

TREASURY BOARD
COMMONWEALTH OF VIRGINIA
November 15, 2023
9:00 a.m.
Treasury Board Room
James Monroe Building
101 N. 14th Street, 3rd Floor
Richmond, Virginia

Members Present: David L. Richardson, Chairman
Neil Amin
James Carney
Charles King
Sharon Lawrence
Joshua Weed

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| Meeting Guests: | Don Ferguson | Office of the Attorney General |
| | Scott Fleming | PFM Asset Management LLC |
| | David Swynford | Department of the Treasury |
| | Brad Jones | Department of the Treasury |
| | Stuart Williams | Department of the Treasury |
| | Neil Boege | Department of the Treasury |
| | Leslie English | Department of the Treasury |
| | Sandra Stanley | Department of the Treasury |
| | Laura Lingo | Department of the Treasury |
| | Kathy Foote | Department of the Treasury |
| | Richard Rhodemyre | Department of the Treasury |
| | Nick Davies | Mercer LLC |
| | Kyle Zotta | Mercer LLC |
| | Janet Lee | PRAG |
| | Christine Ilarina | PRAG |
| | Megan Gilliland | Kaufman & Canoles |
| | Eric Ballou | Kaufman & Canoles |
| | Marketa Heard | J.P. Morgan |
| | Kathleen Bowe | Wells Fargo |
| | Scott Detar | BoFA |

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 23, 2023 meeting. Chairman Richardson asked for a vote of approval of the minutes. J.P. Carney moved for approval, Sharon Lawrence seconded, and the motion carried unanimously.

Public Comment - None

Action Items

Resolution Approving the Issuance of the Commonwealth of Virginia General Obligation Bonds, Series 2024

Leslie English introduced Megan Gilliland of Kaufman & Canoles, P.C. Janet Lee and Christine Illarina of Public Resources Advisory Group joined via telephone. Ms. English covered applicable sections of the Preliminary Financing Summary for the \$200,620,000 Commonwealth of Virginia General Obligation Bonds, Series 2024A consisting of approximately \$65,785,000 General Obligation Bonds, Series 2024A and approximately \$134,835,000 General Obligation Refunding Bonds, Series 2024B collectively (the “Bonds”) issued under Section 9(a) (3) and Section 9(c) of the Constitution of Virginia. The Bonds will be secured by (i) the pledge of net revenues derived from revenue producing capital projects at the institutions of higher education and certified as to their sufficiency by the Governor, and (ii) the full faith and credit of the Commonwealth. The proceeds of the Bonds will be used to (i) finance the costs of constructing and equipping certain revenue producing capital project at higher educational institutions of the Commonwealth and (ii) pay costs of issuing the 2024A Bonds. The proceeds of the 2024B Bonds will be used to (i) refund certain prior general obligation bonds of the Commonwealth and (ii) pay costs of issuing the 2024B Bonds. The Bonds are scheduled to price competitively on February 14, 2024, at an estimated true interest cost of 3.92% for the Series 2024A Bonds and 3.29% for the Series 2024B Bonds with an anticipated delivery date of March 6, 2024. The estimated costs of issuance are \$266,500, excluding the underwriters’ discount.

Megan Gilliland from Kaufman & Canoles, P.C., bond counsel to the Treasury Board, reviewed the Resolution. Ms. Gilliland offered a revision to the resolution to note that the first interest payment for the 2024B bonds would occur on June 1, 2024 and not December 1 as appeared in the package.

J.P. Carney inquired about the underwriter’s fees and PV savings. Discussion ensued.

Chairman Richardson asked for a motion to approve the Resolution to include the resolution as presented. Charlie King moved that the Resolution be approved. Dr. Joshua Weed seconded, and the motion carried unanimously.

Board Briefing

Presentation on General Account Review By Mercer LLC

Nick Davies, Partner and Senior Investment Consultant of Mercer LLC (“Mercer”) introduced Kyle Zotta. Mr. Davies highlighted their upcoming work calendar with Treasury and an overview of the General Account, including the balance between the shorter duration, internally managed (“PLP”) portfolio and the longer duration, externally managed (“EDCP”) portfolio. Overall assets grew considerably over the last five (5) years from ~\$18 billion to ~\$30 billion

last month. He also reiterated their support regarding changes to security lending recommendations based on percentage of assets rather than fixed dollar amount.

Kyle Zotta provided specifics about external managers, including Mercer's internal ratings of each. Five out of six managers have an above average assessment of outperformance potential, and he recommended that there should be no changes at this time. Mr. Zotta discussed the cash inflows/outflows versus the investment returns, "liquidity budgeting", and reviewed historical PLP and EDCP mix. Currently, the PLP/EDCP asset allocation target is 75%/25%. Mercer recommends adopting a 65%/35% allocation target and re-evaluating this target on an annual basis based on market conditions and/or changes in Virginia's financial strength. Mercer recommended using normal cash flows over time to direct allocations to EDCP managers, while maintaining (for now) the 20%/60%/20% target allocation within the EDCP portfolio.

Discussion ensued about the General Account's analysis, stress test cushions, capital allocation and sources of liquidity.

Investments

Neil Boege reviewed the Investment reports for the month ended October 31, 2023. The General Account portfolio was valued at \$29 billion. The average yield on the Primary Liquidity portion of the General Account was 4.70%, up from September's average yield of 4.62%.

The Extended Duration portion of the portfolio had a yield to maturity of 5.86%, up from September's yield to maturity of 5.64%.

Collected income from the General Account continues to average \$100 million per month.

Mr. Boege then reported on the LGIP portfolio, which was in compliance with all guidelines and standards for the month of October and was valued at \$10.8 billion, a slight increase from September, in line with normal seasonal trends. The average yield on the portfolio was 5.55%, up from September's average yield of 5.53%, and outperforming the iMoneyNet Institutional Money Fund Index by 0.43%. The average maturity was 47 days, up one day from the previous month.

Mr. Boege then reviewed the LGIP Extended Maturity portfolio, which was in compliance with all guidelines and standards for the month of October. The net asset value yield to maturity was 4.35%, up from October's net asset value yield to maturity of 4.30%. The average duration extended slightly from 0.81 years to 0.87 years during the month.

Debt

Mr. Jones reviewed the Virginia Debt Calendar as of November 1, 2023 and the leasing reports as of October 31, 2023. He noted that the General Obligation sale approved by the Treasury Board earlier in the meeting is scheduled to price in February. Mr. Jones commented that he has been in touch with an issuer that will likely come before the Board in January for an approval request and a plan to issue bonds in February. He stated the Virginia Public School Authority (VPSA) is currently scheduled to issue bonds and notes in April and that the notes sale will

likely come before the Board for consideration in March. Mr. Jones' final comments on the debt calendar included a note that a Virginia College Building Authority sale is planned for the spring, but that a date has not been set; similarly, a Virginia Public Building Authority sale is being evaluated with no specific date set. Mr. Jones transitioned to the leasing programs. He stated that there was limited funds provided through the Master Lease Program in October, which were distributed to the Department of General Services (DGS) for fleet vehicles. However, he noted that DGS closed out an existing vehicle fleet lease with approximately \$2 million remaining, but that the agency had recently had a new lease approved for draws that could amount to over \$13 million, bringing the total potential future draws for this lease program to approximately \$20 million. He noted that the Master Lease Program balance was approximately \$30.4 million at the end of October. Mr. Jones stated that there was no activity to report of the Energy Lease Program.

Security for Public Deposits

Laura Lingo reviewed the Security for Public Deposits Act report (SPDA) for the month ending September 30, 2023. No depositories were under-collateralized for the month of September. There was one name change for the Bank of Clarke County to Bank of Clarke. IDC's 2nd quarter bank ratings were used in September. Blue Grass Valley Bank in Blue Grass, Virginia and Blue Ridge Bank, NA in Luray, Virginia were added and ranked below average by IDC as well as Movement Bank headquartered in Danville and one opt-out bank, Shore United Bank headquartered in Maryland continued to be ranked below average by IDC. Banks are ranked by financial indicators. As of September 30, 31% were ranked 125-200, 31% were ranked from 201-250 and 33% were ranked from 251-300. We anticipate receiving the 3rd quarter bank ratings by the end of this month.

Quarterly statistics summaries included summaries of public deposit balances net of FDIC. At September 30, 61% of public deposits were held by 27 opt-out depositories with the remaining 39% held by 60 pooled depositories. While 95% of pooled public deposits are held by banks chartered in Virginia, 93% of opt-out public deposits are held by banks chartered in other states.

The month of November is the annual election period when public depositories can change their collateralization method from pooled to opt-out and vice versa. To date, no depositories have notified us of their intent to change their collateralization method for 2024. To assist pooled banks in making this decision, we prepared stress tests of different scenarios as of July 31, 2023 and provided each pooled bank with their potential contingent liability should another pooled bank default.

Other Business

The meeting adjourned at 10:36 a.m.

The next Treasury Board meeting is scheduled for December 13, 2023

Respectfully submitted,

Yvonne Scruggs, Secretary
Commonwealth of Virginia Treasury Board