

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

May 21, 2014

9:00 a.m.

Treasury Board Conference Room

James Monroe Building

101 N. 14th Street, 3rd Floor

Richmond, Virginia

Members Present: Manju S. Ganeriwala, Chairwoman
K. David Boyer
Craig Burns
William W. Harrison, Jr.
Neil Amin

Members Absent: David Von Moll

Others Present:	Kristin Reiter	Department of the Treasury
	Evie Whitley	Department of the Treasury
	Tim Wilhide	Department of the Treasury
	Robert Young	Department of the Treasury
	Harold Moore	Department of the Treasury
	Brandy Mikell	Department of the Treasury
	Bill Watt	Department of the Treasury
	Gloria Hatchel	Department of the Treasury
	Debora Greene	Department of the Treasury
	Leslie English	Department of the Treasury
	Janet Aylor	Department of the Treasury
	Jeanine Black	Department of the Treasury
	Brad Jones	Department of the Treasury
	Deidre Jett	Department of the Treasury
	Tracey Edwards	Department of the Treasury
	Kathy Green	Department of the Treasury
	Belinda Blanchard	Department of the Treasury
	Judy Milliron	Department of the Treasury
	Sherwanda Cawthorn	Department of the Treasury
	Melissa Palmer	Department of the Treasury
	Nelson Bush	PFM Asset Management
	Craig Robinson	PFM Asset Management
	Kevin Rotty	PFM, Inc.
	Caroline Heggie	Davenport and Company
	Jimmy Sanderson	Davenport and Company
	Chris Kulp	Hunton and Williams
	Martha Warthen	Hunton and Williams
	Kristy Scott	Auditor of Public Accounts
	Don Ferguson	Office of the Attorney General

James Johnson	Optimal Service Group
Brian Moore	Optimal Service Group
Karen Hawkrigde	Optimal Service Group
Bryce Lee	Optimal Service Group
Patrick Dixon	Wells Fargo Bank
Reid Andrews	Wells Fargo Bank
Megan Gilliland	Christian and Barton
Hart Lee	Williams Mullen
H. Hiter Harris	Virginia Museum of Fine Arts Foundation
Benjamin Rawles	Virginia Museum of Fine Arts Foundation
Vasyl Zuk	J P Morgan Chase

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:02 a.m. She then announced that Janet Aylor had been appointed Deputy Secretary of Finance and congratulated her on the appointment.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the April 16, 2014 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Boyer moved for approval of the Minutes, Mr. Burns seconded, and the motion carried unanimously.

Public Comment

None

Action Items

Resolution Approving the General Terms of a Proposed Financing Arrangement for the Benefit of the Virginia Museum of Fine Arts and Delegating Authority to the State Treasurer to Approve the Final Terms and Structure of the Financing Arrangement

Evie Whitley handed out an updated Financing Summary and proceeded to present the preliminary Financing Summary for the issuance of \$40,200,000 Virginia Small Business Financing Authority Fixed and Variable Rate Tax-Exempt Bonds for the Virginia Museum of Fine Arts Foundation Project, Series 2014. Mr. Harrison noted that he would be abstaining from the vote on this resolution as his firm is serving as borrower counsel on this transaction. Ms. Whitley explained the borrower is the Virginia Museum of Fine Arts Foundation, which approved the transaction at their meeting last week. Ms. Whitley noted that the Virginia Small Business Financing Authority Board would be considering their resolution later today at their meeting. She explained that the Bond proceeds will be used to refinance Series 2005 and 2008 Variable Rate Bonds that the Authority issued to pay a portion of the costs of completing improvements to the facilities of the Virginia Museum of Fine Arts. The letters of credit on the variable rate obligations expire in August 2014.

Through this refinancing, the Foundation intends to extend the credit commitment of its lender and lock in its cost of funds for a ten year period in the current low interest rate environment. The Bonds will have a maturity no later than 2038. It was explained that approximately \$30,200,000 of the loan will be structured as a fixed rate direct placement with SunTrust Bank at an interest rate of 3.05% for a ten year period. In addition, approximately \$10,000,000 of the loan will be structured as a monthly variable rate loan based on 1-month LIBOR plus 1.35% times 67%.

Ms. Whitley introduced Bond Counsel, Chris Kulp, of Hunton and Williams, who reviewed the Resolution and outlined the issuance parameters. Chairwoman Ganeriwala asked if wording needed to be changed in the Resolution since the issuance had not yet been approved by the Virginia Small Business Financing Authority Board. Bond Counsel offered an amendment to the resolution that made Treasury Board approval contingent on approval by the Virginia Small Business Financing Authority Board. Mr. Amin inquired about the calculation of the make whole provision mentioned during the discussion of the Financing Summary and Bond Counsel responded.

Chairwoman Ganeriwala asked if there were any questions. There being none, the Chairwoman asked for a motion to approve. Mr. Boyer moved that the Resolution be adopted subject to the suggested changes by Bond Counsel. Mr. Amin seconded, and the motion carried unanimously with Mr. Harrison abstaining.

Resolution Approving the Plan of Finance for the Issuance by the Virginia Public Building Authority of its Public Facilities Revenue and Refunding Bonds, Series 2014 A, B & C, and Delegating Authority to the State Treasurer to Approve the Final Terms and Structure of the Bonds.

Brad Jones presented the Preliminary Financing Summary for the issuance of \$125,755,000 Public Facilities Revenue Bonds, Series 2014A, \$8,970,000 Public Facilities Revenue Bonds, Series 2014B (Taxable), and \$191,980,000 Public Facilities Revenue Refunding Bonds, Series 2014C, Collectively (the "2014 Bonds"). He explained the proceeds of the 2014 Bonds are being used to (i) finance acquisition, construction, improvement, rehabilitation, furnishing and equipping of various public facilities for use by or on behalf of the Commonwealth and its agencies, (ii) finance the Commonwealth's payment of the costs of certain grants and of regional and local jail and juvenile detention facility projects, (iii) refund certain maturities of its outstanding Public Facilities Revenue Bonds, Series 2004A, 2004B, 2004C, 2004D, 2005C, 2006A, 2006B, and 2007A, and (iv) pay costs of issuing the 2014 Bonds. Mr. Jones explained that the VPBA is planning to sell the bonds through a competitive bid process with a tentative sale date of June 3rd and a closing date of mid-June. He further explained that given the status of the budget, staff would coordinate with the Secretary of Finance regarding whether the sale would move forward as scheduled or whether it would be in VPBA's best interest to delay the sale. Mr. Jones stated that based on recent market conditions, the estimated true interest cost is 2.72% (Estimated All-in TIC for 2014 Bonds).

Mr. Harrison asked if the Secretary of Finance had the authority to postpone the sale. Chairwoman Ganeriwala answered that the authority was with the State Treasurer, but the Secretary of Finance would be consulted regarding the status of the budget since it could impact the pricing of the Bonds.

Mr. Jones introduced Megan Gilliland of Christian and Barton who reviewed the Resolution and outlined the issuance parameters.

Chairwoman Ganeriwala asked if there were any further questions. There being none, Chairwoman Ganeriwala asked for a motion to approve the Resolution. Mr. Harrison moved that the Resolution be adopted. Mr. Boyer seconded, and the motion carried unanimously.

Mr. Burns left at 9:27 AM.

Chairwoman Ganeriwala introduced Deidre Jett, Debt Management's recently hired Public Finance Manager, to the Treasury Board and gave a brief summary of her work experience.

Board Briefing

The Optimal Services Group of Well Fargo Advisors – First Quarter Performance Reports for the Extended Duration Credit Portfolio and the TICR Investment Portfolio

Brian Moore of Optimal gave the briefing for the Extended Duration and Credit Portfolio first. Mr. Moore noted that the portfolio earned 1.3% for the first quarter, matching the benchmark. He also noted that the long term portion of the portfolio, net of fees, beat its benchmark (2.8% vs. 2.7%).

Mr. Amin asked about the duration allocation of investments within this portfolio. Tim Wilhide responded that the allocations were in line with guideline ranges and would remain unchanged for the foreseeable future. Mr. Amin also asked if more should be put in the short term portion of the portfolio and if a sensitivity analysis had been done. Mr. Wilhide answered that in early and mid 2013 staff had reduced the external manager allocation by a total of \$200MM partly as a result of interest rate risk as determined by an interest rate sensitivity analysis done by Optimal at the request of staff. The change in allocation occurred as a result of recalling money in the intermediate and longer term duration buckets while leaving the short duration bucket unchanged. This had the effect of increasing the relative allocation to the short duration portfolio to 23% of portfolio value from 20%. From the time of the reallocation until the end of 2013 the portfolio market value benefited as interest rates rose in the intermediate and longer duration securities. The 50 bps decline in interest rates from the end of 2013 through mid May has more than offset the 2013 gains. Until interest rates begin to move higher, Mr. Wilhide will not further reduce external managers' allocations.

Next Brian Moore gave a briefing for the TICR Taxable Portfolio. Mr. Moore noted that the Taxable Portfolio was the larger of the two TICR Portfolios. The portfolio returned .9% outperforming the benchmark return of .8% for the first quarter.

Karen Hawkrige gave the briefing for the TICR Tax Exempt Portfolio. Ms. Hawkrige noted that the portfolio earned 1.5% vs. 1.6% for the benchmark for the first quarter and that the portfolio had also underperformed the benchmark by .5% for the last twelve months. Mr. Boyer asked about the underperformance of Blackrock and how much longer would Treasury continue with them. Mr. Wilhide answered that a decision would be made soon.

Staff Reports

Debt Management

Evie Whitley reviewed the Debt Calendar as of May 5, 2014. She noted the VPSA issue for Prince William County is scheduled for July, and the Commonwealth Transportation Board issue planned for June 11 has been postponed. Ms. Whitley shared with the Board the final Financing Summary for the Virginia College Building Authority which sold bonds on May 1. Ms. Whitley also reviewed the leasing reports as of April 30, 2014.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended March 31, 2014. Ms. Reiter reported that two Pooled banks, TriSummit Bank of Kingsport TN., and Virginia National Bank of Charlottesville, VA., were under collateralized for the month. One new Qualified Public Depository, Capon Valley Bank, was added as a Pooled bank. There were two bank mergers: The Business Bank was acquired by Cardinal Bank and Central Virginia Bank was acquired by Citizens and Farmers Bank.

IDC ratings were updated from those reported last month. Using IDC's final 4th quarter 2013 ratings, two banks were removed from the listing of banks ranked below average: Peoples Community Bank of Montross and TruPoint Bank of Grundy, VA. One pooled bank was added to the listing: Frontier Community Bank of Waynesboro, VA.

Quarterly Statistics were also provided to the Board. On March 31, 2014, 113 public depositories held public deposit balances (net of FDIC) of \$7.5 billion: \$5.6 billion of these deposits, or 75% were held by 37 opt-out depositories. \$1.9 billion, or 25% were held by 76 pooled depositories. The four largest public depositories held 65% of total deposit balances net of FDIC.

State Non-Arbitrage Program

Tim Wilhide reviewed the SNAP report dated April 30, 2014. The monthly distribution yield was unchanged from March at 0.14%, outperforming the benchmark of 0.02%. Balances were also approximately the same as the previous month. New bond issues added to the SNAP Fund totaled \$164,000,000.

Nelson Bush of PFM gave a briefing on an upcoming action item that the Board would be asked to vote on at the next meeting. Mr. Bush handed out draft proxy materials to the Board and proceeded to explain the materials. The purpose of the proxy is to ask shareholders to vote on a new capital structure for PFM I, LLC, the parent company of PFM Asset Management LLC, the SNAP investment advisor. The new structure effects a change in control of PFM I, LLC as the firm's managing directors will buy out the equity interest of a third party investor. The shareholders of PFM Funds (referred to as the "Trust"), which includes SNAP class, consent to the change in control and to approve the assignment of the investment advisory agreements between the Trust and

PFM Asset Management LLC ("PFM"). Mr. Boyer asked if this proxy vote would become an annual occurrence. Mr. Bush answered no, that only certain events would trigger this.

Investments

Mr. Wilhide announced the awarding of two Requests for Proposals for Custody Services. J P Morgan Chase was awarded the Custody Services Contract and Optimal Services Group was awarded the Investment Consultant Contract.

Mr. Wilhide reviewed the Investment reports for the month ended April 30, 2014. The General Account portfolio was \$5.089 billion, down \$172 million from the month prior. The average yield on the Primary Liquidity portion of the General Account was 0.51%, up 0.26% from the previous month. This was due to proceeds received from the sale of a security in the Securities Lending Portfolio that had previously been written down. The Extended Duration portion of the portfolio had an annualized yield of 6.94% for the month, reflecting the unrealized appreciation due to the decline in interest rates over the month, and the composite yield was 2.00% for the month. The year to date composite yield is 0.88%.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of April. He then presented the LGIP portfolio report to the Board for the month of April. The LGIP portfolio was down \$171 million from the month prior and is valued at \$2.39 billion. The average yield on the portfolio was 14 basis points, down one basis point from the month prior. The average maturity was 43 days, four days less than the previous month.

Other Business

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on June 18, 2014, and the meeting adjourned at 10:32 a.m.

Respectfully submitted,



Manju S. Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board