

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

**Minutes
November 29, 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, November 29, 2006.

AGENDA ITEM 1: Roll Call

LIAB members present were, Martin Krieger, Leslie Wells, and Daniel Dowell, Director of Investments representing State Treasurer Phil Angelides. A quorum was present. The State Treasurer's Office staff in attendance were Deputy Treasurer and LIAB Executive Secretary Dennis Trujillo, Christine Solich, Assistant Director of Investments, Eileen Park, LAIF Administrator, and LAIF analysts Diann Theis, Janice Hayashi, and Sean Collier.

AGENDA ITEM 2.A: Approval of the May 17, 2006, Minutes

The minutes for the May 17, 2006, meeting of the LIAB were approved as submitted with a motion by Mr. Wells and seconded by Mr. Krieger. The motion passed unanimously.

**AGENDA ITEM 2.B: Quasi-Governmental Agency Application:
La Mirada Community Foundation**

Ms. Park presented the La Mirada Community Foundation to be classified as a qualified quasi-governmental agency eligible to invest its funds in the LAIF program.

The LAIF staff, and in consultation with legal counsel, use a number of factors to determine if the agency that wishes to participate in LAIF, qualifies as a quasi-governmental agency.

Ms. Park stated that there are seven determining factors developed by the LAIF program. Basically, not all criteria or factors have to be met but there has to be an overall public purpose for the program that wishes to come into LAIF. The staff also looks into how the agency is governed and whether there is a governmental agency that recognizes them. "Does the agency have a form of open meetings and open disclosure that governs their practices in the way they do business?"

The main factors examined were open disclosure, how the entity is governed, rule making, oversight for the entity and the overall public purpose of the entity's practices.

Ms. Park stated that the staff respectively recommends that the La Mirada Community Foundation be considered a quasi-governmental agency for the purposes of investing in LAIF and be allowed to make deposits in the program. The Foundation has a board of directors governed by the City of La Mirada and its specific public purpose is to provide charitable, literary and educational resources.

Mr. Dowell announced that Russ Branson arrived at 1:35pm.

Mr. Branson made a motion to accept the La Mirada Community Foundation as a quasi-governmental agency. Mr. Wells seconded. The motion passed unanimously.

AGENDA ITEM NO. 3: Annual 2006 Local Agency Investment Fund Conference

Ms. Park was pleased to announce the 2006 annual conference scheduled for the next day. The final conference agenda was attached in the agenda materials. As of November 28, 2006 there were 127 registered attendees for the LAIF Conference for the all day session on Thursday, November 30, 2006. There were several expected to register late so we estimate 130 attendees. There are 62 special districts, 29 cities, and 12 counties attending the conference. Nine attendees from financial institutions and state agencies are also registered for the event. About 54 percent of the attendees will be attending the LAIF conference for the first time. Also 35 people are signed up to come to the post conference tour on Friday, December 1, 2006 at 7am. Attached is the list of the conference attendees.

Ms. Park introduced Sean Collier as the new LAIF Conference Coordinator and went over the agenda and duties of the board members at the conference. She indicated that the board will lead the Pledge of Allegiance at the opening of the conference, and Maria Fiorini Ramirez will cover the U.S. Economic Outlook. Following Ms. Ramirez's presentation there will be a break and then Ms. Solich and Mr. Dowell will present an Overview of the LAIF Operations, PMIA goals and objectives, and the implementation of GASB 40.

Ms. Park invited the board members to join the post conference tour on Friday December 1, 2006.

Ms. Park announced a slight change in the luncheon format there will be networking opportunities and Treasurer Angelides will speak as he ends his term as State Treasurer. The session following lunch features Marianne O'Malley of the Legislative Analyst's Office with an update on the current fiscal year budget. Following the budget update there will be an overview of the debt and investment bills that have been enacted at both the Federal and State levels with Laguna Beach Treasurer, Laura Parisi and CDIAC staff, Kristin Szakaly-Moore. The conference will end with a help desk session.

AGENDA ITEM 4: Overview LAIF Operations and PMIA Performance

PMIA Performance

Ms. Solich presented the portfolio overview. The portfolio book value total was \$53.9 billion dollars as of November 29, 2006, with an average life of 190 days. The daily yield was 5.13 percent and the quarter to date yield was 5.11 percent. The apportionment rate looked like it was going to be 5.11 percent or a basis point higher at quarter end. The year to date yield moved to 5.00 percent.

Ms. Solich indicated that the Fed Chairman Mr. Bernanke spoke the previous day and signaled that the economic slowdown is “taking place roughly along the lines envisioned in the Federal Reserve’s July Report.” He indicated that core inflation is expected to gradually slow over the next year. But failure of this to occur would be extremely troublesome for the Fed and there is upside inflation risk. Given this speech most economists expect the Fed to keep monetary policy unchanged for a good deal longer and there is no panic about slow economic growth, which they believe is a necessary condition to lower core inflation. Housing prices remain a concern. In the last ten years housing prices increased 110 percent so a correction was expected and has been tempered by a tight labor market with growth and wages.

Ms. Solich reported that the investment staff met with the incoming Treasurer and his senior staff in the last couple of weeks. They were briefed on investment and LAIF operations. They were pleased with the operating briefing and didn’t expect there to be any major changes in our programs.

Mr. Krieger asked if the investment staff knew why there was a gradual decline in the last three years of LAIF participants since the LAIF rate is high.

Ms. Solich stated that there are several reasons. One reason is local governments were chasing yield and investing at higher rates outside of LAIF. Local governments have their own cash flow needs and therefore we were at a historically low participation balance of about \$15 billion dollars.

Mr. Dowell stated that due to the inversion of the yield curve and the fact that the high point was in overnight yields, local governments were investing overnight outside of LAIF and getting a much better rate than we were offering. He stated that it was not possible to take \$53 billion dollars and put it in an overnight fund, therefore it has to be spread out resulting in slightly lower returns. Even though the rate is moving up, it is moving up slowly. He expects that local governments are just shortening up their own personal investments.

Ms. Solich stated that if the Fed decides to keep rates stable or decrease rates the agencies will start coming back in because our rates will likely be a little higher.

LAIF Operations

Ms. Park presented the LAIF operations report. She stated that the graphics included in the packet covered Mr. Krieger's question. As of September 30, 2006 the participation level is 2,622 agencies. The number of agencies themselves counties, cities, special districts, don't fluctuate very much it is the Bond accounts that fluctuate the most. When the fund was at its peak there were over 3000 agency accounts; many of them were trustee and regular bond accounts. At that time the fund was at \$23 billion dollars, with the highest point on April 2003. But now with the rates going the other way these accounts are closing and not coming back as quickly because the agencies are chasing yields from other sources.

At the quarter ending September 30, 2006, LAIF was 27.04 percent of the pool and the total LAIF pool was \$15.705 billion dollars. As of close of business November 29, 2006, the pool was \$15.093 billion.

Ms. Park covered LAIF outreach, conducted by investment staff. Director Dan Dowell and Ms. Park attended the California Association of County Treasurers and Tax Collectors annual conference in Riverside in June. State Treasurer Candidate Bill Lockyer was a featured speaker at that event. She also stated that they would be attending the California Society of Municipal Finance Officers annual conference in Modesto in March. And will also be attending the CMTA annual conference in early May in Long Beach.

Ms. Park covered other operational issues including working with IT staff to develop the LAIF monthly statements online. Staff is also working on system and form changes related to the transition.

AGENDA ITEM 5: Public Comment

There was no public comment for this meeting.

AGENDA ITEM 6: Other Business

Mr. Wells stated that he had attended a Division IX meeting in Orange County. The Treasurer-elect Chris Street, who was marketing his pool to the constituents, was present at the meeting and made a few incorrect or unknowledgeable statements in regards to LAIF. Mr. Wells invited Mr. Dowell and Ms. Park to attend the CMTA Orange County Division IX meeting in order to be available to answer questions.

Mr. Wells didn't want anyone leaving the Division IX meeting with any misunderstandings about LAIF.

Mr. Dowell thanked Mr. Wells for coming to the defense of LAIF, and stated that is a very important part of the Board members duties.

AGENDA ITEM 7: Adjournment

They're being no further business; the meeting was adjourned at 2:01 p.m.