

TREASURY BOARD  
COMMONWEALTH OF VIRGINIA

January 16, 2013

9:00 a.m.

Treasury Board Conference Room  
James Monroe Building  
101 N. 14<sup>th</sup> Street, 3<sup>rd</sup> Floor  
Richmond, Virginia

Members Present: Manju S. Ganeriwala, Chairwoman  
David Von Moll  
K. David Boyer  
Thomas N. Chewning  
Shaza Andersen

Members Absent: Craig Burns  
William W. Harrison, Jr.

Others Present:	Kristin Reiter Robert Young Evie Whitley Tim Wilhide Michael Tutor Leslie English Janet Aylor Sherwanda Cawthorn Tracy Clemons Jeannine Black Kathy Green Tracey Edwards Patrick Dixon Megan Gilliland Eric Ballou Steve Yeakel Bruce Whitehurst Jeffrey Rowe Nelson Bush Josh Fox Evan Francks T.C. Wilson Bryce Lee Steve Johnson	Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Department of the Treasury Wells Fargo Christian & Barton Christian & Barton Va. Association of Community Banks Va. Banker's Association PFM Asset Management PFM Asset Management Auditor of Public Accounts The Optimal Service Group The Optimal Service Group The Optimal Service Group Troutman Sanders, LLP
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**Call to Order and Approval of Minutes**

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:05 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the December 19, 2012 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Boyer moved the approval of the Minutes, Mr. Von Moll seconded, and the motion carried unanimously.

## **Public Comment**

None

## **Action Items**

### **Motion to Amend Treasury Board Guidelines- The Use of Federal Home Loan Bank Letters of Credit as Eligible Collateral to Secure Virginia Public Deposits**

Ms. Reiter informed the Board that Treasury staff met with representatives from the Federal Home Loan Bank (FHLB) of Atlanta in December. The FHLB inquired about the ability to make a change to the Treasury Board guidelines allowing the use of FHLB letters of credit as collateral to secure Virginia public deposits. The change would allow public depositories to continue to use the letters of credit as collateral even if the credit rating of the United States falls to below AAA. The thought being that if the credit rating of the United States falls, so will the rating of the FHLB, making the FHLB letters of credit no longer eligible as collateral under the current Treasury Board Guidelines.

The Security for Public Deposit Act Program has accepted FHLB letters of credit as collateral since 2002. The current guidelines require that for the FHLB letters of credit to be eligible as collateral, obligations of the FHLB must remain triple A rated by at least one of the nationally recognized rating agencies. The proposal before the Board is to change this to requirement to allow the use of the FHLB letters of credit as collateral as long as obligations of the Federal Home Loan Bank be rated at least double A by two nationally recognized rating agencies or be rated the same credit rating as the lowest long-term sovereign credit rating of the United States.

Chairwoman Ganeriwala introduced Bruce Whitehurst, President and CEO of the Virginia Banker's Association and Steve Yeakel, Executive Vice President of the Virginia Association of Community Banks. Both stated support of the revised guidelines.

Bruce Whitehurst stated that Virginia falls within the jurisdiction of the Atlanta Federal Home Loan Bank. Ms. Reiter indicated that Treasury Board does hold letters of credit from other FHLB's including Pittsburg.

Mr. VonMoll asked why there was a need for both clauses; that the second clause should be sufficient. There was some discussion for the need for both clauses. Mr. Chewning stated that the change allows Treasury to maintain its standards, yet accept a lower rating in the extreme case that the Federal Government's rating falls.

Mr. Whitehurst indicated that banks pledging FHLB letters of credit as collateral would have to pledge other types of collateral if the proposed change was not made and the rating of the FHLB dropped. This could be costly to the banks.

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

### **Motion to Approve the Issuance of General Obligation Bonds, Series 2013A and General Obligation Refunding Bonds, Series 2013B**

Leslie English presented the Preliminary Financing Summary for the issuance of \$60,780,000 of General Obligation Bonds, Series 2013A, and \$274,140,000 of General Obligation Refunding Bonds, Series 2013B. The Bonds will be used to finance the costs of acquiring, constructing and equipping revenue-producing capital projects at institutions of higher learning of the Commonwealth, refund certain maturities of its

outstanding General Obligation Bonds, Series 2005A, Series 2006B, 2007A, 2007B, and 2008B and pay costs of issuing the Bonds. The Bond sale is scheduled for February 13, 2013 through a competitive method of sale. The estimated true interest cost is 2.105%.

The Series B bonds are not callable, but the Treasurer has the option to change the call provision of the Series 2013B Bonds. Mr. Chewning asked what would be the cost of adding the call provision into the deal. Chairwoman Ganeriwala informed the Board that the original plan was not to include the call option; however, at the suggestion of the Bond Counsel, Treasury wanted to reconsider its earlier decision. Board members will be notified of Treasury's analysis and decision with regards to the call option.

Ms. English indicated the refunding savings with the Series 2008B Bonds were \$25 million and without the Series 2008B Bonds, the refunding savings would be approximately \$20 million.

Ms. English introduced Bond Counsel, Mr. Steve Johnson, who reviewed the Resolution.

Chairwoman Ganeriwala asked if there were any questions. There being none, the Chairwoman asked for a Motion to approve. Ms. Andersen moved that the resolution be adopted. Mr. Boyer seconded, and the Motion carried unanimously.

**Resolution to Approve the Terms, Structure and Plan of the Proposed Financing by the Virginia Public Building Authority of its Virginia Public Building Authority Public Facilities Revenue and Refunding Bonds, Series 2013 A&B.**

Sherwanda Cawthorn presented the Preliminary Financing Summary for the issuance of \$143,300,000 Public Facilities Revenue Bonds, Series 2013A and \$65,880,000 Public Facilities Revenue Refunding Bonds, Series 2013B. The Bonds will be used to finance the costs of acquisition, construction, improvement, rehabilitation, furnishing and equipping of various public facilities for use by the Commonwealth and its agencies, finance the Commonwealth's payment of the costs of certain regional and local jail and juvenile detention facility projects, refund certain maturities of its outstanding Public Facilities Revenue Bonds, Series 2006A and Series 2006B, and pay the cost of issuing the 2013 Bonds. The bond sale is scheduled for February 5, 2013 through a competitive method of sale. The estimated true interest cost for Series 2013A is 2.378%, and the estimated true interest cost for Series 2013B is 1.682%.

The updated Net Present Value savings of the Series 2013B Refunding Bonds are estimated to be \$7.85 million, equating to 9.77%.

Ms. Cawthorn introduced, Ms. Megan Gilliland of Christian Barton, who reviewed the Resolution.

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

**Board Briefing**

**PFM/SNAP – SNAP 2<sup>ND</sup> Quarter Portfolio Performance Review**

Nelson Bush and Jeffrey Rowe reviewed the performance of the SNAP portfolio for the fourth quarter. Mr. Bush noted that the portfolio was still hovering over the \$4 billion mark, and has been that way since large deposits were made last June for transportation initiatives. There has been little change in the maturity of the portfolio.

Jeffrey Rowe presented to the Board a brief overview of the economy. Investors have been more optimistic of late with the housing and job markets slowly recovering. Interest rates are still low, but a bit higher than the previous quarter. Overnight repo rates have fallen 10-15 basis points due to the expiration of the TAG program.

Mr. Chewning asked whether there was much difference in yield between 1 day to 8-30 day maturities. Mr. Bush indicated there was very little difference due to the supply of Agency Securities being down or non-existent.

## **Staff Reports**

### **Debt Management**

Evie Whitley reviewed the Debt Calendar as of January 7, 2013. She indicated that there were a couple of debt issuances coming before the Board this spring. Ms. Whitley also reviewed the leasing reports as of December 31, 2012. She indicated there would be results to share next month showing significant savings for some agencies through the refunding of energy leases that was completed last year.

### **Security for Public Deposits**

Ms. Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended November 30, 2012. She informed the Board that two banks were undercollateralized for the month: The Bank of Virginia and First Bank and Trust. This was the first time in the last 12 months that either of these banks were undercollateralized. Both banks have pledged additional collateral.

Ms. Reiter reviewed the current IDC rankings and indicated there has been no change in the rankings from last month. IDC's 2<sup>nd</sup> quarter 2012 final rankings are still being used. Ms. Reiter informed the Board that these rankings will be updated next month for IDC's 3<sup>rd</sup> quarter rankings.

Ms. Reiter informed the Board that Alliance Bank has now been acquired by WashingtonFirst Bank.

Ms. Reiter informed the Board that FDIC has provided full deposit insurance coverage for noninterest-bearing demand deposit transaction accounts from Dec 31, 2010 thru December 31, 2012 under the Transaction Account Guarantee Program (TAG). This Program expired at the end of the calendar year. As a result, public deposit balances net of FDIC coverage for opt-out banks increased from \$3.4 billion at Dec 31, 2012 to \$5.1 billion at Jan 4, 2013. Required pledged collateral increased from \$3.8 billion to \$5.5 billion for the same time period. She indicated that it would be hard to tell the effect of the expiration of the TAG Program on pooled banks until January SPDA reports are processed, but most pooled banks were already overcollateralized.

### **Investments**

Mr. Wilhide also reviewed the Investment reports for the month ended December 31, 2012. He noted that interest rates were up across all maturities between the December and January Board meetings, with, for example, the 5-year Treasury up by 17 bps. This was enough to cause the externally managed portfolios to have a slight negative total return for the month, which caused a negative composite yield for the month. The General Account portfolio was \$4.45 billion, down \$350 million from the month prior. The average yield on the General Account was 31 basis points, down 1 basis point from the prior month. The annualized total return from the External Management Extended Duration portfolio was -1.02%, causing concern that this may continue to be negative going forward. He also presented the LGIP portfolio report to the Board for

the month of December. The LGIP portfolio was up to \$3.04 billion. The average yield on the portfolio was 22 basis points, down 1 basis point from the prior month. The average maturity decreased to 48 days.

**Other Business**

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on February 20, 2013. She asked if there was any further business to come before the Board. There being none, Mr. Boyer moved the meeting be adjourned at 10:20 a.m.; Mr. Von Moll seconded, and the motion carried unanimously.

Respectfully submitted,

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Manju S. Ganeriwala, Chairwoman  
Commonwealth of Virginia Treasury Board