



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #171

### **Delegation of Investment Authority to SWIB (Board of Commissioners of Public Lands)**

[LFB 2003-05 Budget Summary: Page 66, #5]

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#### **CURRENT LAW**

The Board of Commissioners of Public Lands (BCPL) is authorized to invest the monies in its four trust funds (the common school fund, the normal school fund, the university fund and the agricultural college fund) in bonds or notes of the United States, certain securities issued by the United States related to farm loan programs, and bonds issued by: (a) the state; (b) any city, town, village, county or school district in this state; (c) any local exposition, professional football stadium, professional baseball park or cultural arts district in this state; and (d) any bonds issued by the University of Wisconsin Hospitals and Clinics Authority. Further, under current law, SWIB is required, upon request from the BCPL, to give advice and assistance to the BCPL concerning the investment of any of the monies in the four trust funds and in addition to sell, convey and deed to the BCPL any of the investments that SWIB has made, subject to the mutual agreement of the BCPL and SWIB. SWIB is currently authorized to charge BCPL for those services.

#### **GOVERNOR**

Provide statutory authority for the Board of Commissioners of Public Lands (BCPL) to delegate to the State of Wisconsin Investment Board (SWIB) authority to invest part or all of the monies belonging to any of the four trust funds managed by the BCPL. Specify that if the BCPL chooses to make such a delegation, SWIB may invest the monies belonging to the four trust funds in any manner currently authorized for any of the other sixty funds that are enumerated under s. 25.17(1) of the statutes for which SWIB is authorized to invest fund assets. Further, create a requirement that the Executive Director of SWIB assign an employee of SWIB to assist the BCPL in establishing and maintaining investment objectives with respect to its four trust

funds. In connection with this requirement, SWIB would be authorized to charge the cost of such services to the BCPL, with any funds received to be deposited in SWIB's program revenue funded, general program operations appropriation.

## **DISCUSSION POINTS**

1. The BCPL has had the authority to directly invest in bonds or notes of the federal government and bonds issued by this state or local of units of government in this state since at least the 1940's. Further, Chapter 657, Laws of 1957, created the state investment fund (SIF) to be operated by SWIB and to provide a vehicle for the centralized investment of the short-term cash balances of most of the funds of the state. However, some funds, including the BCPL trust funds, were excluded from that provision. In 1961, that statute was amended to allow the BCPL (and authorities with fiduciary responsibility for those other excluded separate funds) to request the transfer of the temporary cash assets of any such fund to the state investment fund for investment. In the case of the BCPL, this serves as an alternative way for the BCPL to invest the monies of the funds in types of assets similar to those that it is permitted to invest in on its own (primarily bonds).

2. When state fund earnings are discussed, reference will often be made to the SIF rate. This reference is usually to the monthly, quarterly or annual rate of earnings on the pooled monies in that fund. The cash balances in state funds that are available to the SIF vary daily as cash is accumulated or withdrawn from agency funds. The monies in the SIF are invested primarily in obligations of the federal government and its agencies and in high quality commercial bank and corporate debt obligations. This is because much of that money will be needed on short time periods as individual program demands dictate. Some liken the SIF to a money market fund.

3. Until recently, most of the monies in BCPL's trust funds (the total balance in the four funds as of June 30, 2002, was \$496.9 million, of which \$477.1 million (96%) was in the common school fund) was either loaned to school districts and municipalities or placed in the SIF. In the last two years, however, the BCPL has made investments in state veterans bonds and in Green Bay/Brown County Professional Football Stadium District bonds. As of June 30, 2002, the Board had \$54.8 million of common and normal school funds monies invested in state veterans bonds and an additional \$57.5 million of common school fund monies invested in stadium bonds.

4. The original stadium bonds were sold at 7%. However, with the change in the investment climate and the economy, to avoid a call on the bonds the BCPL agreed to renegotiate with the stadium district and currently the \$47.5 million in stadium bonds that the BCPL owns are at 3.95%. The \$85.5 million in veterans bonds that the BCPL currently owns are at interest rates of from 4.85% to 7.00%. Bond maturities typically run between 15 and 30 years.

5. The BCPL has taken these more recent steps to expand its scope of investments in efforts to increase its earnings on fund assets. SIF earnings in recent years have been in the 4% to 5% range. However, as of March 31, 2003, the annualized return rate for the last year for the SIF was 1.64% and for the last quarter it was 1.33%. The lower earnings rate reflects the general

economic situation and current interest rate environment. The BCPL indicates it is in this context that it is seeking this expanded authority.

6. However, this is not the first time the BCPL has requested this authority. Similar language was requested by the Board in its 1999-01 budget request. However, the Governor did not include the language in his budget recommendations. The language was included by the Legislature in its final version of the budget, but the language was deleted by a Governor's item veto. Its 2001-03 biennial budget request included language identical to the language in 2003 SB 44, but again that language was not included in the Governor's budget recommendations.

7. The language in SB 44 is very broad and would allow SWIB to invest the assets of the funds in any of the range of investments that SWIB may make, including equities and real estate. However, BCPL staff indicate that the desired goal is just for the BCPL to have expanded authority to invest in a somewhat larger range of fixed income investments than what is now permitted under the statutes or the types of shorter-term fixed investments the State Investment Fund is usually invested in. BCPL staff have suggested that bond index funds or individual bonds with somewhat longer maturities than those the SIF typically invests in are the types of additional investments is interested in. It is stated that the BCPL has no interest or intent in investing in securities or other types of equities.

8. During SWIB's appearance before the Committee during its agency briefing sessions, staff from SWIB indicated that there was concern on SWIB's part with the language in SB 44 regarding this new investment authority and related new SWIB responsibilities. It was indicated that SWIB and BCPL staff would work together to attempt to develop mutually agreeable alternative language that the Committee could consider.

9. BCPL and SWIB have now indicated that they are in agreement on modified language that would make the following changes to the expanded investment authority language contained in SB 44: (a) delete the language that would allow SWIB to invest any funds delegated to it by BCPL in any of the types of investments that SWIB is generally authorized to invest in and to instead provide that investment by SWIB of BCPL trust funds monies would be limited to only "fixed income instruments or funds that invest in fixed income"; and (b) delete the proposed language that would require the Executive Director of SWIB to assign a SWIB employee to assist the BCPL with its investment objectives and charge the BCPL for the costs of such services.

10. The Committee could decide that it is desirable to provide the BCPL with added investment options for possible increased earnings on its trust funds, particularly since some 96% of the total trust funds assets are in the common school fund. That fund's earnings are distributed to the public schools as school library aids. However, if the Committee favors this expansion of investment authority, it could choose to provide the more limited expansion of such authority as now jointly recommended by SWIB and BCPL.

11. Alternatively, the Committee could take the view that the BCPL has only recently begun to use its existing authority to invest in existing types of bond investments already permitted

under existing law and that the BCPL should have more experience under its present bond investment authority before seeking expanded investment authority. The Committee could delete these provisions from the bill.

### **ALTERNATIVES**

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation by adopting the modified investment authority language agreed to by BCPL and SWIB.
3. Maintain current law.

Prepared by: Terry Rhodes