



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

September 17, 2013

2:00 P.M.

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

- 1) Call to Order
- 2) Approve Minutes – September 3, 2013
- 3) Approve Loans
- 4) Request to Adjust Loan Program Interest Rates
- 5) Executive Secretary's Report
- 6) Adjourn

**BOARD MEETING
SEPTEMBER 17, 2013**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the September 3, 2013, board meeting.

Board Meeting Minutes
September 3, 2013

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. He noted that the State Treasurer was not on the teleconference.

Present were:

Doug La Follette, Board Chair
J.B. Van Hollen, Commissioner
Tia Nelson, Executive Secretary
Tom German, Deputy Secretary
Richard Sneider, Loan Analyst

Secretary of State
Attorney General
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
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ITEM 2. APPROVE MINUTES – AUGUST 20, 2013

MOTION: Commissioner Van Hollen moved to approve the minutes; Board Chair La Follette 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. Biron Wood County Application #: 02014040 Purpose: Finance Midwest Cold Storage expansion	Village Rate: 4.25% Term: 20 years	\$526,700.00
2. Ingram Rusk County Application #: 02014043 Purpose: Finance village hall completion and road improvements	Village Rate: 4.25% Term: 20 years	\$30,000.00
3. Nichols Outagamie County Application #: 02014042 Purpose: Finance street reconstruction	Village Rate: 3.00% Term: 5 years	\$70,000.00
4. Poplar Douglas County Application #: 02014038 Purpose: Purchase dump truck with plow	Village Rate: 3.25% Term: 10 years	\$40,000.00
5. Tomah City Monroe County Application #: 02014039 Purpose: Finance ice arena expansion		\$350,000.00

6.	Union Pierce County Application #: 02014041 Purpose: Finance road improvements	Town Rate: 3.00% Term: 5 years	\$375,000.00
7.	West Baraboo Sauk County Application #: 02014044 Purpose: Finance TIF district project	Village Rate: 3.25% Term: 10 years	\$300,000.00
TOTAL			\$1,691,700.00

MOTION: Commissioner Van Hollen moved to approve the loans; Board Chair La Follette seconded the motion. The motion passed 2-0.

ITEM 4. PROPOSED LAND BANK PURCHASE – DOUBLE BEND ROAD (P1202)

MOTION: Commissioner Van Hollen moved to approve the land bank purchase; Board Chair La Follette seconded the motion. The motion passed 2-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands authorizes the purchase of the Property from Plum Creek at a price not to exceed One Million Three Hundred Seventy Seven Thousand Dollars (\$1,377,000) 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 purchase transaction.

ITEM 5. EXECUTIVE SECRETARY’S REPORT

Executive Secretary Nelson said that at the August 6 board meeting, the Board gave approval for staff to invest in securities authorized by statute but not yet authorized by board action. They asked that staff report those investments at the next board meeting. She reported that staff recently purchased \$1 million in Farm Credit bonds. The Board agreed that receiving the investment report via e-mail prior to the meeting and then a verbal report at the meeting was acceptable.

ITEM 6. ADJOURN

MOTION: Commissioner Van Hollen moved to adjourn the meeting; Board Chair La Follette seconded the motion. The motion passed 2-0.



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 recording may do so at the Board of Commissioners of Public Lands, 101 E. Wilson Street, 2nd Floor, Madison, Wisconsin.

**BOARD MEETING
SEPTEMBER 17, 2103**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Amount
1. Albany Green County Application #: 02014047 Purpose: Purchase truck/snow plow	Village Rate: 3.00% Term: 5 years	\$70,000.00
2. Dresser Polk County Application #: 02014046 Purpose: Replace water meters	Village Rate: 3.25% Term: 10 years	\$152,000.00
3. North Prairie Waukesha County Application #: 02014034 Purpose: Finance street improvements	Village Rate: 3.25% Term: 10 years	\$505,150.00
4. North Prairie Waukesha County Application #: 02014036 Purpose: Refinance BCPL loan #2010039	Village Rate: 3.00% Term: 5 years	\$113,327.00
5. Rutland Dane County Application #: 02014048 Purpose: Finance road construction and maintenance	Town Rate: 3.00% Term: 5 years	\$115,000.00
6. Stoddard Vernon County Application #: 02014045 Purpose: Finance road construction	Village Rate: 4.25% Term: 20 years	\$215,000.00
TOTAL		\$1,170,477.00

**BOARD MEETING
SEPTEMBER 17, 2013**

**AGENDA ITEM 4
REQUEST TO ADJUST LOAN PROGRAM INTEREST RATES**

Background

Interest rates have continued to climb and have stabilized at higher levels since we last raised rates in late June 2013. The benchmark 10-year Treasury rate has risen from around 2.50% to just below 3.00% today. Longer term interest rates have risen more slowly, with the 20-year Treasury increasing about 0.30%.

Interest rates charged by the BCPL State Trust Fund Loan Program should reflect market rates to maintain our competitive position in relation to alternative sources of funding available to our customers.

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 our investment alternatives. As you know, our investment alternatives are primarily limited to bonds. In analyzing alternatives, we look at interest rates and yield from the perspective of credit quality, liquidity and duration.

For example, we recently purchased 10-year, Aaa-rated Farm Credit Bonds with a yield of 3.98%. While State Trust Fund Loans have not been rated by any credit rating agency, we feel the credit quality of our loan portfolio is roughly equivalent to an Aaa rating due to the advantage of the state aid intercept.

When looking at liquidity, the Farm Credit bonds are very easy to buy and sell with low transaction costs. While statutes authorize the BCPL to sell loans, this has never been done. Therefore, the bonds would be considered more liquid than State Trust Fund Loans.

The last item is duration. The BCPL requires annual loan installments, while bonds will generally have a single principal payment on the maturity date. These annual loan installments shorten the average life (duration) of a loan compared to a bond with the same maturity date (for 10-year maturities, the loan has a 3-year shorter duration than the bond).

So in comparing the alternatives, the Farm Credit bonds have roughly equal credit quality and greater liquidity but a longer duration than State Trust Fund Loans. In the final analysis, it is reasonable to expect that State Trust Fund Loans provide an investment return that is slightly lower than the yield available on Farm Credit Bonds.

Interest Rate Adjustments

To reflect recent increases in market interest rates, staff recommends that program interest rates in the BCPL State Trust Fund Loan program be increased by .50% on loans with terms from 1-10 years and 0.25% on loans with terms from 11-20 years.

Proposed Resolution

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands approves the change in annual interest rates for the BCPL State Trust Fund Loan Program to 2.50% for 1-2 year loans, 3.50% for 3-5 year loans, 3.75% for 6-10 year loans, and 4.50% for 11-20 year loans.