

INVESTMENT ADVISORY BOARD
Meeting
November 14, 2007

I CALL TO ORDER

Regular meeting of the La Quinta Investment Advisory Board was called to order at the hour of 4:30 P.M. by Chairperson Deniel, followed by the Pledge of Allegiance.

PRESENT: Board Members Ross, Moulin, Deniel and Park, Board Member Rassi (4:35)

ABSENT: None

OTHERS PRESENT: John Falconer, Finance Director and Vianka Orrantia, Secretary

II Public Comment – None

III CONFIRMATION OF AGENDA

Mr. Falconer advised that the Treasurer's commentary was completed after the mailing of the agenda packet and would like to include the commentary as part of the agenda.

Board Member Ross requested that a discussion of LAIF's history and limits also be added to the agenda.

Chairperson Deniel suggested that the LAIF discussion be added to Board Member Items. Board concurred.

IV CONSENT CALENDAR

A. Approval of Minutes of Special Meeting on October 9, 2007 for the Investment Advisory Board.

Chairperson Deniel stated that she was not happy with the minutes and she felt that the minutes should be redrafted. She also stated that there needs to be more clarification and commentary in regards to the different risks referenced in the minutes. Board Member Ross concurred.

Chairperson Deniel clarified that on page 4, second paragraph of the minutes, requires clarification and the statement does not pertain to credit risk.

Mr. Falconer suggested, at the consensus of the Board, that Staff redraft the minutes and email a draft copy for the Board's review prior to next scheduled meeting. Board concurred.

Board Member Moulin advised that he had forwarded three handouts to be discussed on his behalf at the October 9th meeting and did not see them reflected in the meeting minutes.

In response to Board Member Moulin, Mr. Falconer clarified the spelling of "Ymer, " on page one, fourth paragraph, the correct spelling should be "Weimer."

In response to Board Member Moulin, Board Member Ross clarified that the statement on page 7, under Board Member Items, second paragraph was a statement Board Member Moulin had made on one of his handouts and asked Staff what he meant by this comment.

Board Member Moulin commended the Board on their meeting with the City Council.

MOTION - It was moved by Board Members Park/Rassi to continue the Minutes of October 9, 2007. Motion carried unanimously.

Board Member Moulin and Mr. Falconer suggested that a draft of the meeting minutes be sent to the Board for review and/or comments prior to completing the agenda packets. Board concurred.

V BUSINESS SESSION

A. Transmittal of Treasury Report for September 2007

Mr. Falconer presented the Treasurer's report and advised that the cash balance declined by \$15 million due to the semi-annual principal and interest debt service payment, the construction activities of the city hall expansion and the Vista Dunes Courtyard homes. He also advised that the average maturity has increased from 20 days to 129 days, with a drop in the six-month Treasury bill, which exceeds the City's benchmark. He further advised that the sweep account had a \$12,410 in interest earnings with a total of \$1,781 in fees. The current overall yields are at 5.06% with the pooled yielding at 5.16%. In the month of October there were several corporate notes purchased, with \$2 million in GE Capital which matures on 10/15/08 and US Bank Corp. at 5.11% with a

maturity date of 4/28/09. Mr. Falconer commented since the purchase of these notes there has been a decline in the current market.

In response to Board Member Moulin, Mr. Falconer advised that Staff would not purchase Merrill Lynch paper in today's current market. He also advised that the City currently holds \$5 million in Merrill Lynch commercial paper due to mature in January with no intention to reinvest in Merrill Lynch.

General discussion ensued among the Board in regard to Merrill Lynch and Citicorp and their current status in today's market.

Mr. Falconer advised that his purchases, if available, will only be with familiar commercial paper names.

MOTION - It was moved by Board Members Rassi/Ross to approve, receive and file the Treasury Report for September 2007. Motion carried unanimously.

VI CORRESPONDENCE AND WRITTEN MATERIAL

A. Month End Cash Report – October 2007

Mr. Falconer advised that page 11 of the month end cash report reflects a daily decline in LAIF interest rates; this is an indicator of the current market.

In response to Chairperson Deniel, Mr. Falconer advised that the current total invested in LAIF at this time is \$38 million with an investment limit at \$80 million, with a permissible \$45 million to invest. Mr. Falconer also advised that there is \$10 million Farm Credit paper due to mature and was considering placing \$5 million in LAIF and \$5 million for warrant disbursements.

Mr. Falconer suggested that in an upcoming meeting the Board could give their views on the different investments, such as Fannie MAE, medium term notes, commercial paper and other investments in relation to today's interest environment.

Board Member Moulin advised that during the joint meeting discussions with the City Council, the CDARS program was an issue of conversation.

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Mr. Falconer advised that at the joint meeting one council member was not in favor of the CDARS program and this issue has been placed on the Board's upcoming work plan.

Board Member Moulin stated that he was not in favor of this particular investment and further stated that there is one benefit to CDARS, they do invest in local banks.

Mr. Falconer clarified that investing in CDARS does not guarantee that it is invested back into the local communities.

In response to Board Member Moulin, Mr. Falconer advised that LAIF reviews the CRA numbers and credit analysis of the smaller banking institutions they invest in. In the past several IAB members have been uncomfortable with some of the smaller institutions.

Board Member Ross asked Staff if they know how LAIF extends their maturities when there is a drop in rates.

Mr. Falconer replied that LAIF claims they do not play the market and are a short-term investment pool investing in the cash needs of the state.

Noted and Filed

B . Pooled Money Investment Board Report – August 2007

Noted and Filed

C. Meeting Minutes from October 23, 2007 Joint Meeting with the City Council

Board Member Rassi advised that the joint meeting with City Council was very informative and Council was also very complimentary of the Board.

Board Member Ross stated that he was encouraged by the Mayor's sentiments and his willingness to review any information the Board could provide them. He further stated that there were no additional comments from the Council in reference to the change in the ordinance regarding the professional portfolio management firm.

Noted and Filed

VII BOARD MEMBER ITEMS

Chairperson Deniel advised that she would like to discuss and summarize two issues at this time; 1) LAIF and; 2) Professional Portfolio Money Management firm, the history and where the City currently stands with this issue.

Board Member Moulin advised that after listening to the tape of the joint meeting with Council, it was his feeling that Council wanted the Board to revisit LAIF.

Chairperson Deniel stated she felt that that was not Council's intent.

Board Member Ross stated that he felt that the Council wanted the Board to revisit the issue of LAIF.

In response to Board Member Moulin, Mr. Falconer advised that LAIF was introduced in the late 70's to assist numerous city treasurers with excess city cash.

Chairperson Deniel advised that LAIF is run like a money market mutual fund for cities and government institutions that are too small to have their own investment department, therefore placing their money with the state, which has their own professional money managers.

Mr. Falconer advised that there is a fee to invest in LAIF and further advised that all school districts are required to invest with their county treasurers. Mr. Falconer also advised of the history of the Orange County investment pool and other county investment pools.

Mr. Falconer advised that he would generate a chart of LAIF's limit history for the Board's review at the next scheduled Board meeting.

General discussion ensued among the Board regarding LAIF.

Chairperson Deniel advised that LAIF is an example of a professionally managed portion of the cities portfolio. She further advised that the City Council gave the Treasurer the authority to manage the portfolio and therefore investing in LAIF. If a professional portfolio money management firm were to be hired, the City Council would hire the firm not the Treasurer, therefore requiring a change to the ordinance which was declined by City Council.

Chairperson Deniel suggested that the Treasurer's delegation be expanded and

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he decide as to whether or not he would like to hire a professional portfolio money management firm to invest a portion of the City's portfolio.

Mr. Falconer advised that this issue was discussed at the previous Board meeting and also was discussed at the joint meeting with the City Council. He also advised that Councilwomen Henderson suggested that this be discussed as part of the investment policy for 2007/08, with no clear direction from Council to continue discussion this year. Board Member Ross concurred. He further advised that this would be at the discretion of the Board to add as part of the discussion for the upcoming 2007/08 investment policy.

Chairperson Deniel stated that she felt with the growth of the City and the portfolio, that the City considers doing more with the investing of the portfolio than what is already being done. Chairperson Deniel shared the Mayor's comment about the approval of this year's budget.

In response to Board Member Ross, Mr. Falconer advised that with the current interest rate in today's market, if he was able, he would invest more in LAIF. He also advised that the LAIF limit is \$80 million and not a percentage.

In response to Chairperson Deniel, Mr. Falconer advised that the limit per account is not per the City's investment policy but from the State Code.

Board Member Ross stated that he didn't recall any Council members make any comments against LAIF.

Board Member Park asked Staff if they would prefer to raise the LAIF limit.

Mr. Falconer replied that in the current interest rate environment he would be in favor of raising the LAIF limit.

Chairperson Deniel advised that the City would have to hold to maturity.

Mr. Falconer advised that when the Merrill Lynch commercial paper rolls over in January, if he was given the flexibility and the market conditions remains the same he would invest in LAIF.

In response to Board Member Ross, Chairperson Deniel advised that LAIF would be a better investment in a declining interest market and in a raising interest market LAIF lags.

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Board Member Moulin stated that he felt that, rather than a loss in principal in LAIF, liquidity is a possible issue.

Board Member Rassi and Mr. Falconer both advised that there is a withdrawal limit, five per account with the City's limit being ten and if there is a withdrawal over \$10 million, it takes a couple of week's to process.

Board Member Moulin advised that he would not like to see the LAIF amount increase too much.

In response to Board Member Moulin, Mr. Falconer advised the City Council voted unanimously to renew the contract with Wells Fargo Bank.

In response to Board Member Moulin, Mr. Falconer advised that the auditors are scheduled to meet with the Board at the December meeting and would like to recommend the review of the FY 2007/08 Investment Policy begin in January.

Chairperson Deniel asked if the Treasurer decides to implement a professional portfolio management firm, is this permissible.

Mr. Falconer replied that if permitted by State Code and permitted by the City, then he did not believe it would require a change to the ordinance or a review by the City Attorney. Mr. Falconer advised that there would need to be a discussion by the Board regarding the Request for Proposal (RFP) selection process.

In response to Board Member Park, Mr. Falconer advised that May is the last month the Board will review the investment policy prior to submittal for Council's approval.

Board Member Rassi advised that there could be an amendment to the policy anytime during the year.

Board Member Moulin advised that in June the Board meets with the City Manager and the City Attorney to review the draft policy and upon review, it is forwarded to the City Council for approval by July 1st.

It was the consensus of the Board to begin the review of the FY 2007/08 investment policy in January.

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Board Member Moulin advised that the discussion of the benchmark paragraph has been continued and would like to streamline a paragraph for credit risk, market risk and diversification.

Chairperson Deniel suggested that the policy have a specific section regarding these said issues.

VIII Adjournment

MOTION - It was moved by Board Members Moulin/Park to adjourn the meeting at 5:30 p.m. Motion carried unanimously.

Submitted by,

**Vianka Orrantia
Secretary**