BOARD OF COMMISSIONERS OF PUBLIC LANDS 1848

Managing Wisconsin's trust assets for public education

Douglas La Follette, *Secretary of State*
Matt Adamczyk, *State Treasurer*
Brad D. Schimel, *Attorney General*

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PO Box 8943
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Jonathan Barry, *Executive Secretary*

AGENDA

May 3, 2016
2:00 P.M.
Board of Commissioners of Public Lands
101 E. Wilson Street, 2nd Floor
Madison, Wisconsin

Routine Business:

1) Call to Order

2) Approve Minutes – April 20, 2016 (Attachment)

3) Approve Loans (Attachment)

Old Business:

None

New Business:

4) Discuss and Possible Vote to add a listing of BCPL Trust Lands for Sale on Agency's Website (Attachments submitted by Commissioner Adamczyk)

5) Discuss how BCPL could use private resources instead of hiring another state employee

6) Discuss the Agency's Vacant Real Estate Specialist Position and Hiring Options

7) Discuss and Possible Vote to require all BCPL employees to abide by the WI Uniform Travel Schedule Section 5.01(1) for out-of-state travel (Attachments submitted by Commissioner Adamczyk)

Routine Business:

8) Future Agenda Items

9) Executive Secretary's Report (Attachments submitted by Staff)

10) Adjourn

AUDIO ACCESS INFORMATION

Toll Free Number: **(888) 291-0079**
Passcode: **6363690#**

BOARD MEETING
MAY 3, 2016

AGENDA ITEM 2
APPROVE MINUTES

Attached for approval are the minutes from the April 20, 2016, board meeting.

Board Meeting Minutes
April 20, 2016

Present via teleconference were:

Doug La Follette, Commissioner	Secretary of State
Matt Adamczyk, Commissioner	State Treasurer
Brad Schimel, Board Chair	Attorney General
Jonathan Barry, Executive Secretary	Board of Commissioners of Public Lands
Tom German, Deputy Secretary	Board of Commissioners of Public Lands
Richard Sneider, Loan Analyst	Board of Commissioners of Public Lands

ITEM 1. CALL TO ORDER

Board Chair Schimel called the meeting to order at 2:01 p.m.

ITEM 2. APPROVE MINUTES – APRIL 5, 2016

MOTION: Commissioner La Follette moved to approve the minutes; Commissioner Adamczyk seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

Executive Secretary Barry reported that the loans had been reviewed for public purpose.

	Municipality	Municipal Type	Loan Type	Loan Amount
1.	Brooklyn Dane and Green Counties Application #: 02016154 Purpose: Refinance fire/EMS building loan	Village Rate: 3.50% Term: 19 years	General Obligation	$399,000.00
2.	Cadott Chippewa County Application #: 02016155 Purpose: Finance street projects	Village Rate: 3.50% Term: 20 years	General Obligation	$295,000.00
3.	Cadott Chippewa County Application #: 02016156 Purpose: Refinance BCPL loan #2014165	Village Rate: 3.50% Term: 18 years	General Obligation	$308,375.67
4.	Mondovi Buffalo County Application #: 02016152 Purpose: Purchase vehicles and equipment	City Rate: 2.50% Term: 5 years	General Obligation	$52,300.00

5.	Two Rivers Manitowoc County Application #: 02016146 Purpose: Finance 2016 capital projects	City Rate: 3.00% Term: 10 years	General Obligation	$1,420,000.00
6.	Two Rivers Manitowoc County Application #: 02016147 Purpose: Refinance BCPL loan #2015115	City Rate: 2.50% Term: 3 years	General Obligation	$765,000.00
7.	Two Rivers Manitowoc County Application #: 02016148 Purpose: Refinance BCPL loan #2015116	City Rate: 3.00% Term: 9 years	General Obligation	$367,000.00
8.	Two Rivers Manitowoc County Application #: 02016149 Purpose: Refinance BCPL loan #2015117	City Rate: 3.00% Term: 8 years	General Obligation	$1,941,374.00
9.	Vandenbroek Outagamie County Application #: 02016153 Purpose: Purchase rescue truck	Town Rate: 2.50% Term: 5 years	General Obligation	$55,000.00
10.	West Milwaukee Milwaukee County Application #: 02016151 Purpose: Finance TID #2 development incentive	Village Rate: 2.50% Term: 4 years	General Obligation	$1,010,000.00
		TOTAL		**$6,613,049.67**

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

DISCUSSION: No discussion.

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

ITEM 4. AGENCY EXPENSES OVER $5,000 APPROVED BY BOARD CHAIR

Board Chair Schimel said he had approved an agency expense totaling $7,325 for timber appraisal services. Deputy Secretary German added that a potential land exchange with the U.S. Forest Service was in the early stages. The timber appraisal was necessary in order to determine the value of the timber on the Forest Service parcels that BCPL would receive in the exchange.

Deputy Secretary German explained that the exchange would result in BCPL acquiring Forest Service parcels that block well with School Trust Lands and improve access to other School Trust Lands. In addition, BCPL would dispose of landlocked parcels within the National Forest. Basically, improved access, larger land blocks and, as a result, great value for those Trust Lands.

Executive Secretary Barry said another large, unproductive tract of School Trust Lands called Boot Jack Bog should also be considered for exchange or sale to the U.S. Forest Service. The tract is approximately 4,000 acres and is adjacent to the Chequamegon-Nicolet National Forest.

ITEM 5. DISCUSS AND VOTE ON WSLCA SUMMER CONFERENCE ATTENDANCE

Board Chair Schimel asked staff to lead the discussion. Deputy Secretary German explained that the conference is being hosted by the Idaho Department of Lands, and they have developed a sophisticated method of valuing timberland. Staff attending the conference would have an opportunity to learn about their program and apply that knowledge to BCPL land transactions. The Western States Land Commissioners have also been involved in developing standards for best practices in terms of asset allocation as trust managers so this information will also be useful to staff. Four staff members have been identified to attend the conference.

MOTION: Board Chair Schimel moved to authorize a team of staff to attend the conference; Commissioner La Follette seconded the motion.

DISCUSSION: Commissioner Adamczyk expressed concern about the cost of the conference and questioned the need to send more than one or two staff members. Commissioner La Follette said that he would like to attend as a representative of the Board, which he has done in the past. Board Chair Schimel replied that there was a rational reason why specific staff had been chosen to attend and believed an opportunity for them to interact with and learn from their counterparts was beneficial. He also felt there was more value in sending staff that are responsible for the day-to-day management of the trust assets rather than a Commissioner.

MOTION TO AMEND: Commissioner Adamczyk moved to amend the original motion to read 'authorize Tom German, John Schwarzmann and Richard Sneider to attend the conference.' Board Chair Schimel seconded the motion.

DISCUSSION: Commissioner La Follette said that Executive Secretary Barry should also attend because it would be beneficial for him to meet and learn from his counterparts, also.

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

MOTION TO AMEND: Board Chair Schimel moved to amend the original motion to read 'authorize Jonathan Barry, Tom German, John Schwarzmann and Richard Sneider to attend the conference.' Commissioner La Follette seconded the motion.

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

ITEM 6. FUTURE AGENDA ITEMS

Commissioner Adamczyk was pleased to see that details of an upcoming timber sale had been posted to the agency's website. He asked if a list of School Trust Lands that are available for sale could also be added to the website.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Barry reported that:

- Discussions with the Oneida County Forestry Commission about a potential land exchange were in the early stages;
- The agency's real estate specialist would be resigning effective April 29; and
- A draft of the Board's investment policy would likely be ready for discussion the middle or end of May.

Richard Sneider reported that the demand for State Trust Fund Loans had increased. The increased demand may be due to lower interest rates approved by the Board in February and seasonal, spring projects. Applications totaling $32 million had been processed in March and April; the highest level in five years.

Executive Secretary Barry added that municipalities with WRS (WI Retirement System) pension liabilities can save a considerable sum of money by refinancing that liability with a State Trust Fund Loan. An effort is underway to inform those municipalities of the potential savings.

Board Chair Schimel asked that the next agenda include a discussion about hiring a real estate specialist.

ITEM 8. ADJOURN

MOTION: Commissioner Adamczyk moved to adjourn the meeting; Board Chair Schimel seconded the motion.

The meeting adjourned at approximately 2:30 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://doaftp1380.wi.gov/doadocs/BCPL/2016-04-20_BCPL-BoardMtgRecording.mp3

BOARD MEETING
MAY 3, 2016

AGENDA ITEM 3
APPROVE LOANS

	Municipality	Municipal Type	Loan Type	Loan Amount
1.	Albany Green County Application #: 02016160 Purpose: Finance street repairs	Village Rate: 3.00% Term: 8 years	General Obligation	$200,000.00
2.	Calumet Fond Du Lac County Application #: 02016157 Purpose: Finance road repairs and maintenance	Town Rate: 2.50% Term: 5 years	General Obligation	$250,000.00
3.	Linn J6 Walworth County Application #: 02016161 Purpose: Upgrade HVAC system and lighting	School Rate: 3.00% Term: 10 years	General Obligation	$801,000.00
4.	Racine Racine County Application #: 02016166 Purpose: Purchase Sturtevant SportsPlex	School Rate: 3.00% Term: 10 years	General Obligation	$5,225,000.00
5.	River Hills Milwaukee County Application #: 02016159 Purpose: Finance 2016 capital projects	Village Rate: 3.00% Term: 10 years	General Obligation	$519,293.00
6.	River Valley Dane, Iowa, Richland and Sauk Counties Application #: 02016163 Purpose: Purchase technology devices	School Rate: 3.00% Term: 10 years	General Obligation	$377,000.00
7.	River Valley Dane, Iowa, Richland and Sauk Counties Application #: 02016164 Purpose: Refinance BCPL loan #2014095	School Rate: 3.50% Term: 16 years	General Obligation	$1,507,078.75

	Municipality	Municipal Type	Loan Type	Loan Amount
8.	Riverdale Crawford, Grant, Iowa and Richland Counties Application #: 02016158 Purpose: Finance building construction	School Rate: 3.00% Term: 10 years	General Obligation	$280,000.00
9.	Rutland Dane County Application #: 02016150 Purpose: Refinance fire/EMS district building loan	Town Rate: 3.50% Term: 19 years	General Obligation	$320,000.00
10.	Sturgeon Bay Door County Application #: 02016167 Purpose: Purchase municipal vehicles	City Rate: 2.50% Term: 5 years	General Obligation	$260,000.00
11.	Sturgeon Bay Door County Application #: 02016168 Purpose: Finance police equipment and garage doors	City Rate: 2.50% Term: 3 years	General Obligation	$63,000.00
12.	Waupaca Waupaca County Application #: 02016165 Purpose: Purchase police vehicle and equipment	City Rate: 2.50% Term: 1 years	General Obligation	$35,000.00
13.	Wisconsin Dells Adams, Columbia, Juneau and Sauk Counties Application #: 02016162 Purpose: Finance riverwalk extension	City Rate: 2.50% Term: 5 years	General Obligation	$2,500,000.00
		TOTAL		**$12,337,371.75**

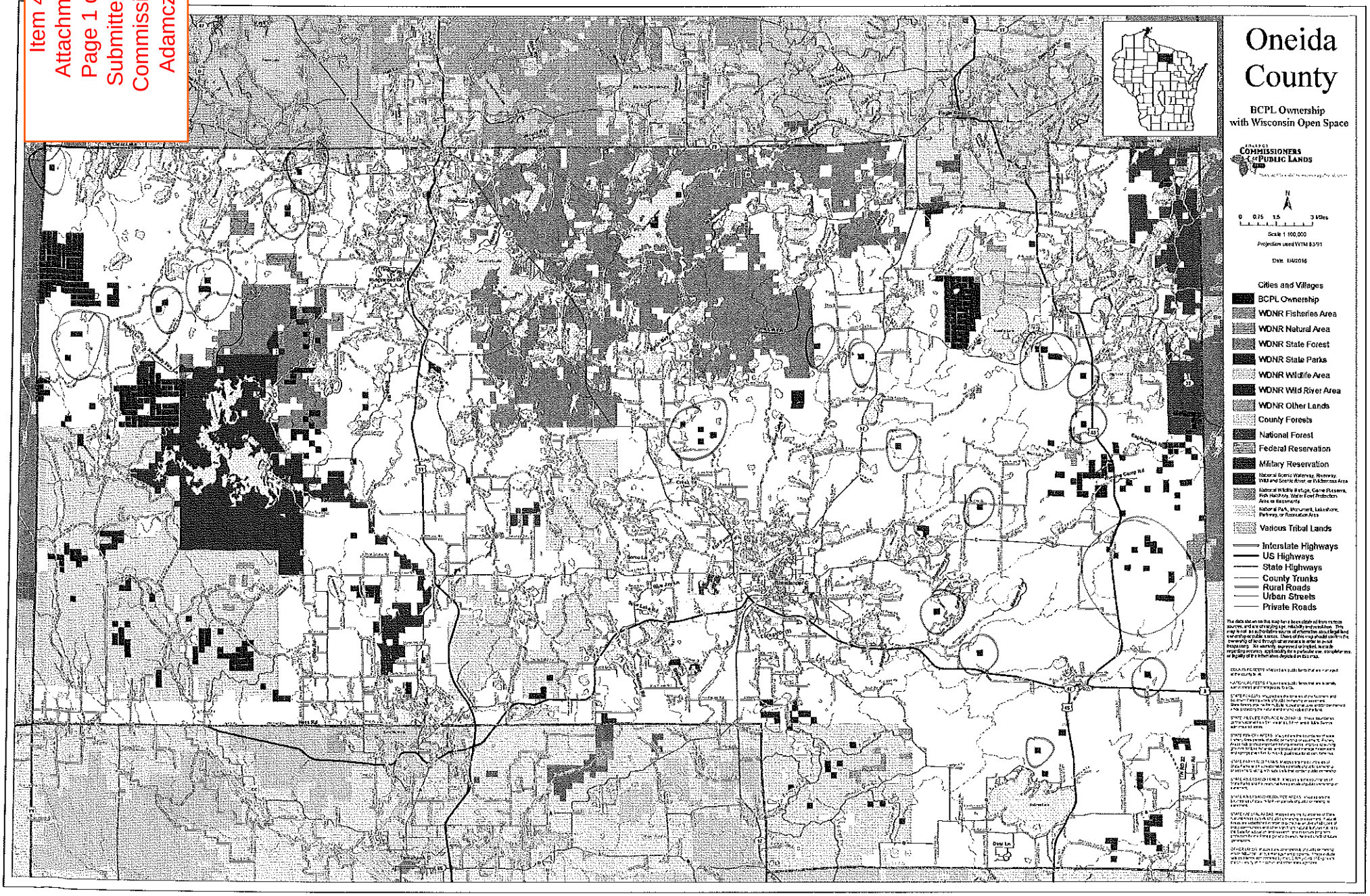
BOARD MEETING
MAY 3, 2016

AGENDA ITEM 4
DISCUSS AND POSSIBLE VOTE TO ADD A LISTING OF BCPL TRUST LANDS FOR SALE ON AGENCY'S WEBSITE

The following attachments were submitted by Commissioner Adamczyk:

- BCPL Ownership Map – Oneida County
- Map displaying BCPL acreage totals by county

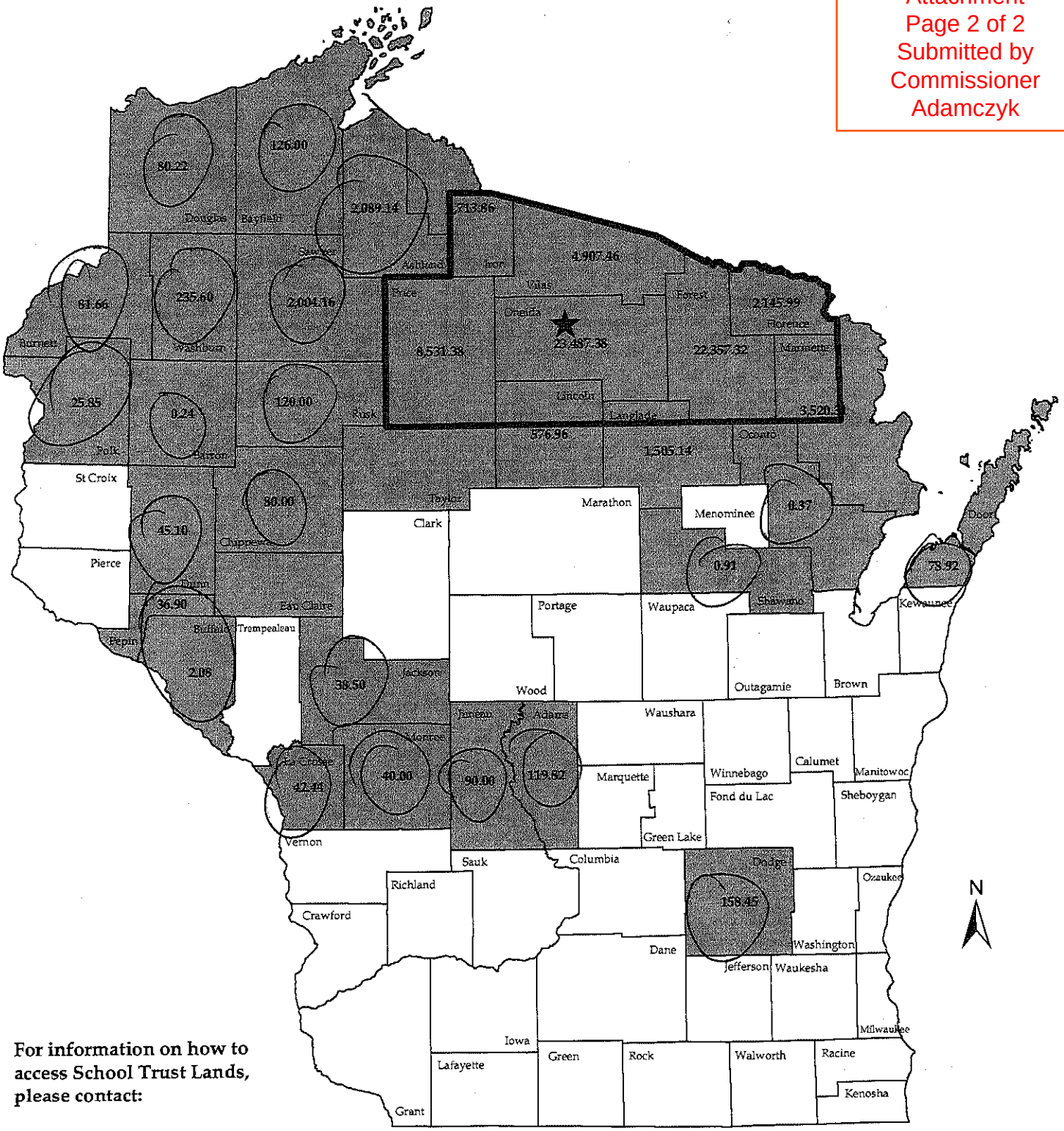
Item 4
Attachment
Page 1 of 2
Submitted by
Commissioner
Adamczyk



BOARD OF COMMISSIONERS OF PUBLIC LANDS 1848

Counties with School Trust Lands
(Acres Owned in each County)

Item 4
Attachment
Page 2 of 2
Submitted by
Commissioner
Adamczyk



For information on how to access School Trust Lands, please contact:

John Schwarzmann
BCPL District Office
7271 Main Street
PO Box 7271
Lake Tomahawk, WI 54539
(715) 277-3366

★ **BCPL District Office Lake Tomahawk**

Consolidation Zone

As of January 29, 2015

BOARD MEETING
MAY 3, 2016

AGENDA ITEM 7
DISCUSS AND POSSIBLE VOTE TO REQUIRE ALL BCPL EMPLOYEES TO ABIDE BY THE WI UNIFORM TRAVEL SCHEDULE SECTION 5.01(1) FOR OUT-OF-STATE TRAVEL

The following attachments were submitted by Commissioner Adamczyk:

- Western States Land Commissioners Association 2016 Summer Conference Brochure
- FY2010 Surface and Mineral Acreage for School Trust Lands by state
- Excerpt from Uniform Travel Schedule document

Western States Land Commissioners Association
2016 Summer Conference
July 10-14, 2016
Schweitzer Mountain Resort

Sandpoint, Idaho

Lake Pend Oreille *(photo courtesy of The Idaho Club)*

Tom Schultz, Director

http://www.idl.idaho.gov

Proudly Hosting
the 2016 WSLCA Summer Conference

Schweitzer Mountain Resort

Schweitzer Mountain Resort (photo courtesy Schweitzer.com)

http://www.schweitzer.com
White Pine and Selkirk Lodges

Schweitzer Mountain Resort
10,000 Schweitzer Mountain Road
Sandpoint, ID 83864
(877) 487-4643

Above: View from Schweitzer Mountain (photo courtesy of Regal 360)

Below Left: View from Gold Hill looking at Long Bridge across Lake Pend Oreille (photo courtesy of Sandpoint Chamber)
Below Right: View from Schweitzer Mountain looking at Selkirk Lodge and the lake beyond (photo courtesy of Shayne Ephraim)

Nestled at the base of the Selkirk Mountains in North Idaho's Panhandle region, the community of Sandpoint is found 60 miles south of the Canadian border and 75 miles north-east of Spokane, Washington. With a population of approximately 7,000 residents, Sandpoint is located in a land of uncompromising natural beauty on the northern shore of Lake Pend Oreille (pronounced Pon-der-ray).

A spectacular, glaciated body of water 43 miles long, Pend Oreille is the fifth deepest lake (1,158 feet at its greatest depth) in the United States with 111 miles of shoreline. Its pristine waters are a major factor in the community of Sandpoint's high ranking as a premier tourist destination.

(From Sandpoint.com)

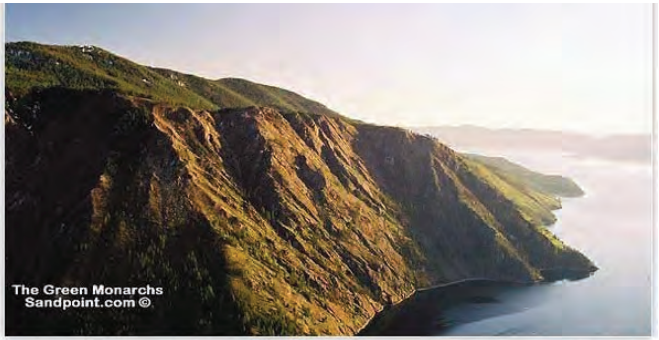


Photo courtesy of Sandpoint Chamber

2016 WSLCA Summer Conference

Asset Management

Timber Management

Federal Land Management
and Implementation of 2014 Farm Bill provisions

Public Trust Land Management

ATTRACTIONS

Beaches
Golf
Biking
Scenic Drives
Outdoor Activities
Arts & Culture
Restaurants
Shopping
Round Lake State Park
Silverwood Theme Park

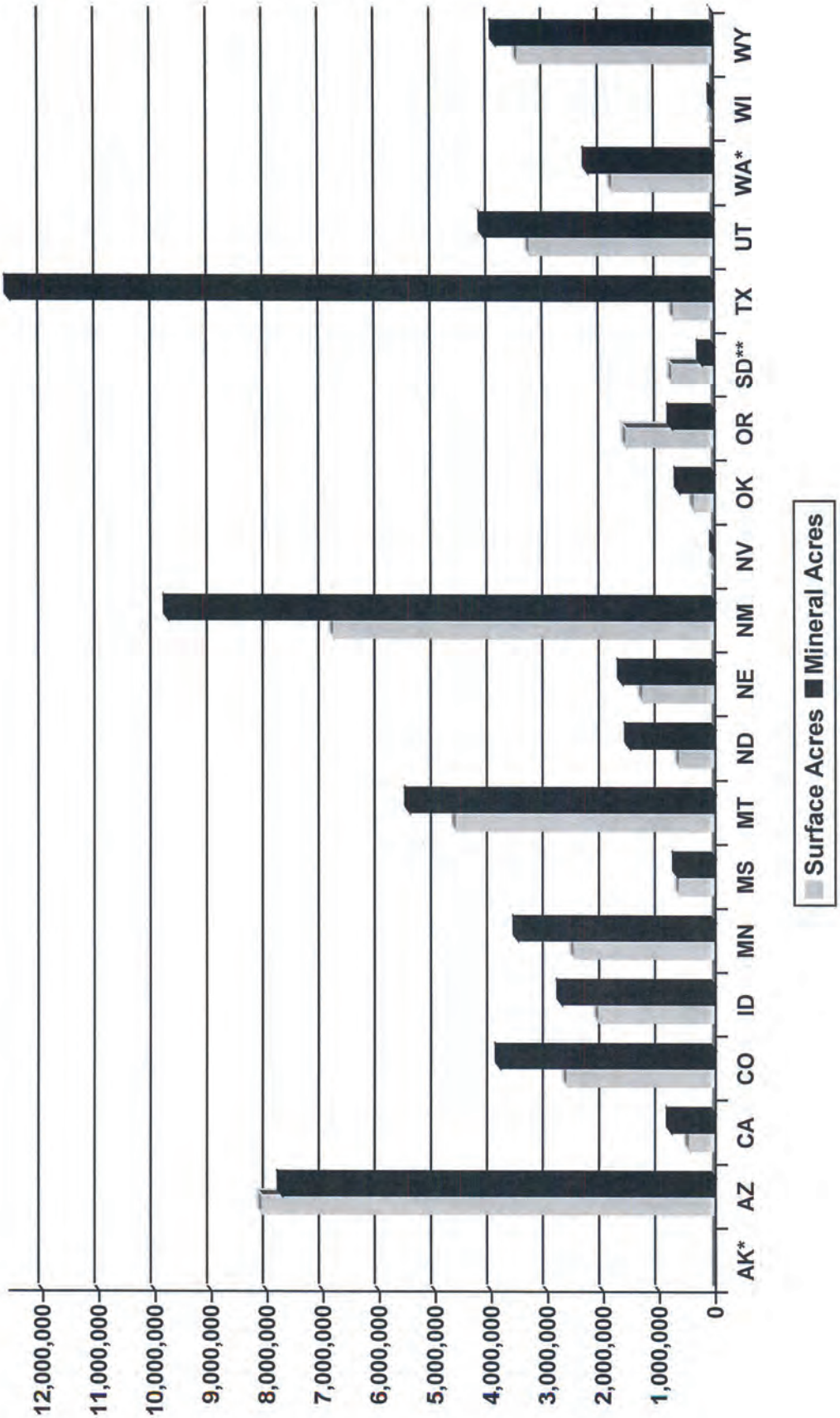
Round Lake State Park *(photo courtesy of Idaho Parks)*

The Idaho Club Golf Course *(photo courtesy of Sandpoint Chamber)*

Sandpoint Beach *(photo courtesy of Peg Owens)*

Item 7
Attachment 1
Page 2 of 2
Submitted by Commissioner Adamczyk

FY 2010 SURFACE AND MINERAL ACREAGE FOR SCHOOL TRUST LANDS



(2) If there is a suspected abuse or a consistent pattern of maximum meal reimbursement claims is noted on an employee's travel vouchers, the appointing authority or designee may require an employee to submit receipts to document the amounts claimed on future travel vouchers.

4.04 Timeframes for Meal Reimbursement

Except as provided in 4.05 of this Section (Section F), reimbursement for meals for employees who are on a day-shift basis (7:45 a.m. - 4:30 p.m.) will be allowed on trips only on the following conditions:

(1) Breakfast, provided the employee leaves home before 6:00 a.m.

(2) Lunch, provided the employee leaves his or her headquarters city before 10:30 a.m. and returns after 2:30 p.m.

(3) Dinner, provided the employee leaves directly from work and returns home after 7:00 p.m.

The time or time periods specified above, shall be modified to the extent necessary to provide equitable treatment to employees whose work schedule requires shift work on other than a day shift basis (7:45 a.m. - 4:30 p.m.). Meal reimbursement maximum limits shall be based on the type of meal appropriate to the time of day.

4.05 Alcoholic Beverages

The cost of alcoholic beverages is not reimbursable.

4.06 Bottled Water Reimbursement for International Travel

Reimbursement will be made for purchased bottled water. Employees are limited to maximum reimbursement of $7.50 per day when in international travel status (outside the contiguous U.S.).

5.00 Hotel and Motel Expenses

5.01 Lodging Claims

The choice of lodging shall be based on cost with consideration given to accessibility in conducting business:

(1) Employees of the same sex traveling together are encouraged, whenever feasible, to share lodging accommodations. Employees should be held personally responsible for unnecessary room costs that result from his/her failure to notify the hotel/motel of a cancellation, unless reasonable justification is provided for failing to notify the hotel/motel.

BOARD MEETING
MAY 3, 2016

AGENDA ITEM 7
EXECUTIVE SECRETARY'S REPORT

- BCPL Quarterly Investment Report (Attachments)

BOARD MEETING
MAY 3, 2016

AGENDA ITEM 7
EXECUTIVE SECRETARY'S REPORT

BCPL Trust Fund Investment Management
Investment Report - First Quarter 2016

Executive Summary

BCPL investment performance continues to exceed benchmark returns. After adjusting returns for differences in both credit quality and average maturity, BCPL-managed portfolios earned 1.16% more than our benchmark. This difference in yield equates to earning $2.96 million more than would have been generated by an investment in the benchmark portfolio during the quarter. In addition, BCPL-managed Trust Funds earned trading profits of nearly $535,000, as bonds purchased at a discount were called (prepaid) at full price by the issuer.

Significant progress is being made on the development of a new investment policy and staff anticipates having a draft policy available for board review during the second quarter of 2016.

Q1 Investment Highlights and Outlook
Interest rates trended significantly lower during the first quarter, with the yield on the benchmark 10 year Treasury declining from 2.25% to 1.77%. Treasury securities continue to provide a safe haven for institutional investors worldwide, while growing concerns about a slowdown in global economic activity continues to provide downward pressure on market interest rates.

With interest rates remaining near historic lows (causing bond prices to be relatively high), staff finds it difficult to uncover good values in the current municipal and farm credit bond markets. At the same time, cash levels greatly exceed the amount of liquidity required for the Trust Fund Loan Program. The yield on BCPL cash reserves has risen from the levels near 0% attained over the past several years to a somewhat more respectable 0.44%. Approval of a new investment policy within the next few months may provide additional opportunities for investment of cash reserves and increasing expected investment returns.

One bright note is that the decline in interest rates has increased the value of fixed income securities already owned by the School Trust Funds. Unrealized gains in BCPL-managed bond portfolios now total an estimated $19.2 million, an increase of more than $8 million during the quarter.

Summary and Benchmark Comparison
The overall expected yield of funds managed by BCPL was 3.38% at the end of first quarter. The expected yield is calculated as the weighted average of the 4.16% bond yield, 3.91% loan yield, and 0.44% earned on cash.

While the overall yield during the first quarter was significantly reduced by the large amount of cash reserves, BCPL-managed portfolios still managed to outperform the benchmark portfolio by a wide margin. The best measure for comparing investment performance against our benchmark is the SEC yield, which provides a standard methodology that is available for the mutual funds and bond market indexes that comprise our benchmark. As seen in the attachment, the difference in SEC yield between the BCPL and the benchmark is 0.57%. Adjustments are then required to account for the much better average credit rating (0.58%) and slightly shorter maturity (0.01%) in the BCPL portfolio. These adjustments bring the total measurable difference between the BCPL-managed portfolio and our benchmark to 1.16%.

Attachment – BCPL Investment Summary 1st Quarter 2016

BCPL Investment Summary

1st Quarter 2016

as of March 31, 2016

Portfolio Summary		Total Assets	Expected Yield[1]	SEC Yield[2]	Average Credit Quality[3]	Weighted Avg Maturity
Total BCPL Managed Financial Assets		**$ 1,020,469,152**	**3.38%**	**3.25%**	**Aa1**	**8.83**
Benchmark Performance[4]				**2.68%**	**A1**	**8.89**

BCPL Investments	% of Total BCPL Managed Assets						
Bonds	40.51%	$	413,395,446	4.16%	3.86%	Aa2	15.65
BCPL State Trust Fund Loans	37.43%	$	382,009,505	3.91%	3.91%	Aa1	5.49
Cash and Cash Equivalents[5]	22.05%	$	225,064,201	0.44%	0.44%	Aaa	0.30
Total BCPL Managed Investments	**100.00%**	**$**	**1,020,469,152**	**3.38%**	**3.25%**	**Aa1**	**8.83**

Benchmark Components	Weighting						
S&P Long Intermediate Term Taxable Municipal Bond Index[6]	60.00%			3.10%	3.57%	Aa3	10.07
S&P U.S. Treasury Bill Index[7]	10.00%			0.22%	0.20%	Aaa	0.23
Wisconsin Tax-Exempt Bond Mutual Funds (combined)[8]	30.00%	$	375,800,001	N/A	1.74%	Baa2	9.41
Total Benchmark	**100.00%**				**2.68%**	**A1**	**8.89**

Important Notes on Following Page

Prepared by Richard Sneider

Notes to BCPL Benchmark Comparison:

[1] **Expected Yield** is the weighted average yield to the redemption date for each bond, and assumes that issuers will redeem bonds at the earliest possible date, when it is in their best interest given curent market interest rates. Also called 'yield-to-worst', this number is equal to the lower of the 'yield to call' and 'yield to maturity' for each investment in the portfolio.

[2] **SEC Yield -** The SEC yield should not be confused with the expected yield on invested funds. The SEC yield will vary substantially with market conditions because it is calculated using the current market value of assets, and the value of fixed income assets fluctuates with market interest rates. For example, although interest payments produced by an individual bond remain constant following the issuance of the bond, the SEC yield on this bond will increase with market interest rates solely because the value of the bond decreases (yield = income/value). If all bonds are held to maturity, the actual return to the investor would equal the "yield to maturity at cost". This calculation is not provided for benchmark components and is therefore not included in this comparison. Many investors prefer to use "yield to worst", which calculates the return using the lower of the "yield to call" and "yield to maturity". The most appropriate method to compare bond portfolios is to look at Total Return, which combines both income and changes in the market value of the underlying assets (see note 8 below). BCPL does not have the ability to use Total Return as a method of comparison because the Trust Fund Loan Portfolio has never been valued. Rather, the SEC Yield is used for comparison because it is a standardized methodology for calculating yield as required by the Securities and Exchange Commission for all mutual funds and provides a means to compare BCPL managed funds to a simple benchmark. The SEC yield is a close approximation to the net yield to maturity of the fund using the current market value of the fund, and is calculated as the yield to the investor (after fund expenses and fees) during the previous 30 days assuming all bonds are held to maturity. The SEC Yield for the State Investment Fund is for the most recent month available.

[3] **Average Credit Quality** - Except for the BCPL loan portfolio, all average credit quality ratings shown equal the weighted average credit rating of individual securities held within each portfolio. A rating for the loan portfolio is provided to improve the ability to compare BCPL managed funds to other funds. The Aa1 rating presumed for the loan portfolio is considered reasonable, as there has not been a single default in the State Trust Fund loan program since inception in 1871, and BCPL has the statutory right and requirement to cure any future default by intercepting state aid otherwise due the borrower. Mutual Fund credit quality is provided by Morningstar. The global long-term rating scale of Moodys Investor Services begins at 'Aaa' for obligations judged to be of the highest quality, subject to the lowest level of risk. The ranking in order from highest to lowest quality then includes: Aa, A, Baa, Ba, B, Caa, Ca, and C. Ratings from Aa to Caa are modified with 1,2, or 3 to provide a high, middle and low ranking within each alphabetic catagory. 'Investment-grade' securities have ratings of Baa3 or higher.

[4] **Benchmark Components and Weighting** - Due to the unique set of BCPL authorized investments consisting primarily of the BCPL State Trust Fund Loan Program, and bonds issued by the State of Wisconsin and Wisconsin municipalities and school districts, there are no managed funds that perfectly match the characterisitics of the BCPL portfolio. However, the chosen benchmark components provide the best opportunity to compare BCPL investments to funds managed by other professionals. The justifications of including individual benchmark components are provided below. Component weighting begins with an estimate of average liquidity levels required throughout the year, with additional factors including an estimate of the proportion between taxable and tax-exempt project funding, and the use of current taxable and tax-exempt bond yields in developing program interest rates.

[5] **Cash -** Cash and cash equivalents includes all investments in the State Investment Fund and Farm Credit adjustable rate notes, and all funds managed by ADM in FDIC-insured deposit accounts.

[6] **S&P Long Intermediate Term Taxable Municipal Bond Index -** This taxable municipal bond index is included as a benchmark component because it properly reflects the investment strategies of BCPL managed Trust Funds, including both the direct investment in taxable municipal bonds and the influence of taxable bond yields on the development of loan program interest rates. The S&P Long Intermediate Term Taxable Municipal Bond Index matches the weighted average maturity and duration of total BCPL managed funds fairly well, although BCPL maintains better average credit quality. This index is comprised of all taxable bonds issued by any state (including the Commonwealth of Purto Rico and U.S. terriotories such as the U.S. Virgin Islands and Guam) with an investment grade rating (minimum S&P BBB- or Moodys Baa3), a minimum par amount of $1 million, and remaining maturity between 5 and 15 years. Average credit quality level is not published by S&P, but was calculated at the weighted average rating of amounts held within the seperate S&P AAA, AA, A, and BBB Rated Taxable Muncipal Bond Indices using a formula developed by Schwab Portfolio Center, the portfolio analysis software used by BCPL. Overall, a weighting of 60% is appropriate given the average levels of cash and tax-exempt investments held by the Trust Funds throughout the year.

[7] **S&P U.S. Treasury Bill Index -** The U.S. Treasury Bill Index represents the average cash position held by the Trust Funds throughout the year, and is included because BCPL maintains significant levels of liquidity needed to fund expected trust fund loan demand over the next 3-6 months. The amount of portfolio liquidity (cash) varies significantly thoroughout the year, and is impacted by factors including the interest rate environment, the absence of prepayment penalties within the loan program, and the statutory payment structure requiring annual loan payments on March 15 each year. The S&P U.S Treasury Bill index is a market weighted index that includes all U.S. Treasury Bills with maturities ranging from 0-12 months. Because an index is not a managed portfolio, but only a collection of securities within a specific set of criteria, management expenses are not included. Overall, a weighting of 10% for this benchmark component is appropriate given the average levels of cash held by the Trust Funds throughout the year.

[8] **Wisconsin Tax-Exempt Bond Funds -** Tax-exempt bond funds are included as a benchmark component for three reasons: BCPL invests directly in tax-exempt bonds when available at acceptable terms; a significant portion of loans made through the BCPL State Trust Fund Loan Program fund projects that would qualify as tax-exempt; and current tax-exempt bond yields are an important factor in the construction of loan program interest rates. There are three bond mutual funds that invest primarily in Wisconsin State and Municipal Bonds, investments that are similar to the securities approved for BCPL investment. These funds are sponsored by Wells Fargo, Nuveen and Nationwide Ziegler, and there are significant differences between the management of these mutual funds and BCPL trust funds. All three mutual funds are limited to tax-exempt investments, a universe of securities that generally provide lower yields than the taxable instruments favored by BCPL. On the other hand, all three of these funds invest substantial amounts in bonds that have considerable default risk including bonds issued by the Commonwealth of Puerto Rico, community development revenue bonds, hospital revenue bonds, and other bonds types not available within the risk parameters of the BCPL investment authority. Overall, a weighting of 30% for this benchmark component is appropriate given the level of Trust Fund investment in tax-exempt instruments and the influence of tax-exempt bond rates on the interest rates charged within the loan program.

[9] **Total Return Analysis** - A total return analysis including the periodic change in asset values in addition to earnings would provide a more comprehensive and accurate comparison between the returns generated by BCPL managed funds and our benchmark. However, total return analysis requires accurate asset valuation in order to provide a reasonable basis for measuring management performance. A significant portion of BCPL managed assets are invested in loans to muncipalities and school districts through the BCPL State Trust Fund Loan Program. BCPL has never sold a trust fund loan and has always held these investments to maturity. There is currently no formula or model available to determine an accurate market value of the loan portfolio. Should BCPL sell loans in the future and establish a secondary market in BCPL State Trust Fund Loans, total return analysis may provide an improvement over the current method of yield comparison as the model for measuring BCPL investment performance against the appropriate benchmarks.