

TREASURY BOARD  
COMMONWEALTH OF VIRGINIA

October 16, 2019

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  
Neil Amin  
James Carney  
Douglas Densmore  
Lou Mejia  
David Von Moll

Members Absent: Craig Burns

Others Present:	Don Ferguson	Office of the Attorney General
	Katie Collins	Auditor of Public Accounts
	Kathleen Bowe	JP Morgan
	Markita Heard	JP Morgan
	George Scruggs	Kutak Rock
	Bryce Lee	The Optimal Service Group
	Karen Logan	The Optimal Service Group
	Michael Varano	PFM Asset Management LLC
	Adam Rosatelli	Senate Finance Committee
	Demarion Johnston	Virginia Bankers Association
	Patrick Dixon	Wells Fargo
	Janet Aylor	Department of the Treasury
	Neil Boege	Department of the Treasury
	Leslie English	Department of the Treasury
	Kathy Green	Department of the Treasury
	Debra Greene	Department of the Treasury
	Bradley Jones	Department of the Treasury
	Laura Lingo	Department of the Treasury
	Jay Mahone	Department of the Treasury
	Judy Milliron	Department of the Treasury
	Richard Rhodemyre	Department of the Treasury
	Elmer Rodriguez	Department of the Treasury
	Sandra Stanley	Department of the Treasury
	David Swynford	Department of the Treasury

### **Call to Order and Approval of Minutes**

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:00 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the September 18 meeting minutes. Mr. Densmore moved for approval of the minutes. Mr. Von Moll seconded and the motion carried. Mr. Carney and Mr. Amin abstained from voting, as they did not attend the September 18 meeting.

### **Public Comment**

None

### **Action Items**

#### **Resolution Approving the Plan of Finance for the Issuance and Sale of Virginia College Building Authority Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2019A**

Jay Mahone presented the Preliminary Financing Summary for the issuance of \$35.1 million of Virginia College Building Authority, Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2019A. The Bonds represent the thirty-second series of bonds under the program and proceeds will be used to (i) finance the costs of specified capital projects at various public institutions of higher education in the Commonwealth of Virginia and (ii) pay costs of issuing the 2019A Bonds. The tax-exempt Bonds are scheduled for competitive sale on November 6, 2019. The estimated true interest cost as of October 15, 2019 was 2.3455%.

Discussion ensued.

George Scruggs, representing Kutak Rock as Bond Counsel, reviewed the resolution.

Discussion ensued.

Chairwoman Ganeriwala asked for a motion to approve the Resolution. Mr. Carney moved that the Resolution be adopted with the following amendment: on Page 2 in Section 1, line 3 of the Resolution, change “as may be revised by the Authority and Treasury staff” to “as may be revised by the Authority or Treasury staff”. Mr. Densmore seconded and the motion carried unanimously.

#### **Resolution Approving the Plan of Finance for the Issuance and Sale of Virginia College Building Authority Educational Facilities Revenue and Refunding Bonds (21<sup>st</sup> Century College and Equipment Programs), Series 2019BC**

Leslie English presented the Preliminary Financing Summary for the issuance and sale of \$349.2 million Virginia College Building Authority Educational Facilities Revenue Bonds and Educational Facilities Refunding Revenue Bonds consisting of (i) \$123.6 million Virginia College Building Authority, Educational Facilities Revenue Bonds (21<sup>st</sup> Century College and Equipment Programs), Series 2019B and (ii) \$225.6 million Virginia College Building Authority, Educational Facilities Refunding Revenue Bonds (21<sup>st</sup> Century College and Equipment Programs), Series 2019C. The tax-exempt Bonds are scheduled for competitive sale on November 13, 2019. The estimated true interest cost as of October 16, 2019 is:

- Aggregate: 2.03%
- Series 2019B: 2.49%
- Series 2019C: 1.58%

The estimated savings for the Series B refunding bonds are \$30.1 million.

Discussion ensued.

George Scruggs reviewed the Resolution.

Chairwoman Ganeriwala asked for a motion to approve the Resolution. Mr. Carney moved that the Resolution be adopted with the following amendment: Page 2 in Section 1, line 3 of the Resolution, change “as may be revised by the Authority and Treasury staff” to “as may be revised by the Authority or Treasury staff”. Mr. Densmore seconded and the motion carried unanimously.

### **Motion Approving Revisions to SPDA Opt-Out Guidelines**

Chairwoman Ganeriwala reminded the Board that Treasury began the process to revise the SPDA Opt-Out Guidelines last fall. Due to some Board members being absent from the September 18 Treasury Board meeting, Kristin Reiter provided a brief overview of the proposed changes to the Guidelines and the actions taken to date. Ms. Reiter noted that depositories had been notified of the proposed changes to the Guidelines and had provided feedback.

Ms. Reiter summarized the three policy changes. The addition of Section F extended the contingent liability of pooled depositories that elect to opt-out of the collateral pool for the first twelve months after the switch to opt-out. In Section C.1, the two-day “cure period” for pledging sufficient collateral at the end of each reporting week is eliminated to meet the collateral requirements of the Code and SPDA Regulations. In Section A.5, language is added to clarify the Board’s authority to deny an opt-out depository re-entry into the collateral pool when deemed prudent.

Ms. Reiter reviewed the responses received from a depository and the Virginia Bankers Association regarding the proposed changes. The focus of the comments was that the elimination of the “cure period” for pledging additional collateral would be burdensome to depositories, requiring opt-out depositories to be fully collateralized at the close of business each Friday. The commenters believed that without a “cure” period, depositories would not have sufficient time to collateralize late-day deposits or confirm public deposit balances at the end of the week.

In response to the comments, Ms. Reiter provided an analysis of opt-out banks’ undercollateralization for weekly reporting from fiscal year 2014 through 2019; there was approximately a 1% instance of undercollateralization for weekly reporting over the six-year period. Out of 1,560 possible occurrences of weekly undercollateralization in any year, at most there were only 19 instances of opt-out depositories being undercollateralized at close of business on a Friday. The Board noted the small number of times opt-out depositories are undercollateralized for weekly reporting and have to use the “cure period”. Based on the analysis, there seemed to be a minimal impact.

Discussion ensued.

Demarion Johnston, Virginia Bankers Association General Counsel, reported the views of the member banks and the banks' concerns with the elimination of the two-day "cure period" for pledging additional collateral for weekly reporting, requiring opt-out depositories to be fully collateralized at close of business on Friday.

Discussion ensued regarding the policy change to eliminate the "cure period" for weekly reporting. Because the two-day "cure period" is not in compliance with the Code and SPDA Regulations requirement that public deposits be collateralized at the time they are received by the depository, the sentiment of the Board was that the change in policy to eliminate the "cure period" had to be made. There was discussion as to whether the Board would be in favor of a change to the Code regarding this matter since it would expose public deposits to more risk.

Chairwoman Ganeriwala asked for a Motion that the Treasury Board Guidelines Permitting Banks to Withdraw from Pooling Procedures for the Payment of Losses be revised. Mr. Mejia moved that the Motion be approved.

Before the Motion was seconded, discussion ensued regarding whether Section C.2 of the Guidelines should be revised to include action by the Treasury Board in the case where there is just one significant instance of undercollateralization. The Board seemed to be in favor of such a change, but Board Counsel Don Ferguson requested time to work with staff to incorporate such a change to the Guidelines. Based on that request, the original motion was tabled at 10:15 AM. At 10:35 AM, Mr. Ferguson presented the revised Guidelines.

Discussion ensued and Mr. Carney recommended that the motion itself be revised to indicate the changes made by the Board during the meeting.

Chairwoman Ganeriwala asked for a new Motion that the Treasury Board Guidelines Permitting Banks to Withdraw from Pooling Procedures for the Payment of Losses be revised in the manner and form as presented at this meeting including modification to Section C.2. and attached hereto. Mr. Carney moved that the Motion be approved. Mr. Amin seconded and the motion carried unanimously.

## **Staff Reports**

### **Security for Public Deposits**

Ms. Reiter reviewed the SPDA Report for the month ended August 31, 2019. Ms. Reiter reported that no banks were undercollateralized for the month. Ms. Reiter noted that the IDC ratings will be updated next month using IDC's 2<sup>nd</sup> quarter 2019 ratings. One bank, New Horizon Bank, N.A, was ranked below average by IDC.

### **State Non-Arbitrage Program**

Michael Varano of PFM provided a report on the U.S. economy. The U.S. stock market hit new highs. Interest rates have plunged and unemployment is low.

Mr. Varano reviewed the SNAP report as of September 30, 2019. The fund's assets were valued at \$4.2 billion. The monthly yield was 2.26%, decreasing from August's yield of 2.32%. The weighted average maturity of the fund was 35 days.

**Investments**

Neil Boege reported that the fixed income markets are experiencing high levels of uncertainty, mostly due to geopolitical factors, and market participants are currently divided on whether or not the FOMC will cut policy rates October 30.

Mr. Boege reviewed the Investment reports for the month ended September 30, 2019. The average yield on the Primary Liquidity portion of the General Account was 2.35%, down from August's average yield of 2.37%. The Extended Duration portion of the portfolio had a yield to maturity of 2.16%, up from August's yield to maturity of 2.05%. This resulted in the composite yield being 2.32% for the month, no change from August.

Mr. Boege then reported on the LGIP portfolio, which was in compliance for all measures for the month of September and was valued at \$5.8 billion. The average yield on the portfolio was 2.23%, down from August's average yield of 2.31%. The average maturity was 28 days, down seven days from the previous month. Mr. Boege then reviewed the LGIP Extended Maturity portfolio. The net asset value yield to maturity was 2.28%, down from August's net asset value yield to maturity of 2.33%. The average duration was 1.08 years.

**Debt Management**

Janet Aylor reviewed the Debt Calendar as of October 1, 2019 and the leasing reports as of September 30, 2019. A VPSA bond sale was held during the meeting and Ms. Aylor reported that the sale of \$109.1 million of VPSA Special Obligation School Financing Bonds for Prince William County resulted in a true interest cost of 2.176%. Ms. Aylor also informed the Board that new leases for \$815,617 were provided in September for vehicles. She also informed the Board that \$3.1 million was used to date under the Master Lease Program leaving a line of credit balance of \$31.8 million. In addition, \$19.3 million was previously provided under the Energy Lease Program and the line of credit balance is \$20.9 million. One energy contract was approved for the Department of Military Affairs under the Energy Lease Program.

**Other Business**

Chairwoman Ganeriwala stated that the next Treasury Board meeting is scheduled for November 20, 2019. The meeting adjourned at 10:41 a.m.

Respectfully submitted,

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Vernita Boone, Secretary  
Commonwealth of Virginia Treasury Board

Attachments: Motion  
Opt-out Guidelines