

MINUTES OF MEETING
STATE BOARD OF FINANCE

January 13, 2011

The State Board of Finance of the State of Arkansas met in the Conference Room, Office of the Treasurer of State, Suite 275, Victory Building, Little Rock, Arkansas, at 1:00 p.m., Thursday, January 13, 2011, pursuant to notice duly given to each member of the Board by the Chairman.

The following members were present:

Richard Weiss, Director, Department of Finance and Administration
Martha Shoffner, Treasurer of State
Charlie Daniels, Auditor of State
Candace Franks, Arkansas State Bank Commissioner
Jennifer Flinn, representing Governor Mike Beebe

Others present were Karla Shepard, Autumn Sanson, and Celeste Gladden of the Treasurer's staff; and Janet Harris of the Auditor's staff.

Richard Weiss served as acting Chairman in the absence of Governor Beebe and called the meeting to order with recognition of a quorum.

Minutes of the meeting held on November 18, 2010 were approved as distributed.

The first item on the agenda was the consideration of a temporary suspension of the reinvestment of \$75,000,000.00 State Board of Finance Certificates of Deposit, maturing February 23, 2011. Chairman Weiss informed the Board that the Treasurer's Office is having problems placing the money with the banks due the banks having excess cash on hand and problems with collateral. Mr. Weiss asked the Treasurer's staff to address the issue. Autumn Sanson explained that the Treasurer's office has two State

Board of Finance CD's circulating every six months; one for \$50 million and the one for \$75 million that is maturing February 23, 2011. Ms. Sanson said that during the last allocation process that took place in December, 31 out of 129 banks participated, and during the allocation period prior to that only 62 banks participated. In addition to problems with placing the State Board of Finance money, the Treasurer's Office is also starting to have problems placing Trust money, which is money being placed for the agencies. The Trust CD program is a top priority. Ms. Sanson informed the Board that the recommendation of the Treasurer's Office is to hold the 75 million for a period of 6 months and then re-evaluate. She noted that the Treasurer's office does have alternative methods of investment for this \$75 million, such as FHLB (Federal Home Loan Bank) Step-up bonds with a rate of 1%, which will yield the equivalent of what has been earned in the CD program.

A discussion took place about the rate difference between the Trust CD program and the State Board of Finance CD program. Ms. Sanson stated that the rate for the Trust CD program had been lowered to .25% and the authority to do so belongs to Treasurer Shoffner. She went on to explain that the State Board of Finance CD's are still being offered at the Board approved rate of .94%, with the rate not currently being a problem for the banks. However, the allocation process does present a problem because the banks are not given an allocation until all banks are called. In a situation where only 31 banks agree to participate, a larger bank could end up with a greater allocation than they can collateralize. Allocations are based on the number of banks participating and each bank's capital structure.

Chairman Weiss addressed Ms. Sanson again by asking if the alternative method of investment, FHLB Step-up bonds, will be collateralized and liquid. Ms. Sanson

replied that yes, it will be, and the money can be accessed at any time. Treasurer Shoffner asked Ms. Sanson where the bonds will be purchased. Ms. Sanson responded that it would be up to the Board to give Treasurer Shoffner the permission to handle that issue since the Treasurer's Office deals with brokers on a daily basis. Chairman Weiss made a motion to give the Treasurer's Office discretion in finding a broker to purchase the FHLB bonds, which was seconded by Commissioner Franks and passed by the Board.

Mr. Weiss recognized Autumn Sanson to discuss the next item on the agenda, which was the consideration of alternative investment methods for the Trust CD program in the event that the money cannot be placed with state banks. Ms. Sanson told the Board that Treasurer's office is also seeing difficulties in placing the Trust money, which is program run for the state agencies. She explained that the Treasurer sets the interest rate for this program at her discretion; however approval of the Board is needed in order to utilize alternative investment methods. Ms. Sanson stated that the first priority is to offer and place money with the banks first, and the rate has been lowered in the hopes the problem will be solved. However, in the event that the problems persist, the Treasurer's Office would like to be able to use other methods of investment. Commissioner Franks makes a motion to allow the Treasurer's office to utilize alternative methods of investment for the Trust money, if needed. The motion was passed unanimously by the Board.

As the final order of business, Chairman Weiss welcomed newly elected Auditor Charlie Daniels to the Board of Finance.

There being no further business, the Chairman declared the meeting 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.