

Board Meeting  
Minutes  
December 15<sup>th</sup>, 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
Jim DiUlio, Deputy 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, Senior Accountant	Board of Commissioners of Public Lands
Thuy Nguyen, Office Manager	Board of Commissioners of Public Lands
Julie Benkoske, Chief of Staff	State Treasurer

**ITEM 1. CALL TO ORDER**

Board Chair Godlewski called the meeting to order at 2:03 p.m.

**ITEM 2. APPROVE MINUTES** – December 1, 2020.

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

**DISCUSSION:** Commissioner Kaul requested a correction to clarify that he recalled that staff in his office had touched base with Ryan Nilsestuen almost a year ago.

**VOTE:** The motion passed 3-0.

**ITEM 3. APPROVE LOANS**

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

**DISCUSSION:** Mr. Sneider commented on the loan to the City of Middleton for \$300,000. Middleton intends to use the funds for a loan program to help local businesses affected by the pandemic. This is a creative and excellent use of the loan program.

Commissioner LaFollette asked for clarification about the Middleton loan.

Mr. Sneider responded that they are funding a loan program for local businesses.

Commissioner LaFollette commented that it was interesting that Middleton is using BCPL funds to lend to other businesses. Are they going to charge more than 2.5% and make money on it?

Mr. Sneider replied that it is possible. This is a common practice when BCPL does a pass through loan like this.

Commissioner LaFollette thanked Mr. Sneider for the information.

Commissioner Kaul asked if this is something other municipalities would be interested in. Does BCPL want to promote this type of loan?

Executive Secretary German commented he was planning on reaching out to Gail Sumi and Jerry Deschane at the League of Wisconsin Municipalities because they put out newsletters or news updates in between their bigger publications. BCPL has done loans like this in the past but this is the first one in the era of COVID targeted to help businesses during the pandemic.

Board Chair Godlewski shared that the County Treasurers continue to share how this program can be used. She looks forward to the January 5th year-end review meeting to see how the State Trust Fund Loan Program has helped communities during COVID.

**VOTE:** The motion passed 3-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$460,225.00** in State Trust Fund Loans to support **3** community projects in Wisconsin.

1. Town of Lake / Marinette County / Finance purchase of tanker truck / \$72,500.00
2. City of Middleton / Dane County / Finance Middleton Economic Relief Loan Program / \$300,000.00
3. Village of Clayton / Polk County / Finance various public works projects / \$87,725.00

#### **ITEM 4. OLD BUSINESS - Status update on request for special counsel**

Executive Secretary German commented that there have been no changes since he drafted the short update.

Executive Secretary German commented on his recent conversations with DOA's general counsel, Charlotte Gibson, and Corey Finkelmeyer. They will get back to us when they can.

Commissioner LaFollette commented about the urgency of the request because of the discount if the investment is made within a certain time frame.

Commissioner LaFollette suggested that because of the time sensitivity, could Executive Secretary German go ahead and deal with that one himself.

Executive Secretary German explained that it takes a lot time to work on these subscription agreements.

Commissioner LaFollette stated that he understands but is asking whether in this one case, if the discount is substantial and help is not available elsewhere, perhaps Executive Secretary German could do it.

Executive Secretary German replied that he cannot work on the subscription agreements without leaving too many other BCPL duties behind at the present time.

Commissioner LaFollette asked how much the discount is worth?

Executive Secretary German responded it is 0.15%. On a \$20 million investment, it's \$30,000 a year.

Commissioner LaFollette expressed that that is a lot of money.

Board Chair Godlewski asked about the extension Mr. Sneider mentioned at the last meeting.

Mr. Sneider shared that no action was taken at the most recent meeting of the index fund, which was the impetus for the change in the discount policy. There is no end of the year deadline any longer. The deadline is going to be extended at least until the first quarter, maybe longer but that is all he knows at this time.

Board Chair Godlewski commented that BCPL can buy into it by the first quarter of 2021, so there is some additional time.

Mr. Sneider replied that he can't guarantee that, but it is a fair statement. However, they can institute a new policy at any time.

Board Chair Godlewski commented that at the last Board Meeting there was discussion about three courses of action. Commissioner Kaul working with the Department of Justice and deciding whether to resubmit a request for special counsel to the Governor's Office. Another option was to potentially seek legislative action through the budget. The third course of action was seeing if DOA might be able to do this on their own. Where are we?

Executive Secretary German commented that in terms of option number one, obtaining special counsel, there is nothing more he can do other than submit a request for special counsel. As of now, no feedback has been given from the Governor's Office so it would be too early to do that. Since it is not known why the last request was definitively turned down, he does not know what else he could provide that would result in a different determination. In terms of option number two, having DOA provide those services, DOA acknowledged that they did not have the staff to provide that assistance. The question is whether their relationship with their special counsel could be modified to include this and the answer is uncertain.

Executive Secretary German discussed an alternative option of BCPL modifying its contract with Portside to potentially indirectly obtain some assistance with subscription agreements. But Secretary German cautioned that this option has not yet been vetted.

Commissioner LaFollette asked Commissioner Kaul if there was something he could do to find out the answer expeditiously.

Commissioner Kaul replied that he believes there is no reason this can't be resolved in the next few weeks so next steps can be decided.

Commissioner LaFollette asked Executive Secretary German why this is an issue now when he hasn't heard anything about it in 40 years?

Executive Secretary German explained that for 35 of those years BCPL had no authority to invest in limited partnerships and the like until expanded authority came its way at the end of 2015. The end of 2016 is when BCPL did its first investment policy.

Executive Secretary German commented about the possibility of a legislative solution.

Board Chair Godlewski asked knowing there is a potential for legislative action, is Commissioner Kaul able to get some feedback.

Commissioner Kaul explained that it largely depends on the Governor's Office. It's easy to ask the question, but they will have to review it and figure out what their position is on it.

Board Chair Godlewski asked about the formality of the process of Commissioner Kaul inquiring with the Governor's Office.

Commissioner Kaul explained that there is not a formal process

Board Chair Godlewski commented about working in the next three weeks before the next Board meeting in January through the legislative process, if needed.

Commissioner LaFollette asked if requesting the legislative change should be done now.

Executive Secretary German replied that he could reach out to Mike Gallagher at the Legislative Reference Bureau (LRB) and ask him to draft the change. It would stay in draft format only until something should be done with it.

Commissioner Kaul shared that he believed the main issue is persuading the Governor's Office to include it and suggested Executive Secretary German contact Corey or Charlie in his office and mention that alternative option.

Executive Secretary German shared that they are already aware of this option. He shared the different ways to go about the legislation.

Board Chair Godlewski recapped the next actions Executive Secretary German is to take.

Executive Secretary German shared that he would give Mike Gallagher at LRB a heads up about drafting the legislative change language.

Commissioner LaFollette commented on the difficulty of getting an answer from the Governor's Office.

Executive Secretary German responded that there are many factors, the pandemic, lawsuits etc.

Commissioner LaFollette expressed that it might be time for the Commissioners together to contact to the Governor directly.

Board Chair Godlewski shared her appreciation of Commissioner LaFollette's suggestion and shared an alternative strategy of the Commissioners each reaching out more informally.

Commissioner Kaul agreed with Board Chair Godlewski but added that there is no urgency as far as a year-end deadline.

Board Chair Godlewski reiterated the strategy of each Commissioner reaching out to the Governor's Office more informally to get an answer before sending a formal letter from all three Commissioners.

Commissioner LaFollette suggested that Board Chair Godlewski make a call to the Governor's Chief of Staff.

Board Chair Godlewski agreed she will make contact and provide an update.

Executive Secretary German expressed the importance of knowing why the answer is 'no', if that is the result with this second request. That explanation would provide guidance for the next step.

Commissioner LaFollette shared his frustration about the speed at which the Governor's Office is replying. He stressed the importance of Board Chair Godlewski discussing this matter with the Governor's Office at her next meeting with them.

Board Chair Godlewski agreed.

## **ITEM 5. NEW BUSINESS – Resolution Commending John Schwarzmann**

Executive Secretary German shared that John Schwarzmann has been valued member of the BCPL team for decades. He commented on John's great service with the agency and shared that he has drafted a proposed resolution honoring John.

Commissioner LaFollette shared that he is a long serving Board member who has worked with John over many, many years. Because of this he would like to adopt the resolution.

**MOTION:** Commissioner LaFollette moved to adopt the resolution. Commissioner Kaul seconded the motion.

WHEREAS, JOHN SCHWARZMANN has been a public servant for the Board of Commissioners of Public Lands and the State of Wisconsin for over 30 years, and

WHEREAS, throughout his career, JOHN has managed BCPL's School Trust Lands in a sustainable manner to produce timber revenue for the School Trust Funds which benefit public education, and

WHEREAS, JOHN has been a strong proponent for best silviculture practices, and

WHEREAS, JOHN's contributions over the years have benefitted the Board of Commissioners of Public Lands, the State of Wisconsin and its citizens;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Commissioners of Public Lands recognizes JOHN SCHWARZMANN'S career of public service, his contributions to BCPL, the State of Wisconsin and to the forestry profession, and

BE IT FURTHER RESOLVED that the Board of Commissioners of Public Lands expresses its appreciation and commends John for his accomplishments.

**VOTE:** The motion passed 3-0.

Board Chair Godlewski shared her appreciation of Executive Secretary German for drafting the resolution and expressed her appreciation to John for everything he's done.

John Schwarzman shared his appreciation to the Board and commented on what a pleasure it has been to work with BCPL.

Board Chair Godlewski thanked John for sharing his knowledge and leadership.

## **ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT**

Mr. Sneider shared that the Investment Committee approved investing an additional \$100 million of Common School Fund assets into public equity ETF's with a focus on high dividend index funds and value index bonds that feature very low management fees. This investment will increase the total commitment to domestic and global public equities above the individual targets included in the investment policy, but the amount will remain well within a target range as approved by the Board.

Public equities including preferred shares now comprise about 22% of the Common School Fund assets and that number includes \$41,000,000 in unrealized gains. This new investment will increase that level to about 30%, while the target

ranges provide for maximum investment of 40% of Common School Fund assets. BCPL intends to make this investment methodically over the next few months, with staff looking for attractive entry points in a volatile market.

The choice of funds was developed by the Investment Committee based on four factors. 1) Recent studies have shown the divergences between growth and value stocks is at record levels; 2) Investment strategies tend to revert to the mean. Meaning that the relationship between growth stocks and value stocks will return to normal overtime. Value stocks are currently priced at a discount. 3) The mandate of the BCPL is to produce distributable income for its beneficiaries and value in high dividend stocks better meet that criteria than other sectors within the market; and 4) Its cash is producing near 0 record rates near 0 rates of return and moving cash into these specific value sectors of the public equity market will help increase the annual Common School Fund distribution to beneficiaries.

## **ITEM 7. EXECUTIVE SECRETARY'S REPORT**

Executive Secretary German reported this past week that one of our municipal borrowers was hit with a spear-phishing attack. One of those Internet attacks that you sometimes hear about. Someone had hacked into emails, read them, and then tried to masquerade as BCPL people by sending an email asking that community to make their trust fund loan payment to a fraudulent ACH account. Luckily, the Clerk of that community called Denise. Denise realized the problem, notified the community that the emailer was a fraud, and assured them that BCPL had not changed its payment procedures. Denise then reached out to Mike Kruger, who then pressed DOA Division of Enterprise Technology for assistance. Mike was persistent on that. Ultimately, the issue got relayed to DOJ, who was able to shut down the email domain of the fraudsters to stop the attack on the community. We then sent short emails to our borrowers notifying them of the issue and providing them with the best practice advice from the Government Financial Officers Association. We got thank yous from a number of them. We also kept DOA abreast of the issue and our agency's response. Hats off to Denise, Mike, and DOJ on this one. At the end of the day, it turned out well for everyone.

Executive Secretary German commented about the contract to work with Stephanie Marquis on the Wisconsin Impact report that the Board requested. Stephanie's father passed away recently, and she may be delayed a bit on the project. He expressed condolences to her on behalf of BCPL. He is looking forward to working with her on the completion of the project after she attends to the needs of her family during this trying time.

This month BCPL offered six timber sales to the highest bidder. All six of them sold. The aggregate amount of the bids was just under \$450,000. Congrats to the Lake Tomahawk staff for conducting successful sales. This has been a challenging time for timberland owners considering the closure of the Verso Mill and the lingering effects from the 2019 summer blow down. That storm knocked down almost two-year's worth of timber harvests in one day. BCPL staff has been very strategic in choosing sales that contain timber that is less affected by those issues.

BCPL is in the final stage of testing the DNR's WISFIRS Timber Sale Management software. At this point, things look good. The WISFIRS system is more automated than BCPL's current software, and it looks like WISFIRS could bring more efficiency to the management of our timber sales.

The BCPL's Madison office is concluding 2020 on a good note. We had 100% participation in the Partners in Giving campaign. In a year when many people are suffering, congratulations to the staff on their great response and giving back to the community during a very challenging time. And finally, a reminder to everyone that we are looking to start the new year off at the January Board meeting with a recap of calendar year 2020. As a result, we expect the first board meeting in January to run a little bit longer than usual. And he respectfully requests that you reserve enough time in your respective schedules to accommodate that.

Board Chair Godlewski shared how impressed she was with how the spear-fishing-cyber-security attack was handled. She commented that she and her staff of one also participated 100% in the Partners in Giving campaign.

## **ITEM 8. BOARD CHAIR'S REPORT**

Board Chair Godlewski reported that despite 2020 being a challenging year, she is looking forward to the January 5th meeting to review the goals and priorities of the Board, the performance and work of the investments, the State Trust Fund Loan Program and to an update from Executive Secretary German now that he has been in his role for a year and discussing that role and comparing it with the position description that was put together. She suggests that the meeting time be reserved for a longer period than 30 minutes and that the agenda be sent out prior to the meeting.

## **ITEM 9. FUTURE AGENDA ITEMS**

NONE

## **ITEM 10. ADJOURN**

Commissioner LaFollette moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:52 p.m.

A handwritten signature in black ink, appearing to read "Thomas P. German", is written over a horizontal line.

Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2020/2020-12-15-BoardMtgRecording.mp3>