

**STAFF REPORT**  
**City of Lancaster**

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Date: January 13, 2015

To: Mayor Parris and City Council Members

From: Barbara Boswell, Finance Director

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

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**Recommendation:**

Adopt **Resolution No. 15-02**, rescinding Resolution No. 13-47 in its entirety, and establishing a policy for the investment of public funds for the City of Lancaster.

**Summary:**

Investing funds 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. Several adjustments to our current investment policy are recommended.

All City cash, regardless of the contributing fund, is pooled for investment purposes. The investment income derived from the pooled investment account is now allocated to the contributing funds based upon the proportion of the respective average to the total pooled balance in the investment portfolio. Staff recommends the City align its internal procedures with section 53647 of California Government Code which states that interest earnings may be allocated to the General Fund unless otherwise required by federal or state regulations or local ordinances.

The City is legally authorized to invest in municipal bonds of any of the 50 states. These securities must be rated at least AA- or the equivalent by a nationally recognized statistical ratings organization. No more than 5% of the City's total portfolio shall be invested in any one municipal issuer and the aggregate investment in municipal bonds may not exceed 20% of the portfolio.

Deposits may be placed using a private sector entity that assists in the placement of deposits per sections 53601.8 and 53635.8 of California Government Code. No more than 5% of the portfolio may be invested through any one private sector entity and the aggregate investment in certificates of deposit shall not exceed 25% of the portfolio.

Cutwater conducts due diligence on all recommended firms and brokers. As such, brokers are not required to complete an annual information request form to complete the reviews. Staff recommends language that requires the submission of annual broker/dealer information request forms only when an investment advisor is not used. In the event that the City does not utilize the services of an advisor, the information request forms would again be required as it would be the City's responsibility to conduct broker/dealer due diligence.

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.

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**Attachments:**

Resolution No. 15-02

Final Draft Proposed Investment Policy

Redlined copy of current Investment Policy