

TREASURY BOARD  
COMMONWEALTH OF VIRGINIA

August 17, 2022

9:00 a.m.

Treasury Board Room – 3<sup>rd</sup> Floor

James Monroe Building

101 N. 14<sup>th</sup> Street, 3<sup>rd</sup> Floor

Richmond, Virginia

Members Present: David L. Richardson, Chairman  
Commissioner Craig Burns  
James Carney  
Randy McCabe  
Charles King  
Dr. Joshua Weed

Members Absent: Neil Amin

Meeting Guests:	Don Ferguson	Office of the Attorney General
	Jennifer Latour	Christopher Newport University
	Doug Hornsby	Christopher Newport University Foundation
	Bryce Lee	Optimal Service Group
	Joe Montgomery	Optimal Service Group
	Jeff Rakes	Optimal Service Group
	Karen Logan	Optimal Service Group
	Nelson Bush	PFM
	Scott Fleming	PFM
	Markita Heard	J.P. Morgan
	Jessica Riggins	J.P. Morgan
	Taylor Medlock	J.P. Morgan
	Matt Bowen	Bank of America
	Austin Lang	Bank of America
	Kevin Larkin	Bank of America
	Bruce Whitehurst	Virginia Bankers Association
	Ty Wellford	Davenport
	Jeff Rakes	Wells Fargo
	Sean Ekiert	Raymond James
	T.W. Bruno	McGuireWoods LLP
	Caroline Perrin	McGuireWoods LLP
	Anne Curtis Saunders	McGuireWoods LLP
	Brad Jones	Department of Treasury
	Richard Rhodemyre	Department of Treasury
	Leslie English	Department of Treasury
	Sandra Stanley	Department of Treasury
	John Ockerman	Department of Treasury
	Tracey Edwards	Department of Treasury

Kathy Foote	Department of the Treasury
Sean Sukol	Department of the Treasury
David Cohn	Department of the Treasury
Stuart Williams	Department of the Treasury
Laura Lingo	Department of the Treasury
Jay Mahone	Department of the Treasury
David Swynford	Department of the Treasury
John Markowitz	Deputy Secretary of Finance

Chairman Richardson welcomed the Board and guests and introduced the new Treasury Board members, Randy McCabe, Comptroller, Charles King, and Dr. Joshua Weed and recognized Jim Carney and John Markowitz, Deputy Secretary of Finance. Chairman Richardson expressed how great it was to be able to meet in person again.

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

Chairman Richardson 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 April 13, 2022 meeting. No changes were noted. Chairman Richardson asked for a vote of approval of the minutes. James Carney moved for approval, Craig Burns seconded, and the motion carried unanimously.

### **Public Comment – None**

Chairman Richardson moved to elect Yvonne Scruggs as the new Executive Secretary to the Treasury Board. Craig Burns, seconded the motion and the motion was unanimously approved. Chairman Richardson expressed his appreciation to Vernita Boone for her years of service and serving as the Treasury Board secretary with Manju Ganeriwala.

Manju Ganeriwala retired after serving thirteen (13) years as the Treasurer under five (5) governors which is quite an accomplishment. Chairman Richardson introduced a Resolution to present, honor and thank her for her years of service with Treasury. Chairman Richardson recognized David Swynford, Deputy Treasurer to present the Resolution. David Swynford read selective parts of the Resolution.

Chairman Richardson moved to approve the Resolution, Randy McCabe, seconded the motion and the Resolution was unanimously approved.

Chairman Richardson made a public declaration of disclosure under the Conflict of Interest Act with regard to prior employment with McGuireWoods LLP related to bond work with Christopher Newport University. A written copy of the declaration will be reflected in the minutes and filed with the Secretary of the Treasury Board.

### **Action Items**

**Resolution Approving the Plan of Finance for the Issuance and Sale of Revenue Bonds for the Benefit of Christopher Newport University (CNU) Real Estate Foundation (New Administration Building)**

Mr. Rhodemyre introduced the CNU team: Jennifer Latour, Vice President for Finance and Planning and CFO at CNU, Doug Hornsby, CEO of the Real Estate Foundation, (the “Foundation”) T.W. Bruno and Anne Curtis Saunders from McGuireWoods, counsel to the Foundation and Sean Ekiert with Raymond James, financial advisor on the transactions.

Mr. Rhodemyre presented the Preliminary Financing Summary for the \$28,500,000 Christopher Newport University Real Estate Foundation (New Administration Building) transaction to finance the demolition of the CNU North Building (formerly the CNU SunTrust Building, which is owned by the Foundation and located at 301 Hiden Boulevard, Newport News, Virginia), the design, construction and equipping of a park at the site, the design, construction of a new approximately 3-story administration building (to be located at 359 Hiden Boulevard, Newport News, Virginia) for the Foundation and Christopher Newport University (the “University”), and the demolition of the existing United States Post Office building located at 359 Hiden Boulevard (collectively, the “Project”); and to finance, if and as needed, capitalized interest on the bonds and costs of issuance related to the issuance of the bonds, working capital, other related costs, and routine capital expenditures at the Project.

Mr. Rhodemyre informed the Board of the CNU Real Estate Foundation’s intent to enter into a fixed-rate term loan from South State Bank with a drawdown during the construction period up to 24 months. During construction, there will be monthly payments of interest only on drawn proceeds. After construction (25<sup>th</sup> month after closing), there will be a conversion of the outstanding balance to a term loan with level monthly debt service based on a 30-year amortization. There will be a fixed interest rate of 3.48% through August 2034 and a Bank put date 12 years from closing (August 2034), with automatic extension by 8 years to 2042 if the Foundation is in compliance with covenants. At the put date, the rate shall reset at 79% of 7-year swap index +1.15%. There would be an additional put date in 2048, with rate reset at 79% of 7-year swap index +1.15%. Final maturity is scheduled for August 1, 2054. The date of delivery is on or about August 19, 2022, with the interest due monthly, beginning September 1, 2022 and principal payment dates due monthly, beginning September 1, 2024. Mr. Rhodemyre reviewed the pre-payment terms. Given the similarities, it was decided that the second CNU project would be reviewed and then the Resolutions would be reviewed and considered.

**Resolution Approving the Plan of Finance for the Issuance and Sale of Revenue Refunding Bonds for the Benefit of Christopher Newport University Real Estate Foundation (Refinancing of a Student Housing Complex)**

Mr. Rhodemyre presented the Preliminary Financing Summary for the refinancing of the \$7,500,000 transaction to refinance the balance outstanding of the Authority’s Revenue Bond (Christopher Newport University Student Housing Project), Series 2018A (\$4,235,509.86) and the Revenue Bond (Christopher Newport University Student Housing Project), Series 2018B (\$2,413,497.73) (collectively, the “2018 Bonds”), originally issued to refinance existing debt of the Foundation that refinanced the costs of constructing and equipping a student housing complex (the “CNU Apartments”) located at 39 Sweetbriar Drive in the City of Newport News, Virginia 23606 and

leased by Christopher Newport University and to finance costs of issuance related to the issuance of the bonds.

Mr. Rhodemyre informed the Board of the Foundation's intent to enter into of a fixed rate term loan from South State Bank. The principal and interest will be payable monthly in equal monthly installments, with a final maturity of December 1, 2033 and a fixed interest rate of 3.44% payable from project revenues received under the lease between CNU and the Foundation. The refinancing will eliminate a balloon payment of \$5,915,612 due on December 1, 2023 on the existing Series 2018A and Series 2018B Bonds, and will create a fixed-rate, level debt service structure to fully retire the debt associated with this project.

Discussion ensued.

T.W. Bruno from McGuireWoods and bond counsel on the transactions reviewed the Resolutions.

Chairman Richardson asked for a motion to approve the Resolution related to the New Administration Building. Charles King moved that the Resolution be approved. Randy McCabe seconded, and the motion carried unanimously.

Chairman Richardson asked for a motion to approve the Resolution related to the refinancing of student housing. James Carney moved the Resolution be approved. Craig Burns seconded, the motion carried unanimously.

### **Motion to begin the Final Stage of the Administrative Process to Amend the Virginia Security for Public Deposits Act Regulation**

Kristin Reiter presented to the Board a motion for their approval pursuant to Section 2.2-4405(1) of the Code of Virginia of 1950, as amended, that empowers the Treasury Board to make and enforce regulations necessary and proper to perform its functions under the Security for Public Deposit Act (SPDA). The motion authorized the State Treasurer, acting on behalf of the Treasury Board, to begin the final stage to amend the Virginia Security for Public Deposits Act Regulations (Regulations) in accordance with the Virginia Administrative Process Act. Amendments to the Regulation are necessary to safeguard Virginia public deposits held in qualified public depositories and to update the language in the Regulations to complement that in the SPDA.

Ms. Reiter reviewed the timeline for amending the Regulations with the Board. Phase I began in August 2020, with the Board authorizing the amendment of the SPDA Regulations. Phase II began in October 2021, when the amended Regulations were submitted to Virginia's Regulatory Town Hall to begin the review and approval process, including a public comment period which ended on April 15, 2022. By October 14, 2022, the final phase of the amendment process begins with the submission of the final amended Regulations to the Regulatory Town Hall.

Ms. Reiter explained to the Board the need for amending the Regulations at this time. The Regulations have been out of sync with the SPDA since the SPDA was amended during the financial crisis of 2008-2010. In addition, four policy changes are being proposed to strengthen the SPDA Program. Ms. Reiter briefly addressed the four policy changes: (1) require pooled banks to take haircut when valuing municipal securities pledged as collateral. A 10% haircut will be taken when valuing Virginia municipal securities pledged as collateral and a 20% haircut will be taken when

valuing out-of-state municipal securities pledged as collateral. The reliability for the pricing of some municipal securities, especially revenue bonds of municipalities outside of Virginia has been a concern. The liquidity of some municipal securities has also been a concern. Could the securities be liquidated at their reported market value in the event of a bank default; (2) establish eligibility criteria to become a qualified public depository and escrow agent; (3) formalize compliance requirements for qualified public depositories and escrows; and (4) require public depositors to verify their public deposit account balances reported by their qualified public depositories to the Treasury Board quarterly.

Ms. Reiter outlined the process to ensure all stakeholders were notified of the amendment process and the public comment period. Stakeholders were identified. The three public comments received via the Virginia Town Hall were reviewed. One emphasized the need that Treasury's web-based public funds search feature be a secured portal. Two from the Virginia Bankers Association and The National Bank of Blacksburg addressed the proposed change to require municipal securities pledged by pooled depositories as collateral to be valued at market value with a 10% to 20% haircut. Ms. Reiter addressed the banks' concerns regarding the additional costs to them associated with the haircuts, at a time when the Banks are holding larger than normal public deposit balances. With this new requirement, either the pooled banks will have to pledge additional municipal securities or pledge another type of collateral that does not have haircuts. The banks also highlighted that pooled banks understand the contingent liability risk that they are taking by being part of the collateral pool.

Ms. Reiter provided recent analytical data regarding the impact to pooled banks by imposing a haircut when valuing municipal securities pledged as collateral. Less than half of pooled depositories in March 2022, pledged municipal securities as collateral. Of the twenty that did pledge municipal securities, only eight banks would have been impacted by this proposed change. Reviewing a year of quarterly data, most of these eight banks would only have been impacted by this change for one quarter during the year. A few pooled banks with large public deposit balances that favor municipal securities as their preferred collateral type will be most impacted by this change. Ms. Reiter noted that pooled banks have a six-month period after the Regulations become effective to meet this new requirement.

Discussion ensued.

Bruce Whitehurst, president of VBA, commented regarding a long-standing and good relationship with Treasury over the years and appreciated the process and opportunity to be included in the process and encouraged more conversation. He summarized the views of the banking community regarding the proposed changes, especially addressing the impact of the proposed haircut on municipal securities pledged as collateral by pool depositories.

Chairman Richardson asked that the Motion be approved. James Carney moved the Motion be approved. Dr. Weed seconded, the Motion carried unanimously.

### **Optimal Services Group of Wells Fargo Advisors – 2nd Quarter Performance Reports for the Extended Duration Credit Portfolio and TICR Endowment Portfolios**

Joe Montgomery, Jeff Rakes, Karen Logan and Bryce Lee briefed the Board on the General Account External Managers' investment performance for the 2nd quarter of 2022 and the Quarterly

Investment Manager Performance of TICR Endowment for taxable and tax-exempt portfolios for the 2nd quarter of 2022.

Bryce Lee briefed the Board on the General Account extended duration portfolios. The portfolio was valued at \$1.2 billion and had earned income of \$31.5 million. The portfolio was up 1.5% in the 2nd quarter trailing the benchmark by two basis points.

Karen Logan briefed the Board on the TICR tax exempt and TICR taxable portfolios. The TICR taxable portfolio was valued at \$279 million and had a total investment gain of \$10.2 million. The portfolio return in the 2nd quarter was 1.2 % net of fees, slightly ahead of the benchmark. The TICR tax exempt portfolio was valued at \$198.7 million and had a total investment gain of \$9.9 million. The 2nd quarter return net of fees was 1.5%, equaling the benchmark.

## **Staff Reports**

### **Debt Management**

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

Mr. Jones also reviewed the leasing reports as of July 31, 2022. He noted that approximately \$321 thousand was provided through the Master Lease Program for the Department of General Services for vehicle fleets. This left the remaining balance at approximately \$57.7 million. He noted that the Master Lease Program contract expired at the end of July. So there will be no more draws from that contract, but that a new contract has started and there is no activity to report. The available balance on the new contract is \$40 million. There was no activity with the Energy Lease Program. VELP has approximately \$38.5 million remaining.

### **Security for Public Deposits**

Kristen Reiter reviewed the Security for Public Deposits Report (SPDA) for the month ended June 30, 2022. Ms. Reiter reported that Premier Bank was under-collateralized for weekly reporting in June. Integrity Bank for Business became a new pooled depository in June. There was no change in the IDC ratings from what was reported last month. IDC's 1<sup>st</sup> Quarter 2022 ratings were still being used in June. Only one bank, Blue Grass Valley Bank, was ranked below average by IDC, using the 1<sup>st</sup> Quarter ratings. Trustar Bank is no longer ranked below average and will be removed from listing if rating is average or above on 2<sup>nd</sup> Quarter 2022 IDC report. Ms. Reiter also reviewed the monthly compliance statistics reports. At June 30, 2022, 85 public depositors held public deposit balances (net of FDIC) of \$10.9 billion; \$7.1 billion of these deposits or 65% were held by 26 opt-out depositories and \$3.8 billion, or 35% of public deposit balances were held by 59 pooled depositories.

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

Nelson Bush of PFM Asset Management reviewed the SNAP report as of July 31, 2022. Mr. Bush provided market commentary. Effective June 2022, the consumer price index jumped by 9.1%. The monthly distribution yield was 1.69% in July. At the end of July, the seven-day average yield was

1.94%, higher from June's seven-day average yield of 1.49%. The weighted average maturity of the fund is 20 to 30 days. The Program assets as of July 31, 2022, were \$5.56 billion. SNAP is getting ready to initiate a survey to investors. Survey results in 3 months.

### **Investments**

John Ockerman provided a summary of the monthly investments. In late July, the FOMC raised policy rates by 0.75% as had been widely expected. Markets currently expect another increase of at least 0.50% in September. The General Account portfolio was valued at \$26,405,625,000 billion. Sterling Capital was hired in July with a short duration mandate within the Extended Duration and Credit Portfolio. The average yield on the Primary Liquidity portion of the General Account was 1.51%, up from 1.16%; the prior month. The Extended Duration portion of the portfolio had a yield to maturity of 3.33%; the month prior was 3.63%.

Mr. Ockerman reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of July. The LGIP portfolio was valued at \$10.3 billion, up from \$10.1 billion in the prior month, and is expected to decline with seasonal drawdowns through November. The average gross yield on the portfolio was 1.71%; the month prior was 1.19%. The average maturity was 38 days; the previous month of 37 days.

### **Other Business**

The meeting adjourned at 11:23 a.m.

Respectfully submitted,

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Yvonne Scruggs, Secretary  
Commonwealth of Virginia Treasury Board