

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

MINUTES

Wednesday, February 20, 2008

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

Roll: Francisco Lujano for State Treasurer Bill Lockyer
Richard Chivaro, for State Controller John Chiang
Vince Brown for Director of Finance Michael C. Genest

Staff Present: Bettina Redway, Executive Secretary, PMIB
Bill Dowell, State Treasurer's Office
Catherine Brown, Attorney General's Office

MINUTES

The Minutes for the January 16, 2008, meeting were approved as submitted, 3-0.

PMIB DESIGNATION

Mr. Bill Dowell of the State Treasurer's Office presented the portfolio Summary Report as of January 31, 2008. On that day, the portfolio stood at \$65.755 billion. The effective yield was 4.397%, the quarter-to-date yield was 4.620% and the year-to-date yield was 5.032%. The average life of the portfolio was 197 days and AB 55 Loans approved stood at \$8.897 billion, with \$3.558 billion having been disbursed. The Local Agency Investment Fund had deposits totaling \$22.822 billion, with 2,616 participants.

Mr. Andre Rivera 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 February 18, 2008, through April 18, 2008. He stated that over the nine-week period of the forecast there would be a decrease in the portfolio of \$2.831 billion, due to disbursements exceeding receipts. Mr. Rivera noted there were \$3.3 billion in Economic Recovery Bonds that were recently sold, which was not known during the last forecast presented to the PMIB. Mr. Rivera continued by highlighting several of the key receipts. He noted that Sales, Liquor, and Utility Surcharge were expected to total \$6.780 billion. Personal Income and Bank & Corporation Taxes were expected to total \$14.600 billion. Proceeds from the Sale of State Bonds were estimated at \$2.028 billion. For this nine-week period, \$40.307 billion are anticipated in receipts.

Ms. Sue Griffith of the State Controller's Office presented the Estimated Pooled Money Disbursements for the forecast period and highlighted several of the major disbursements. She began by saying that disbursements for the nine-week period were estimated to total \$42.571

billion. Ms. Griffith went on to highlight the following disbursements: Public Schools and Community Colleges were expected to total \$10.258 billion. She went on to detail specific Social Services payments and said there will be a total of \$2.817 billion for the period. Ms. Griffith said Health Care services included total payments of \$5.637 billion and there will be a series of Local Sales Tax Apportionment payments totaling \$2.312 billion. She noted there will be master payroll payments the weeks of February 25 – \$1.506 billion and March 31 – \$1.515 billion; with a total payroll of \$3.446 billion for the forecast period

Mr. Vince Brown asked if the gas tax payment to the local agencies was included in this Forecast and Ms. Griffith responded that it was not included in the spreadsheet.

Designation No. 1704 was approved, 3-0.

DECLARATION OF SURPLUS MONEY/REDUCTION OF SURPLUS MONEY

Mr. Dowell presented the changes in the Surplus Money Investment Fund for the period January 1, 2008, through January 31, 2008. During that month, \$21,463,444,000.00 was declared surplus in various special funds, while \$21,107,780,000.00 was declared to be a reduction in surplus.

The Surplus Money Declaration/Reduction for the month of January, 2008, was approved, 3-0.

SURPLUS MONEY INVESTMENT FUND REQUESTS

Mr. Dowell presented four requests for the month:

**Alfred E. Alquist Seismic
Safety Commission**
Special Deposit Fund
Earthquake Research and Projects Program
Fund Number 0942026

California Arts Council
Special Deposit Fund
Department of Justice Settlement Fund
Fund Number 0942207

Special Deposit Fund
California Resale Royalties
Fund Number 0942001-8260-1944-598

Special Deposit Fund
California Arts Council Donations
Fund Number 0942001-8260-1945-501

Mr. Dowell said all four of the requests have been reviewed by the State Controller's Office and they are recommending they be allowed to participate in the Surplus Money Investment Fund and the State Treasury's Office concurs.

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

AB 55 LOAN APPLICATIONS (Government Code § 16312)

Mr. Douglas Chen of the Public Finance Division of the State Treasurer’s Office presented ten loan requests as shown in the following table. He said that the first seven loans (Items a. – g.) were for general obligation programs, while the remaining loans (Items h. – j.) were for lease revenue programs. (He noted that there was a change in the presentation of PMIA loan totals from the Briefing Binders and that further information would be covered under Item 7, to follow.)

| Agenda Item | Loan Number | Department/Program | Adjusted Loan Amount |
|--------------------|--------------------|--|---|
| a. | 0780099 | Water Resources Control Board Safe Drinking Water, Clean Water, Watershed Protection and Flood Protection Bond Act of 2000 | \$115,013,320.45 |
| b. | 0780107 | Resources Agency Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 | \$120,761,852.81 |
| c. | 0780108 | Department of Water Resources California Safe Drinking Water Bond Law of 1988 | \$1,950,012.46 |
| d. | 0780109 | California Transportation Commission Clean Air & Transportation Improvement Act of 1990 | \$20,506,553.56 |
| e. | 0780110 | University of California Class Size Reduction Kindergarten- University Public Education Facilities Bond Act of 1998 (Hi-Ed) | \$4,364,446.33 \$7,589,446.33 |
| f. | 0780111 | California Community Colleges Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed) | \$296,900,887.47 |
| g. | 0780112 | California Department of Transportation for State Controller’s Office Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 | \$458,000,000.00 |
| h. | 0780114 | California Community Colleges SPWB Lease Revenue Bonds Victor Valley College – Advanced Technology Complex | \$20,225,734.00 |
| i. | 0780115 | Department of General Services SPWB Lease Revenue Bonds Capitol Area West End Complex | \$8,000,000.00 |
| j. | 0780116 | California Conservation Corps SPWB Lease Revenue Bonds Tahoe Base Center Relocation/Construction | \$10,891,153.00 |

Mr. Chen said all loans were recommended for approval as presented and the impact on the Pool would be to increase the loan portfolio by ~~\$816,866,713.62~~ \$820,091,713.62.

(Note: The adjusted loan amount for Loan (e) was incorrectly presented on the spreadsheet prepared for the meeting as \$4,364,446.33 and, when corrected as shown above, the impact on the loan portfolio was adjusted accordingly.)

The ten loan requests were approved as recommended by staff, 3-0.

LOAN APPLICATIONS (Government Code § 16313)

| | | | |
|-----|---------|---|-----------------|
| 7a. | 0780113 | Department of Water Resources Refinancing of Central Valley Project Act Revenue Bonds | \$29,600,000.00 |
|-----|---------|---|-----------------|

Mr. Blake Fowler of the State Treasurer's Office said the Department of Water Resources (DWR) was requesting a \$29.600 million loan under Government Code Section 16313. He explained that this section provides the Board can make a loan to a state agency to prepay or replace existing financing if the Board determines that it is "in the best interests of the State" to do so. The Board had previously approved a loan under this section for another program. Mr. Fowler referenced the recently distributed written staff report that detailed those circumstances. He mentioned the staff report provided background on the DWR's request for this loan, a detailed analysis of the proposed repayment schedule and the Treasurer's Office's proposed Conditions for the loan. (See attachment) Mr. Fowler said that staff was also recommending one additional Condition not mentioned in the written staff report, that Condition being that DWR obtain a Tolling and Waiver Agreement from one of its water supply contractors, Ventura, as has been obtained by DWR from other contractors as described in the staff report. Mr. Fowler said staff recommended a 60 day waiting period prior to funding the loan, if that Tolling and Waiver Agreement is not obtained.

Mr. Richard Chivaro, of the State Controller's Office, inquired why this matter was not more appropriately handled through an appropriation by the Legislature, rather than the PMIB.

Mr. Fowler said the DWR has been unsuccessful in receiving an appropriation and that representatives from the DWR were in attendance. He suggested they might be better qualified to answer this question.

Ms. Perla Netto-Brown, Chief of Fiscal Services for the DWR, responded by saying that Mr. Chivaro's question referred to appropriations that would be available for this purpose under the Davis-Dolwig Act. Ms. Netto-Brown said that projects the DWR undertakes for the State Water Project have multiple benefits, including water supply, recreation, etc. The DWR has been negotiating with the Department of Finance (DOF) on receiving appropriations for what is referred to as recreational purposes. She explained there was a formula developed back in the 1960s that is called the "Scrub Methodology." The DOF does not agree with this methodology and there have been lengthy discussions with the DOF on this matter. The DWR has received offsets of appropriations in the past, but the last offset was in 1998. The DWR is still in negotiations with the DOF and will continue such discussions in order to receive appropriations in the future.

Mr. Vince Brown confirmed the DOF has been in discussions with the DWR for many months. Noting the issue goes back almost a year, the DOF believes this loan is the best solution to address the issues. He indicated the financials for the loan are fundamentally sound and the DWR will be able to move forward and resolve this. Mr. Brown said he does think the loan comes under this particular statute as the lawyers have concurred and the DOF is very supportive of moving forward with this. In regards to one of the Conditions of staff (specifically, the Condition that the DOF provide a letter regarding a supplemental appropriation, as described in the staff report), he stated that he could not commit, other than to say the DOF is having discussions on an ongoing basis on alternatives, if necessary. He concluded by saying he believed this is the appropriate solution, and that the DOF would continue to work with the DWR and the Board as this transaction moved forward.

Mr. Lujano asked Mr. Brown if the DOF was in agreement with the need to submit a letter requesting a special appropriation, if it becomes necessary.

Mr. Brown reiterated the DOF will continue to work with the DWR on this issue but noted this condition had not been fully vetted, since the analysis from the State Treasurer's Office had just been received last night. He elaborated that it would be premature for him to commit the DOF without a decision at the Department Director level, and it would very likely include input from the Governor's office.

Mr. Lujano said that it was agreed this is a very complicated issue and suggested the PMIB reconvene on Monday morning in hopes of clarifying some of these details. It was a very quick turnaround on the staff report and he complimented Mr. Fowler on all the diligent work staff had put into it.

Mr. Brown agreed that it would be appropriate to postpone a vote on the matter at this time.

Ms. Catherine Brown, of the Attorney General's Office, advised the Board that they could adjourn the meeting to be resumed later at a specified time and place. Mr. Lujano said that the meeting would be adjourned and would reconvene on Monday, February 25, 2008, at 10:00 a.m. in the same room.

PUBLIC COMMENT

None.

ADJOURNMENT

In the absence of further business, the meeting was adjourned at 10:25 a.m. to be reconvened on Monday, February 25, 2008, at 10:00 a.m. in the same room

MINUTES (continued)

Reconvened on Monday, February 25, 2008

The meeting was called back to order at 10:30 a.m.

Roll: Francisco Lujano for State Treasurer Bill Lockyer
Richard Chivaro, for State Controller John Chiang
Vince Brown for Director of Finance Michael C. Genest

Staff Present: Bettina Redway, Executive Secretary, PMIB
Bill Dowell, State Treasurer's Office
Catherine Brown, Attorney General's Office

Mr. Lujano made a brief reintroduction of item #7 and asked Mr. Vince Brown if the DOF had the opportunity to review the loan Conditions recommended by staff. Mr. Brown indicated they had and went on to note how important it was for all parties to fully understand what the DWR is attempting to accomplish with these funds. Mr. Brown introduced Mr. Lester Snow, Director of the DWR, and invited him to make a few remarks regarding the request.

Mr. Snow began by saying what an unusual situation this has become. He noted that the DWR has a great credit rating both as a Department and as a State Water Project. As an illustration, during the last ten years, he said, the State Water Project has spent over \$8 billion in terms of maintaining the state water project as well as capital investment. Mr. Snow stated that absent the loan, the DWR cannot issue revenue bonds to keep the State Water Project construction program moving forward. That means the DWR has to begin immediately to slowly shut down hundreds of millions of dollars of construction projects. It will lead to impairment of the State Water Project and it will also lead to a reduction of the construction activity in California. Mr. Snow concluded by saying that in the scheme of State Water Project, this is a relatively small amount of money but it is a critical amount of money to continue funding the construction activity of the State Water Project.

Mr. Lujano thanked him and asked if there were other comments or questions. He then inquired if the DOF was willing to agree to submit a letter that would commit to supporting a request for a special appropriation in the event the DWR was not able to make the minimum payments.

Mr. Brown said he would like to go on the record in regards to this Condition, stating on behalf of DOF: "Given the financing structure and the coverage, we feel that there probably is absolutely no need for us to seek any type of a supplemental appropriation to pay for the loan payments. However, given the concerns expressed by the staff of the Treasurer's Office, we would be supportive of requesting a special appropriation. Obviously we do not appropriate funds. That is the constitutional authority and power of the Legislature. But we would be supportive of doing that as we go forth because we do absolutely feel it's critical that this loan go forward so that we do not stop the water project."

Mr. Brown then made a motion to find that in fact it is in the best interests of the State to make this loan to the DWR, as specified in Government Code Section 16313, and to approve the loan. He noted that the letter from the DOF was acceptable as a component of the Conditions.

Mr. Fowler reminded the Board the staff had orally added one Condition: That the DWR obtain the Tolling and Waiver Agreement from Ventura or, in the absence of such an agreement, that there will need to be a 60 day waiting period from approval to fund the loan.

The loan request was approved by the Board, upon a finding that the loan was in the best interests of the State and as recommended by staff, including all the specified Conditions, 3-0.

ADJOURNMENT

In the absence of further business, the meeting was adjourned at 10:39 a.m.

Respectfully submitted,

Bettina Redway
Executive Secretary