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

Members Present:	Manju S. Ganeriwala, Chairwoman	
	Neil Amin	
	Craig Burns	
	James Carney	
	David Von Moll	
Meeting Guests:	Stephen Cummings	Secretary of Finance
	Lauren Figg	Auditor of Public Accounts
	Don Ferguson	Office of the Attorney General
	Chris Boukas	Frasca & Associates
	Allen Chan	Frasca & Associates
	Dianne Klaiss	Frasca & Associates
	Anthia Ma	Frasca & Associates
	Wei-Li Pai	Frasca & Associates
	Gene Crouch	George Mason University
	Anne Gentry	George Mason University
	Sharon Heinle	George Mason University
	Carol Kissal	George Mason University
	Monica Michaud	George Mason University
	Cathy Pinskey	George Mason University
	Andrea Peeks	House Appropriations Staff
	Mary DiMartino	J.P. Morgan Securities, LLC
	Eric Ballou	Kaufman & Canoles
	Megan Gilliland	Kaufman & Canoles
	Bryce Lee	Optimal Service Group
	Karen Logan	Optimal Service Group
	David Calvert	PFM Asset Management
	Ryan Conway	PFM Financial Advisors, LLC
	Patrick Dixon	Wells Fargo Bank
	Neil Boege	Department of the Treasury
	Sherwanda Cawthorn	Department of the Treasury
	Jay Conrad	Department of the Treasury
	Leslie English	Department of the Treasury
	Brad Jones	Department of the Treasury
	Kristin Reiter	Department of the Treasury
	Richard Rhodemyre	Department of the Treasury
	David Swynford	Department of the Treasury
	Stuart Williams	Department of the Treasury

Chairwoman Ganeriwala welcomed and introduced Secretary of Finance, Stephen Cummings. Secretary Cummings greeted the Board and expressed that he looks forward to working with the Board. The citizen Board members introduced themselves to Secretary Cummings.

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed the 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 minutes of the February 16, 2022 meeting. No changes were noted. Chairwoman Ganeriwala asked for a vote of approval of the minutes. David Von Moll moved for approval, Craig Burns seconded, and the motion carried unanimously.

Public Comment

None

Action Items

Resolution Approving the Terms and Structure of a Financing Arrangement Benefiting George Mason University (Institute for Digital InnovAtion)

Bradley Jones provided background information on the proposed public private partnership financing for George Mason University's (GMU) Institute for Digital InnovAtion project (IDIA). He noted the project was authorized during the 2020 General Assembly session and that it received authorization for a mix of funding, which included: 9d revenue bonds; 21st Century general fund appropriation backed bonds; and authorization to enter into a long-term lease. The language authorizing the long-term lease aspect of the project specifically noted a requirement for the financing to follow a Treasury Board review process. Subsequent to the authorization, during the 2021 General Assembly session, GMU became a tier three university, but no language was added to revise the authorization to exempt GMU from Treasury Board review of this project. Under the review process requirements, the Virginia Department of Accounts reviewed GMU's proposed financing and determined that it qualified as a long-term lease and required the Treasury Board's approval.

Mr. Jones introduced GMU representatives: Senior Vice President Carol Kissal, University Counsel Anne Gentry, Director of Capital Projects Cathy Pinskey, and Financial Advisor Ryan Conway who were in attendance in-person and Director of Finance and Debt Management Monica Michaud, Associate Vice President and Controller Sharon Heinle, and Treasurer and Assistant Vice President Gene Crouch, who participated in the meeting by phone.

Ms. Kissal presented the project to the Board. She noted that three years ago, the Commonwealth worked with Amazon to create incentives for the company to establish a second headquarters in Virginia. That commitment kicked-off the Commonwealth's pledge on a "Tech-Talent" pipeline to graduate an additional 25,000 students in computing and STEM Programs by 2029. Of that 25,000 increase in graduates, there is a goal for 10,000 of those graduates to have come from GMU. That goal triggered the plan to expand GMU's Arlington campus and to develop the IDIA project. Ms. Kissal explained that the building design is structured to be co-dependent on industry partnering with GMU. Ms. Kissal explained the guiding principles behind the design of the building, including its planned LEED certification.

Ms. Kissal then explained the deal structure of the public-private partnership. She noted that it was important for GMU to get value for the land that GMU owns, transfer the risks of commercial space leasing on to the industry partner, and the preference for GMU to not have this financing on its balance sheet.

She explained that GMU will be entering into several agreements: a Ground Lease to convey use of the land to the developer; the Mason Lease which will provide GMU with the rights to utilize the building; and a Comprehensive Agreement that provides terms upon which the developer will maintain the building. All three agreements will have 75-year terms. GMU plans to pre-pay the rent under the Mason Lease and be left with annual operations and maintenance costs that will be set and updated regularly under a process set forth in the Comprehensive Agreement.

Ms. Kissal reviewed the project budget and noted that the total project cost is approximately $256 million. Total funding available currently is $244.7 million; which includes $84 million of 21st Century appropriation backed bonds, a plan for fundraising by GMU of $84 million and a plan for the developer to contribute through equity and debt $76.7 million. GMU has raised approximately $21 million in fundraising to date and anticipates issuing bank notes to be paid off with future fundraising efforts. If GMU is unable to meet their fundraising goal, they will carry the short-term debt on their books. As for the shortfall, GMU has requested a budget amendment for additional 21st Century bond authorization. If the amendment is not provided, design modifications will be considered.

Ms. Gentry reviewed the Comprehensive Agreement.

Mr. Conway reviewed the Ground Lease. It was noted that the term of the Ground Lease is 75 years and the exception for the lease to be greater than 50-years has been authorized by the General Assembly and approved by Governor Northam. Mr. Conway reviewed various lease terms and noted that the building and improvements revert to GMU at termination of the Ground Lease. The GMU team explained that as part of the Ground Lease, there is an opportunity for GMU to benefit from an annual ground rent participation (2% of net revenue following payment of all expenses, debt service and a 9% return to the developer/building owner on their equity component). Also, GMU would benefit from any capital sale first undertaken by the developer and later by subsequent owners, as GMU would receive 75bps of gross revenue received from the sale (this includes refinancing). Lastly, GMU's interest in the land will not be subordinated based on any financings that the developer may enter into for the commercial space.

Ms. Pinskey provided an updated slide on the Operating Agreement and noted a change to the planned facilities condition index over the first 30 years of the building life. Chairwoman Ganeriwala asked for clarification of the changes to the slide. Ms. Pinskey responded that a middle tier was added for the 20-30 year time frame and that the addition of this tier would smooth out operations and maintenance spending and hopefully allow the capital reserve funding amount to remain stable over the first 30 years. She noted that after 30 years, it is anticipated that under the facilities condition index, this building will be in slightly better condition that GMU's other campus buildings.

Discussion ensued.

Chairwoman Ganeriwala asked Ms. Kissal to explain GMU's debt capacity. Specifically, she asked what is GMU's measure of debt affordability, where is GMU currently, and what would adding another $84M do to GMU's debt capacity. Ms. Kissal responded that currently GMU has about $600 million of debt on its books. She noted that GMU should be able to issue another $200 million of debt and still maintain its AA rating. Ms. Kissal stated that at one point, GMU looked into financing for this structure with all debt, but it would require a P3 to have a special purpose entity. However, state auditors indicated that it would have to be on GMU's balance sheet. GMU ultimately chose not to go this route.

Neil Amin asked if GMU looked into partnering with its Foundation to own the space and GMU would lease the space. Ms. Kissal responded that they looked at it, but GMU decided instead to focus on becoming a tier three university. They wanted the ability to do financings and saw this alternative as having more value. There were also legal issues that prevented GMU from going this route. Ms. Gentry added that GMU has done deals in the past similar to what Mr. Amin mentioned, but GMU and the Foundation did not wish to take on the risk of leasing out the commercial space.

Mr. Amin then asked if GMU considered doing a "condo" structure. Ms. Kissal responded that they had considered a "condo" structure. Ms. Gentry responded that there were a number of concerns dealing with zoning and the question of which authority would have jurisdiction. Also, because of the synergy of the project, they did not want to have two separately defined authorities. There was concern about having two defined spaces as with a "condo" structure.

Mr. Amin asked if GMU received an appraisal on the land and asked if they could share the appraisal with the Board. Ms. Kissal responded that the land appraised at approximately $20 million.

Discussion ensued. Mr. Amin expressed concern for the developer debt and equity of $77 million of which $50 million is debt. Approximately $170 million is coming from public sources (VCBA bonds and fundraising) and only $25 million in equity (of which nearly $8.3 million is provided to the developer for the development fee) is coming from the developer. Mr. Amin questioned if any modeling was done to determine the developer's return. Mr. Conway responded that the equity return is only generated by the commercial tenants. It was important to GMU that the developer has equity interest in the project. Mr. Amin questioned the developer's fee of $8.3 million again and noted the state is putting in a significant investment. Mr. Conway confirmed that an analysis was done by JLL (real estate advisor). Mr. Conway explained that it is essentially a 9% cash on cash return and JLL determined that it is in-line with the market. Ms. Kissal added that this particular property is classified as a "trophy property".

Mr. Amin asked if the land counts as equity for the developer against the debt. Mr. Conway responded that the land does not count as equity for the developer. Ms. Kissal noted again that the structure provides an opportunity for GMU to receive participating rent.

Chairwoman Ganeriwala asked for an explanation of the 9% cash-on-cash return. Mr. Conway explained that it is the initial $27 million of equity that would receive the 9% return.

Chairwoman Ganeriwala asked if the debt was coming from a bank loan to which Ms. Kissal responded yes. Chairwoman Ganeriwala asked what is the assumed interest rate that the developer will receive on its debt issuance. Mr. Conway responded that it is expected to be about 3.5%. Mr. Amin asked if they are saying that they could borrow $50M to which Mr. Conway answered yes.

Mr. Amin commented that the participating rent of 2% following net revenues and the guaranteed return to the developer seems really low to him. Mr. Conway and Ms. Kissal expressed that they had heavily negotiated this matter and the cash-on-cash return. Discussion ensued.

Mr. Carney asked Mr. Conway to explain the 16% internal rate of return (IRR). Mr. Conway explained that the initial proposal from Mason Innovation Partners was based off of a 16% IIR hurdle, before GMU would have any opportunity to participate in the contract. However, GMU was able to negotiate the agreement to a 9% cash-on-cash return. Mr. Carney further asked about when the 2% is paid to GMU, to which Mr. Conway responded that it is subordinate to all other payments. Mr. Carney asked about GMU’s rights under the Ground Lease. The GMU team noted that in the event of a default, GMU has purchase options that will kick-in. Chairwoman Ganeriwala inquired about any debt pre-payment penalties should GMU wish to step in and purchase the building in the event of a default. Lender agreements would not come before the Treasury Board; however, GMU has the right to review the lender agreements. Ms. Kissal shared that GMU does have the term sheets from the bank. Mr. Conway responded that if the developer fails to perform, GMU has the right to terminate the Ground Lease. Mr. Carney asked for clarification on what fees GMU would have to pay should the Ground Lease be terminated. Ms. Kissal clarified that the termination payment would be the value of the building based on a third party appraisal. Mr. Conway stated that they would forward the Board the fair market value information that is an exhibit of the Ground Lease.

David Von Moll inquired about the return on the 2% rent and asked if various scenarios had been run based on the market, occupancy rates, etc. Mr. Conway responded that he believes that JLL had run an analysis under base case and the returned rent is about $16M for the value of the land over time (75 years). Ms. Kissal also stated that in the case of a default, GMU would either occupy the commercial side of the building with academic space or lease the vacant space to tenants and manage the building.

Mr. Amin questioned the anticipated $16 million expected to be generated over the 75-year term. He noted it is important that the Commonwealth gets a fair deal.

Mr. Von Moll asked for clarification on what “Mason Additional Rent” means. Mr. Conway responded that it is the operating expense.

Chairwoman Ganeriwala asked Ms. Pinskey how the portion of the lease that GMU will pay was determined. Chairwoman Ganeriwala stated that GMU is getting 60% of the space, but GMU is paying 70% of the costs. Ms. Kissal responded that common space is also included in the square footage that GMU pays. Ms. Pinskey added that additionally, the cost to build a 50+ year building (which is significant) plays a part in the costs. Ms. Kissal stated that GMU is getting a trophy Class A building.

Chairwoman Ganeriwala asked what happens if the $11.4 million requested of the General Assembly is not granted. Discussion ensued. Ms. Kissal responded that if the $11.4 million is not received, GMU will either increase the amount of short-term loan or look for other available reserves or request additional funds from the General Assembly the following year.

Mr. Carney asked what is going to appear on the balance sheet and has it been vetted with the rating agencies that it will not impact GMU's credit. Ms. Kissal responded yes to the matter being discussed with the rating agencies. Mr. Conway responded that they had a conversation with Moody's. Ms. Heinle added that there will not be a liability related to the lease since GMU is prepaying during the construction period. The operating expense also will not be on the balance sheet. The only liability that will appear on the books is any potential interim financing.

Mr. Carney asked if the developing company will be the owner for income tax purposes on the entire structure. Ms. Gentry responded that the developing company is responsible for income taxes on the entire structure.

Discussion ensued. Mr. Carney asked if any consideration was given to the developer that there is a benefit given to them under this structure. Mr. Conway responded that they understand this benefit, but the benefit wasn't quantified in the cash flow.

Secretary Cummings asked if the governance committee (controlled by MIP) is for the entire facility, to which Ms. Kissal responded yes. Secretary Cummings asked for clarification. Ms. Kissal explained that it was a matter of an accounting and GASB standard. MIP had to have the greater level of control than GMU so that it would not be on GMU's books. To protect GMU's interest, for any capital event that would go beyond the capital reserve, there would have to be a super majority and GMU would have a deciding vote.

Secretary Cummings further asked what the restrictions would be on building occupancy. Ms. Kissal responded that GMU has a committee that would establish a criteria for tenants.

Secretary Cummings commented on the lack of opportunity to receive a higher percentage of participation rent if the developer receives a premium return. Chairwoman Ganeriwala commented that this provision stood out to each of the Board members.

Mr. Carney stated that if there is an ability to push back, why not pursue a participating structure that would allow for greater returns to GMU if the project receives greater success. Mr. Conway responded that they pushed for that, but GMU was not successful.

Mr. Amin recommended that GMU hire a CPA to do the analysis of the developer's return and determine if GMU is getting a fair deal. Mr. Carney stated that this type of information should be made available to the investors. Ms. Kissal stated that JLL works for GMU and they do all of the modeling. She further stated that much of the terms that the Board sees have been reviewed with JLL and they are a part of GMU's deal team.

Chairwoman Ganeriwala asked what happens if GMU is unsuccessful with the amount of fundraising that they need to fund this project. Ms. Kissal responded that GMU would carry the debt on their books and convert it into some sort of permanent financing. Chairwoman Ganeriwala further asked if GMU has done modeling to see what the University revenue would look like post-COVID. Ms. Kissal confirmed that the 10,000 additional graduates will be paying for that. They are confident that they will have the graduates and fees to service the debt.

Discussion ensued. Chairwoman Ganeriwala suggested that based on the extensive discussion and the Board's desire for GMU to improve the terms of the deal, perhaps the Board ought to consider a "Conditional Resolution"

Mr. Carney motioned to approve the Resolution of the Treasury Board of the Commonwealth of Virginia Approving the Proposed Terms and Structure of a Ground Lease and the Mason Lease between George Mason University and Mason Innovation Partners, Inc. Involving the Institute for Digital InnovAtion subject to the following:

- The University shall continue its negotiation efforts to increase the percentage or establish a performance based sharing mechanism for the compensation it shall receive for participating rent through the Ground Lease;

- The University shall report the results of its negotiation to the State Treasurer and shall provide further analysis on the economics of the project; and

- The Board authorizes and delegates to the State Treasurer to take such further actions as necessary to carry out the purposes and intent of this Resolution.

Chairwoman Ganeriwala asked for a motion for approval of the Resolution as amended. Mr. Carney moved for approval, Mr. Amin seconded, and the motion carried unanimously.

Based on the Board's action it was decided that GMU will pursue further negotiations with the developer and provide Chairwoman Ganeriwala and Mr. Amin with an update on negotiations and an economic analysis by the early part of the week of March 21.

Resolution Approving the Plan of Finance for the Issuance by the Virginia Public Building Authority of its Public Facilities Revenue Bonds

Jay Conrad presented the Preliminary Financing Summary for the issuance of $424.8 million of Public Facilities Revenue Bonds, Series 2022A and the issuance of approximately $20.1 million of Public Facilities Revenue Refunding Bonds, Series 2022B (Federally Taxable). The proceeds of the 2022 Bonds will be used to finance various public facilities, to finance certain grants and regional and local jail and juvenile detention center projects, and to pay for the costs of issuance of the 2022 Bonds. The Bonds will likely be sold competitively on April 5, 2022 and have an estimated delivery date of April 26, 2022. As of February 23, 2022, the estimated all-in true interest costs are:

2022A Bonds	2.57%
2022B Bonds	2.30%

Aggregate 2022 Bonds	2.57%

Mr. Conrad noted that the market has moved higher since preparation of the materials for the Board. He noted that as of March 15, the 2022A Bonds now have an estimated all-in true interest cost of 2.81% and the 2022B Bonds now have an estimated all-in true interest cost of 2.62%.

Mr. Carney asked for the gross underwriting spread, to which Mr. Conrad responded the spread is 0.25%. Mr. Carney asked if there had been any consideration to hedging. Mr. Conrad responded that no hedging had been considered and the VPBA was comfortable issuing up to the maximum true interest costs provided in the resolution. Mr. Carney further asked if any thought had been given to a negotiated sale. Mr. Conrad responded that the Resolution allows for converting to a negotiated sale, so there is flexibility, but it is currently planned that the sale will be issued on a competitive basis.

Ms. Gilliland, bond counsel to the Virginia Public Building Authority, reviewed the resolution.

Chairwoman Ganeriwala asked for a motion to approve the resolution. Craig Burns moved that the Resolution be adopted. Mr. Amin seconded, and the motion carried unanimously.

Mr. Amin and Mr. Burns left the meeting at 10:53 AM.

Debt Management

Mr. Jones reviewed the Debt Calendar as of March 1, 2022.

Mr. Jones also reviewed the leasing reports as of February 28, 2022. There was no activity with the Master Lease Program. There is approximately $56 million available on the current line of credit. There was no activity with the Energy Lease Program. There is approximately $38.5 million available on the current line of credit.

Mr. Jones reviewed the Final Financing Summaries for the Commonwealth Transportation Board's recent Capital Projects Revenue and Refunding Bonds and the Virginia College Building Authority's Public Higher Education Financing Program Bonds.

Security for Public Deposits

Ms. Reiter reviewed the Security for Public Deposits Report (SPDA) for the month ended January 31, 2022. Highlands Community Bank was undercollateralized for almost the entire month of January. Treasury staff will monitor pooled banks that are undercollateralized to determine if a notice to them is warranted to remind them to monitor their public deposit balances throughout the month and not just at month end when compliance reports are due. In January, IDC's 3rd quarter bank ratings were used. No qualified public depositories were ranked below average during the month of January. Virginia National Bank is still required to pledge 100% collateral due to their below average ratings in prior months.

Ms. Reiter informed the Board that a draft of the amended SPDA Regulations is available for view on the Commonwealth's Regulatory Town Hall and public comments will be accepted via the Regulatory Town Hall through April 15. Thus far, only one comment has been received and it was from a public depositor.

State Non-Arbitrage Program

David Calvert of PFM Asset Management reviewed the SNAP report as of February 28, 2022. The fund's assets were valued at $5.07 billion. The monthly yield was .1007%, slightly higher from January's yield of 0.0827%. The weighted average maturity of the fund was 27 days. There were $372.5 million in new bond issuances for the month.

Investments

Neil Boege reviewed the Investment reports for the month ended February 28, 2022. The General Account portfolio was valued at $23.1 billion. The average yield on the Primary Liquidity portion of the General Account was 0.32%; the month prior was 0.30%. The Extended Duration portion of the portfolio had a yield to maturity of 2.20%; the month prior was 1.90%.

Mr. Boege then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of February. The LGIP portfolio was valued at $8.1 billion. The average gross yield on the portfolio was 0.17%; the month prior was 0.14%. The average maturity declined to 41 days, from the previous month of 48 days.

Finally, Mr. Boege reviewed the LGIP Extended Maturity portfolio. The LGIP Extended Maturity portfolio was in compliance for all measures for the month of February. The net asset value gross yield to maturity increased to 0.38% from the previous month of 0.33%. The average duration declined to 0.90 years, from the previous month of 0.92 years.

Other Business

Chairwoman Ganeriwala shared that the next Treasury Board meeting is scheduled for April 13.

The meeting adjourned at 11:13 a.m.

Respectfully submitted,

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Vernita Boone, Secretary
Commonwealth of Virginia Treasury Board