



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

June 21, 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 – June 7, 2011
3. Approve Loans
4. Request for Authority to Purchase Additional State of Wisconsin G.O. Bonds
5. Request for Authority to Sell Bonds
6. Executive Secretary's Report
7. Adjourn

**BOARD MEETING  
JUNE 21, 2011**

**AGENDA ITEM 2  
APPROVE MINUTES**

Attached for approval are the minutes from the June 7, 2011, board meeting.

Board Meeting Minutes  
June 7, 2011

**ITEM 1. CALL TO ORDER**

Commissioner Van Hollen called the meeting of the Board of Commissioners of Public Lands to order at 2:10 p.m. Board Chair La Follette was not available for the meeting.

Present were:

Kurt Schuller, Commissioner  
J.B. Van Hollen, Commissioner  
Tia Nelson, Executive Secretary  
Tom German, Deputy Secretary  
Richard Sneider, Loan Analyst

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 – May 17, 2011**

**MOTION:** Commissioner Schuller moved to approve the minutes; Commissioner Van Hollen seconded the motion. The motion passed, 2-0.

**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. Menasha Calumet and Winnebago County Application #: 02011154 Purpose: Refinance other outstanding debt	City Rate: 5.00% Term: 19 years	\$1,000,000.00
2. Osceola Polk and St. Croix County Application #: 02011152 Purpose: Refinance prior service pension liability	School Rate: 3.75% Term: 5 years	\$375,000.00
3. Walworth County Walworth County Application #: 02011153 Purpose: Finance aeration system energy efficiency project	Metropolitan Sewerage District Rate: 3.75% Term: 10 years	\$469,500.00
<b>TOTAL</b>		<b>\$1,844,500.00</b>

**MOTION:** Commissioner Schuller moved to approve the loans; Commissioner Van Hollen seconded the motion. The motion passed, 2-0.

#### **ITEM 4. EXECUTIVE SECRETARY'S REPORT**

Executive Secretary Nelson reported that staff had invested almost \$50 million of Trust Fund principal in State of Wisconsin G.O. bonds and approximately \$10 million in Wisconsin municipal G.O. bonds. The board had authorized staff to make these investments at prior board meetings. She said that while loan demand had increased, the demand was not sufficient enough to maximize the Trust Fund principal to its fullest. She added that staff would likely be requesting additional authority from the Board to purchase more State of Wisconsin G.O. bonds and also authority to sell bonds currently held in order to reinvest in longer-term bonds, if the market conditions are right.

#### **ITEM 5. ADJOURN**

**MOTION:** Commissioner Van Hollen moved to adjourn the meeting; Commissioner Van Schuller seconded the motion. The motion passed, 2-0.



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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  
JUNE 21, 2011****AGENDA ITEM 3  
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Amount</u>
1. Menasha Calumet And Winnebago County Application #: 02011157 Purpose: Finance street construction	City Rate: 3.75% Term: 10 years	\$350,000.00
2. Shorewood Milwaukee County Application #: 02011155 Purpose: Refinance prior service pension liability	School Rate: 5.50% Term: 15 years	\$3,600,000.00
3. Shorewood Milwaukee County Application #: 02011156 Purpose: Fund trust for OPEB expenditures	School Rate: 5.00% Term: 20 years	\$6,000,000.00
	<b>TOTAL</b>	<b>\$9,950,000.00</b>

**BOARD MEETING  
JUNE 21, 2011**

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

**Description of Request**

BCPL staff is requesting authority to invest an additional \$40 million in General Obligation (G.O.) Bonds issued by State of Wisconsin.

**Summary Explanation**

The Board authorized staff to invest up to \$50 million in State of Wisconsin G.O. Bonds at the December 20, 2010, board meeting. Although bond availability was initially very limited, over the past several weeks BCPL staff has been able to purchase State of Wisconsin G.O. Bonds in various amounts fulfilling the initial authorization. Authorizing BCPL staff to invest an additional \$40 million in State of Wisconsin G.O. Bonds will provide further opportunities to invest available funds at a good rate of return with very low risk.

**Analysis**

BCPL currently manages approximately \$860 million in trust fund assets, of which approximately \$575 million is invested in Trust Fund Loans to municipalities and school districts. Following recent purchases, \$90 million is invested in State of Wisconsin G.O. Bonds, of which \$40 million was acquired directly from the State to fund Veteran Home Loans. An additional \$16 million is invested in general obligation bonds issued by Wisconsin municipalities and school districts, and \$179 million is currently in the State Investment Fund.

On May 17, 2011, the Board granted BCPL staff the authority to invest up to \$40 million in General Obligation Bonds issued by any town, city, county or school district within Wisconsin where the issuer has a Moody's rating of Aa or higher (or the equivalent rating from Standard & Poor's or Fitch) at the time of purchase. BCPL staff is pleased to have been able to purchase approximately \$16 million of these high quality bonds to date, and believe they will be able to utilize the remaining purchase authority over the next few months.

The BCPL State Trust Fund Loan Program remains active, but loan demand has declined from the record levels of the past few years and is not expected to provide adequate opportunities to invest all of the money currently held in the State Investment Fund during the next fiscal year. In addition, State Trust Fund loans have no prepayment penalty and borrowers are continuing to take advantage of market conditions to refinance existing State Trust Fund Loans at lower interest rates.

BCPL Trust Funds that are not invested in bonds or State Trust Fund Loans are held in the State Investment Fund, which currently pays interest at a rate of less than 0.15 % on Trust Fund deposits. Staff is concerned that a large amount of money invested in the State Investment Fund may result in lower future Trust Fund earnings, thereby reducing aid to public school libraries - the primary beneficiary of the BCPL managed Trust Funds.

State of Wisconsin Bonds with longer maturities continue to provide an attractive investment opportunity for BCPL to replenish and rebalance the Common School Trust Fund portfolio. At current yields, investing an additional \$40 million in State of Wisconsin Bonds rather than the State Investment Fund will increase annual Trust Fund earnings (and distributions to beneficiaries) by more than \$1.8 million.

The State of Wisconsin Capital Finance Office has indicated that there are no current plans for the issuance of new taxable bonds by the State of Wisconsin in the near future. Therefore, if this additional bond purchase authority is granted, these purchases will most likely be made through secondary market transactions.

In summary, the benefits of additional state bond investments 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.

### **Proposed Resolution**

**NOW, THEREFORE BE IT RESOLVED**, that the Board of Commissioners of Public Lands authorizes the purchase of up to Forty Million Dollars (\$40,000,000) 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. This purchase authority shall be in addition to any previous authority granted by the Board of Commissioners of Public Lands. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such transaction.

**BOARD MEETING  
JUNE 21, 2011**

**AGENDA ITEM 5  
REQUEST FOR AUTHORITY TO SELL BONDS**

**Description of Request**

BCPL staff is requesting the authority to sell bonds currently held in Trust Fund investment portfolio(s).

**Summary Explanation**

BCPL staff believes that the appropriate investment strategy for Trust Fund bond investments in the current market environment is long term “buy-and-hold”. This strategy includes the purchase of bonds and holding most of these investments until the bonds either reach maturity or are called (pre-paid) by the issuer. However, there are situations and market conditions where it is beneficial for the purposes of portfolio management to sell a bond prior to maturity. Past authorizations by the Board of Commissioners provided only for the purchase of bonds, and did not include language authorizing the sale of these same investments.

**Analysis**

There are several situations that might create the conditions under which it is beneficial to sell a certain bond investment prior to maturity. The primary reason for such a sale is that conditions have changed since the purchase of the security, and a better investment opportunity is now available. This better opportunity might include an improved yield, reduced risk, or increased liquidity from the security already owned by the Trust Funds. The opportunity might improve the diversification of the portfolio by shifting investment into a bond issued by a community not currently represented in the BCPL investment portfolio. Conditions involving the issuer or underlying security to be sold may have changed since the time of purchase, such as an anticipated increase or decrease in credit rating.

The important issue is that market conditions, along with conditions involving specific bond investments, will change over time. Some of these changes will create situations that make it beneficial to divest of specific securities in the BCPL portfolio. The request below provides BCPL staff with the authority to sell bonds when staff believes that a sale would be in the best interests of Trust Fund beneficiaries.

**Proposed Resolution**

**NOW, THEREFORE BE IT RESOLVED**, that the Board of Commissioners of Public Lands authorizes BCPL staff to sell previously acquired state and municipal 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.