

MINUTES OF MEETING
STATE BOARD OF FINANCE

May 7, 2019

A meeting of the State Board of Finance of the State of Arkansas was held in the conference room, office of the Treasurer of State, Suite 275, Victory Building, Little Rock, Arkansas, at 10:00 a.m., Tuesday, May 7, 2019, pursuant to notice duly given to each member of the Board by the Chairman.

The following members were present:

Larry Walther, Director, Department of Finance and Administration
Dennis Milligan, Treasurer of State
Candace Franks, Arkansas Bank Commissioner
Edmond Waters, Arkansas Securities Commissioner
Jamie Land, Representing Governor Asa Hutchinson
Skot Covert, Representing Andrea Lea, Auditor of State
Al Harkins, Appointed Member
Gabe Holmstrom, Appointed Member
Keith Konecny, Appointed Member
Cale Turner, Appointed Member

Others present were Jason Brady, Grant Wallace, T.J. Fowler, Ed Garner, Autumn Sanson, Damon Dortch, Stacy Peterson, and Celeste Gladden of the Treasurer's staff; Debbie Rogers of the Department of Finance and Administration; Mike Wickline of the Arkansas Democrat Gazette; and representatives from the Arkansas Educational Television Network.

Larry Walther served as acting Chairman in the absence of Governor Hutchinson and called the meeting to order with recognition of a quorum.

Minutes of the meeting held on February 5, 2019 were approved as distributed.

Chairman Walther recognized State Treasurer Dennis Milligan to present the Treasury Investment Performance Report for the third quarter of fiscal year 2019. The Report is included in the Minutes as Attachment 1. Treasurer Milligan thanked the Chairman and told the Board that in addition

to the quarterly investment report, he will also be presenting an overview of a new bidding program within the Treasury. He began the investment report with total third quarter revenues. Treasurer Milligan told the Board that investment receipts totaled \$29 million dollars, compared to roughly \$20 million during the same quarter last year. He stated that the third quarter of fiscal year 2019 set another record: the highest quarterly total seen since 2008. Treasurer Milligan told the Board that the receipts for the first three quarters of this year have already exceeded the fiscal year totals of every year going back to 2009. Next, Treasurer Milligan reviewed the short-term portfolio earnings. He told the Board that the quarter ended with \$16.6 million dollars in earnings in the short-term portfolio, compared to \$11.5 million the same time last year. Treasurer Milligan stated that this is due to the positioning of the total portfolio more toward the short term. He explained that since interest rates stayed the same this past quarter, the investment strategy remained consistent with what has been done over the last few quarters. Treasurer Milligan told the Board that the long-term portfolio has remained stable over the third quarter as well; interest receipts were \$12.3 million dollars during the third quarter 2019, compared to \$8.6 million during the same quarter the previous year. Treasurer Milligan continued, saying that the total for the first three quarters of fiscal year 2019 reached \$82.9 million dollars. He said that the Treasury has already receipted more than every previous full fiscal year since 2009. He explained that though rates have risen, they're still half of what they were when the Treasury hit the record years of 2007 and 2008. He told that Board that the Treasury portfolio is now about 57% bigger than it was during those years and the portfolio is earning on the same level as when interest rates were roughly double what they are now. Treasurer Milligan moved on to discuss the Money Management Trust Fund. He reminded the Board that the fund is a voluntary investment pool that cities, counties, state agencies and school districts can use to take advantage of the Treasury's investment expertise. Treasurer Milligan told the Board that the fund ended the quarter just under \$940,000 dollars earned for participants, some of which

include the state's Employee Benefits Division, the Arkansas Development Finance Authority, and the first county to participate, Faulkner County. He said that the ROI as of March 31st was 2.85%. He explained to the Board that the earnings dipped over the past few months, which indicates that one or more participants requested a withdrawal of their funds. He said that account owners have near-instant access to their funds. However, he said, the ROI is staying consistent, meaning that participants can trust that they're getting the best possible return. Treasurer Milligan told the Board that he would now like to highlight another part of the investment division. He explained that when he first took office, he had the idea of creating a blind bidder program to promote fairness and transparency. He said that after nearly four years of preparation, last August the Arkansas Transparent Treasury Auction (ATTA) was launched. He then played a short video featuring the ATTA program. Once the video ended, Treasurer Milligan concluded his presentation and asked for any questions from the Board.

Commissioner Waters asked for the range of maturities on the certificates of deposit being auctioned in the ATTA program. Damon Dortch responded that the range is primarily sixty days to one year. Chairman Walther asked what type of funds are used for the auctions. Autumn Sanson responded that agency trust funds are invested in the program. Not seeing any further questions from the Board, Chairman Walther asked for a motion to accept the Treasurer's report into the record. The motion was made by Keith Konecny and seconded by Al Harkins. All members were in favor.

Next, Chairman Walther made a motion to establish that no funds are available for deposit into the State Board of Finance certificate of deposit investment program. The motion was seconded by Al Harkins. All members were in favor.

Chairman Walther then made a motion that the Board direct the Treasurer of State to purchase warrants for the succeeding quarter, July 1, 2019 through September 30, 2019, pursuant to Act 1088 of 2013, and to keep reasonable amounts in demand deposit accounts and money markets during the next

quarter for the transactions of the day-to-day activities of the State. The motion was seconded by Candace Franks. All members were in favor.

Next, Chairman Walther recognized Grant Wallace to present the next agenda item, Treasurer of State Employees Minimum Qualifications. Mr. Wallace addressed the Board and said that there were two new positions created in fiscal year 2020 appropriations and four positions were renamed. The new Employee Job Qualifications and Standards document is included in the Minutes as Attachment 2. The changes and additions are as follows: the Treasury Senior Investment Manager I position is now called Senior Investment Manager, and the job standards have stayed the same; a new position called Treasury Director of Investments was created, and the standards match the Senior Investment Manager position; the Chief Investment Officer has been renamed Chief Compliance Officer, and the standards stayed the same; the Treasury Senior Investment Manager II has been renamed Treasury IT Manager, the standards are newly set with a preferred degree related to IT; the Treasury V position has been renamed Investment Manager, and the standards stayed the same; and a new position titled Division Director has been created for an accountant to be added to the Treasurer's office, and the standards have been set that the individual be CPA eligible. Mr. Wallace concluded his presentation and asked for any questions from the Board. Seeing no questions, Chairman Walther asked for a motion for the approval of the minimum qualifications. The motion was made by Candace Franks and seconded by Al Harkins. All members were in favor.

Next, Chairman Walther recognized Jason Brady to discuss the next agenda item: A report of enacted legislation, the portfolio review, and the accounting upgrades. Mr. Brady addressed the Board and said that the legislation the Board voted on has passed and has become Act 882 of 2019. This Act is included in the Minutes as Attachment 3. He told the Board that the legislation will be enacted on July 23rd, ninety days from sine die. Mr. Brady told the Board that the next item to discuss is the scope of

work for the investment portfolio review. This document is included in the Minutes as Attachment 4. He reminded the Board that in the previous meeting, they made a motion to go back and do a review of the Treasury investment portfolio similar to the review that was done in 2013. Mr. Brady told the Board that a group consisting of UALR professors has been hired. He said that in the attachment the Board can see the qualifications of each member of the team and the scope of work planned. He said that the team is currently collecting data going back to 2013, and the Treasury plans to visit with them soon to get a timeline of when they will have something to present to the Board. Moving on to the accounting upgrades, Mr. Brady told the Board that Raymond James has been hired to help with the accounting of the mortgage-backed securities. He reminded the Board that the Treasury has invested in mortgage backed securities, which are bought at a premium, and the investment division has needed help with amortization. He explained that Raymond James has been brought on board and has been successful in helping the Treasury. Mr. Brady told the Board that the Treasury is also in contract negotiations with KPMG, a firm that will be hired to go back and look at the MBS amortization over the past 18 months to 2 years, to make sure the accounting was accurate and historically correct. Mr. Brady concluded and said that he would take questions from the Board. There were no questions and these items required no action from the Board.

Chairman Walther stated that he has other business to come before the Board. He called upon Grant Wallace to discuss posting the Money Management ROI to the Treasurer's website. Mr. Wallace explained that as the office has continued to promote and grow the Money Management program, it has become necessary to report a real time monthly ROI and earnings to potential participants. He said that the Treasurer's office has always erred on the side of caution to let the Board receive that information first before it is publicized. Mr. Wallace said that the Treasury would like to get permission to report the ROI and earnings in real time so that the office can continue to promote the program by giving more up

to date information. Cale Turner asked that if by Faulkner County coming on board, the Treasury was seeing more interest. Mr. Wallace responded affirmatively and stated that with the Faulkner County Treasurer joining the program and being able to talk to his colleagues about it, the Treasury does expect more participants. Keith Konecny asked that since reporting in real time would not leave much room for error, would that be an issue for the Board if there were a mistake, and if this is a concern. Mr. Wallace responded that by “real time” he means monthly rather than quarterly after Board meetings. He explained that calculations would have been done and books closed for the month prior to posting the data on the website. There were no further questions from the Board. Chairman Walther asked for a motion to approve the request to post the Money Management ROI on the website. The motion was made by Keith Konecny and seconded by Al Harkins. All members were in favor.

Seeing no further questions or comments from the Board, Chairman Walther adjourned the meeting.

ATTEST:

Secretary of the State Board
of Finance of the State of Arkansas

Acting Chairman of the State Board
of Finance of the State of Arkansas

Secretary’s Note: All documents pertaining to the issues considered are filed in the permanent records of the State Board of Finance.