

MINUTES FROM SPECIAL MEETING OF CASH MANAGEMENT POLICY BOARD
DELAWARE STATE TREASURY
APRIL 8, 10:00 AM

A meeting of the Cash Management Policy Board (the “Board”) was held on Friday, April 8, 2011 at 10:00am in the Conference Room of the Delaware State Treasury, 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Board Members in Attendance:	Board Chairperson John Flynn Honorable Chip Flowers, State Treasurer Honorable Tom Cook, Secretary of Finance Honorable Jeff Bullock, Secretary of State Controller General Russ Larson Ms. Margaret Iorii Mr. Mike Karia Mr. David Marvin Mr. Warren Engle (via phone)
Others in Attendance:	Deputy Treasurer Erika Benner Deputy Attorney General Elio Batista Mr. Zafar Chaudhry, Director of Finance and Treasury Services Mr. Jim DiDonato, Banking Services Manager Mr. Steve McVay, Investment Manager Mr. Richard Rexrode, Executive Assistant Mr. Omar Masood, Fellow, Office of Economic Policy Mr. Brian Boyle, Fellow, Office of Economic Policy Ms. Kelly Callahan, Special Assistant to the State Treasurer Mr. Clark Collins Mr. Randall Chase Ms. Celia Cohen

Mr. John Flynn, as Chair of the Board (the “Chair”), called the meeting to order at approximately 10:05am. The question came up about teleconferencing again. This is not possible until the law is changed. Deputy Treasurer Benner will work on language for possible legislation to allow for teleconferencing. Secretary Bullock raised a question about the thoroughness of the minutes from the March meeting. Approval of those minutes was tabled until the next meeting of the Board.

Mr. McVay reviewed the investment results. A new format as requested by the Board was presented. (Please see the spreadsheet for details.) There was discussion on the results with questions answered.

The Chair skipped Item 4 on the agenda and moved to #5, Banking Services. Mr. McVay reviewed the spreadsheet. (Please see a copy of the spreadsheet for details.) He explained that the Treasury is currently in the process of completing the contract for direct deposit for payrolls and pensions. The contract is being renewed with Wachovia for three years. The credit card processing RFP has been done. Three

proposals are being reviewed: Bank of America Merchant Services (BAMS), the current provider; Electronic Payment Exchange (EPX), a Delaware company; and M&T Bank Bank (M&T).

The Treasury is requesting an RFP for investment manager agreements. The city of Dover recently did a similar RFP and received over 40 responses. Mr. McVay commented that it is worth seeing what is in the market as we could be overpaying. The Board was asked for permission to engage in this RFP. Mr. Flynn made the motion to approve the RFP process and there was discussion. A question was raised about the last time for such an RFP and Mr. Chaudhry explained it had been five years. The Treasurer commented that there has been lots of interest coming from various investment managers. Members of the Board were invited to the meetings. There was little interest in attending or adding new managers from some members. The Treasurer commented that the Treasury has a duty to taxpayers to listen to anyone that wants to be heard and will take the front end of this open and transparent process. He would like to leave it to Mr. Chaudhry and his team to say what number they feel is needed. Mr. Flynn commented that it is the Board's responsibility to act in a fiduciary manner, not development or to take care of the community. Mr. Marvin gave a history of securities lending and the action the Board taken in this area years ago citing his hesitation to try certain new opportunities. The Treasurer noted the following: He would never recommend anyone that does not meet the qualifications. He believes that there are more women and minority owned firms that meet the quality standards and he would promote Delaware businesses. If businesses are deemed qualified through the process, he will not stand for any cherry-picking of select firms. There was a question about timeline of the RFP and all details on this process were explained including the fact that best value is a factor and not just best cost. After the discussion, Treasurer Flowers made a new motion to improve the investment services RFP which was seconded and the Chair seconded the motion. With none opposed, the motion carried. (Mr. Engle, joining the meeting by teleconference and therefore not present in person is not able to vote in this meeting.)

There was a motion to approve the Secretary of State's lockbox by Secretary Cook. Controller General Larson seconded the motion and with none opposed and one abstention (Ms. Iorii), the motion carried.

There was a motion by Mr. Karia to approve the Worker's Compensation Lockbox extension by the Department of Labor. Treasurer Flowers seconded the motion and with none opposed, the motion carried.

The Chair returned the discussion to Item #4 on the agenda, the proposed Small Business Economic Recovery Program (the "Program"). There was extension discussion at the previous meeting and the Chair asked at that time for the Administration, Attorney General's Office, and Treasury to discuss what was legal and in the best interest of the state. Treasurer Flowers summarized the status of the Program and the results of the working group meeting. The Treasury met with 16 banks about the Program and received feedback. There were some modifications made. There were some conclusions out of the working group which included the parties agreeing the statute needs to be adjusted (pushed off to another time) and a number of issues that were addressed by the Treasury. The Treasurer introduced Mr. Clark Collins of Morris James to help legally discuss the fee, a concern of some about the Program. Mr. Collins was present as Treasurer Flowers' personal attorney.

Mr. Collins explained a couple of issues they saw and opinions on each. The first question was whether the Treasury can charge a fee without specific statutory authority and the second was whether that fee is somehow considered interest putting demand deposit accounts under interest and therefore not protected. Mr. Collins went on to explain how it is the opinion of the Treasurer and him that the Treasury is within all legal guidelines on these matters.

Mr. Michael MacFarland, Senior Vice President of TD Bank responsible for their Delaware region, was introduced and commented on the Program. He explained TD's desire to support Delaware and a commitment to the state. The Program will help address a need in Delaware and heighten awareness of this issue in lending. Mr. MacFarland addressed all questions and concluded with the desire to be a part of a Delaware Program that helps Delaware businesses.

There were questions for Treasurer Flowers about the FDIC provision and he explained it in detail including the idea that the money would be returned to the state within 48 hours on average in the unforeseen instance that a bank suddenly fails. All money would be completely FDIC insured under the Program. Other questions were raised about the timeline of the Program and the ability for small banks to plan to have money withdrawn. The Treasurer noted the intention of the Treasury to notify banks by May 2012 if the provision is not extended.

The Chair questioned the legality of the fee and asked for an opinion from Deputy Attorney General Battista. He disagreed with the Treasurer and Mr. Collins' assessments. His opinion was that the Treasurer may not institute this Program without the Board. He also felt it was not clear whether a State Treasurer or anyone outside the General Assembly can charge a fee of any type. Mr. Battista commented that his records indicated the FDIC provision expired in July 21, but the Treasurer explained how that was not accurate for the provision used under the Program. Mr. Battista explained what he thought were two thresholds to the Board. The first : "Do you or do you not support or authorize the program as a Board?" If not, then he recommended they vote on that. If approved, he believed there were legal hurdles to overcome.

There was then a question from a member of the Board about whether they could vote on a program of economic development or whether not allowed under Code. Mr. Battista said they should address whether or not they like the Program and then address the legal issues. The Treasurer questioned where such a vote was needed under Code and how such an opinion has been presented after no similar issue was mentioned at the working group with a member of the Attorney General's Office. He also questioned the reason for a change of representation from the Attorney General's Office in the middle of this process. Mr. Battista advised the Board that according to Code, if they are going to open an account they would have to do certain things because that would be defined as Banking Services. The Treasurer explained his opinion on how this is not defined that way in Code and checking accounts are opened by state agencies everyday without the approval of this Board.

The Board expressed a number of concerns relating to whether or not they have the authority to do this Program or should be involved in economic policy. The Treasurer expressed his disappointment after exhausting resources and making adjustments to answer all issues previously raised. He stated that it was his opinion this is simply about supporting Delaware money in Delaware banks. The Chair went around

the room and allowed all members a chance to express their opinions. Seeing that no compromise seemed possible, the Treasurer withdrew the Program from consideration.

The Board then discussed the next potential meeting date when the investment managers will present results and agreed to aim for a date in June.

There was a motion to adjourn and with no objection, the meeting concluded at 11:57am.