

Fiscal Estimate Narratives

BPL 4/17/2015

LRB Number	15-0169/1	Introduction Number	AB-0071	Estimate Type	Updated
Description Aid payments on, and city, village, town, and county approval of, certain lands purchased by the Department of Natural Resources and restrictions on the purchase of land by the Board of Commissioners of Public Lands					

Assumptions Used in Arriving at Fiscal Estimate

Pursuant to Wis. Stats. Section 24.61(2)(cm), BCPL currently has statutory authority to invest the proceeds of school trust land sales in other land if:

- The land is within a consolidation zone approved by BCPL,
- The purchase of the land does not result in BCPL owning more land than it did at the start of land bank authority in 2006, and
- The land will improve timberland management or increase public access to the land.

AB71 would delete from Chapter 24 the statutory authority for BCPL to invest in land.

Over the long term, timberland investors generally expect an annual rate of return of between 5 and 7 percent which includes the:

- increase in the value of the land,
- increase in values of growing timber, and
- revenue generated from timber sales.

A good explanation of these issues can be found in Timberland Investment Resource LLC's © 2012 publication, "Timberland Investments, A Primer."

Timberland investments by BCPL also provide certain specific benefits to the trusts managed by BCPL. Those specific benefits include:

- The ability to purchase land that provides legal access to other BCPL school trust lands and thereby increase the fair market value of such formerly landlocked lands. BCPL has used this authority to increase public access by 28% on its trust land portfolio over the past nine years.
- The ability to purchase timberland to build larger blocks of contiguous timberland that improves management efficiency by lowering per acre management costs and increases timber sale prices. BCPL has used this authority to increase average tract size by 20% and the amount of productive timberlands by 24% over the past nine years.
- The ability to diversify the trust portfolio since all other current statutory authorized investments for BCPL are in the fixed income class and are subject to risks of inflation. Land is considered a hedge against inflation.

Deletion of the statutory authority to buy land would take away those specific benefits for the trusts.

If BCPL's statutory authority to invest in land is deleted by AB71, BCPL of course still has authority to sell trust lands, but will be unable to maximize the value of any trust lands that have discounted values due to lack of access prior to sale. Even at discounted values, many of the landlocked parcels have failed to attract any buyers when such parcels have been put up for sale by BCPL.

Pursuant to AB71, the proceeds of land sales could be invested along with other trust fund moneys in fixed income loans and bonds which are currently providing a rate of return between 0.12% (State Investment Fund) and 3.75% (State Trust Fund Loan Program – 20 year loan) as compared to the 5-7% expected return on timberland discussed above. This comparison does not include the specific timberland investing benefits described above.

While AB71 appears to have a negative effect on possible future school trust fund rates of return, it is not possible at the present time to quantify the net effect of the bill with any degree of certainty.

Long-Range Fiscal Implications

See discussion in Assumptions Section above