TREASURY BOARD
COMMONWEALTH OF VIRGINIA
December 15, 2021
10:30 a.m.
5th Floor Conference Room
James Monroe Building
101 N. 14th Street, 3rd Floor
Richmond, Virginia

Members Present:	Manju S. Ganeriwala, Chairwoman	
	Neil Amin	
	Craig Burns	
	James Carney	
	Douglas Densmore	
	David Von Moll	
Members Absent:	Lou Mejia	
Meeting Guests:	Melinda Rickel	The Bankers' Bank
	Dan Stacy	The Bankers' Bank
	Michelle Stacy	The Bankers' Bank
	Gary Shook	Community Bankers' Bank
	Mary DiMartino	J.P. Morgan Securities LLC
	George Scruggs	Kutak Rock
	Arthur Anderson	McGuire Woods LLP
	Anne Curtis Saunders	McGuire Woods LLP
	Don Ferguson	Office of the Attorney General
	James Johnson	Optimal Service Group
	Bryce Lee	Optimal Service Group
	Karen Logan	Optimal Service Group
	Nelson Bush	PFM
	Christine Ilarina	PRAG
	Janet Lee	PRAG
	Patrick Dixon	Wells Fargo Bank
	Laura Farmer	Department of Transportation
	Wendy Thomas	Department of Transportation
	Misty Upson	Department of Transportation
	Neil Boege	Department of the Treasury
	Jay Conrad	Department of the Treasury
	Leslie English	Department of the Treasury
	Kathy Foote	Department of the Treasury
	Brad Jones	Department of the Treasury
	Laura Lingo	Department of the Treasury
	Jay Mahone	Department of the Treasury
	Kristin Reiter	Department of the Treasury
	Sandra Stanley	Department of the Treasury
	David Swynford	Department of the Treasury
	Michael Tutor	Department of the Treasury

Bill Watt	Department of the Treasury
Stuart Williams	Department of the Treasury

<u>Call to Order and Approval of Minutes</u>

Chairwoman Ganeriwala welcomed the Board members and called the meeting to order at 10:35 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the minutes of the October 20, 2021 meeting. No changes were noted. Chairwoman Ganeriwala asked for a vote of approval of the minutes. Douglas Densmore moved for approval, David Von Moll seconded, and the motion carried unanimously.

<u>Public Comment</u>

None

<u>Action Items</u>

Resolution Approving the Plan of Finance for the Issuance by the Commonwealth Transportation Board of its Commonwealth of Virginia Transportation Capital Projects Revenue and Refunding Bonds

Brad Jones presented the Preliminary Financing Summary for the issuance by the Commonwealth Transportation Board (CTB) of approximately $252.5 million of Commonwealth of Virginia Transportation Capital Projects Revenue (CPR) and Refunding Bonds, Series 2022. The proceeds of the Bonds are being used to finance various transportation projects throughout the Commonwealth pursuant to the Bond Act, to refund all or a portion of certain outstanding maturities of the CTB's 2012 CPR Bonds, and to pay certain costs related to the issuance of the Series 2022 Bonds. The Bonds are scheduled for competitive bid on February 8, 2022. The estimated true interest cost as of both December 3, 2021 and the time of the Treasury Board meeting was 2.09%. The Bonds are to be secured and payable from revenues deposited into the Priority Transportation Fund and from the revenues and receipts allocated by the Commonwealth Transportation Board and appropriated to it by the General Assembly.

Discussion ensued.

James Carney asked if we had a ballpark figure of the underwriter's discount on this particular bond issuance. Janet Lee responded that preliminarily it was estimated for bond sizing numbers to be a $4.00 spread, but she expects it to be closer to a $2.00-$3.00 spread.

Mr. Carney asked, given the current rate situation, how is dialogue handled regarding whether serial or term bonds are utilized. Mr. Jones responded that the Notice of Sale is developed so that anyone who wants to bid on the sale can bid as long as the bid is within certain parameters and the parameters allow for serial or term bonds with the award being made to the bidder with the lowest true-interest cost. Arthur Anderson and Janet Lee further explained the structuring process. It was explained that the bidder cannot change the bid after the bid process has ended and they must select whether they plan to utilize serial bonds or a combination of serial and term bonds as part of the bid. It was further noted that only the issuer may request changes following the bid and the changes relate to resizing the par amount within certain limitations set forth in the Notice of Sale.

Mr. Densmore questioned if the maximum true interest cost is still reasonable, and will that drive bid results and any impacts with serial or term bonds. Mr. Jones responded that it has always been the practice to err on the side of caution. He noted that while he does not expect the rate to approach the 3.5% parameter, he believes the parameter is reasonable given the current environment. Mr. Jones further noted that the adoption of the parameter at 3.5% will not impact the result of the bids and whether serial or term bonds are used. He noted the results are purely market driven as the bidders are competing with one another to have the lowest true interest cost in order to be awarded the bonds.

Arthur Anderson, representing McGuire Woods, reviewed the Resolution. Discussion ensued.

Chairwoman Ganeriwala asked for a motion to approve the Resolution. Mr. Carney moved that the Resolution be adopted. Mr. Densmore seconded, and the motion carried unanimously.

Resolution Approving the Plan of Finance for the Issuance by the Virginia College Building Authority of its Educational Facilities Revenue Bonds (Public Higher Education Financing Program)

Mr. Jones presented the Preliminary Financing Summary for the issuance of approximately $22.4 million of Virginia College Building Authority, Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2022A. The proceeds of the Bonds are being used to finance certain capital projects at public institutions of higher education and to pay the costs of issuing the bonds. The 2022A Bonds are scheduled for competitive sale on February 2, 2022. The Bonds have a delivery date of February 23, 2022. The estimated true interest cost as of December 2, 2021 and the time of the Treasury Board meeting was 2.05%.

Discussion ensued. Mr. Densmore noted that the amount of projects being funded is greater than the amount of bonds being issued and he asked Mr. Jones to explain the difference. Mr. Jones noted that many bonds continue to be issued at a premium and it is thought that these bonds will receive that type of bid and the difference will be made up in premium received.

George Scruggs, representing Kutak Rock, reviewed the Resolution

Chairwoman Ganeriwala asked for a motion to approve the Resolution. Mr. Densmore moved that the Resolution be adopted. Mr. Amin seconded, and the motion carried unanimously.

Mr. Jones then introduced Jay Conrad, who recently joined the Treasury as a Public Finance Manager. Mr. Conrad is responsible for handling the Virginia Public Building Authority. He brings to Treasury over 30 years of finance experience.

Motion to Approve Subcontracting of Certain Escrow Agent Services Provided by Community Bankers' Bank Under the Security for Public Deposits Act

Kristin Reiter distributed updated specific duties performed by Community Bankers' Bank and The Bankers' Bank. She then introduced Gary Shook of Community Bankers' Bank, and Dan Stacy, Michelle Stacy, and Melinda Rickel of The Bankers' Bank of Oklahoma City.

Ms. Reiter shared that Community Bankers' Bank serves as an escrow agent under the SPDA Program and it subcontracts some of its SPDA functions. Since 2010, Community Bankers' Bank has subcontracted some of its SPDA functions to The First National Bankers' Bank of Baton Rouge. The First National Bankers' Bank no longer wants to provide such services. As such, Community Bankers' Bank will be entering a new contract with The Bankers' Bank of Oklahoma City to fulfill these services. A Master Custodial Agreement must be entered and signed with prior consent of the Treasury Board.
Ms. Reiter reviewed the letter from Community Bankers' Bank requesting the Board to approve the subcontracting, updated the Specific Duties Performed by Personnel attachment to the letter, and discussed the sections of the Master Custodial Agreement that apply to the subcontracting of services.

Mr. Shook gave an overview of the Community Bankers' Bank history. He discussed the benefits of the change in subcontractor. Mr. Stacy briefly discussed their safekeeping and client services.

Discussion ensued. Mr. Densmore asked if the Treasury staff are satisfied in the case of a catastrophic error. Ms. Reiter responded that the Master Custodial Agreement between the Board and the escrow agent was designed to address legal remedies. Mr. Shook commented that the Treasury securities are segregated. Ms. Reiter commented that in the history of the SPDA Program there has been only one depository that failed and that bank was taken over by FDIC and a buyer for the bank found. Chairwoman Ganeriwala commented that staff monitors bank ratings also and if a problem arose, the issue would be raised.

Chairwoman Ganeriwala asked The Bankers' Bank to describe the collateral program of other states. Mr. Shook stated that most of the banks that they deal with use more of a pooled program. Ms. Stacy described the programs of Oklahoma and Texas.

Chairwoman Ganeriwala asked for a motion to approve subcontracting of certain escrow agent services provided by Community Bankers' Bank under the Security for Public Deposits Act. David Von Moll motioned, Craig Burns seconded and the motion unanimously passed.

<u>Board Briefings</u>

Optimal Services Group of Wells Fargo Advisors Briefing on the 3rd Quarter Performance Reports for the Extended Duration Credit Portfolio and TICR Investment Portfolio

Bryce Lee provided a market update to the group. The investment policy statement was updated in October. The final version is in this Treasury Board packet.

Mr. Lee briefed the Board on the General Account extended duration portfolio. The portfolio

was valued at $3.5 billion. The portfolio return in the third quarter was 0.1% net of fees, matching the benchmark. The portfolio return for FY-to-date was 0.1% net of fees, matching the benchmark.
Karen Logan briefed the Board on the General Account External Managers' investment performance and the Quarterly Investment Manager Performance of TICR Endowment for taxable and tax-exempt portfolios for the 3rd quarter of 2021.

The TICR taxable portfolio was valued at $195 million and had earned income of $1.09 million FY-to-date and a total investment gain of approximately $213,000. The portfolio return in the 3rd quarter was 0.10% net of fees versus the benchmark return of 0.05%. The TICR tax-exempt portfolio was valued at $179 million, earned income of approximately $943,000 FY-to-date and had a total investment loss of approximately $288,000. The 3rd quarter return net of fees was 0.2% net of fees, with a benchmark return of 0.1%.

Chairwoman Ganeriwala inquired about how much the tobacco endowment withdraws each year. Ms. Logan referred the Board members to the TICR handout that shows the withdrawals over time.

Mr. Lee asked the Board to please let him know of any research they wish Optimal Service Group to conduct for them in the future. Board members was asked to notify James Johnson if they would like a copy of the outlook for 2022. Positive equity results are anticipated for 2022.

Chairwoman Ganeriwala congratulated Ms. Logan on the birth of her two-month old daughter, Lolly.

Staff Reports

Debt Management

Mr. Jones reviewed the Debt Calendar as of December 1, 2021.

Mr. Jones also reviewed the leasing reports as of November 30, 2021. There was no activity with the Master Lease Program. There is $57.8 million available on the current line of credit. There was no activity with the Energy Lease Program.

Security for Public Deposits

Ms. Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended October 31, 2021. Ms. Reiter reported that no banks were undercollateralized for the month. In October, IDC's 2nd quarter bank ratings were used. CornerStone Bank is no longer below average. This depository will be removed from the below average listing if its rating is average or above on IDC's 3rd quarter report. Virginia National Bank is still ranked below average by IDC. IDC's 3rd quarter bank ratings are now available and will be used for December 2021 reporting.

Ms. Reiter reported that November was the open election period where banks can change their collateral method for the next calendar year. No banks chose to change their collateral method for 2022.

Each year a stress test of the collateral pool is conducted to determine the impact on the pool if depositories in the pool were to fail. Three scenarios are used assuming pooled depositories with small, medium, or large balances of public deposits fail. The results of the stress test of the collateral pool are included in this report. A memorandum was sent to each of the pooled banks outlining their liability under each of the three scenarios. Also included in the packet, is a spreadsheet of all of the pooled banks and their losses under each scenario.

This information was also provided to the Virginia Bankers Association.

Ms. Reiter reported that the regular monthly compliance reports are include in the packet.

State Non-Arbitrage Program

Nelson Bush reviewed the SNAP report as of November 30, 2021. The fund's assets were valued at $5.4 billion. The monthly yield was .0604%, slightly higher than October's yield of .0565%. The weighted average maturity of the fund was 51 days. There were $369 million in new bond issuances for the month.

Investments

Neil Boege reviewed the Investment reports for the month ended November 30, 2021. The General Account portfolio was valued at $22.1 billion. The average yield on the Primary Liquidity portion of the General Account was 0.26%, up from the month prior at 0.23%. The Extended Duration portion of the portfolio had a yield to maturity of 1.45 %, up from the month prior of 1.41%. This resulted in the composite yield being 0.45% for the month.

Mr. Boege then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of November. The LGIP portfolio was valued at $7.87 billion. The average gross yield on the portfolio was .11%, up from the month prior of 0.10%. The average maturity was 38 days, down four days from the previous month.

Finally, Mr. Boege reviewed the LGIP Extended Maturity portfolio. The LGIP Extended Maturity portfolio was in compliance for all measures for the month of November. The net asset value gross yield to maturity was 0.26%, up from the month prior of 0.25%. The average duration was 0.99 years.

New Item

Chairwoman Ganeriwala added a new item to the agenda. She presented Board Members Douglas Densmore and Louis Mejia with resolutions for their service to the Treasury Board over the years. Mr. Densmore and Mejia offered their resignation effective December 31, 2021. Chairwoman Ganeriwala commended each of them for their devoted service to this Board.

Other Business

Chairwoman Ganeriwala shared that we do not expect to have a January Board meeting since we do not anticipate any action items. She wished everyone happy holidays.

The meeting adjourned at 12:10 p.m.

Respectfully submitted,

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Vernita Boone, Secretary
Commonwealth of Virginia Treasury Board