TREASURY BOARD
COMMONWEALTH OF VIRGINIA
February 17, 2010
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, Jr.
	Douglas W. Densmore
	Robert C. Goodman, Jr.
	David A. Von Moll
Members Absent:	Janie E. Bowen
	Dr. Kenneth N. Daniels

Others Present:

Janet Aylor	Dept of the Treasury	Robert G. Kemmler	Dept of State Police
Jeanine Black	Dept of the Treasury	R. N. Possumato	Dept of State Police
Sherwanda Cawthorn	Dept of the Treasury	Randy Dunning	George Mason University
Tracy Clemons	Dept of the Treasury	David A Roe	George Mason University
Richard A. Davis	Dept of the Treasury	Jym Stampp	George Mason University
Tracey Edwards	Dept of the Treasury	Vasyl Zuk	JP Morgan Chase
Leslie English	Dept of the Treasury	George Consolvo	Kaufman and Canoles
Debora Greene	Dept of the Treasury	Otto Konrad	Kaufman and Canoles
Judy Milliron	Dept of the Treasury	Mike Graff	McGuire Woods
Sharon Price	Dept of the Treasury	Nelson L. Bush	PFM Asset Management
Kristin Reiter	Dept of the Treasury	Neal Noyes	Tobacco Commission
Tim Wilhide	Dept of the Treasury	Stephanie Kim	Tobacco Commission
Robert S. Young	Dept of the Treasury	Ned Stephenson	Tobacco Commission
Donald R. Ferguson	Attorney General's Office	Darrell Katovsich	Wachovia Bank
Hope Broughman	Auditor of Public Accounts	Brian Moore	Wells Fargo Advisors
Kevin Larkin	Bank of America	David Staples	Wells Fargo Advisors
Jack L. Armstrong	Dept of State Police	T. C. Wilson	Wells Fargo Advisors
James P. D'Amato	Dept of State Police	Treasury staff and others attended	

Call to Order and Approval of Minutes

Chairwoman Ganeriwala called the meeting to order at 9:00 a.m. and asked if there were any additions or revisions to the minutes of the January 20, 2010 meeting.

Mr. Goodman requested the minutes be amended by inserting: “Mr. Goodman also expressed concerns about the language choice of law provisions; the consent to venue provision and the provision of attorney fees for the Commonwealth on page 4, fourth paragraph, after the third sentence.

There being no other changes requested, Mr. Boyer moved the approval of the minutes as revised, Mr. Goodman seconded, and the motion carried unanimously.

Public Comment

None

Agenda Items

Resolution of the Treasury Board Approving Proposed Terms and Structure of a Financing Arrangement for the Benefit of George Mason University

Mr. Goodman indicated that his law firm, Kaufman and Canoles, is involved with the George Mason University (“GMU”) transaction, and that he would abstain from the discussion of and voting on this matter.

Ms. Janet Aylor introduced the representatives from GMU, McGuire Woods, Bank of America and Kaufman and Canoles. She then indicated that the project was approved in Chapter 781 of the 2009 Appropriation Act. Ms. Aylor stated that GMU is seeking Treasury Board approval of the terms and structure of a capital lease for a new administration building. The language in Chapter 781 exempts GMU from approval under Section 4-3.03 (b) 2 of the Appropriation Act, but not from approval under Section 4-3.03(b) 1. The George Mason University Foundation Mason Administration, LLC (“GMUF Mason Administration, LLC”) will construct the project. Ms. Aylor reviewed the Preliminary Financing Summary before the Board. She indicated that the University will lease the land that they own to the GMUF Mason Administration, LLC. The variable rate financing will be structured as a private placement with the Bank of America and will include a fixed rate swap. The swap allows the GMUF to hedge its exposure to the variable rate. Ms. Aylor directed the Board to the Preliminary Cost of Issuance and explained the Treasury Board fee of $38,000. She stated that according to the language in the Appropriation Act, the State Treasurer can charge up to a 10 basis points fee for transactions such as this. The Treasurer has elected to impose this charge. Lastly, Ms. Aylor stated that George Mason University’s Board of Visitors has approved the lease.

Mr. Densmore asked what is a perfect risk swap and Ms. Aylor replied that it is a zero basis risk swap. Mr. Graff from McGuire Woods also responded and indicated that LIBOR is the index used on both sides, the payment of interest and the receipt of interest, on the transaction.

Mr. Densmore asked what the fee on the swap is. Mr. Larkin from Bank of America, explained the swap in detail and stated that the spread is negotiated. He also stated that the all in-rate depends on the call option and currently the rate with a 15 year call is at 4.40% and with a 10 year call is at 4.80%. Mr. Larkin mentioned that the bank spread is negotiated and will likely be between 15 and 25 basis points. A discussion ensued.

Mr. Densmore asked if a fixed rate was considered. Mr. Larkin indicated that it was considered, but GMUF had concerns about fixing the rate. One of the concerns was that the construction period of 16-18 months could possibly create about $1 million in negative arbitrage. A discussion ensued.

Chairwoman Ganeriwala asked if a representative could talk about the private placement. Mr. Graff stated that Fairfax County Economic Development Authority ("Fairfax") is acting as a conduit issuer to give GMU the tax-exempt benefit. He indicated that Fairfax is very supportive of GMU. Fairfax will not charge the GMUF a fee for acting as the conduit issuer for this transaction. Ms. Aylor mentioned that this is similar to the Virginia College Building Authority in that they act as a conduit issuer for private colleges.

Mr. Densmore asked if the University considered other alternatives. Mr. Dunning from Dunning and Associates, financial advisor to GMUF, said that in response to a RFP, they received financing proposals from twelve different financial institutions. They did a matrix and discussed all of the options including fixed rate and variable rate financing with the Board. He also mentioned that they believed that the fixed rate risk was substantial. He stated that the forward swap with a floating rate during construction and synthetically fixed long-term interest rate was the better option. He reiterated that they reviewed all the options.

Mr. Densmore asked what the 2% de minimums provision was. Mr. Graff explained that it is a new tax law provision under the American Recovery and Reinvestment Act. It allows banks to deduct 80% of their interest on tax-exempt obligations as long as the tax-exempt obligations they own do not exceed 2% of assets. This provision provides an economic benefit to the Bank.

At the request of Mr. Boyer, Mr. Roe, a representative with George Mason University Foundation, directed the Board to visuals of the project. He explained the project and the location. Mr. Boyer asked if there were any contracts yet on the commercial space planned for the project. Mr. Roe said that currently they have one contract with Apple Federal and are talking to other potential tenants.

Chairwoman Ganeriwala asked the rationale for adding 10% to the yearly rent payments to the GMUF as stated in Exhibit B to the Deed of Lease. Mr. Roe responded that the 10% "additional rent" is a standard debt service coverage factor in many bond transactions. The 10% factor above the fixed debt service amount provides to investors a margin of safety for the payment of debt service, or in this case, basic rent. The GMUF expects to escrow this 10% to fund future capital improvements to the building and/or retire debt early. Mr. Densmore asked if the Bonds can be prepaid. Mr. Graff stated that the Bonds can be prepaid at any time.

Mr. Graff reviewed the Resolution before the Board. Mr. Von Moll questioned the 40-year ground lease. Mr. Graff indicated that the University intends to pay off the Bonds prior to the expiration of the ground lease. However, he also stated that, if needed, the University has the flexibility to refinance at a lower rate in the future and may want to have the lease extend beyond the term of the initial 25-year financing.

Chairwoman Ganeriwala asked if there were any further questions. There being none, the Chairwoman asked for a motion to approve the Resolution. Mr. Boyer moved that the Resolution be adopted. Mr. Von Moll seconded. All members present voted yes with the exception of Mr. Goodman who abstained.

Motion to Approve Third Party Financing for Department of State Police

Ms. Debora Greene introduced the representatives from the Department of State Police. Ms. Greene reviewed the Action Item in detail. She stated that the Department of State Police ("DSP) is seeking this third-party financing because the Master Equipment Lease Program ("MELP") does not offer a 15-year term. She also stated that the bid process was handled by the Department of General Services through a Request for Proposals ("RFP") for the purchase of two helicopters. Ms. Greene directed the Board to the letter and the attached language in Chapter 879 of the Appropriation Act that authorizes the Department of State Police to purchase two helicopters for $17,600,000. A discussion ensued.

Mr. Goodman asked if the credit of the Commonwealth is on the lease. Ms. English stated that the financing is not backed by the Commonwealth's full faith and credit. She also indicated that the helicopters themselves are the security.

Mr. Goodman asked if Government Capital Corporation is a private Corporation. Mr. D'Amato from the DSP replied that he was not sure. Mr. Goodman stated that he is trying to understand the risk associated with the financing. He also expressed his concerns about the high interest rate.

Mr. Goodman asked if any fees are associated with the financing. Mr. D'Amato stated that no fees were associated with the financing. Mr. D'Amato stated that Government Capital Corporation was the only lender because the other lender withdrew. He indicated that they negotiated the 5.6% rate; it was originally almost 6%. He also indicated that there is no penalty to repay the lease early. The DSP representative mentioned that they have the option to refinance but would need Board approval. Mr. Goodman reiterated his concerns about the interest rate. He also indicated that in order to get effective bids, the purchase and financing should have been bid separately. Mr. Goodman also pointed out that a 20-year tax free bond rate for a Virginia municipal bond would be approximately 4.4 % and he observed that if the financing was bid separately, the interest rate for a 15-year tax free lease payment with this high quality collateral might well be in that same interest rate range which would save the Commonwealth over $200,000 per year in interest expense. Mr. Vasyl Zuk from JPMorgan Chase, a member of the audience, interjected and indicated that the solicitation was posted as a RFP for helicopters, not as a financing. A representative of the DSP reiterated that the agency had worked with the Department of General Services in preparing the RFP to procure and finance the two helicopters.

Mr. Von Moll noted that the RFP was for the combined purposes of purchasing and financing the helicopters. He then asked the MELP and/or Energy rates. Ms. English responded that MELP was not a good comparison because the duration of financing period in MELP is much shorter – 5-7 years. She stated that in the Energy contract, the interest rate on a 15-year term is 5% and 12-year term is 5.14%. Chairwoman Ganeriwala stated that perhaps the interest rate for the DSP financing could have been better if the financing portion was bid separately. She also observed that given the 5.0 to 5.14 % interest rates that Treasury received in its recent procurement of a statewide financing contract for Energy projects, it doesn't seem like DSP could do much better than that. She further expressed concerns about any potential adverse impact on DSP's ability to carry out its programmatic mission if it had to start over by separating procurement and financing pieces.

Mr. Densmore stated that an escrow was associated with the lease and no credit risk was involved. Mr. Von Moll asked what the effect would be on the DSP if they were unable to move forward with the purchase of the helicopter. One of the representatives from the DSP indicated that the timely delivery of helicopters was contingent on having financing in place by March 1. He indicated that they will need to check with the manufacturer (Eurocopter) to see if the manufacturer will allow them an additional month or two to re-procure financing. DSP was not sure if its purchase requisition would move to the bottom of the list or just be on hold until it was ready to move forward.

Chairwoman Ganeriwala asked if DSP could go back to the Government Capital Corporation and try to negotiate the interest rate down further. Mr. D'Amato indicated that they could certainly try to do that.

Mr. Densmore said he did not want to jeopardize the safety of others for cost. He then asked if there was a safety issue with the current helicopters. The representative indicated that there was no safety issue and if the current helicopters pose a safety issue then they would not fly them. He stated that DSP will continue to maintain the current helicopters, but that it gets more expensive to do so as they age. He also expressed his concern about being moved further down on the waiting list for the helicopters if the financing is delayed. Mr. Densmore asked what the operational effect is if the financing is delayed. The representative indicated that the emergency and rescue operations would not be as efficient, but there would be no safety issues.

Mr. Von Moll indicated that separating the purchase and financing procurement would have been desirable, but it is not worth going back now based on the current rates on the MELP program. Mr. Goodman expressed that the Board should ensure that the Commonwealth receives the best price. Mr. Zuk of J.P. Morgan, a member of the audience, pointed out that this is a unique transaction, it is not like the Equipment Program, and the DSP could have received a better rate.

At 9:58 a.m. an announcement was made over the loud speaker that the James Monroe Building was closing at 10:00 a.m.

Mr. Goodman moved to defer the approval for one month in order to give the DSP time to consult with vendors and members of the financing industry. Mr. Densmore seconded. Mr. Goodman and Mr. Densmore voted yes and Mr. Von Moll and Chairwoman Ganeriwala voted no. Mr. Boyer abstained, and the motion failed due to the tie vote.

Mr. Von Moll moved to approve the financing as presented. Mr. Boyer seconded. Mr. Von Moll, Mr. Boyer and Chairwoman Ganeriwala voted yes and Mr. Goodman and Mr. Densmore voted no. The motion was approved.

Mr. Ferguson stated that the Board is required under the statute to approve the terms and conditions of the financing, and not determine such terms and conditions. He noted a legal distinction between the two terms, and stated that the statute does not require the Board to substitute its judgment for the judgment of another in setting the terms and conditions of a financing proposal. Mr. Goodman said that if the Treasury Board was not going to look at the total transaction, including the interest rates, then there was little point in donating 8 hours a month to serve.

Mr. Densmore expressed concern about the Board being presented with transactions to approve at a late date in the process when there could be adverse collateral consequences from a deferral.

Mr. Goodman suggested that the DSP contact the vendor with the possibility of saving the Commonwealth money over the term of the lease. The DSP indicated that they will follow up with the vendor.

Mr. Goodman asked if staff would follow up with vendors in order to seek guidance on achieving higher levels of response. Chairwoman Ganeriwala stated that she would have staff follow up with vendors and present findings to the Board at a later date.

Due to the closure of the Monroe Building, the staff reports were not heard and the meeting was adjourned at 10:10 a.m.

Respectfully submitted,

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Manju S. Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board