



Douglas La Follette, *Secretary of State*
Kurt Schuller, *State Treasurer*
J.B. Van Hollen, *Attorney General*
Tia Nelson, *Executive Secretary*

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Managing Wisconsin's trust assets for public education.

AGENDA

August 2, 2011

2:00 P.M.

Board of Commissioners of Public Lands
125 S. Webster Street, Room 200
Madison, Wisconsin

1. Call to Order
2. Approve Minutes – July 19, 2011
3. Approve Loans
4. Request to Increase Bond Purchase Authority
5. Executive Secretary's Report
6. Adjourn

**BOARD MEETING
AUGUST 2, 2011**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the July 19, 2011, board meeting.

Board Meeting Minutes
July 19, 2011

ITEM 1. CALL TO ORDER

Board Chair La Follette called the meeting of the Board of Commissioners of Public Lands to order at 2:00 p.m.

Present were:

Doug La Follette, Board Chair

Kurt Schuller, Commissioner

J.B. Van Hollen, Commissioner

Tia Nelson, Executive Secretary

Tom German, Deputy Secretary

Richard Sneider, Loan Analyst

Secretary of State

State Treasurer

Attorney General

Board of Commissioners of Public Lands

Board of Commissioners of Public Lands

Board of Commissioners of Public Lands

ITEM 2. APPROVE MINUTES – July 5, 2011

MOTION: Commissioner Van Hollen moved to approve the minutes; Commissioner Schuller seconded the motion. The motion passed 3-0.

ITEM 3. APPROVE LOANS

Executive Secretary Nelson said the loans had received legal review.

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Amount</u>
1. Grafton Ozaukee County Application #: 02012001 Purpose: Finance UV disinfection project	Village Rate: 3.75% Term: 10 years	\$600,000.00
2. Greenbush Sheboygan County Application #: 02012002 Purpose: Purchase fire truck	Town Rate: 3.75% Term: 10 years	\$350,000.00
3. Union Grove UHS Kenosha and Racine Counties Application #: 02012003 Purpose: Finance school renovation	School Rate: 3.75% Term: 10 years	\$320,000.00
TOTAL		\$1,270,000.00

MOTION: Commissioner Van Hollen moved to approve the loans; Commissioner Schuller seconded the motion. The motion passed 3-0.

ITEM 4. EXTENSION OF TIME TO COMPLETE PROPOSED LAND BANK SALE TO THE UNITED STATES FOREST SERVICE (S1001, S1002, S1006, S1007, and S1108)

On August 17, 2010, The Board of Commissioners of Public Lands authorized the sale of approximately 1,253.58 acres of Trust Lands to the Forest Service in two phases for a total price of \$1,473,000. The sales prices were determined pursuant to an appraisal performed by Mr. William Steigerwaldt of Compass Land Consulting.

The Forest Service had proposed that both phases of the sale be completed by the end of September 2011. The first phase included 124.6 acres at a price of \$200,000, which was completed on schedule. The sales price for the Second Phase Property was set at \$1,273,000. However, the sale of the Second Phase Property has not yet been completed and the Forest Service does not believe it will be able to complete the transaction by the end of September 2011. The Forest Service has proposed extending the time to complete the transaction for an additional two years until the end of September 2013.

Pursuant to a request from BCPL staff, Mr. Steigerwaldt, who performed the 2010 appraisal, provided BCPL with an update with respect to local land values in Florence and Forest Counties. He has concluded that there has been no appreciation in the value of local vacant land since the 2010 appraisal. The sale price for the Second Phase Property would remain the same.

The Commissioners discussed the pros and cons of extending the option for two years and the fluctuation in property values that would likely occur during the extension period. Ultimately, the Commissioners agreed to extend the option for one year rather than two years.

MOTION: Commissioner Van Hollen moved to extend the option to September 20, 2012; Commissioner Schuller seconded the motion. The motion passed 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands ratifies the sale of the Second Phase Property to the United States Forest Service at a total purchase price of One Million Two Hundred Seventy-Three Thousand Dollars (\$1,273,000).

BE IT FURTHER RESOLVED, that the sale to the USFS shall be completed by September 30, 2012. Such sale shall be conducted in accordance with Chapter 24 of the Wisconsin Statutes on such terms and conditions as the Executive Secretary determines to be reasonable and necessary. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such transaction.

ITEM 5. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Nelson reported that loan demand continues to be slow and staff may be requesting additional authority to invest in state and municipal bonds. She also reported that the city of Beloit had received financing from the State Trust Fund Loan Program for capital improvement projects. A check presentation to the city of Beloit was in the planning stages and more details would be forwarded to the Commissioners as they are finalized.

Commissioner Van Hollen excused himself from the meeting prior to adjournment.

ITEM 6. ADJOURN

MOTION: Commissioner Schuller moved to adjourn the meeting; Board Chair La Follette seconded the motion. The motion passed 2-0.



Tia Nelson, Executive Secretary

These minutes have been prepared from a tape recording of the meeting. The summaries have not been transcribed verbatim. Anyone wishing to listen to the tape may do so at the Board of Commissioners of Public Lands, 125 S. Webster Street, Suite 200, Madison, Wisconsin.

**BOARD MEETING
AUGUST 2, 2011**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Amount
1. Boulder Junction Vilas County Application #: 02012009 Purpose: Purchase dump truck and plow	Town Rate: 3.75% Term: 8 years	\$103,947.00
2. Clayton Polk County Application #: 02012007 Purpose: Paint and repair water tower	Village Rate: 3.75% Term: 10 years	\$70,000.00
3. Clayton Polk County Application #: 02012008 Purpose: Finance Allen Avenue reconstruction	Village Rate: 3.75% Term: 10 years	\$70,000.00
4. Edgerton Dane, Jefferson and Rock Counties Application #: 02012005 Purpose: Finance boiler replacements	School Rate: 3.75% Term: 10 years	\$700,000.00
5. Eldorado Fond du Lac County Application #: 02012004 Purpose: Construct town garage/fire station	Town Rate: 5.00% Term: 20 years	\$1,250,000.00
6. Marquette Marquette County Application #: 02012010 Purpose: Replace courthouse elevator	County Rate: 3.25% Term: 5 years	\$128,485.00
7. North Hudson St Croix County Application #: 02012006 Purpose: Finance road resurfacing projects and refinance debt	Village Rate: 3.75% Term: 10 years	\$620,010.00
8. Sawyer Sawyer County Application #: 02012013 Purpose: Develop juvenile residential facility	County Rate: 3.25% Term: 5 years	\$475,000.00
9. Suring Oconto County Application #: 02012011 Purpose: Refinance CDA Bond Anticipation Note	Village Rate: 5.00% Term: 20 years	\$400,000.00
TOTAL		\$3,817,442.00

**BOARD MEETING
AUGUST 2, 2011**

**AGENDA ITEM 4
REQUEST TO INCREASE BOND PURCHASE AUTHORITY**

Description of Request

- BCPL staff is requesting that the Board increase the staff investment authority in State of Wisconsin general obligation bonds from \$90 million to \$125 million.
- BCPL staff is also requesting that the Board increase the staff investment authority in Wisconsin municipal general obligation bonds from \$40 million to \$75 million.

Summary Explanation

BCPL staff had previously requested and received Board authority to invest \$90 million in State of Wisconsin bonds and \$40 million in bonds issued by Wisconsin municipalities and school districts rated Aa or higher. Staff has been successful in purchasing approximately \$119 million in bonds and there is \$11 million remaining in existing bond investment authorities. The addition of these state and municipal bonds to the Trust Fund investment portfolios has improved earnings and increased diversification. Demand for State Trust Fund Loans continues to be limited and approximately \$125 million of Trust Fund principal is still held in the State Investment Fund (SIF) earning nominal interest. Increasing staff authority for bond investments will provide BCPL with the ability to take advantage of additional opportunities to reduce cash holdings and improve portfolio returns within acceptable risk parameters.

Analysis

BCPL currently manages approximately \$863 million in trust fund assets, of which approximately \$578 million is invested in BCPL State Trust Fund Loans to municipalities and school districts, \$160 million is invested in bonds, and \$125 million is invested in SIF.

Loan demand has declined significantly from the record levels experienced during 2009 and 2010. This decrease in volume suggests the loan program will not provide adequate opportunities to invest money currently held in SIF. As staff does not anticipate a dramatic increase in loan demand in the foreseeable future, cash reserves held to fund the Loan Program may be reduced without undue pressure on remaining liquidity.

The number of communities in Wisconsin served by BCPL has expanded through investment in highly rated municipal and school district bonds. Approximately 90% of the municipalities and school districts in Wisconsin do not have a formal credit rating or are rated lower than Aa. The primary market for the State Trust Fund Loan Program has been these communities. This strategy provides for improved investment returns for BCPL's beneficiaries while providing a valuable service to communities underserved by financial markets. On the other end of the spectrum, highly rated borrowers are able to access funding through the bond market. The purchase of municipal bonds by BCPL improves bond market conditions for these communities, while BCPL improves overall portfolio diversification through the addition of bonds from Aa1 and Aa2 rated municipalities that had not generally utilized the BCPL State Trust Fund Loan Program.

State Bonds

Following recent purchases, the Trust Fund investment portfolio includes \$127 million in State of Wisconsin G.O. Bonds, of which \$40 million was acquired in previous years directly from the State to fund veteran home loans. Since January of this year, BCPL staff has made 17 purchases totaling \$87 million. The majority of these bonds can be prepaid or "called" by the state in 2020 or 2021. Most of

these bonds mature 5-20 years beyond the call date. The average yield on these State of Wisconsin bonds through the call date (yield-to-call) is approximately 4.80%. The average yield on these bonds through the maturity date, if not called, (yield-to-maturity) is 5.00%.

Municipal Bonds

Since May of this year, BCPL staff has made 47 purchases totaling \$32 million of Wisconsin municipal bonds. The majority of these bonds can be prepaid or “called” by the issuing municipality in 2020 or 2021. Most of these bonds mature 2-8 years beyond the call date. BCPL has been able to purchase municipal and school district bonds with a higher credit quality on average than the Aa2 rating assigned to the State of Wisconsin. Forty-three percent (43%) of these bonds have been rated Aa1, 39% at Aa2, and 18% at Aa3. Because these municipal bonds have both a shorter maturity and a higher average credit quality than the state bonds, average yields on the municipal bonds are slightly lower. The average yield-to-call on our municipal bond portfolio is approximately 4.50% with average yield-to-maturity at 4.60%.

Proposed Resolution

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands authorizes the purchase of up to Thirty-Five Million Dollars (\$35,000,000) additional State of Wisconsin General Obligation Bonds and Thirty-Five Million Dollars (\$35,000,000) additional General Obligation Bonds issued by Wisconsin municipalities and school districts rated Aa or higher in accordance with Chapter 24 of the Wisconsin Statutes on such terms and conditions as the Executive Secretary determines to be reasonable and necessary. This purchase authority shall be in addition to any previous authority granted by the Board of Commissioners of Public Lands and shall also include the authority to sell these bonds prior to maturity. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such transactions.