

**LOCAL INVESTMENT ADVISORY BOARD  
915 Capitol Mall, Room 110  
Sacramento, CA 95814**

**Minutes  
May 17, 2006**

Director of Investments Daniel Dowell, acting as Chairperson for State Treasurer Phil Angelides, called the Local Investment Advisory Board (LIAB) meeting to order at 1:30 p.m. on Wednesday, May 17, 2006.

**AGENDA ITEM 1: Roll Call**

LIAB members present were Russ Branson, Martin Krieger, Leslie Wells, and Daniel Dowell representing State Treasurer Phil Angelides. A quorum was present. The State Treasurer's Office staff in attendance was Deputy Treasurer and LIAB Executive Secretary Dennis Trujillo, Christine Solich, Eileen Park, Pam Milliron, Cathy DiSalvo, and Diann Theis. Dan Dowell welcomed new LIAB Board member Martin Krieger.

**AGENDA ITEM 2.A: Approval of the October 5, 2005, Minutes**

The minutes for the October 5, 2005, meeting of the LIAB were approved as submitted with a motion by Mr. Wells and seconded by Mr. Branson. The motion passed unanimously.

**AGENDA ITEM 2.B: Quasi-Governmental Agency Application: San Antonio Water Company**

Ms. Park presented the San Antonio Water Company's (SAWCO) application to join the Local Agency Investment Fund (LAIF) as a quasi-governmental agency. She stated that Government Code 16429.1(c) provides that an officer of a qualified quasi-governmental agency, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the LAIF program for investment purposes. Government Code 16429.1(g) states that the LIAB shall determine those quasi-government agencies that qualify to participate in the LAIF program.

Ms. Park stated that the LAIF program was created by statute for the benefit of California local agencies. The LAIF staff, in consultation with the State Treasurer's Office legal counsel, use number of factors to determine if the agency that wants to participate in LAIF qualifies as a quasi-governmental agency. Based on a review and analysis of SAWCO's documents and information, the LAIF staff recommends that the Board

approve SAWCO as a qualified quasi-governmental agency and be allowed to make deposits into LAIF for investment purposes.

The analysis concludes that SAWCO is a political instrumentality that has thorough provisions of law, charter documents, or indentures. The entity also has control over the management of SAWCO and its operations, and can make amendments to its charter documents and indentures. The primary public purpose of SAWCO is to provide domestic water at actual cost to residential and commercial shareholders as well as to the City of Upland. Most importantly the City of Upland is a 68 percent shareholder, a majority shareholder in the water company, and has control over the water company's governing documents and board of directors.

After discussing the SAWCO application and the staff recommendation, Mr. Wells moved to accept the San Antonio Water Company into the LAIF program as a qualified quasi-governmental agency. Mr. Krieger seconded the motion. The motion passed unanimously.

**AGENDA ITEM NO. 3.A: Evaluation of 2005 Annual LAIF Conference.**

Ms. Park provided an evaluation report of the 2005 Annual LAIF Conference conducted on Thursday, October 6, 2005, at the Sacramento Convention Center. The conference was used to keep the program participants apprised of current economic and market issues that might affect LAIF and the management of State and local government funds in the Pooled Money Investment Account. A post conference tour is held on Friday, October 7, 2006 at 7:00 a.m. at the State Treasurer's Office. The tour allows LAIF participants to view the actual trading process as it occurs.

Ms. Park reported that 90 participants representing 77 local agencies attended the conference. Twenty-four people attended the post-conference tour. Conference attendees noted on their evaluation forms that they attended the conference to understand the LAIF operations, to meet the LAIF and investment staff who manages their funds, and to keep apprised of current information about the Treasurer's Office, the LAIF program and the market.

Ms. Park stated the overview of the PMIA and LAIF programs, the analysis of the State budget and its impact to local agencies and the presentation of the risks and rewards of investing in FNMA and FHLMC were well received. She also stated that the participants enjoyed the new luncheon format that allowed them to learn more about the State Treasurer's Office, Boards, Commissions, and Authorities programs and functions.

**AGENDA ITEM 3.B: Planning 2006 Annual LAIF Conference**

Ms. Park presented the plans for the 2006 Annual LAIF Conference. The 2006 LAIF Conference will be conducted on Thursday November 30, 2006. The conference sessions are expected to run from 9:00 a.m. to 4:00 p.m. The post-conference tour will be conducted on Friday, December 1, 2006, at 7:00 a.m. at the State Treasurer's Office.

For the proposed 2006 conference program, Ms. Park stated that Maria Fiorini Ramirez, chief economist with MFR Securities, will provide her economic outlook for the U.S. economy and its effect on California. Director of Investments Dan Dowell and Assistant Director Chris Solich will provide an overview of the LAIF and PMIA programs and operations. The California Municipal Treasurers Association (CMTA) legislative committee chair, Laura Parisi, and a California Debt and Investment Advisory Commission staff person will provide an update on local government finance legislation.

The Board members discussed the proposed conference program and offered their suggestions for conference sessions. Suggested topics discussed included credit issues affecting the portfolio, the time deposit program, implementation of GASB 40 requirements, and evaluating the suitability of investment vs. benchmarks.

Ms. Park would incorporate the Board members suggestions, as appropriate, and finalize the conference program.

#### **AGENDA ITEM 4: Overview LAIF Operations and PMIA Performance**

##### **PMIA Performance**

Ms. Solich reported on the performance and operations of the Pooled Money Investment Account (PMIA). The PMIA totaled \$62.6 billion as of May 17, 2006. The portfolio is nearly \$10.0 billion higher than in the previous month due to increased income tax, capital gains and sales tax coming into the State coffers. She stated that the average life of the portfolio was 158 days. The daily rate was 4.59 percent. The quarter-to-date rate was 4.39 percent and the year-to-date rate was 3.75 percent as of May 17, 2006. The PMIA portfolio is continuing to meet cash-flow needs of the State and LAIF participants. She stated that the Pool continues to track the Fed Funds rates as the Fed continues to raise rates. She estimated that the June 30, 2006 quarterly apportionment rate would be about 4.50 to 4.55 percent.

Ms. Solich introduced two new members of the Investment Division management team— Pam Milliron, who is managing the State's Time Deposit Program and Cathy DiSalvo, who is the Pool's credit manager.

##### **LAIF Operations**

Ms. Park stated that there have been two apportionment rates since the last board meeting on October 5, 2005. For the record, the quarterly apportionment rate was 3.63 percent with administrative costs equaling 0.29 percent of earnings for the quarter ending December 31, 2005. The quarterly apportionment rate was 4.03 percent with administrative costs equaling 0.24 percent of earnings for the quarter ending March 31, 2006.

Ms. Park stated that LAIF is benefiting from increased revenues at the state and local levels and continues to be about 30 to 33 percent of the total PMIA. As of May 17, 2006 LAIF deposits total \$15.7 billion.

Ms. Park announced that the Bureau of State Audits independent auditor's report for the period ending June 30, 2005, has been posted to the State Treasurer's website. This financial report was completed under the new GASB 40 disclosure requirements with assistance from Mr. Dowell and Ms. Solich of the State Treasurer's Office and representatives of the State Controller's Office.

Ms. Park informed the Board that she was in the beginning stages of developing online monthly LAIF statements with the State Treasurer's Office Information Technology staff.

She also informed the Board that the LAIF staff was in the process of their periodic account update process. This process is undertaken to maintain that the integrity of the local agencies' account information in the LAIF database system and reminds local agencies of their responsibility to keep the LAIF program informed of changes to the authorized personnel, financial institution relationships, and other account related data.

She also reported that in April 2006, Mr. Dowell and she attended the California Municipal Treasurers Association (CMTA) annual conference in Monterey and made a presentation about the PMIA and LAIF programs. She stated that in June 2006, Mr. Dowell and she would be attending the annual conference of the California Association of County Treasurers and Tax Collectors (CACTTC) in Riverside.

**AGENDA ITEM 5: Public Comment**

There was no public comment for this meeting.

**AGENDA ITEM 6: Other Business**

Mr. Krieger asked if the other Board members had any information about AB 2011, which deals with removing the collateral requirements for local deposits and banks.

Mr. Dowell stated the State Treasurer's Office has not taken a position on AB 2011 (Vargas), but he has provided comments and analysis of these proposed changes in law to the bill's author and staff. About 12 banks support AB 2011 and the proposed changes in local agency deposit law would give agencies the authority to use brokered deposits. The changes would allow the local agencies to be use banks outside of the State of California to facilitate these deposits. These out-of-state banks would break down the agency's deposit into smaller deposits within the FDIC deposit limits. An equal deposit would then be reciprocated from the out-of-state bank to a California bank. These deposits would not need to be collateralized, as they would be within the federal insurance limit. He suggested that the author's analyst contact the FDIC to have them opine on this legislative proposal which appears to be a way for the banks to circumvent the collateral requirements set forth to secure public funds.

Mr. Branson stated that he would not support putting any of the City of Roseville's funds into a non-collateralized deposit.

Ms. Park stated that Laura Parisi, the CMTA legislative chair, asked for information about AB 2011.

Mr. Wells asked about AB 1794 that proposes to remove the 10 percent statutory limits on investments in commercial paper.

Mr. Dowell stated Tustin City Treasurer George Jefferies brought this bill to his attention. This bill was sponsored by Orange County. The State Treasurer's Office has not taken a position on this bill. However, he stated that legislative committee members and the author's office have contacted him for comments. This proposed change removes the limit that restricts local agency's portfolios from owning more than 10 percent of any one issuer's outstanding commercial paper. The reason stated to justify the proposed law change was that it was difficult for local agencies to obtain information about how much was outstanding for an issuer's commercial paper program on a daily basis as they made their investment decisions.

He explained that the State's legal authority for eligible securities for the investment portfolio also includes a limit on the Pool's exposure to any one issuer of 10 percent of the outstanding commercial paper. He explained that this "outstanding" information is used to perform due diligence on the company. The investment managers track the fluctuations in the issuers outstanding to monitor business cycles and their access to the market. The access to this information keeps the Treasurer's Office in contact with the company and we use this information to monitor the company's credit.

Mr. Dowell stated that he did not see the gathering of "outstanding" information as onerous for any investment portfolio. The information is readily available from the direct issuer and from the broker/dealer community. He also explained that for some of the smaller local agency portfolios, it could be possible for a portfolio to have its entire portfolio concentrated in a single issuer's name and still be within the 10 percent limit on the issuer's outstanding. While the management of local government portfolios is the responsibility of the local agencies, to remove limitations such as the 10 percent limit could go against the investment policy objectives that focus on diversity and safety.

Mr. Wells stated that some of the local government associations are looking at this bill, which seems to be a law change being pursued by the counties.

#### **AGENDA ITEM 7: Adjournment**

They're being no further business; the meeting was adjourned at 2:45 p.m.