

STAFF REPORT
City of Lancaster

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10/12/2010
MVB

Date: October 12, 2010
 To: Mayor Parris and City Council Members
 From: Barbara Boswell, Finance Director
 Subject: **Monthly Report of Investments – August 2010**

Recommendation:

Accept and approve the August 31, 2010 Monthly Report of Investments as submitted.

Fiscal Impact:

None

Background:

Each month, the Finance Department prepares a report listing the investments for all the separate entities under jurisdiction of the City as identified in the City’s Comprehensive Annual Financial Report. These component units include: the City of Lancaster, Lancaster Redevelopment Agency, and Lancaster Housing Authority.

Portfolio Recap

August portfolio transactions:

Sold, Matured or Called:

<u>Description</u>	<u>Maturity</u>	<u>Yield</u>	<u>Amount</u>
Federal Home Loan (FHLB)	08/10/2010	1.88%	\$2,000,000
Federal Home Loan Mtg Corp	08/27/2010	1.32%	\$2,000,000

Purchased:

Federal Home Loan (FHLB)	07/12/2013	0.87%	\$2,000,000
Federal Home Loan Mtg Corp	11/18/2013	1.21%	\$2,000,000

Yields:

	<u>August 2010</u>	<u>July 2010</u>
Total Portfolio	1.094%	1.135%
Wells Fargo Sweep Account	0.010%	0.010%
Local Agency Investment Fund	0.513%	0.531%
Total Portfolio Balance:	\$ 96,793,048	\$106,100,949

The City had two securities mature and purchased two new securities during this period. The portfolio balance is slightly lower due to the payment of \$1,563,313 to US Bank for debt service, the payment of \$851,262 to Hanes and Associates and the payment of \$1,690,532 to L A Co Sheriff and various other large payments for capital projects and for the purchase of real estate properties. Information received since the Federal Open Market Committee met in June indicates that the pace of recovery in output and employment has slowed in recent months. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising; however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Bank lending has continued to contract. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be more modest in the near term than had been anticipated. Measures of underlying inflation have trended lower in recent quarters and, with substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

The City's temporary idle cash, those funds that are not immediately needed to pay current bills and not governed by bond indentures or bond resolutions, is invested in accordance with the City's adopted Investment Policy. This policy is reviewed annually by the City Council, with the latest policy adopted October 13, 2009 by Resolution No. 09-89.

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible within the guidelines of this Investment Policy. The City attempts to achieve the highest yield obtainable through a diversified portfolio only after meeting the criteria established for safety and liquidity in that order. The principal investment objectives of the City are:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market rate of return.
4. Diversification to avoid incurring unreasonable market risks.
5. Compliance with the City's Municipal Code and with all applicable City resolutions, California statutes and Federal regulations.

The City's portfolio is a short-term and intermediate-term fixed income portfolio. The maximum maturity of any investment is 5 years, with consideration of anticipated cash flow requirements and known future liabilities. The City contracts with an investment advisory service (MBIA Asset Management Group) to assist in the effort to maximize the return on the City portfolio. The City investments include publicly traded Treasury notes, Treasury Bills, Federal Agency Investments, Time Deposits, and Local Agency Investment Fund (LAIF) under the auspices of the State Treasurer for investment. Funds invested in the LAIF are available within 24 hours, and other investments are available upon maturity at full face value. These investments enable the City and Agency to meet its expenditure requirements for the next six months, as required by state law.

The City's investments are governed by Sections 53600 et. seq. of the California Government Code. Additional limitations have been placed on the City's authorized investments by the Investment Policy (a copy is available in the Finance Department or from the City Clerk), and all investments listed on the attached report adhere to these limitations.

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Attachment:

Monthly Report of Investments