

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

April 21, 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
Janie E. Bowen
K. David Boyer, Jr.
Dr. Kenneth N. Daniels
Dr. Kenneth N. Daniels
Douglas W. Densmore
Robert C. Goodman, Jr.

Members Absent: David A. Von Moll

Others Present:

Janet Aylor	Dept. of the Treasury	John Lawson	Dept. of Transportation
Richard Davis	Dept. of the Treasury	Barbara Mack	Dept. of Transportation
Margaret Layne	Dept. of the Treasury	Steven Kantor	First Southwest
Kristin Reiter	Dept. of the Treasury	Kayla MacEwan	First Southwest
Kathi B. Scearce	Dept. of the Treasury	Nelson L. Bush	PFM Asset Management
Evie Whitley	Dept. of the Treasury	Julian Jacobs	Private Citizen
Robert Young	Dept. of the Treasury	Braxton Powell	Private Citizen
Arthur Anderson	McGuire Woods	Rob Gordon	Troutman Sanders, LLP
David Rasnic	Auditor Public Accounts	Chuck Shimer	Troutman Sanders, LLP
Kevin Larkin	Bank of America	Darrell Katovsich	Wachovia Bank
David Roe	GMU Foundation	Patrick Dixon	Wachovia Bank
Michael Graf	McGuire Woods, LLP	Bryce Lee	Wells Fargo Advisors
Randy Dunning	Dunning & Associates	David Staples	Wells Fargo Advisors
Muhammed Owusu	Dept. of Transportation	T.C. Wilson	Wells Fargo Advisors
Other Treasury Staff			

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:06 a.m. She asked if there were any additions or revisions to the minutes of the March 17, 2010 meeting. There being none, Mr. Densmore moved the approval of the minutes as submitted. Mr. Boyer seconded, and the motion carried unanimously.

Public Comment

None

Agenda Items**Amended and Restated Resolution of the Treasury Board Approving Terms and Structure of a Financing Arrangement Benefiting George Mason University**

Janet Aylor explained that George Mason University (GMU) had requested certain amendments to the resolution approved by the Treasury Board on February 17, 2010. She introduced David Roe from the GMU Foundation, Kevin Larkin from Bank of America, Mike Graf, Bond Counsel and Randy Dunning, Financial Advisor to George Mason University Foundation.

Mr. Graf explained why the Foundation and the University were returning to the Board for approval of new terms and structure of the original financing arrangement. He stated the new terms were more advantageous to the Foundation.

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. Boyer seconded the motion. Ms. Bowen, Mr. Boyer, Mr. Densmore, Chairwoman Ganeriwala and Dr. Daniels voted aye. Mr. Goodman abstained as his employer, Kaufman & Canoles was the legal advisor on this action item.

Resolution Approving the Plan of Finance for the Issuance and Sale by the Commonwealth Transportation Board of Virginia Transportation Capital Projects Revenue Bonds, Series 2010A

Ms. Aylor presented the action item to the Board. The bonds would be a combination of tax-exempt bonds and taxable Build America Bonds (BABs). She indicated Commonwealth Transportation Board (CTB) typically issues 25-year bonds, and it is expected that these bonds will be sold competitively. The estimated TIC (TIC) as of February 17, 2010 is 3.61%. Mr. Owusu added that the estimated TIC was 3.65 percent as of April 20.

Ms. Aylor introduced Virginia Department of Transportation (VDOT) staff, John Lawson, Muhammed Owusu, and Barbara Mack as well as Arthur Anderson, Bond Counsel.

Mr. Densmore inquired about the lawsuit related to the legal expenses that are to be paid from bond proceeds. Ms. Aylor explained the case was Bartlett et al. v Commonwealth of Virginia et al., which was decided in September 2008 in favor of the Commonwealth. Treasurer Ganeriwala asked how expenses would have been paid if the Commonwealth had been unsuccessful. Mr. Lawson stated that funds would have been taken out of the VDOT operating costs. The bonds are paying for projects already built.

Mr. Goodman questioned the rating fees. Ms. Aylor stated that the estimates were high since this is a new credit and may require more analysis. She added that rating fees are essentially non-negotiable.

Arthur Anderson of McGuire Woods reviewed the resolution. Mr. Goodman asked why the Board was being asked to approve at a cap rate 5.25% if the expected rate was 3.65 %.

Mr. Goodman stated he wanted to see a more reasonable ceiling set for TIC. Dr. Daniels stated his objection to using bond proceeds to pay litigation expenses.

Treasurer Ganeriwala stated that the proposed ceiling was high, but any action that the Board may take to override the financial advisor's recommendations should be based on sound rationale rather than the Board picking an arbitrary ceiling.

Mr. Densmore indicated that he too believed the ceiling was high, but he was not willing to override the financial advisor's without more facts. Mr. Densmore stated that in the future, agencies need to provide more facts to justify the ceiling.

VDOT requested a few minutes to confer with their financial advisors regarding the ceiling rate. VDOT staff returned to the Board and indicated that their financial advisor believed if the bonds were to be sold on a solely tax-exempt basis, the anticipated rate based on current market conditions would have been 4.2%.

Treasurer Ganeriwala suggested the ceiling be reduced from 5.25% to 5% to signal to the agency that it is important to present more reasonable figures. Mr. Goodman indicated he would prefer it to be slightly lower at 5.0%. They agreed on 4.95%.

Chairwoman Ganeriwala asked for a motion to amend the Resolution. Ms. Bowen moved that the Resolution be amended to 4.95%. Mr. Densmore seconded. The motion to amend the Resolution passed with Ms. Bowen, Mr. Boyer, Mr. Densmore, Chairwoman Ganeriwala and Mr. Goodman saying aye. Dr. Daniels saying nay.

The Chairwoman asked for a motion to approve the amended Resolution. Mr. Densmore moved that the amended Resolution be adopted. Mr. Boyer seconded the motion. The Resolution passed with Ms. Bowen, Mr. Boyer, Mr. Densmore, Treasurer Ganeriwala and Mr. Goodman saying aye. Dr. Daniels saying nay.

Resolution Approving the Plan of Finance for the Issuance and Sale of Revenue Bonds by the Virginia College Building Authority (VCBA) of Educational Facilities Revenue Bonds Series 2010A (21st Century College and Equipment Program)

Ms. Aylor presented the action item to the Board and provided an updated Financial Preliminary Summary (Attachment B). She stated that Standard and Poor misunderstood the nature of the financing and lowered their estimate \$18,750. The VCBA approved the resolution at their

April 20, 2010 meeting. Chuck Shimer of Troutman Sanders reviewed the resolution with the Board.

Mr. Goodman raised questions about the TIC cap. Ms. Aylor explained in this case the cap rate was based on the budgeted rate.

Discussion ensued.

Based on input from Kayla MacEwan of First Southwest, Mr. Goodman moved that the resolution be amended to reduce the TIC ceiling from 4.5% to 3.25%. Mr. Densmore seconded the motion. The motion to amend the resolution was unanimous.

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

Resolution Approving the Terms and Structure of the VPSA School Educational Technology Notes Series X

Richard Davis reviewed the action item with the Board explaining that this is an annual program authorized in the Appropriations Act. The notes will be competitively bid. The notes provide grants to local school divisions for technology needs. The sale is now planned for May 4, and as of April 12, 2010, the TIC is estimated at 1.75%.

Mr. Goodman requested more detailed costs of issuance estimates in the future. Dr. Daniels indicated he wanted to see the Superintendent's Memorandum that goes out to school divisions informing the schools about the Technology Notes program. Ms. Whitley indicated that staff would provide Dr. Daniels with the requested information.

Based on the fact that the Board had narrowed the TIC range in the previous two resolutions, Chairwoman Ganeriwala asked Mr. Davis to confer with financial advisors regarding narrowing the proposed spread in TIC and then come back to present it to the Board. The financial advisor indicated the rate ceiling was in line with prior board approvals; however, with the sale date so close, lowering the TIC ceiling to 2.5% would likely not be a problem.

Mr. Goodman moved that the resolution be amended so that paragraph 4, subparagraph (ii) of the resolution be changed to reflect a reduction from 4% to 2.5%. Mr. Boyer seconded the motion. The motion to amend the resolution was unanimous.

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

Presentation

T.C. Wilson of Wells Fargo Advisors presented the Extended Duration and Credit Portfolio report for the period ending March 31, 2010. Mr. Wilson indicated that it has been a good year for the portfolio and that the portfolio has seen a 9% gain due to the Board staying the course with its guidelines strategy.

As was discussed with the Board in March, the Aberdeen position has been reduced significantly, and the manager will be removed completely from the portfolio within the next two to three months. This was part of the reallocation strategy due to a significant decline in investable balances in the General Account during the past two years. Mr. Wilson provided a Fixed Income Strategy handout prepared by Wells Fargo Advisors (Attachment C). The handout illustrated that as interest rates go up, the bond market could enter a significant bearish phase. Mr. Wilson indicated that he would discuss with staff the current duration of the portfolio and consider whether to reduce the overall duration of the portfolio in anticipation of this move.

Mr. Wilson stated that the economy is in a critical stage of recovery, and that trends show continued improvement. He indicated that typically the U.S. leads economic recovery, but the reverse is true this time. He said that state budget cuts will most likely become more drastic, and he indicated that by 2030, projections show that 65-70% of investments will be outside of the U.S.

Dr. Daniels and Ms. Bowen left the meeting at 10:50 a.m.

Staff Reports:**Debt Management**

Ms. Whitley reviewed the Debt Calendar as of April 15, 2010, the MELP and VELP reports as of March 31, 2010. She also reviewed the Final Financial Summary from the February Virginia Public Building Authority bond sale.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits report for the month ending February 28, 2010. She reported that three banks were undercollateralized for the month but that all had pledged additional collateral.

Ms. Reiter stated that there was no change in IDC rankings from last month. Currently, staff is analyzing the IDC rankings as Mr. Densmore requested at the March meeting. Staff will review the data with the State Treasurer and hope to report to the Board at the May meeting.

Ms. Reiter indicated that staff had met with the Attorney General's office regarding the revisions to the SPDA public deposit security agreement. Don Ferguson stated that his office is still

reviewing the agreement. The General Assembly being in session and turnover in staffing have delayed the review.

Ms. Reiter informed the Board that a formal request from Community Bankers Bank to subcontract certain escrow agent functions has been received and is being reviewed. Community Bankers Bank plans to partner with First National Bankers Bank of Baton Rouge, Louisiana with regard to performing certain escrow agent functions required by the SPDA. Mr. Densmore and Mr. Goodman reminded staff that Louisiana does not adhere to the UCC, and this should be taken into consideration.

State Non-Arbitrage Program (SNAP)

Margaret Layne reviewed the SNAP report for the month ending March 31, 2010.

Investments

Margaret Layne reviewed the Investment Report for April 2010.

Mr. Densmore asked if staff was monitoring the manner in which banks manipulate their balance sheets. Ms. Layne indicated that this would be difficult to do.

Mr. Goodman suggested that banks be asked appropriate questions on this topic as a means of monitoring balances for all banks Virginia does business with.

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 approval of the Board to adjourn. Mr. Boyer seconded, and the motion carried unanimously.

Other Business:

None

Respectfully submitted,

Manju S. Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board

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

Documents are available for review at

The Dept. of the Treasury

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