COMMUNITY DEVELOPMENT COMMISSION
of the County of Los Angeles
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Gloria Molina
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Commissioners

Carlos Jackson
Executive Director

July 11, 2006

Honorable Board of Commissioners
Housing Authority of the
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Honorable Board of Commissioners
Community Development Commission of the
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Commissioners:

APPROVE THE REVISED INVESTMENT POLICY OF THE COMMUNITY DEVELOPMENT COMMISSION AND HOUSING AUTHORITY (ALL DISTRICTS) (3 Vote)

IT IS RECOMMENDED THAT THE BOARD OF COMMISSIONERS OF THE COMMUNITY DEVELOPMENT COMMISSION:

Approve the Community Development Commission's Investment Policy for temporarily available excess funds, which has been revised in accordance with applicable sections of the California Government Code (Government Code) and to allow for greater flexibility in investing; and authorize the Executive Director to implement the Investment Policy, effective on the date of Board approval.

IT IS RECOMMENDED THAT THE BOARD OF COMMISSIONERS OF THE HOUSING AUTHORITY:

Approve the Housing Authority's Investment Policy for temporarily available excess funds, which has been revised in accordance with applicable sections of the California Government Code (Government Code) and to allow greater flexibility in investing; and authorize the Executive Director to implement the Investment Policy, effective on the date of Board approval.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION:

The purpose of the recommended action is to implement revisions to the Investment Policy in order to comply with changes to Section 53646 of the Government Code and to allow the Commission and Housing Authority more flexibility when investing temporarily available excess funds.

FISCAL IMPACT/FINANCING:

There is no impact on the County general fund. Only Commission and Housing Authority temporarily available excess funds are invested. The revised Investment Policy is in full compliance with current State of California and U.S. Department of Housing and Urban Development (HUD) regulations, which are intended to minimize or avoid adverse fiscal impacts.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS:

The Investment Policy was implemented in 1985 and last revised in August 1999. The attached Investment Policy provides guidelines for investing temporarily excess funds, which are funds that are not required for immediate needs. The Commission and Housing Authority may invest in the following types of investment instruments, in accordance with Section 53600 et. seq. of the Government Code: U.S. government obligations, banker's acceptances, commercial paper, negotiable certificates of deposit, time certificates of deposit, repurchase agreements, medium-term notes, money market mutual funds and state and municipal agency investment pools.

Funds are invested under the prudent investor rule authorized under the Government Code and statutory limits imposed by HUD for public housing agencies and Community Development Block Grant funds. The Investment Policy states that the Commission and Housing Authority shall maintain an investment portfolio that safeguards the principal of funds, maintains a liquid position sufficient to meet current and anticipated cash needs, and achieves the highest yield possible without assuming unacceptable levels of risk.

The Investment Policy has been revised to allow the Executive Director greater flexibility when investing excess funds and to clarify reporting guidelines. The first revision allows the Executive Director to do business with regional broker/dealers, which will provide better

service to relatively small entities such as the Commission and Housing Authority. The current investment policy restricts the Commission and Housing Authority to using only primary broker/dealers with a minimum of $1 billion in assets. This stringent requirement eliminates regional broker/dealers that would otherwise provide excellent services and products to the Commission and Housing Authority.

Additionally, the types of securities that the Commission and Housing Authority buy from broker/dealers include U.S. government obligations, which in some instances, are underwritten in higher numbers by regional broker/dealers. Allowing the use of regional broker/dealers affords the Commission and Housing Authority a wider range of investment choices.

The second revision removes the restriction of investing in negotiable certificates of deposit with a maximum limit of $100,000 per certificate of deposit per institution. The Government Code places no restriction on the allowable amount invested per institution. By limiting the investment amount to $100,000, the Commission and Housing Authority receive less attractive interest rates. Therefore, the Investment Policy will no longer restrict negotiable certificates of deposit amounts to $100,000 per certificate of deposit per institution.

The third revision clarifies reporting guidelines, based on recent changes in Government Code Section 53646(b). According to this Government Code section, quarterly investment reports to the legislative body are no longer mandatory. However, when a report is submitted, the following information, among others, shall be included: the type of investments; the issuer; the date of maturity, par and dollar amount invested on all securities; applicable investments and monies held by the Commission and Housing Authority; a description of investment funds; the value of securities and the source of the valuation; and a statement regarding the Commission and Housing Authority's ability to meet expenditure requirements for the next six months.

The Investment Policy is consistent with the investment policies of the County of Los Angeles, and has been reviewed by the County Treasurer and Tax Collector.

IMPACT ON CURRENT PROGRAM:

The revised Investment Policy conforms with the Government Code and applicable federal requirements and affords the Commission and Housing Authority greater flexibility in investing temporarily available excess funds, which may result in increased investment earnings without added risks.

Respectfully submitted,

CARLOS JACKSON
Executive Director

Attachment: 1

I. INVESTMENT AUTHORITY

Pursuant to Section 53607 of the Government Code, the Board of Commissioners of the Community Development Commission and Housing Authority of the County of Los Angeles, collectively referred to as Board of Commissioners, may authorize the Executive Director to undertake investment transactions on behalf of the Community Development Commission of the County of Los Angeles and the Housing Authority of the County of Los Angeles, hereinafter collectively referred to as "Commission". The following policy sets forth investment guidelines and procedures to be followed by the Executive Director and other authorized personnel of the Commission.

II. INVESTMENT POLICY

The Commission invests its temporarily surplus funds under the prudent investor rule authorized under Section 53600, et. seq., of the Government Code and in accordance with statutory limits imposed by the U.S. Department of Housing and Urban Development (HUD) for Public Housing Agencies (PHA) and Community Development Block Grant (CDBG) funds, as well as other federal agencies providing funds to the Commission. All investment decisions shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity would use with like aims.

III. INVESTMENT PORTFOLIO

The Commission shall establish an investment portfolio that safeguards the principal of funds, maintains a liquid position sufficient to meet current and anticipated cash needs, and achieves the highest yield possible without assuming unacceptable levels of risk.

The allowable investment instruments available to the Commission for investing its temporarily surplus funds are defined in the Government Code, relating to local agency funds. The investment instruments herein are also HUD-approved investments.

U.S Government Obligations

As authorized in the Government Code, and HUD Financial Handbook 7475.1, Chapter 4, this category includes a wide variety of government securities. There are no portfolio limitations on the dollar amount. The time to maturity period on such investments cannot exceed five years, unless the legislative body has granted express authority to make the investments either specifically or as part of an investment program approved by the Board of Commissioners no less than three months prior to the investment. The government agency issues in this category include the following:

1. Local government bonds or other indebtedness;
2. U.S. Treasury notes, bonds, bills or other indebtedness backed by the full faith and credit of the federal government;
3. State bonds or other indebtedness; and
4. Other federal agency securities such as obligations issued by the Federal Home Loan Bank Board, Federal Farm Credit Bank, Tennessee Valley Authority, Federal National Mortgage Association, Small Business Administration, Student Loan Marketing Association, etc.

Banker's Acceptances

No more than 40% of the portfolio may be invested in banker's acceptances that are eligible for purchase by the Federal Reserve System. However, no more than 30% of the portfolio may be invested in banker's acceptances with any one commercial bank. In addition, the maturity period may not exceed 180 days.

Commercial Paper

No more than 15% of the portfolio may be invested in commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The issuing corporation must be organized and operating in the United States, have total assets in excess of $500 million and have an "A" or better rating by a NRSRO for any debt other than commercial paper. The Commission may not purchase more than 10% of the outstanding commercial paper of any issuing corporation, nor purchase commercial paper with a maturity exceeding 270 days.

Negotiable Certificates of Deposit

No more than 20% of the portfolio may be invested in negotiable certificates of deposit issued by a nationally or state-chartered bank, federal or state chartered savings and loan associations or a state licensed branch of a foreign bank. No more than 10% of the portfolio shall be invested in any one institution. A maturity limitation of three years is applicable.

Time Certificates of Deposit

No more than 25% of the portfolio may be invested in non-negotiable time deposits. No more than 10% of the portfolio may be invested in any one institution. Collateral must be at least 102% of principal and accrued interest of each time deposit. Banks and savings and loan associations must meet the requirements for investment in negotiable certificates of deposits. A maturity limitation of three years is applicable.

Repurchase Agreements

Investments in repurchase agreements are subject to the provisions of Section 53601 (i) of the Government Code. No more than 30% of the portfolio may be invested in repurchase agreements. The maturity of the repurchase agreement shall not exceed 90 days. The market value of the securities used as collateral shall be monitored by staff and should not fall below 102% of the value of the repurchase agreement. For investing in repurchase agreements, a Master Repurchase Agreement, as recommended by the Bond Market Association and Government Finance Officers Association is required, and a third-party custodial agreement for safekeeping is recommended whenever possible.

Medium-term Corporate Notes

Purchases of medium-term notes may not exceed 30% of the portfolio and no more than 15% of the portfolio may be invested in notes of any one issuer. Investments may be made in medium-term notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized statistical-rating organization.

Money Market Mutual Funds

Money market mutual funds must be registered with the Securities and Exchange Commission in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulation. Funds must receive the highest ranking by not less than two of the three largest nationally recognized statistical-rating organizations. Purchase price of shares of beneficial interest shall not include any commission that the companies may charge and shall not exceed 20% of the portfolio. However, no more than 10% of the portfolio may be invested in shares of beneficial interest in any one mutual fund.

State and Municipal Agency Investment Pools

There is no maturity and amount limit in this category.

IV. EXECUTION, DELIVERY, AND MONITORING OF INVESTMENTS

The Commission's Financial Management Division and designated staff are authorized to execute investment transactions.

All negotiable securities must have bank safekeeping arrangements. Purchases from brokers and other institutions must be delivered to the Commission's designated third party custodian in accordance with the established safekeeping instructions. Non-negotiable collateralized certificates of deposits and Federal

Deposit Insurance Corporation (FDIC) insured certificates of deposits purchased directly from any approved banks and savings and loans are excluded from the safekeeping requirements for negotiable securities.

All applicable transactions shall be executed on a delivery versus payment basis.

Internal Control staff, to assure compliance with this policy, shall provide timely review of all investment deals made by the Commission. Additionally, investment transactions shall be conducted in accordance with the Commission's internal control procedures.

Cash Management staff shall adhere to the following guidelines for mitigating risk of portfolio loss:

1. **Diversification of Instruments** – The portfolio may consist of a mix of various types of securities, issuers and maturities within the limitations prescribed by State law.

2. **Staggering of Maturities –** Investment maturities shall be scheduled in such a manner so that adequate cash will be available to pay disbursement obligations as they become due and payable.

3. **Cash Flow Requirements Used to Establish Maturity** – Projected cash flow requirements shall be the primary factor to be used in determining investment maturity terms.

4. **Sales of Investments Before Maturity –** Investments may be sold prior to maturity for cash flow, risk diversification or appreciation purposes. However, no investment shall be made solely for the purpose of trading. Generally, losses are acceptable on a sale before maturity if the earnings from the reinvested proceeds will exceed the income that would have been generated by the old (replaced) investment, taking into account any capital loss or foregone interest on the original investment. Under such circumstances, a "swap analysis" shall be performed and recorded with the transaction.

5. **Term of Investment** – Investments longer than one year may be made if consistent with the Commission's cash flow needs, exceeding minimum rate of return and its related intent of holding until maturity.

6. **Pooled Cash** – Cash from all funds, when applicable, shall be consolidated into one or a few general bank accounts and invested on a pooled concept basis.

7. **Competitive Bids** – Where applicable, the purchase and sale of securities shall be made on the basis of competitive offers and bids. For each investment transaction, a minimum of three bids shall be analyzed, and the

purchase shall go to the highest or most responsible bidder.

8. **Security Marketability** – The financial capacity of a security shall be considered at the time of purchase. Where applicable, the *Minimum Credit Rating Schedule (Exhibit A)* shall be utilized as a means of determining such capacity, as the security may have to be sold prior to maturity in order to meet unanticipated cash demands.

9. **Qualified Dealers and Institutions** – Broker/Dealers shall be limited to primary government dealers as designated by the Federal Reserve Bank or institutions meeting the following criteria:

A. Broker/Dealers with minimum capitalization of $25 million and that meet the following requirements:

1. Must have a strong presence in Debt-U.S. Agency market sector, with a ranking in the top twenty-five;
2. Must be licensed by the State as a Broker/Dealer, as defined in Section 25004 of the Corporations Code, or a member of a federally regulated securities exchange;
3. Must be a member of the National Association of Securities Dealers;
4. Must be registered with the Securities Exchange Commission;
5. Must have been in operation more than five years;
6. Must have office(s) in California.

B. HUD-Sponsored Minority Banks – When dealing with HUD-sponsored Minority Banks for the purchase of certificates of deposits under the Minority Bank Deposit Program, the Commission must apply the following procedures:

1. Select five different local qualified Minority Banks from the most current Minority Bank listing;
2. Check the most recent risk rating for each institution.
3. Obtain investment rate offerings from each institution.
4. Select the investment that best fits the Commission's current and future objectives for Minority Banks outreach.

Eligible institutions that qualify under 9A of this policy must file with the Commission a *Broker/Dealer Questionnaire and Certification (Exhibit B).* Institutions must also provide their most recently audited annual report. The Commission shall maintain an approved Broker/Dealer list. Firms shall be removed from the approved list and trading suspended with firms failing to provide accurate and timely confirmations of trade transactions.

V. REPORTING REQUIREMENTS

Quarterly Reports

In accordance with Section 53646 (b) of the Government Code, the Commission may file quarterly reports with the Board of Commissioners.

Annual Reports

The Commission shall file annually, financial reports in accordance with the Governmental Accounting Standards Board's (GASB) financial reporting requirements (GASB Statement No. 40, Deposit and Investment Risk Disclosure).

VI. STATEMENT OF INDEMNITY

The Executive Director, Director of Financial Management, Accounting Manager, Internal Control staff, and other cash management section employees shall be personally indemnified by the Commission in the event of investment losses, provided this Investment Policy is followed.

END OF POLICY

Exhibit A
Minimum Credit Rating

Rating Agency

Moody's	Standard & Poor's	Fitch IBCA	Bauer Financial *
P-1/Aaa	A-1/Aaa	2-A	4
P-1/Aa	A-1/Aa	2-A/B	3
P-1/A	A-1/A	2-B	

*Alternative rating agency used when not listed on Moody's, Standard & Poor's or Fitch

Investment Portfolio

Investment Types	Maximum Maturity	Maximum Amount
U.S. government obligations	5 years	No limit
Banker's acceptances	180 days	No more than 40% of portfolio
Commercial paper	270 days	No more than 15% of portfolio
Negotiable certificates of deposits	3 years	No more than 20% of portfolio
Time certificates of deposits	3 years	No more than 25% of portfolio
Repurchase agreements	90 days	No more than 30% of portfolio
Medium-term corporate notes	5 years	No more than 30% of portfolio
Money market mutual funds	Not applicable	No more than 20% of portfolio
State and Municipal Agency Investment Pools	No limit	No limit

EXHIBIT B

COMMUNITY DEVELOPMENT COMMISSION
HOUSING AUTHORITY OF THE COUNTY OF LOS ANGELES
BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION

1. Name of firm _____

2. Address (Local) (National Offices)

_____ _____

_____ _____

3. Telephone no. (___) _____ Local

(___) _____ National Headquarters

_____ E-mail

4. Primary representative/manager/partner-in-charge

Name _____ Name _____

Title _____ Title _____

Telephone No. Telephone No.

5. Are you a primary dealer in U.S. Government securities? ( )Yes ( )No

6. If so, for how long has your firm been a primary dealer? _____ Years.

7. What was your firm's total volume in U.S. Government and agency securities trading last year?

Firm-wide $ _____ Number of transactions _____

Firm-wide $ _____ Number of transactions _____

8. Which instruments are offered regularly by local desk?

( ) T-bills ( ) BAs (domestic)

( ) Treasury notes/bonds ( ) BAs (foreign)

( )	Agencies (specify)	( )	Commercial paper
( )	_____	( )	Bank CDs
( )	_____	( )	S & L CDs
( )	Instrumentalities	( )	Other (specify)
	_____		_____
	_____		_____
	_____		_____

9. Identify all personnel who will be trading with or quoting securities to Commission employees.

Name	Title	Telephone No.
_____	_____	( ) _____
_____	_____	( ) _____
_____	_____	( ) _____
_____	_____	( ) _____
_____	_____	( ) _____

(ATTACH RESUMES OF ALL THE ABOVE PERSONS)

10. Which of the above personnel have read the Commission's investment policy?

_____ _____

_____ _____

11. Please indicate which agents of your firm's local offices currently are licensed, certified or registered, and by whom.

Agent	Licensed or Registered by:
_____	_____
_____	_____
_____	_____

12. Please identify your public-sector clients in our geographical area who are most comparable to the Commission.

Entity	Contract Person	Telephone No.	Client Since

YOU MAY ATTACH RESPONSES TO QUESTIONS 13-28.

13. Have any of your public-sector clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument? If so, explain.

14. Have any of your public-sector clients ever reported to your firm, its officers or employees, orally or in writing, that they sustained a loss (in a single year) exceeding 10 percent of original purchase price on any individual security purchased through your firm? Explain.

15. Has your firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities or money market instruments? Have any of your employees ever been so investigated? Explain.

16. Has a public-sector client ever claimed in writing that your firm was responsible for investment losses? Explain

17. Please include samples of research reports that your firm regularly provides to public-sector clients.

18. Please explain your normal custody and delivery process. Who audits these fiduciary systems?

19. Please provide certified financial statements and other indicators regarding your firms capitalization.

20. Describe the capital line and trading limits that support/limit the office that would conduct business with the Commission.

21. What training would you provide to our employees and investment officers?

22. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? As of this date, does your firm comply with the guidelines? Has your capital position ever fallen short? By what factor (1.5x,2x, etc.) does your firm presently exceed the capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by Federal Reserve standard.

23. Do you participate in the Securities Investors Protection Corp (SIPC) insurance program? If not, explain why not.

24. What portfolio information do you require from your clients?

25. What reports, transactions, confirmation and paper trail will we receive?

26. Enclose a complete schedule of fees and charges for various transactions.

27. How many and what percentage of your transactions failed last month? Last year?

28. Describe the precautions taken by your firm to protect the interests of the public when dealing with government agencies as investors.

EXHIBIT B (Cont'd.)

-CERTIFICATION-

I hereby certify that I have personally read the investment policy and the objectives of the Community Development Commission and the Housing Authority of the County of Los Angeles. I have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the Community Development Commission or the Housing Authority of the County of Los Angeles. All sales personnel will be routinely informed of your investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We will notify you immediately by telephone and in writing in the event of a material adverse change in our financial condition. We pledge to exercise due diligence in informing you if all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

Signed: _____

Date: _____

(Countersigned by company president or person in charge of government securities operations.)

Signed: _____

Title: _____

Date: _____