



**Town of Atherton
FINANCE COMMITTEE
DRAFT MINUTES**

March 12, 2019

2:00 PM

TOWN COUNCIL CHAMBERS

94 Ashfield Road
Atherton, California

PLEASE NOTE: *Times listed on the Agenda are approximate; items may be taken up out of order.*

1. ROLL CALL

Bob Polito, Jeffrey Lee, Yogesh Amle, Ann Yvonne Walker, Devika Patil,
Bill Widmer, Rick DeGolia

Present: Polito, Walker, Patil, Widmer, DeGolia

Excused: Lee

Absent: Amle

2. PUBLIC COMMENT

None

REGULAR AGENDA

3. Review and Approve Draft Minutes of January 15, 2019 Finance Committee
Motion to approve minutes by Ms. Walker, seconded by Polito; All in Favor

4. Presentation by Cutwater (Insight) Investment Program review of Town.
Review statement of investment policy and if appropriate make recommendations of changes to Statement of Investment Policy for City Council approval.

This was a review of the investment program with Insight Asset Management Group and a review of the statement of investment policy. If appropriate discuss and make recommendation of changes to the Statement of Investment Policy for city council approval. Senior Portfolio Manager, Dave Witthohn was present to discuss the Town's investment portfolio program, outlook of the economy, and suggestions to the accommodate liquidity and review of the Town policy. Staffed reiterated that main objectives of Town investment policy include preservation of capital and protection of investment, maintenance of appropriate liquidity to meet cash flow needs, attainment of market rate of return, and diversification. The Town's main types of

instruments for investments include United States Treasury Bills, Federal Instrumentality, Medium Term Notes (corporate bonds), and State of California's Local Agency Investment Fund (LAIF).

Mr. Witthohn began the presentation with a discussion of the yield curve. There is slight movement towards an inverted yield curve. This means that short term rates are paying higher than long term rates. At the time of the recession the short-term rates were at about 5.35% and the long-term rates at about 4.83%. In the current year we are seeing increases in the interest rates as the expectation that if the economy has a slight downturn, then there could be a reduction in the interest rates to help alleviate the slowdown. It was discussed that we are in the 2nd longest economic recovery. If we go past July 1, it will be the longest recovery period in history. It was mentioned that good economic activity eventually leads to inflation. The economy has not seen a lot of inflation in the recovery. Currently seeing a 1.5% in CPI, whereas 2% is the target. Wage inflation is going up a bit as the unemployment rate is low. It was mentioned that the Amazon effect is keeping prices down.

Discussion ensued on the Town investment portfolio. Due to the forecast of Town liquidity needs the Town portfolio was shorter in duration than in previous years. The Town has added more duration lately on its investments as interest rates have increased. The Town will look more on interest rates with investments now, since in previous years interest rates returns were lower on the portfolio. The Town however is limited on the diversification on its portfolio. We would like to invest in more medium-term notes, however the Town is limited in investments available. It was discussed that investment diversification is a key component of the policy. The Town looks for investment opportunities that are diversified, consistent with safety risk and flexible depending upon the outlook for the economy, and cash needs of the Town. Over the last year we have seen an increase in interest earnings on investments, especially in medium-term notes.

Staff recommended discussion on one minor change of the policy in the area of Medium-term corporate investments. Staff suggested to update the minimum investment requirement on investing in "AA" for Medium-Term Notes to "A" ratings. This rating covers the entire range of A rated securities from A1, A2, A3 and gives the Town's increased investment flexibility in viably rated companies. Mr. Witthohn discussed the ratings of companies that have the single A rating that were once AA or AAA ratings. One main reason for some corporate ratings decreasing, was due to interest rates being so low for so long, companies borrowed more over the years. There was a review of US issues ratings and the number of issuers at AA were 17 and the number at A were 119. Some examples of the A rated issuers included American Express, Bank of America, John Deere. There was continued discussion on the portfolio and investment vehicle maturities.

Staff then proceed for a recommendation of the Finance Committee to the City Council to update the minimum investment requirement on investing in AA for Medium-Term Notes to “A” ratings. This rating covers the entire range of A rated securities from A1, A2, A3.

There was motion by Walker, seconded by Patil. All in favor.

5. Review, Receive, and File FY 2019/20 Budget Kick-Off and Overview presented to Council

There was a discussion, receive, and file of the report for the FY 2019/20 Budget Kick-Off and overview presented to Council.

6. Next Meeting Date, Future Agenda Items and Time- April 3, 2019

7. **Adjourn Motion by Walker, 2nd by Polito, All in Favor 4:01pm**

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