VIRGINIA RESOURCES AUTHORITY

PERSONNEL COMMITTEE MEETING
MINUTES OF THE REGULAR MEETING

The Personnel Committee of the Virginia Resources Authority met on Monday, December 7, 2015, in the 18th Floor Meeting Room, Bank of America Building, 1111 E. Main Street, Richmond, Virginia.

Members Present
Thomas L. Hasty, III, Chair
Randall P Burdette
Barbara McCarthy Donnellan
Valerie Thomson on behalf of David K. Paylor
William G. O'Brien, Ex Officio

Members Absent
None.

Other Board Members Present
Janet Aylor, on behalf of Manju Ganeriwala, Treasurer
John H. Rust, Jr.

Staff Present
Stephanie L. Hamlett, Executive Director, Secretary to the Board
Jean F. Bass, Director of Policy
Michael Cooper, Director of Administration & Operations
Peter D'Alema, Director of Program Management
George Panos, Deputy Controller
Rachael Logan, Fiscal & Administrative Specialist
Elizabeth Sakr, Fiscal & Administrative Specialist

Others Present
None.

Call to Order

Mr. Thomas L. Hasty, III, Chair, called the meeting to order at 1:05 p.m.

Approval of Agenda

Motion by Ms. Donnellan, seconded by Mr. O'Brien, to approve the agenda as presented.

Motion carried.

Closed Session

Mr. Hasty called for a motion to convene in closed session to discuss specific employee performance and/or compensation.

Motion by Ms. Donnellan, seconded by Mr. Burdette, that the Personnel Committee of the Virginia Resources Authority enter into a closed meeting in accordance with Section 2.2-3711(A)(1) of the Code of Virginia, as amended, for the purpose of discussion and consideration of the performance and/or compensation of specific public officers, employees or appointees.

Motion carried, and the closed session convened at 1:07 p.m.

Open Session

Open session reconvened at 1:34 p.m., and Mr. Michael Cooper, Director of Administration & Operations, read the following resolution:

Resolution Certifying Closed Session in Accordance with Virginia Law

Whereas, the Personnel Committee of the Virginia Resources Authority (the "Authority") has on December 7, 2015 convened a closed session pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act;

Whereas, Section 2.2-3712 of the Code of Virginia requires a certification by the Personnel Committee that such closed meeting was conducted in accordance with Virginia law;

Now, therefore, be it resolved that the Personnel Committee of the Board of the Virginia Resources Authority does hereby certify that, to the best of each member's knowledge, (i) only the public business matters that were identified in the motion by which the closed session was convened and that were lawfully exempted by the Virginia Freedom of Information Act were discussed in the closed session to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed session were heard, discussed or considered by the Committee.

Motion by Mr. Rust, seconded by Mr. O'Brien, that the above-stated resolution certifying Closed Session in accordance with Virginia Law be approved.

A roll call vote on the motion resulted as follows:

Ayes: Ms. Aylor, Mr. Burdette, Mr. O'Brien, Ms. Donnellan, Mr. Rust, Ms. Thomson, and Mr. Hasty.

Nays: None.

Absent during vote: None.

Absent during meeting: None.

Motion carried.

Old Business

VRA Accounting Division: Mr. Michael Cooper, Director of Administration & Operations, provided an update on the hiring process for the Controller. He stated that at the last meeting he informed the Committee that staff was in conversations with prospective candidates. However, he continued, staff was unsuccessful in reaching terms with the candidates. Mr. Cooper explained that the hiring process was closed. He said staff began discussions with its accounting consultants, Cherry Bekaertt, LLP, that performs VRA's ARMICS reviews, for guidance in one, assuring that the position description reflected the actual requirements for the position and two, attracting candidates to the position . He stated that Mr. George Panos, Deputy Controller, and Ms. Elizabeth Sakr, Fiscal & Administrative Specialist, have continued to work diligently to maintain accounting responsibilities. He noted that the staff looked at an opportunity to expand and build upon the strengths of existing personnel. As a result of discussions with Cherry Bekaert, the position of Accounting Manager has been created to replace the Controller's position. The position will focus on the general ledger, ensuring that VRA's financial books are in order and that VRA remains in compliance with all accounting rules, laws and regulations. High level management responsibilities will be shared among existing division directors as appropriate. Cherry Bekaert performed an informal audit on financial activity to date and the result was favorable. In addition, Cherry Bekaert supported the structural change.

Ms. Stephanie L. Hamlett, Executive Director, explained that the Accounting Manager will report to the Director of Administration and Operations. In addition, Joseph Bergeron, Financial Services Manager, will be more active in investment management due to his background and experience in investments.

Mr. Cooper stated that the position has not been advertised at this point as staff wanted to inform and receive feedback from the Committee and to inform the Committee that a third party was involved in assisting staff with the process of restructuring the Controller position.

In response to Mr. Hasty, Mr. Cooper explained the difference between VRA's internal auditors, Cherry Bekaert, and its external auditors, Brown Edwards & Company, LLP.

Compensation - Executive Director: Mr. Hasty called for a motion recommending to the Full Board a one-time bonus of 1.5% for the Executive Director.

Motion by Mrs. Donnellan, seconded by Ms. Thomson, that the Personnel Committee recommends to the full Board a one-time bonus to Stephanie Hamlett in the amount of 1.5% of her annual salary.

Motion carried.

New Business

Mr. Willian G. O'Brien, Board Chair, noted that he is in receipt of a Certificate of Designation from Ms. Manju Ganeriwala, Treasurer, designating Ms. Janet Aylor, Director of Debt Management of the Department of the Treasury, as her permanent designee to act on her behalf at Virginia Resources Authority Committee and Board meetings.

Mrs. Barbara McCarthy Donnellan suggested that the Executive Director examine the Authority's job classification system and consider an update to such.

Public Comment Period

There was no public comment.

Adjournment

Motion by Mr. O'Brien, seconded by Ms. Donnellan, that the meeting be adjourned.

Motion carried, and the meeting adjourned at 1:44 p.m.

The next meeting of the Committee to be determined.

_____
Thomas L. Hasty, III, Chair

_____
Stephanie L. Hamlett, Executive Director and
Secretary to the Board

VIRGINIA RESOURCES AUTHORITY

PORTFOLIO RISK MANAGEMENT COMMITTEE
MINUTES OF THE REGULAR MEETING

The Portfolio Risk Management Committee of the Virginia Resources Authority met on Monday, December 7, 2015 in the 18th Floor Meeting Room, 1111 E. Main Street, Richmond, Virginia.

Committee Members Present:
Dena Frith Moore, Chair
Janet Aylor on behalf of Manju Ganeriwala, Treasurer
David Branscome
Thomas L. Hasty, III
John H. Rust, Jr.
William G. O'Brien, Ex Officio

Committee Members Absent:
None.

Other Board Members Present:
John J. Aulbach, II on behalf of Marissa Levine
Valerie Thomson on behalf of David K. Paylor

Staff:
Stephanie L. Hamlett, Executive Director, Secretary to the Board
Jean Bass, Director of Policy
Michael Cooper, Director of Administration & Operations
Shawn Crumlish, Director of Financial Services
Peter D'Alema, Director of Program Management
Kimberly Adams, Senior Program Manager
Joseph Bergeron, Financial Services Manager
Jonathan Farmer, Program Manager
Stephanie Jones, Program Manager/Compliance Officer
Rachael Logan, Fiscal & Administrative Specialist

Others:
George Stewart, Commerce and Trade
Arthur Anderson, McGuireWoods LLP, Bond Counsel
Ty Wellford, Davenport & Company LLC
Leah Schubel, Public Finance Analyst, Davenport & Company LLC
Megan Gilliland, Christian & Barton, LLP
Gaines Tavenner, Christian & Barton, LLP
Clyde Cristman, Department of Conservation and Recreation
Joe Elton, Department of Conservation and Recreation
Walter Gills, Department of Environmental Quality

Tom Clarke, Virginia Conservation Legacy Fund
Don Ferguson, Office of the Attorney General
Jennifer Bell, Virginia Conservation Legacy Fund
Paul Cooper, Retro Hospitality, Dan Stevens, Retro Hospitality
Ted Henifin, Hampton Roads Sanitation District
James Bernas, Hampton Roads Sanitation District
Sarah Frey, PFM
Spencer Hines, Oxford Group
Douglas Harwood, Press, Rockbridge Advocate
Jeff Sturgeon, Press, Roanoke Times

Call to Order

The meeting was called to order by Ms. Dena Frith Moore, Chair, at 2:00 p.m.

Approval of Agenda

Motion by Mr. Hasty, seconded by Mr. O'Brien, to approve the agenda as presented.

Motion carried.

Portfolio Risk Management Update

Natural Bridge: Ms. Moore called on Ms. Stephanie L. Hamlett, VRA Executive Director, to begin discussion of Natural Bridge. Ms. Hamlett explained that VRA made a loan to Natural Bridge in 2014 relying on usual credit analysis techniques based on the prior owner's financials. Natural Bridge appeared to be a feasible project; however, the performance has not been as anticipated. There has been a default. VRA has received only a portion of the total payment that was due on October 1, 2015. Ms. Hamlett stated that in order to get a clear understanding of this dilemma, Mr. Tom Clarke, Chief Executive Officer of the Virginia Conservation Legacy Fund, has been invited to explain the current status and to offer a remedy for the default. She stated that this is an informational session and no action is being required. Ms. Hamlett added that VRA's mission is to recoup the Clean Water Revolving Loan Funds. VRA has not reached the position of foreclosure on the loan at this time. VRA will continue to gather information and will provide an update and recommendation at the March 2016 meeting of the Portfolio Risk Management Committee. In response to the Committee, Ms. Hamlett explained that the debt service payment due on October 1, 2015 is in excess of $900,000, and VRA has received half of that amount plus a penalty.

Ms. Moore stated that there will be a public comment period immediately following discussion on Natural Bridge.

Mr. Tom Clarke, Chief Executive Officer of the Virginia Conservation Legacy Fund (VCLF), expressed appreciation for the opportunity to appear before the Committee and apologized for

not paying the required loan payment on schedule. He introduced Ms. Jennifer Bell, COO, Mr. Dan Stevens, and Mr. Paul Cooper, Hotel Manager, who has been contracted to operate the hotel, caverns and the Natural Bridge. Mr. Clarke stated when Natural Bridge was acquired on February 6, 2014 the VCLF was not prepared to acquire the property as there was no complete team in place to manage the bridge and due diligence was not performed. After purchase, it was determined that there were numerous deficiencies including structural problems with the facilities, leaking roofs, and broken pipes. Mr. Clarke stated that in hindsight the VCLF should not have approached VRA for a loan because the transaction had risks, and he apologized for exposing VRA to those risks. VCLF represented that it invested funds beyond the VRA funds in hopes of increasing the number of visitors to the site and thereby providing revenue to repay the loan. However, there was a significant decline in visitors, due in part to the lack of advertising.

After missing the October 1, 2015 deadline, Mr. Clarke explained that the intent was to pay half of the loan payment, plus interest by October 31, 2015 with donations. This approach did not materialize and VCLF only had $175,000 for the October payment. Mr. Clarke stated that on October 30, 2015, a for-profit entity authorized a donation of $327,433.43, the exact amount to pay the interest and penalty for October 1, 2015 going forward, and $280,000.00 in principal. This left one-half of the October 1, 2015 payment as still due.

Mr. Clarke continued that VCLF has developed a budget to service the volume of debt at $455,000.00 plus 3% in interest. However, this approach is based on VRA's willingness to amortize the loan over a 20-year period and set the interest rate to 3%. The second part of the plan is to work with the Virginia Department of Conservation and Recreation to operate Natural Bridge as a state park through an operating agreement using state park employees to staff the Bridge as early as 2016. Ticket receipts will pay debt service and anything left will go to the state park system for operation of the park. VCLF is willing to operate food, beverage and the gift shop. He noted that a rate reduction for admissions will play a significant role in increasing attendance.

Mr. Clarke further explained that VCLF committed to donate the bridge, just over 188 acres to the state. However, it is the intent of VCLF to donate an additional 1,300 acres which will generate a net Virginia Land Preservation tax credit in the amount of approximately $1,280,000 that will assist in paying the VRA debt and the remaining balance on the loan. The remaining $6,455,000 will be refinanced by a bank or private investor as early as the first quarter of 2016. He noted that the hotel is separate from the Bridge and operated by a for-profit entity and will not be included in the donated property.

Mr. O'Brien stated that he does not visualize that VCLF has a concrete plan that would give assurance to VRA that payment on the debt service would be coming forward. He foresees the only option possibly being foreclosure on the loan, which VRA does not wish to happen. Mr. Clarke stated that VCLF is making every effort to meet the payment deadline for VRA in 2016, as well as paying taxes and all its creditors. He proceeded to explain the flow of funding from various sources, noting that funds from Natural Bridge are always used for the Bridge.

Mr. Clarke responded to several questions raised by Mr. Rust regarding violations of the terms of the financial agreements to include the hiring of a manager not maintaining insurance and posting of income and accounts payable. He elaborated on the purchase of other real property with additional debt, stating that he did not realize that the purchase was in contradiction to the agreement with VRA and VCLF.

There was discussion relative to the roles of the management team and auditors for Natural Bridge, Brown Edwards, who performed the audit for the period February 6, 2014 to December 31, 2014. It was not unqualified, but definitely referenced all the issues relating to segregation of duties, financial systems reports, and response by management. VCLF does not have a written business plan for the operation of Natural Bridge, but VRA will be provided with a full 2016 budget with a management action plan. There are no liens on Natural Bridge or the Caverns. There are two mortgages on the hotel, a lien for payment of renovations, and a lawsuit in discussions for settlement. There was discussion relative to the 2016 budget as it relates to a reduction in admission fees for Natural Bridge and reduced expenses.

In response to the Committee, Mr. Cristman reiterated that Plan A would be to pay off the entire loan and Plan B will be to at least pay debt service outstanding.

In further response to the Committee, Ms. Hamlett stated that there is a Financing and Security Agreement associated with the loan. Mr. Clarke stated that Mr. Tim Dixon, General Counsel, will be responsible for being aware of the content of the VCLF/VRA credit agreement. Mr. Clarke noted that he and his staff will look into documents to determine if the property is self-insured.

The Committee expressed reservations relative to VCLF's ability to satisfy the VRA debt, noting that victory for VRA would be no default.

The meeting was open to Public Comment. Mr. Clyde Cristman, Director of the Department of Conservation and Recreation (DCR) provided confirmation that DCR is interested in bringing Natural Bridge into the state park inventory. DCR has $60,000 in the current fiscal year approved by the last General Assembly with the intent to get DCR staff on board by May 2016 and transitioning Natural Bridge to state park status by July 2016. Mr. Cristman continued that DCR is moving forward with the assumption that the loan will not be paid off by June 2016, with plans to enter into an operating agreement with VCLF to open Natural Bridge as a state park this summer. He will know on December 17, 2015 how much was allocated in the Governor's budget, noting that the requested annualized funds will provide at least six state employees on site. The admission cost will be reduced to state park levels, thereby effectively increasing the number of visitors to the Bridge. He stated that proper interstate signage will increase attendance as well, along with website marketing, advertising in current networks and VA tourism. Mr. Cristman continued that he has a draft operating agreement. A requirement of the agreement is that if Natural Bridge operates as a state park, 100% of the gate or bridge will go into a separate account and DCR will be able to provide verification of the number of visitors. In addition, the every dollar on each ticket will be used to pay off debt.

In response to the Committee, Mr. Cristman stated that DCR will have a much more robust interpretive program, provide high level programs, special events through holidays, and more trails. He stated that current admission prices are prohibiting attendance. He stated that DCR will not be involved in any financing plans for Natural Bridge. Mr. Cristman stated that the bi-annual budget request for Natural Bridge was $1.3 million, which includes some one-time expenses and for employees. He continued that DCR is estimating 200,000 attendees at Natural Bridge at $5.00 per person which is, he said, very possible. Some state parks generate 160% of their budget and other parks generate 20% or 30% of budget. Further, state parks utilize a high volume of volunteers. Mr. Cristman reiterated that he will not sign an operating agreement that does not guarantee that every dollar collected at the gate is first used to pay off the related VRA debt.

Break: The Committee recessed at 3:17 p.m. and reconvened at 3:27 p.m.

Hampton Roads Sanitation District (HRSD): Ms. Sarah Frey, PFM and financial advisor for HRSD, stated that in September 2015, HRSD came before the Committee requesting that VRA migrate existing senior lien debt to the subordinate position. This will help HRSD in its efforts to fund a regional approach to reducing sanitary sewer overflows and implement the Regional Wet Weather Plan whereby HRSD will take the lead in the infrastructure projects. She noted that HRSD and the localities are under federal and state consent agreements to rectify the problem. This regional approach will save over $1.3 billion in capital costs for the region. She continued, however, that this approach does create some challenges with compliance with the debt service rate covenant. Ms. Frey explained that when HRSD makes improvements to assets that it does not own it cannot be capitalized on its balance sheet. Those assets are recognized as current expenses on the income statement. She stated that under current documents HRSD is required to follow the accounting regulations for calculating debt service coverage. Ms. Frey continued that upon review, HRSD concluded that the best way forward is to amend and restate the subordinate trust agreement, as it would be difficult for HRSD to amend the senior agreement, and make an adjustment to calculate coverage on a cash basis. HRSD plans to sell all of its future debt at this amended subordinate lien and over time refund its senior debt to the subordinate lien. HRSD is requesting that VRA approve a similar migration of senior debt held by VRA to its amended and restated subordinate lien over time. Ms. Frey reviewed several recommended conditions associated with the HRSD request, noting that current projections indicate that all of the conditions will be met around 2025. Ms. Frey stated that this is a complex issue requesting action now for something that will occur over a period of time. She explained that this request is being made at this time because HRSD does not believe it to be a significant risk to VRA. She continued that investors will find comfort in knowing the VRA debt will not be ahead of them in the long term. Ms. Frey concluded that there is a marketing, credit, and administrative benefit to this request, noting that if VRA approval is not received, HRSD will be operating under two sets of covenants. It is HRSD's desire to enter the market at the end of February 2016.

Mr. O'Brien left the meeting at 3:34 p.m. during the above discussion.

There was discussion relative to the effect of the HRSD request on Build America Bonds, rate projections for reducing the debt, and junior liens.

Mr. Shawn Crumlish, Director of Financial Services, shared a chart comparing HRSD to other VRA Revenue Pledge borrowers outlining outstanding VRA debt, service area population, debt concentration and senior revenue ratings; a chart showing debt service coverage over a four-year period; and graphs depicting the Clean Water Loan portfolio characteristics. He explained that credits like HRSD helps VRA in their discussions with credit rating agencies because they look at cash flow coverage and the underlying borrowers. Mr. Crumlish continued with a review of recommended conditions for HRSD's request, explaining that the conditions create parameters so that if HRSD follow through with its plans, VRA will begin to migrate once the senior lien is closed.

Ms. Moore stated that she was hesitant about committing the Board ten years in advance. However, she stated that staff has crafted enough conditions and have created a very good framework to make her more comfortable about making the request happen and protect future Boards. Mrs. Donnellan stated that one on one conversations with staff have made her more comfortable and the risk is not what she previously thought because this is really a AAA transaction and staff has identified conditions that will protect VRA's future Boards. Mr. Rust concurred with Ms. Moore and Mrs. Donnellan stating that his concern was that VRA was giving up its position free; however, that is not the case.

Motion by Mrs. Donnellan, seconded by Mr. Hasty, to recommend to the full Board approval to adopt a resolution to migrate existing Hampton Roads Sanitation District debt to a subordinate position, subject to conditions, giving the Executive Director the opportunity to do a pro rata migration if the need arises before 2025.

Motion carried.

<u>2015C Virginia Pooled Financing Program Transaction VPFP</u>: Mr. Peter D'Alema, Director of Program Management, stated that the 2015C bonds were sold on behalf of the Bedford Regional Water Authority. The bonds were sold on October 7, 2015 with a total par amount of $31.76 million. The rates were very competitive for this transaction. The All-In True Interest Cost (TIC) was 3.67%, and VRA was able to move forward with this transaction after a successful bond validation completed by BRWA. All of the bonds were sold on a negotiated basis with the underwriter team led by Bank of America Merrill Lynch, with Baird, Fidelity and RBC as Co-Managers. This was a smaller bond issue structured with lower coupons to attract money manager and retail buyers. There was a large supply in terms of municipal paper in the market at that time. However, about 70% of the bonds were placed on October 7, 2015 with the balance underwritten by the syndicate.

Mr. D'Alema shared a graph of market rates during the sale of the bonds.

<u>2015D Virginia Pooled Financing Program (VPFP) Transaction</u>: Mr. Peter D'Alema, Director of

Program Management, stated that $166.980 million of 2015D fall bonds were sold on November 4, 2015. The bonds funded 11 loans on behalf of nine local government borrowers and covered four of VRA's 18 authorized project areas. The All-In True Interest Cost for the fall bond issue was 3.46% and covered both the Taxable and Tax-Exempt bonds. Mr. D'Alema shared graphs showing the November 2015 market rates. He continued that all of the tax-exempt and taxable Infrastructure Revenue Bonds were sold on a negotiated basis and all of the tax-exempt State Moral Obligation Bonds were sold on a competitive basis. Mr. D'Alema explained that about 60% of the par was refunding in nature. Localities refunded a total par amount of $98.986 million for debt service savings exceeding $8.25 million. He highlighted the borrowers in the pool and reviewed the VPFP portfolio with the inclusion of the VPFP Series 2015D issuance, noting that one new borrower was added and Suffolk moved up to the second largest borrower by dollar volume with $20 million in new money borrowed in the fall pool.

Continuing Disclosure Update: Mr. Peter D'Alema, Director of Program Management, stated that on October 19, 2015, VRA posted on the website the continuing disclosure documents for the required programs for Fiscal Year 2015. He stated that VRA did not have any material obligors in the Virginia Pooled Financing Program (VPFP) or the Clean Water State Revolving Loan Fund Program. There were 6 material obligors in the Pooled Loan Bond Program, which is the predecessor program to the VPFP. There was one material obligor in the Virginia Airports Revolving Fund.

VRA has not received any correspondence from the Securities and Exchange Commission regarding the Municipal Continuing Disclosure Cooperation Initiative filing from November 2014. Originally, notification was anticipated to be made to VRA a year after its filing.

Portfolio Risk Management (PRM) Reserve Methodology: Mr. Peter D'Alema, Director of Program Management, explained that the PRM Reserve was established as part of VRA's Unrestricted Net Asset Guidelines. The purpose of the reserve is to set aside funds to protect against having to draw on the Commonwealth's Moral Obligation in the funding programs which employ a capital reserve fund as part of the program security. He stated that it took 18 months to establish the initial PRM methodology. Mr. D'Alema explained that wide fluctuations in the PRM occurred between 2012 and 2015 under the current PRM methodology which is heavily impacted by periodic upgrades or downgrades to certain borrowers in the Loan Monitoring and Compliance Database. He stated that Mr. Jonathan Farmer, Program Manager, has been working diligently to determine an alternative methodology. A proposal will be presented in March 2016 for possible approval in the Fiscal Year 2017 budget.

There was discussion relative to the rationale for an alternate methodology.

Old Business

There was no old business.

New Business

There is no new business.

Public Comment Period

There was no public comment.

Adjournment

Motion by Mr. Hasty, seconded by Mr. Rust, to adjourn the meeting.

Motion carried, and the meeting adjourned at 4:12 p.m.

The next meeting of the Committee will be held on Monday, February 29, 2015.

_____
Dena Frith Moore, Chair

_____
Stephanie Hamlett, Executive Director
Secretary to the Board

VIRGINIA RESOURCES AUTHORITY

BOARD OF DIRECTORS
MINUTES OF THE REGULAR MEETING

The Board of Directors of the Virginia Resources Authority met on December 8, 2015, in the Virginia Resources Authority Conference Room, Bank of America Building, Suite 1920, 1111 E. Main Street, Richmond, Virginia.

Members Present
William G. O'Brien, Chair
Janet Aylor on behalf of Manju Ganeriwala
David Branscome
Randall P Burdette
Barbara McCarthy Donnellan
Thomas L. Hasty, III
Dena Frith Moore
John J. Aulbach II, P.E. on behalf of Marissa Levine
John H. Rust, Jr.
Valerie Thomson on behalf of David K. Paylor

Members Absent
James H. Spencer, III, Vice Chair

Staff Present
Stephanie L. Hamlett, Executive Director, Secretary to the Board
Jean Bass, Director of Policy
Michael Cooper, Director of Administration & Operations
Shawn Crumlish, Director of Financial Services
Peter D'Alema, Director of Program Management
Joseph Bergeron, Financial Services Manager
Stephanie Jones, Program Manager/Compliance Officer
Rachael Logan, Fiscal & Administrative Specialist

Others Present
Arthur Anderson, McGuireWoods LLP
Ty Wellford, Davenport & Company, LLC
Leah Schubel, Davenport & Company, LLC
Megan Gilliland, Christian & Barton, LLP
Ron Tillett, Raymond James
Sarah Frey, PFM
Jay Bernas, Chief Financial Officer, Hampton Roads Sanitation District
Joe Hines, Timmons Group
Steve Pellei, Virginia Department of Health

Call to Order

Mr. William G. O'Brien, Chair, called the meeting to order at 9:01 a.m.

Approval of Agenda

Motion by Mr. Hasty, seconded Ms. Moore, to approve the agenda.

Motion carried.

Certificate of Designation

Mr. O'Brien read a Certificate of Designation from Board Member Manju S. Ganeriwala, Treasurer of Virginia, designating Ms. Janet Aylor, Director of Debt Management of the Department of the Treasury, as her permanent designee to the Virginia Resources Authority's Board of Directors with all powers, rights and duties conferred a member of the Board of Directors.

Mr. O'Brien welcomed Ms. Aylor to the Board.

Approval of Meeting Minutes

Mr. O'Brien called for the approval of the following meeting minutes: Audit Committee meeting, Personnel Committee meeting and Portfolio Risk Management Committee meeting held on September 14, 2015; and the Board of Directors meeting held on September 15, 2015.

There were no corrections, additions or deletions.

Motion by Mrs. Donnellan, second by Mr. Branscome, to approve the following meeting minutes: Audit Committee meeting, Personnel Committee meeting and Portfolio Risk Management Committee meeting held on September 14, 2015; and the Board of Directors meeting held on September 15, 2015.

Motion carried.

Executive Director's Report

Ms. Stephanie L. Hamlett, Executive Director highlighted segments of her report stating that she and staff attended the annual conference of the Virginia Coastal Policy Center in Williamsburg where she led a panel in the discussion of coastal policy and resiliency and their impact on local government financing. She expressed appreciation to Ms. Jean Bass, Director of Policy, for organizing the panel. The conference audience included educators, students, environmentalists and engineers. The one-day conference, she noted, also included An introduction by Virginia's Lt. Governor, Ralph Northam.

Continuing her remarks, Ms. Hamlett stated that VRA is working with the Virginia Tobacco Region Revitalization Commission (TRRC) to establish TRRC's proposed revolving loan fund to be managed by VRA. A Memorandum of Agreement between TRRC and VRA has been drafted and is currently under review by each party. Ms. Hamlett thanked VRA Board member Jack Rust for his help in facilitating TRRC's interest in moving forward with establishing the fund.

Mr. Burdette arrived at 9:05 a.m.

Committee Reports

Personnel Committee: Mr. Thomas L. Hasty, III, Chair of the Personnel Committee, stated that the Committee met on Monday, December 7, 2015, and he offered the following motions as a result of the meeting.

Motion by Mr. Hasty, seconded by Mrs. Donnellan, authorizing that the Executive Director to receive a 1.50% bonus which is equivalent to staff bonuses; and

Motion by Mr. Hasty, seconded by Mrs. Donnellan, authorizing additional bonus compensation for the Director of Policy in the amount of $5,000 for service as Interim Executive Director.

Motions carried.

Mr. O'Brien thanked the Executive Director and the Director of Policy for their outstanding service.

Portfolio Risk Management Committee: Ms. Dena Frith Moore, Chair of the Portfolio Risk Management Committee, stated that VRA's Executive Director provided the Committee with an update on the current status of the loan to the Virginia Conservation Legacy Fund (VCLF), borrower for Natural Bridge. Ms. Hamlett stated that the loan is in default. Ms. Moore continued that Mr. Tom Clarke, Chief Executive Officer of the VCLF, along with his staff attended the Committee meeting where Mr. Clarke discussed the challenges of operating Natural Bridge, problems associated with the hotel, and other difficulties he has had since purchasing the Natural Bridge. He stated that he had hopes for potentially refinancing, perhaps bringing in investors, and potentially reaching an agreement with the Department of Conservation and Recreation (DCR) to operate the property as a state park. Committee members, Ms. Moore said, asked Mr. Clarke several questions and expressed reservations regarding Mr. Clarke's plans to satisfy the loan. The Committee also commented on other violations to the financing agreement.

In continuing, Ms. Moore said Mr. Clyde Cristman, Director of the Department of Conservation and Recreation (DCR), informed the Committee that DCR is interested in putting a structure in place to pay off the loan and to operate the Natural Bridge as a state park. Ms. Moore added that the staff had previously given Mr. Clark the opportunity to present a business plan to VRA that would detail his plans to operate and maintain the Natural Bridge and to pay off the debt. She further noted that the Committee was agreeable to providing DCR with the opportunity to work with the General Assembly during the 2016 Session to obtain funding for the operation of Natural Bridge as a state park.

In continuing discussions regarding VCLF's default of the Natural Bridge loan, Mrs. Donnellan suggested that Chairman O'Brien follow up with a letter to VCLF outlining expectations and including three or four specific objectives to achieve. If, she said, VCLF is unable to achieve these objectives in a reasonable timeframe, it is to inform VRA thirty days in advance. She concluded that this approach will provide documentation relative to VRA's expectations. Mr. Hasty agreed stating that he does not think Mr. Clarke understands what needs to be accomplished. Ms. Hamlett stated that she will draft a letter for the Chairman's signature by next week.

Ms. Moore stated that in the event DCR receives an appropriation from the General Assembly to operate Natural Bridge, staff should meet with its consultants, including legal counsel, to determine if a private entity can be established to allow funds from Natural Bridge admissions to be sent directly to VRA to cover the loan.

Ms. Hamlett stated that in Mr. Clarke's discussions she understood him to say that VRA would only receive revenue from the Bridge; however, she said, VRA is also entitled to receive revenues from the gift shop and concessions. Mr. Hasty suggested that VRA have its lawyers create a forbearance agreement allowing VRA to have access to the cash generated at Natural Bridge and have VCLF create another entity to accept the funds. The forbearance agreement can be outlined as a condition in the letter from Chairman O'Brien.

Mr. Rust concurred with Mr. Hasty to authorize the Executive Director and Chairman to enter into a forbearance agreement with VCLF.

Motion by Mr. Hasty, seconded by Mr. Rust, to authorize the Executive Director and Chairman of the Virginia Resources Authority to enter into a forbearance agreement with the Virginia Conservation Legacy Fund to position VRA and to be prepared against bankruptcy.

Motion carried.

Hampton Roads Sanitation District (HRSD):

Ms. Dena Frith Moore, Chair of the Portfolio Risk Management Committee, stated that Ms. Sarah Frey, PFM, and Jay Bernas, Finance Director for HRSD, are present. Ms. Moore gave kudos to the VRA staff and HRSD for the good work done during the intervening months to determine a workable solution. She stated that HRSD has done planning for the Regional Wet Weather Plan, noting the significant and potential positive impact in terms of savings HRSD can achieve in the coming years for the region. Ms. Moore explained that HRSD has compelling reasons for asking VRA to migrate its senior lien debt to subordinate debt. Even though the request will cover a ten year span, it would be easier to obtain subordinate debt at this time. Ms. Moore added that the Committee had concerns relative to acting on behalf of the Board ten years in the future. As a result, staff recommended to the Committee, based on HRSD's credit profile and future planning, that VRA agree to migrate its senior debt lien to a subordinated position subject to key conditions that should protect VRA in the future from being in an adverse position.

Mr. Shawn Crumlish, Director of Financial Services, continued the presentation stating that HRSD provides wastewater and treatment services to over 1.7 million people throughout Hampton Roads. HRSD has very strong credit ratings with AA+/AA+ from Standard & Poor's and Fitch, and Aa2 from Moody's. HRSD probably has the largest regional effort in the Commonwealth for any project in the Regional Wet Weather Planning Program, and its Capital Improvement Plan is over $1.6 billion. This action by VRA will help HRSD in a way that would not impact VRA's risk profile. Mr. Crumlish highlighted the conditions associated with HRSD's request.

Mr. O'Brien stated that the bottom line is that HRSD's request does not materially weaken VRA's position. Motion by Ms. Moore, seconded by Mr. Rust, to provide the Executive Director authorization to effectuate the migration of senior lien debt currently held by the Virginia Resources Authority to subordinate lien status subject to conditions, such authorization includes any consents required under the senior and subordinate lien trust agreements to accomplish the migration; and the Executive Director is authorized to execute the required loan documents including, but not limited to, amendments and/or restatements to existing loan documents between the Hampton Roads Sanitation District and the Virginia Resources Authority to accomplish the migration, as well as modify any terms, conditions or provisions in such existing loan documents that the Executive Director, upon

advice of counsel, may deem appropriate. The conditions for migration are as follows: 1) There are no existing defaults under the provisions of any Hampton Roads Sanitation District debt; 2) Department of Environmental Quality provides necessary consent to amend documents; 3) Hampton Roads Sanitation District's existing senior Trust Agreement is legally closed to additional bonds; 4) Hampton Roads Sanitation District maintains at least a AA- rating or equivalent by two nationally recognized statistical ratings organizations on the subordinate lien; 5) Hampton Roads Sanitation District issues no additional senior lien debt; 6) Hampton Roads Sanitation District adheres to its currently adopted financial policy of budgeting for a minimum total debt service coverage policy of 1.4x; and 7) Hampton Roads Sanitation District has substantially repaid or defeased its senior lien bonds such that the total par amount outstanding under the senior lien is 15% or less than total debt. If only conditions 1 – 6 above are met and condition 7 is not, VRA held senior debt migrates to maintain an approximate 16% of VRA to other Hampton Roads Sanitation District senior debt.

Motion carried.

2015C Virginia Pooled Financing Program (VPFP): Mr. Peter D'Alema, Director of Program Management, stated that the 2015C bonds were sold on behalf of the Bedford Regional Water Authority. The bonds sold at $31.76 million in par on October 7, 2015. The rates were very competitive. The True Interest Cost (TIC) was 3.46%, and VRA was able to move forward with this transaction after a successful bond validation hearing. All of the bonds were sold on a negotiated basis with the underwriter team led by Bank of America Merrill Lynch, with Baird, Fidelity and RBC as Co-managers. However, about 70% of the bonds were placed on October 7, 2015 with the balance underwritten by the syndicate.

2015D Virginia Pooled Financing Program (VPFP): Mr. Peter D'Alema, Director of Program Management, stated that the 2015D fall bonds of $166.980 million sold on November 4, 2015, funding 11 loans for nine local government borrowers, and covered 4 authorized project areas. The True Interest Cost was 3.26% and covered both the Taxable and Tax-Exempt bonds. Mr. D'Alema shared graphs showing the November 2015 market rates. He continued that all of the taxable Infrastructure Revenue Bonds were sold on a negotiated basis and all of the tax-exempt State Moral Obligation Bonds were sold on a competitive basis. Underwriters for the taxable and tax-exempt Infrastructure Revenue Bonds and Taxable State Moral Obligation Bonds included Senior Manager Raymond James, Co-Senior Manager, Siebert Brandford Shank; and Co-Managers Jefferies and Loop Capital Markets. The low bidder winner for the State Moral Obligation Bonds, he said, was Morgan Stanley with participation by Raymond James.

Mr. Ron Tillett with Raymond James stated that he appreciated the opportunity to participate in the bond transaction, noting that he has operated in various roles at VRA over 15 years; thereby understanding VRA's credit and buyers. Mr. Tillet stated that he structured the transaction based on the need to focus on a variety of investors to maximize savings. He explained the procedure for selling the bonds.

The Executive Director stated that the partnership with Mr. Ron Tillett and Raymond James goes beyond the role of underwriter and she appreciates his support and guidance, along with that of Mr. Ty Wellford and Ms. Leah Schubel of Davenport & Company, LLC.

Mr. Ty Wellford of Davenport & Company, LLC stated that throughout the year challenges are faced with sales. On the negotiated side, he said, underwriting spreads have tightened. Raymond James, Mr. Wellford said, had a great level of communication with the syndicate.

Mr. D'Alema continued the presentation stating that about 60% of the par was refunding in nature, for a

total par amount of $98.986 million for debt service savings exceeding $8.25 million. He highlighted the borrowers in the pool and reviewed the post series VPFP portfolio, noting that one new borrower was added and the city of Suffolk moved up to the second position with $20 million in new money.

Mr. Ty Wellford of Davenport & Company, LLC introduced Ms. Leah Schubel and provided a recap of the market which had very favorable interest rates. He reviewed a 30-year benchmark yield, noting that there were five separate sales including the Clean Water refunding, spring, summer, and fall pools and Bedford Regional Water Authority. Mr. Wellford shared the 30-day visible supply chart, noting that the 30-day visible supply is the dollar volume of municipal bonds scheduled to be issued over the next 30 days.

Ms. Schubel continued the presentation sharing charts outlining transactions pertaining to Infrastructure Revenue Bonds, Moral Obligation Bonds and Clean Water Bonds identifying negotiated and competitive bonds. The average True Interest Cost for the transactions was below 3.6% and 2.57% for the Clean Water transaction.

Mr. Wellford concluded the presentation with the year in review. He stated that tax-exempt borrowing rates remained near historic lows throughout the year. VRA successfully issued $519 million of bonds through five separate financings. VRA financed $152 million of new money projects for 12 borrowers. VRA refinanced existing debt for 36 borrowers, which produced $32.7 million aggregate debt service savings. VRA maintained existing credit ratings for the Pool, Clean Water, and Airport programs.

Mr. Burdette thanked Mr. D'Alema for bringing to his attention the Airport refinancing opportunity to defease bonds, adding that the borrowers included in the transaction realized savings of approximately $750,000 in debt service savings.

In response to Ms. Moore, Mr. Wellford stated that according to bond articles there will not be a lot of supply for treasuries which might keep rates low through 2016.

Continuing Disclosure Update: Ms. Moore stated that VRA posted the continuing disclosure documents for the required programs for Fiscal Year 2015 on October 19, 2015. She stated that VRA has not received any correspondence from the Securities and Exchange Commission (SEC) regarding the Municipal Continuing Disclosure Cooperation Initiative Committee filing from November 2014.

Portfolio Risk Management (PRM) Reserve Methodology: Ms. Moore explained that the PRM Reserve was established as part of VRA's Unrestricted Net Asset Guidelines. The purpose the reserve is to set aside funds to protect against having to draw on the Commonwealth's Moral Obligation in the funding programs. She stated that it took 18 months to establish the initial methodology. However, staff is researching a new methodology and will present a proposal for consideration at the next meeting in March.

Old Business

Comprehensive Annual Financial Report (CAFR): Mr. Michael Cooper, Director of Administration & Operations, distributed the required communication from the VRA auditor which is now the completed audit. VRA, he said, received information from the Virginia Retirement System (VRS) regarding pension disclosures which necessitated a minor tweak to the draft audit. The audit was clean and everything was unmodified, unqualified and there were no management issues. The CAFR is available. Mr. Cooper

commended George Panos, Deputy Controller, and Elizabeth Sakr, Fiscal & Administrative Specialist, for their work with the audit.

Public Comment Period

There was no public comment.

New Business

Acknowledgement of Appointees: Executive Director Hamlett explained that when VRA closes on a loan, a signed certification is needed from the Secretary of the Commonwealth confirming appointees within the organization who sign bond documents. The Secretary of the Commonwealth's office is requesting notification of the Board's following appointments.

Mr. O'Brien stated that Governor Mark R. Warner initially appointed him as Chair to the VRA Board of Directors; and Governor Tim Kaine continued him. Governor Robert "Bob" McDonnell did formally reappoint him to the position but the Commonwealth Secretary's Office cannot find the letter. Governor Terrence (Terry) R. McAuliffe continued him.

Motion by Mr. Burdette, seconded by Mr. Hasty, acknowledging the following appointments of Board members and staff of the Virginia Resources Authority:

1. Mr. William G. O'Brien, appointed as Chairman by Governor Mark R. Warner to begin serving August 1, 2002 and continuing to serve at the pleasure of the Governor.
2. Ms. Stephanie Hamlett as Executive Director and Secretary to the Board, appointed by Governor Terrence (Terry) R. McAuliffe to begin serving April 21, 2014 and continuing at the pleasure of the Governor. Ms. Hamlett also serves as General Counsel at the direction of the Virginia Resources Authority Board of Directors effective April 21, 2014.
3. Mr. James H. Spencer, III as Vice Chairman, elected by the Virginia Resources Authority Board of Directors on June 2, 2015 for a one-year term beginning July 1, 2015 and ending June 30, 2016.
4. Mr. Peter D'Alema and Mr. Shawn Crumlish, both as Assistant Secretary to the Board at the direction of the Virginia Resources Authority Board of Directors effective June 14, 2011.

Motion carried.

Board of Directors Meeting Dates: Mr. O'Brien submitted the following dates for the Board of Directors 2016 meetings: February 29th and March 1st; June 6th and 7th; September 12th and 13th; and December 5th and 6th.

There was discussion relative to hosting an Infrastructure Conference in December 2016, noting that it may be necessary to change the December meeting dates.

Ms. Hamlett stated that staff will have a definitive date and possible locations for the Infrastructure Conference at the March meeting.

Motion by Barbara Donnellan, second by Dena Moore, to approve the following dates for the Board of Directors 2016 meeting dates: February 29th and March 1st; June 6th and 7th; September 12th and 13th; and December 5th and 6th.

Motion carried.

Public Comment

There was no public comment.

Adjournment

Mr. O'Brien wished everyone a Merry Christmas, Happy Hanukah, Happy Kwanza and Happy New Year. He thanked staff and VRA agency partners and consultants that assist VRA for a great 2015. He stated that someone once said that the coach has never won a game. Without having a team you cannot get across the goal line.

Motion by Ms. Rust, seconded by Mr. Branscome, to adjourn the meeting.

Motion carried and the meeting adjourned at 10:22 a.m.

The next meeting of the Board is February 1, 2016.

_____
Dena Frith Moore, Chair

_____
Stephanie L. Hamlett, Executive Director
Secretary to the Board