

**POOLED MONEY INVESTMENT BOARD**  
**915 Capitol Mall, Room 587**  
**Sacramento, CA 95814**

**MINUTES**

Wednesday, December 17, 2008

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

Roll:               State Treasurer Bill Lockyer  
                      State Controller John Chiang  
                      Director of Finance Michael C. Genest

Staff Present:    Bill Dowell, State Treasurer's Office  
                      Mark Paxson, State Treasurer's Office  
                      Kathleen Chovan, Attorney General's Office

**MINUTES**

The Minutes for the November 19, 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 November 30, 2008. On that day, the portfolio stood at \$62.652 billion. The effective yield was 2.452%, the quarter-to-date yield was 2.640% and the year-to-date yield was 2.726%. The average life of the portfolio was 228 days and AB 55 Loans approved stood at \$11.845 billion, with \$4.900 billion having been disbursed. The Local Agency Investment Fund had deposits totaling \$20.988 billion, with 2,720 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 December 15, 2008, through February 20, 2009. He stated that over the ten-week period of the forecast there would be an increase in the portfolio of \$2.741 billion due to anticipated revenues exceeding disbursements by \$3.401 billion along with the offset in outstanding warrants of \$660 million. Mr. Rivera continued by highlighting several of the key receipts, as presented in Attachment A. For this ten-week period, a total of \$44.116 billion are anticipated in receipts.

Mr. Michael Havey of the State Controller's Office presented the Estimated Pooled Money Disbursements for the forecast period and highlighted several of the major disbursements, also shown in Attachment A. He noted that disbursements for the period were estimated to total \$40.714 billion.

Designation No. 1714 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 November 1, 2008, through November 30, 2008. During the month, \$6,958,746,000.00 was declared as Surplus in various special funds, while \$6,225,362,000.00 was declared to be a Reduction in Surplus.

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

## **SURPLUS MONEY INVESTMENT FUND REQUESTS**

There were no SMIF requests for this month.

## **ARRANGEMENTS WITH BANKS (Informational Item)**

Mr. Mark Hariri, with the Cash Management Division of the State Treasurer's Office presented this annual informational item to the board. A summary of his presentation is included in his memo to the Board, shown in Attachment B. Mr. Hariri said there were no changes to the list of approved fees by the Board to compensate the banks for services that they provide. However, he said there will be a new service charge to compensate the banks for the cost of deposits made by various agencies via debit cards and credit cards. The rate will be \$0.01 for each such deposit.

## **DISCUSSION AND CONSIDERATION REGARDING THE IMPACT OF CASH MANAGEMENT REQUIREMENTS ON APPROVAL OF AB 55 LOANS**

Mr. Blake Fowler of the Public Finance Division of the State Treasurer's Office presented Item #7 to the Board. He referenced the staff report, presented as Attachment C. He noted, at the November board meeting, the PMIB asked staff to provide a recommendation regarding whether the Board should continue to approve future loans under Government Code Section 16312, (also known as AB 55 loans) for state bond programs. The Chairman also instructed staff to base a recommendation on the analysis of projected cash needs vs. available cash resources.

Mr. Genest asked, "When will we be able to sell bonds again and what conditions will we have to meet in order for that to start happening?"

Paul Rosenstiel, Deputy Treasurer for the State Treasurer's Office responded that we certainly believe that the bond market is going to expect that the state solves its budget problems before we can go back into the market. We are already the lowest rated state among all 50 states and we were downgraded last week by S & P on our short term rating. In a market where investors are looking for quality, we do not believe that they are likely to want to buy the bonds of the State of California, if we are the 50<sup>th</sup> among 50 states in terms of our rating. There's also a need for the bond market itself to improve. The bond market, even for stronger issuers, has been frozen and many bond issues have been unable to go to market. We recently tried to sell some Department of Water Resources bonds - bonds with a higher rating than the State's GO bond rating - and we could only get a third of the transaction completed.

Mr. Genest commented that solving the State's budget problem means enacting various laws and a new budget that reduce the gap of \$41.8 billion dollars to zero, so that we have a slight reserve and that would be solving the State's budget problem. Mr. Rosentiel agreed.

Mr. Genest asked if we could solve the cash flow problem and thereby free up more AB 55 loans. Mr. Rosenstiel noted that if the State can't access the bond markets and continues to spend, we will have un-reimbursed AB 55 loans of \$9.5 billion dollars by the end of the fiscal year and that with the continued demands of the general fund and the demands of AB 55 loans could be more than we could afford until we get back into the bond market.

Mr. Genest remarked that some have suggested that we just go ahead and sell bonds in any event and asked if we would be selling junk bonds at that point. Mr. Rosenstiel responded that California has ratings that are in the "A" category so they would not be junk bonds, and noted that the problem is that nobody is buying bonds in the marketplace. We are not the only issuers who are not able to get into the tax-exempt bond market. Bond issues are being delayed and cancelled and down-sized constantly. While we do have ratings that would normally enable us to go into the market, the market is just not buying.

Mr. Lockyer summarized by commenting that the professionals in his office believe that we can't sell bonds to finance the infrastructure investments and short term borrowing needs for the state until there is some adequate resolution of the budget deficit problem. Mr. Rosenstiel confirmed that as true.

Mr. Genest noted that staff were suggesting that the State limit cumulative future disbursements after the 17<sup>th</sup> till the end of the year to \$500 million and asked, if the State weren't in this situation, what would be normal disbursement levels. Mr. Fowler said staff have projected typical average disbursements of about \$664 million a month.

Mr. Lockyer wanted to know how we arrive at the \$9.5 billion un-reimbursed loans by July 1, 2009. Mr. Fowler said that if you look at the amount that's currently un-reimbursed – it's a little over \$5 billion dollars and project that number out to the end of July.

Mr. John Chiang wanted to know if there has been an increase in loan applications with the possibility that the PMIB may shut down the lending. Mr. Fowler said that has not been the case.

Mr. Genest asked for clarification regarding the term "renewal." Mr. Fowler explained the loans are set up on a 364 day term so they may be renewed annually. Most of the Departments will come in for an increase at the time of loan renewal.

Mr. Lockyer noted that the staff report and resolution should be amended to say "early January" rather than "the first week in January." This amendment was taken without objection.

Mr. Genest said he would be more comfortable if we remove Item # 1, from the proposed Resolution to allow the Governor to use an Executive Order, or some other mechanism. Mr. Genest noted he would rather leave that discretion to the Governor. This amendment was also taken without objection.

Karen Finn of the Department of Finance, Capital Outlay Unit, came forward and said the list that DOF shared with all of your staffs began as a survey of some of the Governor's direct departments and that DOF is continuing to survey our colleagues and has not yet had a chance to survey other departments and agencies who do not directly report to the Governor, such as University of California, the community colleges, and others.

Mr. Lockyer then invited comment from the audience on the Resolution and contemplated action.

Tom Duffy, Coalition for Adequate School Housing. Mr. Duffy spoke at length regarding the impact the proposed action would have on school projects throughout the state.

Dave Ackerman, of the Associated General Contractors. Mr. Ackerman presented his client's concerns relating to: 1.) Impact on future projects. 2) Freezing monies on existing projects. He concluded by noting the negative impact this action will have on construction employment in California.

Jim Arp, Executive Director, California Alliance for Jobs. Mr. Arp explained that he represents about 2000 contractors and 80,000 union construction workers in California. He echoed the concerns raised earlier and presented statistics demonstrating the need to maintain construction and other projects going in California.

Mary Just, California Community Colleges. Ms. Just explained the Community College process is different and unique than others. She further explained they have a complex reimbursement process for contracted work. Ms. Just concluded by noting the tremendous impact the board action will have on a number of community college districts throughout California.

Kathleen Moore, representing the State Superintendent of Public Instruction. Ms. Moore said that her organization understood dire circumstances that the state is in and the consequences of schools. She offered to assist the Department of Finance and others in helping to identify the projects that will be impacted by this action.

Ms. Giselle Cory, Judicial Council, Administrative Office of the Courts. Ms. Cory said she also recognized the dire state the state is in and explained there is currently a construction project in the Fourth District Court of Appeals that is approximately 70 percent finished. She concluded by asking urging the Board to continue the funding for this particular project.

Mr. Genest said he knew how he was going to vote and that he wished he didn't have to. He stated that he knew the Governor was deeply committed to infrastructure projects, noting that the Administration just recently successfully put quite a few bond measures on the ballot. He noted that people are expecting not just the fiscal stimulus but are about to also lose the benefit of those important projects. They include: Various flood control, highways, schools, etc. He stated that if he could vote any other way, he would, and that he was sure the rest of the members felt the same, but that "we're numbers guys and we have to pay attention to the numbers." He added that, "that is what this Board is about and as bad as the result is going to be from what these numbers are telling us, I really see no alternative."

Mr. Chiang concurred, noting that we are predicted to run out of money in the absence of legislative action in late February or early March. He also understood that this is the weakest holiday season we have seen in a long time. There will be significant consequences at the end of December, when we receive estimated tax payments. The major areas of capital gains, real estate and public equities are “in-the-tank.” The aftermath will be in January, so the consequences of the cash shortage may take place instead of late February, perhaps mid or early February. Mr. Chiang indicated that there are very few paths to take if the legislature doesn’t take action. Unfortunately this is one of those critical actions that this Board must take.

Mr. Lockyer said, concurring with his colleagues, this is an unpleasant duty but a duty that we have. We cannot spend money that we don’t have. He hoped there would be an early resolution of the budget impasse to avoid these bad outcomes. As the Director of the Department of Finance indicated, voters have adopted billions of dollars worth of bonds that they expect to see spent on infrastructure improvements that create jobs. He enumerated: highways, schools, mass transit, flood control, veterans and fire services. Concluding that the list goes on and on of vital infrastructure needs that we’re in effect shutting down because of the impasse of the legislature.

A motion was made to accept the recommendation from staff, as amended. The motion was approved, 3-0. Attachment D presents the Resolution, as approved by the board.

**AB 55 LOAN APPLICATIONS (Government Code §16312)**

Mr. Douglas Chen of the Public Finance Division of the Treasurer’s Office presented 15 loan requests as shown in the following table. He noted that items a., n. and item s. had been withdrawn. He also said that, based on the board’s action on Agenda Item 7, items m and o have been postponed to be considered at a future date. He said that items b. – e., h. – l. and item t. were for General Obligation programs and items f., g., and p. – r. were for Lease Revenue programs.

Agenda Item	Loan Number	Department/Program	Adjusted Loan Amount
a.	0890071	Department of Water Resources for Resources Agency Safe Drinking Water, Clean Water, Watershed Protection and Flood Protection Act	\$8,509,914.00
b.	0890072	Department of Water Resources Disaster Preparedness and Flood Prevention Bond Act of 2006	\$211,498,237.00

c.	0890073	University of California Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	\$272,433,239.00
d.	0890074	California State University Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	\$231,664,000.00
e.	0890075	Department of Veterans Affairs Veterans' Homes Bond Act of 2000	\$11,933,017.23
f.	0890076	University of California SPWB Lease Revenue Bonds UCDMC-Surgery & Emergency Services Pavilion	\$92,234,462.00
g.	0890077	Department of General Services SPWB Lease Revenue Bonds Board of Equalization Building Acquisition	\$88,829,197.00
h.	0890078	California State Library California Reading and Literacy Improvement and Public Library Construction and Renovation Bond act of 2000	\$13,608,205.13
i.	0890079	California Transportation Commission Clean Air and Transportation Improvement Act of 1990	\$20,506,553.56
j.	0890080	Resources Agency Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	\$260,890,214.77
k.	0890081	Housing and Community Development Housing and Emergency Shelter Trust Fund Act of 2002	\$621,334,014.96
l.	0890082	Housing and Community Development Housing and Emergency Shelter Trust Fund Act of 2006	\$175,520,000.00
m.	0890084	<del>Air Resources Board Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006</del>	\$515,628,282.00
n.	0890083	<del>State Treasurer's Office Oil Spill Response Trust Fund Line of Credit</del>	\$54,875,000.00
o.	0890089	<del>California Housing Finance Agency Bay Area Housing Program Bonds</del>	\$100,000,000.00
p.	0890085	California State University SPWB Lease Revenue Bonds Monterey Bay Campus: Monterey Bay Library	\$52,970,352.00

q.	0890086	Judicial Council of California SPWB Lease Revenue Bonds Fourth Appellate District, Santa Ana: New Courthouse	\$21,086,419.00
r.	0890087	California Conservation Corps SPWB Lease Revenue Bonds Camarillo Satellite Relocation/Construction	\$12,288,254.00
s.	0890088	<del>Department of Forestry and Fire Protection</del> <del>SPWB Lease Revenue Bonds</del> Intermountain Conservation Camp: Replace Facility	\$2,226,489.00
t	0890090	State Allocation Board Office of Public School Construction 1992 School Facilities Bond Act (Nov.)	\$200,000.00

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 \$7,945,205.29.

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

#### **PUBLIC COMMENT**

None.

#### **ADJOURNMENT**

In the absence of further business, the meeting was adjourned at 11:35 a.m.

Respectfully submitted,

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Bettina Redway  
Executive Secretary