



Douglas La Follette, *Secretary of State*
Kurt Schuller, *State Treasurer*
J.B. Van Hollen, *Attorney General*
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Managing Wisconsin's trust assets for public education

AGENDA

June 19, 2012

11:30 A.M.

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

1. Call to Order
2. Approve Minutes – June 5, 2012
3. Approve Loans
4. Request to Expand Bond Purchase Authority
5. Executive Secretary's Report
6. Adjourn

**BOARD MEETING
JUNE 19, 2012**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the June 5, 2012, board meeting.

Board Meeting Minutes
June 5, 2012

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:

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| Doug La Follette, Board Chair | Secretary of State |
| Kurt Schuller, Commissioner | State Treasurer |
| J.B. Van Hollen, Commissioner | Attorney General |
| Tom German, Deputy Secretary | Board of Commissioners of Public Lands |
| Richard Sneider, Loan Analyst | Board of Commissioners of Public Lands |

ITEM 2. APPROVE MINUTES – MAY 15, 2012

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

ITEM 3. APPROVE LOANS

Deputy Secretary German said the loans had received legal review.

Municipality	Municipal Type	Loan Amount
1. Cadiz Green County Application #: 02012139 Purpose: Purchase tractor with loader	Town Rate: 2.75% Term: 3 years	\$75,000.00
2. Calumet Fond Du Lac County Application #: 02012122 Purpose: Finance road construction	Town Rate: 2.75% Term: 5 years	\$375,000.00
3. Calumet Fond Du Lac County Application #: 02012130 Purpose: Refinance BCPL Loan #2011149.01	Town Rate: 2.75% Term: 4 years	\$157,319.09
4. Calumet Fond Du Lac County Application #: 02012131 Purpose: Refinance BCPL Loan #02011149.02	Town Rate: 2.75% Term: 4 years	\$135,206.81
5. Calumet Fond Du Lac County Application #: 02012132 Purpose: Refinance BCPL Loan #2010197.01	Town Rate: 3.00% Term: 8 years	\$306,101.07
6. Coleman Marinette and Oconto Counties Application #: 02012134 Purpose: Finance school renovation projects	School Rate: 2.75% Term: 5 years	\$176,000.00

7.	Combined Locks Outagamie County Application #: 02012135 Purpose: Finance street construction	Village Rate: 2.75% Term: 5 years	\$1,026,056.00
8.	Elkhart Lake-Glenbeulah Sheboygan County Application #: 02012138 Purpose: Finance re-roofing of district buildings	School Rate: 2.75% Term: 5 years	\$675,000.00
9.	Lake Hallie Chippewa County Application #: 02012133 Purpose: Purchase defibrilators	Village Rate: 2.75% Term: 5 years	\$150,000.00
10.	Laona Forest County Application #: 02012128 Purpose: Refinance BCPL Loan #2009135.01	School Rate: 4.50% Term: 16 years	\$456,639.00
11.	Laona Forest County Application #: 02012129 Purpose: Refinance other outstanding debt	School Rate: 2.75% Term: 3 years	\$600,000.00
12.	Little Green Lake Protection & Rehabilitation District Green Lake County Application #: 02012125 Purpose: Finance sewer facilities operations and maintenance	Lake District Rate: 3.00% Term: 10 years	\$50,000.00
13.	Little Green Lake Protection & Rehabilitation District Green Lake County Application #: 02012126 Purpose: Purchase weed harvester	Lake District Rate: 3.00% Term: 10 years	\$179,394.00
14.	Little Green Lake Protection & Rehabilitation District Green Lake County Application #: 02012127 Purpose: Refinance BCPL Loan #02011158.01	Lake District Rate: 3.00% Term: 10 years	\$149,805.00
15.	Neenah Winnebago County Application #: 02012137 Purpose: Purchase fire truck	Town Rate: 3.00% Term: 10 years	\$260,000.00

16.	Superior Douglas County Application #: 02012136 Purpose: Purchase tractor/mower	Town Rate: 3.00% Term: 10 years	\$99,500.00
17.	Woodruff Oneida County Application #: 02012140 Purpose: Purchase fire truck	Town Rate: 3.00% Term: 10 years	\$176,202.00
18.	Woodruff Oneida County Application #: 02012141 Purpose: Refinance BCPL Loan #02010105.01	Town Rate: 3.00% Term: 7 years	\$174,684.26
TOTAL			\$5,221,907.23

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

ITEM 4. PROPOSED SUBMERGED LANDS LEASE – DAIRLAND POWER COOPERATIVE

MOTION: Commissioner Van Hollen moved to approve the submerged lands lease; Commissioner Schuller seconded the motion.

DISCUSSION: Board Chair La Follette asked how the lease rate was calculated. Deputy Secretary German said that Dairyland Power Cooperative’s purpose for the lease would be both private (i.e., a dock for their facility) and public (i.e., providing access to the Mississippi River open to the public). This made the lease unique so appraisers in the area were contacted to inquire about comparables. Since there were none, rent for the new lease has been calculated by taking the original rental rate for the 1962 lease and increasing it by the changes in the Consumer Price Index over that period of time.

VOTE: The motion passed 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands authorizes a new fifty-year Submerged Lands Lease with Dairyland Power Cooperative in accordance with Section 24.39 of the Wisconsin Statutes with a beginning rental rate of Two Thousand Three Hundred Dollars (\$2,300.00) per year with regular scheduled rent increases over the term of the Lease to a rate of \$5,423 per year and a requirement that Dairyland provide suitable public access facilities to the Mississippi River and on such other 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. DEPUTY SECRETARY’S REPORT

Deputy Secretary German reported that municipalities and school districts are refinancing their State Trust Fund Loans with municipal bonds that have lower interest rates. Two years ago, BCPL’s outstanding loans totaled a little more than \$700 million; the total is currently near \$400 million. The Board’s portfolio includes \$217 million in state and municipal bonds, which makes the portfolio more balanced.

ITEM 6. ADJOURN

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



Thomas P. German, Deputy 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, 101 E. Wilson Street, 2nd Floor, Madison, Wisconsin.

**BOARD MEETING
JUNE 19, 2012****AGENDA ITEM 3
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Amount</u>
1. Conover Vilas County Application #: 02012143 Purpose: Finance road reconstruction	Town Rate: 2.75% Term: 5 years	\$160,000.00
2. Mishicot Manitowoc County Application #: 02012142 Purpose: Finance VFW river access project	Village Rate: 3.00% Term: 10 years	\$189,000.00
	TOTAL	\$349,000.00

BOARD MEETING

JUNE 19, 2012

AGENDA ITEM 4

REQUEST TO EXPAND BOND PURCHASE AUTHORITY

Summary of Request to Increase Authority

1. BCPL staff is requesting that the Board increase the staff investment authority in general obligation (G.O.) bonds issued by the State of Wisconsin from \$150 million to \$250 million. This expanded authority would include our State Veteran Home Loan Bonds (Vet Bonds), which were purchased under separate Board actions in previous years and had been reported separately. For the purpose of simplifying future reporting, staff will no longer be separating Vet Bonds from other State G.O. bonds.
2. BCPL staff is requesting that the Board increase investment authority in G.O. bonds issued by Wisconsin municipalities and school districts from \$75 million to \$150 million.
3. BCPL staff is requesting that the Board increase investment authority in revenue obligation bonds issued by the State of Wisconsin, Wisconsin municipalities and municipal utilities from \$25 million to \$100 million.

Background

Market interest rates have continued to decline this year and reached record low levels during the past few weeks, with the benchmark 10-year Treasury hitting 1.45% on June 4, 2012. Many borrowers are taking advantage of low market rates by refinancing BCPL State Trust Fund loans. These prepayments increase cash available for investment, and Trust Fund cash remains at high levels. While BCPL has experienced a modest increase in loan demand during recent months, many communities remain reluctant to borrow funds for new projects and staff does not expect loan demand returning to the record levels experienced during 2009 and 2010. The challenge for BCPL is to stabilize distributable earnings with a strategy designed to minimize amounts invested in SIF, which currently pays the nominal rate of 0.15%. In order to keep Trust Fund investments working to provide distributable income to the beneficiaries, a larger investment in bonds will be required.

The bright side of the current interest rate environment is that BCPL has acquired a substantial bond portfolio that has appreciated significantly in value and will contribute to strong and stable earnings for many years. **Our bond portfolio now totals \$249 million with an average yield to call of 4.36% and average years to expected redemption of 7.36 years.**¹ The acquisition of bonds on the secondary market has already had a significant impact on beneficiaries with bond earnings contributing more than \$6 million of the \$32.5 million distributed to public school libraries in 2012.

Staff has recently added positions in short-term securities (notes and bonds that mature in 12-18 months) to the Common School Fund portfolio. It is our belief that investing in the short-term market will provide a higher rate of return than SIF, keep that portion of our portfolio very liquid and provide BCPL with the opportunity to invest long term at higher yields within the next few years as the interest rate environment changes. This helps protect portfolio values from future interest rate increases while improving prospects for long-term income levels to beneficiaries.

Recommendations

State Bonds - The Board previously provided BCPL staff with authority to invest up to \$150 million in State of Wisconsin G.O. bonds. Between 2000 and 2008, the Board had separately authorized the purchase of Vet Bonds directly from DOA Capital Finance, and these bonds have a remaining balance of \$34 million. Since these Vet Bonds are also classified as State G.O. bonds, it will simplify reporting to treat these bonds as part of an overall authorization by the Board. The total investment in State of Wisconsin G.O. Bonds now stands at \$160 million (including the Vet Bonds). **To facilitate additional purchases of State of Wisconsin G.O. Bonds, staff is requesting that this authority be increased to a total of \$250 million.**

Municipal and School District Bonds - The Board previously provided BCPL staff with authority to invest up to \$75 million in Municipal and School District G.O. Bonds with a Moody's rating (or equivalent) of 'A' or higher. The current amount invested in these bonds totals \$70 million. **To facilitate additional purchases of Municipal and School District G.O. Bonds, staff is requesting that this authority be increased to a total of \$150 million.**

Revenue Bonds - The Board previously provided BCPL staff with authority to invest up to \$25 million in Revenue Bonds issued by the State of Wisconsin or Wisconsin municipalities with a Moody's rating (or equivalent) of 'A' or higher. The current amount invested in these bonds totals \$19 million. **To facilitate additional purchases of Municipal and School District G.O. Bonds, staff is requesting that this authority be increased to a total of \$100 million.**

Expanding 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 risk parameters approved by the Board. If the Board approves these increases in bond purchase authority, total staff authority would increase from the current \$284 million (including Vet Bonds) to \$500 million.

Proposed Resolution

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands expands the prior staff authority to invest in State of Wisconsin G.O. Bonds to Two Hundred Fifty Million Dollars (\$250,000,000), including amounts authorized to invest in State Veteran Home Loan Bonds.

FURTHER RESOLVED, that the Board of Commissioners of Public Lands expands the prior staff authority to invest in Municipal and School District G.O. Bonds to One Hundred Fifty Million Dollars (\$150,000,000).

FURTHER RESOLVED, that the Board of Commissioners of Public Lands expands the prior staff authority to invest in Revenue Obligation Bonds to One Hundred Million Dollars (\$100,000,000).

FURTHER RESOLVED, that these investments shall be made 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 authority 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.

- ¹ The ‘yield to call’ of a portfolio is defined as the overall yield if each security within the portfolio is held to its respective call date. ‘Years to expected redemption’ is the average number of years to the expected date of bond redemption, which in our portfolio today is most often the call date. The call date will be the expected redemption date when the current market price of a bond exceeds par (the market price includes a premium above par when the current interest rate is lower than the bond coupon rate). When current interest rates are lower than the bond coupon rates, the issuer has an incentive to pay off (redeem) the bond because they can refinance and pay a lower interest rate on their debt. The market prices of most of our bonds today include a premium over par, because the bonds were issued when interest rates were at higher levels (interest rates have declined dramatically over the past five years). That is why we expect most of our bonds to be paid off on the call date.