

**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

Friday, November 21, 2008 - 4:00 p.m.

CALL TO ORDER

Chair Allen called the meeting to order at 4:02 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: 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 June 19, 2008

Chair Allen asked if there were any discussion items pertaining to the June 19 minutes. With no response, he asked for a motion to approve. Mr. Lewczyk moved approval of the minutes. The motion was seconded by Vice Chair Lynn Lauderdale, and the minutes were unanimously approved, with City Manager Meyer abstaining since he was not in attendance at the June 19 meeting.

Item 2. Status of Investment Portfolio

The 09/30/08 quarterly report distributed by City Treasurer Phyllis Garrova provided the following:

1. Portfolio balances as of 07/31/08, 08/31/08, and 09/30/08.
2. Types of investments, with percentages of portfolio invested in each type, and change from last report.
3. List of maturities between 07/01/08 and 09/30/08.
4. List of purchases between 07/01/08 and 09/30/08.

City Treasurer Garrova began with the Quarterly Investment Summary, noting that the \$8.9 million decrease between July and August could be attributed to debt service payments which totaled \$4.5 million, in addition to a third payroll in the month of August plus a fifth week of accounts payable. The decrease of \$2.1 million between August and September was a result of nothing more than accounts payable.

Ms. Garrova pointed out that a notable change in the portfolio between June 30 and September 30 was the elimination of commercial paper. She stated that commercial paper inventory had declined as a result of institutions/corporations being downgraded, bought out, or bankrupt, including declining short-term interest rates that were not competitive with the LAIF rate.

There were nine investment maturities during the reporting period. A Farm Credit was called in July (at 5.5), in August (at 4.25), and September (at 4.2). The other maturities were two CDs, commercial paper (Bank of America, G.E., Union Bank of California), and a Home Loan discount note).

Investment purchases during the reporting period included a \$2 million FHLB at 5 percent out to 2013 (with a call feature), a \$2 million Home Loan at 4.16, and a \$1.5 million Farm Credit at 4.02 out to 2012. In September, with a short-term objective in mind, she purchased a Home Loan discount note (\$2 million at 2.82 - a good rate, slightly above LAIF) out to March of 2009 and a Union Bank of California negotiable CD at 3.80 out to February of 2009.

Mr. Lewczyk questioned the long-term FHLB -- out to 2013. Ms. Garrova noted that the City's Investment Policy allows purchases out to five years. Mr. Lewczyk also asked if she was pulling back on commercial paper because of issues in the market. Ms. Garrova noted that because the Investment Policy requires a rating of A1/P1 or better, and because of issues in the market, it was presently a general consensus of city treasurers to limit risk exposure of corporates and commercial paper.

Ms. Garrova distributed to the committee members a chart illustrating the portfolio average rate of return over five years. She noted that the portfolio's rate at September 30 was 3.156%, which compared very favorably to the six-month Treasury// bill rate of 1.6%, the Federal Funds rate at 2%, and LAIF's rate of 2.78 – but was slightly below her forecast for the year of 3.30%. She indicated she might have to revisit that projection.

The Summary by Issuer report showed 22 investments at September 30 valued at about \$92 million: City and Redevelopment investments in LAIF -- \$64 million; two negotiable CDs (Union Bank) – a \$1 million and a \$2 million; two CDs (Fullerton Community Bank and Banco

Popular) -- \$99,000 each; eight Federal Farm Credits (\$11.4 million); and 8 Federal Home Loans (\$13.5 million).

Chair Allen questioned the 69% of the portfolio invested in LAIF, considering the Investment Policy's 60% limit. Ms. Garrova explained there are two LAIF accounts – City and Agency, with each account's limit at \$40 million, for a maximum combined investment of \$80 million.

Ms. Garrova provided the committee members with a new report which provided a listing of active investments grouped by fund and sorted by maturity date. The software that produced the report amortizes investments that are less than one year. For those investments more than a year, it is fair market value and looks at maturity.

Item 3. LAIF Informational Documents

Based on a request at the last meeting, Ms. Garrova provided the committee with an informational packet on LAIF, which included an explanation that LAIF monies are protected by statute (Government Code 16429.3, 16429.4). The State of California cannot borrow or withhold LAIF monies, even if the state fails to resolve its budget issues or adopt a new budget. Also included in the LAIF information packet was a LAIF Performance Report showing the portfolio's composition and yields.

Mr. Lewczyk noticed that the LAIF portfolio includes "mortgages" and "loans" and asked who they are issued to and what kind of guarantees are in place. He stated that since "loans" make up 21% of LAIF's \$64 billion portfolio, he would like more information. Ms. Garrova indicated she would have to research that issue and report back to the committee.

Chair Allen asked if LAIF's portfolio composition depicted in the chart was typical of years past. Ms. Garrova stated that the portfolio might have had a different composition one or two years ago, when rates were better, and perhaps a greater percentage in the commercial paper area.

Mr. Lewczyk had questioned LAIF's short-term rate. Ms. Garrova explained that the information packet included sample information on short-term rates for CDs (0.50), commercial paper (0.20), and Federal Home Loan Bank discount notes (0.95). She pointed out that a Treasury three-month bill is currently offered at .18 – or 18¢ yield on \$1,000 invested. Therefore, she noted that LAIF's short-term rate of 2.49 was much more attractive, and LAIF offers safety and liquidity as well.

Chair Allen, Vice Chair Lauderdale, and Mr. Lewczyk agreed the LAIF portfolio information was very helpful, and asked Ms. Garrova to continue to provide the reports at each meeting. Ms. Garrova agreed, and also suggested to the committee members that they may access the information at any time at LAIF's website: www.treasurer.ca.gov.

Mr. Lewczyk questioned how LAIF could have such a good rate compared to the others. Ms. Garrova explained that LAIF has a six-month lag. Their portfolio has not caught up to the market because of what they are currently holding in their portfolio, which is why she will start positioning \$5-\$10 million of the City's portfolio into the two to five-year area if the rate is attractive, and keep \$2-\$3 million of the City's portfolio in the two to three-year area.

Chair Allen pointed out that he had recently bought a CD at 4%, and questioned the 2% rate on the City's CD. Ms. Garrova explained that some CD programs are not available to

municipalities, and if they are, municipalities quite frequently do not get the same rate as a private investor.

Mr. Lewczyk asked if the City's sales tax revenues were down. Mr. Steinbrink reported that for the April-May-June quarter, sales tax revenues were down about 2.5%, and it is anticipated that revenues for the July-August-September period will also be down (the report will not be received until December). Mr. Steinbrink noted that the City uses a sales tax consultant, and the consultant's projections are that the City's sales tax revenues will be down \$1.4 million for the fiscal year ending June 30, 2009. He further noted that other revenues are also not meeting projections, including interest income, revenues related to sales of property tax (e.g., documentary stamp tax), and revenues related to building activity in the City. As a result, City departments have been asked to start cutting some of their expenditures for 2008-09 to offset the revenue declines.

Chair Allen asked if there was any forecast on property tax receipts. Mr. Steinbrink reported that growth in assessed valuation for the City is about 3.1%, and 5% for the Redevelopment Agency. He noted that those projections could be affected by the rate of delinquencies, but the information pertaining to delinquencies will not be available until the end of the fiscal year. Mr. Steinbrink indicated that the City has recently received its first apportionment of secured property taxes, and it was actually up about 5% compared to last year, and the Redevelopment Agency was up about 2%.

Mr. Lewczyk asked if the state would be taking any money from the cities to solve their budget problems. Mr. Steinbrink reported that the Governor has not proposed to take any money away from cities – insisting there will be no borrowing to solve the budget crisis at the state level. Mr. Steinbrink pointed out, however, that the state has taken money away from the Redevelopment Agency this year, and there is talk at the state level of taking additional amounts of revenue away from redevelopment agencies. Fullerton's Redevelopment Agency has been hit for \$1.4 million, which will be due in May 2009. Mr. Steinbrink further explained that while the cities are protected by law (Prop 1A) from having money taken away from them by the state, redevelopment agencies are not.

Mr. Steinbrink indicated he wanted to follow up on a discussion at the last meeting regarding bond proceeds and loan proceeds that the City invests. At the last meeting he had shared that XL Capital had their rating downgraded, and the guaranteed investment contract was terminated. Mr. Steinbrink reported that this has happened two more times since then. AIG's rating was downgraded and the contract was terminated. The \$2.2 million was returned to the City and reinvested. MBIA's rating was recently downgraded, and the contract will be terminated on Monday, November 24. The \$79 million will be returned to the City. He noted that the Redevelopment Agency had borrowed the money for a number of capital projects in the City. When MBIA returns the money to the trustee, U.S. Bank, U.S. Bank will reinvest those funds at the City's direction.

Mr. Lewczyk questioned why the loans did not appear in the portfolio information the City Treasurer had provided. Ms. Garrova pointed out that those amounts are bond proceeds, and they are included in the monthly financial statements provided to Council under "Cash Held with Fiscal Agents." Mr. Steinbrink indicated he would have Ms. Garrova include the loan information at future IAC meetings.

Ms. Lauderdale asked who was responsible for investments of the bond proceeds and would that investment be under the purview of the IAC. Ms. Garrova indicated the Director of

Administrative Services was responsible, but she was not sure if the investments were necessarily under the purview of the IAC. However, City Manager Meyer pointed out that the City's finances are an open book, and the IAC is certainly welcome to review any information they wish to.

Item 4. Meeting Dates for 2009

Chair Allen indicated the proposed meeting dates for 2009 are: February 26, May 21, August 20, and November 19. It was agreed that these dates are acceptable, but subject to change if needed.

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 4:51 p.m. by unanimous vote.

The next meeting date is February 26, 2009.