

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

August 18, 2009

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
Janie E. Bowen
Dr. Kenneth N. Daniels
Douglas W. Densmore
Robert C. Goodman, Jr.

Members Absent: K. David Boyer, Jr.

Others Present:

Janet Aylor	Department of the Treasury
Jeanine Black	Department of the Treasury
Sherwanda Cawthorn	Department of the Treasury
Tracey Edwards	Department of the Treasury
Leslie English	Department of the Treasury
Debora Greene	Department of the Treasury
Thelma Ingle	Department of the Treasury
Webb McArthur	Department of the Treasury
Kristin Reiter	Department of the Treasury
Karen Roth	Department of the Treasury
Kathi B. Searce	Department of the Treasury
Evie Whitley	Department of the Treasury
Tim Wilhide	Department of the Treasury
Robert S. Young	Department of the Treasury
Vanessa Hampton	BB&T
Nelson Bush	PFM Assets Management
Barbara Fava	PFM Assets Management
John Crockett	State Corporation Commission
Larry K. Prtichett	Treasurers Association of Virginia
Ronald H. Williams	Treasurers Association of Virginia
Chuck Shimer	Troutman Sanders
Rob Gordon	Troutman Sanders
Deborah Brown	Virginia Department of Transportation
Muhammed Owusu	Virginia Department of Transportation
Courtney Fleming	Virginia Bankers Association
Jay Spruill	Virginia Bankers Association
Bruce Whitehurst	Virginia Bankers Association
Pat Satterfield	Virginia Association of Community Banks
Deborah Courtney	Virginia Lottery
Brian Moore	Wells Fargo Advisors
T.C. Williams	Wells Fargo Advisors

Treasury staff and others attended

Call to Order and Approval of Minutes

Chairwoman Ganeriwala called the meeting to order at 9:01 a.m. and welcomed Board members and other guests. She recognized Treasurers Larry Pritchett of Spotsylvania and Ron Williams of Suffolk as representatives for the Treasurers Association of Virginia. She also recognized John Crocket, Deputy Commissioner, State Corporation Commission's Bureau of Financial Institutions.

Chairwoman Ganeriwala asked if there were any additions or revisions to the minutes of the July 15, 2009 meeting. Mr. Goodman asked that a change be made to page 3 regarding his suggestion related to banks reentry into the SPDA program. He said that in view of the delay in IDC reporting, the Board should consider keeping collateral requirements the same for three reporting months. He also asked that page 4 be amended to reflect that the decision regarding collateral requirement or penalty decisions should be administrative in nature and not a Board-related task. Ms. Scarce pointed out an amendment to page 2 as requested by Tim Wilhide, Director of Cash Management and Investments, related to clarification of the length of time for a benchmark. There being no other changes requested, Ms. Bowen moved the approval of the minutes as revised, Mr. Densmore seconded, and the motion carried unanimously.

Public Comment

None

Agenda Items

Resolution Approving the Plan of Finance for the Issuance of Transportation Revenue Bonds by Commonwealth Transportation Board under the northern Virginia Transportation District Program

Janet Aylor introduced the action item and recognized Muhammed Owusu and Deborah Brown from the Virginia Department of Transportation as present to answer any questions the Board had with regard to the action item.

Ms. Aylor indicated that bond proceeds are to be used to finance a portion of the costs of the Northern Virginia Transportation District Program. The issuance is \$75 million for a construction program that was authorized a number of years ago. The bonds will be secured by the Northern Virginia Transportation District Fund.

Dr. Daniels inquired about the gross spread, including costs of issuance as well as compensation to the underwriters. Mr. Owusu addressed Dr. Daniels concerns about the gross spread and discussion ensued. Mr. Owusu stated that he would forward a breakdown of the costs of issuance for the proposed bonds to the Board. It was also pointed out that most costs of issuance are to firms whose services are competitively bid through the state procurement process. However, the Attorney General's office is responsible for procuring bond counsel services.

Ms. Aylor introduced Mr. Chuck Shimer of Troutman Sanders, bond counsel to the Commonwealth Transportation Board, who reviewed the resolution with the Board. Mr. Shimer

noted the second whereas clause on page one of the resolution needed to be revised to allow a sale on either a competitive or negotiated basis.

Dr. Daniels requested a process be put into place that would better monitor fees. Evie Whitley indicated that staff periodically provides the Board with a report that includes fee data related to each issue. Chairwoman Ganeriwala stated that the report could be provided more frequently. Mr. Densmore indicated that a report reflecting the size of the issue in comparison to the costs would be helpful.

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

Resolution Approving the Plan of Finance for the Issuance of Revenue and Refunding Bonds by the Virginia College Building Authority (VCBA) under the 21st Century College and Equipment Program

Ms. Aylor distributed a resolution that the VCBA Board passed the previous day that authorizes the issuance of the bonds and reviewed the action item with Board. Bond proceeds will be used to (i) acquire equipment at public institutions of higher education in the Commonwealth of Virginia, (ii) refund a portion of certain outstanding Education Facilities Revenue Bonds, and (iii) pay costs of issuing the Bonds. The Bonds are secured by funds appropriated by the General Assembly.

Ms. Aylor asked Chuck Shimer of Troutman Sanders, VCBA bond counsel, to review the resolution with the Board. Ms. Whitley informed the Board that the resolution contained a present value refunding savings parameter that differs from the current Treasury Board guidelines. Staff and financial advisors are recommending lowering the savings parameter from 3% present value savings in the guidelines to 2.5%. This will allow the Commonwealth to take advantage of savings even if the market becomes somewhat less favorable for the refunding. She explained that the refunding can be structured to load the savings in the first few years rather than evenly over the remaining term of the bonds, providing an immediate benefit to the Commonwealth's budget.

Mr. Goodman asked for an explanation about the savings threshold. Ms. Aylor explained that tax law permits only one advance refunding of tax exempt bonds. The guideline is meant to ensure the one opportunity is used judiciously. Although the resolution sets the threshold somewhat lower than the guideline, rates are so favorable that it is unlikely that future potential savings would be forfeited. She added that this resolution does not amend the Treasury Board guideline of 3%. Any deviations from this guideline will continue to be addressed on a case by case basis. Mr. Goodman asked that the explanation about the lower rate be added to the minutes.

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

Resolution of Treasury Board of the Commonwealth of Virginia Providing for the Issuance of Commonwealth of Virginia General Obligation Bonds, Series 2009B

Leslie English reviewed the action item with the Board. She explained the bonds will provide funds to (i) finance capital projects approved by the voters for educational and park and recreational facilities, (ii) finance revenue producing capital projects for educational institutions and a parking project for the Commonwealth, and and (iii) refund certain maturities of its outstanding General Obligation Bonds. Ms. English provided a breakdown of costs to the Board.

Dr. Daniels asked if universities could issue their own bonds. Ms. Whitley indicated they could, but generally it is more cost effective for the institution to issue them as 9(C) general obligation bonds when they can. These bonds carry both project revenues and the full faith and credit of the Commonwealth as security, and thus are rated more highly than most schools could achieve on their own.

Mr. Von Moll asked if the rating fee was affected by the refunding. Ms. Whitley explained that the overall size of the issue was a factor in the ratings fee. However, the Commonwealth does not typically obtain a new rating on the refunding bonds. Rob Gordon of Troutman Sanders reviewed the resolution with the Board. Mr. Goodman asked how much remained to be issued of the 2002 bond referendum. Ms. Whitley replied that this series was the last of the 2002 referendum.

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

Motion to Approve the Issuance of a Request for Proposals and Subsequent Hiring Of an Investment Manager for the State Non-Arbitrage Program (Snap)

Robert S. Young reviewed the action item with the Board explaining that a motion needed to be approved for the issuance of a RFP for administration of the SNAP program. Mr. Goodman asked if the Board was a part of the RFP process. Mr. Young said that in the past the Board had contributed to the selection of a contractor. He said the motion allows the State Treasurer to enter into a contract for the SNAP program. The Board amended the motion to allow for the Treasurer to enter into a contract upon approval of the Board. Mr. Young stated that the RFP should be ready by November.

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

Discussion – SPDA Opt-Out Guidelines

Kristin Reiter summarized the development of the opt-out guidelines to date. Ms. Reiter indicated that the Treasury Board had agreed with the banking community for the opt-out guidelines to be developed and operational by January 2010. During the month of July, Treasury conducted meetings and conference calls to gain input regarding the development of the guidelines from the Virginia Bankers Association, the Virginia Association of Community Banks, qualified public depositories, and local government officials. Summaries of the draft guidelines were provided to the public depositories for comment at various stages of development. Ms. Reiter indicated that while approximately 40 banks participated in the conference call, only seven banks later provided comments. She believed this was a positive development as Treasury staff worked to make changes to the guidelines to address the concerns of depositories. A summary of the comments received, based on the last draft of the guidelines, was provided to the Board, along with the individual comments included in the Board packet. The comments primarily focused on eligible collateral and the recommended haircuts to be applied to the collateral, as well as the weekly reporting requirement.

Ms. Reiter indicated that staff had prepared a draft copy of the proposed guidelines for the Board's review, which was in the Board packet. Based on comments made by the Board at the July 15th Board meeting, changes were made to the guidelines as directed by the Board. Ms. Reiter reviewed these changes. With regard to deciding whether to allow banks to re-enter the pool if they had previously opted out, Mr. Goodman asked how staff would obtain the information to make this decision. Mr. Densmore asked how staff would deal with an actual situation under the proposed guidelines. Ms. Reiter indicated that banks with an IDC rating of 74 or less would not be allowed back in the pool in any situation. For banks ranked 75 or above that wanted to re-enter the pool, Treasury staff would examine changes in a bank's financial status between the latest IDC ratings by monitoring banking news for regulatory actions against the bank, financial problems or other issues that might indicate a bank's financial status could be deteriorating and re-entry into the pool would not be advisable. Mr. Goodman recommended Treasury require the opt-out bank wanting to re-enter the pool to pledge collateral at opt-out levels until information about the bank's financial status is either corroborated or refuted. He stated that Treasury could either deny re-entry or admit re-entry into the pool at the opt-out level of collateral. Chairwoman Ganeriwala indicated that staff could include tighter restrictions without removing the flexibility.

Mr. Densmore expressed concern the opt-out option may create an unstable situation for the pool because banks that can may choose to opt out because they will be concerned about the composition of the pool and will have to make the opt out decision before they know the composition. He asked if Bruce Whitehurst or Pat Satterfield had any comments about the uncertainties that may be created by the opt-out option. Mr. Whitehurst stated that there has been progress on the issue and that banks will have to weigh the consequences of not being in the pool when they make the decision to opt out. Mr. Densmore indicated that he did not want public depositories to have fewer places to deposit their funds going forward. Mr. Densmore stated that we should consider making it more difficult for an opt out bank to return to the pool so that we avoid situations where opt out banks that have become weaker return to the pool, weaken the pool and create more risk for the other pool banks. While we don't want fewer banks for public depositories to place their funds in, we also don't want the pool to be used as a means to enable troubled banks that have opted out to attract public deposits once they no longer can attract them in an opt out capacity

Ms. Reiter indicated that at the Board's request, the minimum collateral requirement for banks ranked below average by IDC Financial Publishing had been increased to 120% of public deposit balances for banks ranked between 75 and 124 and 130% of public deposit balances for banks ranked below 74 by IDC or without an IDC rating. Chairwoman Ganeriwala referred to an email (Attachment B) from staff member Howard Kaplan who did an analysis of IDC's methodology for determining bank rankings. The credit analysis shows that for calendar year 2009, through July 2nd, of the 48 bank failures for the year, 41 of the banks had an IDC ranking of 1, the lowest IDC ranking, indicating that IDC has a good track record for predicting bank failures. Additional information related to the liquidity of certain eligible collateral types (Attachment C) was provided to the Board.

The consequences of undercollateralization for opt-out banks were discussed. Ms. Reiter indicated that if an opt-out bank is undercollateralized, its collateral requirement will automatically increase by 5% for the next six months for each event of undercollateralization (compounded each time) unless such bank is undercollateralized by an amount less than 5% and that opt-out bank has not been undercollateralized for the previous 12 months. Ms Reiter stated that currently, a bank's board of directors and the bank's public depositors are notified when a bank is undercollateralized more than once in a 12-month period.

Discussion ensued regarding this issue as it relates to the new requirement for opt-out banks to report weekly and the need for there to be a period of flexibility as banks adjust to weekly reporting and monitoring of their collateral balances. Treasurer Ron Williams from Suffolk commented on the guidelines and bank collateralization. He indicated that most banks know localities' collection due dates and when large public deposit revenues are due. Mr. Whitehurst suggested troubleshooting the guidelines with regard to the weekly reporting before implementing them fully. Ms. Satterfield stated that banks need to have time to make changes and adjust to the new guidelines.

Mr. Goodman stated that the Board should review the comments provided by the banking community regarding the opt-out guidelines and address why the Board chose to accept or not accept the comments. The need for an introductory paragraph to be added to the guidelines to address the purpose and process behind the guidelines was suggested.

Mr. Wilhide reviewed the municipal securities analysis presented recently to the Board. Mr. Whitehurst requested a periodic review of the minimum collateral percentage requirements and haircuts on certain security types included in the opt-out guidelines. Mr. Goodman said the timing of making the payments to public depositors for losses relating to balances in time deposits versus demand deposits needs to be addressed by the Board. Dr. Daniels asked whether international development obligations should continue to be allowed as eligible collateral. Ms. Reiter and Mr. Wilhide indicated they would come back to the Board with a recommendation.

Mr. Whitehurst suggested the Board consider the need for a July 2010 review to determine where things stand with pooled and opt-out banks and to determine if any further action is warranted based on the results of the review.

Treasurer Williams indicated his appreciation for the due diligence performed by the Board and staff with regard to addressing this issue. The Treasurer also thanked Chairwoman Ganeriwala for attending the Treasurers' Association of Virginia (TAV) annual retreat and updating local treasurers regarding this issue. Chairwoman Ganeriwala stated that Treasurer Williams will be

the TAV liaison for Treasury and that Treasurer Larry Pritchett from Spotsylvania will be their legislative liaison.

Ms. Reiter reviewed and summarized the bank comments received related to the opt-out guidelines. Some of the comments addressed the administration of the pool for those banks choosing to stay in the pool and not opt out. Mr. Goodman suggested that the Board be open to listening to comments regarding the continued operation of the collateral pool and possible changes needed to it.

The Board recessed at 11:25 a.m. for a brief break. Mr. Densmore and Dr. Daniels left the meeting. The Board reconvened at 11:31 a.m. to hear staff reports.

Staff Reports:

Debt Management

Ms. Whitley reviewed the Debt Calendar as of August 10, 2009, and the MELP and VELP reports as of July 31, 2009.

Security for Public Deposits

Ms. Reiter reviewed the Security for Public Deposits report for the month ending June 30, 2009.

State Non-Arbitrage Program (SNAP)

Mr. Wilhide reviewed the SNAP report for the month ending July 31, 2009. Barbara Fava from PFM provided the Board with a copy of the Proxy statement (Attachment D) PFM is providing to the SCC for their corporate restructuring. Discussion ensued. Mr. Goodman asked that a financial analysis be completed on the proxy issue before the next meeting for the Board to make an appropriate decision. Don Ferguson will review from a legal standpoint, but not from a business perspective.

Investments

Mr. Wilhide reviewed the Investment Report for August 2009.

Chairwoman Ganeriwala asked if there was any further business to come before the Board. There being none, the Chairwoman asked for a motion to adjourn. Mr. Goodman moved the approval. Ms. Bowen seconded, and the motion carried unanimously. The meeting adjourned at 11:45 a.m.

Other Business:

None

Respectfully submitted,

Manju Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board

DRAFT

Attachment "A"
Attachment "B"
Attachment "C"
Attachment "D"

Documents are available for review at

The Department of the Treasury

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