

MINUTES OF MEETING
STATE BOARD OF FINANCE

May 8, 2018

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 10:00 a.m., Tuesday, May 8, 2018, 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
Andy Goodman, Representing Governor Asa Hutchinson
Ann McDougal, Representing Edmond Waters, Arkansas Securities Commissioner
Andrea Lea, Auditor of State
Gabe Holmstrom, Appointed Member
Al Harkins, Appointed Member
Keith Konecny, Appointed Member

Others present were Jason Brady, Grant Wallace, Autumn Sanson, Damon Dortch, and Celeste Gladden of the Treasurer's staff; Skot Covert of the Auditor's staff; Paul Louthian and Debbie Rogers of the Department of Finance and Administration; 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 meeting held on February 6, 2018 were approved as distributed.

Chairman Walther recognized State Treasurer Dennis Milligan to present the Treasury Investment Performance Report for the Third Quarter of Fiscal Year 2018. The Report is included in the Minutes as Attachment 1. Treasurer Milligan greeted the Board and said that, for

the first time in nearly a decade, the Treasury has receipted \$20.2 million dollars in one quarter, putting the total at \$55.9 million dollars receipted year-to-date. He told the Board that the interest receipts for the first three quarters of this year were just shy of the \$57.5 million dollars receipted during the entire fiscal year last year, and because it is so close, he feels comfortable telling them that investment receipts for this fiscal year should surpass last year's totals. He reminded the Board that the Treasury has positioned the portfolio more towards the short-term, which has allowed for protection of invested principal until more favorable long-term options become available. Treasurer Milligan pointed the Board to the first slide of the presentation, Short-Term Portfolio. He stated that the receipts for the 3rd quarter totaled \$11.5 million, compared to \$2.8 million last year. He said that at this time last year the bulk of the portfolio was invested in long-term investments; however, as economic conditions shifted, the Treasury reallocated investments accordingly to minimize risk and maximize return, while protecting liquidity. Treasurer Milligan moved on to the next slide, Long-Term Portfolio and told the Board that the receipts for this portfolio totaled \$8.6 million during the 3rd quarter of 2018, compared to \$14.8 million this time last year. He stated that these numbers further demonstrate the continued repositioning from long-term to short-term investments, painting a clearer picture of what has been done over the past year to protect invested principal. Next, Treasurer Milligan pointed to the third slide, Total 3rd Quarter Revenues, and said that the yellow bar represents the total amount receipted in the 3rd quarter of fiscal year 2018, \$20.2 million, which is up from \$17.7 million at this time last year. Treasurer Milligan reminded the Board of his opening remarks, which was that the past quarter was the highest quarter the State Treasury has seen since he came into office, and is also the highest quarter since 2009. He told the Board that at this time last year, the Treasury had receipted a total of \$39.4 million dollars, compared to \$55.9 million in the current year, which is

nearly a 30% increase. Treasurer Milligan then moved to the next slide, Monthly Comparison, and said that the slide breaks the totals down by months instead of quarters. He stated that the monthly average was roughly \$6.7 million in the third quarter of 2018, which is the highest monthly average to date. Treasurer Milligan told the Board that at this time last year, the Treasury was receipting an average of \$5.9 million per month, so the decision to move money from the long-term portfolio to the short-term portfolio is continuing to produce positive results for the State. Treasurer Milligan continued by pointing the Board to the next slide, Historical Earnings and said that this slide shows a historical look at the State Treasury's receipted amounts dating back 15 years, and a visible uptick in investment receipts since 2015 can be seen, which represents the work that has been done through the active management style. He told the Board that while interest rates are a driving force in the determination of investment returns, as seen on the next slide, he is satisfied that he and the investment team have been able to do more with a lower federal fund rate than what was done in the years before the recession when interest rates were higher. Treasurer Milligan told the Board that with this quarter's receipts, the \$20 million dollar obligation to the Highway Fund and the \$5 million dollar obligation to the Budget Stabilization Trust Fund have been met, which means that remaining funds from this quarter, as well as receipts earned for the State in the fourth quarter, should help the state better withstand any future economic instability. Treasurer Milligan moved on to the final slides, Money Management Earnings, and told the Board that they may recall that last summer they voted to update the State Treasury Money Management Trust policy, which broadened the investment options for the various state agencies, school districts, and local governments that choose to invest in this program. He said that the next two slides will capture participants' earnings and their return on those investments. He told the Board that the first slide is a glimpse of the

participants' earnings for fiscal 2016, which is prior to when the legislature voted to allow this Board to update the policy. Earnings that year rose to slightly over \$100,000 dollars, and the ROI fluctuated between 15 and 91 basis points. Treasurer Milligan said that looking at the next slide, the Board can see that the ROI has increased steadily over the last two years, and participants are now getting 2.13 percent annualized return on their investments, making a larger impact on their earnings. Treasurer Milligan concluded his report by saying that since the fund is beginning to see some of the positive impacts that updating the decades-old policy has had, he is very excited about the potential impact it could have on communities across the state. He then asked for any questions from the Board. There were no questions about the Report from the Board.

Chairman Walther asked for a motion from the Board for the acceptance of the Treasurer's report. A motion was made by Keith Konecny to accept the Treasury Investment Performance Report into the record. The motion was seconded by Ann McDougal. 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 Al Harkins. 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, July 1, 2018 – September 30, 2018, 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 Andrea Lea. All members were in favor.

The Chairman then called upon Paul Louthian to address the next agenda item, consideration of a Designee for State Agencies Depositories. Mr. Louthian addressed the Board

and stated that Rule 2012-A is a rule adopted by the State Board of Finance governing the management of cash funds held by state agencies. He told the Board that these are funds that are held in banks or other types of financial institutions, not held in the Treasury. In this rule, it states, "A minimum of four bids should be obtained from approved banks or financial institutions in order to obtain the highest interest rate possible. If an agency determines it is unable to obtain four bids, the agency should provide a written explanation of that determination to the State Board of Finance, or its designee. If the State Board of Finance rejects the determination, it can direct the agency to re-bid." Mr. Louthian stated that a question came up about two months ago when the State Police was trying to start a new bank account and they needed to receive four bids per this rule, but they were not able to do so. Mr. Louthian said that since the rule requires them to come before the State Board of Finance or its designee for a determination, he would like to ask that the Board approve DFA Office of Accounting to be that designee for the State Board of Finance so that they can do this business on a routine basis as necessary. Treasurer Milligan spoke and said that he would like to make a motion to approve the request. The motion was seconded by Ann McDougal. All members were in favor.

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, August 7th, 2018, at 10AM [Secretary's Note: the Meeting was subsequently rescheduled for Wednesday, August 8th, at 9AM].

The meeting was adjourned.

ATTEST:

Secretary of the State Board

Acting Chairman of the State Board

of Finance of the State of Arkansas

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.