

Board Meeting Minutes
January 19, 2016

Present via teleconference were:

- Doug La Follette, Commissioner
- Matt Adamczyk, Commissioner
- Brad Schimel, Board Chair
- Jonathan Barry, Executive Secretary
- Tom German, Deputy Secretary
- Vicki Halverson, Office Manager
- Richard Sneider, Loan Analyst
- Mike Krueger, IT Specialist
- Randy Bixby, Land Records Archivist
- Denise Nechvatal, Accountant

- Secretary of State
- State Treasurer
- Attorney General
- Board of Commissioners of Public Lands
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ITEM 1. CALL TO ORDER

Board Chair Schimel called the meeting to order at 2:03 p.m.

ITEM 2. APPROVE MINUTES – JANUARY 5, 2016

MOTION: Commissioner La Follette moved to approve the minutes; Board Chair Schimel seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

Board Chair Schimel asked if the loans had been reviewed for public purpose. Deputy Secretary German confirmed they had.

| <u>Municipality</u> | <u>Municipal Type</u> | <u>Loan Type</u> | <u>Loan Amount</u> |
|--|---------------------------------------|--------------------|--------------------|
| 1. Algoma Kewaunee County Application #: 02016119 Purpose: Renovate long-term care facility | City Rate: 3.75% Term: 5 years | Lease Revenue | \$335,764.00 |
| 2. Marshfield Marathon and Wood Counties Application #: 02016117 Purpose: Finance fairground land purchase | City Rate: 3.75% Term: 20 years | General Obligation | \$173,500.00 |
| 3. Marshfield Marathon and Wood Counties Application #: 02016118 Purpose: Finance TID #5 economic development program | City Rate: 3.75% Term: 14 years | General Obligation | \$405,000.00 |

| | | | | |
|--------------|--|--|--------------------|-----------------------|
| 4. | New Glarus Green County Application #: 02016121 Purpose: Finance economic development project | Village Rate: 3.75% Term: 20 years | General Obligation | \$450,000.00 |
| 5. | West Milwaukee Milwaukee County Application #: 02016120 Purpose: Finance TID #2 development incentive | Village Rate: 3.00% Term: 4 years | General Obligation | \$1,010,000.00 |
| TOTAL | | | | \$2,374,264.00 |

MOTION: Commissioner La Follette moved to approve the loans; Board Chair Schimel seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 2-1. Commissioner La Follette and Board Chair Schimel voted aye; Commissioner Adamczyk voted no.

ITEM 4. DISCUSS AND VOTE ON STAFF ATTENDING FIXED INCOME CONFERENCE IN CHICAGO

Board Chair Schimel said an attachment detailing the estimated expenses was included in the Board's packet.

MOTION: Board Chair Schimel moved to approve staff attending the conference; Commissioner La Follette seconded that.

DISCUSSION: Executive Secretary Barry said there was no registration fee for the conference, which made it a cost-effective option for continuing education.

VOTE: The motion passed 2-1. Commissioner La Follette and Board Chair Schimel voted aye; Commissioner Adamczyk voted no.

ITEM 5. DISCUSS QUARTERLY INVESTMENT REPORT

Executive Secretary Barry reported that the Board's fourth quarter interest earnings and capital gains exceeded benchmarks by \$2.16 million and \$1.2 million, respectively. Richard Sneider, the agency's loan analyst and bond portfolio manager, said that his report would address questions raised by the State Treasurer at prior board meetings as to whether or not State Trust Fund Loans were a good investment for the Trust Funds. He explained how he compared the average interest rate of Trust Fund Loans in the Board's portfolio to Treasuries of similar maturities to establish the "spread," which is the difference between the average loan yield and the risk-free Treasury yield. He said the spread is a commonly used tool within the industry to compare relative values of fixed income investments to each other. Using data from the Federal Reserve System, he compared the spread on Trust Fund Loans (2.25%) to spreads on corporate bonds of various credit qualities. After speaking with representatives from Moody's and other institutional investors, Mr. Sneider believed that the appropriate credit rating for the State Trust Fund Loan program investments was Aa1, one level below a triple A rating. The high rating was attributable to there never being a default since the program was established in 1871 and BCPL's ability to intercept a municipality's or school district's state aid should there ever be a default. He pointed out that a corporate bond with an Aa1 rating had a current spread of approximately 0.85%, compared to the BCPL spread of 2.25%. This demonstrated that State Trust Fund Loans were able to generate 2.5 times the spread available on corporate bonds of a similar risk profile, which shows that the Loan program is able to generate excess returns for the amount of risk assumed. As the Board moves forward in diversifying the BCPL investment portfolio, the

Board may want to consider selling packages of the loans to capture the excess returns as capital gains and reinvesting the funds in additional loans or other assets.

ITEM 6. FUTURE AGENDA ITEMS

None.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

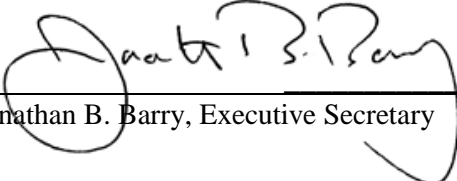
Executive Secretary Barry reported that the (Common School Fund) balance sheet included in the Board's packet showed how the fund had grown by 18.2% since 2011 – from \$835 million to \$987 million. In addition, the balance on State Trust Fund Loans declined from \$407 million to \$269 million while bond investments grew from \$126 million to \$496 million between 2001 and present. Staff saw a refinancing trend with State Trust Fund Loans coming in 2011 and took proactive advantage of the opportunity to invest in bonds.

Executive Secretary Barry reported that the Mud Lake committee recommended a single-tree selection harvest on the site as opposed to a diameter limit cut harvest. While a diameter limit cut would yield more board feet today, it would be considerably less in the future. It is expected that the single-tree selection harvest will allow for greater timber regeneration and harvests in the future. It is estimated that approximately \$100,000 in gross timber sales will be harvested on the site in 2016 and a timber harvest of equal or greater size can be expected within 15 years. High-quality hardwood trees at the peak of their value will also be harvested from the site.

Finally, Executive Secretary Barry reported that he and Commissioner Adamczyk would be meeting with SWIB Executive Director Michael Williamson and his staff to discuss their assisting BCPL staff in developing investment policies under the Prudent Investor Standard.

ITEM 8. ADJOURN

The meeting adjourned at approximately 2:30 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: ftp://doaftp1380.wi.gov/doadocs/BCPL/2016-01-19_BCPL-BoardMtgRecording.mp3