

Board Meeting Minutes  
May 7, 2024

Present were:

Sarah Godlewski, Board Chair	Secretary of State
Josh Kaul, Commissioner	Attorney General
John Leiber, Commissioner	State Treasurer
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
Mike Krueger, IT Specialist	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:** Board Chair Godlewski 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 Kaul seconded the motion.

**DISCUSSION:** Mr. Sneider shared that loans #1, #3 and #7 are for roadwork. Loan #2 to the Town of Baileys Harbor is for financing a broadband infrastructure project. Mr. Sneider noted that a number of local governments in Door County have now used our loan program to help finance broadband expansion in their communities. Loan #4 to the Town of Campbell is for drainage and street improvements. Loan #5 to the City of Onalaska is for new police vehicles and improvements to the city's City Hall.

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

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$8,591,471.00** in State Trust Fund Loans to support 7 community projects in Wisconsin.

1. Village of Butler /Waukesha County / Finance roadwork / \$577,198.00
2. Town of Baileys Harbor / Door County / Finance broadband infrastructure / \$5,250,000.00
3. Town of Bristol / Dane County / Finance roadwork / \$1,050,000.00
4. Town of Campbell / La Crosse County / Finance drainage and street improvement project / \$660,000.00
5. City of Onalaska / La Crosse County / Finance police vehicles and City Hall projects / \$688,257.00
6. Village of Woodville / St Croix County / Finance equipment purchases / \$169,476.00
7. Village of Woodville / St Croix County / Finance roadwork / \$216,540.00

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

None

#### **ITEM 5. Land Bank Transaction – Sale of Sundstein Road Property (S2402)**

Meeting rules are temporarily suspended to allow for discussion of the proposed land bank transactions before a motion is made.

**DISCUSSION:** Executive Secretary German explained that BCPL is looking to sell approximately 320 acres of land in Vilas County. The property has been appraised at \$1,250/acre. The land is unproductive for timber but does have legal access. The sale of this land would allow BCPL to purchase other land that would be more productive for generating timber revenue which builds the principal of the trust funds. We are asking the board to approve the sale of these lands via sealed bid process.

**MOTION:** Board Chair Godlewski moved to approve sale of the Sundstein Road Property as outlined in the resolution; Commissioner Kaul seconded the motion.

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

#### **ITEM 6. Land Bank Transaction – purchase of Gunnulson Property (P2401)**

**DISCUSSION:** Executive Secretary German explained that there is approximately 121 acres in Florence County that the seller wishes to sell. The land is owned by David Gunnulson and is enrolled in the Managed Forest Law (MFL) program. The land has been managed sustainably for years. The US Forest Service (USFS) was interested in acquiring the land as it owns land adjacent to Mr. Gunnulson's land but due to minor encroachments of the southern boundary of the land, USFS is unable to proceed with this land acquisition. The land is located within BCPL's consolidation zone and meets the statutory criteria to be eligible for acquisition.

The appraiser valued the property at \$2,075/acre and the appraisal was shared with Mr. Gunnulson. The appraised value was higher than Mr. Gunnulson expected. After discussion with Mr. Gunnulson, he offered to sell the land to BCPL for \$1,700/acre, rounded to \$206,000. This property will be a productive addition to BCPL's trust lands. The property is 100% upland and has an excellent system of woods, roads and soils that are appropriate for dry-ground summer logging. The roads and soils on the Property are expected to bring greater interest from loggers and premium bids on the timber sales.

**MOTION:** Board Chair Godlewski moved to approve purchase of the Gunnulson Property as outlined in the resolution, including an expression of gratitude to Mr. Gunnulson; Commissioner Kaul seconded the motion.

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

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

Mr. Sneider reported that annual payments on State Trust Fund Loans (STFL) were due on March 15<sup>th</sup>. BCPL received over \$45 million in returned principal and \$14 million in interest income from our borrowers. We were able to put much of that money back to work immediately as we received call notices from private debt and infrastructure commitments made late last year.

## Portfolio Report

Mr. Sneider discussed the impact on our portfolio from higher interest rates. Each asset class behaves differently with respect to higher rates, which is why we diversify our portfolio. In general, higher interest rates will tend to reduce existing asset values, while at the same time improving distributable income.

The Federal Reserve began raising short term interest rates a little more than 2 years ago. The Fed target rate was just reconfirmed at 5.5%. Markets tend to anticipate changes in Fed policy and short term market rates started moving up at the beginning of 2022.

The value of our bond portfolio has a negative correlation to market interest rates. Preferred stocks and fixed rate bonds behave in similar ways to changes in interest rate. As interest rates go up, values of those assets go down. Over the last 27 months, the value of our publicly traded fixed income portfolio has fallen significantly. Combined, our bond and preferred stock portfolio have gone from a \$15 million unrealized gain on the Common School Fund balance sheet at the start of 2022 to a combined \$43 million unrealized loss. The unrealized losses do not translate into a decline in distributable income. Unless actively sold before maturity, the bond investments will be paid in full.

Our STFL portfolio has remained fairly consistent over the last few years, roughly \$250-\$300 million. The average interest rate on loans has increased from 3.6% to 4.7% in the last 2 years. Current rates for new loans are at 6%.

As for private debt, our chosen managers originate senior secured loans on a floating rate basis. Our investment in these private debt funds has increased \$150 million since the beginning of 2022 with another \$45 million in commitments waiting to be called. Private debt is now the largest contributor to annual distributions.

Domestic and global public equities held up very well in this period of rising interest rates. The average market return including all stocks in 2022 and 2023 was flat.

Interest rates have been a big impact on both the value and cash flow in commercial real estate. Overall prices are down as much as 20-25%, with cash flows suffering from paying higher rates on mortgage interest.

Our Common School Fund (CSF) investments benefitted from a strong run-up prior to the recent slump, and we remain in positive territory for this asset class.

Venture capital market conditions have delayed potential exits. We remain confident in this asset class over the long run, but we need to practice patience as these young companies continue to mature.

Our total portfolio is now yielding 5.0%. It is highly unlikely that we will be able to maintain that 5% level over the long term. Interest rates are projected by most pundits to come back down over the next few years. It may be time to consider a new shift in our allocation to assets expected to generate a greater portion of their return in capital gains, rather than distributable income. CSF distributions have grown 60% in the last 2 years alone.

The investment committee is currently discussing shifting some fixed income assets to Treasury Inflation-Protected Securities (TIPS). TIPS provide small yield in addition to the principal rising at the annual rate of inflation. These investments guarantee a rate of return greater than the rate of inflation. Our annual asset allocation for the CSF includes a 0-10% target range for TIPS. In recent years we have not been able to fill that allocation due to pricing. The price of these bonds was bid up so high in the face of rising inflation that their yield was actually negative. That pricing is now reversed, and real yields are in the 2% range.

## Asset Allocation Report

We remain over allocated in certain fixed income categories as we wait for market values to re-adjust. We believe that our fixed income prices will come back up when the Fed policy makers change direction. In

contrast, we are planning to sell our public equity allocation down to target levels when the documentation regarding our move to private indexing is completed in the next week or two. This action will realize a significant long-term gain in addition to producing additional liquidity for reinvestment. We do have some room in the real estate allocation due to the price declines mentioned earlier. We believe that a better entry point might be later in 2024 or early 2025.

#### **ITEM 7. EXECUTIVE SECRETARY'S REPORT**

Executive Secretary German reported that since the last board meeting in April, he has travelled over a thousand miles representing BCPL at conferences for the Municipal Treasurers, lake protection districts, communities in northern Wisconsin and the US Forest Service.

Executive Secretary German provided an update on the Town of Sanborn loan. Last year, the town applied for a loan of \$600,000 to finance refunds of property taxes to Native Americans who owned property within the Bad River Reservation boundaries. The town submitted chargebacks to pay remaining refund claims. The town made their 2024 annual State Trust Fund Loan payment on time. The State budget contained an appropriation for communities that were affected by the Native American property tax litigation and the town received some of that money. Yesterday, we received a prepayment of \$245,000 from the town. They are now ahead of schedule on repaying their loan from BCPL.

The Conservation Fund (CF) will not be selling BCPL any portion of their Pelican River Forest holdings. After discussions with CF, they have determined that it would not be practical to sever blocks of land from their 70,000 acre holdings. CF remains interested in acquiring BCPL lands that are inholdings within their large blocks and offered to assist BCPL in working with other large landowners to develop a transaction that allows BCPL to divest these scattered unproductive lands in order to acquire larger productive blocks of timberland.

This week, northern staff will oversee the planting of over 26,000 red pine seedlings in Marinette County to restock some of the pine plantation there that has been harvested in recent years. BCPL still have a ways to go to get all the harvested lands replanted.

#### **ITEM 8. BOARD CHAIR'S REPORT**

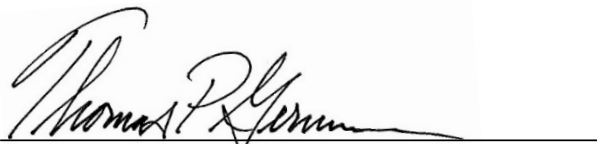
None

#### **ITEM 9. FUTURE AGENDA ITEMS**

None

#### **ITEM 10. ADJOURN**

Board Chair Godlewski 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:

None