

MINUTES OF MEETING
STATE BOARD OF FINANCE
SEPTEMBER 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 10:00 a.m., Thursday, September 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
Candace Franks, Arkansas Bank Commissioner
Janet Harris, Representing Auditor Charlie Daniels
Haley Keenan-Gray, Representing Governor Mike Beebe
Heath Abshire, Arkansas Securities Commissioner
Clarence "Al" Hamilton, Certified Public Accountant

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; Rush Deacon, Sam Walls, and Al Hodge of Arkansas Capitol Corporation; and Greg Wolfe of Arkansas Economic Development Commission.

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 June 3, 2014 were approved as distributed.

The Chairman recognized Treasurer Charles Robinson to discuss the first item on the agenda, consideration of the July 2014 Analysis of Warrant Redeemed, prepared by the Treasurer's staff. This report is included in the Minutes as Attachment 1. Mr. Robinson explained to the Board that this report was done in order to begin the process of analyzing cash flows. Included in the Report is a graph that shows the days of the month where the amount of warrants redeemed exceeds receipted

income by two million dollars, and vice versa. In terms of liquidity, it is very important to know when spikes in warrants occur, and if there is a trend that can be defined throughout the months. Mr. Robinson continued by explaining that the Analysis of Warrants Redeemed is a detailed explanation of what occurred on those highlighted days to cause the large spikes in warrants identified on the graph. This report includes the fund number and fund description, which is provided by the agencies. Mr. Robinson told the Board that staff plans to continue this report for each month going forward. Chairman Weiss stated that this Report will be very helpful to DF&A because identification of cash flows is important in determining how much general revenue can be advanced the agencies. Janet Harris of the Auditor's staff also expressed that the Report would be beneficial to the Auditor as well, so that they could determine at what times of the year a large amount of warrants would need to be printed. Without any further questions from the Board, the Report was accepted into the record.

Chairman Weiss recognized Debbie Rogers to discuss the next item on the agenda, Board of Finance budget appropriations. Ms. Rogers stated that there are three budget appropriation acts, and a re-appropriation, that have not been used in many years. These items were first addressed in the March 2014 meeting, and action was tabled until budget time. Ms. Rogers stated that it now being budget time, the items are again being brought before the Board for a decision. These budget appropriations include: \$600 million for purchase of securities, \$600 thousand for premiums and discounts, and \$3 million for principal interest and agents fees. The first two items have never been used. In the case of the third item, bank service charges were once paid from this appropriation but Act 1088 now requires these fees be paid from Treasury funds. Ms. Rogers asked the Board if the items should be continued in the budget going forward, or discontinued altogether. Chairman Weiss stated that his opinion is, being that when the Legislature goes into session the Board of Finance will be comprised of mostly new members, the budget should go forward as it is currently written. Ms. Rogers stated that the last of the appropriations for consideration is actually a re-appropriation of the Rural Medical Clinic fund for \$785,000, which has had not been used since 2006. She told the Board

that currently, the Department of Health has a program in place for the Rural Medical Clinics. If the Board of Finance does not re-appropriate these funds, they will go back into the general revenue fund to be used for general improvement. Chairman Weiss suggested that Ms. Rogers touch base with the Health Department, and if they do in fact now have ownership of the funds for this program, the Board can discontinue the appropriation. He stated that in the case of the other appropriations, they should remain in the budget for the legislature to consider. There were no objections to this course of action from the Board.

Chairman Weiss then recognized Autumn Sanson to discuss the next item on the agenda, an amendment to the Board of Finance Investment Policy to extend the allowed term of commercial paper investments from 3 months to 6 months. Ms. Sanson explained the Board that after considering the recommendations made in the HEK Report over the past year, and after thoroughly looking at cash flows and considering what changes that could be made to investments to generate return while satisfying liquidity needs, the Treasurer's office has identified that the use of commercial paper investments could be beneficial. Ms. Sanson stated that investing in commercial paper allows for maturity to be selected based on what day you need liquidity to pay warrants. She also stated that right now, commercial paper is earning 20 to 25 more basis points higher than money markets. Ms. Sanson said that the current Investment Policy only allows for commercial paper investments of up to 90 days, but being able to go out to 180 days would allow for longer term investments, and still allow for targeted liquidity for a period of six months. Chairman Weiss asked the Board for any remarks, and Commissioner Franks stated that she agreed this would allow for better management of cash flow. A motion was made by Commissioner Franks to extend the allowed term of commercial paper investments to six months, seconded by Janet Harris and passed unanimously by the Board.

Chairman Weiss again recognized Autumn Sanson to discuss the next item on the agenda, consideration of the August Investment Summary report and new investments. Ms. Sanson stated that this was an update of the Report of all current investments and accounts held in Treasury, which has

been given at prior Board meetings, along with a report of any new investments made this quarter.

The Report was accepted into the record, and appears in the Minutes as Attachment 2.

For the next agenda item, Chairman Weiss asked the Board to consider a target rate of return on investments. Mr. Weiss explained the Board that the Treasurer has asked the Board to consider a rate of 0.80% to 1.10% as a benchmark rate for the upcoming quarter. The Chairman asked Treasurer Robinson to elaborate on this request. Mr. Robinson explained the Board that Act 1088 requires that the Board set a target rate of return on investments. He stated the Treasury is continuing to build a ladder of investments based on liquidity needs and staff felt like this range was a realistic range based on past data and forecasting. He stated that he felt like this rate will come up over time, but in order to meet liquidity needs, short-term investments are heavily utilized, and a lower rate of return is what is appropriate at this time. Chairman Weiss asked for comments from the Board. Commissioner Abshire stated that he felt this was a reasonable target. There were no objections from the Board, and the target rate of return on investments of 0.08% to 1.10% was adopted as requested.

Addressing the last item on the agenda, Chairman Weiss directed the State Treasurer's office to pay warrants for the succeeding quarter, as now required by state statute.

Chairman Weiss then addressed the Board and stated that a new item of business has been brought to his attention by Arkansas Capital Corporation (ACC). Mr. Weiss then recognized Rush Deacon, acting CEO of ACC, to make his presentation to the Board. Mr. Deacon gave a brief history of the ACC to the Board. In summary, the ACC is a private, non-profit organization formed in 1957 by business leaders around the state. The mission of the ACC is to borrow money from the state of Arkansas, in order to lend it. The ACC has become one of the largest SBA lenders in the state. The ACC is not a bank, but partners with banks, and is examined by the State Bank Department. He stated that, by statute, the ACC has a line of credit from the State of Arkansas of \$48 million dollars. Currently, the ACC has \$41 million drawn on that line of credit, out of the \$43 million currently authorized. He continued by saying they are not requesting any action today, but are coming before

the Board to ask that consideration of their requests be made in the future. Mr. Deacon then asked his colleague, President and COO of ACC Sam Walls, to explain what the ACC is asking of the Board. Mr. Walls gave the Board a history of the rate and terms given to the ACC by the State. Until 2003, ACC had a 10 year fixed note at the federal discount rate. In 2003, Treasurer Wingfield changed the terms to a 10 year note at the two-year treasury rate, adjusted every two years. Then, in 2005 the terms were changed again to a 10 year note at the average Arkansas 6-month cd rate as determined by the State Bank Commissioner, and was adjusted every six months. Mr. Walls told the Board that none of these changes were discussed with the ACC, which has caused the ACC some difficulties. In 2008, the ACC requested changes to the agreement the terms were adjusted to a 10-year note, at the primary credit rate, adjusted quarterly. Mr. Walls stated that there are two issues the ACC would like the Board to consider. The first is to allow the ACC to access to the full line of credit, \$48 million. The second is to amend the terms to a 10 year note, at a fixed interest rate, the current primary credit rate. Mr. Walls explained that the current lending environment is a fixed rate environment, borrowers are looking for fixed rate capital and the ACC cannot lend that way under the current terms. Chairman Weiss asked Mr. Deacon and Mr. Walls to provide for the Board, a current portfolio of the ACC and an official proposal in writing of the terms being requested for the Board to consider, prior to the next Board meeting.

To conclude, the Chairman 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.