VIRGINIA RESOURCES AUTHORITY

BOARD OF DIRECTORS
MINUTES OF THE REGULAR MEETING

The Board of Directors of the Virginia Resources Authority met on December 12, 2012, in the Shenandoah Room of the Hotel Roanoke and Conference Center, 110 Shenandoah Avenue, Roanoke, Virginia.

COMMITTEE MEMBERS PRESENT:
William G. O'Brien, Chair
James H. Spencer, II, Vice Chair
John Aulbach, II, Ph.D., PE on behalf of Maureen Dempsey, M.D., FAAP
David Branscome
Randall P Burdette
Manju Ganeriwala
Thomas L. Hasty, III
Dena Frith Moore
John H. Rust, Jr.
Richard Weeks on behalf of David Paylor

ABSENT:
Barbara McCarthy Donnellan

STAFF:
Suzanne S. Long, Executive Director, Secretary to the Board
Jean Bass, Director of Policy & Intergovernmental Relations
Shawn Crumlish, Director of Debt Management & Credit Analysis
Peter D'Alema, Director of Program Management
Michael Cooper, Director of Administration
Jon McCubbin, Controller
George Panos, Deputy Controller
Joseph Bergeron, Senior Financial Analyst
Emmanual Oyaghiro, Senior Financial Analyst
Rachael Logan, Administrative Manager
Richard Rhodemyre, Intern
Jason Saunders, Intern

OTHERS:
Carrie Roth, Deputy Secretary of Commerce and Trade
James Traudt, Davenport & Company LLC
Ty Wellford, Davenport & Company

Call to Order

Mr. William G. O'Brien, Chair, called the meeting to order at 9:00 a.m.

Mr. O'Brien welcomed John Aulbach, II, Ph.D., PE to the VRA Board. Dr. Aulbach is representing Interim Health Commissioner, Maureen Dempsey, M.D., FAAP.

Mr. O'Brien welcomed Deputy Secretary Carrie Roth to the meeting.

Approval of Agenda

Mr. O'Brien called for approval of the revised agenda.

There were no further additions or deletions to the revised agenda.

Ms. Burdette moved, and Ms. Moore seconded, approval of the revised agenda.

The motion was approved unanimously.

Approval of Minutes

Mr. O'Brien called for approval of the following minutes: Audit Committee held September 10, 2012, Portfolio Risk Management Committee (PRMC) held September 10, 2012, and Board of Directors held September 11, 2012.

There were no amendments to the minutes.

Ms. Ganeriwala moved, and Ms. Moore seconded, approval of the minutes for the Audit Committee held September 10, 2012, Portfolio Risk Management Committee held September 10, 2012, and Board of Directors held September 11, 2012.

The motion was approved unanimously.

Executive Director's Report

Ms. Suzanne S. Long, Executive Director, began her report by expressing appreciation to the Board for traveling to Roanoke to participate in VRA's Infrastructure Financing Conference, December 12-14, 2012.

Ms. Long continued stating that the Virginia Transportation Infrastructure Bank closed its first loan with the City of Chesapeake on November 15, 2012. It was the largest local bond in the history of VRA.

Ms. Long reported that staff met with the Tappahannock Town Manager and the Essex County Administrator. VRA discussed the Tappahannock-Essex Airport Authority Virginia Airport Revolving

Fund Series 2007 loan and the Town's participation in sharing of operation and maintenance expenses and the debt service on the loan. VRA continues to monitor this situation and will work with the localities toward a satisfactory resolution if any changes are needed to the original loan documents.

Ms. Long stated that VRA is working closely with the Virginia Tourism Development Financing Program. The State Comptroller certified the City of Newport News' City Center at Oyster Point as an Entertainment Tourism District. VRA and the Virginia Tourism Corporation met with representatives of Prince William County to discuss a potential project. In addition, VRA continues to assist the Department of Environmental Quality with the financial management of the Clean Water Revolving Loan Fund (CWRLF).

Ms. Long reminded the Board to file their financial disclosure documents. The forms can be filed electronically by January 15, 2013, or with paper forms available from Mr. Michael Cooper, Director of Administration, by January 11, 2013.

Ms. Long concluded that VRA realized significant accomplishments in 2012 despite a change in leadership. She and Mr. O'Brien commended staff for an outstanding year.

Committee Report - PRMC

Ms. Dena Frith Moore, Chair of the PRMC, stated that the Committee met on Tuesday, December 11, 2012. She asked Mr. Peter D'Alema, Director of Program Management, to provide an overview of the meeting.

Goochland Series 2012 Transaction

Mr. Peter D'Alema, Director of Program Management, stated that VRA sold $56.05 million in stand-alone water and sewer revenue bonds on behalf of Goochland County in November 2012. The transaction included the refunding and restructuring of $39.9 million of Goochland Series 2002 bonds issued through VRA. The True Interest Cost (TIC) was 3.78% and the All-In TIC was 3.92%, a great result for Goochland County. The net present value savings was just under 10% or $4.39 million.

He shared a chart of the Series 2012 savings and Goochland's restructured debt service versus its unrestructured debt service.

Mr. D'Alema commended Davenport & Company and McGuireWoods for their assistance in the success of the transaction.

An article from the Goochland Gazette, dated Thursday, November 15, 2012, was distributed to Board members. The article referenced the favorable interest rate and savings the County received as a result of the VRA bonds. It mentioned, among other things, that the savings will support economic growth efforts in the County.

2012C VPFP Transaction

Mr. D'Alema, stated that VRA sold $53.77 million in Virginia Pooled Finance Program (VPFP) Bonds. The transaction was issued on behalf of eight (8) local governments. There were nine (9) loans with two (2) loans for one borrower. The Fall Pool covered six (6) of VRA's 18 authorized project areas covering, with the exception of parks and recreation, typical core projects.

Mr. D'Alema explained that the transaction closed with a TIC of 2.44%, and an All-In TIC of 2.73%, the second lowest after the summer 2012 transaction. VRA was able to maintain its Aaa/AAA and Aa2/AA ratings on the VPFP. The Senior Infrastructure revenue bonds and the AMT loans were sold on a negotiated basis. The Moral Obligation non-AMT portion of the VPFP transaction was sold on a competitive basis.

Mr. D'Alema stated that the fall sale included six (6) new borrowers to the VPFP, some of which are investment grade rated. Four (4) of the borrowers refunded prior non-VRA debt and one (1) of the borrowers refunded prior VRA debt, for an approximate total savings of $4.6 million.

Mr. D'Alema referenced the borrower summary that showed each borrower. He stated that Shenandoah County is included in the transaction to finance renovations of a facility for use by regional special needs students.

The Executive Director explained that the Shenandoah County's Board of Supervisors is a co-defendant in litigation regarding the RSW Regional Jail Authority project. VRA has received a number of Freedom of Information Act requests pertaining to the project, but is not a part of the suit. Ms. Long explained the circumstances surrounding the legal suit. After performing due diligence with legal counsel and a credit review of Shenandoah, VRA made a decision to leave the County in the Fall VPFP. However, funds from the loan cannot be dispersed to the County unless a favorable decision is rendered by the courts. Until such time, Ms. Long stated that the funds are being held in escrow. If, however, the County does not receive a favorable decision, VRA's legal advisors have determined that VRA can repurpose and loan the funds to another borrower. Mr. D'Alema added that the borrower does not have to be a VPFP borrower.

Ms. Long concluded that no trial date has been determined and the Board will be provided interim updates.

Mr. D'Alema highlighted the VPFP Portfolio Summary, noting that none of the top ten (10) borrowers were included in the fall Series 2012C Bonds, and the largest borrower remains at 8% of the overall VPFP portfolio.

There was discussion relative to concentration of any one borrower, non-rated debt and high risk borrowers. Staff was directed to report back to the Committee in March 2013 relative to proposed guidelines associated with the overall percentage of the VPFP that is non-rated and whether there should be a requirement of borrowers to be rated at certain debt levels.

Mr. D'Alema concluded by sharing a chart of accomplishments outlining bond issuance activity for Calendar Years 2011 and 2012. He commended staff stating that their efforts helped borrowers realize savings and benefits.

Mr. Burdette questioned whether the CWRLF and other funds shown in the calendar have outstanding loan balances that can be refunded.

Mr. Burdette mentioned a six-year plan developed by the Department of Aviation detailing capital needs that he is willing to share with VRA staff.

Mr. Burdette thanked staff for being proactive and generating savings for localities.

<u>Tax Supported Debt Underwriting Guidelines</u>
Ms. Moore stated that there was extensive discussion relative to staff recommended changes to the Tax Supported Debt Underwriting Guidelines based on a new GASB Statement. Statement 54 changes the way fund balances are reported in the financials of localities. The PRMC recommends that the Board approve the changes.

The first amendment changes a word within the fund balance total revenues ratio definition from "Undesignated" to "Unassigned". The second change requires discussion of pension plans and other post-employment benefit program liabilities during credit analysis.

In addition, Ms. Moore stated that GASB Statements 67 and 68 will need to be incorporated in the Guidelines in the future. These are accounting standards that will address how governments report their pension liabilities in their Comprehensive Annual Financial Report (CAFR). The statements will, among other things, normalize actuarial assumptions.

Staff will provide an update at its March 2013 meeting.

There was discussion relative to real numbers used for reporting blended rates. It was determined that the balance sheets will be different, but will not make a difference to rating agencies.

Ms. Moore moved, and Mr. Spencer seconded, acceptance of amendments to the Tax Supported Debt Underwriting Guidelines that include changing a word within the balance total revenues ratio definition from "Undesignated" to "Unassigned", and the addition of language requiring a discussion on pension plans and other post-employment benefit program liabilities as part of a credit analysis.

The motion was approved unanimously.

Moodys's State Aid Intercept Rating

Ms. Moore stated that Mr. James Traudt, Davenport & Company, provided an update of VRA's Aa3 State Aid Intercept rating by Moody's Investors Services. The rating is based on criteria associated with localities. VRA does not function as a locality. Therefore, staff compiled and formulated data that was ultimately acceptable to Moody's. As a result, Moody's rated VRA Aa1. This lower rating will apply to any borrower financing through VRA that meets State Aid criteria.

Quality Management Assessment

MOA/Virginia Commonwealth University

Ms. Suzanne Long, Executive Director, stated that VRA has successfully negotiated a Memorandum of Agreement (MOA) with the Virginia Commonwealth University (VCU) Performance Management Group (PMG) for the Quality Management Assessment project. The project is scheduled to begin in January 2013 and conclude by the end of May with a report to the Board in June 2013.

Ms. Long stated that the idea behind Quality Management Assessment project was suggested by Mr. Burdette based on the Department of Aviation's ISO 9000. Staff used aspects of the ISO and along with PMG developed a program that complements VRA. The program will assist VRA in implementing best practices and quality management within VRA and create a system to preserve and document institutional knowledge. Ms. Long thanked Mr. Michael Cooper, Director of Administration, for his efforts in bringing the program to fruition.

Mr. Burdette moved, and Ms. Moore seconded, approval of a MOA between VRA and VCU PMG for a Quality Management Assessment Project.

The motion was approved unanimously.

Old Business

Discussion transpired relative to 2013 meetings of the Board of Directors. Meetings will continue on a quarterly basis and the next meeting of VRA Committees will be March 11, 2013, and the Board meeting will be held on March 12, 2013.

It was noted that the PRMC will meet prior to March 11, 2013 on a date that will accommodate Committee members.

New Business

Mr. O'Brien commended staff for a successful 2012. He wished everyone a wonderful holiday season and a Happy 2013.

Public Comment

There was no public comment.

Adjournment

There being no further business to come before the Board, the meeting adjourned at 9:54 a.m.

The next meeting of the Board will be held on March 12, 2013.

William G. O'Brien, Chair

Suzanne S. Long, Secretary

VIRGINIA RESOURCES AUTHORITY

PORTFOLIO RISK MANAGEMENT COMMITTEE
MINUTES OF THE REGULAR MEETING

The Portfolio Risk Management Committee of the Virginia Resources Authority met on December 11, 2012, in the Shenandoah Room of the Hotel Roanoke and Conference Center, 110 Shenandoah Avenue, Roanoke, Virginia.

COMMITTEE MEMBERS PRESENT:
Dena Frith Moore, Chair
David Branscome
Thomas L. Hasty, III
John H. Rust, Jr.
William G. O'Brien, Ex Officio

COMMITTEE MEMBERS ABSENT:
Manju Ganeriwala

STAFF:
Suzanne S. Long, Executive Director, Secretary to the Board
Jean Bass, Director of Policy & Intergovernmental Relations
Michael Cooper, Director of Administration
Shawn Crumlish, Director of Debt Management & Credit Analysis
Peter D'Alema, Director of Program Management
Jon McCubbin, Controller
George Panos, Deputy Controller
Joseph Bergeron, Senior Financial Analyst
Emmanual Oyaghiro, Senior Financial Analyst
Rachael Logan, Administrative Manager
Richard Rhodemyre, Intern
Jason Saunders, Intern

OTHERS:
James Traudt, Davenport & Company
Ty Wellford, Davenport & Company

Call to Order

Ms. Dena Frith Moore, Chair of the Portfolio Risk Management Committee (PRMC), called the meeting to order at 3:15 p.m.

Approval of Agenda

There were no additions or deletions to the agenda.

Mr. O'Brien moved, and Mr. Hasty seconded, approval of the agenda.

The motion was approved unanimously.

Goochland County Restructuring Update

Mr. Peter D'Alema, Director of Program Management, stated that VRA sold $56.05 million in stand-alone water and sewer revenue bonds on behalf of Goochland County in November 2012. The transaction included the refunding and restructuring of $39.9 million of Goochland Series 2002 bonds issued through VRA. The Series 2012 bonds included tax-exempt Current Interest Bonds and Capital Appreciation Bonds, and taxable Capital Reserve Fund Bonds. He referenced the summary of the Goochland County credit previously submitted to the Committee.

Mr. D'Alema continued that the transaction closed on November 15, 2012. The True Interest Cost (TIC) of 3.78% and the All-In TIC of 3.92% was a great result for Goochland County. The net present value savings was just under 10%, with an extended loan term. VRA was able to obtain the same Aa2/AA rating as the original loan due to the Commonwealth's Moral Obligation backing of the Capital Reserve Fund.

Mr. D'Alema referenced the Underwriters and commended Davenport & Company for their assistance in the success of the transaction. He shared a chart of the Series 2012 savings and Goochland's restructured debt service versus its unrestructured debt service.

An article from the Goochland Gazette, dated Thursday, November 15, 2012, was distributed to the Committee members. The article referenced the favorable interest rate and savings the County received as a result of the VRA bonds. It mentioned, among other things, that the savings will support economic growth efforts in the County.

2012C VPFP Update

Mr. Peter D'Alema, Director of Program Management, stated that VRA sold $53.77 million in Virginia Pooled Finance Program (VPFP) Bonds. The transaction was issued on behalf of eight (8) local governments and there were nine (9) loans with two (2) loans for one borrower.

Mr. D'Alema referenced credit summaries for the borrowers that were previously submitted to the Committee. The Fall Pool covered six (6) of VRA's 18 authorized project areas and, with the exception of parks and recreation, were VRA's typically financed core project areas.

Mr. D'Alema explained that the transaction closed on December 6, 2012 with a True Interest Cost (TIC) of 2.44%, and an All-In TIC of 2.73%, the second lowest rate after the summer 2012 transaction. VRA was able to maintain its Aaa/AAA and Aa2/AA ratings on the VPFP. The senior infrastructure revenue bonds and the AMT bonds were sold on a negotiated basis. The Moral Obligation non-AMT portion of the VPFP transaction was sold on a competitive basis.

Mr. D'Alema stated that the fall sale included six (6) new borrowers to the VPFP, some of which are investment grade rated. Four (4) borrowers refunded prior non-VRA debt and one (1) borrower refunded prior VRA debt, for an approximate total savings of $4.6 million.

Mr. D'Alema referenced the borrower summary that showed each borrower, final par amount, project area, project description and security. He noted Shenandoah County is included in the transaction to finance renovations of a facility for use by regional special needs students.

The Executive Director explained that the Shenandoah County's Board of Supervisors is a co-defendant in litigation regarding the RSW Regional Jail Authority project. VRA has received a number of Freedom of Information Act requests pertaining to the project, but VRA is not a part of the suit. In this regard, Ms. Long stated that VRA conducted its due diligence with legal counsel and conducted a credit review of Shenandoah. As a result, it was decided that the County was credit worthy and VRA made the decision not to pull the County from the VPFP. Ms. Long further explained that the funds are being held in escrow until the County receives a favorable ruling on their case. If, however, the County is not successful, VRA's legal advisors have determined that VRA can loan the money to another community without jeopardizing the tax-exempt status of the VPFP bonds.

There was extensive discussion relative to the lawsuit and the impact it has on VRA, the County's ability to pay its debt, exposure to lenders and rating agencies if VRA has to seek another borrower for Shenandoah County's loan, and the ability to meet underwriting criteria.

Staff will provide the Committee with interim reports relative to the lawsuit with a full report due in March 2013.

Mr. D'Alema highlighted the VPFP Portfolio Summary, noting that none of the top ten (10) borrowers were included in the fall Series 2012C bonds, and the largest borrower remains at 8% of the overall VPFP portfolio.

Mr. D'Alema concluded by sharing a chart of accomplishments outlining bond issues for Calendar Years 2011 and 2012. He commended staff for their efforts that helped borrowers realize savings and benefits.

There was discussion relative to concentration of any one borrower, as it relates to the top ten (10) borrowers in VRA's portfolio, non-rated debt and high risk borrowers. It was noted that none of VRA's programs impact the State's debt capacity.

Ms. Moore asked that staff report back to the Committee in March 2013 relative to proposed guidelines associated with the overall percentage of the VPFP that is non-rated and whether there should be a requirement of borrowers to be rated at certain debt exposure levels.

Tax-Supported Debt Underwriting Guidelines Update

Mr. Peter D'Alema, Director of Program Management, stated that staff is recommending two (2) proposed changes to the Tax Supported Debt Underwriting Guidelines based on new GASB Statements. GASB Statement 54 changes the way fund balances are reported in the financials of localities. Changes to the guidelines will require approval by the PRMC and the Board.

Mr. D'Alema explained that the first amendment is non-substantive in that it changes a word within the fund balance total revenues ratio definition from "Undesignated" to "Unassigned". The second change is more substantive and includes the addition of language requiring a discussion on pension plans and other post-employment benefit program liabilities as part of the credit analysis process. Currently, pension obligations are discussed in some credit analysis reports.

Mr. Jon McCubbin, Controller, expounded on questions from the Committee relative to the effect of the amendment in calculating the fund balance to total revenues ratio. In addition, he responded to questions relative to pension plans and other-post employment benefits program actuarial accrued liability, funded ratio and unfunded actuarial accrued liability as a percentage of covered payroll.

Ms. Moore suggested that at the March 2013 meeting, PRMC review with staff an actual debt credit analysis to assist the Committee in understanding the fund balance to total revenues ratio.

Mr. McCubbin continued the presentation on GASB Statements 67 and 68, two (2) new accounting standards related to pensions. These statements will not be effective until Fiscal Years 2014 and 2015, respectively, and will address how governments report their pension liabilities in their Comprehensive Annual Financial Report. These statements will improve transparency and consistency in analysis, enhance the comparability of pension fund obligation reporting, and normalize actuarial assumptions.

Ms. Moore stated that once GASB Statements 67 and 68 are implemented, the wording to the Tax Supported Debt Underwriting Guidelines will change again. She asked that staff provide the Committee with an update at its March 2013 meeting.

Mr. Hasty moved, and Mr. Branscome seconded, that PRMC recommend to the Full Board acceptance of amendments to the Tax Supported Debt Underwriting Guidelines that include changing a word within the balance total revenues ratio definition from "Undesignated" to "Unassigned", and the addition of language requiring a discussion on pension plans and other post-employment benefit program liabilities as part of a credit analysis.

The motion was approved.

Loan Monitoring and Compliance Update

Mr. Peter D'Alema, Director of Program Management, stated that an update on Loan Monitoring and Compliance will be provided to the Committee at the next PRMC meeting. Ms. Stephanie Jones will give a full report in March 2013 on the Fiscal Year 2011 summary data base information.

Moodys's State Aid Intercept Rating

Mr. James Traudt, Davenport & Company, provided a summary of VRA's State Aid Intercept rating by Moody's Investors Services. He explained that VRA's State Aid Intercept was previously rated Aa3 by Moody's based upon the statewide local intercept program. He explained that VRA decided to seek its own intercept rating because it does not function as a locality. Therefore, VRA compiled and formulated data that was ultimately acceptable to Moody's. As a result, Moody's assigned VRA an Aa1 rating.

Ms. Long further explained VRA's decision to move forward with obtaining an upgraded rating, commending the State Comptroller and Treasurer.

Mr. Traudt stated that the upgrade strengthens the overall credit quality of the VPFP and will apply to any borrower financing through VRA that meets State Aid criteria. He, too, commended the State Comptroller and Treasurer for their assistance. In response to the Committee, Mr. Traudt elaborated on the methodology Moody's used to rate VRA.

Mr. Ty Wellford, Davenport & Company, interjected State Aid Intercept has never been tested, but Moody's found comfort in knowing there are defined procedures in place in the event of a default.

Old Business

There was no old business.

New Business

There was no new business

Public Comment Period

There was no public comment.

There being no further business to come before Council the meeting was ordered adjourned at 4:43 p.m. **Adjournment**

The next meeting of the Committee will be held on March 11, 2013.

D Moore

Dena Frith Moore, Chair

Suzanne S. Long, Executive Director/Secretary