

TREASURY BOARD  
COMMONWEALTH OF VIRGINIA

December 16, 2009

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  
Douglas W. Densmore  
Robert C. Goodman, Jr.

Members Absent: David A. Von Moll

Others Present:

Janet Aylor	Dept of the Treasury	Kevin Larkin	Bank of America
Jeanine Black	Dept of the Treasury	Carl Dodson	John Marshall Bank
Sherwanda Cawthorn	Dept of the Treasury	Vasyl Zuk	J.P. Morgan Chase
Leslie English	Dept of the Treasury	JoAnne Carter	PFM Asset Management,
Debora Greene	Dept of the Treasury	Nelson Bush	PFM Asset Management,
Tracy Clemons	Dept of the Treasury	Steve Johnson	Troutman Sanders
Thelma Ingle	Dept of the Treasury	Alex Daniel	Virginia Bankers Association
Margaret Layne	Dept of the Treasury	Pat Satterfield	Virginia Bankers Association
Judy Milliron	Dept of the Treasury	Bruce Whitehurst	Virginia Bankers Association
Sharon Price	Dept of the Treasury	Richard Grattan	Wachovia
Kristin Reiter	Dept of the Treasury	Darrell Katovich	Wachovia
Evie Whitley	Dept of the Treasury	Treasury staff and others attended	
Robert S. Young	Dept 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. She asked if there were any additions or revisions to the minutes of the November 18, 2009 meeting. The Treasurer noted a typo on page 2, line four, a duplicate “as of.” She provided a copy of the correction. Mr. Boyer moved the approval of the minutes with modifications, Ms. Bowen seconded, and the motion carried unanimously.

Treasurer Ganeriwala congratulated Mr. Goodman on being chosen the Best Lawyer in America in two different categories. She said his peers nominated and recognized him for his achievements.

The Treasurer also thanked the Board Members for their knowledge, support and attendance at Board meetings over the past year. She stated that the Board can be proud of all it has accomplished in the past 12 months. Some of the Board's accomplishments include restructuring of collateral in tiers and the adoption of Opt-Out Guidelines. She indicated that other states are now looking to Virginia in strengthening their own Investment Guidelines.

Mr. Goodman stated how much the Board appreciated the Treasurer's leadership and the knowledge of her staff. The Treasurer also thanked those in the audience for their assistance in working with the Board on matters of vital interest to the citizens of the Commonwealth.

### **Public Comment**

None

### **Agenda Items**

#### **SPDA Under-collateralization Compliance — John Marshall Bank**

The Treasurer introduced Carl Dodson from John Marshall Bank ("the Bank"). She asked Kristin Reiter to give a history regarding this issue. Ms. Reiter stated that Treasury Board guidelines require that the Board review situations in which a qualified public depository is under collateralized three times within a twelve month period to determine if the Board should take any action to protect the public deposits held by a bank. Ms. Reiter indicated that the Bank was under collateralized three times in 2009 (June, July and October) for three different reasons.

Mr. Dodson explained to the Board about the Bank's shortages for each of the three months in question. He indicated that the matter in June was due to an error on the public deposit report submitted for June. The Bank learned about the June error in July. Some of the public fund deposits needed to be reclassified to accurately calculate FDIC coverage. The reclassification resulted in a small shortage for the month of June. When this was discovered, the Bank was in the process of moving its securities from Silverton Bank, which was being closed by the FDIC, to its new escrow agent, SunTrust. There were problems reconciling with SunTrust's safekeeping department. Securities that should have been pledged to Treasury Board were not. There was also a freeze on movement of these securities until the beginning of August. The Bank was under collateralized again in July as they were unable to pledge additional collateral before the end of the month. The third under collateralization event occurred in October when the Federal Home Loan Bank (FHLB) notes, pledged to Treasury Board, were called in at the middle of the month. There were also large pay downs on mortgage securities that were not initially factored in to the calculations, which made up most of the pledged collateral.

Mr. Dodson said that in July the Bank was under collateralized \$600,000. He indicated that the Bank was now monitoring its public deposit balances and the collateral pledged to secure them on a real-time basis, so these situations should not occur again. He said that he was personally involved with this process now..

A discussion ensued regarding lessons to be learned from this situation. Ms. Reiter said that the IDC ranking puts the Bank in the average range, requiring 50% collateral. The Treasurer indicated that the Bank had worked out its operational issues and understood the seriousness of being under collateralized. The Board agreed and did not take any action.

#### **Motion to Procure a Line of Credit for the Master Equipment Leasing Program**

Evie Whitley briefed the Board about the need to procure a line of credit for the Master Equipment Leasing Program. She stated that the contract will expire on January 31, 2010. Although the Board has the option to extend the current contract, she explained the minimum or "floor" interest rate provided in the current contract may be higher than what could be obtained if the contract were rebid. Mr. Boyer asked about the length of time it would take for the procurement of the line of credit. Ms. Whitley said it should be completed by the end of January 2010.

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

#### **Motion to Clarify Submission of Opt-out Election Forms during Initial Election Period**

Ms. Reiter briefed the Board on the action item. At last month's Board meeting, the Board discussed whether a motion should be introduced to be on record that the Board interprets Item A.6 of the Opt-out Guidelines such that if a qualified public depository does not submit an Election Form, as required, this failure will be an election to remain in the collateral pool for the 2010 calendar year. Ms. Reiter noted that 30% of qualified public depositories had not submitted the Election Form during the November 1st through December 1<sup>st</sup> open election period. Mr. Goodman asked if any banks electing to opt out had submitted the Election Form after December 1, 2009. Ms. Reiter said none. Mr. Goodman moved approval of the motion with the correction that the motion reflect the date of December 31, 2009 and not 2010.

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

**Staff Reports:****Debt Management**

Ms. Whitley reviewed the Debt Calendar as of December 1, 2009, the MELP and VELP reports as of November 30, 2009. Treasurer Ganeriwala stated that the Board approved \$3 billion in debt in 15 different debt transactions. The Treasurer also stated that the local and state governments benefited from the refunding (\$1 billion) and that Build America Bonds had become a more prominent way to finance projects.

Ms. Whitley directed the Board to the draft Post-Issuance Compliance Policy handout (Attachment A), and explained the Policy was being handed out for comments this month and action at the January meeting. She introduced Steve Johnson from Troutman Sanders to briefly discuss the Post-Issuance Compliance Policy. Mr. Johnson mentioned that the policy is important because of increased focus by the Internal Revenue Service (IRS) on private use, arbitrage and related documentation. The IRS is looking for issuers to have in place written procedures on compliance matters. Ms. Whitley indicated that Treasury is already doing much of what is set out in the Policy, but the Policy formalizes the process and presents a more organized format for IRS purposes.

Mr. Goodman asked whether SNAP should take a role in compliance. Nelson Bush gave a SNAP prospective and explained how SNAP had worked with a locality that received the IRS questionnaire. The locality had opted to create a policy and increase guidance and oversight on Private Activity Bonds. Mr. Johnson stated that there is an increasing need to focus on private activity, and changes in use on bond-financed facilities.

Ms. Whitley asked the Board to review the policy and present concerns or questions prior to the next meeting. She also stated that the Board may need to append the Treasury Board Guidelines to indicate the issuer should adopt a post-issuance compliance policy prior to coming to the Board for approval.

**State Non-Arbitrage Program (SNAP)**

Margaret Layne reviewed the SNAP report for the month ending November 30, 2009.

**Investments**

Ms. Layne reviewed the Investment Report for December 2009. She indicated that the Fed would be concluding their two-day meeting and staff expects no changes. Ms. Layne reviewed a handout on the performance for external managers (Attachment B). Discussion ensued.

**Security for Public Deposits**

Ms. Reiter noted that three banks were under collateralized for the month ending October 30, 2009. Ms. Reiter reviewed the listing of banks ranked below average by IDC and noted that the listing had been updated using IDC's final 2<sup>nd</sup> quarter 2009 data. She stated that

11 banks were added to the report and 2 were removed, resulting in 32 qualified public depositories of 121 being ranked below-average. This represents 26% of qualified public depositories.

Ms. Reiter stated that staff had looked at other means to evaluate the financial condition of Virginia's depositories, including the use of other rating services instead, or in addition to, IDC and monitoring other financial indicators. Ms. Reiter stated that staff currently relies solely on IDC rankings to monitor the financial health of Virginia public depositories. She indicated that staff would be happy to consider other options the Board might suggest.

Mr. Densmore indicated that he was concerned with the non-pooled banks. Treasurer Ganeriwala stated that with the banks that have opted out of the collateral pool, using the dedicated method to pledge collateral, staff has created layers of protection through the collateral requirements and the percentage hair cuts taken when certain types of securities are pledged. Ms. Reiter stated that another concern is to ensure that banks are reporting all of their public deposits. Mr. Goodman stated that staff needs to be certain that the person signing the monthly public deposit and collateral report is at a high enough level in the bank.

Ms. Reiter gave an update on the first open election period for opting out of the collateral pool. She stated that 39 banks, 32% of our qualified public depositories, have opted out of the collateral pool, holding public deposit balances of \$2.2 billion which represents 66% of public deposit balances. This included our four largest holders of public deposits. Using IDC's 2<sup>nd</sup> quarter bank rankings, 16 banks will have to pledge collateral at 105%, 14 at 110%, 3 at 120%, and 6 at 130%. Eight banks opting out currently do not hold public deposit balances. Treasurer Ganeriwala directed the Board's attention to the Security for Public Deposits Composition of Pooled and Opt-out Banks graph. The Treasurer stated that 1/3 of the banks opted out with 2/3 of the deposits, while 2/3 of the banks did not opt-out, and they have 1/3 of the deposits.

Ms. Reiter also updated the Board on the CDARS situation. Last month it was reported that United Central Bank was under collateralized by 98% for the month of September. After further research, the bank mistakenly pledged collateral to the local government for which it holds public deposits instead of Treasury Board. This situation has been corrected.

Ms. Reiter noted that included in the Board package was a listing of banks that hold CDARS certificates of deposit. It is not an insignificant amount of deposits. Staff contacted the VBA to determine, through the company that offers CDARS, what steps that can be taken to fully protect public deposits from the time of initial deposit with a qualified public depository to settlement through CDARS. A notice will be sent to all qualified public depositories and Virginia local treasurers to remind them to ensure that public deposits are fully ensured under the SPDA until placed with the CDARS Program. These notifications will be done in January.

Ms. Reiter briefed the Board on the proposed draft legislation to update the Security for Public Deposits Act. She indicated that the majority of the Code revisions are intended to clarify language in the Act for easier understanding by interested parties and to make it consistent with the way in which the SPDA Program is currently administered. Mr. Densmore commented on

the changes to the definition of “default or insolvency” and requested that we ensure that it is covering all cases that the Board may have to address.

Mr. Goodman noted the removal of the requirement that reports be submitted “under oath” and requested that staff work with the Office of the Attorney General on language to emphasize the importance on the part of qualified public depositories to submit accurate reports and the consequences if this is not done. A discussion ensued. Ms. Reiter stated that the draft bill was a work in progress and requested the Board’s comments and suggestions. She stated staff will also consult with the Virginia Bankers Association and Virginia Association of Community Banks on the proposed legislation.

**Other Business:**

None

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. Dr. Daniels moved the approval of the moved adjournment, Mr. Densmore seconded, and the motion carried unanimously.

Respectfully submitted,

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Manju S. Ganeriwala, Chairwoman  
Commonwealth of Virginia Treasury Board

**Attachment "A"**  
**Attachment "B"**

Documents are available for review at

The Department of the Treasury

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