MINUTES OF THE INVESTMENT ADVISORY COMMITTEE
April 8, 2005

I. CALL TO ORDER AND ROLL CALL

Chair Andrews called the Investment Advisory Committee Meeting of April 8, 2005 to order at 2:00 p.m. In attendance were:

Investment Advisory Committee	**Others**
Chair Michael F. Andrews	Jane Struder, Finance Director
Stephen L. Brown	Cheryl Somers, Asst. Finance Director
Edward L. Hennessy, Jr.	Betty Cotton, Office Assistant
Albert D. Hutzler, III	
Bernard R. Panfel	

II. PLEDGE OF ALLEGIANCE

Chair Andrews led the pledge of allegiance.

III. APPROVAL OF AGENDA

Chair Andrews said he would like to make two minor changes to the agenda. He stated if there are no objections, he would like to move No. IX and X up under VI, The Monthly Investment Report because they all flow together.

IV. COMMUNICATIONS FROM CITIZENS (3 MINUTE LIMIT PLEASE)

No citizens attended

V. APPROVAL OF MINUTES FROM THE MARCH 11, 2005 MEETING

Mr. Brown said at one point he noticed the minutes referred to Chairman Brown. (P. 18, "Chair Brown asked are there any other questions for Mr. Coleman or Ms. Malaney? " This should have stated Chair Andrews. This correction has been made.

Mr. Hennessy made a motion for approval of the minutes, Mr. Brown seconded, motion passed unanimously.

VI. MONTHLY INVESTMENT REPORT

Ms. Somers said the Monthly Investment Report for February is in the handouts. The Town still has about $115,000,000 in investments. Fiscal year to date interest is $772,000. The Town is still ahead by investing dollar wise with the Florida League of Cities by about $47,000 in interest earnings. She added to the Investment Report in the second block of numbers the percentages and total return section. She also added the projected annualized numbers for the fiscal year. She took the five monthly rates, totaled them, divided by five and multiplied by twelve and came up with that. There were some negatives in the third block of numbers in the return dollars, some negative returns for the Florida League of Cities, about $35,000, but netted with the SBA a positive of $109,000 for the month. She asked if anyone had any questions or comments?

Mr. Brown said he noticed that the positive return net over the SBA has shrunk to $46,920 and he thinks peak in that was maybe over $200,000. It's come down a long way and does the Town have any preliminary feel for what the month of March might have looked like.

Ms. Somers said the numbers for March have not been received from the League.

Chair Andrews said he noticed that the League does fairly well against the index. The index has not done very well. He stated that discussion can be taken further in the next agenda item.

Ms. Somers said she did attach the holdings report and it is the same standard report that was attached last time. This will be changed to the new format with the new information requested. She will ask them to do that on a monthly basis.

VII. CONSIDERATION OF CHANGING THE DIVERSIFICATION PERCENTAGES BETWEEN THE SBA AND FLC INVESTMENTS

Chair Andrews asked for discussion on this item.

Mr. Brown said he expressed the opinion at the last meeting and still feels the same way. He thinks that this is a very unusual time in the interest rate markets and he has a pretty good feeling that short rates are going to continue to go up for a while, certainly that's been the trend for quite awhile. It may be time to break the usual percentage split between the SBA and the Florida League. He thinks that it's already been broken sort of on an ad hoc basis. He asked Ms. Struder to clarify that.

Ms. Struder said it's at 64.

Mr. Brown said it is 64 – 36. He would be in favor of bringing the Florida League portion down somewhat more, move it to 30 or 25, and have the rest in the SBA, for the time being, with the idea that once the committee gets more comfortable with longer term investments, perhaps some of that would go back to Florida League but some of it also would go into treasuries or similar investments.

Chair Andrews asked is there any discussion on what Mr. Brown mentioned?

Mr. Hennessy said he agrees with Mr. Brown that the SBA portion should be something less but he was hoping the excess that was brought down could be in 2 or 3 year treasuries.

Chair Andrews said he thinks that is another issue.

Mr. Hennessy said he thinks they are all together. He keeps bringing it up and it keeps getting deferred.

Chair Andrews said is there any other discussion on that. He would entertain a motion.

Mr. Hennessy said what is the motion?

Chair Andrews said the motion is to adjust the percentage.

Mr. Brown said he would make a motion to adjust the percentage to 75% in the SBA and 25% in the Florida League by selling as much as needed in the Florida League in proportion to current investments to bring it down to 25%. Mr. Hutzler seconded. Motion passed unanimously.

VIII. CONSIDERATION OF OTHER INVESTMENT OPTIONS

Chair Andrews said he would like to have an open discussion on Consideration of other Investment Options. He suggested moving the discussion to the thought that Mr. Hennessy had.

Mr. Hennessy said he thinks that there is such a large difference in the rates that the Town is getting and he doesn't know anything safer than US Treasuries and the Town has $15,000,000 roughly that could be put aside for a few years. He doesn't know why that shouldn't be considered.

Ms. Struder said yes that's possible.

Chair Andrews said for clarification it is a two step process. Number one, the percentages are adjusted. Technically the money would go over into the SBA. At that point some of the money can be taken out of the SBA and alternative investments can be considered. Does that make sense?

Mr. Hennessy said fine.

Mr. Brown said that he almost but not quite agrees with the idea that some of that SBA money be invested in treasuries. He thinks it's a question of timing. His feeling is that with short term rates continuing to go up, and likely to go up for a good deal of time, that's it's better to make those longer term investments beyond the 25% that the Town would already have when it seems that the Fed is near the end of their campaign to raise those short term rates.

Mr. Hennessy said between the last meeting and today, the unemployment rate has gone up and there's been discussion at least on some of the things that he has been reading, the interest rates might stay the same. But unfortunately nobody can predict what the interest rates are going to be. But there is an opportunity here to increase the rate of return. He hates to keep pushing it forward.

Mr. Hutzler said he would like to comment on this since he works in the investment business and has a lot of exposure with this. There has been a rapid, steady, and probably continual steady increase in short term rates and by short term he means very short term, the 3 month, 6 month, 9 month, and 1 year treasuries. The Federal Reserve has come out through the Federal Open Market Committee as Mr. Brown stated and has said that they are not finished raising rates and they continue to increase rates on a measured basis from meeting to meeting.

He stated if we are going to time the market and decide to put some money in two or three year treasuries, the timing is a little too soon. That decision should not be made until there is some indication that the Fed has stopped raising rates. The so called conundrum that Mr. Greenspan has talked about is that longer term rates stay steady and in recent time have even dropped a little. He thinks that it would be good to keep as much flexibility as possible in the short run. He will be here all summer available for meetings if times change. He agrees with Mr. Brown that to continue to maintain the portfolio at this 75 - 25 that was just voted upon.

Mr. Brown said on the idea of investing in treasuries, he thinks it is a matter of timing and it's kind of a separate decision as to what our longer term investments should be as opposed to what the mix should be between short and long. He is thinking of short as being SBA and long as being everything else that goes out beyond a year or two. So far, all of our long term investments have been in the Florida League and they have done a good job with the types of investments they make. But for a number of reasons when the decision is made to up that 25%, he would be in favor of having some of those additional investments in the kinds of treasuries that are being discussed.

Mr. Hutzler said being new at this, he needs to learn quite a bit but he gathers there's a fair amount of money that comes in on a regular basis that goes into the investment account, he assumes that well over $1,000,000 is invested from time to time. Is that correct?

Ms. Struder said there are periods where it fluctuates. In the fall and winter, the Town gets a lot of money from property taxes and then during the summer months, quite a bit is spent.

Mr. Hutzler said one alternative is that since the focus from time to time is on 3 to 6 month paper, it might be a good thing if the Town were to invest in treasuries on a short term basis to have another investment medium. Is this something the committee would want to do, to go with the 3 or 6 month investment in US Treasuries to address the safety issue and also address the yield issue on a temporary basis? In fact if it's done on a monthly basis, it will ladder out maturities during a certain period of time that might be worthwhile and yet no money would have to be withdrawn out of the two investment mediums that the Town currently has. Maybe that would satisfy concerns that other members of the committee might have.

Ms. Struder said when the Town does get new monies coming in through property taxes, it is usually all put in the SBA, keeping the Florida League stable, so that would be easy to do.

Mr. Hutzler said if the committee feels 3 month, 6 month treasuries are a little bit higher than the 2.14 that the Town is getting right now on average of the last 12 months, that's just a thought. He is going on the projected annualized.

Chair Andrews said he thinks the committee got some information from the Town that the SBA yield is 2.65% as of today.

Ms. Struder said she looked that up this morning.

Mr. Hutzler said that's right in line then.

Chair Andrews said and the current 3 month is yielding 2.72. He doesn't see much difference in there, possibly going out to the 3.04 for that 40 extra basis points or so.

Mr. Hutzler said then there is no difference.

Chair Andrews said in summary, the decision has been made to change the percentages, actually sell out of the Florida League of Cities to get the percentages and shift that money over into the SBA. The committee doesn't have a motion or a suggestion on the floor except from Mr. Hennessy on the thought of taking some of that SBA money at the current time and looking at an alternative investment. Would anyone on the panel like to call for a specific investment to look at as a committee at this time for a specific amount of money whether it's in the SBA or will be transferred over to the SBA? Hearing none, the committee will just keep it at the current ratios based upon making other decisions at future meetings.

Mr. Brown said he agrees with the Chairman. The only reason he brought that up now is if there should be a time when some investments go into treasuries, even though he doesn't think now is the right timing, is to make sure that the Town Finance Department prepare itself so that when such a decision is made, they would be ready to go ahead with it without a lot of prep work and they will have already discussed this with various intermediaries and whatever.

Chair Andrews said he thinks the committee asked Ms. Struder last time if there was any kind of administrative burden in having treasuries and she said no.

Ms. Struder said current retirement custodians in State Street could be used as a custodian and purchases possibly could be done through them as well.

Mr. Brown said he would suggest that Ms. Struder actually develop a contact so that if the committee meets at some point and decides to move 5 or 10% into 2 or 3 year treasuries or whatever, then the Finance staff is ready to go and won't have to start from scratch.

Chair Andrews asked is there any further discussion on items currently listed as IX or X?

Ms. Somers said when the money is moved out of the Florida League into the SBA to adjust the 64 – 36 ratio to the 75 – 25 ratio, that will be about 4.5 million dollars. How should that come out of the two Florida League accounts?

Mr. Brown said he thinks his motion said and there may well be differences of opinion on this, but his motion said that it would be in proportion to the current holdings.

Chair Andrews said let's open up another discussion on that. He thinks that's good but he would like to consider that our greatest exposure would be on the longer end. Should the money come out, as Mr. Brown suggested, proportionately or should it come out entirely from our longer end?

Mr. Brown agreed that is a very fair question.

Mr. Hutzler asked to address this issue. In looking at the yield curve right now, notice a rather sharp yield curve until intermediate maturities which are basically in the five year range. Our investment right now is $10,000,000 on the long end $30,000,000 in the 1 – 3 year. It seems that much investment strategy within the industry today is basically what they call a barbell strategy, a lot on the short end and a lot on the long end. This may sound unusual but because 75% is going to be on the short end and there's no guarantee that long rates are actually going to go up to any great extent, he would vote to take it out of the 1 – 3 year versus the longer which may sound unreasonable but so that the yield could possibly be maintained or be even better on that basis.

Chair Andrews said to summarize, one suggestion has been made to take it out proportionately, one suggestion to take it out on the long end, and one suggestion to take it out on the short end. How about a compromise at this point and take it out proportionately?

Mr. Brown said it is already in his initial motion that was approved.

IX. ORDINANCE TO ADD ALTERNATE MEMBERS TO THE COMMITTEE

Chair Andrews said before discussing this, he doesn't know what the pool of candidates is or the pool of applicants that might be interested in being an alternate.

Ms. Struder said to go forward with this, the Town would have to readvertise anyway and would take whatever applicants are still on file and add those to any new applicants.

Chair Andrews asked is there any discussion?

Mr. Brown asked if the alternates sit in on the meetings even when they are not replacing somebody?

Chair Andrews said yes. He is currently on the Recreation Advisory Commission and actually serves as an alternate. They use the alternate as candidates that are available to go on full time boards. They do not vote but they are allowed to participate in the meeting fully. An interesting thing that he sees in the draft handout, and he doesn't know how it works in the Recreation Advisory Commission, is that if a member is not in attendance, then the alternate can come in and vote as a regular member. Is that correct?

Ms. Struder said that's how she reads it but you can make it whatever you want. Mr. Randolph just drafted this but you might need one to fill a quorum in the summer months anyway. On the Recreation Advisory Commission, the alternate doesn't vote at all ever?

Chair Andrews said on the Recreation Advisory Commission, all members vote.

Mr. Brown asked how many members and alternates are there on the Recreation Advisory Commission?

Chair Andrews said the Recreation Commission has seven members and up to four alternates. The alternates are on a two year program or less and a lot of the alternates do not make it to enough meetings, and they can fall off of their own accord. It was just an idea that because this is a rotating commission.

Ms. Struder said three members are three years and two are two years.

Chair Andrews said he wouldn't mind having some more discussion here. He thinks it's important that the committee members that have been appointed vote. He would like to open up to discussion on whether the alternates should actually be allowed to vote if one of the regular members is not in attendance or available at a particular meeting.

Mr. Panfel said it appears that this committee is a very complex type of operation unlike the Recreation Commission and he doesn't think it's a fair comparison to compare the two. This needs some study to make a decision. It's not something that someone can look into in an hour and decide how to vote. He suggests strongly that the alternate members not be allowed to vote unless they are on the committee long enough to establish some tenure unlike the Recreation Commission.

Chair Andrews asked the Town staff if somebody is not in attendance for a number of meetings, can they be taken off the committee? What is the policy and procedures?

Ms. Struder said members of the committee can be removed for lack of attendance and lack of attendance shall be defined as a failure to attend more than two meetings in any one calendar year. Excused absences due to illness, a death in the family, and requirements of legal process shall not constitute lack of attendance.

Mr. Brown said to sort of take off on Mr. Panfel's comments which he thinks are interesting, this is a complex subject and requires a lot of understanding of the subject and technical understanding. The thing that he is most concerned about is more the process of how members and alternates are chosen and he knows the Town Council in the end makes the choices, is that correct?

Ms. Struder said correct.

Mr. Brown asked if Ms. Struder provides some input to the Town Council other than giving them the resumes?

Ms. Struder said no.

Mr. Brown said he doesn't think the committee or even the committee Chairman is asked to provide input.

Ms. Struder said unless the Council would ask them individually.

Mr. Brown said he thinks that at least if the Chairman had some input into the process and was able to look at the resumes before hand and say well you know these folks here might not help us very much for quite a while and this person over here could help us right away. He doesn't know if that could be done or not. In the end, the Town Council has the say, he understands that.

Chair Andrews said he would be happy to make himself available but he doesn't think this committee has any control over that process.

Ms. Struder said usually none of the Town committees have any control over their members.

Mr. Brown said if two alternates are added who do not have particularly strong credentials in the investment area, he is not sure it helps.

Chair Andrews said the committee could have only one alternate. He thinks it's incumbent for the Town to select candidates that could be beneficial to the committee and its cause.

Ms. Struder said one of the requirements that's written into the ordinance is that they have to have prior fixed income investment experience but how the Council would define that would be up to them.

Chair Andrews said along with what Mr. Brown and Mr. Panfel said, this is fairly complex and if you had an alternate that could participate and not vote, he or she would have some time to better understand how the committee operates before they actually get to be in a voting position if they are appointed by the Town.

Mr. Brown said he does not have any problem with the proposal that has been put forward.

Chair Andrews said he would prefer to change it so they do not have the vote. It says the alternate member shall not vote on any matter unless they are sitting to fill a position of a regular member of the committee who is absent or in the event of a conflict of interest.

Mr. Brown asked do you want to make it stronger than that?

Chair Andrews said he doesn't think they should vote period.

Mr. Brown said he thought one of the purposes was in case a quorum is needed to have a meeting, then the alternate could come and make the quorum but if he can't vote, then he wouldn't really make the quorum.

Chair Andrews said three members are full time residents. Three's a minimum and this committee should be commended in working with the Town to set meeting dates and all have agreed to either attend in person or telephonically. A meeting can be held and the two gentlemen that are not full time residents have offered that they would work on the schedule so they would be available by telephone. He prefers at this particular time that the alternates not vote because it is fairly complex, and relative to what Mr. Panfel says, if the alternates just sit in here one time and see the discussion go back and forth without having some type of history, it would be difficult to pick it up right away. He asked the Town staff for comments.

Ms. Struder said she agrees that it would be important that whomever the Council chooses would have strong experience but as far as whether they vote or not, that would be up to the committee.

Chair Andrews said if there is a quorum, they end up with two votes. He doesn't want that.

Mr. Brown said what if it is worded to say that they have no vote unless the vote is needed to make a quorum?

Chair Andrews said he would agree with that.

Mr. Panfel said he would go with that.

Mr. Hutzler said he thinks it's very important to go along with what Mr. Brown is suggesting, mainly because if issues do come up, particularly during the summer period, that are necessary for a vote that there are people here who can essentially vote on it and that there will be a forum in which it can be discussed and voted on. It depends on who is going to be here during the summer. He agrees with that.

Chair Andrews asked if a motion is needed to amend this so that it complies with what Mr. Brown said?

Ms. Struder said a motion is probably needed and then she would have to take this and present it at the next Council meeting which probably won't be until May and then it would take two readings so that would be May and June and then the voting would happen in July and August so you probably wouldn't have any alternates until the Fall meetings anyway.

Chair Andrews said then he would strongly suggest or hope that the Town would not feel there was a requirement to put alternates in if they didn't believe that the candidates were qualified.

Mr. Brown said he is just reading the sentence a little more carefully here. It does also cover the event of a conflict of interest.

Chair Andrews said he thinks that's good because there are two members that are currently involved with investments.

Mr. Brown said so instead of saying unless they are sitting to fill the position of a regular member who is absent, say unless their vote is necessary to provide for a quorum or something…

Mr. Hennessy said he feels that having alternate members will be a real problem. He has been listening to this and can just see all sorts of problems arising with an alternate voting. These things that are brought up have long term implications and they can take a swing. With two alternates voting , if one person goes along with them, it creates a situation which the others might not have agreed to.

Ms. Somers said and then the regular members are left to deal with it.

Mr. Hennessy said he would suggest no alternates period.

Chair Andrews said the one motion on the table by Mr. Brown can be withdrawn if the committee wants. He asked Mr. Brown to state the motion again.

Mr. Brown said the only time an alternate would have a vote is when it is essential for a quorum. Ms. Struder brings up an interesting question, if you don't have a quorum, and two members want to have a meeting, which of the alternates do you pick?

Ms. Struder asked how do you choose which one has the voting power?

Mr. Brown said maybe the committee should just have one alternate.

Mr. Hennessy asked everyone if they have ever seen a company with a Board of Directors with alternates sitting out there?

Mr. Brown said no.

Chair Andrews said there is a motion on the floor, is there a second to the motion?

Chair Andrews said then the motion dies from lack of a second. Is there another motion on the floor about this particular item?

Mr. Hennessy made a motion to eliminate the idea of alternates.

Chair Andrews asked him to amend it so to eliminate the idea of alternates at this particular time.

Mr. Hennessy agreed.

Mr. Hutzler seconded. Motion passed.

X. COMMENTS FROM MEMBERS

XI. CONSIDERATION OF APPLICATION OF FINANCE DIRECTOR TO THE FLC INVESTMENT ADVISORY COMMITTEE

Ms. Struder reported she sent information to the Committee on how the Board was formed and the current Committee members. Jeanne Garner goes through the history of how the Board was formed and then the current membership list. Ms. Garner commented that Ms. Struder could make application for the Board. They may consider increasing the size of the Board although they have never had more than they have now. There's no guarantee that she would be chosen for the Board.

Chair Andrews asked Ms. Struder if she believes it would be beneficial for her to be on the Board.

Ms. Struder said she can apply and see what happens and see if they are willing to expand the Board or if any of the current Board members are ready to retire. They don't really have terms, they stay on until they retire or leave.

Mr. Hennessy said he would like to make a motion that Ms. Struder apply for a seat on the Board. Mr. Brown seconded. Motion passed.

XII. NEXT MEETING DATE

Ms. Struder said in the last minutes, the committee wanted to have a meeting in July. A calendar has been handed out that shows where there currently are meetings scheduled. She would prefer to wait to have the meeting until after July 12th because the Finance Office is busy that first couple of weeks preparing the budget.

Mr. Hutzler said he will be leaving town the week of July 27th. The last week is not good for him.

Chair Andrews asked for preferences of morning or afternoon. The majority voted for the afternoon.

The committee agreed on Tuesday, July 19th, at 2:00 p.m. for the next meeting.

Chair Andrews asked Ms. Struder to check on the mechanics of doing the conference call.

Chair Andrews said if there is some reason to have a meeting, please communicate with Ms. Struder.

Ms. Struder asked is there anything in particular to discuss at the next meeting, other than current market conditions and what to do from that point?

Chair Andrews said current market conditions and look at alternative investments.

Mr. Brown said he hopes in the interim, those investment reports asked for from the Florida League on a monthly basis can be e-mailed for follow up and he assumes Finance will be sending monthly reports as well.

Ms. Struder replied yes.

XIII. ANY OTHER MATTERS

Chair Andrews asked if there were any other matters that needed to be brought before the Committee?

XIV. ADJOURNMENT

Chair Andrews asked for a motion for adjournment. Mr. Hennessy moved to adjourn. Mr. Brown seconded. Motion passed unanimously.