

MINUTES OF MEETING
STATE BOARD OF FINANCE

MARCH 24, 2015

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 1:30 p.m., Tuesday, March 24, 2015, 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
Andrea Lea, Auditor of State
Edmond Waters, Arkansas Securities Commissioner
Duncan Baird, Representing Governor Asa Hutchinson
Luther Guinn, Representing Arkansas Bank Commissioner Candace Franks
Al Hamilton, Appointed Member
Gabe Holmstrom, Appointed Member
Al Harkins, Appointed Member

Others present were Jason Brady, Gary Underwood, Autumn Sanson, Ed Garner, and Celeste Gladden of the Treasurer's staff; George Franks of the Auditor's staff; Andy Babbitt of the Division of Legislative Audit; and Paul Louthian of the Department of Finance and Administration.

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 meetings held on December 9, 2014 and January 14, 2015 were approved as distributed.

The Chairman recognized Autumn Sanson of the Treasurer's staff to discuss the first item on the agenda. Ms. Sanson stated that an amendment to the Treasury Investment Policy is being requested. The complete Amendment to the Treasury Investment Policy is included in the Minutes as Attachment 1. Ms. Sanson explained that the amendment will bring the investment policy in line with

Act 1088 of 2013, and specifically involves the purchase of corporate bonds, which is allowed in the Act but not in the policy. She stated that the amendment includes a 30% cap on all corporate debt with maturities longer than one week. The policy currently allows for only 15%, and is specific to commercial paper, but the policy should encompass all corporate debt. A cap would be placed on a single-issuer at 5% of any commercial paper with maturity longer than one week.

Ms. Sanson continued by telling the Board about the new investment strategy that has been implemented in the Treasurer's office. She explained that staff has been looking at cash flows and historical data and have been able to pinpoint dates that large payments of warrants will occur, which has allowed the implementation of commercial paper investments. Currently, only A1/P1 commercial paper with maturity dates of up to 180 days are being purchased. Ms. Sanson stated that this new strategy has increased investment earnings to roughly \$175,000 over previous months, but implementing the requested changes to the policy could further increase the earnings. She explained that because corporate bonds can also be purchased according to Act 1088, staff would also like to make sure that this is allowed in the policy. In addition, staff is requesting the addition of A2/P2 commercial paper to the policy. She explained that investments in A2/P2 would only go out 90 days, and this will still fall under the corporate debt portion of the portfolio. Ms. Sanson told the Board that many of these changes were suggestions that were taken from the Hewitt Ennis Knupp consultant report, as well as suggestions from legislators in joint legislative audit.

Mr. Harkins stated that the increase in earnings obviously had to be something greater than just the yield from the investments. Ms. Sanson answers that yes, because prior to the implementation of commercial paper, the Treasury was investing this money into money markets and earning only one basis point. The new strategy has allowed diversification by going into commercial paper and in some cases earning 30 basis points.

The Chairman asked for any questions or a motion from the Board. Auditor Lea asked to clarify whether a motion is needed for all or part of the amendment? The Chairman clarified that a motion is needed on the entire amendment. A motion was made by Mr. Harkins to adopt the amendment to the Treasury Investment Policy as written. The motion was seconded by Mr. Guinn and all members were in favor.

Next, the Chairman again calls on Ms. Sanson to present Item 4 of the Agenda. Ms. Sanson explained to the Board that since implementing the new strategy with commercial paper, there is a need to add additional brokers who are direct issuers. She stated that of the current list of approved broker/dealers, many are not direct issuers of commercial paper and adding those on the requested list would allow direct trading via the Bloomberg terminal. A list of current approved broker/dealers, and the requested new broker/dealers, is included in the Minutes as Attachment 2. The Chairman asks for any questions from the Board. There being none, he asked for a motion. A motion was made by Auditor Lea to approve the new broker/dealers. The motion was seconded by Mr. Harkins and all members were in favor.

The Chairman again recognized Ms. Sanson to present the drawing of lots, item 5 on the Agenda. In accordance with Act 1088 of 2013, lots must be drawn to determine the length of the first terms of each of the four appointed Board members, in order to have staggered terms. The Chairman drew for Mr. Keith Konecny in his absence and the draws were as follows: Keith Konecny, 1 year, first term expiring March 31, 2016; Al Harkins, 2 years, first term expiring March 31, 2017; Al Hamilton, 3 years, first term expiring March 31, 2018; and Gabe Holmstrom, 4 years, first term expiring March 31, 2019. Each appointed member will serve a second term of 4 years.

For the next Agenda item the Chairman made the following statement: "As Chairman of the Board of Finance, I would like to make a motion that the Board direct the Treasurer of State to purchase warrants for the succeeding quarter pursuant to Act 1088 of 2013 and to keep reasonable

amounts in demand deposit accounts and money markets during the next quarter for the transaction of day to day activities.” The motion was seconded by Mr. Waters and all members were in favor.

Lastly, the Chairman addressed other business, which is to establish the schedule for future Board meetings. The proposed schedule is as follows: the first Tuesday of the last month of each quarter, at 10am in the Treasurer’s Victory building office. These dates are June 2, 2015; September 1, 2015, and December 1, 2015. The Chairman asked from a motion from the Board. A motion was made by Mr. Harkins to adopt the proposed schedule. The motion was seconded by Mr. Guinn, and all members were in favor.

To conclude, the Chairman asked if there were any further issues to be brought before the Board. There being no further business, the Chairman accepted a motion to adjourn.

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.