



WISCONSIN LEGISLATIVE COUNCIL

MEETING MINUTES

STUDY COMMITTEE ON THE INVESTMENT AND USE OF THE SCHOOL TRUST FUNDS

Room 411 South
State Capitol
Madison, WI

August 16, 2018
10:00 a.m. – 4:00 p.m.

Call to Order and Roll Call

Chair Katsma called the meeting to order. A quorum was determined to be present.

COMMITTEE MEMBERS PRESENT: Rep. Terry Katsma, Chair; Sen. Lena Taylor, Vice Chair; Rep. Don Vruwink; Sen. Duey Stroebel; and Public Members Kim Bannigan, Jerry Derr, Don Merkes, and Steve O'Malley.

COMMITTEE MEMBERS EXCUSED: Public Member Stephen Eager.

COUNCIL STAFF PRESENT: Terry Anderson, Director; Jessica Karls-Ruplinger, Deputy Director; Zach Ramirez and Rachel Snyder, Staff Attorneys; and Julie Learned, Support Staff.

APPEARANCES: Terry Anderson, Director, Legislative Council Staff; Jonathan Barry, Executive Secretary, and Tom German, Deputy Secretary, Board of Commissioners of Public Lands; Kay Benning, Director of Library Services, Elmbrook Schools; Tony Spence, Chief Information Officer, Muskego-Norway School District; Micki Uppena, Library Media Specialist, Lancaster Community Schools; Janet Vraney, Library Media Specialist, Green Bay Public Schools; Robert Scott, Finance Director, City of Brookfield; Allen Buechel, County Executive, Fond du Lac County; Lester Lewis, Town Chair, Town of Molitor; Matt Adamczyk, State Treasurer; Doug Mering, Vice President, Baraboo School Board; Brian Krey, Business Manager, and Jon Novak, Business Manager Emeritus, River

APPEARANCES (CONT.): Valley School District; Todd Carlson, Superintendent, Gillett School District; and Keith Brightman, Director of Finance and Operations, Menomonee Falls School District.

Opening Remarks

Chair Katsma welcomed committee members and introduced Terry Anderson, Director, Legislative Council staff. Mr. Anderson thanked members for their service and offered the Legislative Council staff as a resource throughout the committee's deliberations.

Introduction of Committee Members and Assignment

At Chair Katsma's invitation, committee members introduced themselves and summarized their backgrounds.

Presentation by the Staff of the Board of Commissioners of Public Lands

Jonathan Barry, Executive Secretary; and Tom German, Deputy Secretary

Mr. Barry and Mr. German provided an overview of the history of the Board of Commissioners of Public Lands (BCPL) and the school trust funds. They explained the BCPL's current policy for investing the school trust funds, and they discussed how the BCPL loan program is administered. They then answered committee members' questions regarding how the BCPL makes lending decisions, how it is audited, and how it makes investment decisions.

Wisconsin Educational Media and Technology Association Panel

Kay Benning, Director of Library Services, Elmbrook Schools; Tony Spence, Chief Information Officer, Muskego-Norway School District; Micki Uppena, Library Media Specialist, Lancaster Community Schools; and Janet Vraney, Library Media Specialist, Green Bay Public Schools

The presenters took turns discussing how public school libraries use the distributions they receive from the Common School Fund (CSF). They provided examples of libraries purchasing mobile internet hotspots, books, subscriptions to research databases, and materials for "maker spaces" in which students participate in hands-on science, technology, engineering, and math activities.

Ms. Vraney discussed instances in which public libraries have borrowed money through the BCPL loan program to fund the construction of new facilities.

Ms. Vraney told the committee that the Wisconsin Educational Media & Technology Association (WEMTA) surveyed its members about their views on issues related to public school library funding and the CSF. She reported that 99% of survey respondents opposed repealing the statutory requirement that CSF distributions must be used to fund public school libraries, and 92% of respondents reported that CSF distributions are the only funding they receive for their public school libraries. She stated that, although the survey did not specifically ask WEMTA members for their views on how the CSF should be invested, some respondents used the "general comments" portion of the survey to express their view that the top priority for investing should be to ensure that distribution amounts are consistent from year to year. She

stated that these commenters expressed that they prioritize consistency over maximizing the overall return of the CSF.

The presenters suggested that the committee: (1) request that the Legislative Audit Bureau examine if the CSF is receiving all constitutionally required deposits; (2) consider ways of improving the reporting and tracking of constitutionally required deposits; (3) continue the BCPL loan program; and (4) maintain the CSF as the dedicated source of school library funding.

Chair Katsma asked how the CSF funds are distributed. Ms. Vraney answered that the funds are distributed in proportion to the number of school-aged children living within a school district, not the number of students enrolled in the school district.

Senator Stroebel asked the presenters to describe what concerns they have about allowing school districts to decide how to use the CSF distributions, rather than requiring that the distributions be used for school libraries. Ms. Vraney responded that the committee should consider the level of funding received by school libraries in states in which there is no specifically dedicated source of funding for school libraries.

Senator Stroebel asked whether students of private schools could access materials in public school libraries. The presenters responded that it varies; some public school libraries allow access only during the summer, while others allow year-round access.

Mr. O'Malley asked if libraries use the CSF distributions to purchase textbooks. The presenters responded that the distributions are used to purchase resources that supplement the curriculum, not textbooks used for curriculum.

Senator Taylor expressed support for certain educational resources associated with WisconsinEye and asked if WEMTA collaborates with WisconsinEye to ensure the effective use of those resources. Ms. Vraney stated that the librarians strive to identify and fully utilize those types of resources.

Local Government Panel

Robert Scott, Finance Director, City of Brookfield; Allen Buechel, County Executive, Fond du Lac County; and Lester Lewis, Town Chair, Town of Molitor

Mr. Scott stated that the BCPL loan program helps local governments be responsible stewards of taxpayer funds because it does not require the payment of fees, allows for prepayment of loans, and is simple to use. He stated that many smaller municipal governments do not have access to bond markets because the amounts they need to borrow are too small or because they do not have audited financial statements. As a result, these municipalities would have difficulty financing certain projects without the BCPL loan program. He also stated that larger municipalities also benefit from the flexibility of the BCPL loan program, and he discussed specific projects that Brookfield has financed using the BCPL loan program. He stated that the BCPL loan program provides access to financing during economic downturns.

Mr. Lewis presented examples of projects that towns have financed using the BCPL loan program. He also presented comments from town officials regarding the benefits of the loan program, including that it saves towns money by helping them avoid the staff costs associated with obtaining a loan from a private financial institution.

Mr. Buechel provided examples of how Fond du Lac County has used the BCPL loan program. He explained that the county has used the BCPL loan program when bond rates were higher and when the fixed costs of bonding were high. He stated that the county has also used bonding to prepay BCPL loans when bond rates were more favorable.

Chair Katsma asked the presenters to discuss their experiences prepaying BCPL loans. He also asked the presenters to discuss the process they use in determining whether to borrow through the BCPL loan program.

Mr. Lewis said that local banks could not match the BCPL loan interest rates and were not comfortable with providing the term that was appropriate for the project. Mr. Scott said that the bond market offers Brookfield the lowest interest rate, but the professional services needed in order to issue bonds present a fixed cost that can represent a high percentage of the debt when the amount to be borrowed is low.

The committee members and presenters discussed how municipal borrowing is affected by economic factors and state tax policies.

Presentation by State Treasurer Matt Adamczyk

Mr. Adamczyk stated that his goal is to increase distributions to schools by improving the rate of return achieved by the funds. He provided the committee with information on returns achieved by the State of Wisconsin Investment Board (SWIB) and the Minnesota Permanent School Fund, and he stated that BCPL's return does not compare favorably. He provided the committee with information on specific loans, and expressed concerns about the prudence of certain of the loans. He also expressed concern about the extent to which the BCPL loan program competes with private sector lenders.

Senator Taylor stated that the BCPL loan program benefits schools by enabling their respective communities to save money through reasonable borrowing costs, and she asked Mr. Adamczyk to provide his views about that aspect of the loan program. Mr. Adamczyk stated that the loan program benefits schools in that way, but only if a school's community borrows from the BCPL loan program. He stated that some municipalities, such as Milwaukee, do not use the BCPL loan program.

Mr. Merkes and Senator Stroebel provided their observations about certain of the loans discussed by Mr. Adamczyk, and they discussed the benefits and risks that accompany the loan program.

Ms. Bannigan expressed concern about the effect on public school libraries of receiving no distributions in years in which investments perform poorly, and she asked Mr. Adamczyk to provide his views on those concerns. Mr. Adamczyk stated that smoothing accounts should be used to try to address variations in investment performance.

School Board and District Administration Panel

Doug Mering, Vice President, Baraboo School Board; Brian Krey, Business Manager, and Jon Novak, Business Manager Emeritus, River Valley School District; Todd Carlson, Superintendent, Gillett School District; and Keith Brightman, Director of Finance and Operations, Menomonee Falls School District

Mr. Mering initiated the panel presentation, noting that the Baraboo School Board is strongly in support of the current investment structure and dedication of the CSF for library use. Mr. Mering explained that local control is exercised over the use of the funds because the school board must approve the school library plan. He also mentioned that the library media specialist in Baraboo appreciates the consistent funding which currently comes from the CSF.

Mr. Mering offered the following suggestions: (1) community-wide access to school libraries, including during the summer, could be increased by paying librarians, from the community school fund, to staff the libraries; and (2) the cost of purchasing digital library resources could be reduced by increased collaboration between school districts, perhaps via cooperative educational service agencies (CESAs) and the Department of Public Instruction (DPI). Mr. Mering stated that Badgerlink, which is maintained by DPI, is a prime example, noting that DPI states that it purchases and provides school districts with access to certain materials for \$2 million, which would collectively cost school districts \$34 million if they purchased the same resources individually.

Mr. Brightman stated that what is most critical for any school district is options for debt issuance. When considering issuing debt, school districts shop around to try to find the best terms with the lowest overall cost in order to save taxpayers money. Based on his experience, Mr. Brightman explained that smaller school districts find the BCPL loan program to be more beneficial than large school districts. Mr. Brightman provided an example of when the School District of Menomonee Falls used the BCPL loan program because it was the lowest cost option available at the time. He explained that the loan was identified as "fund 38" debt, meaning that it was issued without approval via referendum and is, therefore, subject to the school district's revenue limit. Debt that is subject to a school district's revenue limit is paid from the school district's general fund, rather than by separate levy so, the less a school district spends on such a loan, the more money there is available for the classroom.

Mr. Brightman stated that, in his experience, school districts always look for the most efficient funding option, which may include: (1) BCPL loans; (2) short-term notes; (3) general obligation debt, issued for competitive sale on the open market; and (4) direct bank loans, both from local banks and from banks located around the state.

According to Mr. Brightman, the BCPL loan program fills a need for short-term, low-dollar amount borrowing. In his experience, a school district that needs \$500,000 or more would likely find a more efficient funding option on the open market. Mr. Brightman also believes that the loan program is a good option for low-rated or unrated school districts, and, occasionally, is a better option for a school district that must obtain a taxable, rather than a tax-exempt, loan. Mr. Brightman described benefits of the BCPL loan program, including the low cost of issuance, the ease and speed of the loan application and approval process, and the fact that the program offers a fixed interest rate and prepayment option.

Mr. Brightman offered two suggestions. First, he noted that many school districts have a cash flow problem in the last quarter of the year, starting in November through early January, before tax receipts for the year come in later in January. He wondered if the CSF could be used to provide an additional option for school districts that need to borrow for such a short term. Second, Mr. Brightman suggested that Wisconsin look to the Minnesota credit enhancement program, which he explained as placing a second rating on top of a local debt issuer's rating. This has the effect of giving the bond market some assurance that, if there were a default at the local level, the state would provide financial backing. Mr. Brightman wondered if the school trust fund dollars could be used in that way to reduce the cost to taxpayers across the state.

Mr. Novak, Business Manager Emeritus of the River Valley School District, reiterated that the BCPL loan program is especially helpful for small school districts, noting that the simple process reduces the amount of time that local staff have to spend applying for and obtaining financing. Mr. Novak explained that his school district obtained a BCPL loan, at a 3.5% interest rate, to cover the cost of its unfunded pension liability, on which it had been paying 8% interest. Mr. Novak stated that he had first consulted with a local bank, but the bank did not feel that it could provide the loan. He also noted that the opportunity to refinance a BCPL loan within the program is very helpful for school districts.

Mr. Krey stated that the CSF distribution is the only financial resource for his school district's libraries. The school district believes that keeping the funds as a dedicated resource for libraries is important. Mr. Krey stated that knowing that the funding is stable and reliable is important, considering the volatility of other school funding sources.

Mr. Carlson, Superintendent of the Gillett School District, spoke in support of the BCPL loan program and the current use of the CSF distributions, noting that both are vital for school district operations because they offer school districts the ability to make the most of their funding under revenue limits. He explained that a majority of the school district's operating budget is fixed costs, leaving little flexibility for funding what he termed "extras," from the school district's general fund. Mr. Carlson stated that the dedicated funding from the CSF provides the stability that the libraries of his school district need. Mr. Carlson also explained that his school district has used the BCPL loan program a few times, and, on one occasion, did so at the direction of a school board member who is a spokesperson for the local bank.

In response to questions from committee members, Mr. Novak explained at what point school districts are required to go to referendum to issue certain debt. Mr. Carlson stated that he understood the appeal of the possibility of greater returns with some riskier investments, but he reiterated the importance of stability, noting that with risk comes volatility.

Presentation by Secretary of State Douglas La Follette

Mr. La Follette discussed his experience serving as a commissioner on the BCPL for over 30 years. He described the responsibility of the BCPL as increasing the value of the funds and taking care of the lands that remain under the control of the BCPL.

Over the past few years, the BCPL has had more funds than are desired by local governments so the commissioners have had staff buy and sell bonds. He said that it has been a productive way of increasing the value of the funds.

Chair Katsma asked how the BCPL has approached using its expanded investment authority. Mr. La Follette stated that the revenue added to the fund through unclaimed property and fines and forfeitures has decreased, so the BCPL has needed to find new ways to grow the principal in order to maintain the value of the distributions. One way to do this is to invest in a manner to receive capital gains that can be added to the principal.

**Committee Discussion, Suggestions for Future Agenda Items,
and Information Requests**

Senator Taylor expressed interest in hearing from private lenders. Mr. Derr discussed the importance of helping communities that experience financial hardship. Representative Vruwink explained that his goal is to ensure that public school libraries continue to receive meaningful distributions, and that towns continue to have ways of obtaining the financing they need.

Adjournment

The meeting adjourned at 4:00 p.m.

ZR:RES:jal

[The preceding is a summary of the August 16, 2018 meeting of the Study Committee on the Investment and Use of the School Trust Funds, which was recorded by WisconsinEye. The video recording is available in the WisconsinEye archives at <http://www.wiseye.org/Video-Archive>.]