

MINUTES OF MEETING
STATE BOARD OF FINANCE

JANUARY 7, 2014

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 1:00 p.m., Tuesday, January 7, 2014, 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
Charles Robinson, Treasurer of State
Candace Franks, Arkansas State Bank Commissioner
Janet Harris, Representing Auditor Charlie Daniels
Haley Keenan-Gray, Representing Governor Mike Beebe
Heath Abshure, Arkansas Securities Commissioner
Clarence "Al" Hamilton, Certified Public Accountant

Others present were Debbie Rogers, Autumn Sanson, Hunter Johnson, Melissa Corrigan and Celeste Gladden of the Treasurer's staff; Andy Babbitt of the Division of Legislative Audit; Paul Louthian of the Department of Finance and Administration; P.J. Kelly and Douglas Leonhardt of Hewitt Ennis Knupp; and Sean Beherec, reporter for the Arkansas Democrat Gazette.

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 January 10, 2013 were approved as distributed.

The Chairman recognized PJ Kelly and Douglas Leonhardt to give the Board an overview of the Hewitt Ennis Knupp Review of the Arkansas Treasury Portfolio, henceforth referred to as the HEK Report. This report, in facts and figures, appears in the Minutes as Attachment 1. Mr. Kelly stated that the overall conclusion of the HEK Report is that Treasury portfolio is very conservative and safe, and has been managed prudently within stated goals and policies, however there is room for

improvement in diversification and return. In the HEK Report, recommendations are given to add new investments such as: government/credit mandates, global equities, and bank loans. Adding these new investments will better equip the portfolio for differing economic times, such as a period of rising interest rates and inflation. Mr. Kelly told the Board that while these new investments may be considered risky on a stand-alone basis, in the context of the entire portfolio they can actually reduce the risk. Continuing, Mr. Kelly told the Board that as reflected in the HEK Report, a liquidity analysis was performed going back to 2010, and based on that analysis, the balance of the portfolio has remained relatively stable with ample liquidity. Because of these findings, the recommendation is that a three-tier liquidity structure of the portfolio be adopted to include: a Primary Liquidity Tier employing money market and mutual funds; a Liquid Core tier employing "TIPS" and government/credit mandates, and a Long-Term Funds tier employing bank loans.

Mr. Kelly summarized other recommendations given in the HEK Report, which include: considering active vs. passive management of the portfolio, which may require the use of external managers; expanding the list of allowable investments under legislation; stringent documentation of policies and procedures; continuing education of staff; and increasing reporting and analytics. A full list of recommendations is given on pages 57-59 of the HEK Report.

After some discussion of legalities and appropriateness of global equities and bank loans, Chairman Weiss reminded the Board that the task of the Board today is to listen to the presentation and accept the HEK Report as given, and then assign staff to work through the recommendations and to come up with a plan for the Board to vote on. Secretary Robinson agreed, and said that some of the recommendations made in the report have already been implemented and some are in the process of being worked through. Secretary Robinson stated that these changes will be part of a process, done over a period of time, because a lot of the recommendations are going to require additional action by the Board and may also require changes in legislation.

Chairman Weiss asked if there were any questions or comments by the Board. There were not. Secretary Robinson moved to accept the presentation of the Hewitt Ennis Knupp Review of the Arkansas Treasury Portfolio. The motion was seconded by Commissioner Franks and passed unanimously by the Board.

For the next item on the agenda, Chairman Weiss recognized Secretary Robinson to review the FY15 Treasury Budget Proposal and Proposed Organizational Structure with the Board. This report, in facts and figures, appears in the Minutes as Attachment 2. Secretary Robinson began by explaining that Act 1088 of 2013 required that minimum qualifications, education, and experience of Treasury staff be established. Mr. Robinson stated that the first step in that process was to develop an organizational chart that was understandable and made sense, because what currently exists is an appropriations bill which is very cumbersome to try and understand. He continued by explaining that the new organizational chart includes the present day staff, titles that accurately describe their job duties, and depicts actual lines of authority and the segregation of duties in the Treasury. Secretary Robinson stated that following the organizational chart in the report are job descriptions of management and of the employees that work in those areas, and job qualifications of the positions that fall under each level of the organizational chart. Secretary Robinson stated that what is being proposed is that a college degree be mandatory for the top four positions and a college degree is preferred for all other Treasury positions. Experience, IT skills, oral and written communication skills will be mandatory for all positions.

Chairman Weiss asked Secretary Robinson if he is proposing that, at least in terms of upper management, the Board of Finance become the employers of these employees, in the sense of trying to soften the blow of change-over of Treasurers? Secretary Robinson responded that the issue is something that could eventually be addressed by the Board, in terms of how much involvement the Board would like to have in the changing, hiring, and dismissal of employees in the Treasurer's

office; however, it is not something that has to be decided in this meeting. Chairman Weiss responded that it would be the direction he would like to go in.

Moving on, Secretary Robinson explained to the Board that the next part of the Treasury Proposal includes changes to the FY15 Treasury Budget. Secretary Robinson outlined three changes to the Treasury budget for FY15. To summarize, the first change is within the salary budget. The salary budget for FY14 is \$2,069,165 and the increased budget amount for FY15 is \$2,228,163. The second change lies within the operations budget. The line item in the budget appropriation called "Debt Collection" for \$5,000 has been removed. This line item has never been used. The third change to the Treasury budget is significant, and is due to bank fees.

Secretary Robinson explained to the Board that there are two bank fees that will need to be paid from the budget of the Treasurer's office. The first is an existing fee from Simmons Bank that in previous years has been paid for by State Board of Finance appropriations. Act 1088 of 2013 states, "The processing fees shall be paid by state warrant from appropriations to The Treasurer of State" and "A bank depository or investment depository shall not use compensating deposit balances to offset processing fees." The second fee is a new fee that has been negotiated with Bank of America and is related to the warrant and electronic wire transfer transactions that Bank of America handles for the Treasury. In total, FY15 includes an increase of almost \$650,000 in operating expense, to include: \$135,000 for Simmons fees, \$407,000 for Bank of America fees, and \$100,000 to compensate for any increases in volume that may take place.

Chairman Weiss reiterated to the Board that all of the changes to the budget in regards to the payment of bank fees are mandated by the new law, Act 1088 of 2013.


Janet Harris made the motion to approve the Treasury Budget Proposal and Proposed Organizational Structure as outlined. The motion was seconded by Commissioner Franks and passed unanimously by the Board.


Chairman Weiss addressed the last item on the agenda, the selection of the Chief Investment Officer of State Treasury, by asking Secretary Robinson for his nomination. Act 1088 of 2013 requires that, "the Board shall select the Chief Investment Officer within the Treasurer of State's office based upon nominations received from the Treasurer of State." Secretary Robinson nominates Autumn Sanson for the position. Commissioner Franks seconded the nomination and with no objection, the motion is passed.

Secretary Robinson addressed the Board and asked if Ms. Sanson merits a salary increase, must the Board approve the increase or will authority remain with the Treasurer of State? Chairman Weiss answered by saying that unless there are any objections, he recommends that The Treasurer continue to manage her salary along with the rest of his budget. There were no objections to the Chairman's recommendation.

The Chairman addressed the Board and asked if there were any further issues to be brought before the Board. 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.