MINUTES
(Subject to approval by the Committee)
Endowment Asset Issues Interim Committee
Friday, November 14, 2014
9:00 A.M.
EW42 - State Capitol
Boise, Idaho

Co-chair Representative John Vander Woude called the meeting to order at 9:24 a.m. and requested a silent roll call. Members present were: Co-chairs Senator Cliff Bayer and Representative John Vander Woude and Senators Shawn Keough, Jeff Siddoway, Bert Brackett, and Janie Ward-Engelking; Representatives Neil Anderson, John Gannon, and Grant Burgoyne (ad hoc). Representatives Jason Monks and Rick Youngblood were absent and excused. Legislative Services Offices (LSO) staff members present were Katharine Gerrity, Ray Houston, Elizabeth Bowen, and Shelley Sheridan.

Others in attendance: Tyler Mallard, Risch Pisca; Larry Johnson, Endowment Fund Investment Board (EFIB); Tom Schultz, Idaho Department of Lands (IDL); Jane Wittmeyer, Wittmeyer & Associates; Scott Phillips, Office of the State Controller; Janet Becker-Wold, CFA, Callan; Sally Haskins, Callan.

NOTE: Copies of presentations, handouts, reference materials, and public testimony can be found at: www.legislature.idaho.gov and are also on file at the Legislative Services Office

Co-chair Vander Woude asked for approval of the September 30, 2014, and October 1, 2014, minutes and **Senator Siddoway** moved for approval. The motion was seconded by **Representative Gannon**. The motion passed unanimously by voice vote.

Co-chair Vander Woude introduced the Callan consultants to give their presentation and welcomed them to the committee.

Ms. Sally Haskins, Senior Vice President and shareholder of Callan Associates, introduced herself and her colleague, **Ms. Janet Becker-Wold**, Senior Vice President and shareholder of Callan Associates (Callan). **Ms. Haskins** stated that Callan worked on the asset allocation and governance review for the Land Board over the past several months. She said that their presentation would provide an overview of their findings, and they would answer any questions the committee might have. **Ms. Haskins** noted that **Mr. James Van Heuit** of Callan also worked on the assignment but was not in attendance; however, she said that they were fully informed of his part and would discuss that as well. **Ms. Haskins** stated that Callan was retained in May 2014 by the Land Board to 1) review the findings and recommendations of the subcommittee on endowment governance, 2) identify governance shortcomings and make recommendations for improvements, 3) look at the policies and procedures, some for the IDL, with regard to valuation and forecasting methodologies, and 4) conduct an asset allocation study that combines land assets with financial assets. **Ms. Haskins** said that she would discuss the governance review and recommendations and **Ms. Becker-Wold** would discuss the asset allocation, and that they would conclude with a discussion of Idaho commercial real estate and the next steps in the process.

Ms. Haskins stated they began by gathering information to understand the current governance structure and the decision-making process in place, as well as the context, issues, and history. She noted that they interviewed Land Board members and staff, and worked closely with **Mr. Larry Johnson**, Manager of Investments for the Endowment Fund Investment Board (EFIB), and Director Tom Shultz and others at the Idaho Department of Lands (IDL). A lot of prior documentation was also reviewed. She indicated that as they interviewed people, some common feedback and concerns emerged. She said that **Mr. Johnson** and **Director Schultz** have a great line of communication and a lot of informal discussions are taking place. Callan recommended these communications be formalized. She noted that commercial real estate investing is problematic. In addition, she indicated that the Land Board should function more as a policy and strategy-making body. She added that moneys in the Land Bank should be deployed more quickly given the low rate of interest. And finally, she said there is a general misunderstanding about the performance of the IDL and the Land Board, especially when compared to the portfolio of financial assets.

Ms. Haskins stated they also identified weaknesses in the governance structure. She said that there is not enough context around the constitutionally defined objective of maximizing return. She stated that the asset management plan is part investment policy and part strategic plan. Callan recommends splitting them. She went on to add that there are differences in decision making, how performance expectations are being set, how outside experts are used, including consultants, and how the reporting is being done for the financial assets compared to the land assets. She indicated that some IDL decisions have implications to the trust but are being done without independent verification. **Ms. Haskins** told the committee that much of the Land Board's time is spent reviewing individual transactions and is not functioning in a policy and strategy-setting context or direction. And finally, she added, IDL's performance measurement and reporting could be improved.

Ms. Haskins stated that Callan has set forth priorities of a good governance structure. She said that the first is to enhance the Land Board's duty to manage the assets as a prudent investor would. She said that the second is to put in place policies and procedures so the endowment operates as one integrated entity. She noted that the third point, as highlighted in Bob Maynard's paper, is to incorporate the prudent investor mode of thinking and decision-making into the operation and management of the assets. She said that the final noted priority is that the Land Board function in a policy and strategy role.

Ms. Haskins stated that Callan's first recommendation is to clearly establish objectives by creating a comprehensive investment policy statement for the combined trust. The investment policy statement, she stated, would identify the investment objectives, overall objectives, and for each category of investment, the risk management process and risk tolerance. It would also identify the roles and responsibilities and decision-making process used to manage the overall assets and the delegations of authority. She went on to say that the investment policy statement is very important and should be the next step once some of the recommendations are adopted. Ms. Haskins stated that an investment policy is different than an asset management plan or strategic plan. She said that an investment policy is the broad framework by which objectives are defined. The strategic plan or asset management plan is a road map for going from where you are to where you want to be and achieving the objectives set forth in the investment policy statement. She noted that both the investment policy statement and strategic/asset management plan should be separate documents and be in place and revised. She stated that their next recommendation is that the Land Board retain additional outside expertise to assist in setting policy and develop these strategies, as well as provide an independent review of transactions. She indicated that the delegation of authority to the IDL should also be reexamined. She added that the IDL is expert in a number of things, and if IDL was given more or less authority in some situations, it would allow the Land Board to work in a strategy and policy-setting manner. Their third recommendation is to have an independent verification, an external investment manager to review the IDL's processes and policies and suggest ways to improve the process. She said that the other part of independent verification is having a comprehensive independent outside financial audit for all the assets, financial and land. She stated that their fourth recommendation is to put in place some documentation and develop a strong performance measurement system for those managing the assets to help with transparency and make sure it is up to institutional standards. Their fifth and final recommendation is accountability by setting fair goals and objectives for anyone managing money on the financial side or managing land assets, who should also be monitored and their progress measured. She went on to add that the Land Board should establish a way to measure the IDL's progress. **Ms. Haskins** stated that Callan looked beyond state land trusts and regulatory requirements to public pension funds and other institutionally managed pools of assets, endowments, foundations and recommends the Land Board and IDL expand their view of what the peer set is for governance and operations.

Janet Becker-Wold continued Callan's presentation by stating that a significant part of the project and more difficult part was the asset allocation study because the lands Idaho holds are unique to Idaho. She stated there were no standard capital market assumptions developed on a portfolio that was as concentrated and unique as Idaho's. She said that the other part was to establish reasonable valuations for timber and grazing lands and bring them into an assessment of the total asset allocation that incorporated the financial assets already valued. The purpose was to take a look at an asset allocation that would incorporate completely the land assets with the financial assets. She said that Callan is not trying to do a tactical plan that would be changed every year, but a long-term, 10 years or longer, strategic plan. Callan did not look at these asset allocations in the context of what the implications would be for the distribution policy, but assumed the distribution policy would stay where it is today. They wanted an asset allocation that would meet the objectives of the current distribution policy. If the asset allocation is changed in the future, the impact on the distribution policy and dollar distributions to the current beneficiaries would need to be assessed.

Ms. Becker-Wold stated that she and **Ms. Haskins** have very different roles at Callan. **Ms. Haskins** is a real estate expert, and **Ms. Becker-Wold** is a generalist consultant – consultant to the EFIB. She stated that she and **Ms. Haskins** have different approaches so their contributions to this project were different which is why their presentation was split in this manner. **Ms. Becker-Wold** stated that every project they do is vetted internally through their client policy review committee. This project was not only worked on by **Ms. Becker-Wold**, **Ms. Haskins**, and **Mr. Van Heuit**, but also reviewed by the senior consultants at Callan.

Ms. Becker-Wold referenced page 12 of their presentation, Total Endowment Assets as of June 30, 2014. She explained that the EFIB assets, the domestic equity, international equity, and EFIB fixed come from Callan's reporting on the EFIB portfolio, and the IDL, timberland, and grazing land were assumptions that Callan developed. **Ms. Becker-Wold** noted that the timberland was roughly 40% of the assets of the total endowment and grazing was about 2%. Based on a land expectation value approach, not an appraisal approach, she said those were the valuations Callan came up with as a starting point for the asset allocation. She said that the land expectation value (LEV) approach is an industry accepted way to look at valuation for land portfolios because it looks at the actual cash flows generated from those lands. **Senator Siddoway** asked how Callan came up with the $61 million allocation for grazing land. **Ms. Becker-Wold** responded that they took the current projected land revenues off the grazing land and discounted that back. The LEV only takes into account current use and revenues, no projected uses or revenues, and is a discounted cash flow approach. **Ms. Becker-Wold** reviewed the illustration provided in the appendix of how discounted cash flow works. She stated there were many problems with the appraisals because a comparable sales approach was used, which does not make sense in this context for an asset allocation framework. **Ms. Haskins** added that this valuation was done for the purposes of an asset allocation study. She stated there are many reasons to have a valuation; for selling something, you would use an appraised value, for performance measurement purposes, and asset allocation purposes. She said that another problem with the appraisals was that using a comparable sales approach assumes the parcels of land could be sold, which was not the case. Callan thought it was unrealistic and inflated and opted for an approach that figures the productivity of the land because it can be measured; they had hard numbers. She said that other options might achieve more than $1 per acre, but the LEV discounted cash flow was the appropriate approach to use. **Representative Gannon** asked if population growth is ever factored in making long-term value determinations. **Ms. Becker-Wold** answered that in this construct they did not, because they were only looking at cash flow because IDL had control over it, which made everything internally consistent. **Representative Gannon** asked if there was a mechanism of factoring in future population growth. **Ms. Becker-Wold** replied "no" because of too many what-ifs; i.e., what is underneath the land, like oil or minerals, or if there is development and nothing of certainty. There is some degree of certainty that changes will occur; if so, the analysis can be revisited. Callan took what was happening now for a starting point in time; anything else would be speculation.

Ms. Becker-Wold referenced page 12 of the presentation and stated it was very important for everyone to understand that the decisions made on the asset allocation that will include IDL lands is completely and inextricably linked to the distribution policy. She said that changes in the asset allocation cannot occur without considering the impact on distributions - not just the dollar distributions to the beneficiaries, but the calculation of the earnings reserves and how the payout is calculated. Callan's analysis assumed that the distribution policy stayed the same and they looked at the alternative asset mixes in that construct.

Ms. Becker-Wold referenced page 14 of the presentation and stated that the broad conclusions from the study were that the current mix was good, met all the objectives, had a good risk return trade off, and had a 10-year compounded annual rate of return expectation as 6.7% with an associated volatility of 9.3%. She said that volatility in an asset allocation framework means the standard deviation of returns (how much the returns varied from year-to-year and over time). She stated that the objective is to get the highest rate of return per unit of risk. The lower the risk, the higher compounding you get on the return because the highs and lows are cut off. However, a much higher rate can be compounded by truncating the variability in the return, which is a key concept when looking at the asset allocation. **Ms. Becker-Wold** stated Callan used a mean variance optimization which assumes you want a rational investor and the highest return per unit of risk. These mixes were run on a constrained and unconstrained basis, which means they built in two different scenarios. She said that one scenario allowed the land assets and grazing assets to move as if they were a financial security. Callan knew it was not a realistic assumption, but thought it would give information about the model's view of the liquid part of the portfolio. She went on to say that the second scenario was run as constrained; in other words, it held the land assets at the current valuations to see what the financial assets did around that. The unconstrained mixes showed timberland was a really good investment. She indicated that the unconstrained mixes showed grazing land was a marginal investment because of the rate of return. She said that real estate, as used in this context, is a broadly diversified U.S. institutional portfolio, not a portfolio of Idaho commercial real estate. She stated they would never recommend a concentrated real estate portfolio like Idaho currently has. Callan also wanted to look at what to do with the cabin site revenues because it is clearly an important issue given the fact that IDL is going to be selling cabin sites over the next five years and has been active doing that now so moneys have been going into the Land Bank. **Ms. Becker-Wold** stated that, with regard to cabin site revenues, Callan recommends keeping a flexible view and to keep some money in the Land Bank because moving it would unduly tie the hands of the IDL Director in regard to purchases in the timber area.

Ms. Becker-Wold reviewed the specific findings on the Idaho land investments. She said that about 40% of the total endowment is lands. The expected return is somewhere between stocks and bonds given the cash flow nature and the footprint of land assets. She said the returns of the timber portfolio are attractive, relative to the risks. Callan believes timber could be selectively increased as long as it had at least or better than the return on the current portfolio. The findings on the grazing land included the financial assets. It has some diversification of facts, but the model did not want a lot of grazing land because of other asset classes that have a better risk/reward trade-off.

Ms. Becker-Wold reviewed the financial assets findings. She stated that publicly traded instruments, the U.S. stocks, non-U.S. stocks and bonds, which are currently in the EFIB portfolio, are good complements to the land investments because they are liquid, they have a different performance pattern and are geared differently to different financial characteristics. She added that they are good diversifiers for each other and that the current asset allocation is appropriate. Callan thought that the non-U.S. equity portion of the total equity could be increased at the margin, but would be an issue to be addressed by the EFIB. **Ms. Becker-Wold** stated they considered adding two asset classes; one was a broadly diversified U.S. real estate portfolio, and the other was private equity. Callan modeled both constrained and unconstrained to those two additional asset classes that are generally held by institutional investors, to see how the model responded. **Representative Burgoyne**

asked if the investments made on Wall Street in private equity were mutual funds, direct ownership of stock in particular companies, etc. **Ms. Becker-Wold** clarified that the equity currently being held by the EFIB is public equity; anything that can be traded on a stock exchange. All the equity investments in the endowment portfolio are public. Private equity is a high-fee/high-risk strategy and is not included in the portfolio because there is diversification and the returns per unit of risk trade-off were not attractive in this context, but the real estate was because of the income component and the diversification benefits it brings to the public assets. **Representative Burgoyne** asked how Callan viewed the purchase of a business, Affordable Storage, by the Land Board as an investment. **Ms. Becker-Wold** stated the investment should not be in the portfolio. She stated that Callan likes Affordable Storage but the real estate portfolio should be diversified and recommends prudently divesting Idaho real estate and investing in a broadly diversified portfolio. **Senator Brackett** stated that the current asset mix is reasonable but is contradictory to the statement that timberland is attractive and grazing land is marginal. Senator Brackett asked if the model has a "what-if" capability if the timber was increased and grazing was decreased by varied amounts. **Ms. Becker-Wold** stated Callan only included current cash flows when they forecasted returns, risks, and correlations were calculated. It only incorporates current uses, so it is consistent with the way the land values were developed. **Senator Brackett** asked if the mix was changed, whether the model would have a "what-if" capability. **Ms. Becker-Wold** said it would by changing the assumption used and rerunning the model.

Ms. Becker-Wold stated that all the assumptions, how they were developed, and the process used are more thoroughly explained in the report, but she would be happy to answer any questions. She said that the intent was to verify the broad implications of the asset allocation study. Callan independently determined that the current portfolio is fine. She reiterated that if anything is changed in the portfolio that affects the risk and return, it will also change the distribution policy's risk and return and will need to be reviewed. **Ms. Becker-Wold** added that, with regard to commercial real estate, they recommend Idaho prudently divest of the current Idaho commercial properties.

Representative Anderson asked **Ms. Haskins** to clarify and expand on her previous statement about accountability and what the good ideas were that should be considered beyond the land trust. **Ms. Haskins** clarified that she didn't mean to imply that there were other ideas not considered, but that Callan had considered good ideas on governance that were not necessarily included in other state land trusts or in Idaho's trust. She said that having an investment policy statement, doing an asset allocation study, and doing strategic planning were incorporated in their recommendations.

Ms. Becker-Wold added that all these pieces have to happen for it to work, one cannot be done without the other, and the appropriate governance structure has to be in place. She said that everyone has to be comfortable with how decisions are made and who they are made for, and that everyone knows that all decisions made on the endowment are made for the benefit of the beneficiaries. She said that as fiduciaries, that is the only thing the Land Board needs to be thinking about. **Ms. Becker-Wold** encouraged everyone to look at the portfolio in its entirety and not in specific pieces.

In response to a question by **Representative Burgoyne**, **Ms. Becker-Wold** replied that the 6.7% return and the 9.3% volatility is where Idaho is currently. She referenced the constrained assets table on page 25 of their presentation, specifically noting the first column (endowment, which includes land assets), the second column (financial assets managed by the EFIB), and the rows titled "Uncompounded Return," "10-year Compounded Return," and "Risk." She said that the compounded return takes into account the volatility assumed to achieve that return. She added that the column titled "Mix 3" incorporates the slight shifts of the U.S. and non-U.S. mix but is otherwise identical to what Idaho currently has. She noted the similarities in comparing the EFIB versus Mix 3, except with regard to the risk (standard deviation) which is significantly more volatile when lands are not included. She said that basically, Idaho can keep the same compounded return but reduce risk dramatically. The model prefers a higher return for a lower risk. **Representative Burgoyne** clarified that if the recommendations in Callan's report are accepted, the risk exposure will decline and will have monetary value. **Ms. Becker-Wold** agreed and added that the monetary value is in the compounding of the returns and is quantifiable. She stated that it is no accident that Idaho is in such a good place. She said that IDL and the manager of investments have been talking for years and are aware of the revenues coming off the land. Their communication is very good input as to how the distribution policy was set up. She stated that everything was linked all along, but never looked at together. The volatility of the revenues and assets were always incorporated into the distribution policy, but the valuation of the land was never included. **Ms. Becker-Wold** stated that Idaho's portfolio is fine and that Idaho does not need to move, but could, understanding the implications.

Representative Anderson asked what Callan's view of risk is and if it is the permanent loss of capital or simply fluctuation from year-to-year. He also asked if risk changes over a multi-year period versus period of months. **Ms. Becker-Wold** stated that risk is the variability of returns, not a risk of loss. **Representative Vander Woude** asked if the risk of rate-of-return would increase if the $250 million from cabin sites was placed into the EFIB investment. **Ms. Becker-Wold** said it would not increase because it is assumed that the $250 million would be allocated pro-rata across the asset allocation, and the risk would stay the same. **Ms. Becker-Wold** noted that the unconstrained asset table on page 25 of the presentation was how Callan concluded that timber was good. The unconstrained mix, which is an unrealistic scenario that assumes you can trade land assets like they were a stock, show what the model would do if it could change that as if it were a publicly-traded security. She said that the difference in Mix 3 in the constrained versus unconstrained shows the model likes the risk/return trade-off of timber, relative to the financial assets. She stated that fifty percent of the portfolio in lands may not be something Idaho would ever be interested in. She said that it was not Callan's recommendation, but merely an example of an unconstrained mix and what the model wanted to do with the timber portfolio. She went on to say that led Callan back to the Land Bank. She said that from an investment perspective, creative acquisitions of timber, with at least the same return or better than Idaho currently has, might be a good idea should all the money be taken out of the Land Bank and given to the financial assets or held back so that the IDL had some drive power if they find a creative investment. **Representative Anderson** asked if there was concern that Idaho had not diversified by only investing in timberland. **Ms. Becker- Wold** stated that Idaho is very unique in that there are no other land trusts that have attempted to do that. There are significant land trust assets and financial assets that receive income under the current status, but the two pieces have never been put together. She said that Callan would never recommend having 40-50% of the portfolio in private assets and never considered the complete divestment of those lands because they did not think it was a reasonable assumption. She said that Idaho is not a typical institutional investor in this context.

Representative Gannon asked what the basis was for keeping a reserve of 5-7 years of profit if growth was anticipated. **Ms. Becker-Wold** stated that a very high priority of the Land Board is the stability of distributions, with a secondary priority of increasing distributions. She noted that the consistency of knowing how much they were going to get was more important than trying to increase the distributions. She added that having 5-7 year's reserve offers consistency even when the markets are going down. **Representative Gannon** asked if Idaho's investments were in volatile investments, could Idaho lose money over five consecutive years. **Ms. Becker-Wold** stated that the distribution policy was set up to take into account a two-standard deviation event that was sustained and that five years was set, based on that failure rate. Callan felt that was enough to provide a sufficient cushion to give them some certainty on the distributions. **Representative Gannon** asked, if Callan believes it is essential to have a five-year reserve for the volatility and risk of the investments. He asked why the five-year reserve is invested in the same volatile and risky investments. **Ms. Becker-Wold** stated that the distribution policy was not the focus of the study.

Senator Siddoway asked if Callan figured a cost of implementation of their recommendations. **Ms. Becker-Wold** said they did not, since they were still in the approval stage. **Senator Siddoway**

asked if governance would involve a primarily citizen volunteer board similar to the EFIB or a more professional and financially-rewarded board. **Ms. Becker-Wold** stated the current role between the Land Board and the IDL is alright, but experts need to be added to get the Land Board more focused on strategic policy setting and consultants brought in to work directly for the Land Board and be compensated.

Senator Siddoway asked if 10% going into the Land Bank was a good place to put the money or whether the mix should be reduced. **Ms. Becker-Wold** said Callan is proposing and strongly recommending that the strategic plan, being a long term implementation plan of 1-year, not include further investments in commercial real estate. Therefore, she said a rule of 90/10 would not make sense. She added that it is the Land Board's responsibility and job to set the strategic direction for Idaho lands.

Representative Gannon asked if investing in real estate that is ultimately leased to the state was a good idea. **Ms. Becker-Wold** said it was not a good idea unless an institutional construct was used. **Co-chair Vander Woude** asked if Callan recommends a shorter time frame, currently five years, for the money to sit in the Land Bank. **Ms. Becker-Wold** stated that the five years is a maximum and recommends the Land Board revisit the moneys in the Land Bank annually as part of the strategic planning process. She said that they would then have the option to move the money yearly. **Co-chair Vander Woude** asked what the time frame was for establishing a strategic plan. **Ms. Haskins** responded that it could take nine months to a year. She said that once in place, the annual plans go faster.

Representative Burgoyne asked **Ms. Becker-Wold** for her perspective on the statement on page 1 of the report in the executive summary that states: "...the mission statement as expressed in the Idaho Constitution is to manage the endowment lands in such manner as will secure the maximum long term financial return to the institution to which granted." **Ms. Becker-Wold** stated Callan discussed the statement with the Attorney General's office, but purely from an investment perspective, the statement implies that a fiduciary's responsibility for maximizing return is to consider reasonable amount of risk. She said that if you just went for the highest risk portfolio, it would be inconsistent with the other objectives of the endowment.

Co-chair Vander Woude thanked Callan for their report and all their work.

Co-chair Vander Woude stated the committee needs to discuss the other lists of ideas and recommendations and that the committee expires on November 30.

The committee recessed at 10:37 and reconvened at 10:57 for further discussion.

Co-chair Vander Woude opened the floor for discussion.

Senator Brackett recommended the committee have more time to review the report and moved that the committee be extended and reconvene next fall. The motion was seconded by **Senator Siddoway**. The motion passed unanimously by voice vote.

Representative Gannon stated that one of the concerns is the distribution of funds in excess of those in the profit reserve. He referenced a letter from **Mr. Larry Johnson**, EFIB Manager, regarding the funds. **Representative Gannon** stated that there was money in the endowment in excess of the profit reserve, population growth and inflation, with little being paid out. He recommended the committee consider whether the excess money should be offered to the beneficiaries on a one-time basis for one-time expenditures. Mr. Johnson's letter is on the LSO website at: http://legislature.idaho.gov/sessioninfo/2014/interim/endowment.htm.

Co-chair Vander Woude asked **Mr. Johnson** who decides what changes are made on the distribution policy and what the risk is in changing the distribution policies. **Mr. Johnson** stated that the asset allocation distribution policies are linked and that the asset allocation has a certain expected return and risk. He said that the return determines how much the distribution is and how much of a reserve is needed to manage the volatilities. He noted that when volatility of the asset mix changes, so does the reserve and, to some extent, the distribution; when the expected return of the assets changes the distribution rate changes. In response to a question from **Co-chair Vander Woude**, **Mr. Johnson** stated the state Constitution places the responsibility on legislators to determine spending priorities and how to balance the needs of the beneficiaries and agencies with state revenues. He stated it was difficult, almost impossible, for the Land Board and the EFIB to evaluate the needs of the beneficiaries.

Representative Anderson asked how much of the $300 million made by the endowment fund was represented by cash. **Mr. Johnson** responded that none of it was cash, but was invested in liquid securities that could be turned into cash. He stated that most of the money had to be dedicated to help future beneficiaries keep up with inflation and population growth and offset past deficiencies. **Representative Anderson** asked whether the payments to beneficiaries would be jeopardized if the market fell. **Mr. Johnson** stated it would not because the money was excess and the distribution would not be at risk by giving away the extra. **Representative Anderson** added whether the risk would be in the potential dividend return from the excess. **Mr. Johnson** agreed.

Representative Gannon noted that Rakesh Mohan, Director of the Office of Performance Evaluations, recommended increasing the scholarship fund, which has not been increased in years while tuitions have increased every year. He clarified that the proposal would be for the excess money to be a one-time expenditure and suggested it be directed toward the scholarship funds on a one-time basis. **Senator Keough** asked whether there was anything prohibiting the Land Board from making an extra distribution to public schools. Mr. Johnson recounted that the Land Board approved a one-time $22 million distribution to public schools in fiscal year 2010.

Representative Burgoyne referenced the handout he drafted outlining the views of the committee that might have value and may promote discussion. He stated that questions regarding 2.g. of the handout should be directed to Mr. John L. Runft from the Tax Accountability Committee as it relates to the possible amendment of Senate Bill 1277 which was passed last session.

Representative Anderson motioned that the committee endorse the Callan report as presented. The motion was seconded by **Co-chair Bayer**. **Senator Brackett** asked if endorsing the report means the committee can move forward with legislation or that the committee is acknowledging receipt of the report. **Representative Burgoyne** commented that endorsing the report, he believed, represents that the committee received, analyzed, carefully considered, and heard Callan's presentation, and that the committee thinks the ideas in the report are valid and should be put into policy. **Co-chair Vander Woude** added that endorsing the Callan report would not limit the committee in addressing other concerns in regard to the land endowment fund or pursuing legislation. **Co-chair Bayer** clarified that the motion also recognizes the merits of the work and various facets of the report, thereby building upon those facets for committee members to address through draft legislation and as a statement in regard to the board. The motion passed unanimously by voice vote.

Senator Siddoway noted some concerns about state lands, about which the committee did not have the opportunity to address. He said one concern is that there needs to be a way to get rid of nonperforming assets. He went on to say that another concern is about the restraints on acreage and the way lands were given to the state. He stated there are sections in the middle of private holdings. He said that another concern involves the public auction process.

Co-chair Vander Woude asked whether the committee had issues or concerns with item 3.a. from **Representative Burgoyne's** handout which stated "(e)nhance the organizational and monetary resources available to carry out land exchanges." He noted that there may be an FTE to the IDL with the sole responsibility to help facilitate or assist in the review of land exchanges. **Senator Keough** stated that she is not opposed to allocating more resources to the IDL; however, she said she is not anxious to provide more resources when it is clear, from the passage of Senate Bill 1277, that multi-party exchanges are deemed by some on the Land Board to be disguised sales and will never go forward no matter how much personnel or appropriation the IDL gets. She stated that the committee needs to resolve differences of opinion and legal interpretation as to what a disguised sale is, which prohibits some multiparty exchanges that are beneficial to the state. **Representative Gannon** stated that he believes allocating more resources makes sense, based on presentations to the committee by the IDL and other witnesses that there was not enough staff because they were too busy working on lakefront lots. **Co-chair Vander Woude** stated the purpose of Senate Bill 1277 was to try to create the ability to exchange lands, and the committee needs to make Senate Bill 1277 work for everybody, even if language has to be changed or added. He said that Senate Bill 1277 needs to be a tool that the IDL can use to properly manage the public lands. **Representative Burgoyne** stated there seems to be great resistance either by the Land Board or the Attorney General's Office based on the idea of disguised sale. He noted that some cases relied upon have come from other states and, until there is an Idaho case, it is speculative. He said that, at some point, you have to be willing to test it. When land trades are not limited to two-way exchanges, it leaves open the possibility of multiparty land trades. He added that this legislature believes that multiparty land trades are appropriate. Land trades give the ability to do things not available in a sale. He said that if the Constitution allows the use of a different form to reach an end that a direct sale would not allow, then it is consistent with the intent of the constitutional amendment. He went on to say that the message should be sent that without land trades, the interest of the endowment is being harmed. The way the lands were granted to Idaho was not economically efficient. He stated that to the extent Idaho can achieve economic efficiency for the endowments through multiparty trades, getting around the caps that **Senator Siddoway** referred to, it would be appropriate.

Senator Keough moved that the committee support the co-chairs drafting a bill proposing a staff and division within the IDL that would be dedicated to efforts associated with all land exchanges, including multiparty land exchanges. The motion was seconded by **Senator Ward-Engelking**. **Senator Keough** added that the legislation be circulated through the committee and moved forward in an informal process. The motion passed unanimously by voice vote.

Senator Ward-Engelking noted concern with item 3.b. on **Representative Burgoyne's** handout. She suggested clarifying that when money is appropriated to beneficiaries from the endowment, it does not equate with less money coming from the general fund. **Representative Burgoyne** stated that it is a complicated issue and may be a situation where it's the manner in which something is done that is causing the greatest problem. He said that the thought process going into the appropriation is a little disturbing. He said that there are many one-time needs in schools which may involve multiple budget years. He said that if you focus more as a Land Board and as a legislature on these distributions for one-time needs and identifying projects, the beneficiaries are then encouraged to identify needed one-time projects. He added that the ongoing day-to-day educational process remains the responsibility of the legislature to fund from the general fund.

Representative Gannon asked the committee to consider, as an alternative investment, a partnership between the endowment and the state with regard to leasing property from the endowment for state purposes. He said that the leases would provide a reliable, consistent payment flow without a five to seven-year reserve in case of a volatile market. He said that if the state, subdivisions, and agencies are leasing, political problems related to straight commercial properties would be avoided. He added that the state of Idaho presently leases office space, just in the Boise area, for about $10 million a year. **Representative Gannon** recognized the Callan report does not recommend getting involved in commercial property and agrees that cabin sites are a wonderful investment with a guaranteed return, but there are obvious problems.

Co-chair Vander Woude adjourned the meeting at 12:11 p.m.