

MINUTES OF MEETING
STATE BOARD OF FINANCE

September 30, 2010

An emergency 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., Thursday, September 30, 2010, 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
Brent Taylor, representing Arkansas State Bank Commissioner Candace Franks
Jim Wood, Auditor of State
Jennifer Flinn, representing Governor Mike Beebe

Others present were Aaron Black, Executive Director of the Arkansas Tobacco Settlement Commission; Michael Wickline, reporter for the Arkansas Democrat-Gazette; and Karla Shepard, Autumn Sanson, Charlotte Dumboski, Wes Goodner, and Celeste Gladden 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 began the meeting by recognizing Aaron Black of the Arkansas Tobacco Settlement Commission to discuss the item on the agenda, which is the consideration of request for new investments for the Tobacco pool. Mr. Black referred the Board to the letter sent to the State Board of Finance members from the Arkansas Tobacco Settlement Commission, dated September 21, 2010. The letter is, in words and figures, as follows:

September 21, 2010

Richard Weiss, Chair
Arkansas State Board of Finance
Arkansas Department of Finance & Administration
1509 West Seventh Street
Little Rock, Arkansas 72201

Dear State Board of Finance Members:

The Arkansas Tobacco Settlement Commission operates solely on the investment income from the Tobacco Settlement Proceeds Fund, as established in §19-12-109 of the Arkansas Tobacco Settlement Proceeds Act of 2000. Within section 103 of this same Act, the law grants exclusive control of these investments to the State Board of Finance.

Due to the low rate of return on the investments of the Tobacco Settlement Proceeds Fund for state fiscal year 2010, the Arkansas Tobacco Settlement Commission has worked with staff at the Office of the Treasurer to determine what investment options would comply with the regulations of the Act (§§19-12-103, 107, & 108), and would also increase the rate of return for the remainder of fiscal year 2011 and beyond.

Through these discussions it has been determined that certificates of deposit, with multiple maturity dates spaced out over the fiscal year, would comply with the Act and would also bring a higher rate of return on the investments. Utilizing quarterly spending patterns for Tobacco Settlement Programs from the past three fiscal years, a reasonable estimate of spending for fiscal year 2011 has been established. These recommendations allow for certain certificates of deposits to mature each quarter, providing new cash availability. Additional funds are retained in money market accounts to cover unanticipated needs.

Under section 12-12-703b(3), the Act provides that the State Board of Finance is authorized to place Tobacco Settlement Program Fund and Arkansas Tobacco Settlement Commission Fund investments in "certificates of deposit, in securities as outlined in Arkansas Code Annotated §23-47-40I without limitation or as approved in the Board of Finance investment policy."

The Arkansas Tobacco Settlement Commission would request the State Board of Finance move toward investing these fund balances into multiple certificates of deposit with staggered maturity dates, while retaining an appropriate amount of funds in money market accounts for immediate spending needs. The Commission respectfully requests that the State Board of Finance do all within its power to act on these recommendations as quickly as possible. The specific investment breakdown for each fund is listed in the following table:

TOBACCO SETTLEMENT PROGRAM FUND

<u>Amount</u>	<u>Investment Form</u>	<u>Maturity Date</u>
\$60,000,000.00	Nine Month CD's	June 30, 2011
\$20,000,000.00	Six Month CD's	March 30, 2011
\$10,000,000.00	Three Month CD's	December 31, 2010
\$2,000,000.00	One Month CD's	October 31, 2010*
		(Reinvested monthly until funds are needed)
\$9,772,264.80	Money Market Account	No Maturity Date

ARKANSAS HEALTHY CENTURY TRUST FUND

\$100,000,000.00	Five Year FHLB Step Up Bond	Staggered Potential Call Dates
\$28,984,124.58	Nine Month CD's	June 30, 2011

The Commission is confident these changes meet the requirements of the Act, while still maximizing the income from the corpus of these funds. The Commission appreciates the State Board of Finance's consideration of these requests and looks forward to hearing a decision in the very near future.

Sincerely yours,
Aaron Parish Black, JD, MPA
Executive Director

cc: Arkansas Tobacco Settlement Commission Members
cc: State Board of Finance Members

Mr. Black explained to the Board that since July when the Commission learned of last year's interest payments for Tobacco Settlement Cash Holding Fund, they have been working with Autumn Sanson of the Treasurer's staff to come up with alternative investment methods to generate a better return. Mr. Black stated that last year interest payments totaled around \$50,000 and in prior years there has not been a time when interest payments were less than seven figures. Mr. Black stated that the Tobacco Commission and its grant programs are all funded through interest proceeds and a decrease in funds can be very detrimental to continued operations. Mr. Black went on to explain that the Commission is aware that since the time the letter to the Board was written, Autumn Sanson of the Treasurer's office has called some of the institutions in

Arkansas and has found that there is a need to change some of the recommendations outlined in the letter and the Commission understands that need. He stated that in his recollection the funds have always been placed in a money-market account, but because of the economy in the last 12-16 months, the money-markets have not been generating what they have in the past. Furthermore, the Commission would like to see that the highest rate of return be utilized in CD's for the remainder of the year and into next year.

Mr. Weiss stated that the Board has always been receptive to the needs of the Tobacco Settlement Commission it was his understanding that the Commission has always wanted the funds to be available at the earliest opportunity and that's why the Board has gone with the investment route that it has in the past. Mr. Weiss called upon Karla Shepard and Autumn Sanson to explain what the Treasurer's office has found while trying to invest these funds and what recommendations they have.

Ms. Sanson said that in the last week Charlotte Dumboski of the Treasurer's office has called all state banks to try and place the money. The Nine Month CD at 60 million has presented a problem because the banks cannot take the money. She explained that at this point she does not feel it is a rate issue, but a collateral issue, and the banks simply are already too liquid. Ms. Sanson stated that she spoke with Mr. Black about alternative securities and told the Board that the alternatives are not doing well right now. Ms. Sanson gave her findings to the Board on the following securities: A 90 day CDARS is yielding .08%; Commercial Papers (Triple A rated corporate bonds) are yielding between 0.13-0.17%. Ms. Sanson stated that she went a safer route by checking into Federal Home Loan Discount and found that that 90 day note is yielding 0.13% and that was her recommendation to Mr. Black for the next three months. She stated that Mr. Black inquired about going to other out of state banks; however, that is not

possible since it is against the law for the Board to do so. Ms. Sanson also explained this will only be an issue for the next three months because part of the Healthy Century funds that are going to be placed in bonds is currently in a \$77,000,000.00 CD that will mature in January. At that time, \$60,000,000.00 in funds that cannot be placed at this time will be freed up to be placed in CD's.

Mr. Weiss addressed the Board by asking if there was any further discussion. Ms. Sanson added that in the next three months there will be an additional \$60,000 in interest being earned and that is an improvement. State Treasurer Martha Shoffner moved to accept the recommendations as outlined in the letter from the State Tobacco Commission to the Board, with the exception of \$60,000,000.00, which will be placed in a Federal Home Loan Bank discount note until January. The motion was passed unanimously by the Board.

There being no further business, 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.