

MINUTES OF MEETING
STATE BOARD OF FINANCE

MARCH 25, 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 1:30 p.m., Tuesday, March 25, 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
Janet Harris, Representing Auditor Charlie Daniels
Haley Keenan-Gray, Representing Governor Mike Beebe
Heath Abshire, Arkansas Securities Commissioner
Clarence "Al" Hamilton, Certified Public Accountant

Candace Franks, Arkansas State Bank Commissioner, attended the meeting by telephone.

Others present were Debbie Rogers, Autumn Sanson, 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; and Claudia Lauer, 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 7, 2014 were approved as distributed.

The Chairman recognized Debbie Rogers to discuss the first item on the agenda. Ms. Rogers presented to the Board a proposed Code of Ethics to be adopted by the Board for all State Board of Finance members and also for the employees of the Treasurer of State. The proposed Code of Ethics, in facts and figures, appears in the Minutes as Attachment 1. Ms. Rogers explained to the Board that having a Code of Ethics was a recommendation made by the investment consultants hired by the Board, and that the proposal has been modeled after the existing Code of Ethics used by the

Department of Finance and Administration. After each Board member had a chance to review the proposal, Commissioner Abshire raised a concern about an item in the Code of Ethics that states, "The ASBF will not condone member conduct that either violates, or has the appearance of violating the law, including the ethical provisions." While he did not object to the language, he stated that the word "appearance" gave him cause for concern. Chairman Weiss told Commissioner Abshire that he understood the concern, but felt that the language in the proposal was standard. The Chairman suggested that the Board adopt the proposed Code of Ethics, with the provision that if any issue came up that gives a Board member any concern, that the subject of revising the Code of Ethics can be visited at any time. A motion to adopt the Code of Ethics as written was made by Janet Harris, seconded by Haley Keenan-Gray, and passed unanimously by Board.

Ms. Rogers was recognized by the Chairman to address the next item on the agenda. She did so by informing the Board that Statements of Financial Interest and criminal background checks for the employees of the Treasurer of State have been completed as required by Act 1088 of 2013. Both items will be kept on file in the Treasurer's office for review at any time. Without objection, the Chairman accepted a motion to recognize that the documents have been completed and filed with the Board.

Ms. Rogers was again recognized by the Chairman to address the next item on the agenda, discussion of State Board of Finance budget appropriations. Ms. Rogers explained to the Board that there are two budget appropriation line items that are not being used at this time. The first is an Investments appropriation for \$603,600 and the second is a Rural Medical Clinics re-appropriation for \$845,000. Ms. Rogers told the Board that the intention is to bring the items to the attention of the Board, so that action can be taken at the appropriate time. Chairman Weiss recommended that the discussion of these two items be tabled until the Board meets again prior to legislative session, where they can be reviewed with any other budget issues at that time. There was no objection by the Board.

Chairman Weiss recognized Autumn Sanson to present the next item on the agenda, the consideration and approval of qualified banks and investment depositories. Ms. Sanson gave the Board both a list of the qualified banks and a list of the qualified investment brokers currently doing business with the Treasurer's office. These lists are included in the Minutes as Attachments 2 and 3. Ms. Sanson told the Board that the lists would be revised as new brokers or banks were added, and any changes will be brought to the attention of the Board. After review by the members, the Board unanimously approved the lists as given, with the provision that any additions to the list be approved by the Board.

Ms. Sanson presented the next item on the agenda, the status of the State Board of Finance CD program. Ms. Sanson explained to the Board that in the past, there were two cd's in rotation, both in the amount of \$150,000,000, that were invested in state banks for 6 month periods. In the past few years the banks have stopped taking the money due to having ample liquidity, and also due to difficulties in providing collateral to cover the deposits. Ms. Sanson told the Board that the Treasurer's office staff still does believe the banks could or would be able to take the Board of Finance cd's, therefore the recommendation at this time is to keep the program on hold. Chairman Weiss asked Commissioner Franks to comment. Commissioner Franks agreed and stated that the banks were generally liquid at this time and she has no objections to keeping the cd program on hold. Chairman Weiss made the recommendation that the Treasurer's office let the Board know when the environment changes and the staff feels like the program could be reinstated. There were no objections by the Board.

Chairman Weiss again recognizes Autumn Sanson to present the next item on the agenda, consideration of the Treasury Investment Timeline. Ms. Sanson explained to the Board that based on recommendations made in the Hewitt Ennis Knupp Review of the Arkansas State Treasury Portfolio report, the Treasurer's office has come up with a timeline of changes to the investment strategy of the Treasury. In the timeline, there is a list of items that will be implemented immediately, items that

should be implemented within 3-6 months, and items that should be implemented within 6-24 months. The Treasury Investment Timeline is included in the Minutes as Attachment 4. Ms. Sanson reviewed the Timeline with the Board item by item and emphasized that analyzing and capturing cash flow trends and establishing liquidity needs are the most important items to focus on at this time. Secretary Robinson moved that the Board adopt the timeline as presented, with the understanding the timeline will be continually revised and changed as things progress, with updates given to the Board at each meeting. The motion was seconded by Commissioner Franks, and passed unanimously by the Board.

Ms. Sanson is again recognized to present the next item on the agenda, the Investment Summary Report. This report is included in the Minutes as Attachment 5. She explained to the Board that this report is an overview of the funds that the Treasurer's Office is responsible for as of February 2014; to include: the Treasury Portfolio, the Trust CD Program, the Money Management Trust Fund, the Healthy Century Trust Fund, the Tobacco Trust Program Pool, and the Agency Safekeeping Inventory. Ms. Sanson told the Board that this report will be available on a quarterly basis at each Board meeting, and could be made available monthly if needed. There was discussion about making the Report available on the Treasury website for Board members to access, to which Secretary Robinson was agreeable to doing.

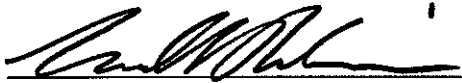
The last item on the agenda is the direction by the Board to the Treasurer's Office to pay warrants for the succeeding quarter, which is now a requirement of the Board per Act 1088 of 2013. Chairman Weiss read the following statement: "Pursuant to Act 1088, the Board instructs the State Treasury to keep reasonable amounts in demand deposit accounts and money markets during the next quarter for the transaction of day to day activities, including the payment of warrants. These funds shall be maintained consistent with generally accepted accounting principles." There was no objection from the Board.

Chairman Weiss asked if there was any other business to come before the Board. Ms. Sanson stated that she has new Treasury investments to present. She explained to the Board that according to


Act 1088 of 2013, the Board must be notified anytime new investments are made or if any existing investments are called. Ms. Sanson stated that \$75,000,000 in bonds were to be called on 3/28/14, and the decision was made to reinvest only \$50,000,000 in order to maintain liquidity needs to pay warrants during income tax season. Ms. Sanson gave the Board a report of the trade offers and trade ticket details of the investments purchased, this report is included in the Minutes as Attachment 6.

The Chairman again addressed the Board and asked if there were any further issues to be brought before the Board. There being no further business, the Chairman accepted a motion to adjourn.

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.