



## Legislation Details (With Text)

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Staff Report for Resolution Approving the City of San Leandro's Investment Policy for Fiscal Year 2012-13

### SUMMARY AND RECOMMENDATION

Staff recommends City Council approval of the City of San Leandro Investment Policy for fiscal year 2012-13. The policy is approved annually and there are proposed updates for the policy for 2012-13.

### BACKGROUND

California Government Code Section 53600 et seq. and Section VIII of the San Leandro Investment Policy requires the City Council to annually review and approve the City's Investment Policy. This policy was last adopted on June 20, 2011.

The City of San Leandro Investment Policy (Investment Policy) provides specific guidelines for the City's investment management functions and remains in compliance with the model policy approved by the Association of Public Treasurers of the U.S. and Canada and California Government Code Section 53601. The Investment Policy serves as a guide for setting and achieving investment objectives, defines rules and established benchmarks, prohibits and/or restricts investment instruments and reduces exposure to liability of both staff and Council. Compliance with the policy is an element of fiscal discipline considered by the auditors and rating agencies during their respective reviews.

Staff has reviewed the current policy and has seven recommended changes for 2012-13. In addition, state legislation has been reviewed to determine if there have been any updates or changes to state law that should be reflected in the City's policy and there are none. Should the legislature take such action in 2012-13, then staff will return to Council with the necessary recommended changes.

- 1. Page 2, II. Policy Scope** - The recommended change is to include the phrase "Successor Agency to the" Redevelopment Agency due to the dissolution of RDA.
- 2. Page 4, VII. Authorized Financial Dealers and Institutions** - enhanced and clarified this section regarding authorization and selection of financial dealers and institutions.
- 3. Page 5-6, VIII. Authorized and Suitable Investments** -
  - added Certificate of Deposit Account Registry Service (CDARS)
  - changed the word "agency" to "City" throughout this section
  - deleted the last sentence in the Money Market Mutual Funds section regarding commissions since these

funds do not have commissions; eliminates confusion.

4. **Page 8, “Performance Standards”** added additional performance objective for the portfolio to earn a total rate of return over a market cycle which is approximately equal to the return on a Market Benchmark index of similar risk characteristics.
5. **Page 8, “Reporting”** corrected wording in the beginning of the second paragraph relating to California Government Code Section 53646 that “states that” the Finance Director “may render” a quarterly report. The previous version stated that this was a requirement.
6. **Page 9, Appendix A**
  - Added CDARs
  - Corrected minimum rating for Medium-Term Corporate Notes to coincide with page 6 policy requirement for Medium-Term Corporate Notes
7. **Pages 11 - 12, Appendix B**
  - Added CDARs definition
  - Added Market Benchmark Index definition

At the Finance Committee meeting on June 1, 2012, the Committee asked about the portfolio guidelines regarding “authorized and suitable investments” (Investments). The Investments are recommended by Statute. The limits for Investments were questioned. For example, the permitted investments include corporate notes, which must hold a credit rating of at least “A” and may comprise up to 30% of the portfolio. Currently, the list of companies that would be suitable Investments would include such corporations as United Parcel Service, Wells Fargo and Coca Cola. The yields on these investments typically exceed US Agency securities by 20-100 basis points. If the average portfolio balance is \$75 million, the additional yield could generate \$150,000 to \$750,000 per year.

The \$64.2 billion Local Agency Investment Fund (LAIF) managed by the State Treasurer’s Office makes similar Investments to those in San Leandro’s portfolio. One major difference is that LAIF has 58% invested in US Treasury and Agency securities versus the San Leandro portfolio, which invests 100% in these federal government-backed securities. As of 3/31/12, the City had invested \$48.2 million in LAIF and \$28.3 million in US government-backed securities.

#### **Previous City Council Action(s)**

The Investment Policy is reviewed annually and was last reviewed by the City Council on June 20, 2011 by Resolution No. 2011-111.

City Council Committee Review and Action  
Finance Committee reviewed and approved on July 6, 2012.

#### **ATTACHMENTS**

None.

**PREPARED BY:** David Baum, Finance Director, Finance Department