

MINUTES OF MEETING
STATE BOARD OF FINANCE

MAY 9, 2007

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 10:00 a.m., Wednesday, May 9, 2007, pursuant to notice duly given to each member of the Board by the Chairman.

The following members were present:

Robert “Bunny” Adcock, Arkansas State Bank Commissioner
Martha Shoffner, Treasurer of State
Richard Weiss, Director, Department of Finance
And Administration
Larry Crane, representing Jim Wood, Auditor of State
James Miller, representing Governor Mike Beebe

Others present were Michael Wickline, reporter for the Arkansas Democrat-Gazette; Lisa White of the Auditor’s staff; Cynthia Nixon of the Arkansas State Bank Commission; and Karla Wise, Autumn Sanson, and Patti Lah of the Treasurer’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.

Acting Chairman Weiss recognized Robert “Bunny” Adcock, who began by thanking the State Board of Finance for the review and prospective updating of the board policies. He further recognized Wes Goodner and Karla Wise of the Treasurer’s staff for addressing the changes needed to the policies. Acting Chairman Weiss, in turn, thanked Mr. Adcock for initiating the project.

As the first order of business, discussion began on the actual changes to the Investment Policy. Acting Chairman Weiss suggested that Wes Goodner meet with Department of Finance and Administration Legal Counsel for stylistic changes; today's meeting would specifically address policy changes. Proposed changes include:

Page 3, *Authorized Financial Dealers and Institutions*: elimination of “the Arkansas State Bank Department.” State Bank Commissioner Adcock stated that the State Board of Finance does not regulate national banks.

Page 5, paragraph B: removal of statute to be replaced with most recent codification.

Page 5, paragraph C: added Arkansas codes that bring in the CDARS program.

Page 6: State Bank Commissioner Adcock addressed the section midway through the page referring to “certificates of deposit, demand, or savings accounts with financial institutions provided they are fully insured...” The change to policy includes the addition of ...”or collateralized by suitable collateral types pursuant to A.C.A. 19-8-203.” Commissioner Adcock gave an example of a senior citizen who had several hundred thousand dollars to deposit in a bank. The FDIC ensures funds of up to \$100,000.00 per customer. Conceivably, the bank customer would have to place his money in several banks to ensure full protection. There are collateral programs in place that allow a bank to fully ensure the customer *above* the amount of \$100,000.00 by exchanging risk. Essentially, it is “the movement of paper to get around the federal limit”, done within the confines of federal regulations.

Page 6, paragraph C: small change to the amount and the specific pertinent statute.

Page 8: Elimination of “Securities Lending Agent.” This process has never been used by the Arkansas State Treasurer.

Page 11, paragraph G: A.C.A. 23-34-203 replaced by the more appropriate Title 19 code, A.C.A. 19-8-203.

Page 12: will need to be reviewed by Department of Finance and Administration legal counsel to ensure accuracy of true intent.

Page 13: collateralization references inserted (see Page 6) and reference to CDARS program added.

Page 14, paragraph F: percentage changed to 105% of market value.

Acting Chairman Weiss had one specific policy issue on Page 8 regarding the Securities Lending Agent. Autumn Sanson of the Treasurer's Staff explained that the Treasurer does not take formal proposals. State Commissioner Adcock suggested that language be included that would stipulate "...a procedure" versus a "formal procedure." This language would also be added to Page 16.

Acting Chairman Weiss asked if there was any further discussion regarding policy changes. Larry Crane of the State Auditor's office spoke on behalf of Jim Wood, State Auditor. He stressed that the Auditor was very concerned that the policy touch on the value at which mortgages will be considered as collateralization. He added that some of the mortgages could be paid off and collateral would then drop below 105%. He also stated the concern of the Auditor about whether or not we are accepting par, face, market, or cash value, "which makes a difference on how secure we are." Karla Wise of the State Treasurer's office stated that the Treasurer's office reviews and tracks collateral. State Bank Commissioner Adcock suggested that these issues be brought to Autumn Sanson; she would be most able to answer questions based on her knowledge and experience.

State Treasurer Martha Shoffner asked the Board of Finance about turn-around time for collateralization, that is, is there a statutory requirement regarding a reasonable time? She used as an example the request of the City of Little Rock, who wanted to be collateralized by a bank "that day, at 4:00 p.m." State Bank Commissioner stated that the policy is three days. Autumn Sanson added that the Treasurer's office normally works two days ahead.

As the next order of business, Acting Chairman Weiss suggested to the Board that Mr. Miller of the Governor's office be made a voting member of the Board and to count him as a quorum. The Board voted, with no objections, and Mr. Miller was duly made a voting member of the State Board of Finance.

The next item on the agenda was the memorandum from Bunny Adcock regarding calculation of interest for the State Treasury Certificate of Deposit Investment Program. Mr. Adcock gave background history about the system created by a previous State Bank Commissioner. He stated that the federal discount rate does not, as such, exist today (it is now called the "primary rate") and the methodology for calculating rates has changed considerably. He added that the purpose of the fund was to stimulate economic development throughout the State of Arkansas. As such, he has proposed a new rate calculation sheet, drawing upon 10 banks throughout the state to create the Arkansas State bank average. Additionally, the Federal Discount Rate has been removed from the computation. Acting Chairman Weiss affirmed Mr. Adcock's memorandum, stated that he believed that the proposed change made very good sense, and that it was sufficiently important enough for the Board to vote on. He made a motion to accept the proposed new method of calculating interest for the State Treasury Certificate of Deposit Program, State Treasurer Martha Shoffner seconded the motion, and the change to the calculation of interest was approved by the Board.

Members of the Board agreed to meet again during the next fiscal quarter and to set a date in the future to further discuss changes to the Investment Policy. Prior to adjournment, Acting Chairman Weiss formally thanked Robert "Bunny" Adcock for his faithful service on the State Board of Finance. A motion was made by Acting Chairman

Weiss, seconded by State Treasurer Shoffner, and unanimously passed to approve the following Resolution:

RESOLUTION

WHEREAS, Bunny Adcock has served faithfully and admirably on the State Board of Finance, and

WHEREAS, he has unselfishly devoted countless hours of his time and energy toward the improvement of the financial management of the State of Arkansas, and

WHEREAS, his service has proven him an outstanding Bank Commissioner and member of the State Board of Finance worthy of praise for his unselfish devotion to this state, and

WHEREAS, his unselfish service to the State of Arkansas is deserving of recognition and preservation;

NOW, THEREFORE, BE IT RESOLVED, that the State Board of Finance and its members, Governor Mike Beebe, State Treasurer Martha Shoffner, State Auditor Jim Wood, and Director of Finance and Administration Richard Weiss, individually and on behalf of the State of Arkansas, do hereby express deep appreciation for the services, and fond memories of Bunny Adcock.

DATED THIS 11th Day of June, 2007.

/s/Mike Beebe

/s/ Jim Wood

/s/ Martha Shoffner

/s/ Richard Weiss

There being no further business, Acting Chairman Weiss 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.