ARIZONA HOUSE OF REPRESENTATIVES
Fifty-second Legislature – Second Regular Session

MINUTES RECEIVED
CHIEF CLERK'S OFFICE
8-12-16

COMMITTEE ON HOUSE AD HOC COMMITTEE ON GOLD BONDS

Report of Interim Meeting
Thursday, August 11, 2016
House Hearing Room HHR 3 -- 1:00 PM

Convened 1:05 PM
Recessed
Reconvened
Adjourned 2:36 PM

Members Present
Mr. Joe Cobb
Mr. Larry Hilton
Mr. Keith Weiner
Representative Jay Lawrence
Representative Darin Mitchell
Representative Mark Finchem, Chairman

Members Absent
Mr. Griff Straw
Representative Diego Espinoza

Agenda
Original Agenda – Attachment 1

Presentations

Name	**Organization**	**Attachments** (Handouts)
Mr. Larry Hilton	"United Precious Metals"	2
Keith Weiner	"How Gold Bonds Can Benefit the State of Arizona"	

Attendance 3

R. Padilla

Renee Padilla, Chairman Assistant
August 12, 2016

(Original attachments on file in the Office of the Chief Clerk; video archives available at http://www.azleg.gov)

Conv. 1:05 pm
Adj 2:36 pm

Interim agendas can be obtained via the Internet at http://www.azleg.state.az.us/InterimCommittees.asp

ARIZONA HOUSE OF REPRESENTATIVES

INTERIM MEETING NOTICE
OPEN TO THE PUBLIC

HOUSE AD HOC COMMITTEE ON GOLD BONDS

Date: **Thursday, August 11, 2016**

Time: **1:00 P.M.**

Place: **HHR 3**

AGENDA

1. Call to Order
2. Introduction of Committee Members
3. Review of Committee Charge
4. Presentation:
   - Dr. Keith Weiner - How Gold Bonds Can Benefit the State of Arizona
5. Committee Discussion
6. Public Testimony
7. Future Meeting Date
8. Adjourn

Members:

Representative Mark Finchem, Chairman
Representative Diego Espinoza
Representative Jay Lawrence
~~Representative Vince Leach~~
→ Representative Darin Mitchell
Joe Cobb

~~Dr. Bryan Domitrovick~~ ←
~~David Garret~~ ←
Larry Hilton
~~Dr. Judy Shelton~~ ←
Griff Straw
Dr. Keith Wiener
~~Vacant~~ ←

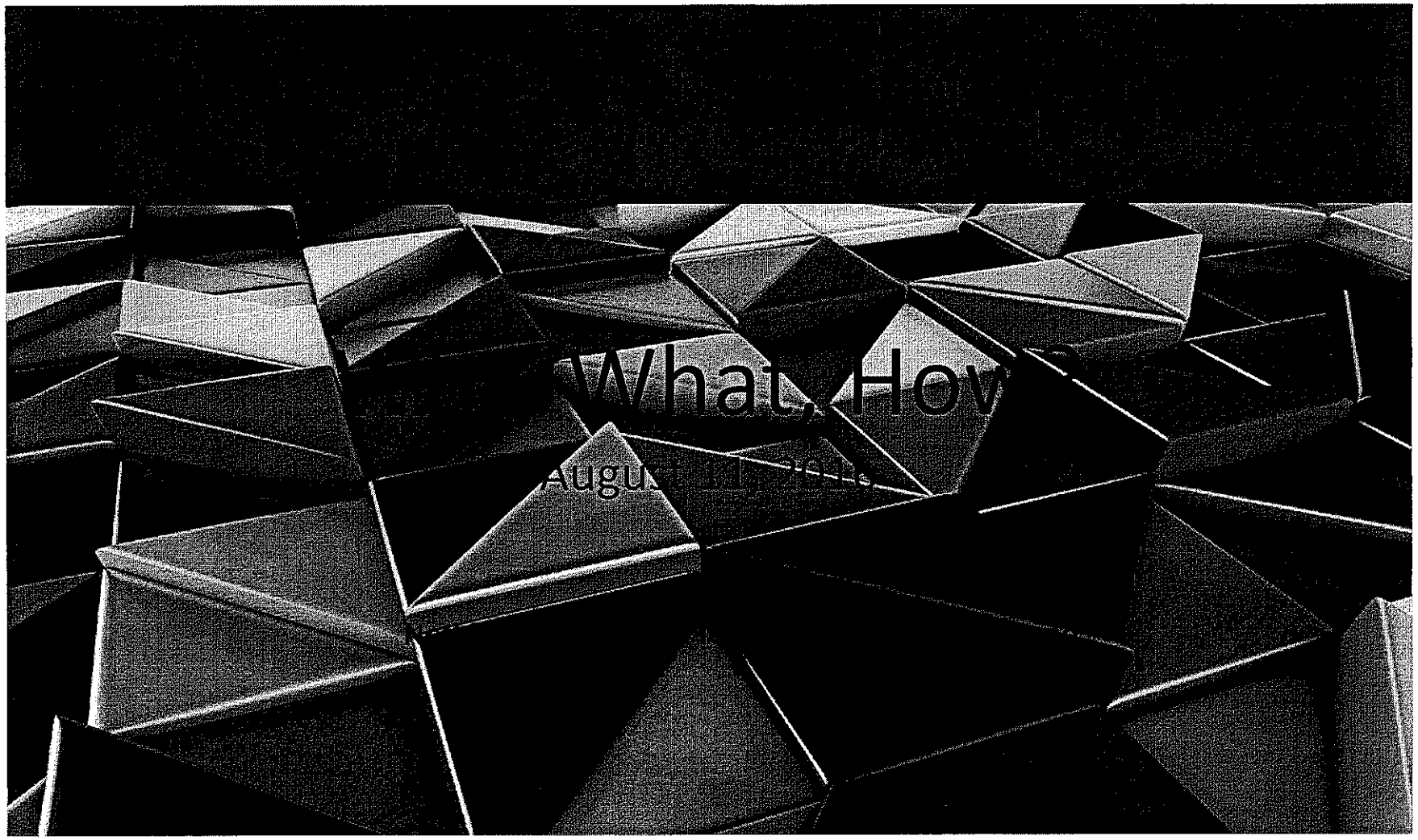
8/9/16
JY

People with disabilities may request reasonable accommodations such as interpreters, alternative formats, or assistance with physical accessibility. If you require accommodations, please contact the Chief Clerk's Office at (602) 926-3032, TDD (602) 926-3241.

Attachment 1

Attachment 2

MonetaryMetals®



A Yield on Gold, Paid in Gold

MonetaryMetals®

[redacted]

Disclosure

Monetary Metals develops and offers to investors products that offer a yield on gold. The company's business includes private equity, fixed income, and advisory.

Arizona can benefit from issuing a gold bond, whether or not it does business with Monetary Metals, though the company intends to pursue such business if the state goes forward.

MonetaryMetals®

Gold Is Getting Everyone Excited Again

- The price was $1061 at start of 2016, now $1350, +27%
- Why is gold firing up imaginations now?
  - 1/3 of all government bonds worldwide have negative yield
  - Endless Quantitative Easing (BoE failed on Monday)
  - Most pension funds are insolvent
  - Banks are getting crushed (see Deutsche Bank)
  - And … maybe … rediscovery of honest money … ?

MonetaryMetals®

But What to Do With the Gold?

- Hoarding may save you if dollar collapses
  - But it does not help the financial system to correct course
- Speculating promises to make you lots of dollars
  - But most people don't want to bet in the casino
- Elephant in the room
  - Gold locked up does little economic good

MonetaryMetals®

Warren Buffet Is Right

"It gets dug out of the ground in Africa or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head." – Warren Buffet

MonetaryMetals®

Gold on the Move

- Gold once financed international trade
- About 150 tons in London at peak of 19th century
  - US Government has 8,000 tons today
- It takes surprisingly little
  - Because it was not locked away, stuck in hoards
- It was clearing debts and trade
- A gold bond is a great first step towards restarting motion

MonetaryMetals®

Gold Bonds Are Good for Everyone

- For Arizona investors
  - Savers currently get about zero percent on their dollars
  - Gold bonds let them earn honest money
- For the state
  - Attract investment from across the U.S. and world
  - A gold bond will draw massive capital inflows to Arizona
- For the Governor and Treasurer
  - It will be very popular
- And there is a big fiscal benefit…

MonetaryMetals®

Exploring Different Ideas

- Now is the time to start the conversation
- Our monetary system is failing
  - All we get is tinkering at the margins (e.g. NGDP targeting)
  - We need genuinely new ideas
- I propose to issue a true gold bond
  - Denominated in gold
  - Principal paid in gold
  - Interest paid in gold

MonetaryMetals®

How Does It Work?

- Just like a conventional dollar bond…
  - …with one twist
- When Arizona sells it, it does not accept bids in dollars
  - The point is not to raise more revenues
- Arizona does not accept gold bids either
  - The point is not to try to build a state gold hoard
- To bid on the gold bond, people redeem outstanding bonds
  - This is a mechanism to retire debt

MonetaryMetals®

Bidding on the Gold Bond

- The state adds gold bonds to the existing mix of financing
  - A small part of its financing
  - But the only financial tool that can reduce debt
- Example
  - Gold price is $1,350
  - State sells 1,000oz gold bond
  - Theoretical expected value is $1,350,000
  - Bidders tender $1.35M worth of AZ bonds

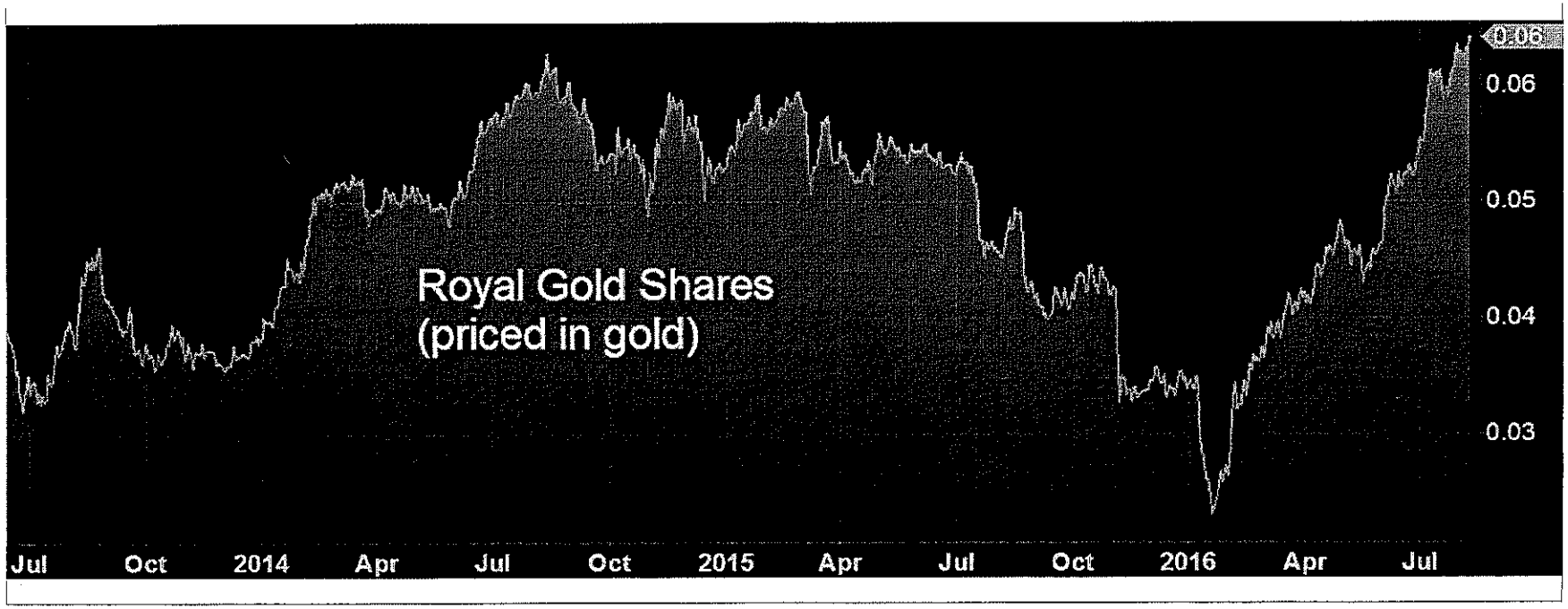
MonetaryMetals®

Value of the Gold Bond

- It's not so simple—it's better than that
- The bond pays gold in the **future**
- What will the price be in the future?
  - Expectations fluctuate
- Suppose price will go to $1,500 or $2,500
  - What is value of a stream of $2,500 payments **today**?
- Bond price will go up and down in the market
  - This creates an opportunity for an issuer of gold bonds

MonetaryMetals®

Value of the Gold Bond



A Yield on Gold, Paid in Gold

MonetaryMetals®

[redacted]

Value of the Gold Bond

- Why does that chart matter?
- The market sometimes predicts a high future value
- Other times, it predicts a low future value
- Price of a cash flow is set according to this expectation
- Royal Gold pays a steady amount based on its gold income
  - In theory, its price in gold terms should be constant
  - Recently, its price has varied from 0.2 to 0.6 ounce
- **Arizona should sell high and buy low**

MonetaryMetals®

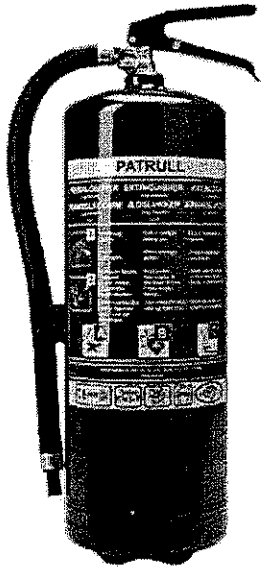
Arizona Is Mired in Debt

- State debt is about $61B (FY2012)
  - Over $9,000 for every man, woman, and child
  - Includes unfunded pension and healthcare liabilities
  - Source: State Budget Solutions (nonprofit)
- State Treasurer says $10B (FY2013)
  - But this excludes the unfunded liabilities
- This burden is on top of the per-capita federal debt of $61,000
  - People also have school loans, mortgages, credit cards…

MonetaryMetals®

The Bigger Debt Picture

- No way to pay off debt in aggregate
- The dollar is just a small piece of Uncle Sam's debt
  - An IOU
- If you pay using an IOU, you merely shift the debt



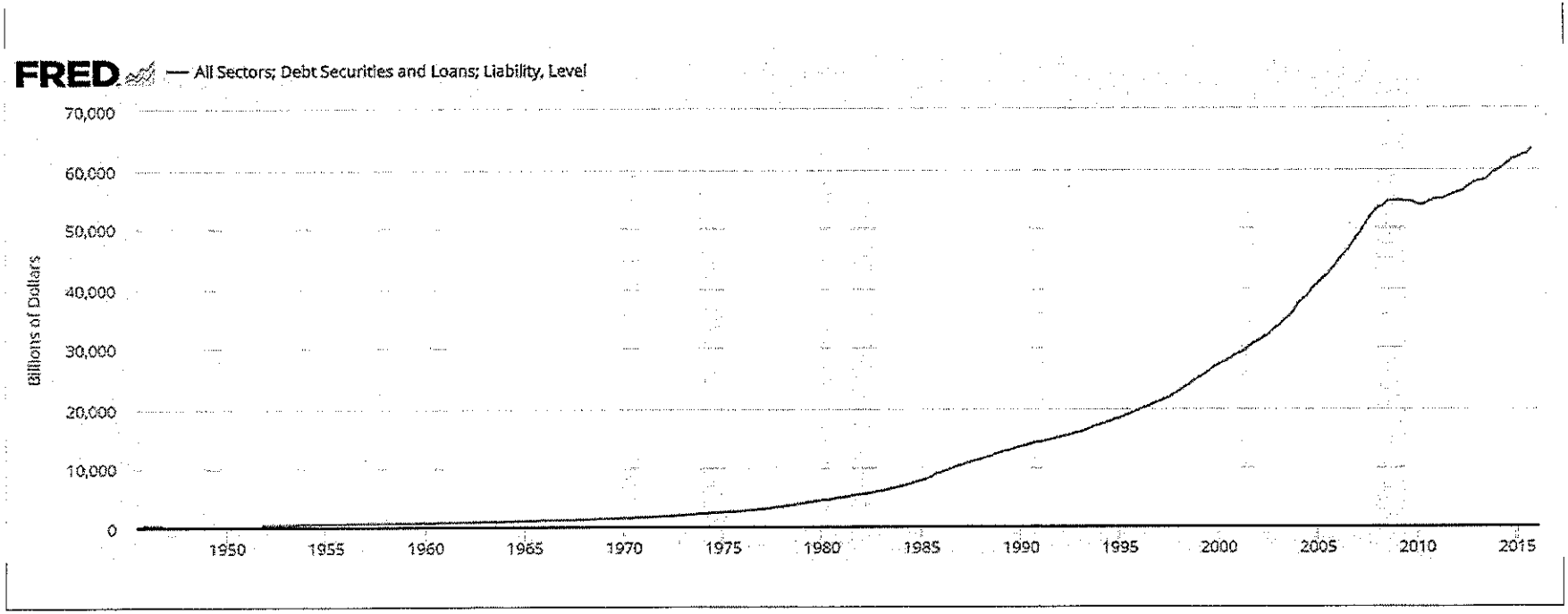
MonetaryMetals®

A Zero-Sum Game

- Of course, any one debtor can pay off its debts
- But all debtors are attempting to do this
- So they almost never succeed
    - Not because of lack of fiscal intentions
        - (at least not only because of this)
- Each debtor is fighting all the others for capital
- The result is predictable, it's occurring all over the world:
    - Debt burden continues to rise exponentially
- A truly no-win scenario

MonetaryMetals®

Total Bonds and Loans



A Yield on Gold, Paid in Gold

MonetaryMetals®

Gold Bonds Work Differently

- Gold debt can be extinguished
- By paying gold
  - Gold metal is a physical good, not an IOU
- To amortize a gold debt, pay out of income
  - It's not about having gold stored away in a vault
- Who has a gold income, today?
- Gold Miners do
- <u>The state of Arizona taxes its gold miners</u>

MonetaryMetals®

Gold Tax Today

- Currently, AZ receives 2.5% severance tax from gold mining
- The state gets the sale price of the gold in dollars
- So revenue is ounces X gold price
  - For example: miners pay 1,500oz, and gold price is $1,200
  - Tax revenue is 1500 X 1200 = $1,800,000
- This is the current baseline
- There's a better way…

MonetaryMetals®

Amortizing the Gold Bond

- The severance tax provides the state a gold income stream
  - Gold bonds work on gold income
  - As regular bonds work on dollar income
- Don't simply sell the gold on the market as it's received
- Instead, sell gold bonds
- Amortize the gold bonds with gold income
  - Reserve sufficient gold income to amortize each bond sold
  - Accumulate excess gold revenues into a sinking fund

MonetaryMetals®

Where Does the Gain Come From?

- Selling a bond is not the same as selling gold on the market
  - Sell gold: market pays the current price of gold
    - The same if you sell futures or forwards
  - Sell bond: market pays based on expected price moves
    - Market can sometimes be optimistic or pessimistic
- Arizona can leverage to buy and sell its own gold bonds
  - With simple and transparent rules

MonetaryMetals®

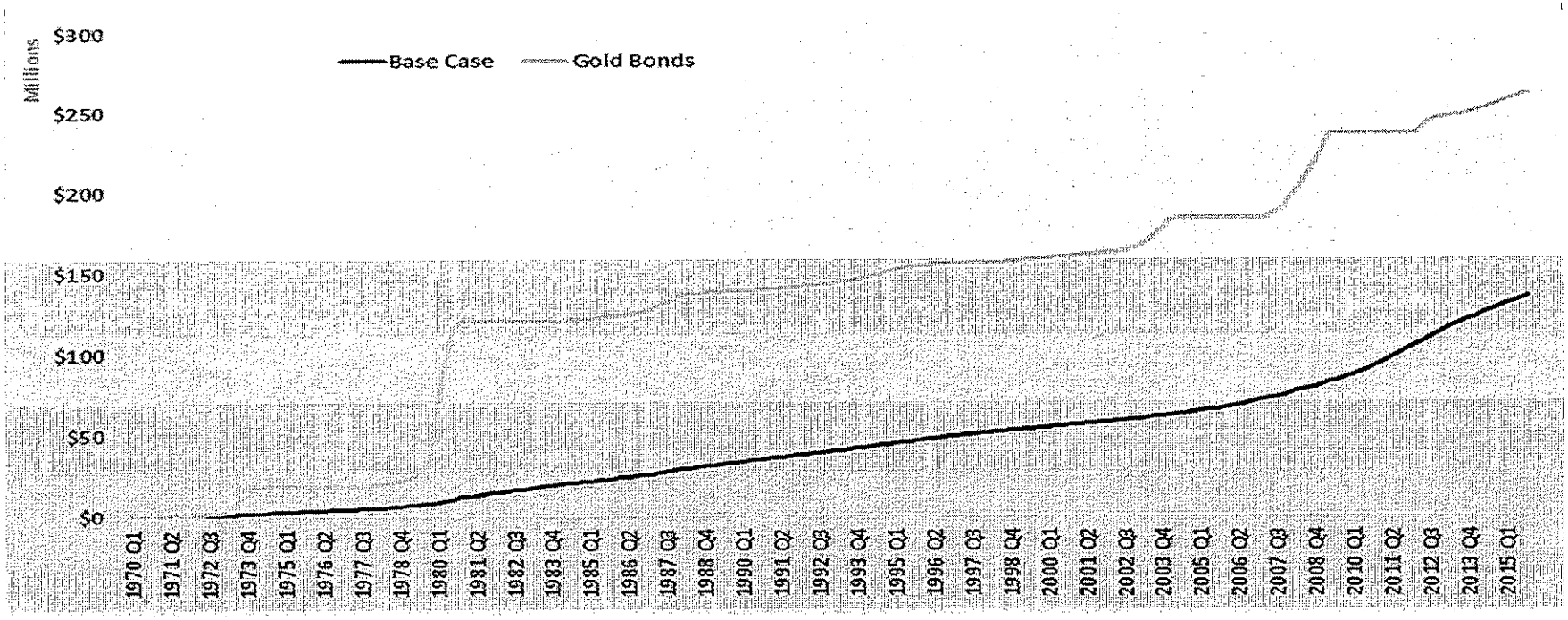
The Fiscal Benefit

- Monetary Metals developed a simple model
  - When to buy and when to sell
- We fed it historical price data for the gold and bond markets
  - 1971 – 2016
- This period had every market condition: up, down, and flat
- We assumed 1,500 ounces/quarter mining royalty to the state
- The baseline case generated $135M total revenue
- The gold bond case generated $261M
  - The gain is $126M over the baseline—almost double

MonetaryMetals®

[redacted]

Graph of Baseline and Gold Bonds



A Yield on Gold, Paid in Gold

MonetaryMetals®

About These Results

- The goal of this initial model was to show proof of concept
  - There is room for improvement
- Model does not attempt to predict price moves
  - It takes prices one day at a time
  - However, Monetary Metals has a proprietary gold signal
  - It could increase the fiscal benefit to Arizona

MonetaryMetals®

[redacted]

Questions

MonetaryMetals®

PRINCIPALS

Monetary Metals is the leading gold investment company, developing and offering investors a way to make gold work for them. The company publishes groundbreaking proprietary research to help the investment community better understand gold and its emerging role.

Keith Weiner, CEO & Founder, Keith Weiner is a leading authority in the areas of gold, money, and credit and has made important contributions to the development of trading techniques founded upon the analysis of bid-ask spreads. He is the founder of DiamondWare, a software company sold to Nortel in 2008, and he currently serves as President of the Gold Standard Institute USA. He earned his PhD from the New Austrian School of Economics.

Bron Sucheki, VP Operations, Bron Suchecki has over 20 years' experience in precious metals, holding a variety of roles across operational, retail, treasury, depository, and risk/governance areas. As a senior executive of the Perth Mint and Company Secretary to its Board of Directors, Mr. Suchecki gained a deep understanding of the strategic issues facing businesses in the precious metal industry.

Arie Levy-Cohen, VP Strategy, Arie Levy-Cohen began as an international entrepreneur, later developing his career around generational wealth preservation with an emphasis on gold and commodities. He has been a venture capitalist and a Swiss private banker. Most recently at Morgan Stanley, he provided global advisory services and customized banking solutions to institutions and individuals.

MonetaryMetals®

Gold Bonds for the State of Arizona

CONTACT

Keith Weiner
keith@monetary-metals.com

7150 Camelback Rd. Suite 444 | Scottsdale AZ 85251 USA I Phone: (602) 478-9572

LEGAL DISCLAIMER

This presentation contains forward-looking statements that are based on the beliefs and expectations of Monetary Metals LLC, in light of the most current information available to them at this time. These statements, which may be identified by words such as "if", "believe", "intend", "expect", "predict", "may", "should", "contemplate", "anticipate" or other comparable terminology, involve significant elements of subjective interpretation, judgment or analysis that may or may not prove to be correct. Because some of these forward-looking statements relate to circumstances or events that have not yet occurred, actual results may differ materially from those anticipated in such statements. Neither the Fund, its general partner nor its manager makes any representations or warranties, express or implied, as to the accuracy or completeness of the information contained in this presentation.

This presentation and the information contained herein is being made or provided to you on a confidential basis. None of the information discussed with or provided to you as part of this presentation may be shared with or distributed to any person or entity without the prior written consent of the general partner of the Fund.

This presentation is neither an offer to sell nor a solicitation of an offer to buy limited partnership interests or any other securities in the Fund or any other entity. Any offer of limited partnership interests in the Fund can only be made in accordance with a Confidential Private Placement Memorandum that is furnished to a prospective investor by the general partner of the Fund. All of the material contained in this presentation is qualified in its entirety by reference to such Confidential Private Placement Memorandum.

No material from this presentation may be used, reproduced or otherwise disseminated in any form to any person or entity without the explicit prior written consent of Monetary Metals Management LLC. ©2016 Monetary Metals LLC., All Rights Reserved.

ARIZONA HOUSE OF REPRESENTATIVES

Fifty-second Legislature - Second Regular Session

INTERIM COMMITTEE ATTENDANCE RECORD

COMMITTEE ON **HOUSE AD HOC COMMITTEE ON GOLD BONDS**

CHAIRMAN: Mark Finchem

DATE	8/11/16	/16	/16	/16	/16
CONVENED	1:05pm	m	m	m	m
RECESSED	N/A.				
RECONVENED	N/A.				
ADJOURNED	2:34pm				
MEMBERS					
Mr. Joe Cobb	✓				
Mr. Larry Hilton	✓				
Mr. Griff Straw	---				
Mr. Keith Wiener	✓				
Representative Diego Espinoza	EXC				
Representative Jay Lawrence	✓				
Representative Darin Mitchell	✓				
Representative Mark Finchem, Chairman	✓				

√ Present --- Absent exc Excused

Attachment 3