

101 E. Wilson Street
2nd Floor
PO Box 8943
Madison, WI 53708-8943

608 266-1370 INFORMATION
608 266-0034 LOANS
608 267-2787 FAX
bcpl.wisconsin.gov

Jonathan Barry, *Executive Secretary*

AGENDA

August 20th, 2019

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 – August 5th, 2019 (Attachment)
- 3) Approve Loans (Attachment)

Old Business: None

New Business:

- 4) Discussion and possible vote regarding Amendment to Investment Policy

Routine Business:

- 5) Chief Investment Officer's Report (Attachment)
- 6) Executive Secretary's Report
- 7) Board Chair's Report
- 8) Future Agenda Items
- 9) Adjourn

AUDIO ACCESS INFORMATION

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**BOARD MEETING
August 20th , 2019**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the August 5th, 2019, board meeting.

Board Meeting Minutes
August 5th, 2019

Present in person were:

Sarah Godlewski, Board Chair	State Treasurer
Jonathan Barry, Executive Secretary	Board of Commissioners of Public Lands
Tom German, Deputy Secretary	Board of Commissioners of Public Lands
Mike, Krueger, IT Manager	Board of Commissioners of Public Lands
Richard Sneider, Chief Investment Officer	Board of Commissioners of Public Lands

Present via teleconference were:

Josh Kaul, Commissioner	Attorney General
Doug La Follette, Commissioner	Secretary of State

ITEM 1. CALL TO ORDER

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

ITEM 2. APPROVE MINUTES – JULY 16nd, 2019

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

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

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

DISCUSSION: Mr. Sneider discussed a few of the loans including a trend for municipalities to finance annual capital budgets. Other loans included financing for the installation of solar panels at the Washburn wastewater plant and development incentives for a major expansion of Toro plant in Tomah and construction of new apartments in Saint Francis.

VOTE: The motion passed 3-0.

		Municipal Type	Loan Type	Loan Amount
1.	Barron Barron County Application #: 02020014 Purpose: Finance incinerator upgrades	County Rate: 3.75% Term: 2 years	General Obligation	\$529,094.00
2.	Calumet Fond Du Lac County Application #: 02020021 Purpose: Purchase fire truck	Town Rate: 3.75% Term: 10 years	General Obligation	\$665,000.00
3.	Christmas Mountain Sanitary Dist Sauk County Application #: 02020018 Purpose: Finance wastewater treatment facility improvements	Sanitary District Rate: 4.00% Term: 20 years	General Obligation	\$1,511,500.00
4.	Cumberland Barron County Application #: 02020008 Purpose: Finance cemetery improvements	City Rate: 3.75% Term: 5 years	General Obligation	\$65,000.00
5.	Denmark Brown County Application #: 02020010 Purpose: Refinance existing debt	Village Rate: 4.00% Term: 19 years	General Obligation	\$2,115,000.00
6.	Denmark Brown County Application #: 02020017 Purpose: Refinance existing debt	Village Rate: 4.00% Term: 16 years	General Obligation	\$800,000.00
7.	Dunkirk Dane County Application #: 02020015 Purpose: Finance roadwork and purchase plow truck	Town Rate: 3.75% Term: 4 years	General Obligation	\$450,000.00
8.	Ellsworth Pierce County Application #: 02020005 Purpose: Refinance 2010A refunding bonds	Village Rate: 3.75% Term: 7 years	General Obligation	\$395,000.00
9.	Ellsworth Pierce County Application #: 02020006 Purpose: Finance 2019 capital projects	Village Rate: 4.00% Term: 20 years	General Obligation	\$453,000.00
10.	Florence Florence County Application #: 02020020	County Rate: 3.75% Term: 5 years	General Obligation	\$200,000.00

	Purpose: Finance 2018-2019 capital projects		
11.	Grant	Town	General Obligation \$167,513.00
	Monroe County	Rate: 4.00%	
	Application #: 02020012	Term: 20 years	
	Purpose: Purchase plow truck and equipment		
12.	Norwalk	Village	General Obligation \$50,000.00
	Monroe County	Rate: 3.75%	
	Application #: 02020007	Term: 10 years	
	Purpose: Finance watershed project		
13.	Oxford	Town	General Obligation \$140,000.00
	Marquette County	Rate: 3.75%	
	Application #: 02020016	Term: 10 years	
	Purpose: Purchase fire truck		
14.	River Hills	Village	General Obligation \$658,269.00
	Milwaukee County	Rate: 3.75%	
	Application #: 02020013	Term: 10 years	
	Purpose: Finance 2019 capital projects		
15.	Saint Francis	City	General Obligation \$7,100,000.00
	Milwaukee County	Rate: 4.00%	
	Application #: 02020019	Term: 17 years	
	Purpose: Finance TID development agreement		
16.	Tomah	City	General Obligation \$500,000.00
	Monroe County	Rate: 4.00%	
	Application #: 02020009	Term: 15 years	
	Purpose: Finance development incentive		
17.	Washburn	City	General Obligation \$169,000.00
	Bayfield County	Rate: 4.00%	
	Application #: 02020011	Term: 20 years	
	Purpose: Improve wastewater treatment plant		
	TOTAL		<u><u>15,968,376.00</u></u>

ITEM 4. PROPOSED TWO RIVERS SUBMERGED LAND LEASE

Commissioner La Follette inquired into why only \$250 a year. Mr. German noted revenue from submerged leases goes into the general fund not the trust fund, he also noted leases for public purposes are only charged a nominal fee versus higher fees on private for profit leases. Commissioner Kaul questioned DNR’s role in the process. Mr. German explained that BCPL functions as the leasing agent for the state and it is the DNR that is empowered to make decisions on these leases. BCPL often is called upon to meet with the affected municipalities or parties to these leases as DNR does not always have staff available, Board Chairmen Godlewski asked about letting representatives know about approved leases and Executive Secretary Barry said that he would certainly do this as soon as the lease is signed by all parties.

ITEM 5. CHIEF INVESTMENT OFFICER’S REPORT

Mr. Sneider reported that market risk is elevated and that increasing the commitment to the real estate asset class would provide stability to the annual distributions to current beneficiaries along with capital gains to future beneficiaries. The Investment Committee is close to making commitments to open-ended real estate funds. The quarterly report shows that current bond and loan portfolios are performing very well, exceeding benchmarks by a wide margin. The board packet inadvertently contained an old investment transaction report, and Mr. Sneider reported that a regular ETF rebalance trade was completed at the end of July in the amount of \$1 million.

ITEM 6. EXECUTIVE SECRETARY’S REPORT

Executive Secretary Barry called the Board’s attention to the draft ‘Deer Browsing Paper’ and described current activities he has undertaken as well as by staff in Lake Tomahawk to inform potential stakeholders that this draft has been prepared and that comment, and suggestions are welcome. In addition, Barry and Deputy Secretary German will be meeting with DNR Secretary Cole on this and other subjects in the very near future. Executive Secretary Barry brought up staff’s intention to circulate an amended draft investment plan and asset allocation model to the Board for purposes of discussion at the next Board meeting on August 20, 2019. No action is anticipated at that meeting but will instead, subject to the Board’s preference, be ready for Board action at the first meeting in September.

ITEM 7. BOARD CHAIR’S REPORT

Board Chair Godlewski related how she, Rich, Tom and Jonathan had together been working to develop future goals and initiatives for BCPL. These goals have been created and focus on three high level areas of BCPL’s activities:

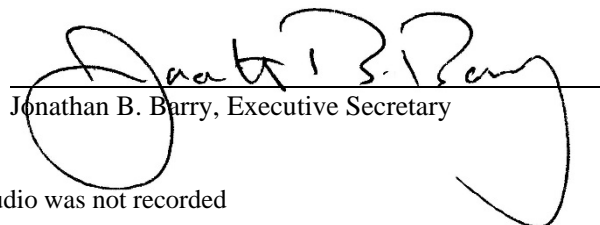
- 1) Land and land management
- 2) Investments
- 3) Operations

ITEM 8. FUTURE AGENDA ITEMS

Amended Investment Policy and asset allocation model.

ITEM 9. ADJOURN

Commissioner La Follette moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:44 p.m.



Jonathan B. Barry, Executive Secretary

Link to audio recording: the meeting’s audio was not recorded

**BOARD MEETING
AUGUST 20, 2019**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Bayfield Bayfield County Application #: 02020030 Purpose: Finance park improvements	City Rate: 3.75% Term: 10 years	General Obligation	\$152,000.00
2. Green Bay Brown County Application #: 02020023 Purpose: Finance neighborhood redevelopment	City Rate: 3.75% Term: 10 years	General Obligation	\$1,000,000.00
3. Hawkins Rusk County Application #: 02020025 Purpose: Finance purchase of grader	Town Rate: 3.75% Term: 10 years	General Obligation	\$192,500.00
4. Janesville Rock County Application #: 02020029 Purpose: Finance fire protection	Town Rate: 3.75% Term: 2 years	General Obligation	\$300,000.00
5. Neshkoro Marquette County Application #: 02020028 Purpose: Finance roadwork	Village Rate: 3.75% Term: 10 years	General Obligation	\$40,000.00
6. Niagara Marinette County Application #: 02020026 Purpose: Finance purchase of school vans	School Rate: 3.75% Term: 3 years	General Obligation	\$40,000.00
7. Oconto Oconto County Application #: 02020027 Purpose: Finance roadwork	Town Rate: 3.75% Term: 2 years	General Obligation	\$150,000.00
8. Rosendale Fond Du Lac County Application #: 02020022 Purpose: Finance roadwork	Village Rate: 3.75% Term: 5 years	General Obligation	\$70,000.00

Municipality	Municipal Type	Loan Type	Loan Amount
9. Tomahawk Lincoln County Application #: 02020031 Purpose: Finance roadwork, bicycle trail, and sewer project	City Rate: 3.75% Term: 10 years	General Obligation	\$663,000.00
10. Windsor Dane County Application #: 02020024 Purpose: Finance property purchase	Village Rate: 3.75% Term: 10 years	General Obligation	\$2,000,000.00
TOTAL			\$4,607,500.00

BOARD MEETING

August 20, 2019

AGENDA ITEM 4

PROPOSED AMENDMENT TO INVESTMENT POLICY STATEMENT

Executive Summary

The current Investment Policy Statement (IPS) includes a provision that prohibits the use of any leverage without Board approval. Staff is recommending that this provision be revised to permit the utilization of leverage in accordance with industry and market standards.

“Leverage” is the use of borrowed money to enhance investment returns. BCPL has never borrowed money in the past and staff has no intention of borrowing money in the future.

However, BCPL regularly invests in other entities that themselves utilize leverage as part of their normal course of business. For example, exchange-traded-funds (ETFs) own stock in companies that borrow money. Real Estate Investment Trusts (REITs) borrow money to acquire properties while waiting for committed investors to deliver on capital calls. While not examples of direct leverage by BCPL or other investors in those entities, each might be considered an *indirect* use of leverage. As the IPS is intended to guide investment strategies and provide clarity, BCPL staff feel it would be appropriate to amend this section to read:

The utilization of leverage is permitted in accordance with industry and market standards for permitted investments under this policy. Any use of leverage will be consistent with the strategy for which the BCPL hired the manager and controlled by the specific guidelines for that manager.

This language would clearly allow BCPL to invest in entities that borrow money themselves (creating a possibility of indirect leverage). This was the original intention of the drafters of the BCPL IPS.

As BCPL staff are now looking to move forward with the diversification of BCPL’s investment portfolio into real estate investments in accordance with the IPS and asset allocation model, the issue of leverage has come up because all of the most prudent real estate funds identified by BCPL staff use some form of leverage (borrowed money) as a matter of course. The prudent use of leverage is a real estate industry standard, and it is difficult to find any real estate investment fund that does not allow the use of any debt financing. In order to proceed with the implementation of the asset allocation, BCPL staff feel that it would be proper to amend the IPS at this time so that the IPS better defines the issue.

BOARD MEETING

August 20, 2019

AGENDA ITEM 4

PROPOSED AMENDMENT TO INVESTMENT POLICY STATEMENT

PROPOSED RESOLUTION

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands hereby amends Paragraph 6 of the **General Investment Guidelines and Restrictions** Section (on page 21) of BCPL's **INVESTMENT POLICY STATEMENTS** (previously adopted on November 1, 2016) to read as follows:

The utilization of leverage is permitted in accordance with industry and market standards for permitted investments under this policy. Any use of leverage will be consistent with the strategy for which the BCPL hired the manager and controlled by the specific guidelines for that manager.

BOARD MEETING**August 20, 2019****AGENDA ITEM 5****Investment Transaction Report****As of August 16, 2019**

Transactions since the report dated August 1, 2019 include:

Bond Purchases None

Bond Sales No direct sales. However, market interest rates have experienced an extraordinary decrease over the past several months (including 0.50% in last 30 days). This movement has created an opportunity for many borrowers to save future interest costs by issuing new bonds to redeem (pay off) outstanding debts. Over the past 60 days, BCPL has seen a cash inflow of \$170 million from bonds that have been repaid including \$25 million during the last two weeks.

Current projections indicate that BCPL will be holding approximately \$350 million in cash by the end of this month. As discussed in prior board communications, staff believes that holding cash is an appropriate strategy in this market environment. The State Investment Fund is still paying above 2%, while the 10-year Treasury has fallen to near 1.50%. Reinvestment into current asset classes is difficult while stock prices remain high and bond yields remain very low. The probability of a U.S. recession in the next 18 months continues to increase and cash provides the opportunity to acquire assets at lower prices following a market correction.

Staff anticipates the re-deployment of a portion of these funds into the real estate asset class. Remaining cash will be invested through the Trust Fund Loan Program and other opportunities as they arise.

That said, the yield on cash remains well below the rate we had been earning on the bonds before they were paid off. The lower return on a significant part of the portfolio will have a direct impact on distributable income next year. However, staff remains confident that earnings will remain above the targeted distribution and there will be no need to tap into the smoothing funds to supplement the 2020 distribution.

**Public Equity
Purchases**

Staff made purchases totaling \$3.7 million in public equity ETFs in accordance with the authority provided by the BCPL Investment Committee.