TREASURY BOARD
COMMONWEALTH OF VIRGINIA
November 16, 2022
9:00 a.m.
Treasury Board Room – 3rd Floor
James Monroe Building
101 N. 14th Street, 3rd Floor
Richmond, Virginia

Members Present:	David L. Richardson, Chairman	
	Randy McCabe	
	Craig Burns	
	James Carney	
	Charles King	
	Dr. Joshua Weed	
Members Absent:	Neil Amin	
Meeting Guests:	Don Ferguson	Office of the Attorney General
	Liang Shan	PFM Asset Management LLC
	JoAnne Carter	PFM Asset Management LLC
	Scott Fleming	PFM Asset Management LLC
	John Markowitz	Office of the Governor
	Leslie English	Department of the Treasury
	Sandra Stanley	Department of the Treasury
	Brad Jones	Department of the Treasury
	Richard Rhodemyre	Department of the Treasury
	Stuart Williams	Department of the Treasury
	Jay Mahone	Department of the Treasury
	David Swynford	Department of the Treasury
	Janet Lee	Public Resources Advisory Group
	Laura Farmer	VDOT
	Misty Upson	VDOT
	George Scruggs	Kutak Rock, LLP
	Markita Heard	JP Morgan Chase
	Patrick Dixon	WellsFargo
	Mark Burns	Wells Fargo
	Bryce Lee	Optimal Service Group
	Karen Logan	Optimal Service Group
	Scott Detar	BoFA
	Ty Wellford	Davenport

Call to Order and Approval of Minutes

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

Chairman Richardson asked if there were any changes or revisions to the minutes of the October 12, 2022 meeting. No changes were noted. Chairman Richardson asked for a vote of approval of the minutes. Charles King moved for approval, Randy McCabe seconded, and the motion carried unanimously. James Carney abstained.

Public Comment – None

Action Items

Resolution Approving the Plan of Finance for the Commonwealth Transportation Board to Obtain Loans from the U.S. Department of Transportation through its Transportation Infrastructure Finance and Innovation Act Program to Finance the I-81 Corridor Program

Brad Jones presented the Commonwealth Transportation Board's ("CTB") Preliminary Financing Summary for the issuance of direct loans through the U.S. Department of Transportation's Transportation Infrastructure Finance and Innovation Act ("TIFIA"). He noted that the CTB is currently planning for an issuance of a $14,958,923 Senior Lien Rural TIFIA Loan, Series 2022 and a $82,554,209 Subordinate Lien Regular TIFIA Loan, Series 2022, both of which are to be issued in relation to the Interstate I-81 Corridor Improvement Plan (the “I-81 Plan”) and the Interstate 81 Corridor Improvement Program (the “I-81 Program”). Mr. Jones noted the debt service on the 2022 TIFIA Loans is secured by appropriated and pledged revenues which consist of amounts credited by the Commonwealth of Virginia to the I-81 Fund from receipts derived from the I-81 Regional Fuels Tax and the Subordinate Lien Loan will also have the security of a debt service reserve fund. The Loans are scheduled to close on December 7, 2022 and the rates will be set the morning of closing. The estimated true interest cost is currently 1.905% for the Senior Lien Loan and 3.656% for the Subordinate Lien Loan. He noted the repayment terms are flexible, as the Loans may be repaid at any time and without a prepayment penalty. A single draw is expected in December 2023 for the Senior Lien Loan and debt service payments will begin shortly after with the first debt service payment on May 15, 2024 and a final maturity approximately 33 years from the initial principal payment date. The Subordinate Regular Loan will have monthly draws which are expected from December 2023 to June 2025 and level debt service payments will begin shortly thereafter with an estimated first debt service payment on May 15, 2026. The final maturity of the Subordinate Lien Loan is approximately 34 years from the initial principal payment date. Mr. Jones then reviewed the anticipated ratings and the financing team. He noted the costs of issuance are higher than typically seen due to the program's counsel and financial advisor and CTB's counsel and financial advisor expenses being higher than usual due to the I-81 program set-up costs that are being paid through this initial TIFIA borrowing.

Mr. Carney asked about the calculation of the maximum interest rate parameter and how the true interest cost and drawdowns are being considered. Discussion ensued.

George Scruggs of Kutak Rock reviewed the Resolution. The Chairman asked if there was a motion to approve the resolution. Randy McCabe moved to approve the Resolution. Craig Burns seconded the motion and the motion carried unanimously.

Resolution Approving the Plan of Finance for the Issuance by the Virginia Building Authority (VCBA) of its Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2023A

Richard Rhodemyre presented the Preliminary Financing Summary for the Virginia College Building Authority's ("VCBA") planned issuance of $131,980,000 of its Virginia College Building Authority, Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2023A, noting that the Resolution allows for a maximum par amount of $148 million for the 20223A bonds. The proceeds of the 2023A bonds 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) to pay the costs of issuing the 2023A bonds. The 2023A bonds are scheduled for a competitive sale on January 18, 2023 with an anticipated delivery date of February 8, 2023. Mr. Rhodemyre noted that a form of Bond Purchase Agreement was also included in the Board Package and that the Resolution allows the VCBA to pivot to a negotiated sale in the event market conditions should make it necessary to do so. The 2023A bonds will carry a term of up to 30 years with annual principal payments due on September 1, 2023 through September 1, 2052 and semi-annual interest payments due on March 1 and September 1 of each year, beginning September 1, 2023. The 2023A bonds are limited obligations of the VCBA and are not a debt or a pledge of the full faith and credit of the Commonwealth. The payment of the 2023A bonds will be secured by payments from the participating higher education institutions due under Promissory Notes in accordance with the Loan Agreements. Mr. Rhodemyre then noted that the 2023A bonds are anticipated to receive the typical AA+, Aa1, AA+ bond ratings from the three rating agencies and explained the State Aid Intercept credit enhancement that allows such ratings to be obtained. Mr. Rhodemyre then noted that as of November 4, 2022, the estimated All-In True Interest Cost ("ATIC") was 4.354%, but that rates had actually decreased by approximately 21 basis points since that time, and the current estimated ATIC was 4.138%. Mr. Rhodemyre then noted that the maximum ATIC allowed under the Resolution was 5.75% and explained that Treasury was planning to provide the participating institutions with "worst case scenario" debt service schedules using the maximum ATIC of 5.75% due to the recent rate increases and market volatility.

Charles King asked if there was any idea as to whether schools would pull out in the event rates increased to levels near the maximum ATIC of 5.75%. Mr. Rhodemyre noted that it was a possibility and explained that the VCBA application now requires schools to pay their estimated costs of issuance in the event they withdraw from a transaction after the VCBA has requested ratings. Mr. Rhodemyre then noted that Treasury staff was providing the participating institutions with more frequent updates on rates and debt service impacts and would have to take market volatility into consideration when deciding whether to hold a school responsible for their estimated costs of issuance should rates increase sharply after requesting ratings. Discussion ensued.

J.P. Carney then asked about the All-In True Interest Cost calculations and whether or not the underwriter's discount was included in the calculation. Janet Lee with PRAG responded that a conservative estimate for the underwriter's discount was included in the estimated All-In True Interest Cost.

Mr. Rhodemyre then noted that there are seven projects within the proposed financing which will benefit the following institutions: The College of William and Mary, Virginia Polytechnic Institute and State University, and Virginia State University.

George Scruggs with Kutak Rock then reviewed the parameters of the Resolution to be considered by the Board for adoption.

Mr. Carney asked to confirm that the individual Promissory Notes were not cross-collateralized and that a default by one institution does not constitute a default of the entire series of bonds. Mr. Scruggs confirmed that was correct. Mr. Carney then asked if the use of the State-Aid Intercept provision to prevent a school from missing a bond payment would constitute a default on the bonds, or if it was just a default under the Loan Agreement with the State-Aid Intercept provision serving as a cure. Mr. Scruggs noted that while it would be considered a default under the Loan Agreement that the bondholders would still be made whole and the bonds themselves would not be in default. Mr. Scruggs also noted that once the State-Aid Intercept provision is called upon, all future payments from that institutions under the Loan Agreement are made via the State-Aid Intercept provision to prevent additional future defaults.

Mr. Carney moved to approve the Resolution. Charles King seconded the motion and the motion carried unanimously.

<u>Board Briefings</u>

Optimal Services Group of Wells Fargo Advisors – 3rd Quarter Performance Reports for the Extended Duration Credit Portfolio and TICR Endowment Portfolios

Bryce Lee and Karen Logan briefed the Board on the General Account External Managers' investment performance for period ending September 20, 2022 and the Quarterly Investment Manager Performance of TICR Endowment.

Bryce Lee provided economic commentary and a pertinent review of capital markets, and introduced the new, streamlined version of its routine reporting. In November, the Fed raised the Fed Funds rate by 75 basis points for the 4th consecutive time. Both CPI and PPI inflation reporting report came in better than expected this month so it is hoped that inflation is starting to be tamed. The General Account has grown from $5.5B in 2016 to $26.3 billion in 2022 and as a result, the target allocation of 75% PLP 25% EDCP has fluctuated over the years.

Dr. Weed asked a question regarding the average year of duration change over the lifetime. Discussion ensued.

Stephanie Notowich from Dodge & Cox discussed the performance results from the longer duration portion they manage of the EDCP portfolio for the period ended October 31, 2022. She mentioned taking advantage of dislocations of the market and building a portfolio of securities with large excess return while adhering to the mandate of high quality and preservation of principle. Ms. Notowich spoke about how the current market environment was unlike anything she has seen with significantly higher yield generation opportunities. When asked if it is a good idea to restrict trading by the external managers to limit realized portfolio losses, Ms. Notowich emphatically said it is not a good idea. Discussion ensued.

Don Ferguson, Senior Assistant U.S. Attorney General and Board counsel, briefed the Board on new electronic meeting participation rules from HB 444, which went into effect on September 1, 2022.

Staff Reports

Investments

Neil Boege provided a summary of the investment portfolios. In October, Primary Liquidity assets increased, generally in line with seasonal trends, while the Extended Duration and Credit Portfolio ('EDCP') assets declined due primarily to market value impact of the rising rate environment.

The yield on the Primary Liquidity portfolio increased 43 basis points, although lagged the benchmark by 4 basis points. The yield of the externally managed, longer duration portfolio ('EDCP') continued to increase and is currently above five percent. The composite yield was 3.06%, 41 basis points higher than in September, and overall duration was stable.

Mr. Boege then reviewed the LGIP portfolios. Both the LGIP and LGIP Extended Maturity (EM) portfolios were in compliance with all material standards and guidelines for the month of October and stress testing of the LGIP stable value portfolio showed the high likelihood of maintaining a $1.00 share price under adverse scenarios. The October gross yield on the LGIP portfolio was 3.19%, 57 basis points higher than the previous month, lagging the single security 3-month Treasury benchmark but easily outperforming money market fund peers as reported by iMoneyNet . The EM portfolio gross yield increased 55 basis points to 2.45%, lagging the 1-year Treasury single security benchmark, while fund duration remained stable at just under 1 year-to-maturity.

Debt Management

Bradley Jones reviewed the Debt Calendar as of November 1, 2022. Mr. Jones also reviewed the leasing reports as of October 31, 2022. He noted that no amounts were disbursed under the Master Equipment Lease Program contract during the prior month, which left the remaining balance at $39.9 million. He also noted that no amounts were disbursed during the prior month for the Energy Lease Program, which left the remaining balance at $37.3 million. Chairman Richardson asked about the recent level of activity. Mr. Jones responded that there has not been recent activity related to the Energy Lease Program and there have been only two leases entered into over the last year. He noted that the Commonwealth recently entered into a new MELP contract, which was with the same vendor as the previous contract. While there was a slight overlap in the contracts, amounts were disbursed from the prior contract. He also noted that while there were no disbursements during the prior month for the new contract, there was $9.4 million of approved requests for future funding.

Mr. Jones then reviewed the Final Financing Summary for the Treasury Board's issuance of Commonwealth of Virginia General Obligation Bonds, Series 2022A Bonds, which were scheduled to close later that morning.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits Act Report (SPDA) for the month ending September 30, 2022. Two pooled depositories were under-collateralized for the month of September by under 1% of their required collateral due to a decrease in the market value of their pledged collateral. In addition, Premier Bank merged into Peoples Bank, headquartered in Marietta, Ohio. Since Peoples Bank was not a qualified public depository, they had to become one, to continue to hold Premier's public deposits. There was no change in IDC ratings from what was reported last month; IDC 2nd quarter ratings are still being used. Only one pooled depository, Trustar Bank, was ranked below average. Ms. Reiter also reviewed the monthly compliance statistics reports and noted that MVB Bank, Inc., was sent a memorandum regarding the Bank's late reporting. The quarterly statistics reports for the end of September 2022 reflected a total of 86 qualified public depositories with balances of $9.7 billion with $6 billion of these deposits held by 26 opt-out depositories and $3.7 billion were held by 60 pooled depositories. The four depositories holding the largest public deposit balances held $5.8 billion or 60% of deposit balances. There were no significant changes in the deposit balances held by public depositories during the quarter. There were no significant changes in the types of securities pledged by pooled Banks. There were some changes in the securities pledged by opt-out Banks. There was a movement out of mortgage-back securities and into U.S. Treasury notes and FHLB letters of credit. In September, the annual Stress Test of the collateral pool was conducted to project the estimated contingent liability of each pooled depository should depositories in the pool fail and there be a loss of public funds. Three different loss scenarios were tested. Each pooled depository was sent a customized memorandum outlining its contingent liability under each loss scenario.
Discussion ensued.

Other Business

The meeting adjourned at 10:38 a.m.

Respectfully submitted,

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Yvonne Scruggs, Secretary
Commonwealth of Virginia Treasury Board