TREASURY OVERSIGHT COMMITTEE MINUTES
July 14th, 2011 at 10 a.m.
Room 316, City Hall

1. Call to Order and Roll Call

Leo Levenson, Budget and Analysis Director, called the meeting to order at 10:03 a.m. The following Committee members were present: Joe Grazioli, Don Griffin, Todd Rydstrom and Richard Sullivan. Ben Rosenfield, Controller, was excused.

2. Discussion and Action to Approve Minutes

The minutes of April 22, 2011 were unanimously approved with 2 edits. There was no public comment.

3. Review of the Treasurer's Recent Investment Performance

Jose Cisneros, Treasurer, thanked the Committee for their good work on behalf of the Treasurer's Office. He also reintroduced his staff – Pauline Marx (Chief Assistant Treasurer), Michelle Durgy (Chief Investment Officer) and Brian Starr (Investment Analyst). There was a correction to the first page of the Investment Report for the month of June 2011.

Mr. Starr provided the economic and financial market update. Consumers are still financially restrained both by assets and income. At this time, job creation is insufficient to lower unemployment. The unemployment forecast for year-end is 8.8%. The housing market appears unlikely to reach equilibrium for the next 7-10 years. The average CPI forecast for 2011 and 2012 is 3.0% and 2.1%. Overall, U.S. economic growth is slower than expected due to consumer weakness and geopolitical issues. The geopolitical issues include Greece receiving multiple bailouts and the fear of sovereign debt crisis contagion.

Ms. Durgy said the market, in terms of the U.S. Treasury yield curves, is reflecting changes in the outlook for the U.S. economy. Earlier investment in agencies in December by the Treasurer's Office was fortunate as reflected in the yields. Additional investment in these agencies will not happen at the current levels. The short term cash position has been increased and will be on hold for the near term. Some of the yields have retraced their highs due to sell-off from the Japanese crisis as investors flee to quality and purchase Treasuries to feel better looking for some stability and confidence in their portfolios.

There are also questions about the stability of the United States in view of the deficit, stories in the news about possible downgrades from Moody's and political posturing. Ms. Durgy expressed the opinion that a downgrade will probably not happen because it is too important and the impact. California is looking to sell $5 billion of revenue anticipation notes to cover operating expenses. Federal legislators have been slow to cut the deficit which means forecasts for 2011 and 2012 are at -9.2% and -7.0%. The 10-year U.S. Treasury Note, at the end of June 2011, reflects a rally that pushed yields below 2.85%. CCSF cannot invest in the 10-year Treasury. Prices remain volatile. European banks are purchasing Treasury notes.

The current Federal Funds rate range of 0 – 25 basis points, There is 100% consensus among economists and Fed watchers this is a range that is lower than usual. Their expectation is that Federal Funds rate increase is more than nine months away (in April 2012) with a slow rise expected thereafter.

The Investment Report was reviewed. Ms. Durgy said the earned income yield for all CCSF funds as of June 2011 is 1.20%. The largest holdings are in U.S. Treasuries (11% of the portfolio), federal agencies (65.1%) and the Temporary Liquidity Guarantee Program (18.0%).

Long term purchases have been made but the CCSF portfolio is very liquid at this time. The asset allocation 5-year history reflects the strategy change of slowly adding credit in small pieces. The Negotiable Certificates of Deposit (CDs) represent about 5% of the fund. There is also investment in Canadian banks because their balance sheets are very stable and strong. There continues to be confidence in some of the European issues.

The performance comparison is relatively new and was added at the last quarterly meeting. It is a peer county review of yields, WAMS and portfolio size. The Committee discussed Fresno's cash position and the circumstances that may be influencing its investments. Ms. Durgy reminded the Committee that each county may have different investment policies, cash flow and needs. This led to a discussion about Repurchase and Reverse Repurchase Agreements (WAMS). Some entities are using different measures (extending duration, lending out securities and reinvesting loaned securities out longer). The Committee was encouraged to read the July 12th, 2011 edition of Standard & Poor's Global Credit Portal publication, which was distributed. It contains an article about WAMS. There was also discussion regarding the exposure of the European banks and negotiable CDs. Short-term interest rates were also reviewed and discussed. Per Mr. Cisneros, maturities are being kept short. Finally, the equity as of May 31st, 2011 of pooled fund participants was reviewed. Mr. Rydstrom commended the Treasurer's Office for the excellent job of managing the portfolio.

Ms. Marx reported an accounting change that will be made in 2011. Banking fees and credit card charges that have routinely been paid for centrally through an offset to interest revenues will now be directly charged to Departments. The change is needed in order to improve the accounting for these costs and is being made in coordination with the Controller's Office. The change was made effective as of July 1st, 2011.

There was no public comment.

4. Review of Projected Pooled Cash Balance

Mr. Levenson reviewed the City's month-end pooled cash balance as of July 14th, 2011. There is $4.3 billion dollars in polled cash. Key points included a review of the month-end pooled balances, month-to-month cash balance changes, and a review of General Fund sources and uses. There are no big negative surprises and no major costs in June affecting cash flow.

There was no public comment.

5. Public Comment

There was no public comment.

The meeting was adjourned at 10:45 a.m.