



Lompoc City Council Agenda Item

Date: September 20, 2005
TO: Gary Keefe, City Administrator
FROM: John Walk, Management Services Director/City Treasurer
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SUBJECT: Investment Policy of the City of Lompoc

RECOMMENDATION

That the City Council adopt Resolution No. 5287(05) approving the Investment Policy for the City of Lompoc.

DISCUSSION

Section 53646 of the Government Code requires the annual adoption of an Investment Policy for the City of Lompoc. The investment policy was last adopted September 21, 2004. State law regarding investments has not been changed. Resolution No. 5287(05) appoints the City Treasurer to make investments for the City of Lompoc. [For administrative efficiency, the City's policy has been combined with that of the Lompoc Redevelopment Agency, to be separately approved by the RDA board.]

In July 2004 when the Treasurer's position was added to the Management Services Director's classification and responsibilities, Council asked for the Investment Committee to review this change and report back to Council after its implementation. The City Administrator's Investment Committee met with the Treasurer on September 8, 2005 to conduct this review and also consider recommended changes for the update of the Investment Policy. The Investment Committee consists of:

Laurel Barcelona, Assistant City Administrator
Bill Brown, Police Chief
Matt Granger, Assistant City Attorney II

Chief Brown was unable to attend and Captain Dabney attended in his place.

The Investment Committee reviewed the changes in the City's investment portfolio during fiscal year 2004-05 from June 30, 2004 to June 30, 2005. The composition of the various categories of investments and the changes in those investment categories over the past fiscal year were reviewed in detail. The previous Treasurer had increased the governmental securities portfolio to mostly

four and five year maturities. The new Treasurer reviewed the changes made during fiscal year 2004-05 to shorten the term of these securities to maturities of less than two years when the opportunities for the sale and reinvestment occurred. In a rising interest rate environment the market price of shorter term investments are less adversely impacted than similar longer term investments. Shortening the portfolio protects the City from the market price impacts of rising rates and positions the portfolio to take advantage of potential increases in rates without sacrificing current investment earnings.

The Investment Committee also reviewed the City's current Investment Policy and the changes proposed by the Treasurer to be incorporated into the policy presented herein for your approval. The following changes were reviewed and discussed and have been approved by the Investment Committee to be incorporated into the proposed update of the City's Investment Policy:

1. V. DELEGATION OF AUTHORITY (Exhibit A, page 5)

Add Accounting Supervisor, Accountant, and Treasury Staff Supervisor to those positions that can be explicitly delegated for investment transactions by the Treasurer.

2. VIII. PERMITTED INVESTMENT INSTRUMENTS (Exhibit A, pages 4, 7, and 17)

VIII. 5. Purchases of commercial paper changed from no more than \$1,000,000 from an issuing corporation to no more than 10 percent of portfolio value with any one corporation. This change is still more conservative than the investment policies of other Central Coast Cities policies reviewed by staff and the limits imposed by State law. Other investment policies reviewed only restricted the commercial paper investments to the State Code Legal Limit of 30% or in some cases a lower limit of 25% but had no other single corporation limitation.

VIII. 6. Investments in medium term corporate notes changed from no more than \$1,000,000 maximum principal amount with any one company and replaced with will not exceed 10% with any one company. Similarly, this change is still more conservative than the investment policies of other Central Coast Cities policies reviewed by staff and the limits imposed by State law. Other investment policies reviewed only restricted the medium term corporate note investments to the State Code Legal Limit of 30% or in some cases a lower limit of 25% but had no other single company limitation.

3. XIII INVESTMENT OVERSIGHT COMMITTEE (Exhibit A, page 11)

Change the review of the City portfolio on a quarterly basis to determine compliance with the investment policy to a semi-annual review by the investment committee.

4. PERMITTED INVESTMENTS TABLE A (Exhibit A, page 17)

LAIF State Pool increased from \$30,000,000 to \$40,000,000 to reflect the new maximum investment amounts per entity approved by the LAIF Governing Board.

The Investment Committee also reviewed the City's portfolio transactions for fiscal year 2004-05 to determine compliance with the investment policy. The City Treasurer advised the Investment Committee that all of the City's investments during this period were in compliance with the investment policy, except for a single commercial paper investment transaction which exceeded the single company limitation of not more than \$1,000,000. This investment in excess of the investment policy was made in error. There are several limitations in the policy applicable to commercial paper as well as the other investment categories. The current Investment Policy specifies that commercial paper investments cannot exceed 270 days in maximum maturity, 15% of the total portfolio, can only be made in U.S. Corporations with assets in excess of \$500,000,000 and a "AA" debt rating, and no more than \$1,000,000 from an issuing corporation. Staff had purchased Commercial Paper of General Electric Corporation (GE), with a "AAA" debt rating. This investment in GE commercial paper met or exceeded the policy except the single company limitation of \$1,000,000. Staff considered selling this investment to correct the deviation from the Investment Policy. However, when the transaction cost to sell this investment and reinvest the proceeds was considered along with the investments high quality (AAA), favorable investment rate (3.54% yield) and return, and the short remaining term, it was determined that holding the investment to its scheduled maturity on September 23, 2005, was an appropriate solution. This deviation from policy compliance will be corrected in three days on September 23 when this investment matures. The above investment falls well within the confines of the proposed Investment Policy.

Staff subsequently reviewed the commercial paper investment limitations of other Central Coast Cities and discovered that our \$1,000,000 single company limitation was much more conservative than any of the other policies reviewed for both commercial paper and medium term corporate notes. Other Central Coast City policies only limit these investments to 25% to 30% of the total portfolio with no other limitations to single company investment amounts. These policies are all within the State Code Limits of 30% of portfolio for these two investment categories. This led staff to recommend to the Investment Committee that the single company limitation for these two categories of investments be increased to not exceed 10% of portfolio with any single company. This is still a very conservative position but allows staff the increased flexibility to take greater

advantage of these two categories of investments within prudent limits. The Investment Committee concurred with this recommendation and these two changes have been incorporated into the proposed Investment Policy.

If you have any questions on this information or the proposed changes to the Investment Policy, please let me know.

John Walk, Management Services Director/City Treasurer

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Gary P. Keefe, City Administrator

Attachments: Resolution No. 5287(05)/Exhibit A (Investment Policy of the City of Lompoc)