

STATE BOARD OF FINANCE
June 12, 2014 – 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 Kate Marshall – Carson City
Controller Kim Wallin – Phone
Steve Martin – Las Vegas
Dave Funk – Phone

Others present:

Mark Mathers, Chief Deputy Treasurer
Lori Chatwood, Deputy Treasurer – Debt Management
Tara Hagan, Senior Deputy Treasurer
Budd Milazzo, Deputy Treasurer – Cash Management
Pam Jurgensen, Deputy Treasurer - Investments
Dennis Belcourt, Deputy Attorney General
Jennifer Stern, Sherman & Howard
Martin Johnson, JNA Consulting
James Wells, Executive Officer – PEBP
Roger Rahming, Operations Officer - PEBP
Celestena Glover, CFO - PEBP

Agenda Item 1 – Public Comment:

There were no public comments.

Agenda Item 2 – For possible action - Approval of the Board of Finance minutes.

Governor Sandoval noted that since he and David Funk were not present at the afternoon meeting on March 11, 2014, two separate motions were needed for approval of the minutes of the two board meetings on March 11, 2014.

Dave Funk noted a change to the minutes of the morning meeting. On page 5, “Treasure” should be changed to “Treasurer”. Controller Wallin made a motion to approve the meeting minutes for

the 8:30 AM meeting of March 11, 2014, with this one change. Dave Funk seconded the motion. Motion passed 5-0.

Dave Funk noted that on line 14 of page 4 of the draft minutes of the afternoon meeting, the word “know” appeared to be missing. Treasurer Marshall made a motion to approve the meeting minutes held on 1:30 PM on March 11, 2014 with this one change. Controller Wallin seconded the motion. Governor Sandoval and Dave Funk abstained. Motion passed 3-0.

Agenda Item 3 – Approval of resolutions regarding the use of the Permanent School Fund Guarantee program by school districts.

a. For discussion and possible action – A resolution approving the report submitted by the Executive Director of the Department of Taxation and the State Permanent School Fund Guarantee Agreement pertaining to the Washoe County School District, Nevada General Obligation (Limited Tax) Refunding Bonds, Series 2014A, in the maximum principal amount of \$40,000,000.

b. For discussion and possible action – A resolution approving the report submitted by the Executive Director of the Department of Taxation and the State Permanent School Fund Guarantee Agreement pertaining to the Churchill County School District, Nevada General Obligation (Limited Tax) School Improvement Bonds, Series 2014, in the maximum principal amount of \$9,315,000.

c. For discussion and possible action – A resolution approving the report submitted by the Executive Director of the Department of Taxation and the State Permanent School Fund Guarantee Agreement pertaining to the White Pine County School District, Nevada General Obligation (Limited Tax) School Improvement Bonds, Series 2014, in the maximum principal amount of \$9,000,000.

Lori Chatwood presented three requests for guarantees of the Permanent School Fund. The PSFG provides a “AAA” rating for up to \$40 million of school districts’ debt issuances, thereby saving them money on the interest cost. Item a is for Washoe County School District, which presently has no debt guaranteed by the PSFG program and is requesting the entire \$40 million they are allowed for its bond sale refunding existing debt.

Item b is for Churchill County School District. Their request for \$9,315,000 would bring them up to the full \$40 million limit and would save them \$300,000 on a new-money financing.

Item c is for White Pine County School District for \$9 million, which would bring their utilization of the program to just over \$11 million. Cost savings are approximately \$250,000.

Controller Wallin made a motion to approve Agenda Items a, b and c approving the resolutions for Washoe County, Churchill County and White Pine County school districts. Steve Martin seconded the motion. Motion passed 5-0.

Agenda Item 4 – Establishment of a pool of firms to act as Bond Counsel/Disclosure Counsel for the issuance of state debt for the period from mid-2014 through mid-2018 as a result of a solicitation released by the State Treasurer’s Office on February 27, 2014.

Lori Chatwood gave a presentation on the recent competitive selection process to select Bond and Disclosure Counsel firms and noted that the firms selected were Sherman & Howard (bond counsel only per their request), Orrick Herrington & Sutcliffe, Hawkins Delafield & Wood, Stradling Yocca, McKenna Long, and Nixon Peabody.

Governor Sandoval inquired whether Sherman & Howard was the only firm with an office in Nevada. Ms. Chatwood responded that Stradling Yocca had recently opened an office in Reno. Governor Sandoval asked how the Treasurer’s Office determines which firm to use and whether that’s based on specialization of firms or at the discretion of the Treasurer’s Office. Ms. Chatwood noted that firms do have certain specializations. Treasurer Marshall noted that having a pool also allows the State to seek a second opinion when a certain firm is representing a local jurisdiction, for instance.

Governor Sandoval asked whether hourly rates are negotiated after their selection. Ms. Chatwood indicated that their proposals included fee schedules and that for special projects, a not-to-exceed hourly rate was indicated but that this can be negotiated at the time of any special project.

Agenda Item 5 – Establishment of a pool of firms to act as Financial Advisor (Independent Registered Municipal Advisor) for the issuance of state debt for the period from mid-2014 through mid-2018 as a result of a solicitation released by the State Treasurer’s Office on March 24, 2014.

Lori Chatwood gave a presentation on the recent competitive selection process to select Financial Advisors for the State and noted that the firms selected were: Hobbs Ong and Public Financial Management, which are jointly presenting; Zions Bank Public Finance (Andy Artusa); JNA Consulting (Marty Johnson); and First Southwest, which is new to the State’s pool.

Agenda Item 6 – For possible action - Discussion and possible action regarding the approval of a Collateral Security Agreement between the Office of the State Treasurer and Washington Federal, Inc. as prescribed within the agreement.

Mark Mathers explained that earlier this year, Bank of America divested itself of more than 20 branches in the Southwest, including 10 branches in rural Nevada. Washington Federal, based in Seattle, purchased these banks. Because the State as well as local governments with a presence in these areas has a need to use these branches, a collateral security agreement with Washington Federal is being presented to allow their participation in the State’s collateral pool.

Dave Funk made a motion to approve the collateral security agreement with Washington Federal. Controller Wallin seconded the motion. Motion passed 5-0.

Agenda Item 7 – For possible action - discussion and possible action on a request to approve outside bank accounts with Washington Federal, Inc. for various departments in Lincoln and White Pine counties.

Tara Hagan noted that with the conversion from Bank of America to Wells Fargo last year, the State had opened a number of accounts at various rural branches of Bank of America for areas that Wells Fargo did not service. With the sale of these branches to Washington Federal, approval of outside bank accounts in Lincoln and White Pine counties with Washington Federal are now needed.

Dave Funk made a motion to approve the collateral security agreement with Washington Federal. Steve Martin seconded the motion. Motion passed 5-0.

Agenda Item 8 – For possible action - discussion and possible action regarding a request from the Public Employees' Benefits Program (PEBP) to approve outside bank accounts with Healthcare Bank, a division of Bell State Bank & Trust, located outside the State of Nevada; or provide other direction, as appropriate.

Mark Mathers explained that the Treasurer's Office has been working with PEBP and its vendors regarding a matter involving the State's HSA program and a bank account with Healthcare Bank, a division of Bell State Bank & Trust in North Dakota. This item had originally come up in March 2011, and the Treasurer's Office discovered the existence of an outside account in North Dakota earlier this year. PEBP and Healthcare Bank believe that once the State wires monies for the State's HSA program to the bank, those monies are at all times the property of employees and not the State. While the Treasurer's Office believes this is probably the case, it has sought documentation that certain requirements of the FDIC have been met to insure these accounts receive pass-through FDIC insurance up to \$250,000 per employee and confirmation that both the Contribution Account and Cash or Omnibus account established at the bank are in fact employees' monies at all times.

Mr. Mathers noted that they have not received that confirmation from FDIC yet and that he was presenting the item to the Board for their feedback. Governor Sandoval questioned whether it was premature to take any action on this item since we are still waiting on information. Mr. Mathers responded that it may be, but the office's concern is that the State wires approximately \$19 million to the bank on July 1. Governor Sandoval asked whether the Treasurer's Office was concerned that these account receive insurance from FDIC, and Mr. Mathers concurred that was the case and it was not entirely clear the monies were FDIC-insured.

Treasurer Marshall expressed concerns that Healthscope has provided different information over time and that when the office has asked for verification, her office has received a legal opinion from the bank, which does not verify that the accounts meet FDIC law. Treasurer Marshall expressed her concern that monies are collateralized and safe and that employees' monies are insured and protected. Treasurer Marshall said that this was the Board's decision in 2011 and she wanted this to come back to the board for their information and further direction.

Governor Sandoval asked Mr. Mathers about the options available. Mr. Mathers noted if the Board was satisfied with the bank's explanation, the matter could be considered an informational item. If the Board was not satisfied that monies are employees' monies, it could approve an outside bank account in North Dakota, or they can attempt to get a collateral agreement with the bank to collateralize monies until an FDIC determination is received.

Governor Sandoval asked about the consequences if the State did not send money on July 1. Mr. Mathers noted that would be a problem since state employees rely on those HSA monies to pay medical bills.

Controller Wallin asked why PEBP had not come back to the board in 2011, as directed by the board, and why outside bank accounts were set up. Jim Wells recounted the bid process for a third-party administrator (TPA) in 2011. The successful bidder, Healthscope, uses Healthcare Bank and Mr. Wells indicated those bank accounts were never state bank accounts, they were in the name of the TPA. Mr. Wells noted the integration of the TPA with the record-keeper and that two of the accounts are simply pass-through accounts. Mr. Wells stated that once the State wires the monies, the monies are the property of employees and noted an advisory opinion of the FDIC that these accounts receive FDIC insurance.

Treasurer Marshall thanked Mr. Wells for his work, but she wanted verification that this is the case. She noted that if monies are in an account for 24 hours without a sub-account, that's a concern. She also noted language in contracts with Healthscope that seemed to contradict a fiduciary relationship. Treasurer Marshall felt the State had an obligation to verify these accounts are insured and to collateralize the monies until that's clear.

Mr. Wells reiterated that he feels these are HSA accounts. He noted an FDIC advisory opinion and information on the FDIC's FAQ website.

Governor Sandoval inquired about actions the State can take at this point. Governor Sandoval noted that a request for a response from the FDIC is in process. Treasurer Marshall expressed her view that the accounts should be collateralized until the verification from the FDIC is received. If the FDIC verification is received by July 1, the monies would not need to be collateralized, Treasurer Marshall said. Governor Sandoval asked as a practical matter how we would make that happen. Mr. Mathers explained the process to set up a collateral security agreement and collateralize monies with an outside trustee.

Governor Sandoval inquired about the State's ability to make that happen. Mr. Wells noted that the State could not take back individual employees' monies. Controller Wallin noted that until the monies that the State wires are transferred, that is State money. Mr. Wells indicated those monies are transferred the same day to the omnibus account, at which point it is employee money/

Dave Funk confirmed with Mr. Wells that individual accounts are set up and that monies are allocated to individual accounts. Mr. Funk asked about Healthcare Bank. Mr. Mathers noted that Healthcare Bank is a division of Bell State Bank and is not separately regulated. Dave Funk noted that there are three conditions required by the FDIC for an HSA account to be insured.

Dave Funk noted there are two separate issues. He indicated that his personal opinion is that once the State wires monies to the bank, the monies become employees' money. The other issue is whether those accounts are insured. Mr. Funk indicated he did not know whether all three criteria are met, but his assumption is that they are.

Treasurer Marshall reiterated her need for verification. Mr. Mathers noted the option to collateralize the deposits pending receipt of the FDIC's letter. There was discussion of the bundled service and the fact that Healthscope is a state vendor. Governor Sandoval confirmed with Mr. Wells that the bank has said they meet the criteria.

Controller Wallin asked about the timing of the FDIC request. Mr. Wells indicated it was submitted on June 2.

Governor Sandoval suggested holding the issue in abeyance pending receipt of the letter from FDIC and in the meantime seeking collateralization of monies, and if neither occurs, the Board can have a special meeting. David Funk asked about the date in the bank's letter referring to June 30, 2013, and Mr. Wells provided an explanation that the timing was based on the last wire from the State. Treasurer Marshall agreed with the Governor's proposal.

There was discussion of the fiduciary relationship issue. Treasurer Marshall noted her support of the Governor's proposal and remarked that a bank of Bell State Bank's size could collateralize this amount. Steve Martin asked about a fallback position if state employees could not access monies on July 1, and Mr. Wells responded there was not one. Mr. Martin asked about Healthcare Bank's letter and the issue of naming a beneficiary. Mr. Wells indicated his understanding that once the account records are matched to the deposit, FDIC coverage would attach to the individual's monies.

Governor Sandoval asked about the location of Healthcare Bank. Mr. Wells confirmed it is a division of Bell State Bank, located in North Dakota. Governor Sandoval asked Mr. Wells to explore the issue of collateralization with Mr. Mathers and seek an expedited consideration by the FDIC. Governor Sandoval directed Mr. Mathers to schedule a special meeting if we have not heard back from the FDIC by June 20.

Agenda Item 9 - For possible action - Discussion and possible action regarding revisions to the State's debt management policy adopted on March 11, 2014.

Mark Mathers noted that at the last board meeting, the Board had removed Section XII, Subsection C from the proposed debt management policy and made several other changes to the policy, which the board approved. The reason the Board removed this section was to allow the Treasurer's Office to discuss whether the Department of Administration or Treasurer's Office should distribute and present a new report showing how bond proceeds are expended. Mr. Mathers noted that he had subsequently met with Julia Teska, the new Director of the Department of Administration, and she had agreed to distribute this report to departments after the Treasurer's Office had pre-populated certain data on the report form. Therefore, a revised

debt management policy is being presented with Section XII, Subsection C reinserted in the policy.

Dave Funk made a motion to approve the revised debt policy with the new wording for Section XII, Subsection C. Controller Wallin seconded the motion. Motion passed 5-0.

Agenda Item 10 – Discussion and possible action regarding the State Treasurer’s quarterly investment report for the quarter ended December 31, 2013 and investment policies for General Portfolio and Local Government Investment Pool (LGIP).

Mark Mathers presented the investment report for the quarter ended December 31, 2013. Mr. Mathers noted that the Fed began tapering of their bond purchase program earlier this year and that it has said it will consider raising the Fed Funds rate sometime in 2015 after tapering ends. However, in the meantime, bond yields actually have fallen recently.

Dave Funk made a motion to approve the investment report and investment policies for the quarter ended December 31, 2013. Steve Martin seconded the motion. Motion passed 5-0.

Agenda Item 11 - Report from the Office of the Attorney General on the status of the Woodlands Bank matter.

Dennis Belcourt gave an update on the Woodlands Bank case involving the State’s forward delivery agreement. Mr. Belcourt noted that a brief had been filed by the bank as the appellant to the Supreme Court in April, the State filed a responding brief in May, and the bank has until June 23 to file a reply brief. His understanding is that the bank has requested a 30-day extension to file that reply brief. Mr. Belcourt said that it’s likely the case will not be heard until 2015. Governor Sandoval inquired whether we would agree to that extension. Mr. Belcourt responded that the State planned to grant one extension as a professional courtesy.

Agenda Item 12 – Public Comment

There were no additional Board comments or public comment.

Treasurer Marshall made a motion to adjourn the meeting. Controller Wallin seconded the motion. The motion passed 5-0.

There being no further business, the meeting was adjourned at 9:31 A.M.