

**CITY OF FULLERTON**  
**INVESTMENT ADVISORY COMMITTEE**  
**MINUTES**

Regular Meeting  
Fullerton City Hall – 303 West Commonwealth Avenue  
Third Floor- Room 301  
Administrative Services Department Conference Room

**Thursday, June 19, 2008– 4:00 p.m.**

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**CALL TO ORDER**

Chair Allen called the meeting to order at 4:08 p.m.

**ROLL CALL**

Members present: Frank Allen, Chair, Citizen Member  
Phyllis Garrova, City Treasurer  
Lynn Lauderdale, Vice Chair, Citizen Member  
Stan Lewczyk, Chair, Citizen Member  
Glenn L. Steinbrink, Director of Administrative Services

Members absent: Chris Meyer, City Manager  
Sharon Quirk, Mayor

Guest/Staff: Dianna Fenton, Fiscal Services Manager, City of Fullerton

**PUBLIC COMMENTS**

None.

**ACTION OR DISCUSSION ITEMS**

**Item 1. Approval of Minutes of December 6, 2007**

Mr. Lewczyk moved approval of the minutes. The motion was seconded by Vice Chair Lynn Lauderdale, and the minutes were unanimously approved.

**Item 2. Status of Investment Portfolio**

The 03/31/08 quarterly report distributed by City Treasurer Phyllis Garrova provided the following:

1. Portfolio balances as of 01/31/08, 02/29/08, and 03/31/08.
2. Types of investments, with percentages of portfolio invested in each type, and change from last report.
3. List of maturities between 01/01/08 and 03/31/08.
4. List of purchases between 01/01/08 and 03/31/08.

City Treasurer Garrova began with the Quarterly Investment Summary, noting that the \$2.4 million increase between January and February was primarily a result of the City receiving \$2.2 million in Prop 1B funding, which is designated for local street improvements. She further noted that the \$13 million decrease between February and March was a result of termination of a Guaranteed Investment Contract (Excel Capital). Mr. Steinbrink explained that the City had been allowed to invest \$5 million from its 2007 TRAN (Tax Revenue Anticipation Note) plus the bi-weekly PERS payments during 2007 (which totaled approximately \$11.5 million by January 2008). However, Excel Capital was downgraded six levels by the rating agencies. A provision of the GIC stated that in the event Excel Capital was downgraded, the GIC could be terminated by all of the participating agencies. As a result of the GIC's termination, the City's investment was returned. However, since the monies are for other obligations due to be paid June 30, they were moved to a LAIF bond proceeds account until that time.

Mr. Lewczyk asked what kind of a loss the City took as a result of the GIC's termination. Mr. Steinbrink explained that the City suffered no loss, that the GIC paid 5.5% interest earnings, which the City received up until February 28, the date the GIC was terminated.

Ms. Garrova also noted that in February 11 of the portfolio's investments had been called. She indicated she was surprised that even the investments in the 3 percent range were called.

Mr. Lewczyk asked who the \$1.0 million negotiable CD was with. Ms. Garrova explained that it was with Union Bank of California, and they were very competitive as far as negotiable CDs. She indicated that Fullerton has never been a big player in that arena, but she is looking at those more these days. She further noted that LAIF's rate had dropped to 2.9 as of June 18, and she would start looking at moving some of that money into the three to five-year area.

Ms. Garrova pointed out that according to the five-year portfolio average, her forecast was on track. She had forecasted \$96 million for 07-08, and it was currently at \$95.8 million.

Mr. Lewczyk asked why LAIF paid interest quarterly. Ms. Garrova was not sure, but she indicated she would ask the LAIF administrator. Mr. Steinbrink pointed out that by paying quarterly, LAIF gets to use the city's money for longer periods of time, which is to their benefit.

### **Item 3. Annual Review of Investment Policy**

Red-lined copies of the Investment Policy (IP) had been provided to the IAC members prior to the meeting for their review. Ms. Garrova noted that the only proposed change was a result of an amendment to California Government Code Section 53601 (Instruments Authorized for Investment). Since the Government Code is part of the City's Investment Policy (included as an attachment), the amendment needed to be incorporated into the IP.

The amendment allows cities to purchase registered treasury notes or bonds from any of the other 49 United States (in addition to California). Previously the City was restricted to purchases within California. Ms. Garrova noted, however, that it has always been her practice to work only with California brokers since they are knowledgeable of the California Government Code.

As a result of this amendment, Ms. Garrova indicated that "registered bond" and "registered security" should be added to the glossary section of the IP.

Mr. Lewczyk moved that the proposed changes to the Investment Policy be approved. The motion was seconded by Vice Chair Lauderdale and unanimously carried.

Mr. Steinbrink pointed out that the proposed 2008 Investment Policy would be presented to City Council July 1st for approval.

### **Questions**

Mr. Lewczyk asked Mr. Steinbrink if the City was experiencing declines in its revenues (sales tax, property tax). Mr. Steinbrink indicated that the City was not declining, but the rate of growth is down considerably from prior years. He noted that sales tax for the fourth quarter of 2007 was up 5% over the same quarter of the previous year, but the first quarter of 2008 was up only 1.2% from the same quarter of the previous year.

Ms. Lauderdale asked about the lag time on the revenue information. Mr. Steinbrink indicated it was six months, i.e., the City does not know how retailers are doing until six months after the fact.

Chair Allen asked about property tax delinquencies. Mr. Steinbrink noted that the City will not know the status of delinquencies until the end of the fiscal year; however, there had been approximately \$1 million in delinquencies at the end of the previous fiscal year. Mr. Steinbrink pointed out that the City does not expect to meet revenue projections for sales tax and property tax, and that the budget that was presented to Council June 3rd was predicated on a reduction of those revenues.

Mr. Steinbrink noted that General Fund reserves were at historically high levels as of June 30, 2007 (24-25%). Council requires that the City maintain reserves of 10% (implemented in 1996-97). In the 11 years since implementation, the City has never fallen below the 10% reserve requirement. It is anticipated that reserves will come down to 20-21% at June 30, 2008. The projection for June 30, 2009, is 17.5%. Ms. Lauderdale commented that was a result of good fiscal management. Mr. Steinbrink credits the City Council and City Manager, noting that City Council is very fiscally conservative.

Ms. Lauderdale asked who serves as the City's economist. Mr. Steinbrink indicated there is a committee comprised of the City Treasurer, Fiscal Services Manager, Budget Manager, and himself. The committee works together to determine revenue projections. Once the revenue projections are established, the committee meets with the City Manager to review the numbers, which may result in the numbers being revised. On the expenditure side, Mr. Steinbrink indicated that each department is required to project their own expenditures; and department's with revenues (e.g., Police) are required to project their own revenues.

Mr. Lewczyk asked if the State had any plans to take money from the cities to solve their financial problems. Mr. Steinbrink indicated that right now there are no firm proposals to take money from cities, but the State is considering their options, e.g., taking away Prop 172 sales tax money that is dedicated for police and fire (about \$1 million a year). He noted the State is already withholding transportation revenues that the City uses for capital projects. They've been withholding since March and it amounts to millions of dollars. He also stated that he had heard the State is considering taking money from redevelopment agencies, which might not be a big problem but would delay capital projects. The worst-case scenario would be if the State took so much money from redevelopment agencies that they were not able to make their debt service payments, which might result in legal complications.

Mr. Steinbrink further noted that the Governor was proposing to get \$5 billion of the state's \$16 billion budget shortfall by pledging future lottery revenues against the bonds he wants to issue. In addition, Mr. Steinbrink indicated he had been told by one of the PERS actuaries that the State is attempting to change the actuarial methods and assumptions for the retirement system so that the employer rates could be lowered.

Mr. Lewczyk asked if the City's retirement plan is fully funded, as well as the State's. Mr. Steinbrink reported that the City's retirement fund is close to being fully funded – one plan is 97% funded, the other (Police and Fire) is 93% funded. The State's fund is in the 80% funded range.

### **Adjournment**

There being no further business, Chair Allen moved to adjourn the meeting. Mr. Lewczyk seconded and the meeting was adjourned at 4:43 p.m. by unanimous vote.

The next meeting date is August 21, 2008.