July 22, 2013 Finance Committee Agenda Item Comments

These comments on items on the Newport Beach City Council Finance Committee agenda are submitted by: Jim Mosher (jimmosher@yahoo.com), 2210 Private Road, Newport Beach 92660 (949-548-6229)

Item 5.A. Investment Policy Review

1. Page 7:
   a. In paragraph 2, the "book entry" change would seem to *prohibit* delivery of securities by means of physical certificates. Is that the intention?
   b. Does the term "*government-sponsored enterprise*" in G.1.b need to be defined? How do these differ from the "*Federal Agency*" obligations of item G.1.c? Do GSE's also need to be backed by the faith and credit of the US government?
2. Page 8, in Item G.1.c:
   a. Is it supposed to be "***full*** *faith and credit*"?
   b. The phrase "*final maturity not exceeding five years from the date of trade settlement*" seems to have been struck out and restored, for no net change.
3. Page 9, the revised first paragraph under "f)" is poorly written and hard to follow. It would seem the intent would be better expressed by starting with:

   > "*Municipal bonds:* ***Registered*** *notes or bonds* ***at the State treasury level*** *of any of the 50 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the 50 states.*"

   and striking the following sentence, which would seem to prohibit investment in lesser California "municipal" bonds, even though they are allowed by the next paragraph.
4. Page 10:
   a. At the end of line 8, "***ensure***" is a more popular spelling than "***insure***" in CNB documents.
   b. In the following lines, the sentence "*Ease of subsequent marketability is further ascertained prior to initial investment by examining currently quoted bids by primary dealers and the acceptability of the issuer by these dealers*" seems to be a statement providing no clear policy guidance. Should it say "***should be*** *further ascertained*" rather than "***is*** *further ascertained"?*
   c. In the second line of Section "i)", "***are***" should be "***is***"
5. Page 11, Item G.1.k:
   a. My vague understand of repurchase agreements is that the City would be holding a security which an outside party has promised to buy back at some future date at a price higher than the City bought it for, so that a profit is guaranteed. My equally vague understanding of reverse repurchase agreements is that the City

would be the party promising to buy the security back. If correct, I fail to see how this would not put the City's principal at risk, violating the first, and controlling principle of Government Code 53600.5 (as cited in the staff report).

   b. It is also unclear why the percent of the portfolio than can be in repurchase agreements, and the percent from a single issuer remains unstated, and why no minimum credit quality is specified for reverse repurchase agreements (see summary table at end of staff report).

6. Page 12:
   a. The summary table says there entry G.1.l (LAIF) is constrained by no maximum percentage of portfolio, but this is in fact "not stated" – either now, or in the revision.
   b. Why is the City allowed to invest in the LA County investment pool, but not the Orange County one? Is this an historic anomaly lingering from the OC bankruptcy that should be revisited?
7. Page 13: In Section H.1, the insertion exempting all "governmental issuers" would see to render unnecessary and redundant the following sentence exempting specific governmental issuers.
8. Page 14: In the suggested revision to Section I, I would have thought the comparison of the City's return with that of T-bills of the same maturity was intended so the public could see if the City was doing better with its active portfolio than a simple minded no-risk investment. Comparison to a more aggressive, but possibly more volatile, benchmark might be useful, but as a *supplement*, rather than a *replacement* to the basic no-risk return.

Item 5.B. Investment Portfolio Review

1. At the end of page 4, and the table at the top of page 5, I don't understand the reference to the bond portfolios on which the City earns money, as opposed to the bonds on which it pays interest.
2. In the detailed chart on the final page, I find the categories of investment listed difficult to relate to the categories and allowable portfolio percentages we learned about in the previous agenda item (Policy F-1).

Item 5.C. Investment Strategy Recommendations:

1. See final comment under Item 5.A, above, regarding benchmarks.