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Thomas P. German, *Executive Secretary*

AGENDA

October 18, 2022
2:00 P.M.

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

Routine Business:

1. Call to Order
2. Approve Minutes – October 4, 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

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

Board Meeting
Minutes
October 4, 2022

Present were:

Sarah Godlewski, Board Chair	State Treasurer
Doug LaFollette, Commissioner	Secretary of State
Josh Kaul, Commissioner	Attorney General
Tom German, Executive Secretary	Board of Commissioners of Public Lands
Richard Sneider, Chief Investment Officer	Board of Commissioners of Public Lands
Denise Nechvatal, Senior Accountant	Board of Commissioners of Public Lands
Mike Krueger, IT Manager	Board of Commissioners of Public Lands
Thuy Nguyen, Office Manager	Board of Commissioners of Public Lands
Emma Stutzman, 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 – September 20, 2022

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

DISCUSSION: Mr. Sneider commented that the City of New Berlin is borrowing almost \$14 million. The City is using the loan as bridge financing so it can begin construction and it expects that later issued bond proceeds will be used to prepay the loan at the beginning of the New Year. Loan #3 is to Big Round Lake Protection and Rehabilitation District. The loan is to fund four annual applications to control the phosphorus content in the lake that has led to algae blooms and other problems.

VOTE: The motion passed 3-0

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$15,832,312.40** in State Trust Fund Loans to support **3** community projects in Wisconsin.

1. City of New Berlin / Waukesha County / Finance Phase II of Recreation Facility / \$13,970,000.00
2. Town of Jump River / Taylor County / Finance roadwork / \$62,312.40
3. Big Round Lake Pro & Rehab Dis / Polk County / Finance alum treatment / \$1,800,000.00

ITEM 4. OLD BUSINESS

None

NEW BUSINESS

ITEM 5. INVESTMENT POLICY CHANGES

DISCUSSION: Board Chair Godlewski shared that Mr. Sneider will be presenting some changes to the Investment Policy Statement (IPS). These changes include: 1) An update to the State Trust Fund Loan Program; and 2) An update to the investment asset allocations. She commented that since the last IPS update, BCPL has invested over \$100 million and further diversified its trust funds.

Mr. Sneider explained that the investment policy expressly requires periodic review. The original IPS guidelines and policies were approved on November 1st, 2016 and were most recently amended by the board in May of 2021. The original policy included a lot of consideration given to the transition period necessary to change the legacy fixed income investment portfolio to a diversified portfolio. We've made great progress in diversification and it is time to simplify the investment policy by removing references to the transition period, as it was becoming less relevant every day. Many of the changes in the redlined copy involve eliminating old tables and language in an effort to update the document as a whole along with some typo corrections. There are two significant changes included in the recommendations made by the Investment Committee.

The first recommendation consists of fine tuning the target asset allocations. Three asset classes, including the State Trust Fund Loan Program, private debt funds and real estate provide the highest expected returns when adjusted for risk. And considering the level of distributable income produced by each asset class, these three asset classes have our highest allocations. Together they comprise 60% of the recommended target allocation for the Common School Fund. Future distributions will no longer be expected in the \$30 to \$40 million range as has been the case over the past decade or more and future distributions will now be expected to rise well above \$50 million and continue tracking higher every year. Recommended target allocations, including changes from the current model that have been highlighted and are included on pages 10 and 11 of the board packet.

The second recommendation is that the investment policy include a provision for selling State Trust Fund loans. Statutes were amended to allow the sale of loans or loan participations in 1989 and again in 2003. While past boards have not made use of this statute, there are two good reasons why the Investment Committee is now making this request. The first reason is to strengthen the program by making sure that State Trust Fund loans are always available to every borrower. In the past, when cash reserves were low, staff needed to restrict the availability of State Trust Fund loans to borrowers across the state. This was done primarily by reducing the number and amount of loans that could be requested by any single borrower. Restricting the availability of loans is bad for the program. Selling loans to other investors provides a path to raise the liquidity needed to meet loan demand. The second reason to approve the sale of loans is to provide staff with an additional tool to manage the investment portfolio. This tool is needed because management of the portfolio and stability of the annual distributions now relies on allocations across many asset types. Should the balance of the loan portfolio exceed the target allocation, it would be beneficial to have the ability to sell a portion of those loans to realign the portfolio and stay within the target allocation percentages. If this recommendation is approved, over the next few months the Investment Committee will develop a proposed structure for the sale of loans. Once presented to the board, the board will have the opportunity to vote on the proposed structure before any sales take place.

Board Chair Godlewski shared that the current board has approved loans totaling over \$200 million which breaks down to about 250 projects in the state financed by the State Trust Fund Loan Program. She believes this a real opportunity for us to not just provide support on the front end approving these loans every other week, but also an opportunity to potentially sell these loans to provide more liquidity to continue lending. The way the Investment Committee has structured this is prudent and responsible in the way that we should be.

Commissioner Kaul asked for clarification on the separate allocation to preferred equities.

Mr. Sneider explained that preferred stocks are a type of hybrid between common stock and bonds. They have a fixed rate dividend and normally pay on a semi-annual basis, but they also are part of the equity structure rather than the debt structure. We have invested in preferred stocks for several years. In the past we have combined those investments of preferred stocks within the common stock allocation but because of their hybrid nature compared to common stocks, they were distinct enough that they deserved their own separate asset allocation category.

MOTION: Board Chair Godlewski moved to approve the changes to the IPA as captured in the packet today; Commissioner LaFollette seconded the motion.

VOTE: The motion passed 3-0.

ITEM 6. CARBON CREDITS

DISCUSSION: Board Chair Godlewski shared that she visited the Lake Tomahawk office last week with Executive Secretary German and met with our forestry and real estate team and talked about the carbon credits opportunity. She commended the northern office staff for their creative thinking on how to generate additional revenue in a sustainable and responsible way.

Executive Secretary German shared that BCPL has been investigating the possibility of carbon credits for some time. We still want the ability to harvest timber on our lands that support sustainable timber harvest but not all our 77,000 acres provide for timber revenue, only about 35,00 does. This is an opportunity to receive payments for growing trees on those lands that are not conducive to sustainable timber harvesting. We are preparing to use some of the carbon credit payments to pay for planting trees and restocking our forests.

Executive Secretary German explained that BCPL requested proposals from entities that were experienced in helping landowners sell carbon credits. After talking with several different entities, we received one proposal from ANEW. After review, ANEW showed that they were a responsible and qualified entity for such a project. Their proposal contained everything that we were looking for with respect to assistance, both technical and financial, to make the carbon credit project successful. Under their proposal, BCPL would receive over \$12 million over the first 10 years of the project. The project goes for 40 years and does require annual work by BCPL to make sure that everything is applied, reviewed, analyzed, and accredited properly. For the first 10 years we would have a net revenue of over 12 million. The staff is asking for board permission to accept ANEW's proposal and move forward in developing a contract and selling carbon credits by approving the resolution contained in the board packet.

Board Chair Godlewski asked for more specifics on financial parameters, e.g., costs incurred, cost limits.

Executive Secretary German replied that per the proposal, ANEW would be responsible for all the upfront costs associated with the program, e.g., verifying the trees that are there, growth rates and other analysis. There are other annual costs somewhere in the neighborhood of \$25,000 which would also come out of the gross proceeds from the sale of carbon credits. Also, every fifth year there will be additional expenses incurred in doing a more robust analysis. Projected net revenues are roughly \$1,000,000 a year in year one, with higher amounts thereafter. The majority of our school trust lands are Normal School Lands. It was a Herculean effort to get to the point that we were distributing \$1,070,000 last year in Normal School Fund earnings. This proposal could bring in over \$1,000,000 a year into the Normal School Fund. We still have to take a closer look at how that money will be categorized, whether it's added to principle or distributed, but no matter how it's treated that is a significant number that is dwarfing anything else that's gone on in the history of the Normal School Fund. This is a wonderful development. It's allowing us to not only get paid to harvest trees, but we're getting paid to grow trees. Up until this point in time, that's something that we haven't done.

Commissioner LaFollette asked who decides on the trees, how is it determined what is paid and how much is paid. Will the funds we receive go into the trust fund or do we keep that money in our operating budget so that we can spend it?

Executive Secretary German replied that tree selection will be a cooperative effort. BCPL would look at the lands we think are appropriate and go with ANEW to determine what lands make the most sense. There are some lands that we

would keep out of this program because of the fact that we're looking at selling them. Again, it would be a cooperative effort between BCPL and ANEW. We are looking at putting in approximately 50,000 acres out of the 77 thousand that BCPL currently owns.

The payments are based upon the amount of carbon that is sequestered on the property. That's where the calculations and the formula developed by ANEW are used to make this determination. There is some data out there that shows younger trees are sequestering more carbon than older ones, surprisingly in terms of making a difference. An inventory is taken and a calculation is made of how many tons of CO2 per year is sequestered. The price per ton of CO2 and the unit price is determined by bidders. Currently those prices continue to go up.

We do not yet know where the money from the sale of such credits would go. The projected amount earned through this proposal is a significant amount for the Normal School Fund. We do have a statute that specifically authorizes BCPL to exclude from gross revenue expenses related to tree replanting, erosion control, things like that, and therefore some of the money could be used for those things before it got to BCPL but the vast majority of this money would either be added to the principle of the fund or distributed as income of the Normal School Fund.

Executive Secretary German explained that the contract is 40 years, but we have an opt out at 10. The price per credit does fluctuate. Every year the price would change based on the current national market for CO2. After 10 years we would have the option to opt out and go with another manager. But from everything that we've seen, the company that made the proposal seems to be the gold standard, especially for public land managers like us. There are a number of different entities that are working in carbon credits, but not as many that work with public land managers such as BCPL.

MOTION: Board Chair Godlewski moved to approve the carbon credits proposal from ANEW as stated in the resolution; Commissioner Kaul seconded the motion.

VOTE: The motion passed 3-0

ITEM 7. CHIEF INVESTMENT OFFICER'S REPORT

None

ITEM 8. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German reported that he traveled to meet with the Lac du Flambeau tribe and reached an agreement on the sale of the School trust lands and the settlement of the claims. He thanked DOJ for their assistance on the Settlement of Claims Agreement. The tribe was able to encumber their federal appropriation prior to the end of September, thereby making their funds available for the transaction this fall and we expect to close on that transaction before the end of October. He thanked Micah for helping to make this happen and thanked the Board for your support and doing something that was outside the box and hasn't been accomplished in over 100 years. He thanked staff for having patience during a challenging transaction. He feels very good about the outcome.

Commissioner LaFollette shared the board's appreciation to the staff and Executive Secretary German and is happy that it worked out. Good job.

Executive Secretary German shared that he had a chance to speak before the Municipal Treasurers Association of Wisconsin in Eau Claire recently. He passed along greetings from the board members and shared that it was a great time to connect with a group of people that are customers of our loan program as many of them were new in their positions since the beginning of the pandemic. It was good publicity for our loan program.

And lastly, he and Micah met with officials from Bayfield County to do a walking inspection of our Pigeon Lake property. The property has a significant amount of lake frontage. It previously served as a field station for the US Forest Service and a Field Learning Center for UW River Falls. It came to BCPL in a land exchange before his time with the agency. When the UW stopped using it, it really didn't have another use and so BCPL has been trying to find a home for that property in somebody else's portfolio. It'd be nice if a public entity would step forward and purchase the property.

And at this point in time, it looks like Bayfield County may be the only one that has any interest. We are hopeful that our meeting with the Bayfield County officials will produce something. He will keep the board advised as to how that develops.

ITEM 9. BOARD CHAIR'S REPORT

Board Chair Godlewski shared that she had a very good visit with staff at the northern office. This was the first time a Commissioner had visited that office in a long time. It's important for us to be present as the 80,000 acres is an important part of our portfolio. We had a great conversation about how to manage our acres effectively and sustainably whether it's leveraging and using our land bank authority to have more productive timberland through things like carbon credits which we approved today. There are other potential alternatives in addition to carbon credits like harvesting maple syrup from our lands or having a lease with solar. She commended the northern staff for their work.

Board Chair Godlewski also shared that she and Executive Secretary German met with Dr. Jill Underly and key members of the Department of Public Instruction (DPI). She has heard from stakeholders that they would like to know what the amount of the distribution is going to be. The sooner they can get that information, the better they can plan and the better that they can use their resources. One of the important points of the discussion was the desire from DPI to announce the distribution amount earlier. Typically, we like to notify DPI in January and then we do a formal announcement in February. But we know public schools are doing everything they can to optimize resources and so we could notify them sooner. Our distribution for this upcoming year is a 27% increase over last year's. It's going to be \$52 million. We would like to notify DPI formally in the next few days and then formally publicly announce the distribution amount next week or the week of November 9th in a formal press announcement on this significant distribution in partnership with DPI. The Commissioners discussed possible dates. It is tentatively decided that October 13th works for the commissioners and staff.

Board Chair Godlewski brought to the board's attention the fact that next year one of the programs that the Normal School Fund provides funding for will be sun-setting in April of 2023. The Normal School Fund was created to support teacher colleges. This could be an opportunity to provide teacher loan forgiveness with these funds. This aligns with statute and the purpose of the fund. We have had good conversations with DPI, rural public schools, teachers' unions, and it seems to be a real win, win, opportunity. We are going to need legislative approval to do this. This will be something for the next board work on.

Lastly, Board Chair Godlewski talked about the idea of a separately managed account, which was discussed at a previous meeting. We should be able to choose our investments and manage them accordingly since we are a very unique fund in the way that our principal and distribution work. She has spoken with DPI about a separately managed account and their feedback is that they are glad we are being creative and innovative to best manage the fund for their benefit.

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 3:00 p.m.



Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2022/2022-09-20 BoardMtgRecording.mp3>

**BOARD MEETING
OCTOBER 18, 2022**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Horicon Dodge County Application #: 02023026 Purpose: Finance infrastructure for new residential development	City Rate: 4.50% Term: 8 years	General Obligation	\$2,400,000.00
2. Randall Kenosha County Application #: 02023027 Purpose: Finance roadwork	Town Rate: 4.50% Term: 10 years	General Obligation	\$794,950.00
3. Wascott Douglas County Application #: 02023028 Purpose: Finance purchase of ambulance	Town Rate: 4.50% Term: 10 years	General Obligation	\$119,300.00
4. South Central Library System Adams, Columbia, Dane, Green, Portage, Sauk and Wood Counties Application #: 02023029 Purpose: Finance SCLS HQ/Delivery Facility	Federated Library System Rate: 4.75% Term: 20 years	General Obligation	\$1,000,000.00
	TOTAL		<hr/> \$4,314,250.00