments for Fiscal Year 2020 and their allocation are shown below:

Permanent Fund Income
 For the Fiscal Year Ended June 30, 2020

Endowment	Net Increase in Fair Value	Income Retained to Offset Inflation or Losses *	Cap Perm Fund Interest and Dividends	Total Investment Income
Public School	\$ -	\$ 16,709,233	\$ -	\$ 16,709,233
Agricultural College	-	501,073	-	501,073
Charitable	-	1,905,391	-	1,905,391
Normal School	-	1,719,274	-	1,719,274
Penitentiary	-	807,560	-	807,560
School of Science	-	1,738,350	-	1,738,350
State Hospital South	-	1,455,075	-	1,455,075
University of Idaho	-	1,543,442	-	1,543,442
Capitol Permanent	973,756	-	639,967	1,613,723
Total	\$ 973,756	\$ 26,379,399	\$ 639,967	\$ 27,993,122

* For all Permanent funds (except Capitol Permanent), any cumulative total income vs. the Gain Benchmark is allocated to the Earning Reserve Fund as part of Allocation of Permanent Fund Gain in the table below).

**The Capitol Permanent Fund retains its interest and dividends.

Earnings Reserve Fund Income
 For the Fiscal Year Ended June 30, 2020

Endowment	Net Increase in Fair Value	Interest, Dividends and Other Income	Allocation of Permanent Fund Gain *	Total Investment Gain
Public School	\$ 9,283,622	\$ 28,109,424	\$ 15,936,884	\$ 53,329,929
Agricultural College	405,606	880,444	451,435	1,737,486
Charitable	1,269,213	3,272,673	1,729,067	6,270,953
Normal School	1,052,844	2,957,650	1,623,943	5,634,437
Penitentiary	515,736	1,427,590	807,738	2,751,064
School of Science	1,099,168	3,058,144	1,742,256	5,899,569
State Hospital South	1,250,323	2,706,807	1,286,356	5,243,486
University of Idaho	1,016,188	2,684,659	1,497,390	5,198,237
Capitol Maintenance	254,962	173,525	-	428,487
Total	\$ 16,147,662	\$ 45,270,916	\$ 25,075,070	\$ 86,493,648

* All Endowments (except Capitol Permanent), are allocated the Permanent Fund's total cumulative income over

**The Capitol Maintenance Fund retains its proportionate share of interest and dividends and the net increase or

The components of Interest, Dividends and Other Income are shown below:

Income From Investments	2021	2020
Interest, Other Income and Fees	\$ 30,710,163	\$ 17,248,224
Dividends	28,134,908	28,662,659
Total	\$ 58,845,071	\$ 45,910,883

NOTE 5 – CLIENT EXPENSES

Four clients, representing twelve additional perpetual funds in Fiscal Year 2021 and eleven funds in Fiscal Year 2020, are included in the same comingled investment pool as the Endowment Fund and their assets totaled \$186 million and \$144 million as of June 30, 2021 and 2020, respectively. These balances are not included in the EFIB financial statements.

In fiscal year 2021, expenses of the EFIB were paid from the Earnings Reserve Funds and by the EFIB’s other clients. The portions paid by the other clients were paid under investment management contracts and are not considered an expenditure of the Endowment Funds and are therefore not included as expenditures or as reimbursements in these financial statements. Total expenses were \$696,243 and \$623,655 for the fiscal years ended June 30, 2021 and 2020, respectively.

NOTE 6 – BENEFICIARY DISTRIBUTIONS

Distributions to beneficiaries for the Fiscal Years ended June 30, 2021 and 2020 are shown below.

Total Fund Distributions		
Beneficiary	2021	2020
Public School	\$ 52,586,400	51,260,000
Agricultural College	1,551,600	1,466,000
Charitable Institutions	5,991,600	5,754,000
Normal School	5,334,000	4,946,000
Penitentiary	2,500,800	2,247,000
School of Science	5,420,400	4,930,000
State Hospital South	6,369,600	5,955,000
University of Idaho	4,766,400	4,360,000
Subtotal	<u>84,520,800</u>	<u>80,918,000</u>
Capitol Maintenance	2,450,000	325,000
Total Distributions	<u>\$ 86,970,800</u>	<u>\$ 81,243,000</u>

Pursuant to Idaho Code Section 66-1106, the Charitable Institutions Endowment Fund income is distributed to five institutions according to the factors shown below. Distributions to these sharing institutions for the years ended June 30, 2021 and 2020, were as follows:

Charitable Institutions			
Beneficiaries	Factor	2021 Distribution	2020 Distribution
Idaho State University Fund	8/30	\$ 1,597,760	\$ 1,534,400
State Juvenile Corrections Institutions	8/30	1,597,760	1,534,400
School for the Deaf and Blind Fund	1/30	199,720	191,800
Veterans Home Fund	5/30	998,600	959,000
State Hospital North Fund	8/30	1,597,760	1,534,400
Total		<u>\$ 5,991,600</u>	<u>\$ 5,754,000</u>

Pursuant to Idaho Code Section 33-3301B, the Normal School Endowment Fund Income is distributed to the two institutions shown below. Distributions to these sharing institutions for the years ended June 30, 2021 and 2020:

Normal School			
Beneficiaries	%	2021 Distribution	2020 Distribution
Idaho State University, Pocatello	50%	\$ 2,667,000	\$ 2,473,000
Lewis-C lark State College, Lewiston	50%	2,667,000	2,473,000
Total		<u>\$ 5,334,000</u>	<u>\$ 4,946,000</u>

NOTE 7 – CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICT BONDS

On July 1, 2002, the State of Idaho’s Credit Enhancement Program for school district bonds became effective. This program, in accordance with Idaho Code Section 57-728 and in conjunction with Idaho Code Chapter 53, Title 33, currently requires the Public School Endowment Fund to purchase up to \$300 million in notes of the State of Idaho that are issued to avoid the default of a voter-approved school district bond that has been guaranteed by the program.

The capacity of the School Bond Credit Enhancement Program to guaranty payments on general obligation school bonds is \$300 million and the bond principal that can be guaranteed is \$1.2 billion. The maximum available to any one district for bond principal is \$40 million.

As of June 30, 2021, \$608.1 million of bonds guaranteed by the Credit Enhancement Program remained outstanding. Expected principal and interest payments in the coming year total \$46.3 million. As of June 30, 2020, \$618.9 million of bonds guaranteed by the Credit Enhancement Program remained outstanding.

The Public School Endowment Fund would only be required to loan monies to the State to make payments on school bonds after several other potential funding sources have been exhausted. If a school district does not make timely prepayment of debt service on guaranteed bonds, the State Treasurer is required to make the payment, if possible, by intercepting monies due to that school district from the State, including General Fund payments and distributions from the Public School Endowment Fund. If these funds are not sufficient to meet the debt service payment, the State Treasurer is required to utilize any available funds from the state sales tax account. If all these sources prove insufficient to make the payment, the Treasurer may borrow the remaining amount from the Public School Endowment Fund, at a rate of 400 basis points above one-year Treasury Bills. This loan from the Endowment Fund would be repaid by the intercept of future state funds due to the school district and other sources.

Since July 2009, the EFIB has charged an application fee to offset administrative costs and a guaranty fee that is deposited in the Public School Endowment Fund for providing the ongoing credit enhancement. Application fees for fiscal year 2021 totaled \$3,000 and guaranty fees, included in Income from Investments, totaled \$17,326. Application fees for fiscal year 2020 totaled \$1,000 and guaranty fees, included in Income from Investments, totaled \$4,435.

NOTE 8 – BUDGETARY COMPARISON

Budgets are adopted on a cash basis for the Endowment Fund. The budget for administrative expenses (personnel, operating and capital outlay) from the Earnings Reserve Funds is approved by the legislature on an annual basis. Expenses for consulting fees, bank custodial fees, and portfolio-related external costs are continually appropriated by the Idaho Legislature on an annual basis. The EFIB is not required by law to adopt or publish an overall budget for operations.

NOTE 9 – MISCELLANEOUS REVENUE

By law, certain miscellaneous State revenue is required to be deposited in the Public School Permanent Fund:

- Unclaimed estates, dividends and stock certificates from Idaho corporations (Idaho Constitution Section 4 Article IX)
- Five percent of federal land sales, net of sale expenses (Section 7 of the Idaho Admission Bill)
- Anonymous political contributions in excess of \$50 (Idaho Code Section 67-6610)
- Unqualified election expenses of political parties paid from state income tax funds (Idaho Code Section 34-2505)
- Royalties arising from extraction of minerals from navigable waterways (Idaho Code Section 58-104)

In fiscal year 2021, the Public School Permanent Fund received \$104,060 representing the net proceeds from the sale of federal land in Idaho. Also, in fiscal 2021, the Public School Permanent Fund received \$150 representing a donation, and \$52,496 from 2 unclaimed estate properties.

In fiscal year 2020, the Public School Permanent Fund received \$69,233 representing the net proceeds from the sale of federal land in Idaho. Also, in fiscal 2020, the Public School Permanent Fund received \$230 representing a donation from an unclaimed estate property.

These miscellaneous revenues are included in Receipts from the Department of Lands.

The Capitol Maintenance Reserve Fund receives a portion of the additional fees charged for the special Idaho Capitol vehicle license plate (Idaho Code Section 49-420A). In fiscal 2021 and 2020, this revenue totaled \$136,502 and \$95,885, respectively and is included in Receipts from Department of Lands.

NOTE 10 – PENSION AND OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The EFIB contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the PERSI Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority

to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) if current rates are actuarially determined to be inadequate or in excess to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate. As of June 30, 2021 and 2020, the rate was 6.79%. The employer contribution rate is set by the Retirement Board and was of covered compensation. The EFIB’s contributions were \$48,782 and \$48,282, for the fiscal years ended June 30, 2021 and 2020, respectively.

The EFIB portion of the net pension liability was calculated and determined to be immaterial to the financial statements and the EFIB has no legal obligation to fund this shortfall. The EFIB has determined to not include the net pension liability and associated deferred inflow and outflow of resources on its financial statements. The EFIB’s proportionate share of the net pension liability can be found on the PERSI website.

NOTE 11 – LEASES

The EFIB implemented GASB Statement No. 87 – Leases for FY2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. These amounts are disclosed in the Governmental Balance Sheets and Statements of Net Position – Governmental Activities, which are offset and noted that these are payable in a modified accrual basis. The EFIB entered into a 10 year lease for office space effective 7/1/2014 and expires on 6/30/2024. The current net present value of that lease is \$76,667. This amount is based on a 3% discount rate over the life of the lease. For FY2021 and FY2020, the principal paid was \$38,334, \$38,334, the interest paid was \$8,812, and \$7,439 respectively.

Year Ending	Principal	Interest	
6/30	Payments	Payments	Total
2022	\$ 38,334	\$ 10,226	\$ 48,560
2023	38,333	11,683	50,016
	<u>\$ 76,667</u>	<u>\$ 21,909</u>	<u>\$ 98,576</u>

NOTE 12 – LAND BANK

The Land Bank Fund was established under Idaho Code Section 58-133 to allow the State Board of Land Commissioners to hold proceeds from the sale of state endowment land pending the purchase of other Idaho land for the benefit of the beneficiaries of that endowment. These proceeds may be held for a period not to exceed five years from the effective date of the sale. Funds in the Land Bank are invested in the State Treasurer’s Idle Pool and any investment earnings are added to the original proceeds. Land Bank Fund assets are not included in the balances of the Endowment Funds since they are being held primarily for purchase of land that will be managed by IDL. The authority to acquire land using Land Bank assets rests with the State Board of Land Commissioners.

As of June 30, 2021 and 2020, the Land Bank Fund balances were \$111.4 million and \$130.8 million, respectively. During fiscal year 2021, \$31.8 million was transferred out of the fund to the Permanent Funds in the endowment by direction of the Land Board. The Land Bank balances by endowment, as of June 30, 2021 were as follows:

FY Quarter Received	Land Bank As of June 30, 2021				Total	FY Quarter Expires
	Public School	Normal School	State Hospital South	University of Idaho		
2018-01	-	3,331,000	4,439,000	-	7,770,000	2023-01
2018-02	27,869,832	-	125,500	-	27,995,332	2023-02
2018-03	-	2,000,712	829,888	5,650,029	8,480,629	2023-03
2018-04	10,500	0	0	-	10,500	2023-04
2019-01	-	2,428,000	1,442,000	-	3,870,000	2024-01
2019-02	25,136,124	0	0	-	25,136,124	2024-02
2019-03	-	-	-	-	-	2024-03
2019-04	-	0	0	-	-	2024-04
2020-01	-	2,582,500	1,670,000	-	4,252,500	2025-01
2020-02	12,793,400	-	-	-	12,793,400	2025-02
2020-03	866,000	-	-	-	866,000	2025-03
2020-04	52,134	-	-	-	52,134	2025-04
2021-01	5,159,720	-	-	-	5,159,720	2026-01
2021-02	6,595,000	-	-	-	6,595,000	2026-02
Total Principal Remaining	78,482,710	10,342,212	8,506,388	5,650,029	102,981,339	
Interest	5,310,346	1,372,543	1,408,208	299,788	8,390,885	
Land Bank Cash Balance with Interest	<u>\$ 83,793,056</u>	<u>\$ 11,714,755</u>	<u>\$ 9,914,596</u>	<u>\$ 5,949,817</u>	<u>\$ 111,372,225</u>	

These balances relate to land sales made in fiscal years 2018, 2019, 2020 and 2021. If by the end of the fifth year, the proceeds from a land sale have not been spent or encumbered to purchase other land within the State, the proceeds are deposited in the Permanent Fund along with accumulated investment earnings.

NOTE 13 - INVESTMENTS MEASURED AT FAIR VALUE

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair market value measurement. There were no Level 3 assets to report.

Investments Measured at Fair Value
 Investments by Fair Value Level

	Fair Value Measurements Using 6/30/2021 (value before accruals)			
	Total Investments	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt Securities				
Asset Backed Securities	\$ 27,654,786	\$ -	\$ 27,654,786	\$ -
Commercial Mortgage-Backed	20,988,422	-	20,988,422	-
Corporate Bonds	181,825,419	-	181,825,419	-
Corporate Bond Fund	446,675	-	446,675	-
Corporate Convertible Bonds	11,846,050	-	11,846,050	-
Government Agencies	8,455,481	-	8,455,481	-
Government Agencies Fund	32,758,605	-	32,758,605	-
Government Bonds	13,224,781	-	13,224,781	-
Government Mortgage Backed Securities	203,453,725	-	203,453,725	-
Govt-issued Commercial Mortgage-Back	129,013,314	-	129,013,314	-
Index Linked Government Bonds	3,146,659	-	3,146,659	-
Municipal/Provincial Bonds	118,513,322	-	118,513,322	-
Non-Government Backed C.M.O.s	3,235,753	-	3,235,753	-
Other Fixed Income Fund	11,966,335	-	11,966,335	-
Total Debt Securities	766,529,327	-	766,529,327	-
Preferred Stock Securities				
Consumer Discretionary	1,103,112	1,103,112	-	-
Consumer Staples	702,859	702,859	-	-
Health Care	104,987	104,987	-	-
Total Preferred Stock Securities	1,910,958	1,910,958	-	-
Equity Securities				
Communication Services	175,410,608	175,410,608	-	-
Consumer Discretionary	259,099,514	259,099,514	-	-
Consumer Staples	101,829,684	101,829,684	-	-
Energy	57,583,928	57,583,928	-	-
Financials	245,558,791	245,558,791	-	-
Health Care	290,152,885	290,152,885	-	-
Industrials	278,943,614	278,943,614	-	-
Information Technology	439,060,942	439,060,942	-	-
Materials	95,190,819	95,190,819	-	-
Other	4,043	4,043	-	-
Real Estate	33,193,566	33,193,566	-	-
Utilities	25,104,498	25,104,498	-	-
Common Stock Fund	66,092,255	66,092,255	-	-
Equity ETFs	1,475,455	1,475,455	-	-
Total Equity Securities	2,068,700,602	2,068,700,602	-	-
Derivatives				
Futures Contracts	273,854	273,854	-	-
Exchange Cleared Swaps	1,122,304	1,122,304	-	-
Swaps	2,977	2,977	-	-
Foreign Exchange Contracts	401,480	401,480	-	-
Total Derivatives	1,800,615	1,800,615	-	-
Total Investments by Fair Value Level	\$ 2,838,941,502	\$ 2,072,412,175	\$ 766,529,327	\$ -
Investments Measured at amortized cost				
Money Market Fund	76,332,179			
Investments Measured at the Net Asset Value (NAV)				
Real Estate (private)	202,396,301			
Total Investments	<u>\$ 3,117,669,982</u>			

Investments Measured at Fair Value
 Investments by Fair Value Level

	Fair Value Measurements Using 6/30/2020 (value before accruals)			
	Total Investments	Quoted Prices in Active Markets for Identical (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt Securities				
Asset Backed Securities	\$ 12,557,810	\$ -	\$ 12,557,810	\$ -
Commercial Mortgage-Backed	13,884,924	-	13,884,924	-
Corporate Bonds	148,590,713	-	148,590,713	-
Corporate Bond Fund	234,702	-	234,702	-
Corporate Convertible Bonds	10,998,824	-	10,998,824	-
Government Agencies	10,214,925	-	10,214,925	-
Government Agencies Fund	21,229,907	-	21,229,907	-
Government Bonds	8,089,592	-	8,089,592	-
Government Mortgage Backed Securities	138,707,352	-	138,707,352	-
Govt-issued Commercial Mortgage-Back	103,196,678	-	103,196,678	-
Index Linked Government Bonds	2,453,352	-	2,453,352	-
Municipal/Provincial Bonds	89,568,241	-	89,568,241	-
Non-Government Backed C.M.O.s	2,223,532	-	2,223,532	-
Other Fixed Income Fund	10,678,880	-	10,678,880	-
Total Debt Securities	572,629,432	-	572,629,432	-
Preferred Stock Securities				
Consumer Discretionary	187,359	187,359	-	-
Financials	276,114	276,114	-	-
Total Preferred Stock Securities	463,473	463,473	-	-
Equity Securities				
Communication Services	135,548,311	135,548,311	-	-
Consumer Discretionary	181,195,359	181,195,359	-	-
Consumer Staples	86,064,369	86,064,369	-	-
Energy	36,778,543	36,778,543	-	-
Financials	189,247,405	189,247,405	-	-
Health Care	243,482,159	243,482,159	-	-
Industrials	181,614,627	181,614,627	-	-
Information Technology	334,239,956	334,239,956	-	-
Materials	74,901,488	74,901,488	-	-
Other	302,811	302,811	-	-
Real Estate	27,539,258	27,539,258	-	-
Utilities	22,374,911	22,374,911	-	-
Common Stock Fund	48,618,466	48,618,466	-	-
Equity ETFs	683,299	683,299	-	-
Total Equity Securities	1,562,590,962	1,562,590,962	-	-
Derivatives				
Futures Contracts	74,157	74,157	-	-
Exchange Cleared Swaps	(1,459,330)	(1,459,330)	-	-
Swaps	71,848	71,848	-	-
Equity Contracts	2,059	2,059	-	-
Foreign Exchange Contracts	(63,961)	(63,961)	-	-
Total Derivatives	(1,375,227)	(1,375,227)	-	-
Total Investments by Fair Value Level	\$ 2,134,308,640	\$ 1,561,679,208	\$ 572,629,432	\$ -
Investments Measured at amortized cost				
Money Market Fund	82,350,386			
Investments Measured at the Net Asset Value (NAV)				
Real Estate (private)	191,394,784			
Total Investments	<u>\$ 2,408,053,809</u>			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is described below.

NET ASSET VALUE (NAV)

Real estate investment fund - This type includes two real estate funds; UBS TPI and DB RAR II invest primarily in U.S. commercial real estate. Net Asset Value (NAV) is determined in accordance with accounting principles generally accepted in the United States, NCREIF Real Estate Information Standards, and market-based accounting rules where appropriate and applicable. Net Asset Value (NAV) is based on the fund's gross asset value less the value of any debt or other outstanding liabilities, whether held directly or indirectly through another entity or entities, anticipated distributions and similar items, as determined by the Advisor at its discretion.

Investments Measured at the NAV for 2021:

Investments Measured at the NAV 6/30/2021				
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<i>Real Estate Funds</i>				
UBS TPI	\$ 98,485,369	-	Quarterly	60 Days
DB RAR II	103,910,932	47,167,854	Quarterly	45 days
Total Investments measured at the NAV	<u>\$ 202,396,301</u>			

Investments Measured at the NAV for 2020:

Investments Measured at the NAV 6/30/2020				
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<i>Real Estate Funds</i>				
UBS TPI	\$ 92,327,684	-	Quarterly	60 Days
DB RAR II	99,067,100	-	Quarterly	45 days
Total Investments measured at the NAV	<u>\$ 191,394,784</u>			

NOTE 14 - COMMITMENTS

For endowments other than the Capitol Funds, the Board of Land Commissioners has approved, and the legislature has appropriated, the following distributions to beneficiaries for FY 2022.

	FY 2022
Public School	\$ 54,798,000
Agricultural College	1,660,000
Charitable Institutions	6,179,000
Normal School	5,487,500
Penitentiary	2,689,500
School of Science	5,735,500
State Hospital South	6,425,000
University of Idaho	5,102,000
Total	<u>\$ 88,076,500</u>

The EFIB authorizes distributions from the Capitol Permanent Fund to the Capitol Maintenance Reserve Fund, effective July 1 of each fiscal year. For fiscal year 2022, the EFIB authorized a regular distribution of \$1,637,400 based on approximately 5% of the Capitol Permanent Fund balance.

NOTE 15 - SUBSEQUENT EVENTS

On August 17, 2021, the Board of Land Commissioners approved beneficiary distributions for fiscal year 2023. Fiscal year 2023 beneficiary distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2022 session.

<u>Beneficiaries</u>	<i>Distributions Proposed</i> FY 2023
Public School	\$ 61,532,200
Agricultural College	1,927,500
Charitable Institutions	7,008,000
Normal School	6,568,700
Penitentiary	3,139,600
School of Science	6,672,700
State Hospital South	7,586,400
University of Idaho	5,879,900
Total	<u>\$ 100,315,000</u>

On July 20, 2021, the Board of Land Commissioners approved a transfer of \$4,021,508 from the Land Bank, which represents the total interest that must be transferred to comply with statute. On August 17, 2021, the Board of Land Commissioners also approved a \$486,409,000 transfer from Earnings Reserve Funds into Permanent Funds, effective September 1, 2021.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Endowment Fund Investment Board
State of Idaho Endowment Funds
Boise, Idaho

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the EFIB), a component unit of the State of Idaho, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the State of Idaho Endowment Funds' basic financial statements, and have issued our report thereon dated August 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the State of Idaho Endowment Funds' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Idaho Endowment Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Idaho Endowment Funds' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Idaho Endowment Funds’ financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

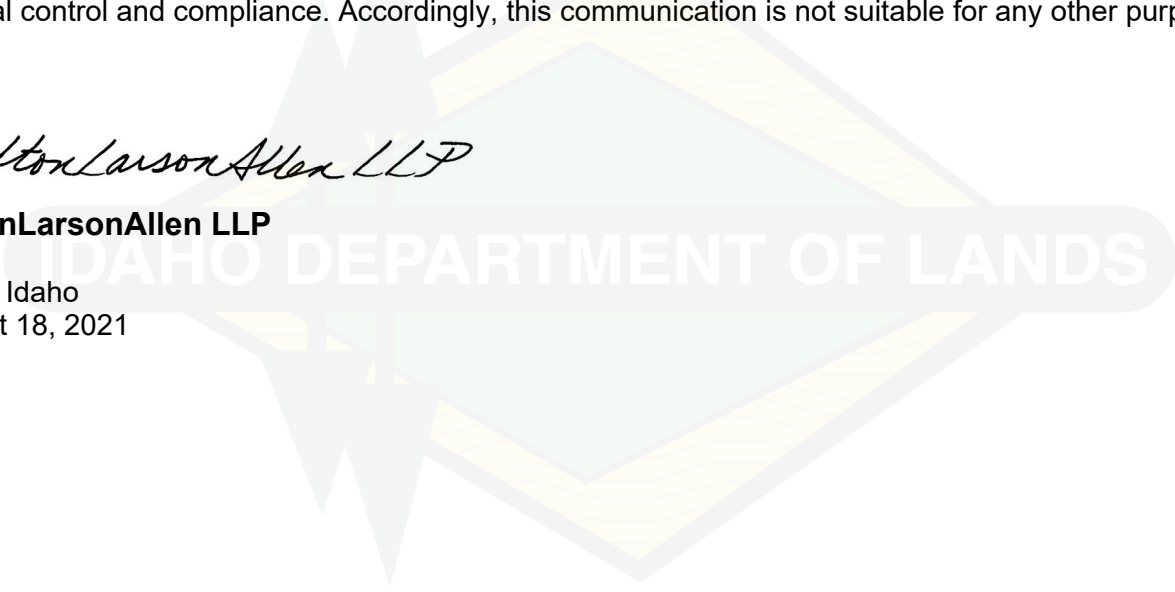
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Idaho Endowment Funds’ internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boise, Idaho
August 18, 2021





IDAHO ENDOWMENT FUND

INVESTMENT BOARD

IDAHO DEPARTMENT OF LANDS

Supplementary Schedules

STATE OF IDAHO ENDOWMENT FUND
 SUPPLEMENTARY SCHEDULE OF STATEMENT OF NET POSITION BY ENDOWMENT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021



	Public School	Agricultural College	Charitable Institutions	Normal School
PERMANENT NET POSITION				
Permanent Net Position, beginning of year	\$ 1,124,833,127	\$ 32,832,571	\$ 125,271,671	\$ 115,199,821
Program Revenues:				
Receipts from Dept. of Lands	10,264,378	3,914	47,525	12,677,693
Income from Investments	25,890,301	755,708	2,883,379	2,651,556
Total Program Revenue	36,154,680	759,622	2,930,904	15,329,249
Transfer to Earnings Reserve	-	-	-	-
Transfer from Earnings Reserve	11,551,000	3,005,000	2,827,000	1,000
Increase in Net Position	47,705,680	3,764,622	5,757,904	15,330,249
Permanent Net Position, end of year	1,172,538,806	36,597,193	131,029,575	130,530,070
EARNINGS RESERVE NET POSITION				
Earnings Reserve Net Position, beginning of year	340,339,241	14,624,757	46,079,826	38,414,004
Program Revenues:				
Receipts from Dept. of Lands	50,180,207	1,568,063	4,623,857	4,078,958
Income from Investments	408,086,906	13,309,641	47,451,632	45,878,177
Total Program Revenues	458,267,113	14,877,704	52,075,488	49,957,135
Program Expenses:				
Distribution for Expenses-Lands	19,266,537	331,038	1,411,975	1,346,688
Distribution for Expenses-EFIB	7,373,660	237,780	854,738	774,946
Distributions to Beneficiaries	52,586,400	1,551,600	5,991,600	5,334,000
Total Program Expenses	79,226,597	2,120,418	8,258,313	7,455,634
Net Program Revenue	379,040,516	12,757,286	43,817,175	42,501,501
Transfer to Permanent Fund	(11,551,000)	(3,005,000)	(2,827,000)	(1,000)
Transfer from Permanent Fund	-	-	-	-
Increase/(Decrease) in Net Position	367,489,516	9,752,286	40,990,175	42,500,501
Earnings Reserve Net Position, end of year	707,828,757	24,377,043	87,070,001	80,914,505
TOTAL NET POSITION	\$ 1,880,367,563	\$ 60,974,236	\$ 218,099,576	\$ 211,444,575

STATE OF IDAHO ENDOWMENT FUND
 SUPPLEMENTARY SCHEDULE OF STATEMENT OF NET POSITION BY ENDOWMENT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021



Penitentiary	School of Science	State Hospital South	University of Idaho	Capitol	Total
\$ 55,636,442	\$ 119,882,355	\$ 94,508,877	\$ 104,759,964	\$ 34,026,440	\$ 1,806,951,268
7,601	54,591	11,119,521	13,666	212,166	34,401,055
1,280,585	2,759,334	2,175,312	2,411,282	9,796,613	50,604,070
1,288,186	2,813,925	13,294,833	2,424,948	10,008,779	85,005,125
-	-	-	-	(1,561,900)	(1,561,900)
3,000	3,000	2,000	1,293,000	-	18,685,000
1,291,186	2,816,925	13,296,833	3,717,948	8,446,879	102,128,225
56,927,628	122,699,280	107,805,710	108,477,912	42,473,319	1,909,079,493
18,829,349	40,151,063	44,977,025	37,006,577	8,909,285	589,331,126
5,965,711	8,393,196	4,680,509	6,844,852	136,502	86,471,855
21,720,895	45,419,181	41,618,983	40,150,650	2,367,251	666,003,316
27,686,606	53,812,378	46,299,492	46,995,502	2,503,753	752,475,171
675,591	1,352,070	1,331,034	1,018,602	162,013	26,895,548
379,504	804,056	705,435	710,548	213,115	12,053,782
2,500,800	5,420,400	6,369,600	4,766,400	2,450,000	86,970,800
3,555,895	7,576,526	8,406,069	6,495,550	2,825,128	125,920,130
24,130,712	46,235,851	37,893,423	40,499,952	(321,375)	626,555,041
(3,000)	(3,000)	(2,000)	(1,293,000)	-	(18,685,000)
-	-	-	-	1,561,900	1,561,900
24,127,712	46,232,851	37,891,423	39,206,952	1,240,525	609,431,941
42,957,060	86,383,914	82,868,448	76,213,528	10,149,810	1,198,763,067
\$ 99,884,688	\$ 209,083,195	\$ 190,674,158	\$ 184,691,440	\$ 52,623,129	\$ 3,107,842,560

STATE OF IDAHO ENDOWMENT FUND
 SUPPLEMENTARY SCHEDULE OF STATEMENT OF NET POSITION BY ENDOWMENT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020



	Public School	Agricultural College	Charitable Institutions	Normal School
PERMANENT NET POSITION				
Permanent Net Position, beginning of year	\$ 1,068,216,995	\$ 32,033,498	\$ 121,811,144	\$ 109,912,760
Program Revenues:				
Receipts from Dept. of Lands	2,215,899	-	24,136	21,787
Income from Investments	16,709,233	501,073	1,905,391	1,719,274
Total Program Revenue	18,925,132	501,073	1,929,528	1,741,061
Transfer to Earnings Reserve	-	-	-	-
Transfer from Earnings Reserve	37,691,000	298,000	1,531,000	3,546,000
Increase in Net Position	56,616,132	799,073	3,460,528	5,287,061
Permanent Net Position, end of year	1,124,833,127	32,832,571	125,271,671	115,199,821
EARNINGS RESERVE NET POSITION				
Earnings Reserve Net Position, beginning of year	353,209,008	11,158,803	43,472,540	40,884,451
Program Revenues:				
Receipts from Dept. of Lands	49,915,577	4,076,344	5,960,176	2,832,841
Income from Investments	53,329,929	1,737,486	6,270,953	5,634,437
Total Program Revenues	103,245,506	5,813,830	12,231,129	8,467,278
Program Expenses:				
Distribution for Expenses-Lands	20,096,551	364,207	1,516,289	1,702,039
Distribution for Expenses-EFIB	7,067,723	219,670	822,554	743,686
Distributions to Beneficiaries	51,260,000	1,466,000	5,754,000	4,946,000
Total Program Expenses	78,424,273	2,049,877	8,092,843	7,391,725
Net Program Revenue	24,821,233	3,763,953	4,138,286	1,075,553
Transfer to Permanent Fund	(37,691,000)	(298,000)	(1,531,000)	(3,546,000)
Transfer from Permanent Fund	-	-	-	-
Increase/(Decrease) in Net Position	(12,869,767)	3,465,953	2,607,286	(2,470,447)
Earnings Reserve Net Position, end of year	340,339,241	14,624,756	46,079,826	38,414,004
TOTAL NET POSITION	\$ 1,465,172,367	\$ 47,457,327	\$ 171,351,497	\$ 153,613,825

STATE OF IDAHO ENDOWMENT FUND
 SUPPLEMENTARY SCHEDULE OF STATEMENT OF NET POSITION BY ENDOWMENT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020



Penitentiary	School of Science	State Hospital South	University of Idaho	Capitol	Total
\$ 51,627,123	\$ 111,132,328	\$ 93,022,547	\$ 98,671,862	\$ 33,075,848	\$ 1,719,504,105
759	42,676	2,255	6,660	746,169	3,060,341
807,560	1,738,350	1,455,075	1,543,442	1,613,723	27,993,122
808,319	1,781,027	1,457,330	1,550,102	2,359,892	31,053,463
-	-	-	-	(1,409,300)	(1,409,300)
3,201,000	6,969,000	29,000	4,538,000	-	57,803,000
4,009,319	8,750,027	1,486,330	6,088,102	950,592	87,447,163
55,636,442	119,882,355	94,508,877	104,759,964	34,026,440	1,806,951,268
20,706,467	44,911,424	44,615,842	37,903,053	7,691,419	604,553,007
1,880,876	3,577,628	3,114,735	4,454,990	92,885	75,906,052
2,751,064	5,899,569	5,243,486	5,198,237	428,487	86,493,648
4,631,939	9,477,196	8,358,221	9,653,227	521,372	162,399,700
701,397	1,569,026	1,331,250	977,750	184,054	28,442,563
359,661	769,532	681,788	673,953	203,753	11,542,319
2,247,000	4,930,000	5,955,000	4,360,000	325,000	81,243,000
3,308,058	7,268,558	7,968,038	6,011,703	712,807	121,227,881
1,323,881	2,208,639	390,183	3,641,524	(191,434)	41,171,818
(3,201,000)	(6,969,000)	(29,000)	(4,538,000)	-	(57,803,000)
-	-	-	-	1,409,300	1,409,300
(1,877,119)	(4,760,361)	361,183	(896,476)	1,217,866	(15,221,882)
18,829,349	40,151,063	44,977,025	37,006,577	8,909,285	589,331,126
\$ 74,465,791	\$ 160,033,418	\$ 139,485,902	\$ 141,766,541	\$ 42,935,725	\$ 2,396,282,394

STATE OF IDAHO ENDOWMENT FUNDS
 SCHEDULE OF THE GAIN BENCHMARK
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021



<i>Endowment</i>	<i>Fiscal Year</i>	<i>Beginning Benchmark</i>	<i>Deposits</i>	<i>Reinvested Income</i>	<i>Inflation Impact</i>	<i>Ending Benchmark</i>
Public School	2001-2020	555,954,750	66,678,816	196,326,000	305,873,561	1,124,833,127
	2021	1,124,833,127	10,264,378	11,551,000	25,890,301	1,172,538,806
Agricultural College	2001-2020	14,787,041	58,187	9,638,000	8,349,343	32,832,571
	2021	32,832,571	3,914	3,005,000	755,708	36,597,193
Charitable Institutions	2001-2020	54,513,960	349,859	39,307,000	31,100,852	125,271,671
	2021	125,271,671	47,524	2,827,000	2,883,380	131,029,575
Normal School	2001-2020	47,258,942	12,132,802	28,655,000	27,153,077	115,199,821
	2021	115,199,821	12,677,693	1,000	2,651,556	130,530,070
Penitentiary	2001-2020	18,258,289	26,987	26,200,000	11,151,166	55,636,442
	2021	55,636,442	7,601	3,000	1,280,585	56,927,628
School of Science	2001-2020	54,836,451	363,956	34,729,000	29,952,948	119,882,355
	2021	119,882,355	54,591	3,000	2,759,334	122,699,280
State Hospital South	2001-2020	23,442,162	16,412,713	37,195,000	17,459,002	94,508,877
	2021	94,508,877	11,119,521	2,000	2,175,312	107,805,710
University	2001-2020	42,442,536	283,355	37,877,000	24,157,093	104,759,984
	2021	104,759,984	13,666	1,293,000	2,411,262	108,477,912

STATE OF IDAHO ENDOWMENT FUNDS
 SCHEDULE OF THE GAIN BENCHMARK
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020



<i>Endowment</i>	<i>Fiscal Year</i>	<i>Beginning Benchmark</i>	<i>Deposits</i>	<i>Reinvested Income</i>	<i>Inflation Impact</i>	<i>Ending Benchmark</i>
Public School	2001-2019	555,954,750	64,462,917	158,635,000	289,164,328	1,068,216,995
	2020	1,068,216,995	2,215,899	37,691,000	16,709,233	1,124,833,127
Agricultural College	2001-2019	14,787,041	58,187	9,340,000	7,848,270	32,033,498
	2020	32,033,498	-	298,000	501,073	32,832,571
Charitable Institutions	2001-2019	54,513,960	325,723	37,776,000	29,195,461	121,811,144
	2020	121,811,144	24,136	1,531,000	1,905,391	125,271,671
Normal School	2001-2019	47,258,942	12,111,015	25,109,000	25,433,803	109,912,760
	2020	109,912,760	21,787	3,546,000	1,719,274	115,199,821
Penitentiary	2001-2019	18,258,289	26,228	22,999,000	10,343,606	51,627,123
	2020	51,627,123	759	3,201,000	807,560	55,636,442
School of Science	2001-2019	54,836,451	321,280	27,760,000	28,214,597	111,132,328
	2020	111,132,328	42,676	6,969,000	1,738,351	119,882,355
State Hospital South	2001-2019	23,442,162	16,410,458	37,166,000	16,003,927	93,022,547
	2020	93,022,547	2,255	29,000	1,455,075	94,508,877
University	2001-2019	42,442,536	276,675	33,339,000	22,613,651	98,671,862
	2020	98,671,862	6,660	4,538,000	1,543,442	104,759,964



INDEPENDENT ACCOUNTANTS' REPORT

Idaho Department of Lands
Boise, Idaho

We have performed the procedures enumerated below, which were agreed to by Idaho Department of Lands, solely to assist you with respect to the allocation procedures for the year ended June 30, 2021.

Management of the Idaho Department of Lands has agreed to and acknowledge that the procedures performed are appropriate to meet the intended purpose of observing the allocation methodology of Idaho Department of Lands. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are as follows:

Procedures

1. Revenues: Obtain IBIS Report 'Endowment Revenue by Beneficiary' and the DAFR 8180 reports and perform the following for the year ended June 30, 2021:
 - a. Agree revenue in total by each of the nine endowments per the IBIS report to the Department of Lands (DOL) Income Statement.
 - b. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology outlined in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2021 for revenues.
 - c. Agree revenues in total for each of the recalculated seven asset classes to the DOL Income Statement.

Findings

1. None noted.

Procedures

2. Project Expense: Obtain IBIS Report 'Income Statement Expense Query – FYE Final' which includes the Support Services, Timber, Lands and Waterways and Residential expenditures and project codes in an excel workbook and perform the following for the year ended June 30, 2021:
 - a. Agree project expenses in total by each of the nine endowments per the above reports to the DOL Income Statement.
 - b. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology included in the "Endowment Lands Income Statement Methodology" Document dated June 30, 2021 for project expenses.
 - c. Agree project expenses in total for each of the recalculated seven asset classes to the DOL Income Statement.

- d. Obtain listing of projects with transactions recorded to project expense during the year ended June 30, 2021 and agree total to project expense on DOL income statement for the year ended June 30, 2021.
 - i. Obtain defined project allocation percentages for each project selected and recalculate recorded allocation to respective endowments.
 - ii. Report any discrepancies

Findings

2. None noted.

Procedures

3. Non-Project Expense: Obtain DAFR 8290 Report and perform the following for the year ended June 30, 2021:
 - a. Recalculate the allocation of the nine asset activities to the seven asset classes per the methodology outlined in the “Endowment Lands Income Statement Methodology” Document dated June 30, 2021 for non-project expenses.
 - b. Agree non-project expenses in total for each of the recalculated seven asset classes to the DOL Income Statement.
 - c. Recalculate the allocation of the total non-project expenses by asset class to each of the nine endowments based on the methodology included in the “Endowment Lands Income Statement Methodology” Document dated June 30, 2021 for project expenses.
 - d. Agree non-project expenses by endowment for each of the recalculated nine endowments to the DOL Income Statement.

Findings

3. None noted.

Procedures

4. Overhead: Obtain DAFR 8290 Report and perform the following for the year ended June 30, 2021:
 - a. Agree total overhead per the IBIS report to the DOL Income Statement.
 - b. Recalculate the allocation of the total overhead expenses to each of the nine endowments and each of the seven asset classes based on the methodology included in the “Endowment Lands Income Statement Methodology” Document dated June 30, 2021 for overhead.

Findings

4. None noted.

We were engaged by Idaho Department of Lands to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the allocation procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of Idaho Department of Lands and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of Idaho Department of Lands and is not intended to be and should not be used by anyone other than this party.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boise, Idaho
August 18, 2021

IDAHO DEPARTMENT OF LANDS



Thomas J. Wilford :: Chairman
Jerry F. Aldape Irving Littman
Bob Donaldson Richelle A. Sugiyama
Joseph Forney Chuck Winder
Steven C. Harris Brian Yeargain

Chris J. Anton :: Manager of Investments

Monthly Report to the Board of Land Commissioners

Investment performance through October 31, 2021

Month: 3.4% Fiscal year: 3.6%

Global equity markets rebounded in October due to a strong start to the quarterly corporate earnings announcement season. Large cap stocks led the rally with the best performance in the consumer discretionary and energy sectors. Despite strong earnings, there are signs U.S. and global growth is normalizing or moving down to a more sustainable level as we move into 2022. The Fed finds itself in a very difficult place. They want to continue to support economic growth and achieve their goal of full employment, yet inflation has been more persistent than anticipated. The Fed will begin tapering its bond buying program this month and delay consideration of interest rate hikes until late next year when they have a better perspective on inflation, employment and growth. President Biden's infrastructure, climate and social spending plans could be stimulative if approved in some form by Congress.

Status of endowment fund reserves

Distributions for FY2022 and FY2023 are well secured.

Significant actions of the Endowment Fund Investment Board

None.

Compliance/legal issues, areas of concern

Material deviations from Investment Policy: None.

Material legal issues: None.

Changes in board membership or agency staffing: None.

Upcoming issues/events

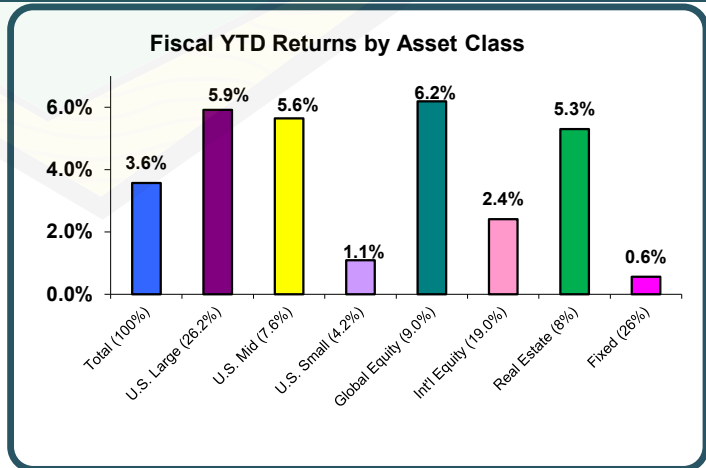
EFIB Board Meeting – February 17, 2021

	<u>Month</u>	<u>FYTD</u>
Beginning Value of Fund	\$ 3,103,959,645	\$ 3,107,842,560
Distributions to Beneficiaries	(7,464,708)	(29,483,832)
Land Revenue net of IDL Expenses (Sept. & Oct.)	23,532,062	36,309,204
Change in Market Value net of Investment Mgt. Expenses	<u>89,361,739</u>	<u>94,720,806</u>
Current Value of Fund	\$ 3,209,388,738	\$ 3,209,388,738

<u>Gross Returns</u>	<u>Current Month</u>	<u>Calendar Y-T-D</u>	<u>Fiscal Y-T-D</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Total Fund	3.4%	13.6%	3.6%	28.4%	16.1%	13.1%	10.8%
<i>Total Fund Benchmark*</i>	3.5%	11.6%	3.1%	25.0%	14.2%	11.8%	10.0%
Total Fixed	0.2%	-0.2%	0.6%	1.8%	6.2%	3.4%	3.1%
<i>85% BB Agg, 15% TIPS</i>	0.1%	-0.7%	0.5%	0.6%	6.0%	3.3%	3.0%
Total Equity	4.9%	20.2%	4.6%	42.9%	21.2%	17.7%	14.0%
<i>38% R3 19% Ax 9% AC</i>	5.3%	17.7%	4.2%	38.8%	18.3%	15.7%	13.1%
Domestic Equity	5.3%	22.7%	5.3%	46.5%	22.2%	19.5%	16.4%
<i>Russell 3000 (R3)</i>	6.8%	22.8%	6.7%	43.9%	21.6%	18.9%	16.1%
Global Equity	5.9%	19.1%	6.2%	37.3%	22.5%	16.5%	11.0%
<i>MSCI ACWI (AC)</i>	5.1%	16.8%	4.0%	37.3%	17.5%	14.7%	11.3%
Int'l. Equity	3.5%	15.7%	2.4%	38.6%	18.7%	14.5%	8.8%
<i>MSCI ACWI ex-US (Ax)</i>	2.4%	8.4%	-0.7%	29.7%	12.0%	9.8%	6.7%
Real Estate			5.3%	12.3%	7.0%	7.3%	
<i>NCREIF ODCE Index</i>			5.2%	14.6%	7.1%	7.5%	

* Benchmark: 38% Russell 3000 19% ACWI ex-US 9% AC 26% BB Agg. 8% ODCE

	<u>Mkt Value</u>	<u>Allocation</u>
Domestic Equity	\$ 1,261.7	39.3%
Large Cap	865.0	27.0%
Mid Cap	255.8	8.0%
Small Cap	140.9	4.4%
Global Equity	308.3	9.6%
Int'l Equity	611.0	19.0%
Fixed Income	790.3	24.6%
Real Estate	218.4	6.8%
Cash	<u>19.9</u>	<u>0.6%</u>
Total Fund	\$ 3,209.4	100.0%

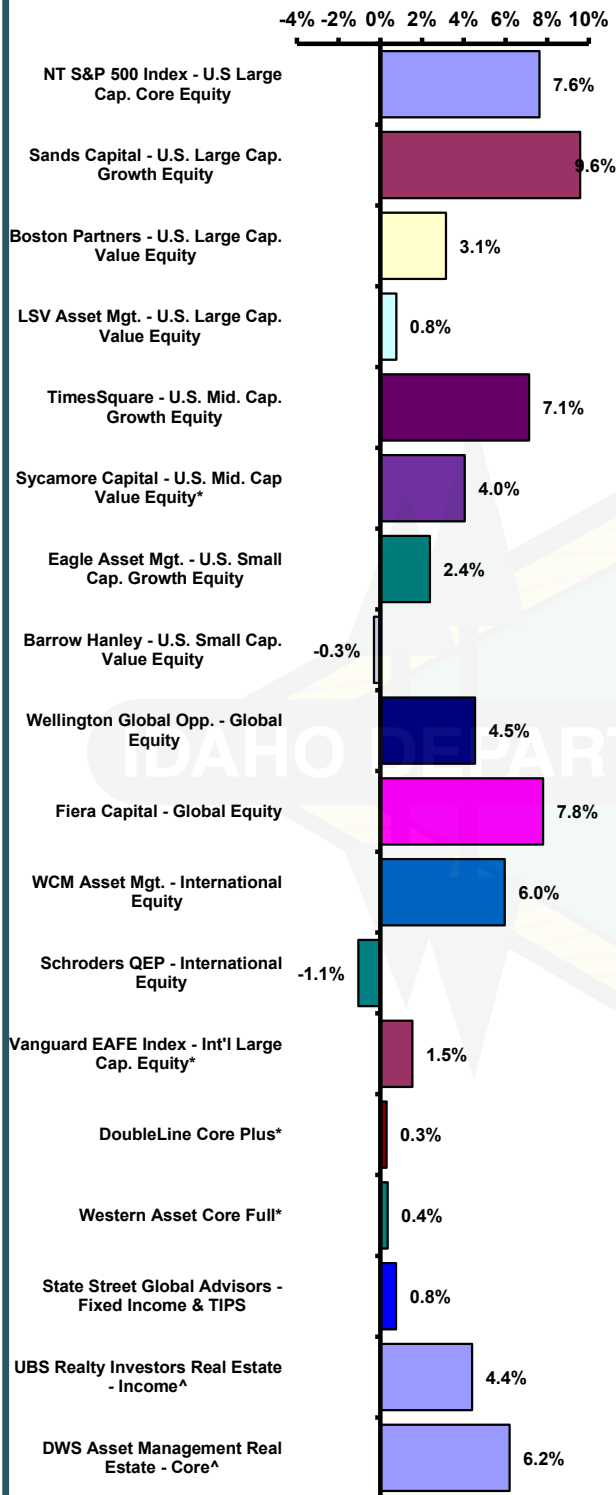


Endowment Fund Staff Comments:

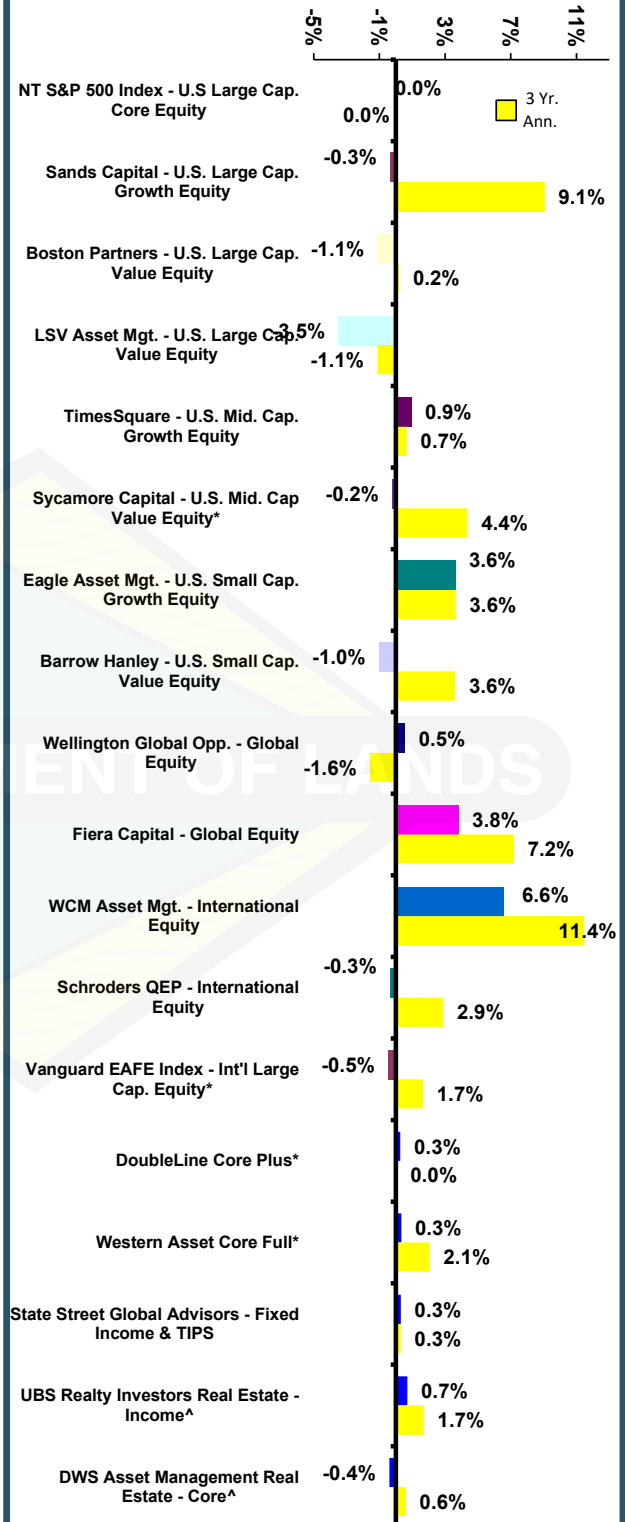
Global equity markets rebounded in October due to a strong start to the quarterly corporate earnings announcement season. Large cap stocks led the rally with the best performance coming in the consumer discretionary and energy sectors. Despite strong earnings, there are signs U.S. and global growth is normalizing or moving down to a more sustainable level as we move into 2022. The Fed finds itself in a very difficult place. They want to continue to support economic growth and achieve their goal of full employment, yet inflation has proven to be more persistent than anticipated. The Fed will begin tapering its bond buying program this month and delay consideration of interest rate hikes until late next year when they have a better perspective on inflation and growth. President Biden's infrastructure, climate and social spending plans could be stimulative if approved in some form by Congress.

INVESTMENT REPORT

FYTD Manager Returns



Manager Relative Returns Fiscal YTD and 3-Yr Ave*



*ITD return used when manager has less than 3 years. ^ Most recent valuation.

STATE BOARD OF LAND COMMISSIONERS

November 16, 2021

Subject

Performance Review of Total Endowment

Background

As part of the Asset Allocation and Governance Review in 2014, Callan LLC (Callan) recommended that a total return be calculated for the endowment portfolio by aggregating the market values and cash flows of the financial assets and the land assets.

The revised Statement of Investment Policy adopted by the State Board of Land Commissioners (Land Board) in November 2020 requires that performance reports be generated annually by the General Consultant, Callan, for review by the Land Board.

Discussion

Callan calculated the total return of the financial assets and the land assets for the fiscal year ending June 30, 2021 (Attachment 1). The combined net return was 20.25%, above last year's net return of 4.31%. The combined return includes the land asset net return of 4.87% (up from 3.60% in fiscal year 2020) and the financial asset net return of 29.19% (up from 4.69% in fiscal year 2020).

Callan also compiled a report of the land returns by asset class for the fiscal year ending June 30, 2021 (Attachment 2).

Attachments

1. Investment Manager Returns
2. Investment Measurement Service Quarterly Review

Investment Manager Returns

The table below details the rates of return for the Fund's investment managers over various time periods ended June 30, 2021. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended June 30, 2021

	Last Year	Last 3 Years	Last 6 Years
EFIB Plan (Net)	29.19%	13.16%	10.05%
EFIB Target	25.98%	12.32%	9.76%
Land (Net)	4.87%	3.93%	4.08%
Total Plan + Land	20.25%	9.87%	7.85%
CPI + 3.5%	8.89%	6.04%	5.69%



IDAHO DEPARTMENT OF LANDS

June 30, 2021

Idaho Board of Land Commissioners

**Investment Measurement Service
Quarterly Review**



IDAHO DEPARTMENT OF LANDS

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IDAHO DEPARTMENT OF LANDS



Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2021, with the distribution as of June 30, 2020. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

Asset Distribution Across Investment Managers

	June 30, 2021		Net New Inv.	Inv. Return	June 30, 2020	
	Market Value	Weight			Market Value	Weight
Farmland	31,186,650	2.11%	2,791,576	1,533,614	26,861,460	1.80%
Commercial Real Estate	17,141,822	1.16%	(912,288)	4,957,288	13,096,822	0.88%
Rangeland	61,000,000	4.13%	(2,813,994)	2,813,994	61,000,000	4.08%
Residential Real Estate	31,784,000	2.15%	(13,303,116)	6,525,950	38,561,166	2.58%
Timberland	1,223,274,980	82.89%	(81,342,279)	81,342,279	1,223,274,980	81.90%
Land Bank	111,372,225	7.55%	(20,030,872)	640,941	130,762,156	8.76%
Total Land Portfolio Assets	\$1,475,759,677	100.0%	\$(115,610,973)	\$97,814,066	\$1,493,556,584	100.0%



IDAHO DEPARTMENT OF LANDS

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flows and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

Investment Manager Returns

The table below details the rates of return for the Fund's investment managers over various time periods ended June 30, 2021. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended June 30, 2021

	Fiscal Year	Last 3 Years	Last 5 Years	Last 6 Years
Farmland	5.09%	5.70%	5.02%	5.56%
Farmland (Net)	4.34%	4.96%	4.27%	4.81%
Commercial Real Estate	40.12%	18.26%	22.73%	20.13%
Commercial Real Estate (Net)	33.15%	12.53%	16.76%	14.49%
Rangeland	4.70%	5.16%	5.08%	5.06%
Rangeland (Net)	1.12%	1.64%	1.74%	1.79%
Residential Real Estate	21.00%	10.45%	14.47%	12.64%
Residential Real Estate (Net)	16.32%	6.16%	11.07%	9.58%
Timberland	6.83%	6.13%	5.96%	5.88%
Timberland (Net)	4.96%	4.18%	3.96%	3.92%
Timberland (Net Real Return)	(0.45%)	1.57%	1.48%	1.68%
Land Bank	0.47%	1.61%	1.43%	1.25%
Land Bank (Net)	0.47%	1.35%	1.27%	1.12%
Total Land excluding - Land Bank	7.35%	6.29%	6.53%	6.35%
Total Land excluding - Land Bank (Net)	5.33%	4.18%	4.41%	4.27%
Total Land Portfolio (Gross)	6.70%	5.88%	6.16%	6.03%
Total Land Portfolio (Net Nominal)	4.87%	3.93%	4.19%	4.08%
Total Land Portfolio (Net Real Return)	(0.53%)	1.33%	1.71%	1.84%
CPI All Urban Cons	5.39%	2.54%	2.43%	2.19%

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flows and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cash flows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

Investment Manager Returns

The table below details the rates of return for the fund's investment managers over various time periods ended June 30, 2021. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized.

Returns for Periods Ended June 30, 2021

	Fiscal Year			Last 3 Years			Last 5 Years		
	Inc%	App%	Tot%	Inc%	App%	Tot%	Inc%	App%	Tot%
Farmland (Net)	0.95	3.36	4.34	0.90	4.02	4.96	0.98	3.26	4.27
Commercial Real Estate (Net)	1.65	30.89	33.15	2.60	9.65	12.53	2.89	13.53	16.76
Rangeland (Net)	1.12	0.00	1.12	1.64	0.00	1.64	1.74	0.00	1.74
Residential Real Estate (Net)	0.62	15.64	16.32	(0.06)	6.24	6.16	0.91	10.08	11.07
Timberland (Net)	4.96	0.00	4.96	4.18	0.00	4.18	3.96	0.00	3.96
Total Land excluding - Land Bank (Net)	4.57	0.73	5.33	3.82	0.34	4.18	3.66	0.74	4.41
Total Land Portfolio (Net Nominal)	4.18	0.67	4.87	3.61	0.31	3.93	3.48	0.69	4.19

IDAHO DEPARTMENT OF LANDS



**Total Land Portfolio
Real Estate Portfolio
Quarterly Changes in Market Value**

	Beg. of Period Market	+ Capital Contri- butions	+ Accounting Income	- Mgmt. Fees	+ Appre- ciation	- Dist. of Income & Real. Gains	- Return of Capital	= End of Period Market
09/2015	1,443,485,863	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,443,836,373
12/2015	1,443,836,373	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,444,186,883
03/2016	1,444,186,883	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,444,537,394
06/2016	1,444,537,394	6,737,772	18,523,024	6,333,665	337,900	12,176,749	6,737,772	1,444,887,904
09/2016	1,444,887,904	17,424,042	32,190,512	8,130,079	(0)	24,850,095	16,715,247	1,444,807,037
12/2016	1,444,807,037	18,903,334	15,698,109	7,356,406	1,328,500	8,309,338	18,830,890	1,446,240,346
03/2017	1,446,240,346	22,212,151	19,044,141	5,379,154	3,715,150	13,609,788	22,112,365	1,450,110,481
06/2017	1,450,110,481	2,138,318	8,164,265	7,920,565	1,040,305	2,151,292	25,100	1,451,356,412
09/2017	1,451,356,412	7,987,519	25,025,187	7,148,261	22,668,989	17,852,656	7,770,000	1,474,267,190
12/2017	1,474,267,190	27,995,332	15,811,240	6,762,941	0	8,717,002	27,995,332	1,474,598,487
03/2018	1,474,598,487	8,541,139	22,386,935	5,296,596	5,419,200	16,719,764	8,490,000	1,480,439,401
06/2018	1,480,439,401	78,855	12,198,615	7,934,209	2,245,000	3,737,745	0	1,483,289,917
09/2018	1,483,289,917	4,427,157	27,185,702	7,787,652	1,058,260	19,372,629	3,870,000	1,484,930,755
12/2018	1,484,930,755	67,627,619	27,115,724	7,470,723	635,124	19,508,037	67,586,953	1,485,743,509
03/2019	1,485,743,509	399,277	17,226,842	6,758,073	0	10,504,483	0	1,486,107,072
06/2019	1,486,107,072	6,569,563	5,390,356	7,746,173	0	1,663,268	0	1,488,657,550
09/2019	1,488,657,550	4,738,506	25,378,329	7,305,825	1,520,460	17,889,361	4,252,500	1,490,847,159
12/2019	1,490,847,159	13,148,892	20,454,696	7,201,795	0	12,942,040	12,793,400	1,491,513,512
03/2020	1,491,513,512	1,322,706	20,787,792	5,109,919	0	15,502,537	866,000	1,492,145,554
06/2020	1,492,145,554	82,794	11,608,931	8,195,122	991,000	3,024,439	52,134	1,493,556,584
09/2020	1,493,556,584	9,028,312	26,558,371	7,082,523	2,355,507	19,812,782	5,179,720	1,499,423,749
12/2020	1,499,423,749	6,875,282	19,945,233	6,107,898	1,715,133	13,963,369	6,595,000	1,501,293,130
03/2021	1,501,293,130	41,106	28,748,815	4,917,035	0	23,707,561	0	1,501,458,455
06/2021	1,501,458,455	88,258	12,505,453	7,897,403	5,985,554	4,595,048	31,785,592	1,475,759,677
	1,443,485,863	246,581,251	467,517,344	164,843,011	52,029,782	307,140,230	261,871,322	1,475,759,677

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

**Farmland
Real Estate Portfolio
Quarterly Changes in Market Value**

	Beg. of Period Market	+	Capital Contri- butions	+	Accounting Income	-	Mgmt. Fees	+	Appre- ciation	-	Distri- butions	=	End of Period Market
09/2015	22,300,000		0		120,774		42,052		337,900		78,722		22,637,900
12/2015	22,637,900		0		120,774		42,052		337,900		78,722		22,975,800
03/2016	22,975,800		0		120,774		42,052		337,900		78,722		23,313,700
06/2016	23,313,700		0		120,774		42,052		337,900		78,722		23,651,600
09/2016	23,651,600		33,835		250		34,085		0		0		23,651,600
12/2016	23,651,600		0		317,855		156,334		0		161,521		23,651,600
03/2017	23,651,600		0		95,266		(86,168)		0		181,434		23,651,600
06/2017	23,651,600		1,815		45,299		47,114		0		0		23,651,600
09/2017	23,651,600		26,045		2,000		28,045		1,013,640		0		24,665,240
12/2017	24,665,240		0		184,432		24,082		0		160,350		24,665,240
03/2018	24,665,240		0		193,527		36,305		0		157,222		24,665,240
06/2018	24,665,240		68,355		45,637		113,992		0		0		24,665,240
09/2018	24,665,240		28,429		3,783		32,212		675,760		0		25,341,000
12/2018	25,341,000		0		268,519		29,938		0		238,581		25,341,000
03/2019	25,341,000		0		92,268		38,806		0		53,462		25,341,000
06/2019	25,341,000		17,078		46,317		63,395		0		0		25,341,000
09/2019	25,341,000		6,818		23,432		30,250		1,520,460		0		26,861,460
12/2019	26,861,460		0		260,698		53,276		0		207,422		26,861,460
03/2020	26,861,460		0		74,463		33,249		0		41,214		26,861,460
06/2020	26,861,460		30,660		48,115		78,775		0		0		26,861,460
09/2020	26,861,460		3,345,981		8,814		43,245		1,013,640		0		31,186,650
12/2020	31,186,650		0		355,491		49,798		0		305,693		31,186,650
03/2021	31,186,650		0		118,050		45,133		0		72,917		31,186,650
06/2021	31,186,650		47,152		37,619		84,771		0		0		31,186,650
	22,300,000		3,606,168		2,704,932		1,104,846		5,575,100		1,894,704		31,186,650

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

**Commercial Real Estate
Real Estate Portfolio
Quarterly Changes in Market Value**

	Beg. of Period Market	+ Capital Contri- butions	+ Accounting Income	- Mgmt. Fees	+ Appre- ciation	- Dist. of Income & Real. Gains	- Return of Capital	=	End of Period Market
09/2015	31,502,435	0	599,175	305,676	0	293,500	0		31,502,435
12/2015	31,502,435	0	599,175	305,676	0	293,500	0		31,502,435
03/2016	31,502,435	0	599,175	305,676	0	293,500	0		31,502,435
06/2016	31,502,435	0	599,175	305,676	0	293,500	0		31,502,435
09/2016	31,502,435	0	1,299,490	635,627	0	663,863	0		31,502,435
12/2016	31,502,435	69,844	344,145	413,989	0	0	0		31,502,435
03/2017	31,502,435	0	422,777	339,925	3,715,150	82,852	17,265,000		17,952,585
06/2017	17,952,585	0	340,718	(42,035)	1,040,305	382,753	0		18,992,890
09/2017	18,992,890	0	316,491	256,468	(140,000)	60,023	0		18,852,890
12/2017	18,852,890	0	670,074	391,642	0	278,432	0		18,852,890
03/2018	18,852,890	51,139	174,715	225,854	0	0	8,490,000		10,362,890
06/2018	10,362,890	0	198,210	122,475	2,245,000	0	0		12,683,625
09/2018	12,683,625	0	547,489	123,176	0	424,313	0		12,683,625
12/2018	12,683,625	40,666	201,040	241,706	0	0	0		12,683,625
03/2019	12,683,625	78,448	136,408	214,856	0	0	0		12,683,625
06/2019	12,683,625	1,878,697	130,604	122,115	0	8,489	0		14,562,322
09/2019	14,562,322	0	235,904	149,796	0	86,108	1,560,500		13,001,822
12/2019	13,001,822	0	487,229	135,221	0	352,008	0		13,001,822
03/2020	13,001,822	0	140,558	102,366	0	38,192	0		13,001,822
06/2020	13,001,822	0	197,913	188,332	95,000	9,581	0		13,096,822
09/2020	13,096,822	0	529,153	181,024	0	348,129	0		13,096,822
12/2020	13,096,822	46,099	99,243	145,342	0	0	0		13,096,822
03/2021	13,096,822	41,106	141,946	183,052	0	0	0		13,096,822
06/2021	13,096,822	41,106	141,946	183,052	4,045,000	0	0		17,141,822
	31,502,435	2,247,105	9,152,754	5,536,686	11,000,455	3,908,741	27,315,500		17,141,822

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

**Rangeland
Real Estate Portfolio
Quarterly Changes in Market Value**

	Beg. of Period Market	+	Capital Contri- butions	+	Accounting Income	-	Mgmt. Fees	+	Appre- ciation	-	Distri- butions	=	End of Period Market
09/2015	61,000,000		0		742,508		439,390		0		303,118		61,000,000
12/2015	61,000,000		0		742,508		439,390		0		303,118		61,000,000
03/2016	61,000,000		0		742,508		439,390		0		303,118		61,000,000
06/2016	61,000,000		0		742,508		439,390		0		303,118		61,000,000
09/2016	61,000,000		418,712		15,744		434,456		0		0		61,000,000
12/2016	61,000,000		0		651,041		417,971		0		233,070		61,000,000
03/2017	61,000,000		99,786		366,069		465,855		0		0		61,000,000
06/2017	61,000,000		0		1,943,241		668,142		0		1,275,099		61,000,000
09/2017	61,000,000		0		298,769		285,833		0		12,936		61,000,000
12/2017	61,000,000		0		388,362		375,616		0		12,746		61,000,000
03/2018	61,000,000		0		495,725		347,673		0		148,052		61,000,000
06/2018	61,000,000		0		1,761,042		618,366		0		1,142,676		61,000,000
09/2018	61,000,000		199,366		237,272		436,638		0		0		61,000,000
12/2018	61,000,000		0		635,741		533,906		0		101,835		61,000,000
03/2019	61,000,000		0		510,128		507,905		0		2,223		61,000,000
06/2019	61,000,000		0		1,780,339		527,962		0		1,252,377		61,000,000
09/2019	61,000,000		0		640,720		407,518		0		233,202		61,000,000
12/2019	61,000,000		355,492		146,409		501,901		0		0		61,000,000
03/2020	61,000,000		0		915,943		368,220		0		547,723		61,000,000
06/2020	61,000,000		0		1,561,026		834,043		0		726,983		61,000,000
09/2020	61,000,000		254,602		246,869		501,471		0		0		61,000,000
12/2020	61,000,000		234,183		386,704		620,887		0		0		61,000,000
03/2021	61,000,000		0		776,352		457,148		0		319,204		61,000,000
06/2021	61,000,000		0		1,404,069		544,811		0		859,258		61,000,000
	61,000,000		1,562,141		18,131,598		11,613,884		0		8,079,855		61,000,000

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

**Residential Real Estate
Real Estate Portfolio
Quarterly Changes in Market Value**

	Beg. of Period Market	+ Capital Contri- butions	+ Accounting Income	- Mgmt. Fees	+ Appre- ciation	- Dist. of Income & Real. Gains	- Return of Capital	= End of Period Market
09/2015	149,700,000	0	1,313,522	497,503	(0)	816,019	6,737,772	142,962,228
12/2015	142,962,228	0	1,313,522	497,503	0	816,019	6,737,772	136,224,456
03/2016	136,224,456	0	1,313,522	497,503	(0)	816,019	6,737,772	129,486,683
06/2016	129,486,683	0	1,313,522	497,503	0	816,019	6,737,772	122,748,911
09/2016	122,748,911	381,271	(180,856)	200,415	0	0	16,590,224	106,158,687
12/2016	106,158,687	0	2,567,931	520,013	1,328,500	2,047,918	16,327,104	91,160,083
03/2017	91,160,083	0	1,067,980	278,000	0	789,980	527,000	90,633,083
06/2017	90,633,083	0	733,100	239,660	0	493,440	25,100	90,607,983
09/2017	90,607,983	191,474	215,266	406,740	21,795,349	0	7,770,000	104,633,332
12/2017	104,633,332	0	1,377,513	479,530	0	897,983	27,995,332	76,638,000
03/2018	76,638,000	0	780,233	332,140	5,419,200	448,093	0	82,057,200
06/2018	82,057,200	0	585,635	499,043	0	86,592	0	82,057,200
09/2018	82,057,200	329,362	249,555	578,917	382,500	0	3,870,000	78,569,700
12/2018	78,569,700	0	756,605	543,893	635,124	212,712	25,136,124	54,068,700
03/2019	54,068,700	320,829	529,033	849,862	0	0	0	54,068,700
06/2019	54,068,700	0	443,413	41,011	0	402,402	0	54,068,700
09/2019	54,068,700	479,188	(3,659)	475,529	0	0	2,692,000	51,376,700
12/2019	51,376,700	0	1,011,713	450,284	0	561,429	12,793,400	38,583,300
03/2020	38,583,300	457,506	385,625	843,131	0	0	866,000	37,717,300
06/2020	37,717,300	0	425,416	358,076	896,000	67,340	52,134	38,561,166
09/2020	38,561,166	268,009	101,300	369,309	1,341,867	0	5,179,720	34,723,313
12/2020	34,723,313	0	854,422	432,045	1,715,133	422,377	6,595,000	29,843,446
03/2021	29,843,446	0	286,337	271,448	0	14,889	0	29,843,446
06/2021	29,843,446	0	286,337	271,448	1,940,554	14,889	0	31,784,000
	149,700,000	2,427,639	17,726,986	10,430,505	35,454,227	9,724,120	153,370,227	31,784,000

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.

**Timberland
Real Estate Portfolio
Quarterly Changes in Market Value**

	Beg. of Period Market	+	Capital Contri- butions	+	Accounting Income	-	Mgmt. Fees	+	Appre- ciation	-	Distri- butions	=	End of Period Market
09/2015	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
12/2015	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
03/2016	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
06/2016	1,174,000,000		0		15,734,434		5,049,044		0		10,685,391		1,174,000,000
09/2016	1,174,000,000		0		31,000,749		6,825,496		0		24,175,253		1,174,000,000
12/2016	1,174,000,000		2,503,786		11,714,928		5,848,099		0		5,866,829		1,176,503,786
03/2017	1,176,503,786		4,320,365		16,937,064		4,381,542		0		12,555,522		1,180,824,151
06/2017	1,180,824,151		2,111,403		4,896,281		7,007,684		0		0		1,180,824,151
09/2017	1,180,824,151		0		23,950,872		6,171,175		0		17,779,697		1,180,824,151
12/2017	1,180,824,151		0		12,859,562		5,492,071		0		7,367,491		1,180,824,151
03/2018	1,180,824,151		0		20,321,021		4,354,624		0		15,966,397		1,180,824,151
06/2018	1,180,824,151		0		9,088,810		6,580,333		0		2,508,477		1,180,824,151
09/2018	1,180,824,151		0		25,565,025		6,616,709		0		18,948,316		1,180,824,151
12/2018	1,180,824,151		42,450,829		24,456,789		5,501,880		0		18,954,909		1,223,274,980
03/2019	1,223,274,980		0		15,276,769		4,827,971		0		10,448,798		1,223,274,980
06/2019	1,223,274,980		4,673,788		2,317,902		6,991,690		0		0		1,223,274,980
09/2019	1,223,274,980		0		23,812,783		6,242,732		0		17,570,051		1,223,274,980
12/2019	1,223,274,980		0		17,882,294		6,061,113		0		11,821,181		1,223,274,980
03/2020	1,223,274,980		0		18,638,361		3,762,953		0		14,875,408		1,223,274,980
06/2020	1,223,274,980		0		8,956,431		6,735,896		0		2,220,535		1,223,274,980
09/2020	1,223,274,980		0		25,452,127		5,987,474		0		19,464,653		1,223,274,980
12/2020	1,223,274,980		0		18,095,125		4,859,826		0		13,235,299		1,223,274,980
03/2021	1,223,274,980		0		27,260,805		3,960,254		0		23,300,551		1,223,274,980
06/2021	1,223,274,980		0		10,534,222		6,813,321		0		3,720,901		1,223,274,980
	1,174,000,000		56,060,171		411,955,657		135,219,017		0		283,521,831		1,223,274,980

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**Land Bank
Real Estate Portfolio
Quarterly Changes in Market Value**

	Beg. of Period Market	+ Capital Contri- butions	+ Accounting Income	- Mgmt. Fees	+ Appre- ciation	- Dist. of Income & Real. Gains	- Return of Capital	= End of Period Market
09/2015	4,983,428	6,737,772	12,610	0	0	0	0	11,733,810
12/2015	11,733,810	6,737,772	12,610	0	0	0	0	18,484,193
03/2016	18,484,193	6,737,772	12,610	0	0	0	0	25,234,575
06/2016	25,234,575	6,737,772	12,610	0	(0)	0	0	31,984,958
09/2016	31,984,958	16,590,224	55,135	0	0	10,979	125,023	48,494,315
12/2016	48,494,315	16,329,704	102,209	0	0	0	2,503,786	62,422,442
03/2017	62,422,442	17,792,000	154,985	0	0	0	4,320,365	76,049,062
06/2017	76,049,062	25,100	205,626	0	0	0	0	76,279,788
09/2017	76,279,788	7,770,000	241,789	0	0	0	0	84,291,577
12/2017	84,291,577	27,995,332	331,297	0	0	0	0	112,618,206
03/2018	112,618,206	8,490,000	421,714	0	0	0	0	121,529,920
06/2018	121,529,920	10,500	519,281	0	0	0	0	122,059,701
09/2018	122,059,701	3,870,000	582,578	0	0	0	0	126,512,279
12/2018	126,512,279	25,136,124	797,030	619,400	0	0	42,450,829	109,375,204
03/2019	109,375,204	0	682,236	318,673	0	0	0	109,738,767
06/2019	109,738,767	0	671,781	0	0	0	0	110,410,548
09/2019	110,410,548	4,252,500	669,149	0	0	0	0	115,332,197
12/2019	115,332,197	12,793,400	666,353	0	0	0	0	128,791,950
03/2020	128,791,950	865,200	632,842	0	0	0	0	130,289,992
06/2020	130,289,992	52,134	420,030	0	0	0	0	130,762,156
09/2020	130,762,156	5,159,720	220,108	0	0	0	0	136,141,984
12/2020	136,141,984	6,595,000	154,248	0	0	0	0	142,891,232
03/2021	142,891,232	0	165,325	0	0	0	0	143,056,557
06/2021	143,056,557	0	101,260	0	0	0	31,785,592	111,372,225
	4,983,428	180,678,027	7,845,417	938,073	0	10,979	81,185,595	111,372,225

Cash flows, including market values and management fees, were provided by Idaho Department of Lands using their internal methodology which may be subject to change. The cash flow and categorizations have not been independently verified by Callan for accuracy or consistency with industry standards. Specific dates for each individual cash flow were not provided. To convert the non-specific cash flow information to a format that could be used in performance calculations, Callan assumed all cashflows occurred at mid-quarter to arrive at quarterly performance numbers. Performance figures are calculated using a modified BAI methodology.



Quarterly Highlights

The Callan Institute provides research to update clients on the latest industry trends and carefully structured educational programs to enhance the knowledge of industry professionals. Visit www.callan.com/research-library to see all of our publications, and www.callan.com/blog to view our blog. For more information contact Barb Gerraty at 415-274-3093 / institute@callan.com.

New Research from Callan's Experts

Research Cafe: Insurance | Callan's Insurance Focus Leader Sara Hakim discusses AM Best's rating methodology and current research findings with the firm's associate director Fred Eslami. They also discuss insurance assets and general insurance themes in the marketplace.

Webinar: The Fed's Not Concerned About Inflation. Should You Be? | Inflation is top of mind and the fear around it sparks the question of how to best structure a portfolio to protect it in an inflationary environment. Callan specialists Jay Kloepfer and Jim Van Heuit share their knowledge about the issue.

A Guide to Implementing a China A-Shares Allocation | Callan's Ho Hwang provides a detailed exploration on how institutional investors can implement an allocation to China A-shares, focusing on manager search issues and benchmarking.

Research Cafe: Callan Institute's ESG Interview Series | During this interview, Tom Shingler of Callan discusses with Carol Jeppesen from Principles for Responsible Investment its mission, and what it means to be a PRI signatory for asset owners, asset managers, and service providers like Callan.

Blog Highlights

Capital Markets Assumptions and the Future | The question that we often get from clients is, "How have you done in the past when predicting the future of the capital markets?" This blog post provides the answer.

A JOLT of Inflation from the Labor Market? | Recent economic reports have prompted fears that prices in the U.S. are about to take off. While increasing costs have been widespread, the greatest opportunity for sustained price increases lies in the labor market.

When the Passive Index Is an Active Decision | At first blush, the two most prominent large cap indices, the S&P 500 and Russell 1000 Indices, do not seem all that different. But it turns out they can be quite different, and choosing an index series for your passive manager to track can indeed be an active decision.

Putting Values into Action: A Practical Guide for Institutional Investors | Many institutional investors are becoming more active in emphasizing values-oriented investments. This can take several forms, but whatever the approach, it requires a deliberate and thoughtful process for successful implementation.

Quarterly Periodicals

Private Equity Trends, 1Q21 | A high-level summary of private equity activity in the quarter through all the investment stages

Active vs. Passive Charts, 1Q21 | A comparison of active managers alongside relevant benchmarks over the long term

Market Pulse Flipbook, 1Q21 | A quarterly market reference guide covering trends in the U.S. economy, developments for institutional investors, and the latest data on the capital markets

Capital Markets Review, 1Q21 | Analysis and a broad overview of the economy and public and private market activity each quarter across a wide range of asset classes

Hedge Fund Quarterly, 1Q21 | Commentary on developments for hedge funds and multi-asset class (MAC) strategies

Real Assets Reporter, 1Q21 | A summary of market activity for real assets and private real estate during the quarter

Events

Miss out on a Callan conference or workshop? Event summaries and speakers' presentations are available on our website: callan.com/research-library

Please mark your calendar and look forward to upcoming invitations:

Regional Workshops

November 2, 2021, in Atlanta

November 5, 2021, in San Francisco

For more information about events, please contact Barb Gerraty: 415-274-3093 / gerraty@callan.com

Education: By the Numbers

50+

Unique pieces of research the Institute generates each year

525

Attendees (on average) of the Institute's annual National Conference

3,700

Total attendees of the "Callan College" since 1994

Education

Founded in 1994, the "Callan College" offers educational sessions for industry professionals involved in the investment decision-making process.

Introduction to Investments

August 17-19, 2021 - Virtual

October 6-7, 2021 - Chicago

October 26-28, 2021 - Virtual

This program familiarizes institutional investor trustees and staff and asset management advisers with basic investment theory, terminology, and practices. Our virtual session is held over three days with virtual modules of 2.5-3 hours, while the in-person lasts one-and-a-half days. This course is designed for individuals with less than two years of experience with asset-management oversight and/or support responsibilities. Virtual tuition is \$950 per person and includes instruction and digital materials. In-person tuition is \$2,350 per person and includes instruction, all materials, breakfast and lunch on each day, and dinner on the first evening with the instructors.

Additional information including registration can be found at: callan.com/events-education

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October 19-20, 2021 - Virtual

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Additional information including dates and registration can be found at: callan.com/events/oct-alts-college/



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Greg Allen, CEO and Chief Research Officer



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The logo for the Idaho Department of Lands is a large, stylized shield shape. It features a mountain range in the background, with a sun or starburst at the top. The text "IDAHO DEPARTMENT OF LANDS" is written in a bold, sans-serif font across the center of the shield. The shield is filled with a light green and yellow color scheme, and it has a white outline.

IDAHO DEPARTMENT OF LANDS



Idaho State Board of Land Commissioners

Brad Little, Governor and President of the Board
Lawrence E. Denney, Secretary of State
Lawrence G. Wasden, Attorney General
Brandon D. Woolf, State Controller
Sherri Ybarra, Superintendent of Public Instruction
Dustin T. Miller, Secretary to the Board

Be it remembered, that the following proceedings were had and done by the State Board of Land Commissioners of the State of Idaho, created by Section Seven (7) of Article Nine (IX) of the Constitution.

Draft Minutes
State Board of Land Commissioners Regular Meeting
October 19, 2021

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, October 19, 2021 in the Capitol, House Hearing Room EW42, Lower Level, East Wing, 700 W Jefferson St., Boise, Idaho, and via webinar. The meeting began at 9:00 a.m. The Honorable Governor Brad Little presided. The following members were in attendance:

Honorable Governor Brad Little
Honorable Secretary of State Lawrence Denney
Honorable Attorney General Lawrence Wasden
Honorable State Controller Brandon Woolf
Honorable Superintendent of Public Instruction Sherri Ybarra

For the record, the Governor's Stage 4 Stay Healthy Guidelines, dated 5/11/2021, allowed for public meetings of any size with adherence to physical distancing and sanitation requirements. All Land Board members were present at the physical meeting location.

[Editor's note: the Discussion portions, if any, for all agenda items are written in first-person format. This is not a verbatim transcript.]

1. Department Report – Presented by Dustin Miller, Director

Trust Land Revenue

- A. Timber Sales – September 2021
- B. Leases and Permits – September 2021

Discussion:

Director Miller: I wanted to give you a quick update on the Department's timber salvage efforts. The Department plans to offer for sale nearly 74 million board feet of salvaged timber including 29,000 cedar poles, valued at more than \$17.4 million, as a result of this summer's wildfires. So far, the Department has sold three sales for a total of 31.7 million board feet and \$9.35 million. Three other sales had no bids on the first attempt; these sales will be reappraised and

readvertised very quickly. The Department is committed to flexibility around timber sale extensions as needed to facilitate recovery of as much salvage volume as possible for the endowments. Our policy is very flexible under normal circumstances for granting a first extension. Historically we have extended this flexibility to a second extension where appropriate on green sales affected by salvage efforts and our expectation is to continue this practice where necessary and appropriate. The Department continues to work with its timber purchasers on these green sales while encouraging bidding out our salvage sales.

Status Updates

C. Fire Season Report – Final

Discussion:

Controller Woolf: The first page of the report shows the number of lightning and human fire starts; 240 human fire starts is quite a few and compared to and looking at all these over the past several years. I know that the Department does a lot of investigation; could you speak to that, help us understand a little bit more the amount of investigation and amount of these individuals being held accountable to help with offset of these costs that the State, the Department, the deficiency warrant, and the general fund will now take.

Director Miller: The majority of our fires are human caused and the concern there is with demographics changing and more people moving into the state, recreating on endowment lands or federal lands or elsewhere, there's a higher likelihood of unplanned ignitions or unwanted human-caused fires; that's something we pay close attention to. We are required to investigate all of our fires; we do that, and our investigators are very thorough in that process. They're highly skilled and highly trained. It is our goal if it is determined to be a negligently caused fire, then we will pursue damages from the culprits who ignite those fires. The Strychnine fire that burned a few years ago on our Ponderosa District was human caused. I believe it was a young man using some sort of incendiary device. It ignited a fire that burned on IDL, some Forest Service, and some Potlach ground. We worked closely with the Attorney General's Office to pursue damages from that individual. We secured about \$1.5 million through that case. I really appreciate the help and support of the Attorney General's Office in pursuing those damages. That's just one example; we do pursue and investigate all of our fires. In fact, the Land Board authorized and the legislature supported the creation of a Fire Investigation Program Manager, and we are in the process of hiring that position right now. That's going to allow us better coordination and more manpower to ensure that we are very thorough in our analysis and that we do pursue damages when there are negligent fires that are caused.

Controller Woolf: What do we know about these 240?

Director Miller: Some of those are still being investigated. We're still looking at a number of these fires and trying to assess how they started, were they negligent. Again, having our program manager in place to help organize this and go after individuals that do start fires negligently is a priority for us. I don't know if Craig's got something to add on that.

Craig Foss: I don't have a lot to add. We investigate every fire, and we work with our attorneys to work through the billing process but we don't have a number at this time. We can certainly get back when we have that; we're still wrapping up our investigations.

Governor Little: If we're going to hire a fire investigator and we haven't got him hired yet, what's he going to do from November to next June? We're going to pay salary for three-quarters of a year on somebody; what's the deal?

Mr. Foss: Governor, our investigation program actually involves probably a dozen different people that come on board. Some of them we hire seasonally just for investigation, others are permanent staff. For example, Archie, who's going to be up here in a little bit talking about FPA, he's our forestry assistance bureau chief; he's a fire investigator. We have multiple staff in the agency. This fire investigation position will largely coordinate all those activities and work with our DAGs on the billing process, any lawsuits, and things like that.

Governor Little: I sent the Director a question about National Guard and the response that I saw just this morning is that the bill from the Guard should be included in the deficiency warrants. Are they included in it, or are we going to have another million dollars?

Mr. Foss: Governor, members of the Land Board, my understanding is those costs are included in deficiency warrants.

Governor Little: Director Miller and Craig, you said you're going to have your fire after action report. It was two or three board meetings ago you had a display that talked about assessed and unassessed acres. We have time now before the next fire season; what date can you give us to where we'll have an analysis about the assessed and unassessed acres, where are the fires starting on unassessed grounds, what do we do. We're going to go to the legislature and ask for 70 million bucks, what do we have in the bank now, \$30 million?

Mr. Foss: That's my understanding.

Governor Little: So, we're going to ask for \$40 some million. I think in anticipation of Director Miller getting before the joint committee, a plan on assessed and unassessed acres, at least acknowledgement there are some acres that aren't paying and the general fund is having to pick up those costs would be helpful; have we got any timeline on when we're going to do that?

Mr. Foss: Governor, actually we did conduct an analysis. We analyzed 134,000 acres burned this year; of those 134,000 acres, 52% were either in an offset or they were assessed lands, so 48% of the acres burned are unassessed.

Governor Little: The question is, and it is a policy decision for the Board, are we going to propose that some of these unassessed acres at some point in time – where's the biggest risk, where's the biggest cost – shouldn't they be paying their fair share. Because in essence, when you make a proposal to the legislature, they put it on dedicated funds; it means the people who are paying are going to have to pay more. We're within a nickel of our maximum assessment right now. Prior to having to statutorily move that assessment up, wouldn't it be good if we, and we may not get it done, at least try to get unassessed acres paying their fair share?

Mr. Foss: Absolutely. That is a policy decision; it's a conversation we should have. What's going on right now really is you have your dedicated funds which is paid for by the assessments and then you have your general fund appropriations.

Governor Little: All I'm asking for is a time for us to have something concrete to look at.

Director Miller: Governor, as Craig indicated, we've done the analysis there; we can give you a really good indication of how many of our fires that we're fighting are in unassessed acres, how many are not. It warrants a discussion because Idaho Code only allows us to assess timberland, not rangeland or ag ground. This is a conversation for the Land Board staff to have initially about what this looks like and then a larger discussion with the Land Board.

Governor Little: So, when would the Board see something?

Director Miller: How about December.

Governor Little: That's perfect.

Controller Woolf: One follow up is on the after action report, if you could explain who is involved with the after action report. Not only who attends, but what can we take as a bigger picture from the Land Board's perspective to help assist with that, and that we're making great direction going forward with what's been taking place these last several years with wildfires here in Idaho.

Mr. Foss: The way we conduct our after action review process is all of our zones across the state of Idaho have after action reviews, those are district reviews. Our bureau also conducts an after action review and then everybody comes together for a report-out on all the reviews. Really what we're doing all year long is tallying what's working, what's not working, what do we need to address going forward, and next week is the roll up. We'll prioritize those items that need to be worked on, we'll break out into working groups and come up with recommendations, and then we'll have a discussion internally about what that looks like going forward.

D. Land Bank Fund

Discussion:

Governor Little: We have about \$36 million that's going to expire pretty soon. We did this the last Board meeting, I think. What's the recommendation to us about sweeping more of it prior to expiration, because there's \$7.7 and \$28 million that in about a year is going to go somewhere?

Director Miller: Governor and Land Board members, we have a pipeline report that we update regularly regarding potential transactions. If there are certain transactions supported by the Board that we can complete prior to the expiration of those funds and that makes sense for the endowments, then we will make a recommendation to the Land Board to expend those funds. If not, then we will make a recommendation to roll that funding into the permanent fund. Then there's the interest piece of that; we will need to work with the Investment Subcommittee on a recommendation to bring to the Land Board.

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

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

Discussion:

Chris Anton: After seven straight monthly increases, financial markets took a bit of a breather in September as we saw employment gains slow, the U.S. economic growth peak, and the Federal

Reserve announced that it would likely begin tapering its bond buying program later this year. Inflation remains a problematic wildcard with supply chains struggling to meet demand and with energy prices spiking; oil prices were close to \$90/barrel yesterday [October 18] which is hurting certain sectors of the U.S. economy. China's economy slowed with no clear stimulative response from their financial policy makers, and financial markets were rattled by the near default of their real estate development company Evergrande. These uncertainties, and strong valuations, realistically merited a pause in the markets and we may face some near-term volatility. That being said, the U.S. economy still remains very strong, and GDP is expected to grow at close to a 5% rate next year. Consumer spending and U.S. manufacturing data are solid, and U.S. households are in reasonably strong condition. It also appears that the recent spike in Delta-related COVID-19 cases is beginning to roll over and Merck announced that it has created a new drug that could potentially reduce hospitalization rates and deaths for people who have contracted COVID-19 by about 50%. Pfizer is also working to receive approval to vaccinate younger children from 5 to 18 years old. Barring further virus-related setbacks, spending on services will likely improve as we head into the fourth quarter. We were down 2.9% for the month which left us just slightly ahead of breakeven for the fiscal year, up 0.1%. That being said, over the last week or so corporations have started to release their quarterly earnings for the third-quarter, third calendar quarter, and by and large the data has been very positive, particularly the banks' profitability, and the market has had somewhat of a recovery. Through yesterday the fund is up 2.6%; we're up a bit again this morning so I think most of the losses that we experienced in September have basically been recuperated. In terms of distributions, we're in very strong shape. We ended the last fiscal year with strong reserves, still sitting in good shape to make our distributions. Our next Investment Board meeting will be a joint meeting with the Land Board on November 16th.

Attorney General Wasden: I noticed that in the current month that we're slightly more loss than our benchmark; calendar year to date we're quite a bit ahead and we seem to generally do better than our benchmark. I am just curious as to why we were losing more than our benchmark in this current month.

Mr. Anton: If you look at where most of the red is located, it's on our global and our international equities. Most of that has come with some of our value managers; as we've had this volatility, value managers haven't done quite as well. I don't anticipate that's going to be a long-term problem. As you can see fiscal year to date, we're about a half a percent above our benchmark. There are periods when they're not going to perform quite as well as their targets and that's what happened during the month.

Governor Little: On the other hand, you're 200 basis points calendar year to date above the benchmark.

Consent—Action Item(s)

3. Approval of Draft Minutes – September 21, 2021 Regular Meeting (Boise)

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

Regular—Action Item(s)

4. 2021 Grazing Rate Methodology – Presented by Dustin Miller, Director

Recommendation: Adopt the 2021 Grazing Rate Formula Proposal.

Discussion:

Governor Little: Land Board members, as I have multiple times on this issue, I will recuse myself going forward. Our capable Secretary of State will chair the meeting for this part.

Secretary of State Denney: Thank you; we do have several that are signed up to testify.

Attorney General Wasden: Mr. Secretary, I do have a couple of questions at the outset.

Secretary of State Denney: General Wasden.

Attorney General Wasden: Thank you very much, Mr. Secretary. Director, I am interested a little bit in the current methodology, the one that now exists. It was created in 1993 and under current estimations it would be 37% of the private rate. You're recommending 49%. My question is: does the rate as it currently exists, the current rate, does it achieve the maximum long-term financial return as required by the constitution.

Director Miller: Thank you, Mr. Wasden and Governor. If we look at page one of Attachment 1, you can see the graph there; the current model shows that blue line, the current rate. It's peaked up a little bit over time, but still you can see the green line above that in the graph, which is the private rate, the USDA average private rate, about \$18.50 is what we're currently at right now. The current model maintains a relatively flat line; again, it's peaked up a little bit, but a relatively flat line under the current IDL model, while the private rate continues to go up. One could see that the gap has widened there and has continued to widen and one could say that we may not be achieving our mandate by allowing that line to remain stagnant.

Attorney General Wasden: In fact, Dr. Rimbey basically makes that same argument doesn't he, in his recitations, saying we really aren't hitting where we need to be. I think not only is it factual, but then we have the experts who are saying we're not really where we're supposed to be. I also recognize that we had made an effort in 2018, and said let's take a study, let's take a look at this; we basically have worked on that for three years. We're now down to October and we have to give notice of increases within a certain time period, so pushing this further down the road simply will maintain a current system that we know doesn't meet our responsibility. I'm just wondering if you agree with that, based upon the time periods that we have to give notice.

Director Miller: That is correct. I believe it's either November 3rd or 4th, our absolute drop-dead date for notifying our lessees of any rate increase. If we miss that then we've got to wait another grazing cycle, another grazing season, before we can enact anything else.

Attorney General Wasden: Essentially that would be kicking that can, the unconstitutional can, down the road for another year, so to speak.

Director Miller: Possibly, sir. You know, in the document on page one, we do talk about a study that was commissioned more than a decade ago that determined that the grazing formula was

not likely capturing the market value, and so you do see some fluctuations. Under the current model for the next grazing season we actually drop to about \$6.87 an AUM.

Attorney General Wasden: I know that in the proposed rate there is two elements that really are in play. One of them is the process, that is the mathematical formula that is asserted, and the other is the data that goes into that formula. My question to you is with regard to the process, in your view is the process sound and solid?

Director Miller: Governor, General Wasden, yes, I do believe that the process is sound and solid and I believe that we have found and are using the best available data that we can find. That was more or less backed up by both Dr. Rimbey and Dr. Tanaka. Some of this information is just hard to come by. Some of the information that we looked at initially was outdated; based on some recommendations by Dr. Rimbey we found some more current information. But there just isn't a lot of data, a lot of information on many of these non-feed costs. The data that is available is the most current that we could find and we believe that the process is sound and that the data is reliable.

Attorney General Wasden: Dustin, with regard to that data, some of the data as you mentioned has recent studies and it's solid, solid data, but there appears to be at least a couple of areas where that data is lacking, and I'm not saying that your approach is unsound I'm just saying data may be lacking. I believe there's a lack of information, such as lost animals and water costs, that are associated with private leasing as opposed to public leasing. I think we have those numbers for public leasing; I don't think we have those numbers for private leasing. I want to verify that with you, that's your understanding, and secondly, that we have the best information available, even though it's not perfect, but the best information available that we can get regarding the private leasing lost animal and water costs.

Director Miller: Governor and General Wasden, I believe that to be true. Again, on the private side there just isn't as much information and data on the water costs and the lost animals. We even included a wolf depredation component to the tune of about 48 cents, given that concern amongst the livestock community about wolf depredation and the cost of wolf depredation. We've really tried to dial in those non-feed costs as it relates to the water and the lost animals. I believe we have the most current and reliable data that is available to us, and the recommendation is to continue looking at new data as it becomes available and provide recommendations for periodic updates based on any new data that we can get our hands on related to these non-feed costs.

Attorney General Wasden: Dustin, thank you very much; can you describe for us the efforts that the Department made with regard to the lost animal and water costs. I know you searched pretty hard to get accurate data; I'm just trying to make a record of what did we do.

Director Miller: Absolutely. If it's all right with you, Governor and Mr. Wasden, I'd like to bring up Scott Phillips who really was a big architect behind building the model to answer that question.

Scott Phillips: Mr. Chairman, members of the Board, my name is Scott Phillips; I'm the Policy and Communications Chief for the Idaho Department of Lands. To answer General Wasden's question, we looked at a lot of studies out of universities trying to get a grasp of the costs, non-feed costs, associated with lost animals. When we were looking at the data sets available to us, the most current data set was the work out of Wyoming by Ms. Dollerschell for her master's

program. That included the most current data on lost animal costs. Our model also includes data from Dr. Rimbey; that data from Dr. Rimbey was based on research done decades prior at a time when wolves had not made resurgence in Idaho. Based on a conversation with Dr. Tanaka out of Wyoming we developed a model to estimate the costs of wolf predation that we included in Rimbey's lost animals numbers.

Attorney General Wasden: Thank you, Scott. The Dollerschell study is accurate data but it recognizes that it has a lack of data with regard to the private grazing rates. Am I reading that correctly?

Mr. Phillips: Mr. Chairman, members of the Board, lack of data may not be the right words to describe it. The deficiency with the Dollerschell study as it pertains to private data really is a statistical question. Specifically, Dollerschell wasn't able to determine the size of the private universe that was sampled; therefore it was impossible to calculate a margin of error and without a margin of error we didn't have a data point that we could consider statistically valid. Therefore we chose not to use the Dollerschell private data in the model.

Attorney General Wasden: With regard to the work by Dr. Rimbey, that was used as a basis and then, in conjunction with Dr. Rimbey, modified, annualized, whatever words you want to use, but to be current data as much as possible. Is that correct?

Mr. Phillips: The Rimbey research was based on data collected by the USDA NASS who was able to determine statistical significance given their understanding of the private universe, the sample. Rimbey's data was indexed to 2011; we in turn took Rimbey's work from 2011 and indexed it forward using USDA NASS price indices to give it a relevant value for today's market.

Attorney General Wasden: And the critical point, Scott, is that you've made efforts to get accurate data with regard to these data points, that is lost animals, water costs on private lands, and you have achieved the best available information. There is no perfect information, but the best available information, and that's what I'm asking.

Mr. Phillips: At every step in the process, we made every effort to use the best most accurate information at our disposal.

Attorney General Wasden: Would you also agree that it's imperfect, but that you've done your darndest to get the best you can.

Mr. Phillips: Mr. Chairman, members of the Board, by virtue of the nature of sampling and surveying, it will always be imperfect; it presents a likely value within a given range.

Attorney General Wasden: Right; that's what I needed to know. Thank you.

Secretary of State Denney: Other questions? I have a couple. Director Miller, you said that by changing this rate we would create an additional \$500,000 in revenue. Do you anticipate that going from under \$7 an AUM to over \$9 that there will be any of those leases dropped?

Director Miller: Mr. Chairman and Mr. Secretary, we did look at that. We've had numerous conversations with industry representatives about that concern and the last thing we want to do is price our customers out of the market. But through conversations, and the fact that in 2017 we were at \$9 an AUM and we did not lose any lessees to my knowledge, we feel pretty comfortable

that we will maintain our base level of lessees. Every ranch has their own economic situation and those situations may lend themselves to certain changes within their operations. I can't predict the future, but we figure that with this increase there is a low likelihood of us losing lessees.

Secretary of State Denney: If we do lose lessees, what does it cost us to actively manage that land?

Director Miller: It all depends. If we do not have a lessee, or if the current lessee does not want to lease that ground from the Department any longer and there are no other interested parties in leasing that ground, then it would go unleased. We wouldn't receive grazing income off of that ground. It depends on the ownership also of the infrastructure. Most of our lessees own the infrastructure on those grazing allotments: the fencing, the water developments and whatnot. Some of that infrastructure is owned by the Department as well. That infrastructure would need to be maintained if it exists on those particular allotments. There are costs associated with that kind of maintenance.

Secretary of State Denney: Do you have a figure, Director, what it would cost us to leave that unleased if we had to do that management ourselves.

Director Miller: I do not have an estimate; I don't know if Scott has that off the top of his head.

Mr. Phillips: Mr. Chairman, members of the Board, we did not model those numbers in this process but we could dust off our paperwork and sharpen our pencils and see if we can find a number for you on that. I don't have it today, sir.

Attorney General Wasden: Follow up on questions by the Secretary. Given the fact that any time you have an increase, supply and demand, there's a potential that someone would not lease a parcel, but as you mentioned there is the possibility that someone else will. It's also a question then of what's your bottom line; if you increase your price and someone drops out, but others are paying at market rate, have you increased your bottom line. I'm asking you what is the potential that by an increase in the grazing rate that we actually increase our bottom line. I think you told us what that is.

Director Miller: Mr. Chairman and General Wasden, as I indicated earlier, roughly, we are looking at an increase of about \$537,000, so half a million dollars plus increase to the endowments through raising the rate to \$9.07 an AUM. There's a possibility of some lessees no longer wanting to lease certain allotments from us and that income would be lost but I believe that there is a low likelihood of that happening. We would still be above where we are today and have increased the revenue to the endowment beneficiaries through this particular grazing model and the output that results from it.

Attorney General Wasden: Thank you. In the event that a lessee chooses not to lease a parcel and no one else chooses it, we have additional management costs associated with that parcel, and those are going to be ongoing management costs, but if you also consider the fact that we have an increased bottom line, that also then counteracts what other additional management costs we would have. So I'm just asking you, again recognizing into the future you're going to have increased management costs but you're also going to have increased revenue, whether you believe that's an accurate depiction.

Director Miller: We certainly could have increased management costs as a result of this fee increase. We likely will have. There could be some lessees that no longer want to lease that ground from us, but again, if I'm understanding your question and answering it correctly, I still believe that we will be in the positive and there will be a benefit, an additional benefit of income to the beneficiaries as a result of this model and the outputs resulting from it.

Attorney General Wasden: You are answering my question, Dustin; thank you.

Controller Woolf: I guess maybe clarification from Mr. Phillips, clarifying Dr. Rimbey's answers and direction. What did he help clarify on what you did this past few months in review? Was he reviewing the '93, was he reviewing your work here? Could you explain that a little bit further of what he was opining on.

Mr. Phillips: The Department worked with Dr. Rimbey to help us refine the current grazing rate proposal that we are bringing forward today. We went into this exercise under what we believed direction of the Land Board was, to develop a new model for determining a grazing rate. We did not take on the task of determining if the current 1993 formula was generating market rate because we believed it had been established that the current 1993 formula likely was not generating a market rate for the endowment beneficiaries. For example, the 2010 Resource Dimensions study, that was one of the key findings from that body of work that the Department commissioned. With Dr. Rimbey we asked a lot of technical questions. He helped advise us, for example, to use indexing instead of CPI inflationary adjustments to move numbers from his 2011 study forward to 2020 values. He also helped us understand the concept of averaging data points to obtain a central value and therefore a likely more accurate model. The scope of work with Dr. Rimbey was really consulting on the development of the current model.

Controller Woolf: Thank you.

Secretary of State Denney: Any other questions? Okay, I guess we're ready for public testimony. We'll start with Mr. Smith. Mr. Smith are you ready to testify? We will give each person who wishes to testify three minutes to testify before us.

Jay Smith: I am ready; thank you.

Secretary of State Denney: Go right ahead, you've got three minutes.

Mr. Smith: Mr. Chairman, members of the Board, thank you for this opportunity to speak with you this morning. I'm going to let Mr. Pratt make most of the official statements for the association; I'm going to speak more for myself as a producer this morning. I run on an isolated parcel of state endowment land. Isolated endowment parcels make up 49% of your land mass. Now I am going to disagree with Director Miller slightly in his assessment that there will be no loss of lessees due to a rate increase. He stated that in 2017 we hit \$9 and lost no lessees. That is a fact, but 2017 followed the two highest revenue years in history of the cattle business. So people had money in 2017 that they do not have right now in the drought-stricken year of 2021. I personally this summer have lost 17 animals to wolves. One hundred percent of that loss was on public land. Zero percent on private land. Now I know that I am not a university and that does not count as a study but when looking at a non-feed cost to operate on public land, that is a significant loss that I have taken this calendar year. The other thing I would like to point out is I got zero use on my endowment land this year because of drought. I chose not to turn cattle out

on it due to a lack of feed and a lack of water. Now I went ahead and paid my full grazing rate back in May yet chose not to use the land. These are the kind of decisions that a prudent operator can make when dealing with a reasonable rate. We can choose the best interest of the land over maximizing our use of the land. When rate is maximized, we do not have this flexibility and we would have to graze whether it was in the best interest of the land or not. Those are my comments; I thank you for your time.

Secretary of State Denney: Thank you, Mr. Smith. Mark Pratt.

Mark Pratt: Good morning. Governor, members of the Land Board, thank you for the opportunity to address you this morning. Last month I left two and a half minutes on the table and I'm wondering if there's a carry forward on that. *[laughter]*. Apparently not.

Secretary of State Denney: Mr. Pratt if you would state your name and who you represent.

Mr. Pratt: I am Mark Pratt and I represent Idaho Cattle Association, also Eastern Idaho Grazing Association. I live in eastern Idaho where 54% of your total AUMs reside. Our family holds three state leases totaling about 1,200 acres; we combine that with private lands to carry out our grazing program, along with our association membership. We've been through the contested bidding process. My granddad would tell me experience is cheap no matter what it costs. It wasn't cheap, but it was an experience. We are members of Eastern Idaho Grazing, one of your largest leaseholders. Our association land is intermingled with what is referred to as our public lands. As an association we have drilled wells to distribute livestock and assure adequate water availability. We've added cross fences to better manage livestock, none of which are on property lines. This year members pulled off early and went to CRP in an attempt to address drought. The fact that we are intermingled is most apparent during hunting and fishing season. We had eight camp trailers and the pickups and other equipment on the equivalent of two city lots. After 12 inches of snow, you can imagine what that looked like; kind of the end of the monster truck rally. The current formula mirrors the world where your partners do business. Long-term return has many facets. When we hit \$9, we were in better times. Your study stated that five-weight steers were at a near record high in 2011 of \$1.60. We currently have the same five-weight steer at \$1.60. The ebb and flow that occurs within the livestock industry is also reflected in the current grazing rate and we appreciate that. In order to protect wildlife habitat I believe that you need partners that understand stewardship. We are not on opposing teams. I would suggest in the face of continual public access pressure, we need one another. Thank you.

Secretary of State Denney: Thank you, Mr. Pratt. Any questions? Scott Bunderson.

Scott Bunderson: Governor Little, members of the Land Board, thanks for allowing me to present this morning. I'm a fifth generation Idahoan and my family originally homesteaded in Indian Valley, but for the past 20 years I've been ranching in Owyhee County. I'm in favor of an accurate grazing rate formula but I'm not convinced that we're quite there. This revision appears to be better than the last one I reviewed several years ago in front of this same Board, but I believe we have not enough flexibility and timely economic impact for these exceptions or the diversity of Idaho's public land statewide. Only utilizing data from several prior years isn't feasible for a comprehensive plan. While folks in northern Idaho and eastern Idaho have enjoyed a relatively decent year, southern Idaho, in particular Owyhee County, has had one of the worst drought and feed years that I can remember. Public and private ground attributes are not like comparing

apples to apples. In private ground we drop cattle off in April and pick them up in October with no responsibility for mineral, supplement, management, fencing, or the need to check these cattle. Private ground typically averages fewer acres per AUM than public land so cattle must travel further for less. For example, in Valley County AUMs can be as low as half an acre to an acre per AUM while in Owyhee County AUMs can reach into the 30-plus acres. In tough years like this one cattle require more supplements and water. We're already paying as much or more than we would be to graze on private ground and working harder to do it while maintaining stewardships over Idaho's lands. I understand the desire to increase the benefit to the endowment fund but what's the cost. Utilizing estimates from actual costs, my calculations on a 450-cow outfit with 425 calves and utilizing 3,500 AUMs of state land is within \$1,080 of the private rate – that's the USDA/NASS private rate – and more than \$20,000 more than the federal rate. My figures include our cost of salt, protein, labor, fencing, travel, and vehicle and ATV maintenance, but do not include any numbers for cattle transport as we have to do that on public or private. Utilizing public grounds also puts us in a position where we must deal with elk tearing down fences, recreationalists running UTVs/ATVs wherever they can, and unlike on federal ground, in very bad years it is only with very rare exception that we can utilize non-use like they can on federal grounds. It's simply not an available option for us and even in bad years, we still have to pay our bill. An increase in the grazing rate without being attributable to reliable real-time data may very well result in short-term increased revenues for Idaho but will most likely result in leases going back to the state as utilizing public grazing land becomes unaffordable. The state rate is already more than five times that of the federal rate and bearing this in mind the proposed formula is showing the need to increase the rate on a year like this year. I'd like to recognize and thank the folks that have put their time into this formula and the respect we have for Dr. Rimbey and Dr. Tanaka. Please understand we are not in favor of kicking the can down the road any further as well; we have repeatedly asked and would like to be included in the derivation of the realistic and accurate grazing formula going forward. Thank you for your time and consideration on these points and the availability to present them today.

Secretary of State Denney: Thank you, Mr. Bunderson. Any questions?

Controller Woolf: Mr. Bunderson, are you representing yourself?

Mr. Bunderson: I am representing myself as a producer. Past president of the Owyhee Cattlemen's Association.

Secretary of State Denney: Next, George Bennett.

George Bennett: I think the things that I was going to say is pretty much covered.

Secretary of State Denney: Okay. Oscar Evans.

Oscar Evans: Good morning, Governor and Land Board members. I am Oscar Evans from Homedale; current president and honored to serve as the Owyhee County Cattlemen's Association president this year. Now, I haven't convinced them to pay me so I am very active in the real estate market during the day and in between phone calls from ranchers. So this is a very common conversation I have with you as landlords in setting expectations versus reality, and I'm very comfortable doing that. Just a couple of things I want to point out in that regard is that it's very difficult for landowners, property owners who have land across the state, to set one blanket formula for all of the land that they own. Certainly Treasure Valley, Magic Valley, east Idaho,

Palouse, all have their different variances that go into that, and we understand that. But I know one thing that we can never do is demand a certain ROI, a certain return on investment, and figure out a way to get there, because what we end up with is vacant land and dark office spaces. Now, on the cattle market side, this year in particular all of the factors that have already been mentioned but I'll re-emphasize a couple of them: the drought, the feed prices. The cattle market can best be described as tumultuous right now. It's neither up nor down; it's all over the place. Probably a little bit like my golf game, I guess. But it's also...the big thing that's not really recognized, I don't think it's captured anywhere in this, is the labor. The labor market is impossible, across the board, across all industries. And what the ranchers who lease the ground from the state provide is basically free labor. They do everything. And if you heard Scott, and one of my hardest things to do over the past year has been to coordinate with Mr. Bunderson who is my predecessor and who did a fantastic job in spite of the fact that he would disappear for days on end taking care of his ground out in Owyhee County. You won't find better stewards, more devout stewards, conservationists of the ground, than you will in your ranching community. Now couple that with something that may be one of the few points that hadn't been brought up yet is that the ineptitude and incompetence coming from our federal government, we are expecting a barrage of more regulations and very agenda-related items on federal grounds. And what we need is a state partner, as Mr. Bunderson said, we need a partner and we're willing to do that with you to calculate the things that may or may not be calculated in the formula. Dustin, I appreciate what you did; I think you put a lot of work into this, but what I would like to see is more involvement from industry, and when I say "I" I am talking on behalf of the cattlemen here, on behalf of the cattle association, the Owyhee Cattle Association. Involve us as an industry, include our labor in your calculations, let the market drive the return on investment not the other way around. And you know the old saying 'log it, graze it, or watch it burn.' If we try to raise that rate, we're going to take 'graze it' out of that equation and we're going to have two choices, log it or watch it burn, and that's not going return on anything. Thank you.

Secretary of State Denney: Any questions for Mr. Evans? Thank you, Oscar. Russ Hendricks.

Russ Hendricks: Good morning, Governor Little, members of the Land Board. My name is Russ Hendricks and I represent the more than 80,000 Idaho families who are members of the Idaho Farm Bureau. We appreciate the opportunity to comment on the latest proposal to change the state grazing formula. We recognize and appreciate that IDL is doing the very best they can with the data that they have; however, the problem with the current proposal is the undisputed lack of current hard data with regard to the non-feed costs for private leases as well as several of the state non-feed costs. For example, current state grazing lessees are specifically required to provide noxious weed control by the terms of the lease; however, that cost is not accounted for anywhere in the current proposal. A spot treatment for noxious weeds on rangeland is a minimum of 20 cents per acre; typically far more than that. That means that spot control of noxious weeds on a section of state land would cost about \$128; that is an additional cost of \$1.60 per AUM that a private lessee does not pay. That is a significant cost that is completely ignored in the current proposal. There are several other non-feed costs that are not included that ensure the proposed formula is inaccurate, such as association fees, vet expense, depreciation of improvements, herding, etcetera. I can't stress enough that these are real costs and we can't just ignore them if we don't have data. We have to get the data before making a decision. To correct this situation, I believe each of you are aware that a master's student at Utah State University has worked over the summer to successfully replicate the University of Wyoming study of state

grazing lease non-feed costs, and he is now in the final process of tabulating the raw data and preparing to present his findings to his review board. Once that data is fully vetted and published in just a few months, we will have actual, current hard data to use in this process. Unfortunately, we still have very soft data that is standing as a proxy for the non-feed costs on private leases. Some data that is being used in the current proposal does not even purport to be actual data but is only the educated guesstimates of University of Idaho economists but are published as guidelines for budget-setting purposes for producers. Therefore, we request that no action be taken on this proposal until current hard data that accurately reflects the non-feed costs of private lessees is obtained, which can then be netted with the forthcoming data on state leases. I appreciate your time and be happy to answer any questions.

Secretary of State Denney: Thank you. Any questions?

Controller Woolf: No questions, but maybe just a comment. I look forward to a good analysis from a good university at Utah. Go Aggies. Full disclosure, undergrad Utah State; master's degree from Boise State.

Secretary of State Denney: Is there anyone else who would like to testify? Hearing none.

Attorney General Wasden: I have a couple of questions for the counsel for the Board if he would yield to some questions.

Darrell Early: Mr. Chairman, members of the Board, for the record, Darrell Early, Office of the Attorney General.

Attorney General Wasden: Thank you. Darrell, we talked a little earlier about the current lease process, the formula that's used, and if this were challenged in court, you would be the person who would be responsible for making an argument on behalf of the legality of that current formula. I'm interested in your thoughts as to the challenges you would face making an argument for the current lease formula.

Mr. Early: Mr. Chairman, Attorney General Wasden, because of the record that's been established over the last 10 years related to the current formula, there would be challenges associated with defending the status quo formula. We recognize, and it's been pointed out earlier in the testimony from the Director and Mr. Phillips, work quite a while ago, 10 years ago, established that there was this divergence from the private market rate that was probably not meeting the Board's obligation to meet its fiduciary obligation. In addition, we have recognized and Dr. Becker, back in 2017-2018 timeframe, pointed out to us that there were flaws in the current status quo formula, revolving around multicollinearity, which is a university word to mean basically we are counting two things twice. There was a flaw in the formula in that regard that is in part why the formula is, and that graph shows us, diverging from that private market. Finally, we have recognized in the course of these proceedings that the formula as established back in 1993 derived in part from a discussion between the Secretary of State and the Governor at a Board meeting where they effectively compromised on a decision rather than basing it on any kind of numbers and data. So there are certain challenges that would be presented if we were attacked in a legal proceeding with defending it based upon the record that we've established in the last 10 years, certainly the last four years since I've been here.

Attorney General Wasden: With regard to the Department's proposed rate formula, it's likely or at least the possibility exists that would also be challenged in court and you would have some issues that you would have to address, so I ask for your thoughts as to the viability and the arguments for and against and the challenges that you would face as you attempt to defend that rate that is proposed.

Mr. Early: The defensibility or the arguments that we would have in favor of the proposed methodology, I believe the proposed methodology is defensible in court. I say that with the caveat that, and I've told you this before, I never bet on a judge. I give you this counsel recognizing that we would still face challenge, and outcomes are not guaranteed. However, this proposed methodology is defensible for several reasons. The standard by which the Board's actions will be judged is to recognize that this is a discretionary decision by the Board exercising its business judgment in the exercise of its fiduciary duty as a trustee. That in turn is gauged by a couple of different standards. On that business judgment piece, it is essentially the 'what would an ordinarily prudent businessperson do under like circumstances.' In that regard, this methodology is tied to the private lease rate, which is what ordinary prudent businesspeople are doing, while recognizing the differences between the costs on public grazing and private grazing and acknowledging that throughout all of these proceedings we have heard repeatedly there is a difference between public and private. The methodology is done as best as it could be with the published data available to ascertain what those costs are and set an offset such that the rate is offset from the private lease rate. That exercise recognizes that ordinary prudent business judgment. The other standard that's applicable is whether or not this is a proper exercise of discretion. When you're talking about discretion, the issue is really whether or not the Board in acting upon this is exercising reason or rational judgment in doing so or is it acting arbitrarily and capriciously. Arbitrarily and capricious is in turn the lack of reason, or the lack of rational thought; whimsy, or chance. The proverbial throw at a dartboard on the wall and let that be the choice, or consider factors that are entirely irrelevant like, for example, we won't change the grazing rate today because it's raining. That has nothing to do with whether or not you should or shouldn't do it, and therefore it's not an exercise of reason to base a decision on such a factor. In this regard, this methodology represents an exercise of reason and rational judgment. As pointed out, it has objective data that is the basis for deriving that offset. The data is not perfect as we all know and has been acknowledged; no data is ever perfect when it relies on surveys which can build in bias factors, etcetera. However, it is the best available data that has been selected; it has been reviewed by the experts. It's my understanding that the experts, Dr. Rimbey and Dr. Tanaka, have both said this formula is a reasonable way of setting a formula. For those reasons, with that kind of record and that kind of evidence in front of us, I believe this is a defensible formula for this Board to adopt at this time.

Controller Woolf: I have a follow up. Along all those lines, Mr. Early, what is the defensibility of a phased approach, if that were to be done, what's the legality. If the formula was still used but with a phased approach to get to the finality of the 49% that was set when recommended by the Department. What's the legal defensibility of that?

Mr. Early: Mr. Chairman, Controller Woolf, it's very difficult for me to say, to answer that question about defensibility because it's really in some respects very much dependent upon the basis upon which that decision is made. At this point the Board has not articulated what that basis is. We've heard testimony today about the impacts of drought and those kinds of things

which might support the Board's decision in that regard. At the same time, the memorandum from the Department has discussed that issue and talked about whether a phase-in is or is not appropriate, asking that question I believe of Drs. Rimbey and Tanaka, so you have sort of that piece of evidence in the record which would be held up as reflecting against a phased-in approach versus the testimony we've heard today, and whatever this Board would make a discussion of in terms of its rationale for adopting a phased-in approach. If the rationale is based upon facts and not arbitrary or illegal considerations, then it would probably stand up on review. If it is based upon arbitrary, again 'the sky isn't as blue today,' kind of factors, or as we learned from the Watershed cases, factors that are not proper in the exercise of your judgment, which means your focus, your duty of loyalty, is to the endowment beneficiaries not to other folks. If you are doing it for reasons that are relevant to the endowment beneficiaries long-term financial returns then it can be defensible, but if it's being done for reasons that are unrelated to that or for purposes to benefit some other group, then it would be subject to challenge.

Superintendent Ybarra: Mr. Chairman, I'd like to hear a little bit more about the phased-in approach. I'm inclined to vote no against the raise today. I think like in education teachers are the experts and I believe ranchers are the experts. The data is fine, but I think the timing is poor. I took some notes: the drought issue, the feed, the possible loss of leases which is doubtful, planting a little doubt in my head for the return on investment for public schools. I would entertain listening to more about a phased-in approach and when that might start. If there is a thought around that, I would support maybe 2023 and send it back to the Department, but more discussion around something like that.

Attorney General Wasden: Darrell, I am reading a letter from Dr. Rimbey. It's in our files, page four of Attachment 3; it's dated September 13, 2021, to whom it may concern. It's regarding the September 10, 2021 review draft. Specifically in the second paragraph, the first sentence, he says 'given the new rate of \$8.33 per AUM, I do not think a phase in over a period of years would be warranted.' He goes on and says, 'it might warrant another look at the issue if the livestock industry makes that request, in light of the ongoing drought conditions and current and projected feed cost increases.' Recognizing that is part of our record, because it's part of the documents that are submitted before the Board, I'm interested in your thoughts as to the defensibility of a phase in.

Mr. Early: Mr. Chairman, Attorney General Wasden, a couple of points there. This letter was written at a point when Dr. Rimbey was looking at the \$8.33 per AUM and the rate proposal before us today is at \$9.07, so there is a change in the circumstances since the letter was written. However, he points out it might warrant a look at the issue if the livestock industry makes that request and in light of the ongoing drought conditions and current and projected feed cost increases. We've heard testimony from some of the livestock producers today. I think we've received some comment outside of today's meeting to the same effect, and it provides a basis upon which this Board could, if it chooses to, look at a phased-in approach and would provide some evidence and some support from a recognized expert in this field for a phased-in approach. This letter doesn't address what we have exactly in front of us today and therefore it is a reflection of possible testimony by an expert, not exact testimony by an expert.

Secretary of State Denney: Darrell, how many challenges have we had to the current formula over the last 28 years?

Mr. Early: We have not been legally challenged to date on the existing formula. As you know, and I've discussed this with you in the past, we have received some significantly threatening overtures. I think a lot of what's happened over the last few years is the expectation that something would happen and at that point an action would be looked at based upon whatever action the Board took. To answer your question directly, we have not been challenged to date.

Attorney General Wasden: Follow up. Darrell, I personally had received notice that folks...there are certain entities who will sue over the rate: the current rate if it's not changed and also a potential new rate if it doesn't fit within certain parameters. I suspect you've probably heard the same kinds of things, so is the basis for making a determination whether we think we're going to get sued or not, or whether we're fulfilling our fiduciary duty.

Mr. Early: Mr. Chairman, Attorney General Wasden, the ultimate standard by which this Board should always act is its judgment about whether or not it is or is not meeting its fiduciary duty. Whether or not you are going to get sued, and whether or not you will win or lose that lawsuit, is simply a recognition of risk and legal costs and other factors that go into those things. The ultimate decision that this Board should make based upon case law and analysis is whether or not the Board is exercising its business judgment to meet its fiduciary duty to maximize long-term return.

Secretary of State Denney: Okay, I guess that's it.

Attorney General Wasden: I move that we adopt the 2021 Grazing Rate Formula Proposal as provided by the Department.

Controller Woolf: I'd like to second that for discussion purposes.

Secretary of State Denney: It's been moved and seconded that we adopt the Department proposal. Is there discussion?

Attorney General Wasden: I would like to speak to my motion. We find ourselves in a position where we have a current rate formula that was set in 1993. I think most folks readily agree that it does not meet the requirements of our fiduciary duty, in fact our experts have readily said that. We have kicked this can down the road a number of occasions; in fact, we kicked it down the road three years ago. We had a grazing study subcommittee and they did a bunch of good work and we were waiting for the Wyoming study. The Wyoming study came and the Wyoming study, as good as it is, has some lack of data that would be helpful. I commend the Department for all of the efforts and I believe that they have gotten the best available data for us. No matter what set of data you have it's going to have imperfections, that's just going to happen. In the exercise of our business judgment and appropriate exercise of our discretion I think that this choice in this instance would be appropriate. Given all of that, we face the potential of a different rate. The Department has done a good job of providing a process and then getting the best available data. Now there's been a proposal today, we've got another master's study that will be done by a certain Aggie institution and we could wait for that, but at the same time that would mean we're kicking the can down the road again and we're applying a rate formula that we know does not meet our constitutional obligation. There's talk of phase in. I haven't actually seen any proposal as to phase in, and this shouldn't be done as a political compromise but instead as an objective, studied proposal. We don't have that in front of us today. We don't have a tiered system in front of us today; we don't have a lot of other proposals. We have this proposal and we also have a

fairly significant time element, that is our decision has to be rendered by this body within a very short few days in order for us to timely give notice to the lessees in the next cycle. Otherwise, we are kicking the can down the road for at least another year in which we would be applying a formula that we know does not meet constitutional muster. I urge the members of this Board to support this motion. There are flaws and imperfections but I think that we can charge the Department with examining the data and seeing if we can't improve that in years to come, but we would have in place the appropriate formula and improve its application by the data that we would gain that would be even more accurate. I urge the members of this Board to support this motion.

Secretary of State Denney: I guess I'll go next. First, thank you Scott and Jason and all the rest of the staff for the work that you did on this. Having chaired that grazing rate subcommittee from a few years ago, I can feel your frustration. Certainly it's very difficult to come up with a formula that's both fair and equitable to everyone and at the same time that meets our constitutional duty. We've heard a lot about our fiduciary responsibility but I want to start with the constitution and read a little bit of Article IX, Section 8; it says, 'it shall be the duty of the state board of land commissioners to provide for the location, protection, sale or rental of all lands heretofore, or which may hereafter be granted to or acquired by the state...in such a manner as will secure the maximum long-term...' So there's another factor there and it's called management and that's why I asked questions earlier. Until we know what it costs us to manage these lands in the absence of lessees, because they're doing a lot of the management for us, in fact their management plan is what the management is, and they take care of those noxious weeds and take care of removing some of the fuel load, and that's active management. What is our active management? Location: these are numbers from back when I chaired the subcommittee, currently 44% of our leases are inholdings with restricted or no legal management access. Nineteen percent have mixed access rights; only 37% have unrestricted full management access. I think we could do better as far as location. Protection: part of protection is the management of the resource, taking care of the noxious weeds, removing some of the fuel load; that is protection of the resource. Rental or lease: I have to tell you that every single leased grazing property is unique; every one is unique, and I'm sure that some are worth more than what we're charging. I'm equally sure that some are worth less than what we're asking to be paid. Let me talk a little bit about the proposal. I'm not sure that tying the grazing rate that we're setting to the private rate is the best way that we can do this. If it is the best way, I think there are some arbitrary things in this formula, that I brought to Scott's attention a few days ago, that I would be more comfortable taking the data that we have from the last 45 years on the variation in rates from private to our leased rates. From 1977-2021, we have that data and that rate goes from a high of 68% of the private rate down to a low of 34% which is lower than what we currently are. But if you average those all together, I think we have very close to the formula that we already come up and spent a lot of time developing which in my opinion may or may not be the best way forward. I would argue that having a factor in this formula that takes into account wolf depredation and water...why would we charge everyone for wolf depredation and everyone for providing water when most of our leases don't have wolf depredation and don't lack water. This year more lacked water than other years, but that's a factor in my opinion that's arbitrary. With that, I'm going to be voting no on this proposal.

Controller Woolf: I want to share a couple of my thoughts. First to thank the Department for the amount of work, it has been said and I just want to echo that. I believe that they've put forth a

model that is flexible, it's easy to understand, it's more adaptable to bring new data forward based on what we may have from what the Farm Bureau has coordinated with the master's student. I think that would help refine the rate going forward. Now it's not a perfect model, but the flexibility to add more data, if and when it comes available, we know in the process we can adjust this model quickly and to represent the best available data to support a rate. My experience has been more with Holsteins and knowing which part the hay goes in and which part the other comes out and getting the milk out. I can somewhat relate to our good friends here and understand the drought conditions, the water, the feed prices, the fuel, everything that's taken place, and I respect that. I respect my fiduciary duty as a trustee. I'm wanting to hear if the Superintendent has other comments, seeing that we're maybe not aligned and may have different thoughts of approach or direction of how we handle this. I want to hear more discussion and I appreciate everyone speaking forward and sharing their thoughts on this model and the work that's gone into it.

Superintendent Ybarra: Mr. Chairman, I don't have much more to add except for what I said earlier. Counsel did say that it's our discretion if it were exercised in reason. I feel very strongly that we would be, voting no today, because we do need to take into consideration the timing and the things that were explained to us like the drought and the feed market. If the ranchers are out of business, we haven't done our duty. I'll be voting no. But again, I trust the Department; they came up with the formula that we have today and I think if we sent this back to them with the expectation that we want a phased-in approach, that we are not into kicking the can down the road or making political decisions, that this has to be fixed, which I believe I heard from most the ranchers that they agree with that, that they could come up with a phased-in approach and we need to put a date on it and say 2023, that would be the expectation. As it stands today, I will be voting no.

Attorney General Wasden: Call for the question.

Secretary of State Denney: Okay, we will vote. Do you want a roll call as well?

Attorney General Wasden: No.

Secretary of State Denney: The motion is to accept the Department's recommendation. All those in favor say aye.

Wasden and Woolf: Aye.

Secretary of State Denney: Those opposed nay.

Ybarra and Denney: No.

Secretary of State Denney: The motion fails on a tie vote.

Controller Woolf: Mr. Chairman, based on our not being aligned, and the work that's gone in here, I do want to see if there's opportunity here to pursue a phased-in approach. I take this from a standpoint of my research and work that I've done on my MBA and the work of others totally outside of this, and I look at an example that happened with Netflix where they totally priced out all their consumers. Respecting our right, wanting to stay within our legal bounds, that we look at what a potential for a phased-in approach would be if we can meet that legally for doing it for the right reasons, nothing arbitrary or capricious, that we do this from a standpoint of a phased

approach to move from the \$7.07, whether it's over a two-year period, that we can move towards this point, that way we can continue, we're not kicking the can down the road as now the decision has been made. I think from a standpoint that we can continue to use the model that's been put forward. That's a long motion and I should have waited for a second in my discussion after that, so I apologize Board members. Let me pause there; my motion is to have a phased approach over a two-year period, that we phase in 50% this first year and get to the remaining part the following year.

Superintendent Ybarra: Second.

Attorney General Wasden: Question. Is your motion to adopt the formula as proposed by the Department?

Controller Woolf: Mr. Chairman, Mr. Attorney General, yes.

Attorney General Wasden: And then, I'm not certain I understand the phased-in portion of that. So if it's 50%, that would mean that this assessment would be below the current rate? I guess I am completely confused.

Controller Woolf: My recollection and my point is, going 50% of the increase. It's at \$7.07 currently; the recommendation was to move to \$9.07. I'm just throwing out that part to say let's move 50% to get to \$8.07. That was my 50% part, if that helps clarify.

Attorney General Wasden: Thank you for the clarification.

Superintendent Ybarra: Mr. Chairman, I want to withdraw my second. I want the Department to figure out that part. I'm not going to second that motion. I would support a motion where we use the phased-in approach but I want the Department to come back with what that would look like.

Attorney General Wasden: Mr. Secretary, does that motion fail for lack of a second?

Secretary of State Denney: It does.

Controller Woolf: I used to run marathons so I'll give it one more try. Mr. Chairman, I'd like to make a motion that we do a phased-in approach, that we have based on the direction of what the Department of Lands would recommend, the timing, and submit that to us.

Attorney General Wasden: What is the timing of this? Is this intended to occur so that there's sufficient time to notify this year's lessees? Or is this putting this off until some future date?

Controller Woolf: Let me refer to Mr. Phillips if he had a recommendation on that.

Mr. Phillips: Mr. Chairman, members of the Board, we are under very tight time constraints to get notifications out to our customer base in order to meet our statutory obligations for any rate change. That said, I do have in my papers kind of a breakout of various rates at different percentages. Based on the second motion, the substitute offered by the Controller, he was basically recommending a 43% of the USDA NASS private rate for Idaho for the first year. I would also like to point out that we do have the opportunity to add additional data to our body of research and our evaluation with the completion of Mr. Lake's study at Utah State University. Did I answer your timing question, sir?

Controller Woolf: Thank you, Mr. Phillips. I think the question, still following up to the Attorney General, is if we did this motion, you would need the timing for November 3rd or 4th, in that time frame, to meet the 180 days that we have to notify our lessees of the increase.

Attorney General Wasden: Correct. And Mr. Secretary, if that is to happen in the current year, we would have to hold a special Land Board meeting at which that would be adopted, unless it's adopted today, and the Department's recommendation would have to be made, but then this body would have to meet and adopt whatever it's going to adopt. So that's the timing question. And what is the answer to my question?

Superintendent Ybarra: Could the Department come back in 2023 with specifics? I am not inclined to vote for an increase today of any kind, but could you come back and say, in 2023, this is what's going to happen, this is what we propose, this is the plan.

Mr. Phillips: Mr. Chairman, members of the committee, the Department can come back at a future date. I am prepared to speak about the potential of stepping into a rate; that was a concept that we considered in an early rendition of the formula. If the Board has some questions about what rate is generated by a specific percentage number, I'd be glad to answer those and perhaps help guide the process in that form, at your pleasure.

Controller Woolf: Mr. Chairman, I'd like to rescind my motion.

Board Action: A motion was made by Attorney General Wasden that the Land Board adopt the 2021 Grazing Rate Formula Proposal as provided by the Department. Controller Woolf seconded the motion. For the record, Governor Little recused himself from this vote. The motion failed on a tie vote of 2-2. [Aye: Wasden, Woolf; Nay: Denney, Ybarra]

A motion was made by Controller Woolf that the Land Board adopt the formula as proposed by the Department, with a phased approach over a two-year period; the first-year rate would be \$8.07 which is 50% of the increase from the status quo formula (\$7.07) and the proposed model formula (\$9.07). Superintendent Ybarra seconded the motion but later withdrew her second. The motion failed for lack of a second.

A subsequent motion was made by Controller Woolf that the Land Board adopt the formula as proposed by the Department, with a phased-in approach based on direction and recommendation from the Department, including timing, that would be submitted to the Land Board. Controller Woolf rescinded his motion soon after.

5. Adoption of Pending Rule IDAPA 20.02.01, Rules Pertaining to the Idaho Forest Practices Act – Presented by Archie Gray, Bureau Chief-Forestry Assistance

Recommendation: Adopt the pending rule for IDAPA 20.02.01 *Rules Pertaining to the Idaho Forest Practices Act*.

Discussion: None.

Board Action: A motion was made by Attorney General Wasden that the Land Board adopt the proposal by the Department concerning the pending fee-rule. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

For the record, Attorney General Wasden later realized he stated in his motion "...the pending fee rule." Attorney General Wasden clarified it is not a fee rule and with unanimous consent re-stated his motion to "...the pending rule."

6. Adoption of Pending Rule IDAPA 20.03.09, Easements on State-Owned Navigable Waterways –
Presented by Eric Wilson, Bureau Chief-Resource Protection and Assistance

Recommendation: Adopt the pending fee rule for IDAPA 20.03.09 *Easements on State-Owned Navigable Waterways*.

Discussion: None.

Board Action: A motion was made by Attorney General Wasden that the Board adopt the rule as proposed by the Department. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

Information

Background information was provided by the presenters indicated below. No Land Board action is required on the Information Agenda.

7. Abandoned Mine Land Fund Revenue – *Presented by Mick Thomas, Division Administrator-Minerals, Pub Trust, Oil and Gas*

Discussion:

Governor Little: First, thank you. This is one that we're being proactive and, as is usually the case, none of these options are great, but the sooner we address them the better off it's going to be. To me, option 1 and option 3 are the same; we're just taking money from the general fund. Option 2 is the only one that we're either not giving it to the general fund to begin with or we're taking it from them later, is that correct?

Mick Thomas: Yes, Governor, you're correct.

Governor Little: I think looking at what other states are doing, talking to the mining industry about it, would be a good thing. I'm glad we're being proactive about it.

Executive Session

None

There being no further business before the Land Board, at 11:15 a.m. a motion to adjourn was made by Attorney General Wasden. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

STATE BOARD OF LAND COMMISSIONERS

November 16, 2021

Regular Agenda

Subject

Omnibus Rulemaking – Pending Rules

Question Presented

Shall the Land Board adopt the Department's omnibus proposed rules as pending rules and approve the Department's Notices of Omnibus Rulemaking for Adoption of Pending Rules and Pending Fee Rules?

Background

The administrative rules of the Idaho Department of Lands (Department) are currently in effect as temporary rules. The temporary rules became effective on July 1, 2021, and will remain in effect until the end of the 2022 legislative session.

The Department's omnibus notices of proposed rulemaking were published in a special edition of the Idaho Administrative Bulletin on October 20, 2021. Two rule chapters under Land Board authority are not included in the omnibus proposed rules: IDAPA 20.02.01, *Rules Pertaining to the Idaho Forest Practices Act* and IDAPA 20.03.09, *Easements on State-Owned Navigable Waterways*. Those rule chapters are on the Zero-Based Regulation schedule for negotiated rulemaking in 2021 and underwent a separate rulemaking process.

Discussion

Following publication of the proposed rules, no written comments were received. A public hearing was held in Boise and via Zoom web conference on November 2, 2021; no oral comments were received.

If approved by the Land Board and other approving authority, the Department will submit the notices of adoption of pending rules for review by the 2022 Idaho Legislature (Attachments 1 and 2).

The rulemaking notice includes rules of the Oil and Gas Commission because those rules are listed in IDAPA 20, Rules of the Idaho Department of Lands. However, the Department is not asking the Land Board to adopt the Oil and Gas Commission rules.

Recommendation

Adopt the Department's omnibus proposed rules as pending rules and approve the Department's Notices of Omnibus Rulemaking for Adoption of Pending Rules and Pending Fee Rules.

Board Action

Attachments

1. Notice of Omnibus Rulemaking – Adoption of Pending Rule
2. Notice of Omnibus Rulemaking – Adoption of Pending Fee Rule



IDAPA 20 – IDAHO DEPARTMENT OF LANDS

DOCKET NO. 20-0000-2100

NOTICE OF OMNIBUS RULEMAKING - ADOPTION OF PENDING RULES

EFFECTIVE DATE: These rules have been adopted by the agency and the Idaho State Board of Land Commissioners and are now pending review by the 2022 Idaho State Legislature for final approval. The pending rules become final and effective upon the conclusion of the legislative session, unless the rules are approved or rejected in part by concurrent resolution in accordance with Sections 67-5224 and 67-5291, Idaho Code. If the pending rules are approved or rejected in part by concurrent resolution, the rules become final and full force and effect upon adoption of the concurrent resolution.

AUTHORITY: In compliance with Section 67-5224, Idaho Code, notice is hereby given that this agency has adopted pending rules. The action is authorized pursuant to Sections 38-115, 38-132, 38-402, 58-104, 58-105, and 67-5201 et seq., Idaho Code.

DESCRIPTIVE SUMMARY: The following is a concise explanatory statement of the reasons for adopting the pending rules and a statement of any change between the text of the proposed rules and the text of the pending rules with an explanation of the reasons for the change.

These pending rules adopt and re-publish the following existing and previously approved and codified chapters under IDAPA 20, Rules of the Idaho Department of Lands:

IDAPA 20

- 20.01.01, Rules of Practice and Procedure Before the State Board of Land Commissioners
- 20.04.01, Rules Pertaining to Forest Fire Protection

There are no changes to the pending rules, and they are being adopted as originally proposed. The complete text of the proposed rules was published in the October 20, 2021, Idaho Administrative Bulletin (Special Edition), Vol. 20-10SE, pages 3023-3054.

FISCAL IMPACT: The following is a specific description, if applicable, of any negative fiscal impact on the state general fund greater than ten thousand dollars (\$10,000) during the fiscal year: This rulemaking is not anticipated to have any fiscal impact on the state general fund because the FY2022 budget has already been set by the Legislature, and approved by the Governor, anticipating the existence of the rules being reauthorized by this rulemaking.

ASSISTANCE ON TECHNICAL QUESTIONS: For assistance on technical questions concerning this pending rule, contact Scott Phillips at (208) 334-0294.

Dated this 16th day of November, 2021.

Dustin Miller
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IDAPA 20 – IDAHO DEPARTMENT OF LANDS

DOCKET NO. 20-0000-2100F

NOTICE OF OMNIBUS RULEMAKING - ADOPTION OF PENDING FEE RULES

EFFECTIVE DATE: These rules have been adopted by the agency, the Idaho State Board of Land Commissioners, the Idaho Oil and Gas Conservation Commission (as to IDAPA 20.07.02), and are now pending review by the 2022 Idaho State Legislature for final approval. Pursuant to Section 67-5224(5)(c), Idaho Code, these pending rules will not become final and effective until they have been approved by concurrent resolution of the legislature because of the fee being imposed through these rulemakings. The pending fee rules become final and effective upon adoption of the concurrent resolution or upon the date specified in the concurrent resolution unless the rule is rejected.

AUTHORITY: In compliance with Section 67-5224, Idaho Code, notice is hereby given that this agency has adopted pending rules. The action is authorized pursuant to:

- Sections 38-132 and 38-402, Idaho Code;
- Title 47, Chapters 3, 7, 8, 13, 15, 16 and 18, including Sections 47-314(8), 47-315(8), 47-328(1), 47-710, 47-714, and 47-1316, Idaho Code;
- Title 58, Chapters 1, 3, 6, 12 and 13, including Sections 58-104, 58-105, 58-127, and 58-304 through 58-312, Idaho Code;
- Title 67, Chapter 52, Idaho Code;
- Article IX, Sections 7 and 8 of the Idaho Constitution; and
- The Equal Footing Doctrine (Idaho Admission Act of July 3, 1890, 26 Stat. 215, Chapter 656).

DESCRIPTIVE SUMMARY: The following is a concise explanatory statement of the reasons for adopting the pending fee rules and a statement of any change between the text of the proposed fee rules and the text of the pending fee rules with an explanation of the reasons for the change.

These pending fee rules adopt and re-publish the following existing and previously approved and codified chapters under IDAPA 20, Rules of the Idaho Department of Lands:

IDAPA 20

- 20.02.14, Rules for Selling Forest Products on State-Owned Endowment Lands
- 20.03.01, Rules Governing Dredge and Placer Mining Operations in Idaho
- 20.03.02, Rules Governing Mined Land Reclamation
- 20.03.03, Rules Governing Administration of the Reclamation Fund
- 20.03.04, Rules for the Regulation of Beds, Waters, and Airspace Over Navigable Lakes in the State of Idaho
- 20.03.05, Riverbed Mineral Leasing in Idaho
- 20.03.08, Easements on State-Owned Lands
- 20.03.13, Administration of Cottage Site Leases on State Lands
- 20.03.14, Rules Governing Grazing, Farming, Conservation, Noncommercial Recreation, and Communication Site Leases
- 20.03.15, Rules Governing Geothermal Leasing on Idaho State Lands
- 20.03.16, Rules Governing Oil and Gas Leasing on Idaho State Lands
- 20.03.17, Rules Governing Leases on State-Owned Submerged Lands and Formerly Submerged Lands
- 20.04.02, Rules Pertaining to the Idaho Forestry Act and Fire Hazard Reduction Laws

The Oil and Gas Conservation Commission adopts the following pending fee rule under IDAPA 20.07:

- 20.07.02, Rules Governing Conservation of Oil and Natural Gas in the State of Idaho

There are no changes to the pending rules, and they are being adopted as originally proposed. The complete text of the proposed rules was published in the October 20, 2021, Idaho Administrative Bulletin (Special Edition), Vol. 20-10SE, pages 3055-3245.

FEE SUMMARY: This rulemaking does not impose a fee or charge, or increase a fee or charge, beyond what was previously approved and codified in the prior rules.

The following is a specific description of the fees or charges:

- 20.02.14 – Stumpage payments and associated bonding for removal of state timber from endowment land pursuant to timber sales. This charge is being imposed pursuant to Sections 58-104, 58-105 and 58-127, Idaho Code.
- 20.03.01 – Application fee, amendment fee, and inspection fee for all dredge and placer permits in the state of Idaho. This fee is being imposed pursuant to Sections 47-1316 and 47-1317, Idaho Code.
- 20.03.02 - Application fee for permanent closure plans and reclamation plans and amendments to those plans. This fee is being imposed pursuant to Sections 47-1506(g) and 47-1508(f), Idaho Code.
- 20.03.03 – Annual payment for Reclamation Fund participation. This charge is being imposed pursuant to Section 47-1803, Idaho Code.
- 20.03.04 – Application fees for encroachment permits and assignments and deposits toward the cost of newspaper publication. This fee is being imposed pursuant to Sections 58-127 and 58-1307, Idaho Code.
- 20.03.05 – Fees for applications, advertising applications, and approval of assignments for riverbed mineral leases and exploration locations. This fee is being imposed pursuant to Section 47-710, Idaho Code.
- 20.03.08 – Application fee, easement consideration fee, appraisal costs, and assignment fee for easements on state-owned lands. This fee is being imposed pursuant to Sections 58-127, 58-601, and 58-603, Idaho Code.
- 20.03.13 – Annual rental payment paid to the endowment for which the property is held. This charge is being imposed pursuant to Section 58-304, Idaho Code.
- 20.03.14 – Lease application fee, full lease assignment fee, partial lease assignment fee, mortgage agreement fee, sublease fee, rental payment, late rental payment fee, minimum lease fee, and lease payment extension request fee on state endowment trust lands. This fee or charge is being imposed pursuant to Section 58-304, Idaho Code.
- 20.03.15 – Application fee, assignment fee, late payment fee, royalty payments, and annual rental payment for geothermal leases on state-owned lands. This fee or charge is being imposed pursuant to Sections 47-1605 and 58-127, Idaho Code.
- 20.03.16 – Exploration permit fee, nomination fee, processing fee, royalty payments, and annual rental payment for oil and gas leases on endowment lands. This fee or charge is being imposed pursuant to Sections 47-805 and 58-127, Idaho Code.
- 20.03.17 – Application fee, rental rate, and assignment fee for leases on state-owned submerged lands and formerly submerged lands. This fee is being imposed pursuant to Sections 58-104, 58-127 and 58-304, Idaho Code.
- 20.04.02 – Fee imposed upon the harvest and sale of forest products to establish hazard management performance bonds for the abatement of fire hazard created by a timber harvest operation, and fees imposed upon contractors for transferring fire suppression cost liability back to the State. This fee or charge is being imposed pursuant to Sections 38-122 and 38-404, Idaho Code.
- 20.07.02 – Bonding for oil and gas activities in Idaho and application fees for seismic operations; permit to drill, deepen or plug back; multiple zone completions; well treatment; pits and directional deviated wells. This fee or charge is being imposed pursuant to Sections 47-315(5)(e) and 47-316, Idaho Code.

FISCAL IMPACT: The following is a specific description, if applicable, of any negative fiscal impact on the state general fund greater than ten thousand dollars (\$10,000) during the fiscal year: This rulemaking is not anticipated to have any fiscal impact on the state general fund because the FY2022 budget has already been set by the Legislature, and approved by the Governor, anticipating the existence of the rules and fees being reauthorized by this rulemaking.

ASSISTANCE ON TECHNICAL QUESTIONS: For assistance on technical questions concerning this pending rule, contact Scott Phillips at (208) 334-0294.

Dated this 16th day of November, 2021.

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IDAHO DEPARTMENT OF LANDS

STATE BOARD OF LAND COMMISSIONERS

November 16, 2021

Regular Agenda

Subject

Statement of Investment Policy Annual Review

Question Presented

Shall the Land Board approve the revised Statement of Investment Policy for the combined Endowment assets?

Background

In November 2014, the Land Board accepted the Asset Allocation and Governance Review from Callan LLC (Callan). The report included a recommendation to develop:

A comprehensive Investment Policy Statement...for the combined Trust that identifies the investment objectives, risk management processes, risk tolerance (including connecting the risk taken in the asset allocation with that expressed in the distribution policy), the adopted asset allocation and rebalancing ranges, decision-making and the roles of each party involved in the investment process, how performance will be monitored and measured for each asset type, and the establishment of appropriate metrics and peer groups where relevant for both the land and financial assets.

Callan, working with the Idaho Department of Lands (Department) and the Endowment Fund Investment Board (EFIB), developed a Statement of Investment Policy for the combined Endowment assets, which was approved by the Land Board at the May 17, 2016 meeting. The Statement of Investment Policy and appendices are subject to annual review and approval by the Land Board's Investment Subcommittee and the Land Board.

Discussion

The Department and EFIB worked with Callan to review and revise the Statement of Investment Policy and appendices (Attachment 1), previously approved at the November 2020 Land Board meeting, to make corrections, align with current practices, and provide clarity. Revisions include:

- Asset class valuations and percentages of total portfolio as of June 30, 2021.
- Minor revisions to text throughout the document to provide clarity or make corrections.
- Changed the hurdle rate for timberland acquisitions to 3.25% net real.
- Changed the timing of review of the strategic reinvestment plan to every 3 years.

The changes to the Statement of Investment Policy were approved by the Investment Subcommittee on September 7, 2021.

Recommendation

Approve the revised Statement of Investment Policy.

Board Action

Attachments

1. Revised Statement of Investment Policy
2. Callan Hurdle Rate Review – May 2020



Statement of Investment Policy

Idaho Land Grant Endowments

As overseen by the:

Idaho Board of Land Commissioners



IDAHO ENDOWMENT FUND
INVESTMENT BOARD

INCLUDES FUNDS MANAGED BY THE ENDOWMENT FUND INVESTMENT BOARD



IDAHO DEPARTMENT OF LANDS

INCLUDES LAND MANAGED BY THE IDAHO DEPARTMENT OF LANDS

October 18, 2021

This Statement of Investment Policy was initially published May 17, 2016, and is updated annually. The policy superseded the State Trust Lands Asset Management Plan dated December 20, 2011.

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I. Introduction

The State Board of Land Commissioners (Land Board) hereby establishes this Statement of Investment Policy (Statement) for the investment and management of the land grant endowment assets (Endowment Assets or Endowment) of the State of Idaho. The Endowment Assets were created by The Idaho Admissions Act in 1889 which granted the new state approximately 3,600,000 acres of land for the sole purpose of funding fourteen specified beneficiaries including nine different trusts or endowments.

This Statement provides policies for the investment and management of financial and land assets which together comprise the Endowment Assets. Financial Assets consist primarily of the invested revenues from the endowment lands (collectively, Financial Assets). Land Assets include timberland, rangeland, farmland, commercial real estate, residential (cabin sites) real estate, minerals, and oil and gas (collectively, Land Assets) located in Idaho.

II. Purpose

This Statement of Investment Policy is set forth by the Land Board to accomplish the following:

- Establish a clear understanding for all involved parties regarding the management and investment goals and objectives for the Endowment Assets.
- Offer guidance and limitations to all involved parties regarding the management and investment of Endowment Assets.
- Define and assign the responsibilities of participants involved in the investment process.
- Establish a basis for evaluating investment and management results.
- Manage Endowment Assets according to prudent standards as established in the Idaho Constitution and trust law.
- Establish the relevant investment horizon for which the Endowment Assets will be managed.

III. Constitutional and Statutory Requirements

The investment and management of the Endowment Assets will be in accordance with the Idaho Constitution, all applicable laws of the State of Idaho, and other pertinent legal restrictions. In the event this Statement is inconsistent with Constitutional or Statutory Requirements (Requirements), those Requirements will control.

A. Land Board

Article IX, Section 7 of the Constitution establishes the Land Board: “The governor, superintendent of public instruction, secretary of state, attorney general and state controller shall constitute the state board of land commissioners, who shall have the direction, control and disposition of the public lands of the state, under such regulations as may be prescribed by law.”

B. Sole Interest of the Beneficiaries

All Endowment Assets of the State of Idaho must be managed “in such manner as will secure the maximum long-term financial return” to the trust beneficiaries.

C. Prudent Investments and Fiduciary Duties

The Land Board and its agents, including staff, the Idaho Department of Lands (IDL), the Endowment Fund Investment Board (EFIB), consultants, advisors, and investment managers shall exercise the judgment and care of a prudent investor as required under the prudent investor rule set forth in the Uniform Prudent Investor Act (Act), Idaho Code §§ 68-501 to 68-514.

Endowment Assets shall be invested and managed with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert acting in like capacity and familiar with such matters would use in the investment and management of assets of like character with like aims.

The Act states, in part, that: “A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution”; and, “A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.”

The duty of prudence requires trustees to bring the appropriate level of expertise to the administration of the trust. An implied duty of trustees is also to preserve and protect the assets with a long-term perspective sensitive to the needs of both current and future beneficiaries.

D. Sales, Exchanges, and the Land Bank

Article IX, Section 8 of the Idaho Constitution includes the following restrictions regarding the sale of lands:

- All land ~~disposals must occur~~ ~~must be disposed of~~ via public auction
- A maximum of 100 sections (64,000 acres) of state lands may be sold in any year
- A maximum of 320 acres may be sold to any one individual, company, or corporation (160 acres for University endowment lands per Article IX, Section 10)
- No state lands may be sold for less than the appraised price
- Granted or acquired lands may be exchanged on an equal value basis with other lands subject to certain restrictions
- Forest and certain other land may not be sold per Idaho Code § 58-133, which states, “All state-owned lands classified as chiefly valuable for forestry, reforestation, recreation, and watershed protection are reserved from sale and set aside as state forests.”

Article IX, Section 4 of the Idaho Constitution provides for the deposit of the proceeds from the sale of school lands into a land bank fund to be used to acquire other lands within the state for the benefit of endowment beneficiaries, subject to a time limit established by the legislature.

Idaho Code § 58-133 provides conditions for use of the Land Bank Fund. In summary, the Land Bank Fund exists to hold the proceeds from the sale of state endowment land pending the purchase of other land in Idaho for the benefit of the endowment beneficiaries. Funds in the Land Bank, including earnings, are continually appropriated to the Land Board. If the funds have not been utilized for land acquisition within five years, they are transferred to the permanent endowment fund of the respective endowment. The Land Board may transfer any portion of the funds in the Land Bank to the permanent fund at any time.

E. Other Constitutional Requirements and Statutes

Additional constitutional articles and state statutes are described throughout this Statement. [Appendix A](#) includes the entirety of the constitutional articles and statutes that apply to the investment and management of Endowment Assets.

IV. Investment Goals

A. General Objective

The stated mission for Endowment Assets is to provide a perpetual stream of income to the beneficiaries by managing assets with the following objectives:

- Maximize long-term financial return at a prudent level of risk.
- Provide relatively stable and predictable distributions to the beneficiaries.
- Constrain distributions to protect future generations' purchasing power.
- Maintain sufficient liquidity for anticipated expenditures.

B. Considerations

Primary considerations impacting the fulfillment of the investment mission and objectives include the following:

- Constitutional and statutory requirements as noted previously. Constitutional restrictions are considered permanent given the process required to amend the Constitution (approval by a two-thirds majority in the House of Representatives and Senate followed by ratification by the citizens of Idaho via a general election ballot or a constitutional convention).
- Managing revenue and profit-generating activities within a government agency.
- Each trust holds its Financial Assets in a commingled pool (with shares owned by several trusts) but its Land Assets in specific and unique tracts.

C. Investment Return Objective

As perpetual assets, per State Constitution and statute, the Endowment has a perpetual investment horizon. The investment return objective for the Endowment Assets is to earn over a long period an annualized real return, net of fees, expenses, and costs, above spending and inflation (per Idaho Code § 57-724) as well as population growth (per Land Board policy). Given the current financial and land asset mix, the Endowment is expected to earn a real net return of 3.5% annually over the long term.

D. Distribution Policy

The Distribution Policy adopted by the Land Board (further described in Section VIII) sets annual distributions to beneficiaries. The interaction of investment and distribution policies should balance the needs of current and future beneficiaries. The Land Board's policy is to distribute a conservative estimate of long-term sustainable income and hold sufficient reserves of undistributed income to absorb down cycles in endowment earnings. It is a priority to avoid reductions in distributions because most beneficiaries depend on endowment distributions to fund ongoing operations.

V. Investment Risk and Strategic Asset Allocation

A. Asset Class Diversification Asset Classes

Risk, as it relates to stability of distributions, shall be managed primarily by holding reserves of undistributed income. Risk, as it relates to the volatility of earnings of the Endowment Assets, shall be managed primarily through diversification. Subject to land disposal restrictions and the statutory prohibition on selling timberland, the Endowment Assets will be diversified both by asset class and within asset classes to the extent practical. The purpose of diversification is to provide reasonable assurance that no single asset class will have a disproportionate impact on the Endowment. Both quantitative measures and qualitative judgment will be used in assessing and managing risk.

B. Review of Asset Classes and Asset Allocation

In setting strategic asset allocations, the Land Board will focus on ensuring the Endowment Assets' expected long-term returns will meet expected long-term obligations with a prudent level of risk. Approximately every eight years, the Land Board will evaluate the asset allocation mix and conduct an asset allocation study (last completed in 2014) to determine the long-term strategic allocations to meet risk/return objectives.

Significant changes in capital market assumptions, portfolio characteristics, timber income expectations, or the Distribution Policy may cause the Land Board to accelerate the timing of an asset allocation study. For example, the illiquidity of much of the Land Assets may require the target asset mix of the Financial Assets be adjusted due to significant land sales or acquisitions or the appreciation of the Financial Assets at a faster or slower rate than the appreciation of the Land Assets.

EFIB will review the Distribution Policy annually. When key assumptions in the Distribution Policy, such as expected earnings and volatility change, EFIB will recalculate the risk of shortfalls in future distributions and provide recommendations on policy adjustments to the Land Board.

C. Strategic Asset Allocation

The Land Board commissioned a governance and asset allocation study in 2014 and accepted the recommendations included in the Callan Asset Allocation and Governance Report (Callan Report). This section summarizes the major conclusions of the asset allocation portion of the Callan Report. The purpose of the asset allocation study was to evaluate current and potential asset allocation mixes incorporating Land Assets with Financial Assets to evaluate expected return and volatility of the portfolio.

The Land Board commissioned a second Callan study in 2017 to provide further analysis and refinement on the asset allocation work completed in 2014. The primary goal of the follow-up study was to determine for each endowment the best and highest use of assets in the Land Bank—reinvestment into traditional land assets (timberland or farmland) or transfer to the financial asset portfolio. The Land Board accepted the results from the study and elected to pursue Option A from Callan’s Options to Consider (page 33 of the report), which reads:

Option A: Consistent with the Reinvestment Plan, identify potential transactions that meet established hurdle rates and set aside sufficient funds over appropriate time horizon (immediately move money that will either “mature” prior to the transaction or exceeds what is required).

- Recognizes the importance of land in the total Endowment and attempts to maintain land’s target allocation (41%)

The Land Board approved the asset mix from the Callan Report presented in Exhibit 1 below:

Exhibit 1: Asset Allocation

Asset-Class	Target Asset Allocation	Range	Actual Allocation June 30, 2020	Expected 10 Year Compounded Return ^{1,2}	Implied Real Net Return ³
Financial Assets	58%	50-65%	61.6%	6.4%	4.15%
IDL Timberland	39%	30-50%	31.5%	5.70%	3.45%
IDL Rangeland	2%	0-5%	1.6%	3.00%	0.75%
Cash Equivalents—Land Bank	1%	0-5%	3.4%	2.00%	-0.25%
Residential Real Estate	0%	N/A	1.0%	N/A	
Asset-Class	Target Asset Allocation	Range	Actual Allocation June 30, 2017	Expected 10 Year Compounded Return	Implied Real Net Return
Idaho Commercial Real Estate	0%	N/A	0.3%	N/A	
Other Land	N/A	N/A	0.7%	N/A	
Total	100%			6.69%	4.44%
Expected Risk (Standard Deviation)				9.28%	
Inflation Assumption				2.25%	

¹Based on Callan’s 2014 Asset Allocation and Governance Review and 2020 capital market expectations.

²Compounded Returns are measured over long time periods and reflect the reduction in return that comes from variations around the average return (“volatility drag”). It is stated on a nominal basis before inflation but after all fees and costs associated with managing the investment(s) have been deducted from the return.

³Real net return is the nominal net rate of return after deduction of inflation. The inflation assumption is 2.25%.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Range</u>	<u>Actual Asset Allocation June 30, 2021</u>	<u>Valuation June 30, 2021</u>
<u>Financial Assets</u>	<u>58%</u>	<u>50 – 65%</u>	<u>63.13%</u>	<u>\$3,107,842,560</u>
<u>Timberland*</u>	<u>39%</u>	<u>30 – 50%</u>	<u>31.69%</u>	<u>\$1,560,000,000</u>
<u>Rangeland*</u>	<u>2%</u>	<u>0 – 5%</u>	<u>1.29%</u>	<u>\$63,400,000</u>
<u>Cash Equivalent (Land Bank)</u>	<u>1%</u>	<u>0 – 5%</u>	<u>2.26%</u>	<u>\$111,372,225</u>
<u>Residential Real Estate</u>	<u>0%</u>	<u>N/A</u>	<u>0.65%</u>	<u>\$31,784,000</u>
<u>Commercial Real Estate</u>	<u>0%</u>	<u>N/A</u>	<u>0.35%</u>	<u>\$17,141,822</u>
<u>Farmland</u>	<u>N/A</u>	<u>N/A</u>	<u>0.63%</u>	<u>\$31,186,650</u>
<u>Total</u>	<u>100%</u>		<u>100%</u>	<u>\$4,922,727,257</u>
<u>Expected Return (net)</u>	<u>5.8%</u>			
<u>Expected Risk (Standard Deviation)</u>	<u>12.9%</u>			
<u>Inflation Assumption</u>	<u>2.25%</u>			

*Valuation for timberland and rangeland updated based on draft report from Mason, Bruce & Girard, 2021.

- The Target Asset Allocation percentages were established in December 2014 with the following exceptions:
 - A Diversified US Real Estate (Commercial Property) target allocation was adopted by EFIB in October 2015 and implemented in 2016 in the Financial-financial Assets-assets portfolio.
 - The asset allocation study did not include residential real estate because of an approved disposition plan adopted by the Land Board.
 - The asset allocation study did not include commercial real estate given its limited size and low likelihood that it should be expanded due to the following:
 - Difficulty profitably managing the asset given certain constitutional and statutory constraints.
 - Lack of a compelling investment rationale for a concentrated position in Idaho commercial properties considering other alternatives available, including increasing investment in timberland or the Financial-financial Assetsassets.

- The Land Board adopted a plan in February 2016 to divest most commercial real estate managed by IDL and has implemented a substantial portion of that plan.
- The ranges for land investments reflect the inherent illiquidity in these land types combined with an inconsistent supply of land for purchase and restrictions on sales, all of which impact the ability to rebalance land investments.
- Although it is not an institutional asset class, ~~grazing land (now called “rangeland” in IDL documents)~~rangeland -was included in the asset allocation study due to its large absolute number of acres and its illiquidity.

~~The Expected 10-Year Compounded Return and Risk, as specified in Exhibit 1 above, are based on Callan Associates’ 2020 capital market assumptions for each asset class and the total Endowment using the target asset allocations. Over a 10-year period, Callan indicates the target asset allocation should generate a nominal return in excess of 6.695.8%% net of fees. Using an inflation assumption of 2.25% results in an expected real net return of 4.443.55%. The volatility level (standard deviation) associated with this asset mix is approximately 9.2812.9%. The Expected 10-Year Compounded Return and Risk was developed with reference to the observed long-term relationships among major institutional asset classes.~~

The Land Board recognizes the actual 10-year return can deviate significantly from this expectation—both positively and negatively.

The Land Board acknowledges the link between the Target Asset Allocation and the Distribution Policy. If an asset allocation mix is selected that deviates from the risk and return in the current Target Asset Allocation, the Land Board, in consultation with EFIB, will assess the impact on the Distribution Policy and change the Distribution Policy as necessary. In broad terms, changes in long-term expected income will impact the estimated level of sustainable distributions while changes in risk, as measured by volatility of income, will impact the desired level of reserves.

EFIB will review the asset allocation for the Financial Assets per the EFIB Investment Policy and present it to the Land Board as an informational item.

D. Strategic Policies

In addition to asset allocation, the Land Board may from time to time authorize or adopt strategic policies. “Strategic Policies” are actions by the Land Board to allow investment in asset types that have not been singled out as “asset classes” in the asset allocation process, to overweight a particular sector within an asset class, or to employ particular strategies in the investment of the Endowment Assets. The purposes of these actions are either to increase the return above the expected return or to reduce risk. Any such policy would include consideration of the change in risk, the change in return, and the impact on the Distribution Policy.

VI. Investment Governance Structure

The Idaho Constitution provides that the endowment funds are held in trust and administered by the Land Board as trustees. The Constitution further provides that the Idaho Legislature may establish a statutory structure for administration that is consistent with the nature of the trusts. Accordingly, the Idaho Legislature created a structure that established EFIB as the manager of the Financial Assets, established the appropriations process for the payment of trust management expenses, and created IDL to serve as the manager of the Idaho Land Assets of each trust. The constitutional and statutory provisions, together with Land Board policy, establish the governance structure for Endowment Assets.

A. Land Board Responsibility

Management of the Endowment Assets is entrusted to the Land Board which serves as the sole fiduciary of both the Land Assets and Financial Assets. The Land Board is ultimately responsible for all management and investment activities. The powers and duties of the Land Board are fully described in Idaho Code § 58-104.

In exercising these responsibilities, in addition to EFIB and IDL, the Land Board may hire personnel and agents and delegate investment functions to those personnel and agents consistent with constitutional and statutory provisions. Where the Land Board does not or cannot delegate investment powers or duties, the Land Board will either satisfy itself that it is familiar with such matters, or will retain persons who are familiar with such matters to consult or assist the Land Board in the exercise of those responsibilities. Where the Land Board delegates a responsibility, it will be delegated to a person who is familiar with such matters, and the Land Board will monitor and review the actions of those to whom responsibilities are delegated.

1. General Roles and Responsibilities

The Land Board's general role and responsibilities regarding investments include, but are not limited to the following:

- Direct and oversee the conduct and operations of EFIB and IDL.
- Appoint and consult with expert advisors (including EFIB and IDL) for each critical function for which the Land Board has responsibility. In this context, the term "expert advisor" shall mean a person engaged in the business for which he holds himself out to be an expert and who is experienced in that field.
- Plan and establish strategic policies to coordinate the management of state endowment lands with the management of the endowment funds.
- Provide reports on the status and performance of state endowment lands and the respective endowment funds to the state affairs committees of the Senate and the House of Representatives within fourteen days after a regular session of the legislature convenes.
- Make strategic decisions, primarily concerning asset allocation, and establish and/or approve endowment land asset investment and management policies and strategies.
- Periodically review this master investment policy and any sub-policies.

- Monitor the compliance of EFIB and IDL with the investment policies and strategy determined by the Land Board and the execution of the strategy.
- Hire agents in addition to IDL and EFIB to assist the Land Board in the implementation of strategy or investment policies.
- Approve the IDL annual budget request for consideration by the governor and legislature (including review of appropriation requests to IDL from Earnings Reserves).
- Approve allocation of Earnings Reserve Funds as provided in Idaho Code § 57-723A (Distribution Policy), specifically how much is: distributed annually to beneficiaries; retained for future distribution; and, transferred to the Permanent Fund to build corpus.
- Approve the annual timber sale plan and certain timber sales that fall outside of the IDL director's authority.
- Review the IDL director's monthly timber sale activity report showing the proposed sales for the next month.
- Approve large routine land investment decisions that exceed the authority of the IDL director.
- Approve certain other land investment decisions that exceed the authority delegated to the IDL director.
- Approve rulemaking and legislation for IDL.
- Review decisions of the IDL director upon appeal in contested matters.

2. Land Board Investment Subcommittee

a) Structure of the Investment Subcommittee

The Land Board established and authorized the Subcommittee in December 2014. The current composition of the Subcommittee is one EFIB member (selected by the EFIB chair), the EFIB manager of investments, and the IDL director.

b) General Roles and Responsibilities of the Investment Subcommittee

The Investment Subcommittee provides review and advice to the Land Board. The primary purpose of the Investment Subcommittee is to coordinate consideration of investment issues that cross both the Land Assets and the Financial Assets, including the following:

- Administer the contract for the general consultant and other consultants, as assigned by the Land Board.
- Work with the general consultant to identify the Land Board's advisor(s) and consultants, including the Land Investment Advisor(s), Land Acquisition Advisor(s), Commercial Real Estate Broker, and the Land Board's Commercial Real Estate Investment Advisor.
- Work with the general consultant and recommend the Statement of Investment Policy and Asset Management Plan to the Land Board.
- Recommend policy regarding implementation of land exchanges on endowment lands.
- Recommend policy (consistent with Idaho Code § 58-133) regarding the use of proceeds from the disposal of assets (e.g., cabin sites, commercial real estate, grazing lands). This may include deposit in the Permanent Fund or holding of proceeds in the Land Bank Fund to acquire

additional endowment land assets in Idaho (excluding commercial buildings), access to currently owned endowment lands, or to block-up ownership of endowment lands.

3. Use of Outside Experts

The Land Board employs outside advisors and consulting firms to provide specialized expertise, assist IDL with transactions, and verify or review IDL's and EFIB's investment and operational activities and procedures.

a) Non-Discretionary Investment Consultants

The Land Board may hire a qualified independent consultant or consultants (including a general consultant) for strategic and annual plan reviews, review of new investment initiatives, investment policy development and review, asset allocation, advisor selection and monitoring, and performance measurement. Investment consultants will be fiduciaries with respect to the services provided and will act in a non-discretionary capacity with no decision-making authority.

b) Commercial Real Estate Advisor

The Land Board may use a commercial real estate advisor to advise on the Idaho commercial property portfolio or transition properties. The commercial real estate advisor will provide analysis and management expertise on the retention, leasing, disposition, and management of the properties. The commercial real estate advisor will be a fiduciary with respect to the services provided and act in a non-discretionary capacity with no decision-making authority.

c) Land Acquisition Advisors

The Land Board may use land acquisition advisors to source land acquisitions, facilitate completion of due diligence work, and make recommendations. Due diligence services may include appraisals, review appraisals, timber cruise and check cruise, financial evaluation, mineral and water right identification, encumbrance review, survey, and title review. Land acquisition advisors will be fiduciaries with respect to the services provided and act in a non-discretionary capacity with no decision-making authority.

d) Land Investment Advisor

The Land Board may use a land investment advisor(s) to independently review certain land investment decisions proposed by IDL (land disposal, land acquisition, exchange, and new tenant improvements) that are over \$100,000. The land investment advisor will review the post-audit completed by IDL for transactions over \$1,000,000. The land investment advisor may be used for independent review of IDL procedures. The land investment advisor will be a fiduciary with respect to the services provided and act in a non-discretionary capacity with no decision-making authority.

e) Auditor

Idaho Code § 57-720 requires the Financial Assets of the endowment be reviewed by an independent auditor. The independent auditor also reviews the application of agreed upon procedures for the IDL income statement. To oversee this process, and any other audits it deems prudent, the Land Board has established the Land Board Audit Committee, consisting of the attorney general (or designee), the state controller (or designee), and three members of EFIB, appointed by its Chair.

B. Investment Governance and Investment Policy for the Financial Assets

Idaho Code § 57-718 created EFIB which formulates policy for and manages the investment of the Financial Assets, which consists primarily of the invested revenues from the endowment lands. As permitted in Idaho Code § 57-720, the fund assets of all nine endowments, both Permanent Funds and Earnings Reserve Funds, may be combined in a single investment pool.

1. Mission of EFIB

The mission of EFIB is to provide professional investment management services to its stakeholders consistent with its constitutional and statutory mandates.

2. Structure of EFIB

Per Idaho Code § 57-718, EFIB consists of nine members appointed by the governor and confirmed by the Senate. These members are one state senator, one state representative, one professional educator, and six members of the public familiar with financial matters.

3. General Roles and Responsibilities of EFIB and Agents

With a citizen board and small staff, EFIB will make strategic allocations and generally avoid making tactical calls. The Board and staff will concentrate on the following activities:

- Making strategic decisions, primarily concerning asset allocation.
- Establishing investment policy for the funds.
- Recommending Distribution Policy and transfers of Earnings Reserves to the Land Board.
- Establishing Distribution Policy for the Capitol Permanent Fund.
- Selecting, monitoring, and terminating investment managers, consultants, and custodians.
- Selecting and directing staff.
- Approving an investment management expense budget from Earnings Reserves for consideration by legislative appropriation.
- Overseeing a credit enhancement process to reduce interest rates on Idaho school bonds through the pledge of certain assets of the Public School Endowment Fund.
- Maintaining a reporting system that provides a clear picture of the status of the Financial Assets.

4. Professional Staff

EFIB will maintain a staff with investment expertise, including a Manager of Investments (MOI) who is a fiduciary to EFIB. The MOI is responsible for directing and monitoring the investment management of the Financial Assets.

5. Use of Outside Experts

The Financial Assets will be invested by professional investment firms. No funds will be managed internally. EFIB will also employ one or more outside consulting firms to provide specialized expertise and assist in, among other things, asset allocation, manager selection and monitoring, and performance measurement.

6. Investment Policy Statement for Financial Assets

EFIB will maintain a detailed Investment Policy that pertains specifically to the management and investment of the Financial Assets ([Appendix C](#)). The Land Board is not required to approve this investment policy as this duty is delegated to EFIB.

C. Investment Governance for Land Assets

Idaho Code § 58-101 created IDL to serve as the internal investment and asset manager of the Land Assets of each trust. This role includes authorization to make certain investment decisions consistent with the established governance structure and includes day-to-day operating responsibilities for the Land Assets. This is in contrast to the EFIB structure where implementation and day-to-day decision making is delegated to external investment managers subject to approved guidelines and contracts.

The Land Assets include timberland, rangeland, farmland, commercial real estate, residential (cabin sites) real estate, minerals, and oil and gas (collectively “Land Assets”) located in Idaho.

1. Mission of IDL

The mission of IDL is to professionally and prudently manage Idaho’s Land Assets to maximize long-term financial returns to public schools and other trust beneficiaries and to provide professional assistance to the citizens of Idaho to use, protect, and sustain their natural resources. IDL also has various regulatory, technical assistance, and resource protection roles.

2. Structure of IDL

IDL operates under the direction of the Land Board and is the administrative arm of the Idaho Oil and Gas Conservation Commission. IDL is led by a director who is employed by and is directed by the Land Board. The director’s staff includes a deputy director, a division administrator for Forestry and Fire (currently serves as State Forester), a division administrator for Trust Land Management, a division administrator for Minerals, Public Trust, and Oil & Gas, a division administrator for Operations, a division administrator for Business Services, a policy and communications chief, and a human resources officer—collectively, the executive staff. Each of the positions identified above supervises various professional, technical, and administrative support staff.

3. General Roles and Responsibilities

IDL manages more than 2.4 million acres of Idaho Land Assets (and additional acreage of retained mineral rights) under a constitutional mandate to maximize long-term financial returns for the sole benefit of public schools and certain other state institutions enumerated in statute.

The director and staff will concentrate on the following investment-related activities:

- Serving as the instrumentality of the Land Board.
- Implementing the strategic direction established by the Land Board concerning Land Assets.
- Making strategic decisions (where authorized) and providing recommendations to the Land Board concerning management of Land Assets.
- Establishing policies and procedures for IDL programs.

- Selecting and directing staff.
- Developing a land and resource management expense budget from Earnings Reserves for Land Board approval and consideration for legislative appropriation. Earnings Reserves is only a portion of the IDL budget.
- Monitoring and reporting progress toward strategic goals, including preparing an annual income statement following agreed upon procedures and calculating annual returns for major asset classes and all asset classes combined.

Decision-making authority for endowment land asset management resides with the Land Board except as delegated to the IDL director. Program management resides with the director's staff and their subordinates. IDL establishes policies and procedures for routine programmatic activities at the bureau and program levels.

IDL has delegated authority to approve the following:

- Normal timber sales that fall within established Land Board policies and salvage sales.
 - Exceptions include sales with clear-cut harvests over 100 acres; sales with development credits exceeding 50% of the net appraised value or 33% of the gross appraised value; and sales with written citizen concerns.
- Approval of certain routine land investment decisions. Routine land investment decisions include access acquisition, forest and range improvements, reforestation, and building maintenance.
 - Transactions <\$500,000 the IDL director may authorize.
 - Transactions >\$500,000 require Land Board approval.
- Approval of certain other land investment decisions. Other land investment decisions include land disposal, land acquisition, and new tenant improvements.
 - Transactions <\$100,000 the IDL director may authorize.
 - Transactions >\$100,000 require Land Board approval.

4. Professional Staff

IDL staff consists of trained professionals and technical experts in various fields, such as forestry, range, real estate, minerals, oil & gas, fire, accounting, finance, procurement, GIS, IT, and other specialties. IDL staff members who are involved with management of Endowment Assets or related accounting or financial management are fiduciaries.

5. Use of Outside Experts

IDL may use outside experts at its discretion and the Land Board's discretion. IDL may use the Land Board's expert advisors when in need of the special expertise provided by the advisors and when the use of a specific advisor will not conflict with the Land Board's use of the advisor. IDL may review information and recommendations provided to the Land Board by outside experts including the Commercial Real Estate Investment Advisor, Commercial Real Estate Broker, Land Acquisition Advisor(s), and the Land Investment Advisor(s). The chart in [Appendix E](#) below depicts the relationship between the Land Board, IDL, and outside experts.

D. Role of the Legislature

The Idaho Legislature is responsible for the following:

- Enacting laws to establish the methodology for restoring losses to the Public School and Agricultural College funds.
- Appropriating Earnings Reserve Funds for operation of IDL and EFIB.
- Considering approved endowment distributions in setting beneficiary appropriations.
- Establishing the statutory structure for administration of endowment assets that is consistent with the nature of the trusts and the constitutional duties of the Land Board.

VII. Asset Class Policies for Land Assets

A. Investment Objective for the Land Assets

The primary objective for the Land Assets is the generation of maximum long-term return at a prudent level of risk using traditional land grant asset types. The Land Assets diversify the Financial Assets given the low correlations of timberland and rangeland to public capital markets. The Land Assets also lower the volatility of the total investment portfolio considering timberland and rangeland returns have historically exhibited lower volatility than equity asset classes. During periods of negative financial returns, Land Assets can provide a positive revenue stream to help maintain Earnings Reserves and stable Endowment distributions.

Investment objectives are long-term return objectives. The investment objective for the land portfolio recognizes that timberland is a primary driver of the overall return for land and that income from timberland and, to a lesser degree, all other lands are the primary generator of investment returns. The individual investment objectives for timberland, rangeland, and farmland reflect the long-term investment characteristics (return, correlation, and volatility) compared to other asset classes. Investment objectives also consider the existing base of land holdings along with management constraints, notably sales restrictions, acreage limitations, and the rent-setting and leasing processes. The return objectives should not be viewed in isolation but in relationship to one another.

The Land Assets are managed to achieve a real net return target of at least 3% over a long-term holding period (Land Assets Return Objective). The Land Assets Return Objective includes both income and appreciation, is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit), and net of inflation as measured by the Consumer Price Index. While the Land Assets Return Objective includes both income and appreciation, the return is expected to be generated primarily from income.

Specific investment objectives and guidelines for each land category are summarized below. The Land Board shall review periodically its expectations for the land categories and assess how the updated expectations affect the probability that the Endowment will achieve the established investment objectives.

B. Key Elements of the Land Strategy

1. Active and Profitable Management

Land Assets are actively managed based on profitability, which means that some parcels will be managed more intensively than others. The portfolio is managed by IDL and, except in unusual circumstances, no external managers are used. Active management includes the following primary activities:

- Maximize net income while protecting and enhancing the long-term value and productivity of the Land Assets. (IDL shall produce a quarterly income statement which allows for evaluation of income versus management and operating expenses by trust beneficiary, program, and asset class as a way to evaluate returns and profitability.)
- Acquire, through purchase or trade, land whose expected risk adjusted return meets or exceeds the return objectives outlined in this Statement and whose uses are aligned with IDL's management expertise.
- Dispose, through sale or trade, land whose expected long-term return does not meet the return objectives outlined in this Statement.
- Make incremental investments to enhance the value of existing assets when the expected risk adjusted return is favorable.

2. Leverage is Prohibited

Debt is not used in acquisition of Land Assets. All assets are unencumbered by debt.

3. Diversification

There is limited ability to diversify the Land Assets by geography, land type, investment style, investment manager (IDL is the sole manager), or vintage year since most Land Assets were acquired at statehood. Diversification of income source shall be pursued by encouraging multiple bidders for timber sales. There is limited opportunity to actively diversify the tenant base in rangeland, commercial real estate, residential real estate, farmland, and other land types that are leased as-since leases are simply awarded to the highest bidder.

Timberland shall be managed for age class and species diversity across the timberland asset to maximize long-term returns. An individual timber stand may have trees of similar age, but other timber stands represent other age classes, ensuring a relatively even flow of forest products over time. An even flow of various forest products is considered a priority to maintain a vibrant and diverse customer base to maximize the sale prices of timber over time and resulting income distributions. Offering a variety of timber sale sizes, types, and locations across the state also helps to maintain a diverse customer base. Geographic diversity of the land base and intensive forest management provide some protection against catastrophic fire, disease, and insect outbreak.

4. Illiquidity and Rebalancing

Land Assets represent a large part of the total Endowment portfolio and are illiquid compared to publicly-traded equities. Strategic rebalancing to maintain the total Endowment portfolio within the

desired asset allocation ranges will be actively pursued where possible through sales, exchanges, and acquisitions. However, constitutional and statutory requirements regarding land sales and exchanges limit the ability to rebalance the Land Asset portion of the portfolio.

C. Timberland

1. Definition

Timberland is defined as land capable of growing successive crops of commercial forest products for harvest.

2. Overall Financial Objective and Benchmark

The return on timberland comes from biological growth, upward product class movement, timber price appreciation and land price appreciation. The overall objective of timberland investments is to attain a real net income return of at least 3% over a long-term holding period. The net income return target is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), and net of all fees and costs of program management (e.g., legal and audit). Timberland (and real net income) is expected to appreciate over time at the rate of inflation, as measured by the Consumer Price Index. An appreciation target is not as relevant as the income return target since timberland cannot be sold and the appreciation component cannot be realized.

3. Allowable Investments

Timberland in Idaho and investments in timberland improvements, including but not limited to planting seedlings, spraying, pre-commercial thinning, fertilization, intermediate silvicultural treatments, road construction, and maintenance projects are allowed, as are investments in easements or other means of achieving cost-effective access to productive timberlands.

New timberland acquisitions shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the following:

- If the expected financial return generated by income exceeds the minimum hurdle rate of 3.525% real net;
- Whether the return profile is sufficient relative to the risk taken, including an analysis of the transaction in terms of long-term financial return and risk to the Endowment;
- Whether the transaction would facilitate improved management or improve the overall Endowment land ownership pattern in the area;
- The existence of any potential risks, including but not limited to environmental or title-related issues.

Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. The presence of minerals including sand and gravel can enhance the net return from timberland. Land Bank funds used for acquisition can only be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Reinvestment Plan.

New investments in timberland must be owned 100% by the endowment. Joint ventures are not allowed. Acquisition of land with a conservation easement in place is allowed provided the Land Board has full decision-making authority regarding implementation of land management practices.

4. Considerations

Idaho Code § 58-133 requires that all state-owned lands classified as chiefly valuable for forestry, reforestation, recreation, and watershed protection be reserved from sale and set aside as state forests. Timberland can be exchanged but only for other timberland.

IDL has an established public involvement process, approved by the Land Board, which requires that annual timber sale plans be published and public comment opportunities be made available. Small sales (less than 1,000,000 board feet or less than \$150,000 in value) and salvage sales are exempt from the policy.

5. Management

Timberland is directly managed by IDL. Management shall comply with all applicable laws, such as the Idaho Forest Practices Act. Management objectives include the following:

- Manage the timberland asset prudently, efficiently, and with accountability to the beneficiaries.
- Reduce risk and increase prospects for sustainable annual income.
- Achieve a rate of return consistent with policy objectives.
- Produce forest products that meet market demands.
- Identify and acquire additional timberlands that maintain or enhance the value of the timberland asset class.
- Identify and dispose of or transition underperforming timberland assets to increase economic performance and improve land asset diversity.
- Achieve financial and forest health objectives identified in the Asset Management Plan, ~~Forest Business Plan (and any related annual plans developed)~~, and the Forest Asset Management Plan.

6. Valuation

The land expectation value (LEV) method (constant real annual cash flow / real annual discount rate) approach or other commercially acceptable methods approved by the Land Board shall be used for the valuation of the timberland asset class. The timberland asset class shall be valued using the LEV method every three years by an independent expert for the purpose of calculating program returns, not for the purpose of acquisition or disposition of specific timberland parcels. MAI appraisals must be used for valuation of individual parcels in the event of an exchange.

7. Monitoring Standards

IDL will report cash flows for the timberland asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation (based on LEV), and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent

independent valuation will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

D. Rangeland

1. Definition

Rangeland is defined as lands supporting natural vegetation—generally grasses, forbs, and small brush suitable for grazing by domestic livestock and wildlife.

2. Overall Financial Objective and Benchmark

The overall objective of rangeland investments is to attain a real net return of at least 0.3% over a long-term holding period. The 0.3% real net rate of return includes primarily income and is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit) and net of inflation as measured by the Consumer Price Index. Given its low expected return, rangeland is not an institutional asset class.

3. Allowable Investments

Selective investment in Idaho rangeland is allowed, subject to the desired asset allocation and the recommendations of the Callan Report. Additional investment may take the form of investments in rangeland improvements and easements or other means of access to improve productivity. Rangeland improvements refers to actions that improve the manageability and productivity of the asset including but not limited to fencing, weed control, access improvement, and water development.

New investments shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the following:

- If the expected financial return generated by income exceeds the minimum hurdle rate of a 3.5% real net return;
- Whether the return profile is sufficient relative to the risk taken, including an analysis of the transaction for long-term financial return and risk to the Endowment;
- Whether the transaction would facilitate improved management or improve the overall Endowment land ownership pattern in the area;
- The existence of any potential risks, including but not limited to environmental or title-related issues.

Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. Land Bank funds used for acquisition can only to be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Reinvestment Plan.

4. Considerations

Idaho Code § 58-138 requires that the written agreement of a lessee be obtained prior to entering into an exchange involving leased lands.

Rangeland may be sold or exchanged subject to acreage limitations—a lifetime maximum of 320 acres may be sold to any one individual, company, or corporation. For rangeland, this limitation is a significant barrier to repositioning or reducing the size of the rangeland portfolio given its size at over 1.4 million acres. Any disposal of rangeland should consider its optionality for future conversion to a higher and better use, including reclassification and potential mineral extraction. Some endowments are restricted to a lifetime maximum of 160 acres sold to any one individual, company, or corporation. Article IX of the Idaho Constitution describes the limitations on the sale of endowment land.

5. Management

Rangeland is directly administered by IDL. Livestock forage productivity and availability varies significantly across the state due to factors such as climate, vegetation types, topography, and access to water. Some Endowment parcels are of sufficient size and productivity to stand alone as a grazing unit; however, most are managed in a manner consistent with adjoining federal and private lands because of normal livestock and grazing management practices. Some rangeland parcels are leased in combination with timberland uses. The presence of minerals such as sand and gravel can enhance the net return from rangeland. Management objectives for rangeland include the following:

- Manage the rangeland asset prudently, efficiently, and with accountability to the beneficiaries.
- Develop and manage long-term grazing leases that achieve a rate of return consistent with policy objectives and market rates.
- Identify and dispose of or transition underperforming rangeland assets to increase economic performance and improve land asset diversity.
- Minimize contractual and environmental risks.
- Identify programmatic or statutory changes that maximize income.
- Achieve objectives identified in the Asset Management Plan and the Grazing Program Business Plan.

6. Valuation

The land expectation value (LEV) method (constant real annual cash flow/real annual discount rate) approach shall be used for the valuation of rangeland. Rangeland shall be valued using the LEV method every three years by an independent expert. MAI appraisals must be used for individual parcels in the event of an exchange or sale.

7. Monitoring Standards

IDL will report cash flows for the rangeland asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

E. Residential Real Estate

1. Definition

Idaho has leased residential sites since 1932. These properties are vacant endowment land where lessees are authorized to construct and own improvements, typically cabins and single-family homes.

2. Overall Financial Objective and Benchmark

Leases shall be at least 4% of the appraised value. The overall objective of residential real estate investments is to attain, for each sale, net distributions to the endowment that are at or above appraised value and cover all costs of the sale and internal management costs.

3. Allowable Investments

The Land Board and IDL are implementing a disposition strategy for the residential portfolio subject to a long-term plan that was approved in December 2010 and subsequently revised in 2016. Future investment in cottage sites is not allowed with the exception that current land may be transitioned to cottage site lots and sold.

4. Considerations

While the Land Board has directed a disposition strategy for the residential portfolio, complete disposition is unlikely in the next five years. The viability of an ongoing lease program, with consideration of ongoing related expenses, shall be evaluated by IDL and reviewed by the Land Board as the current disposal process is completed.

5. Management

Cottage sites are directly managed by IDL. Management objectives include the following:

- Execute the approved Cottage Site Plan to unify the estate in a business savvy manner to maximize return to the endowments.
- For the duration of the cottage site leasing program, develop and manage residential leases that appropriately compensate the endowments.
- Identify additional high-value (undeveloped) residential sites for potential auction to maximize return to the endowments.
- Identify and transition residential sites that may return more value to the trust if transitioned to a higher and better use.

6. Valuation

All properties will be appraised to establish lease rates prior to sale. Until reappraisal, existing appraisal data will be used for valuation of the asset class.

7. Monitoring Standards

IDL will report cash flows for the residential real estate asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All

return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

F. Farmland

1. Definition

Farmland is defined as land under cultivation or capable of being cultivated. The farmland asset includes lands used for cultivating grains, vegetables, and hay, as well as vineyards and orchards.

2. Overall Financial Objective and Benchmark

The overall objective of farmland investments is to attain a real net return of 4% over a long-term holding period. The rate of return includes both income and appreciation, is net of all asset level expenses and fees, net of internal management costs (e.g., the cost of IDL management), net of all fees and costs of program management (e.g., legal and audit), and net of inflation as measured by the Consumer Price Index.

3. Allowable Investments

Investments in Idaho farmland, improvements such as irrigation or structures, and easements or other means of access to productive farmlands are allowed.

New investments [in Farmland are not anticipated; however, opportunistic purchases will be considered.](#) [New investments](#) shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine if the expected financial return from income and appreciation exceeds the minimum hurdle rate of 4.5% real net and whether the return profile is sufficient relative to the risk taken. The due diligence process includes an analysis of to analyze the transaction in terms of long-term financial return and risk to the Endowment and determines the existence of any potential risks including but not limited to environmental or title-related issues. Parcels posing any significant risk as described in the due diligence analysis and those not meeting the minimum hurdle rate shall be avoided. Land Bank funds used for acquisition can only to be used on behalf of the endowment from which the funds originated. The minimum return requirement for new investments will be reviewed and updated as necessary based on the Strategic Reinvestment Plan.

Investments in farmland must be owned 100% by the Endowment. Joint ventures are not allowed. Acquisition of land with a conservation easement in place is allowed provided the Land Board has full decision-making authority regarding implementation of land management practices.

4. Considerations

Farmland may be sold or exchanged subject to acreage limitations—a lifetime maximum of 320 acres may be sold to any one individual, company, or corporation (160 acres for the University endowment). Article IX of the Idaho Constitution describes the limitations on the sale of endowment land.

5. Management

The asset class is directly managed by IDL through agriculture leases which may be cash, crop share, or flex with adjustment based on yield or price. Some agriculture parcels are leased in combination with grazing uses. Management objectives include the following:

- Achieve return consistent with policy objective.
- Focus on income and current cash yield through the management of existing properties. Cash lease structure will be preferred.
- Enroll endowment lands in federal agricultural programs when appropriate.
- Achieve objectives identified in the Asset Management Plan for Endowment Assets (and any related plans developed) and the Farmland Program Business Plan.

6. Valuation

The portfolio will be valued using NASS Farmland Data. This is appropriate as farmland holdings are a small portion of the Endowment Assets. All properties shall be valued by an MAI appraiser prior to sale.

7. Monitoring Standards

IDL will report cash flows for the farmland asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be used adjusted for capital expenditures, sales, and acquisitions during the reporting period.

G. Idaho Commercial Real Estate

1. Definition

Idaho Commercial Real Estate is a discrete portfolio of office buildings, parking lots, retail, and other properties located in Idaho.

2. Overall Financial Objective and Benchmark

The majority of the Idaho Commercial Real Estate portfolio was sold as recommended by the Commercial Real Estate Advisor and approved by the Land Board in February 2016. Of the properties identified in the 2016 sales plan that did not sell, IDL will continue to pursue prudent disposition as recommended. Certain properties may be retained by the Land Board for strategic purposes.

3. Allowable Investments

Effective December 2014, no new Idaho Commercial Real Estate properties may be acquired. There may be expenditures to maintain or re-position existing properties in preparation for sale or lease. Leasing of existing endowment lands for commercial and industrial purposes will continue.

4. Management

The portfolio is overseen by IDL and managed primarily through outside agents, including hiring and oversight of property managers and leasing agents, approving leases and budgets, approving capital

expenditures, and executing capital plans. The Commercial Real Estate Advisor may be used to assist in advising, hiring, and managing property managers.

5. Valuation

All properties will be valued by appraisal prior to sale. In the interim, the value established by the Commercial Real Estate Advisor will be used for performance measurement and evaluation purposes.

6. Monitoring Standards

IDL will report cash flows for the commercial real estate asset class to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. Property will be valued using a combination of appraised values and values established by the Commercial Real Estate Advisor. The most recent independent value will be adjusted for capital expenditures, sales, and acquisitions during the reporting period.

H. Minerals/Oil & Gas

1. Definition

Mineral resources are concentrations of materials that are of economic interest in or on the crust of the earth. Oil and gas reserves and resources are defined as volumes that will be commercially recovered in the future.

2. Overall Financial Objective and Benchmark

The asset class will be managed prudently to maximize financial return while complying with all applicable laws and regulations. Royalty payments are transferred to the Permanent Fund while other payments, such as lease or bonus payments, go to the Earnings Reserve Fund.

3. Allowable Investments

Acquisition of mineral rights together with or independent of surface rights is allowed. Acquisition of mineral rights together with surface rights is preferred to avoid a split estate. Acquisition of mineral rights is expected to occur primarily through land exchanges.

4. Management

The asset class is directly managed by IDL and management shall comply with all applicable federal and state statutes, such as the federal Clean Water Act, Idaho Surface Mining Act, Oil and Gas Conservation Act, and Idaho Dredge and Placer Mining Protection Act. Management objectives include the following:

- Manage the mineral asset prudently, efficiently, and with accountability to the endowments.
- Minimize contractual and environmental risks associated with extractive industries.
- Lease lands for potential mineral products that capitalize on market demands.
- Retain mineral rights when land parcels are disposed.
- Seek opportunities to unify the mineral estate.

- Identify programmatic or statutory changes that maximize income from mineral assets.

5. Valuation

The value of Idaho's mineral estate is unknown at this time. Determining the type and volume of locatable minerals in Idaho could be achieved with a cooperative effort between the Idaho Department of Lands, Idaho Geological Survey, and the mineral industry.

6. Monitoring Standards

IDL will report cash flows for the minerals asset class to the general consultant for performance reporting purposes. All net income calculations will be net of all fees and expenses of managing the asset class. Because receipts from minerals extracted flow directly to the Permanent Fund, they are not included in IDL's report of return on assets. The receipts are reported in IDL's annual report.

I. Transition of Lands

1. Definition

Lands within traditional asset classes already owned by the Endowment may become suitable for a higher and better use than the current asset classification. Often these properties exhibit high property values and low annual revenues (underperforming) and may be encroached upon by urban development. The major data sources used to identify lands suitable for transition may include:

- Appraised values above the value normally indicative of the current use.
- Regional land-use planning studies.
- Resource trends and demographic changes.

2. Overall Financial Objective and Benchmark

The objective for lands identified as potential transition lands will be to lease the parcels, typically for commercial and/or industrial uses, or sell the parcels. Evaluation of the options for lease or sale will be completed on a case-by-case basis. Once the land is transitioned, it will be identified-included under the predominant revenue producing asset class.

3. Allowable Investments

Lands suited for transition are those currently owned by the endowments. Lands should not be acquired where the primary reason for acquisition is transition. In select cases, improvements such as obtaining zoning and other entitlements may be pursued for ground leasing purposes, to maximize value, or to ready the parcel for sale.

Investment in improvements shall be subject to a thorough due diligence process (by IDL or a land advisor, consistent with the established governance structure) to determine the long-term financial return and risk to the Endowment; whether the return profile is sufficient relative to the risk taken; whether the transaction would facilitate improved management; and the existence of any potential risks including but not limited to environmental or title-related issues. Investments in improvements posing any significant risk as described in the due diligence analysis shall be avoided.

4. Management

Transitional activities will focus first on land at the high-end of market values (best markets) and then on land possessing best market potential within the next five to ten years (emerging markets). Transition plans will identify land holdings in the best markets, identify emerging markets, and, to the extent practical, parcels held in these markets. Land holdings in the best markets will also include a plan for achieving value potential. Timely disposition of parcels suitable for transition will be a management objective to increase asset value and, where the parcels are not income-producing, reduce their “drag” on performance.

Underperforming assets may also present transition opportunities. IDL will identify and analyze such lands to determine the best solution to resolve the underperformance. Such analysis will consider:

- Whether management costs can be minimized;
- Whether the lands can be managed differently to increase performance;
- Whether the parcel has the potential for a higher and better use; and
- Whether the endowment is the best long-term owner of the asset.

5. Valuation

Properties suitable for transition will be valued based on the traditional asset class to which they belong or as transitioned. Properties will be valued by appraisal prior to sale or on a predetermined schedule pursuant to the terms of the lease or other approved plan.

6. Monitoring Standards

IDL will report cash flows for the lands suitable for transition, together with the asset class in which the lands currently exist, to the general consultant for performance reporting purposes. Lands with potential for transition currently classified as rangeland will be monitored and reported as part of the rangeland asset class. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. The most recent independent value will be used adjusted for capital expenditures, sales, and acquisitions during the reporting period.

J. Land Bank

1. Definition

The Land Bank Fund (Land Bank) exists to hold the proceeds from the sale of state endowment land (pending the purchase of other land) or to transfer to the Financial Assets for the benefit of the endowment beneficiaries, per Idaho Code § 58-133.

2. Overall Financial Objective and Benchmark

The Land Board does not control the investment of the funds held in the Land Bank. The Land Bank is invested by the State Treasurer under a financial objective or benchmark established by the Treasurer.

3. Considerations

Funds deposited in the Land Bank, including interest, are continually appropriated to the Land Board. If the funds have not been utilized for land acquisition within five years, they are transferred to the Permanent Fund of the appropriate endowment unless the five-year time limit is extended by the legislature.

Land Bank funds may be used to acquire lands within traditional asset classes. Land Bank funds may also be used to secure access to endowment lands through purchase of easements or parcels of land. When purchasing a parcel of land in order to obtain access, the acquired parcel may in some cases produce minimal financial return. An easement may represent an expense without any resulting income directly related to the acquisition. In those cases, the evaluation of the acquisition and the projected returns would consider the additional net income that can be attributed to the access secured, rather than the financial return of only the access parcel.

4. Allowable Investments

Land Bank funds are invested by the State Treasurer in the IDLE pool. IDLE funds are invested according to the IDLE Investment Policy.

5. Management

IDL, in its capacity as the administrative arm of the Land Board, manages deposits to and withdrawals from the Land Bank. Fees for investment management are deducted by the Treasurer.

6. Valuation

The Land Bank is valued by the State Treasurer.

7. Monitoring Standards

IDL will report balances and cash flows for the Land Bank to the general consultant for performance reporting purposes. The reporting will follow institutional reporting standards and conventions. Income, appreciation, and total return shall be calculated by the general consultant. All return calculations will be net of all fees and expenses of managing the asset class. Transaction history will be used to account for expenditures and deposits into the Land Bank. For purposes of transparency, the balance in the Land Bank shall be reported as a contingent asset in the notes of the financial statements for the Financial Assets.

VIII. Distribution Policy

A. Objectives

The ultimate purpose of Idaho's land grant endowments is to provide a perpetual stream of income to the beneficiaries. To guide the determination of future distributions for Idaho endowments, the following objectives, in priority order, are established by the Land Board:

- Avoid reductions in total endowment distributions.

- Maintain adequate Earnings Reserves to protect distributions from temporary income shortfalls.
- Grow distributions and permanent corpus faster than inflation and population growth.

B. Considerations

In determining distributions, the Land Board, with assistance from EFIB, considers the following for each endowment:

- Actual and expected return on the fund and income from the land.
- Expected volatility of fund and land income.
- Adequacy of distributable reserves to compensate for volatility of income.
- Each beneficiary's ability to tolerate declines in distributions.
- Need for inflation and purchasing power protection for future beneficiaries.
- Legal restrictions on spending principal.

C. Policy Description

Based on the above objectives and considerations and the expected returns of the entire portfolio (lands and funds), the Land Board establishes the following Distribution Policy:

- Distributions are determined individually for each endowment (currently 5% for all endowments except State Hospital South at 7%).
- Distributions are calculated as a percent of the three-year rolling average Permanent Fund balance for the most recently completed three fiscal years. The Land Board may adjust this amount depending on the amount in the Earnings Reserves, transfers to the Permanent Fund, and other factors.
- The levels of Earnings Reserves deemed adequate for future distributions are:
 - ~~6 years – Public School~~
 - 7 years – All ~~other~~ endowments (Public School, Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, and University of Idaho)
- The Land Board may transfer any balance in an Earnings Reserve Fund in excess of an adequate level to the corresponding Permanent Fund and designate whether the transfer will or will not increase the Gain Benchmark.
- The principal of the permanent endowment funds, adjusted for inflation, will never be distributed, to protect the future purchasing power of the beneficiaries.

The Distribution Policy was developed based on many analyses, assumptions, and constraints, and its administration requires interpretation of nuances. EFIB has documented these in the Distribution Principles included in [Appendix G](#).

IX. Monitoring and Reporting

A. Philosophy

The Land Board and its agents shall use a variety of compliance, verification, and performance measurement tools to monitor, measure, and evaluate how well the Endowment Assets are being managed. Monitoring, reporting, and evaluation frequencies shall range from real-time performance to daily, weekly, monthly, quarterly, semi-annual, and annualized performance.

The Land Board seeks to answer three fundamental fiduciary questions through the performance monitoring and reporting system:

- Are the assets being prudently managed? More specifically, are assets being managed in accordance with established laws, policies, and procedures, and are IDL and EFIB (and by extension the EFIB's investment managers) in compliance with established policies and their mandates?
- How have the assets performed relative to Land Board approved investment objectives?
- Are the assets being profitably managed? More specifically, has performance affected distributions positively and advanced security of the corpus?

B. Deviation from Policies

If there is a deviation from Land Board investment policies, the IDL and EFIB staff are required to provide the Land Board with a report explaining how the deviation was discovered, the reasons for the deviation, and the impact on endowment performance, if any, and steps taken to mitigate future instances.

C. Financial Assets

1. Reporting at EFIB Level⁴

The EFIB Investment Policy requires that performance reports be generated by the investment consultant at least quarterly and communicated to EFIB staff and the EFIB Board. The investment performance of the total Financial Assets, as well as asset class components, will be measured against commonly accepted performance benchmarks as outlined in the EFIB Investment Policy. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement.

Investment managers shall be reviewed regularly, by EFIB staff and the general fund consultant, regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

⁴ EFIB Investment Policy (see [Appendix C](#)). Management and approval of this policy is a duty delegated to EFIB.

2. EFIB Reporting to the Land Board

Each month, EFIB staff will provide the following to the Land Board:

- Investment performance, both absolute and relative to benchmark.
- An evaluation of the sufficiency of Earnings Reserve balances (measured by coverage ratio: reserve balance divided by the distribution).
- A summary of any significant actions by EFIB.
- Any compliance/legal issues, areas of concern, or upcoming events.

Part-way through the fiscal year, typically at the May meeting, EFIB shall provide the Land Board with a brief financial summary of fiscal year-to-date activity.

After the end of the fiscal year, typically at the November meeting, EFIB shall provide the Land Board with the following:

- A financial summary for the recently completed fiscal year.
- The report of the Land Board Audit Committee regarding control deficiencies identified by the independent auditor.
- An update on EFIB's Strategic Plan.
- Investment performance for the fund versus strategic (longer-term) measures.
- A report on EFIB meetings, including number of meetings and attendance.

D. Land Assets

1. IDL Internal Processes

IDL staff shall report to the director using the standard reports as described below that are provided to the Land Board. All of the information is reviewed by the director prior to submission to the Land Board.

Each program administered by IDL is managed by a bureau chief and a program manager. Policies and procedures governing daily activities are in place at the bureau or program level but are generally implemented by operations staff.

Decisions related to routine investment and management decisions are typically made at the area office level (or program level) with review by both the operations chiefs and bureau chiefs, subject to the established governance structure.

In the case of more complex investment and management decisions, staff involvement typically includes area office staff, operations chiefs, bureau chiefs, and executive staff to assure adequate due diligence and independent review. More than one member of the executive staff is likely to be involved in the analysis of the information and the final decision. Where necessary, the director retains final decision-making authority as delegated by the Land Board and described in the established governance structure.

2. IDL Reporting to the Land Board

Each month, IDL reports the following:

- Trust Land Management Division activity and information including timber sale revenue and activity and non-timber revenue and activity.
- Updates for ongoing special projects as needed.
- Legal and compliance issues and their status.
- Information necessary for Land Board review and approval of specific items.

IDL also reports the Land Bank Fund balance to the Land Board quarterly.

As previously described, IDL functions under the authority of the Land Board with the Land Board having final approval of many of IDL's policies and management decisions, up to and including review and approval of the IDL budget request prior to submission.

Each month, IDL brings matters forward for Land Board review and approval. Items are discussed first with senior Land Board staff members then placed on the consent agenda, where routine items may be approved without discussion, or the regular agenda, which addresses policy and programmatic items the Land Board may wish to discuss prior to making a decision.

Certain confidential matters may be presented for the Land Board in executive session at the discretion of the Land Board, pursuant to Idaho Code § 74-206.

IDL also produces an annual report to the Land Board, the state affairs committees of the legislature, as well as the public. IDL's overall strategic plan is updated annually and presented to the Land Board prior to submission to the Division of Financial Management.

The Land Board requires IDL staff to prepare and deliver an Asset Management Plan and Business Plans for each land type that explain how the Land Assets will be managed to achieve the Land Board approved investment objectives. This provides the Land Board a focused opportunity to:

- Question and comment on IDL staff's investment and management plans.
- Request additional information and support about IDL staff's investment and management intentions.
- Express its confidence and approval in the Strategic Plan, Asset Management Plan, and Business Plans.

The Land Board requires certain IDL procedures to be audited every 3-5 years:

- Land Transactions >\$1,000,000 shall be subject to a post-audit every three (3) years, and the Land Board's Land Investment Advisor shall review such post-audit and provide a report to the Land Board.

E. Total Endowment

Performance reports generated by the general consultant shall be compiled annually for review by the Land Board. The investment performance of the Endowment, as well as asset class components, will be measured against performance benchmarks outlined in this Statement of Investment Policy and the EFIB Investment Policy.



X. Key Documents

To assist the Land Board, EFIB Staff, and IDL Staff, the following key documents will be produced or reviewed according to the schedule in Exhibit 2.

Exhibit 2: Key Documents

Document Name	Document Source	Review Schedule
Performance Review of Fund	General Consultant and EFIB Staff	Monthly and Quarterly
Performance Review Total Endowment	General Consultant, IDL Staff, and EFIB Staff	Annually
Statement of Investment Policy	General Consultant, IDL Staff, and EFIB Staff <i>Reviewed by Investment Sub-Committee</i>	Annually
IDL Program Business Plans	IDL Staff	1-5 Years as specified in each plan
IDL Asset Management Plan	IDL Staff	Every 5 Years
Strategic Reinvestment Plan	General Consultant <i>Reviewed by Investment Sub-Committee</i>	Annually <u>Every 3 Years</u>
IDL Strategic Plan	IDL Staff	Annually
Asset Allocation	General Consultant	Every 8 years
Monthly Timber Sale Activity Report	IDL Staff	Monthly
Annual Timber Sale Plan	IDL Staff	Annually
Ten Year Forecast of Land Income	IDL Staff	Annually
IDL Annual Budget	IDL Staff	Annually
EFIB Strategic Plan	EFIB Staff	Annually
EFIB Meeting Report	EFIB Staff	Annually
Audit Committee Report	Audit Committee	Annually

XI. Appendices:

A. Structure of the Endowment

B. Constitution and State Statutes

C. EFIB Investment Policy

D. Use of External Advisors

E. Decision-Making Structure Chart

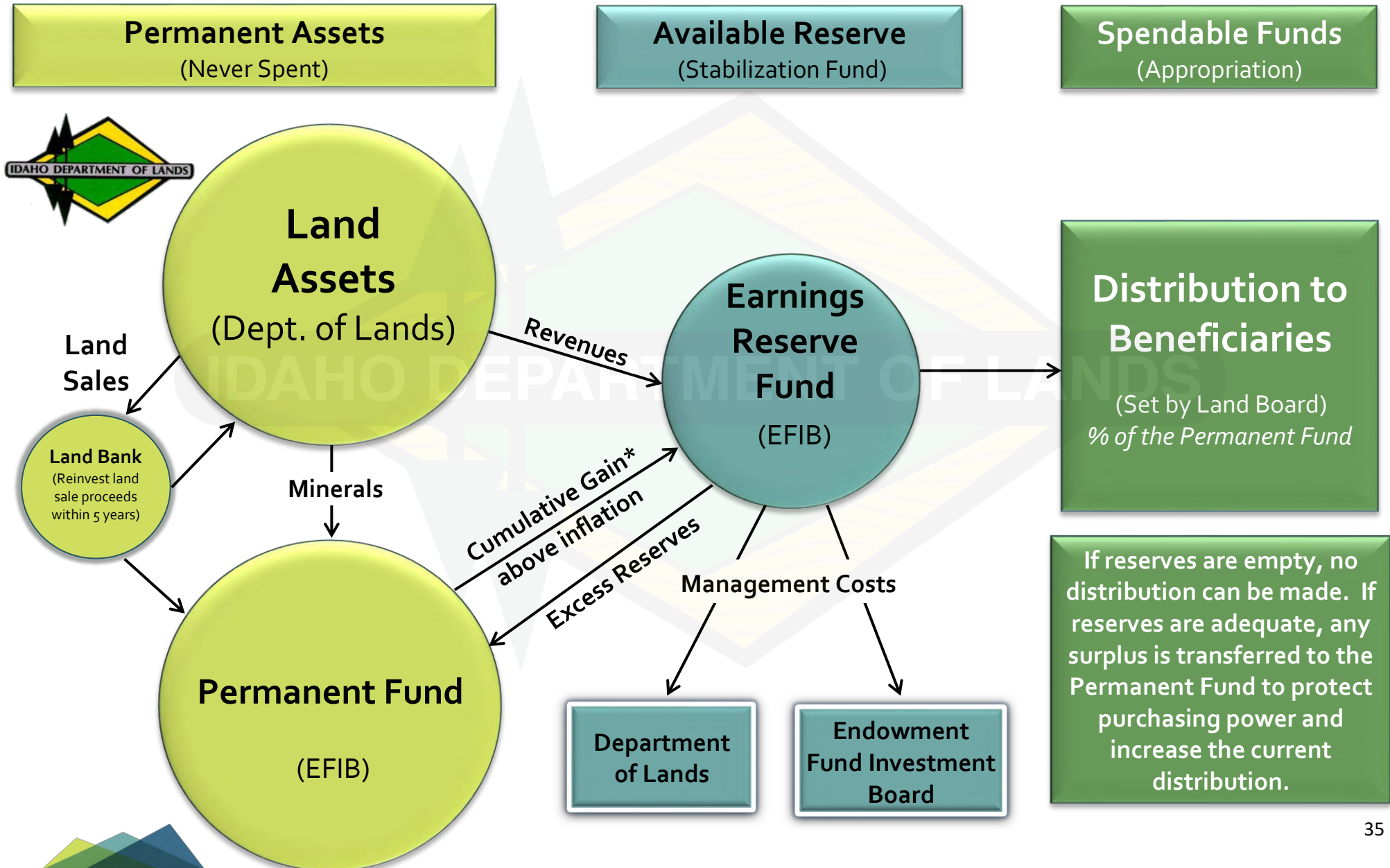
F. EFIB's Distribution Principles

F.A. EFIB's Distribution Principles



IDAHO DEPARTMENT OF LANDS

STRUCTURE OF IDAHO'S ENDOWMENT ASSETS



If reserves are empty, no distribution can be made. If reserves are adequate, any surplus is transferred to the Permanent Fund to protect purchasing power and increase the current distribution.

* Total cumulative gain over inflation since June 2000.

B. Constitution and State Statutes

Constitution of the State of Idaho

[ARTICLE IX](#) EDUCATION AND SCHOOL LANDS

[SECTION 3](#) PUBLIC SCHOOL PERMANENT ENDOWMENT FUND TO REMAIN INTACT

[SECTION 4](#) PUBLIC SCHOOL PERMANENT ENDOWMENT FUND DEFINED

[SECTION 7](#) STATE BOARD OF LAND COMMISSIONERS

[SECTION 8](#) LOCATION AND DISPOSITION OF PUBLIC LANDS

[SECTION 10](#) STATE UNIVERSITY – LOCATION, REGENTS, TUITION, FEES AND LANDS

[SECTION 11](#) INVESTING PERMANENT ENDOWMENT FUNDS

Idaho Statutes

[TITLE 57](#) PUBLIC FUNDS IN GENERAL

[CHAPTER 7](#) INVESTMENT OF PERMANENT ENDOWMENT AND EARNINGS RESERVE FUNDS

[TITLE 58](#) PUBLIC LANDS

[CHAPTER 1](#) DEPARTMENT OF LANDS

[CHAPTER 2](#) INDEMNITY LIEU LAND SELECTIONS

[CHAPTER 3](#) APPRAISEMENT, LEASE, AND SALE OF LANDS

[CHAPTER 4](#) SALE OF TIMBER ON STATE LANDS

[CHAPTER 5](#) STATE PARKS AND STATE FORESTS

[CHAPTER 6](#) RIGHTS OF WAY OVER STATE LANDS

[CHAPTER 12](#) PUBLIC TRUST DOCTRINE

[CHAPTER 13](#) NAVIGATIONAL ENCROACHMENTS

C. EFIB Investment Policy

ENDOWMENT FUND INVESTMENT BOARD

XII. Commingled Pool Investment Policy

Date Established: 2000
Last Reviewed: August 2020
Last Revised: August 2020

This Statement of Investment Policy is applicable to:

Public School Permanent Fund and Earnings Reserve Fund
Agricultural College Permanent Fund and Earnings Reserve Fund
Charitable Permanent Fund and Earnings Reserve Fund
Normal Schools Permanent Fund and Earnings Reserve Fund
Penitentiary Permanent Fund and Earnings Reserve Fund
School of Science Permanent Fund and Earnings Reserve Fund
State Hospital South Permanent Fund and Earnings Reserve Fund
University Permanent Fund and Earnings Reserve Fund
Capitol Permanent Fund and Maintenance Reserve Fund
Department of Environmental Quality Bunker Hill Endowment Fund Trust
Department of Environmental Quality Asarco Endowment Fund Trust
Department of Environmental Quality Hecla Endowment Fund Trust
Department of Fish & Game Southern Idaho Mitigation Endowment Trust
Department of Fish & Game Craig Mountain Wildlife Mitigation Trust
Department of Fish & Game Blackfoot Wildlife Mitigation Trust
Department of Fish & Game North Idaho Wildlife Mitigation Trust
Department of Fish & Game North Idaho Wildlife Mitigation Operational Trust
Department of Parks & Recreation Ritter Island Endowment Fund
Department of Parks & Recreation Trail of the Coeur d'Alene's Endowment Fund
Idaho Department of Lands - Forest Legacy Stewardship Endowment Fund

Statement of Philosophy

This statement of investment policy is set forth by the Endowment Fund Investment Board (EFIB) to:

- Define and assign the responsibilities of all involved parties;
- Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets;
- Offer guidance and limitations to all involved parties regarding the investment of Fund assets;
- Establish a basis for evaluating investment results;
- Manage Fund assets according to prudent standards as established in common trust law; and,
- Establish the relevant investment horizon for which the Fund assets will be managed.

Statement of Investment Policy

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the EFIB will review the policy annually.

Investment Objectives

In order to meet its objectives, the investment strategy of the EFIB is to emphasize total return; that is, the aggregate return from capital appreciation, dividend and interest income. The primary objectives are:

- To maintain the purchasing power of the Fund – In order to maintain fair and equitable inter-generational funding, state statute has mandated that the real value of the corpus be protected from inflation;
- To maximize total return over time at an acceptable level of risk;
- To provide relatively smooth and predictable distributions to the beneficiaries; and
- To maintain sufficient liquidity for anticipated expenditures.

General Investment Principles

- Investments shall be made solely in the interest of the beneficiaries of the Funds;
- The Funds shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims;
- Investment of the Funds shall be diversified as to minimize the risk of large permanent losses.
- The EFIB will employ one or more investment managers of varying styles and philosophies to support the Funds' objectives;
- Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return; and,
- The investment manager(s) should, at all times, be guided by the principles of "best price and execution" and that the Funds' best interests are the primary consideration.

Assignment of Responsibility

- Responsibility of the Manager of Investments ("MOI") - The MOI serves as a fiduciary and is empowered by the Board to make certain decisions and take appropriate action regarding investment of the Funds' assets. The responsibilities of the MOI include:
 - Developing sound and consistent investment policy guidelines;
 - Establishing reasonable investment objectives;
 - Selecting qualified investment managers after consultation with the EFIB board;
 - Communicating the investment policy guidelines and objectives to the investment managers;
 - Monitoring and evaluating performance results to assure that the policy guidelines are being met;
 - Selecting and appointing custodian(s);
 - Discharging investment managers after consultation with the EFIB board; and,
 - Taking any other appropriate actions.

- Responsibility of the Investment Consultant(s) - The investment consultant shall be hired by the EFIB. The consultant serves as a non-discretionary advisor to the EFIB that confers with staff. The consultant will offer advice concerning the investment management of the Funds' assets. The investment consultant will act as a fiduciary with respect to the services it provides. The advice will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the investment consultant include, but are not limited to:
 - Assisting in the development and on-going review of the investment policy, asset allocation strategy, performance of the investment managers, and designing objectives and guidelines;
 - Supporting portfolio optimization and other investment techniques to determine the appropriate return/risk characteristics of the Funds;
 - Conducting investment manager searches when requested by the MOI;
 - Monitoring the performance of the investment manager(s) to provide both the MOI and the Board with the ability to determine the progress toward achieving investment objectives;
 - Communicating matters of policy, manager research, and manager performance to the MOI and the Board;
 - Reviewing the Funds' investment history, historical capital markets performance and the contents of this investment policy statement with any newly appointed members of the Board.
- Responsibility of the Investment Manager(s) - As a fiduciary, each investment manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in either this statement or in their specific Manager Guidelines.

Delegation of Authority

The MOI is a fiduciary to the EFIB and is responsible for directing and monitoring the investment management of Funds' assets. As such, the MOI is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

- Investment Manager - An investment manager hired by the EFIB must be registered with the Securities and Exchange Commission under the Investment Act of 1940, unless inapplicable, or in the case of a banking organization with the Office of the Comptroller of the Currency. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Funds' investment objectives. This includes mutual fund or any collective fund portfolio managers.
- Custodian - Any custodian hired by the EFIB will maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and affect receipt and delivery following purchases and sales. Any custodian will also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts. Any custodian will provide at a minimum monthly reporting of assets and transactions to the MOI and provide the MOI with any additional

data requests. Any custodian will administer proxy statements and corporate action claims on behalf of EFIB.

Additional specialists may be employed by the MOI with approval by the EFIB to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

The MOI will not have control over investment decisions. Managers will be held responsible and accountable to achieve the objectives outlined in their specific guidelines. While it is not believed the limitations will hamper investment manager decisions, each manager should request in writing any modifications they deem appropriate.

All expenses for such experts must be customary and reasonable, and will be borne by the Funds as deemed appropriate and necessary.

Marketability of Assets

Based on the Fund's long-term liquidity requirements, the EFIB desires securities with readily ascertainable market values that trade in liquid markets but recognizes that some allowable assets are valued less frequently by industry established appraisal methods, and may be reported on a lagged basis.

Investment Guidelines

Allowable Assets

Cash Equivalents or other Liquid Assets:	Treasury bills; money market funds; STIF funds; commercial paper; banker's acceptances; repurchase agreements; certificates of deposit.
Fixed Income:	US government and agency securities; bank loans; corporate notes and bonds; residential mortgage backed bonds (agency and non-agency); commercial mortgage backed bonds; municipal bonds, infrastructure securities, USD and non-USD fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other "early tranche" CMO's; Sequential pay CMO's; collateralized loan obligations, asset backed securities; convertible notes and bonds; Securities defined under Rule 144 A and Section 4(2) of the Securities Act of 1933; or any other fixed income securities eligible for inclusion in the Bloomberg Barclays U.S. TIPS Index or Bloomberg Barclays Aggregate Bond Index.
Equities:	Common stocks; convertible preferred stocks; preferred stocks; REITS; American depository receipts (ADR's); stocks of non-US companies (ordinary shares);

Real Estate:	Domestic, private, open-end, core commingled funds, REITS
ETF's, Mutual or Collective Funds:	ETF's, Mutual Funds, and Collective Funds which invest in securities as allowed in this statement or as permitted in Investment Manager Guidelines. Investment managers will advise the MOI of their intent to utilize ETFs prior to their purchase, what specific ETFs they intend to use and the purposes they serve.
Futures, Options and Swaps:	The EFIB may approve the use of financial index futures and options in order to adjust the overall effective asset allocation of the entire portfolio or it may use swaps, futures or options to hedge interest rate or currency exposure. For example, S&P 500 and 10-Year Treasury futures are used to equitize idle cash and to passively rebalance the portfolio. Futures and options positions are not to be used for speculation, and the EFIB must specifically approve the program for each type of use. Derivative exposure must have sufficient cash, cash equivalents, offsetting derivatives or other liquid assets to cover such exposures.

Derivatives: Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, and interest rate swaps, among others. The EFIB will take a conservative posture on derivative securities in order to maintain its risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. Unless a specific type of derivative security is allowed in the Investment Manager Guidelines, the Investment Manager(s) must seek written permission from the EFIB to include derivative investments in the Fund's portfolio. The Investment Manager(s) must present detailed written information as to the expected return and risk characteristics of such investment vehicles.

Prohibited Assets

Prohibited investments include, but are not limited to the following:

- Commodities
- Futures Contracts except as described in previous section "Futures, Options and Swaps";
- Naked Options;
- Residual Tranche CMOs; and
- Purchases of securities on margin and short-sale transactions are prohibited.

Asset Allocation Guidelines

Investment management of the assets of the commingled endowment pool shall be in accordance with the following asset allocation guidelines:

- Aggregate Fund Asset Allocation Guidelines (at market value)

Asset Class	Range	Target	Rebalance Point	Benchmark
Equities Domestic Equities	61% - 71% 33% - 43%	66% 38%	+/-5% +/-5%	MSCI All Country World Index Russell 3000 Index
Large Cap Growth Core Value	22.2%-30.2%	26.2% 5% 11.3% 9.9%	+/-4%	Russell 1000 Index Russell 1000 Growth Index S&P 500 Index Russell 1000 Value Index
Mid Cap Growth Value	4.6%-10.6%	7.6% 3.8% 3.8%	+/-3%	Russell Mid Cap Index Russell Mid Cap Growth Russell Mid Cap Value
Small Cap Growth Value	2.2%-6.2%	4.2% 2.1% 2.1%	+/-2%	Russell 2000 Index Russell 2000 Growth Index Russell 2000 Value Index
International Equities Growth Value Developed Markets Index Fund	15% - 23%	19% 8.5% 8.5% 2%	+/-4%	MSCI ACWI ex-US MSCI ACWI ex-US Growth MSCI ACWI ex-US Value MSCI EAFE Index
Global Equity	6% - 12%	9%	+/-3%	MSCI All Country World Index
Real Estate	6% - 10%	8%	+/-2%	NCREIF ODCE Index
Fixed Income Core Plus Bond Active Aggregate Bond Index US Tips Index Cash and Equivalents	23% - 29%	26% 11% 11% 4% 0%	+/-3%	BB Aggregate Bond Index BB Aggregate Bond Index BB Aggregate Bond Index BB US TIPS Index 3-month Treasury Bill Index

Rebalancing of Fund Assets

Understanding that different asset classes will perform at different rates, the MOI and the investment consultant will closely monitor the asset allocation shifts caused by performance. Therefore:

- The MOI will review the relative market values of the asset classes whenever there is to be a net contribution to the Fund and will generally place the new monies under investment in the category(ies) which are furthest below the target allocation in this policy and/or use the opportunity to rebalance the portfolio; and,
- The MOI and investment consultant will review the asset allocation quarterly and during periods of severe market change to assure that the target allocation is maintained. If an

asset class is outside the allowable range, the MOI, with input from the investment consultant, will take appropriate action to redeploy assets taking into account timing, costs and other investment factors.

Guidelines for Fixed Income Investments and Cash Equivalents

- The average credit quality of the fixed income portfolio must be investment grade or higher. Individual fixed income securities may be rated below investment grade.
- The average duration of the fixed income portfolio may range from 2-8 years.
- Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

Investment Performance Review and Evaluation

Performance reports generated by the investment consultant shall be compiled at least quarterly and communicated to the EFIB for review. The investment performance of the total Fund, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The EFIB intends to evaluate investment managers over at least a three-year period.

Each manager shall maintain a portfolio consistent with characteristics similar to those of the composite utilized for their retention. Investment performance will be measured on a total return basis, which is defined as dividend and interest income plus realized and unrealized capital gains. Each manager will be evaluated in part by regular comparison to a peer group of other managers employing statistically similar investment style characteristics. It is expected that each manager will perform above the peer group median and the appropriate index over rolling three-year periods with respect to both return and risk.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results. The EFIB reserves the right to terminate a manager for any reason.

GASB 40 Reporting Requirements

Purpose: The Governmental Accounting Standards Board has identified that state and local governments have deposits and investments which are exposed to risks that may result in losses. GASB Statement number 40 (GASB 40) is intended to inform users of the financial statements about the risks that could affect the ability of a government entity to meet its obligations. GASB 40 has identified general deposit and investment risks as credit risk, including concentration of credit risk and custodial credit risk, interest rate risk, and foreign currency risk and requires disclosures of these risks and of policies related to these risks. This portion of the Investment Policy addresses the monitoring and reporting of those risks.

In general, the risks identified in GASB 40, while present, are diminished when the entire portfolio is viewed as a whole. Specifically, the risks identified and the measurements required is poorly transferable, if at all, to portfolios like the EFIB, which is dominated by equity exposure.

It is the policy of the EFIB that the risks addressed in GASB 40 are to be monitored and addressed primarily through the guidelines agreed to by those managers, and by regular disclosures in reports by managers of levels of risks that may exceed expected limits for those portfolios.

- **Credit Risk:** The risk that an issuer or other counterparty to an investment will not fulfill its obligations to the EFIB. GASB 40 requires disclosure of credit quality ratings of investments in debt securities as described by nationally recognized statistical rating organizations.

Policy: The Investment Guidelines section of this Investment Policy provides credit quality and maturity guidelines for fixed income and cash equivalent investments. Managers are required to comply with the Investment Policies set forth by the EFIB.

- **Custodial Credit Risk:** The risk that in the event of a financial institution or bank failure, the Fund would not be able to recover the value of their deposits and investments that are in the possession of an outside party.

Policy: The EFIB minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to the EFIB ownership and further to the extent possible, be held in the Fund' name.

- **Concentration of Credit Risk:** The risk of loss that may be attributed to the magnitude of a government's investment in a single issue.

Policy: Managers will provide the EFIB with expected concentration of credit risk exposures in their portfolio guidelines. If the concentration of credit risk exceeds expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board. For the portfolio as a whole, staff will report to the Board at a regular Board meeting if the exposure to a non-US government guaranteed credit exceeds 5% of the total EFIB portfolio.

- **Interest Rate Risk:** The risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk to the EFIB's fixed income portfolio is monitored using the effective duration methodology. Effective duration measures the volatility of the price of a bond given a change in interest rates, taking into account any optionality in the underlying bond.

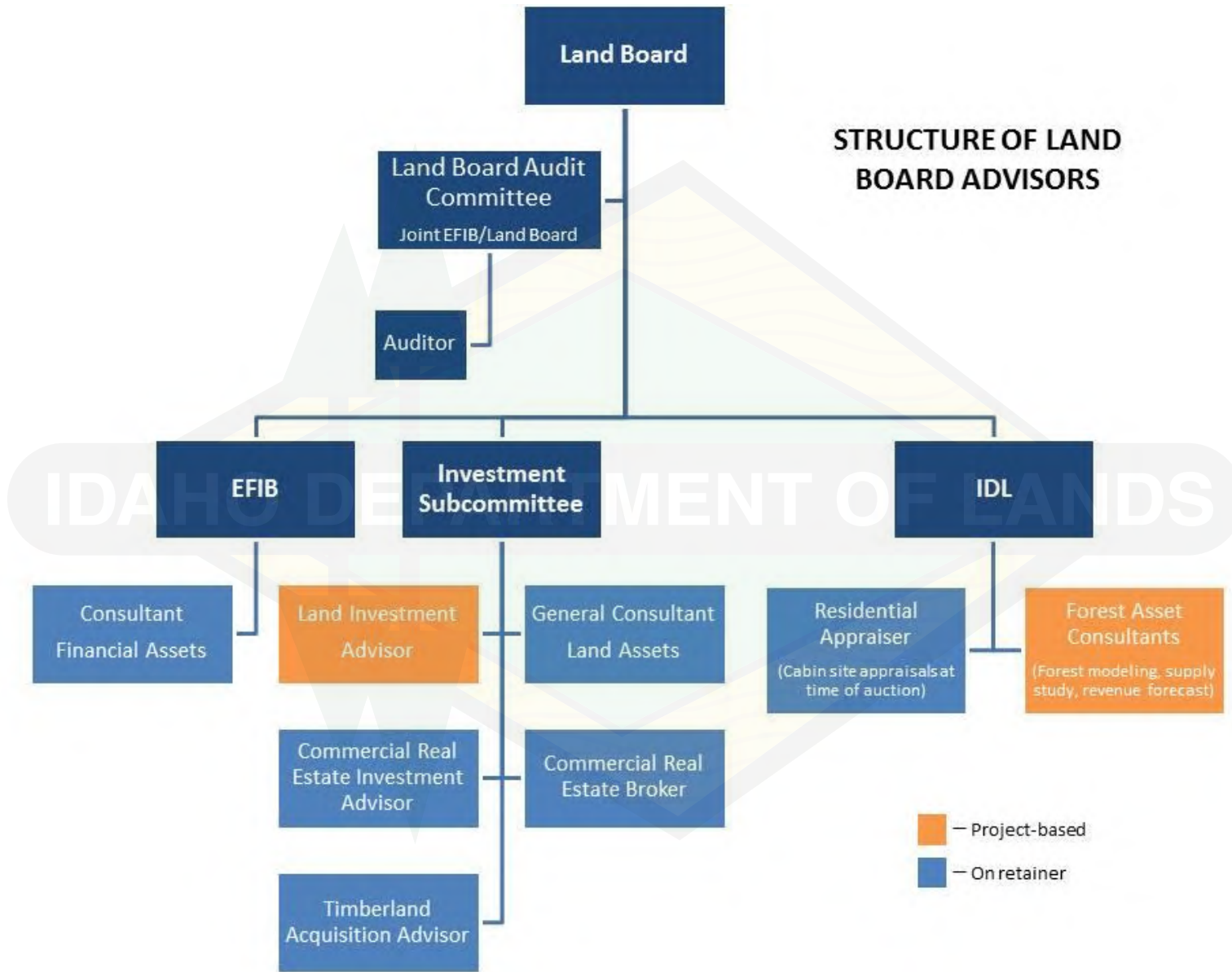
Policy: Managers will provide the EFIB with the expected portfolio duration in their portfolio guidelines. If the duration of the portfolio differs from expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

- **Foreign Currency Risk:** The risk that changes in exchange rates will adversely impact the fair value of an investment. The EFIB's currency risk exposures, or exchange rate risk, reside within the international equity and fixed income investment holdings.

Policy: The EFIB permits investing up to 40% of the total portfolio in international securities. The EFIB recognizes that international investments (equity or fixed income) will have a component of currency risk associated with them. The individual manager guidelines will outline the expected currency exposures (either specifically or through ranges of security exposures to particular currency areas) of the underlying portfolio and if the actual currency exposure differs from the expected, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.



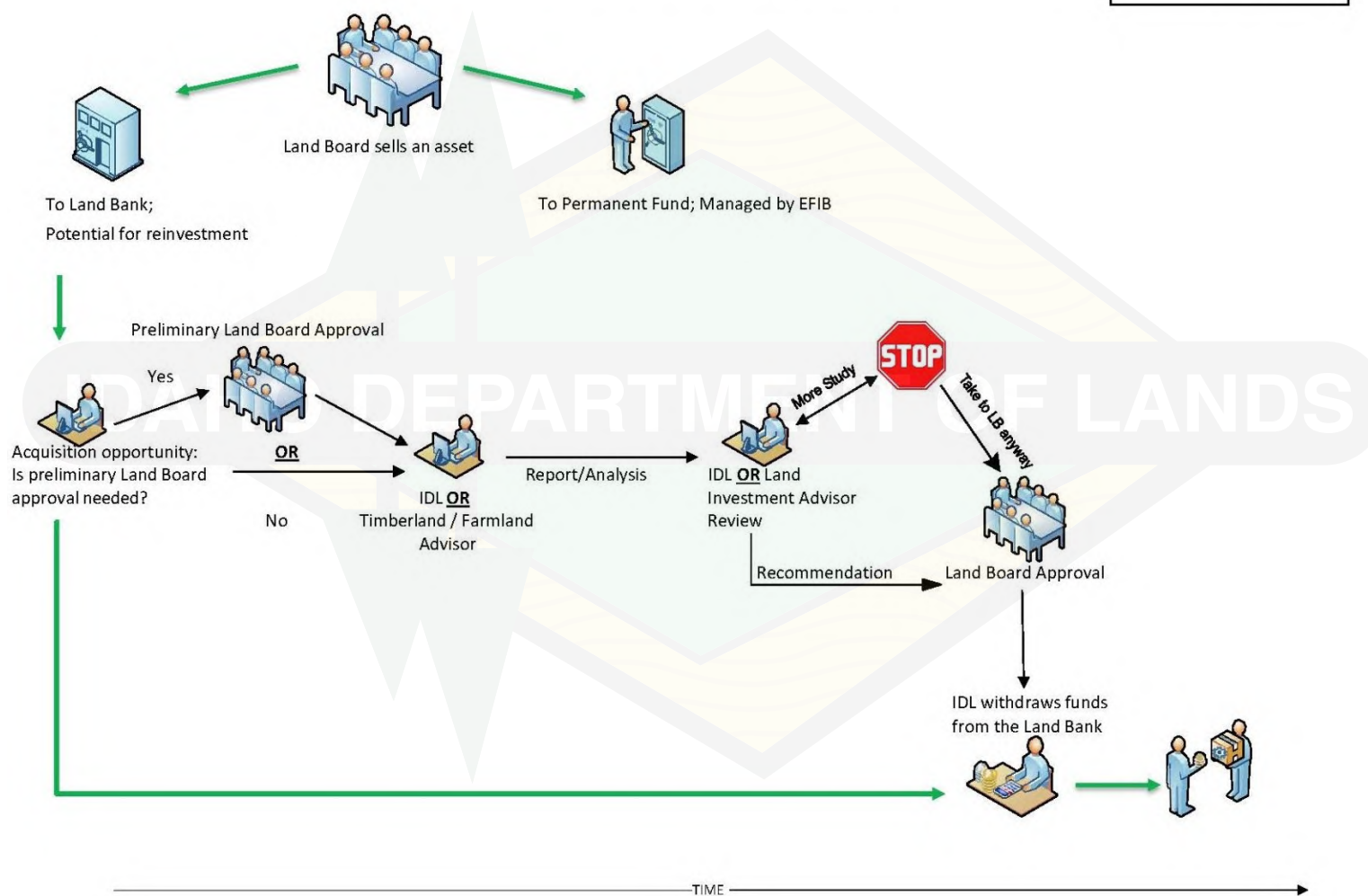
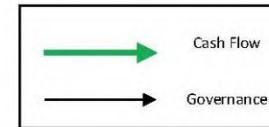
D. Use of External Advisors



E. Decision-Making Structure Chart

10/18/2016

Endowment Assets – Reinvestment in Real Assets Revised Governance & Cash Flow Model Other (non-routine) Investments



v1014

A. ~~Real Estate Acquisition Flow Chart~~



B. F. EFIB's Distribution Principles

Summary of Idaho Endowment Fund Distribution Principles, Policy and Background

By the Endowment Fund Investment Board – Updated July 17, 2018

Mission of Idaho Endowments: Provide a Perpetual Stream of Incomeⁱ

To achieve this mission, Distribution Policy must balance four conflicting objectives:

- Maximize total return over time at a prudent level of risk
- Provide relatively stable and predictable distributions
- Constrain distributions to protect future generations' purchasing power
- Maintain sufficient liquidity for anticipated expenditures

Priorities for Allocating Income

To balance the interests of current and future beneficiaries, the Land Board established the following priorities for allocating endowment revenues and gains:

- First Priority: Avoid reductions in total endowment distributions
- Second Priority: Maintain adequate Earnings Reserves to protect the current level of distributions from temporary income shortfalls
- Last Priority: Increase both distributions and Permanent Fund corpus faster than inflation and population growth

Distribution Policy Management Principles

- Distribute a conservative estimate of long-term sustainable income every year
- Maintain distributions when income temporarily falls below long-term expectations by saving up income in a reserve when it exceeds expectations
- Grow both distributions and permanent corpus proportionately, more than offsetting losses from inflation and dilution from population growth by reinvesting sufficient income back into principal

Constraints on Wasting Principal (Corpus Growth Objectives)

A major risk any endowment faces is that assets will be depleted to satisfy the beneficiary's current needs at the expense of long-term needs. Many states have succumbed to pressure to spend down their endowment funds. Idaho has several protections in place to mitigate this pressure: ⁱⁱ

- Federal law and state Constitution: Prohibits spending original principal, including the proceeds of land sales
- State statute: Requires that principal grow at least at the rate of inflation before any market appreciation of the Permanent Fund can be considered distributable incomeⁱⁱⁱ
- Land Board policy objective: Requires that principal grow faster than the rate of inflation and population growth^{iv}

Determining Annual Distributions^v

Distributions are initially calculated as a percent (the policy distribution rate^{vi}), multiplied by the Permanent Fund balance^{vii} (three-year-average to partly smooth variation in the equity markets)

- Current policy distribution rates are 5% for all endowments except State Hospital South (7%)

Distributions may be further adjusted, up or down, to reflect the reserve balance (and any other relevant factors):

- If reserves are adequate, distributions are maintained even when the Permanent Fund shrinks (actual rate > policy rate)
- If reserves are not fully sufficient (not at target), distributions are maintained even when the Permanent Fund rises (actual rate < policy rate)
- If reserves are unusually low, distributions may be reduced (actual rate < policy rate)

Honoring Beneficiaries' Strong Preference for Sustainable Distributions

Beneficiaries and legislators clearly indicate that a reduction in distributions (if actual income turns out to be low) is much more difficult for them to adjust to than it is to temporarily forego an increase if actual income turns out higher than a conservative expectation. Therefore, it is prudent to base both the policy distribution rate and the annual distribution on a conservative expectation of fund and land earnings^{viii}.

Determining Transfers to the Permanent Fund^{ix}

Excess income is converted to (transferred to) Permanent Fund corpus when reserves are deemed fully sufficient: i.e. exceed targeted years^x of the planned distribution (six years for Public School and seven years for all other endowments).

Measuring the Balance of Current and Future Beneficiaries' Interests

Over time, balance is achieved when all (and only all) "real" income is distributed.

Balance is specifically measured by the following relationship:^{xi}

- o Actual distributions *plus* growth in reserves
equals
- o Actual income (land & fund), *minus* income converted to principal

Earnings Reserves Serve Two Roles

The Earnings Reserve is not a "rainy day" fund to be drawn down when other state revenues falter. Its purpose is to be a:

1. Buffer against volatility in land income and fund return – a bank for unusually high earnings to be used to maintain distributions in lean times
2. Benchmark to determine when spendable reserves are fully sufficient so that any additional earnings can be reinvested in permanent principal (to maintain purchasing power and sustainably increase distributions)

Investment of the Earnings Reserve Fund

Because the fund intends to hold an adequate level of reserves into perpetuity, this long investment horizon allows reserves to be invested in the same risk/return portfolio mix as the Permanent Fund

- In extreme cases, low reserves may require moving the reserves to a more conservative asset mix (which may lock in losses)

Role of Endowment Distributions in the Overall Appropriation Process

Endowment distributions only satisfy a small portion of each beneficiary's annual spending needs, so those needs are essentially irrelevant in determining distributions. The EFIB recommends the Legislature address total beneficiary needs and short-term variations in tax receipts^{xii} so that distributions can be stable and growing, based solely on the long-term earning capacity of the endowment. A consistent, high-returning asset mix cannot be maintained if distributions vary based on tax revenues.

Endnotes

ⁱ The Mission can also be restated in a more measurable form:

The Idaho Endowments will maximize the prudent distribution if they:

- Earn strong real income in the fund and from the land
- Maintain adequate reserves to prevent reductions in distributions
- Reinvest income to protect future purchasing power

ⁱⁱ To ensure these strict legal protections of the future beneficiary do not overrule the interests of the current beneficiary, Land Board policy requires that distributions grow proportionately with principal over the long term.

ⁱⁱⁱ The statutory method for achieving inflation protection is measured by the "Gain Benchmark" (June 2000 original principal, adjusted for deposits and inflation). The cumulative total appreciation below inflation must be retained in the Permanent Fund, but any excess (measured at fiscal year-end) flows to Earnings Reserve as income, generally in September (this can be a large amount in one year or zero for several years).

^{iv} The Land Board policy objective of keeping up with population growth:

- Makes real per capital distributions equivalent, current vs. future
- Is achieved by transferring (reinvesting) sufficient excess retained income from Reserves to Permanent Fund principal so it can never be spent

The current assumed population growth is 1.8% per year, except for Public School which is assumed to be 1.0% per year.

^v Distributions can be changed at any time, but, to facilitate the budget process, are usually determined annually at the August Land Board meeting for the following fiscal year.

^{vi} The policy distribution rate is based primarily on a conservative estimate of expected total income. When expected long-term earnings change significantly, the policy distribution rate should change (see note 10). However, to protect the corpus, the policy rate should not be raised (i.e. distributions constrained) if Permanent Fund balance objectives have not been achieved.

^{vii} Calculating distributions as a percentage of the Permanent Fund is both a mechanism and an incentive to balance the interests of current and future beneficiaries. This structure ensures that:

- In normal conditions, distributions to current beneficiaries increase proportionately with the permanent fund balance
- Increases in distributions are sustainable (supported by sufficient permanent assets)
- Holding excess reserves is discouraged

Transfers from Earnings Reserve, both historical and approved but not completed, are added to the annual amounts used in calculating the three-year average Permanent Fund balance.

^{viii} To reflect the desired conservative bias in setting policy distribution rates:

- Policy distribution rates should be increased only based on a conservative “downside” forecast of long-term income: e.g. 25th percentile fund earnings and 20th percentile land revenue forecasts
- Policy distribution rates should be reduced if the current rate can only be justified with optimistic earnings and revenue forecasts. Ideally, the reduction in the rate would be accomplished by holding the distribution (in dollars) constant for a long period. However, an immediate cut in the absolute dollars would be required if reserves are low.

To reflect a conservative bias in setting annual distributions, the viability of a proposed distribution is tested by forecasting the coverage ratio over the next three years based on a “low” forecast of timber earnings and a 2% fund return.

It is impossible to eliminate the possibility of a reduction in distributions, but the policy is designed to allow at least two years warning of a potential reduction, consistent with the time lags inherent in the state budgeting process. If a fund is unable to make an appropriated distribution, that would be considered a catastrophic failure of the process. In the past, three endowments have experienced catastrophic failures (i.e. had insufficient reserves to pay promised distributions): Public School (2003), Ag College (2005) and Charitable Institutions (2005).

^{ix} Transfers of excess reserves to the Permanent Fund are generally approved annually at the August Land Board meeting, based on balances as of the previous year end and approved distributions for the next fiscal year, but actually done in September

Requiring that reserves which exceed a sufficient or target level be converted to corpus (i.e. transferred to the Permanent Fund) reduces the temptation to:

- Make large, one-time distributions of accumulated income to the detriment of future beneficiaries
- Hoard income to avoid an increase in distributions that would automatically result from a conversion

^x The determination of how many years of reserves are sufficient was based on the combined volatility of fund returns and net land revenues, which is heavily influenced by the fact that in a severe equity downturn (once every 25 years), no distributable income would be available from the Permanent Fund for about five years because the Permanent Fund would retain all of its income to rebuild the corpus. A temporary increase in the years of reserve, above the targeted level, may be called for if there is a temporary reduction in expected income (e.g. timber harvest is predicted to be unusually low). Reserves for the three endowments with cabin site dispositions will be allowed to rise up to a year above target, pending an update of the distribution models to reflect the impact of the dispositions on the desired reserve levels.

^{xi} There will always be temporary deviations from this balance because actual income after inflation will vary from the expectations used to establish the distribution rate.

^{xii} The Land Board has the legal authority to consider a beneficiaries' other sources of revenue in setting distributions and therefore could attempt to adjust distributions in response to changes in tax receipts or fund income. However, only the Legislature has the Constitutional responsibility and authority to balance a beneficiary's total spending in excess of endowment distributions with tax revenues. When endowment distributions decline, the Legislature can choose to provide tax revenues to maintain the total level of spending they believe is appropriate. When endowment distributions rise, the Legislature can choose to reduce tax revenues to maintain the level of total spending they believe is optimal. The Land Board has no control over tax revenues and would be unable, without the Legislature's consent, to adjust distributions in response to changes in tax receipts. Also, the Legislature is in a better position than the Land Board to balance a beneficiary's unfunded needs with all other expenditure requests and options to increase or decrease tax revenues.

Memorandum

To: Idaho Board of Land Commissioners
From: Callan LLC
Date: May 14, 2020
Subject: Review of Timberland Hurdle Rate

Background

The Reinvestment Subcommittee requested that Callan review the hurdle rates for land acquisitions. This memo focuses specifically on the Timberland hurdle rate and does not review the Farmland hurdle rate. Timberland is a strategic asset class for the Endowment. The Land Board and IDL have a competitive advantage in Timberland investing. In our view, this is not the case for Farmland. For those reasons, we have prioritized the review of the hurdle rates to only include Timberland at this time. We can revisit Farmland at a later date if the Land Board desires.

Discussion of Timberland Hurdle Rate

The hurdle rate for timber was initially established in 2016. It was intended to be long term subject to periodic review and revision. The current hurdle rate is a minimum net real return of 3.5% which equates to a 6.75% gross nominal return, assuming 2.25% inflation. The hurdle rate compares to the Policy Objective return of 3.0% net real. This return is assumed to come predominately from stumpage income since the sale of timberland is prohibited limiting realized appreciation.

In the review of the hurdle rate, Callan focused on three major factors and changes since 2016:

- Current returns of the Endowment timber portfolio and trends
- Expected returns for EFIB portfolio and changes to expected returns
- Trends in expected and actual returns for institutional timber investment

Endowment Timber Returns

The returns for Endowment Timber portfolio are shown below.

Periods Ending December 31, 2019 – Net Nominal and Real Returns

	Fiscal				
	YTD	1 Yr	2 Yrs	3 Yrs	4.5 Yrs
Nominal Income	2.42%	2.90%	3.87%	3.60%	3.81%
Appreciation	0.00%	0.00%	0.00%	0.00%	0.00%
Total Net Nominal	2.42%	2.90%	3.87%	3.60%	3.81%
Total Net Real	2.09%	0.59%	1.73%	1.46%	2.11%
CPI All Urban Cons	0.32%	2.29%	2.10%	2.10%	1.66%

The time series is short at only 4.5 years. The existing timber portfolio is performing below the Policy Objective of 3.0% net real. The returns are comprised entirely of income since there have not been any valuations completed beyond the LEV analysis Callan conducted for asset allocation study in 2014. The increased harvest and associated projected increase in revenue approved in 2019 will not be fully reflected in returns until FY 2025-2026 (and beyond) but based on the IDL forecast, will result in a substantial uptick in net income.

EFIB Portfolio and Changes to Expected Returns

In 2016, the EFIB portfolio had a 10-year expected return of 6.83% with a standard deviation of 13.4%. Since 2016, the expected return has declined by 43 basis points to 6.40% with a 12.8% standard deviation using Callan's 2020 capital market expectations. This is predominately due to a reduction in the fixed income assumption.

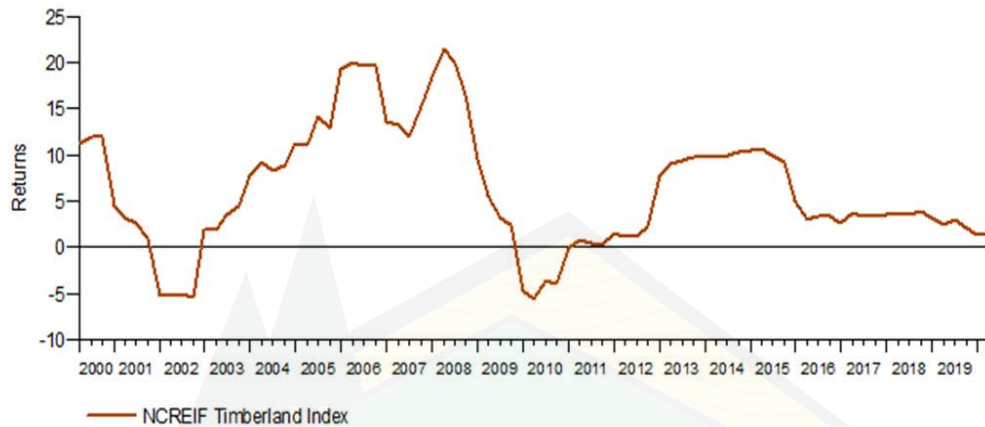
Trends in Expected and Actual Returns Institutional Timber Investment

Callan surveyed institutional timber investment manager organizations ("TIMOs") about their expected returns for timber over the long term and the factors impacting those returns by region and specific states in the U.S., including Idaho. Over the past 10 years, the expected return for timberland has trended down by 1.50% to 3%, with variations by region and state. Some of the shift in expectations is due to factors specific to timber markets and some is related to the decline in returns for other asset classes, including those that might compete for capital in the asset allocation with timber (e.g real estate and farmland). Over the past few years expected returns have compressed by 0.25% to 0.50%. The general consensus among TIMOs surveyed was that discount rates (and hence expected returns) had reached a low point prior to the pandemic. Most believed it was too early to tell if investors would change their expected returns based on the pandemic. Some are hoping the volatility we are experiencing in other asset classes will revive interest in timberland bringing new investors and capital into the asset class to support pricing.

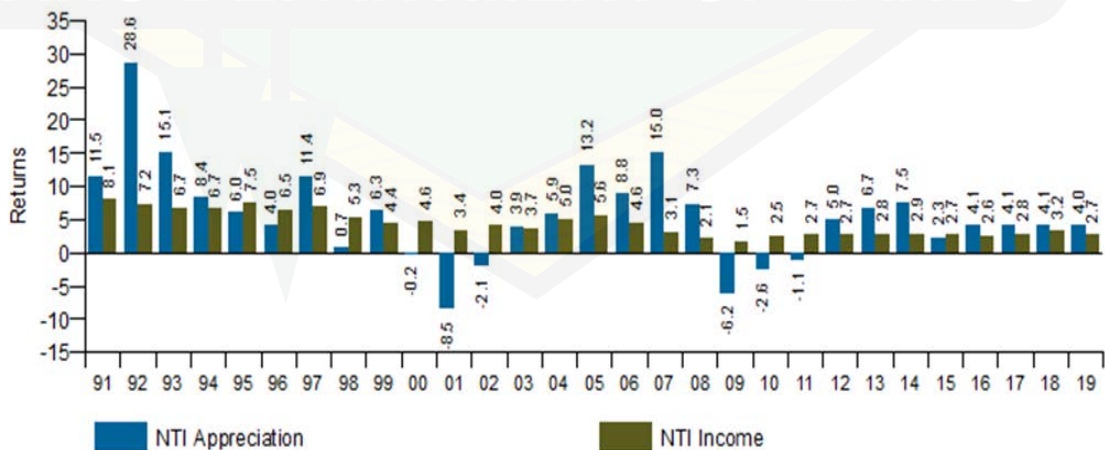
The TIMOs are actively buying timberland in the U.S. with total gross nominal return targets of 6% to 8% (the range covers all U.S. regions). Expected returns for the Pacific Northwest are at the high end of the range. Consistent with survey results of prior years, Idaho is a market that is less attractive compared to other regions by some TIMOs surveyed due to lower productivity based on its location east of the Cascades, thinner timber markets, including reduced access to export markets, and fewer institutional buyers which impacts liquidity for owners who want to sell. We believe that the Land Board's prominent position in the market and management expertise mitigates some of these factors, as do planned improvements in the Idaho timber industry infrastructure, specifically, an increase in timber processing capacity and the need for supply of timber.

Returns for U.S. Timber based on the institutional timberland index are shown on the two charts below and illustrate the decline in returns. Idaho specific returns cannot be shown because there are not enough properties in Idaho owned by data contributors to the NCREIF Index:

Rolling 4 Quarter Gross of Fee Returns for 20 Years Ended March 31, 2020



NCREIF Timberland Income and Appreciation Gross Returns for 29 Years Ended December 31, 2019



Conclusion

Callan recommends that the hurdle rate be reduced to 3.25% net real from 3.50% net real. This is consistent with the reduction in expected returns for timberland as an asset class since 2016 as well as the reduction in the EFIB financial asset portfolio. At 3.25% net real, the return would be accretive to the existing timberland portfolio based on recent, albeit limited, performance and be above the Policy Objective for Timberland of 3.0% net real. All future investments in timberland should meet or exceed the established hurdle rate.

STATE BOARD OF LAND COMMISSIONERS

November 16, 2021

Regular Agenda

Subject

2021 Endowment Land Asset Management Plan Review

Question Presented

Shall the Land Board approve the 2021 Asset Management Plan?

Background

At its November 18, 2014, meeting, the Land Board accepted the Asset Allocation and Governance Review from Callan Associates (Callan Report). The Callan Report included the following recommendation: "The Asset Management Plan should be reoriented to a strategic plan...."

On March 4, 2016, the new Asset Management Plan draft was authorized by the Land Board's Investment Subcommittee for presentation to the Land Board at its March 15, 2016 meeting. After a period of seeking public comment through April 15, 2016, and receiving no comments, the draft Asset Management Plan was presented, with a five-year update schedule, and unanimously approved by the Land Board on May 17, 2016.

Discussion

The Land Board's Investment Subcommittee met on September 7, 2021 and authorized presentation of the updated Asset Management Plan to the Land Board for approval.

Major revisions include an historical look at ownership changes over time both in tabular and map format as shown in the redlined Asset Management Plan (Attachment 1). Additionally, updates were made based on data from end of Fiscal Year 2021 for the various asset classes and associated instruments (contracts, leases, etc.) used to manage assets to meet the constitutional mandate of maximizing revenue over the long-term.

Key changes from the 2016 Asset Management Plan in this draft:

- Timberland ownership increased from just under one million acres in 2016 to 1,030,468 acres in 2021 through reinvestment of Land Bank funds
- Reduction in residential leases from 337 to 71 sites
- Completion of disposal of the majority of commercial properties
- Reduction or reclassification of farmland leases from 110 to 64 leases

This revised Asset Management Plan is a companion document to the Investment Policy Statement.

Recommendation

Approve the 2021 Endowment Lands Asset Management Plan.

Board Action

Attachments

1. 2021 Endowment Lands Asset Management Plan (redlined)





**Idaho State
Board of Land Commissioners**

**Endowment Lands
Asset Management Plan**

~~May 17, 2016~~ November 16, 2021

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I. Overview

A. PURPOSE

This document provides strategic direction to the Idaho Department of Lands (IDL) for the management of endowment lands. Program managers Bureau Chiefs and their staff, primarily for timberland, real estate, farmland, and rangeland, will develop and maintain program-specific business plans to guide the individual programs in the management actions tactics on endowment lands. The program-specific business plans will provide direction to support the strategies in this Asset Management Plan.

B. BACKGROUND

The Idaho Constitution establishes the State Board of Land Commissioners (Land Board) as the trustee over the assets of the nine endowments. As trust manager, the Land Board is obligated to manage the assets of each trust with undivided loyalty to the beneficiaries of the trusts. Idaho Code § 58-101 created the Idaho Department of Lands (IDL) to serve as the manager of the non-financial assets of each trust. Similarly, Idaho Code § 57-718 created the Endowment Fund Investment Board (EFIB) which formulates policy for, and manages the investment of, the financial assets.

C. RELATED DOCUMENTS

Policies for endowment investments, including land assets, are found in the Investment Policy Statement, presented to the Land Board for initial approval in 2016 and annually thereafter. The Investment Policy Statement provides direction and performance measures for financial and land assets as a combined trust. The Investment Policy Statement also details the governance structure approved by the Land Board in 2015.

The Callan Report, authored by Callan Associates LLC (Callan) and accepted by the Land Board in 2014, provided guidance to the Land Board regarding the Board's role as strategic managers, asset allocation, governance structure, investment policy, asset valuation, and managing the endowment assets as a combined trust. The Callan Report recommended development of the Investment Policy Statement and Asset Management Plan.

The Endowment Fund Reform Progress Report (2013), also known as the Maynard Report, provided a status update on endowment reform and made several recommendations, particularly related to asset valuation and third-party verification. The progress report, like other similar previous efforts, was a precursor to the Callan Report.

The IDL Strategic Plan ~~is scheduled for completion~~ was completed in ~~May, 2016,~~ and ~~will be~~ has been updated annually since that time. The Strategic Plan will have major goals for IDL and strategies to make progress toward those goals that will be developed throughout the agency.

The Strategic Reinvestment Plan, presented to the Land Board for approval in 2016, provides direction for the reinvestment of Land Bank funds. The Strategic Reinvestment Plan was primarily authored by Callan in their role as the Land Board's general consultant and investment consultant to the Endowment Fund Investment Board (EFIB).

The Cottage Site Plan, revised and approved by the Land Board in 2016, provides direction for the disposal of residential real estate. The proceeds from the sale of the land assets are transferred to the Land Bank for reinvestment.

Commercial Real Estate Business Plans, approved by the Land Board in 2016, provide direction for the disposal and retention of commercial real estate assets. The proceeds from the sale of those assets are transferred to the Land Bank for reinvestment.

Business plans for IDL land management programs contain the tactics that support this Asset Management Plan. Business plans should be updated and revised on a schedule detailed in each plan or as changing conditions dictate. Business plans provide the ongoing, specific direction for land asset management practices. An example outline for business plans is found in the Appendix-A. The priorities for business plan development are timberland, real estate, rangeland, and farmland. Other asset classes/programs are expected to initially focus on establishing and maintaining policies and procedures rather than business plans.

The Distribution Policy, established by the Land Board, and managed by the EFIB, is included in the Investment Policy Statement and defines how proceeds from land management (and financial assets) are passed on to the beneficiaries.

The Greater Sage-Grouse Conservation Plan, approved by the Land Board in 2015, summarizes conservation measures for endowment land programs that are complementary to the Idaho Alternative for sage-grouse conservation actions on federal land. The plan communicates that there are adequate existing regulatory mechanisms in place to alleviate the primary threats to sage-grouse and sage-grouse habitat to prevent a listing under the Endangered Species Act. Finally, the plan preserves the statutory responsibility of IDL to manage endowment lands under a constitutional mandate to maximize long-term returns to endowment beneficiaries. The plan specifically describes how sage-grouse conservation measures will be applied on endowment lands. The conservation measures are applicable to a variety of activities on endowment lands, including but not limited to fire management,

leasing, regulatory, assistance, and rangeland management. While this Asset Management Plan will not restate direction from the Greater Sage-Grouse Conservation Plan, the direction will apply to land management practices where practical.

D. ASSET MANAGEMENT PHILOSOPHY

To fulfill its fiduciary duties to each individual endowment, the Land Board as trustee for the ~~state~~State of Idaho will:

1. Invest in land assets and financial instruments consistent with the powers and limitations imposed by the Idaho Constitution and Idaho Code.
2. Manage the endowment land and financial assets as a whole trust on a total return basis.
3. Seek to optimize return from both the endowments' land and financial assets by managing risk through diversification of holdings over time.
4. Ensure that significant land holdings will be maintained in perpetuity, since they provide material diversification and inflation protection to an endowment's portfolio.
5. Seek to reposition parcels to reduce risk, lower management costs, and increase prospects for immediate and sustainable income, recognizing that much endowment land remains in the original scattered parcels obtained from the federal government.
6. Provide for the appropriate and reasonable management expenses of each endowment from its own income.
7. Accommodate public use of endowment lands, to the extent feasible, provided such use does not impair financial returns.

E. PROTECTION OF PRINCIPAL

Proceeds from the sale of endowment lands will never be distributed, but must be reinvested in land within five years or transferred to the permanent endowment funds. The Strategic Reinvestment Plan ~~provides guidance for~~as adopted by the Land Board provides direction regarding reinvestment of Land Bank funds.

Proceeds from extracted mineral resources will never be distributed but must be deposited to the permanent endowment funds.

F. THE LAND BANK FUND

Article IX Section 4 of the Idaho Constitution and Idaho Code § 58-133 provide for the sale and reinvestment in real property through a land bank. The Land Board views the Land Bank as an essential tool that can be used when new land acquisition opportunities are identified. Acquisitions can include easements to secure or improve access. ~~The Strategic Reinvestment Plan provides guidance for reinvestment of Land Bank funds.~~

II. Endowment Assets

Endowment assets of the state of Idaho consist of both land and funds. All endowment assets are held in trust by the state in nine endowment trusts. The state initially received grants of over 3.65 million acres of land in trust from the federal government in the Idaho Admissions Bill and through other federal acts. Historians of Idaho's constitutional debates note, "The land was to be managed according to private trust law and free from political influence and consideration...to support education [and] with the profits from these lands to relieve taxpayers from the burden."¹ Over time, properties were sold or exchanged, with proceeds from the sales and certain other income deposited in the endowment funds.

The land trust consists of real estate, which is defined by case law and in statute² as land and possessory rights to the land, ditches, water rights, mining claims, structures and improvements affixed to the land and all things for an infinite distance above as well as below the surface of the land. Land assets owned by the endowment trusts must possess legal, transferable ownership, and must exist within the boundaries of the state of Idaho.

A. OVERVIEW OF OWNERSHIP

Idaho's endowment lands were granted ~~to Idaho~~ by the federal government to be held in "trust" and to provide financial support for the various institutions³. The first land grant was made under the Territorial Act of 1863, granting sections 16 and 36 of each township for the support of public schools. The Territorial Act of 1883 granted 46,080 acres for the support of the state university. Upon admission as a state on July 3, 1890, the Idaho Admission Bill reconfirmed the previous grants, and provided an additional 50,000 acres for the support of the state university, plus lands for the support of seven additional institutions.

Because many of the sections granted for the support of the public schools were already in private ownership prior to statehood, the Bill directed the state to select replacement lands from the public domain. The exact acreage due the public schools was determined by assuming 1/18 of the total area of the state as published in the June 30, 1931, annual report of the General Land Office (53,688,320 acres).⁴

¹ Colson, Dennis C. (2011). Compilation of notes from the Idaho Constitutional Convention in Boise, Idaho held July 4, 1889. Idaho Endowment Lands and The Idaho Constitution, p. 4 and 8.

² Idaho Code § 55-101, Black's Law Dictionary, Reynard v. City of Caldwell, 55 Idaho 342, 42 P.2d 292, 296 (1935).

³ Pursuant to the Idaho Constitution, endowment lands, like other state property, are exempt from taxation. Article VII, Section 4 states in part, "The property of . . . the state, counties, towns, cities, villages, school districts and other municipal corporations and public libraries shall be exempt from taxation." The reason for such exemption is that it impedes the purpose and use of the property. The exemption is offset by the fact that endowment lands provide resources for local businesses which in turn pay taxes and employ people in the local communities. *The Economic Activity of Idaho's Endowment Trust Lands*, Dr. Peter R. Crabb, Ph.D., July 2011, estimated as of the end of fiscal year 2010 that Idaho's Endowment Trust Lands contribute \$133 million in annual economic activity (net of management expenses) and support nearly 2,000 jobs in the state of Idaho.

⁴ The other institutions were also directed to select lands to fulfill their grants from the public domain.

From the outset, there was considerable debate over whether or not to sell the endowment lands and invest the proceeds in a permanent fund, or whether the lands should be retained and managed. Initially, Idaho chose to concentrate on selecting high-valued agricultural and grazing lands with the intention of selling them.⁵ Timberlands were selected with the intention of removing the timber and then selling the land as agricultural or grazing lands. Because many of the granted lands were within National Forest Reserves, they were traded for lieu lands of equal value lying in more convenient locations.

Idaho began selling land immediately, resulting in about 33 percent of the original land grant acreage being sold to date. The majority of lands were sold between 1900 and 1940, with over 12 percent of the total acres granted being sold between 1911 and 1920 alone. While land sales significantly reduced acreage between 1890 and 1940, over the past 60 years some acres returned to the trusts through land sale contract forfeitures, loan foreclosures, purchases, and land exchanges. The following table illustrates the ownership of the various institutions through time.

Endowment Ownership Through Time

<u>Institution</u>	<u>Total Acres</u>		
	<u>1890</u>	<u>1940</u>	<u>2021</u>
Public School	2,982,683	2,543,962	2,103,037
Agricultural College	90,000	42,836	33,527
Charitable Institutions	150,000	86,085	77,245
Normal School	100,000	53,389	61,021
Penitentiary	50,000	34,051	28,915
School of Science	100,000	74,714	75,493
State Hospital South ⁶	50,000	30,315	35,942
University of Idaho	96,080	51,316	55,091
Capitol ⁷	32,000	14,719	7,283
Totals	3,650,763	2,931,387	2,477,552

Totals may not match due to rounding.

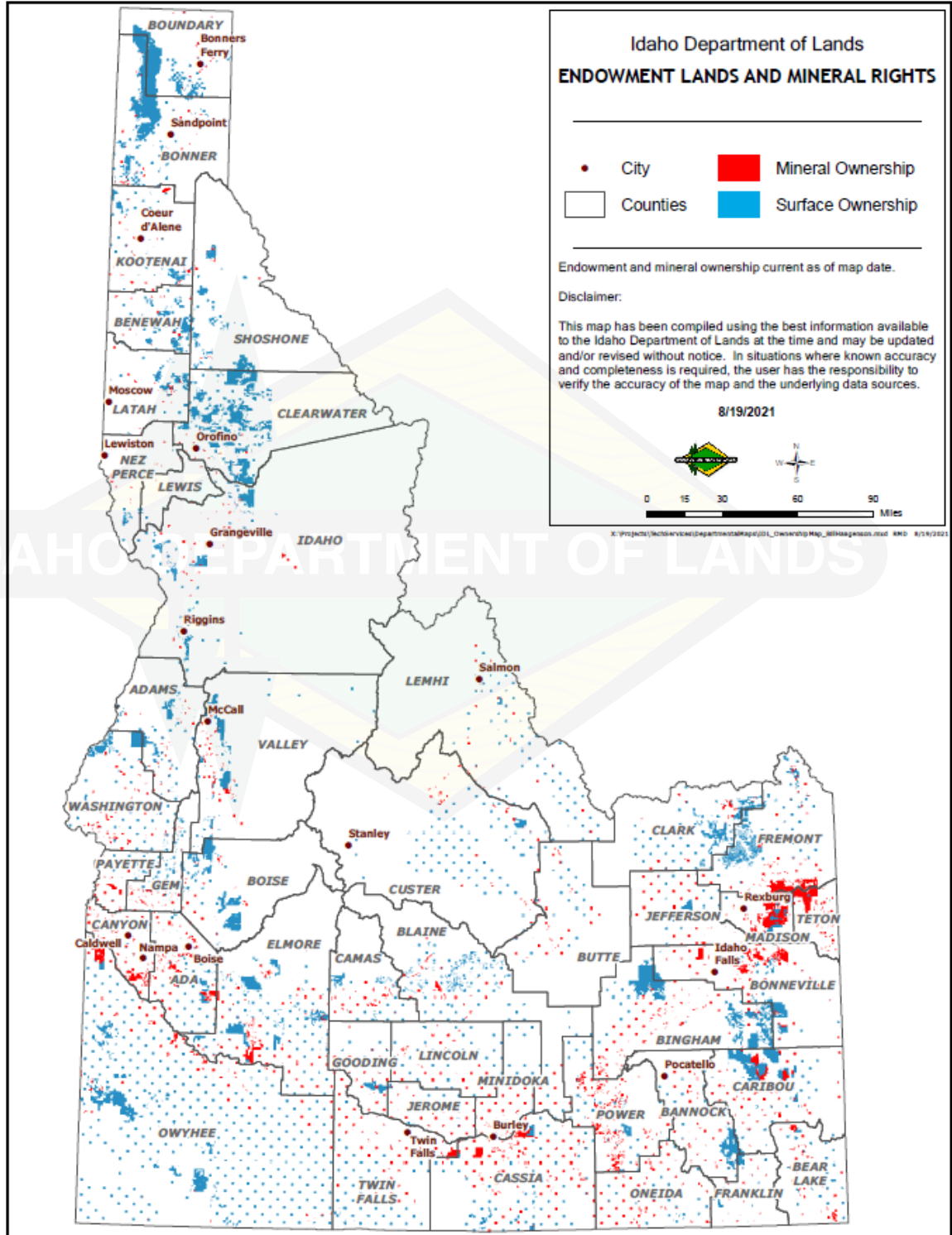
⁵ A Preliminary Report on Management of State-Owned Lands In Idaho. Prepared by The Technical Advisory Committee on Land Management for The Idaho State Planning Land Board, December 1940.

⁶ At statehood, the State Hospital South endowment lands were originally granted as the Insane Asylum endowment.

⁷ At statehood, the Capitol endowment lands were originally designated as the Public Building endowment.

As can be seen in the endowment land ownership map below, the ownership pattern is very scattered and disjointed due to the original public school land grants, the selection process for replacement, in lieu and other endowment lands, and the selling or exchange of various lands.

Endowment Land Ownership Map



Current Land Acres by Endowment

Endowment Ownership – 2021

	Acres	% Total
Public School	2,103,037	84.88%
Agricultural College	33,527	1.35%
Charitable Institutions	77,245	3.12%
4/15 Idaho State University		
4/15 Juvenile Corrections Center		
4/15 State Hospital North		
5/30 Veterans Home		
1/30 School for the Deaf & Blind		
Normal School	61,021	2.46%
1/2 Lewis-Clark State College		
1/2 Idaho State University		
Penitentiary	28,915	1.17%
School of Science	75,493	3.05%
State Hospital South	35,942	1.45%
University of Idaho	55,091	2.22%
Capitol	7,283	0.29%
Totals	2,477,552	100.0%

Totals may not match due to rounding.

IDAHO DEPARTMENT OF LANDS

Land trust assets are classified according to their “primary” use. ~~Other~~ Secondary uses are allowed when they do not adversely impact the “primary” use and the intended financial return. This is unlike federal lands or other public lands which are managed for multiple uses or for the benefit of the general public regardless of their financial return. Land asset classifications can be changed by the Land Board to meet changing markets or to capitalize on emerging alternative opportunities. Overall asset allocation target ranges have been established for the total endowment portfolio by Callan ~~Associates LLC (2014)~~ in their 2018 update.

Categorizing lands into asset classifications allows:

- ~~Land managers to customize~~ Customizing plans and strategies so they can optimize returns based on specific asset characteristics.
- Monitoring performance by benchmarking against similar private industry and other trust land managers.
- ~~Land managers to compare~~ Comparing actual land asset allocation to recommended target ranges and ~~strive to adjust~~ adjustment over time.

Asset Classification	Asset Description
Timberland	Lands capable of regenerating and growing successive crops of commercial forest products on a sustainable basis.
Farmland	Lands used for growing cultivated plants or agricultural produce (grains, hay, vegetables, and/or fruits).
Rangeland	Lands supporting natural vegetation, generally grasses, forbs and small brush, suitable for grazing by domestic livestock and wildlife.
Commercial Real Estate	Lands normally recognized as “commercial” in local zoning regulations, including retail and light industrial businesses and parking lots.
Residential Real Estate	Land intended for sale or lease for residential subdivision, individual parcels or lots (includes cottage or cabin sites).
Minerals	Includes lands managed for the production and sale of sand and gravel, oil and gas, coal, and other minerals including precious metals, decorative rock, phosphates, etc.

B. LAND MANAGEMENT PHILOSOPHY

The Land Board manages the real estate in its endowment portfolio to capture the full economic value of such lands and improvements for endowment beneficiaries. Pursuant to Article IX Section 8 of the Idaho Constitution, the Land Board is required to “provide for the location, protection, sale or rental of all the lands heretofore, or which may hereafter be granted or acquired by the state by or from the general government, under such regulations as may be prescribed by law, and in such a manner as will secure the maximum long-term financial return to the institution to which granted...” In pursuit of this objective the Land Board will contract with private entities to operate business activities upon the land trust assets.

As the Supreme Court stated in *Barber Lumber Co. v. Gifford*, it is the “land business of the state that is placed in the hands of the state Board of land commissioners.” 25 Idaho at 669,139 p. at 562. The Land Board, as trustees of Idaho’s endowment trusts, will be guided in its management by the “prudent investor rule,” Idaho Code § 68-502(1), which includes development “of an overall investment strategy having risk and return objectives reasonably suited to the trust” (Idaho Code § 68-502(2)).

C. MANAGEMENT OBJECTIVES BY ASSET CLASS

Management Goals

- Protect and enhance the value and productivity of the land assets.
- Maximize financial returns from land assets over time.
- Encourage a diversity of revenue-producing uses of land assets.
- Manage land assets prudently and efficiently with accountability to the beneficiaries.

These goals are best achieved by establishing general operating expectations for endowment trust lands, including but not limited to the following:

- Preserving land holdings where leasing will generate a competitive rate of return.
- Seeking to enhance land values before considering sale, or exchange of underperforming land assets.
- Acquiring lands and resources within traditional asset classes when the acquisition will add value or diversification to the overall trust portfolio.
- Selling lands, structures, and resources when the outcome adds value to the overall trust portfolio.
- Exchanging lands and resources when the exchange will add value or diversification to the overall trust portfolio.

This document represents a framework to drive further planning. Detailed underlying business plans for specified programs shall ensure that management activities are consistent with and contributing to the overall asset management goals. Such plans ~~will~~may, where appropriate:

- Provide an executive summary of the plan for the asset classification.
- Describe the current and future influences on plan implementation and performance.
- Analyze past and present return on asset performance, current asset value, current asset characteristics, and future expected returns.
- Recommend long-term financial and land management objectives for the asset classification.
- Detail opportunities and challenges the asset classification faces and specify plans for capitalizing on opportunities and dealing with challenges.
- Define the revision timeline for the plan.

1. Timberland

The endowment's timberland asset consists of approximately ~~1 million~~1,030,468 acres managed primarily for commercial forest products. Management complies with all applicable federal and state statutes, such as the Federal Clean Water Act and the Idaho Forest Practices Act.

Management Objectives

- Reduce risk and increase prospects for sustainable annual income.
- Realize an overall return on asset consistent with the objectives in the Investment Policy Statement.
- Produce forest products that meet market demands.

- Identify and exchange or transition underperforming forestland assets to increase economic performance of the asset class and long-term returns to the beneficiaries.
- Pursue acquisition, through purchase or exchange, of timberland that ~~exceeds~~ improves the productivity and financial return of the ~~average~~ timberland ~~currently in the~~ portfolio.

Challenges

- Ensuring all-purpose, permanent, and legal access to forestland parcels.
- Balancing management expenses against revenue generated.
- Changing social and political attitudes and values impact land management practices.
- Legal challenges to interpretation and application of the Endangered Species Act and the Clean Water Act.
- Changing ownership and land management practices of federal and private land holdings.
- Changes in domestic and global markets and industry infrastructure impacts demand and pricing for endowment forest products.
- Gaining support for acquisition of additional timberland for the endowments.
- Timberlands cannot be sold, but can be exchanged.

Opportunities

- Changing sawmill technology, markets, and products that provide new business opportunities.
- Consistent long-term income and return on asset from productive and diverse timberlands primarily due to biological growth.
- Geographically consolidate management of endowment land by blocking up parcels where consistent with land management objectives.
- Capture higher value by exchanging timberlands adjacent to population centers.
- ~~Consider timberlands with conservation easements to reduce acquisition cost and enhance financial return.~~

2. Residential Real Estate

Idaho has leased residential sites since 1932. These properties consist of cabins and single-family homes where the lessee is authorized to construct and own the improvements. Currently, the endowments lease 33771 sites (20152021), with the majority located on Priest and Payette Lakes. The ability to garner asset appropriate rental rates has long been debated. Experience and basic economic principles demonstrate that, in instances of split ownership of land and improvements, the economic potential of the property is often captured by the owner of the

improvements without a corresponding benefit to the ~~land owner~~landowner. In February 2010, the Land Board voted to unify the cottage site estate, recognizing that the continuation of a long-term cottage leasing program falls short of maximizing the financial return that could be generated from alternative investments.

Management Objectives

- Execute the approved Cottage Site Plan to unify the estate in a business savvy manner to maximize return to the trust beneficiaries.
- For the duration of the cottage site leasing program, develop and manage residential leases that appropriately compensate the endowments.
- Plan for the long-term status of remaining cottage sites after full implementation of the current cottage site voluntary auction for ownership (VAFO) process.

Challenges

- Volatility in real estate values associated with lake side or lake view property makes it challenging, controversial, and costly to administer a process of determining annual rent that is both embraced by leaseholders and achieves an appropriate return on asset.
- Executing the Cottage Site Plan in a business savvy manner to provide an orderly market transition, both in disposition and reinvestment.

Opportunities

- Reinvest the proceeds from the sale of cottage sites in a manner consistent with the Strategic Reinvestment Plan.
- Explore alternative leasing opportunities to capture an appropriate lease value and keep the estate whole.

3. Commercial Real Estate

Idaho has a long history of leasing properties for various commercial activities (e.g., communication sites, military use, and recreation). ~~communication sites, commercial recreation services, wind farms, etc.~~, but only began acquiring ~~commercial office and retail properties in 1998. Idaho currently manages nineteen commercial buildings and parking lots of various age and quality designations⁸ located principally in downtown Boise.~~

⁸~~Commercial office and retail properties are designated as Class A, B, or C. The property class impacts lease rates and is driven by property age, location, construction quality, caliber of tenants and professional property management.~~

~~In 2016, based on recommendations in the Callan Report (Callan Associates, 2014) and from its Commercial Real Estate Advisor (CenturyPacific, LLLP, 2016), the Land Board approved the disposal of the majority of these commercial real estate properties. The Land Board's decision will result in limited ongoing commercial real estate ownership and no new commercial real estate acquisitions. Leasing of endowment lands for commercial uses will continue.~~

While ownership of commercial buildings and parking lots is being phased out, leasing of other endowment lands for commercial uses will continue because it provides an attractive opportunity for increased revenue from the land asset portfolio. Other commercial real estate leasing activities include, but are not limited to, energy resources (wind, hydro, geothermal), communication sites, ski resorts, etc. Leases will be offered based on business principles that will ensure the maximum long-term financial return to the endowment beneficiaries.

Management Objectives

- For the duration of the program, develop and manage commercial leases that achieve a rate of return consistent with objectives in the Investment Policy Statement.
- Ensure lease terms and conditions comport with industry standards.
- Ensure tenant improvement allowances associated with the commercial building leasing program represent necessary structural and finish requirements to property but not personal property of a prospective tenant.
- Contract property management and leasing activities, where appropriate, to ensure professional, consistent, and quality service.

Challenges

- ~~Efficient disposal of commercial properties given process limitations such as public auction and recapture of sale expenses.~~
- ~~IDL organizational structure and processes are better suited to natural resource management than to the efficient management of commercial real estate.~~
- Managing deferred and future maintenance, including capital improvements, on endowment owned facilities to accommodate market needs.
- Ensuring that lessees manage deferred and future maintenance, including capital improvements, on non-endowment owned improvements.
- Comparing performance measures to industry benchmarks, given the differences between private sector and governmental accounting practice, including but not limited to private investor practices such as accrual accounting, depreciation of capital improvements over time, and the use of leverage.
- ~~Providing for the support of the prorata cost of health, life, safety services benefiting the property and tenants.~~

Opportunities

- Reinvest the proceeds from the sale of commercial real estate in a manner consistent with the Strategic Reinvestment Plan.
- Geographically consolidate management of endowment land by blocking up parcels where consistent with land management objectives.
- Pursue leasing of endowment land for commercial activities as opportunities arise.

4. Farmland

The endowment's farmland asset consists of approximately ~~17,000~~19,093 acres of dryland and irrigated cropland administered through ~~11064~~ leases. Some agriculture uses are leased in combination with grazing uses. The farmland asset includes lands used for cultivating ~~grains, vegetables, and hay, as well as vineyards and orchards.~~ alfalfa hay, barley, beans, corn, potatoes, safflower, wheat and organic crops.

Management Objectives

- Develop and manage long-term agricultural leases that achieve a rate of return consistent with objectives in the Investment Policy Statement.
- ~~Pursue acquisition, through purchase or exchange, of farmland that meets or exceeds the productivity and financial return standards in the Investment Policy Statement and Strategic Reinvestment Plan.~~
- Enroll endowment lands in federal agricultural programs, when appropriate.

Challenges

- Acquiring water rights.
- Ensuring endowment lands remain eligible for enrollment in federal agricultural programs.
- Developing economy of scale in the farmland leasing program.
- ~~Identifying properties to acquire.~~
- ~~Being competitive in potential acquisition opportunities.~~

Opportunities

- Diversifying the endowment land revenue stream.
- Geographically consolidating management of endowment land where consistent with land management objectives.
- ~~Acquiring farmland in the path of urban growth that presents intermediate revenue and long term transition opportunities.~~
- Developing agricultural use on existing endowment ownership through the acquisition of water rights.
- ~~Reinvesting Land Bank funds in farmland consistent with the Strategic Reinvestment Plan.~~

- ~~Acquiring farmland through exchange for rangeland.~~

5. Rangeland

The endowment's rangeland asset consists of approximately ~~1.4 million~~ 1,426,772 acres of rangeland administered through ~~approximately 1,200~~ 1,106 grazing leases and numerous other instruments covering a variety of activities. Livestock forage productivity and availability varies significantly across the state due to factors such as climate, vegetation types, topography, and access to water. Some lands are of sufficient size and productivity to stand alone as a grazing unit; however, most endowment lands are managed with adjoining ownerships.

Management Objectives

- Develop and manage long-term grazing leases that achieve a rate of return consistent with the objectives in the Investment Policy Statement.
- Identify and dispose of or transition underperforming rangeland assets to increase economic performance and improve land asset diversity.
- Minimize contractual and environmental risks.
- Identify programmatic or statutory changes that maximize ~~income~~ long-term returns.

Challenges

- Rangeland is not considered an institutional asset class ~~generally because values are inflated by the non-monetary rewards that private interests realize from land ownership~~. Grazing lease income rarely generates a sufficient rate of return to justify acquisition (or retention) based on reasonable return on investment criteria.
- Consolidating land ownership through federal and private land exchanges, including exchanges for other land asset types.
- Ensuring all-purpose, permanent legal access to high-value, core rangeland parcels.
- Improving management regimes.
- Environmental constraints.
- Limited competitive bidding ~~impacts the market~~.
- Balancing management expenses against revenue generated.

Opportunities

- Geographically consolidating management of endowment rangeland where consistent with land management objectives.
- Exchange of rangelands for other land asset types with greater income and return potential.

- Rangelands adjacent to population centers may present transition land opportunities.
- Updating AUM rate calculation.

6. Minerals/Oil and Gas

Idaho has mineral rights on approximately 2.4 million acres of surface ownership and on about 0.9 million acres with mineral rights only. Phosphate and sand-gravel are the ~~principle~~primary products extracted from endowment lands. Management complies with all applicable federal and state statutes, such as the Federal Clean Water Act, the Idaho ~~Surface Mining~~Mined Land Reclamation Act, and the Idaho Dredge and Placer Mining Protection Act. IDL administers mineral leases for endowment lands, endowment mineral rights, and ~~also~~ for other state-owned lands.

Natural gas exploration and production has increased in recent years with the potential for long-term production and associated revenue. Management of this relatively new industry in Idaho has presented administrative challenges.

Management Objectives

- Minimize contractual and environmental risks associated with extractive industries.
- Lease lands for potential mineral products that capitalize on market demands.
- Identify programmatic or statutory changes that maximize income from mineral assets.

Challenges

- Ensuring that returns from mining activity adequately compensate for post-mining land use and values.
- Development of efficient administrative structure and processes.
- Managing mineral resources with a split estate.

Opportunities

- Aggregate sources proximal to areas of high growth.
- Assessment of resource types and locations.
- Widespread and diverse mineral resources.
- Increased production revenue from oil and gas development.
- Acquisition of lands with mineral rights through purchase or exchange.

Active Management

While endowment lands are actively managed to maximize long-term revenue for the beneficiaries, active management also provides other long-term benefits that may not

be considered when financial performance is evaluated. Benefits such as improved vegetation health, reduction and rearrangement of fuels, road maintenance and protection of water quality, and various wildlife habitat structural stages often result from active management of natural resources on endowment lands.

For example, forest management practices maintain age class diversity at the landscape level, resulting in less overall susceptibility to damaging agents such as bark beetles. The reduction in fuel loading following forest management activities and slash disposal can modify fire behavior.

Grazing can be used as a management tool to maintain rangeland health. Well-managed grazing can favor desirable plants, improve habitat for wildlife, reduce weeds, and reduce fuel loading.⁹⁸

Benefits such as those described above are difficult to ~~include~~ quantify for use in analysis of the financial performance of an asset class.

Rights-of-Way

Rights-of-way are temporary or permanent property rights that have been either granted or acquired, for roads, utilities, or public use access. It is desirable that the IDL have permanent, logistically convenient, ~~all~~ and economically efficient all-purpose legal access to state endowment lands, although limited duration, limited purpose legal access can also have significant value.

Each area office shall prepare a rights-of-way acquisition plan, which identifies access needs and tentative time frame for acquisition. Needs shall be prioritized and based on the following management objectives:

- Achieve short- and long-term financial objectives:
 - a. Maximize long-term ability to provide income.
 - b. Improve income generating potential.
 - c. Provide future investment potential.
 - d. Improve the stability of the asset.

- Improve the manageability of the land asset:
 - a. Improve access, i.e., ~~multiple routes or points~~ most strategic route(s) or point(s) of entry.
 - b. Consolidate ownership patterns.
 - c. Leverage management resources with other agencies or entities.

⁸ *Rangelands – An Introduction to Wild Open Spaces.* University of Idaho Rangeland Center and Idaho Rangeland Resource Commission. 2011.
The True Cost of Wildfire in the Western U.S. Western Forestry Leadership Coalition. 2010.
Fuel Treatments on Rangelands. Cook and O’Laughlin. University of Idaho Policy Analysis Group. 2011.

~~⁹-Rangelands—An Introduction to Wild Open Spaces. University of Idaho Rangeland Center and Idaho Rangeland Resource Commission. 2011.
The True Cost of Wildfire in the Western U.S. Western Forestry Leadership Coalition. 2010.
Fuel Treatments on Rangelands. Cook and O’Laughlin. University of Idaho Policy Analysis Group. 2011.~~

Rights-of-way may be negotiated and acquired in the following ways:

- Easement for minimal monetary consideration or donation.
- Easement exchange.
- Work-in-kind easements.
- Easement purchase.
- ~~Co-op~~Cooperative road use and maintenance agreements.
- Purchase property (fee simple) to ~~reserve right-of-way~~secure access route and/or create consolidated ownership for rights-of-way connectivity.

Granted rights-of-way generally detract from the value or reduce the utility and flexibility of endowment land management. It is the duty of the Land Board and IDL, as trustees, to protect the long-term productivity of trust lands for the beneficiaries; therefore, care must be taken to ensure the granting of rights-of-way benefit the trust: and mitigate risk and liabilities to the trust. While the state receives compensation for the property interest disposed of, this compensation often does not adequately compensate the trust for loss of utility, nor capture the superior value afforded to private lands as a result of enhanced access. This is especially the case in those instances wherein the private lands are considered for development. In development situations, compensation for such rights-of-way must properly account for the amount of endowment land encumbered, the bundle of rights granted, impacts to and additional restrictions on endowment land management and the increased administrative burden.

Conservation

Conservation is an activity that occurs on traditional asset classes such as farmland, rangeland, and timberland. Conservation in this context occurs when certain real property rights are restricted or removed, either temporarily or permanently, for the purpose of preserving and protecting other important values.

Management Objectives

- ~~Target lands with long-term conservation strategies in place for sale or exchange. Exchanges could be used to acquire lands of a different land asset type.~~
- Improving public awareness of the endowment’s mission.
- Identifying land where compensated conservation encumbrances can coexist with other uses to enhance endowment earnings.

Challenges

- Comprehensive land use plans of local jurisdictions tend to improperly classify undeveloped endowment lands as conservation and/or open space.
- Limited endowment resources to participate in all federal, state, county, and city land use planning and zoning processes, and other private development activities that affect endowment lands.
- Applying monetary value to non-traditional commodities (carbon sequestration, water quality, etc.)

Opportunities

- Developing conservation instruments for lands identified.
- ~~Improving public awareness of the endowment's mission.~~
- ~~Identifying land where compensated conservation encumbrances can coexist with other uses to enhance endowment earnings.~~

Recreation

Idaho's endowment lands contain some of the most diverse landscapes in the Pacific Northwest. They include lakes, mountains, ~~high~~ forests, desert lands, rugged breaklands, and river valleys. Thousands of people use endowment lands each year for camping, hiking, fishing, hunting, bicycling, off highway vehicle (OHV) use, berry picking, mushroom picking, and other recreational activities. Incidental public recreation is not an asset class, but the issues associated with recreation on endowment lands must be managed.

Management Objectives

- Promote and improve interagency cooperation and education for recreation on endowment land.
- Manage impacts to endowment resources and uses from dispersed public recreation.
- Utilize OHV funds to improve management and enhance OHV recreation opportunities on endowment lands.
- Revise policies to best meet growing recreation demand while protecting revenue sources

Challenges

- Managing the location and type of dispersed recreation (OHV, motorized vehicles, etc.).
- Vandalism and sanitization issues ~~sometimes~~ associated with dispersed recreation and camping.

Opportunities

- ~~Policy development for recreation on endowment lands.~~
- Generate increased revenue for the beneficiaries and improve long-term access for recreation through new sources of dedicated funding from recreation use.
- Taking advantage of available grant programs for management of recreation on endowment lands.
- Consider potential revenue producing recreational activities on endowment land, such as campground leasing.

Transition of Land

Lands suitable for transition are parcels already owned by the endowment that may, within the next ten to twenty years, be suitable for a higher and better use than the current asset classification. Often these properties exhibit high property values and low annual revenues (underperforming), and may be encroached upon by urban development.

Management activities will focus first on lands suitable for transition at the high end of market values (best markets), and then on land possessing best market potential within the next ten to twenty years (emerging markets).

Criteria used in identifying lands suitable for transition are:

- Appraised values above the value normally indicative of the current use.
- Regional land use planning studies.
- Resource trends and demographic changes.

Underperforming assets present transition opportunities. IDL will work to identify and analyze such lands to determine the best solution to resolving the underperformance. Such analysis will consider:

- Minimizing management costs.
- Changing management to improve performance.
- Evaluating higher and better use potential.
- Long Suitability for long-term asset endowment ownership.

Lands suitable for transition can be leased, or sold, subject to analysis on a case-by-case basis.

D. LAND ACQUISITION AND DISPOSAL STRATEGY

To enhance value and improve revenue streams to the beneficiaries, the Land Board will consider the exchange, disposal, and acquisition of real property within

traditional asset classes. The land exchange policy to be prepared by the Real Estate Services Bureau and approved by the Land Board's Investment Subcommittee will provide direction for land exchanges.

Management Objectives

- Increase long-term financial return at a prudent level of risk.
- Reduce cost through improved management efficiency.
- Acquire lands or position parcels for value maximization and efficient management.
- Enhance access to endowment land assets.
- Adjust land holdings based on current and projected market conditions to capture value in excess of target returns.
- Evaluate and prioritize proposed transactions.
- ~~Work with and engage~~ Engage private and public entities/persons for exchange opportunities.

Challenges

- Constraints pursuant to Article IX, section 8 that do not conform to modern business practices:
 - The sale of land is limited to transactions "...sold in subdivisions of not to exceed three hundred and twenty acres of land to any one individual, company or corporation."
 - All land sales are "...subject to disposal at public auction."
 - No more than one hundred sections of state land shall be sold in any one year.
- Timberlands cannot be sold but can be exchanged for other timberlands.
- Disposition of University Lands is restricted as follows: "No university lands shall be sold for less than ten dollars per acre, and in subdivisions not to exceed one hundred sixty acres, to any one person, company, or corporation."
- ~~Slow~~ Relatively slow transaction process.
- Evaluating and prioritizing acquisition and disposal transactions in an environment of limited resources.

Opportunities

- Reinvestment of the proceeds from land asset sales in a manner consistent with the Strategic Reinvestment Plan.
- Utilizing agents and contracted services to conduct proactive searches for properties based on established investment criteria.
- Using Land Investment Advisors and contracted services to assist in transactions.

- Exchange lands on an equal value basis and/or in a manner that increases the asset value and long-term financial returns.

III. Appendices/Exhibits



Appendix

Example Program Business Plan Template

This template is provided as a guide. Please note that some sections may not be applicable to all programs.

- A. Executive Summary
- B. Introduction
- C. Description of Program
 - 1. Mission statement
 - 2. Goals and objectives
 - a. Short- and long-term financial goals and objectives
 - b. Short- and long-term resource management goals and objectives
 - 3. Brief history of the program
 - 4. Program strengths and core competencies
 - 5. Challenges and opportunities facing the program
 - a. Immediate
 - b. Long term
 - 6. Future outlook for the program
- D. Program Products and Services
 - 1. Detailed description of trust products and services
 - a. Current resource information (detailed)
 - b. Current asset values (brief summary)
 - 2. Describe our competitive advantages and disadvantages.
 - 3. Describe our methodology for pricing trust products
- E. Market Analysis (both resource and financial)
 - 1. Customer (purchaser) analysis
 - a. Who they are
 - b. Their location
 - c. The size of the firms
 - d. Their products and capacity
 - 2. Competitor (may also be a purchaser) analysis
 - a. Identify and describe our competition
 - 1.) Who they are
 - 2.) Their location
 - 3.) The size of the firms
 - 4.) Describe competing resources

- 5.) Describe competitor strengths and core competencies
 - 6.) Describe competitor products and production capacity
 - b. Describe asset position
 - 1.) Size of the market
 - 2.) Percentage of market participation
 - 3.) Current demand for trust products
 - 3. Growth history and trends
 - 4. Barriers to implementing the marketing plan
 - a. Funding
 - b. Training/skills
 - c. Political climate
 - d. Government regulations
 - e. Changing economy
 - f. Changes in our industry
 - 5. Marketing strategy
 - a. Promotion
 - b. Budget
 - c. Pricing
 - d. Locations
 - e. Forecasts
 - 6. Identify research needs
- F. Operational Plan
- 1. Management and organization (current and future)
 - a. Personnel
 - b. Location
 - c. Production
 - 2. Describe challenges and opportunities
 - 3. Discuss how to meet future resource and financial goals and objectives
- G. Financial Statement
- a. Brief history
 - b. Detailed description of asset values
 - c. Projections
- H. Plan Revision Timeline
- I. Appendices

Glossary

Asset Classification

Grouping assets of similar characteristics based on the principle that such assets perform similarly in the marketplace (e.g., risk, return, regulation) and different assets perform differently as market and economic conditions vary.

Asset Management Plan

Document used to ensure assets can be managed, preserved, and protected for long-term goals and strategy. Asset plans define over-arching beliefs and philosophy about a set of collective investments and include elements of financial analysis, asset selection (and divestiture), asset allocation (diversification), plan implementation, ongoing monitoring of the investments/assets and potential improvements.

Appraisal

An analysis, opinion or conclusion relating to the value, nature, quality, or utility of specified interests in, or aspects of, identified real estate. (Real estate appraisers are regulated in Idaho and are required to be licensed).

Beneficiary

A person or entity entitled to the benefit of any trust arrangement.

Business Plan

A comprehensive analysis of all aspects of a business relevant to its viability, including its history, management, competitive position, market, activities, products, policies, financial performance, and projected performance.

Easement/Right-of-Way

A temporary or permanent property right either granted or acquired, for roads, utilities, or public use access. The right or interest that one party has in the land of another.

Fiduciary

An individual or institution responsible for administering assets for a beneficiary, often in a trust. A fiduciary has a strict legal obligation to act solely in the best interest of the beneficiary and not for ones' own personal gain or the gain of others. In Idaho, fiduciaries are required to follow the Prudent Investor Rule.

Income Return

Measures that portion of total return attributable net operating income, or NOI. Net operating income is gross rental income plus any other income less operating expenses - utilities, maintenance, taxes, property management, insurance, etc. The formula takes into consideration any capital improvements and/or any partial sales that occurred during the period.

Net Present Value (NPV)

The sum of all future cash flows discounted to present value and netted against the initial investment.

Permanent Fund

The principal or corpus of the endowment fund which can never be distributed. Sources of funds include, but are not limited to, mineral royalty and land sale proceeds not reinvested in land (see Land Bank Fund).

Plan

A set of actions that have been thought of as a way to do or achieve something.

Prudent Fiduciary

A requirement that a fiduciary or trustee must act as a prudent investor when investing and managing assets for a beneficiary. To satisfy the standard of care requirement, a trustee is required to consider the performance of the entire portfolio rather than a single investment, as well as understand needs for liquidity, regularity of income, preservation of capital and diversification. Idaho Code Section 68, Chapter 5 requires that all trustees in Idaho act as Prudent Investors.

Real Estate

Land and all physical property related to it, including houses, fences, landscaping and all rights to the air above and the earth below the property (*Barron's Dictionary of Finance and Investment Terms*).

Return on Asset (Total Return)

Return on asset is a common profitability measure in real estate. The calculation includes components of income and capital/value appreciation, compared to the capital invested (or current value) of an asset. The calculation normalizes the variability of revenue within the same asset class because the higher earnings capacity of the land generally translates to a higher asset value per acre, but the return on asset should be similar to peer assets.

Risk

The possibility that returns from an investment will be greater or less than forecast. Types of risk include inflation risk, political risk, liquidity risk, country risk, etc. Diversification of investments provides some protection against risk.

Split Estate

Condition where the surface owner of real estate does not possess ownership of subsurface commodities such as minerals, oil and gas, and geothermal resources.

Strategy

A careful plan or method for achieving a particular goal usually over a long period of time.

Tactic

Specific actions used to achieve a particular goal.

Transition Land

Transition lands are those parcels that may, within the next twenty years, be suitable for a higher and better use than the current asset classification. Such properties often exhibit high property values and low annual revenues (underperforming).

Trustee

Person or entity with a fiduciary responsible for administering a trust (e.g., acquiring and disposing of trust assets, generating income from trust assets, determining distributions to the trust's beneficiary) according to trust law and the rules established by the trust's grantor. The Idaho State Board of Land Commissioners serves as trustee of all endowment land and financial assets and must act according to Idaho law as well as the rules established by the grantor, the United States Government, in the Idaho Admissions Act and related federal legislation.

STATE BOARD OF LAND COMMISSIONERS

November 16, 2021

Regular Agenda

Subject

Priest Lake New Residential Lots

Question Presented

Shall the Land Board approve auctioning 18 new residential lots at Priest Lake?

Background

In February 2010, the State Board of Land Commissioners (Land Board) directed the Idaho Department of Lands (Department) to unify the 523 cottage site split estates. Thereafter, the Land Board directed the Department to address the need for formal access, accurate easements, and subdivision platting associated with the cottage sites (Lot Solutions). In October 2014, the Land Board approved a 3-year voluntary auction for ownership (VAFO) plan for the sale of up to approximately 60 sites per year. Interest in the 3-year VAFO plan exceeded the predetermined 180-lot capacity and in February 2016, the Land Board approved the 4-year VAFO plan that provided every lessee an opportunity to participate in a VAFO by the end of 2019.

In 2018, the Land Board approved the 2018 cottage site leasing plan to allow leases to be offered through 2024 for all leases that expired prior to December 2024. Also in 2018, the Land Board approved the VAFO 2024 Plan, continuing VAFO cycles through 2024 based on interest each year. This plan provided additional time for lessees that were not in a position to take part in a previous VAFO to participate in a future VAFO cycle (Attachment 1).

Since 2011, auction cycles resulted in the transition of 460 cottage site lots to private ownership (145 lots at Payette Lake and 315 lots at Priest Lake) for a total of \$218,326,625 to the endowments. The chart below illustrates the success of the VAFO process through the 2021 cycle.

VAFO History / 2024 Projections

8/24/2021

Payette Lake Cottage Sites																																					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total																								
Lots Sold		2	2**	13	21	51	30	14	9	3	0		145																								
Lots Left	168	166	164	151	130	79	49	35	26	23	23																										
Priest Lake Cottage Sites																																					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021																									
Lots Sold					59	43	43	57	50	29	18	16*	315																								
Lots Left	355	355	355	355	296	253	210	153	103	74	56	40																									
Priest & Payette Lake Cottage Sites																																					
								2017	2018	2019	2020	2021																									
Lots Sold	0	2	2**	13	80	94	73	71	59	32	18	16*	460																								
Lots Left	523	521	519	506	426	332	259	188	129	97	79	63																									
* Pending Close																																					
** 2 Payette Lake lots repurposed for community access																																					
<table border="1" style="margin: auto;"> <thead> <tr> <th colspan="6">Percentage of Cottage Sites Sold/Remaining</th> </tr> </thead> <tbody> <tr> <td>Payette Lake</td> <td>86%</td> <td>Sold</td> <td>14%</td> <td colspan="2">Remaining</td> </tr> <tr> <td>Priest Lake</td> <td>89%</td> <td>Sold</td> <td>11%</td> <td colspan="2">Remaining</td> </tr> <tr> <td>Payette & Priest Lakes</td> <td>88%</td> <td>Sold</td> <td>12%</td> <td colspan="2">Remaining</td> </tr> </tbody> </table>														Percentage of Cottage Sites Sold/Remaining						Payette Lake	86%	Sold	14%	Remaining		Priest Lake	89%	Sold	11%	Remaining		Payette & Priest Lakes	88%	Sold	12%	Remaining	
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Discussion

New Residential Lots

Various lot types offered at the auctions included leased, unleased, vacant, and short-term land use permits. The inclusion of unleased lots was intended to invigorate attendance and bidding within the VAFO because such lots lack a "legacy effect" often associated with leased cottage sites. The tables below demonstrate the increased interest in unleased lots.

Competative Bidding at Auction Through August 2021

Cottage Site Lots (Leased/Unleased) Sold at Auction									
Voluntary Auction Cycle	Auction Date	Lots Offered at Auction	LEASED Lots Sold at Auction	UNLEASED Lots Sold at Auction	Reserve Value of Lots Sold	Winning Bid Amount	Up Bid Amount	# of Sites with Competitive Bidding	% Bid of Appraised Value
2011 Payette ULA	10/8/2011	2		1	\$40,500	\$44,550	\$4,050	1 out of 1	110%
2011 Payette ULA	11/29/2011	1		1	\$484,300	\$484,300	\$0	0 out of 1	100%
2013 Payette VAFO	10/18/2013	10	10		\$2,313,450	\$2,720,000	\$406,550	1 out of 10	118%
2013 Payette ULA	10/18/2013	3		3	\$3,149,000	\$3,160,000	\$11,000	3 out of 3	100%
2014 Payette VAFO I	4/5/2014	21	21		\$6,034,415	\$6,067,615	\$33,200	3 out of 21	101%
2014 Priest VAFO	8/28/2014	60	59		\$26,771,416	\$26,903,812	\$132,396	2 out of 59	100%
2014 Payette Lake VAFO I	1/30/2015	30	28		\$10,481,000	\$10,489,000	\$8,000	1 out of 28	100%
2014 Payette Lake ULA	1/30/2015	6		3	\$2,028,000	\$2,101,000	\$73,000	3 out of 3	104%
2015 Priest Lake VAFO	8/28/2015	38	35		\$15,652,500	\$15,652,500	\$0	0 out of 35	100%
2015 Priest Lake ULA	9/26/2015	9		8	\$3,950,000	\$4,239,000	\$289,000	2 out of 8	107%
2015 Payette Lake VAFO	11/13/2015	18	17		\$3,845,000	\$3,887,000	\$42,000	2 out of 17	101%
2015 Payette Lake ULA	11/13/2015	4		3	\$2,314,000	\$3,095,500	\$781,500	3 out of 3	134%
2016 Priest Lake VAFO	6/25/2016	41	39		\$18,551,228	\$18,918,228	\$367,000	1 out of 39	102%
2016 Payette Lake VAFO	8/19/2016	25	25		\$7,260,000	\$7,301,500	\$41,500	2 out of 25	101%
2016 Payette Lake ULA	8/19/2016	5		5	\$4,384,000	\$5,304,000	\$920,000	3 out of 5	121%
2016 Priest Lake ULA	9/23/2016	4		4	\$1,919,604	\$1,919,604	\$0	0 out of 4	100%
2017 Payette Lake VAFO	6/23/2017	14	14		\$7,841,000	\$7,895,500	\$54,500	2 out of 14	101%
2017 Priest Lake VAFO	08/18-19/17	57	56		\$27,331,228	\$27,331,228	\$0	0 out of 56	100%
2017 Priest Lake ULA	08/18-19/17	4		1	\$538,604	\$538,604	\$0	0 out of 1	100%
2018 Payette Lake VAFO	6/15/2018	9	9		\$3,487,500	\$3,870,000	\$382,500	4 out of 9	111%
2018 Priest Lake VAFO	8/24-25/18	50	49		\$24,168,624	\$24,794,124	\$625,500	5 out of 49	103%
2018 Priest Lake ULA	8/24-25/18	1		1	\$342,000	\$342,000	\$0	0 out of 1	100%
2019 Payette Lake VAFO	6/14/2019	3	3		\$1,409,000	\$1,670,000	\$261,000	2 out of 3	119%
2019 Payette Lake ULA	6/14/2019	5		5	\$405,000	\$1,022,000	\$617,000	5 out of 5	252%
2019 Priest Lake VAFO	8/17/2019	27	27		\$12,670,400	\$12,670,400	\$0	0 out of 27	100%
2019 Priest Lake ULA	8/17/2019	3		2	\$989,000	\$989,000	\$0	0 out of 2	100%
2020 Priest Lake VAFO	8/15/2020	18	18		\$8,697,720	\$11,754,720	\$3,057,000	10 out of 18	135%
2021 Priest Lake VAFO*	8/21/2021	10	10		\$6,406,440	\$7,861,440	\$1,455,000	5 out of 10	123%
2021 Priest Lake ULA*	8/21/2021	6		6	\$3,194,560	\$5,300,000	\$2,105,440	5 out of 6	166%
TOTALS THROUGH 07/12/18		484	420	43	\$206,659,489	\$218,326,625	\$11,667,136	65 out of 463	106%

*Pending Close

Total Competitive Bidding Data							
Auction Type	# Sold with Competition		% Sold with Competition	Total Appraised Value	Total Bid Amount	Total Up Bid Amount	% of Appraised
VAFO	40	out of 420	10%	\$182,920,921	\$ 189,787,067	\$6,866,146	104%
ULA	25	out of 43	58%	\$23,738,568	\$ 28,539,558	\$4,800,990	120%
Total	65	out of 463	14%	\$206,659,489	\$ 218,326,625	\$11,667,136	106%

With the sale of the remaining six unleased lots in the Priest Lake 2021 ULA cycle, there are no remaining unleased cottage sites of the original 355 cottage site lots at Priest Lake. However, 18 new residential lots were created through the original Lot Solutions process while platting five of the subdivisions at Priest Lake (Attachment 2). Prior disposition plans have been limited to the 523 previously existing leased and unleased cottage sites and have not included the additional residential lots. Offering the 18 new lots will likely generate additional interest and bidding at the auctions, especially when combined in the same cycle as other leased lots. The Department will include these new residential lots in auctions if prudent and advantageous for the endowment consistent with land management objectives. Auctioning of the additional residential lots will follow the Unleased Lands Auction (ULA) process.

Recommendation

Approve auctioning the 18 new residential lots at Priest Lake. The auctions will be held in locations appropriate for each site, including Ada, Bonner, Kootenai, or Valley counties.

Board Action

Attachments

1. July 17, 2018, Land Board Memo
2. Platted Maps of Priest Lake Lots

STATE BOARD OF LAND COMMISSIONERS
July 17, 2018
Regular Agenda

SUBJECT

Cottage Site VAFO 2024

BACKGROUND

In February 2010, the State Board of Land Commissioners (Land Board) directed the Idaho Department of Lands (Department) to unify the 523 cottage site split estates. Thereafter, the Land Board directed the Department to address the need for formal access, accurate easements, and subdivision platting associated with the cottage sites (Lot Solutions).

In October 2014, the Land Board approved a 3-Year voluntary auction for ownership (VAFO) Plan for the sale of 60 sites per year in 2015, 2016, and 2017. The yearly lots offered for sale were determined through a random lottery selection process for interested lessees. Interest in the 3-Year VAFO Plan exceeded the predetermined 180-lot capacity and the excess sites were given an alternate position number.

In February 2016, the Land Board approved the 4-Year VAFO Plan that provided every lessee an opportunity to participate in a VAFO by the end of 2019 (Attachment 1). The 4-Year VAFO Plan utilized the same random lottery selection positions created for the 3-Year Plan to fill years 2016 through 2018. Any lessee that did not participate in the lottery selection process is allowed to participate in the 2019 VAFO cycle.

Since 2011, VAFO auctions have resulted in the transition of 342 cottage site lots to private ownership (140 lots at Payette Lake and 202 lots at Priest Lake) for a total of \$152,584,545 to the endowments.

After the 2018 VAFO cycle concludes, an estimated 395 or 76% of the original 523 cottage site lots will have been sold. The chart below illustrates the success of the VAFO process through the 2018 cycles.

Remaining Leased Cottage Site Lots After 2018 Auction Cycles							
	Starting # of Cottage Site Lots	# of Lots Sold	Current # of Lots	2018 VAFO / ULA	Estimated Lots After 2018	Un-Leased Lots After 2018	Leased Lots After 2018
Payette Lake Cottage Sites	168	140	28	2	26	0	26
Priest Lake Cottage Sites	355	202	153	51	102	8	94
Payette & Priest Lake Cottage Sites	523	342	181	53	128	8	120

The remaining 128 cottage site lots consist of 8 unleased and 94 leased Priest Lake lots and 26 leased Payette Lake lots. Lessees of the 120 leased lots did not participate in the VAFO selection process or opted out of a previously assigned VAFO cycle.

In December 2017, the Land Board approved the 2018 Cottage Site Leasing Plan to allow leases to be offered through 2024. The Plan provides additional time for lessees that were not in a position to take part in a previous VAFO to participate in a future VAFO cycle.

DISCUSSION

VAFO 2024 Plan

To gauge interest in future VAFO cycles, the Department conducted a survey of the remaining cottage site lessees. Of the 73 lessees that responded, 61 indicated an interest in participating, while 12 lessees indicated they were not interested in participating in a future VAFO cycle (Attachment 2).

The Department seeks approval to continue to offer VAFO cycles through 2024 based on the level of interest and market conditions.

Under the proposed VAFO 2024 Plan, the process will remain essentially the same as the previously approved 4-Year Plan:

1. Pre-application meeting;
2. Application;
3. Appraisal and Title Work;
4. Auction Administration Agreements;
5. Legal Notice and Marketing; and
6. Auction and Close of Escrow.

To be eligible to participate in a VAFO cycle, a lessee must meet the following criteria (the first three of which remain unchanged from prior VAFO cycles):

1. Be in good standing and not otherwise indebted to the state of Idaho;
2. Not be named in litigation against the Land Board;
3. Not have a conflicted lease; and
4. Either:
 - a. Have no mortgage or deed of trust (collectively, "DOT") on the cottage site lease or on lessee's Personal Property located on the land; or
 - b. Require the lender of an approved, preexisting DOT to execute a release or reconveyance of the DOT to be held in escrow, to be effective upon closing to a third party purchaser at auction upon payment of the appraised value of the Personal Property; or
 - c. Have an approved, preexisting DOT, not in default, with an unpaid principal balance owing in an amount not exceeding 75% of the appraised value of the Personal Property, and with the non-default status and remaining balance owing confirmed in writing by the lender.

New Residential Lots

Through the original Lot Solutions process, fourteen lots were created in the Cove Replat and Cougar Island Subdivisions at Payette Lake. Nine new residential lots were created in the Cove Replat Subdivision by bisecting nine leased lakefront cottage site lots. Cougar Island was platted into five lots, only one of which is leased (Attachment 3). The previous disposition plans have been limited to the historically leased cottage sites and have not included these new residential lots.

Similar to the inclusion of cottage sites that are no longer leased, new lots do not have a lessee legacy effect. Offering new lots will likely generate additional interest and bidding at the auctions, especially when offered in the same cycle as adjacent leased lots.

The Department will include these new residential lots in auctions when prudent, based on interest and broker recommendation. Auctioning of residential lots will follow the Unleased Lands Auction (ULA) process.

Auction Locations

The sale of all state lands must be in Ada County unless otherwise approved by the Land Board (Idaho Code § 58-314). For both lessees and other potential purchasers, the city of Coeur d'Alene, in Kootenai County, is the most convenient location for the auction of lots at Priest Lake. The Department is seeking approval to continue to auction cottage sites in Ada, Bonner, Kootenai, or Valley Counties as needed and deemed appropriate for each lot.

Outreach and Stakeholder Engagement

On April 13, 2018, the Department provided copies of the proposed VAFO 2024 Plan to representatives of the Payette Lake Cottage Site Owners Association, the Cove Association, and the Priest Lake Cottage Site Owners Association (PLCOA). The Department then met with the PLCOA board and discussed the proposal on April 23, 2018. Attachment 4 is the PLCOA letter of support.

On April 13, 2018, the Department provided copies of the proposed VAFO 2024 Plan to the Bonner County and the Valley County Commissioners. On May 10, 2018, Department staff presented the proposal to the Bonner County Commissioners at their regularly scheduled meeting. A letter from the Bonner County Commissioners is included (Attachment 5).

On May 14, 2018, Department staff presented the proposal to the Valley County Commissioners at their regularly scheduled meeting. The Valley County Commissioners did not provide comment on the proposal.

RECOMMENDATION

Approve the Department's proposed Cottage Site Voluntary Auction for Ownership (VAFO) 2024 Plan, approve the auctioning of the new residential lots at Payette Lake, and approve the auctioning of future lots in locations appropriate for each site to include Ada, Bonner, Kootenai, or Valley Counties.

BOARD ACTION

A motion was made by Attorney General Wasden that the Board adopt and approve the Department recommendation that is to approve the Department's proposed Cottage Site Voluntary Auction for Ownership 2024 Plan, and include the auctioning of new residential lots at Payette Lake, and approve the auctioning of future lots in locations appropriate for each site to include Ada, Bonner, Kootenai or Valley counties. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

ATTACHMENTS

1. February 16, 2016 Approved Memo
2. VAFO Past and Future
3. New Lot Maps
4. PLCOA Letter of Support
5. Bonner County Commissioners' Letter

A large, faint watermark of the Idaho Department of Lands logo is centered on the page. The logo features a stylized mountain range in the background, a central diamond shape with a light blue and yellow gradient, and a horizontal banner across the middle containing the text "IDAHO DEPARTMENT OF LANDS" in white, bold, sans-serif capital letters.

IDAHO DEPARTMENT OF LANDS



Idaho Surface Management Agency

- State
- Private

Parcels

-
- Two Mouths Subdivision



Subject Parcels



Two Mouths Creek Subdivision - Lot 3

Bonner County

Sec 34 - T62N - R04W



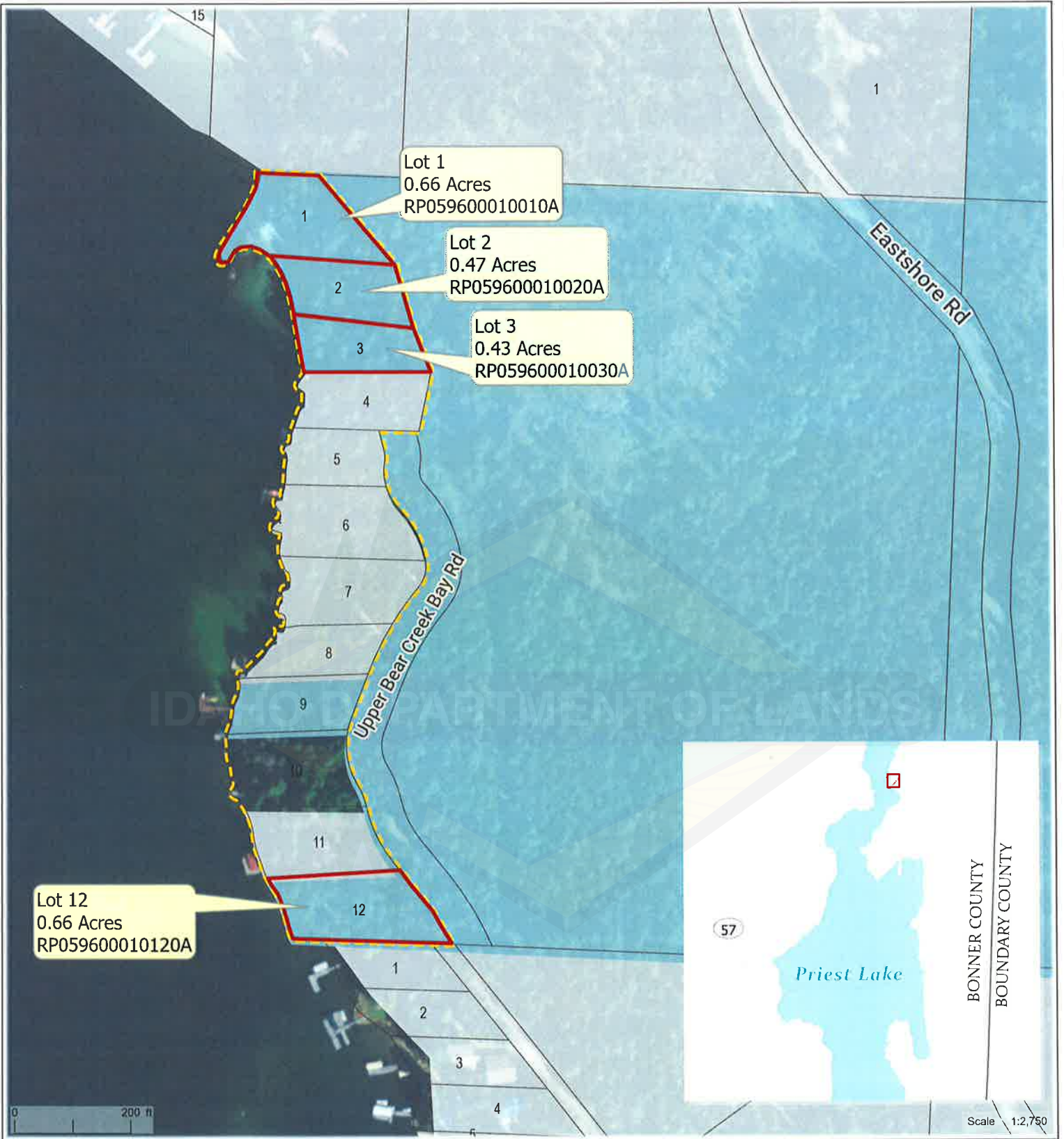
11/3/2021

Map Notes

Projection: Idaho Transverse Mercator, NAD 83

Map Notes and Data Sources

Disclaimer:
This map has been compiled using the best information available to the Idaho Department of Lands at the time and may be updated and/or revised without notice. In situations where known accuracy and completeness is required, the user has the responsibility to verify the accuracy of the map and the underlying data sources.



Idaho Surface Management Agency

- Private
- State

Parcels

- Bear Creek Subdivision

- Subject Parcels

Bear Creek Subdivision - Lot 1-3 & 12

Bonner County

Sec 16 - T61N - R04W



11/3/2021

Map Notes

Projection: Idaho Transverse Mercator, NAD 83

Map Notes and Data Sources

Disclaimer:
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Idaho Surface Management Agency

- State
- Private

Parcels

-
- Pinto Point Subdivision

Subject Parcels

-

Pinto Point Subdivision - Lot 330

Bonner County

Sec 27 - T61N - R04W



11/3/2021

Map Notes

Projection: Idaho Transverse Mercator, NAD 83

Map Notes and Data Sources

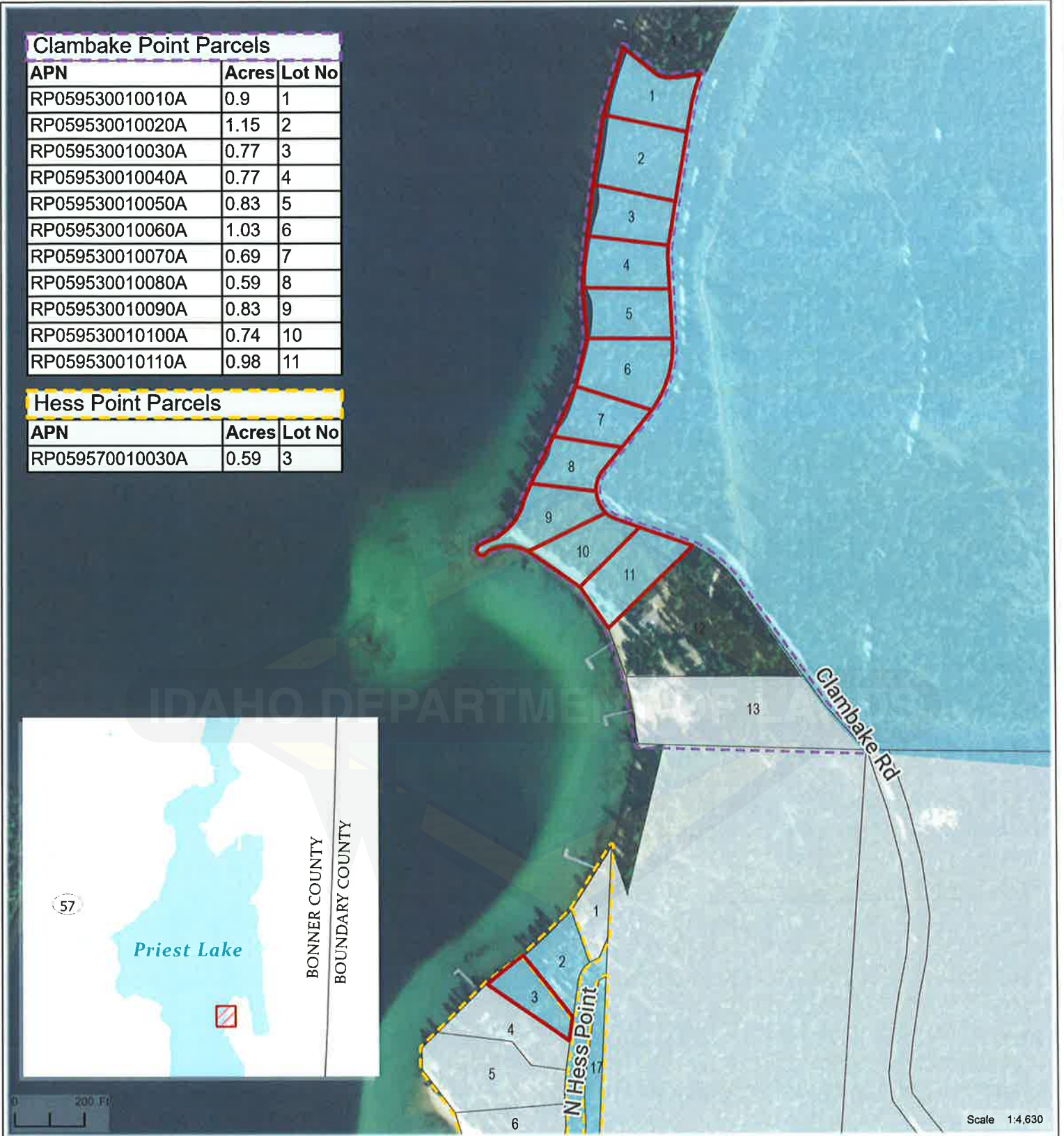
Disclaimer:
This map has been compiled using the best information available to the Idaho Department of Lands at the time and may be updated and/or revised without notice. In situations where known accuracy and completeness is required, the user has the responsibility to verify the accuracy of the map and the underlying data sources.

Clambake Point Parcels

APN	Acres	Lot No
RP059530010010A	0.9	1
RP059530010020A	1.15	2
RP059530010030A	0.77	3
RP059530010040A	0.77	4
RP059530010050A	0.83	5
RP059530010060A	1.03	6
RP059530010070A	0.69	7
RP059530010080A	0.59	8
RP059530010090A	0.83	9
RP059530010100A	0.74	10
RP059530010110A	0.98	11

Hess Point Parcels

APN	Acres	Lot No
RP059570010030A	0.59	3



Idaho Surface Management Agency

- State
- Private

Parcels

- Hess Point Subdivision
- Clambake Point Subdivision

- Subject Parcels

Clambake Point Subdivision - Lots 1-10

Hess Point Subdivision - Lot 3

Bonner County

Sec 21 & 28 - T61N - R04W



11/3/2021

Map Notes

Projection: Idaho Transverse Mercator, NAD 83

Map Notes and Data Sources

Disclaimer:
This map has been compiled using the best information available to the Idaho Department of Lands at the time and may be updated and/or revised without notice. In situations where known accuracy and completeness is required, the user has the responsibility to verify the accuracy of the map and the underlying data sources.

STATE BOARD OF LAND COMMISSIONERS

November 21, 2021

Regular Agenda

Subject

Adoption of Endowment Land Exchange Policy

Question Presented

Shall the Land Board approve the policy on Endowment Land Exchange, which provides guidance to the Department for the criteria and process for evaluating proposals to exchange endowment land?

Background

The Asset Management Plan identifies the need for the Land Board Investment Subcommittee (Investment Subcommittee) to approve a land exchange policy that provides guidance to the Department for exchanging endowment land. The Department, working with the Office of the Attorney General, composed the draft endowment land exchange policy (Attachment 1) for presentation to the Investment Subcommittee.

The Department presented the land exchange policy to the Investment Subcommittee on September 7, 2021. The land exchange policy was discussed in detail, and the Investment Subcommittee authorized the endowment land exchange policy for presentation to the Land Board for approval.

Discussion

As the trustee for and acting in the best interest of endowment land beneficiaries, the Land Board has the power and discretion to exchange properties of equal values with federal agencies, other State of Idaho agencies, or private landowners.

The Department has completed and is in the process of completing numerous land exchange transactions under the authority of Idaho Code §§ 47-701(3), 47-711, 58-104(8), 58-133, 58-138, 58-505, and in accordance with the mandates in the Idaho Constitution article IX, §§ 7 and 8. Those land exchange projects have provided benefits to the endowments including: blocking up larger parcels of existing endowment lands, adding or improving access to existing endowment lands, and other benefits, such as donated land value in some transactions when the exchange land is more valuable than the endowment land.

As the state of Idaho's population continues to grow, so will the opportunities, and potentially, the complexity of exchanges. Therefore, the Department and the Investment Subcommittee agree that this Land Board policy on exchanging endowment land is a timely and prudent guidance document.

Recommendation

Adopt the Endowment Land Exchange Policy.

Board Action

Attachments

1. Draft Endowment Land Exchange Policy



LAND BOARD POLICY

Effective Date: (leave blank)
Revision Date: n/a
Policy No. (leave blank)



STATE BOARD OF LAND COMMISSIONERS

Governor
Secretary of State
Attorney General
State Controller
Sup't of Public Instruction

Endowment Land Exchange

Purpose

To provide State Board of Land Commissioners' (Land Board) guidance to Idaho Department of Lands (IDL) for the criteria and process for evaluating exchanges of endowment lands

As the trustee for and acting in the best interest of endowment land beneficiaries, the Land Board has the power and discretion to approve or reject any proposed land exchange. Given the broad discretion granted to the Land Board, this policy will assist applicants and IDL staff in evaluating the merits of a particular land exchange and establish the process for an exchange.

Scope

The criteria and text contained within this policy document are intended as guidance only. Legal requirements, which shape the Land Board's review of land exchanges, are found within the following constitutional and statutory provisions:

1. Idaho Constitution Article IX, §§ 7 and 8
2. Idaho Admission Bill §§ 5 - 12
3. Idaho Code §§ 47-701(3), 47-711, 58-104(8), 58-133, 58-138, 58-505

Agency Contact

Real Estate Services Bureau Chief

Policy

IDL will evaluate proposals for land exchange, whether with private parties or other public entities, using the legal authorities set forth above, guided by the criteria set forth in this policy. IDL may recommend approval of an exchange proposal, and the Land Board may approve an exchange, if the exchange is in the best interest of and maximizes the long-term financial return to endowment beneficiaries.

I. Land Exchange Initiation

- A. A land exchange proposal may be initiated by IDL, a private party, or a government entity. IDL and the exchange proponent(s) (Proponent) should meet prior to the exchange application's filing. That pre-application meeting may occur at the local Supervisory Area (Area) office or with the Real Estate Services (RES) Bureau in the Boise staff office.
- B. The pre-application meeting between the Proponent and IDL should focus on the exchange process, expense, and timeframe. IDL will provide guidance for desired outcomes in exchanges, including the criteria that IDL will use to evaluate the exchange proposal. If the Proponent does not own the land they would like to exchange, IDL will not direct the Proponent regarding which lands the Proponent should acquire for exchange. Upon completing the pre-application meeting, the Proponent may submit an application and associated application fee of \$1,000.

Land Board Policy No. (leave blank)
Effective Date: (leave blank)

Endowment Land Exchange
page 1 of 5

II. Application Evaluation

- A. Upon receiving the application from the Proponent, the RES Bureau will review the application for completeness and accuracy with land records and the Area. If the application is complete and accurate, the RES Bureau and Area will begin the initial review of the proposed exchange, including determining if the land the Proponent wishes to exchange (Proponent's Land) is similar in value to the endowment land that is the subject of the proposed exchange (Endowment Land). The RES Bureau will rely on comparable properties that are active, pending, or sold to gauge the range of land values involved in the exchange. Additional value information may be obtained by studying statewide market conditions and consulting local real estate brokers regarding the local market conditions. If the Proponent's Land appears to be valued at 90% or less of the Endowment Land, the Proponent will be notified that the exchange application is denied unless they include additional lands as part of the exchange. IDL may exchange into more valuable lands if the Proponent is willing to donate the remaining value to the endowments.
- B. The RES Bureau may, at its discretion, contract with third-party advisors to assist at any stage of exchange evaluation, particularly large or complex exchanges.
- C. If the Proponent's and Endowment Lands are determined to be similar in value, the RES Bureau will further review the proposal using the following Land Exchange Criteria (Criteria):
 - **Equal or Greater Value:** Land acquired by the State must be at least as valuable as the Endowment Land. The value of Endowment Lands should be determined by the highest and best use of the land. For example, if the exchange were proposed in which the Endowment Lands were currently leased for grazing, and the land was in the path of urban or commercial development, the land would be considered for valuation in the appraisal to its highest and best use for residential or commercial development rather than the present use as grazing land as determined by a Member of the Appraisal Institute ("MAI") appraisal.
 - **Consolidation of Endowment Lands:** Consideration will be given to a land exchange that results in the consolidation of existing endowment lands.
 - Consolidation should produce additional benefits that may be covered by other criteria such as economies of size, reduced management costs, or access.
 - The land exchange should be neutral in its net effect on the consolidation of endowment land, and not further fractionalize endowment land holdings by creating isolated parcels of endowment land.
 - **Access:** Consideration will be given to a land exchange where the land acquired by IDL will improve access to existing endowment lands.
 - After the exchange, the lands acquired by the endowments must have feasible and legal access.
 - A land exchange should not diminish the amount or quality of access to existing endowment lands.

- **Equal or Greater Income to the Trust:** Consideration will be given to a land exchange that results in the State receiving equal or higher revenue for the endowments. The potential income from the Proponent's Land will be compared to the current income from leases, licenses, and other sources of the Endowment Lands. For comparison purposes, IDL will also consider identifiable future incomes, including income from the extraction of natural resources such as minerals and forest products.
 - **Potential for Long-term Appreciation:** Consideration will be given to a land exchange where the Proponent's Land is likely to increase in value or revenue potential at a greater rate than the Endowment Land. IDL and the Land Board must protect the long-term financial interests of the trusts.
 - **Proponent's Land:** The Proponent must show evidence of ownership or an ability to acquire through a valid, unredacted contract on the land they are proposing to exchange. In addition, the Proponent must provide proof of funds or a letter of credit confirming that the buyer has an adequate source of funding to complete the purchase. This requirement may be waived if the buyer is a government or tax-supported agency.
 - **Disguised Sale:** There is a point at which a transaction styled as an exchange is, in actuality, a sale of endowment property. Such a transaction could be considered a disguised sale and challenged in the courts. If any of the below criteria are met when reviewing applications, IDL should seek legal advice from the Office of the Attorney General to determine if the transaction would be considered a disguised sale.
 - Are the types of land to be exchanged significantly different?
 - Does the Proponent own the land being offered in the exchange, or can the Proponent prove they can purchase and close before closing on the land exchange with IDL?
 - Will cash be used to close any value gaps?
 - Does the exchange involve more than two parties?
 - Does the Proponent plan to use the land for their benefit, or is the exchange speculative in nature?
- D. IDL may determine whether to pursue or continue an exchange based on the most significant quantifiable benefit to the endowment. Applications that do not meet the criteria above, do not satisfy the constitutional mandates of Article IX, § 8 of the Idaho Constitution, or are considered a disguised sale, may be rejected by the RES Bureau Chief or Area Manager. If the application is determined to be in the best interest of the endowment by meeting some or all of the criteria, the RES Bureau Chief will present the exchange to the Asset Management Steering Committee.

III. Asset Management Steering Committee Review

- A. The Asset Management Steering Committee (AMSC), which is composed of the Director, the Deputy Director, the Division Administrator of Trust Land Management, and the Division Administrator of Operations, provides direction to the RES Bureau for land exchanges, acquisitions, dispositions, and complex leases.

- B. Land exchange proposals approved by the AMSC will be presented to the Land Board for its approval for IDL to proceed with due diligence, including but not limited to the appraisal and fair market value determinations described in Idaho Code § 58-138(5) and (6).
- C. IDL will provide the Proponent written notice within 30 days of the AMSC's decision to approve or deny the application.
- D. If the AMSC approves the land exchange, IDL will notify via certified mail the surrounding property owners of the Proponent's land and the endowment land, the existing IDL lessees, and county commissioners. The initial request to complete the land exchange will include any comments received. Communications with potentially affected interests will continue throughout the process.

IV. Land Board Initial Approval

Acting under the direction of the AMSC, IDL will prepare a memorandum for review by the Land Board and request approval to proceed with the formal due diligence analysis of the exchange.

The request to the Land Board will focus on the benefits and potential concerns identified in the criteria set forth in Section II. In addition, the proposal must include maps, a due diligence budget, a term sheet, and any other pertinent information that will assist the Land Board in determining if the land exchange is in the best interest of the endowments.

V. Formal Due Diligence

- A. Upon receiving Land Board approval, IDL will work with the Proponent to complete the due diligence required for the exchange. The due diligence must align with what a prudent investor would require for land acquisition and disposition. A list of the potential due diligence items is attached to this policy as Attachment 1. The due diligence reports must name IDL as a client, and the RES Bureau will draft the scope of work. If appropriate, the RES Bureau will work with third-party experts to develop a scope of work to ensure the endowment's interests are protected.
- B. Once the appraisals are completed, IDL will review the report with the Proponent to determine if adjustments to the land involved in the exchange are necessary. Exchanges may have a delta in appraised value, but if the Proponent's land is appraised at 90% or less of the endowment land, the lands proposed in the exchange will need to be adjusted. The Proponent may bring up to ten percent (10%) of the appraised value in cash to equalize the value of the exchange.
- C. Upon completion of due diligence, the RES Bureau will present a detailed report and its recommendation to a third-party expert advisor for review and comment. Upon receipt of the advisor's comments, and report if one was requested, IDL will present the land exchange proposal to the Land Board for final consideration.
- D. If information obtained during or as a result of the formal due diligence process shows that the exchange no longer in the best interest of the endowments, the Director may terminate the exchange. If the Proponent withdraws from the exchange, the Director will provide an update at the next regular Land Board meeting.

VI. Land Exchange Agreement

A land exchange agreement must be drafted and principally agreed upon by the Proponent and IDL before presenting the land exchange to the Land Board for final approval. This agreement will include, but is not limited to, the legal descriptions of the lands involved, appraised values, additional terms of the transactions, due diligence expenses, legal access, how title is conveyed, closing costs, title insurance, appurtenances to the land, mineral rights, encumbrances, representations, and warranties of both parties.

VII. Land Board Final Approval

- A. The memorandum seeking the Land Board's final approval to close the exchange will highlight the benefits to the endowments related to the land exchange criteria, a third-party review and recommendation, the draft land exchange agreement, and any relevant due diligence that the Land Board should consider when deciding whether to approve the land exchange. The Land Board may disapprove of any exchange, which, in its discretion, would be disadvantageous to the endowments or otherwise inconsistent with the Land Board's trustee obligations as set forth in Article IX, § 8 of the Idaho Constitution.
- B. Following the Land Board's final approval, the RES Bureau will work with the appropriate internal departments (e.g., Fiscal, Land Records) and the Office of the Attorney General to prepare final documentation for signature by the Director and Proponent.

Revision History

MM/DD/YYYY Version 1.0 – First approved iteration of this policy.

This policy should be reviewed for necessary updates within five years.

Due Diligence Checklist

“**Due Diligence**” is a broad term that business, real property professionals and real estate attorneys use. The term is used here to refer to the inspection and investigation of real property being considered for acquisition. Due diligence is conducted to assist the buyer in making an informed purchase decision. Items considered under due diligence vary with each property type. The following checklist is a reference used to identify documents and conditions that should be considered in the purchase of real property.

_____ **Commitment for Title Insurance (All Properties).** A commitment for title insurance (Preliminary Title Report) should be obtained soon after the Purchase Sale Agreement is executed. This document includes the legal description for the property and provides a list of all current exceptions to title on the property such as property owner, unpaid taxes, easements, options to purchase, judgments, mortgages, recorded liens, deed of trust, timber harvest rights, mineral rights, water rights. The title review process is used to determine the condition of the title to be transferred to the buyer at closing, as well as identifying any potential title problems.

_____ **Phase One Environmental Site Assessment (Phase One ESA) (All Properties).** The Phase One ESA provides the buyer an overview of the environmental condition and environmental history of the property. The report is intended to identify actual and potential problems (e.g. contamination by hazardous substances, leaking underground storage tanks, landfills, etc.) based primarily on a review of historical use documentation, regulatory agency databases and a physical on-site investigation. If environmental conditions or potential environmental conditions are discovered during the investigation, the report will generally recommend specific follow-up testing, remediation and/or studies. A Phase One ESA typically does not include specific inspections for asbestos, lead paint, mold, radon, or wetland delineation. The final report has four components including: Records Review; Site Reconnaissance; Interviews with present and past owners, operators, occupants of the property and local government officials; and a Narrative Report.

_____ **Access (All Properties).** Evaluate the adequacy of access and determine whether additional rights may be obtained as part of an exchange or purchase transaction at closing. There are five (5) access classifications:

- 1) **Public Use Access:** A permanent public access typically from a county road, state or Federal highway, which has an approved approach designated for the purpose of which the property is currently being used, or designated for its current zoning. Width of approach needs to be sufficient for the properties designated use.
- 2) **Full Legal Administrative Access:** A designated permanent easement specifically identified for access to property for all management activities and access is transferable.

- 3) **Limited Legal Administrative Access:** A designated temporary or permanent access limited for specific activities that would be non-transferable. (Such as Timber harvest, for maintenance access, irrigation.)
- 4) **Physical Access:** Properties where there is an existing road to or across the property, but no permanent legal access is recorded. The road may be designated on a county map. The existing road may be primitive, in poor condition, or currently unusable.
- 5) **No Access:** Property with no legal or physical access established or identified by a recorded document or a county map.

_____ **Utilities (All Properties).** Identify existing utility infrastructure located on or adjacent to property such as power, water/well, septic/sewer, phone, natural gas, hot water, solar, wind and if they are provided by city services or located on site. Identify the capacity of the utilities; are they major transmission facilities which would encumber future use or development of the property, or are they of a capacity which could enhance the property for future development

_____ **Production Data (All Properties).** Obtain production information associated with the property being considered for purchase. Examples of production data for some property types:

- 1) **Cropland.** Parcel acreage, farmable acres, non-farmable acres, commodities grown, yields, total production, price per unit, and crop rotation. If the property will be acquired subject to a lease; name of tenant, term of lease, and type of lease (i.e. cash or crop share).
- 2) **Timberland.** Total acreage; delineation of acreage used for commercial timber, plantation, non-commercial timberland, and non-stocked; estimated timber volumes by species (i.e. MBF), and mean annual increment (MAI).
- 3) **Rangeland.** Parcel acreage, animal unit months (AUM's) of forage, season of use.
- 4) **Commercial.** Property operating data including cash flow analysis, vacancy rates, operating costs, rent vs. market rent, existing leases and lease terms.

_____ **Mineral Rights (All Properties).** The terms "mineral lands," "mineral," "mineral deposits," "deposit," and "mineral right," as used herein is construed to mean and include all coal, oil, oil shale, gas, phosphate, sodium, asbestos, gold, silver, lead, zinc, copper, antimony, geothermal resources, salable minerals, and all other mineral lands, minerals or deposits of minerals of whatsoever kind or character. This includes "salable minerals," meaning a mineral substance that can be taken from the earth and that has a value in and of itself separate and apart from the earth. The potential of mineral lands should be evaluated on annual rental, the amount of royalty, the basis upon which the royalty shall be computed and such other details as necessary in the interest of the state.

Determine whether the property to be acquired excludes mineral rights. To the extent that the mineral rights have been severed from fee ownership, determine to what extent, if any, those severed rights affect the use and value of the property by the buyer. Prior to purchase, determine who owns the mineral rights and what the owner's intent is regarding use and development of the mineral estate.

_____ **Water Rights (All Properties).** The constitution and statutes of the state of Idaho declare all the waters of the state, when flowing in their natural channels, including the waters of all natural springs and lakes within the boundaries of the state, and ground waters of the state, to be public waters. A water right is the right to divert the public waters of the state of Idaho and put them to a beneficial use, in accordance with one's priority date. Beneficial uses include such uses as domestic use, irrigation, stock-watering, manufacturing, mining, hydropower, municipal use, aquaculture, recreation, fish and wildlife, among others. The amount of the water right is the amount of water put to beneficial use. Determine the scope and nature of any water rights related to the property. If a property is fully serviced by water and sewer utility service, water rights will not be an issue. If water rights for the property have been separated from the fee interest or come from an off-site source, the purchase and sale agreement must address the transfer of necessary rights to the buyer at closing. The Idaho Department of Water Resources maintains a website to research water rights within the state of Idaho.

_____ **Physical Improvements (All Properties).** Improvements include buildings, fences, ponds, spring developments, and real property fixtures that are permanently part of the land. Improvements are generally attached to, embedded in or permanently resting on the land and cannot be removed without substantially damaging an improvement or the real property with which it is being used. An inventory of physical improvements on the property and who owns or claims to own the improvements will be made prior to requesting an appraisal.

_____ **Approvals and Entitlements (All Properties).** Determine the regulatory status of proposed property, and if it is based on the type or types of uses currently being made of the land. Review the current zoning, potential zoning, areas of impact, proposed future growth, any restrictive covenants or proposed restrictions which would encumber the property and its utilization in its highest and best use. Confirm that the existing use of the property complies with applicable zoning, building and life safety codes. Determine which land use entitlements will be necessary for intended use of the property.

_____ **Personal Property (All Properties).** Identify within the Purchase Sale Agreement what personal or intangible property will be included in the purchase. For example, furniture, trade fixtures, equipment, sprinkler pipe, pumps, etc. that are necessary for the buyer's use of the property. Determine any third party security interest in any of the personal property. Assess the need to purchase or transfer permits or licenses required to operate the property or related equipment and fixtures (e.g. franchises, trademarks, patents, copyrights, liquor licenses, etc.)

_____ **Rights-of-Way (Easement) Impacts (All Properties).** Rights-of-way are temporary or permanent property rights that have been either granted or acquired, for roads, utilities, or public use access. These are often conveyed through an easement and may or may not be recorded. In addition to roads and utilities some more obscure examples include:

- 1.) Conservation easements – limits the amount and type of development that can occur on a property in order to preserve its productive capacity and open character while keeping the property in the landowner's ownership and control.
- 2.) Solar/Scenic easements – protect an owner's view shed or path of sunshine and generally restrict the height of building construction.
- 3.) Airspace easement – permits the area above the surface of property to permit an imposition upon such property from excessive noise, vibration, discomfort, inconvenience, etc. that consequently reduces market value. Generally used for airport impact areas but can also apply to bridges and walkways.
- 4.) Maintenance easement – permits an individual to cross onto the property of another for the purpose of maintaining something owned or controlled by the dominant estate owner, such as, irrigation ditches, canals, culverts, power lines, water lines, etc.

_____ **Endangered Species (All Properties).** The Endangered Species Act of 1973, as amended, is one of the most far-reaching wildlife conservation laws ever enacted by any nation. The presence of threatened/endangered or potentially threatened/endangered species may significantly restrict the development potential, other potential uses, and market value of a property.

_____ **Copies of all leases affecting the property (All Properties).** Review all leases having an effect on the future use of or income from the property. For state lands involved in an exchange, ensure a land exchange addendum is signed by the lessee.

_____ **Appraisals and Appraisal Review (All Properties).** A real estate appraisal is required for all property types to determine the market value for the property or property rights or interest being disposed or acquired. At a minimum the appraisal is prepared in compliance with the *Uniform Standards of Professional Appraisal Practice (USPAP)*. Appraisals will be independently reviewed by IDL or another appraiser to ensure compliance with USPAP and to determine the adequacy and appropriateness of the report.

_____ **Property Boundary Survey (Optional).** Obtain copies of recorded Records of Survey for the property, if available. If a survey is necessary it should be initiated immediately after the Purchase and Sale Agreement has been executed to allow time to address any potential title problems identified by the survey prior to closing.

_____ **Timber Rights (Timberland).** Determine who has the legal right to harvest the timber on a parcel of land. A seller of forestland can choose to include or exclude timber rights as part of a fee ownership sale. Such rights can be severed for a specific period of time or permanently transferred.

_____ **Timber Cruise/Harvest/Road analysis and Check Cruise (Timberland).** Forested properties with merchantable timber being considered for acquisition will require a timber cruise to determine the quality and quantity of harvestable timber. The cruise will identify tree species and measurements within each plot. Sufficient plots must be

measured to obtain a statistically reliable sample for estimated gross volume, defect, piece size, general stand information, net merchantable volume, etc.

_____ **Conservation Reserve Program (Agriculture/Timberland).** Determine if the property is eligible for and currently enrolled in a variety of farm and agriculture programs. What is the impact in ownership change to enrollment eligibility? There are currently five (5) areas which can receive payment, including:

- 1) Wildlife Habitat Incentives (WHIP)
- 2) Wetland Reserve Program (WRP)
- 3) Forestry Incentive Program (FIP)
- 4) Farmland Protection Program (FPP)
- 5) Environmental Quality Incentives Program (EQIP)

_____ **Architecture/Engineering Analysis (Properties with Buildings).** Acquisition of properties with business related structures requires an analysis by architectural and engineering professionals to determine the condition of the building and identify any potential problem areas, such as deferred maintenance and necessary repairs. Such analysis will typically consider, but is not limited to an analysis of: structural integrity; roof, electrical, plumbing and HVAC systems age and condition; Americans with Disabilities Act (ADA), fire and safety code compliance; general service and maintenance logs; parking area requirements and surface age and condition; review of Phase One Environmental Site Assessment; and testing for asbestos, lead paint, or mold issues. If work is performed on improvements prior to closing, obtain copies of any design and construction drawings and contracts and determine whether the seller's rights under those contracts are assignable to the buyer. Ensure proper lien waivers have been obtained by the seller for work performed prior to closing.

STATE BOARD OF LAND COMMISSIONERS

November 16, 2021

Information Agenda

Subject

Future of Cottage Site Leasing

Background

The leasing of state endowment trust (endowment) land as residential sites for private use near or on Payette and Priest lakes, also known as cottage sites, has been active since the early 1900s. Over the decades, cottage site leases were developed by offering a lessee the ability to improve endowment land with structures, thereby creating a split estate wherein the endowment enjoyed fee simple ownership of the real property, and the lessee retained ownership of any lessee-furnished improvements.

In February of 2010, the State Board of Land Commissioners (Land Board) directed the Idaho Department of Lands (Department) to unify the 523 cottage site split estates. Since 2011, the Department has overseen the transition of 460 cottage site lots from split-estate ownership to unified-estate private ownership (145 lots at Payette Lake and 315 lots at Priest Lake) through the cyclical use of the Voluntary Auction for Ownership (VAFO) process. The VAFO process, to date, has rendered a total benefit to the endowment in the amount of \$218,326,625. Of the remaining 63 cottage sites yet to undergo the VAFO process, only 15 lessees have expressed an interest in participating in a future VAFO cycle, leaving 48 lessees interested in continuing to lease their cottage site beyond 2024.

In December of 2017, the Land Board approved the 2018 Cottage Site Leasing Plan (Plan) (Attachment 1). This Plan allowed more time for lessees to participate in the VAFO process and for cottage sites to be leased through December 31, 2024.

Discussion

Considering the approaching expiration of certain residential cottage site leases at the end of 2024, the Department proposes the following options to allow the remaining cottage site lessees to continue to lease their respective lots.

Option One: Consistent with the 2010 Land Board directive to unify the cottage site split estates, the Department will offer a lease consistent with terms found within private ground leases. In particular, the lessee will own or may elect to construct improvements on the leased cottage site for the duration of the lease, but the ownership interest in the improvements will revert to the endowment at the close of the lease term thereby unifying the land estate.

The lease terms for cottage sites under Option One will be 30 years in order to provide lessees with longer-term security and to further support the complete transition of ownership to the endowment. A lease rate and reappraisal schedule will be established by the Department by working with third-party advisors and the Office of the Attorney General (OAG) in order to set a market rate and leasing structure in the endowment beneficiaries' best interests.

Option One will also reduce the workload and resources the Department currently expends in administering cottage site leases, lease auctions, and VAFO auctions. In addition, endowment beneficiaries will capture additional value in the form of endowment-owned improvements at the end of the lease term, and again will eliminate the split estates as directed by the Land Board in 2010.

Option Two: The Department will offer a long-term lease, similar in length to Option One's lease, that eliminates the split estate through an agreed-upon auction at the end of the lease term. These leases will have the highest lease rate of the options provided as the lessee improvements would not revert to the endowment upon lease expiration; provided, however, this option offers lessees long-term security, lessens the Department's workload with respect to administering the cottage site leases, and addresses the directive of the 2010 Land Board by eliminating the split estates. Option Two will also allow for periodic enrollment by lessees into the VAFO process.

Option Three: A final option for the remaining lessees will be a 10-year lease term structured similarly to the current lease. Option Three will offer lessees a periodic option to participate in the VAFO process, and will maintain a split estate. This option provides flexibility to the lessee, will be offered at a slightly lower rate than Option Two, and provides more opportunities for conflict auctions to generate revenue during the renewal process.

Next Steps

The Department will engage with cottage site lessees over the next four months to determine what level of interest exists for the three options presented in this memorandum. Based on feedback received from the lessees, the Department will develop new lease agreements with the assistance of the Land Board's third-party advisors and the OAG. The Department will come back to the Land Board with its recommendation by August 2022.