

Fountain Valley School District
Superintendent's Office

SPECIAL MEETING OF THE BOARD OF TRUSTEES

10055 Slater Avenue
Fountain Valley, CA 92708

May 6, 2015

MINUTES

President Collins called the special meeting of the Board of Trustees to order at 4:00pm.

CALL TO ORDER

The following board members were present:

ROLL CALL

Ian Collins	President
Sandra Crandall	Clerk
Lisa Schultz	Member
Jim Cunneen	Member

Absent:

Jeanne Galindo	President Pro-Tem
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Motion: Mrs. Schultz moved to approve the meeting agenda.

AGENDA APPROVAL

Second: Mrs. Crandall

Vote: 4-0

Mrs. Crandall led the Pledge of Allegiance.

PLEDGE OF
ALLEGIANCE
PUBLIC COMMENTS

There were no requests to address the Board of Trustees at this time.

BOARD WORKSHOPS

Assistant Superintendent, Business Christine Fullerton was joined by Shari L. Freidenrich, Orange County Treasurer-Tax Collector, Tomas Vargas, Assistant Treasurer-Tax Collector – Investments and Paul Gorman, Chief Assistant Treasurer-Tax Collector – Treasury, in reviewing investment options for Fund 40 with the Board of Trustees. Treasurer Freidenrich reviewed their investment authority for school district funds, treasurer responsibilities, goals for investment of Fund 40, investment information including yield trends, strategy options, risk analysis, estimated annual income under current and proposed options, and

INVESTMENT
CONSIDERATIONS FOR
FUND 40

the maturity schedule, phased investment implementation options and next steps.

Following their presentation, the following questions were addressed:

Mr. Cunneen asked for explanation of the difference between US Treasuries and Government Agencies, including which provides a higher yield and greater risk.

Mr. Vargas explained that additional yield is expected from Government Agencies. US Treasuries provide the highest safety, are more liquid, and have better credit quality. It is because of this that you pay more for added safety. He explained that Government Agencies are not explicitly backed by the US Government but are implicitly backed. He further explained that when investing, the District can invest in both US Treasuries and Government Agencies and decisions for investment can be made by the spread. If spreads about the same, the District would want to go with US Treasuries.

Mrs. Crandall thanked Treasurer Freidenrich, Mr. Vargas and Mr. Gorman for being here; noting as well the great confidence the Board has in Mrs. Fullerton, Mr. Martin and Dr. Johnson. She asked given the laws in place, when a district decides to deposit funds, if the only option is with County Treasury. Treasurer Freidenrich explained that there are a few exceptions in Education Code for investing although; districts are required to bank with the County Treasurer. Mrs. Fullerton noted that surplus funds, like Fund 40, can go our through the RFP process with a private investor but, day to day deposits are done with the County Treasurer.

Mrs. Crandall noted that the structure for administrative costs is far less with the County Treasurer than going with a private investor. She asked if quarterly reporting is wrapped into these fees. Treasurer Freidenrich noted that the basic .76 basis points administrative fee includes quarterly reporting. This amount is the maximum that the District would be charged.

Mrs. Crandall confirmed that the County Treasurer follows the same fiscal year as the District, July 1 through June 30.

Mrs. Crandall asked for additional explanation of the apparent inverse effect as interest increases. Mr. Vargas explained that the simplest Treasury Bill, a 0 coupon bond, doesn't pay interest; instead, it is bought at a discount and pays at 100% at maturity. He further explained that a lower purchase price equates to a

higher return.

Mrs. Crandall asked if Freddie Mac and Fannie Mae were subject to a bailout. Treasurer Freidenrich explained that they have received funds from the Federal Government and are paying dividends to the Federal Government. They have a line of credit and are giving dividends higher than the amount given in the bailout. She explained that they are in a conservatorship, and therefore the Federal Government is responsible for them. If this were to ever change, we would have to reevaluate that investment strategy. She noted that the flexibility of our strategy is that the District has options going out and there would be communication with our staff if there are changes.

Mrs. Crandall asked if a portfolio like ours existed when Orange County went through the bankruptcy, what would have happened to the funds. Treasurer Freidenrich explained that our funds will be a separate fund, investments for our funds will not be in a pool. If there are changes in those investments, the District would accept those changes. The pooled investments have different instruments. She noted the focus on safety, liquidity and yield. Because of these focuses, we keep a short pool.

Mrs. Crandall asked for clarification on the proposed laddering and the chunking of our investment into 10 - 3.5 million dollar chunks at 6 months, 1 year, etc. Treasurer Freidenrich explained that each rung is occupied by chunk of money. We would not be holding any of that money back to invest at a later date. If the District likes this laddered approach, we would plan to invest at 6 month intervals. She explained that this is the easiest approach and provides stability of cash flow with the coupon payments.

Mrs. Crandall questioned given that we in a unique position to offer this kind of money to invest and look at laddering, if there are any that may have done this in the past. Treasurer Freidenrich explained that the County Treasurer has had experience with other pool participants, including the First Five Foundation and CFCOC, with specific investment for a time with them. She explained that they laddered approach is a very interesting agnostic approach. Mr. Vargas added that it is a very good approach, one that they are very familiar with and a smart approach

Regarding laddering, Mr. Collins asked what part of the fund would be in a longer term investment. Mr. Vargas explained that with a 5-year ladder, there would be ten separate purchases. The

first mature in 6 months, the last in 5 years. Given this, the District would not see a return on the last investment for 5 years but, we would get a higher interest rate because of it.

Mr. Cunneen asked if any of the school districts in the county have done something similar in the past. Treasurer Freidenrich explained that the community college district did float a bond, but the County Treasurer did not have the infrastructure in place at the time to support the investment and recommended that the District go to a third party who did the same investment strategy for a lot more money. She explained that when buying a ladder, there are equal portions going out. On a long term basis, the County would like to have a longer term pool, allowing for a little more flexibility and a higher yield; they are just not prepared yet.

Mrs. Schultz asked what happens to the first chunk of the ladder investment when it matures after 6 months. Mr. Vargas explained using a 5-year ladder as an example that the 6-month bond becomes cash. And the 5-year bond is then a 4.5-year bond. So we would use the 6-month cash to buy a 5-year bond in order to keep the fund balanced.

Dr. Johnson confirmed that the need for liquidity negates potential risk. There isn't significant risk to the principal; instead it is to the interest yield.

Treasurer Freidenrich explained risk in that there are interest rate risks, meaning that interest rates go up and you have opportunity cost because you are not going to get the higher rate as the market value will drop. If you hold the investment, you will not lose principal unless you sell it. She also explained credit risk, related to the quality of the instrument, noting that some previously AAA rated instruments no longer are AAA rated. Mr. Vargas reiterated that they are two types of risks, opportunity risk, leaving money in cash and sitting on sidelines not getting any return; and credit risk, risk to the quality of the instrument.

Mr. Collins asked whether reports would come to the District annually through Mrs. Fullerton with recommendations. Treasurer Freidenrich noted that the District currently receives reports on the pooled investments through the County. If we would like a separate report, they would provide this on a quarterly basis. It can also be decided if the Board would like presentations quarterly or included in agendas.

Mrs. Fullerton explained that the next step, given that the Board

feels comfortable investing with the County Treasurer, is to provide direction to allow staff to create a resolution to bring back to the Board including directions to invest in agencies versus treasuries, invest in a laddered approach and direction as to whether or not the 6-month and 12-month investments should remain with County pool.

After discussion, the Board reached consensus as explained by Mr. Collins to invest with the County Treasurer in a laddered approach for a 5-year investment. Considering treasuries versus agency instruments, the Board defers to the County Treasurer’s expertise, noting that as a school district the Board wants liquidity. The Board agreed as well on the request for quarterly reporting. Mrs. Fullerton noted that staff will prepare a resolution to bring to the Board for a 5-year term, laddered approach, deferring to the expertise of staff and the County Treasurer on the blend of treasuries and agencies, with quarterly reporting, and flexibility on when to start the fund based on rates.

Mr. Collins confirmed that at the start of the next fiscal year this will be well under way. Mrs. Fullerton explained her hope that a resolution will be in place for approval at the next board meeting and once approved, we will be able to provide direction to the County Treasurer. All agreed that this timeline should be fine. Mrs. Fullerton noted wanting to give some flexibility to the investment team, noting that, for example, if we hear that interest rates are changing.

PUBLIC COMMENTS

There were no requests to address the Board.

PUBLIC COMMENTS

ADJOURNMENT

Motion: Mrs. Crandall moved to adjourn the meeting at 5:22pm.

Second: Mr. Cunneen

Vote: Unanimously approved

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