

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

MINUTES

Thursday, July 2, 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
State Controller, John Chiang

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

MINUTES

The Minutes for the June 17, 2009, meeting were approved as submitted, 3-0.

(Note: With only two items on the agenda, the Board decided to consider them in reverse order.)

**PURSUANT TO GOVERNMENT CODE SECTIONS 17221.5 AND 17222,
CONSIDERATION OF RESOLUTION SETTING INTEREST RATE FOR THE ISSUANCE
OF REGISTERED WARRANTS AND APPROVING CONTROLLER'S DETERMINATION
OF MATURITY DATE FOR SUCH WARRANTS**

Mr. Timothy Schaefer of Magis Advisors presented an in-depth analysis of current market conditions, relevant examples and established the framework for recommending an interest rate of 3.75% for the proposed issuance of Registered Warrants. Attached is Mr. Schaefer's analysis. The Board asked Mr. Schaefer for clarification on several points and allowed him to elaborate on the logic behind his analysis. Mr. Schaefer compared and contrasted California's proposed Registered Warrants with similar debt issuances by other municipalities in the United States.

Mr. Rick Chivaro, Chief Counsel, State Controller's Office (SCO), cited Government Code Section 17221.5 allowing the Controller, with the approval of the PMIB, to fix a maturity date on Registered Warrants. The statute requires that the date that is selected not interfere with the payment of bonds, revenue anticipation notes, reimbursement warrants and refunding warrants. He noted the analysis of cash flows showed that, without action by the Legislature, the soonest that Registered Warrants may be repaid would be October 1, 2009. However, there is a debt service payment due on October 1, 2009, so the Controller recommended the maturity date of the Registered Warrants be October 2, 2009.

It was noted that recently enacted legislation enabled the Controller, with the concurrence of the PMIB, to redeem the Registered Warrants sooner than the established maturity date, if cash flows allow.

Mr. Tom Sheehy indicated the Department of Finance (DOF) did not agree with the recommendation of the 3.75% rate and maturity date of October, 2009. He proposed to base the interest rate for the Registered Warrants on the daily rate for the Pooled Money Investment Account, for an interest rate of approximately 1.50% and a maturity date of June 16, 2010. Mr. Sheehy said the DOF felt the longer maturity date, in conjunction the recently enacted legislation authorizing earlier redemption, would for allow maximum flexibility. Mr. Chivaro stated the SCO would not recommend setting a longer maturity date, saying that would send a message to the financial community that the State may be unable to redeem the warrants.

Mr. John Chiang made a motion for the Board to approve a resolution establishing an interest rate of 3.75 percent and a maturity date of October 2, 2009, for the Registered Warrants. The resolution was approved, 2-1, with Mr. Sheehy voting no.

(Copy of the Resolution is attached.)

AUTHORIZATION FOR GENERAL FUND INTERNAL BORROWING

Mr. Bill Dowell presented this item which authorizes the General Fund to borrow from internal sources to meet its cash needs during periods of shortfall. The authorization presented at this meeting was for the period from July 2, 2009, through October 31, 2009. He noted that the amount available from various internal funds is estimated to be up to \$22.239 billion.

Mr. Sheehy explained that DOF had concerns about the authorization. He proposed two changes to the authorization: That the authorization be for a period of not to exceed 90 days and that the Board set aside approximately \$1.2 billion of the funds borrowed for purposes of paying debt service on general obligation and lease revenue bonds. Failing that, he requested the matter be put over and the Board reconvene as soon as possible to consider the authorization after further analysis and input. He noted the current authorization would be in place until the Board could meet again. After a brief discussion regarding appropriate procedure and direction from Ms. Brown, the Board agreed to adjourn the meeting until July 7, 2009 to further consider the authorization.

PUBLIC COMMENT

None.

ADJOURNMENT

In the absence of further business, the meeting was recessed at 11:05 AM and continued to reconvene on Tuesday, July 7, 2009 at 9:00 AM., in the State Treasurer's Office, Room 587.

Tuesday, July 7, 2009

The reconvened meeting was called back to order at 9:05 AM.

Roll: Francisco Lujano, for State Treasurer Bill Lockyer
Director of Finance Michael C. Genest
Richard 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

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Mr. Mike Genest explained the DOF would not be willing to support a motion to approve this authorization, but proposed a compromise. He stated that without a budget in place, cash flow was more difficult to forecast and the DOF was more comfortable with approving a lesser amount and an expiration date of September 30, 2009. Mr. Genest felt it prudent to set aside some of the borrowables to assure payment of the debt service due on October 1, 2009. He proposed reducing the Authorization for Internal Borrowing by \$1 billion (to \$21.239 billion) and approving the authorization through September 30, 2009.

Mr. Richard Chivaro asked the SCO staff to comment on what impact subtracting \$1 billion from the authorization would do to the cash flow. Mr. Mike Havey, of the SCO, remarked it would make things tight and they have been reviewing the borrowings on a daily basis. However, he said that sufficient money would be available under Mr. Genest's proposed compromise until the issue could be revisited at the July 15, 2009 PMIB Meeting.

An amended Authorization for General Fund Internal Borrowing for July 2, 2009, through September 30, 2009 for \$21.239 billion, was approved, 3-0.

Because the item was not on the already posted July 15, 2009 Agenda, the Board decided to continue the current meeting to July 15, 2009, to take place just before the regularly scheduled meeting.

PUBLIC COMMENT

None.

ADJOURNMENT

In the absence of further business, the meeting was recessed at 9:15 AM and continued to reconvene on Wednesday, July 15, 2009 at 10:00 AM., in the State Treasurer's Office, Room 587.

Wednesday, July 15, 2009

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

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

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

There was a discussion summarizing action already taken by the Board with respect to the Authorization for Internal Borrowing and confirmation by the State Controller's Office that the authorization in place would be sufficient until the next scheduled PMIB meeting in August. Following several procedural questions that Board members raised with Ms. Brown of the Attorney General's Office, the Board decided it would be best to adjourn the meeting; with the understanding it could schedule another one with appropriate notification to discuss the Authorization for Internal Borrowing, as needed.

PUBLIC COMMENT

None.

ADJOURNMENT

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

Respectfully submitted,

Bettina Redway
Executive Secretary