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, March 12, 2009 - 4:00 p.m.

CALL TO ORDER

Chair Allen called the meeting to order at 4:00 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

Chris Meyer, City Manager

Glenn L. Steinbrink, Director of Administrative Services

Members absent: Don Bankhead, Mayor

City Manager Meyer left the meeting at 4:48 p.m.

PUBLIC COMMENTS

None.

ACTION OR DISCUSSION ITEMS

Item 1. Election of Chair and Vice Chair for 2009

City Treasurer Phyllis Garrova pointed out that the committee may elect a new chair and vice chair for 2009, but it is not required. Mr. Lewczyk made the motion to reappoint the current officers. Ms. Lauderdale seconded the motion. The motion passed unanimously. Frank Allen is to remain Chair and Lynn Lauderdale is to remain Vice Chair through 2009.

Item 2. Approval of Minutes – November 21, 2008

Ms. Garrova indicated a correction was needed on page 3 of the minutes. Item 3, fourth paragraph. The text should read "\$1.80 yield on \$1,000 invested" -- not "18¢ yield on \$1,000 invested."

Chair Allen asked if there were any other corrections or discussion items pertaining to the November 21 minutes. With no response, he asked for a motion to approve with the stated correction. Mr. Lewczyk moved approval of the minutes. The motion was seconded by Vice Chair Lauderdale, and the minutes were unanimously approved.

Item 3. Status of Investment Portfolio

The 12/31/08 quarterly report distributed by City Treasurer Phyllis Garrova provided the following:

- 1. Portfolio balances as of 10/31/08, 11/30/08, and 12/31/08.
- 2. Types of investments, with percentages of portfolio invested in each type, and change from last report.
- 3. List of maturities between 10/01/08 and 12/31/08.
- 4. List of purchases between 10/01/08 and 12/31/08.

City Treasurer Garrova began with the Quarterly Investment Summary, noting that the increase of almost \$8.5 million between October and November was primarily due to receipt of \$3 million in property tax revenue, an Orange County Transportation Authority (OCTA) payment of \$3 million towards the World Citrus settlement, and a \$3.2 million drawdown 2005 tax allocation bond. While the OCTA payment and tax allocation bond appeared as surplus funds as of November 30, available for investing by the City Treasurer, the two amounts were actually slated for debt service payments in December.

The \$8.5 million increase between November and December was the result of property tax revenue.

There were four investment maturities during the reporting period, three of which had been called: a Home Loan of \$1 million called November 26, a \$1 million Home Loan called December 12, and a \$1.5 million Home Loan called December 12.

There were ten investment purchases during the reporting period including three Federal Farm Credits (totaling \$5 million), six Federal Home Loans (totaling \$6.5 million), and one Negotiable Certificate of Deposit (\$1 million).

The Summary by Issuer report showed 28 investments at December 31 valued at approximately \$108 million: City and Redevelopment investments in LAIF -- \$73 million; three negotiable CDs (Union Bank) – two \$1 million and a \$2 million; two CDs (Fullerton Community Bank and Banco Popular) -- \$99,000 each; ten Federal Farm Credits (\$15 million); and 8 Federal Home Loans (\$12.5 million).

Ms. Garrova pointed out that the Summary by Issuer report reflects a January LAIF rate of 2.046; however, the February rate dropped to 1.869. The average yield to maturity as of

February 28 was 2.369. The difference between December and February was a result of seven investments called and three purchases.

Ms. Garrova distributed to the committee members a chart illustrating the portfolio average rate of return over five years. She pointed out the rates for the first six months of each fiscal year: 12/31/04 - 2.681%; 12/31/05 - 3.545%; 12/31/06 - 4.466%; 12/31/07 - 4.550%; 12/31/08 - 2.859%.

Vice Chair Lauderdale asked Ms. Garrova how she determined whether or not to purchase a callable issue. Ms. Garrova indicated her considerations are: If it is called, will the City need the funds? If it is not called, will the City need to liquidate it? How short is the call? What is the maturity? Is the rate to the term of maturity acceptable?

As requested by the Committee, Ms. Garrova provided copies of the State's Pooled Money Investment Board Report as of December 2008. Ms. Garrova reported that in her discussions with LAIF she learned LAIF's daily investing is 30 days or less, their entire portfolio was a little over 200 days, and they are buying treasuries, discount notes, and time deposits.

At the previous meeting, Ms. Garrova had been asked to research and report back to the committee on the following items:

LAIF's Portfolio Composition - "Loans"

Ms. Garrova provided a report from the California State Treasurer's office titled "Pooled Money Investment Account (PMIA) - AB55 Loan Comments" which explained that AB55 loans are lines of credit extended by the Pooled Money Investment Board (PMIB) to state agencies or departments to provide funds for startup costs or progress payments on authorized bond projects. However, on December 17, 2008, the PMIB unanimously voted to limit the further servicing of loans to bond-funded infrastructure projects. This action was taken to ensure that the PMIA continues to meet its primary responsibility to provide appropriate liquidity ongoing to all Pool participants.

LAIF's Portfolio Composition - "REMICs" (Real Estate Mortgage Investment Conduits)

Ms. Garrova provided to the committee members a detailed written report explaining and defining REMICs. Briefly, REMICs are a type of special purpose vehicle used for the pooling of mortgage loans and issuance of mortgage-backed securities. They are defined under the United States Internal Revenue Code (Tax Reform Act of 1986), and are the typical vehicle of choice for the securitization of residential mortgages in the U.S. Ms. Garrova pointed out that REMICs are typically made up of FreddieMacs and FannieMaes, and REMICs are not currently part of LAIF's portfolio.

Cash Held With Fiscal Agents

Mr. Steinbrink explained that as of December the City had \$98 million in Cash Held with Fiscal Agents. \$80 million of that is the 2005 Tax Allocation Revenue bonds, which was a Redevelopment Agency issue, and those funds are being held for various capital projects throughout the City. The funds were previously one of the Guaranteed Investment Contracts that was terminated due to the downgrade in rating of the provider, so the funds were returned to the City and the City Treasurer has been reinvesting those funds since the end of

December. All but approximately \$5 million has been invested as of this date. Some of the Cash Held with Fiscal Agents is held in escrow with banks for lease/purchase financing. The money is held until the City makes its purchase, and then the funds are released to pay the vendor.

City Manager Meyer requested that the Cash Held With Fiscal Agents report include a breakdown of where the funds are invested. Ms. Garrova indicated this information would be provided in all future reports.

Item 4. Annual Review of Investment Policy

CDARS (Certificate of Deposit Account Registry Service)

Ms. Garrova provided the committee members with a copy of the text from Government Code Section 53601.8 regarding the investment of funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit. Ms. Garrova reminded the committee that she had presented the CDARS to the committee during their review of the City's Investment Policy in 2007. At that time it was decided the lack of liquidity and the newness of the program were issues and the City would not participate.

Recently, however, Ms. Garrova reported that the City had been approached by Fullerton Community Bank (FCB) regarding participating in the CDARS program. She and City Manager Meyer met with representatives of FCB in February. FCB informed them that as of February 2009, there were 2,900 participating banks nationwide. Ms. Garrova noted that a decision by the committee for the City to participate in this program would require an amendment to the City's Investment Policy. Before making such a decision, Ms. Garrova informed FCB representatives that she had several questions/concerns regarding the program, such as:

May a CDARS participant invest only in California banks?
What happens if one bank fails?
Provide copy of CDARS investment policy.
What safeguards are provided in the policy?
How much is FCB going to make on this program?
Provide CDARS' five-year performance report.
Is the program going to be extended?
(Ms. Garrova noted the program is currently scheduled to sunset January 1, 2012)

Ms. Garrova stated that FCB representatives indicated they could provide a rate equal to LAIF plus 10 points.

A concern is liquidity. If you had to sell, the City would pay huge penalties to liquidate with CDARS. Ms. Garrova suggested that this program may not be appropriate for Fullerton; however, she indicated she would report back to the IAC at the May 21 meeting on the response from FCB, and the committee could then make the decision as to whether or not Fullerton should become a participant.

Any proposed/required changes to the Investment Policy would be made at that time for presentation to Council in June.

TLGP (Temporary Liquidity Guarantee Program)

Ms. Garrova provided to the committee members a copy of an article by the California Municipal Treasurers Association which explained the basics of the TLGP program. This program expires June 30, 2012. If the City is interested in participating, they have until June 30, 2009. However, the deadline may be extended through October 2009. This program offers guaranteed notes, with no call features.

Vice Chair Lauderdale indicated it was her understanding that these corporate notes can be purchased in the secondary market, the product is basically a corporate note with an agency credit worthiness, and guaranteed by the U.S. government.

Ms. Garrova reported that she has studied and researched the TLGP and can find no negatives. All three rating agencies have rated it AAA. And the program completely complies with the City's Investment Policy with regard to safety, liquidity, and yield.

Mr. Lewczyk asked what amount Ms. Garrova would consider investing. Ms. Garrova reported that the City's Investment Policy limits investments in corporate notes to 30% of the portfolio, but she would be inclined to invest only \$5 to \$10 million for the two- to three-year period.

Ms. Garrova pointed out that LAIF is not participating in this program because LAIF is not purchasing over 30 days, and the TLGP program is 30 days or longer.

Vice Chair Lauderdale asked if Ms. Garrova needed the IAC's approval to make the investment. Ms. Garrova explained that the City's Investment Policy provides the authority she needs, but she wanted to present the program to the committee so they were familiar with it. Chair Allen thanked Ms. Garrova for discussing the program with the committee members.

Adjournment

There being no further business, Chair Allen asked for a motion to adjourn the meeting. Mr. Lewczyk so moved, and Ms. Lauderdale seconded. The meeting was adjourned at 5:19 p.m. by unanimous vote.

The next meeting date is May 21, 2009.