

**STAFF REPORT**  
**City of Lancaster, California**

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Date: December 11, 2007

To: Mayor Hearn and City Council Members

From: Barbara Boswell, Finance Director

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

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**Recommendation:**

Adopt **Resolution No. 07-204**, rescinding Resolution No. 05-264 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, MBIA. 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 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.

Effective January 1, 2007, several changes and additions were made to the sections of the California Government Code relating to the investment of local agency funds. Revisions to the Authorized Securities and Transactions section of the policy accommodate those changes with respect to Commercial Paper. Also, we're recommending a change to the broker/dealer requirements. Staff's recommendations are summarized as follows:

**Prudence – Page 2**

The second paragraph is reworded to clarify that losses are not inevitable, but may occur as part of a program to improve overall return.

**Authorized Securities and Transactions – Pages 3-5**

- In Sub-section 3 dealing with Repurchase Agreements, increasing the maximum maturity of the collateral from five to ten years. Ten years is the industry standard and repurchase collateral is exempt from California's five year maximum maturity.
- In that same sub-section, firms are added having a primary dealer within their holding company structure as eligible repurchase agreement counterparties. For example, Merrill Lynch, one of the City of Lancaster's approved brokers is not a primary dealer. Merrill Lynch Government Securities Inc. is the primary dealer within the company's holding company structure.
- California Government Code Sections 53601.7(e)(6)(B) and 53635.8 were revised to remove the requirement that eligible commercial paper may not represent more than 10 percent of the outstanding commercial paper of a single issuing corporation. That requirement is deleted from Subsection 4 of the policy.
- For easier reading, we reworded the Banker's Acceptance and Non-negotiable Certificates of Deposit sub-sections.
- In Sub-section 9 dealing with Money Market Funds, we revised the "invest only in the securities and obligations authorized" reference to read "authorized in the applicable California statutes." The existing references to investments authorized in the policy could require a policy amendment if a money market fund decides to invest in different securities. "Authorized in the applicable California statute" is all encompassing, and the requirement that money market funds have the highest credit rating maximizes safety of the investment.

### **Selection of Broker/Dealers – Page 6**

- Section 25004 of the California Corporations Code defines a broker/dealer as a person rather than a firm. We reworded the first paragraph of this section to state the requirements of the person as well as those of the firm.
- We added the holding company qualification referred to above.
- We recommend deleting the requirement for broker/dealers to provide a written certification of having received and reviewed the City's investment policy for these reasons:

When a public entity employs an SEC registered investment advisor, the responsibility for determining the suitability of investments with respect to state statutes and investment policy guidelines shifts from the brokers to the investment advisor. As beneficiaries of vast improvements in technology, brokers today are judged by their ability to execute trades quickly and economically, rather than their ability to review and understand the terms of a client's investment policy.