

Board Meeting
Minutes
March 16, 2021

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 2:04 p.m.

ITEM 2. APPROVE MINUTES – March 2, 2021

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

VOTE: The motion passed 3-0.

DISCUSSION: None

ITEM 3. APPROVE LOANS

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

DISCUSSION: Mr. Sneider shared that there are two loans to Dane County Drainage Districts which are the first loans that BCPL has made to drainage districts in modern history. He explained that drainage districts levy assessments on lands that benefit from the drainage district projects instead of levying a tax. Each investment is recorded as a lien against the benefitted property. The district provides BCPL with a certification of assessed benefits to the Board as part of the application, and because the loans are greater than one year, the loans required approval of the Attorney general. The benefits to the land parcels are based on a formula which includes the number of acres, the water table factor, the yield factor, and the land use factor. Residential parcels are assessed the minimum \$75.00. Although there is no levying of tax, as in general obligation loans, these loans are very safe because the assessments are recorded as a lien against the properties.

Commissioner Kaul commented that by law his office was involved in the review of drainage district borrowing and the review and approval of trust fund loans. The drainage district borrowing review responsibilities are statutory while the approval of trust fund loans is due to his status as a Board Member in accordance with the Constitution. Therefore, Commissioner Kaul delegated the responsibility for reviewing the drainage district borrowing to his Deputy Attorney

General so that he would not be personally or directed involved in such decision. He then asked if it makes sense for him to participate in the votes on those loans.

Board Chair Godlewski asked why the drainage district approval was different, requiring additional AG approval and Board approval.

Executive Secretary German explained that the process is different not just for trust fund loans but borrowing in general by a drainage district. If the loan is going to be for more than one year, the AG's office must review it and confirm that it was a valid and binding obligation of the drainage district. These are unlike general obligation loans, which pledge the full faith and credit of the entire community. With drainage district loans the obligation falls unevenly on the landowners within the district. That is likely the reason why that statutory provision came about.

Commissioner Kaul requested confirmation from Executive Secretary German about his assessment of the issue and asked if he should continue to vote and that there's no reason to abstain based on that issue.

Executive Secretary German replied that he agreed with Commissioner Kaul and he appreciates the decision to delegate the drainage district borrowing review to his deputy.

Commissioner Kaul shared an additional aspect of the drainage district loan review process that is unusual. Both the drainage district statute and the BCPL process require review from his office. Normally, he wouldn't be reviewing the same loan as a member of two different parties, but that is provided for by statute. He believes there is no way around that. That is not a reason not to move forward, but he asked for confirmation again that BCPL staff agrees with that.

Executive Secretary German responded yes. The two reviews by the AG's office in this case are different reviews. The first one with respect to the drainage district borrowing is focusing on whether the AG's office believes that it is a valid and binding obligation of the of the drainage district. The second review is the normal trust fund loan review which focuses more on whether the Trust Fund Loan procedures that were followed.

Board Chair Godlewski commented that that makes sense and thanked Commissioner Kaul for sharing the issue and Executive Secretary German for his explanation.

Mr. Sneider noted one other difference of drainage district loans from normal loans is that the project specifications are required to be approved by DATCP. He then commented on a third loan, the Village of Suring. The village is taking out a revenue loan for the installation of fire hydrants and repairs to their water tower. With revenue loans the payments are made by the utility based on water revenues they receive, and BCPL believes it is going to be more than sufficient to pay the principal and interest when due. But because there is a little added risk and because there is no general obligation tax levy in this situation, BCPL requires a little higher interest rate. The interest rate on this loan is at 5% for 20 years. Normal general obligation loans are currently at 4% for 20 years.

VOTE: The motion passed 3-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$1,974,000.00** in State Trust Fund Loans to support 7 community projects in Wisconsin.

1. Town of Mishicot / Manitowoc County / Finance purchase of truck and dump box / \$50,000.00
2. Town of Freedom / Outagamie County / Finance roadwork / \$325,000.00
3. Village of Suamico / Brown County / Finance TID #2 Roadwork / \$677,000.00
4. Dane County Drainage District #9 / Dane County / Finance Drainage Projects / \$125,600.00
5. Dane County Drainage District #8 / Dane County / Finance Drainage Projects / \$284,400.00
6. Town of Conover / Vilas County / Finance purchase of dump truck and skid steer / \$250,000.00
7. Village of Suring / Oconto County / Finance water tower repair and hydrant replacement / \$262,000.00

ITEM 4. OLD BUSINESS – Mindoro Sanitary District #1 loan repayment

Executive Secretary German shared that it appears that that both the short term problem and a long term problem have been resolved, or at least progress is being made on a long term one. This year the loan payment has been made. He shared at the last Board meeting that BCPL did not have all the information about the Mindoro situation and that there may have been some issues associated with a large dairy that was located within the district. The district's lack of money did not result from business difficulty but rather from the district officials' unwillingness to levy a tax sufficient to repay the loan. The district is part of the Town of Farmington. After speaking with local officials, the town decided to loan money to the Sanitary District to make this year's payment. The town is now taking steps to convert the Sanitary District into a Town Special Utility District to give the town more control over the finances and to make sure these types of events don't occur in the future. It is an extremely unusual situation to have municipal officials fail to carry out their duties. He reiterated that the short term problem has been resolved, and it appears that the long term problem is well on its way to resolution.

Commissioner LaFollette thanked Executive Secretary German for his work on the issue.

Executive Secretary German commented that he must give credit to the local town officials, especially town Chair Mike Hesse, who was great to work with.

Board Chair Godlewski asked what it was that the town was turning the sanitary district into.

Executive Secretary German replied that is a Special Utility District.

Board Chair Godlewski asked Executive Secretary German to keep the Board updated on the progress until it is finalized.

Executive Secretary German replied that he would keep the Board updated and explained that when the Special Utility District is created the loan will be paid off and no longer exist.

NEW BUSINESS

ITEM 5. – Trust Fund Loan Process

Executive Secretary German shared that most State Trust Fund loans are structured as general obligation loans. The community pledges their full faith and credit and promises to levy a tax sufficient to repay the loan. If the borrower defaults on the loan, the law requires BCPL to intercept state aid.

Commissioner LaFollette shared that it has never happened in the over 30 years he has been on the Board.

Board Chair Godlewski commented that she believes it has never happened.

Executive Secretary German explained that for general obligation loans the total equalized value of property located within the borrower's boundaries is looked at along with the total amount of general obligation debt outstanding for that borrower. If the ratio of the debt to the borrowing capacity of the applicant is above 60%, BCPL starts asking more questions.

For revenue loans, BCPL reviews previous years' revenue stream and expenses. BCPL wants to make sure to have a decent coverage ratio. The statutes require that BCPL have a first position security interest in those revenues. In the event a revenue loan borrower would default, interception of state aid is also available and so there are several methods of protection on those loans as well. In Wisconsin, law does not allow municipalities to declare bankruptcy. This combination has resulted in Wisconsin municipal borrowers having some of the lowest borrowing rates in the country. The power to intercept a state aid provides a strong incentive for communities to repay. BCPL has never had to rely on

that. That power to intercept the state aid makes a State Trust Fund Loan safer than Wisconsin municipal Bonds.

Executive Secretary German commented that the Mindoro loan concern resulted from the failure of local officials to carry out their legal responsibilities and levy a tax that had been approved through a properly adopted resolution. The community had sufficient general obligation debt capacity at the time the loan was granted. They currently have a huge amount of general obligation debt capacity, they have paid down their loan, and the equalized value of the district has increased. They should have and could have levied a tax. They just did not want to. This type of issue does not present itself during financial analysis unless the community has already defaulted on a previous loan or bond, which, has never happened on BCPL loans. It is a behavioral problem and unusual. BCPL State Trust Fund loans are a very safe investment. The information obtained from borrowers is sufficient to analyze the risks associated with it. BCPL has done a good job and the fact that there have been no defaults in the history of the program backs that up.

Board Chair Godlewski thanked Executive Secretary German for the information and reiterated that the Mindoro Sanitary District situation is very unique.

ITEM 6. – WEMTA Survey results

Board Chair Godlewski spoke about the WEMTA survey which asked their members if the special distribution was helpful. Over 100 librarians participated, and the responses were overwhelmingly positive. Everybody was incredibly grateful for the funds and how quickly the funds were provided. The funds were able to impact students and faculty directly. She shared some quotes:

“Thank you, the extra emergency distribution that you guys did was timely, and it supported the library and our staff and students and without it I believe the students and teachers would have really struggled more to get the materials and to be able to teach and learn. And many of our teachers were able as a result to use eBooks and online learning content.”

“It's because of the Common School Fund and the special distribution that my district is able to be in a position to have resources available during COVID and I was able to purchase resources that my district was otherwise not be able to, so thank you.”

She shared that the top expenditures were for E-learning book software, online materials and hot spots, and books. The books they had were not sufficient and more were needed for kids to bring home.

Another question that was asked is, “Do you think there will be a need for another special distribution, if that is something that BCPL would be able to do?” As of now, they did not know if it was needed.

Survey participants asked about the timing of the distribution. The distribution has traditionally been made during the springtime. However, librarians expressed that they could optimize funds if the distribution aligned better with their fiscal year. The topic of when the distribution is made is something worth exploring with the Department of Public Instruction. It may be more beneficial to disburse the funds in the fall each school year instead of the spring. She shared that she will be checking in with WEMTA quarterly on their funding and how they are using the special distribution and any other concerns or feedback they might have. An open line of communication will be beneficial as the agency's purpose is to serve librarians and media specialists in public schools.

Commissioner Kaul thanked Board Chair Godlewski for the update and agreed that the distribution could better align with school budgeting. He expressed that that is something that should certainly be explored. He added that he realizes there may be challenges to changing the timing.

Board Chair Godlewski commented that the conversation can continue with the new DPI Superintendent. She added that

those who participated in the survey said that at the end of the year it is uncertain what enrollment will look like the following year or what their resources are going to look like. It could really make a difference having the disbursement in the fall. This is absolutely something we should continue to explore.

ITEM 7. – Communications regarding distribution to beneficiaries

Board Chair Godlewski shared that this is the largest annual distribution with \$39 million this year and thanked Mr. Sneider and the investment team for their work. Julie Benkoske from Board Chair Godlewski team has been working with Executive Secretary German on the rollout strategy. She commented that it is going to be a three part approach. A press release has been put together similar to what has been done in previous years. Commissioners have been quoted along with Executive Secretary German, and the Superintendent of Public Instruction. In addition, there are two more things: The WEMTA conference where there is a big Publisher's-Clearinghouse-type-check presented. That is not possible to do this year because of COVID. Instead, there will be an online conference and Board Chair Godlewski has recorded a message for that conference. On Sunday night, she has been asked to deliver that message at 7pm. It is an opportunity to share with WEMTA the great news and let them know how much we appreciate the work they are doing for their students and for their communities. The third piece is social media. There will be a video that will be posted on social media and Twitter. The librarians are creating a fun Facebook profile cover that also celebrates the BCPL and this distribution. She explained that there is a focus on using technology because technology is part of what our money goes to and the media specialists are excited about this. This is something to be celebrated and even during COVID we're doing our best to do that. She thanked the BCPL team and the Commissioners. \$39 million is very exciting and it makes a huge difference for the schools.

ITEM 8. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider commented that one thing that you might have noticed over the past month or two is long term interest rates have increased significantly now that the yield on the 10 year Treasury Bond has more than doubled to about 1.6%. The loan program becomes more competitive because of the statutory minimum interest rates within the program. Secondly, the value of our bond portfolio decreases as interest rates increase. However, because we normally hold bonds to maturity, there should be no immediate impact on portfolio income. We also currently have unrealized gains in the Common School Fund of more than \$70 million, so there is plenty of cushion to absorb any temporary principal losses in the bond portfolio over the longer term. It's really a debate of COVID recession versus federal recovery efforts. The portfolio is well positioned and the diversification over the last few years has greatly improved our ability to absorb changes in the marketplace like we're seeing today.

ITEM 9. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German shared that BCPL is working on a potential land bank acquisition which would involve approximately 1500 acres located in Oneida and Iron counties. The purchase price would be somewhere in the range of 1.6 million, but the exact acreage and the price has not yet been determined. These parcels are great in terms of being located contiguous to BCPL or very nearby which improves our access, improves our revenue generation prospects, and improves our management efficiency.

Next, he spoke about the migration of BCPL's legacy software. Prior to Executive Secretary German coming to BCPL, BCPL had a team of six IT people that wrote the legacy software for the loan program, Land Management and everything else. The software that was used to write that code was very different than it is today. He shared that over time, he became increasingly nervous that the legacy software was written in language that was not supported anymore. He asked the IT team what other options were available. All options came back with a price tag well over \$100,000. Mike Krueger, BCPL's current IT manager, knew somebody who works at DOT looking for extra work. So, about 18 months ago, Chuck Failing came to BCPL part time and helped rewrite all that code into a current language and we now have

robust, secure legacy software that should take us well into the future. The project was done right, and it was done at a decent cost. He thanked Mike Krueger and to Chuck Failing for their work on this project.

Board Chair Godlewski expressed that that is great news and thanked Executive Secretary German for the report and thanked Mike and Chuck for all their work.

Commissioner LaFollette congratulated BCPL on both things.

ITEM 10. BOARD CHAIR'S REPORT

Board Chair Godlewski spoke about reports that are to be made at the next Board meeting. She commented that the April 6 meeting would be the first meeting of the second quarter and that Mr. Sneider would be providing updates on the portfolio and the asset allocation performance. She added that along with the investment reports an update on the goals and priorities that were revisited at the beginning of the year would be provided.

Executive Secretary German noted that the investment updates were scheduled to happen one month after the end of the quarter. Those reports would be provided at the first meeting in May, because Mr. Sneider will not have the quarter end numbers available to him yet by early April.

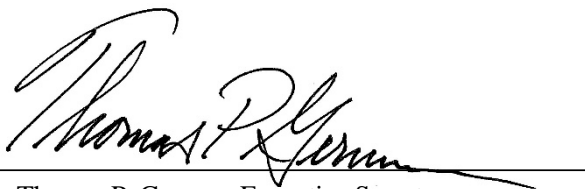
Board Chair Godlewski thanked Executive Secretary German for the clarification.

ITEM 11. FUTURE AGENDA ITEMS

None

ITEM 12. ADJOURN

Commissioner LaFollette moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:42 p.m.

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

Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2021/2021-03-16-BoardMtgRecording.mp3>