



**MEETING MINUTES OF THE CITY OF LA CAÑADA FLINTRIDGE
INVESTMENT AND FINANCING ADVISORY COMMITTEE
HELD ON FRIDAY, JULY 21, 2017**

1. ROLL CALL

City Treasurer Jeffrey Wang called the meeting to order at 7:31 AM.

Committee Members: City Treasurer Wang, Member Stein, and Member Tom present. Member Schwartz via conference call for the approval of the minutes.

City Staff: Carl Alameda, Director of Administrative Services.

2. REVIEW OF MINUTES OF APRIL 24, 2017.

M/S Stein/Tom to approve minutes of April 24, 2017 Regular Meeting. Approved 3-0-2 (McConnell and Thuss absent).

3. 2017-2018 BUDGET UPDATE

City Treasurer Wang reviewed the City's top ten general fund revenue sources for the upcoming 2017 - 18 Fiscal Year and at what levels these have been budgeted. Wang also provided an overview of the City reserve levels anticipated for the close of the current fiscal year and projected for the upcoming fiscal year. He noted that the City Council did take funds from reserves to fund capital projects in the upcoming 2017 - 18 Fiscal Year.

4. CITY HALL FINANCING UPDATE

Alameda provided an overview of the purchase of the new City Hall building located at One Civic Center Drive. The building's total purchase price was \$11,230,000. Under the terms of the agreement, the City will pay \$5,650,000 up front at the close of escrow, and the remaining \$5,580,000 will be secured with a promissory note. The City will have a grace period of 30 months, during which time no payments on the balance are due and no interest will be accrued. At the end of the 30-month term, the City will determine the appropriate financing option for the remaining balance.

Recently, the City also finalized a sale agreement for the current City Hall building for a sale price of \$3,300,000, which will provide certainty for the City and the buyer is flexible to work with the City on a moving date. This will assist to replenish reserves. Additionally, the City's new purchase also includes a second building currently leased to a Montessori School, which can be subdivided and sold in the future.

City Treasurer Wang stated the City will have the option to finance the balance of the purchase itself or use an outside firm to finance the balance of the purchase. Wang pointed out the transaction costs for this amount of financing, if done externally is expected to cost between \$250,000 to \$300,000, which would be an amount higher than the City's earnings on the portfolio. However, while the spread is negative, it would allow for the City to maintain the reserve level at a higher level in line with the City Council's adopted goals.

Wang stated the City's reserve level currently is at approximately \$12,500,000, taking out the balance to pay down the amount in full would place the City's reserve level at \$6,920,000. Wang had also explored opening a line of credit as a method to increase the cash available to the City at any given time should the need arise. This could be a possibility, should a decision be made to pay the balance in full at the end of the 30-month period.

Member Stein asked what the estimated spread would be between the financing costs and the City's investment return on the money if held in reserves. Wang responded the spread would optimistically be about 100 basis points, to the negative, as the City would pay a greater amount in debt service than the portfolio would yield. After discussion, it was agreed that the spread would be close to 200 basis points.

Member Tom stated that the current market rate for 30 year debt at this level for a barrow like the City is running about 4 percent.

Member Stein suggested another approach to be considered would be barrowing the funds from the City's reserves and structuring an annual pay-back to the City in the operating budget annually. Should the City Council decide to pay down remaining balance increases.

City Treasurer Wang stated he believes the best approach would be doing a blend at some level, paying down the balance in part and financing the remainder of the balance. The City will be receiving the proceeds from the sale of the current City Hall building during this time, which can be used in-whole or in-part toward the balance. Wang stated in the end it is a policy question for the City Council, as to the level they wish to see the City's reserves.

Alameda stated the City Council is currently planning this Fall 2017, to hold joint meetings with all the City's advisory commissions and committees. The discussion of the City's reserve level percentage and/or minimum dollar level would be a good discussion item for the meeting with the Investment and Financing Advisory Committee.

5. INVESTMENT PORTFOLIO AND NEAR-TERM PORTFOLIO MANAGEMENT.

City Treasurer Wang informed the Committee he recently completed the sale of the Wells Fargo (Wells) Corporate Bond held in the City's Portfolio. He had received a call from the City's investment advisor informing him that a ratings agency had flagged Wells Fargo's Debt and the advisor no longer could recommend the purchase of Wells' debt instruments by California municipalities after the issuance of this warning. The advisor didn't state they were taking the position that agencies should sell Wells bonds currently held in their investments portfolios.

Wang informed the group he takes the view, if you own the security, you're making the decision comparable to buying the security by continuing to hold it in the portfolio. Given the top priority of the City's portfolio is safety, Wang didn't view continuing to hold this security as appropriate. When the Wells security was purchased, it yielded 2.21 percent and when sold yielded 1.83 percent. The cash yield is now 1.04 percent and overall the City did have an investment gain in the security.

Member Tom asked if the investment advisor provided any guidance on the placement of the \$500,000 from the sell of the Wells security.

Wang stated he does not plan to make any new purchases until rates settle. Currently, the City's level of corporate debt in the portfolio is \$5.5 million, it was \$6 million prior to the sale of the Wells position. Wang believes the \$6 million level will likely be the peak, there is a percent maximum within the City's Investment Guideline as to what the maximum percentage that can be invested in corporate debt of the overall portfolio.

Member Stein inquired if there are any upcoming maturities within the Investment Portfolio.

Wang stated that two corporate issuances of IBM and GE will be coming up in the near term and both have very low yields. He will be looking to replace, likely with an agency issuance.

6. OUTLOOK FOR INTEREST RATE AND ECONOMY.

Member Stein stated that the economy continues to grow at just under 2 percent; although, the stated growth goals are higher. It is likely we remain at this level for the rest of the current economic cycle. Something unknown may trigger us into a recession. The Fed has been raising the Federal Discount Rate in quarter point increments and will likely remain on this pace. The Fed will likely stop their tightening once they reach 2.0 to 2.5 percent, which will match inflation, having the affect to drive up long term interest rates. China will continue to grow at a pace above the rest of the World average.

Member Tom stated interest rate increases continue and we are nearing full employment, but wage growth is stagnating, which is driving down Gross Domestic Product (GDP). The Fed can continue to increase rates without affecting the economy, which has created confidence. Tapering of the Federal Reserve's portfolio will have a larger impact likely on the debt market, than the Fed's rate increases.

7. OTHER MATTERS.

Alameda informed the Committee, the City is currently in the process of recruiting for a new Director of Finance. The recruitment process closes on Monday, August 14, 2017.

ADJOURNMENT.

There being no further business, City Treasurer Wang adjourned the meeting at 8:45 AM.

A handwritten signature in black ink that reads "Carl Alameda". The signature is written in a cursive style with a large initial "C" and a long horizontal stroke extending across the name.

Carl Alameda
Director of Administrative Services