

Board Meeting Minutes
February 17, 2015

ITEM 1. CALL TO ORDER

Board Chair La Follette called the meeting of the Board of Commissioners of Public Lands to order at 2:08 p.m.

Present were:

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| Doug La Follette, Board Chair | Secretary of State |
| Matt Adamczyk, Commissioner | State Treasurer |
| Brad Schimel, Commissioner | Attorney General |
| Tia Nelson, Executive Secretary | Board of Commissioners of Public Lands |
| Tom German, Deputy Secretary | Board of Commissioners of Public Lands |
| Richard Sneider, Loan Analyst | Board of Commissioners of Public Lands |
| John Schwarzmann, Forest Supervisor | Board of Commissioners of Public Lands |
| Randy Bixby, Land Records Archivist | Board of Commissioners of Public Lands |
| Denise Nechvatal, Accountant | Board of Commissioners of Public Lands |
| Natalie Jablonski, Reporter | WXPR, Rhinelander |

ITEM 2. APPROVE MINUTES – FEBRUARY 3, 2015

Commissioner Adamczyk said that the minutes did not include some of his comments regarding the evaluation and appointment of an Executive Secretary under agenda item 8. He said that while he was in agreement with an annual evaluation each June, he did not want the Board to be limited to only being able to appoint a new Executive Secretary in June if the Board decided to make a change. Board Chair La Follette said that the Board would not be limited in what they could do and they had simply agreed to an annual evaluation timeframe.

MOTION: Commissioner Schimel moved to approve the minutes; Commissioner Adamczyk seconded the motion. The motion passed 3-0.

ITEM 3. APPROVE LOANS

Executive Secretary said that the loans had received legal review.

Municipality	Municipal Type	Loan Type	Loan Amount
1. Elk Mound Dunn County Application #: 02015096 Purpose: Finance utility meter replacement	Village Rate: 3.25% Term: 10 years	General Obligation	\$49,000.00
2. Fredonia Ozaukee County Application #: 02015093 Purpose: Refinance building loan	Town Rate: 3.75% Term: 14 years	General Obligation	\$298,243.00
3. Green Bay Brown County Application #: 02015094 Purpose: Finance TIF project	City Rate: 4.25% Term: 20 years	General Obligation	\$2,500,000.00

4.	Stockbridge Calumet County Application #: 02015091 Purpose: Finance energy efficiency projects	School Rate: 3.00% Term: 5 years	General Obligation	\$1,000,000.00
5.	Stockbridge Calumet County Application #: 02015092 Purpose: Refinance BCPL loan #2008099	School Rate: 3.75% Term: 13 years	General Obligation	\$209,368.49
			TOTAL	\$4,056,611.49

MOTION: Commissioner Adamczyk moved to approve the loans; Commissioner Schimel seconded the motion. The motion passed 3-0.

ITEM 4. PROPOSED LAND EXCHANGE (E1501 – RUSTIC LANE)

Board Chair La Follette said the Board would be exchanging 120 acres of unproductive lands and acquiring 40 acres of productive timberland. The appraisals indicate the exchange would be favorable for the Board. He said the exchange would help consolidate School Trust Lands, also.

Commissioner Adamczyk asked if he could make a comment.

Board La Follette replied that, theoretically, a motion should be made before discussion but gave Commissioner Adamczyk the floor.

Commissioner Adamczyk said the proposed transaction was listed as an exchange but, after reviewing the agenda documents, it appeared to him that someone will purchase the 120 acres of BCPL land in one county and BCPL will then buy 40 acres of land in a different county. He expressed his concerns about buying more land, as a general problem. He said he knows of legislators who have been working on this and has talked to them. He said his overall concern is that BCPL is not making money on current Trust Lands and asked staff if money was made on land in 2015.

Board Chair La Follette interrupted and said that the discussion had strayed from the agenda topic of the proposed land exchange.

Commissioner Adamczyk said the Board would be discussing the topics that he just brought up later in the meeting because it was included in the Executive Secretary's Report.

Board Chair La Follette said that the Board was not discussing that agenda item (Executive Secretary's Report) at this time.

Commissioner Adamczyk said he is being asked, as a Commissioner, to vote on this proposed land exchange and is asking if the Board makes money on its land.

Board Chair La Follette explained that he was trying to follow Robert's Rules of Order, which allows for discussion only after a motion had been made and seconded.

MOTION: Board Chair La Follette moved to approve the exchange. He said there was no second to the motion and, therefore, the item could not be discussed and would move to the next agenda item. *(Commissioner Schimel seconded the motion a little later in the proceedings.)*

Executive Secretary Nelson said she would be happy to answer Commissioner Adamczyk's questions. She said information had been distributed in the last 12 hours that clearly demonstrated that the Board is, indeed, making money on the trust lands.

SECOND TO THE MOTION: Commissioner Schimel seconded the motion so the Board could discuss the proposed land exchange.

Board Chair La Follette thanked him. He said that a motion was made by him and seconded by Commissioner Schimel. He asked if there were questions or discussion.

DISCUSSION: Commissioner Adamczyk said that he was okay with selling land but had a problem with buying land. He said that Tara Lila does not own the 40-acre parcel but would be purchasing it and then exchanging it with the Board. He asked why the Board wouldn't just purchase that property.

Deputy Secretary German replied that the three, forty-acre parcels the Board was offering in the exchange were unproductive lands and appraised at \$60,000 (the Rustic Lane property located in Oneida County). The adjacent landowner, Tara Lila LLC., was interested in those lands and was willing to pay a premium for a 40-acre parcel in Forest County and then turn around and trade that land to the Board for the 120-acre Rustic Lane property. He said it seemed appropriate to conduct a trade in this situation.

John Schwarzmann, the Board's Forestry Supervisor, said that the other landowners had invested money and resources in obtaining appraisals. They had been patient with the process thus far and were willing to work together in order to achieve an outcome that benefited all parties.

Commissioner Adamczyk said he did not have a problem selling the land if it is worth \$60,000, which is the Board's constitutional mission. He questioned why the Board would not just purchase the 40-acre parcel in Forest County in the private market because they may be able to negotiate a better deal. He said it made no sense to him to conduct this transaction as a trade.

Executive Secretary Nelson said that trades have been conducted in the past in situations where it benefited the Board. She said this exchange would not be impacted by Rep. Sanfelippo's proposed legislation.

Commissioner Adamczyk asked if Tara Lila owned the other tract of land (the Forest County property). Executive Secretary Nelson replied that they did not. Commissioner Adamczyk said that this was not an exchange since they (Tara Lila) did not own the property; the Board could purchase it. He said that *he* did not want to buy it but the Board could.

Board Chair La Follette asked if the transaction could be done as a purchase and sale rather than an exchange.

Mr. Schwarzmann said he would have to ask the other parties.

Executive Secretary Nelson explained that prior to Land Bank authority the only way for the agency to achieve its goals of consolidating its landholdings, improving timber management efficiencies, and enhancing public access was through land exchanges. She apologized for not having answers to the Board's questions on why this transaction was negotiated as an exchange. She said that perhaps the item could be tabled until she has the answers.

Commissioner Adamczyk said that while Tara Lila was willing to purchase the Roberts parcel for \$65,000, no one knows what the final sale price will be; it could be \$50,000. He was concerned that the Board could potentially be exchanging the Rustic Lane parcel (appraised at \$60,000) for a parcel purchased for \$50,000. He said he was willing to sell land but did not think the Board should be purchasing more land; that was not his goal. He could see limited instances in doing trades with the counties or the Forest Service to remove isolated (Trust Land) parcels within their landholdings or to achieve better blocking. He said the Roberts parcel is already a large block of land and it does not need to be bigger.

Commissioner Adamczyk referred to the “Rustic Lane 120-acre sale” email he sent to Ms. Nelson and which she forwarded to the other Commissioners. He was concerned that while the property was valued at \$60,000, future timber sales may not realize a return of the same value, and if no sales are conducted, there would be no revenue. Executive Secretary Nelson replied that it was incorrect to assume that the Board would be earning a rate of return on the \$60,000 if the property was sold outright. She said the Board currently has cash reserves over \$100 million earning less than 1% interest (in the State Investment Fund); having more cash is a disadvantage for the beneficiaries. Commissioner Adamczyk said that the Board invests in bonds and asked why the \$100 million isn’t smaller. Executive Secretary Nelson replied that loan demand has dropped and bonds available for purchase are limited. This cash reserve is undesirable and selling land for cash only exacerbates an already challenging situation.

Board Chair La Follette asked if the 40-acre parcel was purchased, rather than exchanged, would more revenue be realized from a timber sale compared to a 1% investment.

Executive Secretary Nelson replied yes. The 40 acres the Board would receive is timber-producing land and the 120-acres the Board would be giving up are non-timber producing land.

Commissioner Adamczyk said the board manages approximately 75,000 acres of land and asked if the Board made any money this last fiscal year after subtracting expenses. He referred to timber sale information he received from staff that totaled 477 (\$477,000) in revenue but expenses for the District office that totaled 530 (\$530,000). He said based on that information, it appears as though the Board made no money on the lands. He asked if that was incorrect.

Executive Secretary Nelson replied that was incorrect. Commissioner Adamczyk asked how much was earned from timber sales. She replied that the analysis he was making was problematic because the return on investment in real estate exceeds the return on other investments at this time. Commissioner Adamczyk said, “We don’t know that.” She replied, “Yes, we do know that.”

Board Chair La Follette said the conversation had strayed from the topic of the agenda item and asked Commissioner Schimel if he’d like the conversation to continue. Commissioner Schimel said the conversation was relevant and it would not violate the open meetings law.

Commissioner Adamczyk reiterated what he said about the District Office’s expenses being more than timber sale revenues. John Schwarzmann said that prior to the agency being granted Land Bank Authority in 2006 the School Trust Lands were very fragmented, scattered and difficult to manage. The legislature recognized those challenges and gave the agency the tools to remedy the situation. Since then the agency has been able to consolidate its land holdings into larger blocks, which have resulted in higher timber sale bids on those larger land tracts. He said this trend will continue as more School Trust Lands are consolidated. Commissioner Adamczyk replied that he understood that but it has been ten years since Land Bank was granted and the District Office expenses were still more than timber sale revenues last year.

Richard Sneider, the agency’s financial specialist, said that Commissioner Adamczyk was ignoring the appreciation of timber land. Over the last 20 years, according to a report conducted by the National Committee for the Real Estate Investment Fiduciaries, timberland in the U.S. had increased at an annual average rate of return of 12.3%. Mr. Sneider analyzed property acquired by the Board since Land Bank Authority (2006) and reported that the agency has made more money through timber sale revenues than if those lands were sold and the funds invested in the State Investment Fund. He added that real estate is an important diversification to the Board’s investment portfolio. Commissioner Adamczyk said that no money is being returned to the beneficiaries from year-to-year. Mr. Sneider replied that was not true because income is generated from timber sales.

Board Chair La Follette said the discussion of the value of timber land and expenses had been allowed to continue but said it was time to vote on the exchange. Commissioner Schimel asked if he was correct in hearing that the other parties involved had invested in appraisals. Executive Secretary Nelson said they had. Commissioner

Schimel asked if the exchange was tabled until the next board meeting, would those parties lose money and does the Board lose an opportunity. Executive Secretary Nelson said that was a possibility. She added that all parties invested time and money for a mutually beneficial outcome and she could not predict what would happen.

Board Chair La Follette said the discussion of the fiduciary value of timber land was a topic that could be discussed at a future meeting. It was his opinion that it was inappropriate to apply it to this exchange transaction. He said staff could prepare information, present it to the Board, and decisions about future land transactions could be based off the information. He did not want this particular exchange to fail due to the time invested by the parties involved. Commissioner Schimel said that two legislators had asked the Board not to take action on the exchange. He said that while they (the legislature) do not dictate how the Board makes their decisions, they do dictate larger policies. He said he would like to talk with the legislators to learn more about their concerns and position.

MOTION: Commissioner Schimel moved to table the agenda item; commissioner Adamczyk seconded the motion.

Deputy Secretary German said that while the Board had identified two risks, time and money, the most important risk may actually be reputational. The Board has always been a dependable partner in these types of transactions. He said that parties investing time and effort into potential land transactions with an unreliable partner could have some serious repercussions. Commissioner Schimel said he appreciated that but still wanted to talk to the legislators.

VOTE: Commissioner Schimel and Commissioner Adamczyk voted aye; Board Chair La Follette voted no. The motion passed 2-1.

Board Chair La Follette asked Commissioner Schimel if he would relay information about his meetings with the legislators to Executive Secretary Nelson to be shared at the next board meeting. Commissioner Schimel agreed to do that.

(Commissioner Schimel was unable to stay for the remainder of the meeting and excused himself.)

ITEM 5. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Nelson reported that the Governor's 2015-2017 budget proposed a pilot program that would move accounting and information technology staff from smaller agencies to the Department of Administration in an effort to achieve efficiencies, which have yet to be described. In speaking with the agency's DOA budget analyst, it appears as though BCPL was not an intended target of the initiative. She said that other agencies with large investment responsibilities were exempted, such as the State Investment Board and WHEDA. There was also concern that trust assets would be diverted from the beneficiaries to pay salaries within another agency. She said she would be speaking informally to a member of the Governor's staff on this issue.

Commissioner Adamczyk said he would like for the Commissioners to be involved in these types of decisions and then direct staff. He expressed concern when members of the staff take action without the Commissioners' involvement. He prefers that the information be provided to the Board so they can discuss it and then they decide how to proceed. He gave an example of an email and information that Executive Secretary Nelson sent to Representative Sanfelippo regarding LRB-0169/1. Commissioner Adamczyk said he spoke with Rep. Sanfelippo who asked if the information provided to him by Executive Secretary Nelson was the Board's opinion, meaning Commissioner Adamczyk, Commissioner Schimel and Board Chair La Follette. Commissioner Adamczyk told Rep. Sanfelippo that "no, it was not." He said he generally supports the bill with minor changes in regard to land exchanges. He said that the email seemed to imply that the Commissioners weighed in when they hadn't.

Executive Secretary Nelson said she took it upon herself to contact Rep. Sanfelippo's office to correct the record because his co-sponsorship letter incorrectly stated that the Board of Commissioners of Public Lands was unelected. She did not think it required the Board's permission for her to contact a legislator's office to inform

them that the members of the Board of Commissioners of Public Lands are constitutionally-elected officials. Commissioner Adamczyk said that was a minor issue and, obviously, was inaccurate. He said the email also included information about loans and library aid in Rep. Sanfelippo's district, which have very little to do with the lands. He said the loans and library aid come from the Common School Fund but over 92% of the lands are under the Normal School Fund. He said sending that information to Rep. Sanfelippo made no sense to him.

Board Chair La Follette said he supported Executive Secretary Nelson providing information. He asked that staff prepare information on the proposed legislation (LRB-0169/1) and present it to the Commissioners at the March 3 meeting. The Board could then decide what action, if any, they would like to take. Commissioner Adamczyk did not agree with that and said that the analysis would be "skewed toward the Board." He said that the Board can read the bill, discuss it and decide whether or not it has merit. Board Chair La Follette replied that it made sense to him to get advice from staff. Commissioner Adamczyk said the Board already had that advice and he felt it was inaccurate.

Board Chair La Follette addressed Commissioner Adamczyk's criticism of Ms. Nelson and her providing the loan information to the legislator. He asked her if they asked for that information. Executive Secretary Nelson replied that when she interacts with legislators, it is her practice to provide loan and library aid information because it helps to promote the (State Trust Fund) loan program.

ITEM 6. FUTURE AGENDA ITEMS

Board Chair La Follette suggested that the next board meeting agenda include a discussion of LRB-0169/1, particularly since Commissioner Schimel was not present for this discussion. All three Commissioners could then discuss the topic, ask staff questions and provide staff with direction if the Board chose to take action. Commissioner Adamczyk agreed with that suggestion. He said he was concerned with staff making an analysis, posting it for an open meeting and it then appearing as though it is the Board's position when it is not *his* position. He could not speak for the other Commissioners.

Executive Secretary Nelson asked for clarification on what Board Chair La Follette was directing her and staff to prepare. Board Chair La Follette replied that staff should prepare an analysis of LRB-0169/1 to include the impact and implications of the proposed legislation. The Board could then discuss it and take action if they desired.

ITEM 7. ADJOURN

MOTION: Commissioner Adamczyk moved to adjourn the meeting; Board Chair La Follette seconded the motion. The motion passed 2-0.



Tia Nelson, Executive Secretary

These minutes have been prepared from a tape recording of the meeting. The summaries have not been transcribed verbatim. Anyone wishing to listen to the recording may do so at the Board of Commissioners of Public Lands, 101 E. Wilson Street, 2nd Floor, Madison, Wisconsin.