

101 E. Wilson Street  
2nd Floor  
PO Box 8943  
Madison, WI 53708-8943

608 266-1370 INFORMATION  
608 266-0034 LOANS  
608 267-2787 FAX  
bcpl.wisconsin.gov

Jonathan Barry, *Executive Secretary*

## **AGENDA**

March 5, 2019

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 - February 4, 2019 (Attachment)
- 3) Approve Loans (Attachment)

### **Old Business:**

- 4) Discussion and Potential Vote on Past Board Policies (Attachment)
  - a) Board Approval of Out-of-State Travel for Executive Secretary, Staff or Commissioners
  - b) Prohibit Staff from Lobbying State Legislature, Governor's Office, or Federal Government

### **New Business: None**

### **Routine Business:**

- 5) Report of the Chief Investment Officer (Attachments)
- 6) Executive Secretary's Report
- 7) Future Agenda Items
- 8) Adjourn

## **AUDIO ACCESS INFORMATION**

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**BOARD MEETING  
MARCH 5, 2019**

**AGENDA ITEM 2  
APPROVE MINUTES**

Attached for approval are the minutes from the February 4, 2019, board meeting.

Board Meeting Minutes
February 4, 2019

Present in person were:

- Sarah Godlewski, Board Chair
Tom German, Deputy Secretary
Richard Sneider, Chief Investment Officer
Vicki Halverson, Office Manager
State Treasurer
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands

Present via teleconference were:

- Doug La Follette, Commissioner
Josh Kaul, Commissioner
Jonathan Barry, Executive Secretary
Secretary of State
Attorney General
Board of Commissioners of Public Lands

ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 1:00 p.m.

ITEM 2. APPROVE MINUTES - JANUARY 15, 2019

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

DISCUSSION: Commissioner Kaul asked if written transcripts of the board meeting proceedings were necessary since the proceedings are recorded. Deputy Secretary German replied that no legal requirement exists to keep a printed transcript but for practical purposes, it has been a long-standing practice of the Board. Executive Secretary Barry added that using the abbreviated transcript to research past policies adopted by the Board is more efficient than listening to the board meeting recordings. The Commissioners agreed that the practice should continue.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

Mr. Sneider reported that the loans had been reviewed by the Attorney General’s Office for proper public purpose.

Table with 4 columns: Municipality, Municipal Type, Loan Type, Loan Amount. Contains 3 rows of loan data including Remington, Sparta, and Tomah.

4.	Tomah Monroe County Application #: 02019098 Purpose: Finance TID #8 development incentive	City Rate: 4.75% Term: 15 years	General Obligation	\$1,000,000.00
5.	Tomah Monroe County Application #: 02019099 Purpose: Finance TID #8 veterans assistance housing loan	City Rate: 4.75% Term: 15 years	General Obligation	\$180,000.00
6.	Whiting Portage County Application #: 02019102 Purpose: Finance operations and maintenance	Village Rate: 4.25% Term: 5 years	General Obligation	\$110,000.00
<b>TOTAL</b>				<b>\$1,548,544.45</b>

**MOTION:** Commissioner La Follette moved to approve the loans; Commissioner Kaul seconded the motion.

**DISCUSSION:** Board Chair Godlewski asked for additional information on the small business loan to the city of Tomah. Mr. Sneider replied that it was for a warehouse distribution project within the TID. She then asked if operations and maintenance loans were typical. Mr. Sneider replied that it is rare for municipalities to borrow for operations, but it does happen on occasion.

Commissioner Kaul asked what criteria was used to determine interest rates. For example, a municipality's bond rating. Mr. Sneider replied that it is primarily based on the length of the loan. By statute, BCPL has the authority to intercept a municipality's state aid should there be a loan default, so staff consider the credit quality of all loans as comparable.

The Board and staff discussed communications and outreach strategies that would make citizens aware of the service and benefits that BCPL is providing within their community. Targeted press releases are sent to newspapers and radio stations, which sometimes triggers a call from a news outlet seeking additional information. Board Chair Godlewski offered to work with the Executive Secretary and staff to expand the agency's outreach strategies and present them to the Board at a future meeting.

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

#### **ITEM 4. DISCUSSION AND POTENTIAL VOTE ON PAST BOARD POLICIES**

Board Chair Godlewski explained that the Commissioners had asked staff to compile a list of policies adopted by the previous Board (January 6, 2015 - December 18, 2018) that they felt should be reviewed. Staff provided a list of five current policies, which the Board could consider amending, repealing, ratifying now or table them for a future meeting.

**MOTION:** Commissioner La Follette moved to repeal the energy efficiency loan and climate change policies. Commissioner Kaul and Board Chair Godlewski preferred to discuss each policy separately and offer motions accordingly. Commissioner La Follette withdrew his motion.

- To decline acceptance of State Trust Fund Loan applications for school energy efficiency projects for the remainder of 2017 (November 7, 2017).

**DISCUSSION:** Staff explained that, at one time, school districts could use an alternative borrowing process to finance energy efficiency projects if a referendum was held and it failed. The previous Board adopted a blanket policy that restricted staff from accepting *any* loan application requests for energy

efficiency projects, whether or not a school district had passed a referendum. Currently, statutes require school districts to pass a referendum for energy efficiency projects being financed longer than 10 years. While the Board's policy lapsed at the end of 2017, staff said the Board may want to adopt a statement indicating that any energy efficiency loan applications would be accepted.

**MOTION:** Board Chair Godlewski moved to amend the policy to read: The State Trust Fund Loan Program will accept loan applications for school energy efficiency and alternative energy projects in accordance with state law. Commissioner Kaul seconded the motion.

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

- Agency staff are prohibited from engaging in global warming or climate change policy advocacy during BCPL time (June 16, 2015 amending an April 7, 2015 Resolution).

**DISCUSSION:** Commissioners and staff discussed the challenges and restrictions this policy presented staff when they met with legislators or others to discuss forestry issues. For example, if legislation were proposed that might have an impact on the Board's trust assets due to impacts from climate change, the policy would prohibit staff's ability to point out the potential consequences of the proposed legislation. If the Board repeals the policy, staff will work within the new policy guidelines established, just as they have done in the past.

**MOTION:** Commissioner La Follette moved to repeal the policy prohibiting staff from engaging in global warming or climate change policy advocacy during BCPL time. Commissioner Kaul seconded the motion.

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

- The Board Chair shall approve agency expenditures over \$5,000, other than payroll and fixed obligation expenses, and a report will be provided to the Board at their next meeting. (April 21, 2015).

**DISCUSSION:** Staff explained that the policy was so broad that it would on occasion cause confusion surrounding non-recurring expenses. For example, the agency uses Bloomberg news service to monitor market conditions. Since the service costs more than \$5,000 per year and is billed quarterly, would this expense require Board Chair approval every quarter or is it considered non-recurring? Given the small number of expenses that fall under the policy and the transparency it provides, the Commissioners agreed to retain it.

- The Commissioners must approve out-of-state travel for the Executive Secretary, staff, or Commissioners (April 7, 2015).

**DISCUSSION:** The policy was very broad and caused issues when staff traveled to the far northern border of Wisconsin. Staff suggested that the \$5,000 expenditure limit could address out-of-state travel and, thus, fall within the discretion of the Executive Secretary. The Commissioners discussed the practicality of the policy and possible revisions. Specifically, the Executive Secretary would approve out-of-state travel for staff, and the Board Chair would approve out-of-state travel for the Executive Secretary.

**MOTION:** Board Chair Godlewski moved to request that staff provide the Board with revised language for the policy at the next meeting, based on the discussion and feedback above. Commissioner La Follette seconded the motion.

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

- To prohibit Board staff from lobbying the state legislature, Governor's office, or the federal government on proposals unless approved by the Board (adopted March 17, 2015).

**DISCUSSION:** Staff explained that the prior board took a broad view of the word “lobbying.” That is, *any* discussion with *any* sitting legislator was considered lobbying. In situations where legislation was introduced and a hearing on the matter was scheduled within a short timeframe, staff were unable to meet with legislators to discuss the impact of the proposed legislation on the Board’s trust assets because a board meeting may not be scheduled within that same timeframe. The Commissioners discussed the need for staff to provide information and feedback in a timely manner to government officials on matters impacting the BCPL and ensure that any information provided or positions presented on issues are in line with policies adopted by the Board.

**ACTION:** The Board directed staff to provide them with recommendations to consider at the next board meeting.

#### **ITEM 5. EXECUTIVE SECRETARY’S REPORT**

Executive Secretary Barry reported that he and staff would be reaching out to the members of the Joint Finance Committee and junior legislators to inform them of the agency’s programs and how they benefit Wisconsin’s citizens.

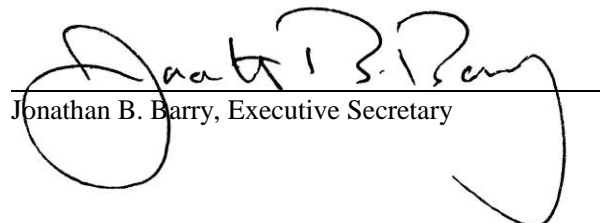
Deputy Secretary German reported that the Legislative Audit Bureau would be conducting an audit of the agency.

Board Chair Godlewski reported that she and staff will be developing outreach strategies and will present them to the Board for discussion. She also participated in a staff investment committee meeting to discuss investment opportunities and, again, will share outcomes and potential options with the Board at future meetings.

#### **ITEM 6. FUTURE AGENDA ITEMS**

#### **ITEM 7. ADJOURN**

The meeting adjourned at 2:11 p.m.

  
Jonathan B. Barry, Executive Secretary

These minutes have been prepared from a recording of the meeting. The summaries have not been transcribed verbatim. Link to audio recording: [https://bcpl.wisconsin.gov/Shared%20Documents/Board%20Meeting%20Docs/2019/2019-02-04\\_BCPL-BoardMtgRecording.mp3](https://bcpl.wisconsin.gov/Shared%20Documents/Board%20Meeting%20Docs/2019/2019-02-04_BCPL-BoardMtgRecording.mp3)

**BOARD MEETING  
MARCH 5, 2019**

**AGENDA ITEM 3  
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Barronett Washburn County Application #: 02019108 Purpose: Purchase tractor and equipment	Town Rate: 4.50% Term: 10 years	General Obligation	\$90,000.00
2. Beloit Rock County Application #: 02019106 Purpose: Refinance BCPL loan #02018052.02	Town Rate: 4.25% Term: 2 years	General Obligation	\$3,670,615.11
3. Knowlton Marathon County Application #: 02019103 Purpose: Finance road improvement projects	Town Rate: 4.25% Term: 5 years	General Obligation	\$350,000.00
4. Melvina Monroe County Application #: 02019104 Purpose: Finance road and flood repairs	Village Rate: 4.25% Term: 5 years	General Obligation	\$50,000.00
5. Tomah Monroe County Application #: 02019107 Purpose: Finance TID #8 development incentive	City Rate: 4.25% Term: 5 years	General Obligation	\$250,000.00
6. Willard Rusk County Application #: 02019105 Purpose: Purchase snow plow truck	Town Rate: 4.25% Term: 5 years	General Obligation	\$37,000.00
7. Wood River Burnett County Application #: 02019109 Purpose: Construct town hall and truck shop building	Town Rate: 4.75% Term: 20 years	General Obligation	\$878,000.00
<b>TOTAL</b>			<b>\$5,325,615.11</b>

**BOARD MEETING  
MARCH 5, 2019**

**AGENDA ITEM 4  
DISCUSSION AND POTENTIAL VOTE TO AMEND, REPEAL OR RATIFY PAST  
BOARD POLICIES**

**Item 4a. Out-of-State Travel Policy**

On April 7, 2015, the Board adopted a travel policy that required Board approval for all out-of-state travel. At its February 4, 2019, meeting, the Board reconsidered the current policy and decided to amend such policy. The Board suggested new general guidelines and asked the Executive Secretary to provide them with a proposed resolution outlining the new policy. In accordance with the Board's request, the following resolution is respectfully submitted.

**NOW, THEREFORE, BE IT RESOLVED, THAT** the prior Board policy on out-of-state travel is repealed in its entirety and replaced with a new policy that:

1. Requires every BCPL staff member (other than the Executive Secretary) to obtain approval for his or her out-of-state agency business travel from the Executive Secretary;
2. Requires the Executive Secretary and any Commissioner to obtain approval for his or her out-of-state agency business travel from the Board Chair;
3. Requires that such travel expenses be reasonable and necessary and otherwise in accordance with state travel reimbursement guidelines as set forth in the state compensation plan; and
4. Requires Board Chair approval for such travel expenses if the total expenditures for agency travelers to a particular out-of-state event total more than \$5,000.

**Item 4b. Prohibition on Lobbying by Agency Staff**

On March 17, 2015, the Board adopted a policy which prohibited the staff from lobbying the state legislature, Governor's office, or the federal government on proposals unless approved by the Board. While the word "lobbying" was not defined within the policy, one of the previous Commissioners indicated that any staff communications with any of those audiences was not permissible unless in accordance with a previously adopted position of the Board. At its February 4, 2019, meeting, the Board reconsidered the current policy and asked for staff input regarding changes to such policy. In response to such request, the following is respectfully submitted:

- First of all, it is important to restate that BCPL staff work for the Board and are expected to implement and execute the policies of the board. Staff members have a duty to accurately convey policy positions adopted or approved by the Board not only to the audience of the legislature, Governor's office, and federal government, but also to the public at large.



- Second, if any staff member expresses an opinion on a matter on which the Board has not taken an official position, it is incumbent on such staff member to make it clear to his or her audience that he or she is not speaking for the Board and that his or her personal position has not been adopted by the Board.

Outside of these two firm sideboards, any prohibition on agency staff communications with the legislature, Governor's office, or federal government is problematic. Freedom of speech and the freedom to petition the government is enshrined in both the state and federal constitutions. While this does not mean that any person can say anything at any time, the previous policy was a serious encroachment on both of such fundamental, constitutional freedoms. The previous policy should be repealed in its entirety. If the Board desires a replacement policy, it should not extend beyond the reach of the two sideboards outlined above.

**BOARD MEETING  
MARCH 5, 2019**

**AGENDA ITEM 5  
REPORT OF THE CHIEF INVESTMENT OFFICER**

Equity markets continued to rally throughout the month, providing scant opportunities for bargain hunting. The best prices were found on February 8<sup>th</sup>, and staff executed the sole regular purchase order for ETFs on that date.

The interest rate on the benchmark 10-year Treasury appeared to stabilize within the range of 2.65% to 2.70%, the lowest level over the past 12 months. This market provided an opportunity to sell some lower yielding assets at a slight profit, as discussed on the following page.

Now that the smoothing accounts have been filled, the overall goal for 2019 will be the continuing diversification of the CSF portfolio into approved asset classes for the purpose of increasing the long-term expected rate of return. This transition will be accomplished in a prudent manner as discussed in the Investment Policy (page 26-27):

The Common School Fund must transition from a fixed-income portfolio to a diversified portfolio as required by the recent implementation of the Prudent Investor Standard. The goal of this new policy will be to provide stable distributions in addition to capital gains that increase fund principal at or above the rate of inflation. The allocation to new asset classes will be systematic and determined by the confidence level in maintaining targeted distribution amounts to beneficiaries. In addition, the entry point into new asset classes must consider current available valuations within a historic context, with the timing of additional diversification benefits secondary to relative values. In addition, initial allocations within asset classes are likely to be tilted towards assets that produce distributable income. Once the smoothing account is funded to the recommended level, and assuming there are relative values to be found in targeted asset classes, it may be possible to accelerate the transition to a diversified asset allocation.

In addition to the fixed-income portfolio, the target asset allocation for the CSF includes equities, real estate, and venture capital. Over the past year, BCPL made the initial investments in equity (utilizing broad-based ETFs with a tilt towards dividend-producing equities) and venture capital (through established local firms with strong ties to SWIB and WARF). To further the diversification process, the Investment Committee is beginning to meet with real estate asset managers, along with additional venture capital firms, to explore current opportunities in those markets.

Regular reports will be made to keep the Board fully informed during this process.

Attachments

- Investment Transaction Report
- Month-End Portfolio Report - Public Bonds
- Month-End Portfolio Report - Public Equities

**BOARD MEETING  
MARCH 5, 2019****Investment Transaction Report  
February 28, 2019**

Transactions made since the previous report dated 2/01/2019 include:

**Bond Purchases**            None

**Bond Sales**                Staff sold slightly more than \$38 million in bonds during the 2<sup>nd</sup> week of February.

Decreasing market interest rates created an opportunity to sell some of our lower-yielding bonds at a slight profit (bond prices rise when interest rates fall). Opportunistic bond sales are strategically important to facilitate the on-going reallocation of assets in accordance with the Investment Policy.

The current sale provided higher prices than expected, which indicates that the remaining bond portfolio may be more liquid under these market conditions than previously thought. The sale earned short-term capital gains of \$72,000 for the CSF, in addition to long-term capital gains of \$160,000 for the CSF and \$24,000 for the NSF. The Investment Policy provides that short-term capital gains are added to distributable income, while long-term gains are added to the principal of the funds.

The average yield on the sold bonds was 3.38%. One impact of selling lower yielding securities is to increase the average yield of the remaining bond portfolio. The average expected yield on CSF bonds rose from 3.77% to 3.80% following the sale. In addition, proceeds of the sale will be reinvested in assets with higher expected returns.

**Public Equity Purchases** Staff made regular purchases totaling \$1 million in ETF shares. The month-end rebalancing of the ETF portfolio required an additional investment of \$925,000. The total value of public equity ETFs is now approximately \$52 million, or 4.6% of the CSF.



**BCPL Public Bond Portfolio**

As of 02/28/2019

<u>Description</u>	<u>Moody's Rating</u>	<u>S&amp;P Rating</u>	<u>Weight</u>	<u>Expected Yield</u>	<u>Yield to Maturity at Cost</u>	<u>Modified Duration (years)</u>	<u>Cost Basis</u>	<u>Estimated Current Value</u>	<u>Estimated Unrealized Gain (Loss)</u>	<u>Annual Income</u>
Treasury and Agency Securities	Aaa	AA+	56.6%	3.56%	3.52%	11.53	300,532,735	291,952,191	(8,580,544)	10,505,016
Wisconsin and State Agency	Aa2	AA-	22.3%	4.14%	4.18%	10.27	114,637,507	115,236,119	598,612	4,920,029
Municipal/School District	Aa3	AA-	21.1%	3.97%	3.99%	9.07	107,491,040	108,591,570	1,100,530	4,383,376
	Aa1	AA	100.0%	3.78%	3.76%	10.73	522,661,282	515,779,880	(6,881,402)	19,808,420



**BCPL Public Equity Portfolio**

As of 02/28/2019

<u>Symbol</u>	<u>Description</u>	<u>Quantity</u>	<u>Avg Cost</u>	<u>Cost Basis</u>	<u>Current Price</u>	<u>Current Value</u>	<u>Weight</u>	<u>Unrealized Gain (Loss)</u>	<u>Percent Gain (Loss)</u>	<u>Current Yield</u>	<u>Projected Annual Dividends</u>
<b>Domestic Equities</b>											
VTI	Vanguard Total Stock Market ETF	89,246	135.52	12,094,582	143.460	12,803,231	25.3%	708,649	5.9%	1.8%	235,609
VYM	Vanguard High Dividend Yield ETF	89,821	82.34	7,396,035	85.870	7,712,929	15.2%	316,895	4.3%	3.2%	243,415
VIG	Vanguard Dividend Appreciation ETF	23,752	101.60	2,413,086	108.910	2,586,830	5.1%	173,744	7.2%	2.0%	51,067
VNQ	Vanguard REIT ETF	29,839	77.02	2,298,263	83.990	2,506,178	4.9%	207,914	9.0%	3.9%	97,872
		<u>232,658</u>		<u>24,201,967</u>		<u>25,609,168</u>	<u>50.5%</u>	<u>1,407,202</u>	<u>5.8%</u>	<u>2.5%</u>	<u>627,963</u>
<b>Global Equities</b>											
VEU	Vanguard FTSE All World ex-US ETF	252,038	50.01	12,605,104	49.830	12,559,054	24.8%	(46,050)	-0.4%	3.2%	405,781
VYMI	Vanguard International High Dividend ETF	123,062	61.30	7,544,148	61.170	7,527,703	14.9%	(16,446)	-0.2%	4.2%	318,731
VIGI	Vanguard International Div Appreciation ET	39,900	61.41	2,450,437	62.810	2,506,119	4.9%	55,682	2.3%	1.7%	43,092
VNOI	Vanguard Global ex-US Real Estate ETF	43,667	56.52	2,467,895	56.940	2,486,399	4.9%	18,504	0.7%	4.6%	113,534
		<u>458,667</u>		<u>25,067,584</u>		<u>25,079,274</u>	<u>49.5%</u>	<u>11,690</u>	<u>0.0%</u>	<u>3.5%</u>	<u>881,138</u>
		<u>691,325</u>		<u>49,269,550</u>		<u>50,688,442</u>	<u>100.0%</u>	<u>1,418,892</u>	<u>2.9%</u>	<u>3.0%</u>	<u>1,509,101</u>