



# LEGISLATIVE COUNCIL STUDY COMMITTEE AUGUST 2018

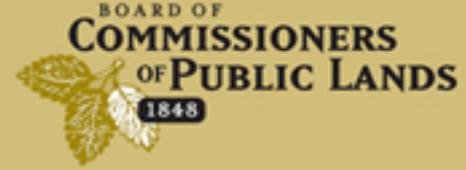


# But first, a little history...



## Disputes at the 1846 Wisconsin Constitutional Convention

# 1846 CONSTITUTIONAL DEBATES



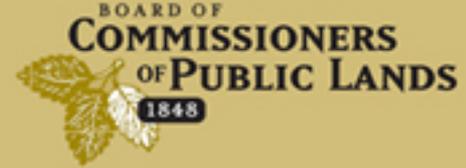
## BITTER FIGHTS

- Women's right to own property
- Immigrants' right to vote
- Banking
- Boundaries of the State

# If Delegate Holcombe had prevailed ?



# MEANWHILE...



- Federal Government had been making land grants to new states joining the union
- But some early states didn't properly manage their land grants
- Some grant lands were sold at a discount to speculators
- Some states lost much of the value of their original federal grants
- Wisconsin didn't want to follow that route

# ONE IDEA SURVIVED...

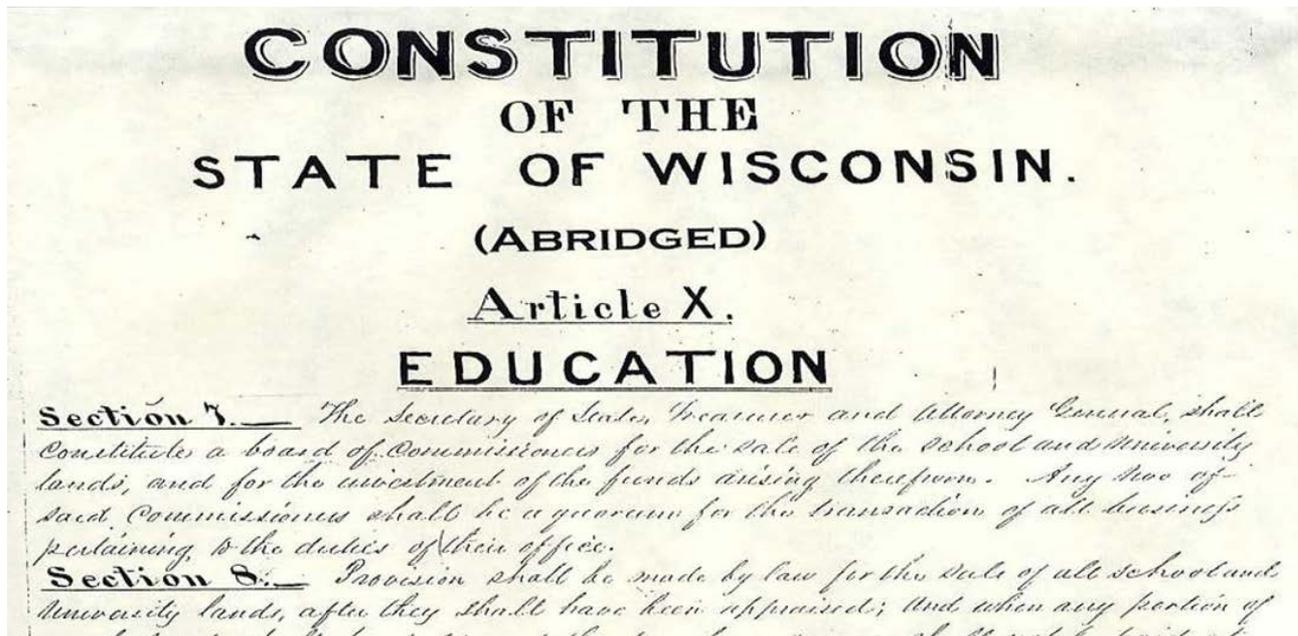


# 1846 CONSTITUTIONAL CONVENTION Sole Area of Agreement

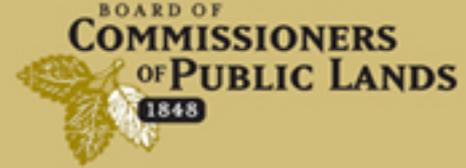


# WANTED!!

# PERMANENT ENDOWMENT FOR PUBLIC EDUCATION



# But how to Structure the Fund? Constitutional Protections



- The fund should be **PERMANENT**  
**It should help educate children of today and tomorrow.**
  - Founding Fathers had **concerns about concentration of power**  
**Did not want Governor or Legislature to control the fund.**
- 
- **Solution written into Article X of Wisconsin Constitution:**
    - Created “Board of Commissioners of Public Lands”
    - Comprised of 3 separate constitutional officers.
      - ✓ Attorney General – should know about law
      - ✓ State Treasurer – should know about money
      - ✓ Secretary of State – should know about keeping records

# WISCONSIN CONSTITUTION

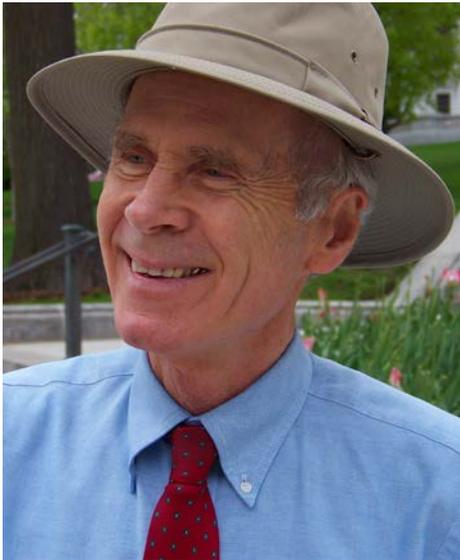
## Article 10



“The secretary of state, treasurer and attorney general, shall constitute a board of commissioners for the sale of the school and university lands and for the investment of the funds arising therefrom.”

The proceeds of all lands that have been granted by the US to this state for educational purposes and all fines and forfeitures that accrue to the state “shall be set apart as a separate fund to be called the ‘school fund’”...

# BCPL BOARD MEMBERS



Doug LaFollette  
Secretary of State



Matt Adamczyk  
State Treasurer



Brad D. Schimel  
Attorney General

# LAND COMMISSION MODEL



- Wisconsin joined the union in 1848
- Wisconsin's land commission was comprised of separately elected constitutional officers
- Commissioners were given wide discretion
- BCPL served as a model for the Western States that joined the union afterward

# INITIAL FUNDING - Federal Land Grants

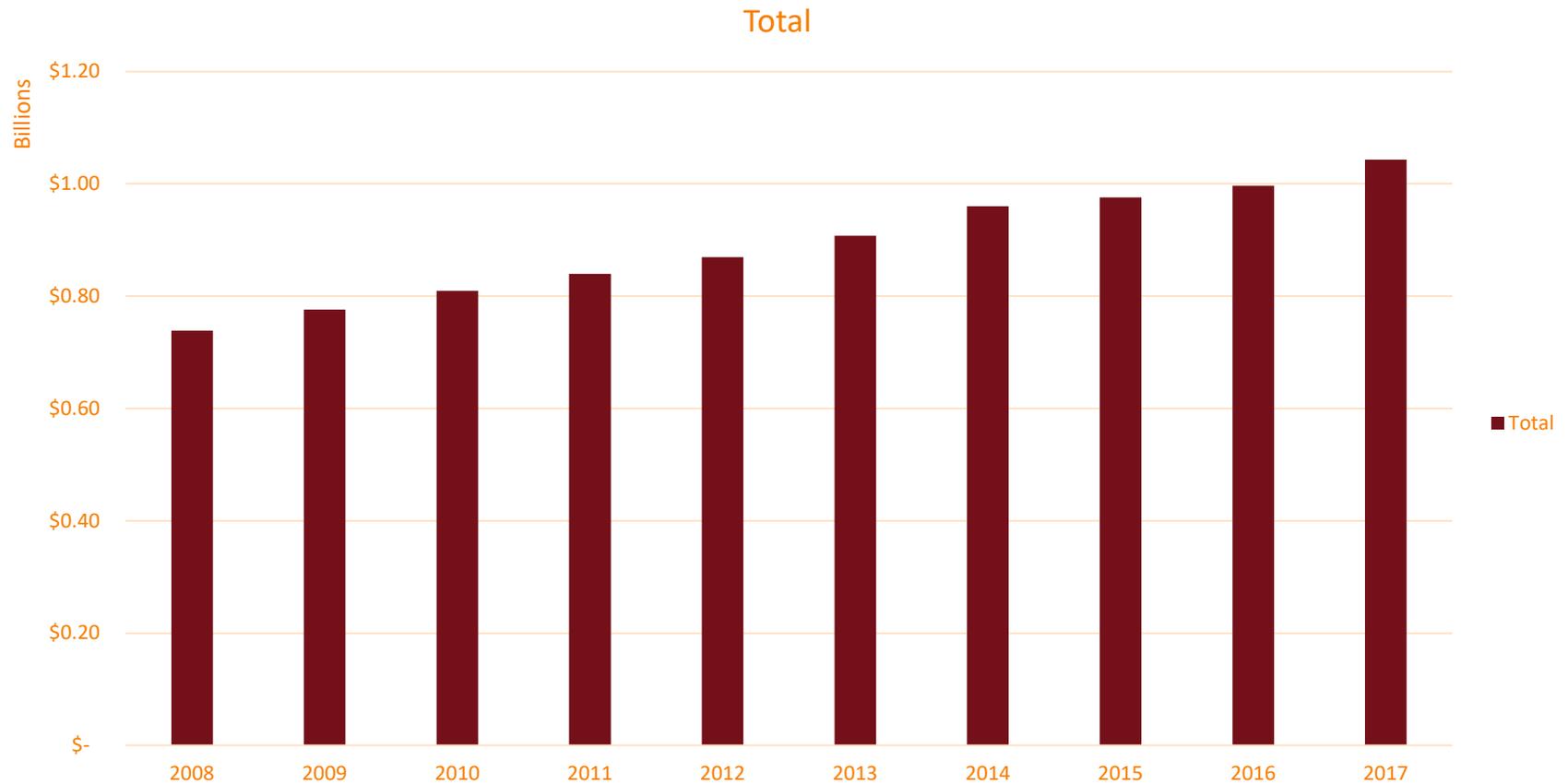


# LAND GRANTS FOR PUBLIC EDUCATION



- Section 16 in each Township (1 million acres)
- Internal Improvement Grant (half million acres)
- Most of these lands were sold quickly at \$1.25 per acre
- Less than 2% of original federally granted land remain
- Land sale proceeds now account for less than 1% of Common School Fund principal
  
- Other Land Grants:
  - Swamp Land Act of 1850 was used to fund the Normal School Fund
  - University Land Grant
  - Morrill Act

# GROWTH OF THE COMMON SCHOOL FUND



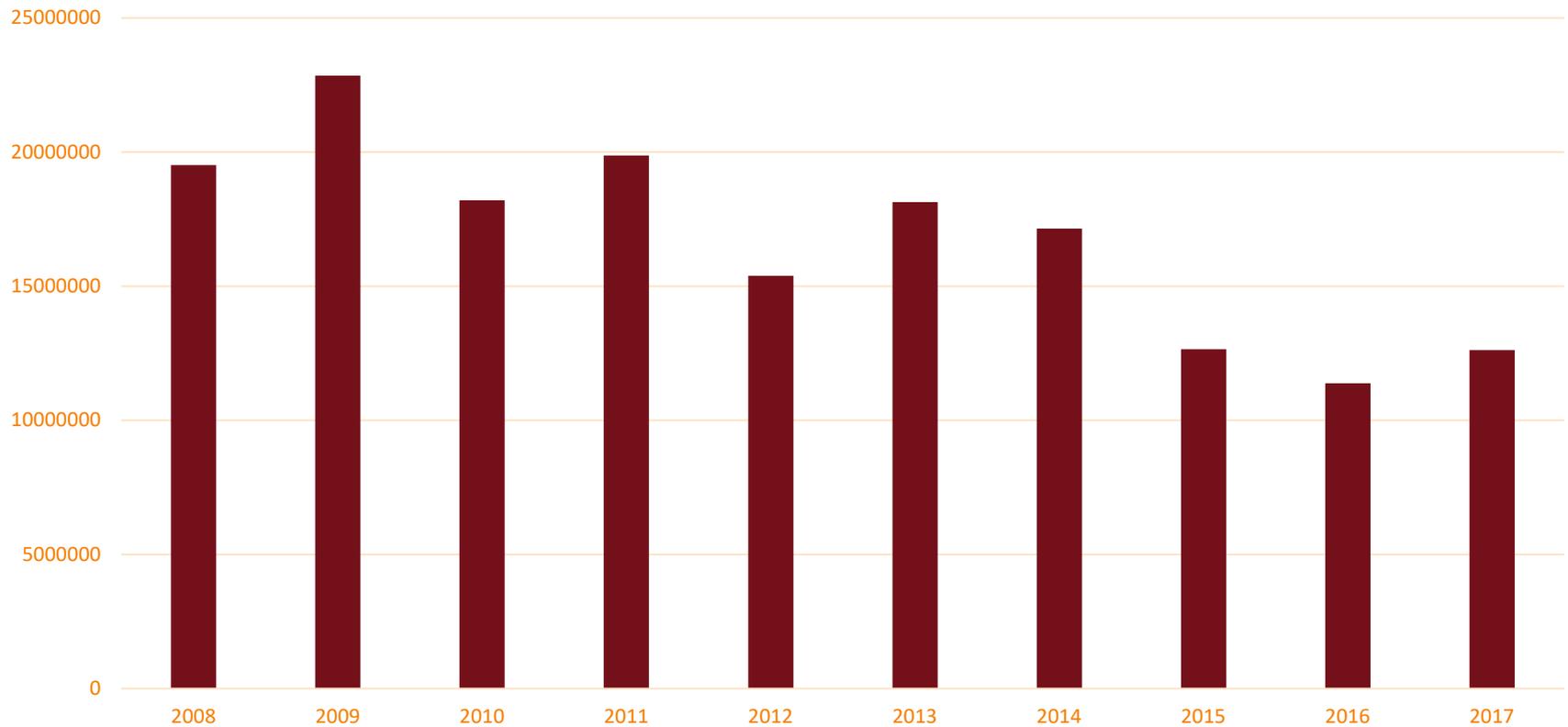
# GROWTH OF ASSETS OVER \$1 BILLION (Fines & Forfeitures)



# DECLINING FINES AND FORFEITURES



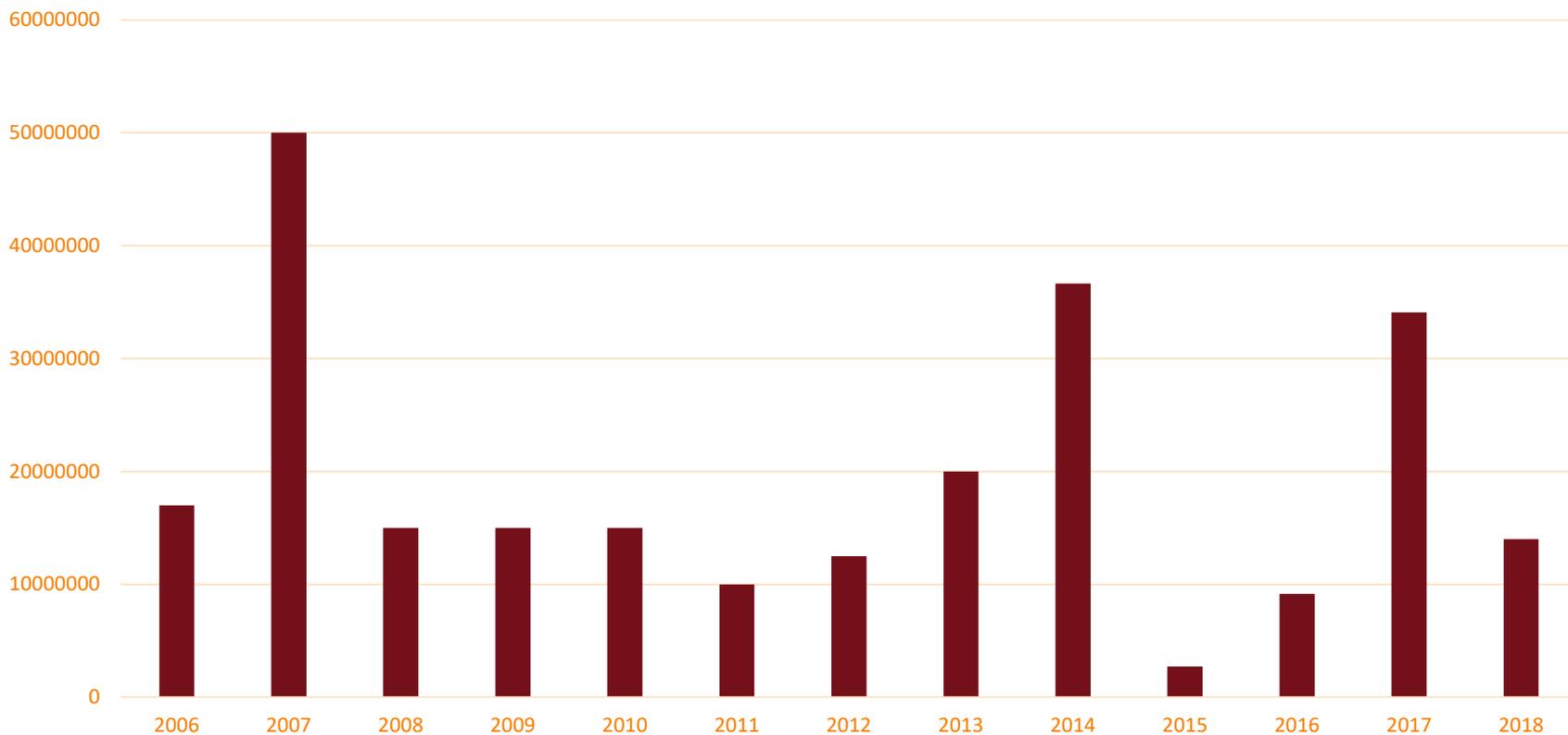
Total



# UNCLAIMED PROPERTY TRANSFERS TO CSF



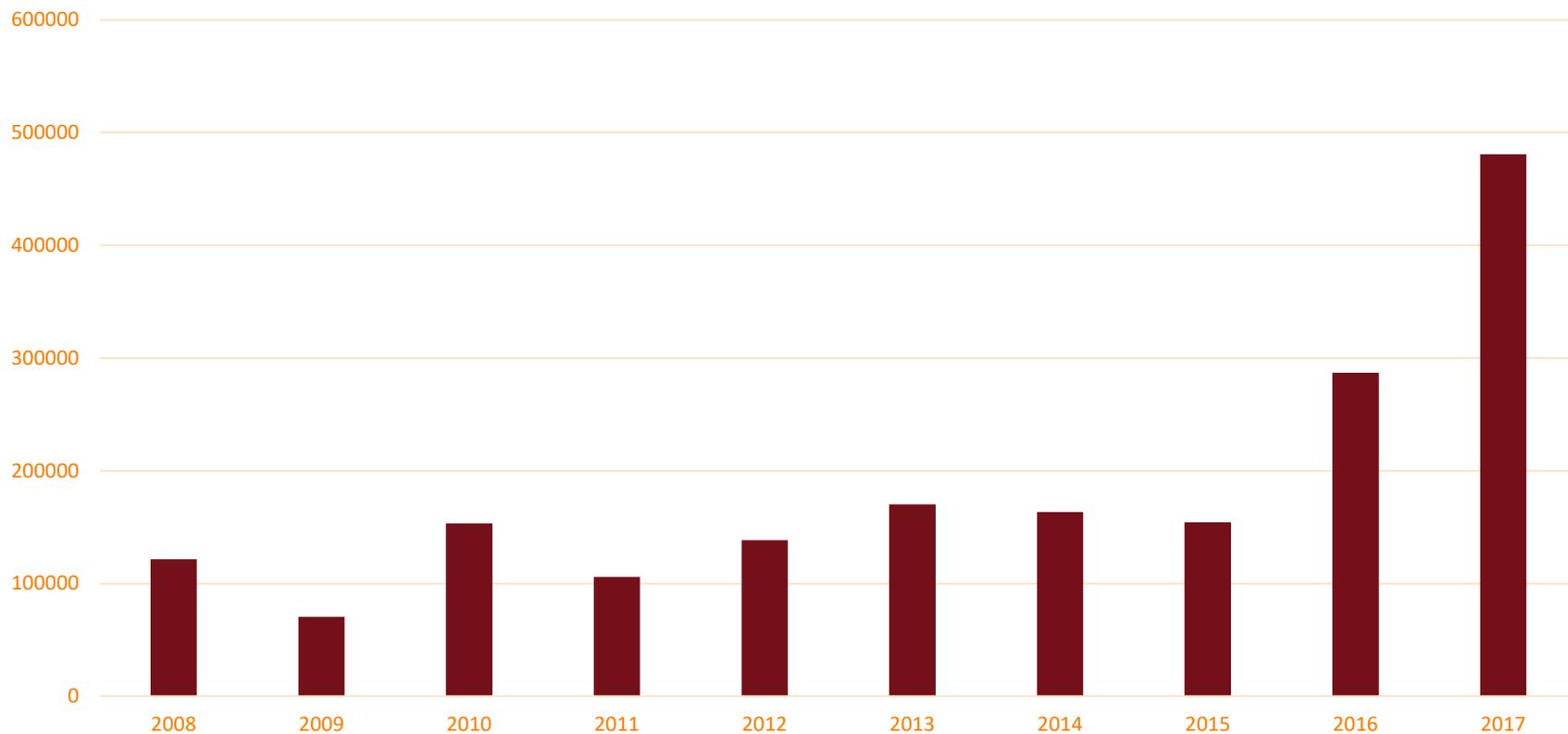
Total



# DRUG FORFEITURES



Total

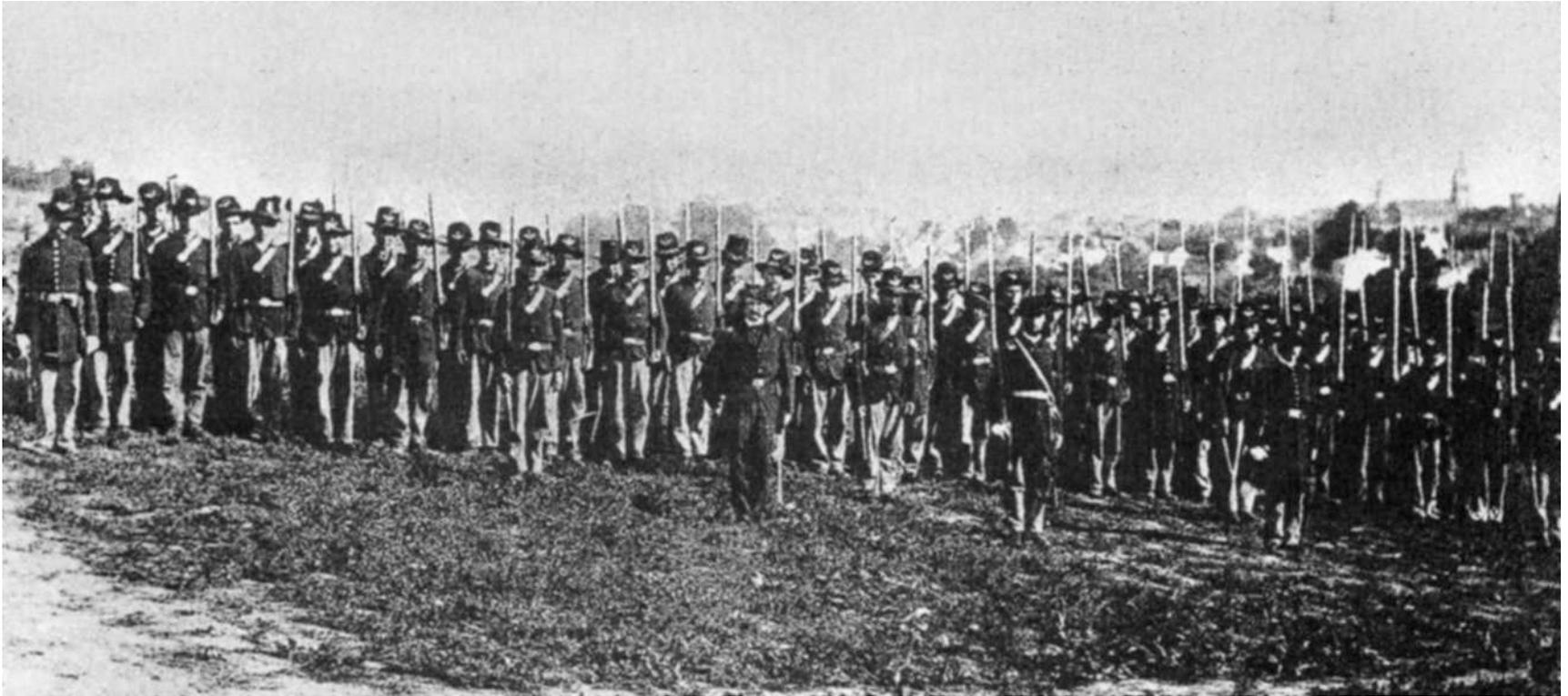


# EARLY INVESTMENT RETURNS



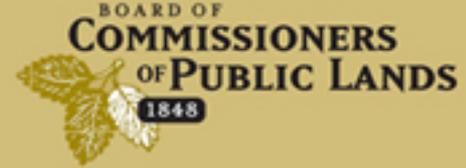
- NOT GOOD
  - DEFAULTING STATE OFFICERS
  - LANDS SOLD FOR LESS THAN REAL VALUE
  - DISHONEST BOOKKEEPING
  - PARTIALLY PAID FOR LANDS STRIPPED OF TIMBER AND RETURNED COMPARATIVELY WORTHLESS TO THE STATE
  - INVESTMENT IN POOR SECURITIES
  - FAILURE TO ADD LEGALLY DESIGNATED REVENUE TO THE PRINCIPAL OF THE FUND
- SUPERINTENDENT OF PUBLIC INSTRUCTION COMPLAINED THAT THE FUND WAS BEING LOST

# 1860's INVESTMENT IN STATE (WAR) BONDS



Paid back...in 1944

# In 1870...



- BCPL was looking for prudent investments that provided a decent rate of return.
- Wisconsin municipalities were looking for an easier way to borrow money for public projects
- Perhaps there's a...

# ...CREATIVE SOLUTION



# STATE TRUST FUND LOAN PROGRAM



## BCPL STATE TRUST FUND LOAN PROGRAM Created and Authorized by State Legislature in 1871

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- Originally for School Districts
- Other Municipalities added to the program ten years later.
- Goals:
  1. Simple Alternative to Bonding for Borrowers
  2. Prudent investment for the trust funds
    - low risk with reasonable rate of return

# SIMPLE ALTERNATIVE TO BONDING



- **Loan program is available for ANY public purpose**
  - Easier to determine eligibility for borrowers and BCPL
- **Program is exempt from complex bonding statutes**
  - Again – easier for both borrowers and BCPL
  - Unfortunately, not so good for bond lawyers
- **Loan payments are annual** – after property taxes are received
  - Easier for municipalities to budget and pay
  - Easier for BCPL to administer the loans

# SUCCESS!

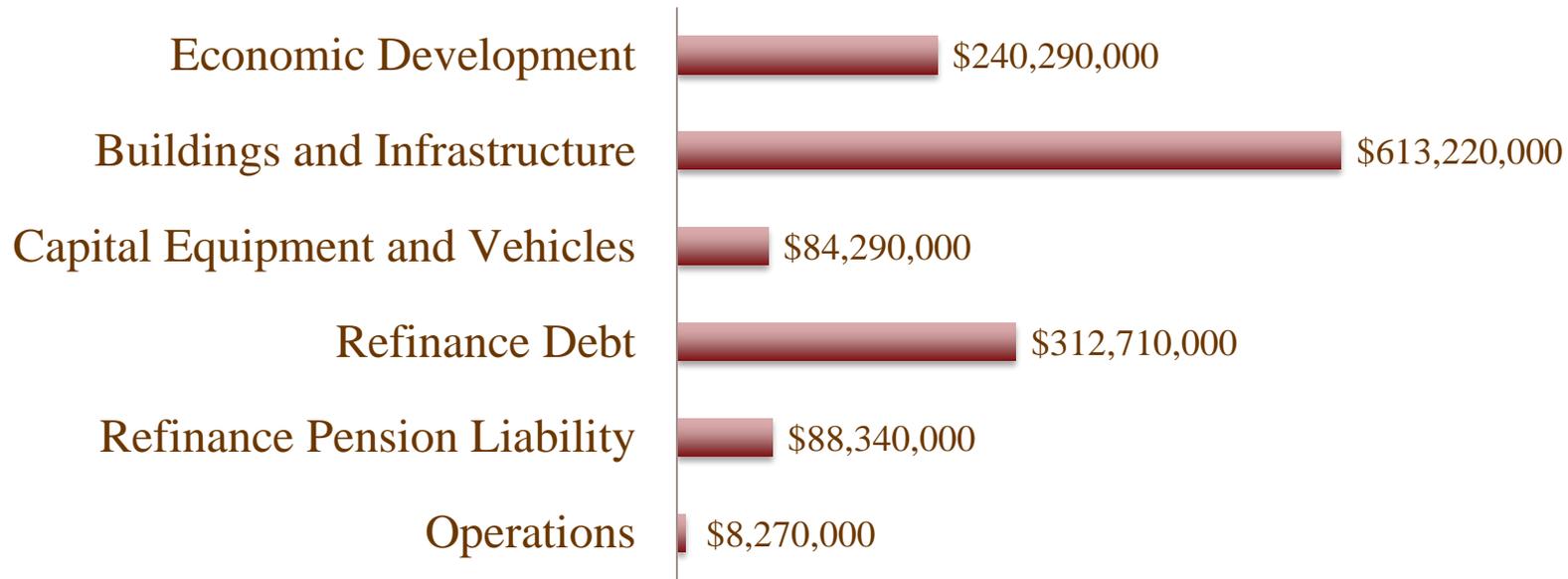


BCPL State Trust Fund Loan Program has been a success by any measure:

1. No defaults in 147 year history – GREAT customers!
2. Almost \$500 Million in loans outstanding
3. Loans can be used to fund ANY public purpose
4. Funding provided for thousands of WI projects
5. Saved \$ Millions in Fees
6. Provided \$ Hundreds of Millions to Public Schools

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Loan Program is Unique to Wisconsin

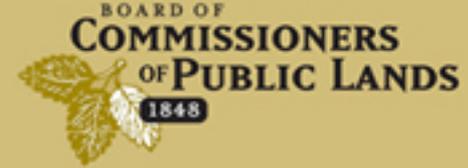
# Loan Disbursement by Purpose 2009 – 2018\*



**Total Lending: \$1,347,120,000**

\*July 1, 2008 – June 30, 2018

# HOW TO QUALIFY FOR A LOAN



## Two Simple Criteria

- 1. DO YOU REPRESENT A WISCONSIN MUNICIPALITY OR SCHOOL DISTRICT?**
  - Includes towns, villages, cities, counties, lake districts, sanitary districts, and sewerage districts and systems.
- 2. ARE YOU BORROWING FOR A PUBLIC PURPOSE?**

# BCPL Application Request



BCPL WORKSHEET  
MUNICIPAL LOAN APPLICATION REQUEST  
GENERAL OBLIGATION LOAN

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DATE \_\_\_\_\_

MUNICIPALITY \_\_\_\_\_  
Please include type of municipality (e.g. Town of Newbold, Village of Prairie du Sac, Bayfield County)

COUNTY \_\_\_\_\_

CLERK NAME \_\_\_\_\_ Phone # \_\_\_\_\_

E-MAIL ADDRESS \_\_\_\_\_

MAILING ADDRESS \_\_\_\_\_  
\_\_\_\_\_

FINANCE DIR/TREASURER \_\_\_\_\_ Phone # \_\_\_\_\_

E-MAIL ADDRESS \_\_\_\_\_

FINANCIAL ADVISOR/FIRM \_\_\_\_\_ Phone # \_\_\_\_\_

E-MAIL ADDRESS \_\_\_\_\_

LOAN PURPOSE: \_\_\_\_\_

AMOUNT OF LOAN: \_\_\_\_\_

TERM OF LOAN: \_\_\_\_\_ Years

ESTIMATED DATE THAT FUNDS WILL BE NEEDED: \_\_\_\_\_

DATES OF NEXT TWO BOARD/COUNCIL MEETINGS: \_\_\_\_\_  
\_\_\_\_\_

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CLERK SIGNATURE

# BCPL LOAN PROCESS – SIMPLE and FAST



## ➤ Loan Approval Process

- Simple Request Form, included in Packet ([www.bcpl.wisconsin.gov](http://www.bcpl.wisconsin.gov))
- Easy Fill-In-The-Blank Application, includes Borrower Resolution
- Fast Approval (average time to fund is 30-45 days, record = 17 days)

## ➤ Following Approval

- Four Months to Draw Funds
- No review of plans/invoices/expenditures

## ➤ How is it possible to maintain this Simple Process and Have NO Defaults?

- BCPL retains right to audit borrowers
- BCPL relies on borrower compliance with Statutes

## ➤ Consider the 1881 penalty for using Trust Fund loan dollars on something other than the approved loan purpose....

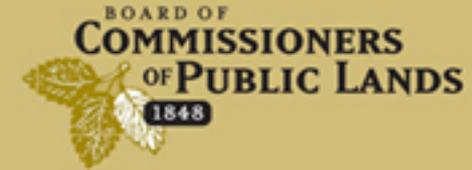
# 5 Years Hard Labor in State Prison



# Interception!



# CURRENT INTEREST RATES



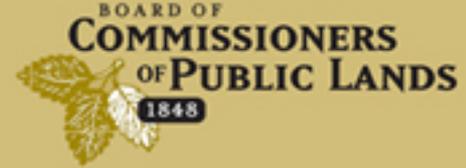
<u>General Obligation Loans</u>	<u>Rate</u>
2 Year	4.00%
3 to 5 Years	4.00 %
6 to 10 Years	4.25 %
11 to 20 Years	4.50 %

## Revenue Loans

- 5 years or less
- 6 to 10 Years
- 11 to 20 Years
- 21 to 30 years

Rates depend on deal.  
Strong deals will qualify for rates only slightly higher than G.O.

# WHY BORROW FROM BCPL?



- Simple Process with Fast Approval
- Competitive Fixed Interest Rates
- No Fees
- Up to 6 Month Rate Lock at No Additional Cost
- Custom Amortization Schedules Available
- Flexibility to Restructure, if necessary
- No Prepayment Penalties
- No Interference in Local Decision Making

**Best part: Loan Interest pays for public school library materials and helps reduce local property taxes**

# COMPETITIVE LENDING



- Provide **competitive, not discounted, rate structure** (We're trust fund managers)
- BCPL does not price each general obligation loan individually, but does look at risk factors when considering each loan application
- Interest rates are set for length of term and type of loan
- BCPL developed a pricing model that appeals to the largest market segment of Wisconsin municipalities
  - In Wisconsin 90+% of municipalities are rated A or unrated
- Longer term fixed rates, flexible repayment terms

# INVESTING IN WISCONSIN



- Circle of Life Investing. Recycling money within the state...
  - Funds are loaned to communities within the state
  - Communities repay BCPL
  - BCPL distributes the interest to Wisconsin school districts and loans out the repaid principal to other Wisconsin Communities
  - Funding projects all over the state

# WHAT REALLY SETS US APART?



**Beneficiaries:**  
Wisconsin's K-12 public school students

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**More than 96% of the interest paid on BCPL State Trust Fund Loans is returned to Wisconsin communities in the form of aid to public school libraries.**

# THE STATEWIDE LENDER THAT PAYS LOCAL DIVIDENDS

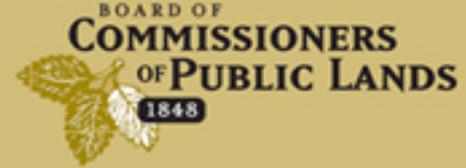


# LOAN PROGRAM IS PART OF AN OVERALL INVESTMENT STRATEGY



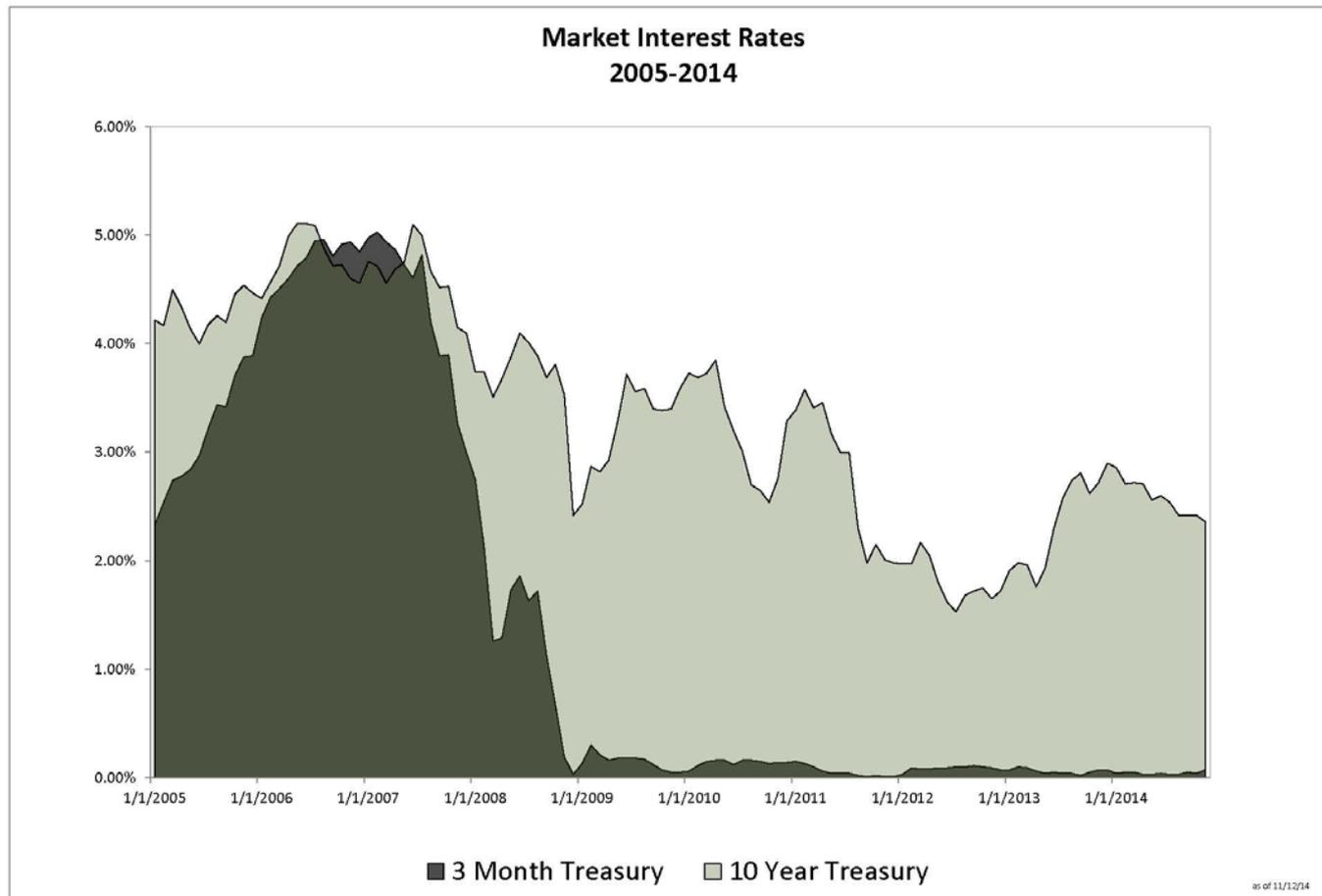
- While the Trust Fund Loan Program is a great investment vehicle, it is important to diversify the trust fund portfolio

# INVESTMENT OPTIONS



- Wisconsin Legislature has authority to decide investment options for BCPL.
- Until recently, those options were a very short list of fixed income investments:
  - Trust Fund Loans
  - Wisconsin State & Municipal Bonds
  - US Treasury Bonds
  - Farm Credit Bonds
  - State Investment Fund
- BCPL did not have a formal investment policy since its options were so limited

# INTEREST RATE VOLATILITY FINANCIAL CRISIS



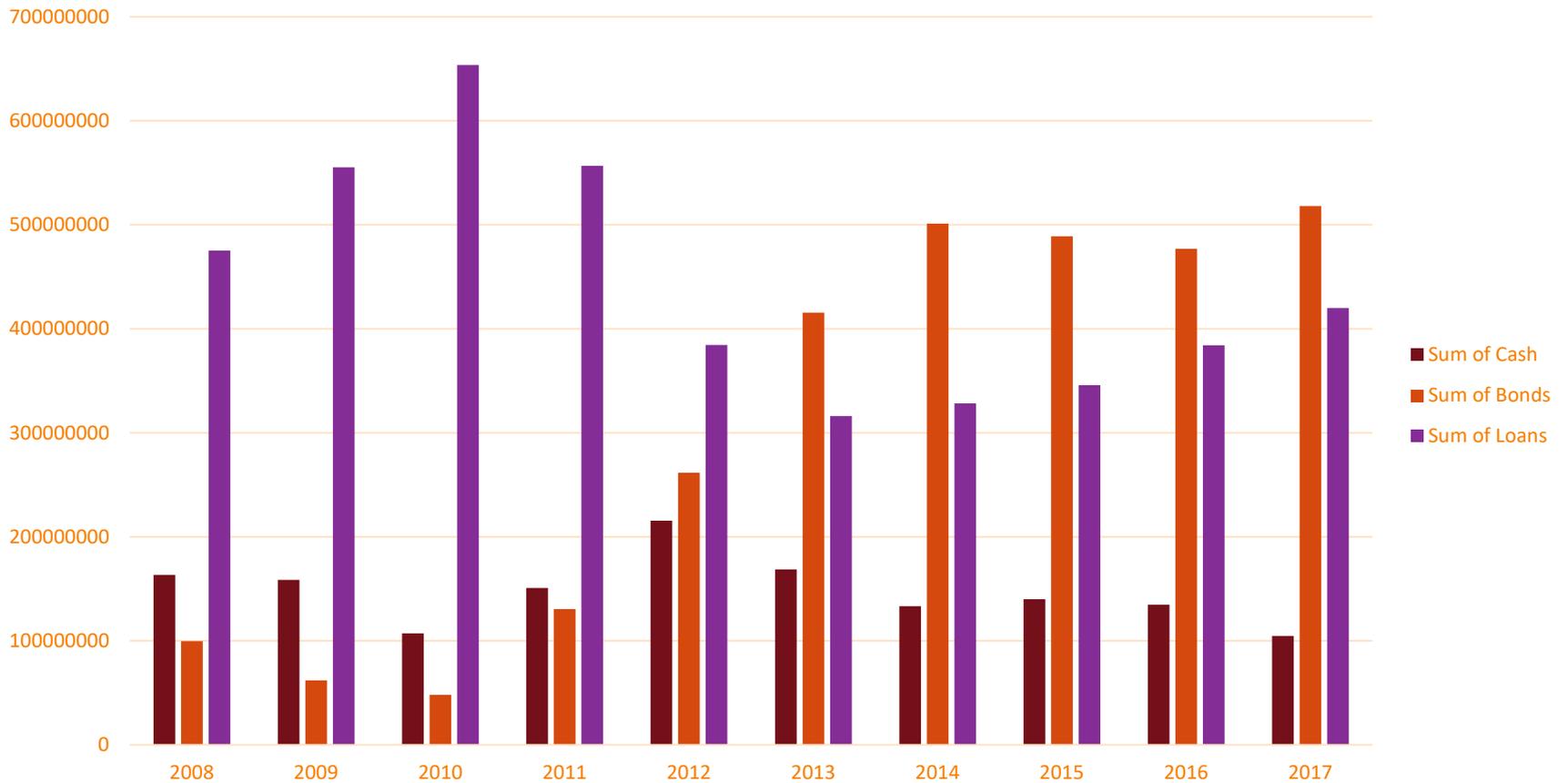
# LOAN PREPAYMENTS



## Loan Prepayments



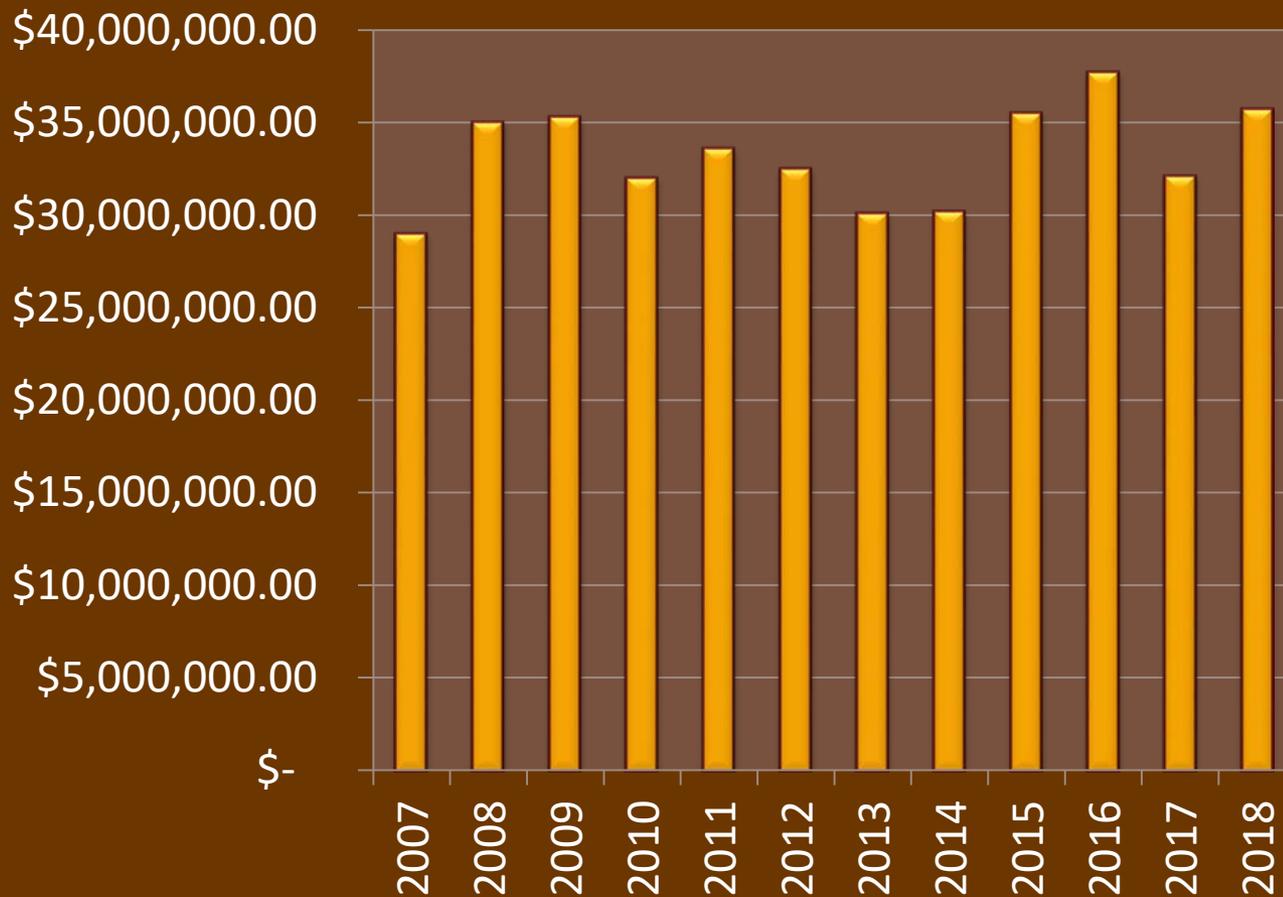
# COMMON SCHOOL FUND INVESTMENTS



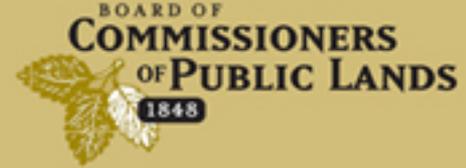
# EARNINGS AND DISTRIBUTIONS



## Library Aid Distribution



# PRUDENT INVESTOR STANDARD



- During the discussion on funding the new Milwaukee Bucks' arena, the legislature gave BCPL expanded investment authority.
- WIS. STATS. SECTION 112.11(3) "...shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances."

# CONSTITUTIONAL LIMITATIONS



- BUT CONSTITUTIONAL LIMITATIONS REMAIN
  - INTEREST MUST BE DISTRIBUTED
  - PRINCIPAL IS RETAINED
  - CANNOT DISTRIBUTE PRINCIPAL IF EARNINGS ARE LOW OR NEGATIVE
- THESE LIMITATIONS REQUIRE THE FUND TO BE INVESTED AND MANAGED IN MORE CONSERVATIVE MANNER

# INVESTMENT POLICY AND ASSET ALLOCATION MODEL



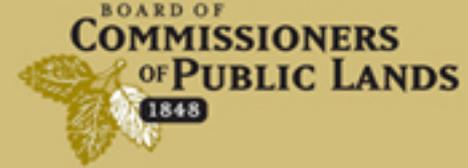
- **BCPL ADOPTED A DETAILED INVESTMENT POLICY**
- Assistance from the UW School of Business and the State Investment Board
- The policy **allows BCPL to diversify its holdings** within certain limits
- Stocks and real estate investments may produce capital gains
- The policy provides for a **“smoothing fund”** (deferred distributions)

# USE OF PRUDENT INVESTOR AUTHORITY



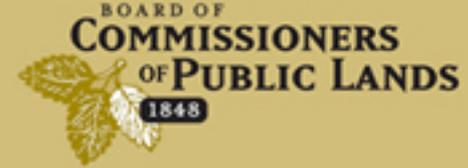
- DIVERSIFICATION OF THE COMMON SCHOOL FUND HAS PROGRESSED, BUT AT A CAUTIOUS PACE.
- THE SMOOTHING FUND NOW HOLDS MORE THAN \$8 MILLION.
- BCPL HAS NOW INVESTED A PORTION OF THE CSF IN
  - MORE DIVERSE U.S. and STATE AGENCY BONDS
  - EXCHANGE TRADED FUNDS (ETFs)
  - VENTURE CAPITAL FUNDS

# DEPENDABLE DISTRIBUTIONS



- EXPANDED INVESTMENT AUTHORITY WILL STRENGTHEN THE OVERALL EARNING POTENTIAL OF THE FUND
- SCHOOLS DEPEND ON GETTING A DISTRIBUTION EVERY YEAR
- CORE INVESTMENTS OF THE FUND (SUCH AS THE LOAN PROGRAM) SHOULD PRODUCE A RELIABLE STREAM OF EARNINGS DISTRIBUTIONS

# TRUST FUND LOAN PROGRAM



- Provides a reliable stream of distributable income for beneficiaries
- Does not suffer significant losses during recessions
- Is a core holding of the Common School Fund
- Invests in Wisconsin

# Thank You

