

STATE BOARD OF FINANCE
March 10, 2015 – 8:30 AM
Summary Minutes

Location:

Via videoconference at the following locations:

Guinn Room
101 N. Carson Street
Carson City, NV 89701

Governor's Office Conference Room
555 E Washington Avenue, Suite 5100
Las Vegas, NV 89101

Governor Sandoval called the meeting to order at 8:30 A.M.

Board members present:

Governor Brian Sandoval – Carson City
Treasurer Dan Schwartz – Carson City
Controller Ron Knecht – Carson City
Steve Martin – Las Vegas
Dave Funk – Carson City

Others present:

Scott Hammond – Nevada State Senator
Tara Hagan – Senior Deputy Treasurer
Al Kramer – Investment Deputy Treasurer
Pam Jurgensen – Investment Deputy Treasurer
Dennis Belcourt – Deputy Attorney General
Bruce Breslow – Director of Department of Business and Industry
Bob Howell – Academics Nevada
David Robertson – Lewis, Young, Robertson and Burningham

Agenda Item 1 – Public Comment.

There were no public comments in either Carson City or Las Vegas.

Agenda Item 2 – For possible action – Approval of the Board of Finance minutes from the meeting held on January 11, 2015.

Mr. Funk mentioned that there were some errors on the minutes from the January 11, 2015 meeting. The minutes stated that both Ron Knecht and Dave Funk were present via telephone, but they actually attended the meeting in person. Ron Zurek's name was also spelled wrong.

Controller Knecht moved to approve the minutes with the changes suggested by Mr. Funk. Dave Funk seconded the motion. Motion passed unanimously.

Agenda Item 5 – Discussion and possible action on a request to approve the findings of the Director of the State of Nevada Department of Business Industry in connection with the issuance by the Director of its Charter School Lease Revenue Bonds (Somerset Academy Project).

Governor Sandoval decided to take this item out of order. Bruce Breslow, Director of Department of Business and Industry, explained that in the last legislative session the legislature passed a bill to finance charter schools in Nevada. The first application of these bonds was for Somerset Academy.

Senator Scott Hammond gave a brief history of how the bill was introduced in the 2013 Legislative Session. He explained that if the bonds issuance is approved, the bonds will sell from March 24, 2015 through March 27, 2015. This bond issuance will allow Somerset Academy to own their facilities. This will allow them to obtain a 30 year fixed rate and an interest rate of 5%.

Bob Howell, CEO of Academica Nevada, explained that this bond issuance allows the school to lock a fixed payment; therefore, as the school's revenues increase, their expenses will stay static. This will save Somerset Academy an estimated \$200,000 per year. Bruce Breslow mentioned that Somerset Academy currently has a waiting list of 7000 students.

David Robertson, Financial Advisor with Lewis Young Robertson and Burningham, briefed the Board on the technical aspects of the issuance. The bonds will be rated as BB bonds sold in \$100,000 denominations. The size of this transaction will be roughly \$43 million dollars. The bonds will amortize from December 2015 to December 2044. They explained that these bonds are not backed by the full faith and credit of the State of Nevada. They are bonds that are secured solely by the revenues the school receives from the children sitting in those classrooms. Controller Knecht asked if the 5% rate is on the net of the actual proceeds that they will be able to use immediately or if the 5% is on the total \$47 million. The response was that the 5% rate is on the gross proceeds that will accrue interest on issuance. Treasurer Schwartz asked the Mr. Robertson if he believed the bonds could be sold. David Robertson responded that having a BB rating shows that the bonds have a great infrastructure. Controller Knecht requested a pro forma on the operating costs of the building. Steve Martin asked if there were any other charter schools interested in doing this. Mr. Breslow responded that other charter schools are interested; however, they are waiting to see the outcome of this issuance.

Controller Knecht moved to approve the findings of the Director of the State of Nevada. Dave Funk seconded the motion. The motion passed unanimously. Governor Sandoval reiterated how much of an impact this will have for education in Nevada.

Agenda Item 3 – For possible action – Discussion and possible action regarding collateralized bank deposits for the Local Government Pooled Investment Fund (LGIP).

Al Kramer, Investment Deputy, mentioned that the State Treasurer's Office strives to receive a return on investment for the LGIP. Mr. Kramer stated that in the last year, the return was under 10 basis points (0.0010%). Mr. Kramer informed the Board that the State Treasurer's Office found a bank that would collateralize up to \$50 million dollars and offer 15 basis points (0.0015%). Dennis Belcourt, Deputy Attorney General, explained that the State Treasurer's Office requested advice as to whether it may deposit a portion of LGIP funds with banks. He explained that NRS 356.015 authorizes collateralized deposit upon approval of the agency, but NRS 355.167 does not authorize it.

Governor Sandoval commented that his understanding of this matter was that the previous Treasurer had received advice from the Attorney General's Office to not do this. He also explained that the memo received was not an Attorney General's opinion and for the Board's purpose, he would want a formal legal Attorney General's Opinion.

Pam Jurgensen, Investment Deputy Treasurer, explained that the Board of Finance approved Washington Federal as a qualifying bank during the June 12, 2014 meeting. Treasurer Schwartz asked Al Kramer how much the previous Treasurer had earned on the deposits. Mr. Kramer responded that overnight, those deposits were earning 1 basis point (0.0001%). If the funds are deposited with Washington Federal, those funds would be earning 15 basis points (0.0015%). Treasurer Schwartz expressed that he did not see an issue with depositing the funds in a bank that was previously approved by the Board. Governor Sandoval responded that the issue was not the return, he reiterated that he supported a better return; however, he felt more comfortable if the Attorney General gave his opinion of whether or not the statute allowed the Treasurer's Office to deposit funds in a bank account. Al Kramer expressed that Staff asked for clarity on whether or not the statute allowed the Treasurer's Office to deposit the funds in this bank.

Controller Knecht wanted to know what the Treasurer's Office would do differently if the Board of Finance didn't take action on this item. Al Kramer answered that Staff would explore different opportunities with different banks, and they would explore the option of commercial paper. Controller Knecht asked if those options would also reach 15 basis points (.0015%). Al Kramer responded that those options wouldn't reach 15 points (0.0015%); the commercial paper option might reach somewhere between 8 basis points (0.0008%) and 12 basis points (0.0012%). Controller Knecht expressed that he would be willing to approve the Washington Federal deposits based on the information provided. He stated that he understands the Governor's request of an Attorney General's opinion, but he doesn't believe they should have to wait for the opinion.

Governor Sandoval stated that in order to move forward with this item, they either had to receive an Attorney General's opinion or have a statutory change. Treasurer Schwartz asked Dennis Belcourt if he had expressed his opinion that this item was legal. Mr. Belcourt clarified that his informal opinion did not depart from the 1988 Attorney General's opinion. Mr. Belcourt's informal opinion stated that it is legal to temporarily deposit funds in a bank account for

noninvestment purposes. Treasurer Schwartz also asked Pam Jurgensen if the deposits were fully collateralized. Pam Jurgensen responded that they are fully collateralized for up to \$10 million.

Dave Funk motioned to delay action on this item pending the outcome of the Attorney General's opinion has been received. Steve Martin seconded the motion. Motioned passed 3-2.

Governor Sandoval mentioned that once an Attorney General's opinion has been received, the Board of Finance can hold a special meeting to review this item.

Agenda Item 4 – For possible action – Board review and approval or disapproval of the State Treasurer's investment policies for the General Portfolio and Local Government Investment Pool (LGIP) and the State Treasurer's amendments thereto.

Treasurer Schwartz suggested several changes to the investment policy for the General Portfolio and the LGIP. Tara Hagan, Senior Deputy Treasurer explained that pursuant to statute, the Board of Finance reviews and approves the investment policies on a quarterly basis. The purpose of the changes is to better clarify the rules and responsibilities should the Treasurer potentially add investment managers. The amendments also outline the State Treasurer's responsibilities. Treasurer Schwartz explained that his staff is currently in the process of outsourcing the investment decisions. The advisors would aide in investing at a higher rate. The Treasurer's Staff also requested a policy change to able it to add or remove financial institutions or broker/dealer at any time rather than doing it on an annual basis. Steve Martin asked if the Treasurer's Office would notify the Board of any changes made or if the changes would just be done internally. Treasurer Schwartz responded that it would be done internally, but he has no objection in providing the information to the Board on a quarterly basis.

Governor Sandoval suggested that the amendment should state that a quarterly report should be provided to the Board of Finance stating any changes made. Steve Martin addressed the sentence in the amendment that stated that "staff [would] follow the necessary policies and procedures to conducting business with a broker/dealer". Mr. Martin wanted to know what those policies were. Mr. Kramer replied that those were internal policies and that a copy of those policies would be sent to the Board members. Governor Sandoval objected to making any decisions without having the internal office policies and procedures and he mentioned that it was premature to make any changes without having an approved RFP. Mr. Kramer clarified that the objective for this item was not to approve the RFP process; Staff simply wanted to have some management tools in place for when the outside managers were chosen. Treasurer Schwartz explained that the RFP process had already begun, and the Treasurer's Office had received 20 bids. Governor Sandoval suggested that the State Treasurer's Office brings back this item once all the changes have been decided. The Board of Finance decided to table this item.

Agenda Item 6 – Discussion and possible action regarding the State Treasurer's quarterly investment report for the quarter ended December 31, 2014.

Pam Jurgensen, Investment Deputy Treasurer, updated the Board of Finance on the investment reports for the quarter ending on December 31, 2014 for the State's General Portfolio and Local Government Investment Portfolio. She stated that the total book values of these portfolios as of

quarter end were \$1,739,655,302 and \$445,785,865, respectively As of December 31, 2014, the General Portfolio yield was 42 basis points. Pam Jurgensen explained that the benchmark yield was of 6 basis points (0.0006%); therefore, there was an outperformance of the benchmark of 36 basis points (0.0036%).

Agenda Item 7 – Public Comment.

There were no additional Board comments or public comments in Las Vegas or Carson City.

Controller Knecht motioned to adjourn the meetings. Dave Funk seconded the motion. The meeting adjourned at 10:10 AM.