

Board Meeting Minutes
May 5, 2015

Present were:

Doug La Follette, Commissioner
Matt Adamczyk, Commissioner
Brad Schimel, Board Chair
Andy Cook, Deputy Attorney General
Tia Nelson, Executive Secretary
Tom German, Deputy Secretary
Richard Sneider, Loan Analyst
Vicki Halverson, Office Manager
Denise Nechvatal, Accountant
Mike Krueger, IT Specialist
Randy Bixby, Land Records Archivist
John Schwarzmann, Forestry Supervisor
Terry Hess, Real Estate Specialist
Tom Hittle, Sr. Vice President
Five members of the public

Secretary of State
State Treasurer
Attorney General
Office of the Attorney General, WI DOJ
Board of Commissioners of Public Lands
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Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
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Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
Steigerwaldt Land Services

ITEM 1. CALL TO ORDER

Board Chair Schimel called the meeting to order at 3:00.

ITEM 2. APPROVE MINUTES – APRIL 21, 2015

MOTION AND VOTE: Board Chair Schimel moved to approve the minutes; Commissioner La Follette seconded the motion. The motion passed 3-0.

ITEM 3. APPROVE LOANS

Board Chair Schimel asked for a motion to approve the loans. Executive Secretary Nelson said that the loans had been reviewed by the Department of Justice for legal purpose.

Municipality	Municipal Type	Loan Type	Loan Amount
1. Belgium Ozaukee County Application #: 02015128 Purpose: Finance engineering costs	Village Rate: 2.50% Term: 2 years	General Obligation	\$150,000.00
2. Blake Lake Pro & Rehab Dist Polk County Application #: 02015135 Purpose: Finance dam project	Lake District Rate: 3.00% Term: 5 years	General Obligation	\$150,000.00
3. Draper Sawyer County Application #: 02015138 Purpose: Purchase plow/dump truck	Town Rate: 3.00% Term: 5 years	General Obligation	\$88,000.00

4.	Draper Sawyer County Application #: 02015139 Purpose: Refinance BCPL loan #2010089	Town Rate: 2.50% Term: 2 years	General Obligation	\$34,379.66
5.	Elkhart Lake Sheboygan County Application #: 02015133 Purpose: Finance TID #2 projects	Village Rate: 3.25% Term: 10 years	General Obligation	\$345,000.00
6.	Harrison Calumet and Outagamie Counties Application #: 02015129 Purpose: Finance TID #1 infrastructure	Village Rate: 3.75% Term: 20 years	General Obligation	\$1,500,000.00
7.	Necedah Juneau County Application #: 02015131 Purpose: Finance emergency medical/police service facility	Village Rate: 3.75% Term: 20 years	General Obligation	\$400,000.00
8.	Necedah Juneau County Application #: 02015132 Purpose: Refinance BCPL loan #2012101	Village Rate: 3.75% Term: 15 years	General Obligation	\$590,000.00
9.	Ontario Vernon County Application #: 02015136 Purpose: Purchase pickup truck	Village Rate: 3.25% Term: 7 years	General Obligation	\$32,296.00
10.	Random Lake Sheboygan County Application #: 02015140 Purpose: Finance TID #3 improvements	Village Rate: 3.75% Term: 20 years	General Obligation	\$485,000.00
11.	Reid Marathon County Application #: 02015137 Purpose: Finance truck purchase	Town Rate: 3.00% Term: 4 years	General Obligation	\$100,000.00
12.	Round Lake Sawyer County Application #: 02015134 Purpose: Purchase plow truck	Town Rate: 3.00% Term: 5 years	General Obligation	\$65,000.00

13. Somers Kenosha County Application #: 02015130 Purpose: Finance relief sewer project	Town Rate: 3.75% Term: 20 years	General Obligation	\$2,500,000.00
TOTAL			\$6,439,675.66

MOTION AND VOTE: Commissioner La Follette moved to approve the loans; Board Chair Schimel seconded the motion. The motion passed 3-0.

ITEM 4. AGENCY EXPENSES OVER \$5,000 APPROVED BY BOARD CHAIR

Board Chair Schimel explained that the expenses he approved include the purchase of tree seedlings, an annual license for mapping software, and an invoice payable to the Department of Administration.

ITEM 5. PRESENTATION BY STEIGERWALDT LAND SERVICES ON TIMBERLAND MANAGEMENT IN WISCONSIN

Executive Secretary Nelson introduced Tom Hittle from Steigerwaldt Land Services. She thanked him for his time and effort in preparing his presentation for the Board.

Mr. Hittle introduced himself and gave a brief history of Steigerwaldt Land Services (hereafter referred to as “Steigerwaldt”). He explained the difference between two timberland owner categories – TIMOs and REITs (Timberland Investment Management Organizations and Real Estate Investment Trusts, respectively). He said that TIMOs work for clients who are interested in timberland as an investment. They do not own land but, rather, they acquire timberlands for their clients and actively manage them to achieve the desired results for their investors. He said that Steigerwaldt manages approximately 300,000 acres of combined timberland for their TIMO clients. He explained that REITs own land and are publicly traded companies, such as Potlatch, Plum Creek, and Weyerhaeuser. He said that REITs have been selling their lands largely to TIMOs and the first large transaction occurred around 1999.

Mr. Hittle said that timberland values experienced a downward turn from 2008 through 2010. He said that timberland value components include periodic income (i.e., timber sales and land sales) and asset appreciation. He explained that asset appreciation was the accrued value of the real estate over time. An example of asset appreciation would be allowing a tree to mature so that its value increases as it grows from a pulpwood tree to a veneer grade tree.

Mr. Hittle talked about the selection process that foresters employ when selecting trees for harvest and the value associated with different tree products (i.e., pulpwood, sawlog, veneer, etc.). He explained that a forester may choose to allow a higher-value tree to grow and, at the same time, select a pulpwood-producing tree for harvest because it will not increase in value. It is important for a forester to recognize which trees to select for harvest in order to obtain the most value from the trees. He said stumpage prices in 1995 were in the \$10 to \$20 range per cord equivalent and the price had been trending upward through 2014. His presentation included a graphical representation of stumpage prices from 1995 to 2014 on public lands in Wisconsin. The graph showed that the Board’s stumpage prices trended higher on their Trust Lands than other public timberlands.

Board Chair Schimel asked if BCPL’s stumpage prices were an indicator of good timberland management. Mr. Hittle replied that a number of factors impact the prices that loggers will bid on timber sales, which included good management, the timing of the sale and the lands from which the trees were being harvested. Commissioner Adamczyk said the Board’s timber volumes were considerably lower compared to the other entities included on the graph. Board Chair Schimel noted that BCPL stumpage prices still trended above the others. The Board’s

Forestry Supervisor, John Schwarzmann, explained that the market was a factor but higher timber sale bids on well-blocked, larger Trust Land tracts also affected stumpage prices.

Mr. Hittle discussed the value appreciation of land and that productive timberland values fluctuate over time. His presentation included a graphical representation of productive timberland acreage values from a variety of northern Wisconsin counties between 1998 and 2014. He said the data represented sales transactions where the land was categorized as forest land, remaining as forest land. The graph showed that timberland values peaked during 2006 at \$2,150 per acre and bottomed out in 2011 at a little less than \$1,600. The average price per acre was trending close to \$1,800 in 2014.

Mr. Hittle discussed how timberlands are often considered for investment portfolio diversification because they are seen as hedge against inflation. He explained that timberland outlook was another component of timberland values. He said that housing markets and paper consumption (i.e., corrugated boxes, magazine paper, etc.) will influence timber prices so investment managers diversify their land holdings to include saw timber, pulpwood, and other varieties of wood products. He said that in Wisconsin the northern hardwoods are a significant resource for these wood products. Commissioner La Follette asked Mr. Hittle if they have looked at the effects of climate change on the hardwood forests they manage. Mr. Hittle replied that they are mindful of climate change and do monitor its impact on forest resources. The energy devoted to it is based on the risk assessment and their approach is to ensure that the forests they manage are “as vigorous as they can be.”

Mr. Hittle summarized the pros and cons of timberland as an investment and stated that the returns have been “good and competitive.” He said that timberland was not a liquid investment but rather a long-term investment. He said that some foreign timber markets were not as developed as those in Wisconsin so this was a “pro” for Wisconsin because the markets and infrastructure were well-established here. Commissioner La Follette said that the Board had been managing timberlands for over 100 years and was in no hurry to liquidate the lands. Mr. Hittle replied that the Board had timberland assets that were manageable with opportunities in place.

Mr. Hittle discussed best management practices in forestry, including environmental management and timberland asset management, and how they fit into the fiduciary responsibility of managing timberland assets for a return. Environmental best practices include the control and management of invasive species for timber management, biomass harvesting of leaves and small branches, managing natural heritage features such as an oak savannah or pine barrens, and, finally, threatened and endangered species. He explained that foresters might encourage some ecosystems or manage around them. Commissioner La Follette said that the BCPL foresters followed these best management practices by harvesting timber only in the winter when the land was frozen and also preserving rare and endangered ecosystems by transferring those lands to the WI DNR.

Mr. Hittle said the forestry component of best management practices included forest regeneration, monitoring property boundaries and unauthorized use of lands, maintaining property roads, monitoring public access, having an awareness of the timber markets, negotiating real estate transactions, and inventory planning. He explained that the most expensive aspect of timberland management is the forester conducting field work and gathering data. The need to gather the data accurately, conduct field work efficiently, and enter the information collected into a GIS system was important. He said that BCPL had a “solid foundation” in relation to the GIS data that the BCPL staff had provided to him for his presentation.

Commissioner La Follette asked how lack of legal access to parcels affects their value. Mr. Hittle said he would address that shortly. (*See next page for this discussion.*)

Mr. Hittle went on to compare the lands managed by BCPL and the lands managed by Steigerwaldt. He said their managed lands are over 90% forested while BCPL lands are slightly more than 70% forested. He described “forested” as lands that were growing trees and was not differentiating whether the lands were “productively growing trees or not.” The graph included in his presentation showed that the BCPL had a higher percentage of lowlands than highlands. Commissioner La Follette pointed out that the Board had difficulty selling those

lowlands. Mr. Hittle said that lowland sites are less valuable, less productive, have significant management constraints, and are typically forested with tree species that have limited market opportunities. He added that the lowland percentage had implications on overall timber production and returns.

Mr. Hittle compared timberland characteristics as it related to blocking (i.e., size of contiguous blocks of land) for BCPL and Steigerwaldt. He said the size of Steigerwaldt's contiguous land tracts averaged 900 acres while BCPL's average only 150 acres. He explained that the BCPL data had been provided by the Board's staff and then analyzed by Steigerwaldt staff. Executive Secretary Nelson said that the data was collected by the Board's Lake Tomahawk staff and the database was then maintained by the Board's information technology specialist, who has specialized training. Mr. Hittle said the data provided showed stumpage values of 10 to 35% higher from larger tracts compared to smaller tracts.

Mr. Hittle then compared BCPL and Steigerwaldt timberland access, and again, they used data from the BCPL's geographic information system. He said that over 90% of the lands Steigerwaldt manages have public road access. (The graph included with the map showed that approximately 45% of BCPL lands had road access.) Commissioner La Follette pointed out that because of that fact, much of BCPL's lands were difficult to sell and manage. Mr. Hittle said those were valid points. He said some Trust Lands had easement access, which was good, but it was not the same as road frontage.

(In the following paragraph, Mr. Hittle answers Commissioner La Follette's legal access question from the previous page.)

Mr. Hittle answered Commissioner La Follette's earlier question about legal access and how lack of that impacts the value of that property. He explained that some landlocked parcels could sell for a reduced market price if an adjacent landowner was interested in the parcel but "other parcels could hardly be given away." He said lack of access could have a significant impact on the land's value.

Executive Secretary Nelson said that close to one-third of the Board's land holdings had a management impediment, which she characterized as a lack of public access or small parcel with an insufficient amount of timber to manage for timber production. Commissioner Adamczyk questioned how much that mattered since the lands weren't producing timber and could not easily be sold. Forestry Supervisor Schwarzmann said that there are opportunities to harvest timber from the small tracts, especially when they are able to negotiate access to the lands across an adjacent landowner's property. Deputy Secretary German pointed out that even though a parcel may not be actively managed, it is still important to "touch it" to ensure there are no potential adverse possession claims.

Mr. Hittle continued with his presentation stating that timberland management costs generally run \$3 to \$6 per acre. He said that cost included on-the-ground forester costs as well as some administration and overhead costs. He explained that timber revenues may not be realized in the same year that the timber sale field work is done because the logger may not make his final payment on the stumpage harvested until the following year. He said the management cost figure did not include property taxes or appraisal fees.

Commissioner La Follette asked Mr. Hittle if he thought timberland ownership was an appropriate investment for the Board. Mr. Hittle said he didn't think he could answer the question completely but given his understanding of the Board's structure and what it was charged to do, he thought it was a good investment for the Board.

Commissioner La Follette asked if he had recommendations on how the Board could maximize the value of their timberland assets. Mr. Hittle replied being more active was preferable to being more passive. Commissioner La Follette asked if that activity included obtaining access, cutting timber and trying to sell unproductive parcels. Mr. Hittle replied yes.

Commissioner La Follette explained that legislation had been introduced that would strip the Board of its authority to purchase land and thereby limit the Board's ability to consolidate its land holdings. He asked Mr. Hittle how that limitation would impact the value of BCPL's Trust Lands. Mr. Hittle said that successful timberlands required a full set of tool and, as a property manager he would have concerns if that flexibility was restricted.

Commissioner Adamczyk thanked Mr. Hittle for the presentation. He asked if companies such as Steigerwaldt or others could possibly manage BCPL's Trust Lands, if the Board so chose. Mr. Hittle said he had not seen a lot of private sector management of public lands but imagined it could be a scenario. He added that he was not prepared to discuss the pros and cons of that scenario nor was he there to "pitch" Steigerwaldt's services. Commissioner Adamczyk replied that he understood and thanked him.

Commissioner La Follette said, for the record, that the next obvious question was whether it would cost more or less than having BCPL employees manage the land. He said he understood why Mr. Hittle would not be able to answer that question. Mr. Hittle said he was correct; he could not answer the question. Commissioner Adamczyk said, also for the record, that there was "not a single company out there that would manage land where they're losing 7, 8 grand a year to bring in 300,000."

Deputy Secretary German asked if the management costs figure of \$3 to \$6 per acre included field inventory work. Mr. Hittle replied that extensive inventory work would be included in that figure. He said that the day-to-day timberland maintenance would push the per acre cost to the higher end of that range.

Executive Secretary Nelson asked if Mr. Hittle had other recommendations for the Board in regards to improving the value and revenue performance of the School Trust Lands. He replied that having the knowledge needed to make decisions was the first thing that came to mind. For example, what can be gained if land bank authority is maintained? He referred to the landlocked parcels and the fact that their value may be potentially worth next to nothing. He said that due diligence must be performed to determine if that is the case for all those parcels. He said other questions needs to be answered such as: What's the potential gain? If the Board goes through that process, what is the timeline and what can be accomplished in three, five or seven years? What is the Board's willingness to do that due diligence, and what would be gained? He finished by saying the question could be answered but would take some effort. Executive Secretary Nelson asked what that effort would entail. Mr. Hittle said the analysis could be done in-house or by a consultant in the private sector.

The Commissioners thanked Mr. Hittle for his time and the thorough presentation.

ITEM 6. DISCUSS AND VOTE ON WSLCA SUMMER CONFERENCE ATTENDANCE

Board Chair Schimel said that two issues had been identified at a previous board meeting regarding the conference attendance – authorizing a staff member to attend the conference and, also, a Commissioner. He asked if it was fair to discuss them as separate issues. Commissioner La Follette agreed.

Commissioner La Follette explained that he had represented the Board at past conferences and felt it was appropriate for a Commissioner to attend. He said that a member of the staff would attend if agenda items were relevant to their job duties. Commissioner Adamczyk questioned the need for anyone to attend the conference given that the trust assets that BCPL managed were considerably less than the assets of other association member states. He said he did not support anyone attending the conference.

Board Chair Schimel asked for more details on the conference. Executive Secretary Nelson replied that 24 states are members of the Association, 19 of those states have a permanent school trust fund, and over \$70 billion in school trust funds are collectively managed by those states. She said best practices in trust asset management have been discussed at past conference sessions. She said member states manage their trust lands for different purposes (i.e., Texas manages their land for oil and gas while other states manage for timber). She explained that

those states with permanent school trust funds are similar in the fact that their beneficiaries are constitutionally established. She said the agendas vary from year-to-year and the agenda topics are used to determine which staff member attends. She said she would like the Board's portfolio manager, Rich Sneider, to attend because it would be an opportunity for him to discuss prudent investor standards with representatives from other states, especially since the Board is considering converting to those standards. He would also have the opportunity to attend formal sessions on the topic.

Deputy Secretary German said there is great value in networking with and learning from representatives from the other states.

Board Chair Schimel said he was compelled to send staff and that Executive Secretary Nelson had made a strong case for Mr. Sneider to attend given the Board's potential change to prudent investment standards.

MOTION: Board Chair Schimel moved to authorize the Executive Secretary to designate a staff member to attend the conference; Commissioner La Follette seconded the motion.

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

MOTION: Commissioner La Follette moved that he be allowed to attend the conference; Board Chair Schimel seconded the motion.

DISCUSSION: Board Chair Schimel said he would be inclined to send a second staff member rather than a Commissioner. Commissioner La Follette said he had attended executive committee sessions and voted on issues at past conferences. Commissioner Adamczyk doubted that he and Commissioner La Follette shared the same opinion on topics which he may have voted on.

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

ITEM 7. FUTURE AGENDA ITEMS

None. Board Chair Schimel said they had until noon on the following Tuesday to add items to the next meeting agenda.

ITEM 8. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Nelson reported that discussions on the Milwaukee Arena were ongoing. She also reported that the agency's budget would be before the Joint Finance Committee on that Thursday.

She also reported that she had been invited to make a presentation on May 13 to the Oneida County Forestry Committee. She explained that a proposed land exchange between BCPL and Oneida County had been voted down in 2009 by the County. She said it was her understanding that Commissioner Adamczyk and Senator Tiffany had put forth an alternative proposal and that Commissioner Adamczyk had also been invited to the meeting. She asked if he could share his proposal with the other Board members. Commissioner Adamczyk said there was nothing specific other than the possibility of having the counties manage BCPL lands. He questioned why she would be attending from Madison because John Schwarzmann, BCPL's Forestry Supervisor, was located in Lake Tomahawk. She replied that she had been invited. She said it was her understanding that his and Senator Tiffany's proposal was "quite specific" and involved paying the county to manage BCPL lands and splitting the timber revenue.

Board Chair Schimel said he would like to have Executive Secretary Nelson attend so she could answer any questions and then report back to the Board. Commissioner Adamczyk thought Mr. Schwarzmann could answer any questions and said it was his understanding the county would buy the Trust Lands. Executive Secretary Nelson replied that they were inclined to exchange the lands. Commissioner Adamczyk said he was in favor of any trade that “gets us blocking of the county land.”

ITEM 9. ADJOURN

The Board adjourned at 3:10 PM.

A handwritten signature in black ink, appearing to read "Tia Nelson", written over a horizontal line.

Tia Nelson, Executive Secretary

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