



Douglas La Follette, *Secretary of State*
Matt Adamczyk, *State Treasurer*
Brad D. Schimel, *Attorney General*

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Jonathan Barry, *Executive Secretary*

AGENDA

August 7, 2018
11:00 A.M.

Board of Commissioners of Public Lands
101 E. Wilson Street, 2nd Floor
Madison, Wisconsin

Routine Business:

- 1) Call to Order
- 2) Approve Minutes - July 24, 2018 (Attachment)
- 3) Approve Loans (Attachment)

Old Business: None

New Business:

- 4) Proposed Submerged Lands Lease - BNSF Railway Company (Attachment)

Routine Business:

- 5) Executive Secretary's Report (Attachment)
 - Monthly Portfolio Report – Fixed Income – July 31, 2018
 - Monthly Portfolio Report – Public Equity – July 31, 2018
 - Investment Transaction Report – August 2, 2018
- 6) Future Agenda Items
- 7) Adjourn

AUDIO ACCESS INFORMATION

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**BOARD MEETING
AUGUST 7, 2018**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the July 24, 2018, board meeting.

Board Meeting Minutes
July 24, 2018

Present via teleconference were:

Doug La Follette, Commissioner	Secretary of State
Matt Adamczyk, Commissioner	State Treasurer
Brad Schimel, Board Chair	Attorney General
Jonathan Barry, Executive Secretary	Board of Commissioners of Public Lands
Tom German, Deputy Secretary	Board of Commissioners of Public Lands
Vicki Halverson, Office Manager	Board of Commissioners of Public Lands
Richard Sneider, Chief Investment Officer	Board of Commissioners of Public Lands

ITEM 1. CALL TO ORDER

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

ITEM 2. APPROVE MINUTES – JULY 3 AND JULY 6, 2018

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

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Brooklyn Green County Application #: 02019001 Purpose: Finance roadwork	Town Rate: 4.25% Term: 10 years	General Obligation	\$150,000.00
2. Elk Mound Dunn County Application #: 02019004 Purpose: Purchase skidsteer	Village Rate: 4.25% Term: 10 years	General Obligation	\$40,000.00
3. Holland La Crosse County Application #: 02019007 Purpose: Finance fire truck	Town Rate: 4.00% Term: 2 years	General Obligation	\$286,959.67
4. Hortonville Area Outagamie County Application #: 02019002 Purpose: Finance athletic field renovation	School Rate: 4.00% Term: 5 years	General Obligation	\$980,000.00
5. Knapp Jackson County Application #: 02019006 Purpose: Finance highway reconstruction	Town Rate: 4.00% Term: 5 years	General Obligation	\$100,000.00

6.	Mercer Iron County Application #: 02019009 Purpose: Purchase tractor	Town Rate: 4.00% Term: 2 years	General Obligation	\$35,000.00
7.	Pepin Pepin County Application #: 02019008 Purpose: Finance road project	Village Rate: 4.50% Term: 14 years	General Obligation	\$165,000.00
8.	Rutland Dane County Application #: 02019005 Purpose: Finance capital equipment and roadwork	Town Rate: 4.00% Term: 5 years	General Obligation	\$140,000.00
9.	Wellington Monroe County Application #: 02019003 Purpose: Finance road and bridge projects	Town Rate: 4.00% Term: 5 years	General Obligation	\$75,000.00
TOTAL				\$1,971,959.67

MOTION: Board Chair Schimel moved to approve the loans; Commissioner La Follette 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 PROPOSED SUBMERGED LANDS LEASE – CITY OF ASHLAND

Deputy Secretary German explained that per Wisconsin state statutes BCPL is the leasing agent for lake and river beds and holds them in trust for the citizens of Wisconsin. The DNR is required to make a regulatory finding that any filling of lake or river beds are consistent with the public interest in navigable waters. That finding has been completed. A portion of Chequamegon Bay on Lake Superior had been filled many years ago and used for a number of purposes over the years. The area was designated as a superfund site and requires significant remediation, which is nearly complete.

The city of Ashland wants to lease the property, make improvements, and open the area to the public as a city park. Staff are asking the Board to approve a lease to the city of Ashland for that purpose.

Commissioner Adamczyk asked if the DNR or the Governor’s Office “wants us to do this.” Deputy Secretary German replied that “they absolutely want us to do it.”

MOTION: Commissioner La Follette moved to approve the 50-year submerged lands lease with an annual lease payment of \$200 to the city of Ashland; Board Chair Schimel seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands authorizes a fifty-year Submerged Lands Lease with the city of Ashland in accordance with Section 24.39 of the Wisconsin Statutes with a base rental rate of Two Hundred Dollars per year for the purposes of improving navigation, improving or constructing “harbor facilities” or for improvement or provision of recreational facilities related to navigation for public use, on such other terms and conditions as the Executive Secretary determines to be reasonable and necessary. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such transaction.

ITEM 5. DISCUSSION ONLY (NO VOTE) REGARDING COMMISSIONER ADAMCZYK’S CONCERN ABOUT THE LACK OF PROFESSIONAL INVESTMENT EXPERIENCE BY “BCPL INVESTMENT COMMITTEE.” ATTACHMENTS TO ADD:

- **According to SWIB attachment from this email**
- **Please include any prior work experience investing in stocks/bonds/venture capital if you have any for you/Tom/Rich**

Board Chair Schimel asked Commissioner Adamczyk to start the discussion since he requested that the topics be included on the agenda. Commissioner Adamczyk questioned whether staff involved in investing the School Trust Funds had a background or experience in such activity before joining the BCPL. Executive Secretary Barry provided information on each staff’s years of experience in investments. Commissioner Adamczyk said he was interested in their investment dealings “before working at the BCPL.” Executive Secretary Barry said that was irrelevant and that staff are eminently qualified for the work they are doing.

Commissioner Adamczyk again questioned whether staff had a professional background in investing and managing funds. Board Chair Schimel noted that the instruments that staff have invested in have been “wildly successful.” He added that staff carefully research investments and have demonstrated they are very capable of managing the Trust Fund investments.

Commissioner Adamczyk continued to question staff’s qualifications and abilities. Executive Secretary Barry responded that the Division of Personnel Management recently evaluated the positions held by Tom German and Richard Sneider. The evaluation resulted in new position descriptions for each of them and that they are fully qualified. He added that SWIB recently hired fixed income managers with accounting degrees who will be trained and who will grow into the position.

Commissioner Adamczyk questioned why staff invested \$15 million in two venture capital funds with no “guaranteed success” and why the Commissioners were not given an opportunity to vote on them. Executive Secretary Barry reminded him that staff performed due diligence on the venture capital investments and reported their findings to be Board before committing the funds. He said that while Commissioner Adamczyk has been asking staff to take on riskier investments since his joining the Board, he [Adamczyk] has voted against every investment opportunity presented. Commissioner Adamczyk replied that he did not want “you doing it.” He wanted SWIB investing the Board’s Trust Funds.

Executive Secretary Barry also pointed out that staff developed an investment plan and asset allocation model with involvement from the UW Madison School of Business and SWIB. Further, the draft plan was vetted by BCPL beneficiaries, most particularly DPI and the Wisconsin Educational Media & Technology Association (WEMTA). It was also shared with legislative leadership and the Governor’s office. During its development the plan had been presented to the board on several occasions and modifications were made to address Commissioners’ concerns. (The policy incorporating all these changes was approved at the November 1, 2016 board meeting.)

Commissioner La Follette asked that the following statement be included for the record: “I am critical of the Treasurer’s continual harassment of our staff on this issue, which we’ve just been hearing about, and on freedom of information requests for loans. I saw that the other day. There’s no rhyme or reason for that. It’s just irritating me to see it and it’s making our staff’s life difficult. They have important work to do and having to respond to all this clearly harassment has to end. And I want that on the record and I’d urge the Treasurer to stop doing it. Please. Thank you.”

Commissioner Adamczyk again questioned staff's competency and knowledge relating to venture capital and equity investments. Richard Sneider gave a detailed description of his background, education, and experience relating to finance and investment analysis. He also provided an explanation of the CFA and CIPM designations he has earned over the years and how that knowledge benefits the Board and is used when making investment decisions.

Board Chair Schimel said he had heard enough from Commissioner Adamczyk and was "counting the days 'til you're not on this Board." He agreed with Commissioner La Follette and stated for the record that "the string of demands you've made on the people who work hard at this agency has been unreasonable and abusive." He said that while Commissioner Adamczyk had made his unsubstantiated and baseless allegations against them, staff have performed due diligence on the investments presented to the Board and have been quite successful investing the Trust Funds.

ITEM 6. DISCUSSION ONLY (NO VOTE) ON OTHER OPTIONS FOR INVESTMENT OF BCPL TRUST ASSETS, SUCH AS HOW DONE BY THE MINNESOTA SCHOOL TRUST FUND. DISCUSS HAVING INVESTMENT FIRMS PRESENT TO COMMISSIONERS HOW THEY COULD INVESTMENT [SIC] SOME OF THE \$1.1 BILLION IN ASSETS. (ADD OTHER THREE ATTACHMENTS FROM THIS EMAIL)

Board Chair Schimel asked if this agenda item had been addressed during the discussion of item five. Commissioner Adamczyk again questioned staff's investment knowledge and stated he would prefer that SWIB (State of Wisconsin Investment Board) invest the Trust Funds because they could realize greater returns. Executive Secretary Barry pointed out that Commissioner Adamczyk had "wanted to keep quiet" a Legislative Fiscal Bureau memo that refutes his (Adamczyk's) claim that more would be earned if SWIB managed the funds within the laws that currently exist.

Executive Secretary Barry said that Commissioner Adamczyk had supported legislation to eliminate the State Trust Fund Loan Program and shift the Trust Fund earnings to a beneficiary other than public school libraries. The legislation was very unpopular and all 18 groups who attended the hearing were opposed to it.

Commissioner Adamczyk replied, "We can just move on. Brad and Doug don't want to do anything. Let's just move on. I'm fine to move on." Board Chair Schimel noted that Commissioner Adamczyk's "usual plan" is to move on after he makes his attack and gets push back from others.

ITEM 7. FUTURE AGENDA ITEMS

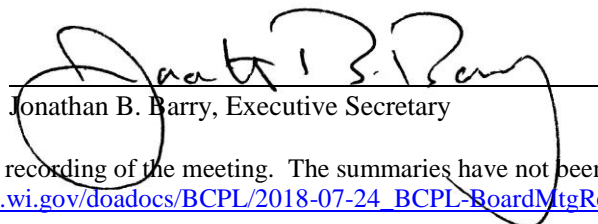
None.

ITEM 8. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Barry referred the board to the investment transaction report that was included in their packet.

ITEM 9. ADJOURN

MOTION: The meeting adjourned at 2:33 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://doafpt1380.wi.gov/doadocs/BCPL/2018-07-24_BCPL-BoardMtgRecording.mp3.

**BOARD MEETING
AUGUST 7, 2018**

**AGENDA ITEM 3
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Blake Lake Polk Co Pro & Rehab Dist Polk County Application #: 02019010 Purpose: Finance dam reconstruction	Lake District Rate: 4.00% Term: 5 years	General Obligation	\$140,000.00
2. Concord Jefferson County Application #: 02019012 Purpose: Purchase ambulance	Town Rate: 4.25% Term: 10 years	General Obligation	\$85,000.00
3. Cumberland Barron County Application #: 02019016 Purpose: Purchase police vehicle	City Rate: 4.00% Term: 3 years	General Obligation	\$50,000.00
4. Jacksonport Door County Application #: 02019014 Purpose: Finance town hall/fire station project	Town Rate: 4.50% Term: 20 years	General Obligation	\$1,360,000.00
5. Janesville Rock County Application #: 02019011 Purpose: Finance fire protection	Town Rate: 4.00% Term: 1 years	General Obligation	\$300,000.00
6. Kewaskum Fond Du Lac, Sheboygan and Washington Counties Application #: 02019015 Purpose: Design and develop athletic fields and outbuildings	School Rate: 4.25% Term: 10 years	General Obligation	\$1,725,000.00
7. Wyocena Columbia County Application #: 02019013 Purpose: Finance roadwork and storm sewer projects	Village Rate: 4.00% Term: 4 years	General Obligation	\$60,000.00
TOTAL			\$3,720,000.00

**BOARD MEETING
AUGUST 7, 2018****AGENDA ITEM 4
PROPOSED SUBMERGED LANDS LEASE – BNSF RAILWAY COMPANY**

- A. BNSF Railway Company (“BNSF”) desires to enter into a Submerged Lands Lease with the Board of Commissioners of Public Lands for a term of up to fifty (50) years for purposes of improving navigation and improving or constructing “harbor facilities” as defined in Wis. Stats. Section 30.01.
- B. Many years ago, fill was placed on the bed of Lake Superior in the city of Superior next to an existing peninsula that jutted out into the waters of Lake Superior and the St. Louis River. A solid pier and conveyor for loading ships with Taconite or other forms of iron ore was constructed on the filled lakebed.
- C. In recent years, BNSF has operated a ship loading facility on the filled lands.
- D. BNSF desires to repair the dock walls and construct an access road under the conveyor and has applied to the DNR for permits for such construction.
- E. The Wisconsin Department of Natural Resources has issued preliminary Findings of Fact and Decision (the “Findings”) that concluded, “. . . , the Lease will be consistent with the public interest in the navigable waters. . . provided that it includes and requires the Lessee to comply with all of the following conditions. . .” A copy of the Findings is attached as Exhibit A.
- F. BNSF’s proposed use of the proposed lease area is for improving commercial navigation, but the public will not have access to proposed lease area. Therefore, a commercial rental rate for this lease is appropriate. The proposed lease has been independently appraised by Compass Land Consultants, and the value of the proposed submerged land lease area has been estimated at \$15,000 per acre. The total area to be leased is approximately 52.87 acres.
- G. Based on the above, BCPL staff recommends that the Board authorize a Submerged Lands Lease for a term of up to fifty (50) years with BNSF at a base rental rate of Thirty-nine thousand six hundred fifty-two dollars and fifty cents (\$39,652.50) per year with 10% rent increases every 5 years.

PROPOSED RESOLUTION

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands authorizes a Submerged Lands Lease with BNSF for a term of up to fifty (50) years in accordance with Section 24.39 of the Wisconsin Statutes with a base rental rate of Thirty-nine thousand six hundred fifty-two dollars and fifty cents (\$39,652.50) per year with 10% rent increases every 5 years for the purposes of improving navigation, improving or constructing “harbor facilities” or for improvement, on such other terms and conditions as the Executive Secretary determines to be reasonable and necessary. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such transaction.

Exhibit A: WI DNR’s Preliminary Findings of Fact

**DEPARTMENT OF NATURAL RESOURCES FINDINGS
PURSUANT TO 30.11 WISCONSIN STATUTES
RELATING TO AN APPLICATION FOR LEASE FOR
BNSF RAILROAD TACONIT SHIPPING FACILITY
IMPROVEMENTS**

The Department of Natural Resources (“Department”) has been notified of the proposed Submerged Land Lease (“Lease”) submitted to the State of Wisconsin Board of Commissioners of Public Lands (“Lessor”) by BNSF Railway Company, (“Lessee”) as required under Section 24.39 and 30.11, Wis. Statutes, and hereby makes these findings:

- A. The proposed project (“Project”) involves maintenance and continued use of an existing solid pier extending approximately 3200 feet from shore and along approximately 3500 feet of shoreline on the St. Louis River in the Superior Harbor, in the City of Superior, Douglas County, Wisconsin. The Project will involve repair of historic dock walls construction of maintenance and access road under the conveyor where it extends over open water, for loading ships with Taconite or other forms of Iron ore and the stabilization of infrastructure to run the facility. The project will allow for the storage for and shipping of iron ore. The current dock was constructed in the 1970’s and has been in use since.
- B. On June 7, 2018, the Department issued a written letter notifying the Douglas County Clerk, City of Superior Clerk, and the United States Army Corps of Engineers of the Application of BNSF Railroad of the pending review of a proposed submerged land lease on the St. Louis River. The June 7, 2018 letter satisfies the notice requirement under Wis. Stat. 30.11(5). There were no comments received in response to the notice.
- C. The Department reviewed the intent to repair dock walls, including plans dated July 15, 2016 and conducted an inspection of the Project site. Based on this information, the Project serves the traditional public interest in commercial navigation, for the continued shipping of grain.
- D. The Lease will be consistent with the public interest in the navigable waters of the St. Louis River provided that it includes and requires the Lessee to comply with all of the following conditions:
 - 1. Material deposited within the leased area consist of clean fill. The Lessee shall obtain approval by the Department as a low hazard waste under s. 289.43(8), Wisconsin Statutes, if applicable.
 - 2. All uses and activities in the submerged land lease area shall remain consistent with navigational uses as described in s. 24.39, Wis. Statutes.

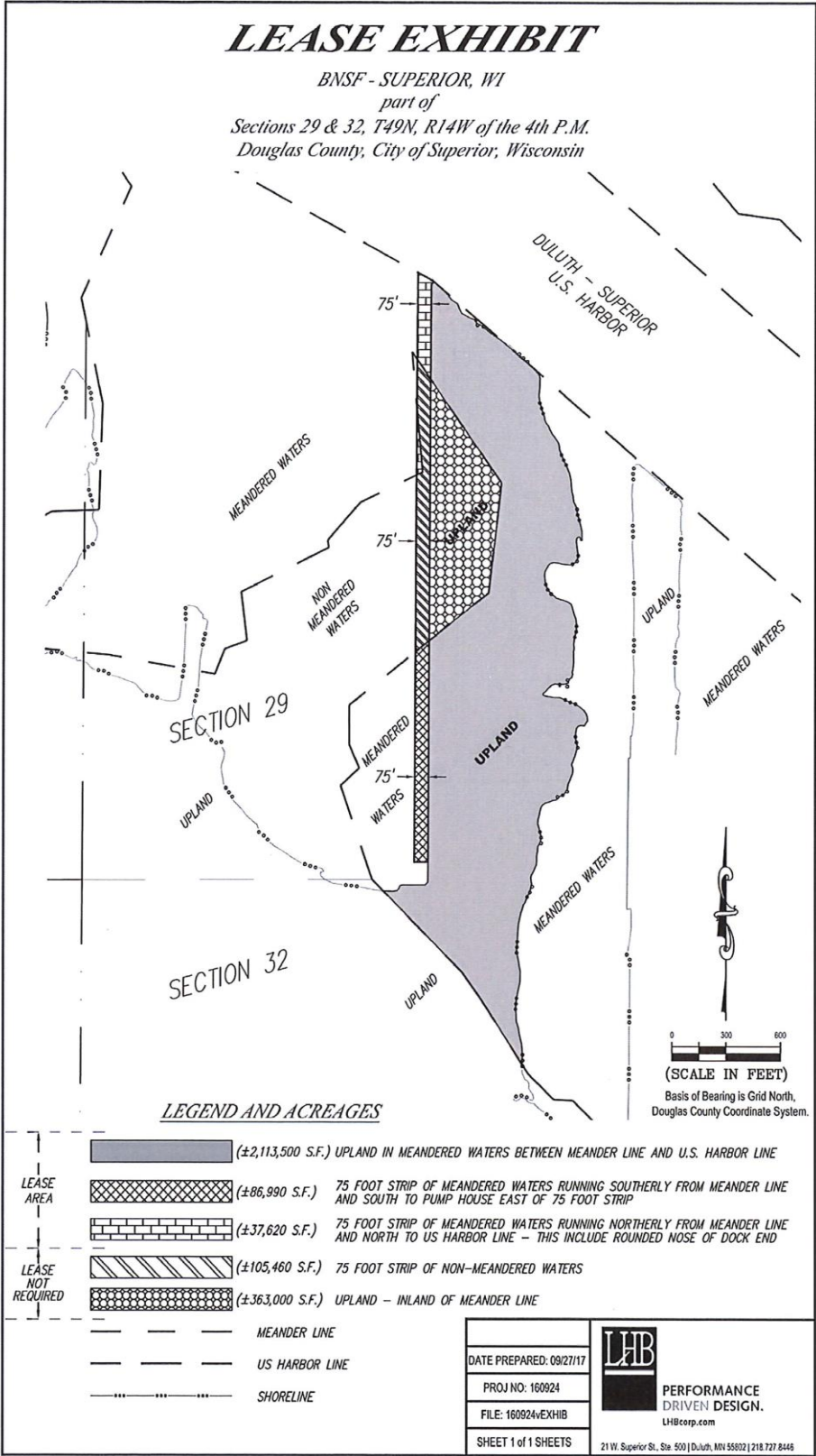
3. Stationary docking of ships shall be for a reasonable duration not to exceed one year unless prior written approval has been provided by the Department.
 4. Upon reasonable notice, the Lessee shall allow access to the Project site during reasonable hours to any Department employee who is investigating the Project's construction, operation, maintenance or permit compliance.
 5. The lease is valid for a period of no more than 50 years.
- E. The filled lands to be leased are described as parts of section 28, 29, and 32, Township 49 North, Range 14 West associated with the Taconite facility and shown on the attached Exhibit #2. The subject property totals approximately 52.87 acres
- F. The Department hereby determines on the bases of the findings listed above, that the proposed physical changes in the navigable water of the Saint Louis River, as a result of the execution of a submerged lands lease are consistent with the public interest upon compliance with the conditions specified in Finding D.

Dated this _____ day of _____, 2018.

Wisconsin Department of Natural Resources by,
Waterways and Wetlands Section Chief
Bureau of Watershed Management

LEASE EXHIBIT

BNSF - SUPERIOR, WI
 part of
 Sections 29 & 32, T49N, R14W of the 4th P.M.
 Douglas County, City of Superior, Wisconsin



LEGEND AND ACREAGES

LEASE AREA		(±2,113,500 S.F.) UPLAND IN MEANDERED WATERS BETWEEN MEANDER LINE AND U.S. HARBOR LINE
		(±86,990 S.F.) 75 FOOT STRIP OF MEANDERED WATERS RUNNING SOUTHERLY FROM MEANDER LINE AND SOUTH TO PUMP HOUSE EAST OF 75 FOOT STRIP
		(±37,620 S.F.) 75 FOOT STRIP OF MEANDERED WATERS RUNNING NORTHERLY FROM MEANDER LINE AND NORTH TO US HARBOR LINE - THIS INCLUDE ROUNDED NOSE OF DOCK END
LEASE NOT REQUIRED		(±105,460 S.F.) 75 FOOT STRIP OF NON-MEANDERED WATERS
		(±363,000 S.F.) UPLAND - INLAND OF MEANDER LINE
		MEANDER LINE
		US HARBOR LINE
		SHORELINE

DATE PREPARED: 09/27/17	<p>PERFORMANCE DRIVEN DESIGN. LHBcorp.com</p>
PROJ NO: 160924	
FILE: 160924vEXHIB	
SHEET 1 of 1 SHEETS	

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FILE: ..160924600 Drawing(Survey)160924vEXHIBIT 4016C-BW - 1.dr



**BOARD MEETING
AUGUST 7, 2018**

**AGENDA ITEM 5
EXECUTIVE SECRETARY'S REPORT**

Attachments

- Monthly Portfolio Report – Fixed Income – July 31, 2018
- Monthly Portfolio Report – Public Equity – July 31, 2018
- Investment Transaction Report – August 2, 2018



BCPL Fixed Income Portfolio

As of 07/31/2018

<u>Description</u>	<u>Moody's Rating</u>	<u>S&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+	53.3%	3.57%	3.57%	11.65	295,288,088	284,997,068	(10,291,020)	10,455,016
Wisconsin and State Agency	Aa2	AA-	24.2%	4.07%	4.20%	10.31	139,292,075	129,588,298	(9,703,777)	5,957,792
Municipal/School District	Aa3	AA-	22.4%	3.89%	3.92%	8.81	120,084,517	119,941,015	(143,502)	4,818,460
	Aa1	AA	100.0%	3.77%	3.80%	10.69	554,664,680	534,526,381	(20,138,299)	21,231,268



BCPL Public Equity Portfolio

As of 07/31/2018

<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>
Domestic Equities											
VTI	Vanguard Total Stock Market ETF	39,895	137.77	5,496,514	145.090	5,788,366	25.9%	291,852	5.3%	1.7%	96,291
VYM	Vanguard High Dividend Yield ETF	39,453	83.60	3,298,274	86.450	3,410,712	15.2%	112,438	3.4%	2.9%	99,453
VNQ	Vanguard REIT ETF	14,504	75.82	1,099,737	81.940	1,188,458	5.3%	88,721	8.1%	3.6%	42,456
VIG	Vanguard Dividend Appreciation ETF	10,820	101.59	1,099,213	106.380	1,151,032	5.1%	51,819	4.7%	2.1%	24,483
Global Equities											
VEU	Vanguard FTSE All World ex-US ETF	101,605	54.11	5,498,001	53.340	5,419,611	24.2%	(78,391)	-1.4%	4.6%	249,135
VYMI	Vanguard International High Dividend ETF	50,009	65.95	3,297,967	64.530	3,227,081	14.4%	(70,887)	-2.1%	5.9%	189,574
VIGI	Vanguard International Div Appreciation ET	16,936	64.91	1,099,283	66.405	1,124,635	5.0%	25,352	2.3%	3.3%	37,544
VNOI	Vanguard Global ex-US Real Estate ETF	18,266	60.19	1,099,509	59.000	1,077,694	4.8%	(21,815)	-2.0%	5.3%	57,091
		<u>291,488</u>		<u>21,988,498</u>		<u>22,387,587</u>	<u>100.0%</u>	<u>399,089</u>	<u>1.8%</u>	<u>3.6%</u>	<u>796,027</u>



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Jonathan Barry, *Executive Secretary*

Investment Transaction Report August 2, 2018

Bond Purchases	Staff has not purchased bonds since the last Investment Transaction Report.
Bond Sales	Staff has not sold bonds since the last Investment Transaction Report.
Public Equity Purchases	Staff has not purchased public equities since the last Investment Transaction Report.