

Board Meeting Minutes
July 7th, 2020

Present were:

Sarah Godlewski, Board Chair	State Treasurer
Josh Kaul, Commissioner	Attorney General
Doug LaFollette, Commissioner	Secretary of State
Tom German, Executive Secretary	Board of Commissioners of Public Lands
Richard Sneider, Chief Investment Officer	Board of Commissioners of Public Lands
Mike Krueger, IT Manager	Board of Commissioners of Public Lands
Denise Nechvatal	Board of Commissioners of Public Lands
Thuy Nguyen, Office Manager	Board of Commissioners of Public Lands
Julie Benkoske	State Treasurer's Office

ITEM 1. CALL TO ORDER

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

ITEM 2. APPROVE MINUTES – June 23, 2020.

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

DISCUSSION: Commissioner Kaul commented on three typos. It is agreed that typos will be corrected.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

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

DISCUSSION: Commissioner LaFollette asked if the loans had been reviewed by the Attorney General's office.

Mr. Sneider replied, yes, the loans were approved by the Attorney General's office. Mr. Sneider commented that most of the loans are for road work or purchase of equipment but there are a few that deserve a special mention. First, the Monticello School District is borrowing \$40,000 for a renewable energy project, which involves converting to LED lighting. This will save the schools a lot of money in the future. The City of La Crosse is taking out two loans. The first loan involves a property within the gateway to the city that came up for sale. The city is borrowing to purchase that property so it can control future development of that parcel.

Commissioner LaFollette asked for clarification about which loan is for the property purchase.

Mr. Sneider replied that it was a loan to the City of La Crosse, loan number five. He added that the City of

La Crosse is also borrowing (loan number four on the list) to fund the upfront costs for a major wastewater treatment project. The flexibility of the State Trust Fund Loan Program and its low interest rates make it advantageous for communities to borrow for large construction projects. The City of La Crosse has an excellent history of using the State Trust Fund Loan Program for a variety of projects over the past decade or so. He also adds that the Town of LaFollette is borrowing money for roadwork.

Board Chair Godlewski commented that there are 18 loans to approve, which is higher than normal. She asked why there might be a higher number of loans to approve this time.

Mr. Sneider replied that it may be because there were three weeks between board meetings. Also, things come and go in waves. He believes we have reached a high point in the loan program. It is unlikely that the board will see this number of loans at the next meeting. The high number of loans could also mean that communities want to get their loan funding for projects that are happening later in the summer.

VOTE: The motion passed 3-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$6,961,012.35** in State Trust Fund Loans to support **18** community projects in Wisconsin.

1. Town of Randall / Kenosha County / Finance roadwork / \$200,000.00
2. City of Oconto Falls / Oconto County / Finance storm sewer project / \$143,000.00
3. Town of Preston / Trempealeau County / Finance new town shop/hall / \$350,000.00
4. City of La Crosse / La Crosse County / Finance WWTP projects / \$2,500,000.00
5. City of La Crosse / La Crosse County / Finance property purchase / \$590,000.00
6. Town of Jump River / Taylor County / Finance roadwork / \$310,000.00
7. Town of La Follette / Burnett County / Finance roadwork / \$371,361.40
8. Town of Sparta / Monroe County / Finance property reassessment / \$55,000.00
9. Monticello School District / Green County / Finance school energy projects / \$40,000.00
10. Monticello School District / Green County / Refinance BCPL Loan #2006080 / \$148,090.95
11. Town of Janesville / Rock County / Finance Fire Prevention Contract / \$300,000.00
12. Village of Elm Grove / Waukesha County / Finance excavator purchase / \$190,000.00
13. City of Chilton / Calumet County / Finance State Street Reconstruction Project / \$480,000.00
14. Town of Aurora / Taylor County / Finance purchase of patrol truck and accessories / \$150,000.00
15. Town of Addison / Washington County / Finance roadwork / \$200,000.00
16. Town of Jackson / Washington County / Finance fire service contract and community center / \$490,760.00
17. Village of Walworth / Walworth County / Finance sewer plant project / \$350,000.00
18. Village of Webster / Burnett County / Finance water tower project / \$92,800.00

ITEM 4. OLD BUSINESS – NONE

ITEM 5. NEW BUSINESS - NONE

ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider shared that for fiscal year 2020 BCPL has approved over 200 loans. This is the most loans approved in a year for the three years. Mr. Sneider commented that both ETF and MF investments, as well as BCPL's public bond portfolios are averaging at least 4% yield. To put that into perspective, Green Bay just issued taxable bonds for 20 years at 2.4%. This means that BCPL is doing well in its portfolio.

Mr. Sneider explained that recent investments in preferred stock and private real estate and debt funds should provide yields that are significantly higher than 4% which will help to both increase and stabilize the annual distribution to beneficiaries.

The yield on the State Investment Fund has fallen to 15 basis points, or 0.15% due to declines in short-term market interest rates over the past few months. BCPL does not expect this rate to recover anytime soon. In 2016, when the State Investment Fund also reached near 0%, BCPL contracted with American Deposit Management (ADM) of Pewaukee to manage excess cash reserves. ADM invests these funds in two ways:

1. Split BCPL deposits into banks across the country (including \$10 million in Wisconsin) in amounts of \$245,000 to retain FDIC insurance.
2. Large deposits in money-center bank with investment grade credit rating.

Through this arrangement, BCPL expects to earn more than 60 basis points, or more than four times the current rate offered by the State Investment Fund. The cost to BCPL is primarily liquidity. BCPL can get funds from State Investment Fund next day, but it can take up to a week to get funds back through ADM. This is not a problem, as BCPL will retain enough funds within the State Investment Fund to meet immediate needs.

Commissioner LaFollette commented that it was a good idea that BCPL made that investment. He added that he had not heard of that type of investment before.

Mr. Sneider commented that it worked well the last time BCPL invested in that way. He added that the State Investment Fund was able to get rates higher than what was offered by banks but that has again reversed itself. BCPL will be able to get a better yield through ADM once again.

Board Chair Godlewski added that in addition to ADM being a Wisconsin based company managing this investment opportunity, it is also good that BCPL has been able to earmark a certain amount of liquidity going to Wisconsin banks.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German commented that Mr. Sneider was able to give a definitive report in terms of what has been done and where things are going however, he would like to point out some of the things that we do not know at this point. He shares that there are still a lot of unknowns associated with the COVID-19 crisis:

- We don't know how long the crisis will linger.
- We don't know the long-term economic effects of the pandemic.
- We still don't even know all of the short-term effects.
- We don't know if or when Congress will pass a stimulus bill that will provide additional funding to states and local governments.
- Wisconsin counties are still not certain how many property taxpayers will defer their July installment payments.
- The UW system doesn't know how much money they may need to operate during this difficult time.
- Municipalities and school districts don't know if they will need to borrow for operating capital.
- BCPL staff continue to take things one day at a time while keeping an eye on potential future loan demand and investment opportunities. We still have roughly \$200 million available for investments and that gives us the flexibility to proactively respond during this changing time.

Executive Secretary German commented that BCPL's senior forester, Kevin Burns, who worked part-time for DHS on the COVID mapping effort is finishing up his duties and is returning to BCPL service fulltime.

Executive Secretary German shared that BCPL has been investigating the sale of its Pigeon Lake property for several years. UW River Falls had leased the property from BCPL but decided several years ago to stop holding summer camps on site. He met with local stakeholders in Bayfield County on the grounds of the property last week. County Board members, county staff, UW Extension Officials, local citizens, and representatives of Northland College toured the property and had a chance to ask questions. Staff is hopeful that with this expanded interest BCPL will be able to develop a sale or exchange of this property.

Executive Secretary German updated the board on the land exchange with the US Forest Service and explained that it continues to move forward. The superintendent of the Chequamegon Nicolet National Forest and he had a recent conference call with the Great Lakes Indian Fish and Wildlife Commission ("GLIFWC") regarding the land exchange. GLIFWC officials expressed cautious support for the transaction. They also expressed interest in the possibility that BCPL may consider entering into a Memorandum of Understanding (MOU) with local tribes similar to the MOU that BCPL has with the Forest County Potawatomi Community (FCPC). He believes that the MOU with the FCPC made it easier to complete three separate sales to the tribe.

Board Chair Godlewski asked if there were any timelines that could be shared regarding the land transactions.

Executive Secretary German replied that with the Forest Service things move very slowly. Up until January 2020, the transaction with the Forest Service was not moving at all. Since January, it appears that there are six or seven staff members that have been assigned to work on the transaction and they appear to be committed to pushing the transaction forward. Right now, they are working on the appraisals. He expects appraisals to be done by September or so. After the appraisals are done, the information goes to the Chequamegon Nicolet National Forest office in Rhinelander and then to the Milwaukee regional office. He imagines the information will be reviewed by the Milwaukee office for 30-60 days. The information will then go to the Washington D.C. office for passive review by two separate committees of Congress. He acknowledges that he does not remember the names of the specific committees. He adds that at the fastest pace, it would finish up at the end of the year but there are no guarantees, although he is optimistic.

Board Chair Godlewski asked Executive Secretary German how many acres are involved in the transaction.

Executive Secretary German replied that the transaction involves exchanging over 4,000 acres of land to the Forest Service in return for roughly 3,200 acres. The reason for the discrepancy in acreage is that the Forest Service will be receiving a lot more swamp and wetlands and BCPL will be getting more upland timber land in return. Because BCPL is looking to making money off the land, it is getting much more productive land than the land it is exchanging. This will be the single biggest transaction in the history of the agency in terms of reshaping the land base. When BCPL started land banking 15 years ago, it was looking at a very scattered land base. This transaction would reshape BCPL's land base considerably, making for much more consolidated, productive tracts of land.

Executive Secretary German added that with respect to the Pigeon Lake property, it has been a difficult transaction. There are many people in that area who feel strongly that the property should remain in the public domain. However, finding financing for some local government to acquire the property has been very difficult. The meeting that was held last week, gave local officials the opportunity to tour the property. There were a significant number of the County Board there that were taking it upon themselves to look at the property and see what the possibilities might be. The people from Northland College expressed a strong interest in the property. Executive Secretary German learned that there is fiber optic cable running to the property, 1G highspeed internet. One thing that was an obstacle for the sale of the property in the past was that the Boy Scouts were selling many of their camps which had comparable facilities to BCPL's. However, he is not aware of any Boy Scout camps that have 1G highspeed internet available on their property. While the lake is certainly a fine amenity, the highspeed internet may make the property more salable.

Mr. Sneider asked who paid for the installation of the highspeed internet at Pigeon Lake.

Executive Secretary German replied that he believes that the UW played a major role in getting it installed.

Commissioner LaFollette shared that Pigeon Lake is a very interesting place. He added that he had been there for an event and spent the night many years ago and it was a very nice camp area.

Executive Secretary German commented that the camp is roughly similarly situated to what it was 10-15 years ago except that the electrical has been upgraded and some buildings now have better roofs. The thing that has changed is the water. The water levels have risen so much. There used to be a beach area there that is now completely gone. There are roughly 40 large red pines that are dead because they are standing in over two feet of water. The water has risen so much that it has killed pines that have been there for 50, 60 or more years.

Commissioner LaFollette asked why the lake level went up so much.

Executive Secretary German replied that the US Geological Survey is trying to figure out why water levels are rising so fast. The county has had a losing battle with water levels. The county road to the south of Pigeon Lake has had to be raised several times to keep it above the water. Also, it has been necessary for a lot of gravel to be added to Pigeon Lake Road.

Mr. Sneider asked if the lake has an outlet.

Executive Secretary German replied no, there is no outlet. It is a seepage lake and water has continued to come in and has nowhere to go.

Board Chair Godlewski asked for clarification on how many acres.

Executive Secretary German responded that it is roughly 90 acres of land. The UW has a small parcel right next to BCPL's land, but he does not believe any part of the UW's parcel is currently above water.

Executive Secretary German commented about the timeline of this transaction and explained that there is none. There are however several interested parties looking more seriously about purchasing it. Northland College appeared to be very interested.

Commissioner LaFollette asked how much the property is being sold for or what is its value.

Executive Secretary German replied that the last appraisal was roughly \$1.3 million. However, a significant part of that appraisal was attributed to the improvements that the UW has put on it. The UW has asked to be reimbursed for some of those improvements. BCPL and the UW still need to sort that part of it out.

Commissioner LaFollette asked if this means that BCPL will need to negotiate with the UW about the sale price.

Executive Secretary German explained that it is an unusual situation. Not only does the Normal School Fund benefit the UW but the UW was the tenant on this property and the UW paid for the improvements on the property which added to its value.

Commissioner LaFollette asked if this is how things normally work. He added he has never been a landlord and asked if a tenant does improvements to the property, does the tenant then get money from the landlord.

Executive Secretary German replied that in most situations, the answer is no. Most of the time the lease is favorable to the landlord and expressly disclaims any of those types of claims. The lease that BCPL had with the UW was inherited from the Forest Service. That lease was a very bare bones lease. With the UW being a beneficiary of the fund, and being aware of the concept of unjust enrichment, BCPL staff is trying to work out a reasonable solution. The short

answer to Commissioner LaFollette's question is, no, not in a normal situation, but this is not a normal situation.

ITEM 8. BOARD CHAIR'S REPORT

Board Chair Godlewski commented that BCPL is always looking for investment opportunities for its 200 million. If commissioners know of any investment opportunities, please speak with Rich or Tom so that the Investment Committee can review them.

ITEM 9. FUTURE AGENDA ITEMS

No new future agenda items.

ITEM 10. ADJOURN

Commissioner Kaul moved to adjourn the meeting; Commissioner LaFollette seconded the motion. The motion passed 3-0; the meeting adjourned at 2:30 p.m.



Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2020/2020-07-07 BoardMtgRecording.mp3>