MINUTES OF THE INVESTMENT ADVISORY COMMITTEE MEETING
MONDAY, DECEMBER 16, 2002

I. CALL TO ORDER AND ROLL CALL

In the absence of a Chair, Town Attorney John C. Randolph called the Investment Advisory Committee Meeting of December 16, 2002 to order at 1:05 p.m. in the Town Council Chambers. On roll call, the following committee members were in attendance: Dr. Michael Andrews, Stephen L. Brown, Edward L. Hennessy, Jr. Also present for all or a portion of the meeting were Mayor Smith, Town Manager Peter Elwell, Town Attorney John (Skip) C. Randolph, Finance Director Jane Skittone, Assistant Finance Director Cheryl Somers, and Finance Secretary Betty Cotton.

II. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Mr. Randolph.

III. APPROVAL OF AGENDA

IV. INTRODUCTION OF MEMBERS

The members were introduced prior to the meeting as they entered the Town Council Chambers.

V. WELCOME BY MAYOR LESLY SMITH AND PETER ELWELL, TOWN MANAGER

Mayor Smith thanked the committee members for giving of their time, expertise and intelligence to this very important project for the Town. She stated that she knew that all of them had served their time in the corporate trenches and the last thing they need is to do this again. So the Town is doubly blessed and doubly grateful. She welcomed all and said she looks forward to hearing what their advice would be to the Town.

Town Manager Peter Elwell addressed the committee. He stated that later in the meeting, Mr. Randolph will be going over the legal issues in particular the sunshine laws. There are a lot of details there that seem a little onerous but it insures that the work done will be in the sunshine before the public should they choose at some future meeting to attend.

He further stated that in this first meeting, the committee will hear in detail the background of the Town's financial standing which is strong, the reasons for forming this committee and what we hope to achieve through the committee's service and the implementation of their recommendations. Primarily, the Town does have some substantial fund balances through sound financial management, the foresight of the Mayor and the Council, and the hard work of the staff. The Town has been able to set aside and appropriate significant amounts of money for different purposes so that if financially difficult times or some sort of disaster is encountered, the Town is in good financial shape to be able to address that. He stressed that while we planned well and set aside sufficient funds, the Town has grown more and more concerned particularly in recent years that the Town's money was not working as well as we would like for the Town. It is the public's money, most of which has been collected through tax dollars, and it is not something that was willingly given. He said the Town is very mindful of investigating the safest ways to marginally make a bit more money without assuming a much greater risk, as private investors might choose, to enable the Town to do the public a service. He stated the Town is very grateful to the committee for their willingness to give their expertise, experience, and insights as to how we might achieve that marginal increase in our rate of return.

VI. PRESENTATION REGARDING LEGAL ISSUES, INCLUDING FLORIDA'S GOVERNMENT IN THE SUNSHINE LAW – JOHN C. RANDOLPH, TOWN ATTORNEY

Mr. Randolph stated as Mayor Smith indicated in her opening remarks, all of the Committee members have been in the corporate trenches and have a good understanding of how things work in that arena. However, he doesn't know the extent to which they've been involved in the public arena, particularly in the State of Florida and it is that arena that each will find much different from the corporate arena particularly as it relates to the sunshine law. The sunshine law is the vernacular that is used for the state's public meetings law which simply states that anyone that is a member of a municipal or public body or commission or ad hoc committee such as this must meet in an open meeting and any issues that are going to be discussed related to this particular committee must take place at a public meeting. A public meeting is a meeting such as this, which has been announced to the public, to the press, which is held in a public place and at which public minutes are taken in regard to what has been transacted at the meeting. This is a very simple law but there have probably been more court decisions in regard to this particular law as it relates to its interpretation than most laws in the State of Florida. Virtually, the cases that have come up have stated the law is what it says and when it says that you shall meet only in the public you shall meet only in the public.

Mr. Randolph said people have come up with different ideas of what meeting in the public means and it's all gone to court and the court says we are not going to interpret it any differently than what the Statute says and they've given very strict interpretation of what the Statute says. So that means that one committee member may not call another committee member outside of a publicly called meeting to discuss any of the business that will or may come before this meeting. Discussions at cocktail parties about what might come before this meeting are prohibited. That's not to preclude you from being at a cocktail party together which is difficult not to do in a small town such as Palm Beach but it does preclude you from talking about this business. You cannot send memos to each other in regard to items that may come before this committee. People sometimes feel this binds your hands in regard to what you might be wanting to discuss at a particular meeting and whether or not you are going to have the support of the committee members or whether they are even going to understand what you are talking about in advance. Sometimes the purpose of your memo is simply to allow people to know that you are going to bring up a certain matter if needed. You should not correspond in any regard to that type of thing. If there is a particular item that you would like to see on a future agenda, you should really bring it up at a public meeting. If it's something that occurs to you between meetings and you wish to perhaps write a memo to the manager indicating that at the meeting you intend on bringing up a particular subject then it's okay to do that. But be careful that you don't respond to that memo. It will go to the manager and you may be copied in regard to the meeting that's forthcoming so that you will know that the copy is coming out. Please don't respond because it could be a violation of the sunshine law for another one of you to respond to that, even by a memo to the manager suggesting that you do not agree that it should come out or that you feel it's a communication through the back door so to speak and that would be considered a violation of the sunshine law.

He stated further that violation of the sunshine law may result in a civil fine of $500.00 but beyond that if a member of a board or commission knowingly violates provisions of this section of the statute, they can be held guilty of a misdemeanor of the second degree which is punishable in an amount greater than that and could, in fact, involve incarceration. As silly as that sounds, there have been people that have been prosecuted by the State Attorney's office in regard to violations of the sunshine law. There was a case in St. Augustine where two commissioners were overheard speaking on their cell phones about what to do about a particular employee of the Town, and as a result, the State Attorney was obliged to prosecute. Perhaps more important than a civil fine or prosecution under the sunshine law is the fact that if it's been determined that the sunshine law has been violated all the good that the committee has done in regard to any recommendations that have been made to the Town could be undone.

He said the lead case in regard to that came out of The Town of Palm Beach when early on in its history as far as zoning is concerned, the Town Council appointed a commission to meet with members of the public and determine what the public is looking for in regard to the Town's Zoning Ordinance and then to make a recommendation back to the Town Council. This particular committee conducted meetings in their own homes and other places not in the public and they made a recommendation to the Town Council. The Town Council passed the Zoning Ordinance and then the Zoning Ordinance was attacked because it was alleged that the sunshine law had been violated by the committee. It was held to be a violation of the sunshine law but then it was argued on an appeal that this was only a recommendation. The Town Council took the action and the Town Council met in the sunshine and it was all discussed in the sunshine and the Supreme Court held that what was conceived in the dark could not be ratified in the public. So it is a rather weighty law and a lot of people that are involved in a committee just can't stand the sunshine law but my only caution is to abide by it because the good work that you are about to do could be undone if anyone were to attack you on the basis of violating the sunshine law. Sometimes it's just going to be perception in somebody's mind even if there is no violation and even if you aren't talking about such business, if you are hanging around in the chambers and you are not at the microphone discussing the business but it appears that you are discussing business in the audience then somebody might say they saw you talking before hand. They would have to prove that you were violating the sunshine law, but try to stay away also from the perception of violation. Finally, the sunshine law does not preclude you from speaking one on one to members of the staff for information you might need in regard to what you are doing nor does it preclude you from speaking one on one from Council Members to the Mayor or members of any other commission. It simply precludes you from speaking to each other so that the public can be assured that your discussions and your decisions took place in the public under their full view. He stated he would be glad to answer any questions about the sunshine law.

Dr. Andrews asked if in setting the agenda for the next meeting if they would have to agree on that during this meeting and if they wanted to add items between now and the next meeting, would they have to do it through Jane or somebody who is actually making up the agenda?

Mr. Randolph replied to the extent possible it should be done here in the public but after a chair is nominated and put in place, then the chair can meet with Jane to discuss the make up of the upcoming agenda but the Chair should not confer with another one of the members. The committee members should just use their own good judgment.

Mr. Brown asked for clarification from Mr. Randolph on Item VI on discussion of "legal issues" and the State Statutes.

Mr. Randolph answered that Jane Skittone will handle that. The only reason item VI of the agenda stated "legal issues" is because there are other sections related to public records that are part of the public meetings and records law. The same thing would basically apply to that. Any public document that comes out of this meeting or any document that comes from a committee member in regard to this meeting will be a public document and if the press should ask for any and all notes that you made in regard to your work on this committee, that's also the business of the public. If it's just some note you have made to refresh your recollection, that's one thing but if it is something that was put into writing in regard to work that is going to be done by this Committee, then you should be aware of that also.

Mr. Randolph stated he does not have any other legal issues to discuss so Jane will be going forward with Item VIII.

Mr. Brown said the committee may have questions for Mr. Randolph as a legal expert on the State Statutes so he requested that Mr. Randolph stay in the meeting for the discussion of the committee's goals and objectives to answer questions about the State Statutes and the degree to which it restricts us in solving this problem. He had a question before the Committee met that was important to the committee's proceedings that he discussed with Jane and got an opinion on.

VII. SELECTION OF CHAIRMAN OF COMMITTEE

Mr. Randolph opened the floor for the nomination of a Chairman. Mr. Hennessy nominated Mr. Brown to Chair the Committee. Dr. Andrews seconded. Mr. Brown agreed. Mr. Randolph asked the clerk to call the roll for Mr. Brown for Chair. Motion passed unanimously.

VIII. OVERVIEW OF TOWN'S FINANCIAL CONDITION PETER ELWELL, TOWN MANAGER – JANE SKITTONE, FINANCE DIRECTOR

Chair Brown turned the meeting over to Jane Skittone for an overview of the Town's Financial Condition.

Jane also thanked the committee for taking their time to work with the Town in developing an investment plan. She stated she is looking forward to working with all of them and is eagerly awaiting their recommendations on how best to improve our rate of return. She gave a brief overview on the Town's Financial condition, a historical summary of our previous investment experience, and what she is hoping the committee can accomplish.

Jane explained the Town operates on a fiscal year that runs from October 1 to September 30 of every year. For Fiscal Year 2002, the Town's General Fund will have a yearly surplus of approximately 2M. The FY2002 ending General Fund Undesignated Fund Balance which in the corporate world would be called retained earnings should be over 18M. Of this amount, 3.9M was appropriated in the FY2003 Budget to finance the North Lake Way Drainage Project. The remaining General Fund Undesignated Fund Balance of over 14M represents approximately 30% of the FY2003 Budget. The Town's policy requires we maintain a minimum of 25% of budgeted expenditures so the Town will be almost 2M over the required minimum of 12M. These numbers are included in the investment balances. FY2003 is off to a good start. Revenues are exceeding projections in almost every category. One revenue source that the Town may have problems with is investment income. We budgeted using an assumption of 2% rate of return and currently the State Board of Administration where all monies are invested is paying 1.69% so we're hoping that you can improve that rate of return and supplement our income. Our previous investment efforts outside the SBA have been unsuccessful.

Jane reported that during the period between 1994 through August 2001, First Union was used as the Town's money managers for a portion of the surplus funds. After fees, First Union underperformed the SBA benchmark by $44,000 for that entire period. Based on the performance of First Union investments and the amount of administrative time it took to track the First Union investments and the fact that they never exceeded their benchmark, the Town Council approved the liquidation of the investments and returned to the policy of having the idle funds invested through the SBA.

Mr. Hennessy asked what were the average funds managed by First Union.

Jane replied 12.5M.

Dr. Andrews asked what were their fees?

Cheryl Somers stated their fees were .0005.

Chair Brown asked how they invested the money and asked Jane to characterize what they did?

Jane said the money was invested in corporate paper, treasuries, mortgage backed securities, agencies. The Town's investment policy only allows up to three years for maturity. She will give the committee some of First Union's investment reports for review. It was a buy and hold policy and the previous investment policy did not allow them to sell securities at a loss so therefore they had to hold. The Town did suffer a loss when they liquidated. A portion of the money was allocated to First Union to see how they would perform. Due to the low rates of return the Town is experiencing and the fact that this last year was a tight budget year, the decision was made to reevaluate our policy on investing in just the SBA and we decided to form an Investment Advisory Committee which was approved back in July and your appointments were approved in October.

Jane stated she had already distributed to the committee some information that should be helpful to them, and she also sent to them an updated investment report through November. To update you further, in December another 17.5M was transferred to the SBA for a total balance of 85M. That money came in from distribution of property taxes from the County. Historically, November is a big month for property tax distributions and we got a big chunk of it and transferred it in December. Also included in the backup are descriptions and the purpose of the monies in each of the individual funds and an updated projected cash flow with actual balances through November. A copy of the Budget in Brief is included for review. That document summarizes the Town's Fiscal Year 2003 budget and if anyone is interested, the full Budget document is available in Finance.

Dr. Andrews asked if the Town would invest on these individual investment balances per fund, or if we would invest basically as a pooled asset?

Jane answered as a pooled asset.

Chair Brown stated he noticed that you add two pieces together to get to the total cash in State Board. Is it the total that is available for investment or are those smaller amounts for each area not investable? For example, on 12/02 in the projected cash flow, you have a 2.4M figure and 85,163M.

Cheryl answered 2.4M is for operating purposes.

He then asked, "so it is the State Board Administration balance projection that we should be looking at for investment purposes".

Jane said that is correct. If you look at the investment balances by fund sheet, of the general operating fund 12M of that is to be a taken minimum. You can assume that will stay as a minimum unless there is a catastrophic hurricane or other disaster that we need to tap all our resources. You can assume 12M can be invested a little longer term. The Town required a minimum policy of 25% of budget expenditures to be maintained as a reserve basically in case of emergency, catastrophe or if the Town economic conditions decline in such a manner that the Town needs the monies.

Dr. Andrews asked why that is investable in a different way than the 67M.

Jane explained she started the financial report at the top with the operating budget. Chair Brown stated but we are going to look at the bottom line not at each piece. She said of the capital improvement fund, 23M, a lot of that has been earmarked for construction projects such as the North Lake Way Drainage Improvement Project and other projects in the Town. She said she is not sure if the committee plans to stagger the portfolio, take a huge chunk and put it out through three years or whatever, some of that probably couldn't go the full three years. It can go short-term.

Dr. Andrews asked if Jane already had a schedule prepared, you pretty much have an idea of what your expenses will be, any chance we could get a look at that?

Jane said we will be happy to give you a copy especially on the Capital program, the Capital expenditures that we anticipate next year.

Chair Brown said he understood that some of these Capital projects are expected to be paid for by bonds rather than by short term balances.

Jane said actually that's the coastal project that is all bond money and that is not included here.

Chair Brown asked when do these investment projects come up?

Jane said correct, Cheryl did take some capital projects out of the 2003 amounts and staggered them throughout the year.

Chair Brown asked if the balance still ranges between the 69M and 86M. That's because you are not taking in revenue in August, September, and October.

Jane replied correct.

Cheryl pointed out in the cover memo, the original cash flow projection, Item 4, Capital projects, the cash flow projection does not include the possible issuance of bonds for Central Fire, relocation of Planning and Zoning, and Town Hall Restoration.

Jane said there aren't any funds in that 23M that would be earmarked for that at this moment. We would probably have to borrow for that. The $1,035,000 Fire-Rescue LaSalle Felheim donation fund has been earmarked for construction of the fire station.

Chair Brown stated we have to be careful about looking at these individually since you are investing in total, we have things going in both directions and what really matters is what the projection looks like on a month by month basis out beyond. If we have this same projection in maybe a couple more years, it might give us a better feel if there is a real dip somewhere that we have not been aware of in the planning stage.

Jane stated that she is trying to do this as she goes through the list is point out where the funds really are coming from on the 67M to invest. The self insurance fund, the 21M, most of that is part of the surplus funds – retirement, health benefits and a little bit of risk self insurance reserves are included in that 21M. I just wanted you to know where some of the large balances are coming from.

Dr. Andrews stated your cash balances next year go from a monthly basis from $132,000 to over 2M, we need some guidance there to make sure we are doing things right.

Chair Brown said that what Jane said before is we should assume that those smaller balances are really not available for investment, they are really working capital for each of the Town areas, it's the line that says SBA balance that we should probably look at for possible changes.

Dr Andrews said he understands that but if you have an ending cash balance of $132,000 and you vary up to over 2M, I would just wonder if that $132,000 would start going lower at a particular point in time, where are you going to get those funds because it's such a big swing, if you needed another $100,000 in April 2003, maybe because of investment constraints, where would you get the money?

Jane stated currently and when we were investing with First Union, we left a portion of it in SBA and that's what we can always draw upon.

Dr. Andrews, "that's daily liquidity, isn't it"?

Jane said I don't know if your intention would be to tie up the full SBA balance.

Chair Brown said they will pay attention to the priorities that are laid out in the Statute which put safety and liquidity ahead of return and secondly just common sense wise we'd certainly want to have substantial liquidity, my question, Jane, would go to the issue of what do we really need for a rainy day fund or an emergency fund? If we were sitting with a 150M balance, would you feel that that's way too much? Or would you feel a 25M balance is too small? We need some kind of feel for is the 12M the right number or just a rule of thumb that's been pulled into the budget. Just sitting here without knowing any better, I would think that it's hard to imagine an emergency but there must be one where you need 65 to 85M all at once. He stated he does not have that experience in town management.

Jane said it would be unlikely that we would need all of that at once even if a hurricane hit tomorrow and totally obliterated the town, you would get money from FEMA and still have insurance proceeds coming in, and would still have some reserves with the 12M and we would not need it all in one day either, it would be spread out over time, we could always borrow to rebuild, we have an excellent credit rating.

Chair Brown said it seems to him that's a crucial question, what do you really need for a rainy day fund?

Jane said we have established reserves not necessarily just a rainy day fund. We have the 12M in the general fund, we have 13M in the health insurance fund, we have reserves in the marina fund set aside for the rebuilding of the docks so we wouldn't have to borrow next time. We have some funds in capital equipment replacement fund around 4.3M that equals the amount of accumulated depreciation on our fixed assets so that when it comes time to replace those we can draw upon the funds there. We have a lot of pockets of money set aside to protect us in rainy days.

Chair Brown asked if something happens in one particular area, can the funds be moved around and if it is possible to use reserve in some other area temporarily to support that problem?

Jane said in a state of emergency, the Town Council could approve that with most of these balances.

Chair Brown said he would like to spend a moment on the State Statute because he thinks it has great precedence to what we are doing here. He noticed in paragraph 2, it makes it clear that safety of capital we put in new funds in investment income must be in that order in priority for investing the funds. So we can't turn it around and say that investment income is more important. The issue that he was particularly interested in was the outlining of the investments that are allowed, paragraph 16. It outlines a number of areas where investments can be made that's pretty limited. It basically says local government's surplus funds trust funds, SBA, but there are other pools that are eligible as well, for example, the Florida League of Cities. The SEC registered money market funds were the highest credit quality rating, he isn't sure what highest credit quality rating meant, the fund as a whole or whether they invest in only the highest quality investments. Others are time deposits or savings accounts , direct obligations of the U.S. Treasury as federal agencies, etc. and essentially mutual funds that they are investing in US Government or similar investments. The one that caught his eye was paragraph g. which is other investments authorized by law or by ordinance for a county or a municipality. Skip, my question was, do we have anything in our investment policy now which authorizes investments under paragraph g?

Mr. Randolph replied we do not. We do limit ourselves to items a through f.

Chair Brown said we could make a recommendation now to change that if we wanted to. He asked what needs to be done if we decide we want to make some other investment other than the ones enumerated here on behalf of the Town, what exactly would the Town have to do?

Mr. Randolph said the first thing the committee would do is make a recommendation to the Town that you think that would be advisable and the Town would have to pass an ordinance which would be adopted on first and second reading at a public meeting to allow for those investments. They would have to make the determination that those investments otherwise meet the purposes of the Statutes which is safety first and investment next. They would have to take into consideration also particularly if you went into securities, paragraph 18 relating to securities, which states that every security purchased under this section must be properly earmarked and meet those requirements that are set forth in items 1, 2, 3 of that section. The purpose of stating the limitation on investments was intentional to try to give some guidance and direction in regard to the types of investments that the State feels meet the terms of their policy but they do not want to tie a local municipality's hands in the event we find an investment which otherwise meets the terms of the statutes.

Dr. Andrews stated for example, he does not see corporate bonds, even if you have AAA corporate bonds, you cannot invest in it within the enumerated investment alternative.

Mr. Randolph answered that's correct. Again, these are the investments allowed if you have an investment policy. If you don't have an investment policy, you are much more limited because as in paragraph 17, authorized investments when you don't have a written investment policy. You are correct that there is an all encompassing section which does allow you to consider other options.

Chair Brown said he just thought that should be on the table so that we know what we can do because it is a fairly limited prescribed set of investments.

Mr. Randolph asked if anyone else had any questions on the statutes and how it applies to investments.

Dr. Andrews said he does not really see how we are limited if g is included so we can invest in anything which I assume would be a proven investment.

Chair Brown asked if the SBA can invest in investments you can't invest in directly?

Jane said yes which was the reason First Union claimed they could not compete with the SBA because they had restrictions based on the Statutes.

Chair Brown asked if our current investment policy does not incorporate item g but is limited to items a through f.

Mr. Randolph said he thinks the answer is yes, we can do anything we want but item g takes a lot more effort in terms of getting the policy changed, in terms of getting a Town Ordinance approved by the Town Council, but it can be done.

IX. DISCUSSION OF COMMITTEE GOALS AND OBJECTIVES

Jane stated the goals for the committee are:

- "We are expecting the committee to develop an investment plan for the Town's surplus funds. The plan must operate within the constraints of the Town's investment policy and Florida law and take into account current and future economic conditions. If you feel that amendments to the Town's investment policy are necessary, you can make recommendations to do that and Town Council will consider them.
- Also, if you were to recommend as part of the plan that the Finance Director make the investments in various securities, we look to you to assist us in developing an approach for the selection and knowledge of broker dealers for these investments.
- If your recommendations are to hire one or more money managers, we'd like you to assist us in the selection process.
- We would also like your input on setting an appropriate target benchmark whether that be the SBA which we've used in the past or some other benchmark.
- We'd also like your input on reporting formats. We are required by our investment policy to report monthly to the Town Council and you have before you our current investment report which is just the SBA balances but if we were to get into other investments, we would want your input on the contents of the report, and
- Finally any other goals that you feel are important to accomplish this project."

Chair Brown asked to be shown what the Town did when they had both SBA and First Union Bank.

Jane said she will give them the backup for investments in both SBA and First Union Bank for review.

Jane stated the resolution that established this committee stated that the investment plan is to be submitted to the Town Council for consideration at their February meeting. Since we were unable to meet until today, we can probably request a delay until the March meeting.

Chair Brown agreed more time will be needed.

Jane said after the committee makes the recommendations and the Town Council approves the recommendations, the Town staff will implement the plan. This committee is expected to meet again next fall or winter before February 2004 to review the progress that we made and make any other recommendations that you feel are necessary. The committee was due to dissolve as of March 1, 2004. Cheryl and I are here to assist you in answering any questions that we can or get any information that you need.

Chair Brown stated Jane has outlined the goals and objectives. He asked the committee their thoughts on where they should go from here.

Dr. Andrews stated they have to come up with a plan.

1. We should define specifically what we can invest in, and
2. We have to understand what our benchmark is and our benchmark should be fairly close to what we can invest in or else the benchmark is not relevant.

I would not see a problem if we would say that we would like to approve or suggest that we could invest it in investments similar to the SBA. That would almost be an all encompassing motion that would give us a lot more latitude and then we wouldn't have to get very specific, if we could do that. I don't know what the legal requirements would be on an investment policy but if you would say you would use the same investment policy the Town would piggyback the SBA's investment policy then the benchmark would be legitimate and it would take care of section g. That's a real simple way of doing it like a one sentence type thing. SBA is on line.

Chair Brown said Dr. Andrews raises a very good point we don't know investments the SBA is allowed to invest in because it was pointed out that they apparently can invest in Corporate Bonds even though we can't. We need to find out not only what their investments are but their own policy and limitations on what they can do and what they can't do. Any chance of getting a representative from SBA to make a presentation?

Dr. Andrews said in the book under the SBOA tab, they have investment sectors, a chart that pretty well shows how they break down their investments.

Cheryl stated there is a footnote in their financial report also behind the SBOA tab, Deposits and Investments, Investments and Investment Authority.

Chair Brown said the Florida Statutes includes a wide range of investments including corporate bonds, commercial paper, that's not the same statute that I have been reading. They are subject to a different statute. We are learning something here. Because they are a state pooling agency, they are subject to a different statute than a municipality is and therefore could be more free with their investments to some degree.

Dr. Andrews asked "tell me again why the municipality has a different statute than the State?"

Mr. Randolph stated he did not know the history behind the statutes but I only have to presume that because they were going to allow a municipality to by ordinance direct its statutes that they wouldn't have to as specific as they are in states. I don't know the history behind adoption of those statutes.

Dr. Andrews asked if the Town of Palm Beach statutes, ordinances as relates to investment policy, were they just kind of assimilated over the years?

Mr. Randolph answered yes, that just came about as a result of the investment strategy throughout the years. Quite frankly, I think this item g must be something that has come about in the statutes somewhat recently. I think perhaps at one time it was limited to the investments that we now have and perhaps this was added.

Dr. Andrews said, again, we are going to need a benchmark. We're going to have to, it's a huge difference in what we are allowed to go after in terms of return if we can't use corporates and some of the other things.

Mr. Randolph said keep in mind that municipalities have home rule powers and I think that the state statutes was written with the thought in mind that we have home rule powers so other than those items are listed, we can make other investments. The SBA does not have home rule powers and therefore has to draw its specific authority as to what it might invest in from the specific state statutes. So that I assume is why ours relating to municipalities is broader in adding item g than is the SBA's which is so specific as to what it might invest in.

Dr. Andrews said according to the chart, the SBA has 43% of its investments in commercial paper. If we are going to be in CD's and stuff like that there's just no way that we can ever get close without that ability. In fact, 43% is the highest amount by double of any other SBA investment categories. So somehow or other I think we need to, based on the Town's approval, it would be nice if we had the option to do that.

Chair Brown said another way to examine this though is we ought to examine to what extent we actually have the resources in the Town to manage our own investments versus either invest through a pool or a broker dealer or a bank and also I think those are the three options. I sense, Jane, now, I don't want to put words in your mouth but I guess that you would feel that somewhat constrained by resources and time to invest funds directly to any great degree as opposed to hiring somebody or using a pool.

Jane replied affirmatively.

Chair Brown said that cuts out a lot of alternatives right away. One of the things we might want to look at as a committee is what are our pool alternatives and also what alternatives might a broker dealer or a bank provide? I understand that First Union didn't cut it, it doesn't mean that all intermediaries couldn't cut it with some portion of funds so one of the things that would interest me is to have some presentations to the committee by the SBA who could probably talk about some of their alternative pools as well as the one that we are using as well as the Florida League of Cities. They have a pretty interesting alternative pool, a kind of short intermediate pool that looked like it might have a higher return but still qualify under the other constraints that we have and then the third thing is ask for suggestions from the committee and from the staff on should we in terms of completeness get a broker dealer in here one or two and/or a bank and have them make presentations, what would you do if we gave you $10, $20 mil in order to improve the returns given the constraints, etc. tell us what you would do. Because I don't think we can bring these things up in detail ourselves. I think we have to use intermediaries given the constraints of the Town.

Mr. Hennessy stated he feels the same way, said he is not so enamored with broker dealers but there certainly are enough investment groups around here to bring them in and make presentations to see what we might do and I would have at least two.

Dr. Andrews asked if there is a requirement that you have three or is two good?

Mr. Randolph said for purposes of this committee, you are just seeking advice, you are not really going out for bids, so you can have as few or as many as you want.

Dr. Andrews said he thinks that any of the investment firms here on the island would be by definition broker dealers. They wouldn't be the warehouse type of broker dealers and then what we'd have to figure in is a fee and the current fees on $10 mil is about 10 to 15 basis points.

Mr. Hennessy said he finds fees can be negotiated, they always start high.

Dr. Andrews said they can but you know where they are going to start, the ones he has looked at are not going to be in the 5 - 50 basis point area.

Mr. Hennessy said if they can beat the return, he might pay a little additional in fee.

Dr. Andrews said but 50 was a little high for what you were getting.

Mr. Hennessy agreed.

Chair Brown asked if anyone had any thoughts about particular investment firms that we might ask to make a presentation?

Dr. Andrews said he would like some guidance from Skip on this one because I just see all sorts of people coming in and the public meetings they will say why not me?

Skip said it might be better as a committee that you not name any particular individuals, but that you just give some direction to the staff as to the type of people that you would like to hear from and let's have perhaps a contact.

The committee agreed.

Mr. Hennessy asked, "so Skip like we did with the beach commission, we had a number of people come in and make presentations".

Skip answered yes.

Dr. Andrews said you could actually say that give us a presentation if you had 10M what would you do and then you'd have to get the investment arrangements figured out first because they shouldn't have to go through what we are going through.

Jane mentioned the policy does allow for bankers and commercial paper rated in the highest tier: It was probably put in at the end of the relationship to benefit First Union but then we didn't stay invested with First Union for long.

Chair Brown stated the committee would like to have some presentations by at least the two major pools that you mentioned, SBA and Florida League of Cities and then some presentations by investment managers whether they be broker dealers or banks. Do you feel comfortable with that direction or not?

Jane replied we can probably contact some of the municipalities and find out who they work with.

Chair Brown said that is an excellent idea because some of them are using broker dealers and banks. He said we are just asking for a presentation of what they might do given the constraints, what would they do to help us with 10 to 20M.

Jane asked if they would want two from the investment management side and two from the pool groups?

Chair Brown said yes because SBA covers not only what we are investing in now but they have a couple of alternatives and the Florida League of Cities has a couple of alternatives as well. The committee would like to see what they are investing in and also what are their limitations?

Jane asked if the committee would like the backup material prior to the meeting.

Mr. Hennessy replied yes.

Chair Brown said he thinks about the way to get more return, this is, what we've been asked to do within the constraints, I guess at the bottom of my list would be taking significantly more risk and at the top of my list would be a little more AAA or AA corporate bonds but I don't think municipalities would be happy with junk bonds.

Dr. Andrews said you can't do that, I think it has to be all AAA. How far out are we going to go?

Mr. Hennessy said if we were not limited with 3 years, he would want to go out five years.

Chair Brown said he thinks the thing we have to be careful of is that we don't go out so far to the point where rates have bottomed out. We do have to be concerned about the timing now, I guess rates could go lower but two years from now, could be higher. Let's let some of the experts come before us and make some presentations.

Dr. Andrews voiced concerns overall with the rates where they are with the SBA at 1.6, based upon no loss of capital, very limited risk, short maturity, I think our upside is not in proportion to the downside. With rates this low, I'm not sure what we can do on a relatively short term basis that would significantly improve what you are getting over the SBA without a risk that we may not be able to live with right now without looking at any more numbers.

Mr. Randolph addressed the Chair stating he had to leave for a hearing.

Chair Brown thanked him for his help.

Chair Brown said we might come up with staying right where we are, in the meantime I think it would be helpful to look at all the alternatives. He suspects that the Town can live with some fluctuations in value as long as they were not dramatic. If you have fluctuations to your favor, the question is, how far out can you go without fluctuations that are too significant and given that your funds are ranging between 65 and 85M, you could probably take a portion of those as long as you could sell it or get your hands on it even if there might be a little loss on it.

Dr. Andrews said the 12M could be on the longer end, that effectively does not have a short term tag on it, there's almost 20% of your total can go on the longer end of the spectrum if you're not concerned about getting the fluctuation in the market.

Mr. Hennessy said you might want to take some of your health and risk and put those in, 10M to 20M among two money managers and have a horse race.

Dr. Andrews said they would also have to understand that they'd have similar short range constraints on the money too. He said suggestions that we've had about bringing in the SBA and this Florida League of Cities plus two representatives from one of the investment firms here on the island, is that going to cause any administrative problems for us to meet the deadline for a February or March meeting?

Jane said we could probably do something for the January meeting and if we don't go to Council in March, it could be April or May. There was discussion on whether the committee could be ready for the February 11 Town Council meeting.

X. ESTABLISH FUTURE MEETING DATES

Jane asked for available dates for January from the members.

Mr. Hennessy said he is available all month except the 10th through the 19th.

Dr. Andrews is not available the 15th, 16th, 17th.

Chair Brown said he will be available 2nd, 3rd, 6th, 7th, 15th, 17th, 20th, 21st, 22nd, the morning of the 23rd, 24th.

Jane said it looks like the last week will be the best time because council chambers are booked the beginning of the month. Everyone present agreed the time for the presenters should be 30 minutes max, including questions. The members will share dates for February by e-mail to Jane.

Chair Brown asked if they should put in for a deferral for presentation to council until March because he doesn't think they can get this done by February. If they are not ready in March, will defer until April.

Jane said, "I will arrange for presentations by the various investment managers. I'll make them a copy of our investment policy and should I tell them that when they do their presentation to assume no change?"

Dr. Andrews asked to go over the part again that she mentioned because in there is a section that allowed commercial paper.

Chair Brown said you could say this is our current investment policy, but we are trying to make recommendations to change the investment policy, this will give you a flavor for the kinds of constraints that we have been living with in the past. They may give us several scenarios.

Jane asked if we should give a dollar amount. The committee agreed we should – 10M would be fine. Jane said obviously SBA would be different.

Chair Brown said we will have a different kind of presentation by SBA. We want to fully understand what they are doing right now and what their alternatives would be and what they might recommend as an alternative pool. The Florida League of Cities, we would like them to be like the investment managers except they are using pools instead of specific securities.

Dr. Andrews asked if the SBA would be in a position to recommend alternative investments?

Chair Brown said they have some other pools.

Jane said there's one pool they're opening. He said we want to find out what they are doing within the current pool and what stability is with the current pool? And how they are responding to this low interest rate.

Chair Brown said the agenda for the next meeting is reviewing alternatives, we don't know which alternatives are going to be available. It will have to be general at this point. Are there other things you would like to add to the agenda?

Dr. Andrews said we just need to clarify our investment objectives, he does not know how to state that differently but are going to go under the SBA form do we assume that Section e gives us the same ability as Section g on the SBA form (pg 5 and 6 of the Town's investment policy).

Chair Brown said he thinks the primary lever is going to be maturity. Liquidity is still important in case anything happens where we need the money. The real issue is going to be can we ladder something where some of the money is out a little further?

Mr. Hennessy suggested we just go out to five years.

Jane said at one point we said in the current environment, you may wish not to do that but I would hope from you that it isn't just for today that you plan for the future as well.

Chair Brown said we have to be careful about jumping on the maturity bandwagon to such an extent that we miss the rates. I think an appropriate laddering approach would be ok. He said it looks like the Florida League of Cities had an interesting pool and went out a little further and the rates were a somewhat higher. Even 1% would be a significant achievement.

Dr. Andrews said, if you did you actually get 20 basis points, on the balance that worked out to about $150,000 a year. It could be a significant amount of money.

Chair Brown asked if there is anything anyone else would like to add to the next agenda? I have an evaluation of alternatives for presentations that we are going to discuss further our desired type of policy.

Dr. Andrews said, yes, what our standards are, what our benchmark should be. It's hard to evaluate how we are doing if we can go five years and the SBA can only go 3 years if that's our benchmark. I think we are going to come pretty close to having the SBA as a benchmark and keep it at three years. In this marketplace, I don't see us as wanting to go out farther than that anyway. Ed said maybe we would want five years, it would be nice to have that option, but we could expand that later on.

Chair Brown said what would be nice would be a pool that's flexible enough that they could work up the current market and the future market and make changes in their distribution within certain limits. Tell them the presentation is 20 to 30 minutes but to leave another 20 to 30 minutes for questions. We may not use that but they should know. Anything else, Jane, your point of view.

Dr. Andrews asked if anything we have done so far caused you any apprehension at all in what we are doing?

Jane said no.

XI. ANY OTHER MATTERS

XII. ADJOURNMENT

Chair Brown moved to adjourn, Dr. Andrews seconded, motion carried unanimously. The meeting was adjourned at 2:30 p.m.