STATE INVESTMENT COMMISSION
MARCH 22, 2012
1 P.M. ~ ROOM 386 ~ CAPITOL ANNEX
FRANKFORT, KENTUCKY

The State Investment Commission ("the Commission") meeting was called to order on Thursday March 22, 2012, at 1:00 p.m. in Room 386 of the Capitol Annex by Todd Hollenbach, Kentucky State Treasurer. Other members present were Donald Sweasy as proxy for Lori Flanery, Secretary of the Finance and Administration Cabinet; Ryan Keith, proxy for Governor Beshear; Jon Lawson, President, Bank of Ohio County, Beaver Dam, Kentucky and George Spragens, President, Farmers National Bank in Lebanon, Kentucky.

OFM Staff Present: Tom Howard, Executive Director, and Secretary to the Commission, Steve Jones, Deputy Executive Director, Dwight Price, Brett Antle, Deputy Executive Director, Kim Bechtel, Rachael Dever and Marcia Adams.

Other Guests: Joshua Nacey from Legislative Research Commission (LRC); Kim Moore from the Controller's Office, and Barbara Fava, Senior Managing Director, PFM Asset Management, LLC.

Treasurer Hollenbach verified that a quorum was present and that the press had been notified of the meeting.

Treasurer Hollenbach called for a motion to approve the minutes from December 8, 2011. A motion was made by Mr. George Spragens and seconded by Mr. Jon Lawson to approve the minutes as written. Motion **CARRIED**.

PFM Consultant Presentation - Mr. Tom Howard introduced Ms. Barbara Fava, Managing Director of PFM Asset Management LLC and expressed his appreciation for her hard work.

Ms. Fava began by explaining that she did not plan to go through the entire report or all of the recommendations as some are quite technical in nature. She expressed gratitude for the support provided by staff which was instrumental in preparing the report. Staff was involved in numerous conversations providing information and materials to PFM.

The scope of the review, as laid out in the RFP, was rather broad. PFM reviewed statutory and regulatory guidance as well as the portfolios themselves. This reflected how Kentucky compares to other states. Beyond that, PFM examined cash flows and certain distressed securities to make specific recommendations.

Ms Fava cautioned that "best practices" of other states are subjective. There is no book that lays precise requirements. PFM relied on information from the SEC (Securities and Exchange Commission), FINRA (Financial Industry Regulatory Authority), accounting authorities (Government Accounting Standards Board), various professional associations, and the stated objectives of the funds.

Treasurer Hollenbach asked which state would be a beacon or model for best practices. Ms. Fava replied that of the states she was familiar with, Virginia, Washington (state), and Georgia all do a good job but cautioned that this changes as staffs turn over with new Treasurers.

Referring to page 8 of the report, Ms. Fava reported that this Commission is consistent with the majority of other states. About 60% have a similar organization with some combination of elected

and/or appointed officials. The permitted investments are also consistent with other states. Page 9 provides a list of investment types. The first column shows the investment permitted in Kentucky while the second column shows the percentage of other states which permit these investments. A number of states are more restrictive, not allowing any type of corporate obligations. Kentucky is on the slightly aggressive side of average with aggressive not a bad term. This allows the opportunity to enhance returns.

The structure Kentucky uses is different from other states. Kentucky uses statutes which are consistent with other states. Kentucky then applies regulations and prospectii for the individual pools which is different than most states. This is a positive since the statutes provide broad guidelines while the regulations fill in more details. The regulations and prospectii can be changed on a shorter time frame. The prospectii for the pools are more of an information statement for the investors. Some recommendations are included to provide more detail in those documents.

Page 10 again lists the permitted investments. The statutes allow 100% in any category except mutual funds, while the regulations place limits. This is a good approach because the Commission does not want these limitations "hard coded" into statute while the regulations can be changed. In terms of credit quality, the statute sets out modest guidelines while the regulation tightens these further. In terms of maturity, there are no restrictions set in statute. All of these are restricted in regulation.

Many of the changes suggested for statutes, as shown in Tab II, are technical corrections. For example, Sallie Mae is no longer a federal agency. Specific recommendations are laid out in Tab B. The only significant change to the statute concerns mutual funds. The statute limits mutual funds to 10% of the overall portfolio. In PFM's opinion, this is overly restrictive as mutual funds are tightly regulated by the Securities and Exchange Commission and already have very tight guidelines. PFM recommends allowing 100% in the statute and restricting further by the Commission if desired.

The majority of the suggestions are to the regulations. In summary, the recommendations, on page 27, are to slightly higher minimum credit quality. For instance, regulations allow A rated Real Estate Mortgage Investment Conduits. PFM is recommending AAA rating. Another recommendation is for bankers' acceptances. The current regulation allows a rating of A. That is a long term rating. A-1 is the appropriate short term rating. PFM is also suggesting allowing a greater amount of the portfolio in corporate obligations while tightening the credit standards.

There are certain types of securities issued as private placement obligations. These are not registered so that they can be issued cheaper from the issuer's perspective. The Securities and Exchange Commission only allows these to be purchased by sophisticated investors defined as Qualified Institutional Buyers (QIB). In PFM's opinion, the state of Kentucky is not a QIB. Certain other states have come to the same conclusion. PFM recommends that staff request a legal opinion on this issue. If the legal opinion agrees with PFM's opinion, they would recommend prohibiting these securities. These are also called 144a, referring to section 144a.

PFM also recommends that for the Limited Term Pool, that the Commission adopt SEC rule 2a-7. Money market mutual funds are very short funds which maintain a share price of $1.00. The Securities and Exchange Commission imposes very strict rules on how fund managers run these funds in order to maintain the share price at $1.00. These are 2a-7 fund rules. GASB 31 allows that investments in a Local Government Investment Pool, such as the Limited Term Pool, that follow

2a-7 rules may report market value at an assumed $1.00. This is much easier reporting for the investors in the pool. The current prospectus states that the fund will be operated in a similar manner. GASB 59 requires 2a-7 like to be exactly 2a-7. Additionally, following the problems in 2008, the SEC changed the rules to make them tighter and more restrictive.

Current regulations require staff to purchase securities directly from broker-dealers. Many larger issuers of commercial paper do not use broker-dealers but instead issue directly. PFM is suggesting that the regulations be changed to allow purchases of commercial paper or anything else directly from issuers allowing broader access and potentially higher returns. PFM also recommends that the Commission adopt a formal securities lending policy. Kentucky, along with most other states, had a problem with the cash reinvestment portion of the program. While lending agents promote indemnification on the lenders, the problems in 2008 occurred on the cash reinvestment portion. The policy should deal with both sides of the transaction.

The prospectii are technically the offering documents to investors in the pools. There is good guidance on what these documents should include. Specifically with the Limited Term Pool, the SEC mandates what should be in the document for a 2a-7 fund. There are "best practices" for what should be included in these documents listed in the report. PFM also recommends that these not be called a prospectus because that is a defined term by the SEC. They should instead be labeled "information statements".

PFM's overall opinion is that the statutes and regulations are in fairly good shape. Ms. Fava explained that similar reports for other states have had pages and pages of much more significant changes. Kentucky only needs to tweak these to generate flexibility in some areas and to tighten some of the restrictions such as credit quality to assure that the overall objectives are being met. Treasurer Hollenbach asked if other jurisdictions had designated compliance officers or do they rely on organizations such as PFM to maintain compliance. Ms. Fava replied that once the policies and procedures are in place, internal audit does the ongoing review. Many states have an outside consultant to offer guidance on changes or a periodic review. Sometimes this is a retainer relationship while others are periodic as Commission has done here. Mr. Howard added that Finance Internal Audit has done a review but it has been a number of years since the last one. It was felt that this process should occur first since PFM has superior technical ability on current market practices. Mr. Jones added that the APA does audit the activities including a review of the compliance function built into Bloomberg.

Ms. Fava moved the discussion to the Investment approach detailed in Tab III. PFM did a high level cash flow forecast for the Limited Term Pool and the Intermediate Term Pool, ignoring the Short Term Pool. The Commonwealth's funds have been segregated into these two pots; a short term and a longer term pot. The analysis looked into the appropriateness of this segregation and whether the funds were too liquid or not liquid enough. The conclusion is that the segregation is right. Although there was no analysis on a fund level basis, through experience the split is right. No major changes are suggested.

Referring to page 34, Ms. Fava explained that the Short Term Pool is where the distressed securities have been housed. About two thirds of the pool is mortgage backed and asset backed securities while the remaining third are municipal obligations. The credit quality is displayed on a pie chart. About one third is AAA rated while others are all the way down to D rated. The final maturity is rather long however the duration is much shorter meaning that the cash will be received sooner.

Mr. Spragens asked if this was due to expected calls. Ms. Fava explained that this is due to principal payments on the underlying mortgages. Mr. Jones explained that the legal final for CMO's is the final maturity date of the longest loan in the pool, but that most of these are composed of the upfront cash flows from the underlying pool of loans. Ms. Fava noted that there are issues with some of these securities, but she would return to that topic later in the presentation.

Details of the Limited Term Pool are on page 35. This is a rather short, liquid pool with an average duration of about 45 days. This is the pool which PFM is recommending by operated in accordance with Rule 2a-7. Most of the securities are relatively short but several mortgage-backed securities have much longer maturities. In order to meet 2a-7, the weighted average maturity may not exceed 60 days, while the weighted average life could not exceed 120 days. The portfolio is currently a little longer than these requirements. A couple changes would need to be made, but overall the portfolio is high quality and well diversified.

Details for the Intermediate Term Pool are on page 36. This portfolio is longer with maturities ranging from overnight to 30 years. The effective duration is about 1.2 years. The overall credit quality is AA, but only because Treasuries are now AA+. There is one CCC rated obligation but it represents .1% of the portfolio. This portfolio does hold a number of private placements, 144a securities. One recommendation is detailed on page 37. Staff currently relies heavily on rating agencies for credit analysis, which is in-line with most states and corporations. Since 2007, the SEC has told registered funds that they need to do their own credit analysis. PFM recommends that the internal credit capabilities be strengthened without commenting on how this can be accomplished with current staff. The staff should develop an approved credit list for presentation to the Commission. This is required under 2a-7 rules.

Mr. Howard asked Ms. Fava to comment on the SEC's current proposal to move money market funds to a floating asset value. Ms. Fava responded that due to the meltdown in 2008 and Dodd Frank, the SEC has proposed that rather than allowing money market funds to maintain constant dollar valuation, the value should fluctuate. If interest rates rose, and market prices fell, an investor may only be able to withdraw funds at 99.99 cents a share rather than a flat $1. If that happens, there is no benefit to the Commission adopting rule 2a-7. Treasurer Hollenbach asked about timing. Ms. Fava responded that it is currently open for comments. Mr. Howard commented that the Governor has responded in opposition to the proposal. Both Mr. Howard and Ms. Fava explained that the SEC rarely sets timetable for proposals and rarely move quickly. Ms. Fava noted that assorted professional and governmental organizations have commented in opposition to the proposal. Mr. Spragens asked what the advantage would be to adopting 2a-7 before the SEC ruling. Ms. Fava responded that adopting 2a-7 greatly simplifies financial reporting on the CAFR for all agencies on June 30 of this year.

Ms. Fava next commented on staffing. She reported that about half the time, when dealing with other states, the staff is quite capable while the other half the time, the staff does not have the expertise and are not capable of managing a major portfolio. She reported that the current staff absolutely has the expertise, but does not have enough staff given the size of the portfolio and complexity of some of the securities. PFM recommends that staff be increased through addition people, outside consultants or reallocation of current resources.

Tab IV discusses certain portfolio challenges related to distressed securities. PFM examined the portfolio as of October 20, 2011. PFM categorized securities as distressed if they were illiquid, had a

market value below 95% of book value, or had been downgraded below investment grade. In total, 23 securities with a book value of $113 million were identified as distressed. Some of these securities were issued as 144a's. There are additional private placements that are not distressed. Because PFM does not believe the state is a QIB, these securities have also been highlighted. There are 13 such securities totaling $94 million but there is some overlap between these two numbers. Page 44 show which pools these are in. The majority of these securities are in the Short Term Pool. At the bottom of the page, the securities are broken down in broad categories with the recommendation to sell some and retain others.

Ms. Fava cautioned that this analysis is very subjective. This analysis was done in November but the market has improved since then. The economy is stronger and the housing market has stabilized. The Fed had been buying mortgage-backed securities to support the housing market. Since that program has ended, prices should be trending higher which works in the state's favor. Some of these securities are very thinly traded meaning there is not an active market. It is difficult to get accurate pricing on some of these. To determine the price, the market will examine all possible future scenarios making assumptions about future performance of the underlying loans including how many defaults, how many prepayments, and how many will exist for the full 30 years. Brokers assume the worst case in setting prices which results in a low price. PFM determined theoretical prices using most likely assumptions and then compared those to broker prices. If the two are within 5%, PFM recommends selling.

On page 45, details for the individual securities are presented including prices from a number of sources. Ms. Fava noted how varied the prices are. For example, the 9th security, Residential Asset Securitization the book value is about $4.3 million. State Street prices the bond at 60. Bloomberg prices it at 47. IDC prices it at 49 while the broker would pay in the mid 30's. This demonstrates how difficult it is to determine a real price. The unrealized loss calculation of $27 million assumes the worst case pricing. Again, Ms. Fava noted that the buy/hold recommendations are subjective and noted that Mr. Price and Mr. Jones may have different opinions. PFM recommends that actual bids should be obtained for all the securities identified as sell candidates and that judgments should then be made on which securities to sell.

Ms. Fava commented that Tab H provides much more detailed information on each of these securities. She noted that the price identified as "Kentucky" is actually not a price staff developed, but was instead provided by the state's custodial bank, State Street. While PFM is making sell and hold recommendations, those recommendations should be tempered by the actual prices available in the market. Treasurer Hollenbach asked if it is typical for the state price to be higher than those reported from other sources. Mr. Jones responded that the Bloomberg prices should be ignored for these securities as they are not accurate and that the State Street prices are from IDC with any differences due to timing on when the price was observed.

Ms. Fava stated that these prices vary and are difficult to ascertain because of illiquidity. Mr. Price noted that not all of these securities are illiquid, that some are very liquid. For example, the Kingdom of Sweden security is part of a $3 billion issue which is actively traded.

Tab V deals with accounting. The state's current approach is to distribute investment income when the cash is received. For instance, if a security matures in a year and pays interest semi-annually, for the first 5 months no cash has been received. In the 6th month, a coupon payment will be received. An investor in that security would receive no cash for the first 5 months, and then in month 6 would

receive 6 months of interest. The method the SEC requires for 2a-7 and most other public entities use is to determine the distributions on an accrual basis, not a cash basis. In the previous example, at the end of the first month, one month of interest should be distributed. PFM recommends that income be distributed using the accrual basis. Ms. Fava noted that they have had extensive conversations with staff because this is a rather complicated topic. Mr. Howard noted that representatives from the Controller's Office were present.

PFM also recommends that the unrealized losses on the distressed securities should be recognized and should flow through the income statement as GASB 31 requires. Currently, some of these securities are carried at book. The reality is that some of these will never recover to book value. Ms. Fava recognized that this action could have budgetary implications, but felt that this is a more accurate reflection of the value of the securities.

The next recommendation is that, if the Commission decided to adopt 2a-7 rules, the rules require that while buys and sells occur at $1.00, the market value should not vary too much from $1.00. The market value may vary by $0.01 or one half penny on each side of $1.00. The value must be between $0.995 and $1.005. If the market value strays outside that level, some action must be taken to restore it to the proper range, normally by realizing a gain or loss. The specific recommendation is to begin doing the calculation to determine the market value of the Limited Term Pool. Mr. Brett Antle reported that staff has been analyzing the impact of all of these recommendations and is ready to adopt them by the first of May.

Ms. Fava next turned the discussion to PFM's review of current performance benchmarks. On page 50, a table is presented which describes performance of the Intermediate pool. The ten year performance was 3.35% (on an annualized basis). This compares to the current benchmark which is composed of 70% of a 1 to 3 year government index, 15% of a very short treasury index and 15% of a mortgage-backed security index. In the table, the number highlighted in blue shows the highest performance for the particular time period. PFM does not believe the current benchmark is the best for a couple of reasons. First, due to the composition of the index, roughly 70% of the 1 to 3 year government index is composed of treasury securities. The actual portfolio has a much smaller exposure to treasury securities. This has distorted returns for several years due to a massive flight to quality increasing the demand for treasuries. Second, the custom benchmark has an average duration of about 1 ½ years. The portfolio has been shorter than the benchmark which has resulted in under-performance during the bull market of the last several years. Also, the inclusion of mortgage-backed securities in the benchmark has caused the portfolio performance to deviate from the benchmark because of the volatility of mortgage-backed securities.

The Commission should be looking at the benchmark to gauge the success of the implementation of investment directions. Performance better or worse than the benchmark is a red flag that implementation is varying from the strategy. PFM is suggesting one of two benchmarks. Based on industry norms for similar investors, including other states, PFM recommends using the 1 to 3 year agency index which excludes treasuries, corporates and mortgage-backed securities. The duration of that benchmark is about 1.6 years which is longer than the current approach. If the Commission would prefer a shorter benchmark which is more in line with current strategy, PFM recommends using 75% of 1 to 3 year agencies and 25% of very short treasuries. This is similar to the current benchmark but excludes treasuries and mortgage-backed securities. The advantage of the agency index is that the securities are higher credit quality, less complex and easier to manage, and they have outperformed more complex securities. While PFM recognizes that staff is capable of managing

more complex mortgage-backed securities, they may not have the time to do the required level of research. Using a simpler, but longer strategy, over time the portfolio should perform better, using current resources.

Mr. Howard asked PFM's view of the future for Fannie and Freddie and the impact to this strategy. Ms. Fava responded that Fannie and Freddie are currently under a mandate to reduce the size of their balance sheets by 10% per year. If this continues, there will be a shortage of agency securities. Using a benchmark consisting solely of agencies may not make sense since the Commission will be forced to purchase treasuries and corporates due to a lack of agencies to purchase. Page 51 shows the Intermediate Pool performance on a different basis. The strategy of including mortgages did well in 2004 and 2005. That strategy has helped the Commonwealth historically, but has not done as well since the financial market crash.

For the Limited Term Pool, PFM recommends using the Standard and Poors index of AAA-rated government funds and the iMoneyNet First Tier Institutional Money Funds index composed of money market mutual funds. PFM does not recommend using an index for the Short Term pool.

Summarizing, Ms. Fava explained that these were the specific recommendations from PFM. As next steps in the process, Ms. Fava suggested that first the statutes and regulations should be updated. Next, a decision needs to be made on implementing 2a-7 rules and adopting a benchmark for the Limited Term Pool. The prospectii/information statements should then be updated. Market prices should be determined for the distressed securities, but this will be an on-going, longer term project. Then the appropriate strategy for the Intermediate Pool should be determined followed by picking the benchmark.

Treasurer Hollenbach asked when the analysis was done. Ms. Fava replied November. Since that time, PFM has been in discussions with staff, undergoing further research on the benchmarks, discussing 144a and providing further documentation, and refining the report. Mr. Spragens asked how much the benchmarks have changed since November. Ms. Fava replied that the durations have extended modestly. In terms of performance, as rates have trended down, the performance of the benchmarks has been strong. Because the portfolio is shorter, it has underperformed. Ms. Fava did note that as interest rates rise, the portfolio will outperform the benchmarks because it is shorter. Further, the benchmark is not meant to tie the hands of staff. They need the discretion to be longer or shorter than the benchmark depending on market conditions. It is a tool for evaluating success of the strategy. Ms. Fava offered contact information to the Commission in case of further questions.

Treasurer Hollenbach asked whether Ms. Fava discovered anything in the review that would raise serious concerns. Were there any "big holes" identified. Ms. Fava responded that there were no big holes. The most serious concern is why the distressed securities have not been written down. While it has been acknowledged that the securities are distressed, the securities are still being carried at book, not market. Mr. Howard pointed out that in May of 2009, staff made a formal submission to the Capitol Projects and Bond Oversight Committee detailing all information, and that quarterly, staff provides to the Commission valuation information. There has been a breakdown in communication on what should be reported in the financial statements. Ms. Fava expressed that she detected no intention to "hide anything". Mr. Spragens pointed out that the Commission does receive quarterly information including carrying value and estimated market value on the securities which is why the Commission has decided to continue to hold these securities. Ms. Fava explained

that the decisions by the Commission have been fine but that the financial statements need to reflect the market values.

Treasurer Hollenbach asked if the securities have responded positively since the report was prepared. Ms. Fava reported that the market has improved. Mr. Jones added that the value of these securities has moved up. Mr. Howard commented that the latest prices he had seen reflect an unrealized loss of $17 million. Mr. Jones added that the loss at the start of the process was $27 million. Adding further, Ms. Fava explained that the regulations as now written provided enough latitude to create a problem. The regulations would allow the purchase of a much more risky portfolio. However, staff is using good discretion and judgment to not do so. Treasurer Hollenbach commented and Ms. Fava agreed that it is a credit to staff that the portfolio has stayed out of trouble.

Treasurer Hollenbach proposed a series of action steps to take in response to PFM's report immediately with more to follow later as follows:

1. Limited-Term Pool shall be managed in accordance in SEC Rule 2a7 with an effective starting date not later than June 30, 2012, in order to qualify for book value accounting under GASB 31.
2. Accounting procedures for the Intermediate-Term Pool and Short-Term Pool shall be brought into compliance, to the extent that they aren't, with GASB 31. (Mr. Jones pointed out that technically this is not a decision for the SIC, but that it is probably appropriate, in light of the report, to acknowledge that this should be done.)
3. Staff shall refrain from purchasing private placements issued under SEC Rule 144a and the Finance and Administration Cabinet office of General Counsel shall report back to the State Investment Commission at the next scheduled meeting their view of this issue and potential options.
4. Staff shall prepare draft changes to 200 KAR 14:011, the information statement for each pool and a Securities Lending Policy for discussion at the next meeting of the State Investment Commission.
5. Staff shall research the implications of changes to the investment pool benchmarks for review at future State Investment Committee meetings.
6. Staff to report back with recommendations on how we might sell the distressed and 144a securities without totally blowing a whole in the budget because obviously the legislature has been relying on what to date has been our statement of book value.

Mr. Jones pointed out that while Ms. Fava recommended moving faster on statutes; it will not be possibly until next year since this legislative session is almost done. Mr. Howard added that staff could begin work on regulations and prepare a bill to pre-file for the next session to deal with statutes.

Mr. Spragens explained that banks have been very active in the issue or recording instruments at market value rather than book when there is no active market. Part of the reason the Commission has previously granted forbearance on these securities is that although the market value is low, the instruments continue to make timely principal and interest payments. He believes staff should take their time on any decisions regarding these securities. Mr. Howard noted that staff does need to be prepared to present market values for the financial statements as of June 30, but decisions about hold versus sell can be made independent of the financial reporting. Mr. Spragens cautioned that

uninformed parties may push for rash decisions and encouraged staff to continue to make prudent decisions on this topic.

Mr. Spragens moved to adopt the action steps in total. Mr. Lawson asked if the motion adopted policy rather than changing any statute or regulations. Treasurer Hollenbach confirmed that. Mr. Lawson seconded the motion. Motion **CARRIED.**

Treasurer Hollenbach thanked Ms. Fava for the work on a valuable exercise.

Securities Update - Mr. Price explained that chart for the Securities Lending Portfolio shows the same two securities as have been previously identified. The securities have about 1 year left with about $1.25 million recovery. They are still performing. Mr. Jones discussed the downgraded securities in the direct portfolio identified on the second page. He pointed out that the definitions of distressed for these purposes is different than the definition PFM used. Any security with a AAA rating by at least one of the three rating agencies meet the requirements to hold and are excluded from this list. The list is the same as the last quarter and the securities continue to perform as has been previously reported. In response to PFM's report, staff will be considering the potential for further action and will report back at the next meeting.

Mr. Spragens moved to extend forbearance for the Commonwealth to continue to hold the list of downgraded securities. The motion was seconded by Mr. Lawson. Motion **CARRIED**

Portfolio Performance – Mr. Jones noted that the regularly reported graphs are in Tab B of the package. No further discussion.

Linked Deposit Program – Ms. Bechtel identified the three banks that do not meet the requirements for entering this program. The financial ratios for these banks continue to improve. Bank of McCreary County improved enough to drop off this list. The Commission took no action. Mr. Price also noted that the Commonwealth is protected by the collateral pledged by all of the banks in this program.

Other Business - Treasurer Hollenbach commented that the PFM report is very handy, and he anticipates that the Commission will be working on this for the next year or so. Mr. Price explained that drafts of several documents will be presented at the next meeting for action following that. Analysis of benchmarks will probably be presented at the September meeting with further action following. Mr. Howard reported that there will be additional reporting at the next meeting. Mr. Jones added that additional reporting will be published on OFM's website. Treasurer Hollenbach was gratified to have an outside entity confirm the professionalism of the staff even with limited resources. He reiterated PFM's observation that the operation is not adequately staffed. Further, Treasurer Hollenbach felt that the Commission is welled served with this report identifying weaknesses while confirming the overall strength.

Mr. Lawson motioned for adjournment. Mr. Spragens seconded. The meeting is adjourned.

Respectfully submitted,

F. Thomas Howard
Secretary