

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

April 15, 2020

9:00 a.m.

Treasury Board Conference Room

James Monroe Building

101 N. 14th Street, 3rd Floor

Richmond, Virginia

Dial-in Participation Allowed

Members Present: *Manju S. Ganeriwala, Chairwoman
*Neil Amin
*Craig Burns
James Carney
Douglas Densmore
Luis Mejia
*David Von Moll

Others Present: Don Ferguson Office of the Attorney General
Katie Collins Auditor of Public Accounts
Scott Detar Bank of America Merrill Lynch
Mary DiMartino JP MorganChase
TW Bruno McGuire Woods
Anne Curtis Saunders McGuire Woods
James Johnson The Optimal Service Group
Bryce Lee The Optimal Service Group
Karen Logan The Optimal Service Group
Nelson Bush PFM
JoAnne Carter PFM
Kristy Choi PFM
Kevin Rotty PFM
Adam Rosatelli Senate Finance Committee
Sandi Jackson Virginia Port Authority
Sarah McCoy Virginia Port Authority
Rodney Oliver Virginia Port Authority
Ty Wellford Wellford-Davenport
Patrick Dixon Wells Fargo
Vanessa Yearick Williams Mullen
*Janet Aylor Department of the Treasury
*Neil Boege Department of the Treasury
Tracey Edwards Department of the Treasury
Leslie English Department of the Treasury
Kathy Foote Department of the Treasury
Bradley Jones Department of the Treasury
Laura Lingo Department of the Treasury
James Mahone Department of the Treasury
*Kristin Reiter Department of the Treasury

Richard Rhodemyre
Sandra Stanley
*David Swynford

Department of the Treasury
Department of the Treasury
Department of the Treasury

*Participated in-person

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Call to Order and Approval of Minutes

Chairwoman Ganeriwala called the meeting to order at 9:03 AM and Vernita Boone, Board Secretary, took roll.

Mr. Densmore asked if Board members attending via phone may vote. Don Ferguson, Treasury Board Legal Counsel, confirmed that Board members participating in the Board meeting via phone may vote and recommended that votes be performed via roll call and noted in the minutes. Further, Mr. Ferguson asked all participants to identify themselves before speaking. Mr. Mejia joined the call at 9:05 AM, but due to technical difficulties, he was unable to let us know that he was on the call; consequently, he disconnected from the call soon after joining.

Chairwoman Ganeriwala asked if there were any changes or revisions to the February 19 meeting minutes. Mr. Von Moll moved for approval of the minutes. Mr. Amin seconded and the motion carried. The votes were as follows:

Neil Amin	Yes
Craig Burns	Yes
James Carney	Abstained
Douglas Densmore	Yes
David Von Moll	Yes

Public Comment

None

Resolution Approving a Plan of Finance for Virginia Port Authority Commonwealth Port Fund Revenue Refunding Bonds

Janet Aylor presented the Preliminary Financing Summary for the issuance of \$78 million (Series 2020A Taxable) and \$20.1 million (Series 2020B AMT) Commonwealth Port Fund Revenue Refunding Bonds. The purpose of the bonds is to refund, defease and redeem at or after the first call date, all or a part of the Commonwealth Port Fund Revenue Refunding Bonds, Series 2012B (Taxable) the Commonwealth Port Fund Revenue Refunding Bonds, Series 2012C (Non-AMT) and Commonwealth Port Fund Revenue Bonds, Series 2015 (AMT). The Bonds will likely be sold by negotiated sale at a time to be determined by market conditions. The estimated true interest costs are 2.29% for 2020A Taxable and 1.18% for 2020B.

Discussion ensued.

Mr. Densmore asked why it appeared that in some cases taxable bonds were being refunded with tax-exempt bonds. JoAnne Carter of PFM, Financial Advisor to the Port Authority, noted that the 2012B taxable bonds were bonds refunding a 2002 AMT bond. In 2012, tax code required that AMT bonds needed to be refunded with taxable bonds. Additionally, now that we are past the call date on the 2002 bonds and under current tax code, this refunding can be done with a mix of taxable and AMT bonds, depending on the economics of the series.

In a housekeeping comment, Mr. Carney referenced the cover page of the Preliminary Official Statement and noted that in his experience, the senior managing underwriter is listed on the top line alone, followed by the co-managing underwriters on the second line in alphabetical order. In this case, the co-managing underwriters

were not in alphabetical order. He suggested that order of co-managing underwriters be changed to reflect alphabetical order.

Secondly, Mr. Carney asked if J.P. MorganChase was requiring a specific opinion from bond counsel regarding the tax implications of a possible defeasance of the bonds. Mary DiMartino from J.P. MorganChase indicated that the usual and customary opinions from bond counsel were adequate.

Mr. Amin inquired about the timing of the VPA refunding bonds given market turmoil and wider than normal credit spreads. JoAnne Carter assured the board that they were waiting and watching the market carefully, and would move to act on the refunding based on market conditions and when the necessary savings threshold is reached. The timing is uncertain, hopefully two to six months, but again, unknown.

Vanessa Yearick, of Williams Mullen, and Bond Counsel to the Virginia Port Authority, reviewed the Resolution. Chairwoman Ganeriwala asked for a motion to approve the Resolution. Mr. Von Moll moved that the Resolution be adopted. Mr. Burns seconded, and the motion carried. The votes were as follows:

Neil Amin	Yes
Craig Burns	Yes
James Carney	Yes
Douglas Densmore	Yes
David Von Moll	Yes

Resolution Approving the Plan of Finance for the Issuance and Sale of School Educational and Technology Notes Series XX and School Security Notes Series VIII, by the Virginia Public School Authority

Janet Aylor presented the Preliminary Financing Summary for the issuance of \$68 million of School Technology and Security Notes. The proceeds of the Notes are being used primarily to make grants to establish a computer-based instructional and testing system for the Standards of Learning and to develop the capability for high-speed Internet connectivity. The remainder of the proceeds will be used as grants to help offset the costs associated with the purchase of authorized security equipment. The Notes are now scheduled for competitive sale at the beginning of May with a closing in late May. The resolution allows for the Notes to be sold via a negotiated sale if market conditions are not favorable for a competitive sale. The projected true interest cost as of April 7, 2020 is 1.25%.

Ms. Aylor introduced to the Board the Resolution approving the plan of finance for the issuance and sale of School Educational Technology Notes, Series XX, and the Resolution approving the plan of finance for the issuance and sale of School Security Equipment Notes Series VIII. 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.

Jay Mahone introduced Kevin Rotty of PFM who then provided an update on the rates.

Mr. Carney asked what the advantages and disadvantages were of pursuing a negotiated vs. a competitive sale in this market. Mr. Rotty indicated that for issues like the VPSA notes, a competitive sale was most likely the best approach because the credits are well known, highly rated, straightforward and of short duration. In other situations, with more complex credits with longer durations, a negotiated sale could be the better approach.

Anne Curtis Saunders, representing McGuire Woods LLP, reviewed the two resolutions.

Mr. Densmore asked that page 2, Section 1 of the two VPSA resolutions be changed to reflect that the Treasury Board approves the plan of financing for the issuance and sale of the Notes as proposed by the Authority and the terms and structure of the Notes as described in the Financing Summary, “as may be revised by the Authority and Treasury staff, consistent with this resolution.”

Mr. Carney asked that page 1, line 2 of the two resolutions be amended as follows:

Board”) is ~~empowered~~ required

Chairwoman Ganeriwala asked for a motion to approve the Educational Technologies Notes Resolution as just amended.

Mr. Burns moved that the Resolution be adopted as amended. Mr. Von Moll seconded, and the motion carried. The votes are as follows:

Neil Amin	Yes
Craig Burns	Yes
James Carney	Yes
Douglas Densmore	Yes
David Von Moll	Yes

Chairwoman Ganeriwala asked for a motion to approve the School Security Equipment Notes Resolution as just amended.

Mr. Von Moll moved that the Resolution be adopted as amended. Mr. Amin seconded, and the motion carried. The votes are as follows:

Neil Amin	Yes
Craig Burns	Yes
James Carney	Yes
Douglas Densmore	Yes
David Von Moll	Yes

Chairwoman Ganeriwala made comments about the new federal lending facility designed to lend money to states and municipalities during this crisis. The Governor’s recent proposed budget amendments for consideration during the Reconvened Session scheduled for April 22, 2020 included language that designates the Treasury Board as the authorized issuer and gives the Board authority to borrow through the Federal Reserve Municipal Liquidity Facility program. The Treasury Board would be the borrowing vehicle for both the state and localities; however, the Virginia Resource Authority would act as an intermediary to the localities and provide credit analysis for localities as required by the program as currently understood.

Staff Reports

Debt Management

Janet Aylor reviewed the Debt Calendar as of April 1, 2020 and the leasing reports as of March 31, 2020. Ms. Aylor also informed the Board that new leases for \$1.4 million were provided in March for vehicles and equipment. She also informed the Board that \$12.5 million was used to date under the Master Lease Program leaving a line of credit balance of \$22.9 million. A \$10 million energy lease for VDOT closed in the Energy Lease Program. This lease was for VDOT to install energy efficient lighting on roadways.

State Non-Arbitrage Program

Mr. Bush reviewed the SNAP report as of March 31, 2020. The fund's assets were valued at \$4.7 billion. The monthly distribution yield was 1.49%, decreasing from February's yield of 1.79%. The weighted average maturity of the fund was 35 days.

Discussion ensued.

Investments

Neil Boege provided an investments update.

He indicated that financial markets experienced extreme volatility and stress during March, resulting in unprecedented official support measures. The financial markets have stabilized to an extent, but remain fragile. The damage to the domestic economy will be deep and sharp, but growth is projected to return during the second half of 2020. Front-end rates markets will take longer to recover, as the Fed will likely maintain monetary policy rates between 0.00 and 0.25 percent at least into early 2021.

With respect to EDCP, we are monitoring and have canvassed the external managers and they say they are adequately positioned for the current market environment. March performance did reflect under-performance to the benchmarks due to EDCP managers' reliance on corporate credit for excess return.

Reflecting the more challenging environment, ratings agencies are reviewing their stance on most credit names. A number of external managers held securities that were downgraded by ratings agencies to levels that are out of compliance with our guidelines. The managers alerted Treasury to the downgrades, specifically Occidental Petroleum and American Airlines and provided their analyses and recommendations to continue to hold those securities. Treasury informed the managers that they may continue to hold the securities given our belief that markets will eventually stabilize to the extent that these securities will retrace some of the unrealized principal losses. Per Treasury guidelines, if a manager is allowed to retain an out-of-compliance security, the manager will submit a monthly write-up to the Treasury Investment Staff and the Investment Consultant. The write-up must include the manager's rationale on why they believe the security should continue to be considered as an exception. Treasury is currently looking at whether or not we should treat these securities as OTTI, or other than temporarily impaired. If so, Treasury may choose to write down the difference between market value and amortized cost on these securities over the remaining three months of the current fiscal year.

With respect to the internally managed portfolios, Treasury remains focused on safety of principal and liquidity. Treasury has conducted an extensive review of the approved issuer names in the portfolios and have taken appropriate actions to reset risk exposures, paring allowable percentage or maturity limits where necessary. With respect to liquidity, Treasury is focusing on the ability to cover unexpected funding needs by the state (from Primary Liquidity) or by the localities (from the LGIP). Treasury has shifted tactically to keeping maturity reinvestments very short (generally, one week or less) until we have a better understanding of the Commonwealth's potential funding needs.

Moving to the LGIP Program, Mr. Boege indicated that there were no compliance issues in either the LGIP or EM fund and stress testing the LGIP portfolio under worst-case scenarios continue to support a stable \$1.00 per share net asset value.

Security for Public Deposits

Kristin Reiter reviewed the SPDA Report for the month ended February 29, 2020. Ms. Reiter reported that one bank, Bank of Fincastle, was under collateralized in February. There were no changes in the IDC rankings in February.

Mr. Densmore expressed his concern about the liquidity of the collateral of opt-out banks given the current economic environment. Discussion ensued. Mr. Reiter indicated that her team will be looking into the matter and will try to provide information at our next Treasury Board meeting.

Mr. Densmore addressed the situation with the Bank of Clarke County whose Federal Home Loan Bank letter of credit expired resulting in their being undercollateralized for the month of January 2020. Ms. Reiter explained that staff notify depositories prior to the expiration of their letters of credit. Based on this situation, however, new procedures have been put in place to monitor this more closely and notify depositories weekly until a replacement for the expiring letter of credit is provided.

Other Business

Chairwoman Ganeriwala stated that the next Treasury Board meeting is scheduled for May 20, 2020. The meeting adjourned at 10:38 AM.

Respectfully submitted,

Vernita Boone, Secretary
Commonwealth of Virginia Treasury Board