

Board Meeting
Minutes
September 7, 2021

Present were:

Sarah Godlewski, Board Chair
Doug LaFollette, Commissioner
Josh Kaul, Commissioner
Tom German, Executive Secretary
Richard Sneider, Chief Investment Officer
Mike Krueger, IT Manager
Denise Nechvatal, Senior Accountant
Thuy Nguyen, Office Manager
Julie Benkoske, Chief of Staff

State Treasurer
Secretary of State
Attorney General
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
State Treasurer

ITEM 1. CALL TO ORDER

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

ITEM 2. APPROVE MINUTES – August 16, 2021

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

DISCUSSION: None

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 highlighted several loans.

Loan #3 to the Village of Mount Pleasant is for a new convention center in the village. Foxconn is located in Mount Pleasant. The village's borrowing capacity has increased to \$4.3 billion, and to date the village is utilizing only 20% of their borrowing capacity.

Loan #7 to the South Central Library System (SCLS) is for construction of a new headquarters and delivery facility. The South Central Library System is comprised of hundreds of libraries. The new headquarters and delivery facility will act as a central warehouse and distribution center. Currently the SCLS is renting a facility but will own the newly built one. SCLS is a federated system that includes multiple counties: Adams, Columbia, Dane, Green, Portage, Sauk and Wood Counties.

Board Chair Godlewski asked about loan #6 to Town of Eagle in Waukesha County. What kind of budget shortfall are they experiencing? Mr. Sneider explained that he did not have the specific details but shared that part of the issue may be that the town has had some issues with fines and fees it was trying to collect from residents.

Executive Secretary German commented that loan #6 was looked at a bit closer to ensure the town wasn't going too far

into its borrowing capacity. As the loan amount it not very high and the town's overall debt is low, there was no concern.

VOTE: The motion passed 3-0

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$8,353,178.00** in State Trust Fund Loans to support **8** community projects in Wisconsin.

1. Village of Shiocton / Outagamie County / Finance purchase of lift station generators / \$139,512.00
2. Darboy Joint Sanitary District #1 / Dane County / Finance highway construction and maintenance / \$1,500,000.00
3. Village of Mount Pleasant / Racine County / Finance planning of Village Convention Center / \$700,000.00
4. Village of Footville / Rock County / Finance roadwork / \$200,000.00
5. Town of Clinton / Rock County / Finance roadwork / \$100,000.00
6. Town of Eagle / Waukesha County / Finance budget shortfall / \$36,000.00
7. South Central Library System / Adams, Columbia, Dane, Green, Portage, Sauk and Wood Counties / Finance construction of HQ/Delivery facility / \$5,500,000.00
8. Town of Maiden Rock / Pierce County / Finance Purchase of plow truck / \$177,666.00

ITEM 4. OLD BUSINESS – Update on co-op acquisition of idle paper mills

Executive Secretary German shared that a third group has expressed interest in acquiring the assets of the mills at Park Falls and perhaps Wisconsin Rapids. They do not have financing lined up yet. He received a call from a member of this group inquiring about support for changing the statutes regarding eligibility to borrow from the Trust Fund Loan program; specifically, entities that do not have the ability to levy a tax or an assessment to pay back the loan. The group has also reached out to the governor's office. As of now, no firm plans are in place for the acquisition by this third group.

Board Chair Godlewski and Executive Secretary German discussed the importance of keeping everybody on the same page. Executive Secretary German shared that he contacted Jamie at the governor's office after speaking with the member of the third party interested in the assets of the mills. He has yet to reach out to the co-op members but will continue to make sure everyone is on the same page. Board Chair Godlewski expressed the importance of BCPL's involvement in the possible acquisition.

ITEMS 5. NEW BUSINESS – Quarterly Investment Report

Mr. Sneider presented three quarterly reports for the Common School Fund: Portfolio Report, Asset Allocation Report and Progress Report. BCPL has had excellent results in its investment portfolio during the 2nd quarter and over the past fiscal year. BCPL has made record distributions to its beneficiaries and has made impressive gains in the value of its portfolio well above the rate of inflation. If BCPL were currently using the investment policy from 10 years ago, its distributions would be less than 1/2 of the approximately \$40 million in distributions provided in 2020 and 2021.

Portfolio Report

This report shows the current market value, cost, yield, and projected income of the Common School Fund portfolio by asset class. Gains have been made in every asset class with total unrealized gains of over \$102 million at the end of the 2nd quarter. The overall portfolio yield is 3.8%, which is very good in current market conditions.

Total Projected Annual Income is now about \$45.9 million, down about \$1.6 million from the projection at the end of the last quarter. The decrease was partly due to the redemption of about \$32 million in high-yielding state and municipal bonds owned by the Common School Fund which were called and refinanced by the issuers in order to access the lower interest rates available today.

This projected annual income is not a forecast of BCPL's distribution to beneficiaries this year or next year. The

Common School Fund Investment Policy provides that the distribution to beneficiaries will be an average of the annual net income earned over the previous 5 fiscal years. The projection shown on the report continues to be greater than past distributions and is a good indicator that distributions will grow in future years.

Asset Allocation Report

This report shows our current allocations and percentages, commitments made to individual asset classes that have yet to be funded, and potential allocations once those commitments have been called up by the fund managers.

State/State Agency and Municipal Bonds: This asset class consists of 146 individual bonds. It is currently \$153 million, or 11.6% of the Common School Fund and includes only hand selected bonds issued by the State of Wisconsin, Wisconsin municipalities and school districts. Many of these bonds were acquired 5 to 10 years ago when rates were higher. These bonds are paying above current market interest rates, have excellent liquidity and virtually no default risk. These redemptions are expected to total about \$2.5 million over the remainder of this year, \$51 million in 2022, \$18 million in 2023 and \$4.5 million in 2024.

US Treasury and Agency Bonds: We have no investment in Federal obligations right now.

Corporate Bonds: The Common School Fund invests in five separate corporate bond funds selected by the Investment Committee. At the end of the 2nd quarter, we had \$216 million invested in these funds generating an average yield of nearly 5%.

Private Debt: Private debt offers a better risk/return profile than the publicly traded bonds.

Recent commitments made to private debt funds include \$30 million to Blackstone Credit Secured Lending Fund, \$30 million to Brookfield Infrastructure Debt Fund, and most recently, \$50 million commitment to Prudential Senior Loans Opportunity Fund.

The State Trust Fund Loan Program (STFL) continues to offer higher risk-adjusted rates of return over other government issued debt. Demand from local municipalities had decreased and the number of loans has dropped significantly over the past several years. Municipal borrowers with high credit ratings that are borrowing larger sums of money can issue bonds at lower interest rates in today's markets. Market interest rates will eventually return to levels that allow the loan program to become more competitive, but it may be years down the road. However, the STFL program remains the bread and butter of our investment policy. Loans continue to average about 15 per month, but the average loan size has decreased, and the average loan term is shorter.

Equities and Alternatives: Domestic and global public equities are above the target allocation due to growth from market appreciation.

Allocation to Preferred Stocks now totals about \$104 million and generates an annual yield of 5%.

Real Estate: The Common School Fund was able to finalize commitments to three real estate funds.

Infrastructure: The target of 5% to infrastructure has remained unfulfilled. Staff expects to recommend a reduction to that target percentage due to lack of current opportunities.

Private Equity/Venture Capital: This asset class has reached close to 2% of the Common School Fund. Because resource limitations, the current target allocation appears to be out of reach within the next few years.

In summary, we will be seeking opportunities to increase our investment in Private Debt and Real Estate over the next several quarters, while areas including infrastructure and private equity may see a reduction of the recommended target allocation to adjust for current market conditions.

Progress Report

Key points include the following:

1. Shift from State/Municipal/Federal Bonds and STFLs to higher yielding corporate bonds and private debt.
2. The acceleration of domestic and global equities acquisitions during the initial stages of the pandemic, followed by an explosion in those values over the past year.
3. Recent funding of three private real estate funds.
4. Increase in the value of investments made in our venture capital funds now that they are accelerating out of the J curve.
5. Reduction in cash reserves into more productive assets.

The value of the Common School Fund increased by 12.3% over the past year. This \$145 million increase in Trust Fund Principal is about 4.5 times higher than the 10-year average annual rate of inflation and was accomplished while also providing a record regular distribution to our beneficiaries and refilling the smoothing fund following the \$4.25 million supplemental COVID distribution last year.

Those numbers indicate a lot of good work got done during difficult times. Mr. Sneider thanked all the BCPL staff, the Investment Committee, and the Board for providing the support needed to accomplish this transformation in the portfolio.

Board Chair Godlewski expressed her appreciation to Mr. Sneider and the staff for their great work.

ITEM 6. NEW BUSINESS – Quarterly Update on Goals and Priorities

Executive Secretary German reported on progress made on the goals and priorities this 2nd quarter.

Creating the Trust Fund investment performance scorecard and annual report: BCPL worked with Stephanie Marquis to create the scorecard and is now integrating that into the upcoming biennial report. Some of the work that was done previously will be utilized to make BCPL's message more consistent as we go forward.

Establish a Wisconsin Impact Advisor Group: Not much progress has been made here.

Expand the Membership of the Investment Committee: No progress has been made on expanding the membership of the Investment Committee as the pandemic has continued to make in person meetings more difficult. We will continue to look for new members but most of our efforts were placed in other areas this last quarter. Hopefully this coming quarter we'll be able to make some movement on this.

Execute the Asset Allocation and Develop Clear Timeline: It was a monumental achievement to move that amount of money in such a short period of time. We were able to accomplish going into many different asset classes and getting within the target ranges set in the Asset Allocation. Doing that required a lot more work, a lot more diligence, a lot more resources, and a lot more coordination among the staff.

Develop a BCPL Strategic Plan and supporting Metrics: BCPL is still very much in favor of this. Executive Secretary German would like this done in person. We have been in contact with Kip Erickson and have a time set for late fall. He hopes the pandemic will recede by then.

Update BCPL Budget and Personnel Staffing Plan: Forester Supervisor John Schwartzmann retired, and Kevin Burns was promoted to the supervisor position. To fill Kevin's position BCPL promoted Joe Malinowski to Senior Forester. Another major change occurred: Jim DiUlio who served as Deputy Secretary for the last year recently retired. We are moving forward with a recruitment for a new Deputy Secretary and hope to have that posted within the near future. We've already reached out to the Division of Personnel Management to get that recruitment moving.

Improve the Agency's Outreach, Communication, and Branding: This is still a work in progress. Stakeholders are having their annual meetings around this time of year. Mr. Sneider attended the annual convention for the Wisconsin Clerk's Association. The Towns Association, the League of Municipalities, and WI Counties Association conferences are all coming up in a row this fall. We will be working on our in person outreach, but we are also looking at strengthening our electronic outreach and as soon as we get the biennial report done.

Lands: Staff in our northern office have defined what we need to do to reduce unproductive lands from BCPL's land holdings. One of the first things was to identify what the obstacles are. Impediments of turning unproductive parcels into productive ones in some cases are physical, and in some cases legal. We have started to dig more into the legal limitations to develop strategies within those legal parameters. Hats off to the folks in the northern office for developing additional revenue streams. For many years prior to 2005, the only revenue stream BCPL had was timber revenue and it was low, under \$250,000 a year. We must look at our lands as revenue generating assets. Staff in the northern office have done the due diligence and homework to figure out that we may be able to create a stream of revenue from maple syrup harvesting. We are also looking at carbon credits and a few more things. Northern office staff have created an Excel spreadsheet that breaks down every parcel in the BCPL inventory, identifying the potential revenue streams. It is still a work in process.

Finally, as we are migrating to the DNR's WisFIRS software system. We are also doing the homework in the background to verify the data that we are using to make decisions. Staff in the northern office are working closely with Mike Krueger our IT manager here in Madison to ensure that the data being put into our system and the data that we're using to make land decisions is the best possible data that we have.

Board Chair Godlewski inquired about when the biennial report is to be completed. Executive Secretary German replied that the main gist of the report will be done by October 15th.

Commissioner LaFollette shared that the Secretary of State's office is not required to file a biennial report because it is not an agency of the governor. He believes that BCPL is not required to file one either.

Executive Secretary German commented that he would be happy to review the law again. He shared that when he reviewed it many years ago, it was his impression that the agency was required to file a biennial report because technically the staff here is the Division of Trust Lands and Investments which is administratively associated with the Department of Administration. Due to that he believes BCPL has a reporting requirement. He will report about his findings at the next meeting.

Board Chair Godlewski shared her appreciation of Commissioner LaFollette's insight on the biennial reporting requirements. She asked Executive Secretary German to include the scorecard developed with the help of Stephanie Marquis in the packet for the next quarterly update meeting. She expressed her gratitude for the report from Executive Secretary German and is impressed with the work that BCPL staff is doing. She commented that she would like to take some time at the end of the year to celebrate the accomplishments of the agency despite the challenges the pandemic has created.

ITEM 7. CHIEF INVESTMENT OFFICER'S REPORT

None

ITEM 8. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German reported on three things.

First, he discussed Mindoro Sanitary District which is situated within the Town of Farmington near Lacrosse. This past year, the District indicated that they might not be able to make the 2021 payment. BCPL worked with town officials to

ensure that the 2021 payment was made timely this year. The board asked to be kept apprised as to what is going on long term. Executive Secretary German reached out to the town and learned that the district is now levying a tax sufficient to make the loan payment this coming year. The town is still looking at other long-term solutions, perhaps some kind of merger with the district so that in essence the town would take over the district completely. We expect payment to be made without incident this year, so that's a wonderful thing.

Number two: The Department of Revenue sent over \$30 million in unclaimed property at the end of August. The Common School Fund is starting off this fiscal year with a bump of that amount. So that's a wonderful thing. Big thanks to the Department of Revenue folks for continuing to handle unclaimed funds in a prudent manner and thank you to Denise for tracking down the information.

And then finally a U. S. Forest Service is continuing to make progress on the exchange with the with BCPL. Updates have been provided over the years about how we're going to be conveying about thirty-nine hundred acres to them and how they are going to be conveying to us about thirty four hundred acres. We still hope to get this transaction closed. The Forest Service has shared that they anticipate they may be able to close on this before the end of our fiscal year in June of 2022.

Board Chair Godlewski concurred that the status of the sanitary district's situation is good news.

ITEM 9. BOARD CHAIR'S REPORT

Board Chair Godlewski shared that she and staff are working on doing an end of the summer, beginning of fall infrastructure-type press release to highlight a few of the infrastructure projects that the board has approved over the last few months. She shared with Commissioner LaFollette that the board approved a large number of loans last meeting. She would like to highlight some of the projects completed with financing through the State Trust Fund Loan Program.

She commented that she and her team had an interesting carbon credit meeting, and that information has been passed along to Executive Secretary German. She and her team will continue to pursue that revenue stream, which is exciting for future opportunities.

ITEM 10. FUTURE AGENDA ITEMS

None

ITEM 11. ADJOURN

Commissioner LaFollette moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:56 p.m.



Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2021/2021-09-07 BoardMtgRecording.mp3>