



● **Board of Directors**
Budget and Finance Committee

April 11, 2000 Board Meeting

8-1

Subject

Investment Program with Small Banks and Savings and Loans Institutions

Description

For the past two years Metropolitan has maintained an investment program with small banks and savings and loans institutions. The size of the program was increased last year to \$3 from \$2 million.

This program allows Metropolitan to place \$100,000 time deposits with these financial institutions, effectively increasing Metropolitan's investment in its service area and satisfy past inquiries by small financial institutions for equity investments. Because of restrictions in the California Constitution, Metropolitan is precluded from making equity investments in any entity. Investments in time deposits in banks and savings and loan institutions are allowed. The time deposits may be used by the financial institutions for loans, investments and to increase reserves. Loans resulting from these deposits help stimulate renewal, development and growth, all to the public's advantage.

To the extent a deposit is insured, the California Government Code (Code) permits the Treasurer to waive collateral requirements. The requirement to collateralize public agency deposits often limits an institution's ability to make loans because collateral in excess of the value of the deposit must be purchased. Time deposits may be made up to five years per the Code. Metropolitan's internal investment policy limits these investments to a maximum maturity of one year. In order to waive collateral requirements, the Code specifies that deposits must be covered by insurance and that a contract must be entered into with each depository stating, among other things, that interest is (i) computed on the average daily balance of the deposit, (ii) paid monthly, and (iii) computed on a 360-day basis.

During the first year of the program, eighteen financial institutions participated in the program. Ten financial institutions participated in the second year of the program. Minority participation consisted of seven institutions in the first year and three in the second year. Recent inquiries made of other public agencies such as the counties of Los Angeles and Riverside, and cities of San Diego, Los Angeles and Pasadena indicated that similar small bank programs are not offered.

"Opportunity costs" for the program have increased from \$4,100 to an estimated \$9,100. The opportunity cost represents the difference between the interest earned on investments in the small banks and savings and loan program versus interest that could have been earned on other investments available to Metropolitan. The existing deposit agreement lapsed on March 22, 2000 and staff is requesting direction from the board on continuation of the program.

Policy

Administrative Code Section 5101-Investment of Surplus Funds. Board action of October 13, 1998, approving investment program for small banks and savings and loans.

At its March 28, 2000 meeting, the Subcommittee on Financial Policies and Reporting recommended the discontinuance of the Investment Program with Small Banks and Savings and Loans Institutions.

Board Options/Fiscal Impacts

Option #1

Allow the continuation of the Investment Program for Small Banks and Savings and Loans Institutions pursuant to existing Board policy.

Fiscal Impact: \$9,100

Option #2

Allow the Investment Program for Small Banks and Savings and Loans to lapse effective March 22, 2000.

Fiscal Impact: None

Staff Recommendation

Option #1.

Antoinette Christenale 3/31/2000
for *Lambertus H. Becker* Date
Chief Financial Officer

Ronald R. Jester 3/31/2000
General Manager Date