

POOLED MONEY INVESTMENT BOARD
State Treasurer's Office
915 Capitol Mall, Room 587
Sacramento, California 95814

MINUTES

Wednesday, June 17, 2009

The meeting was called to order at 10:00 AM.

Roll: Francisco Lujano, for State Treasurer Bill Lockyer
Tom Sheehy, for Director of Finance Michael C. Genest
Rick Chivaro, for State Controller John Chiang

Staff Present: Bill Dowell, State Treasurer's Office
Mark Paxson, State Treasurer's Office
Catherine Brown, Attorney General's Office

MINUTES

The Minutes for the May 20, 2009, 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 May 31, 2009. On that day, the portfolio stood at \$54.464 billion. The effective yield was 1.505%, the quarter-to-date yield was 1.569% and the year-to-date yield was 2.284%. The average life of the portfolio was 186 days and AB 55 Loans approved stood at \$6.670 billion, with \$1.348 billion having been disbursed. The Local Agency Investment Fund had deposits totaling \$25.999 billion, with 2,740 participants.

Mr. Dowell noted this month's report included a summary of bank balances. He highlighted the demand accounts, which included the compensating balance that is utilized to pay for banking services. Mr. Dowell said there are also Negotiable Order of Withdrawal (NOW) accounts and they function very much like interest bearing checking accounts. Following the implementation of the TARP (Troubled Asset Relief Program) last fall, NOW accounts became eligible to be fully insured by the FDIC (until December 31, 2009). Taking advantage of the safety and liquidity these accounts offer, the Treasurer's Office established two such accounts. The balance in the demand account on May 31, 2009 was \$979 million and the NOW account balances stood at \$21.225 billion.

Ms. Kristin Szakaly-Moore of the State Treasurer's Office Cash Management Division presented a summary of the Forecast of Changes in Portfolio for the Pooled Money Investment Account (PMIA) for the period June 15, 2009, through August 21, 2009. Ms. Szakaly-Moore highlighted several of the key receipts, as presented in Attachment A. For this ten-week period, a total of \$40.089 billion are anticipated in receipts.

Mr. Mike 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 \$46.446 billion.

Mr. Sheehy pointed out with disbursements of approximately \$47 billion and receipts of only \$40 billion, the net difference of \$7 billion underscored the fact that the state was spending money at a pace that could not be sustained. He noted that was one of the reasons for the freeze on AB55 loans. He concluded by saying that it was more critical than ever for the state to live within its means to avoid driving itself into insolvency.

Designation No. 1720 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 May 1, 2009, through May 31, 2009. During the month, \$8.704 billion was declared Surplus in various special funds, while \$11.137 billion was declared to be a Reduction in Surplus.

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

SURPLUS MONEY INVESTMENT FUND REQUESTS

Mr. Dowell presented one request to participate in the Surplus Money Investment Fund from the Department of Food and Agriculture:

Block Grant Specialty Crop Program
Special Deposit Fund
Fund Number 0942228

Following a brief discussion, the Board accepted the staff recommendations of the State Controller's Office and the State Treasurer's Office and approved the request, 3-0.

NEW COMMERCIAL PAPER ISSUER

Ms. Evelyn Gorman of the State Treasurer's Office Investment Division presented a proposal to approve Microsoft Corporation as an authorized commercial paper investment for the PMIA. She noted Microsoft was founded in 1975 and is currently rated P-1 by Moody's, A-1+ by Standard & Poor's and F1+ by Fitch. The firm is authorized to issue up to \$6 billion in commercial paper. Ms. Gorman concluded by saying that adding Microsoft would add diversity to the PMIA portfolio at competitive yields.

The Board approved the addition of Microsoft Corporation as an authorized commercial paper investment for the PMIA, 3-0.

DISCUSSION AND CONSIDERATION REGARDING THE IMPACT OF CASH MANAGEMENT REQUIREMENTS ON APPROVAL OF AB 55 LOANS, INCLUDING POSSIBLE INCREASES OR REDUCTIONS IN LOAN AMOUNTS, OR FREEZING DISBURSEMENTS, FOR OUTSTANDING, RENEWED, OR NEW LOANS

Ms. Julie Giordano of the State Treasurer's Office Public Finance Division presented the staff recommendations, as summarized below:

1. Loan Renewal Requests. Staff recommended approval of the 13 AB 55 loan renewal requests (Items 7.a-m) in the amounts shown on column g of Exhibit A. The recommended amounts are for either the amount of the existing adjusted loan amount, a decrease requested by the department, or an increase necessary for the requesting department to pay costs authorized by Department of Finance's (DOF) Budget Letter 09-09.

2. New Loan Requests:

Item 7.n Department of Corrections and Rehabilitation (CDCR),

This loan request has been withdrawn by the Department. Therefore, no action is required.

Item 7.o Department of Corrections and Rehabilitation,

SPWB Lease Revenue Bonds, AB 900, CA Institution for Women:

45-Bed Acute/Intermediate Care Facility, \$4,172,000.00

Staff does not recommend approval at this time for the following reasons:

On May 4, 2009, the Taxpayers for Improving Public Safety (TIPS) filed an appeal with the California Supreme Court relating to the AB 900 litigation. The request for review is still pending. The Attorney General's Office has stated that until there is a final, non-appealable judgment in favor of the State, it will not be able to provide its customary bond opinion. The PMIB practice has been to not approve any loans for which the Attorney General's Office can not issue its customary bond opinion.

3. AB 55 Loan Disbursement Freeze. Staff recommends that the Board continue the freeze on disbursements for approved AB 55 loans except for disbursements authorized by DOF's Budget Letter 09-09.

Ms. Catherine Brown of the Attorney General's Office provided an update to the Board on the two pending litigation matters that impact AB 900 projects. Ms. Brown stated that in *Coleman v. Schwarzenegger*, the federal class action in which the state has been ordered to remediate mental health services to inmates, the state had filed with the court detailed activation schedules for all the planned mental health facilities that include timetables for project completion, including the dates of PMIB meetings at which interim financing will be requested, including the request for the project on today's agenda. At a hearing on June 16, 2009, the court approved the schedules and ordered that all the projects be completed in the timeframes identified in the schedules. The court also ordered the state to report within 30 days if it encounters any delay in any step; thus, if the loan requested at today's meeting is not approved, that information must be reported to the court within 30 days. Ms. Brown said the court reiterated that it would consider joining additional parties if necessary to obtain compliance with its order.

In the second litigation matter, *Taxpayers for Improving Public Safety v. Schwarzenegger*, in which petitioners challenge the state's ability to issue the AB 900 bonds, petitioners' request for review by California Supreme Court is still pending; the Court has not yet decided whether to review the case.

There was a brief discussion amongst the Board members. Mr. Sheehy stated many of the points relating to AB 900 projects and the pending litigation were just as important this month as they were last month. He strongly urged the Board to approve the CDCR new loan request.

Mr. Lujano indicated this vote should not be considered precedent setting. He noted it is a most unusual situation when there is litigation pending on two fronts and the Board must acknowledge the obligation of the State to comply with the order of a Federal court.

A motion to approve Item 7.o, the new AB55 loan request from the CDCR, was approved, 3-0. Another motion to approve the renewal of AB 55 loans, as presented by staff in recommendation #1, above, was approved, 3-0. Finally, a motion to approve recommendation # 3, that continued the freeze on AB 55 loan disbursements, consistent with DOF's Budget Letter 09-09, was approved, 3-0.

AB 55 LOAN APPLICATIONS (Government Code §16312)

Agenda Item	Loan Number	Department/Program	Adjusted Loan Amount
a.	0890160	Department of Water Resources Water Conservation and Water Quality Bond Law of 1986	\$1,025,041.64
b.	0890161	Voting Modernization Board Voting Modernization Bond Act of 2002	\$6,812,063.25
c.	0890162	State Allocation Board Office of Public School Construction Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	\$710,734,153.52
d.	0890163	Resources Agency CA Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection Bond Act of 2002	\$42,441,010.81
e.	0890164	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds Ishi Conservation Camp: Replace Facility	\$1,353,827.00
f.	0890165	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds Bieber Forest Fire Station & Helitack Base: Relocate Facility	\$705,046.00
g.	0890166	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds South Operations Area Headquarters: Relocate Facility	\$1,306,824.00

h.	0890167	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds Ventura Youth Conservation Camp: Construct Apparatus Building & Shop/Warehouse	\$164,028.00
i.	0890168	Department of Forestry and Fire Protection SPWB Lease Revenue Bonds Mendocino Ranger Unit Headquarters: Replace Automotive Shop	\$186,878.00
j.	0890169	Department of Mental Health SPWB Lease Revenue Bonds Patton State Hospital: Construct New Main Kitchen	\$1,440,814.00
k.	0890170	Department of Mental Health SPWB Lease Revenue Bonds Napa State Hospital: Construct New Main Kitchen	\$1,418,956.00
l.	0890171	Department of Corrections and Rehabilitation SPWB Lease Revenue Bonds Salinas Valley State Prison: 64-Bed Mental Health Facility	\$30,922,063.00
m.	0890172	Department of Corrections and Rehabilitation SPWB Lease Revenue Bonds Chuckawalla Valley State Prison: Heating, Ventilation, and Air Conditioning System	\$41,083,563.00
o.	0890174	Department of Corrections and Rehabilitation SPWB Lease Revenue Bonds, AB 900 CA Institution for Women: 45-Bed Acute/Intermediate Care Facility	\$4,172,000.00

PUBLIC COMMENT

None.

ADJOURNMENT

In the absence of further business, the meeting was adjourned at 10:30 AM.

Respectfully submitted,

Bettina Redway
Executive Secretary