

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services and City Treasurer
SUBJECT: Investment Policy – Annual Review
DATE: January 20, 2004

Needs: For the City Council to undertake its' annual review of the City's Investment Policy.

Facts:

1. The City Council has an approved investment policy to guide the investment of surplus City funds.
2. Legislation that became effective 1/1/96 added Section 53646 to the Government Code which requires that the treasurer or chief fiscal officer annually render to the legislative body of the local agency a statement of investment policy which the legislative body shall consider at a public meeting.
3. The City's Investment Policy review committee including Mayor Frank Meham and Mayor Pro Tem Jim Heggarty met Monday, December 8, 2003 to review the investment policy and investment portfolio.
4. The balance of the committee is made up of:

Any Jeremi	Union Bank of California
Margaret Torres	Heritage Oaks Bank
Sally Coons	Mission Community Bank
Greg Kudlick	American Express
5. At the suggestion of one of the broker/dealers with whom the City works, the Committee considered the issue of whether or not to extend the maximum term length of any given investment with certain limitations (described below). The Committee supported extending the maximum term length from five to seven years.

Analysis
and
Conclusion:

The committee reviewed both the investment policy and the investment portfolio. The Committee, as noted above, did recommend a change in the policy to provide longer term investments, from five to seven years. The reasoning for the proposed change is that going out a little further on the yield curve would provide slightly higher yields at a lower cost without any additional risk. Per the November 2003 Treasurer's Investment Report (copy attached), the City had \$41,000,000 on demand or maturing within one month representing 70% of the City's \$59,000,000 portfolio. At the longer end, the City

had \$13,400,000 maturing between two and five years, mostly three years or less, representing 23% of the City's portfolio.

Nearly all the current investments maturing in the two to five year range are agency securities, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation, etc. The current investment policy allows up to 30% to be invested agency securities which generally have three to five year maturities. The City currently has 23% of its investment portfolio in agency securities.

Should the Council concur with extending the maturity term from five to seven years, staff would recommend that the amount that may be invested within this two year time frame be limited to 15% of the City's total portfolio at the time the investment is made while raising the total percentage that may be invested in agency securities from 30% to 40%. Given the amount of the funds on demand or maturing within one year, the City's liquidity would not be jeopardized by this change if approved.

The Committee raised the issue of during the meeting about qualifications of an elected city treasurer particularly in the context of training, education and experience. They were particularly concerned about even having an elected treasurer. Given the lack of success in getting voter approval to make the position appointive rather than elective, the Committee inquired about whether or not certain qualifications could be required of a candidate to be on the ballot or require a successful electee to receive certain training or certifications. Staff is still investigating these issues and will prepare and submit a separate to Council at a later date.

Fiscal
Impact:

Slightly higher investment yields on invested funds.

Options:

That the Council:

- a. Approve the attached revised Investment Policy providing that 40% of the City's total portfolio may be invested in U.S. government agencies of which 15% may be invested in securities with maturities ranging from five to seven years; or
- b. Amend, modify, or reject the above option.

CITY OF EL PASO DE ROBLES INVESTMENT POLICY

I. PURPOSE

The City has a fiduciary responsibility to maximize the productive use of its assets entrusted to its care and to manage those public funds wisely and prudently.

The purpose of this policy is to provide broad guidelines and direction to the officer(s) of the City charged with the responsibility for the investment of the City's temporary idle funds under the prudent man rule (Civil Code Section 2261, et seq).

II. OBJECTIVE

The Objective of the City's investment program shall be to maintain a level of investment of all temporary idle funds as near as 100% as possible with due consideration given to safety, liquidity, cash flow requirements and yield.

III. INVESTMENT GUIDELINES

All City funds not required for immediate expenditure shall be fully invested or deposited to maximize investment returns. To maximize returns, the economy and market conditions should be monitored in order to assess the probable course of interest rates. The City shall utilize those eligible investments instruments as set forth in Government Code Sections 53601 and 53635 while following these guidelines:

1. All investments of the City shall have the City of Paso Robles as the registered owner or shall be kept in the custody of the City or the trust/custodial department of its designated third party, safekeeping institution. If securities are kept by a safekeeping institution, the City shall have access to buy and sell such securities independently of any broker.

While in safekeeping, the City shall have on file from its designated safekeeping institution, an executed contract for said safekeeping services which specifically requires the City's securities to be held separately from all other securities and funds on deposit with the trust/custodial department. The trust/custodial department shall be required to send the City a monthly statement of what is being kept including an estimate of the current market valuation.

2. Investments shall be diversified among institutions, types of instruments, and maturities in order to maximize safety and yield with market conditions; except that no investment shall be purchased with a final stated maturity of more than five (5) years from

the purchase date ~~except as provided for in Section V-5 unless specifically authorized by the Fiscal Policy Committee but under no circumstances shall the final stated maturity exceed ten (10) years.~~ Long-term maturities shall not represent a significant percentage of the total portfolio and shall be specifically limited as per Section 3 under Allowable Investment Instruments. Security investments currently held by the City that met investment policy restrictions at the time of purchase shall be deemed in compliance.

3. Certificates of deposit in local financial institutions shall be encouraged; provided that the criteria for safety, and liquidity are equal to or greater than that of non-local financial institutions and the interest rate earned is within one quarter of one percent (0.25%) of the rate that may be earned from any other financial institution outside of Paso Robles.

4. Investments shall not knowingly be made in any financial institution that practices or supports directly or indirectly through its actions discrimination on the basis or race, religion, color, creed, natural or ethnic origin, age or sex or physical ability.

5. Investments shall be made only in securities for which market value information is generally available.

6. The City Treasurer shall report monthly to the City Manager and City Council the type of investment, financial institution, date of maturity, amount of investment, and rate of interest for all investments.

7. The City Treasurer shall report quarterly, in addition to the information required in Section 6 above, whether or not any funds, investments or programs are managed under contract by outside parties. If such contracts exist, a description of the investments shall be included along with the market values of the funds, investments or programs under contract by said parties.

8. The City Treasurer shall also include in the quarterly report a statement as to whether or not the City can meet its cash flow requirements during the next six (6) months.

9. Pursuant to Government Code, Section 53647, the Director of Administrative Services shall allocate interest earned to all appropriate funds. No fund with an ending monthly cash balance of less than \$10,000.00 will receive interest unless required otherwise by law. All interest not otherwise allocated shall remain in the General Fund.

10. Competitive bids/quotations are to be obtained and documented on all investments when practical.

11. A close working relationship should be maintained with well-established brokers/dealers and bankers whose proven technical knowledge and expertise is of assistance in making investment decisions.

12. Selling securities prior to maturity is only acceptable when the sale clearly enhances the yield (value). If traded at a loss, the trade must enhance yield on a total return basis.

13. The current value of all investments shall be reported annually according to Governmental Accounting Standards Board, GASB No. 31.

14. Whenever practical, cash should be consolidated and invested on a pooled concept basis. Interest earnings shall be allocated monthly pursuant to paragraph 9 of this section.

15. The City Treasurer shall annually submit the Investment Policy to the City Council for review and re-confirmation at a public meeting.

16. The City will review annually its investment portfolio. Said review will be conducted by an ad hoc committee comprised of the two local bank officials (one official being from the City's current banking institution), an official from the City's custodial services institution, a local investment broker and two ad hoc appointees from the City Council. The ad hoc committee will report its findings to the City Council.

IV. Investment Criteria

1. **Safety** - Investment Safety refers to attempts to reduce the potential for loss of principal and/or interest. The first level of loss control is found in state law that restricts the particular type of investment permissible for public agencies. The second level of loss control is reducing risk by investing in instruments that appear to be the most credit worthy. The third level of loss control is by investing in instruments that have maturities coinciding with cash needs thereby eliminating loss from forced sale. Safety is the primary duty and responsibility of the City Treasurer.

2. **Liquidity** - Liquidity refers to the ability to sell or otherwise make immediately accessible without risk of losing some portion of principal or interest on the investment. Most investment instruments available to public agencies are highly liquid with the exception of Time Certificates issued by banks and savings and loan institutions that have fixed maturities.

3. **Yield** - Yield is the potential dollar earnings an investment can provide, sometimes described as the rate of return. Attempts should be made to obtain the highest yield possible by the City provided the criteria for safety and liquidity are met.

V. Allowable Investment Instruments

1. Time Certificates of Deposit - TCD's shall be made only with banks and savings and loan institutions that are insured by the FDIC. Waiver of collateralization is permissible only on the first \$100,000.00. For collateralized TCDs, banks shall be required to certify semi-annually that the TCDs are fully collateralized in accordance with State law.

The bank or savings and loan institution must be located in California. Purchases of negotiable certificates of deposit shall not exceed 30% of the City's invested funds. The City Treasurer may require additional selection criteria as deemed appropriate.

2. Local Agency Investment Fund (LAIF) - Managed by the Treasurer of the State of California Treasurer's Office, investments are permitted up to the regulatory maximum for each account established by the City and its relating entities. Transactions shall be in accordance with established criteria as set forth by the State Treasurer's Office.

3. Banker's Acceptances - Banker's Acceptance (BA's) are bills of exchange or time drafts which are drawn on and accepted by a commercial bank and are eligible for purchase by the Federal Reserve System. By its acceptance, the bank becomes primarily liable for the payment of the draft at its maturity. This bank liability makes the banker acceptance a readily marketable investment. The restrictions on use of banker's acceptances are as follows:

- (a) The City will only invest through the 15 largest banks in the United States;
- (b) Purchases of BA's may not exceed 270 days maturity;
- (c) Purchases of BA's may not exceed 40% of the City's surplus fund; and
- (d) Nor more than 30% of the City's surplus funds may be invested in BA's of any one commercial bank.

4. Treasury Bills and Notes - Those items having the full faith and credit of the federal government pledged for the payment of principal and interest and having maximum maturities of five years or less.

5. Federally Sponsored Credit Agency Securities - The City may invest in the debt securities of the following U.S. government sponsored corporate agencies. The amount invested may not exceed 40% of the total portfolio of which 15% may be invested in agencies with maturities between five and seven years. Otherwise maturities may not exceed five years.

- (a) Government National Mortgage Association
- (b) Federal National Mortgage Association
- (c) Federal Home Loan Mortgage Association
- (d) Federal Home Loan Bank

6. Repurchase Agreements - Repurchase agreements (Repos) represent agreements to sell idle funds for U.S. government securities that will be repurchased at a future date for a specific price. Investments in repos shall not exceed 90 days. Physical delivery of the securities backing the repos or a safekeeping documentation to a qualified safekeeping institution is required.

7. Commercial Paper - Commercial paper is essentially an unsecured promissory note of a corporation or financial institution with a fixed maturity date. Maturities vary from 1 to 270 days. The restrictions on use of commercial paper are as follows:

- (a) Maturity shall not exceed 180 days.
- (b) Amount invested at any given time shall not exceed 10% of the investment portfolio.
- (c) Only commercial paper from companies with a rating of A1/P1 shall be purchased.

8. Corporate Bonds - Unsecured promissory note of a corporation or financial institution with a fixed maturity date that is much longer than commercial paper (generally measured in years). Restrictions on use of corporate bonds are as follows:

- (a) Maturity shall not exceed 5 years.
- (b) Amount invested at any given time may not exceed 10% of the investment portfolio.
- (c) Only corporate bonds from companies with an A+ rating better shall be purchased.
- (d) Not more than \$1 million may be purchased from any single corporate entity.

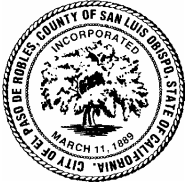
VI. Investment Restrictions

Idle funds of the City may not be invested in the following instruments:

1. Reverse repurchase agreements
2. Financial futures and options
3. Zero coupon bonds
4. Small Business Administration notes
5. Or any other investment instrument specifically restricted by State Code and/or regulation.

Date of Last Review:

Committee	12/8/03
Council	2/4/03



City of El Paso de Robles

Monthly Investment Report

As of November 30, 2003

November 30, 2003

This report presents the City's investment portfolio as of November 30, 2003. It includes all investments managed by the City but not those held by trustees. Funds held by trustees include bond reserve funds and deferred compensation plans. Included in this report is information on the institution, broker, investment type, safe keeping arrangements, purchase and maturity date, value and yield for all securities. The investment portfolio is in compliance with all State laws and City Investment Policy.

Current Portfolio Summary

Short-term excess cash is currently invested primarily in the Local Agency Investment Fund (LAIF) administered by the State Treasurer. This is a very high quality investment available to public agencies in terms of safety, liquidity and yield. To a certain extent, the City uses LAIF as an extension of its accounts payable bank account given its high degree of liquidity.

In some instances, the City may have investments with a current market value that is greater or less than recorded value. This is due to fluctuations in the marketplace and the price originally paid for the investment. Since the City intends to hold investments until maturity, fluctuations in market value will have no impact upon the ultimate principal amount returned to the City. However, due to "generally accepted accounting principles" in recording changes in market value, it may have an impact on reported interest earnings at year-end. These impacts are reported in the "notes" section of the City's Comprehensive Annual Financial Report at year-end and are recorded in a special cash control account rather than the general ledger in which the original purchase price is recorded since it is the City's intention to hold the investments to maturity.

Report Contents and Distribution

This report includes the following three schedules on the City's investment portfolio as of November 30, 2003: Summary of Investments held by the City; Summary of Investment Portfolio Liquidity; and Detail Schedule for Each Investment.

Individuals who routinely receive this report include all city councilmen, the city manager and all executive managers.

If you have any questions concerning this report, or require additional information, please don't hesitate to contact Mike Compton, City Treasurer at (805) 237-3999.

The following is a summary of the City's cash and investments based on recorded and market value as of November 30, 2003 compared with the prior month:

INVESTMENTS HELD BY THE CITY					Last Month
	% of Total	Current Yield	Market Value	Recorded Value	Recorded Value
Local Agency Investment Fund	68.93%	1.60%	\$ 40,717,000	\$ 40,717,000	\$ 42,542,759
Certificates of Deposits	6.03%	3.12%	3,560,000	3,560,000	3,560,000
Federal Agency Notes	23.17%	3.36%	13,559,370	13,685,478	13,514,138
Corporate Notes	1.70%	n/a	985,290	1,003,529	-
Demand Accounts	0.17%	n/a	102,750	102,750	(130,921)
TOTAL	100.00%	2.10%	\$ 58,924,410	\$ 59,068,756	\$ 59,485,977

The following is a summary liquidity report on all City investments:

INVESTMENTS HELD BY CITY		
	% of Total	Recorded Value
On Demand (Checking and LAIF)	69.11%	\$ 40,819,750
Within One Month	0.50%	297,000
One Month to Six Months	1.52%	896,000
Six Months to One Year	1.16%	685,000
One Year to Two Years	5.05%	2,981,941
Two Years to Five Years	22.67%	13,389,065
TOTAL	100.00%	\$ 59,068,756

On the following pages is a detailed schedule of all City investments sorted by maturity date.

City of El Paso de Robles
Monthly Investment Report
As of November 30, 2003

INVESTMENTS HELD BY CITY							
Agency	Investment Description	Coupon Rate	Current Yield	Purchase Date	Maturity Date	Market Value	Recorded Value
City of Paso Robles	Demand Accounts	NA	NA	NA	NA	\$ 102,750	\$ 102,750
Local Agency Investment Fund	Money Market Fund	1.70%	1.70%	various	On Demand	40,717,000	40,717,000
City of Paso Robles	TCD Broadway Federal	3.40%	3.40%	6/19/2002	12/19/2003	99,000	99,000
City of Paso Robles	TCD Yolo Community	3.25%	3.25%	12/24/2001	12/24/2003	99,000	99,000
City of Paso Robles	TCD Pacific Merchantile	2.60%	2.60%	12/28/2002	12/28/2003	99,000	99,000
City of Paso Robles	TCD Tamalpais Bank	4.75%	4.75%	8/5/2001	2/6/2004	99,000	99,000
City of Paso Robles	TCD Stockdale, Bk of	6.53%	6.53%	1/18/2001	2/29/2004	99,000	99,000
City of Paso Robles	TCD Valencia Bk	4.30%	4.30%	9/24/2001	3/24/2004	99,000	99,000
City of Paso Robles	TCD Sterling Bank	2.45%	2.45%	1/2/2003	7/1/2004	99,000	99,000
Union Bank Of California	FHLB 3133MLSA4	3.550%	3.550%	2/28/2002	5/28/2004	506,435	500,000
City of Paso Robles	TCD Golden Security	3.50%	3.50%	7/15/2002	7/15/2004	90,000	90,000
City of Paso Robles	TCD County Bank	3.00%	3.00%	8/12/2002	8/12/2004	99,000	99,000
City of Paso Robles	TCD United Security Bk	3.55%	3.55%	8/29/2002	8/30/2004	100,000	100,000
City of Paso Robles	TCD Cedars Bank	3.00%	3.00%	9/25/2002	9/27/2004	99,000	99,000
City of Paso Robles	TCD National American Bk	3.23%	3.23%	11/5/2002	11/5/2004	99,000	99,000
City of Paso Robles	TCD First Bank	3.00%	3.00%	11/14/2002	11/14/2004	99,000	99,000
City of Paso Robles	TCD Summit National Bk	3.00%	3.00%	11/14/2002	11/15/2004	99,000	99,000
City of Paso Robles	TCD Community Commerce	4.00%	4.00%	6/20/2002	12/21/2004	99,000	99,000
City of Paso Robles	TCD Pan American Bk	3.90%	3.90%	7/2/2002	1/3/2005	99,000	99,000
City of Paso Robles	TCD Pacific Business	2.75%	2.75%	1/27/2003	1/27/2005	99,000	99,000

City of El Paso de Robles
Monthly Investment Report
As of November 30, 2003

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Agency	Investment Description	Coupon Rate	Current Yield	Purchase Date	Maturity Date	Market Value	Recorded Value
City of Paso Robles	TCD Wedding Bk of Commerce	2.70%	2.70%	2/28/2003	2/28/2005	100,000	100,000
City of Paso Robles	TCD Novato Community	2.47%	2.47%	3/14/2003	3/14/2005	99,000	99,000
Union Bank Of California	FHLMC 31282U062	6.50%	7.05%	7/31/2000	3/1/2005	21,018	20,432
City of Paso Robles	TCD Ca Center Bank	2.650%	2.650%	4/9/2003	4/9/2005	100,000	100,000
City of Paso Robles	TCD Sequoia Bank	2.600%	2.600%	5/23/2003	5/23/2005	99,000	99,000
Union Bank Of California	FHLMC 31289U4E7	5.00%	4.88%	7/26/2001	6/1/2005	190,701	186,388
City of Paso Robles	TCD State Farm Bank	2.40%	2.40%	7/3/2003	7/3/2005	100,000	100,000
City of Paso Robles	TCD Network Bank	2.350%	2.350%	1/27/2003	7/27/2005	99,000	99,000
City of Paso Robles	TCD First Coastal Bk	2.25%	2.25%	1/27/2003	7/27/2005	99,000	99,000
City of Paso Robles	TCD Tehama Bank	4.18%	4.18%	8/14/2002	8/14/2005	99,000	99,000
Union Bank Of California	FHLB 3133MYPP6	2.20%	2.20%	5/22/2003	8/22/2005	1,001,250	1,000,000
City of Paso Robles	TCD United Security Bk	3.95%	3.95%	8/29/2002	8/29/2005	99,000	99,000
City of Paso Robles	TCD Oak Valley Bk	2.12%	2.12%	9/3/2003	9/5/2005	99,000	99,000
City of Paso Robles	TCD Western State Bk	3.92%	3.92%	9/3/2003	9/5/2005	99,000	99,000
City of Paso Robles	TCD Western Sierra Bk	3.920%	3.920%	9/24/2002	9/26/2005	99,000	99,000
Union Bank Of California	FHLMC 31289VAS7	5.00%	1.85%	9/25/2002	10/1/2005	188,163	188,121
City of Paso Robles	TCD Gold Country Bank	3.75%	3.75%	11/22/2002	11/22/2005	99,000	99,000
Union Bank Of California	FHLMC 31289VBB3	5.000%	4.330%	3/26/2001	12/1/2005	112,526	111,130
Union Bank Of California	FHLMC 31289VBB3	5.00%	5.12%	9/28/2001	12/1/2005	264,437	259,864
Union Bank Of California	FHLMC 3133X0FG9C	2.450%	2.450%	8/28/2003	2/28/2006	999,380	1,000,000

City of El Paso de Robles
Monthly Investment Report
As of November 30, 2003

INVESTMENTS HELD BY CITY							
Agency	Investment Description	Coupon Rate	Current Yield	Purchase Date	Maturity Date	Market Value	Recorded Value
Union Bank Of California	FNMA 31379NN29	6.000%	5.510%	3/8/2001	3/1/2006	49,432	49,320
Union Bank Of California	FHLB 3133MX7FOC	2.50%	2.50%	8/11/2003	3/24/2006	499,690	500,000
City of Paso Robles	TCD Six Rivers Bank	3.100%	3.100%	4/9/2003	4/10/2006	99,000	99,000
City of Paso Robles	TCD Five Star Bank	2.550%	2.550%	9/18/2003	4/18/2006	100,000	100,000
Union Bank Of California	FHLMC 3128DEME4	5.500%	5.500%	4/24/2003	6/1/2006	348,006	349,089
Union Bank Of California	FHLB 31339XLW2C	2.22%	2.22%	6/30/2003	6/30/2006	989,060	1,000,000
Union Bank Of California	FHLB 31339YMA7C	2.30%	2.30%	7/28/2003	7/28/2006	989,380	1,000,000
Union Bank Of California	FHLB 31339YIK8	2.26%	2.26%	8/7/2003	8/7/2006	988,130	1,000,000
City of Paso Robles	TCD Quaker City Bank	2.770%	2.770%	8/7/2003	8/7/2006	99,000	99,000
Union Bank Of California	FNMA 31282UXE	5.500%	4.980%	9/25/2001	9/1/2006	197,482	194,896
Union Bank Of California	FHLMC 31374TZ44	6.500%	2.350%	10/31/2002	9/1/2006	101,348	129,174
Union Bank Of California	FHLMC 31374TZ44	6.500%	2.700%	11/25/2002	9/1/2006	86,333	112,485
City of Paso Robles	TCD Gateway Bank	2.960%	2.960%	9/16/2003	9/16/2006	99,000	99,000
Union Bank Of California	FHLMC 31282UXJ1	6.000%	3.250%	10/31/2002	10/1/2006	99,896	100,444
City of Paso Robles	TCD First United Bank	2.860%	2.860%	10/3/2003	10/3/2006	99,000	99,000
City of Paso Robles	TCD Pacific Trust Bank	2.800%	2.800%	10/30/2003	10/30/2006	99,000	99,000
Union Bank Of California	FHLMC 31282UX69	4.500%	4.500%	2/14/2002	12/1/2006	267,278	266,367
Union Bank Of California	FNMA 31282UXV4	5.000%	4.570%	12/24/2001	12/1/2006	176,218	173,181
Union Bank Of California	FNMA 3136F4SQ8C	3.125%	3.125%	11/24/2003	11/24/2006	500,900	499,688

City of El Paso de Robles
Monthly Investment Report
As of November 30, 2003

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Agency	Investment Description	Coupon Rate	Current Yield	Purchase Date	Maturity Date	Market Value	Recorded Value
Union Bank Of California	FHLMC 31282UXX0	5.000%	3.880%	7/11/2002	1/1/2007	315,633	314,489
Union Bank Of California	FHLMC 31282UYL5	5.500%	5.500%	1/9/2003	3/1/2007	306,605	311,339
Union Bank Of California	FHLMC 31282UZ83	4.500%	4.500%	11/25/2002	11/1/2007	598,882	603,558
Union Bank Of California	FHLMC 31282U3R6	4.000%	4.000%	5/22/2003	4/1/2008	846,599	850,882
Union Bank Of California	FHLMC 3128RXN9	6.000%	6.000%	5/22/2003	5/1/2008	451,527	456,763
Union Bank Of California	FHLMC 31282U4M6	3.500%	3.500%	8/21/2003	7/1/2008	1,004,933	1,025,856
Union Bank Of California	FHLMC 31282U4P9	3.500%	3.500%	8/21/2003	8/1/2008	972,044	986,674
Union Bank Of California	FHLMC 31282U6J1	3.000%	3.000%	10/27/2003	10/1/2008	486,084	495,338
Union Bank Of California	Corp Bond 3136F4SQ8C	3.375%	3.375%	11/25/2003	10/1/2008	985,290	1,003,529
TOTAL						\$ 58,924,410	\$ 59,068,756