

CITY OF LA CAÑADA FLINTRIDGE

INVESTMENT AND FINANCING ADVISORY COMMITTEE Meeting of Friday, July 16th, 2010

Minutes

Call to Order

The meeting was convened at 7:34 AM at City Hall

Roll Call

IFAC Members Present: Kevin Tom, James Poindexter, Gene Stein, Jeff Wang, Keith Ban, Dave Hemstreet

Also Present: Dan Jordan, Director of Finance

Introduction of New Member, Kevin Tom

City Treasurer Jeff Wang introduced Kevin Tom, who was appointed to the IFAC to replace Doron Kochavi. Mr. Wang noted that while Mr. Tom had attended IFAC meetings in the past, this was his first meeting as an IFAC member.

Review of Minutes of April 16th, 2010 Meeting

The April 16, 2010 meeting minutes were moved for approval by Gene Stein and seconded by James Poindexter

Investment Policy Guidelines

City Treasurer Jeff Wang began the discussion about the City's Investment Policy Guidelines ("Guidelines"), reiterating some of the Guidelines' key characteristics, including the criteria for investments in the portfolio (in order of priority: Safety, Liquidity, and Yield) and the limitations on allowable investment securities. Mr. Wang then asked IFAC members for comments on the Guidelines, and whether any members had suggestions for amending the existing Guidelines.

IFAC member Dave Hemstreet asked why the Guidelines (in Appendix A) set a one-year maximum maturity limit on non-negotiable Certificate of Deposit investments, which is more restrictive than the five-year maturity limit imposed under State law. Mr. Wang noted that liquidity concerns were likely behind the one-year limit, and IFAC member Gene Stein added that penalties for early withdrawal of such investments might be several months of interest. Mr. Hemstreet concluded that, at

some future point, the IFAC might consider extending the maximum maturity limit for non-negotiable Certificates of Deposit to two years.

IFAC members continued to discuss various other components of the Guidelines, such as the 30% limit on the amount of callable securities in the portfolio, and whether the Guidelines had served as a useful guide to the City Treasurer during the 2008-2009 financial crisis. At the conclusion of the discussion, Mr. Wang noted that the consensus among the IFAC was that no changes to the existing Guidelines should be recommended to the City Council presently, although the provision limiting non negotiable Certificates of Deposit to a one-year maximum maturity could be examined at a future date.

Investment Portfolio Review and Near Term Portfolio Management

The discussion then moved to the City's investment portfolio. Jeff Wang noted that the City's investment portfolio had a very high level of cash as of June 30, 2010, but that this high liquidity level was seasonal and typical for this time of year. The cash balance would begin to decrease later in the year, particularly in October as the City made annual debt service payments for sewer-related loans to the State of California.

Mr. Wang then asked the IFAC for comments about the appropriateness of continuing to hold a \$500,000 par value Goldman Sachs security within the portfolio, given recent concerns about the impacts of the financial reform legislation on the financial sector generally and on Goldman Sachs in particular. IFAC members Gene Stein and James Poindexter noted that based on an economic or financial analysis, the Goldman Sachs bond remained a very sound investment, and that any questions facing the City Council was more political. Perhaps the only financial concern with holding a Goldman Sachs bond, according to IFAC member Kevin Tom, was the risk that financial reform legislation could result in a lower bond rating (perhaps below "A"), and that such a downgrade could result in a forced sale of the Goldman security based on this lower rating. This was followed by discussion of what the City's Investment Policy Guidelines called for when a security within the portfolio was downgraded below an "A" rating.

Outlook for Interest Rates and Economy

Gene Stein began the group's discussion about the current condition and future prospects for both the economy and interest rates. Mr. Stein noted that the second quarter of 2010 had been very challenging for certain national economies, particularly in certain parts of Europe, and that economic growth had certainly slowed. With slower growth, the main concern among Federal Reserve policymakers was shifting to deflation, rather than inflation, and that this concern had made any increases in interest rates very unlikely in the short term. Mr. Stein also noted his belief that a double-dip recession remained very unlikely.

Other IFAC members also expressed their insights on the current and future trajectory of the economy. Dave Hemstreet stated that he believed that the chance of a double-dip recession was probably 50-50, and that the United States was fortunate the US dollar was remaining strong, although there were trends that could lead to a declining dollar over time. James Poindexter noted that in speaking to bankers, he was being told that banks were continuing to have difficulty in finding credit-worthy borrowers, and that this lack of “good credits” was inhibiting bank lending. And Keith Ban stated that data from the regional utilities indicated that energy usage remained down, and that low demand for energy perhaps indicated a continuing period of low economic growth.

Other Matters

No other matters were discussed

Adjournment

There being no further business, the meeting was adjourned at 9:03 AM.