

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

March 20, 2024

10:00 a.m.

Treasury Board Room
James Monroe Building
101 N. 14th Street, 3rd Floor
Richmond, Virginia

Members Present: David L. Richardson, Chairman
Neil Amin
J.P. Carney
Charles King
Sharon Lawrence

Meeting Guests:	Scott Laws	Office of the Attorney General
	Donald Ferguson	Office of the Attorney General
	Steve Cummings	Office of the Governor
	Scott Fleming	PFM Asset Management LLC
	Kristy Choi	PFM Asset Management LLC
	David Swynford	Department of the Treasury
	Brad Jones	Department of the Treasury
	Stuart Williams	Department of the Treasury
	David Back	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
	Melissa Palmer	Department of the Treasury
	Kathy Foote	Department of the Treasury
	Kristin Reiter	Department of the Treasury
	Nick Davies	Mercer LLC
	Kyle Zotta	Mercer LLC
	Janet Lee	PRAG
	Christine Ilarina	PRAG
	George Scruggs	Kutak Rock
	Anne Curtis Saunders	McGuire Woods LLP
	T.W. Bruno	McGuire Woods LLP
	Kathleen Bowe	Wells Fargo
	Mark Burns	Wells Fargo Securities
	Elena Gallo	Wells Fargo
	J.W. Grenadier	Judicial Pedia
	Kevin Larkin	Bank of America
	Ty Wellford	Davenport

Call to Order and Approval of Minutes

Chairman Richardson welcomed the Board members and called the meeting to order at 10:00 a.m.

Chairman Richardson asked if there were any changes or revisions to the minutes of the January 17, 2024 meeting. Chairman Richardson asked for a vote of approval of the minutes. Charlie King moved for approval, Neil Amin seconded, and the motion carried unanimously. J.P. Carney abstained from voting due to his absence at the January meeting.

Public Comment - J.W. Grenadier commented on the judicial system and the filing of a lawsuit against the Commonwealth of Virginia, *et als*.

Action Items

Resolution Approving the Plan of Finance for the Issuance by the Virginia College Building Authority (VCBA) of its Educational Facilities Revenue and Refunding Bonds (21st Century College and Equipment Programs), Series 2024AB

Leslie English presented the Preliminary Financing Summary for the issuance of \$614,345,000 of Virginia College Building Authority, Educational Facilities Revenue Bonds (21st Century College and Equipment Programs), Series 2024A and \$116,135,000 of Educational Facilities Revenue Refunding Bonds (21st Century College and Equipment Programs), Series 2024B.

Janet Lee and Christine Illarina of Public Resources Advisory Group joined via telephone.

The proceeds of the 2024A Bonds will be used to (i) finance approximately \$600 million of certain capital projects and acquire approximately \$91.65 million of equipment for public institutions of higher education in the Commonwealth of Virginia, and (ii) pay the costs of issuing the 2024A Bonds, (the "Bonds"). The proceeds of the 2024B Bonds will be used to (i) refund certain outstanding bonds or portions thereof of the Authority, and (ii) pay the costs of issuing the 2024B Bonds. The issuance of the 2024B Bonds is subject to market conditions and will continue to be monitored.

The Bonds are secured by funds appropriated by the General Assembly of the Commonwealth of Virginia. The Bonds are scheduled for sale on April 16, 2024, with an anticipated delivery date of May 7, 2024. The Series 2024A Bonds will be amortized up to 20 years with a final maturity of 2044. The Series 2024B Bonds will have a final maturity of 2034 and the final maturity will not exceed the original maturity of the bonds being refunded. Principal will be paid annually on February 1, beginning February 1, 2025 through February 1, 2044 for the Series 2024A Bonds and beginning February 1, 2027 and February 1, 2031 through February 1, 2034 for the Series 2024B Bonds. Interest will be paid semi-annually on February 1 and August 1, beginning August 1, 2024. In addition, the Bonds may be subject to certain mandatory sinking fund redemption provisions. The estimated true interest cost as of March 19 was:

Aggregate	3.4328%
Series 2024A	3.5382%
Series 2024B	2.7069%

Ms. English commented that the Bonds are expected to be rated AA+ from Fitch and S&P and Aal from Moody's.

George Scruggs from Kutak Rock LLP, bond counsel to the VCBA, reviewed the Resolution.

Discussion ensued about the present value savings and whether the underwriters' discount was included in the All-in True Interest Cost as well as the present value savings on the refunding bonds.

Chairman Richardson asked for a motion to adopt the Resolution as presented. J.P. Carney moved that the Resolution be approved. Charlie King seconded, and the motion carried unanimously.

Resolution Approving the Plan of Finance for the Issuance and Sale by the Virginia Public School Authority (VPSA) of its School Technology and Security Notes Series XII

Chairman David Richardson presented a disclosure pursuant to Section 2.2-3112 which involved the VPSA transaction.

Brad Jones presented the Preliminary Financing Summary for the issuance of \$67,894,000 of School Technology and Security Notes Series XII (the "Notes"). He stated that the proceeds of the Notes are being used primarily to make grants to: (i) establish a computer-based instructional and testing system for the Standards of Learning (SOL) and to develop the capability for high-speed Internet connectivity at high schools followed by middle schools followed by elementary schools (approximately \$56 million); and (ii) help offset the costs associated with the purchase of appropriate security equipment (\$12 million). The Notes are limited obligations of the Authority payable from appropriations by the Virginia General Assembly from the Literary Fund and are backstopped by a sum sufficient appropriation pledge. The Notes are planned to be issued through a competitive auction using electronic bidding with a sale date of April 30, 2024 and a delivery date on or about May 16, 2024. For efficiency reasons, the two series of Notes are combined into one Note series sale as they have the same security and final maturity. However, each series is authorized under a separate Note Resolution.

Mr. Jones noted that the bidding process will allow for term notes with mandatory sinking fund provisions, but that it is expected that the Notes will be bid as serial maturities. The Notes will mature or have sinking fund provisions annually in 2025 through 2029, paying current semiannual interest and annual principal and will be structured on a level debt service basis. The projected true interest cost was 2.91% as of March 5, 2024, and as of March 18, 2024 the rate was nearly unchanged at 2.90%. It was noted that the estimated costs of issuance is \$214,050, excluding the underwriters' discount.

Mr. Amin asked for more details regarding the counsel fees across the VCBA and VPSA transactions reviewed by the Board. Mr. Jones noted that trustee counsel fees are typical when an outside trustee is utilized such as with the VCBA transaction considered earlier in the meeting. He also noted that the Commonwealth increased its disclosure efforts several years ago and that disclosure counsel fees are now typical across Commonwealth issuances. Discussion ensued.

Mr. Jones introduced Kristy Choi, PFM Financial Advisors and Anne Curtis Saunders and T.W. Bruno with McGuireWoods, as bond counsel.

Anne Curtis Saunders reviewed the Resolution to approve the School Educational and Technology Notes and the Resolution to approve the School Security Notes.

Chairman Richardson asked for a motion to approve the School Educational Technology Notes Resolution. Sharon Lawrence moved the Resolution be approved. J.P. Carney seconded, and the motion was carried unanimously.

Chairman Richardson asked for a motion to approve the School Security Notes Resolution. Neil Amin moved the Resolution be approved. J.P. Carney seconded, and the motion was carried unanimously.

Debt

Brad Jones reviewed the Virginia Debt Calendar as of March 1, 2024, and the leasing reports as of February 29, 2024. Mr. Jones commented on the success and savings generated by the Commonwealth Transportation Board's Capital Projects Revenue Refunding Bonds, which priced in February and closed in March. He also noted two upcoming Virginia Public School Authority (VPSA) sales in April, as well as a bond sale by the Virginia College Building Authority (VCBA) in April. He mentioned that staff is planning for a Virginia Public Building Authority (VPBA) sale in May and anticipates seeking both VPBA and Treasury Board approval for the sale during the month of April. Mr. Jones then reviewed the activity for the Master Equipment Lease Program, noting that approximately \$600 thousand was provided during February, bringing the total amount provided to nearly \$13 million and the available line of credit balance to approximately \$28 million. He noted there was no activity to report on the Energy Lease Program.

Board Briefing

Mercer's Presentation on the 2nd Quarter Performance Reports for the EDCP Portfolio and TCR Portfolio and Money Manager Update on EDCP Strategy and TICE Consolidation

Nick Davies and Kyle Zotta of Mercer, LLC provided an investment review on the 2nd quarter performance of the EDCP and TCR and the TCR Consolidation. Mercer reviewed its 2024 High-Level Work Plan that included their structure of EDCP managers, allocations, and quarterly operations. The EDCP's suballocation targets were recently revised to 40% Short, 40% Intermediate, and 20% Long Duration. The new targets are being implemented on a gradual

basis targeting \$500 million per month and in coordination with the overall General Account shift from a 75% PLP/25% EDCP split to 65%/35%.

Kyle Zotta provided information on the EDCP's growth, strong performance and the portfolio's characteristics. Mercer's EDCP review process focused on the current manager lineup and selecting a 3rd manager to compliment the other managers and to replace a long duration manager. The characteristics in the EDCP fund included a slightly lower duration and the yield curve positioning fairly close to the benchmark and credit spectrum. (40 basis points ahead of the benchmark). The EDCP intermediate duration portfolio allocation comprised a yield premium vs. its benchmark with a slightly above benchmark duration. The EDCP long duration portfolio allocation comprised of a yield premium vs. its benchmark while maintaining a slight lower duration with the credit quality driven by Dodge & Cox. The portfolios are closely monitored for key characteristics.

Mercer provided an overview of the TICR review. Mr. Zotta commented on the strong finish in the TICR taxable performance and the tax-exempt performance for 2023. The portfolio focused on liquidity. Mr. Davies covered the executive summary of the TICR consolidation of portfolio managers. The TICR taxable endowment has a 25%/75% allocation to short-term and intermediate term fixed income. The short-term allocation is managed by Income Research & Management (IR &M) while the intermediate-term allocation consists of a fairly even split between Dodge & Cox and Segall, Bryant & Hamill. Mercer regularly communicates with Treasury staff regarding potential consolidation of the endowments' manager lineup and will discuss any potential adjustments with staff and the manager as part of the implementation.

Action Items

Motions to Approve Recommendations Regarding the Tobacco Indemnification and Community Revitalization (TICR) Endowment Proceeds.

Stuart Williams presented the staff recommendation for the TICR Taxable proceeds to remove Dodge & Cox and Segal Bryant and Hamill as investment managers. Upon such removal, the securities previously managed by Dodge & Cox and Segal Bryant and Hamill will be transferred in-kind to Income Research + Management.

Chairman Richardson asked for a motion to approve the recommendation to remove Dodge & Cox and Segal Bryant and Hamill as investment managers and transfer the securities managed thereto to Income Research + Management. Neil Amin moved the motion and Charlie King seconded, and the motion was carried unanimously.

Mr. Williams presented a motion pursuant to Section §3.2-3104B of the Code of Virginia, to delegate to the State Treasurer, in consultation with Investment staff and the Investment Consultant, the authority to implement the recommendation related to the appropriate investing of the Taxable portfolio of the TICR Endowment.

Chairman Richardson asked for a motion to delegate to the State Treasurer, in consultation with Investment staff and the investment consultant, the authority to implement the recommendation

related to appropriate investing of the Taxable portfolio of the TICR Endowment. J.P. Carney moved the motion and Neil Amin seconded, and the motion was carried unanimously.

Investments

David Back reviewed the Investment reports for the month ended February 29, 2024, and commented on the change in the market perceptions and the current market expectations. The General Account portfolio was valued at \$23 billion. There was a small drop in the overall balance of the internal managed PLP due to funds moved to external managers. It is expected that funds will continue to move in the amount of \$500 million at a monthly pace through October. EDCP balance increased as a result of these ongoing transfers. There was no real change in the asset allocation over the last month. Rates are beginning to level out. Markets are being driven by the expectation of timing of future cuts in Federal Reserve policy rates. Collected income was approximately \$102 million for the month of February. Securities purchased for the Primary Liquidity Pool in the month of February were acquired at an average yield of 5.38%.

Neil Boege provided some commentary on moving money totaling \$500 million to the external managers at the end of March. Following the re-allocation, short-end managers Sterling and Merganser will receive \$200 million each while \$100 million will be moved to long-end manager Dodge & Cox.

Mr. Back reported on the LGIP portfolio, which was in compliance with all guidelines and standards for the month ending February. The balance of the LGIP decreased by \$608 million. Annualized gross yield of 5.53% exceeded the benchmark by 9 basis points in February. The Stress Test indicated the LGIP maintained a stable net asset value per share based upon the hypothetical event assumptions developed by management using worst case scenarios.

Mr. Back then reviewed the LGIP Extended Maturity portfolio, which complied with all guidelines and standards for the month of February. While the NAV per share decreased by \$0.03 from January, the NAV gross yield to maturity was 4.76%, increasing from January's NAV gross yield to maturity of 4.38%. The average duration was 0.85 years during this month, in line with the previous month.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits Act report (SPDA) for the month ending January 31, 2024. Summit Community Bank was undercollateralized by \$187,597 due to a calculation error in applying the haircut on municipal bonds pledged as collateral. Additional collateral of \$2,392,110 was pledged on 2/8/24 to cover the shortage. There are no newly qualified depositories. There was one name change for the VCC Bank to Locus Bank. In January using IDC's 3rd quarter 2023 bank ratings, four pooled banks and one opt-out bank were ranked below average. Ms. Reiter indicated that IDC's 4th quarter 2023 ratings has been received and that one additional pooled bank would be added to the below average category.

Discussion ensued about financial indicators used to determine the bank ratings for qualified public depositories.

Other Business

The meeting adjourned at 11:35 a.m.

The next Treasury Board meeting is scheduled for April 17, 2024.

Respectfully submitted,

Yvonne Scruggs, Secretary
Commonwealth of Virginia Treasury Board

