

MINUTES
JOINT FINANCE-APPROPRIATIONS COMMITTEE

DATE: Monday, February 02, 2015
TIME: 8:00 A.M.
PLACE: Room C310
MEMBERS PRESENT: Senators Co-chairman Cameron, Keough, Mortimer, Bair, Nuxoll, Johnson, Thayn, Guthrie, Schmidt, Lacey
Representatives Co-chairman Bell, Gibbs, Miller, Youngblood, Burtenshaw, Horman, Malek, Monks, King, Gannon
ABSENT/ EXCUSED: None
CONVENED: Chairman Cameron convened the meeting at 8:00 A.M.
STAFF PRESENT: Houston

PRESENTATION: **IDAHO DEPARTMENT OF LANDS (IDL)
Board of Land Commissioners**

PRESENTER: **Tom Schultz, Director**

To view the presentation, please click on the following link: [Board of Land Commissioners](#)

The Department of Lands is the administrative arm of both the State Board of Land Commissioners (Land Board) and the Idaho Oil and Gas Conservation Commission. He acknowledged his Executive Team including State Forester David Groeschl, Forestry and Fire Division; Patrick Hodges, Deputy Director over Lands and Waterways; Bob Brammer, Chief Operations Officer; Donna Caldwell, Administrator of Support Services Division; and Andrea Ryan, Human Resources Officer. He also introduced Donna Caldwell, Emily Callihan, Debbie Buck (the new Financial Officer), and Sharla Erledge.

Most activities of the Department of Lands are guided by the State Board of Land Commissioners which is comprised of the Governor, Attorney General, State Controller, Secretary of State, and Superintendent of Public Instruction. The Land Board provides direction to IDL in managing over 2.4 million acres of Idaho endowment trust lands, in overseeing the work of IDL in many of its regulatory and assistance duties, and in managing Idaho's public trust lands including the beds and banks of Idaho's navigable waterways. In 2013 the Idaho legislature approved a bill that replaced Constitutional officers on the Oil and Gas Conservation Commission with five members appointed by the Governor and approved by the Senate. The Commission regulates the exploration, drilling and production of oil and gas resources to ensure the conservation of oil and gas and to protect surface and groundwater.

IDL's vision is to: 1) be the premier organization for trust management, service, and regulatory oversight in the western United States, 2) invest in Idaho's resources to maximize financial returns to the endowment trust beneficiaries and enhance the health and resilience of Idaho's natural resources for the benefit of all Idahoans, 3) deliver programs with professionalism and integrity, 4) invest in employees and have an organizational culture and framework that equips, entrusts and expects employees to make decisions, and 5) be a unified and vibrant organization where all employees participate in constructive communication to meet IDL'S mission. The mission statement is for IDL to professionally and prudently manage endowment assets to maximize long-term financial returns to public schools and other trust beneficiaries and provide professional assistance to citizens of Idaho to use, protect and sustain Idaho's natural resources.

There were no audit findings and no recommendations for Fiscal Years 2010, 2011, and 2012 from audits done by the Legislative Services Office.

Approximately 1.4 million acres of the 2.4 million acres of endowment land surface acreage is rangeland; forest lands make up another 40% of surface ownership. Other asset classes include residential real estate, commercial real estate and conservation real estate. The endowment mineral estate includes more than 3.3 million acres. FY 2014 gross land revenues totaled an all-time high of \$101.7 million. Most of the revenue came from timber harvest while nearly \$12 million came from land sales from cottage site lots at Payette Lake and Priest Lake.

There are nine endowment funds that benefit from the management of endowment lands and funds. The Public School Endowment Fund receives most of the earnings. **Schultz** provided an 11-year history of endowment distributions that showed a steady increase in payments to Public Schools

Regulatory and assistance functions demonstrate the work done by IDL in protecting and facilitating development of Idaho's natural resources: 1) fire management — 6.2 million acres protected, 2) Public Trust Land administration — Lake Protection Act, 3) Mining — several Acts covering surface mining, dredge and placer mining, abandoned mine reclamation, and 4) forestry — Forest Practices Act, landowner assistance, forest health, urban and community forestry, and forest legacy. IDL works hard to provide excellent customer service in responding to hundreds of public records requests annually. There were 683 public records requests in 2014 with an average response time of less than three days.

The FY 2016 Governor's recommended budget totaled \$50,619,100. The presentation had graphs showing funding by fund source and by object. The top priority item for IDL is \$819,400 for funding for Phase 3 of the Forest Information Management System known as LIMS. Priority 2 amounting to \$1,000,000 is for Phase 1 to implement LIMS for lands and waterways. Priority 3 is a request for \$199,600 for several IT items including equipment, storage and licensing. Other decision units recommended by the Governor were: 1) \$158,300 in funding for Oil & Gas Resource Protection, 2) \$58,300 of an additional FTE in the Forestry and Fire Division, 3) \$99,300 for the Forest Stewardship Program, \$80,000 for records management, 4) \$335,500 for additional equipment for Forest Resources, Lands and Waterways, and Fire Protection, 5) \$38,600 for expansion of the Priest Lake Office, 6) additional \$44,600 to improve Eastern Idaho Office lot improvement, 7) \$645,000 for asset allocation and governance review for Support Services and Land and

Waterways, and 8) \$250,000 for one-time General Fund support for Sage Grouse habitat conservation treatment on endowment trust rangelands. IDL also requested lump sum spending authority for FY 2016 for the Range Fire Protection Program. In addition IDL requested \$17,529,000 to pay deficiency warrants to cover the cost of fighting forest fires in FY 2014. The Governor is also recommending that IDL issue a 20-year lease for six communication sites on endowment trust properties for \$1,300,800 which would be a one-time transfer from the General Fund to endowment funds to cover the cost of the lease.

**PRESENTATION: BOARD OF LAND COMMISSIONERS
Endowment Fund Investment Board (EFIB)**

PRESENTER: Larry Johnson, Manager of Investments

To view the presentation, please click on the following link: [Endowment Fund Investment Board](#)

Trust assets overseen by EFIB total \$2,486.9 million and include Land Grant Endowments, the State Insurance Fund, Bunker Hill Water Treatment, Fish & Game Endowments and Parks & Recreation Endowments; a portion of Banker Hill and Fish & Game endowments are co-mingled in the same pool with the Land Grant Endowments.

The mission of EFIB is to provide professional investment management services to stakeholders consistent with EFIB's constitutional and statutory mandates. The Endowment Fund Investment Board has nine members appointed by the Governor and confirmed by the Senate. The Board meets at least quarterly and has a staff of four employees. EFIB has 70% of funds in stocks and 30% in bonds. Over the last 10 years, EFIB'S return on investment generally ranks in the top 10% relative to both public pension plans and other endowments. No General Funds are required to operate the EFIB; all Board operating expenses are paid by its clients and are taken from dedicated funds. The Governor recommended an FY 2016 budget of \$644,500, an increase of 2.3%.

The mission of Idaho endowments is to provide a perpetual stream of income. In order to do this, the distribution policy must balance three conflicting objectives: 1) maximize total return over time at a prudent level of risk, 2) protect future generations' purchasing power, and 3) provide a relatively stable and increasing payout. The distribution amounts to beneficiaries that have been approved (not yet appropriated) for FY 2016 are: 1) Public Schools, \$32,759,000; Universities, \$13,980,000; State Hospital South, \$4,562,000; Penitentiary, \$1,872,000; Juvenile Corrections, \$1,200,000; State Hospital North, \$1,200,000; Veterans Home, \$750,000; Deaf & Blind School, \$150,000 which totals \$56,473,000 for an increase of 8.6%. **Johnson** also provided a diagram showing the structure of Idaho's endowment assets: 1) permanent assets—money never spent, 2) available reserves—held in the Stabilization Fund, and 3) spendable funds—money distributed to beneficiaries. He also discussed policy management principles for distributions, a graph showing Land and Fund Income History, discussed objectives for determining distributions, and presented another chart showing years of Reserve and Desired Target as of November, 2014. The percent of the fund used for management expenses totaled 0.42%

In summary, **Johnson** said Idaho's endowment funds have performed well and the governance structure is robust, transparent, and cost effective. Because reserves are healthy, distributions should continue to grow beyond 2016.

**PRESENTATION: DEPARTMENT OF PARKS AND RECREATION
Lava Hot Springs Foundation**

PRESENTER: Mark Lowe, Executive Director, Lava Hot Springs Foundation

To view the presentation, please click on the following link: [Lava Hot Springs](#)

Lava Hot Springs is known for its world famous Hot Pools as well as the Olympic Swimming complex. For a brief history, the land was granted to Idaho by the U. S. government in 1902 for public use. In 1919, the Idaho Legislature established the Lava Hot Springs Foundation to administer use of the land. The Foundation is governed by a five-member Board appointed by the Governor and is a dedicated fund agency. The mission of the Foundation is to ensure the public has access to healthful, clean and inviting facilities for recreation and healing purposes. In 2014, the Olympic Swimming Complex had 142,993 swimmers. The famous Hot Pools are considered the "Crown Jewels" of the area with 112 degree sulfur-free water; there were 218,669 bathers in 2014.

The Governor recommended an FY 2016 budget of \$1,968,700 which included a 3% CEC. The Foundation requested \$13,000 to expand the Aquatic Center's business hours during the winter months; funding would cover additional non-classified employee staffing. The Foundation also requested one-time spending authority of \$25,000 from the Lava Hot Springs Capital Improvement Fund for match funding of a stream bank stabilization project on the Portneuf River.

PRESENTER: David Langhorst, Director, Department of Parks and Recreation

To view the presentation, please click on the following link: [Parks and Recreation](#)

The Department of Parks and Recreation was created in 1965 and is celebrating its 50th year of outdoor memories in 2015. The Department is governed by a six-member parks board appointed by the Governor. Some of the Department's successes in 2014 include: 1) Since the program's inception in October of 2012, the Passport Program has generated over \$2.7 million, 2) overnight occupancy has increased by 6.67%, and park visitation has increased. Currently 8% of registered vehicles in Idaho participate in the Passport Program.

The Department has requested legislation to give the agency official authority to explore sponsorship opportunities and enter into agreements with various partners to help offset agency expenses and perhaps expand current customer service and education efforts. Oversight of such a program would reside with the Board and all moneys would be subject to legislative review and appropriation. Recreation continues to be big business in Idaho. According to a recent economic impact study, off-highway vehicle users spend over \$430 million in Idaho each year.

The Governor recommended an FY 2016 budget of \$35,607,800. Recommended one-time capital outlay replacement items include items for Management Services, Park Operations, and Capital Development. Decision Unit recommendations include: 1) \$1.5 million shift from RV Fund to General Fund, 2) \$328,000 to develop a group camping area at Farragut State Park with one-time, dedicated funds, 3) yurts, a group shelter and vault toilet at Harriman State Park, 4) \$26,000 for a Day Use Parking Lot at Round Lake State Park, and 5) \$30,000 for a visitor structure on the west side of Lake Cascade State Park. Also included is a decision unit to convert group positions to permanent which would require fund shifts of \$27,900 between dedicated funds to provide for spending authority.

ADJOURNED: There being no further business, the meeting was adjourned at 10:32 A.M.

Senataor Cameron
Chair

Peggy Moyer
Secretary