

STAFF REPORT
City of Lancaster

CC 18
10/13/09
MVB

Date: October 13, 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**

Recommendation:

Adopt **Resolution No. 09-89**, rescinding Resolution No. 09-09 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:

Investment Policy – Page 1

In the first sentence, quotation marks have been removed. The reference “(the “City”)” has been revised to read “(the City)”.

Scope – Page 1

In the first paragraph, an apostrophe has been relocated. The reference “employee’s retirement” has been revised to read “employees’ retirement”.

Delegation of Authority – Page 2

In the first sentence, quotation marks have been removed. The reference “(the “Treasurer”)” has been revised to read “(the Treasurer)”.

Prudence – Page 2

In the first sentence, a comma was removed and the word “that” was included. The reference “which states,” has been revised to read “which states that”.

Authorized Securities and Transactions – Pages 3-5

- In sub-section 4 dealing with Prime Commercial Paper, 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), “\$500,000,000” has been revised from its numerical value to a written value of “\$500 million”.
- In the same sub-section, the reference “that is rated at least “A” or higher by a NRSRO” has been revised to read “that is rated at least A or the equivalent by a NRSRO”.
- In sub-section 4(b)(2), the reference “have program-wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond” has been revised to read “have program-wide credit enhancements, including, but not limited to, over-collateralization, letters of credit or surety bond”.
- In sub-section 4(b)(3), the reference “have commercial paper that is rated “A-1” or higher by a NRSRO” has been revised to read “have commercial paper that is rated at least A-1 or the equivalent by a NRSRO”.
- In sub-section 5, dealing with Eligible Banker’s Acceptances, 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. 09-89
2. Final Draft Proposed Investment Policy
3. Blacklined copy of current Investment Policy