

STATE BOARD OF LAND COMMISSIONERS

November 15, 2022

Regular Agenda

Subject

Governance Structure Review

Question Presented

Shall the Land Board approve the recommended changes to the governance structure?

Background

In December 2014 the Land Board adopted a governance structure as recommended by the Subcommittee on Endowment Investment Governance Strategy. The governance structure delegated certain decision-making authority to the Director for endowment related matters including routine land investments, other land investments, and timber sale contracts.

In September 2015 the Land Board approved a modification to the governance structure to allow the Department to conduct salvage sales due to fire, wind, and insect and disease on endowment lands that may exceed the 100-acre clearcut threshold and, at times, may exceed the development credit threshold due to the reduced value of burned timber.

The modified governance structure was reviewed and approved by the Land Board in December 2015 (Attachment 1).

Discussion

The current governance structure is as follows:

- I. Timber Sale Contracts
 - A. The Department will present the Annual Timber Sale Plan to the Land Board for approval each year at the April Land Board meeting.
 - B. Except for salvage sales, the Department will present individual proposed timber sales that fall outside of established Land Board policies to the Land Board for approval such as:
 1. Sales with clearcut silvicultural prescription units which exceed 100 acres,
 2. Sales with development credits that exceed 50% of net appraised sale value (33% of gross sale value), or
 3. Sales for which the Department has received written public comment.
 - C. Fire, wind, and insect and disease salvage sales are exempt from Item I.B. requirements above.

- D. The Department will display names of all proposed timber sales and salvage sales for the next month in the monthly Director's Timber Sales Report.
- II. Routine Land Investment Decisions (e.g., access acquisition, forest and range improvements, reforestation, building maintenance)
 - A. Transactions <\$500,000 the IDL Director may authorize.
 - B. Transactions >\$500,000 require Land Board approval.
 - C. An audit of IDL procedures shall be conducted every 3-5 years.
- III. Other Land Investment Decisions (e.g., land disposal, land acquisition, new tenant improvements)
 - A. Transactions <\$100,000 the IDL Director may authorize; however, those that are complex or controversial may be vetted by the Land Investment Advisor.
 - B. Transactions >\$100,000 require Land Board approval and may require review by the Land Board's Land Investment Advisor at the Board's discretion.
 - C. Transactions >\$1,000,000 shall be subject to a post-audit every three (3) years. The Land Board's Land Investment Advisor shall review such transactions post-audit.

Since the governance structure was adopted there have been significant changes in the Department's land management situation. The Forest Asset Management Plan (FAMP) adopted by the Land Board in 2019 increased the annual timber sale volume from 247 million board feet (MMBF) to 328 MMBF with full implementation in 2024. The 32.8% increase in annual timber sale volume has resulted in increased expenses for other activities, such as planting trees after harvest. Additionally, the cost of projects is often higher on a per unit basis. As a result, the delegated authority from the approved governance structure will not be sufficient for routine land management decisions, such as forest improvement projects. The Department recommends an increase in the delegated authority from the current \$500,000 to \$1,250,000 to allow continued active management of timberland and full implementation of the FAMP without exceeding the governance structure threshold through routine transactions.

Land values have increased significantly since the governance structure was adopted. The current threshold of \$100,000 is no longer adequate for the disposals and acquisitions allowed by the governance structure given the higher real estate values. The Department also has aligned the use of staff appraisers with the governance structure. The Department recommends an increase from \$100,000 to \$250,000 to better reflect real estate values and allow for more effective use of staff appraisers.

The governance structure directs a post-audit every three years on other land investment transactions over \$1,000,000 in value. In the case of large acquisitions three years may not be sufficient time to allow for a valid audit of the assumptions made during the acquisition

process since management actions may not occur that soon after the transaction. Therefore, the Department recommends five years rather than three.

The Department's proposed changes to the current governance structure are shown in Attachment 2, Land Board Governance Policy.

Recommendation

The Department recommends increasing the delegated authority for routine land investment decisions to \$1,250,000 per transaction, increasing the delegated authority for other land investment decisions to \$250,000 per transaction, and changing the time period for post-audits of other land investment decisions over \$1,000,000 in value to five (5) years, as outlined in Attachment 2.

Board Action

Attachments

1. December 2015 Land Board Governance Structure Memo
2. Proposed Governance Policy

STATE BOARD OF LAND COMMISSIONERS
December 15, 2015
Regular Agenda

SUBJECT

Governance Structure Review

BACKGROUND

On December 15, 2014, the Land Board adopted a governance structure as recommended by the Subcommittee on Endowment Investment Governance Strategy (Attachment 1). The motion required that the governance structure be reviewed by the Land Board at its December 2015 regular meeting.

On September 15, 2015, the Land Board approved a modification to the governance structure that allows the Department of Lands to conduct salvage sales due to fire, wind, and insect and disease on endowment lands that may exceed the 100-acre clearcut threshold and, at times, may exceed the development credit threshold due to the reduced value of burned timber (Attachment 2).

DISCUSSION

The following section outlines the governance structure currently in effect considering both the December 15, 2014 and the September 15, 2015 actions taken by the Land Board. The Department does not recommend any significant change to the current governance structure. However, for clarity, the Department does recommend that the Land Board approve the governance structure outlined below which is a combination of the actions approved on December 15, 2014 and September 15, 2015 with regard to governance structure.

I. Timber Sale Contracts

- A. The Department will present the Annual Timber Sale Plan to the Land Board for approval each year at the April Land Board meeting.
- B. Except for salvage sales, the Department will present individual proposed timber sales that fall outside of established Land Board policies to the Land Board for approval such as:
 - 1. sales with clearcut silvicultural prescription units which exceed 100 acres,
 - 2. sales with development credits that exceed 50% of net appraised sale value (33% of gross sale value), or
 - 3. sales for which the Department has received written public comment.
- C. Fire, wind, and insect and disease salvage sales are exempt from Item I.B. requirements above.

- D. The Department will display names of all proposed timber sales and salvage sales for the next month in the monthly Director's Timber Sales Report.
- II. Routine Land Investment Decisions (e.g. access acquisition, forest and range improvements, reforestation, building maintenance)
 - A. Transactions <\$500,000 the IDL Director may authorize.
 - B. Transactions >\$500,000 require Land Board approval.
 - C. An audit of IDL procedures shall be conducted every 3-5 years.
- III. Other Land Investment Decisions (e.g. land disposal, land acquisition, new tenant improvements)
 - A. Transactions <\$100,000 the IDL Director may authorize; however, those that are complex or controversial may be vetted by the Land Investment Advisor.
 - B. Transactions >\$100,000 require Land Board approval and may require review by the Land Board's Land Investment Advisor at the Board's discretion.
 - C. Transactions >\$1,000,000 shall be subject to a post-audit every three (3) years. The Land Board's Land Investment Advisor shall review such transactions post-audit.

RECOMMENDATION

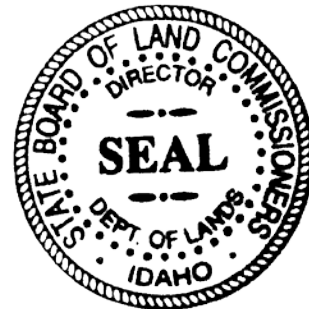
The Department recommends that the Land Board approve the governance structure as outlined above.

BOARD ACTION

A motion was made by Attorney General Wasden that the Board adopt the Department recommendation as outlined on page 2 of 2. Controller Woolf seconded the motion. The motion carried on a vote of 5-0.

ATTACHMENTS

1. December 15, 2014 Approved Memo
2. September 15, 2015 Approved Memo





Governance Policy

Purpose

This policy addresses Department timber sale contracts and delegates certain decision-making authority to the Director for endowment related matters including routine and other land investment decisions.

Agency Contact

Division Administrator – Trust Land Management

Policy

I. Timber Sale Contracts

- A. The Department will present the Annual Timber Sale Plan to the Land Board for approval each year at the April Land Board meeting.
- B. Except for salvage sales, the Department will present individual proposed timber sales that fall outside of established Land Board policies to the Land Board for approval such as:
 1. Sales with clearcut silvicultural prescription units which exceed 100 acres,
 2. Sales with development credits that exceed 50% of net appraised sale value (33% of gross sale value), or
 3. Sales for which the Department has received written public comment.
- C. Fire, wind, and insect and disease salvage sales are exempt from Item I.B. requirements above.
- D. The Department will display names of all proposed timber sales and salvage sales for the next month in the monthly Director's Timber Sales Report.

II. Routine Land Investment Decisions (e.g., access acquisition, forest and range improvements, reforestation, building maintenance)

- A. Transactions <~~\$500,000~~[\\$1,250,000](#) the IDL Director may authorize.
- B. Transactions >~~\$500,000~~[\\$1,250,000](#) require Land Board approval.
- C. An audit of IDL procedures shall be conducted every 3-5 years.

III. Other Land Investment Decisions (e.g., land disposal, land acquisition, new tenant improvements)

- A. Transactions <~~\$100,000~~[\\$250,000](#) the IDL Director may authorize; however, those that are complex or controversial may be vetted by the Land Investment Advisor.
- B. Transactions >~~\$100,000~~[\\$250,000](#) require Land Board approval and may require review by the Land Board's Land Investment Advisor at the Board's discretion.
- C. Transactions >\$1,000,000 shall be subject to a post-audit every ~~three (3)~~[five \(5\)](#) years. The Land Board's Land Investment Advisor shall review such transactions post-audit.

Revision History (Board Action)

- 12/15/2014 Adopted a governance structure as recommended by the Subcommittee on Endowment Investment Governance Strategy. First approved iteration of this policy.
- 09/15/2015 Modified the governance structure with an exception for salvage sales.
- 12/15/2015 Clarified the governance structure is a combination of the action originally approved on 12/15/2014 and the exception for salvage sales approved on 9/15/2015.
- 11/15/2022 Increased the delegated authority for routine land investment decisions to \$1,250,000 per transaction, increased the delegated authority for other land investment decisions to \$250,000 per transaction, and changed the time period for post-audits of other land investment decisions over \$1,000,000 in value to five (5) years.

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