



**MINUTES FROM THE MEETING OF
THE CASH MANAGEMENT POLICY BOARD
AUGUST 22, 2018**

A meeting of the Cash Management Policy Board (the “Board”) was held on August 22, 2018 at 10:00 a.m. in the large conference room of the Office of the State Treasurer, 820 Silver Lake Blvd, Suite 100, Dover, DE 19904.

Board Members Represented or in Attendance:

Mr. John Flynn, Board Chair (Telephonically)
Mr. Dave Marvin, Co-Chair, Investment Subcommittee (Telephonically)
Mr. Mike Karia, Co-Chair, Investment Subcommittee (Telephonically)
Mr. Warren Engle, Co-Chair, Banking Subcommittee (Telephonically)
The Honorable Kenneth Simpler, State Treasurer (Telephonically)
Mr. Michael Morton, Controller General (Telephonically)
Mr. Richard Geisenberger, Secretary, Department of Finance (Telephonically)

Board Members Not Represented or in Attendance:

Ms. Lynda Messick, Co-Chair, Banking Subcommittee
Mr. Jeffery Bullock, Secretary of State

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General (Telephonically)
Ms. Nora Gonzalez, Deputy State Treasurer, Office of the State Treasurer (“OST”) (Telephonically)
Mr. Joshua Berkow, Director of Debt and Cash Management, OST (Telephonically)
Mr. Todd Feeley, Merchant Services Program Manager, OST (Telephonically)
Mr. Stephen McVay, Cash Manager, OST
Ms. Liza Druck, Policy Advisor, OST (Telephonically)
Mr. John Krimmel, Partner, NEPC (Telephonically)
Ms. Jennifer Appel, Research Analyst, NEPC (Telephonically)
Mr. Bill Zuk, JPMorgan Chase, Member of the Public

CALLED TO ORDER

The meeting was called to order at 10:03 a.m.

APPROVAL OF MINUTES

A MOTION was made by Mr. Karia and seconded by Mr. Geisenberger to approve the minutes of the May 23, 2018 Board meeting.

MOTION ADOPTED UNANIMOUSLY

NEPC PERFORMANCE REPORT

Mr. Krimmel presented NEPC's quarterly investment performance report to the Board. The firm is monitoring the narrowing credit spread between the two- and ten-year treasuries, as it may be indicating the advent of the next recession. NEPC anticipates one or two 25-basis-point rate hikes over the remaining calendar year. The State's liquidity portfolios returned 0.85% for the preceding quarter, outperforming the median cash manager. The State's reserve portfolios returned 0.27% for the preceding quarter, outperforming their custom reserve benchmark. All of the State's portfolio managers held a slightly shorter duration than the benchmark in this quarter, which bolstered performance. The State's endowment portfolios returned -0.58% for the quarter, which was 1.5% behind their benchmark. NEPC attributes this negative performance to the endowment managers' underweighting in U.S. markets. The endowment managers plan to continue this underweighting strategy in the long term, which is consistent with NEPC's view that U.S. markets are richly valued in the near term. Additionally, Mr. Krimmel reviewed changes in the quarterly report to how reserve and liquidity manager performance and outlooks will be tracked.

INVESTMENT SUBCOMMITTEE REPORT

Investment Manager Conversion Update

Mr. Krimmel confirmed with the Board that the investment manager conversion is complete. All portfolios are at their respective targets as of June 30.

Mr. Krimmel provided the Board with an update of the Delaware Budget Reserve Account (Rainy Day Fund or "RDF") analysis. The analysis examined the sufficiency of the existing \$5 million cushion in light of the FY19 RDF balance of \$240 million, an increase of \$8.8 million from FY18. Based on the results of the analysis, JP Morgan and NEPC confirmed that the RDF's \$5 million cushion is sufficient to protect the FY19 RDF from market shocks. Mr. Staib confirmed that no motion is needed to keep the \$5 million cushion.

BANKING SUBCOMMITTEE REPORT

Merchant Services Implementation Update

Mr. Feeley presented an update on the merchant services implementation. All agency merchants have been converted to the new provider, though the team continues to work through various equipment deployment and gateway provider issues. Mr. Feeley discussed the work that OST and Bank of America Merchant Services ("BAMS") have done to reclassify the state's Payment Card Industry ("PCI") compliance classification with Visa. The State had previously been classified by Visa as a Level 2 processor, processing one to six million transactions annually. Visa had been fining the State \$5,000 per month for not complying with Level 2 PCI requirements. Visa, has now recognized the State's 18 agencies as 18 isolated Level 4 providers, all processing one million transactions or less, rather than as one large Level 2 provider.

Banking Structure Review Project Update

Mr. Berkow provided an update on the Request for Proposals (“RFP”) process for the Banking Structure Review project. The RFP was published on June 13, 2018. A pre-proposal conference was held on July 10, 2018. The State received proposals from 12 banks in total, consisting of nine submissions for general banking, ten for purchasing card, nine for lockbox, nine for check printing, and three for stored value cards. OST reached out to agencies to assemble a review committee, including stakeholders and subject matter experts. The committee will be reviewing each component separately, and vendors are not penalized for not responding to all components of the RFP. OST intends to notify finalists in early September and begin finalist presentations shortly thereafter. Based on the current project schedule, the goal is to present contracts for approval at the November 2018 Board meeting. The Subcommittee requested to attend the finalist presentations in September. Once contracts are awarded, OST will spend the first part of 2019 building a comprehensive implementation plan. OST anticipates the implementation will likely take two to three years. Mr. Berkow confirmed that engagement from State agencies has been strong.

OTHER MATTERS OF THE BOARD

Vote on recommendation regarding OST authority to negotiate extensions (through transition) of existing banking services contracts and the banking consultant contract.

The Board discussed the State’s contractual needs associated with the transition of banking services. Due to the length of the transition, OST will need to extend certain existing banking services contracts (via exercise of remaining option terms or consensual amendments) to ensure continuity of service. The State’s consulting contract with PFM will also need to be extended for an additional six months. Ms. Gonzalez reported that OST does not anticipate that any of these extensions will result in price adjustments.

A MOTION was made by Mr. Geisenberger and seconded by Treasurer Simpler to grant OST the authority to (1) exercise options to extend the existing general banking contracts with BNY Mellon and PNC and (2) negotiate extensions of the lockbox contracts with JPMorgan Chase and PNC sufficient to cover the transition periods.

MOTION ADOPTED UNANIMOUSLY

A MOTION was made by Treasurer Simpler and seconded by Mr. Geisenberger to grant OST the authority to exercise a six-month extension of the banking consultant contract (PFM).

MOTION ADOPTED UNANIMOUSLY

Upcoming Board topics

Treasurer Simpler indicated that he and Secretary Geisenberger have been discussing a potential role for the Board in advising on and shaping the State’s debt policy. Treasurer Simpler and Secretary Geisenberger will provide the Board with an update outlining potential next steps at the November 2018 meeting.

PUBLIC COMMENTS

No public comments.

NEXT MEETING

The next meeting is scheduled for November 28, 2018.

ADJOURNMENT

A MOTION was made by Mr. Flynn and seconded Treasurer Simpler to adjourn the meeting of the Board at 10:58 a.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

John Flynn
Chair, Cash Management Policy Board