

STATE BOARD OF LAND COMMISSIONERS

August 14, 2014

Regular Agenda

SUBJECT

Transfer Existing Land Bank Fund Assets to Permanent Funds

BACKGROUND

Since the Land Bank Fund (Land Bank) was established in 2001, all proceeds from the disposition of endowment land have automatically been deposited there. The proceeds are held for up to five years if they are not reinvested in other Idaho land. The Land Board has the authority, under Idaho Code § 58-133, to transfer Land Bank assets to the Permanent Fund of the endowment which sold the original property.

As of June 30, 2014, the Land Bank balance, including accumulated interest, totaled \$12,549,927, consisting of the following assets by endowment:

|                      |             |
|----------------------|-------------|
| Normal School        | \$6,517,457 |
| State Hospital South | \$5,874,582 |
| University           | \$116,329   |
| Public School        | \$41,559    |

The Land Bank is currently invested in the Idle Pool by the State Treasurer, earning about 0.4% interest annually, which is reasonable given the current market for short term investments. The Treasurer has examined various alternatives for investment of the Land Bank and concluded the Idle Pool is the best available option, since the funds could theoretically be spent on short notice. Endowment Fund Investment Board (EFIB) staff supports this conclusion.

The next round of cabin site auctions is conservatively expected to generate \$30 million at Priest Lake (Public School) in September and \$13 million at Payette Lake (State Hospital South and Normal School) in December.

While several potential acquisitions of timberland and road right-of-way are currently being considered, the Department of Lands has recently concluded that none of these opportunities will mature in the next four months. Therefore, no Land Bank assets will be needed to facilitate land acquisitions before the proceeds from the next round of cabin site dispositions become available.

DISCUSSION

The expected long-term return of the Endowment Fund over the next ten years is in excess of 6%. Therefore, while there exists the market timing risk of an equity downturn, Land Bank assets will probably earn a higher return in the Fund than they will in the Idle Pool. This is especially true for the current monies, because they are unlikely to be needed for property acquisitions.

Further, the Department expects that future land acquisitions are unlikely to exceed \$10 million annually. Therefore, once the Land Bank exceeds a reasonable minimum balance to accomplish any pending and unexpected future land acquisitions, any remaining proceeds from cabin site sales can immediately be transferred to the Permanent Fund. Otherwise, they would very likely remain in the Idle Pool for five years.

In addition, the benefits of using only Public School proceeds to implement essentially all future land acquisitions is under serious consideration in the current comprehensive strategy review.

The Subcommittee on Endowment Investment Governance reviewed these matters at its July 8 meeting and unanimously adopted three recommendations regarding the Land Bank and land sale proceeds. The recommendations were approved with the understanding that the Department will likely have sufficient notice of an unusual acquisition opportunity to suggest an adjustment to these standing instructions if that is prudent.

### RECOMMENDATION

1. Authorize the Treasurer to immediately transfer the current Land Bank balances (approximately \$12.5 million) to the respective endowments' Permanent Funds.
2. Authorize the Department to transfer future proceeds from the sale of Public School land to the Land Bank, if the balance is less than \$10 million. All additional proceeds should be immediately deposited in the Public School Permanent Fund. This policy is an interim recommendation pending completion of the comprehensive strategy review.
3. Authorize the Department to immediately deposit future proceeds from the sale of any other endowment's land in its Permanent Fund.

### BOARD ACTION

A motion was made by Controller Woolf that the Board adopt the following two-part recommendation: 1) authorize the Treasurer to transfer the current Land Bank balances, which are approximately \$12.5 million, to the respective endowments' Permanent Funds; and 2) at the December 2014 Land Board meeting, review and consider the Subcommittee on Endowment Investment Governance's recommendation to transfer all current and future Land Bank receipts to the Permanent Funds excepting up to \$10 million in Public School receipts in light of the recommendations in Callan's forthcoming Comprehensive Strategy Review. Secretary of State Yursa seconded the motion. Governor Otter asked for clarification about part 3 of the Department recommendation; is that part of the Controller's motion. Controller Woolf replied no, the Board has the opportunity to wait until December when Callan's review will be complete. The motion carried on a vote of 4-0.

