

STAFF REPORT
City of Lancaster

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MVB

Date: March 8, 2011
 To: Mayor Parris and City Council Members
 From: Barbara Boswell, Finance Director
 Subject: **Monthly Report of Investments – January 2011**

Recommendation:

Accept and approve the January 31, 2011, 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, the Lancaster Redevelopment Agency, and the Lancaster Housing Authority.

Portfolio Recap

January portfolio transactions:

Purchased

<u>Description</u>	<u>Maturity</u>	<u>Yield</u>	<u>Amount</u>
-	-	-	-

Sold, Matured or Called:

<u>Description</u>	<u>Maturity</u>	<u>Yield</u>	<u>Amount</u>
Federal Farm Credit Bank	01/18/2011	3.08%	\$2,000,000
Federal Home Loan (FHLMC)	01/20/2011	0.71%	\$1,000,000
Federal Home Loan (FHLB)	01/21/2011	1.61%	\$2,000,000
Federal Home Loan (FNMA)	01/25/2011	2.13%	\$2,000,000

Yields:

	<u>January 2011</u>	<u>December 2010</u>
Total Portfolio	0.828%	0.846%
Wells Fargo Sweep Account	0.010%	0.010%
Local Agency Investment Fund	0.538%	0.462%

Total Portfolio Balance: \$86,476,127 \$90,314,584

The City had four securities mature during this period. The portfolio balance is slightly lower due to various large payments to Los Angeles Co Sheriff's Department in the amount of \$1,707,114 (community safety); Johnson Controls in the amount of \$1,159,115 (energy audit mobilization ARRA); Antelope Valley East Kern Water Agency in the amount of \$383,733 (pass thru debt service payment) and Boardwalk Contractors Inc in the amount of \$374,417 (housing rehabilitation) and for capital projects.

According to the Federal Open Market Committee in a press release dated January 26, 2011:

Information received since the Federal Open Market Committee met in December confirms that the economic recovery is continuing, though at a rate that has been insufficient to bring about a significant improvement in labor market conditions. Growth in household spending picked up late last year, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, while investment in nonresidential structures is still weak. Employers remain reluctant to add to payrolls. The housing sector continues to be depressed. Although commodity prices have risen, longer-term inflation expectations have remained stable, and measures of underlying inflation have been trending downward.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.

To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to continue expanding its holdings of securities as announced in November. In particular, the Committee is maintaining its existing policy of reinvesting principal payments from its securities holdings and intends to purchase \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.

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 for 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 (Cutwater Asset Management) to assist in the effort to maximize the return on the City portfolio. The City's 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.

NR:jed

Attachment:

Monthly Report of Investments