

INVESTMENT ADVISORY BOARD
Meeting
February 13, 2008

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 (4:35), Deniel, Rassi, and Park

ABSENT: None.

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

II PUBLIC COMMENTS – None.

III CONFIRMATION OF AGENDA – (This is the time set aside for public comment on any matter not scheduled on the agenda.)

Mr. Falconer advised that Board Member Moulin requested that his handout regarding changes to the 2008/09 investment policy be added for discussion under Business Session "Item B."

IV CONSENT CALENDAR

Approval of Minutes of Meeting on January 9, 2008 for the Investment Advisory Board.

MOTION - It was moved by Board Members Rassi/Park to approve the minutes of January 9, 2008. Motion carried unanimously.

V BUSINESS SESSION

A. Transmittal of Treasury Report for December 2007

Mr. Falconer presented the staff report advising that the City had a few capital projects for the month of December, the city hall expansion and Avenue 48 apartment project. Mr. Falconer also advised on the declining yields due to the current market and the reinvestment of Treasury bills in the fiscal agent, with the earnings also declining to 3.4%. The overall rate stands at 4.4%, with the city's benchmark T-Bill rate at 3.39%. Mr. Falconer further advised that the average maturity has remained the same, at 123 days and a rollover of \$44 million in treasuries, with the old yields at 4.9% and the current yields at 3.3%.

In response to Board Member Ross, Mr. Falconer advised that in the current declining market, the most noticeable impact is the ability to obtain quality commercial paper.

In response to Board Member Moulin, Mr. Falconer advised that in the current declining market the city does take advantage of the current housing market to purchase homes and parcels.

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

B. Continued Consideration of Fiscal Year 2008/09 Investment Policies & Work Plan Items

Chairperson Deniel asked the Board how they would like to proceed with the review of the suggested changes to the policy.

Board Member Ross suggested that the "Task Force" recap what has been done thus far and advised that Board Member Moulin and he (IAB Investment Policy Task Force) meet with Mr. Falconer to streamline the policy and focus on the objectives. Board Member Ross also advised that the main objective is not to rewrite the policy but to begin to make any necessary recommended changes for the Board's review.

Board Member Moulin advised that upon his review of the Government Code section of "Delegated Authority" he realized that this item is required to be approved annually. In addition, the Government Code mandates the objectives of safety, liquidity and yield, the Government Code does not specifically use these terms, but these objectives within the city's investment policy have been derived from the Treasurer's Association. Board Member Moulin suggested that the titles now read "Safeguard of Principal" in lieu of Safety, "Provide Liquidity" in lieu of Liquidity and "Earn of Market Rate of Return" in lieu of Yield.

Board Member Moulin advised that during their meeting with Mr. Falconer, they discussed the possibility of deleting the "Executive Summary" from the investment policy.

Board Member Ross stated that he is in favor of the "Executive Summary" but reducing it to a one page summary.

Board Member Moulin advised that the "Task Force" along with Mr. Falconer discussed structuring the "Executive Summary" as a bullet format throughout the document.

Board Member Ross suggested placing a one page summary at the end of the policy. Chairperson Deniel concurred.

Chairperson Deniel stated that she is in favor of the use of bullets points throughout the policy and suggested placing the Executive Summary either at the beginning or at the end of the policy.

Board Member Moulin advised that based on the Board's discussion throughout the year, Board Member Ross made several changes to the policy. Board Member Moulin also advised of the discussion regarding "Appendix A" and the possibility of eliminating the appendix and incorporating the appendix within the body of the policy. Board Member Moulin further advised that it was discussed that Board Member Ross incorporate "Appendix A" within the policy and by incorporating the appendix within the policy it would address procurement, purchasing and unpermitted investments.

Board Member Ross advised the Board of the suggested changes he made to the current policy for their consideration:

Page 4 - IV Objectives, Item 4 Diversified Portfolio: Omitted Item 4 - Diversified Portfolio and merged the language to become part of Item I - Safety.

Page 5 – IV Objectives, Item 3 Yield: Omitted Section XV – Benchmark and merged the language to become part of Section IV Objectives, Item 3 – Yield.

Board Member Ross advised that he also included suggested language submitted by Board Member Moulin in a previous meeting, into Section IV.

Objectives, Item 3 – Yield for the Board's consideration.

Page 6 – VI Prudence: added Section VI – Prudence to Appendix K for discussion purposes.

Page 6 – VII Delegation of Authority: Omitted Section XIX – Contracting

a Professional Management Firm and incorporated into Section VII – Delegation of Authority.

Chairperson Deniel stated she needed clarification for the merging of Section XIX into Section VII, due to the fact that the City Council delegates authority to the Treasurer to manage the investments of the City. The City Treasurer can or cannot hire a professional management firm discharging that authority given, therefore, discrediting the merging of the two sections.

General discussion ensued among the Board regarding the merging of the two sections and it was suggested by Mr. Falconer that they consider listing Section XIX either under authorized investments or possibly listed under permissible investments.

In response to Board Member Ross, Chairperson Deniel stated that she does not feel that Section XIX needs its own section and could possibly be placed similarly to the way LAIF is within the policy.

Page 19 – Appendix A: Omitted “Appendix A” and incorporated it as a table into Section X – Authorized Investments and Limitations.

Chairperson Deniel advised that Board Member Moulin refers to, in his handout of suggested changes, deposits and investments, and she would like to have them segregated because the City deals with investments and not deposits. Chairperson Deniel suggested creating a section for “Administration” and placing deposits within this section. In addition, Chairperson Deniel also suggested tiering out the risks.

Board Member Moulin advised that the statutes only mention investments and do not mention deposits. Board Member Moulin further advised that he included deposits due to the fact that the Treasurer does make deposits on behalf of the City and it does need to be covered by the policy.

Chairperson Deniel suggested creating a separate section for administration and internal controls covering deposits within this section.

Mr. Falconer advised that due to the statement and auditing standards and the emphasis of the auditors, “deposits” needs to be mentioned within the body of the policy.

Chairperson Deniel commented on the progress of the draft policy and advised that some of the sentences would need further clarification.

In response to Chairperson Deniel, Mr. Falconer advised that the Board normally meets in June with the City Attorney and City Manager to review the proposed changes to the policy prior to submittal for Council's approval, therefore the Board would need to agree on any changes or additions to the policy in May.

General discussion ensued among the Board and Staff regarding how the Board would like to proceed with any additional changes to the policy.

Mr. Falconer reiterated the Brown Act to the Board and emphasized to them that they need to abide by this act during their continued redrafting of the policy outside of the scheduled meetings.

Board Member Moulin and Mr. Falconer advised that the Board will eventually have to review the policy page by page.

Board Member Moulin suggested assigning a portion of the policy to each Board member to help speed up the draft process.

Chairperson Deniel assigned the following sections for review and/or changes to:

Board Member Rassi: To review Section VIII – Conflict of Interest, Section IX – Authorized Financial Dealers and Institutions, XII – Payment and Custody.

Board Member Park: To review Section XIV – Internal Controls and Independent Auditor, Section XVI – Reporting Standards, XIII – Interest Earning Distribution Policy and XVIII – Investment of Bond Proceeds.

Mr. Falconer clarified for the Board Section XIII and how this section sets forth the methodology used to allocate interest earnings.

Board Member Ross and Moulin: To continue to review Section X, Section XI and XIX.

Chairperson Deniel: To review and edit any changes and/or deletions.

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Chairperson Deniel advised that the draft changes would than be forwarded to Staff so they may be included for discussion at the next scheduled meeting.

Board Member Moulin read (referencing his handout, third page) from the Board Government Code Section 53607 and stated he feels that this should be a separate resolution by the City Council.

Mr. Falconer suggested at the next scheduled meeting, the review of the current resolution adopted by City Council.

Chairperson Deniel stated that she feels that it is not the place of the Board to “police” whether or not the City Council is compliant with this section of the Code and if this is not delegated by the Council on a yearly basis, it should be up to the City Attorney to remind them.

In response to Chairperson Deniel, Mr. Falconer advised that the ordinance, on a yearly basis, delegates this authority to the Treasurer and should satisfy this particular code section. Mr. Falconer suggested that this section be reviewed in June, along with the adoption of the policy.

Board Member Moulin asked the Board to refer to page 21 of the current investment policy Section 3.08.010; this section does reference the Government Code Section 53607, and does mention the yearly approval.

Chairperson Deniel stated that she feels by approving the policy on a yearly basis, by default, this ratifies the delegation on a yearly basis.

Board Member Moulin stated he feels that this wording seems deficient and further stated that this is something he does not like to see.

Board Member Moulin advised that the third page of his handout, Section 53608 of the Government Code deals with deposit of securities for safe keeping and not deposit of banks.

Chairperson Deniel suggested that on the first page of the suggested changes by Board Member Moulin, under Section I – Investment Policy, that the sentence read “The City of La Quinta’s policy is to invest and deposit securities of public funds that:”

Mr. Falconer suggested that the Board place on next year’s work plan, a review of the ordinance by the City Council.

Board Member Moulin suggested that the Board possibly discuss with the City Manager what he thinks should be done.

Mr. Falconer advised that he does not feel this needs to be part of the municipal code.

In response to Board Member Park, Mr. Falconer advised that the only department within the City that takes securities is the City Clerk's office, (i.e. bonds for construction) and further advised that these bonds are not negotiable.

Chairperson Deniel advised that she will review page 3 of Board Member Moulin's handout, item 3. – Earn a Market Rate of Return and make any necessary changes and/or add bullet points if necessary.

Board Member Moulin advised that current basis of comparison is LAIF and the six-month Treasury bill, in previous conversations; it was suggested possibly using one, two, and three, or even five year notes. Board Member Moulin asked if the Treasurer could suggest an additional basis of comparison to incorporate and complete item 3.

Chairperson Deniel advised that in her notes she quoted reference rates and will incorporate in her review of the draft policy. Chairperson Deniel suggested that on page 6 of the draft policy, Item A – Credit Risk should be part of the administrative portion of the policy.

Board Member Moulin advised of the various risks listed and suggested that Staff research GASB 40 to see if it could be incorporated along with the listed risks into a separate section within the policy.

Mr. Falconer advised that Staff will research if GASB 40 could be incorporated into the policy legally.

In response to Board Member Moulin, Chairperson Deniel suggested that a notation be placed within the policy possibly stating "due to the significance of this area, risk has been listed in a separate section within the policy" and the section should not include foreign currency, settlement risks or operation risks.

Chairperson Deniel recapped for the Board their assigned portion of the policy to review.

In response to Board Member Park, Chairperson Deniel suggested that all revisions be completed by February 29th. Chairperson Deniel also suggested that Board Members Rassi and Park possibly schedule a meeting with Staff to review any of their additions and/or changes to the policy.

Mr. Falconer advised the Board that he will be out of the office the first week in March.

Mr. Falconer advised that included in the agenda packet was information regarding CDARS and Cal-Trust for the Board's review and possible consideration of incorporation into the investment policy.

Chairperson Deniel advised not incorporating either into the policy because they address individual investments.

General discussion ensued by the Board and Staff regarding Cal-Trust and CDARS.

MOTION - It was moved by Board Members Moulin/Deniel to continue the discussion of the Fiscal Year 2008/09 Work Plan Investment Policy to the February meeting. Motion carried unanimously.

VI CORRESPONDENCE AND WRITTEN MATERIAL

A . Month End Cash Report

Mr. Falconer advised that included on page 3 is an update by Citigroup on bond issuers and their current standings within the market.

Noted and Filed

B. Pooled Money Investment Board Report

Noted and Filed

VII BOARD MEMBER ITEMS

In response to Chairperson Deniel, Mr. Falconer summarized for the Board the Redevelopment Agency's terms "green money" and "red money" and how they are used.

VIII Adjourment

MOTION - It was moved by Board Members Ross/Daniel to adjourn the meeting at 5:45 p.m. Motion carried unanimously.

Submitted by,

**Vianka Orrantia,
Senior Secretary**