



Douglas La Follette, *Secretary of State*
Matt Adamczyk, *State Treasurer*
Brad D. Schimel, *Attorney General*

101 E. Wilson Street
2nd Floor
PO Box 8943
Madison, WI 53708-8943

608 266-1370 INFORMATION
608 266-0034 LOANS
608 267-2787 FAX
bcpl.wisconsin.gov

Jonathan Barry, *Executive Secretary*

AGENDA

June 22, 2017

10:00 A.M.

Board of Commissioners of Public Lands
101 E. Wilson Street, 2nd Floor
Madison, Wisconsin

Routine Business:

- 1) Call to Order
- 2) Approve Minutes – June 6, 2017 (Attachment)
- 3) Approve Loans (Attachment)

Old Business:

None

New Business:

- 4) Presentation by 4490 Ventures – a venture capital group
- 5) Land Bank Program Update

Routine Business:

- 6) Future Agenda Items
- 7) Executive Secretary's Report (Attachment)
 - Investment Transaction Report – June 15, 2017
- 8) Adjourn

**BOARD MEETING
JUNE 22, 2017**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the June 6, 2017, board meeting.

Board Meeting Minutes
June 6, 2017

Present via teleconference were:

Doug La Follette, Commissioner	Secretary of State
Matt Adamczyk, Commissioner	State Treasurer
Brad Schimel, Board Chair	Attorney General
Jonathan Barry, Executive Secretary	Board of Commissioners of Public Lands
Tom German, Deputy Secretary	Board of Commissioners of Public Lands
Richard Sneider, Loan Analyst and Chief Investment Officer	Board of Commissioners of Public Lands
Vicki Halverson, Office Manager	Board of Commissioners of Public Lands

ITEM 1. CALL TO ORDER

Board Chair Schimel called the meeting to order at 2:08 pm.

ITEM 2. APPROVE MINUTES – MAY 16, 2017

MOTION: Board Chair Schimel moved to approve the minutes; Commissioner La Follette seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

Executive Secretary Barry reported that the loans had been reviewed for proper public purpose.

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Clear Lake Polk County Application #: 02017185 Purpose: Construct municipal building	Town Rate: 4.00% Term: 15 years	General Obligation	\$500,000.00
2. Francis Creek Manitowoc County Application #: 02017188 Purpose: Finance road construction	Village Rate: 3.50% Term: 10 years	General Obligation	\$250,000.00
3. Gilman Pierce County Application #: 02017189 Purpose: Purchase patrol truck	Town Rate: 3.00% Term: 5 years	General Obligation	\$86,403.00
4. Howards Grove Sheboygan County Application #: 02017193 Purpose: Finance wastewater treatment plant upgrade	Village Rate: 4.00% Term: 20 years	General Obligation	\$1,100,000.00

5.	Pepin Pepin County Application #: 02017190 Purpose: Finance utility infrastructure in TID #3	Village Rate: 4.00% Term: 15 years	General Obligation	\$211,500.00
6.	Pepin Pepin County Application #: 02017191 Purpose: Finance road construction	Village Rate: 4.00% Term: 20 years	General Obligation	\$126,500.00
7.	Pleasant Lake Management District Marquette and Waushara Counties Application #: 02017194 Purpose: Purchase land	Lake District Rate: 4.00% Term: 20 years	General Obligation	\$400,000.00
8.	River Hills Milwaukee County Application #: 02017195 Purpose: Finance 2017 capital projects	Village Rate: 3.50% Term: 10 years	General Obligation	\$514,354.00
9.	Saint Francis Milwaukee County Application #: 02017192 Purpose: Finance energy efficiency projects	School Rate: 3.00% Term: 5 years	General Obligation	\$4,000,000.00
10.	Tomah Monroe County Application #: 02017186 Purpose: Construct storage facility and purchase truck	Town Rate: 3.50% Term: 7 years	General Obligation	\$180,000.00
11.	Waupaca Portage, Waupaca and Waushara Counties Application #: 02017187 Purpose: Finance high school athletic complex	School Rate: 3.00% Term: 5 years	General Obligation	\$1,000,000.00
TOTAL				\$8,368,757.00

MOTION: Board Chair Schimel moved to approve the loans; Commissioner La Follette seconded the motion.

DISCUSSION: Commissioner Adamczyk expressed his concern about the loan to Saint Francis School District and that it will exceed the school district's revenue limit. A provision in the Governor's proposed 2017-2019 budget would not allow this but under current law, exceeding the revenue limit for this type of expenditure is allowed. He would not support it and suggested that the Board delay considering its approval until after passage of the Governor's proposed budget. Commissioner La Follette replied that he supported loans of this type in order to help local school districts with their energy efficiency projects. Board Chair Schimel interrupted the conversation saying that the Board's responsibility was to provide loans for projects that met the legal definition of proper public purpose, not involve themselves in policy decisions made at the local level.

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

MOTION: Commissioner La Follette moved that the Board of Commissioners of Public Lands contact the Legislature to oppose the provision in the 2017-2019 Executive Budget that would prohibit any new increases in school district revenue limits for energy efficiency projects. The motion failed for lack of a second.

ITEM 4. FUTURE AGENDA ITEMS

Commissioner La Follette asked that the topic of funding energy efficiency projects for school districts and the budget provision of same be included on a future meeting agenda for discussion.

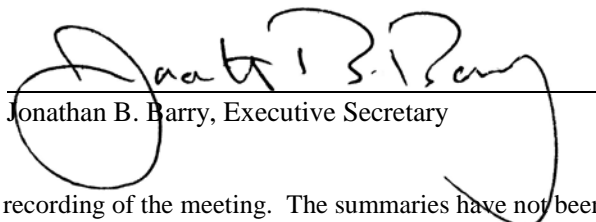
ITEM 5. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Barry reported that approximately \$7.5 million in capital gains had been realized from the sale of bonds. He also said that loan rates for State Trust Funds Loans remained competitive.

ITEM 6. ADJOURN

MOTION: Commissioner La Follette moved to adjourn; Commissioner Adamczyk seconded the motion.

The meeting adjourned at approximately 2:22 p.m.



Jonathan B. Barry, Executive Secretary

These minutes have been prepared from a recording of the meeting. The summaries have not been transcribed verbatim.
Link to audio recording: ftp://doafpt1380.wi.gov/doadocs/BCPL/2017-06-06_BCPL-BoardMtgRecording.mp3

**BOARD MEETING
JUNE 22, 2017**

**AGENDA ITEM 3
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Clayton Winnebago County Application #: 02017197 Purpose: Purchase land	Town Rate: 3.50% Term: 10 years	General Obligation	\$1,100,000.00
2. Cross Plains Dane County Application #: 02017199 Purpose: Finance road construction	Town Rate: 4.00% Term: 20 years	General Obligation	\$2,300,000.00
3. Cross Plains Dane County Application #: 02017200 Purpose: Purchase plow truck and accessories	Town Rate: 3.50% Term: 10 years	General Obligation	\$130,000.00
4. Palmyra Jefferson County Application #: 02017196 Purpose: Finance dam project and related costs	Village Rate: 3.00% Term: 5 years	General Obligation	\$1,183,064.00
5. Springvale Fond Du Lac County Application #: 02017198 Purpose: Purchase truck	Town Rate: 3.00% Term: 2 years	General Obligation	\$30,000.00
TOTAL			\$4,743,064.00



Managing Wisconsin's trust assets for public education.

LAND BANK REVIEW

Prepared by BCPL Staff

Accepted by Commissioners at
their June 22, 2017, Board Meeting

INTRODUCTION

2005 Wisconsin Act 352 (the "Land Bank Legislation") was unanimously adopted by the State Legislature as stand-alone legislation in 2006 to address specific issues involving School Trust Lands held by the Board of Commissioners of Public Lands ("BCPL").

Starting at statehood, BCPL received millions of acres of land from the federal government, including a grant of approximately 3.5 million acres pursuant to the Swamp Land Act of 1850. BCPL had sold and/or conveyed the vast majority of these lands by the early 1900s, before public roads were even built to provide access to those lands.

The lands that remained in BCPL's inventory were mostly small tracts, scattered, isolated, inaccessible, lacking marketable timber, or in some cases, under water. As trust assets, these lands were largely unproductive and difficult to manage. In 2004, the Assembly Forestry Committee criticized BCPL's management of School Trust Lands and suggested those duties be turned over to the DNR. In 2005, Assembly Speaker Scott Jensen introduced legislation that would have required the DNR to use all of its Stewardship bonding authority to purchase all of BCPL's remaining land holdings. The constitutionality of Speaker Jensen's proposal was questioned by the Legislative Fiscal Bureau and the State's bond counsel and the legislation was vetoed as a result.

Speaker Jensen then sat down with the BCPL Executive Secretary to craft legislation that would pass constitutional muster, address the problems of BCPL's land holdings, and consider the interests of local municipal governments. Using model legislation from Montana and other Western States, the result of those meetings was the Land Bank Legislation, which was passed unanimously by the legislature in 2006.

LAND BANK LEGISLATION

The stated purposes of the Land Bank Legislation were to:

- Provide for the realignment of BCPL land holdings into more productive timber management units, while consolidating natural areas under the ownership of the DNR
- Grant BCPL limited "land bank" authority to deposit the proceeds of land sales in an account which will then be used to consolidate and block in larger tracts of timber producing lands, otherwise known as "working forests."
 - All land acquired by BCPL with this authority must meet at least one of the following criteria:
 - Increase timber management efficiency
 - Increase public access to BCPL lands
 - Reduce forest fragmentation
- Direct the DNR to spend \$2 million a year from the Stewardship Fund to purchase BCPL natural area lands or BCPL lands within an existing DNR project boundary that is not a natural area (e.g. forests, parks, wild lakes etc.). By requiring that Stewardship Bond monies would flow through to BCPL who

would in turn use the funds to buy new land, state bond counsel was confident that the structure of the legislation comported with the constitutional limitations.

- Compensate local government units by requiring BCPL to make payments in lieu of taxes on lands that it acquired pursuant to the land bank authority.

The bill constrained BCPL from increasing its land holdings as the legislation required:

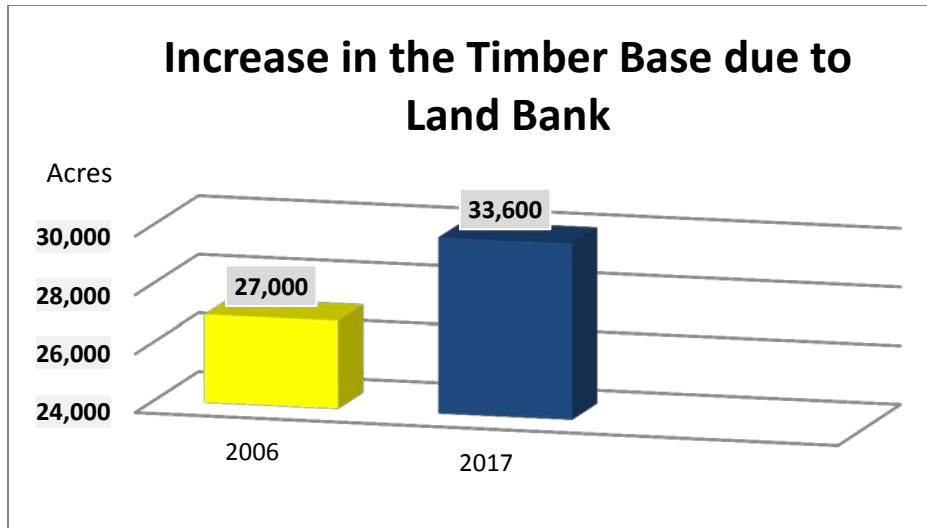
- BCPL could not own more land than it did prior to Land Bank Authority
- The purchases should be within a consolidation zone set by the board.

Considering those goals, the legislation is achieving its intended purposes.

RESULTS OF LAND BANK

Since enactment, BCPL has sold 15,062.67 acres and used the sale proceeds to purchase 12,903.18 other acres of timberland up to the spring of 2015. In this process, BCPL divested itself of thousands of acres of unproductive natural areas while improving legal and practical access to its existing land holdings and restocking its land portfolio with an improved timber inventory. These transactions reshaped the land portion of BCPL's trust portfolios and improved the future outlook for the trusts.

As intended, the Trusts have benefited substantially. The Land Bank Legislation has enabled BCPL to increase its' base of productive timberland (see graph below) and reduce the number of acres with management impediments as well as increase the accessibility of its' School Trust Lands. These changes have translated into increased timber revenue. In addition, the reshaped land portfolio has also enabled certain expense reductions.



Timber Sales Performance

BCPL started using its land replacement authority shortly after the enactment of the Land Bank Legislation. It took a few years for those newly acquired lands to produce the expected higher stream of revenue, but the trend in recent years is now readily apparent.

In the fifteen years prior to Land Bank, BCPL averaged an annual harvest of 3.1 million board feet and sold about \$275,000 in timber sales. After Land Bank, BCPL has increased its annual timber harvest to about 5 million board feet with annual timber sales of \$566,000. While there was some nominal inflation during that period of time, these increases are due to three main reasons:

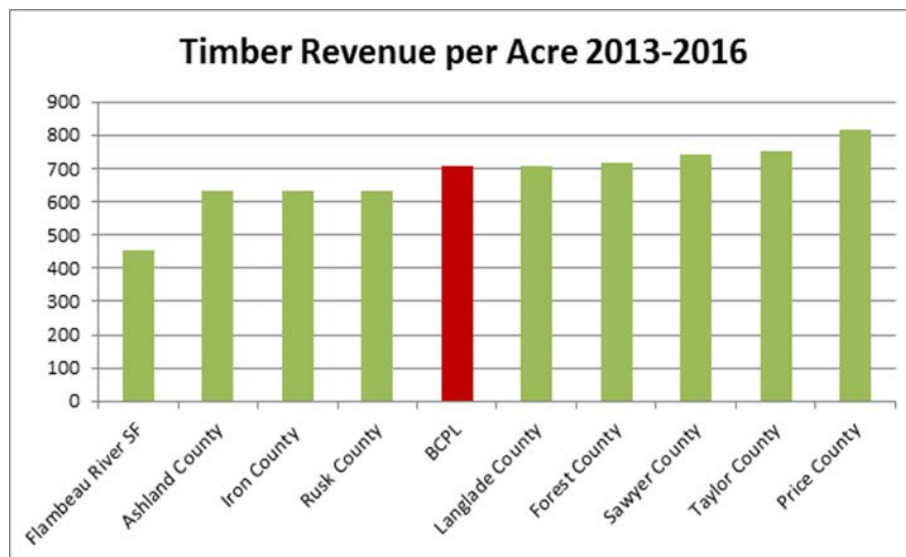
- BCPL’s School Trust Land base is more productive;
- Better Access (loggers are willing to pay more for timber if their access costs are lower); and
- The size of individual timber sales increased significantly (loggers are willing to pay more for timber on larger blocks as their fixed costs do not increase proportionately).

BCPL has noted stark differences in timber revenue between its School Trust Land holdings that have been consolidated into larger, accessible blocks and those residual School Trust Lands with management impediments. Between 2013 and 2016, BCPL has averaged \$706 per acre on our timber sales from its large blocks of consolidated land or highly accessible small tracts, which comprises about 60% of BCPL’s timberland.

It is generally acknowledged that Wisconsin County forest managers set a good standard when it comes to timber revenue efficiency. However, county forests differ widely in terms of acreage, soils, and timber inventory. In order to compare apples to apples, BCPL looks to certain counties as a benchmark for performance. The following counties and state forests have land bases similar to BCPL that have a lot of winter logging due to heavier, wetter soils. The per acre timber sale revenues of these counties is similar to the recent performance of BCPL on its’ consolidated/accessible blocks of timberland.

Ashland County	\$630/acre
Flambeau River SF	\$452/acre
Forest County	\$717/acre
Iron County	\$631/acre
Langlade County	\$708/acre
Price County	\$816/acre
Rusk County	\$631/acre
Sawyer County	\$741/acre
Taylor County	\$753/acre

Depicted graphically (see graph below), BCPL’s timber revenue per acre on such lands is in the middle of the range of these peer public land managers.



However, as noted above, BCPL’s timber sale results have been significantly lower on School Trust Lands that have not been consolidated into larger blocks and/or have access problems. BCPL still manages a significant proportion of lands (40%) that are either fragmented/isolated/landlocked parcels or totally inaccessible because BCPL has not finished realigning its land base in accordance with the Land Bank Legislation. Such “impeded” lands are still isolated, wet, and/or inaccessible and produce a lower stream of revenue. Due to higher fixed costs

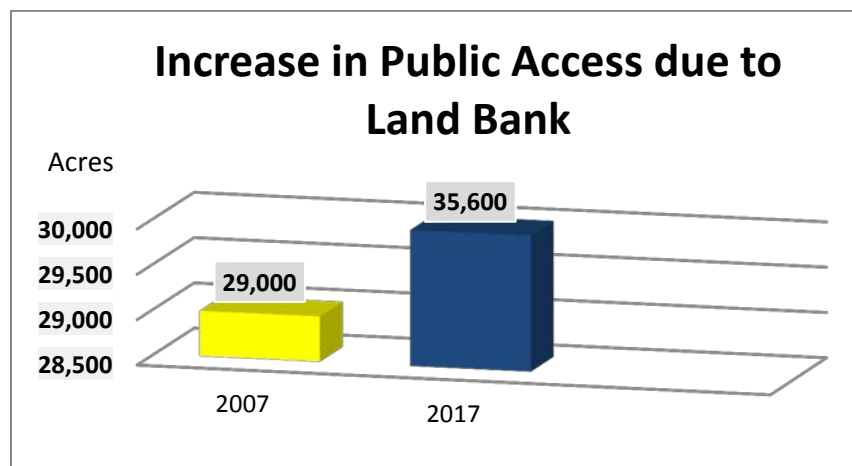
of logging, timber revenue on such lands is about one half the amount per acre received from BCPL's large blocks of consolidated land or highly accessible small tracts.

Sources:

- 1) County & DNR Timber Sales-WI DNR website.
- 2) BCPL timber sales – BCPL contracts database.
- 3) Soils/Land Base comparison- DNR ecoregion website, County forest GIS shape files; USGS GIS soils layers. Comparisons used weighted averages on acres harvested.
- 4) BCPL harvest intensity derived from its timber harvest volumes and growth estimated from its forest inventory.

Increase in accessibility and the impact on land values

By divesting itself of landlocked parcels and using land sale proceeds to purchase other accessible tracts, BCPL has increased public access on its entire land base by 23%. In addition, management access to BCPL tracts has increased by 9,100 acres or 25% which also includes access easements through private lands for management purposes. To date, BCPL has unlocked public access to 4,700 acres of previously landlocked property. BCPL estimates these changes added nearly \$1.7 million dollars in value to BCPL's timberland.

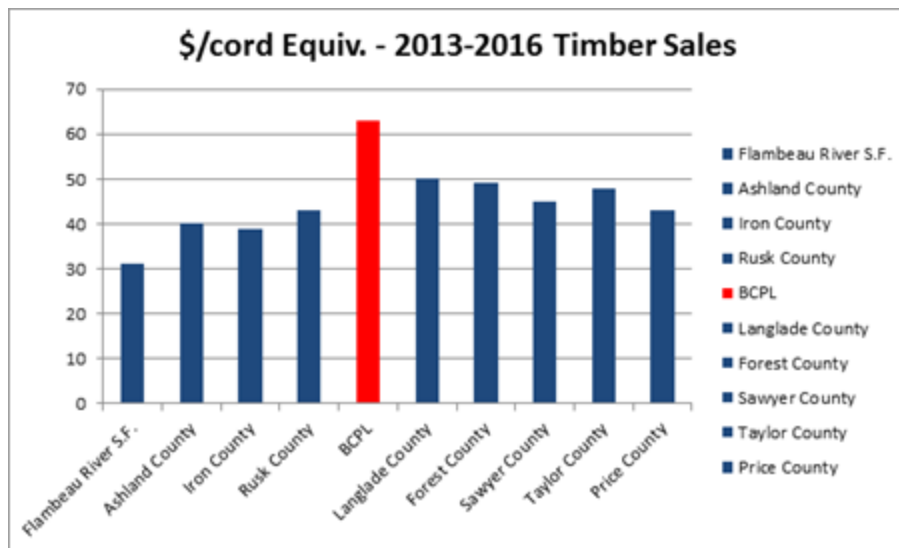


BCPL's estimate of increased land value is derived from its own sales data. Under Land Bank, BCPL has sold 80 tracts. Landlocked tracts sold for about \$760/acre whereas the accessible tracts have sold for about \$1,115/acre. The \$360/acre difference is about a 32% increase in value from landlocked to accessible tracts. This number is also supported by certified appraisals. Landlocked parcel values are often adjusted 30% or more downward in comparison to accessible tracts using the comparable sales approach.

Appreciation of the Timber Asset on BCPL Land

When BCPL purchases timberland, the timber asset will continue to increase the value of the Trust due to timber growth. Although timber growth is difficult and costly to precisely track and often remains unaccounted, timber quantity and quality is a tangible land value that is reflected in appraisals and, therefore, warrants consideration in evaluating timberland management and Land Bank impacts.

The importance of timber growth on the School Trust Lands is also borne out by comparing the timber prices BCPL receives against the timber revenue received by other public timberland owners. BCPL brings in significantly more revenue per unit of wood sold than other comparable ownerships. The main reason for BCPL's higher revenue per unit is that BCPL generally sells a larger percentage of higher-priced saw timber vs. lower-priced pulpwood in any given timber sale. BCPL has a niche in the market; high quality saw timber.



Reduction of Expenses

The consolidation of BCPL’s land holdings via Land Bank has reduced BCPL’s land management costs significantly, especially travel related expenses. During the five years prior to Land Bank, field staff averaged 34,100 miles driven annually. On the other hand, over the past five years, field staff has averaged 24,400 miles driven annually. Driving nearly 10,000 fewer miles annually equates to less fuel consumption (1,000 gallons annually) and lower maintenance expenses. In addition, field staff travel time is estimated to be reduced by 500 hours per year (assuming 250 hours to drive 10,000 miles at an average speed of 40 mph and two employees in the vehicle.)

In addition, far less staff time is necessary to establish timber sales because there are fewer boundary lines to mark with larger tracts. In the five years prior to Land Bank, BCPL required one mile of line work for every 78 acres involved in a timber sale. In the past five years, BCPL has required one mile of line work for every 90 acres involved in a timber sale. This represents a 15% gain in efficiency. In the past five years, BCPL set up an additional 557 acres of timber sales as compared to the five years prior to Land Bank, using the same amount of staff time for line work.

CONCLUSION and FUTURE EXPECTATIONS

BCPL’s management of its School Trust Lands in accordance with the Land Bank Legislation has come a long way in realizing the Legislature’s intent of increasing the value of the School Trust Lands and associated trust funds. These results show up in myriad ways including:

- Increased timber harvest and revenue;
- Increase in the size of the timber base;
- Increased public access;
- Higher land values;
- Increased average tract size;
- Increased management efficiency and reduced costs;
- Increases in the value of timber growth;

Some of these benefits are easy to monetize and track like timber revenue while others like increased value of forest growth are more costly to measure and are rarely accounted for although they are still, nevertheless, tangible.

There is now an established track record of increased timber revenue and decreased management expenses associated with the Land Bank Legislation. The combination of these factors translates into a greater benefit to

the Trust Funds and ultimately to the beneficiaries. It is expected that further consolidations under future land bank sales and purchases should yield additional incremental improvements in revenue increases and expense decreases.

The strong timber revenue performance on large blocks of consolidated or highly accessible small tracts of School Trust Lands vs. the performance on other lands highlights the compelling advantages in continuing the consolidation pursuant to the Land Bank legislation to convert lower performing lands into the high earning class of timberlands.

Intergenerational Equity

The trusts managed by BCPL are permanent trusts to benefit public education. The constitutional delegates that crafted the design and purpose of the Common and Normal School Funds spoke forcefully about the importance of building Trust Funds that were large enough for both the children of that era and future generations of children.

Using the Land Bank Legislation to reshape the School Trust Land Portfolio into a more productive asset is in keeping with constitutional intent. Increasing timber revenue, which is added to the principal of the funds, has allowed the Normal School Fund to grow at a rate faster than the rate of inflation for the past decade by nearly \$2 million. In fact, since land banking was enacted, the Normal School Fund has grown by nearly \$6 million. This same growth in the fund took 23 years prior to the advent of land banking.

Selling all the School Trust Land assets in one fell swoop could arguably benefit the students of today as more fixed income investments could be made to generate interest income. However, such a move would cause the Funds to lose much of its ability to grow and produce more principal for future generations of students. The State Constitution required that 100% of income be distributed to beneficiaries. Long-term capital gains are retained in the fund, and those gains are sustainably earned only through timber sales. Securities trading may supplement long-term capital gains depending on market conditions, but this is not a viable method to maintain fund purchasing power over the long term.

It does not take a rocket scientist to understand what happened to the University Fund or the Agricultural College Fund. At the time those funds sold their last parcels of land, they were contributing substantial amounts of operating funds for the University. However, without the capacity to grow the principal, both of those funds are now relatively insignificant contributors to the funding of the University. That same fate may befall the Normal School Fund if it divests itself of its productive land holdings.

In summary, completing the consolidation of School Trust Lands pursuant to the existing law on Land Bank Legislation is a prudent, sensible course of action which will benefit the respective trusts and the beneficiaries in years to come.

BCPL SCHOOL TRUST LAND INFORMATION

BCPL manages 76,104 acres of School Trust Lands:

75,284 of those acres are actually owned by BCPL

820 acres owned by DNR (BCPL has a timber easement)

21,935 acres of wetlands with no productive Timber at all (Common – 1,051; Normal – 20,853; University – 30)

31,784 acres of productive timber land (Common – 3287 and Normal – 28497)

24,036 acres with Management Impediments (Common – 1,896; Normal – 22,137; University – 2)

~1,240 acres completely submerged

~21,250 acres of the remaining land has some timber

Contiguous land tracts range in size from .02 acres to 7,856 acres (~504 tracts).

Other land facts:

5,083 acres has no legal access

7,069 acres only has access through adjacent land owners' MFL land

Submerged Acreage Breakdown:

736 acres completely submerged

873 acres where over half the parcel is submerged

379 acres with 25-50% of parcel submerged

BCPL TIMBER SALES AND REVENUE

Year	Timber Contracts Dollar Value sold per Contract Year	5 Year Average Timber Contract Dollar Value	Timber Revenue per Fiscal Year	5 Year Average Timber Revenue per Fiscal Year	Outstanding Expected Timber Revenue by Fiscal Year
2008	\$332,575.39		\$680,414.08		
2009	\$558,456.22		\$296,477.52		
2010	\$584,213.50		\$413,614.83		
2011	\$420,551.35		\$591,008.27		
2012	\$640,378.12	\$507,234.92	\$537,595.02	\$503,821.94	
2013	\$557,605.28	\$552,240.89	\$562,044.66	\$480,148.06	
2014	\$462,501.55	\$533,049.96	\$577,915.09	\$536,435.57	\$54,271.44
2015	\$514,689.25	\$519,145.11	\$439,008.79	\$541,514.37	\$103,253.71
2016	\$753,162.25	\$585,667.29	\$539,205.80	\$531,153.87	\$535,795.62
2017	\$804,042.00	\$618,400.07	\$163,669.19	\$456,368.71	\$802,512.00
	\$5,628,174.91		\$4,800,953.25		\$1,495,832.77

**BOARD MEETING
JUNE 22, 2017**

**AGENDA ITEM 7
EXECUTIVE SECRETARY'S REPORT**

Attached for review is the following report:

- Investment Transaction Report – June 15, 2017

101 E. Wilson Street
2nd Floor
PO Box 8943
Madison, WI 53708-8943

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Jonathan Barry, *Executive Secretary*

Investment Transaction Report June 15, 2017

Bond Purchases

Since the last report, staff has not purchased any bonds.

Bond Sales

Since the last report, staff sold bonds with total par value of \$5.5 million and realized capital gains of \$250,000 from the sale. The profit on these transactions increased the average annual return earned during the holding period of these investments to 15.8%.

To date in 2017, the profit on the sale of bonds includes long-term capital gains of \$6.65 million and short-term capital gains of \$330,000. As provided in the IPS, 75% of long-term capital gains are retained in the CSF smoothing fund. The remaining 25% of long-term capital gains and all short-term capital gains are distributed to the beneficiaries in the following year.

Current Holdings

Combined Trust Fund Bond Portfolios

Investment Type	6/15/17	6/01/17
State of Wisconsin Bonds	\$168,395,735	\$168,395,735
Wisconsin Municipal Bonds	\$185,294,305	\$185,322,298
Agency Bonds	<u>\$135,682,574</u>	<u>\$142,181,574</u>
Total Bond Investments (at cost)	\$489,372,614	\$495,899,607
(at market value)	<u>\$502,052,782</u>	<u>\$507,923,913</u>
Unrealized Gains	\$12,680,168	\$12,024,306