

MINUTES OF MEETING
STATE BOARD OF FINANCE

AUGUST 8, 2017

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 9:00 a.m., Tuesday, August 8, 2017, 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
Candace Franks, Arkansas Bank Commissioner
Jake Bleed, Representing Governor Asa Hutchinson
Gabe Holmstrom, Appointed Member
Cale Turner, Appointed Member
Al Harkins, Appointed Member

Others present were Jason Brady, Grant Wallace, Autumn Sanson, Ed Garner, Stacy Peterson, TJ Fowler, and Celeste Gladden of the Treasurer's staff; Paul Louthian and Debbie Rogers of the Department of Finance and Administration; Larry Tate of the Arkansas 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 meetings held on May 9, 2017 and June 28, 2017 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 2017. This Report is included in the Minutes as Attachment 1. Treasurer Milligan addressed the Board and stated that the Treasury ended fiscal year 2017 in great shape. He reminded the Board that the Treasurer's office was FOI'ed

by the press and the numbers were released to the public ahead of this meeting. Treasurer Milligan pointed the Board to the first slide of the report, Short-Term Portfolio, and said that \$3.3 million was receipted in the fourth quarter of 2017. He told the Board that this is less than the fourth quarter of 2016, but reminded them that in order to maintain cash flow and optimize the return of the Treasury portfolio in 2016, funds were moved from the long-term portfolio into short-term investments and the portfolio became very liquid, which is why the returns from short-term investments were higher in that year. Treasurer Milligan told the Board that returns from the demand accounts are up nearly 40% from fourth quarter 2016, which is a result of negotiation of higher interest rates with banks based on the two-week commercial paper rates. He then pointed the Board to the second slide, Long-Term and Mortgage Backed Portfolio, and told them that this portfolio saw growth of about \$2.1 million during the fourth quarter of fiscal year 2017 compared to the same quarter last year. He explained that once rates rose at the end of the second quarter 2017, about \$2 billion dollars was repositioned back into long-term mortgage backed securities. Treasurer Milligan said that due to the very active management style, the cash flow profiles of the investments are evaluated on a near constant basis. Next, he pointed the Board to the third slide, Total Treasury Portfolio Comparison, which shows the combined totals for both the long-term and short-term portfolios. Treasurer Milligan told the Board that at the end of the fourth quarter, the Treasury had receipted a total of \$18.1 million, which is \$1.1 million more than the fourth quarter last year, and also the highest quarter so far under his administration. He then moved on to the fourth slide, FY 2016/FY 2017 Monthly Totals, and said that this slide gives a side-by-side comparison of the combined receipts broken down by month during each fiscal year. He pointed out that the Treasury averaged about \$6 million per month in the fourth quarter in 2017 compared to about \$5.6 million per month in the fourth quarter for 2016. Comparing the entire year, the Treasury went from receipting an average of about \$4 million per month in 2016 to an average of about \$4.7 per month in 2017, he said. Treasurer Milligan pointed the Board to the next slide, Fiscal Year 2005 – 2017 Receipted. He said that the total receipted amounts for fiscal year 2017 were \$57.5

million, compared to \$48.9 million for fiscal year 2016, which is a 17% increase over FY16, which he said was phenomenal. He then moved on to the next slide which shows a historical view of the Treasury's investment receipts dating back to 2005 and compares them with the federal fund interest rate and the 3 year treasury rate. He told the Board that despite historically low interest rates during his tenure as Treasurer, the office has still been able to produce some of the highest investment returns in nearly a decade. He explained that while the investment portfolio has had more money over the years, which affects receipted amounts, interest rates are still a sharp contrast of the high level they were before the recession hit. Treasurer Milligan said that with the more active management style, a quicker reaction to the market rates will help build a solid foundation for the future of the Treasury.

Switching gears, Treasurer Milligan moved on to the seventh slide, Money Management Balances/Earnings. He thanked the Board for their support with the updates to the State Treasury Money Management Trust during the Legislative session. He said the office has had several requests from cities and counties asking how they can take advantage of the investment returns, and he appreciates the Board for providing the Treasury with the tools necessary to expand this investment option. He explained that the slide shows the five-year breakdown of average yearly balances in orange and average yearly earnings in red. He said that there is a noticeable jump in earnings from FY16 to FY17, and said that one of the biggest participants is the state's Employee Benefits Division, which has seen a dramatic increase in earnings over the past year increasing from \$500,000 to \$2 million in earnings. The Treasurer told the Board that through the Money Management Trust, the office is trying to focus on how to help state agencies get the most bang for their buck and he is eager to see what the program can do for new governments and school districts that choose to participate.

Treasurer Milligan concluded by pointing out the last slide, Workers' Compensation Commission Earnings. He told the Board that aside from local governments, several state agencies have recently requested help in investing, and the increases the Treasury has been able to create have been tremendous. He said that the slide will show the earnings that have been produced for the Workers'

Compensation Commission, and since the Treasury has been investing their funds, their investment earnings have nearly tripled since fiscal year 2015. He told the Board that the Treasury has also received a request from Arkansas Department of Environmental Quality to begin investing their money. The Treasurer reminded the Board that his office will remain focused on the goal of earning the most money possible for the taxpayers of Arkansas. He said that he is very appreciative of the trust the Board has placed in him to allow him to continue improving the investments of the State Treasury. He concluded his presentation and asked if there were any questions from the Board. There were none.

Chairman Walther asked for a motion from the Board for the acceptance of the Treasurer's report. A motion was made by Candace Franks to accept the Treasury Investment Performance Report into the record. The motion was seconded by Jake Bleed. 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 Edmond Waters. 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, 2017 – December 1, 2017, 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 Edmond Waters. All members were in favor.

Chairman Walther then 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 Al Harkins. 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 Candace Franks. All members 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 Candace Franks. 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 Al Harkins. All members in favor.

Chairman Walther told the Board that he would like them to sign the Code of Ethics that is required by the Board each year, and asked that each sign their copy today.

The Chairman asked if there was any further business to come before the Board. There was none. He reminded the Board that the next quarterly meeting will be held Tuesday, November 7th, at 10AM [Secretary's Note: this meeting has since been rescheduled for November 6th, 2017].

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.