



Douglas La Follette, *Secretary of State*
Dawn Marie Sass, *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

December 20, 2010

1:00 P.M.

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

1. Call to Order
2. Approve Minutes – December 7, 2010
3. Approve Loans
4. Authority to Purchase State of Wisconsin General Obligation Bonds
5. Executive Secretary's Report
6. Adjourn

**BOARD MEETING
DECEMBER 20, 2010**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the December 7, 2010, board meeting.

Board Meeting Minutes
December 7, 2010

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 |
| Dawn Marie Sass, Commissioner | State Treasurer |
| J.B. Van Hollen, Commissioner | Attorney General |
| Tia Nelson, 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 2. APPROVE MINUTES – November 16, 2010

MOTION: Commissioner Van Hollen moved to approve the minutes; Commissioner Sass 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. Bayfield County of Bayfield Application #: 02011076 Purpose: Finance marina electrical project	City Rate: 5.00 Filed: November 12, 2010	\$400,000.00
2. Bayfield County of Bayfield Application #: 02011077 Purpose: Finance boat ramp project	City Rate: 5.00 Filed: November 12, 2010	\$500,000.00
3. Boulder Junction County of Vilas Application #: 02011070 Purpose: Finance balance of fire truck purchase	Town Rate: 4.25 Filed: November 9, 2010	\$100,000.00
4. Boulder Junction County of Vilas Application #: 02011071 Purpose: Refinance prior service pension liability	Town Rate: 4.25 Filed: November 9, 2010	\$32,850.96
5. Boyceville Community County of Barron, Dunn And St. Croix Application #: 02011073 Purpose: Refinance prior service pension liability	School Rate: 5.50 Filed: November 18, 2010	\$585,722.00

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Amount</u>
6. Chenequa County of Waukesha Application #: 02011068 Purpose: Purchase four-wheel drive tractor	Village Rate: 4.25 Filed: November 15, 2010	\$73,000.00
7. Coon Valley County of Vernon Application #: 02011069 Purpose: Finance village office expansion	Village Rate: 5.00 Filed: November 16, 2010	\$70,000.00
8. Cumberland County of Barron Application #: 02011072 Purpose: Construct municipal administration building	City Rate: 5.00 Filed: November 18, 2010	\$1,825,000.00
9. Lake Tomahawk County of Oneida Application #: 02011081 Purpose: Purchase land	Town Rate: 3.75 Filed: November 24, 2010	\$145,000.00
10. Madison County of Dane Application #: 02011074 Purpose: Finance road project, parking lot, and equipment purchase	Town Rate: 3.75 Filed: November 22, 2010	\$670,155.00
11. Menasha County of Winnebago Application #: 02011084 Purpose: Finance park improvements, fiber optics, and roadwork	Town Rate: 3.75 Filed: November 29, 2010	\$2,885,120.00
12. Menasha County of Winnebago Application #: 02011085 Purpose: Refinance water utility debt	Town Rate: 5.00 Filed: November 29, 2010	\$2,373,875.00
13. Poplar County of Douglas Application #: 02011075 Purpose: Purchase diesel chassis for fire tanker	Village Rate: 3.50 Filed: November 22, 2010	\$15,000.00
14. Prairie Du Chien County of Crawford Application #: 02011086 Purpose: Finance 2011-2013 capital projects	City Rate: 3.75 Filed: November 30, 2010	\$1,257,160.00
15. Prairie Du Chien County of Crawford Application #: 02011087 Purpose: Finance TID #1 projects and refinance STFL #2009127	City Rate: 3.75 Filed: November 30, 2010	\$857,969.00

Municipality	Municipal Type	Loan Amount
16. Reedsburg County of Sauk Application #: 02011078 Purpose: Finance city hall improvements and equipment purchases	City Rate: 3.75 Filed: November 24, 2010	\$540,000.00
17. Reedsburg County of Sauk Application #: 02011079 Purpose: Finance street improvements and fire equipment	City Rate: 5.00 Filed: November 24, 2010	\$1,840,500.00
18. Reedsburg County of Sauk Application #: 02011080 Purpose: Finance street improvements and property purchase	City Rate: 3.75 Filed: November 24, 2010	\$845,000.00
19. Rusk County of Rusk Application #: 02011083 Purpose: Finance economic development project	County Rate: 5.00 Filed: November 24, 2010	\$620,000.00
20. Springwater County of Waushara Application #: 02011067 Purpose: Finance real estate purchase for park use	Town Rate: 4.25 Filed: November 12, 2010	\$200,000.00
21. Viroqua County of Vernon Application #: 02011082 Purpose: Finance street improvements and squad car	City Rate: 3.75 Filed: November 24, 2010	\$618,000.00
TOTAL		\$16,454,351.96

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

Board Chair La Follette asked why there were currently more municipal loans as compared to school loans. Deputy Secretary German replied that it was a timing issue. Municipal lending is higher at this time because the Build America Bond program will expire in December.

ITEM 4A. PROPOSED LAND BANK SALES TO DNR – FIFTEEN LAKE (S1101)

MOTION: Commissioner Sass moved to approve the land bank sale; Commissioner Van Hollen seconded the motion. The motion passed, 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands approves the sale of the Knight Township Property to the Wisconsin Department of Natural Resources at the price of Sixty-one Thousand Two Hundred Dollars (\$61,200) 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 4B. PROPOSED LAND BANK SALES TO DNR – KAUBASHINE CREEK (\$1105)

MOTION: Commissioner Sass moved to approve the land bank sale; Commissioner Van Hollen seconded the motion. The motion passed, 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands approves the sale of the Kaubashine Creek Property to the Wisconsin Department of Natural Resources at the price of Two Hundred Forty-Two Thousand Dollars (\$242,000) 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

Nothing to report.

ITEM 6. ADJOURN

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



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
DECEMBER 20, 2010**

**AGENDA ITEM 3
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Amount</u>
1. Clayton County of Polk Application #: 02011088 Purpose: Finance the Purchase of Model S630 Bobcat and Attachments	Village Rate: 3.25 Filed: December 14, 2010	\$39,432.40
2. Two Rivers County of Manitowoc Application #: 02011089 Purpose: Finance the purchase of ditch cutting tractor	Town Rate: 3.25 Filed: December 14, 2010	\$100,000.00
	TOTAL	\$139,432.40

**BOARD MEETING
DECEMBER 20, 2010**

**AGENDA ITEM 4
AUTHORITY TO PURCHASE STATE OF WISCONSIN GENERAL OBLIGATION BONDS**

Description of Request – BCPL staff is requesting that the Board authorize investment of up to \$50 million in State of Wisconsin General Obligation (G.O.) Bonds.

Summary Explanation – The amount of BCPL trust funds available for investment is rising faster than demand for State Trust Fund Loans. Trust funds not invested in bonds or State Trust Fund Loans are held in the State Investment Fund, which provides a very low rate of return. We have an opportunity to replenish our investment portfolio with State of Wisconsin G.O. Bonds that pay a good rate of return with very low risk. This proposed investment would provide better balance to the investment portfolio and stronger earnings for trust fund beneficiaries, K-12 public school libraries.

Analysis - BCPL currently manages approximately \$835 million in trust fund assets of which approximately \$700 million is invested in Trust Fund Loans to municipalities and school districts, \$50 million in State of Wisconsin G.O. Bonds, and \$85 million in the State Investment Fund. The amount of cash available for investment is projected to rise rapidly over the next few months due to prepayments on loans and bonds along with regular annual payments on State Trust Fund Loans. BCPL staff projects that we will have between \$200 million and \$260 million in cash following scheduled Trust Fund Loan payments on March 15, 2011.

State Trust Funds Loans have no prepayment penalty and many borrowers are taking advantage of market conditions to refinance existing State Trust Fund Loans through bond market transactions. We have received notification from our borrowers of intent to prepay more than \$97 million in State Trust Fund Loans in January alone.

The Trust Fund Loan Program is very active but loan demand is projected to stabilize during 2011 and will not provide adequate opportunities to invest these additional cash reserves. Certain federal interest rate subsidies are scheduled to expire at the end of calendar year 2010, which may reduce loan demand for some borrowers. State of Wisconsin budget problems will likely cause funding concerns at all local levels of government. In addition, loan volume is historically much lower in the first five months of the calendar year. During the past three years, average monthly loan volume from January through May was \$9.2 million compared to \$18.6 million from June through December.

BCPL trust fund monies that are not invested in bonds or State Trust Fund Loans are held in the State Investment Fund, which currently pays less than 0.25% on deposits. Staff is concerned that large cash holdings will reduce future Trust Fund earnings, thereby affecting aid to public school libraries - the primary beneficiary of the BCPL managed Trust Funds.

In addition to the Trust Fund Loan Program, Wisconsin Statutes Section 24.61(2) authorizes BCPL to invest Trust Funds in the following:

1. Bonds or Notes issued by the United States Government,
2. Securities issued under the Federal Farm Loan Act of 1916 or Farm Credit Act of 1971,
3. Bonds issued by the State of Wisconsin,

4. Bonds issued by any town, village, city, county, or school district within Wisconsin,
5. Bonds issued by UW Hospitals and Clinics Authority,
6. Bonds issued by professional football and baseball stadium districts, and
7. Bonds issued by a local exposition districts and cultural arts districts.

BCPL has long invested in State of Wisconsin G.O. Bonds, a history that includes BCPL financing some of Wisconsin's obligations during the Civil War. More recently our holdings have totaled as much as \$142.7 million in 2002. Many of these recent bonds funded veteran home loans and were repaid as veterans refinanced their home loans at lower rates. These principal repayments have decreased BCPL bond investments to \$52.4 million today.

The timing is right to reverse the decline in this important component of our investment portfolio. The municipal bond market has been flooded with new issues since early November as many state and municipal borrowers are seeking to sell bonds before the pending expiration of federal interest rate subsidies. This market condition has caused a significant increase in bond yields required to attract the capital necessary to absorb excess supply. This anomaly has created an opportunity for bond investors to get better returns on new investments.

State of Wisconsin Bonds with longer maturities are yielding above 5.25% and provide an attractive opportunity for BCPL to replenish and rebalance the Common School Trust Fund portfolio. At current rates, every \$50 million that BCPL invests in State of Wisconsin Bonds rather than the State Investment Fund will increase annual Trust Fund earnings (and distributions to beneficiaries) by more than \$2.5 million.

Benefits of BCPL bond investment include portfolio diversification, increased investment returns, and improvements in liquidity. There should be no short term impacts on the Trust Fund Loan Program and the long term impact from improved portfolio liquidity will strengthen the loan program overall.

BCPL bond purchases in the past have been through direct negotiation with the Capital Finance Office at the Wisconsin Department of Administration. This relationship made sense in that certain investment banking fees can be eliminated from the transaction. However, there are no large bond offerings currently scheduled by the State of Wisconsin. If the Board approves this authorization, these proposed State of Wisconsin G.O. Bond investments will occur on the secondary market, through a bond dealer such as Robert W. Baird or BNY Mellon.

Wisconsin has never defaulted on a bond and State of Wisconsin Bonds available on the secondary market have an investment grade rating of Aa.

Proposed Resolution –

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands approves the purchase of up to Fifty Million Dollars (\$50,000,000) of State of Wisconsin General Obligation Bonds 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.