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Thomas P. German, *Executive Secretary*

AGENDA

March 1, 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 – February 15, 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
February 15, 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 2:02 p.m.

ITEM 2. APPROVE MINUTES – February 1, 2022

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

DISCUSSION: None

VOTE: The motion passed 2-0.

ITEM 3. APPROVE LOANS

MOTION: Commissioner LaFollette moved to approve the loans; Commissioner Kaul seconded the motion.

DISCUSSION: Mr. Sneider shared that Loan #1 to the Town of Lake Tomahawk, where BCPL's northern office is located, is for buying a fire truck. Loan #2 to the Village of Lannon, in the northeast corner of Waukesha County, is to fund a multifamily project targeted towards workforce housing with both a development incentive and infrastructure costs. This development will allow rents to be about 80% of what nearby community's rents are. This project is targeted towards employees of Quad Graphics, Milwaukee Tool, and the community hospital. Loans #4 and #5 are to the Town of Conover. In addition to these two loans, the Town of Conover will be refinancing three additional loans in the near future. For refinance loans, BCPL requires borrowers to take out a new loan equal to at least 25% of the amount being refinanced. This practice reduces the number of refinances and helps to sustain our earnings for distribution to our beneficiaries.

VOTE: The motion passed 3-0

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$2,264,000.00** in State Trust Fund Loans to support **5** community projects in Wisconsin.

1. Town of Lake Tomahawk / Oneida County / Finance purchase of fire truck / \$564,000.00
2. Village of Lannon / Waukesha County / Finance TID #1 projects / \$1,215,000.00
3. Town of Remington / Wood County / Finance purchase of fire department brush truck / \$26,000.00
4. Town of Conover / Vilas County / Finance purchase of fire truck / \$275,000.00
5. Town of Conover / Vilas County / Finance purchase of loader / \$184,000.00

ITEM 4. OLD BUSINESS

None

ITEMS 5. NEW BUSINESS

None

ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider shared that he was invited to join a panel on project financing at the Governor's Conference on Economic Development last Thursday. The presentation went well and there were some newer officials in the audience that learned about the State Trust Fund Loan Program. Municipal staff has quite a bit of turnover so continuing education is a key component in marketing the loan program.

Market interest rates have continued to go up over the past few weeks and the 10 year Treasury recently surpassed 2% for the first time in 2 1/2 years. In response, the BCPL Investment Committee approved raising Trust Fund loan interest rates to reflect current market conditions. New rates as of Feb 9th are as follows:

2 Years	3.00%
3 – 5 Years	3.25%
6 – 10 Years	3.50%
11 – 20 Years	4.00%

With this increase BCPL will be entering a two month period where the board will be asked to approve loans that have a different interest rate depending on when the loan application was requested. The loan interest rate is locked for 60 days when we receive the loan application request.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German shared that the Wisconsin Educational Media and Technology Association (WEMTA) Conference is coming up on March 8th. It is scheduled as an in person event but it may be live streamed as well. Executive Secretary German asked WEMTA if the Commissioners could provide a short video with remarks. WEMTA said they would get back to him within a week about that.

Executive Secretary German announced that the normal school fund is heading toward a record distribution of \$1.07 million to the UW. He and the State Treasurer are working on developing legislation that would provide some forgivable loans or scholarships for aspiring teachers. It does not seem likely that such legislation will go anywhere this session. He shared that the UW will be working on providing its students and our citizens with more transparency on the fact that BCPL funds those UW scholarships which are paid for with the Normal School Fund earnings.

Executive Secretary German shared that Jason Stephens, the CEO of Thompson Investments, has joined the BCPL investment committee as an advisor. Jason is an experienced and successful portfolio manager and a great person. It's great to have him associated with BCPL.

Finally, BCPL has put together a request for proposals for purchasing carbon credits on its trust lands. As previously noted, we are continuing our progress and diversifying our streams of revenue from our School Trust Lands. For the last 50 years, the only source of School Trust Land revenue has been from timber. Before that, BCPL did not conduct regular timber harvests. BCPL only had salvage harvests that were the result of fire, wind, or infestations. Since we began harvesting, we have done so in a sustainable manner, giving our School Trust Land forests a very different look than any other forests in the state. BCPL does not cut white cedar because it does not regenerate. We do not cut hemlock because the value is low and regeneration is also difficult. Selling carbon credits will allow us to harvest some timber, but also get paid for not harvesting those trees we choose not to cut or those trees that are economically difficult to harvest. We look

forward to receiving proposals in the near future. The carbon credit issue will be brought to the board for consideration sometime in the next couple months.

Commissioner LaFollette asked about the price for the carbon credits.

Executive Secretary German explained that BCPL has not received any proposals yet, but it is his understanding that the proposals will include a price range. Review of the proposals will be the point at which we decide whether to go forward with it or not.

Board Chair Godlewski asked Executive Secretary German to share more about the carbon credit proposals and program at a future board meeting.

Executive Secretary German agreed and commented that there were many uncertainties as to how the proposals will be structured. Under programs like this, it is required that the seller of the carbon credits continues to work on its forests to demonstrate that they are, in essence preserving carbon. Any proposal that BCPL would consider would require escrowing some of the money to pay for some of those future activities as well.

Commissioner LaFollette asked how the credits are sold, per acre or per tree and if BCPL is able to continue to cut trees from those parcels and still be eligible for the credits.

Executive Secretary German replied that he would answer with more detail at a future meeting but explained that generally it tends to be by the acre but another factor is the number of trees on the acre. For example, the number of credits for a plot of land that is not heavily forested would be less than one that has a lot more trees. BCPL can still cut trees while selling carbon credits. The program allows the flexibility to sell some of the land during the period of the contract as well.

ITEM 8. BOARD CHAIR'S REPORT

Board Chair Godlewski reported that she and staff have been working with WEMTA and DPI regarding the rollout of the largest distribution in the fund's history. A few schools will be featured along with what these schools have used the money for. She hopes to highlight the value of the Common School Fund. Emma Stutzman has been working on the roll out and Board Chair Godlewski will continue to keep everyone updated.

Board Chair Godlewski reiterated the importance of the Normal School Fund distribution. She shared that last year BCPL's distribution provided over 100 UW students with scholarships. She pointed out two important things: (a) informing students of where the scholarship money came from; and (b) the Merit Scholarship program is due to sunset in mid fiscal 2023. She shared her concern that if nothing is done the money may just sit in the Normal School Fund instead of helping students in need which is the intent of the fund. The Normal School Fund has been performing very well, and our income will likely continue to increase so setting up a rural teacher loan forgiveness program is needed. At this time, many rural schools are struggling to find enough teachers and some of the reasons are high student debt and the inability to work in these communities because they pay less than other districts. She hopes to move forward on this legislation but it might not be for this legislative session. She hopes to have it set up for success when the legislature decides to come back to approve it the future.

Commissioner LaFollette asked what would happen if the current scholarship program were to end.

Board Chair Godlewski replied that it is her understanding that the money would sit in the Normal School Fund unused. She added that the Normal School Fund supports many programs, from the Stevens Point program to the UW Extension. These other programs are not set to sunset but the Merit Scholarship program is set to sunset in early 2023. Funds for Merit Scholarship program, if not renewed, would just sit in the Normal School Fund.

ITEM 9. FUTURE AGENDA ITEMS

Further discussion about carbon credits

ITEM 10. ADJOURN

Board Chair Godlewski moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:19 p.m.

A handwritten signature in black ink, appearing to read "Thomas P. German", written over a horizontal line.

Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2022/2022-02-15 BoardMtgRecording.mp3>

**BOARD MEETING
MARCH 1, 2022**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Cottage Grove Dane County Application #: 02022065 Purpose: Refinance 2012A Taxable Bonds	Village Rate: 2.50% Term: 5 years	General Obligation	\$1,000,000.00
	TOTAL		\$1,000,000.00



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Thomas P. German, *Executive Secretary*

MEMORANDUM

TO: BOARD OF COMMISSIONERS OF PUBLIC LANDS

FROM: TOM GERMAN, EXECUTIVE SECRETARY

RE: GOALS AND PRIORITIES REPORT TO THE BOARD

DATE: FEBRUARY 24, 2022

We have continued to make progress on the goals and priorities set forth by the Board. And along the way, we have made substantial progress on reshaping the agency's operations and revenue streams. We will be making a record \$40.6 million annual distribution from the Common School Fund for public school libraries and a record distribution of approximately \$1.07 million to the University of Wisconsin from the Normal School Fund as well.

We have made great progress with the diversification of our portfolio of trust assets, both financial instruments and land assets. We also made progress on developing ways to tell our story. As the pandemic continues to impact our communities and our economies, we continue to look for ways to better connect with stakeholders without adding additional risk. Improvements on these issues also leads to progress on the Board's Goals and Priorities.

I have set forth below a short summary of progress on the Goals and Priorities identified by the Board.

- I. INVESTMENTS** – Build a comprehensive investment program that ensures strong returns for our beneficiaries while embracing the agency's history of investing in Wisconsin.

Priorities:

A. Create a School Trust Fund Investment Performance Scorecard & Annual Report

1. This priority was achieved earlier.

B. Establish a Due Diligence Protocol for Investments

1. This priority was also completed earlier.

C. Establish a Wisconsin Impact Advisor Group; and

D. Expand the Membership of the Investment Committee

1. We have expanded the Investment Committee to include two advisors with expertise that is highly relevant to our investment portfolio.
 - a. Mark Eppli is Director of the James A. Graaskamp Center for Real Estate at the University of Wisconsin-Madison. Mark earned his Ph.D., master's, and bachelor's degrees from the University of Wisconsin-Madison. He is an independent board member for the Federal Home Loan Bank of Chicago since 2012, and he is immediate past president of the nonprofit Real Estate Research Institute. Dr. Eppli was named a "Distinguished Fellow" by NAIOP, a national commercial real estate organization, which recognizes him as a foremost real estate policy expert. He has also received awards from the Greater Washington Urban League and the Urban Land Institute for his efforts to attract minorities to the real estate profession.
 - b. Jason L. Stephens is Chief Executive Officer, President, Principal, and a Portfolio Manager at Thompson Investment Management. Jason earned his bachelor's degree and an M.S. in Finance from the University of Wisconsin-Madison. He is a member of the CFA Institute and holds the Chartered Financial Analyst designation. He has worked in various capacities for Thompson Investment Management and Thompson, Plumb & Associates, Inc. for twenty years. Jason also serves as Board Chair for Arts for All Wisconsin and as a Wisconsin Union Association Trustee.
2. We greatly appreciate the talents, generosity, and thoughtfulness of our expanded team. However, we also continue to look for ways to diversify and strengthen our investment committee team.

E. Execute the Asset Allocation and Develop Clear Timeline

1. As noted last fall, we have now diversified our trust fund investments in accordance with our investment policy and asset allocation such that all asset categories are now within their respective target ranges. This accomplishment required a large amount of agency resources and a vast amount of work and coordination between BCPL staff and outside service providers. Now the results of that work reflected in Rich's quarterly results are easy to see. The trust funds are producing distributable income at a rate that could not have been accomplished under the old investment parameters of only limited fixed income investments. I commend our chief investment officer, Rich Sneider, for his vision and analysis for diversification of our trust fund

portfolios and our controller, Denise Nechvatal, for her tireless work on accounting for all these new investments and income streams.

2. We continue to look for ways to make improvements in our practices and operations. Rich Sneider has been working with several outside advisors on developing a methodology for optimizing our portfolio performance. Using that information, it is likely that the Investment Committee will be making recommendations to the Board to slightly adjust the asset allocations from time to time based on market conditions. This item is likely to always be a work in progress.

II. OPERATIONS - Update BCPL's operations to meet its evolving role and to best serve beneficiaries and stakeholders

Priorities:

A. Develop a BCPL Strategic Plan and Supporting Metrics.

1. As noted earlier, BCPL Madison office staff took the first step last year in working with Erickson & Company to evaluate our respective communication styles and set the stage for a group strategic planning and problem-solving session to follow. In the meantime, the pandemic and the business interruption at Erickson have set us back. Strategic planning requires significant time and attention that generally doesn't work well in a video conferencing environment. Hopefully, we will reach a point soon where it will be safe and productive to meet again in person. We remain committed to developing a new strategic plan as our agency continues its portfolio management migration to multiple revenue streams for both financial instruments and land assets. The goals and priorities of the last strategic plan have been achieved and it is important to work towards our agency mission with a clear vision and path.

B. Update BCPL Budget & Personnel Staffing Plan

1. Jim DiUlio retired in the fall. With the higher compensation levels available in the private sector, it may not be possible to recruit a candidate with the preferred skillsets within the current state compensation parameters for the position, but we continue to search. The plan is to post the position soon and promote as best and as wide as we can.

C. Improve the Agency's Outreach, Communication, and Branding

1. We are working with Stephanie Marquis to assist us with this goal. Her work product on the agency "scorecard" has helped turn our complicated stories into easier-to-understand graphics for our various stakeholders. I commend our IT manager, Mike Krueger, for being able to retrieve data on our performance and investments in a way that makes it easier to depict in

charts and graphs. As we emerge from the pandemic, we will be developing a communications and outreach plan for the agency.

D. Create a Government Relations Approach

1. We engaged an advisor to provide professional consultation on our budget request to the legislature and on other legislative issues. We continue to work on building better bridges with stakeholders that share common interests with BCPL and we will continue our efforts to communicate with the legislature more often using the materials we have developed to demonstrate the impact of BCPL in each legislator's district.

III. LANDS

Priorities:

A. Create an approach that reduces unproductive lands

1. "Unproductive" land has generally been defined as "not producing revenue" for the trust funds. Fifteen years ago, most of our remaining school trust lands were unproductive. The land bank legislation made it possible to reshape some of our land base. However, our ability to buy different productive lands is contingent upon our ability to sell our unproductive lands. There's a reason why we still have many of those unproductive lands. Impediments to sale may include too much wetland on a property, lack of access and limitations on use and some statutory constraints including the mineral and water rights reservations set forth in Wis. Stats. Section 24.11(3). After decades and decades, these issues are still impediments to sale and accessibility may even be tougher these days. While our Real Estate Specialist, Micah Zeitler, has done a great job in resolving title issues, and marketing and selling our lands. There is only so much you can do to market these currently unproductive parcels. We continue to work on identifying the pertinent impediments and we are developing tailored strategies and tactics to address those impediments
2. Our Trust Lands Supervisor, Kevin Burns, has led the way to view our lands in a different light, to look for ways to make "unproductive" lands more productive. This includes increasing productivity on already productive lands and transforming some of our unproductive lands into revenue producing assets.
3. Kevin and our senior forester, Joe Malinowski, have led the agency to reevaluate our timber sale processes and conditions.
 - a. We have done a more extensive outreach and advertising campaign to regional loggers when we offer timber sales. This has resulted in more bidders, more bids and more successful sales.

- b. We have shortened our timber sale contract length in order to encourage loggers to cut the sale earlier rather than wait for market conditions to improve.
 - c. We have allowed some summer logging on parcels where the ground is dry and firm and there is no expected damage to the parcel from logging activities.
 - d. The net result of these changes is positive. It is not a coincidence that our timber sale revenue received this fiscal year is running significantly ahead of the last two years. These changes fall into the category of “making our productive lands more productive.”
4. In addition, we are also looking at developing different ways of generating new income streams from these parcels.
- a. We have engaged in lengthy discussions with several entities regarding the potential harvest of maple syrup on some of our parcels with significant maple tree inventory. After analyzing the data and history of other landowners that have engaged in maple syrup production, we are convinced that this could provide a significant revenue boost on such parcels. There may be a slight decrease in timber revenue as none of the tapped trees would be considered veneer quality, but we would still be able to generate significant timber revenue in addition to the maple syrup revenue. We are looking to review proposals from syrup producers in the next six months. This also falls into the category of making our productive lands more productive.
 - b. We have been working with a consultant on seeking proposals from carbon credit buyers. While a number of our parcels have some trees on them, we don’t conduct harvests on all such parcels. White cedar doesn’t regenerate well due to deer browsing. Hemlock doesn’t bring a good price in the timber markets. Some parcels have small timber tracts that are uneconomical to harvest so loggers don’t bid on timber sales for such parcels. Some parcels have access impediments. The only option we had entertained until recently was selling such parcels to a third party that could choose to do whatever they wanted with the property. Selling carbon credits on such lands allows BCPL to generate revenue on such lands while at the same time preserving high conservation value aspects of such properties. Selling carbon credits will NOT prevent BCPL from conducting timber harvests or selling certain parcels that are not strategic assets. This is a good example of converting an unproductive parcel to a revenue producing parcel.
 - c. We have also considered leasing School Trust Lands for other developments such as solar farms, communication towers, etc. However, these options are more remote at this time

due to changing conditions in such markets. However, we continue to keep our eyes open for possibilities.

B. Complete a financial analysis on BCPL land holdings.

1. The staff of the Lake Tomahawk office have continued to refine the draft of an Excel spreadsheet tool that identifies all BCPL School Trust Land Parcels, the timber base on such parcels and the revenue generating capacity on such parcels. This is a work in progress and staff is busy refining the tool and adding additional potential revenue components including maple syrup production, carbon credits, wetland mitigation monies and outright sales to third parties. As noted earlier, completing a financial analysis on all 2,000 parcels of School Trust Lands is a huge project. We are leveraging our GIS capabilities, forest inventory information, and in-house expertise to create an automated analysis tool that will provide us with an up-to-date snapshot of our land assets at any time. We have taken a significant step forward on this project and look forward to sharing the tool with the Board when it is a bit more refined.
2. We had hoped to migrate to DNR's WisFIRS software system for timber sale management. One of the reasons for doing so would be to enhance our timber sale financial analysis. However, this migration has been delayed by the DNR. Our forestry and IT staff continue to work on improving the quality of the data in our system and are also working on improvements to our current IT applications to better project future timber sales.
3. Financial analysis must include expenses as well as revenue. Lake Tomahawk staff is also in the early stages of developing property access management plans along with maintenance schedules. Planning culvert replacements and roadwork ahead of time make it possible to prioritize and budget for those expenses. Early completion of access work significantly reduces sale set-up expenses, increases the asset value of our lands, and increases the amount that loggers are willing to bid for our timber sales.

As we head into the spring, I again remain thankful that we have made it through this difficult time. I continue to appreciate all the hard work and sacrifice made by our staff and commend them on the fruits of their efforts. We look forward to continuing to make progress on the goals and priorities of the Board.

Respectfully submitted,

Tom