



**MINUTES FROM MEETING OF
THE CASH MANAGEMENT POLICY BOARD
August 26, 2020**

A meeting of the Cash Management Policy Board (the “Board”) was held on August 26, 2020 at 10:00 a.m. Pursuant to paragraph 5 of Governor Carney’s Emergency Order, dated March 12, 2020, the meeting was held telephonically, without a physical location.

Subcommittee Members Represented or in Attendance:

Mr. John Flynn, Chair
Mr. Warren Engle, Banking Subcommittee Chair
Mr. Mike Karia, Investment Subcommittee Co-Chair
Mr. David Marvin, Investment Subcommittee Co-Chair
The Honorable Colleen Davis, State Treasurer
Mr. Richard Geisenberger, Secretary, Department of Finance
Mr. Michael Morton, Controller General

Subcommittee Members Not Represented or in Attendance:

Ms. Tarrie Miller, Banking Subcommittee Co-Chair
Mr. Jeffrey Bullock, Secretary, Department of State

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Mr. Daniel Madrid, Chief Operating Officer, Office of the State Treasurer (“OST”)
Ms. Fiah Kwesseu, Director of Operations & Fund Management, OST
Ms. Lisa Embert, Director of Reconciliations and Transaction Management, OST
Mr. Brennon Fountain, Controller II, OST
Ms. Dawn Davis, Assistant Cash and Debt Manager, OST
Mr. Stephen McVay, Assistant Cash and Debt Manager, OST
Mr. Todd Feeley, Banking Services Implementation Manager, OST
Mr. Sean McNeeley, Director of Bond Finance, Department of Finance
Mr. John Krimmel, Partner, NEPC
Ms. Jennifer Appel, Senior Research Analyst, NEPC

CALLED TO ORDER

Mr. Flynn called the meeting to order at 10:03 a.m.

INTRODUCTIONS

Mr. Madrid presented OST staff changes and additions. Ms. Lisa Embert, a twenty-one-year OST team member, was promoted to Director of Reconciliations and Transaction Management. Mr. Jordan Seemans joined OST as the new Director of Policy and Communications Management. Mr. Brennon Fountain replaced Ms. Embert as Controller II.

APPROVAL OF THE MINUTES

A MOTION was made by Mr. Morton and seconded by Mr. Karia to approve minutes from the Board meeting on May 27, 2020.

MOTION ADOPTED UNANIMOUSLY

NEPC PERFORMANCE REPORT

2020 2nd Quarter Investment Performance Report

Ms. Appel reported an exceptionally strong quarter due to the unprecedented level of stimulus and the restart of economic activity around the world. Double-digit negative returns in the first quarter rebounded and posted double-digit positive returns in the second quarter. The equity and bond markets are pricing differently, although there was positive performance for both risky and safe-haven assets. The U.S. yield curve was generally unchanged between the end of March and the end of June, which may suggest there are still some concerns with the economy, despite all the stimulus. The federal government pledged to support the economy through purchasing ETFs and individual corporate bonds along with expanding the balance sheet by over three trillion dollars. Ms. Appel noted the low-rate environment and supportive stimulus will continue at least through the end of the year and likely beyond. The potential for a second wave of infections causes concern because new lockdowns would impact growth in the labor market.

Mr. Krimmel presented an overview of the State's portfolio performance for Q2 2020. Mr. Krimmel noted that the CARES Act fund was not listed on the report because a one quarter return was not yet available. The total portfolio returned 1.63% for the quarter and 4.44% fiscal year-to-date ("YTD"). The combined liquidity and reserve portfolios returned 1.62% for the quarter and 4.99% fiscal YTD. The liquidity portfolio returned 0.83% for the quarter and 1.30% fiscal YTD. The reserve portfolio returned 1.86% for the quarter and 6.02% fiscal YTD. Mr. Krimmel reported all portfolios performed better than the indices or as expected. The endowment portfolio was up 14.53% for the quarter and down 3.43% fiscal YTD.

There was discussion around the Lazard losses and current cashflows. Lazard's sale of downgraded securities resulted in a loss of 80 basis points. The current cashflow held to historical norms during the second quarter. Secretary Geisenberger added that the impact of economic cycles on revenues is on a six to eighteen-month lag.

Delaware Budget Reserve Account Analysis

Ms. Appel presented the Delaware Budget Reserve Account (Rainy Day Fund) analysis. NEPC conducted an analysis to determine the adequacy of the cushion above the statutorily required amount and provided a written report of its findings. NEPC determined that the current \$5 million reserve can withstand a 1.00% rise in interest rates or a 2-standard deviation event and is appropriate.

Delaware Budget Stabilization Account Reserve Analysis

Mr. Krimmel presented the Delaware Budget Stabilization Account reserve analysis. Mr. Krimmel noted that analysis was based on the Budget Stabilization Account before it was moved from Tier 2 reserve to the liquidity account, so NEPC's analysis and recommendation is slightly changed from NEPC's written submission. The recommended cushion is reduced from \$1.5 million to \$1 million due to lower return expectations and volatility. Mr. Krimmel will update the memo for distribution with the meeting minutes.

INVESTMENT SUBCOMMITTEE REPORT

Investment Guideline Update and Vote

Treasurer Davis presented the recommended Investment Guideline changes. The following five changes to the Guidelines were presented: (1) define the term "Merchant Banks"; (2) extend reserve account maturity restrictions by one month; (3) clarify that the lowest NRSRO rating controls; (4) clarify the deadline (close of business day following a downgrade) to remove securities in violation of the Investment Guidelines; and (5) limit the mutual fund exception to the Investment Guidelines.

A MOTION was made by Mr. Flynn and seconded by Mr. Karia to adopt the five Investment Guideline changes.

MOTION ADOPTED UNANIMOUSLY

Endowment Manager Update

Mr. Madrid reported that the endowment manager contracts for SEI and Vanguard have been finalized and executed by OST.

CARES Act Funds Update

Treasurer Davis reported that Unemployment Insurance Trust fund is almost exhausted. The current deadline to spend the Cares Act funds is December 30, 2020. There was discussion around the balance in the CARES Act funds and plans to use the funds. The State of Delaware received \$925 million and approximately \$100 million has been spent. Secretary Geisenberger added that most of the remaining \$825 million has been earmarked to reimburse unemployment-related expenses and assist small businesses.

Investment Advisor RFP Finalist Discussion and Vote

[Mr. John Krimmel and Ms. Jennifer Appel (NEPC) left the call for the discussion of the investment advisor RFP.]

Treasurer Davis reported that NEPC was the finalist for the investment advisor RFP. OST is seeking the Board's approval to negotiate and execute a contract for investment advisor services. There was discussion around the term of the contract and the cost.

A MOTION was made by Mr. Marvin and seconded by Mr. Engle to grant OST authority to negotiate and execute the investment advisor contract with NEPC.

MOTION ADOPTED UNANIMOUSLY

BANKING SUBCOMMITTEE REPORT

Mr. Madrid presented the banking subcommittee updates to the Board.

Stored Value Card

Two of the three state agencies transitioned to the Stored Value Card program in January 2020. The only remaining agency - the Department of Services for Children, Youth and their Families - is scheduled to join the program by the end of the first quarter of 2021.

General Banking Update

OST estimates the general banking project completion to be fifty percent with an anticipated date of full transition to JPMC within the first half of 2021. Scheduling testing and maintenance with the State's accounting system necessitates an extended transition. Given the remaining timeline for conversion to JPMC, both PNC and BNYM contracts will need to be extended.

The final one-year optional extension for the PNC contract expired December 31, 2019, and the current extension, reviewed by the Delaware Department of Justice, expires December 31, 2020. The BNYM contract is in the last one-year optional extension and expires on that same date.

OST is requesting approval from the Board to extend both contracts through December 31, 2021. This would be subject to the issuance of an opinion that the extension does not require a formal RFP process. The JP Morgan Chase transition is projected to be completed within the first half of 2021, however the Banking Subcommittee agreed that a one-year extension would allow OST to lock in pricing and ensure adequate time to transition the remaining State agencies in these less than uncertain times of COVID-19.

A MOTION was made by Mr. Marvin and seconded by Mr. Karia to grant OST authority to extend the banking contracts with PNC and BNYM for one year (through December 31, 2021) with the option to terminate at OST's discretion, subject to the issuance of an opinion issued by the Delaware Department of Justice.

MOTION ADOPTED UNANIMOUSLY

Local Banking Services Update

OST reported to the Banking Subcommittee that negotiations with M&T Bank were nearly complete. One additional document was submitted to OST for negotiation and review last week. OST does not anticipate the last document being a barrier to finalizing the contract by the end of August.

OST began contract negotiations with the remaining local banks, Citizens, WSFS and TD Bank, on July 7th. The contract with M&T Bank will be used as a template for the remaining banks.

Merchant Services

PCI Compliance

OST continues to focus on securing the Department of State, Delaware Technical and Community College ("DTCC"), the Department of Finance, Courts, and the Division of Parks & Recreation by calendar year end. These five agencies comprise 99% of the State's merchant transactions. Though progress continues to be made with the Department of State, Finance, and DTCC, PCI compliance remains a multi-year endeavor.

Merchant Processing and Gateway Solutions Consultant RFP

The Board previously gave OST authority to issue an RFP for a second merchant services consultant to guide OST and the Board on the modernization of payment infrastructure in the State. The RFP was

issued on April 22, 2020, and Deloitte Consulting was the sole respondent. Deloitte's initial proposal was deemed cost prohibitive. Deloitte submitted a revised proposal that included two training sessions on emerging payment technology and two on-site consulting sessions to assist OST with evaluating the forthcoming merchant services RFP. Under the revised proposal Deloitte or a qualified sub-contractor would provide consulting and training services over 12-18 months, with fees not to exceed \$125,000.

A MOTION was made by Mr. Marvin and seconded by Treasurer Davis to grant OST authority to contract with Deloitte Consulting for merchant processing and gateway solutions consulting services based on the revised proposal.

MOTION ADOPTED WITH ONE ABSTAINING

Merchant Processor and Gateway Contract

OST's contractual relationship with Bank of America Merchant Services ("BAMS") was assigned to Fiserv, the parent company of First Data, effective July 1st. FiServ has been responsive to OST's needs and will perform all existing contractual obligations previously held by BAMS. The initial three-year contract term with Fiserv is set to expire on December 31, 2020. The contract requires at least 120 calendar days to exercise the first of two one-year options.

A MOTION was made by Mr. Marvin and seconded by Treasurer Davis to grant OST authority to exercise the first one-year contract extension with FiServ through December 31, 2021.

MOTION ADOPTED UNANIMOUSLY

OST has a little more than two years remaining on the merchant services contract with Fiserv if both extensions are utilized. Given the complexity of the merchant services environment, and evolving marketplace for payment technology, OST is preparing to launch a comprehensive RFP in partnership with DTI for user interface design, merchant processing, gateway services and account analysis technology, also being termed digital government – slated for launch in October 2020. This timeline will allow OST to secure new providers, negotiate contracts, and implement multiple product transitions (if needed) before the FiServ contract expires.

A MOTION was made by Mr. Engle and seconded by Mr. Karia to grant OST authority to proceed with the RFP process for comprehensive merchant processing, gateway services and account analysis technology for the State.

MOTION ADOPTED UNANIMOUSLY

EXECUTIVE SESSION

No executive session was held.

PUBLIC COMMENTS

No members of the public present for comment.

NEXT MEETING

The next full Board meeting is scheduled for December 2, 2020.

ADJOURNMENT

The meeting was adjourned at 11:13 a.m.

Respectfully submitted,

John Flynn
Board Chair