

Board Meeting  
Minutes  
February 1, 2022

Present were:

Sarah Godlewski, Board Chair	State Treasurer
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 2:03 p.m.

### ITEM 2. APPROVE MINUTES – January 18, 2022

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

**DISCUSSION:** None

**VOTE:** The motion passed 2-0.

### ITEM 3. APPROVE LOANS

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

**DISCUSSION:** The Town of Port Wing is applying for a loan. Mr. Sneider explained that the Town will likely receive a grant to reimburse the Town for its bridge project. The Town will then likely pay down or pay off its State Trust Fund Loan before the five year loan term.

Board Chair Godlewski commented that it appears that the municipality is using the State Trust Fund Loan Program as gap financing.

Mr. Sneider concurred with Board Chair Godlewski and further explained that often grant programs require the community to complete the project before the grant can be applied for.

Executive Secretary German shared that often state and federal aid is presented in language that borrowers are not familiar with. There are grants available but often these grants require a local match of funds or payment upfront for the project. This is one reason communities appreciate the State Trust Fund Loan Program because it makes it possible for communities to match funds or pay for projects upfront and repay the State Trust Fund Loan early with no penalties.

**VOTE:** The motion passed 2-0

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$353,500.00** in State Trust Fund Loans to support **1** community projects in Wisconsin.

1. Town of Port Wing / Bayfield County / Finance bridge replacement / \$353,500.00

## **ITEM 4. OLD BUSINESS**

None

## **ITEMS 5. NEW BUSINESS – Quarterly Investment Reports**

Mr. Sneider shared three reports: Portfolio Report, Asset Allocation and Progress Report.

### **Portfolio Report**

This report shows the current market value, cost, unrealized gain, yield and projected income for the Common School Fund portfolio by asset class. We continue to show gains in every asset class and have total unrealized gains at just over \$95 million at the end of Q4. This total does not include the \$15.4 million in gains that we realized through trading during the 2021 calendar year, including \$3.1 million realized during the fourth quarter. When long term gains are realized through the sale of securities, these gains are removed from the unrealized gain category and added to the fund principle for reinvestment. The right two columns show the yield in projected income from each of the asset classes. In summary, the overall yield on the Common School Fund portfolio increased from 3.6% to 4.0%. We have increased our projected annual income by about \$10 million. This increase in income occurred while also lowering the risk to our beneficiaries by diversifying our assets and sources of distributable income.

### **Asset Allocation**

This report shows how we are doing in regard to our target allocations. There are two initiatives we have taken over the past few years that have amplified the importance and difficulty in managing our cash reserves: 1) making a larger share of our investments into private funds, including real estate, private debt; and 2) venture capital. When cash is paying close to zero, it is important that we reduce cash levels by investing in other asset classes to maximize distributions. Our unfunded commitments now total \$172,000,000 which now exceeds available cash by about \$100,000,000. First, in addition to the over \$70 million in cash reserves shown, we have \$800 million in liquid assets that are available to generate additional cash. The vast majority of these liquid assets are publicly traded stocks and bonds and are currently valued above our cost. This means that through selling bond and equity ETF's we already own in our portfolio, we could deliver more than enough cash for reinvestment and generate long term capital gains for the portfolio in the process. By reducing our bond portfolios to their target allocations, we would increase cash reserves by about \$150 million. At the end of Q4 we had unrealized gains of over \$12 million in these bond portfolios. Second, some of our commitments will not be funded for several years and some of these commitments will never be funded. The Common School Fund receives cash inflows on a regular basis. Over the next month, we expect over \$50 million in bond redemptions as large investments in state muni-bonds reach their call date. In addition, the annual payment due date for State Trust Fund Loans is March 15<sup>th</sup>. We expected to receive close to another \$50 million in principle. Fourth and finally, at the beginning of each month, BCPL staff projects cash reserves 12 months into the future. Our most recent cash forecast indicated that cash reserves are expected to actually increase over the remainder of the year based on current commitment levels. Should we ever reach a point where the monthly forecast shows cash levels falling below 2% of the portfolio, which is about \$28 million today, the Investment Committee would activate a liquidity strategy that was approved last year. This strategy involves increasing the frequency of cash forecasts to a weekly basis, tightening our forecasts on both the loan and commitment funding schedule, and pinpointing those securities to be liquidated when and if needed. I want to assure the board that we have an excellent plan in place for the Common School Fund to have enough cash reserves available to fund our commitments when needed.

### **Progress Report**

This page highlights the relative calm we have experienced within the portfolio over the past three months. You will note a modest decrease in bonds while the amount invested in trust fund loans increased by nearly \$30 million in the fourth quarter. This increase in total trust fund loans is expected during the fall of each year as the Trust Fund loan program does not allow prepayments on any loan between September 1st and December 31st. We anticipate an inflow of cash in early January each year. This year we received a little over \$10 million in loan prepayments after January 1st. Reclassification of the Blackstone Secured Lending Fund that went public in October moved about \$32 million from private debt to public equities. Common School Fund continues to grow well in excess of inflation.

The general rate of inflation called the Consumer Product Index for All Urban Consumers (CPI-U) accelerated to approximately 7% over the past year. This spurt is due to two factors: 1) The supply of goods has not recovered from the COVID shutdown as quickly as the demand of the same goods; and 2) Low unemployment rates are forcing an increase in wages across the board. With an increase of 8.9% in the Common School Fund over the past year, we are glad to have eclipsed the accelerated rate of general inflation. However, when looking at the CPI-U numbers for this report, we saw an interesting contradiction.

Staff had earlier determined that the appropriate rate of inflation to use for the Common School Fund was the Consumer Price Index (CPI) for educational books and supplies. This index was chosen because the Common School Fund is currently directed to provide the sole state aid for the purchase of public school library media and resources. Over the previous 40 years, inflation for educational books and supplies rose at an average annual rate of 5.3%. That is 90% higher than the 40 year rate of inflation for the economy as a whole, at 2.8%. That deviation makes a huge impact overtime. For example, start with \$1,000,000. In 40 years, your nest egg would be worth only \$330,000 if inflation averaged 2.8%. However, if the rate of inflation was 5.3%, your \$1,000,000 nest egg would be worth a paltry \$105,000 in 40 years. That's a great example of why we need to invest the Common School Fund for growth. If our chosen measure of inflation continues to decline in the face of price increases elsewhere in the economy, we may need to reevaluate whether or not the Consumer Price Index (CPI) for educational books and supplies is the appropriate measure for inflation for the Common School Fund.

Inflation has an impact on investment strategy. The diversification we have undertaken over the past few years has left us in a very good position. We have made important commitments to asset classes that tend to perform quite well during inflationary periods, namely real estate, and floating debt. The Common School Fund is well positioned to continue to deliver record distributions to our beneficiaries into the foreseeable future.

Board Chair Godlewski commented that it is interesting to look at the rate of inflation and see the difference of 5.3% versus 2.8%. She highlighted the importance of diversification and investing in Wisconsin based funds. She shared that the investment committee has reviewed several Midwest/Wisconsin based venture funds she believes would be great additions to the portfolio.

## **ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT**

None

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

Executive Secretary German acknowledged the great job Mr. Sneider did putting together the quarterly investment report. He shared that when putting the CPI information together, the first thing that he and Mr. Sneider did was reach out to some educational groups, including WEMTA, to ask about their experience with inflation in the cost of library materials. Their costs have changed drastically over the years. 40 years ago, they bought books and magazines. Today they are buying iPads and computers, software, and licenses. Unfortunately, they were not able to give us much guidance on how their costs have changed. Kudos to Mr. Sneider on not just the investment strategy but finding ways to figure out what our inflation benchmarks might be there.

The Common School Fund distribution for this spring is scheduled to be \$40.6 million, which would be another record for an annual distribution. According to the State Constitution and State Statutes, that amount is then allocated to all the Wisconsin school districts based upon the number of people between the ages of four and 20 living in each district, not the number of students enrolled in schools in the district. BCPL sends the total amount to DPI, which then divides it up and allocates the proper amounts to the 421 different school districts. In non-pandemic years, BCPL has worked closely with Wisconsin Educational Media and Technology Association (WEMTA) on a luncheon event that is held during the week of the annual conference where we present a big check. And while that event is coming up on March 8th, it's still a bit uncertain as to how that event will be structured with COVID numbers still relatively high. If board members are interested in participating, please let Executive Secretary German know so he can ensure that a short speaking spot can be arranged at the event.

As noted at the last board meeting, the Normal School Fund is also heading toward a record distribution this year -

\$1,070,000. The Normal School Fund distribution is earmarked by statute for four different UW uses including scholarships and programs. But the largest funded program, Merit Scholarships is scheduled to sunset mid fiscal year 2023. Board Chair Godlewski and Executive Secretary German have been working on developing legislation that would provide forgivable loans or scholarships for aspiring teachers. UW officials recently gave a briefing on how the UW has used our distributions over the past decade. It was heartening to hear that our efforts have provided over 1000 UW students with scholarships during that time. Unfortunately, those students had no idea that BCPL provided the funding for their respective scholarships, and BCPL never knows who received the money. We look forward to working more closely with the UW on these matters in the future.

We are continuing progress on diversifying revenue streams from school trust lands. For the last 50 years, the only source of revenue has been from timber. However, we have completed a preliminary draft of a request for proposals regarding the sale of carbon credits on certain BCPL lands and we are continuing to work on developing proposals for maple syrup production on certain industrial forestlands.

And finally, I'm working with the Board Chair Godlewski on our report regarding our progress, goals and objectives which will hopefully be presented at the next board meeting.

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

Board Chair Godlewski emphasized a few things from Executive Secretary German's report. One, the hard work involved in finding a solution to the Normal School Fund due to the Merit Scholarships sunseting. These funds are desperately needed so it has been an important effort to work through this legislative session to find a solution and we will continue to work to do so.

Board Chair Godlewski shared that she visited a State Trust Fund Loan Program funded project. In October the State Trust Fund Loan Program financed solar panels in Ashland for its Economic Development Center and she met with the head of the Economic Development Center, the mayor, and local representatives to talk about the impact of the project as well as some of their community financial struggles. As discussed earlier, one of the big challenges for municipalities has been having to pay upfront for projects and then wait for the completion of the project before getting reimbursed.

Lastly, as Executive Secretary German said, we are excited about the \$40.6 million distribution and would like to make sure whether remote or in person, a big splash is made and highlight to WEMTA the good news and the work the agency has done. We have also been working with the Department of Public Instruction (DPI) and will continue to keep the board updated as the presentation of the distribution is about a month away.

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

None

### **ITEM 10. ADJOURN**

Board Chair Godlewski moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 2-0; the meeting adjourned at 2:33 p.m.



Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2022/2022-02-01 BoardMtgRecording.mp3>