

POOLED MONEY INVESTMENT BOARD
915 Capitol Mall, Room 110
Sacramento, CA 95814

MINUTES

Wednesday, April 20, 2005

The meeting was called to order at 10:00 a.m.

Roll: Francisco Lujano for State Treasurer Philip Angelides
Cindy Aronberg for State Controller Steve Westly
Anne Sheehan for Director of Finance Thomas J. Campbell

Staff Present: Mark Paul, Executive Secretary, PMIB
Doug Spittler, State Treasurer's Office
Connie LeLouis, Attorney General's Office
Mark Paxson, State Treasurer's Office

APPROVAL OF MINUTES

The Minutes for the meeting of March 16, 2005, were approved as submitted, 3-0.

APPROVAL OF PMIB DESIGNATION NO. 1670

Mr. Doug Spittler of the State Treasurer's Office presented the portfolio Summary Report as of April 14, 2005. On that day, the portfolio stood at \$54.148 billion. The effective yield was 2.737%, the quarter-to-date yield was 2.683% and the year-to-date yield was 2.059%. The average life of the portfolio was 209 days and AB 55 Loans approved stood at \$5.399 billion with \$1.541 billion having been disbursed. The Local Agency Investment Fund had deposits totaling \$18.046 billion with 2,715 participants.

Mr. John Hiber of the Cash Management Division of the State Treasurer's Office presented a summary of the Forecast of Changes in portfolio for the Pooled Money Investment Account for the period April 18, 2005, through June 17, 2005. He stated that over the nine-week period there would be an increase in the portfolio of approximately \$5.5 billion due to receipts exceeding disbursements. Mr. Hiber continued by highlighting several of the key receipts. He noted that Sales, Liquor, and Utility Surcharge were expected to total \$7.4 billion and that the Motor Vehicle Fuel Taxes were expected to total \$345 million. Personal Income and Bank & Corporation Taxes were expected to total \$13.7 billion, while the Insurance Gross Premium Taxes were anticipated at \$488 million. For this nine-week period, \$38.8 billion was expected in receipts.

Mr. John Korach of the State Controller's Office presented the Estimated Pooled Money Disbursements for the forecast period and highlighted several of the major disbursements. Public Schools and Community Colleges were expected to disburse \$2.092 billion on April 27th with another payment of \$1.883 billion on May 26th. A Social Services disbursement for SSI/SSP was scheduled to go out the week of April 25th for \$795 million with another \$714 million for

the week of May 30th. Health Care Services were scheduled to have two major disbursements – the first one was scheduled for the week of May 23rd for \$1.019 billion. The second payment was scheduled for the week of June 13th for \$1.325 billion. Both of these payments include amounts for the disproportionate share of hospitals in addition to the normal, weekly Medi-Cal payments. The Payroll Revolving Fund was scheduled to disburse two significant payments – \$973 million for the week of May 2nd and \$1.256 billion the week of May 30th. Income Tax Refunds were anticipated at \$2.215 billion over the forecast period. Mr. Korach concluded by stating that total disbursements for the nine-week period were anticipated at \$33.324 billion

Designation No. 1670 was approved by the Board, 3-0.

APPROVAL OF AUTHORIZATION FOR GENERAL FUND INTERNAL BORROWING

Mr. Doug Spittler presented this document, which authorizes the General Fund to borrow from internal sources – the special funds and accounts within the State Treasury – to meet its cash needs during periods of shortfall. The authorization presented at this meeting was for the period May 1, 2005, through July 31, 2005. He noted that the amount available from various internal funds was estimated to be \$8.488 billion.

The Authorization for General Fund Internal Borrowing for the period May 1, 2005, through July 31, 2005, was approved, 3-0.

APPROVAL OF SURPLUS MONEY DECLARATIONS/REDUCTIONS

Mr. Doug Spittler presented the changes in the Surplus Money Investment Fund for the period March 1, 2005, through March 31, 2005. During that month \$8.290 billion was declared surplus in various special funds, while \$8.171 billion was declared to be a reduction in surplus.

The Surplus Money Declaration/Reduction for the month of March 2005 was approved, 3-0.

APPROVAL OF SURPLUS MONEY INVESTMENT FUND REQUESTS

Mr. Doug Spittler presented two SMIF requests. The first request was from the Department of Health Services for the Safe Drinking Water Account (Fund Number 0306). The second request was from the State Treasurer's Office for the Deficit Recovery Bond Retirement Sinking Fund (Fund Number 3090). Mr. Spittler said staff had reviewed both requests and recommended their approval.

The Board accepted the staff's recommendations and approved both requests, 3-0.

APPROVAL OF COMMERCIAL PAPER ISSUERS

On behalf of the Investment Division of the State Treasurer's Office, Mr. Bill Dowell presented the names of four new commercial paper issuers (HSBC Finance Corporation, Kitty Hawk

Funding Corporation, Nissan Motor Acceptance Corporation and The Kellogg Company) to the Board for approval for the PMIA commercial paper program.

The first name, HSBC Finance Corporation, is the ultimate succeeding entity of Household Finance Corporation, following its acquisition by HSBC Holdings plc. The company provides consumer financial services. Until its recent name change to HSBC Finance Corporation, Household Finance Corporation had been an approved PMIA investment since 1975. HSBC Finance's \$14 billion commercial paper program is rated A-1/P-1/F-1+ by S&P, Moody's and Fitch, respectively.

The second, Kitty Hawk Funding Corporation, is a fully supported, multi-seller, bankruptcy remote asset backed commercial paper program administrated by Bank of America. Kitty Hawk purchases its assets from Bank of America's existing customers which utilizes the conduit to securitize receivables. Kitty Hawk's \$12 billion asset backed commercial paper program is rated A-1+/P-1/F-1+ by S&P, Moody's and Fitch, respectively.

The third, Nissan Motor Acceptance Corporation, is a captive finance company of Nissan Motor Company Ltd., established to support the vehicle sales activity of its parent. Nissan's \$1.4 billion commercial paper program is rated A-2/P-2 by S&P and Moody's, respectively.

The fourth issuer, The Kellogg Company, manufactures and markets ready-to-eat cereal and other grain-based food products, as well as soy protein-based meat alternatives. Kellogg's \$2 billion commercial paper program is rated A-2/P-2/F-2 by S&P, Moody's and Fitch, respectively.

In conclusion, Mr. Dowell stated the approval of these four CP issuers would add approximately \$30 billion in authorized commercial paper to the PMIA CP program, thereby increasing diversity and yield options for the Pooled Money Investment Account (PMIA).

Cindy Aronberg then questioned what would occur if an approved issuer's rating changed. Mr. Dowell explained that if their rating fell below the standards set in the guidelines, then they would be put on the inactive list and purchasing would stop. If it fell below the standard and was not prime-rated, it would not be bought and the Board would not need to vote to remove it from the list. Connie LeLouis asked for further clarification on what would happen if it did go below the minimum rating. Mr. Dowell said they would wait for the commercial paper to mature. He noted that if there was a fear that the principal and interest would not be repaid, then they would look into selling the paper. However, because of the short-term nature of the commercial paper (we can only go out 180 days), that would not be a likely problem. Mr. Spittler further clarified this issue by stating that lower-rated issuers, as in the case of A-2/P-2 names, would usually be bought for shorter terms, say 60 to 90 days, rather than the full 180 days allowed by code. However, in the case of bonds or other items that we are authorized to buy out as long as 5-years, if ratings were to changed dramatically, the Investment Division would monitor those investments very closely and would look into selling such items, if needed.

The Board approved the staff's recommendations and approved the four requests, 3-0.

APPROVAL OF AB 55 LOANS

Ms. Etsuko Stone of the Public Finance Division of the State Treasurer's Office presented sixteen loan requests noting that one loan (Item 8.d.) had been withdrawn resulting in fifteen loans for approval, as shown in the following table. She noted loans a. through c. were for general obligation bond programs and loans e. through p. were for lease revenue bond programs

Loan Number	Type	Department/Program	Adjusted Loan Amount
0450151	GO/Renewal	Hastings College of the Law Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	\$11,284,375.01
0450152	GO/Renewal	California State University Class Size Reduction K-U Public Education Facilities Bond Act of 1998 (Hi-Ed)	\$37,123,000.00
0450153	GO/New	Department of General Services for the Veterans' Home of California Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	\$721,000.00
0450154	Withdrawn		
0450155	REV/Renewal	Department of Corrections SPWB Lease Revenue Bonds Richard J. Donovan Correctional Facility, Substance Abuse Program Modular Replacement	\$2,085,145.00
0450156	REV/Renewal	Department of Corrections SPWB Lease Revenue Bonds Ironwood State Prison, Correctional Treatment Center, Phase II	\$3,725,177.00
0450157	REV/Renewal	California Conservation Corps SPWB Lease Revenue Bonds Camarillo Satellite Relocation/Construction	\$3,200,000.00
0450158	REV/Renewal	Department of Mental Health SPWB Lease Revenue Bonds Atascadero State Hospital – Multi- Purpose Bldg.	\$13,383,000.00
0450159	REV/Renewal	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds Stevens Creek Forest Fire Station	\$238,500.00
0450160	REV/Renewal	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds Lassen Lodge Forest Fire Station	\$2,274,000.00
0450161	REV/Renewal	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds Elk Camp Forest Fire Station	\$186,680.00

APPROVAL OF AB 55 LOANS (Continued)

Loan Number	Type	Department/Program	Adjusted Loan Amount
0450162	REV/Renewal	University of California SPWB Lease Revenue Bonds Riverside Campus, Engineering Building Unit 2	\$30,367,910.00
0450163	REV/Renewal	California State University SPWB Lease Revenue Bonds San Marcos Campus – Academic Hall II, Bldg. 13	\$24,689,000.00
0450164	REV/Renewal	California State University SPWB Lease Revenue Bonds Los Angeles Campus – Physical Science Replacement Building	\$3,343,000.00
0450165	REV/New	California State University SPWB Lease Revenue Bonds Monterey Bay Library	\$27,764,000.00
0450166	REV/New	Department of Food and Agriculture SPWB Lease Revenue Bonds Truckee Inspection Station - Relocate Truckee Inspection Station	\$6,424,000.00

All loans were recommended for approval as presented and the impact on the Pool was an increase of approximately \$74.9 million to the loan portfolio.

The fifteen loan requests were approved at the amounts recommended by staff, 3-0.

PUBLIC COMMENT

None.

In the absence of further business, the meeting was adjourned at 10:16 a.m.

Respectfully submitted

Mark Paul
Executive Secretary