

1. Access: What efforts have been made to increase access to existing endowment lands?

It is a constant effort to work with willing parties to secure access to endowment lands. The Department relies on procuring access through reciprocal easements, cooperative agreements, and acquisitions using Land Bank funds. Negotiating with private landowners for access is complex, time-consuming and expensive. Discussions and negotiations often take considerable time and effort.

The Department has added a ROW specialist position to help secure access. The new ROW agent has been assigned work as prioritized by the Department's Project Evaluation Committee. Access projects that could lead to revenue generating activities such as timber sales are typically given highest priority. The ROW agent also spends about 50% of his time working on Industrial, USFS and BLM cooperative agreements.

The recent Hancock Access package is a good example of our efforts to obtain perpetual, motorized legal access to endowment lands. This effort is ongoing by acquiring easements from small private landowners (hundreds to thousands of landowners), large industrial landowners, and other state and federal agencies (USFS, BLM, etc.). Working with small private landowners to acquire easements takes considerable time, hence the need for the additional ROW agent to focus on larger scale acquisitions. To continue acquiring access, the Department needs to maintain a \$5-10 million balance in Land Bank.

Hancock:

- 39.28 miles of perpetual recorded easement on forest roads
- Comprised on 65 individual road segments
- Benefits 6,600 acres of endowment lands
- Sale price is \$369,556
 - \$1,816 per easement acre
 - \$8,800 per mile of road
 - \$56 per benefitting acre
- Evaluation Methods (MB&G)
 - Cost/Benefit Ratio (increase in market value per acre / \$ per benefitted acre)
 - Avoided costs (\$15,000 - \$50,000 per mile of road construction)
 - Market price
 - "From what I am able to determine in my review of available market evidence, the agreed upon easement cost per mile appears to be well within the range, and likely below the average of the market."

Since the ROW Agent was hired, he has been instrumental in acquiring 11.11 miles of easement. Three easements make up the 11.11 miles. The easements were part of reciprocal and BLM projects. Likely to be completed within the next three months are seven new easements totaling 21 miles.

2. Acquisition schedule (Gantt chart): completed

3. Hurdle rate calculation for recent acquisitions: Callan established the hurdle rates as part of the Strategic Reinvestment Plan. The hurdle rates were established with the intent that any new acquisitions should be accretive. In Callan's asset allocation study, the existing timberland portfolio had an expected net 10-year compounded return of 5.70% (3.45% net real return). The recommended Hurdle Rate for Timberland is a *minimum* net real return of 3.5%, which equates to a 5.75% net nominal return, assuming 2.25% inflation. Any acquisition of timberland at 3.5% net real or higher would therefore lift the performance of the timberland asset class. The hurdle rate has not been adjusted to account for any changes to Callan's capital market expectations or inflation expectations.

Callan has established 3.5% net real as somewhat of a point of indifference. From Callan's perspective, timberland returns at that level or below make the financial assets more attractive. However, they have also stated that "**As expected land yields move toward 4.5%, land reinvestment becomes more compelling relative to the financial assets.**" (Excerpt from Callan's presentation to the Land Board regarding reinvestment and the small endowment study in 2018 – emphasis added).

Acquisitions range from 3.98 - 5.5% with a weighted average based on acquired acres of 4.38% and a simple average of 4.71%.

4. Maps of ownership at admission versus current: completed

5. 120-130,000 acres – is that possible? What is the plan?: The cost of timberland varies based on a number of factors including the region, site productivity, merchantable volumes, timber markets, haul distance, species, composition, and landowner objectives. For land with little merchantable volume but desirable site productivity, per acre prices of \$800 to \$1,500 are common in 2019.

Assuming about \$150 million is available for acquisitions, and assuming a rough average price per acre of \$1,200, about 125,000 acres could be acquired.

The plan is to prudently purchase land assets to replenish the loss of land assets through the disposition of cottage sites and commercial property. It is important to remember that we are only reinvesting from the sale of endowment property. Selling in one place means buying in another.

As with any acquisition, the Department will work with willing private landowners and private industrial landowners to seek transactions that exceed the hurdle rate and add value for the endowments, much as we have been doing. There is no guaranteed outcome.

Callan predicted that more timberland transactions would be available and that the Land Board was in a good position to acquire timberland (see the response to Irv). In short, yes, it is possible but not certain.

Reaching that level of acquisition would benefit the endowments by replacing the income lost due to disposition of land assets. This acquisition process replaces disposed assets on a dollar for dollar basis.