

STAFF REPORT
City of Lancaster

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03/08/11
MVB

Date: March 8, 2011

To: Mayor Parris and City Council Members

From: Barbara Boswell, Finance Director

Subject: **Adopt Resolution Updating a Policy for the Investment of Public Funds**

Recommendation:

Adopt **Resolution No. 11-14**, rescinding Resolution No. 09-89 in its entirety, and establishing a policy for the investment of public funds for the City of Lancaster.

Fiscal Impact:

None.

Summary:

Cash management is a key element of a sound financial management program. Investing represents one portion of a cash management program, although it is a crucial component. A formal investment policy is necessary to identify investment objectives, define risk tolerance, assign responsibility, and establish control over the investment process.

Staff has undertaken a thorough review of the City's current Investment Policy, with the assistance of the City's investment advisory firm, Cutwater Asset Management. The review included a comparison of the Investment Policy to current legislation, the recommended model investment policy from the Association of Public Treasurer's of the United States and Canada (APT), and recommended practices of the Government Finance Officers Association.

This review has resulted in changes to the Investment Policy. The guiding principles previously adopted by the City Council remain a controlling focal point of the policy. These principles include the "prudent person rule", which states that investments should be made with the same judgment and care that persons of prudence, discretion and intelligence would exercise for their own affairs. The objectives of the City's investment program have been expanded beyond the previous objectives of safety, liquidity and yield to include diversification and compliance. Specifically they 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.

There were several minor formatting changes to the policy. Notable changes to the current policy are detailed below.

Authorized Securities and Transactions

- Deletion of language specifically restricting the City from investing in federal instruments issued only by Federal Home Loan Banks, Federal National Mortgage Association, Federal Farm Credit Banks, and Federal Home Loan Mortgage Corporation.

Diversification

- Addition of the sentence, “The aggregate investment in banker’s acceptances shall not exceed 15% of the City’s total portfolio.”

Safekeeping and Custody

- Addition of language that “All investment securities... purchased by the City will be delivered by either book entry or physical delivery...” with no exceptions made to the type of investment security this stipulation addresses.
- Deletion of the following stipulations:
 - “All Fed wireable book entry securities shall be held in the Federal Reserve system in a customer account for the custodian bank which will name the City as ‘customer’.”
 - “All DTC eligible securities shall be held in the custodian bank’s DTC participant account and the custodian bank shall provide evidence that the securities are held for the City as ‘customer’.”
 - “All non-book entry (physical delivery) securities shall be held by the custodian bank or its correspondent bank and the custodian bank shall provide evidence that the securities are held by the bank for the City as ‘customer’.”
- Addition of language that provides, “The City’s custodian shall be required to furnish the City a list of holdings on at least a monthly basis and safekeeping receipts or customer confirmations shall be issued for each transaction.”

Reporting

- Per California Government Code Section 53646(b), addition of a list of necessary information to be included in the City’s monthly report of the investment portfolio.

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Attachments:

Resolution No. 11-14

Exhibit A - Final Draft Proposed Investment Policy

Markup copy of current Investment Policy