

Board Meeting Minutes
September 3, 2024

Present were:

Sarah Godlewski, Board Chair	Secretary of State
John Leiber, Commissioner	State Treasurer
Josh Kaul, Commissioner	Attorney General
Tom German, Executive Secretary	Board of Commissioners of Public Lands
Rich Sneider, Chief Investment Officer	Board of Commissioners of Public Lands
Denise Nechvatal, Controller	Board of Commissioners of Public Lands
Chuck Failing, IT Manager	Board of Commissioners of Public Lands
Thuy Nguyen, Office Manager	Board of Commissioners of Public Lands

ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 2:01 p.m.

ITEM 2. APPROVE MINUTES

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

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

None

Mr. Sneider shared that BCPL and DOJ are working together to establish a better system for getting loans to the board for approval.

ITEM 4. OLD BUSINESS

None

ITEM 5. NEW BUSINESS

None

ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT – Quarterly Investment Report

Mr. Sneider reported our portfolio report from June 30th is remarkably similar to the report from the prior quarter. The only major change was the investment of about \$50 million in cash reserves was split between new trust fund loans and the funding of prior commitments that we had made to private debt funds. Overall, it was a quiet, but a good quarter and the portfolio continues to perform well.

For the entire fiscal year 2024, the Common School Fund earned a record \$68 million and distributed a record \$65 million. We banked the difference between those earnings and distributions into the Common School Fund smoothing fund. The smoothing fund has now grown to a record amount, over \$40 million. The growth rate and distributions over the past few years is really not sustainable and future distributions will grow at a smaller and more stable rate and largely be due to growth in the amount of trust fund principal that we invest rather than an increase in the average yield generated by that those investments. We as staff can impact this growth through the generation of long term capital gains in the portfolio. Private equity and venture capital returns do not generate a dividend or interest in most cases but will return a capital gain to investors when the underlying company is sold to other investors. Those capital gains are added to the principal of the funds

To continue this track record of increasing annual distributions over the long term, we must shift our asset allocation slightly along that spectrum to assets capable of generating long term capital gains. The majority of our assets are held in investments that are interest rate sensitive. Over 75% of the Common School Fund is invested in fixed income, preferred stocks and real estate. As interest rates come down from the elevated levels of the past few years, the value of our interest rate sensitive assets will begin to rise and then the natural rebalancing of these assets to our allocation model will require the sale of appreciated assets followed by reinvestment of those proceeds.

Over the next few quarters, the investment committee will be looking at ways to best adjust our asset allocation to facilitate additional growth while maintaining a growing and stable distribution. Our \$40 million smoothing fund remains a critical asset in ensuring that our beneficiaries will continue to receive stable and growing distributions through potentially turbulent markets in the near and distant future. Mr. Sneider hopes to present results of his research to the Board later this year.

He highlighted the growth of the Common School Fund versus the rate of inflation. In the 1850s, BCPL was selling land for a buck and a quarter an acre. Federal Reserve data shows that the average annual inflation rate since 1850 has been 2.15%. If we had taken that \$1.25 and invested it at an average 2.15% per year, it would be worth just over \$50 today. If we had earned inflation plus 1%, it would be \$275 today. If we invested it at the inflation rate plus 2%, it would be worth almost \$1500 today. An extra 2% annual growth increases today's value of the original investment from \$50 to nearly \$1500, or about 30 times.

The Common School Fund growth rate is declining over time. Contributions from fines and forfeitures have declined. Our ability to invest in growth assets is relatively new. We've only had the prudent investor standard for a few years while earlier investments were limited to fixed income. We've done OK against inflation. We are having a much greater impact on the lives of Wisconsin school children, but we have a lot of hard work ahead of us. We will continue to improve our ability to impact Wisconsin public schools for generations to come.

Board Chair Godlewski asked about the decrease in fines and forfeitures in the last few years.

Mr. Sneider explained that he was alluding to a long term outlook on that. When he first started at BCPL, long term care facilities were paying us large amounts of forfeitures on an annual basis and then that law

was changed. Denise Nechvatal would have more detail about the about the current level of specific forfeitures but this is more of a long term trend than just something that might have been more recent.

Board Chair Godlewski added that when we look at our overall revenue streams, one is of course investments, unclaimed property, and forfeitures. Those are the three. Unclaimed property continues to be somewhat predictable, unfortunately, but it seems like forfeitures might be a little bit of a different ball game.

Executive Secretary German shared that he agrees with Board Chair Godlewski assessment on the forfeitures. There has been a steady long term decrease. When he first started at BCPL, we received slightly over \$20 million a year in fines and forfeitures and unclaimed property would swing wildly from one year to the next. As time went by, there were a couple of developments. Communities adopted municipal courts and any forfeitures going through the municipal court would yield nothing for the for the Common School Fund because the underlying forfeiture or fine accrued to the municipality, not to the state. Also, statutes were changed. Previously, nursing homes could be fined under both federal and state law, but most of the times they were fined under state law. This resulted in over \$2 million a year in fines being added to the Common School Fund. The statute was changed so that a nursing home could not be fined under state law if they could be fined under federal law. This resulted in a lot of nursing homes not getting fined at all resulting in the loss of \$2,000,000 in annual revenue. At this point, we're receiving about \$10 million a year in fines and forfeitures for the most part. The growth in municipal courts has stopped, and in some cases has reversed. Some communities that started their own municipal court realized that they weren't taking in enough in municipal forfeitures and fines to pay for the municipal judge and other costs of running the court. He has not seen the addition of more municipal courts or changes in the statutes in the past few years.

Board Chair Godlewski asked Mr. Sneider to further explain the purpose of the smoothing fund.

Mr. Sneider explained that the smoothing fund target is 50% of the next annual distribution. When we moved from 100% fixed income to a more diversified portfolio, the assumption was we were taking on more risk and the fluctuation in the amounts available for annual distributions might go down depending on the market conditions. Our diversification within the portfolio from fixed income to include many other asset classes has contributed distributable income for our beneficiaries. The amount of volatility has actually gone down. BCPL's portfolio used to be 100% fixed income. If interest rates went down, there would be a lag time, and that meant the distributable income would go down over time too. That does not seem to be the case anymore. We can anticipate our distributions to be generally stable and increasing from here on out. The smoothing fund remains important in the event of some Black Swan event disrupting market conditions.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German reported that he was at the National Association of State Trust Lands meeting last week out in Idaho and it was interesting to see some of the developments going on. In the state of Idaho, they brought the financial trust fund assets under the purview of their Land Commission. Similar to BCPL, they looked at diversifying their portfolio, but their diversification was much more limited than what we've done with our portfolio. Their portfolio consists of just stocks and bonds for the most part. They have a bigger staff and bigger funding yet their distribution rate for last year was just 3.3%. At the conference, this was being lauded as the new best practice model for trust management. Both Oregon, and Colorado are heading down that road as well. Mr. German believes that BCPL has done a much better job in terms of diversifying our portfolio while keeping in mind generational equity, trying to make sure that we're growing the fund at a rate equal to or greater than the rate of inflation and

providing strong and stable earnings to the current beneficiaries. Last year BCPL's distribution rate was 4.7% whereas 3.3% was considered fantastic for Idaho. It does raise the issue that we are going to need more resources to be able continue our investment strategy. For our budget request this coming year, we will be asking for a substantial increase in resources to be able to manage the trust assets and report on them more easily.

He had the opportunity of speaking at the Town of Lac du Flambeau meeting on Friday, August 23rd. The Milwaukee Journal Sentinel mistook Mr. German for our esteemed State Treasurer. However, the Lakeland Times did an awesome job of reporting on the meeting, what was said and what was done. Tensions are high up there. When the town called this board meeting, 150 people and 3 television stations showed up. They had invited just about everyone under the sun to come and speak, but there was only a couple of legislators along with Mr. German and then some staff members from various other entities. There is a great concern up there that property owners on certain lakes located within the Lac du Flambeau reservation have to cross tribal roads or tribal land to get to their properties. The tribe is demanding compensation for such access. The parties are at an impasse on how to go about that. BCPL has decent relations with the Lac du Flambeau, because we were able to settle all of our differences back in 2022 thanks to our board and the transaction we completed. Lac du Flambeau tribe has inquired about other land that may be available in the area. At the meeting, Mr. German acknowledged that we have land in the area not within the reservation boundary, but close by. While some of the land we have generates timber revenue, we understand the importance of trying to resolve the differences. If the citizens of the Town of Lac du Flambeau or the title companies were to inquire about acquiring the land from us and then providing that land to the Lac du Flambeau as compensation for access, that may be a solution to the standoff. It was made clear that we are trust managers and cannot give land away. If a land transaction were to happen, the land would have to be appraised and sold to the town and the town could then convey it to the tribe. That was the extent of his role at that meeting.

This coming Thursday he is being summoned to the Voigt Inter-Tribal Task Force Committee meeting of the Great Lakes Indian, Fish and Wildlife Commission which is located on the on the Bad River Reservation. They had additional questions about the US Forest Service's interest in acquiring certain BCPL lands. Some tribes have inquired about the possibility of acquiring the land instead of the Forest Service.

Commissioner Leiber share that he heard back from the reporter regarding the error of who attended the Lac du Flambeau meeting. The reporter said the Zoom call was very poor quality and he could not make out the names. That was the reason he gave for mistaking us for one another.

Board Chair Godlewski asked about the Town of Lac du Flambeau conflict, knowing that the state and BCPL are not direct parties involved in the matter, and what BCPL's role going forward looks like.

Executive Secretary German replied that it seems to that the role we will end up playing is a facilitation role more than anything else. We have decent relationships with most of the parties involved, but we are not a direct party to any of the current controversies up there. So, it was a rather late stage change that the tribe started asking about, "How about land instead of cash compensation?" The fact that the Lac du Flambeau had a very amicable transaction with BCPL back in 2022 may have brought us into the equation. We were able to settle 150 some years of disputes, in a matter of 45 days at that time. He does not believe that we're talking about large scale land sales but rather targeted parcels that would be close to the reservation if anything were happen.

Board Chair Godlewski asked about the timeline, as it appears to be a standoff right now between two parties.

Executive Secretary German explained that in terms of the timelines, it seems like it grows and contracts based upon the actions of the parties. When he was up north this time, he took the opportunity to inspect some of our lands with our staff to get a better sense of how close they are to the reservation and what they look like. We also looked at whether those lands provide any access to any other people's property? The last thing we want to do is create an additional problem by selling some land and creating an access problem for somebody else. The reservation has boulders standing by to be rolled onto those roads to prevent access for non-tribal citizens who own lands up there. If those boulders get rolled into place, he believes timelines will shrink considerably.

Commissioner Leiber commented that based on his past interactions with people talking about BCPL he believes it's imperative that it's said that land owned by the BCPL can't be given away.

Executive Secretary German shared that he often starts off with something like that and it's important that the commissioners know that as well in case they are asked for a comment. He is diligent in making sure that it's clear that we cannot give land away.

ITEM 8. BOARD CHAIR'S REPORT

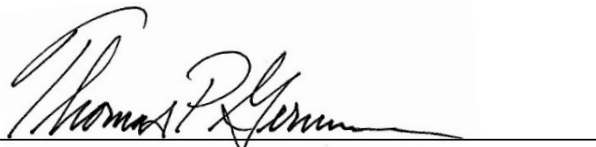
None

ITEM 9. FUTURE AGENDA ITEMS

Board Chair Godlewski asked that at the next meeting a discussion is had about when the announcement is made about the library aid distribution. Discussion during an investment meeting suggested doing it the same time in November as it gives school districts more time to prepare for using the funds.

ITEM 10. ADJOURN

Commissioner Kaul moved to adjourn the meeting; Commissioner Leiber 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/bcpl.wisconsin.gov Shared Documents/Board Meeting Docs/2024/2024-09-03 BoardMtgRecording.mp3>