

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY
REGULAR MEETING
JULY 27, 2022

The Directors of the Oklahoma Industrial Finance Authority held a Regular Meeting at 10:00 a.m. on Wednesday, July 27, 2022, in the Conference Room of the Oklahoma Industrial Finance Authority, 9220 North Kelley Avenue, Oklahoma City, Oklahoma.

The following members of the Authority were PRESENT:

Mr. Chris Condley, Chairman
Mr. Bridge Cox, Secretary-Treasurer
Mr. Hank Bradley, Member
Mr. Peter Carey, Member
Mr. D.R. Shipley, Member
Mr. Brent Kisling, Member

The following members of the Authority were ABSENT:

Mr. Keith Ventris, Vice Chairman
Mr. Randy McDaniel, non-voting member

Others attending the meeting were members of the Oklahoma Industrial Finance Authority staff and other guests representing firms doing business with OIFA, who are listed on the Attendance Register which is kept in the original meeting file.

ROLL CALL

Chairman Condley called the meeting to order and requested a roll call from the Assistant Secretary, after which he declared a quorum present.

In response to a question by Chairman Condley, it was reported that notice of the meeting of the Authority was filed in the office of the Oklahoma Secretary of State and public notice of this meeting was posted in prominent view at 9220 North Kelley Avenue, Oklahoma City, Oklahoma, twenty-four (24) hours prior to this meeting excluding Saturdays, Sundays, and legal holidays, all in compliance with the Oklahoma Open Meeting Act.

READING OF THE MINUTES

Reading of the minutes of the June 29, 2022, meeting was waived. Motion to approve the minutes was made by Mr. Shipley and was seconded by Mr. Carey. All members present voted AYE.

FINANCIAL REPORT

Mr. Davis reported that on pages 21 and 22 of the board packets are the balance sheet and income statement as of June 30, 2022. With the year end there is a fourth quarter actual versus projections on pages 23 and 24 of the board packets. The net operating income is much lower than we were last fiscal year. The interest income is down 19% percent for FY' 22. FY' 21 was \$966,000 and FY' 22 is at \$777,000. The interest expense is down at 13%. In FY' 21 the interest expense was \$595,000 and FY' 22 the interest expense is \$518,000. The net interest income is 30% decrease year over year at \$260,000. The operating expenses were 7% lower. In FY 21 it was \$197,000 and FY' 22 was \$183,000 this gave a 50% reduction in the net operating income for FY' 21. In FY' 21 it was \$173,000 in operating net income compared to \$86,600 in FY' 22. This is primarily an issue with a low yield on our cash and a negative arbitrage on debt. There are a couple of non-cash, non-controllable pension obligations, deferred liabilities that have to do with actuarial estimates on pension obligations after these adjustments were made it ended up being a net asset that we over accrued for, so there is a net positive of those adjustments in FY' 22 of \$84,000. When you compare the audited net income with all the adjustments, the net income will be \$170,300 versus \$63,300 a year ago with a 69% increase. The adjustments are not economic, it is not cash, and it does not pay bills, so we look at the net operating.

Mr. Davis stated that he mentioned the negative arbitrage that has really caused discomfort, but it is about to cause something much more. There is \$30 million in OIFA bonds that are outstanding and the entirety of those are held by the State Treasurer. These bonds have been renegotiated in terms of maturity, spread to prime and the floor on those bonds. They were at 2.5% and in working with the Treasurer was able to bring the floor down to 1.65% because that was the lowest, we had ever seen the OK Invest go. OK Invest is the cash management program in the Treasurer's Office. Currently, we are paying 1.65% on that debt and the July OK Invest rate was 1.31. If you look at the debt the cost of funds the interest on the bonds is prime minus 273 basis points with a floor of 1.65. Mr. Davis believes that after the feds meet today the prime rate will be 5.5%. This means the cost of funds will be going to 2.77% on August 1st. The August OK Invest rate is trending up but we are probably looking at on average the OK Invest rate will probably rise about eight basis points a month. If we are paying 2.77% and are getting 1.39% that is unsustainable. Mr. Davis has modeled the balance sheet and the income statement sheet for FY' 23 and if we did nothing and we looked through the end of FY' 23 the current situation would reveal the negative net interest income before we start paying the bills. This will not work, so Mr. Davis has a meeting scheduled today with the treasurer to discuss the situation. Mr. Davis plans to take several options over and have some discussions to see if there are other alternative innovative things that we can do within OK Invest that would provide a little relief or maybe get it where it would not be a handicap for the Authority. One option is that we could take \$10 million in bonds out, there are things that are in the pipeline, and we have too much excess liquidity, but Mr. Davis's concern is that he has no

idea where the economy is going to go and we haven't been in this environment since he has been with the Authorities and the demand for our programs maybe stronger than banking. Mr. Davis is just not sure. The other thing that he is investigating is that historically the Authority had investments in SBA pools that have yields based on the prime rate. Mr. Davis is looking at some of these and he has been shown some bonds in the SBA pools that are prime minus 2.35 which would lock a 38-basis point margin in for the Authority. Mr. Davis's only concern is that just as fast as the feds are running rates up in this economic environment we are in, he is not sure that at some point not too far in the future that they are having to cut to try to keep things going. Mr. Davis hopes to work something out with the Treasurer, and he would like to keep the liquidity because if we give up the \$10 million and then we need it we will have to go out into the marketplace or see if the new Treasurer would want to purchase the debt. Mr. Davis has no idea what the rate environment would look like at that time and not to mention the fact that there is significant costs to issuing new debt. Beginning in August if we do nothing it is not fiduciary. Mr. Davis will report something to the Board in August. Mr. Davis stated that usually with the conversations with the Treasurer he usually walks out with an answer. One thing that kind of complicates this is that Treasurer McDaniel is not running for re-election and there will be a new Treasurer. The treasurer may not want to make decisions at this point of his term. Mr. Davis has a lot of concerns about this issue. When the Authorities were making those investments in SBA pools, they had twice the number of staff that we have today and they hired a contract person, Tom Francis. Mr. Davis met with Mr. Francis to talk to him about this strategy. Mr. Davis stated that he is not sure that we have the resource to manage that, and he prefers to find the solution in the Treasurer's Office. Another option would be to renegotiate how that cost of funds rate is set, if it were set equal to OK Invest it would be risk free and it would reset and there would be no income or no expense to it. Mr. Davis stated that he is not sure that is fair because holding liquidity should cost you something whether it be 10, 15, 20 basis points. The OK Invest invests all the states' money from all the different agencies, those dollars are operating budgets for vastly all the state agencies. So, it is technically hot money, they may need that tomorrow or three days from now. If the Treasurer's Office has a program where they could do an agency directed investment, we could commit to some sort of a laddered treasury investment strategy. It would tie up some of the money, but we have enough liquidity and with the 2-year trading at 3.03% there might be an opportunity. This is another question that will be asked. In looking into the Treasurer's monthly report investment activity, fortunately with the way the average maturity is growing, a couple of years ago they were down two years weighted average maturity on the portfolio. It grew to about 2.7 and they are close to 3 years now. The last report made in 2022 shows all the OK Invest purchases the money that rolled off and they had to go back into the market, half a billion dollars buying US treasuries with nice spreads and yields. Historically, OK Invest lags prime given the State's investment policy being safe and secure.

Mr. Cox made a motion to approve the financial report, as presented. Mr. Shipley seconded the motion. All members present voted AYE.

ELECTION OF OFFICERS

Mr. Shipley made a motion to nominate the following Officers:

- Mr. Keith Ventris, Chairman
- Mr. Bridge Cox, Vice Chairman
- Mr. Pete Carey as Secretary-Treasurer

Mr. Carey seconded the motion. Upon Roll Call, the vote was as follows:

AYE: Bradley, Carey, Cox, Condley, Kisling, Shipley
 NAY: NONE

PRESIDENT’S REPORT

Mr. Davis reported that the audit work has begun on the OIFA side with Finley and Cook. The Vinyard loan modification that was approved last month was completed on July 13, 2022. Vinyard has been a great client and this modification was a change in the way that the interest rate was set up as well as an increase in the loan amount. Another project that the Authority has been working on for a long time is the Claremore Airport project is anticipated to close mid- August.

Mr. Davis stated that this concluded the President’s report.

ADJOURNMENT

Chairman Condley asked if there was any further business. Mr. Shipley made a motion to adjourn the meeting. Mr. Cox seconded the motion. All members present voted AYE, and the meeting was adjourned.

These minutes officially approved and adoption this ____ day of _____, 2022.

Chairman

SEAL

Secretary