

MINUTES OF MEETING
STATE BOARD OF FINANCE

August 8, 2018

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., Wednesday, August 8, 2018, 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
Jake Bleed, Representing Governor Asa Hutchinson
Andrea Lea, Auditor of State
Edmond Waters, Arkansas Securities Commissioner
John Ahlen, Representing Candace Franks Arkansas Bank Commissioner
Cale Turner, Appointed Member
Al Harkins, Appointed Member
Keith Konecny, 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; State Representative Kim Hammer; Paul Louthian and Debbie Rogers of the Department of Finance and Administration; Aaron Burkes of the Development Finance Authority; and Mike Wickline of the Arkansas Democrat Gazette.

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 May 8, 2018 were approved as distributed.

Chairman Walther recognized State Treasurer Dennis Milligan to present the Treasury Investment Performance Report for the Fourth Quarter of Fiscal Year 2018. The Report is included in the Minutes as Attachment 1. Treasurer Milligan began by reporting to the Board that investment

receipts for the fourth quarter 2018 totaled \$21.29 million, which is the highest quarterly total under his direction as Treasurer and higher than the receipted amounts for some fiscal years in recent history. He told the Board that investment receipts from fiscal year 2018 totaled \$77.2 million, topping the totals for fiscal years 2006 and 2009, making 2018 the highest fiscal year the State Treasury has seen in a decade. Treasurer Milligan directed the Board to the first slide, Short Term Portfolio, and said that the short-term portfolio ended the fourth quarter at \$12.1 million, compared to \$3.3 million at the same time last fiscal year. Treasurer Milligan told the Board that the increase is due to assets of the Treasury being more liquid than they were during the same period last year. Pointing to a dip in the chart, Treasurer Milligan told the Board that in April, the investment team took an opportunity to invest in commercial paper for a longer term, so while the chart appears to show a dip in earnings, it is due to the investments being stretched over a longer period and those earnings being receipted in June. Treasurer Milligan then moved on to the second slide, Long Term Portfolio and told the Board that the long-term portfolio earnings ended the fourth quarter at \$9.1 million, compared to \$14.8 million during the same quarter this time last year. He reiterated that the portfolio became more liquid over the course of FY18, which caused the decrease in long-term portfolio earnings. Treasurer Milligan reminded the Board that the investment team is constantly monitoring the markets and making calculated decisions in a more active way, which has taken the State Treasury toward a more proactive management style. He moved on to the next slide, Total 4th Quarter Revenues, and told the Board that the Treasury portfolio for the fourth quarter 2018 receipted \$21.2 million, the highest quarter to date of his administration. Treasurer Milligan pointed the Board to the next two slides, Historical Earnings and Fed Fund Rate, and stated the slides give a historical view of the State Treasury's receipted amounts dating back 15 years, compared with the interest rates during that same time. He said that the Treasury receipted more in the 4th quarter 2018 than it did during the whole fiscal year in 2003, 2004, 2013 and 2014. Treasurer Milligan pointed

to the interest rate chart, and said that looking at years 2004-2007, Treasury receipts lagged behind the increasing interest rates, but in years 2016-2017, Treasury receipts rose in advance of the interest rate hikes. Treasurer Milligan pointed the Board to the final slide, Money Management Earnings, and told the Board that the ROI of the fund has increased slightly since last reported, and that participants are currently getting 2.24 percent annualized return, compared with the 2.13 percent reported in March. He told the Board that the fund is continuing to grow as the office spreads awareness about the program. Treasurer Milligan concluded by saying that he is pleased with the results that the investment team made for the State of Arkansas in FY 2018. He stated that he realizes interest rates are a driving force of any investment activity, but he fully believes that the active management style is helping to take the most advantage of market conditions, while also helping to meet the primary objective which is liquidity. Treasurer Milligan asked the Board for any questions.

Auditor Lea asked how many entities are involved in the Money Management fund. Autumn Sanson responded that there are around 30-40 participants, mostly state agencies. She explained that the Treasurer's office is trying to get the word out to cities and counties by going to conferences. Chairman Walther pointed out that the liquidity of the funds in the program should be a selling point for these entities as well.

Commissioner Waters asked for the average maturity of the long-term portfolio. Ed Garner responded that the average maturity is approximately 4-8 years. Mr. Waters asked if there is any corporate debt in the portfolio. Mr. Garner responded negatively. Hearing no further questions from the Board, Chairman Walther asked for a motion to accept the Treasurer's report into the record.

A motion was made by Auditor Lea to accept the Treasury Investment Performance Report into the record. The motion was 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 John Ahlen. All members were in favor.

The Chairman then made a motion that the Board direct the Treasurer of State to purchase warrants for the succeeding quarter, October 1, 2018 – December 31, 2018, 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 Keith Konecny. All members were in favor.

Chairman Walther thne addressed the Board and stated that he has some annual motions to come before the Board. He then made the following motions:

- A motion for the approval of the record keeping systems of the Treasurer of State with the accounts recorded using the cash basis of accounting as necessary in its daily transactions with adjusting entries to be made at each fiscal year end to properly report the operating results of the Treasurer of State on the accrual basis of accounting, which is consistent with generally accepted accounting principles (GAAP). The motion was seconded by Edmond Waters. All members were in favor.
- A motion to approve the record keeping and reporting requirements of the Treasurer of State, to include at the minimum the following reports:
 - a. Ledger Balance and Activity (Daily and Monthly)
 - b. Fund Transactions by Type (Daily and Fiscal Year-to-Date)
 - c. Checks Charge Off Detail by Line Item (Daily and Fiscal Year-to-Date)
 - d. Safekeeping Inventory (Daily)
 - e. Trust Fund Certificates of Deposit (Daily)
 - f. Collateral Sufficiency (Daily)
 - g. Demand Account Balances (Daily)
 - h. Money Market Balances (Daily and Monthly)
 - i. Return on Investment (Monthly and Fiscal Year-to-Date)

The motion was seconded by Edmond Waters. All members were in favor.

- A motion to approve the current Collateralization Policy of the Treasurer of State (included in the Minutes as Attachment 2). The motion was seconded by Edmond Waters. All members were in favor.
- A motion to approve the Code of Ethics for the members of the Board of Finance and the Code of Ethics and criminal background checks for the current employees of the Treasurer of State (included in the Minutes as Attachment 3 & 4). The motion was seconded by Edmond Waters. All members in favor. Chairman Walther addressed the Board and asked that they sign the Code of Ethics.
- A motion to approve the minimum qualifications and standards for all employees of the Board or Treasurer of State who handle State Treasury funds or participate in decisions concerning the deposit or investment of State Treasury funds (included in the Minutes as Attachment 5). Al Harkins asked if there had been any changes to the standards since the last vote. Grant Wallace responded that the only change was the deletion of one position to make an opening for another position in the office. Chairman Walther added that the new position did not fall under the requirement of the Board. Mr. Harkins offered a second on the Chairman's motion to approve the qualifications and standards. All members were in favor.

Chairman Walther then recognized Ed Garner to explain the next agenda item, an updated investment policy for certificate of deposit rates. Mr. Garner deferred to Autumn Sanson. Ms. Sanson addressed the Board and said that the Treasurer's office is requesting that the Board update the minimum rates for the agency trust fund certificates of deposit that are placed in state banks. The new rates are included in Attachment 6. Ms. Sanson explained to the Board that the Treasury is constantly evaluating the market to get the best yield for the agencies while being fair to the banks, and it is time

for an update to the minimum rates. Chairman Walther asked for a motion from the Board to approve the certificate of deposit rates. A motion was made by Al Harkins and seconded by Edmond Waters. All members were in favor.

Next, Chairman Walther recognized Ed Garner to discuss the consideration of an updated investment policy for corporate debt. Mr. Garner addressed the Board and stated that the Treasurer's office is requesting a technical change to the policy. He told the Board that in the current policy considering limits on commercial paper, paper with a maturity of 7 days or less is not counted. Mr. Garner told the Board that the Treasurer's office is asking that the Board move this to 8 days or less. He explained that the largest deposits of the week come in on a Thursday and the largest warrants go out on a Friday, and oftentimes investments need to be made on a Thursday to mature the following Friday. Mr. Garner said that to remain in compliance the Board is being asked to tweak the policy to read that commercial paper maturing 8 days or less would not be considered in the limits of 30% overall and 5% per issuer. Chairman Walther asked if this would also allow the portfolio to earn one additional day of interest. Mr. Garner responded affirmatively, but said that the additional day of earnings is not the driving force of the request, it is simply to match the cash flow of the Treasury. Chairman Walther asked the Board for questions or a motion. The motion to approve the change in policy was made by Edmond Waters and seconded by Keith Konecny. All members were in favor.

Chairman Walther recognized T.J. Fowler to address the next agenda item, consideration of an update to the Money Management Trust Policies and Procedures Manual for corporate debt. Mr. Fowler addressed the Board and stated that a rule change is being requested to clear up an ambiguity that exists between the current investment policy and the money management policy. Mr. Fowler provided the Board with redlines of both policies. These are included in the Minutes as Attachments 7 & 8. Mr. Fowler explained, "Arkansas Code Annotated §19-3-518(b)(1)(B)(xiv) permits the Treasury to invest

Treasury General funds in corporate obligations subject to regulations promulgated by this Board. Currently those regulations allow the Treasury to invest Treasury General funds in commercial paper that's rated A-1 P-1 out to 180 days and A-2 P-2 out to 90 days. Further, this Board has determined that Treasury General's total investments in commercial paper cannot exceed 30% of the total portfolio and they cannot invest more than 5% of the total portfolio in any single issuer of commercial paper." Mr. Fowler stated the policy is relatively straightforward, however the money management trust policy creates a complication. He continued, "pursuant to Arkansas Code Annotated §19-3-603 in the eligible investments determined by this Board, the Treasury is actually permitted to invest Treasury General funds in the State Treasury Money Management Trust. The State Treasury Money Management Trust (STMMT) is essentially an investment pool for agencies, local governments, and other instrumentalities. As a pool, all the money gets comingled together, it is accounted for each entity, but it is invested as a pool. This Board has permitted the STMMT pool to invest in commercial paper; likewise this Board has permitted similar 30 and 5 percent limits for commercial paper either in total or per issuer, and that is calculated on the balance of the entire STMMT pool. Now, the Treasury's investment team has viewed the STMMT's 30 and 5 percent limits as separate and distinct from Treasury General's 30 and 5 percent limits. To do otherwise would essentially limit the ability to maximize returns for the State Treasury Money Management Trust so, in other words, if the Treasury were to view the Treasury's 30 and 5 percent limits to carry over to the STMMT, and Treasury General was already at the limit, and the Treasury had funds invested in the STMMT, then the Treasury wouldn't be able to invest any of the STMMT funds in commercial paper or else it would be going over the limits, which would be detrimental to all of the other participants in the trust." Mr. Fowler told the Board that the proposed rule change would make it clear that those limits are separate and distinct. Mr. Fowler told the Board that he would answer any questions about the proposed language and any questions about the changes to the

risk profile, Ed Garner could answer. Auditor Lea asked if any changes to legislation would be necessary. Mr. Fowler responded negatively, and explained the Treasury reads the current rule to allow for this, but because of the ambiguity they feel it is necessary to let the Board know so that it can be discussed. Chairman Walther asked for questions or a motion from the Board. A motion to approve the policy change was made by Al Harkins and seconded by Cale Turner. All members were in favor.

Chairman Walther asked for any further questions from the Board. Keith Konecny asked what the office was doing to be proactive in regards to computer hacking and cybersecurity. Grant Wallace responded that the Treasury is currently undergoing an upgrade to all systems and engages Strategic Technologies to handle all computer protection and firewalls. He also explained that the individual who has been hired as new Chief of Information Technology has done tremendous work in making sure that the Treasury continues to get the latest and greatest technologies.

Chairman Walther addressed the Board and commented that the Treasurer and his team have done a superb job of making changes in the way they invest money while also protecting the money. He complimented the Board on being in tune with what the Treasurer has been trying to do and for encouraging the Treasurer to continue to bring in more of the funds within the state, to encourage those agencies and other entities within the state to look to the Treasury as a method of making investments and increasing their return. Treasurer Milligan responded that he believes the biggest success has been the flexibility that the Board has given the Treasury.

There was no further business to come before the Board. The meeting was adjourned.

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.