COMMONWEALTH OF VIRGINIA
VIRGINIA PUBLIC BUILDING AUTHORITY
Board of Directors Meeting
May 25, 2011
2:00 p.m.
3rd Floor Conference Room
James Monroe Building
101 North 14th Street,
Richmond, Virginia

Members Present:	Sarah B. Williams, Chair	
	Manju S. Ganeriwala, Secretary/Treasurer	
	James H. Flinchum	
	Robert Maddox	
	David A. Von Moll	
Members Absent:	Sharon McDonald, Vice Chair	
	Dudley Fulton	
Others Present:	Evelyn Whitley	Department of Treasury
	Tracy L. Clemons, Sr.	Department of Treasury
	Sherwanda Cawthorn	Department of Treasury
	Donald Ferguson	Office of the Attorney General
	Eric Ballou	Christian & Barton, L.L.P
	Janet Lee (via telephone)	Public Resources Advisory Group
	Janet Aylor	Department of Treasury
	Melissa Palmer	Department of Treasury

CALL TO ORDER

With a quorum present, the Chair, Mrs. Williams, called the meeting to order at 2:05 p.m.

PUBLIC COMMENT

There was no public comment.

APPROVAL OF MINUTES

Mr. Clemons informed the Board that the minutes from the October 14, 2010 meeting did not include Mr. Von Moll as being present. He stated that the minutes would be corrected accordingly. Mr. Flinchum made a motion to approve the minutes of the October 14, 2010 meeting. The motion was seconded by Ms. Ganeriwala and unanimously approved by the Board members present.

ELECTION OF VICE-CHAIR, SECRETARY TREASURER, ASSISTANT SECRETARY TREASURER #1 AND #2

The Chair noted that pursuant to the By-Laws, the Vice-Chair is elected during the first meeting of every odd-numbered year. She then solicited nominations for Vice-Chair. Mr. Flinchum nominated Sharon McDonald for re-election as Vice Chair. The nomination was seconded by Mrs. Ganeriwala. Mr. Clemons asked for a motion to retain designated staff as the Secretary Treasurer and Secretary Treasurers #1 and # 2. Mr. VonMoll made the motion that was seconded by Mr. Maddux with unanimous approval from the Board for the election of all of the nominated officers.

REVIEW OF SERIES 2010B BOND SALE

Sherwanda Cawthorn presented a review of the final financing summary for the 2010B bonds that closed in November 2010. The 2010B bonds were sold in three series that included tax-exempt new money (2010B-1), taxable Build America Bonds (BABs) (2010B-2), and a refunding issue (2010B-3). Ms. Cawthorn pointed out that by selling the Series 2010B-2 bonds as BABs, the Authority realized approximately $13.72 million in net present value savings versus selling all tax-exempt bonds. The refunding bonds produced $1, 763,529 in net present value savings.

VPBA PROJECT UPDATE

Mr. Clemons directed the Board's attention to the listing included, in their package, of the VPBA projects that had been authorized in the 2011 session, via passing of items within the 2011-12 Appropriation Act, Chapter 890 (Exhibit 1). He noted a total of $25,215,397 of new project authorization had been provided by the legislature. Mr. VonMoll asked what was the intended meaning of the projects with no amounts. Mr. Clemons responded that they were new projects in which authorization was being transferred from existing projects with un-needed authorization. Therefore there were no additional dollars authorized for those projects.

Mr. Clemons then directed the Board to the listing contained in their package of the Authority owned properties. He reminded that board that under the original indentures, the projects financed before 1997 were owned by the VPBA and leased to the Commonwealth. Since final debt service was paid during this fiscal year for the last of those bonds outstanding under prior indentures, these properties can now be transferred back to the Commonwealth. Ms. Whitley added that the original indenture did indeed provide that the title would be given back to the Commonwealth. Mr. Ballou concurred that the old finance structure contained a lease revenue structure and the documents contemplated the conveyance back to the Commonwealth. Ms. Williams asked about the authorization balances on the listing. Mr. Clemons explained that the those amounts represented authorization that was not needed to complete the projects. Discussion continued about the reporting of the assets. Mr. Flinchum asked what happens if the Board didn't do anything. Mr. Ballou said that some situations may come up with easements. Mr. Clemons stated it would be in everyone's best interest to turn these properties back over to the State and remove VPBA from the chain of approvals related to these properties, now that the bonds have been paid off. Mr. Ballou reviewed the resolution authorizing staff to work with the Attorney Generals office and relevant agencies to complete re-conveyances. A motion was made by Mr. Maddux and seconded by Mr. Flinchum to authorize the conveyance of the property. The Resolution was affirmed unanimously by the Board.

MARKET UPDATE AND VARIABLE RATE MONITORING REPORT

Mr. Clemons first discussed the Request For Proposals (RFP) requesting a new liquidity facility for the 2005D variable rate bonds. The current facility with Dexia is due to expire December of this year and Dexia has informed staff that they are not looking to continue this relationship. Mr. Flinchum asked if the amount would fluctuate. Mr. Clemons indicated the amount remains at $50 million. He discussed the trading and spread difficulties related to the current facility with Dexia and the need for the Authority to look for a new facility. Proposals are due back on June 3, 2011. He indicated that the Board would be reconvened later in the summer to consider staff recommendations. Mr. Flinchum asked about including a recommendation to convert to a fixed rate bonds. Ms. Whitley confirmed that it would be an option.

Ms. Lee directed the Board's attention to the handout (Exhibit 2) provided to summarize the full monitoring report that was included in the Board's package. Ms. Lee pointed out that demand continues for highly rated variable demand bonds. Dexia has had some negative press since March 2011 and it's long-term rating was recently downgraded by Moody's, with the possibility of downgrading the short-term rating. As result, April had much larger spreads to SIFMA. Two money market funds took Dexia off of their credit list and liquidation by investors to make the April 15th tax payments. Ms. Williams asked what happens if Dexia fails? Ms. Lee explained that the bonds would be put back to Dexia and the authority would have to pay them the bank rate. Mr. Ballou stated the bank rate would be prime plus 50 basis points for a short period of time, with an increase after 180 days. This would cause an emergency procurement situation whereby Dexia would be immediately replaced. Discussion continued on the variable rate exposure. Ms. Lee then continued discussion of the presentation and concluded with the possible alternatives the Authority may be considering once the proposals to the RFP are submitted and reviewed.

OTHER BUSINESS AND **ADJOURNMENT**

Having no other business to be brought before the Board, the meeting was adjourned at 3:21 p.m.

Respectfully submitted,

Tracy L. Clemons, Sr.
Assistant Secretary/Treasurer #2

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(ATTACHMENT A)

2011 General Assembly
VPBA New Debt Authorizations

The General Assembly authorized new VPBA debt during its 2011 Session via passage of items within the 2011-12 Appropriation Act (Chapter 890)

• New Regional & Local Jail Reimbursement Projects		
- Eastern Shore Regional Jail Supplement (Item 271 D.1 2a)	$3,116,122	
• Capital Projects		
- Dept of General Services - Renovate Washington Building (Item C-89.10)	$7,300,000	
- Dept of Corrections - Increase for Construction of Craigsville Water Treatment Plant (Item C-78.05)	$1,339,557	
- Dept of Behavioral Health & Developmental Services - Capital Maintenance Reserve Increase (Item C-84)	$3,459,718	
- Dept of Game & Inland Fisheries - Construct New Headquarters (Item C-78.82)	$10,000,000	(1)
- VA School For Deaf & Blind - Furnishing & Equipping of New Educational Building & Dorms (Item C-85)	TBD	(2)
- Dept of Corrections - Authorization transfer of $7 million from existing projects to VA Center for Behavioral Rehabilitation *{formerly known as Sexually Violent Predators Facility}* (Item C-76.15)	-	
- Dept of Corrections - Authorization transfer of $6 million from existing projects to Greensville and Keen Mountain Correction Centers for Replacement of Windows & Mechanical Systems (Item C-78.30)	-	
TOTAL	**$25,215,397**	

(1) Debt Service to be paid from non-general fund resources

(2) Portion of blanket project authorization totaling $51.1 million for furnishing & equipping 34 facilities for which construction was previously provided. Allocation to be determined by Department of Planning & Budget.

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(ATTACHMENT B)

Virginia Public Building Authority
Variable Rate Public Facilities Revenue Bonds
Series 2005D

May 25, 2011

PUBLIC RESOURCES ADVISORY GROUP

Background

- On December 7, 2005, the Virginia Public Building Authority issued its Variable Rate Public Facilities Revenue Bonds, Series 2005D.
  - Variable rate demand bonds ("VRDBs")
  - Interest rates reset weekly and interest paid monthly
  - Remarketing Agent – Goldman, Sachs & Co.
  - Standby Bond Purchase Agreement – Dexia Credit Local, expiring December 7, 2011
- Summary Statistics of Weekly Interest Rates

	Series 2005D
Current Level – May 11, 2011	0.500%
Average Interest Rate	2.021%
Maximum Interest Rate	8.000%
Minimum Interest Rate	0.180%
Average SIFMA Swap Index	1.891%
Average Spread to SIFMA	0.130%

Current Market Conditions

- At the end of 2010, tax-exempt money market funds lost $71.1 billion, ending the year with $328.5 billion in assets under management.
- In the first four months of 2011, the tax-exempt money market funds have lost an additional $23.9 billion.
- Excessive low yields continue to be one of the main factors contributing to the outflow by tax-exempt money market funds.
- Cross-over buyers, including corporations, insurance companies, short-term bond funds, trust departments and selected banks, seeking alternative liquid investments with higher yields than U.S. Treasuries and other short-term taxable rates, have been investing in VRDBs.
- These alternative investors have helped make up for the outflows from the tax-exempt money market funds.
- SIFMA has continued to reset at low levels, averaging about 27 basis points since October 2010.
- There is continued demand for highly-rated, well-structured VRDBs as replacement securities, driven by existing VRDB programs being called or converted to other modes and the limited supply of new VRDBs.

Current Market Conditions - Dexia

- As reported in October 2010, we saw stability with the Dexia-supported VRDBs over the last two years, as evidenced by the average spread to SIFMA of about 5 basis points on the VPBA VRDBs.
- In recent months Dexia has been in the headlines again.
  - Moody's placed Dexia on watch for possible downgrade at the end of March.
    - Dexia currently has short-term/long-term ratings of by P-1/A1, A-1/A and F1+/A+ by Moody's Investors Service, Standard & Poor's and Fitch, respectively.
  - News reports on Dexia borrowing from the U.S. Federal Reserve's discount window more than any other bank during the financial crisis in October 2008.
  - European debt crisis and potential impact on Dexia.
- Spreads to SIFMA on Dexia-supported VRDBs widened over last few weeks, with spreads ranging generally from 60 to 100 basis points.
  - Two large money market funds took Dexia off their approved credit list.
  - Other money market funds did not want to increase Dexia exposure.
  - April 15 tax payments resulted in liquidations.
- After spreads to SIFMA for Dexia paper spiked at the end of April/early May, we have seen spreads fall to about 20 to 25 basis points, generally.

Current Market Conditions - Dexia

- The belief among remarketing agents is that the interest rates will stabilize but perhaps at wider spreads to SIFMA than experienced in the past.
- The Authority's experience over the last few weeks reflects the current volatility with Dexia.

Week of	2005D Rate	SIFMA	Spread to SIFMA
05/18/11	0.450%	0.200%	25
05/11/11	0.500%	0.210%	29
05/04/11	0.800%	0.230%	57
04/27/11	0.900%	0.260%	64
04/20/11	0.290%	0.270%	2
04/13/11	0.340%	0.250%	9
04/06/11	0.290%	0.230%	6

- Dexia notified the Authority that it would not be renewing the SBPA facility for the Authority's Bonds beyond the current expiration date of December 7, 2011.
  - Dexia has provided such notice to numerous issuers, indicating that they are taking the action to reduce the amount of their liquidity exposure.

History of Rates for VPBA's VRDBs

- The performance of VPBA's VRDBs illustrates the general experience of the short-term tax-exempt market.

Time Period	Average VPBA VRDB	Average SIFMA	Avg. Spread to SIFMA (basis points)
Dec. 7, 2005 – Oct. 8, 2008	3.180%	3.229%	(5)
Oct. 15, 2008 – May 27, 2009	1.942%	0.853%	109*
Jun 3, 2009 – Jul. 29, 2009	0.603%	0.342%	26
Aug. 5, 2009 – April 20, 2011	0.325%	0.272%	5
April 27, 2011 – May 11, 2011	0.733%	0.233%	50

** Spread to SIFMA peaked at 172 basis points on October 22, 2008.*

- Although the VPBA's VRDBs have traded higher than SIFMA, on an absolute basis the interest rates are at their lowest levels since the Bonds were issued in 2005, even with the recent volatility due to Dexia, averaging 0.68 percent from November 2008 to the present compared to the pre-September 15, 2008 average of 3.11 percent.
- The weekly interest rate resets have been below 0.50 percent since the beginning of August 2009 except for the spike in the last few weeks as a result of the volatility associated with Dexia.

Comparison to Other Variable Rate Issuers

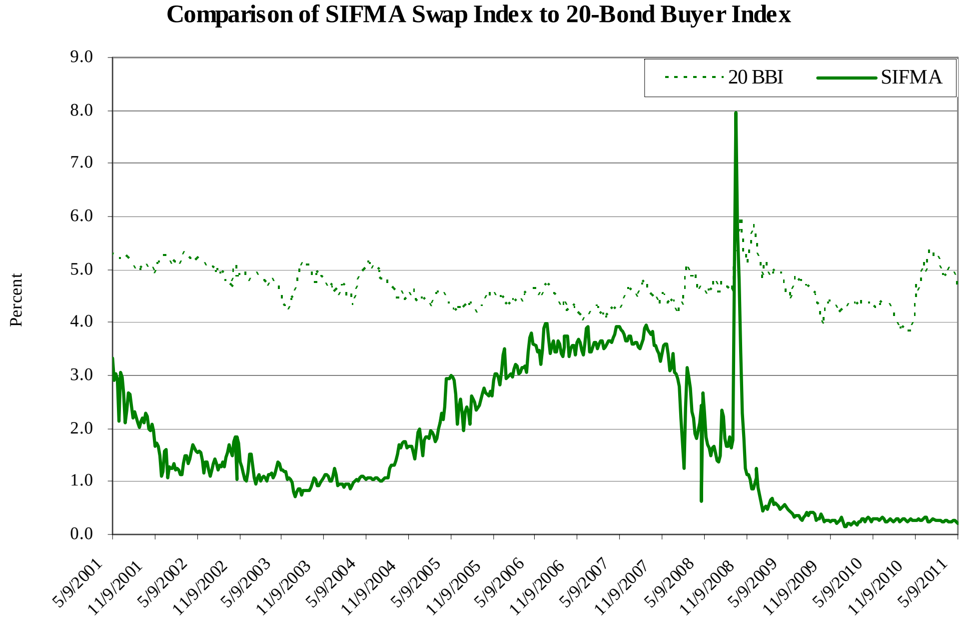
- There is a wide range of reset rates for Dexia supported VRDBs and the Authority's reset rates are within the range.

Issuer	Remarketing Agent	Ratings (M/S/F)	Average Reset Rates: Since 8/1/2009	Since 1/1/2009	9/15/2008 12/31/2008
SIFMA			**0.271%**	**0.321%**	**2.544%**
Virginia Public Building Authority	**Goldman Sachs**	**Aa1/AA+/AA+**	**0.333%**	**0.569%**	**3.513%**
State of Georgia	Wells Fargo	Aaa/AAA/AAA	0.253%	0.333%	3.325%
Maryland State Stadium Authority	Goldman Sachs	Aa2/AA+/AA	0.331%	0.631%	3.407%
Oregon State Dept of Transportation	J.P. Morgan	Aa3/AA+/AA-	0.275%	0.451%	3.469%
Triborough Bridge & Tunnel Auth	Citigroup	Aa2/AA-/AA	0.298%	0.539%	4.639%
Triborough Bridge & Tunnel Auth	Morgan Stanley	Aa2/AA-/AA	0.343%	0.622%	4.067%
Triborough Bridge & Tunnel Auth	Citigroup	Aa2/AA-/AA	0.297%	0.502%	3.451%

- We also compare the interest rate resets on the VPBA's VRDBs to other similar variable rate issues. VPBA's spread to SIFMA during this time is higher than that of all programs in the comparison, reflecting the Dexia liquidity.
  - VPBA's spread to SIFMA has been about 6 basis points over SIFMA since August 2009, while other similar VRDBs that have liquidity facilities from other providers have traded 2 to 7 basis points through SIFMA.

Comparison to Hypothetical Fixed Rate

- The VPBA has paid approximately $5.5 million in interest on the VRDBs since December 2005 and about $344,000 in remarketing and liquidity fees, for a total of about $5.8 million in debt service and fees.
- At the time the VPBA issued the VRDBs, the VPBA evaluated the potential of issuing fixed rate bonds. In the tax-exempt market, short-term variable rates have, except during the market disruption in September 2008, always been less than long-term fixed rates.



- The average SIFMA over the last 10 years is 1.76 percent compared to the average 20-bond Bond Buyer Index of 4.65 percent.

Comparison to Hypothetical Fixed Rate (Continued)

- If the Authority had sold fixed rate bonds in December 2005, the true interest cost for 20-year fixed rate bonds structured with level debt service is estimated to have been approximately 4.40 percent.
- This compares to the average variable rate for the VRDBs for the period from December 7, 2005 to May 11, 2011 of 2.02 percent, or 238 basis points less than the true interest cost of the hypothetical fixed rate issue.
- Assuming the same amortization as the VRDBs and comparing the hypothetical fixed rate debt service to the actual debt service and fees paid on the Bonds, the Authority has saved approximately $6,034,441 in debt service from December 7, 2005 through May 2, 2011 despite the deterioration in the market in September 2008 and the difficulties with Dexia.

Future Performance and Recommendation

- The VPBA has been meeting its primary objectives with this program, diversifying its debt portfolio and realizing reduced borrowing costs.
- With the notice from Dexia of non-renewal of the SBPA, the Authority will need to determine how to proceed with its VRDBs. The Authority has three options:
  - Issuing fixed rate bonds to take out its VRDBs,
  - Continuing its current VRDB program and replacing Dexia with another liquidity bank,
  - Continuing a variable rate program with floating rate notes.
- <u>Issuing fixed rate bonds</u>: Based on current market interest rates for the Authority's bonds, we estimate an all-in true interest cost ("TIC") of 2.99 percent, assuming level debt service and a final maturity of 2025, corresponding to the final maturity of the VRDBs.

Future Performance and Recommendation

- Continuing VRDB Program with New Liquidity Bank: With new liquidity bank, we would anticipate that the Authority's VRDBs would reset with less of a spread to SIFMA and could continue to realize reduced borrowing costs.
- Obtaining new liquidity will be at a higher cost (estimated cost of 50 to 75 basis points).
  - Much uncertainty currently exists regarding the implementation of Basel III standards and the impact on a bank's reserve requirements.
  - The pricing for liquidity facilities has increased significantly and the terms have become more stringent since the financial crisis and some banks have exited the market, but others are beginning to re-enter the market also.
  - Demand for new liquidity may increase as the year progresses as many issuers seek to replace liquidity agreements entered into in 2008 at the height of the financial crisis and the fallout from auction rate securities.

	At Current SIFMA 0.20%	**At Current VRDB Rate 0.45%**	**Average of SIFMA since 2000 2.00%**	**Average of SIFMA since 1989 2.85%**
Expected Average Trading Level	SIFMA + 3 bps	SIFMA + 3 bps	SIFMA + 3 bps	SIFMA + 3 bps
Estimated Liquidity Fee	60 bps	60 bps	60 bps	60 bps
Remarketing Fee	10 bps	10 bps	10 bps	10 bps
Estimated Upfront Costs	5 bps	5 bps	5 bps	5 bps
All-in Annual Cost (as spread to SIFMA)	SIFMA + 78 bps	SIFMA + 78 bps	SIFMA + 78 bps	SIFMA + 78 bps
All-in Annual Cost (actual rate)	0.20% + 0.78% = 0.98%	0.45% + 0.78% = 1.23%	2.00% + 0.78% = 2.78%	2.85% + 0.78% = 3.63%
Current Fixed Rate All-in TIC	2.99%	2.99%	2.99%	2.99%

Future Performance and Recommendation

- Continuing Variable Rate Program with Floating Rate Notes: FRNs are issued for a specific term, usually up to five years, with an interest rate set at a fixed spread to SIFMA or a fixed percentage of LIBOR plus a spread.
  - As SIFMA and LIBOR change, the interest rate on the FRNs will change in tandem, but the spread to SIFMA or LIBOR will remain constant.
  - For tax-exempt FRNs, the market is currently more efficient with SIFMA as the base index rather than LIBOR.
  - The FRNs are purchased directly by banks or sold to investors.
- FRNs offer several advantages.
  - They do not require a bank credit facility so there is no renewal risk for costly bank facilities and no risk of a bank downgrade or "headline news" associated with the bank.
  - A remarketing agent is not needed.
  - Disclosure may not be required with a direct purchase.
  - Upfront costs are potentially less with a direct purchase since ratings from all three rating agencies may not be needed and disclosure may not be required.
- At the end of the initial floating term, FRNs either mature or step up to a high fixed rate. Therefore, the notes must be refunded with either floating rate or fixed rate products.

Conclusion

- We believe that having some form of variable rate debt will enable the Authority to continue to potentially reduce its debt service costs and also diversify its debt portfolio slightly.
- While there is interest rate risk and also risks associated with the VRDBs, including bank risk, renewal and market disruption risk, as the Authority experienced during the recent financial crisis, the Authority’s variable rate debt combined with the Virginia College Building Authority's variable rate debt represents about 1.5 percent of the Commonwealth’s tax-supported debt, limiting the risk to the Commonwealth .
- However, with the recent decline in long-term fixed rates, the Authority may also consider locking in a compelling low fixed rate.
- In order to fully evaluate its options, we recommended the Authority issue a request for proposals for a replacement SBPA and also requested banks to provide proposals for a direct purchase of FRNs if they wish.
- Based on the responses received the Authority can further evaluate its options with committed pricing information.