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No increase in endowment distributions to Idaho schools next year

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Distributions to schools and other beneficiaries from the state endowment will be frozen next year at this year's level, due to investment losses in the fund in the fiscal year that ended June 30.

That means total distributions from the endowment in fiscal year 2024 will be \$100.3 million, with \$61.5 million going to Idaho's K-12 public schools, the same amount they're receiving this year.

Chris Anton, manager of investments for the state's Endowment Fund Investment Board, said the board recommended keeping distributions flat next year.

"The rationale for this is that earnings reserves are below target levels, we still are facing a significant inflation hurdle, and financial markets are expected to remain volatile given the uncertainty surrounding our ability to fight inflation without pushing us into a recession," he told the state Land Board on Tuesday.

The board, which is chaired by the governor and is comprised of other top elected state officials, voted unanimously to approve the recommendation.

"If we were following our policy, what would the endowment distribution amount be?" asked state Controller Brandon Woolf.

Anton said it would be \$106.4 million, so the recommended level is \$6.1 million less overall.

Though state coffers are overflowing, the state endowment took a big loss in the markets in fiscal year 2022.

"At the end of '22, the portfolio had a loss of 13%, and inflation of 7.2%, so a real loss of 20.2%," Anton said. "Earnings reserves dropped below targeted levels," falling to 5.8 years for public schools, and between 5.4 and 6.7 years for the other beneficiaries. The target is to maintain reserves at seven years worth of distribution payments. Public schools are, by far, the endowment's biggest beneficiaries. The others include state universities, prisons and mental hospitals.

Woolf moved to approve the EFIB's recommendation, Idaho Secretary of State Lawrence Denney seconded the motion, and it passed unanimously with no discussion.

Idaho state Superintendent of Public Instruction Sherri Ybarra said after the meeting, "We had talked about this at prior meetings, because I was pretty

much aware that was coming." She called holding the distributions flat "a good thing for schools," because they didn't go down.

"They need stability," Ybarra said. "I want to make sure they're not all over the map."

Anton noted that due to extremely strong investment earnings earlier, including a nearly 30% gain in fiscal year 2021, distributions to endowment beneficiaries rose by 13.8% this year, from \$88.1 million in fiscal year 2022 to \$103 million this year, which is fiscal year 2023.

Since the start of the fiscal year July 1, the state endowment is up 8.9%, Anton reported. "Financial markets staged a modest recovery in July and in early August," he said. "A growing number of economic indicators have started to reflect slowing of consumer demand, but strong employment has allowed the Fed to continue the process of raising rates to calm inflation."

"We have seen inflation hopefully peak," he said. "It came down from 9.2% to 8.5%. And the market is reflecting anticipation of ... (that rate) continuing to decline in the months going forward."

"The yield curve, however, has inverted," Anton said, "meaning that short-term yields are higher than long-term yields, and historically that's been a leading indicator of a recession. But only time will tell. ... Anyway, we're off to a good start so far in this fiscal year."

In other business on Tuesday, the state Land Board:

- Heard a presentation from the University of Idaho about its long-planned project, dubbed the Center for Agriculture, Food and the Environment, to build the country's largest research dairy and experimental farm in the Magic Valley. UI is proposing to finance the cost of 638 acres of property north of Rupert with \$23.2 million that came from auctioning off UI's former endowment property in Caldwell in 2021, adjacent to the former Caine Center veterinary teaching facility.

Industry donors, university funds and a state appropriation also will contribute toward the facility's full \$46.6 million cost; it's planned to open in February of 2026 with an initial herd of 1,380 cows, a state-of-the-art milking system, classrooms, research facilities, a pilot food processing plant and more. The CAFÉ facility also will generate revenue through research grants and milk sales.

"This project will help the university support sustainable growth for our state's top agricultural industries that drive the economy of the state," UI President Scott Green told the Land Board, including research into better ways of managing waste. "It also produces the maximum long-term return for our beneficiary, the Agricultural College," which is one of the state endowment beneficiaries.

- Received a fire season report showing that wildfires on state-protected lands have run up \$5.95 million in net costs to the state thus far for the season, with 134 fires, 80 of them human-caused and 54 lightning-caused. To date, the number of fires is at 60% of the 20-year average, but the number of acres burned is at just 2% of the 20-year average. "Our folks have been very busy the last few days, but they've caught everything,"

state Lands Director Dustin Miller told the board. "I'm very impressed with the speed of our crews to get these things out." An above-average fire season is predicted from now through the end of September, he said.

- Heard that the state endowment is down to just 60 remaining leased cottage sites, of which 32 lessees have expressed interest in participating in an auction. The state has been auctioning off its lake cabin sites on Payette and Priest lakes that it's leased for more than a century to private owners who build cabins on them. The Department of Lands is weighing several options for the 28 remaining lessees who want to continue to lease their sites beyond 2024. The board will consider action on that in September.