

Banking & Audit Committee Meeting

April 7, 2011

A meeting of the Banking & Audit Committee of the Board of Finance was held on April 7, 2011 in the 1st Floor Meeting Room of City Hall. The following were in attendance: Robert Casar, Paul Tonon, Rich Miecznikowski and Cheryl Thibeault. Also present Comptroller Glenn Klocko, Louise Miller, Deputy Treasurer and Rose Parenti, Treasurer.

The meeting was called to order at 5:15 p.m.

Glenn explained the Charter gives the power to the Board of Finance to direct the Office of the Treasurer to do investing.

1. Discussion of Laddered CD's and take any necessary action.

Louise went over the following:

a) Purpose: Improve Portfolio by Laddering CD's

Use Broker/Dealer to invest in CD's in increments less than \$250,000 per bank

Ladder out every 3 months: reinvest when come due unless need money

- Increase safety of money since 100% FDIC: CAFR classification will be insured
- Increase interest without compromising safety
 - Blended rate: Currently earning average 25 basis points, Project 75 basis points
- Bank could fail, still get principal back since FDIC insured may take 7 to 10 days
297 banks failed in 2009 and 2010, 26 in 1st quarter of 2011, recent bank bailout
- Option to select Banks based on IDC rating, however all FDIC insured

b) Background:

- Northern Capital and Multi-Bank Securities two fixed income broker-dealers considering, underwritten so no cost to city.
- Met with representatives from companies 1st week in April, Attending meeting: Tom Barnes, Glenn Klocko, Rich Miecznikowski, Rose Parenti, Louise Miller
- Due Diligence:
 - Reviewed audited financial statements,
 - Reviewed Financial Industry Regulated Authority (FINRA) registration reports (FINRA is largest independent regulator for all security firms in US)
 - Both SEC registered and registered as broker/dealer in state of Connecticut
 - Contacted 4 Connecticut municipal clients of each
 - Northern Capital: Fairfield, Paul Hiller, Meriden Mike Lupkas; Glastonbury, Diane Waldron; and Waterbury, Mike LeBlanc
 - Multi-Bank Securities: Fairfield, Paul Hiller; Meriden, Mike Lupkas; Windsor Locks, Barbara Bertrand; and Branford Jim Finch

c) Propose:

- Use both Northern Capital and Multi-Bank Securities to:
 - Increase: flexibility, customer service, diversification,
 - Evaluate before increase use, expect to use more once schools built

- Paul Hiller Fairfield & Mike Lupkas Meriden use both & like the perspectives,
- Multi-Bank Securities system prevents duplication of banks
- Invest \$7 million in total, (CAFR unreserved/undesignated is \$19.8 and \$17.6 for FY 2010 and FY 2009 respectively)
 - Multi-Bank Securities: \$4 million (1 million per year out 4 years)
 - Northern Capital: \$3 million (\$1 million per year out 3 years)
Note: 5 years out is State of CT Statute limitation

Glenn stated a bid waiver will be necessary to use Northern Capital and Multi-Bank. Louise explained the plan is to start investing \$7 million due to the new schools. Glenn commented this will be putting the City's toe in the water. Louise explained Multi-Bank software which verifies the same banks are not being used between the same firms and the amount is under \$250,000 in each bank to be protected.

Glenn explained the notes in the CAFR categorize the investments of the City. This process would eliminate the current risk and place the investments in a safer category. This would be highlighted to the rating agencies.

Paul Tonon questioned the risk involved with these investments. Louise explained since the money is FDIC insured and invested less than \$250,000 per bank the money is fully insured. It may take 7 to 10 days to get the money back, but the City will receive it's principle. Paul questioned the amount that could be invested if a \$10 million cushion was left in the bank account. There is approximately one to two million dollars going out each month for the school projects. The reimbursement from the State has a lag period, but at any given time the City has approximately \$40 million in the bank. Louise said another \$10 million could be added to the \$7 million and the City would be in a comfortable place.

2. Discussion of the City's Investment Policy and take any action as necessary.

Louise explained there are multiple accounts at each bank. Each fund used to have its own bank account but seven accounts have been closed in 2010 and an additional six will be closed. Bank of America is the main bank account and has a bank required minimum balance of \$3 million. Other banks have approached the City in the past, for example Sovereign Bank and Liberty Bank.

a) Improvements currently working on:

Accomplishments

- Closed 7 bank accounts in 2010 to simplify banking structure.
- On-going evaluation of safety/diversification of the investment portfolio and the use of AAA rated asset management investment pools.
- Negotiated a reduction in past due Bank of America fees.
- Negotiated pricing improvements which will decrease Bank of America fees annually.

- Assisted in implementation of lockbox to save processing costs and increase interest.
- Implemented remote depositing for large deposits received after daily deposit.
- Moved Self Insurance money into the pool to streamline money flow.

In Process

- Implementing dual control for all bank transfers through Bank of America's software.
- Transitioning bank transfers to ACH (7 cents) instead of wires (\$9 per transaction).
- Streamlining banking structure to improve money flow and reduce costs by:
 - ✓ Closing 6 more bank accounts by FY 2011
 - ✓ Moving Workers' Compensation money into pooled funds
 - ✓ Moving Health Benefits money into pooled funds.

b) Working on a formal investment policy; current internal operating investment policy:

- Monitor banks IDC rating only invest over \$250,000 if acceptable rating trend
- Monitor balances by Cash, Cash Equivalents and Investments categories, CAFR, FN 3
- Keep up to 15% of portfolio at any one bank to limit Custodial Credit Risk
- Keep up to 50% of portfolio in an investment pool and up to 60% in total diversification
- Keep minimal operating funds at Bank of America due to FDIC charge

c) Approval requested for use of below banks and money market accounts:

Banks

- Bank of America (Operating accounts)
- Citizens Bank (account open not using due to low interest rate)
- Farmington Bank
- New England Bank
- Sovereign Bank
- TD Bank
- Webster Bank
- Liberty Bank (Middletown, CT) – NEW

Cash Equivalents – Investment Pools- (Operated similar to money market mutual funds)

- State of CT Short Term Investment Account (STIF)- AAA Standard and Poor's rating
- CT Cutwater Asset Management- AAA Standard and Poor's rating

Risk reduced by diversification of securities and maturities and substantial purchasing power.

Examples of investments include: Federal Agencies (Fed Farm Credit & Fed Home Loan Bank Notes Freddie Mac), Repurchase Agreements, US Treasury Securities, Municipal Bonds, Government

Cheryl Thibeault entered the meeting at 5:45 pm.

Paul Tonon made a motion seconded by Bob Casar to “Approve the banks as presented, approve Northern Capital and Multi-Bank Securities as broker dealers and request a bid waiver to the broker dealers and recommend to Board of Finance for approval.” Motion approved.

Paul Tonon stated he would like to see the entire \$17 million invested instead of only \$7 million. These investments are guaranteed and there is no reason to be overly conservative. Cheryl Thibeault questioned if the Treasurer’s Office had received the most recent cash flow statements for the two new schools. Louise stated she had not. Glenn also mentioned the cash flows for the upcoming debt issuance. It is up to the Board of Finance to issue the debt at once or split the issue, which will affect the cash flow. Louise will need to review the cash flow statements.

Discussion was held on the current interest earned by the City and investment strategies.

Paul Tonon made a motion seconded by Bob Casar to “limit the investment total up to \$17 million for laddered CD’s, not to exceed four years between the two broker firms.” Motion approved.

Glenn stated the Committee will need to meet a few more times to review the Investment Policy which is being benchmarked from the GFOA policy. Information will be sent to the Committee members regarding the policy for review and discussion at the next meeting.

3. Adjournment.

On motion of Commissioner and seconded by Commissioner, it was unanimously voted to adjourn at 5:58 p.m.

Respectfully submitted,

Richard Miecznikowski/jam

Richard Miecznikowski
Chairman