TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: JUNE 20, 2005

CMR: 280:05

SUBJECT: ANNUAL ADOPTION OF THE CITY’S INVESTMENT POLICY

RECOMMENDATION

The City of Palo Alto Statement of Investment Policy requires review and approval by Council as part of the annual budget process. Staff recommends that Council approve the following Investment Policy changes that reflect wording in state code covering investment of public funds:

1. Increase the commercial paper limitation to the lesser of: (a) no more than $3 million or (b) 10 percent of the outstanding commercial paper of any one institution (Page 5).
2. Prohibit the purchase of negotiable certificates of deposit from a state or federal credit union if a member of the City’s legislative body or staff with investment decision-making authority also serves on the board of directors, other credit committee or the supervisory committee of that institution (Page 13).
3. Add language that states if a particular category of investment has a percentage limitation, that this limitation is applicable only at the date of the purchase. A later increase or decrease in a percentage resulting from a change in the portfolio’s assets or values shall not constitute a violation of that restriction (Page 4).

BACKGROUND

The City of Palo Alto Statement of Investment Policy requires review and approval by Council as part of the annual budget process. Customarily, staff presents annual changes in the Investment Policy to the Finance Committee. Since there are no significant or material changes to the policy and in order to expedite the review process, staff is presenting its recommendations directly to the full Council.

DISCUSSION

By state law, the City’s Investment Policy must comply with the California Government Code (Section 53600 et seq.) as it relates to investments of public funds. In order to comply with the state law, the recommendation is to incorporate language from the state code (Section 53635) that “no more than 10 percent of the outstanding commercial paper of any single issuer” may be purchased by the City. In addition, state law prohibits the purchase of negotiable certificates of deposit from a state or federal credit union if a member of the legislative body or City staff with investment decision-making authority serves on the board of directors, any committee appointed by the board of directors, the credit committee, or the supervisory committee of that institution. State law (Section 53601 et seq.) also provides that where there is a percentage limitation for a particular category of investments (e.g.
purchase no more than 15 percent of commercial paper), a later increase or decrease in a percentage resulting from a change in the portfolio’s assets or values does not constitute a violation of that restriction.

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CITY MANAGER APPROVAL: ____________________________
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ATTACHMENT
Attachment A: Proposed 2005-06 Investment Policy