

Board Meeting
Minutes
May 4, 2021

Present were:

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| 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 2:01 p.m.

ITEM 2. APPROVE MINUTES – April 6, 2021

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

VOTE: The motion passed 2-0.

DISCUSSION: None

ITEM 3. APPROVE LOANS

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

DISCUSSION: Mr. Sneider

VOTE: The motion passed 2-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$751,267.00** in State Trust Fund Loans to support **5** community projects in Wisconsin.

1. Village of Whiting / Portage County / Finance road project and new truck / \$200,000.00
2. Town of Sparta / Monroe County / Finance purchase of plow truck / \$89,500.00
3. Town of Maiden Rock / Pierce County / Finance purchase of tractor and loader / \$131,767.00
4. Town of Rock Elm / Pierce County / Finance purchase of grader / \$200,000.00
5. City of Baraboo / Sauk County / Finance Donahue Terrace Elevator Project / \$130,000.00

ITEM 4. OLD BUSINESS

None

ITEMS 5 and 6. NEW BUSINESS – PROPOSED LAND BANK TRANSACTIONS

ITEM 5. – Conservation Easement – Brazeau Mitigation Bank, Oconto County

ITEM 6. – Conservation Easement – Stone Property, Clark County

DISCUSSION: Executive Secretary German explained that BCPL sold the surface of these lands many years ago but in accordance with State Statute 24.11(3), BCPL reserved a mineral estate. In order for the surface owners of the lands to encumber their property with a conservation easement, the mineral rights owner is required to join in, so BCPL worked with the Dept. of Justice to find a way to do that. To help determine value of the mineral estate we need to know if there is a likelihood of viable mineral extraction on the lands., We reached out to an expert from UW-Extension to give us an opinion. The expert opined that there is no likelihood of viable mineral extraction. We then turned to the other western states to see how they valued their reserved mineral estate in similar situations. Our western counterparts valued their reserved mineral estate between \$50-\$100 an acre in situations where economically viable mineral extraction was unlikely. BCPL decided on \$100 an acre for both properties for encumbering our reserved mineral estate. In accordance, the surface owners are asking the Board to encumber BCPL's mineral rights for the cost of \$100 an acre so we can join in the conservation easement and protect those lands into the future. For 100 plus years BCPL has earned zero revenue from its reserved mineral estate on these lands. Through this transaction BCPL will be obtaining some value for those reserved mineral estates while also joining in to protect those lands. The trust funds are benefiting, the State of Wisconsin is benefiting, and the surface owners are benefiting. This is a win, win, win situation.

Commissioner LaFollette asked how many acres are involved in these transactions.

Executive Secretary German responded that about 65 acres.

Board Chair Godlewski remarked that it was 65.79 to be exact.

Commissioner LaFollette asked about future rights to minerals on those lands.

Executive Secretary German explained that BCPL will still hold those mineral rights, but if we sign on to the conservation easement and promise not to use the mineral rights, we would not be able to extract those minerals in the future.

Commissioner LaFollette asked if in the future someone discovers a lot of valuable minerals, would we not be able to extract those minerals.

Executive Secretary German answered we would not because of the promise we are making in this agreement.

Board Chair Godlewski expressed her enthusiasm to vote to approve these items restating that it is a win, win, win opportunity.

MOTION ITEMS #5 and #6: Commissioner LaFollette moved to approve both conservation easements; Board Chair Godlewski seconded the motion.

VOTE: The motion passed 2-0.

ITEM 7. QUARTERLY INVESTMENT REPORT

Mr. Sneider presented the Portfolio Report first. We have experienced gains in every single asset class, including for the first time private equity and venture capital. Total unrealized gains for the portfolio at the end of March totaled over \$81 million. April is not included in the chart, but April was also an excellent month with unrealized gains above \$97 million towards the end of the month. The overall portfolio yield is 3.9% which is considered good for a portfolio with our constraints. One of our goals has been to develop income streams from a variety of asset classes so that market volatility does not have a large impact on the amount of distributable income. Good progress has been made on that goal. Total projected annual income is now approximately \$47.5 million. That is an increase from \$41 million projected at the end of last quarter. Investment of cash reserves into productive assets contributed to this increase. Because this projection of annual income over the next 12 months is greater than past distributions, it is a good indication that distributions will continue to grow in future years.

Board Chair Godlewski asked Mr. Sneider to elaborate on the 3.9% return. He shared that the 10 year yield right now for Treasury Bonds is 1.56% so getting 3.9% on a diversified portfolio is good.

Mr. Sneider highlighted three items on the Asset Allocation Report. This report shows our current allocations and percentages of commitments made to individual asset classes that have yet to be funded, and potential allocations. At the end of the first quarter, private real estate is the only asset class outside of the target range. Real estate is currently at 4.7% of total assets within a target range of 5% to 25%. Real estate allocation is expected to reach the target range shortly.

At the end of March our domestic equities asset class, which includes our preferred stock investments, was at 19.2% of assets. In the foreseeable, we plan to ask for an amendment of the IPS to split the preferred stock portfolio out of domestic equities asset class due to the unique characteristics of that hybrid asset. We will then need to provide a separate allocation for preferred equities. Investment Committee will have the recommendation to the board available this summer. However, for the near term, we have provided a resolution for the board to be discussed today. This resolution would increase the upper limit of the domestic equities asset class from 20% to 30% to allow the asset to remain within the target range.

The third item he discussed was unfunded commitments. There are two different types of unfunded commitments. Some funds call the entire commitment quickly. Other funds take years to deploy the capital into appropriate investments and may then only call 50 to 60% of the amount committed. These funds begin paying capital gains to investors from earlier investments as they are sold. This delayed capital deployment strategy means that BCPL may never need to fund the full amount of committed capital. One impact of these delayed investments is that at times we will have outstanding commitments greater than our cash balance. There is no immediate need to retain cash. Cash is no longer our only liquid asset. Due to the diversification of assets, we have an immense amount of liquidity. We now have over \$785 million in bond and stock investments that can be sold to make any commitment. We have plenty of cash with current reserves, about \$127,000,000. Reducing our cash reserves is very important in today's low interest rate environment. At our current portfolio yield of 3.9%. Close eyes are kept on cash reserves and if ever needed, a list is maintained of priority investments that could be sold to meet the needs of a large trust fund loan or a capital call. The Investment Committee is currently reviewing a detailed liquidity strategy and the Board will be kept updated on its progress.

Mr. Sneider presented the final report called the Progress Report which compares the current market values of each asset class to the prior quarter and prior year. He highlighted four items. First, we have rearranged our fixed income portfolio over the past year. The total investment has stayed around \$710 million. State and Municipal Bonds and agency bonds were redeemed by issuers by refinancing using lower current market interest rates. Loan prepayments comprise about \$75 million of the \$118 million reduction in loan balances during the first quarter. Prepayments have now declined since the beginning of the year. These bond and loan prepayments forced us to pivot to other fixed income asset classes. Private debt is an area that we believe has a risk adjusted return currently above most any publicly traded fixed income

investment. The current yield on these assets is greater than 10%.

Second, we have moved heavily into public equities in the past year as the Common School Fund investment in this asset class increased from \$125 million to over \$390 million. We have unrealized gains in our public equity portfolio over \$70 million. Taking advantage of market opportunities has worked in our favor.

Third, we've been able to invest \$220 million of cash into more productive asset classes. This was during a year when we also had increases in cash of over \$100 million from bond and loan redemptions. We have made good progress on investing this cash but there is more work to do.

Finally, Mr. Sneider explained that in his presentation last quarter he added changes in CPI (consumer price index) to see how well we were doing against inflation. For this report, he added another number in this chart section. The average, quarterly and annual inflation rate over the past ten years is probably a more stable number to focus on and helps to offset the volatility in shorter term inflation rates that have been measured through the initial stages of the pandemic. As shown in this table, the growth and fund value has far outpaced these measures of inflation. The growth in the balance of the trust fund comes from unclaimed property fines and forfeitures, as well as capital gains in the investment portfolio. BCPL's mission is to invest these funds in a manner that provides significant, stable, and sustainable distributions to our beneficiaries. Our investment policy has put this fund on the right path to achieve that goal and we will be able to increase annual distributions for years to come.

Commissioner LaFollette commented that if you look at a year ago, we had almost \$300 million in cash.

Mr. Sneider agreed and state that is a lot of money.

Commissioner LaFollette congratulated Mr. Sneider on the great progress made.

Board Chair Godlewski thanked Mr. Sneider and Denise for putting together the reports and acknowledged that a lot of work goes into preparing them. The reports paint a clear picture of the importance of diversification, prudent investor authority and the ability to diversity from fixed income into equities and alternatives, which has really made a difference. It is apparent that even going through a pandemic and an economic crisis we were still able to navigate the market to have a record breaking distribution. She expressed her appreciation and gratitude for the great work and results.

ITEM 8. ASSET ALLOCATION RESOLUTION

Mr. Sneider introduced the resolution from the Investment Committee to modify the Investment Policy guide for the Common School Fund. Recent strong returns in domestic equities have increased the value of that class, now approaching the upper limit of the permitted range. The resolution expands the asset range of CSF domestic equities from 5-20% to 5-30%. Other class ranges remain unchanged. A review of allocation policy is planned later this summer.

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

VOTE: The motion passed 2-0.

ITEM 9. UPDATE ON GOALS AND PRIORITIES

Executive Secretary German went over updates to the Goals and Priorities. First, he discussed the performance scorecard and annual report. We were looking at better ways to communicate to external audiences how BCPL is doing. The pages at the end show more graphics than we have ever used. The graphics show how the Trust Fund Loan program recycles

money, how much was deployed and how much was distributed. This is an easier way and great improvement on how to tell our complicated story to external audiences.

As for diligence, a lot of work has been done to move away from a portfolio of trust fund loans and municipal bonds. It required not just work but also identifying what things were needed and development of a pathway to do it.

In terms of identifying additional expertise for BCPL. We have brought in a number of outside experts and the State Treasurer has identified some areas where it would be beneficial to bring in additional experts. BCPL continues to work on this.

Regarding operations and creating a strategic plan, Executive Secretary German believes we have reached a point where the amount of personal commitment that it takes to do effective strategic planning requires that we do it in person, not Zoom. We need to get past this phase of the pandemic before we can do that. We are looking at late summer to work with Erickson Consulting and hope that staff is healthy so we can do that.

For BCPL budget and personnel staffing it is important to recognize that the agency requires many different skill sets and it is difficult to get all of those skill sets in its FTE people. We must identify which skills can be developed in employees, which employees will need to be LTEs and what work can be done by contractors and vendors.

Much like the materials shown earlier, BCPL is working to develop a plan to improve the agency's outreach, communication, and branding.

As for a government relations approach, there has never been a more important time to so. We are in the midst of a budget request season. Having a government relations approach is important to be able to effectively communicate not only the successes of our agency, but to address questions and concerns of legislators, and also to be able to make that artful ask of their support for our budget request. Executive Secretary German shared that when he goes to talk to members of the joint finance, he brings materials that show what loans BCPL has made in their district and what the library aid distributions have been in their district. This allows him to talk to them on a statewide level and local level about what BCPL means to their district and their citizens.

With respect to School Trust Lands, BCPL received a lot of these lands back in the 1800s. Most of our lands have been up for sale multiple times. BCPL was selling lands before there were roads in northern Wisconsin, so by the 1960s, the lands that were left in the portfolio were isolated or scattered and were inaccessible. Much of our lands were residual from the Swampland Act of 1850. Those lands are difficult to manage, sell and monetize. The reason for land banking was to be able to sell some of these lands, use the proceeds, and buy other lands to consolidate our holdings, to create better access and to create more revenue streams for the trust funds. We need to find better ways of creating demand. If you don't have access, the only people that may be interested are the neighbors and they may only be interested if the other neighbors are interested.

Lastly, he discussed financial analysis. Financial analysis has more layers to it than one might think. It is easy to do with a strip mall or office building but much more difficult to do with vacant lands in northern Wisconsin that have limited financial potential. We must begin with developing a scope for the analysis. That scope may be different for each particular property. This is still a work in process. He believes we are making some progress but it's going to be a much longer project timeline than originally envisioned.

Commissioner LaFollette asked about payments in lieu of taxes (PILT) and how much is allocated for that.

Executive Secretary German replied that it is about \$13,000 per year and that by the end of this year it would likely be closer to \$15,000. He clarified that BCPL makes no payments on lands received on original grants from the federal government. PILT is only paid on lands acquired by purchase or by exchange.

Commissioner LaFollette asked about where the money comes from that pays PILT.

Executive Secretary German explained that the agency only has a GPR appropriation because two years ago when our budget was passed, the state took us from program revenue funding to GPR funding..

Commissioner LaFollette asked for further clarification about PILT payments.

Executive Secretary German explained that a certain statute requires BCPL to make payments in lieu of taxes from program revenue. However, because we have no program revenue appropriation. Therefore, we have to make those payments out of GPR (tax dollars). This is a conflict between statutes. Therefore, in the budget request this year, BCPL asked for a program revenue appropriation to be able to make those payments in lieu of taxes so that statutes would be back in alignment.

Commissioner LaFollette and Executive Secretary German discuss payments made from program revenue appropriation and whether it is accurate to say that 100% of BCPL revenue goes to the schools.

Executive Secretary German shared that a couple of years ago, BCPL would report that around 96 or 97% of its earnings went to schools.

Commissioner LaFollette pointed out that that was a significant change in how the agency did things.

Commissioner Kaul announced he is now on the line.

Board Chair Godlewski recognized Executive Secretary German's success of running the agency while also making great progress on the Goals and Priorities. She shared that the documents look great, and that they will continue to be used to communicate to different audiences the story and work of the BCPL. She thanked the agency for the documents and the progress made.

ITEM 10. CHIEF INVESTMENT OFFICER'S REPORT

NONE

ITEM 11. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German shared that he has been trying to meet every member of Joint Finance and the meetings have gone better than expected. The materials have helped tell BCPL's story and having the reports on the district help bring it home to their individual constituents. He has encountered zero legislative staffers or members of Joint Finance that have expressed any questions or concerns about our budget request. He has also encountered no legislators who have come right out and said yes, we will be an advocate and supporter of your budget request. He also shared that we are at the finish line of getting those real estate transactions closed that were approved by the Board about a month ago. Land patents will require commissioner signatures and that is something that we need to get done before the transactions can close.

ITEM 12. BOARD CHAIR'S REPORT

Board Chair Godlewski thanked the BCPL again for the progress made putting together the reports.

ITEM 13. FUTURE AGENDA ITEMS

None

ITEM 14. ADJOURN

Commissioner LaFollette moved to adjourn the meeting; Board Chair Godlewski seconded the motion. The motion passed 3-0; the meeting adjourned at 2: 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/2021/2021-05-04 BoardMtgRecording.mp3>