

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

**Minutes
June 1, 2005**

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, June 1, 2005.

AGENDA ITEM 1: Roll Call

LIAB members present were Russ Branson, Leslie Wells, and Daniel Dowell representing State Treasurer Phil Angelides. A quorum was present. The State Treasurer's Office staff in attendance were Christine Solich, Eileen Park, Diann Theis, and Donna Young.

AGENDA ITEM 2.A: Approval of the Minutes

The minutes for October 26, 2004, meeting of the LIAB were approved as submitted with a motion by Mr. Wells and seconded by Mr. Dowell.

AGENDA ITEM 2.B.1 and 2.B.2: Application for Participation by Quasi-Governmental Agency: State Bar of California and Orange County Great Park Corporation.

Ms. Park presented Agenda Item 2.B, that called for the LIAB to consider applications from two agencies for participation in the Local Agency Investment Fund (LAIF) as quasi-governmental agencies. Government Code Section 16429.1(c) states, "that an officer of a qualified quasi-governmental agency, with 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 Local Agency Investment Fund for the

purpose of investment.” And further Government Code Section 16429.1(g) states that the “Local Investment Advisory Board shall determine those quasi-governmental agencies which qualify to participate in Local Agency Investment Fund.” The LAIF program was created by statute for California local agencies.

Ms. Park explained that staff works in consultation with the State Treasurer’s Office legal staff and analyzes the applicants’ documents against a number of determining factors on whether an agency that wishes to come into the LAIF program qualifies as a quasi-governmental agency. Historically, the LAIF program uses seven factors to determine if the applicants are quasi-governmental agencies. While not all determining factors are required to be met, generally the program feels it is essential that there is a public purpose for the agency through a provision of law, charter, documents, or indentures; that there is public control over management and operations; and that there is public oversight and a process for review of future amendments to their bylaws, officers and other businesses of the agency.

Ms. Park presented applications from the State Bar of California and the Orange County Great Park Corporation. Staff worked with State Treasurer’s Office legal counsel to analyze the documents and the information provided by both agencies.

After a Board discussion of the staff analysis, Mr. Wells moved to accept the State Bar of California and the Orange County Great Park Corporation into the LAIF program as qualified quasi-governmental agencies. Mr. Branson seconded the motion. The motion passed unanimously.

AGENDA ITEM NO. 3.A: **Evaluation of the 2004 LAIF Annual Conference.**

Ms. Park reported to the Board members on the evaluation of the 2004 Annual LAIF Conference held on Wednesday, October 27, 2004, at the Sacramento Convention Center and the post conference held on October 28, 2004, in the State Treasurer’s Office.

The evaluations show that the conference was well received and the participants thought the speakers were informative. The session on asset backed commercial paper was viewed by many of the attendees as being too complex to be covered in a one hour session or too advanced, or not relevant, to their day-to-day investment decisions due to the size of their portfolios.

Board members discussed the evaluations for the asset-back commercial paper session and suggested ideas on how to handle complex investment topics in the future.

AGENDA ITEM No. 3.B Planning the 2005 LAIF Annual Conference

Ms. Park reported on the plans and development of the 2005 LAIF Conference. The 2005 Annual LAIF Conference is scheduled for Thursday, October 6, 2005 at the Sacramento Convention Center. Staff expects the conference program to run during the same time frame as in previous conferences--from 9:00 a.m. until 3:30 or 4:00 p.m. The post conference tour will be conducted Friday morning, October 7, 2005, in the offices of the State Treasurer's Investment Division.

The core program has already been confirmed. Dr. Maury Harris of UBS has agreed to speak on the state of the economy. Director of Investments Dan Dowell and Assistant Director of Investments Christine Solich will provide an overview of LAIF and the PMIA programs. Ms. Park proposed that the legislative session and technical assistance session be kept as sessions for the conference. Ms. Park reported Charlene Parker, Anaheim City Treasurer and the new CMTA Legislative Chair and Frank Moore from the California Debt and Investment Advisory staff will provide a legislative update. State Treasurer Phil Angelides will be keynote speaker during the lunch period. Ms. Mary Ann O'Malley with the Legislative Analyst's Office has confirmed that she will provide an overview of the State budget and its impact on local agencies.

For a topical or current events session, Ms. Park proposed a panel on the credit and market concerns related to government sponsored enterprises (GSEs), in particular the Fannie Mae and Freddie Mac agencies. She proposed a panel, led by the State Treasurer's Office trader and credit analyst, Mr. William Dowell, who will set the stage on how the investment team views these agencies and how these securities are used in the PMIA's portfolio strategies. Staff suggested including on the panel a local government investment officer, a credit rating analyst, and a representative from the broker/dealer community--all who specialize in GSEs.

Board members discussed the GSE panel idea and provided suggestions to the staff.

Ms. Park stated that she would consider all comments in the final conference brochure. The staff expects to release the conference brochure at least 8 weeks prior to the event to LAIF agencies via mail and on the website. Staff will also advertise through the local government associations. Staff strives to keep the costs of the conference affordable. Staff will make every effort to keep the conference cost close to \$100.00 per person; but it will be difficult as facility costs and other costs increase. The goal of the conference budget is to break even.

AGENDA ITEM 4: Overview LAIF Operations and PMIA Performance

PMIA Performance

Ms. Solich provided a report on the performance and operations of the PMIA. The PMIA fund totaled \$60.6 billion as of June 1, 2005. The average life of the portfolio was 175 days. The daily rate was 2.94 percent, the quarter-to-date rate was 2.08 percent and the year-to-date rate was 2.18 percent. The LAIF apportionment rate for the quarter ending March 31, 2005 was 2.38 percent. She stated that this performance level for the PMIA accounts for 8 tightening moves by the Fed in the last year.

Ms. Solich reported on significant portfolio events. She estimated that the 2005-06 fiscal year PMIA rate, would likely be 3.5 percent to 4 percent. The estimate is dependant on the current economic scenario and the federal funds moves.

Ms. Solich explained the PMIA investment strategies, cash flow projections, and other portfolio related issues to the board.

Ms. Solich also reported that she has met with staff of the State Controller's Office (SCO) to establish criteria for GASB 40 reporting. These revised reports will be incorporated in the 2004-05 fiscal year comprehensive financial reports.

LAIF Operations

Ms. Park reported that the annualized administrative cost of the LAIF program was about one basis point of earnings for the fiscal year. In the very lowest interest rate environment for the program, the costs have been managed and controlled; and were within the statutory cap. As of June 1, 2005, LAIF totaled \$19.3 billion. The LAIF balances are expected to decrease slightly as local governments need their funds for fiscal year-end responsibilities; and as some invest in other securities now that rates are increasing. These are normal cash flows for the program and the portfolio has the liquidity to accommodate the LAIF agencies needs.

Ms. Park stated that the graphics in the Board members' meeting materials show that LAIF is about 32 percent of the total Pool and about 2,700 agencies are participating in LAIF. The LAIF deposits chart shows that as a voluntary investment program, some agencies have used their funds to access other markets or to pay for operational needs facing local agencies at the end of the fiscal year.

Ms. Park also reported that Mr. Dowell and she attended the CMTA Annual Conference in San Diego in April 2005, as presenters at a LAIF round table. The CMTA was very pleased that State Treasurer Phil Angelidies was the keynote speaker at their opening lunch on Wednesday, April 20, 2005.

Ms. Park reported that the LIAB Executive Secretary Ted Eliopoulos was recently appointed as the Chief Deputy of the State Treasurer's Office. In his place, the Treasurer has appointed Dennis Trujillo to the position of LIAB Executive Secretary.

Ms. Park announced that Kim Lee who has worked with Investments and LAIF during the last nine years has left the Division and taken an analyst position with the California Pollution Control Financing Authority. Ms. Park announced that Diann Theis will fill the vacancy left by Ms. Lee and will test for the advanced position in the near future.

AGENDA ITEM 5: Public Comment

There was no public comment for this meeting.

AGENDA ITEM 6: Other Business

There was no other business at this meeting.

AGENDA ITEM 7: Adjournment

There being no further business, the meeting was adjourned at 2:36 p.m.