

STAFF REPORT
City of Lancaster

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10/25/11
MVB

Date: October 25, 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. 11-70**, rescinding Resolution No. 11-14 in its entirety, and establishing a policy for the investment of public funds for the City of Lancaster.

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 resulted from Standard and Poor's decision in August 2011, to downgrade its rating of long-term *federal debt* from the top grade of AAA to AA+. The current investment policy states, "Federal Instrumentality securities shall be rated at least AAA or the equivalent by a nationally recognized statistical-rating organization (NRSRO) at the time of purchase." Because of the downgrade, the latter statement is now deleted and replaced with, "Subordinated debt may not be purchased." Staff does not believe Standard and Poor's decision represents a higher risk to the City's assets. In fact, demand for federal treasury notes still remains strong.

No other changes have been made and 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 regulatory and legal compliance.

NR:

Attachments:

Resolution No. 11-70

Final Draft Proposed Investment Policy

Redlined copy of current Investment Policy