

STATE BOARD OF LAND COMMISSIONERS

December 19, 2023

Regular Agenda

Subject

Review of Strategic Reinvestment of Land Bank Funds

Question Presented

Shall the Land Board approve continued strategic reinvestment of land bank funds through acquisition of suitable and acceptable timberland and proactive transfer to the permanent fund when land transactions are not available?

Background

In May 2016, the State Board of Land Commissioners' (Land Board) general consultant Callan Associates (Callan) developed a Strategic Reinvestment Plan to help inform the Land Board's decisions regarding reinvestment of land bank funds. The Strategic Reinvestment Plan considered the whole trust, described alternatives to reinvestment, and provided recommendations to the Land Board. The recommendation was to reinvest land bank funds in timberland and farmland provided target hurdle rates could be met or exceeded and an institutional investment process was followed. The Strategic Reinvestment Plan was approved by the Land Board on May 17, 2016, and is subject to review every three years.

The most recent Land Board review of strategic reinvestment occurred in May of 2020. The direction provided by the Land Board was to "focus on acquisitions that increase the total amount of working forests in Idaho consistent with the Land Board's fiduciary duty."

Since implementation of the Strategic Reinvestment Plan, approximately 54,100 acres of productive timberland has been acquired using over \$99.7 million in land bank funds. Timberland acquisitions were completed in 2016, 2017, 2018, and 2023 and all have exceeded the current hurdle rate of 3.35% net real.

In the past nine years, over \$133.3 million of land bank funds has been transferred to the permanent fund for investment in financial assets by the Endowment Fund Investment Board. Of the transferred amount, approximately \$123.7 million was principal and approximately \$9.7 million was interest. Transfers to the permanent fund were completed in 2014, 2015, 2021, 2022, and 2023.

The land bank balance through September 30, 2023, was \$74,964,143, including \$73,209,322 in principal and \$1,754,821 in interest (Attachment 1). There is an obligation of \$17.25 million of Ag College funds for the University of Idaho's CAFE center which reduces the effective balance of the land bank to about \$57.7 million, including interest. The earliest expiration date is the first quarter of fiscal year 2026.

Discussion

The Idaho Department of Lands (Department) continues to work to implement Land Board direction to invest land bank funds in working timberland, provided transactions are available and will exceed the hurdle rate for reinvestment. The flow of transactions is unpredictable and significant potential acquisitions can become available with little notice. The Department has streamlined its acquisition process to remain competitive. Third party expert advisors are used to assist with evaluating potential acquisitions. The hurdle rate for timberland investment is currently 3.35% net real.

The Department reviews the availability of potential transactions and the land bank aging report and has recommended transfers to the permanent fund when the available information indicates that land bank funds may expire before they can be invested in timberland. The Department has been proactive in recommending transfers to the permanent fund to ensure funds are invested and working for the beneficiaries. Recommended transfers to the permanent fund are approved by the Land Board's Investment Subcommittee before presentation to the Land Board.

Implementation of strategic reinvestment has expended only principal, with the associated interest transferred periodically to the permanent fund. Use of land bank interest to purchase land is allowed, but it has not been used to date. Interest is associated with specific land bank deposits, which are the result of specific sales of endowment land assets.

On October 31, 2023, the Investment Subcommittee reviewed and approved continued reinvestment in working timberland and proactive transfer of land bank funds to the permanent fund.

Recommendation

Approve continued reinvestment of land bank principal and interest through acquisition of suitable and acceptable working timberland that exceeds the hurdle rate and proactive transfers of land bank funds to the permanent fund for investment in financial assets when timberland transactions are not available.

Board Action

Attachments

1. Land Bank Aging Report

LAND BANK AGING REPORT

Current Remaining Principal Balance By Quarter Received - As of September 30, 2023

FY Quarter IN	Public School	Agriculture College	Normal Schools	State Hospital South	University of Idaho	All Endowments	FY Quarter EXPIRES
2019-01	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2024-01
2019-02	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2024-02
2019-03	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2024-03
2019-04	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2024-04
2020-01	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2025-01
2020-02	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2025-02
2020-03	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2025-03
2020-04	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2025-04
2021-01	\$ 1,639,575	\$ -	\$ -	\$ -	\$ -	\$ 1,639,575	2026-01
2021-02	\$ 6,595,000	\$ -	\$ -	\$ -	\$ -	\$ 6,595,000	2026-02
2021-03	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2026-03
2021-04	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2026-04
2022-01	\$ 1,500,720	\$ -	\$ -	\$ -	\$ -	\$ 1,500,720	2027-01
2022-02	\$ 10,140,720	\$ 17,237,620	\$ -	\$ -	\$ -	\$ 27,378,340	2027-02
2022-03	\$ 9,890,500	\$ -	\$ -	\$ -	\$ -	\$ 9,890,500	2027-03
2022-04	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2027-04
2023-01	\$ 6,125,000	\$ -	\$ -	\$ -	\$ -	\$ 6,125,000	2028-01
2023-02	\$ 9,848,000	\$ -	\$ -	\$ 432,187	\$ -	\$ 10,280,187	2028-02
2023-03	\$ 9,800,000	\$ -	\$ -	\$ -	\$ -	\$ 9,800,000	2028-03
2023-04	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2028-04
2024-01	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2029-01
TOTAL PRINCIPAL REMAINING	\$ 55,539,515	\$ 17,237,620	\$ -	\$ 432,187	\$ -	\$ 73,209,322	

LAND BANK CASH BALANCE (with Interest)	\$ 56,745,248	\$ 17,758,306	\$ 11,836	\$ 448,754	\$ -	\$ 74,964,143
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