

**Virginia Resources Authority
Budget and Investment Committee Meeting
Minutes of the Meeting – DRAFT
Held November 3, 2021**

The Budget and Investment Committee of the Board of Directors of the Virginia Resources Authority (VRA) met on Wednesday, November 3, 2021, in the O'Brien Boardroom, Bank of America Building, 19th Floor, Suite 1920, 1111 E. Main Street, Richmond, Virginia.

The following Committee members were present and acting during the meeting: Mr. Cecil "Rhu" Harris, Committee Chair, Ms. Cynthia Bailey, Ms. Barbara Donnellan, and Treasurer Manju Ganeriwala. Additionally, Mr. Thomas Hasty participated by phone. Committee member Ms. Mary Bunting was absent.

VRA staff participants included: Ms. Stephanie L. Hamlett, Ms. Jean Bass, Mr. Joe Bergeron, Mr. Curtis Doughtie, and Ms. Stephanie Jones. Mr. Ty Wellford, Davenport & Company LLC, was also present.

Call to Order

Chair Harris called the meeting to order at 12:00 p.m.

Approval of Agenda

Ms. Donnellan made a motion to approve the agenda as presented. Treasurer Ganeriwala seconded. The motion carried.

Introduction of Committee Members

Chair Harris acknowledged the Committee members present. He also approved Mr. Hasty's remote participation due to a personal matter related to business meeting conflicts. Mr. Hasty participated remotely throughout the meeting and could be heard by all persons at the central meeting location.

Cash Equivalents and Investment Overview

Chair Harris called on Mr. Bergeron, VRA Senior Finance and Investment Officer, to give a presentation. Mr. Bergeron began with an overview of VRA's cash equivalents and investments. Treasurer Ganeriwala asked which programs were invested in the State Non-Arbitrage Program (SNAP) to which Mr. Bergeron responded the Clean Water and Drinking Water Revolving Loan Funds. He stated that, unlike the Virginia Pooled Financing Program (VPFP), closed loans in the Clean Water and Drinking Water programs do not immediately disburse all funds to the borrowers and are therefore able to use SNAP. He also remarked that about 20% of the portfolio is invested in SNAP. Most of the Clean Water funds are invested in Treasuries and State and Local Government Securities (SLGS) under a reserve fund model. SLGS returns are between three and five percent which subsidize the bond payments

made in the Clean Water program. In the General Fund and Program Fund, he stated 55% is invested in the Local Government Investment Program (LGIP) and an additional 43% is invested with VRA's Investment Advisor, PFM. In the revolving loan funds, Treasurer Ganeriwala asked what comprises the dollars invested in LGIP. Mr. Bergeron responded that recycled dollars from loan repayments are invested in LGIP and do not include federal dollars from the capitalization grants.

Investment Policy

Mr. Bergeron continued with an overview of the Investment Policy. Ms. Hamlett reminded the Committee that the Investment Policy is a Board-adopted policy and that the Board last updated the policy in 2018. The Investment Policy is specific enough, Mr. Bergeron said, to provide guidelines but properly broad enough so that the Investment Officer can effectively perform the job. He stated that the objectives and guidelines of the General Fund and Program Fund are different, explaining that the General Fund objectives place a higher emphasis on returns than do the Program Fund objectives.

Next, Mr. Bergeron highlighted the out-of-compliance investments, stating that both instances of non-compliant investments are legacy investments. In one instance, the investment is comprised of agency mortgage-backed securities which are outside of the policy because of the maturity date. The other area of out-of-compliance investments is Guaranteed Investment Contracts (GICs) that are below the required credit rating outlined in the Investment Agreement. In response to a question from Treasurer Ganeriwala, Mr. Bergeron stated there is approximately \$30 million outstanding in GICs (as of June 30, 2021), one of which matures in 2022 and the other in 2029. In response to a follow-up question, Mr. Bergeron remarked the GICs only exist for the Clean Water program because those formerly with the Airports program were liquidated when the program was deleveraged.

Continuing, Mr. Bergeron noted that VRA uses Clearwater Analytics to ensure PFM-managed assets remain in compliance with the Investment Policy. Because the Clearwater Analytics information is current, VRA is able to more quickly identify an investment that has fallen out of compliance. Mr. Curtis Doughtie, VRA Director of Finance and Administration, added that the Clearwater software also assists accounting staff with the financial reporting aspects of the investment portfolio. This, he said, is a tremendous improvement over manual spreadsheet maintenance.

Mr. Bergeron noted that the Government Investment Officers Association (GIOA) recently rolled out an Investment Policy certification program with a sample policy for reference. The GIOA policy is one that can be used for comparison purposes to ensure VRA continues to maintain industry best practices.

Ms. Donnellan asked if there is anything in the Investment Policy suggesting how investment returns should be reinvested. Mr. Bergeron stated the policy does not mention reinvestment specifically but, he said, the policy guides investing all dollars based on the needs of the programs. Ms. Donnellan continued by asking if outperforming investment returns provide an opportunity for "giving back" to the borrowers by waiving certain fees. Ms. Hamlett, in responding to the inquiry, acknowledged that VRA already pays some fees on behalf of the VFPF borrowers. She said fees were reduced at the beginning of her tenure at VRA. Noting that the decision on the use of returns is a Board decision, Ms. Hamlett said a

possible use of returns could be building the Portfolio Risk Management (PRM) Reserve. Ms. Hamlett also noted that the PRM Reserve is viewed favorably by the rating agencies and that this reserve helps contribute to VRA's strong credit rating which benefits local government borrowers. Mr. Harris remarked that during the budget process the Board decides how excess revenues are allocated and suggested that investment returns are also included in those budgeting decisions and so do not necessarily need to be considered separately. Mr. Wellford joined the meeting at 12:32 p.m.

Discussion followed on protecting the Commonwealth's Moral Obligation (MO). Ms. Hamlett mentioned that reducing dependence on the MO is a long-term goal because of the amount of dollars required in a reserve. She also noted that it would most likely be an incremental process.

Investment Policy Portfolio

Mr. Bergeron continued by highlighting the actual portfolio and performance. He showed the program commitments of the Clean Water and Drinking Water programs and the asset liability matching that occurs with program dollars available to invest. Mr. Bergeron remarked that cash flow modeling is performed monthly for the Clean Water and Drinking Water programs to inform VRA of the amounts to invest with PFM and LGIP based on project disbursement timelines. Multiple Board members indicated that the better the information from the agencies on project readiness the better VRA's investment performance can be for the programs. Mr. Bergeron indicated the timeline for project loan closings is the least predictable information in the modeling process.

Mr. Bergeron continued by highlighting the General Fund portfolio. He showed the three categories of the General Fund portfolio, namely the Operating Fund (restricted) of \$7.76 million, the Virginia LGIP (unrestricted) of \$3,950,309, and the remainder invested with PFM (unrestricted), \$21,145,502 as of June 30, 2021. He mentioned the majority of the General Fund dollars invested with PFM is for the PRM Reserve. Treasurer Ganeriwala inquired whether PFM's investments are liquid or non-liquid. Mr. Bergeron responded that PFM is not keeping the investments short-term but that they are liquid in the sense that VRA can access the investments. Without a known liquidity event, he said, PFM will invest consistently with the benchmark as outlined in the Investment Policy.

Role of VRA/PFM

Mr. Bergeron continued his presentation by explaining the respective roles and responsibilities of VRA and PFM. He stated that the Investment Policy establishes the rules and parameters for both parties.

Fiduciary Oversight of PFM

There was discussion relative to the fiduciary oversight of PFM and whether there should be an additional external investment professional to serve as an Advisor to the Committee or whether VRA should engage a third party consultant to provide further evaluation of PFM and report to the Committee. Treasurer Ganeriwala asked what VRA's needs are. He noted that the existing Investment Policy has neither of these additional oversight mechanisms and that the Board was comfortable with adopting the current Investment Policy in 2018. This question, he said, revisits that decision and asks again whether

the Committee would like further oversight or is comfortable with the oversight outlined in the existing Investment Policy. Treasurer Ganeriwala said she is comfortable with staff managing it. Ms. Bailey asked what the third-party consultant would do. Mr. Harris said VRA has an opportunity to augment what is already in place. Ms. Donnellan asked Mr. Bergeron for his professional opinion to which Ms. Hamlett mentioned that Mr. Bergeron is VRA's in-house expert but that it would be up to the Committee if it desires additional external resources. Mr. Hasty expressed his confidence in the staff.

Adjournment

The Bank of America building's fire alarm went off at 1:29 p.m. Treasurer Ganeriwala made a motion to adjourn the meeting and Ms. Donnellan seconded. Chair Harris adjourned the meeting at 1:30 p.m.

Stephanie L. Hamlett, Executive Director
Board Secretary

APPROVED:

Mr. Cecil R. Harris, Jr., Chair