

**CITY OF NEWPORT BEACH  
CITY COUNCIL FINANCE COMMITTEE  
JULY 22, 2013 MEETING MINUTES**

**1. CALL TO ORDER**

The meeting was called to order at 4:00 p.m. in the Newport Coast Conference Room, Bay 2E, 100 Civic Center Drive, Newport Beach, California 92660.

**2. ROLL CALL**

Present: Council Member Mike Henn (Chair), Mayor Keith Curry and Council Member Tony Petros

Staff present: City Manager Dave Kiff, Finance Director Dan Matusiewicz, Deputy Finance Director Steve Montano, and Accountant Cory Pearson

Outside entities: Jason Schmidt, Chandler Asset Management; Dave Witthohn, Cutwater Investor Services; and Hal Nachtrieb Cutwater Investor Services

Members of the public: Jim Mosher, Carl Cassidy

**3. PUBLIC COMMENTS**

Mr. Mosher commented on the general liability insurance renewal that was on the agenda for the June 22, 2013, Finance Committee meeting. He stated that the City's broker should be questioned as to why they did not achieve a more competitive rate compared to the State agency bid that had a lower premium cost and lower deductible amount. Mr. Mosher also wanted Council to know it is difficult for the public to know the result of claims that Council considers during closed session and that information is not available through the City Clerk's Office as Risk Manager Lauren Farley stated. Mr. Mosher's final comment was to point out that while he's hearing that the financial vitality of the Newport Beach business community is recovering, the increase in sales tax as reported by the Finance Department in the July 19, 2013, City Manager's Newsletter, was 2.7% over what it was the first quarter of last year, however Orange County's increase as a whole was twice that amount as was the Southern California reported increase. A second contradictory piece of information is the revenue associated with the City's Transient Occupancy Tax (TOT), particularly the administrative fee associated with the Tourism BID, which according to Mr. Mosher peaked two years ago and appears to be declining even though we've added Newport Dunes and the hotels are doing well.

Finance Director Matusiewicz shared that the Tourism BID is a small sample of hotels and may not be an accurate representation.

Council Member Henn commented that comparisons of year over year require assessment of the base year and can affect recent year percentages; a fallacy of percentages.

**4. APPROVAL OF MINUTES**

Mayor Curry moved, Council Member Petros seconded to approve the minutes of the June 24, 2013 Finance Committee meeting.

**5. CURRENT BUSINESS**

A. Investment Policy Review

Mr. Matusiewicz, as background, explained that the Investment Policy was distributed to the investment advisors for review. Each had the opportunity to submit comments and a group meeting was conducted to review all comments. He then turned the meeting over to Mr. Nachtrieb for a brief review of the market.

Mr. Nachtrieb presented a brief overview of the economic and market environment. He noted expectations going forward will see a flattening of the yield curve especially in the 2-year and 5-year treasury notes, credit spreads will remain tight and volatility will increase in the fixed income market.

Mr. Matusiewicz reminded the Committee that the overall investment objectives, safety as the primary objective followed by liquidity, remain unchanged. Mr. Matusiewicz then began a review of the proposed policy changes as described in the staff report for this agenda item. All of the proposed revisions to the authorized investments in the Policy are permissible by California government state code.

In response to a question raised by Council Member Petros, Mr. Matusiewicz explained that the agency market is shrinking; by not restricting certain types of securities, portfolio managers have greater flexibility to better diversify the portfolio.

Council Member Henn suggested that clarification is needed in Section G.1.f. The Policy revision should state that no more than five percent of the City's total portfolio shall be invested in any one municipal issuer.

Investment pools as referenced in Section H.1. of the Policy was defined as local government investment pools. The addition of the Orange County investment pool was discussed and it was determined that there are other suitable investment pools available as an alternative

Mr. Mosher questioned the meaning of municipality as referenced in municipal bonds. It was clarified that it is generally understood by the investment

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community that municipal bonds include state obligations. The Policy limit is 5 percent per issuer. In response to another question raised by Mr. Mosher, reverse repurchase agreement was defined as a temporary investment where a security is purchased to be sold at a specific future date. The risk is a counterparty risk, not a principal risk. Mr. Mosher suggested making it clear to the public what securities carry the most risk. Mayor Curry commented that while there are relative risk differentials between these securities, the reason they are allowed by the government code is they are not risky investments. Council Member Henn added that all of these investments are in a very risk adverse sector of the market.

With the clarification to Section G.1.f., the Committee members unanimously concurred with staff's recommended revisions to the Investment Policy and instructed staff to advance the item to the City Council.

#### B. Investment Portfolio Review

Mr. Matusiewicz presented a summary on the performance of the City's investment portfolios. He pointed out that during May and June the fixed income portfolios declined in value as interest rates rose across the yield curve but this had no impact on the portfolio as the City generally holds medium term securities until maturity. He explained that a larger portion of the portfolio is being held in short term to account for some of the current capital needs. Further explanation was provided on forecasting liquidity needs and increasing the short term portfolio to pay for short term projects without tapping into the medium term note portfolio. The overall portfolio totals about \$45 million short term and \$158 million in medium term securities.

Council Member Petros raised a question about the investment advisors performance relative to benchmarks. Mr. Nachtrieb described the portfolio objectives of safety, liquidity, and yield, and benchmarks for the portfolio. He commented on the main risk portfolio duration, interest rate changes, credit exposure, and uncertain cash flows.

Mr. Mosher requested clarification on the meaning of bond fund portfolios. In response, Mayor Curry explained it is the portfolio of bond proceeds. Bonds that were issued are subject to investment guidelines outlined in the bond indentures. The guidelines for the bond proceeds are typically more restrictive than the State code or our Investment Policy. The bonds are managed separately in a bond fund so they can be drawn down and accounted for to bondholders.

Mayor Curry moved, Council Member Petros seconded to receive and file the report.

#### C. Investment Strategy Recommendations

Mayor Curry recused himself.

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Mr. Matusiewicz stated that the first recommendation is to create a new actively managed short term portfolio which would simply require creating an additional custody account with the Bank of New York and we would purchase securities to match the specific outflows required for construction projects without looking to the medium term portfolios for liquidity. Under our current contracts, the portfolio managers are compensated based on the funds managed. Managing a portion of the short term portfolio would be paid the same rate.

The second recommendation is to consider increasing overall duration of the medium term portfolio when market conditions are favorable. Given the volatility in the market, this increased duration should be considered down the road when the market has stabilized more.

The third recommendation is to establish another reference point that is more reflective of the universe of investable securities that are purchased in the short term portfolios, and not only compare to 1-3 year treasury index but also include a benchmark that includes the current mix of asset classes we currently invest in.

Mr. Mosher commented he was glad the 3 year benchmark is not being dispensed and he inquired whether the City has the capability to directly invest in the securities. Mr. Matusiewicz stated that having dedicated resources who are actively managing the portfolio is a strategy that has worked well for the City since the early 1990s.

Mr. Cassidy speculated whether some of callable agency bond risk will be reduced if the third recommendation is adopted which will allow more investment input.

Council Member Henn, with Council Member Petros' concurrence, stated support for the three recommendations.

**6. FINANCE COMMITTEE ANNOUNCEMENTS OR MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)**

City Manager Kiff indicated the trash RFP analysis may be brought back to the Finance Committee at a future meeting.

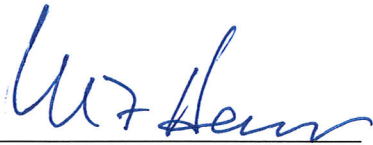
**7. ADJOURNMENT**

The Finance Committee adjourned at 5:20 p.m.

Filed with these minutes are copies of all material distributed at the meeting.

Attest:

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Mike Henn, Chair  
Finance Committee Chair

10/15/13

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Date

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