

MINUTES OF MEETING
STATE BOARD OF FINANCE

JUNE 28, 2017

A special 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, June 28, 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
Edmond Waters, Arkansas Securities Commissioner
Susannah Marshall, Representing Arkansas Bank Commissioner Candace Franks
David Bell, Representing Governor Asa Hutchinson
Skot Covert, Representing Andrea Lea, Auditor of State
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, T.J. Fowler, Larry Tate, and Celeste Gladden of the Treasurer's staff; Paul Louthian and Debbie Rogers of the Department of Finance and Administration; various staff from 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.

Chairman Walther recognized T.J. Fowler, Chief Legal Counsel for the Treasurer's office, to address the first agenda item, consideration of the updated State Treasury Investment Policy. Mr. Fowler addressed the Board and stated that he has provided the Board with a digital red-line of the policy, the investment policy as it stands before revision, the investment policy as revised, and the three pieces of legislation that created the need for revisions. The digital red-line version and the

updated version are included in the minutes as Attachment 1 and Attachment 2. Mr. Fowler went over a summary of the changes in the policy, the main change being the calculation of Return on Investment, which is now under the direction of the Board of Finance. The proposal made by the Treasurer's office has been that the ROI calculation be made for the current month on the 25th day of the following month, in order to true-up to the mortgage-backed securities that have pay-downs that occur in the following month. Chairman Walther asked if this recommendation was made in order to have the right timing in regards to reporting. Mr. Fowler answered affirmatively. He continued by saying that the other changes to the policy consist of items that the Treasurer's office felt needed to be clarified, and simply tracking items that have changed over time in the controlling statute. He asked if any members of the Board have specific questions about the changes.

Susannah Marshall, representing Bank Commissioner Candace Franks, stated that she had a couple of technical issues to point out. First, on page 6 of the red-line version, there is a reference to the State Treasury Money Management Trust Operations Manual, which is now called the Policy and Procedures Manual. Mr. Fowler agreed that this should be consistent and would make the change. The second item Ms. Marshall pointed out is, on page 7 of the red-line, a reference to "S&P", an abbreviation of Standard and Poor's, which should be clarified. Mr. Fowler agreed and stated that the change would be made.

Chairman Walther asked if and when the Board approves the new policy, what the next step is. Mr. Fowler responded that because these rules affect entities or people outside of state government, the new policy will have to go through the Administrative Procedure Act, and said that the Treasurer's office and DF&A will work together to make that occur.

Chairman Walther asked for a motion to approve the revised State Treasury Investment Policy. The motion was made by Al Harkins and seconded by Gabe Holmstrom. All members were in favor.

The Chairman again recognized Mr. Fowler to address the next agenda item, consideration of the updated State Treasury Money Management Trust Policies and Procedures Manual. Mr. Fowler

began by pointing out a change made since the initial red-line version was sent to the Board. He stated on page 7 of the red-line, under permitted investments, commercial paper and corporate bonds, the statute requires that those securities be rated by two agencies. He said that the previous language used “and/or”, and that this has now been changed to “and” to be consistent with the statute and with the Treasury Investment Policy. Chairman Walther asked if it has always been practice for the bonds to be rated by two agencies. Mr. Fowler answered affirmatively.

Mr. Fowler continued by explaining to the Board why there are now two separate policies. He said that the State Treasury Money Management Trust policy used to be part of the Treasury Investment policy, but has now been omitted from there and has become a standalone document. He explained that the intent is that when municipalities and local governments enter into the program, they can be given an entire handbook with all the policies and procedures in one place. Mr. Fowler told the Board that all of the changes in the permitted investments are the exact same as what has occurred in the Treasury Investment policy, but that there is a little extra in the Money Management Trust policy since participants must be informed of the rules of the program.

Cale Turner asked if the fee of 5 basis points covers costs, if the fee can be increased, and how the fee was initially calculated. Mr. Fowler responded that there was discussion that took place as to what fee would cover costs and also be attractive to participants. He said that the governing statute now reads that the State Board of Finance has the ability and the power to set and amend the fee at any time. Al Harkins asked how the fee of 5 basis points compares with other states that have a similar program. Mr. Fowler responded that the Treasury’s Senior Investment Manager, Ed Garner, did the research and that the fee is comparable to other states. Mr. Garner added that he and CIO Autumn Sanson polled the National Association of State Treasurers, and that there are 30 or more states that have what is commonly referred to as a Local Intergovernmental Fund. He said that the majority of the states are charging 5 basis points, and that there were a couple of states that were in transition from 3 basis points to 5 basis points. He also clarified to the Board that the fee is 5 basis

points off the total ROI earned each month, not on principal. Susannah Marshall asked if there are plans to evaluate the fee, through polling the National Association again from time to time. Mr. Fowler reiterated that the statute gives the Board authority to set and reset the fee at its pleasure.

Chairman Walther asked if there were any other questions from the Board. There were none. Mr. Fowler told the Board that if the new State Treasury Money Management Trust Policies and Procedures is ratified by the Board, it will also have to go through the Administrative Procedure Act.

Chairman Walther asked for a motion from the Board to approve the new State Treasury Money Management Trust Policies and Procedures Manual. The motion was made by Al Harkins and seconded by Cale Turner. All members were in favor.

There being no further business to come before the Board, the Chairman reminded the Board that the next two quarterly meetings will be held August 8th and November 7th in the Treasurer's Conference Room.

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.