

MINUTES OF MEETING
STATE BOARD OF FINANCE

February 6, 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, February 6, 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
Edmond Waters, Arkansas Securities Commissioner
Jake Bleed, Representing Governor Asa Hutchinson
Andrea Lea, Auditor of State
John Ahlen, Representing Candace Franks, Arkansas Bank Commissioner
Gabe Holmstrom, Appointed Member
Cale Turner, Appointed Member
Al Harkins, Appointed Member

Others present were Jason Brady, Grant Wallace, Autumn Sanson, Ed Garner, TJ Fowler, Damon Dortch, and Celeste Gladden of the Treasurer'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 November 6, 2017 were approved as distributed.

Chairman Walther recognized State Treasurer Dennis Milligan to present the Treasury Investment Performance Report for the Second Quarter of Fiscal Year 2018. This Report is included in the Minutes as Attachment 1. Treasurer Milligan greeted the Board and began by

reminding them of the economic conditions that the Treasury has faced so far in the current fiscal year. He stated that the five-year treasury rates and the value of the dollar have each declined, which increases the risk of inflation as well as the likelihood of federal interest rate hikes. He explained that in response to these conditions, the Treasury has continued to position the portfolio more towards the short-term to allow for increased income as federal interest rates rise, while protecting invested principal and waiting for more attractive long-term opportunities to present themselves. He told the Board that overall, there was a substantial increase in receipts, in the amount of \$14 million dollars, for the first half of fiscal year 2018 compared to the first half of fiscal year 2017. Treasurer Milligan showed the Board the first slide of the presentation, Short-Term Portfolio. He stated that the Treasury saw steep increases in income from the short-term portfolio during the second quarter, not only because the size of the portfolio increased to almost \$2 billion, but also because the Treasury has continued to secure very competitive rates on commercial paper and demand accounts. He told the Board that the quarter ended at receipts of

\$8.59 million compared to \$4.8 million a year ago, an increase of nearly 44 percent. Treasurer Milligan then moved on to the next slide, Long-Term Portfolio, and told the Board that moving money from the long-term portfolio has caused receipted amounts to be comparatively less than they were last quarter, although they are still higher than the same time last year. He stated that the total receipts from the long-term portfolio for the second quarter was \$8.48 million, compared with \$13.36 million in the first quarter, however he stated that even after continued repositioning to shorter-term investments, the long-term portfolio has still increased nearly \$3.5 million dollars over the same period last year. Treasurer Milligan then moved to the third slide, Total 2nd Quarter Revenues, and told the Board that the total amount receipted in the second

quarter of fiscal year 2018 was \$17.08 million, which is close to the \$18.59 million received during the first quarter. He said that the second quarter total for fiscal 2017 was \$9.85 million, which means that the Treasury has increased receipts roughly 42 percent compared to this time last year. Next, Treasurer Milligan pointed the Board to the fourth slide, Monthly Comparison, and stated that this slide shows average monthly amounts received in fiscal years 2016 through 2018. He said that the average was roughly \$5.69 million in the second quarter of 2018, which is close to our first quarter average in 2018, which, in comparison Treasury received an average of only \$3.28 million per month during the second quarter of 2017. Treasurer Milligan pointed the Board to the fifth slide, Historical Earnings, and said that the slide shows a look at the Treasury's received amounts dating back 15 years. He told the Board that in the first half of fiscal 2018, \$35.67 million has already been received, which is comparable to the total amount received for all of fiscal year 2010, and at this point a year ago, the Treasury received \$21.67 million. Treasurer Milligan continued by saying that with the investment receipts, the Treasury has fulfilled all of the annual obligations to the Budget Stabilization Trust Fund and the majority of the obligations to the Governor's Highway Fund, and are on pace to fulfill the remaining amount of the yearly obligation to that fund very soon, which hopefully will allow additional funds to go toward building up the Long-Term Reserve Fund, enhancing the financial condition of the state. Treasurer Milligan then pointed the Board to the final two slides. He told the Board that the first slide shows the monthly balances of the State Treasury Money Management Trust, and compares those balances to the earnings associated with each month; and the second slide shows the monthly balances in comparison to return on investment. Treasurer Milligan stated that the fund is currently getting an ROI of 165 basis points, which is exponentially higher than the 15 basis points the fund was earning two and a half

years ago. The Treasurer concluded his presentation and asked if there were any questions from the Board.

Edmond Waters asked what is the average maturity of the long-term portfolio. Ed Garner responded that the average-life of the Mortgage-backs in the portfolio is 3.5 years.

Chairman Walther asked for a motion from the Board for the acceptance of the Treasurer's report. A motion was made by Al Harkins 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 Gabe Holmstrom. 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, April 1, 2018 – June 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 Edmond Waters. All members were in favor.

The Chairman then called upon Autumn Sanson to address the next agenda item, consideration of certificate of deposit rates. Ms. Sanson told the Board that agencies with trust funds are allowed to invest their idle money with state banks in certificates of deposit, as long as banks are willing to accept the funds, and if not the money can be invested according to the Treasury investment policy. She explained that the Treasurer's office handles those transactions for the agencies. Ms. Sanson said that the Treasury is proposing an increase to the rates so that

the agencies can see as much interest on those funds as possible. The proposed rates are included in the Minutes as Attachment 2. She asked for questions from the Board.

Al Harkins asked if banks often refuse the funds due to the rate. Ms. Sanson responded that they will either refuse funds because of the rate, because they are flush with cash, or because they cannot provide collateral. She stated that currently, the Treasury is experiencing no difficulties placing the money in the state banks. She added that from time to time, the Treasurer's office will poll the banks to determine the best rate for CDs. Cale Turner asked if that factored into the new rates being proposed, and Ms. Sanson answered affirmatively.

Chairman Walther asked for a motion to accept the new rates for certificates of deposit. The motion was made by Al Harkins and seconded by Cale Turner.

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, May 8th, 2018, at 10AM.

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.