
Board Meeting Minutes
December 5, 2023

Present were:

Sarah Godlewski, Board Chair	Secretary of State
Josh Kaul, Commissioner	Attorney General
John Leiber, Commissioner	State Treasurer
Tom German, Executive Secretary	Board of Commissioners of Public Lands
Rich Sneider, Chief Investment Officer	Board of Commissioners of Public Lands
Denise Nechvatal, Controller	Board of Commissioners of Public Lands
Chuck Failing, IT Manager	Board of Commissioners of Public Lands
Thuy Nguyen, Office Manager	Board of Commissioners of Public Lands

ITEM 1. CALL TO ORDER

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

ITEM 2. APPROVE MINUTES

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

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

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

DISCUSSION: Executive Secretary German described the loans as being mostly bread and butter purposes. There are two loans for financing broadband projects. Both communities received broadband grants from the State of Wisconsin from the Public Service Commission (PSC). However, often PSC grants do not cover the full cost of the broadband projects so communities must come up with the remainder needed to complete the project. The City of Fox Lake is applying for a loan to refinance a bank loan, likely due to higher bank interest rates.

VOTE: The motion passed 3-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$3,836,246.27** in State Trust Fund Loans to support **4** community projects in Wisconsin.

1. Town of Egg Harbor / Door County / Finance Broadband Project / \$2,430,555.00
2. City of Rhinelander / Oneida County / Finance TID #12 Infrastructure Costs / \$910,000.00
3. Village of Oliver / Douglas County / Finance purchase of grader / \$230,000.00
4. Village of Woodville / St. Croix county / Finance land purchase / \$265,691.27

ITEM 4. OLD BUSINESS

None

NEW BUSINESS

Meeting rules have been suspended for this portion so that descriptions of the matters can be made and discussion can be had before voting.

ITEM 5. – Submerged Land Lease – City of Superior, Douglas County

DISCUSSION: Executive Secretary German explained that BCPL's primary responsibility is to manage for trust funds for the benefit of public education. However, BCPL has some ancillary responsibilities, and one of them is to act as the leasing agent for the state when it comes to lakebeds and riverbeds. The state constitution provides that the waters of Wisconsin shall be forever free.

The City of Superior is concerned that Wisconsin Point, a very thin spit of sand extending out into Lake Superior, is being washed away by the storms that are coming across Lake Superior. They are seeking the ability to reinforce that spit of sand by placing some fill on the bed of Lake Superior to protect Wisconsin Point. In order to accomplish this, they need regulatory approval from the DNR affirming that the proposed physical changes are consistent with the public interest in the navigable waters of Lake Superior. In addition, they need a submerged land lease from BCPL. BCPL would be leasing the lakebed where fill will be placed in Lake Superior. The DNR has issued its findings from a regulatory standpoint and are fine with the city placing fill there.

The City of Superior is not seeking a lease in order to produce revenue, but rather to protect an area that would be a recreational area for the citizens. BCPL staff believe it is an appropriate situation for leasing and appropriate to do so at a nominal amount. BCPL may lease for up to 50 years pursuant to the statutes, however the DNR's findings were only extended 25 years, so we are proposing a lease that would be dovetailed with the DNR findings.

We are proposing a lease to the City of Superior for up to 25 years for a nominal rate of \$200.00 per year and for the purpose of navigational improvements and recreation related to navigation.

MOTION: Commissioner Leiber moved to approve the proposed submerged land lease; Commissioner Kaul seconded the motion.

VOTE: The motion passed 3-0.

ITEM 6. – Rebalancing of US Forest Service Exchange Lands

DISCUSSION: Executive Secretary explained that BCPL has never done an exchange as big as the one recently completed with the Forest Service. When we started the exchange, we weren't sure exactly how the different pieces were going to appraise out, so we started out with base holdings of land that were intended to go in either direction. We also had some additional parcels that could be thrown into the deal to balance out the value in case one end came out higher or lower. BCPL identified several parcels that were going to be included in the exchange and other parcels that would be value-added parcels to help balance out the transaction. In the end, we were not able to identify which of the parcels coming from the Forest Service should be allocated to the Common School Fund and Normal School Fund due to the Forest Service suddenly speeding the transaction up. This allocation is important to us because we are trustees for both trust funds and we should not take any action that benefits one fund at the expense of the other.

For the land trust fund allocation, we hired the appraiser who did the initial full scale appraisal but this time with a very limited focus, We were looking at the value of the Common School Fund lands that were going to the Forest

Service and then we looked at identifying parcels that are coming from the Forest Service to BCPL but would make the most sense to allocate to the Common School Fund. We wanted to make sure that we had the value correct so we added another criterion. We looked at proximity to avoid problems in the future for timber sales in terms of making sure that we were allocating the right amount of revenue to each of the trust funds. We wanted to find parcels that were contiguous with current Common School Fund trust lands. That would make things easier. Mr. Steigerwald did a great job of evaluating the Common School Fund lands and the other lands we were looking at that were contiguous. His valuation came in spot on between them. By identifying five parcels that were contiguous to current Common School Fund trust lands, we were able to hit both of those criteria: 1) accurate valuations, and 2) contiguous proximity, so the lands would be easier to manage for the Common School.

BCPL is asking the board to allocate those five parcels as Common School Fund trust lands and all the other parcels received from the US Forest Service exchange as Normal School Fund lands.

Board Chair Godlewski asked what the completion date of the exchange was and why Mr. Steigerwaldt used numbers from 2020 for the valuation.

Executive Secretary German replied it was around six months ago. There have been no timber sales on any of these properties since then, no revenue generating activity on any of the land. He explained that 2020 was the year Mr. Steigerwaldt's appraisal was finalized for the Forest Service although he started work on it significantly earlier than that. The Forest Service has several additional requirements for appraisals to meet their 'Yellow Book standards'. That is why Mr. Steigerwaldt took it back to that particular time.

Commissioner Leiber asked for clarification as to whether the reallocated lands were already owned by BCPL.

Executive Secretary German responded, yes. This proposal involves no land being purchased. We are just making sure that on our end our record keeping is proper and that we are allocating it properly between the two funds.

Board Chair Godlewski asked Executive Secretary German if he would speak about BCPL's land bank as an educational topic at a future meeting or offline session.

Executive Secretary German stated he would be happy to do that.

MOTION: Board Chair Godlewski moved to approve the trust land allocation as proposed in the board documents; Commissioner Kaul seconded the motion.

VOTE: The motion passed 3-0.

ITEM 7. – Discussion of potential statutory changes

Executive Secretary German shared that as the Board pointed out at our last meeting, significant increases in library aid were made possible by the statutory change that increased the investment authority of the Board from a small sector of the fixed income world all the way to prudent investor authority. This includes all sectors of the investment world as long as the investment choice is prudent. We had been locked into a small corner of that fixed income world for over a century and having that change in authority was huge. The challenge then became implementing that investment authority without additional resources (in fact fewer resources). Our recent announcement of record earnings distribution shows that we've succeeded in that challenge. We have literally done more with less.

Are there other statutory changes that may allow BCPL to become even more productive? The short answer is yes, but there are limitations if we do not receive additional resources to be able to implement some of those changes. Our legal structure is a bit unusual. Board of Commissioners of Public Lands and three of the trust funds we manage were created in the original draft of the Wisconsin Constitution. Chapter 24 of the Wisconsin Statutes provides the statutory framework for how we do things. It has two sub chapters, Public Lands Administration and

Trust Funds. We have zero regulations. This is probably the most unusual legal framework for any state agency.

Most of our statutes have been in place for over 100 years, and some could use some modification to bring them into the modern age. Often the modernization of those agency statutes are developed from Legislative Council study committees. However, in his 18 years with BCPL there has only been one study committee. In 2018, that study committee took up an inordinate amount of agency staff time responding to numerous inquiries, and the focus of that committee seemed to be on undermining and eviscerating the agency. As a result, the agency did not ask for any statutory changes. Meanwhile, we have managed to modernize and reshape our agency processes and have produced record trust fund earnings and record timber sale revenue. It's possible to squeeze some additional proficiency out, but like I said, we're going to need additional resources. We could ask for a wholesale modernization of statutes, but that would likely draw another legislative council study committee.

Do we seek tactical changes to individual statutes? One statute brought up last time was modifying statutes to provide individual trust income accounts for each of the four trust funds managed by BCPL. Our current set up is crazy. We manage four separate trust funds in the statutes. There is a Common School Income fund, but it's not exclusively a Common School Income fund. It's technically a custodial/clearing account that temporarily holds all the earnings of all four trust funds. As certain transactions are clearing, it may even hold principle of some of the other trust funds. It may make more sense to actually establish four separate income accounts, one for each of the trust funds, so that throughout the course of the year the income from each of those trust funds is allocated into those income accounts.

Our Normal School Fund is more complicated because the UW has the power to just reach into Normal School Fund to take money out during the course of the year to provide the funding for the scholarships and programs that they are funding on their end with the money. So, at a minimum that may be a noncontroversial statutory change that would just make things a little bit easier to track on our end and show our desire to move into the 21st century.

There are other possibilities. For decades BCPL had been funded with program revenue, in essence the earnings of our funds paid for agency expenses. The study committee thought it better to have the agency be funded with taxpayer revenue and that way they can keep a closer handle on our expenses. This is exactly what happened. We got switched over to GPR and our budgets were cut. The fact is our earnings have jumped so much that if we return to program revenue funding, there would be no noticeable difference to the beneficiaries in that situation.

It is possible that we may take a closer look at modernizing or adapting the unclaimed property statutes a bit more closely to our situation. Unclaimed property sits in the general fund until a certain point in time when DOR decides that they don't need all of it and then some of it is transferred to the Common School Fund. It may make more sense for the money to sit in the Common School Fund until claims are actually produced for those funds.

It may make sense to modernize some of the land sale statutes. These statutes are 100 years old, including a modification or repeal section 24.11(3). This is a statute that's been around since 1909 that reserves mineral rights, waterpower rights and access rights on sales of public land. This can create some limitations or hurdles when you're trying to sell land. Are buyers willing to live with those reservations on the land that they're purchasing? In some cases, the answer is no, they do not want to buy that land.

He and Mr. Sneider have discussed the possibility of selling trust fund loans. Statutes allowing for that were drafted more than 30 years ago and are also contained in our investment policy. At that time, they provided a pretty clear path, but the finance world has changed and there may be ways of selling it that are not necessarily authorized by that particular statute. A modification or clarification on that would be helpful.

Our statutes right now are a little bit of a mismatch in that we are funded with GPR, with taxpayer revenue however there are statutes that say our gross revenue does not include expenses associated with managing the lands. If we do not have an appropriation to spend from those, how do you do that? Again, clarification would be helpful.

Executive Secretary German asked the board how they would like him to present these ideas.

Board Chair Godlewski replied that it is helpful to lay out the possibilities. There are two things that would be helpful knowing that the underlining theme is education and what's really achievable. The agency is already pretty strapped and knowing that there are a lot of things needed to push through legislative. She wants to make sure we are all committed to helping to make that happen because it's not just staff time, it's also commissioners and going and meeting and making sure that everyone is rowing in the same direction. As we look at these opportunities and are evaluating them let's think about what's really achievable and worth the time and resources required to make that happen. She believes the memo about how money runs through the agency would be helpful and could act as additional supplemental information grounding the opportunity for statutory changes.

Executive Secretary German expressed that he would be happy to provide that memo to the board. He warned that it will be unlike the two board items that were provided today that were rewritten into layman's English for anybody to understand. The memo really digs into the weeds in terms of describing how the pieces fit together here over this tumultuous period of time. Ultimately, it's important to understand what we have here and how those pieces fit together. He came to state service from the private sector and has managed several companies and several organizations. He has never seen anything like this. He is thankful to Denise Nechvatal, the agency's controller, for helping him make sense of it all. He shared that we have a very limited window for this upcoming legislative session.

Commissioner Kaul commented that he would be happy to get the memo and shared another option which is not necessarily an alternative. He asked if Executive Secretary German would be willing to provide a 10 minute summary of the memo at the next meeting. In terms of the legislative options, will most likely be able to accomplish one, maybe two things legislatively. He asked about the substantive changes previously laid out rather than the technical changes. An example of a substantive change would be the different accounts for the different funds. He talked about how to organize the legislative changes. One option would be to group/package the technical changes together. Another option could be the substantive changes. He believes it would be best to have three or so options to look at and discuss. If we had a limited option set, we could group the technical changes into one.

Board Chair Godlewski commented that it is critical that the board have the memo and a conversation about it under new business at a future meeting soon. Something as simple as taking one account and making it into four. We have seen how that has become a big debate and a heavy lift, even though financially the recommendation makes sense and accountants, and best practices would agree. She would like the board to be realistic. What seems like dotting Is and crossing Ts is a bit more complicated and there is just a lot more work involved to make these things happen. She believes part of the conversation has to be from these opportunities – what can be maybe a quick win potentially or what could be considered quick wins based on what the BCPL thinks our opportunities might be? She would love for unclaimed property to first come to BCPL so we can get the interest. She thinks that's a good thing to be fighting for versus something else.

Executive Secretary German discussed further the first item he brought up - creating separate income accounts. If we are going to seek that statutory change, he would need the state controller's office on board with it. If it's a joint request from BCPL and the state controller's office, the likelihood of success would be significantly higher. He will reach out to the controller's office and ask their opinion on supporting that. That's probably the first step that needs to happen there.

Commissioner Leiber shared that even if we can't get something through in this legislative cycle, it's worth it to get something drafted and maybe a hearing and just have it ready to go for the next session in FY25. Even if we can't get it through now, that's not a loss, we're still getting it prepared and ready to go.

Board Chair Godlewski summarized the discussion. Let's make sure we get the memo and discuss it at an upcoming meeting. Let's put together, if possible, a list of what some legislative proposals are and then discuss and decide which are potential quick wins versus things that are a bit more aspirational. Knowing that this is not just a legislative plan for 2024, we can think about a legislative plan beyond that and having some of the core building blocks to put that plan together at our next meeting would be very helpful.

Executive Secretary German clarified his responsibilities for the next meeting. 1) The board would like a copy of

the memo and if possible, have it in more layman's English, so much the better. 2) Identify several technical changes that could be put together as a package. He asked if the board is looking at technical changes that are what we perceive to be completely noncontroversial or...

Board Chair Godlewski explained that he should put together an entire list of technical changes, then the board can go through the list and decide what are technical but could be controversial. Composing a list of some legislative changes that might be a bit more aspirational but worth bringing on the table and thinking about when the best time to introduce those would be good. The board can look through the lists and pick what makes the most amount of sense for 2024, but also know it can go back to the lists for 2025 or 2026.

Commissioner Leiber and Board Chair Godlewski express that they do not need the memo to be less technical.

ITEM 8. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider reported that the investment committee approved commitments within the private debt asset class to two additional funds following the receipt and approval of third party due diligence reports that were prepared by Marquette Associates. These commitments are expected to help us meet three goals: 1) increase our investment in the private debt asset class up to the target allocations for both the Common School Fund and the Normal School Fund; 2) diversify our current private debt portfolios; and 3) generate significant distributable income for trust fund beneficiaries for many years to come. The commitments approved by the investment committee include \$25 million from the Common School Fund and \$2.5 million dollars from the Normal School Fund to the Angelo Gordon Evergreen Fund, which is expected to close later this month. Angelo Gordon focuses on loans to the lower middle market, which includes firms with less than \$25 million of annual earnings.

The remaining commitments made by the investment committee include \$25 million from the Common School Fund and again \$2.5 million dollars from the Normal School Fund to Golub Capital Partners 15. This commitment is expected to close in April of next year. Golub started in 2004 focusing on middle market lending to somewhat larger firms than Angelo Gordon, but also seeking a high level of current income and attractive risk adjusted returns. Golub has been a top three middle market lender for the past 10 years with over 825 employees, mostly concentrated in Chicago and New York. This investment will offer immediate diversification. The underlying investments are primarily senior secured floating rate loans directly originated by Golub and Angelo Gordon. Both market associates and the investment committee were impressed by each of these firms, and we believe these investments will become a core part of the Common School Fund and Normal School Fund portfolio for many years.

Board Chair Godlewski shared that the implementation of the prudent investor standard has been critical. It's not just giving you the authority, it's how the authority is actually executed. She asked Mr. Sneider to report on how much we've diversified this past year alone because every time a decision is made to diversify that's a lot of due diligence on your end as the Chief Investment Officer and the investment committee, but also by third party due diligence report.

ITEM 9. EXECUTIVE SECRETARY'S REPORT

None

ITEM 10. BOARD CHAIR'S REPORT

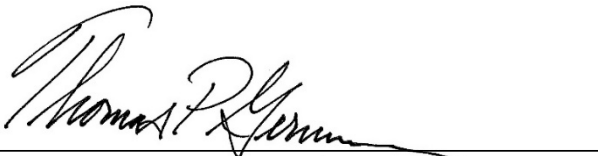
None

ITEM 11. FUTURE AGENDA ITEMS

1. List of desired statutory changes
2. Memo regarding the inner workings of the agency's trust fund cash flow

ITEM 12. ADJOURN

Board Chair Godlewski moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:58 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/bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2023/2023-12-05/BoardMtgRecording.mp3](https://bcpl.wisconsin.gov/bcpl.wisconsin.gov/Shared%20Documents/Board%20Meeting%20Docs/2023/2023-12-05/BoardMtgRecording.mp3)