

# CITY OF LA CAÑADA FLINTRIDGE

## INVESTMENT AND FINANCING ADVISORY COMMITTEE Meeting of Wednesday, October 20<sup>th</sup>, 2010

**\*\*\*FINAL\*\*\***

### **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

### **Review of Minutes of July 16<sup>th</sup>, 2010 Meeting**

The July 16, 2010 meeting minutes were moved for approval by Dave Hemstreet and seconded by James Poindexter

### **Investment Policy Discussion**

City Treasurer Jeff Wang began the discussion by asking IFAC members whether the City's Investment Policy Guidelines ("Guidelines") should require the sale of securities that fall below a certain credit rating. Mr. Wang framed the question as having two parts: 1) Whether any such "sell trigger" requirement should be added to the Guidelines; and 2) if so, how such a trigger would work in practice (i.e., Would, for example, a downgrade to below "A" require the immediate sale of a security? Or that the security be sold within a certain timeframe?). Mr. Wang noted that he would be comfortable with some kind of minimum standard at which a security must be sold – perhaps a "BBB" rating from one or two rating agencies.

IFAC members expressed several opinions on whether to add a sell trigger provision to the Guidelines. IFAC member Dave Hemstreet noted that he would favor some form of trigger once a security was downgraded below "A", but that he would like to leave the City Treasurer with flexibility in deciding how quickly to sell it. IFAC members Keith Ban and Kevin Tom indicated that a sale requirement based on a credit rating downgrade raised several issues: Should a sell trigger apply if the rating on a security is withdrawn? Would adding a sell trigger to the Guidelines make the City too beholden to the judgment of rating agencies? Would a sell trigger based on a different event – e.g., a fall in the price of a security below a certain level – be a better way to deal with credit risk? IFAC member Gene Stein added that the

inclusion of a sale trigger provision in the Guidelines would, over the long term, likely result in the sale of securities that ultimately proved to be “money good” (i.e., all interest and principal payments were ultimately made on time and in full). However, in the rare occurrence when some form of default did occur, the sell trigger would result in the City having sold a security at the right time.

### **Sewer District 04-1 Update**

City Treasurer Jeff Wang informed the IFAC that, with the sewer project in Sewer Assessment District 04-1 complete, the City was now analyzing whether a reduction in the AD 04-1 assessment was feasible. Such a reduction might be feasible, Mr. Wang explained, because the debt service payments the City is making on the State Loan used to finance the sewer project are lower than the payments that we assumed when the assessment district was created. Mr. Wang noted that any such reduction in the assessment would have to account for the fact that the annual assessment would end four years prior to the term of the State Loan, and that the City would have to ensure that reserves accumulated from past years’ assessments were sufficient to pay these final four years of debt service.

There was general agreement among IFAC members that the City should forecast future revenue from future 04-1 assessment very conservatively to ensure that any reduction in the assessment level would leave sufficient reserves so that all future debt service payments could be made.

### **Investment Portfolio Review and Near Term Portfolio Management**

The discussion then moved to the City’s investment portfolio. Jeff Wang stated that interest rates remained low, and that the only “yield advantage” among bonds the City would consider for its portfolio were being offered by financial institutions. Mr. Wang then asked the IFAC their thoughts on the addition of financial sector securities to the City’s portfolio.

The consensus among the IFAC was that the additional yield associated with financial sector securities was probably not worth the risk for the City. IFAC member Gene Stein noted that markets remained very sensitive to any “bad news” about large financial firms, and that continuing problems related to mortgage-based securities could take years to resolve. IFAC member Kevin Tom added that the spreads on financial securities did not appear to be so favorable to justify the City taking on the (actual or perceived) risk of adding these investments to the portfolio.

### **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 stated that the economy had slowed in the second half of 2010, and as a result there appeared to be little prospect of higher interest rates in the near term, and perhaps not until the middle or

end of 2011. The big question for the economy would be the extent to which the large, emerging economies would continue to grow rapidly and, in doing so, “pull up” the economies of the U.S., Europe, and Japan. IFAC member Keith Ban believed that the U.S. economy was likely to experience “more of the same” for some time – i.e., slow growth, high vacancies, etc. This same “continued slow growth” sentiment was expressed by IFAC members Kevin Tom, James Poindexter, and Dave Hemstreet. Mr. Hemstreet, for example, stated that that the probability of the U.S. experiencing a “double-dip” recession was perhaps 50 percent.

### **Other Matters**

Finance Director Dan Jordan provided the IFAC with a brief overview of the City’s Fiscal Year 2010-11 Budget, which was adopted by the City Council in July 2010.

### **Adjournment**

There being no further business, the meeting was adjourned at 8:52 AM.