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Jonathan Barry, *Executive Secretary*

AGENDA

February 18, 2016

10:00 A.M.

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

Routine Business:

- 1) Call to Order
- 2) Approve Minutes – February 2, 2016 (Attachment)
- 3) Approve Loans (Attachment)

Old Business:

None

New Business:

- 4) Request to Ratify Adjustments to Loan Program Interest Rates (Attachment)

Routine Business:

- 5) Future Agenda Items
- 6) Executive Secretary's Report
- 7) Adjourn

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**BOARD MEETING
FEBRUARY 18, 2016**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the February 2, 2016, board meeting.

Board Meeting Minutes
February 2, 2016

Present via teleconference were:

- Doug La Follette, Commissioner
- Matt Adamczyk, Commissioner
- Brad Schimel, Board Chair
- Jonathan Barry, Executive Secretary
- Tom German, Deputy Secretary
- Vicki Halverson, Office Manager
- Richard Sneider, Loan Analyst
- Mike Krueger, IT Specialist
- Randy Bixby, Land Records Archivist
- Denise Nechvatal, Accountant

- Secretary of State
- State Treasurer
- Attorney General
- Board of Commissioners of Public Lands

ITEM 1. CALL TO ORDER

Board Chair Schimel called the meeting to order at 2:02 p.m.

ITEM 2. APPROVE MINUTES – JANUARY 19, 2016

MOTION: Commissioner La Follette moved to approve the minutes; Board Chair Schimel seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

Board Chair Schimel asked if the loans had been reviewed for public purpose. Executive Secretary Barry confirmed they had.

Municipality	Municipal Type	Loan Type	Loan Amount
1. Lafayette Walworth County Application #: 02016124 Purpose: Construct town garage and salt shed	Town Rate: 3.75% Term: 20 years	General Obligation	\$600,000.00
2. Marshall Dane County Application #: 02016122 Purpose: Finance TID #1 projects	Village Rate: 3.25% Term: 7 years	General Obligation	\$2,150,000.00
3. Tomah Monroe County Application #: 02016123 Purpose: Purchase garbage truck	City Rate: 3.00% Term: 5 years	General Obligation	\$247,659.00
TOTAL			\$2,997,659.00

MOTION: Commissioner La Follette moved to approve the loans; Board Chair Schimel seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 2-1. Commissioner La Follette and Board Chair Schimel voted aye; Commissioner Adamczyk voted no.

ITEM 4. DISCUSS BCPL'S RETURN ON FINANCIAL ASSETS

Executive Secretary Barry explained that at a previous board meeting Commissioner Adamczyk had requested a report on BCPL's return on financial assets. Staff was able to compile BCPL's earnings information from 1990 to present, compare that data to the average Treasury rate over that same time period, and create graphs based on the data.

Deputy Secretary German gave an overview of the documents:

- The first chart showed a declining interest rate in the 7-year Treasury constant maturity rates from approximately 9% down to 2% and below from 1990 to present.
- The second chart compared BCPL's returns against the 7-year Treasury rate and revealed that BCPL's rate of return moved along with the market until 2006. From that time forward, BCPL's spread began to widen and is currently about 2.5 points higher than the Treasury's rate of return.
- The third chart depicted the spread between the 7-year Treasury's return and BCPL's return on assets. The spread was negative in most of the years from 1990 through 2002 (BCPL's return on assets was less than the average yield on a 7-year treasury note). The spread turned positive in 2003 and remained positive through the current date with significant widening occurring after 2007.
- The fourth chart compared long-term interest rates, short-term interest rates and BCPL earnings distribution, which revealed that BCPL earnings were strong after 2007 in spite of declining short and long term interest rates.
- The fifth document was a simple computation of all the data on one spreadsheet.

Executive Secretary Barry explained that BCPL data did not include unrealized capital gains. The staff's analysis was an "apples-to-apples" comparison.

Commissioner La Follette asked how BCPL's assets had increased from approximately \$250,000 to \$1 billion over that 15-year span. Executive Secretary Barry replied the largest proportion of principal additions were attributable to the monies that were deposited into the Trust Fund via the State Constitution (i.e., unclaimed property and fees, fines and forfeitures). A number of mutual insurance companies converted to public stock companies, which resulted in more unclaimed property. During the late 1990s and into the 2000s, the Trust Funds grew considerably from these deposits. Since that time, the annual amount of deposits to the Trust Funds has been declining due to fees, fines and forfeitures being assessed in municipal courts rather than in state/county circuit courts and a drop in unclaimed property due to a decline in the number of mutual insurance companies going public.

ITEM 5. DISCUSS LIMITATIONS AND IMPACT OF WIS. STATS. § 24.605

Commissioner Adamczyk expressed concern that the statute requires the Board to set aside funds from land sales to purchase other lands. The amount currently set aside for land purchases totals approximately \$2.2 million. He would prefer that the Board have the option to invest the funds in financial assets that earn higher yields than the State Investment Fund, which is where the funds reside until needed for land purchases.

Board Chair Schimel asked if the balance set aside would always remain high or does staff expect the amount to decrease as the Board consolidates its land holdings. Deputy Secretary German replied that the balance would diminish if the Board approves land bank purchases because the unproductive Trust Lands being sold have lower acreage values and productive, accessible timberlands have higher values. Executive Secretary Barry added that, as a corollary to that, the Board's total School Trust Land acreage would be reduced.

Commissioner La Follette noted that unless the Board once again starts to purchase land, there would be a balance in the Land Bank account. At a recent meeting, the Board had an opportunity to purchase property that would have consolidated its holdings but it was voted down by the other Commissioners. Commissioner Adamczyk replied that he did not support land purchases and he would prefer that the Board be given the option to purchase land and not forced to use the funds for land purchases. Board Chair Schimel said that there are strong limitations under the Land Bank legislation. The Board could pursue changes to the legislation that would give them more flexibility.

Executive Secretary Barry said that staff with the Oneida County Forestry department asked if the Board would revisit a proposed land exchange with the County. There are BCPL Trust Land parcels completely surrounded by County forest land and they are finding it difficult to manage property line control during timber sales on their lands. BCPL staff will be meeting with Oneida County forestry staff over the next several weeks to revisit and refine the earlier land exchange proposal and to identify with greater specificity the parcels that may be considered. Following the seating of the new Oneida County Forestry Committee in April, Executive Secretary Barry and Deputy Secretary German will meet with new committee, together with John Schwarzmann, to finalize any agreement for presentation to the BCPL board at a future meeting.

ITEM 6. DISCUSS POSSIBLE INVESTMENT OPTIONS

Commissioner Adamczyk said that with the Board's expanded investment authority they would need to meet to discuss different investment options. He said that SWIB's (State of WI Investment Board) average rate of return over the past 20 years was 7.4% while BCPL's was 4.5%. He suggested that over the next 20 years the Board could earn \$74 million per year on the \$1 billion currently in the Common School Fund given those past returns by SWIB.

Board Chair Schimel said that staff had made some modifications to the comparison being made by Commissioner Adamczyk. Richard Sneider, the Board's Trust Fund portfolio manager, said he did an analysis of the Variable Trust Fund returns earned by SWIB from 2000 to 2015 relative to BCPL's returns. His analysis showed that BCPL's returns outperformed SWIB's Variable Fund over that time frame, even though BCPL's returns did not include capital gains while SWIB's did. He also pointed out that while the Board may expect higher returns with their expanded investment authority and accept more risk in to the system, policies must be developed to guide the investment of the trust funds. BCPL management and staff have met with SWIB executives and they are working to develop those policies.

Commissioner La Follette asked for clarification on how Mr. Sneider's report indicates that BCPL outperformed SWIB while Commissioner Adamczyk's report states the opposite. Board Chair Schimel stated that one analysis measures the Variable Fund earnings over a shorter time frame versus a longer timeframe analysis for the Core Fund.

ITEM 7. FUTURE AGENDA ITEMS

None.

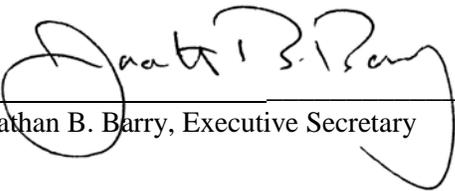
ITEM 8. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Barry reported that he and Mr. German visited the Mud Lake site along with timber industry experts and others. Timber on the site will be selectively marked in March and put out to bid for harvest next fall. The site contains high-quality, veneer-grade trees that will be selected for harvest this year and smaller trees of similar quality will be saved for harvest in another 15 years.

ITEM 9. ADJOURN

MOTION: Commissioner Adamczyk moved to adjourn the meeting; Board Chair Schimel seconded the motion. The motion passed 3-0.

The meeting adjourned at approximately 2:40 p.m.



Jonathan B. Barry, Executive Secretary

These minutes have been prepared from a recording of the meeting. The summaries have not been transcribed verbatim. Link to audio recording: ftp://doafpt1380.wi.gov/doadocs/BCPL/2016-02-02_BCPL-BoardMtgRecording.mp3

**BOARD MEETING
FEBRUARY 18, 2016**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Gordon Douglas County Application #: 02016126 Purpose: Purchase ambulance	Town Rate: 3.00% Term: 5 years	General Obligation	\$78,072.50
2. Jefferson Jefferson County Application #: 02016127 Purpose: Purchase fire truck	City Rate: 3.00% Term: 5 years	General Obligation	\$165,000.00
3. Ladysmith Rusk County Application #: 02016125 Purpose: Refinance general obligation bonds	School Rate: 3.25% Term: 9 years	General Obligation	\$940,000.00
4. Pine Lake Oneida County Application #: 02016128 Purpose: Purchase fire truck	Town Rate: 3.25% Term: 10 years	General Obligation	\$500,000.00
	TOTAL		\$1,683,072.50

**BOARD MEETING
FEBRUARY 18, 2016**

**AGENDA ITEM 4
REQUEST TO RATIFY ADJUSTMENTS TO LOAN PROGRAM INTEREST RATES**

Background

Since BCPL last changed interest rates in December 2014, market interest rates on the shortest maturities have increased while longer term rates have declined. While our shorter term rates (2 year term) remain competitive, staff is recommending that BCPL lower the interest rates charged on loans that have maturities longer than 2 years to reflect the current interest rate environment. Recommendations include a reduction of 0.50% on 5 year loans, and 0.25% on loans with maturities up to 10 and 20 years, as shown below. Staff believes this rate change will help maintain the competitiveness of the loan program, when compared to other funding sources available to our customer base.

In addition, from our perspective as a fiduciary, interest rates should be set to provide a return appropriate to the risk characteristics of BCPL loans relative to fixed-income investment alternatives. In analyzing alternative investments, the proposed rate changes are in line with market expectations. For example, we recently purchased 12-year, Aaa-rated Farm Credit Bonds with a yield of 3.13%. As Farm Credit bonds have similar credit quality and greater liquidity but a longer duration¹ than Trust Fund Loans, it is reasonable to expect that Trust Fund Loans provide an investment return that is slightly lower than the yield available on Farm Credit Bonds. Therefore, the proposed 10 year loan rate of 3.00% makes sense relative to BCPL alternative investments.

The proposed new rate structure for the BCPL State Trust Fund Loan Program is as follows:

Loan Term	Current Rate	Proposed Rate	Change
1-2 Years	2.50%	2.50%	0%
3-5 Years	3.00%	2.50%	-0.50%
6-10 Years	3.25%	3.00%	-0.25%
11-20 Years	3.75%	3.50%	-0.25%

Interest Rate Adjustments

In an effort to maintain competitive position of the BCPL State Trust Fund Loan Program, staff recommended to the Executive Secretary and Board Chairman that program interest rates be reduced as shown above.

The Board had previously authorized the Executive Secretary in consultation with the Board Chairman to adjust loan interest rates up to 1% in between board meetings. In accordance with this authority, the Executive Secretary and Board Chairman have previously approved these changes.

Proposed Resolution

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands ratifies the changes in BCPL State Trust Fund Loan Program, with annual interest rates to be set at 2.50% for 1-2 year loans, 2.50% for 3-5 year loans, 3.00% for 6-10 year loans, and 3.50% for 11-20 year loans.

¹ Duration is a measure of the term of a loan or bond, in addition to providing a measure of price sensitivity to changes in market interest rates. Because a trust fund loan requires annual principal payments during the loan term while a bond requires a single principal payment at the end of the term, the loan can be considered to have a shorter average life than the bond. Under normal market rate conditions, a shorter term loan or bond would require a lower interest rate.