

MEMORANDUM

Date: 17 September 2014 (Sent); Updated 28 September 2014

To: Sent to NCSU Leadership, Foundation, Boards, and Sustainability

From: Fred Cabbage, Professor, Coordinator, Natural Resources Program /FWC/
 Joseph Roise, Professor, Director of Graduate Programs, FER /JR/

Subject: Hofmann Forest Sale Legacy

We appreciate the Endowment Fund and the Board of Trustees working with the NCSU administration to find a better solution than selling the Hofmann Forest in its entirety to an agribusiness firm, Walker Farms. Nevertheless, the sale of the Hofmann Forest will destroy our reputation for integrity, professional education, environmental sustainability, and community relations, for a comparatively small profit and permanent environmental destruction afterwards.

- First, note that the new Hofmann Forest sale price is \$130 million includes deferred payments, plus \$9 million contingent on a very uncertain easement sale. The appraised value was \$146.8 million in 2012, and has increased now. Selling the Hofmann for at least \$16 million less than its appraised or increased value is not good business, and violates the fiduciary responsibility of the Natural Resource Foundation and NCSU Endowment Fund. (New bullet, this revised version.)
- Under NC Code § 116-36, The Endowment Fund is proscribed from using its proceeds to replace state funds, which has been the main reason stated publicly for the sale. Selling the Hofmann sets a poor precedent, and the legislature will expect the Endowment Fund to obtain and sell more assets.
- NCSU has received very poor returns from its investments. While the Natural Resource Foundation has promised better returns for two decades, they have never materialized. Selling now at the modern peak of the stock market will lead to large losses in principal from the Hofmann revenues and diminish future payouts without spending the corpus. The last five years of NCSU returns, per the NCSU 2013 Annual Report, versus the S&P 500 are shown below. They are very low and more variable than the stock market—the worst of both worlds. When the market declines, which it will, NCSU, CNR, and the Natural Resource Foundation returns will get crushed.

Returns/Year	2009	2010	2011	2012	2013	Average	Std Dev
NCSU Investment Fund (%)	-32.42	11.44	14.95	2.60	11.19	3.35	15.64
S&P 500 Average (%)	25.94	14.82	2.10	15.89	32.15	18.18	11.52

Source: 2013 NCSU Financial Report; Damodaran, A. 2014. http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html

- At the sale price of about \$130 million, plus paying taxes and debt, the buyers will have to develop all they can. The NR Foundation has now netted about \$2 million per year growing timber, and paid no property or income taxes, and had no debt. To get a moderate 6% before tax return, the buyers will still need to make \$7.8 million per year, which could only come from much more development and agriculture conversion, and huge environmental impacts.
- There is massive public and university opposition to this sale. The *attached opposition summary* shows that **more than 30 organizations or groups and 20,000 petition and resolution signers oppose the sale.** No one supports this sale except those who may get more money in the short run.

- ***See the attachment that summarizes the opponents to the sale.*** This includes both the forestry professional associations in North Carolina; NC State students; Department of Forestry and Environmental Resources faculty; and 17 local, state and regional environmental organizations.
- These sale opponents have put their money where their mouth is, with about 100 individuals or groups contributing more than \$50,000 to stop the sale. The NR Foundation and university surely have spent many times this amount to defend and promote this sale.
- There have been five public protests against the sale so far, including simultaneous protests of 100 persons at NC State and 75 in Jacksonville on August 25. There are almost 1000 signs for www.SaveHofmannForest.org scattered proudly throughout the Triangle and Jacksonville areas.
- More than 10,500 persons have signed the MoveOn petition to stop the sale, with more than 600 of those providing excellent comments as well <http://petitions.moveon.org/sign/save-hofmann-forest-from>. This petition has been given to Chancellor Woodson. Eleven newspaper editorials have opposed the sale; 46 op-ed letters; hundreds of bloggers on all newspaper and NCSU web sites. Newspaper and TV coverage has been prevalent and negative.
- Undergraduate students use the Hofmann Forest plenty, and have received less than 10% of the revenues it generated (in 2000), declining to 2% in 2010 and 7% in 2012 in scholarship revenues. ***See the Hofmann/NR Foundation budget attachment*** for how little funds undergraduates get.
- We teach, do research, and promote that we should manage natural resources as good stewards and protect them for future generations. Wildlife will be killed, pristine water polluted, and Emerald Isle beaches threatened with this sale and subsequent land conversion. This sale of the largest educational forest in the world, and the largest piece of state land in North Carolina, will make us world famous hypocrites, not global leaders. We will get to visit it like a museum, but nothing else.
- The sale will destroy NC State's reputation for sustainability for years, and won't help with its image in any discipline. Ask any stranger in North Carolina what they think of the sale. Many alums and citizens people have already stopped giving, and may more will as well. Just ask Benny Suggs. Our extension agents get grief frequently, as do we professors.
- Most of the monetary problems were caused by (1) excessive timber harvests in the late 2000s, and (2) the unfortunate and one sided conversion of the Forestry Foundation into the Natural Resources Foundation. This new Foundation then replaced all foresters with pulp, paper, and wood products executives, and more than doubled all the expenses of the Forestry Foundation, while not increasing any fund raising revenues except timber harvests. ***See the Foundation budget file attached.***
- The sale process was handled incredibly poorly, at best. The agribusiness buyer from Indiana signed the forms for an LLC in North Carolina before the sale was even publicly announced. At least four of the largest ten timberland TIMOs REITs, including the largest private landowner in the United States, did not receive any formal notice about the sale. The new co-buyer is excellent firm, but they will need to make millions per year in profits, plus pay the taxes, debt, and costs.
- The faculty and public information about the sale was blatantly dishonest. ***See the last attachment.*** Deans Brown and Watzin, and NR Foundation directors and officers always said there would be a working forest and access guaranteed, before and after the announced sale. The actual sale contract provides no working forest easement; a financial certainty of forest clearing and

environmental destruction; and perhaps requirements to get a Dean, NCSU Vice-Chancellor, and the Walker Farms CEO to sign notarized agreements before we access the forest.

***Opposition to NC State University Hofmann Forest Sale
16 September 2014***

~20,000 petition signatures and letters; >100,000 Forestry & NGO members:

Google hits on Hofmann Forest:

December, 2012: 11; only 3 unique; September 8, 2014: 1,480,000; only NCSU PR is positive

- 1) *Petition from 50 CNR faculty staff*
- 2) *Vote of the Faculty of the Department of Forestry and Environmental Resources*
- 3) *Petition from ~100 students at NC State University*
- 4) *NCSU Student straw poll, 2014 (87%)*
- 5) *MANY alumni and friends who say they are/were donors (just ask Benny Suggs!)*
- 6) *Onslow County Commissioners*
- 7) *The North Carolina Division of the Society of American Foresters (640 persons; resolution, 2013)*
- 8) *The North Carolina Association of Consulting Foresters*
- 9) *>10,600 individuals who signed the MoveOn.org Petition <http://petitions.moveon.org/sign/save-hofmann-forest-from> (Printed, with comments; handed to Chancellor Woodson and Dean Watzin).*
- 10) *2,190 individuals who signed the on-line I-Petition (<http://www.ipetitions.com/petition/cnr-alumni-against-the-sale-of-the-hofmann-forest/>)*
- 11) *3,594 likes - Facebook <https://www.facebook.com/SaveHofmannForest>*
- 12) *~4,000 letters to Attorney General Roy Cooper*
- 13) *Wildlands Network*
- 14) *North Carolina Chapter of the Sierra Club*
- 15) *Cypress Group, NC Sierra Club*
- 16) *Croatan Group, NC Sierra Club*
- 17) *Capital Group of NC Sierra Club*
- 18) *Wild South*
- 19) *Center for Biological Diversity*
- 20) *Audubon NC*
- 21) *Wake County Audubon Society*
- 22) *New Hope Audubon Society*
- 23) *Environment North Carolina*
- 24) *Dogwood Alliance*
- 25) *Waterway Stewards US*
- 26) *White Oak Chapter of the Izaak Walton League of America*
- 27) *NC Conservation Network*
- 28) *Jackson Area Wildlife Club*
- 29) *Wild South (regional, multi-state)*
- 30) *News: 10 N&O, Technician, Indy Weekly, Jacksonville editorials; 46 Op-Ed letters*
- 31) *Almost every person (hundreds), except 3, blogging on the university and newspaper PR sites*
- 32) *Lawsuit to stop the sale and perform an Environmental Impact Statement*
- 33) *~100 individuals and organizations contributing more than \$50,000 to stop the sale*
- 34) *~1000 persons in NC with SaveHofmannForest.org signs in their yards*

If the Hofmann is sold, the reputation of the College of Natural Resources and NC State University for integrity, natural resources, the environment, and sustainability will be destroyed; employment of our graduates will be harmed for years to come; alumni contributions will decrease substantially; community relations already are damaged.

Instead, let's do it right: (1) Stop the Sale; (2) Place a working forest easement on the Hofmann Forest; (3) Involve diverse stakeholders; (4) Reappoint forestry, conservation, and

local interests to the Natural Resource Foundation. Teach what we believe; practice what we teach!

Forestry, Natural Resource, and Pulp and Paper Budget Highlights, 1994-2012

Hofmann Forest Revenues to the College of Natural Resources were modest until 2002, after which the Forest was harvested at increasing, but unsustainable, rates. Foundation Administration costs increased very rapidly since 2002, and shot up to more than 25% of total expenses after the false Forestry Foundation “merger” with the Pulp and Paper Foundation in 2008 (which still exists as an independent organization, only with less costs). Hofmann funded undergraduate scholarships are only a fraction of expenses (~5%-8%), and increased briefly until 2009 and decreased after 2010; the independent pulp and paper scholarships continued separately and generally increased. The sale of the Hofmann would solve a budget crisis we created, but destroy our natural resources reputation. We can solve the budget crisis by much better means, but never salvage our reputation.

Fiscal Year	Total CNR Funding Received from Hofmann (\$)	Foundation Administration (Included in CNR Total) (\$)	Undergraduate Scholarships (\$)	Hofmann Forest Revenue (\$)	Pulp & Paper Foundation Administration (\$)	Separate Pulp & Paper Funded Scholarships (\$)
1990	138,500	24,000	15,000	na	na	na
1991	176,213	24,013	15,000	na	na	na
1992	141,022	28,207	15,000	na	na	na
1993	166,213	28,207	15,000	na	na	na
1994	184,256	30,532	15,000	na	na	na
1995	191,428	32,065	20,000	na	na	na
1996	267,584	37,000	30,000	na	na	na
1997	292,570	41,352	37,500	na	na	na
1998	416,399	43,195	52,000	na	na	na
1999	442,000	72,800	52,000	na	na	na
2000	561,470	81,770	49,500	2,009,397	na	na
2001	615,750	92,650	59,400	1,297,631	na	na
2002	675,017	115,237	76,575	1,925,955	na	na
2003	1,255,015	127,800	123,500	2,574,812	118,960	120,000
2004	1,711,300	187,915	125,500	5,098,994	110,000	120,000
2005	2,526,600	195,300	125,500	5,264,018	114,500	120,000
2006	2,695,840	218,300	125,500	5,449,126	119,750	115,000
2007	2,675,000	360,342	160,000	7,833,090	88,950	155,000
2008	3,348,250	471,139	160,000	7,804,389	88,950	155,000
2009	2,597,506	507,584	160,000	5,876,911	85,340	133,284
2010	1,526,187	464,433	30,000	5,951,289	32,158	109,033
2011	1,923,424	459,994	105,000	4,536,185	32,297	106,937
2012	1,533,185	518,207	105,000	4,328,416	78,525	287,547

Notes: Foundation Administration (Development) total includes golf course contribution, FY 2008-2012; Pulp & Paper Foundation also RECEIVED \$116,624, \$57,943, \$ 63,839 from NR Foundation in FY 2009, 2010, 2011. Sources: General Fund Budget Report, Forestry Foundation and NC State Natural Resources Foundation, Inc.; Project Reference: 059010; As of June 30 for each Fiscal Year; and CFR/CNR Allocation summaries, 1994-2004; Pulp and Paper Foundation Annual Reports, 2003-2012.

Hofmann Forest

The NCSU Administration Promised a Working Forest Conservation Easement

So let's not settle for less. Be honest; do what you promise. Make a working forest easement.

An Important Prelude:

NC Code Chapter 116. Higher Education. Article 1. The University of North Carolina:

“§ 116-36. Endowment fund.

(a) The board of trustees of each constituent institution shall establish and maintain, pursuant to such terms and conditions, uniformly applicable to all constituent institutions, as the Board of Governors of the University of North Carolina may from time to time prescribe, an endowment fund for the constituent institution.

(b) **It is not the intent of this section that the proceeds from any endowment fund shall take the place of State appropriations or any part thereof**, but it is the intent of this section that those proceeds shall supplement the State appropriations to the end that the institution may improve and increase its functions, may enlarge its areas of service, and may become more useful to a greater number of people.”

So, why do we always hear the Hofmann must be sold to replace state funds? That is against the law.

The Continual NCSU Promises that if Sold, There Will be a Working Forest Easement:

June 19, 2012 - Dean Robert Brown emails CNR Faculty, saying the plan for Hofmann monetization is moving along methodically with three interested parties and an appraisal underway. **"the Foundation believes it is important to maintain the Hofmann name on the forest, maintain the bulk of the forest in a conservation easement that would guarantee it as a working forest in perpetuity, continue access to the forest for our faculty and students, and continue any long-term research projects on the forest."**

January 15, 2013 - Former Dean Bob Brown sends an email to the College of Natural Resources listserv assuring faculty that no one is considering selling Hofmann for development: "No where has anyone mentioned selling the Hofmann for a development, commercial, residential, recreational, or otherwise. **The primary option under consideration is getting a 25 year, 50 year or permanent easement on the Forest, and retaining ownership.... The Hofmann will remain a permanent working forest**, no matter what option is taken. An easement would guarantee that, and provide significant income to the college."

January 22, 2013 - Dean Mary Watzin sends out an email to College of Natural Resources alumni announcing the Hofmann sale. In the email, she pledges **"The goal is to sell the property as a working forest."**

March 9, 2013 - David Ashcraft of the Natural Resources Foundation is quoted by the News and Observer as saying "We'll be looking for someone willing to **maintain it [Hofmann] as a working forest.**" Potential buyers are given until March 29 to submit bids for Hofmann, only two months from when the sale was made public.

August, 2013 - NCSU Associate Vice Chancellor Benny Suggs sends out replies to try and reassure a number of concerned alumni, stating "...we set some strict conditions of sale early in this process that any buyer must meet to ensure the land continues to be an asset for NC State going forward. Those conditions include: **...Preserving the property as a working forest.**"

October 29, 2013 - the Board of Trustees of the Endowment Fund of NCSU vote to approve the Hofmann Forest sale agreement with Jerry Walker's Hofmann Forest LLC. The sale agreement discusses Walker's negotiations with the Marine Corps over the possibility of selling an agricultural easement on 70,000 acres of the property. But the agreement does not require this easement deal proceed, nor does it protect any of the land as a working forest. Walker is apparently the only farmer to have bid on the property, and several large timber groups later reveal they were not even contacted about the sale.

October 29, 2013 - Dean Mary Watzin (NCSU Natural Resources) sends out an email announcing the Hofmann sale. Watzin claims that the "sale contract meets all of the criteria established by the Natural Resources Foundation and is true to the core values of the College of Natural Resources." ***It does not and is not.***

November, 8, 2013 - Speaking of Hofmann Forest, Dean Mary Watzin tells WRAL News reporter Bruce Mildwurf that "Sales of private property do not require an environmental assessment". When asked why the Hofmann sale agreement does not include language that protects Hofmann as a working forest (as many expected it would), Watzin replies "Because that's really not something that is typically written into a contract". ***Note: Working forest easements are legal contracts that are actually quite commonly used to protect forests from urban development, while still allowing timber harvesting.***

November 13, 2013 - The investor's prospectus prepared by Hofmann Forest LLC is leaked to Hofmann opponents. The prospectus reveals plans to convert 45,000 acres of the forest into cropland over 10 years, and also a 9000-acre urban development along Highway 17. The prospectus is entirely consistent with the signed sale agreement, and boasts of potential income from the property exceeding \$500 million over the next decade.

February 19, 2014 - Dean Mary Watzin makes these comments about Hofmann Forest at the joint Cape Fear Arch/Onslow Bight Conservation Collaborative meeting in eastern NC (attended by dozens of conservationists): "Most people support the sale. The protests against the sale have been minor.... **We never said we were selling it with an easement.** The buyer will keep it as working lands that is what his primary interest is. We did not know about the prospectus done by the buyer and it has been put aside."

July 17, 2014 - A MoveOn.org petition is started to Save Hofmann Forest from being destroyed, quickly reaching more than 10,500 signatures at last count by September 11.

<http://petitions.moveon.org/sign/save-hofmann-forest-from>.

NCSU College of Natural Resources Vision:

"Our vision is to be a world leader among universities that are creating a healthy and more sustainable future for all people. By 2020, we will become the "go-to" place for solutions to natural resource challenges in both the built and natural environment." <http://cnr.ncsu.edu/about/mission.php>.

Selling the Hofmann Forest for unrestricted development is not a solution that will create more sustainable future. We will not be trusted, and will become the do not go-to place for solutions. Our research will not be credible. Our teaching will be hollow. Our natural resource grads will be the last to get hired. Our public and community relations will fail.