

# STAFF REPORT

## City of Lancaster

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MVB

Date: February 24, 2009

To: Mayor Parris 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. 09-09**, a resolution of the City Council of the City of Lancaster, California, rescinding Resolution No. 07-204 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 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 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.

Staff's recommendations are summarized as follows:

**Prudence – Page 2**

The second paragraph is reworded to clarify that no investment is totally riskless, but that no investment is totally without risk.

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

- In sub-section 1 dealing with United States Treasury, the date of purchase has been reworded to state the date of trade settlement. The purchase date and trade settlement date are often different when securities are purchased. As such, the maturity period is calculated according to the date a trade settles, not according to the date it was purchased.
- In sub-section 2 dealing with Federal Instrumentality, the date of purchase has been reworded to state the date of trade settlement. The purchase date and trade settlement date are often different when securities are purchased. As such, the maturity period is calculated according to the date a trade settles, not according to the date it was purchased.
- In sub-section 4(a), five hundred million dollars have been revised from its written value to a numerical value of \$500,000,000.
- In sub-section 6 dealing with Medium-Term Notes, a hyphen has been added between the words Medium and Term and the date of purchase has been reworded to state the date of trade settlement. The purchase date and trade settlement date are often different when securities are purchased. As such, the maturity period is calculated according to the date a trade settles, not according to the date it was purchased.
- In sub-section 7 dealing with Non-negotiable Certificates of Deposit, the reference to a maturity has been reworded to reflect the plural form maturities.
- In that same sub-section, the reference “in FDIC insured state or nationally chartered banks or savings banks with a California branch office” has been revised to read “in FDIC insured state or nationally chartered banks or savings banks with a California branch office and that qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5”. The inclusion of this verbiage ensures that funds are only deposited with a qualifying depository of public funds in the State of California.

**Portfolio Maturities and Liquidity – Page 5**

In the first paragraph, the date of purchase has been reworded to state the date of trade settlement. The purchase date and trade settlement date are often different when securities are purchased. As such, the maturity period is calculated according to the date a trade settles, not according to the date it was purchased.

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**Attachments:**

1. Resolution No. 09-09
2. Final Draft Proposed Investment Policy
3. Redlined copy of current Investment Policy