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Thomas P. German, *Executive Secretary*

## AGENDA

May 17, 2022  
2:00 P.M.

Board of Commissioners of Public Lands  
101 E. Wilson Street, 2<sup>nd</sup> Floor  
Madison, Wisconsin

### Routine Business:

1. Call to Order
2. Approve Minutes – May 3, 2022 (Attachment)
3. Approve Loans

### Old Business:

4. None

### New Business:

5. None

### Routine Business:

6. Chief Investment Officer's Report
7. Executive Secretary's Report
8. Board Chair's Report
9. Future Agenda Items
10. Adjourn

## AUDIO ACCESS INFORMATION

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Conference Line Number: **(608) 571-2209**  
Conference ID Code: **790 694 843#**

Board Meeting  
Minutes  
May 3, 2022

Present were:

Sarah Godlewski, Board Chair  
Doug LaFollette, Commissioner  
Josh Kaul, Commissioner  
Tom German, Executive Secretary  
Richard Sneider, Chief Investment Officer  
Denise Nechvatal, Senior Accountant  
Mike Krueger, IT Manager  
Thuy Nguyen, Office Manager  
Emma Stutzman, 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 2:01 p.m.

### ITEM 2. APPROVE MINUTES – April 19, 2022

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

**DISCUSSION:** None

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

### ITEM 3. APPROVE LOANS

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

**DISCUSSION:** Mr. Sneider shared that loan #1 is to the City of Mosinee to replace lead water lines. Loans #4 and #5 are to the Town of Cedarburg. The Town of Cedarburg is buying land next to the Korb Sports Complex. The town wants the ability to control the lot and hopes to work with a developer for a complementary use in the future. Loan #6 to the Town of Vance Creek is for building a new town shop and office. There are two loan applications for future approval for new town halls as well.

Commissioner LaFollette asked about the Town of Cedarburg needing two loans to purchase land.

Mr. Sneider replied that loan #5 is to cover some ancillary costs involved in the purchase of the land.

Board Chair Godlewski shared that she is encouraged to see the City of Mosinee utilizing the State Trust Fund Loan Program for their lead pipe project as she has spoken with other communities about the importance of lead pipe replacement.

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

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$1,744,900.00** in State Trust Fund Loans to support **6** community projects in Wisconsin.

1. City of Mosinee / Marathon County / Finance lead water line replacement / \$210,000.00

2. Town of Pleasant Springs / Dane County / Finance roadwork / \$300,000.00
3. Town of Oconto Falls / Oconto County / Finance purchase of truck and equipment / \$175,000.00
4. Town of Cedarburg / Ozaukee County / Finance land purchase / \$249,900.00
5. Town of Cedarburg / Ozaukee County / Finance land purchase ancillary costs / \$10,000.00
6. Town of Vance Creek / Barron County / Finance New Town Shop and Office / \$800,000.00

Commissioner LaFollette asked about why we have not seen any school district loans for a while.

Executive German replied that schools can generally borrow on a tax exempt basis and borrow at rates cheaper than BCPL can offer. Some school loans are taxable and BCPL interest rates are more competitive on those projects but again, most school district loans are tax exempt and at a lower rate.

#### **ITEM 4. OLD BUSINESS**

None

#### **ITEMS 5. NEW BUSINESS – Quarterly Investment Report**

Mr. Sneider presented three quarterly reports for Common School Fund.

**Portfolio Report** shows the current market value, cost, unrealized gains, or losses, yield, and projected income of the Common School Fund portfolio by asset class.

He found an error on the year-end Portfolio Report provided to the board previously. The error added an incorrect cell which overstated the cost of BCPL's investment in domestic equities. This error affected the total cost and reduced the amount of unrealized gains by the same amount. A corrected year-end report will be emailed to the board members later this week and will show higher unrealized gains and a higher yield at cost.

On the Portfolio Report, two of the asset classes are showing unrealized losses. Also, the total annual projected income declined by about \$2.3 million from the last quarter. Approximately \$95 million previously invested in higher yielding fixed income securities (loans and bonds) was moved to cash. Total Trust Fund Loans declined by about \$60 million during the quarter. About 70% of that decline in Trust Fund Loans was due to scheduled annual principal payments made in March, with the remainder from prepayments. However, we expect that new loans will outpace prepayments for the remainder of 2022 and both total loans and interest income will recover. The remainder of the shift to cash was from the sale of approximately \$35 million in bond ETF's early in January. That sale in January has saved approximately \$3.5 million in principal losses at today's prices. Our real estate assets are performing well and an additional \$13 million in unrealized gains in those investments helped offset losses in both fixed income and public equities. Our portfolio has fared well in a difficult quarter. Diversification has helped to maintain unrealized gains of nearly \$100 million with an excellent yield of just under 4%.

Commissioner LaFollette commented that we have \$160 million in cash. He asked where cash had been deposited in the past.

Mr. Sneider responded that it was with American Deposit Management (ADM). We have used ADM for some of our cash management purposes in the past when they have been able to offer yields greater than the State Investment Fund. That is not currently the situation. The State Investment Fund is a better opportunity for us at this time, even though ADM might be able to provide a slightly higher yield, the State Investment Fund is more appealing because it provides better liquidity.

Commissioner LaFollette asked if 0.17% is not a whole lot worse than what we could get with that alternative.

Mr. Sneider agreed and stated that he believes the yield on the State Investment Fund will be increasing significantly over the next month or two.

Mr. Sneider presented the **Asset Allocation Report**. This report shows target allocation progress. We remain above the

target allocation to State Muni taxable bonds and corporate bonds. The amount invested in these bonds will be reduced over the next few years through normal bond redemptions. Corporate bonds have played a significant role in producing distributable income over the past few years as interest paid on cash reserves has been near zero. BCPL invested above the target level in corporate bonds as a temporary holding place for cash reserves until better opportunities became available. Those opportunities are now on the horizon with private fund commitments over the next few years. We believe that moving funds away from publicly traded fixed income ETFs to private debt funds will provide a greater return. We expect to make additional commitments to private debt during FY23. Over the last month we have started putting cash to work by purchasing federal agency bonds with interest rates well above 4%. When removing preferred stocks into Blackstone Secured Lending Fund (BXSL), which recently went public and was moved from private debt allocation, domestic equities are more in line at about \$149 million or 11% of the portfolio.

Mr. Sneider in the future will be presenting to the board a new allocation model for discussion and approval that splits out preferred stocks into a separate category to improve transparency and clarify those securities as a separate asset class. In December, we made significant commitments to the Nuveen Real Estate Funds that should be fully funded over the next several months. We also made a more recent additional commitment of \$13 million to the Invesco US Income Fund, a real estate fund that targets a high distributable income. Once fully funded, these commitments will bring the real estate allocation near the 20% target.

Within the private equity/venture capital asset class, we are reaching the end of the initial investment period for some of our earlier commitments and expect to see capital gains distributions from these funds beginning over the next 12 to 18 months. The Investment Committee has also been pleased with the performance of our venture portfolio so far and we're looking forward to seeing some actual gains rather than projected valuations from these investments. Any distributions from these investments are expected to be classified as long term gains and added to the principal of the Common School Fund. Another impact of these distributions is that our total investment in this asset class will be reduced by the same amount of the distributions. To counter this reduction and bring the total PE venture capital investment closer to the target allocation, the investment community will be making additional investments to venture capital in FY23.

Board Chair Godlewski asked if Mr. Sneider knows how much BCPL has invested to diversify the portfolio over the past three years.

Mr. Sneider replied that he does not know the number off the top of his head but the chart shows the market values and the commitment to equities and alternatives to be over \$750 million dollars. Prior to the change in the investment policy, we only had fixed income, bonds, and Trust Fund Loans. He believes over 80% of the portfolio has been transformed.

Board Chair Godlewski highlighted the work of Mr. Sneider and the investment committee in identifying the new investments and putting that independent investment authority to work.

Mr. Sneider presented the **Progress Report**. This is likely the final time that a progress report will be included in the quarterly report packet. This report was meant to highlight the work of transitioning the Common School Fund portfolio from our historical fixed income portfolio. A more important review will include how our investment returns within each asset class compared to our custom benchmarks. The index that comprises the aggregate US bond market, had a total return (which includes interest payments) of a negative 5.8% in the first quarter, while the broad U.S. stock market lost 6% during this period. The market value of our portfolio lost 2.5% during the first quarter. There are two main reasons that the Common School Fund fared well compared to the overall market. Our equity tilt towards dividend paying stocks has been a key factor. For both domestic and global stocks in the first quarter. Our high dividend ETFs actually moved slightly higher, while broad based indices were down about 6%. Second, we have a relatively large commitment to real estate, which has continued to perform extremely well. Our strategic asset allocation includes a larger allocation to real estate than many similar funds. The Investment Committee and board determined that this asset class provides our beneficiaries with a good amount of distributable income along with the potential for long term capital gains.

On a final note, we can no longer say that the Common School Fund is absolutely growing faster than the rate of inflation. The Common School Fund principal grew at a rate of 5.1% during the prior 12 months, which is fairly good given all the headwinds in today's market. However, our growth this year is lower than both the 40 year average consumer Price Index (CPI) for educational books and materials at 5.3% and the one year CPI for urban consumers at 8.6%. As we enter a more difficult environment for investing, consistently beating the rate of inflation will no longer be a given. Overall, our portfolio is well positioned to continue providing record levels of income distribution to our beneficiaries throughout the

foreseeable future and is also still growing at a pace faster than the long-term rate of inflation.

Board Chair Godlewski spoke about the progress report and how it shows the success of the team. She suggested that when the annual review is done it include updates/details about asset allocation and inflation comparisons. She commented that we're moving forward and actively managing which is great news.

#### **ITEM 6. NEW BUSINESS - Klement Easement Modification – Bear Lake, Oneida County**

Executive Secretary German described the need for modifying the previously approved permanent easement. Staff traditionally request board authorization for permanent encumbrances on land that BCPL still owns. In this particular situation, the board had approved an easement long ago based upon where the parties thought the property line was located. Recently, a land survey was completed that showed that the property line was in a slightly different place. This discovery impacted the location of the easement. We no longer need the reciprocal easement from the adjacent property owner because as we learned from the recent survey, the road that we were utilizing is completely on the land that we still own. But the adjoining property owners (the Klements) would need a slightly longer easement. If we are going to give the Klements a little bit more length of an easement, it makes sense for them to pay something for that. In looking at other public land managers, we felt that \$1000 was an appropriate amount. BCPL is asking for assistance in lengthening the easement slightly in exchange for \$1000. We would also release the easement that we no longer need to access our own lands.

Commissioner LaFollette asked how many acres we picked up under the new survey?

Executive Secretary German replied that it is only a couple of acres because the line is just slightly further south of where we thought it was.

Executive Secretary German read the resolution for the easement.

“...the Board of Commissioners of Public Lands hereby authorizes staff to modify the 1973 Access Easement benefitting the Klement Property and burdening the BCPL Property in consideration for Klement's payment of the sum of \$1,000 in accordance with Chapter 24 of the Wisconsin Statutes on such terms and conditions as the Executive Secretary determines to be reasonable and necessary. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such transaction.”

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

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

#### **ITEM 6. NEW BUSINESS - WPS Easement – Ripco Road – Town of Sugar Camp, Oneida County**

Executive Secretary German explained the second easement being brought to the board. A local utility installed overhead lines without previously getting an easement from BCPL. In situations like this, we normally would not ask for additional consideration for burying the lines because it's more of a benefit to the property owner like us. However, because the utility company did not get an easement to begin with, we are asking for payment. These easements are very short and limited to the area where WPS can bury the lines. We are charging \$500 which is minimum going rate for these type of things from public landowners in northern Wisconsin.

Board Chair Godlewski makes the motion and reads the resolution.

“...the Board of Commissioners of Public Lands authorizes staff to grant proposed utility easements with Wisconsin Public Service Corporation in consideration of payment of the sum of \$500 in accordance with Chapter 24 of the Wisconsin Statutes on such terms and conditions as the Executive Secretary determines to be reasonable and necessary. The Executive Secretary is authorized and

directed to execute any documents reasonably necessary to complete the easements.”

(Commissioner LaFollette was disconnect from the conference call due to a connection failure.)

**MOTION:** Board Chair Godlewski moved to approve the resolution; Commissioner Kaul seconded the motion.

**VOTE:** The motion passed 2-0

#### **ITEM 7. CHIEF INVESTMENT OFFICER’S REPORT**

None

Mr. Sneider mentioned that next month or so he will be providing the board with a new asset allocation model to approve.

#### **ITEM 8. EXECUTIVE SECRETARY’S REPORT**

Executive Secretary German shared that he attended the Municipal Treasurers of Wisconsin Association (MTAW) meeting in La Crosse last week. It was the first time in a couple of years he because of the pandemic. The MTAW conference went very well. He noticed there was a large amount of turnover in the organization. It appeared that many communities had a new clerk and or treasurer. For a number of those attending, this was their first opportunity to learn about the BCPL and the State Trust Fund Loan Program. He spoke with quite a few of them and they have asked him to speak at the fall conference. It was great to talk to people again about our agency and our program.

#### **ITEM 9. BOARD CHAIR’S REPORT**

None

(Commissioner LaFollette returns to the meeting after his connection fails)

#### **ITEM 10. FUTURE AGENDA ITEMS**

None

#### **ITEM 11. ADJOURN**

Board Chair Godlewski moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:32 p.m.



Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2022/2022-05-03 BoardMtgRecording.mp3>

**BOARD MEETING  
MAY 17, 2022**

**AGENDA ITEM 3  
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Turtle Rock County Application #: 02022090 Purpose: Finance purchase of fire truck	Town Rate: 3.50% Term: 10 years	General Obligation	\$334,782.00
2. Hub - Rock Town Sanitary Distric Richland County Application #: 02022091 Purpose: Finance Water Quality Trade Program	Sanitary District Rate: 3.50% Term: 10 years	General Obligation	\$57,200.00
	<b>TOTAL</b>		<hr/> <b>\$391,982.00</b>