

STAFF REPORT
City of Lancaster

NB 1
07/23/13
MVB

Date: July 23, 2013

To: Mayor Parris and City Council Members

From: Barbara Boswell, Finance Director

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

Recommendation:

Adopt **Resolution No. 13-47**, rescinding Resolution No. 11-70 in its entirety, and establishing a policy for the investment of public funds for the City of Lancaster.

Summary:

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

Staff has recently 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 recognition that Cutwater manages only a portion of the City's assets and therefore, we cannot take advantage of the full capabilities of the Cutwater compliance system and portfolio review protocol. Currently, Cutwater managed assets hold a corporate allocation of thirteen percent (13%), which exceeds the policy limit for the Cutwater portfolio but not for the City's assets in total. Staff therefore recommends increasing the maximum allocation of corporate bonds from ten to twenty percent (10 - 20%).

The current allocation of corporate bonds is recommended to take advantage of the yield differential in these securities when compared to non-callable agency and treasury yields. Staff are comfortable with the increased allocation, which is still well within statutory guidelines, given Cutwater's capabilities in credit research and analysis.

Staff recommends the commercial paper limit be reduced to five percent (5%) from ten percent (10%). In general, it is the preference of Cutwater to limit allocations to credit-related securities to five percent (5%) to ensure adequate diversification among issuers held in the portfolio.

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:te

Attachments:

Resolution No. 13-47

Final Draft Proposed Investment Policy

Redlined Copy of Current Investment Policy