



CITY OF SACRAMENTO

OFFICE OF THE TREASURER

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THOMAS P. FRIERY
TREASURER

DONALD E. SPERLING
ASST. TREASURER

July 27, 1982

City Council of the City
of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Administrative Changes to the Local Agency Investment Fund (LAIF)

SUMMARY

Attached is a report regarding administrative changes to the Local Agency Investment Fund (LAIF).

RECOMMENDATION

This report is for your information and no specific action is required.

Respectfully submitted,

Thomas P. Friery
THOMAS P. FRIERY
City Treasurer

TPF/lv

Attachment

For City Council Information:

Walter J. Slipes Jr.
for. Walter J. Slipes, City Manager

August 10, 1982

FILED
By the City Council
Office of the City Clerk

AUG 10 1982





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THOMAS P. FRIERY
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ASST. TREASURER

July 27, 1982

TO: Budget and Finance Committee
Honorable Members in Session

FROM: Thomas P. Friery, City Treasurer

SUBJECT: Administration Changes to the Local Agency Investment Fund (LAIF)

INTRODUCTION

The purpose of this memo is to inform Council about certain administrative changes that the State Treasurer has enacted for LAIF and their potential negative impact on City investment results.

BACKGROUND

The State Treasurer manages an investment pool called LAIF which is a short term investment fund. Historically LAIF during periods of positive sloping yield curves (normal yield curve) has provided the advantage of high yields and daily liquidity. This pool was originally designed for all local agencies to participate in without limit as an alternative and supplement to their own internal investment program. Recently the State Treasurer enacted some major policy changes which severely restrict the City of Sacramento and many other local agencies' ability to participate in LAIF. The purpose of this memo is to inform the Council of these changes and their possible manifestations on the City investment pools.

The recent policy change enacted for LAIF was to limit each local agency's participation in LAIF to a maximum of \$5 million, regardless of investment dollars available. Prior to this there was no limit. According to Ken Kramer, Investment Officer for the State of California, the primary purpose for this limit was to prevent some cities and counties from abusing the fund by using it as short-term investment for reverse repurchase agreements. The City of Sacramento has never misused LAIF or reversed investments for profit that would negatively impact the return on LAIF.

Under the new policy the City of Sacramento will be able to only invest a total of \$5 million in LAIF for all City funds (including SCERS and Ann Land/Bertha Henschel) and a total of \$5 million for SHRA Pools C & D, or a grand total of \$10 million.

I and Philip Barach, City Investment Officer, had an extensive meeting with Ken Kramer, Investment Officer, State of California, concerning the possibility of expanding the City's limit to invest in LAIF by allowing the SCERS to participate. Ken Kramer forwarded our request to Jess Unruh, Treasurer of the State of California, who rejected it.

At this point in time the effect this decision will have on the performance of City funds is potentially significant since short term rates are currently yielding substantially less than the LAIF earning rate. Presently LAIF is earning about 12.40% and short term interest rates are trading around 10.40%.

The administrative change to LAIF limiting our maximum investment in LAIF to \$10 million as opposed to unlimited investment will retard our earnings potential as opposed to previous years. Presently, we have invested \$6 million of City and SHRA monies in LAIF, leaving us room for only an additional \$4 million in LAIF for investment. Once we exhaust this balance, we will be negatively impacted, since we will then be forced to acquire unique short term investments which are yielding 2% less return than LAIF.

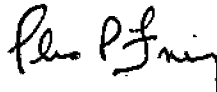
For your information, City Investment Pool A is presently yielding 14% and all short term funds managed by this office are yielding approximately 13 3/4%.

This report is for your information and future consideration when using the LAIF rate of return as a performance measurement index for City investment results. There are no actions required on your part. My staff and I are here to discuss any questions you may have.

RECOMMENDATION

It is recommended that the Committee accept this report and forward the same to the full Council for its information.

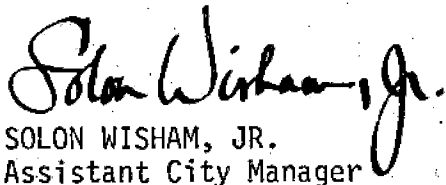
Respectfully,



THOMAS P. FRIERY
City Treasurer

TPF/iv

APPROVED FOR COMMITTEE INFORMATION:



SOLON WISHAM, JR.
Assistant City Manager