

How Peninsula cities invest their money

Peninsula cities have many ways of investing their idle funds, and none uses the same ideas San Jose used and currently is paying for.

A rundown of how Peninsula cities invest:

ATHERTON

With cash balances never much higher than \$1 million, Atherton has a "very simple and very secure" investment program, City Manager Ross Hubbard said.

The town keeps all its investments in insured certificates of deposits at savings and loan associations or in the state's Local Agency Investment Fund. No investments with terms longer than one year ever are made, Hubbard said.

"We're stuck with some very limited types of investments," Hubbard said. "After San Jose, I'm glad of that."

Hubbard and Dennis Lahr, an accountant consultant, make all the decisions about where to invest.

Hubbard said he keeps more money in the Local Agency Investment Fund when interest rates are falling because the Local Agency Investment Fund's rates change more slowly than other investments. When interest rates are rising, on the other hand, Hubbard invests in certificates of deposit because it takes longer for the Local Agency Investment Fund to catch up with higher rates.

Hubbard and Lahr do not seek other outside counsel in making investments. However, Hubbard said, the Atherton Town Council itself acts as a check on all investment decisions. Of the five members, one is an investment counselor, one is a banker and one is a stock broker.

In 1983-84, Atherton earned \$52,847, representing an average interest rate of about 10.5 to 11 percent, Hubbard said.

At budget-writing time a month ago, the Atherton Town Council members discussed the problems that occurred in San Jose, but did not change Atherton's investment procedures.

BELMONT

Belmont has about \$6 million invested, a sum that includes reserves of the Belmont Fire Protection District, along with the city's own money.

Belmont recently had \$2 million in the Local Agency Investment Fund and \$4 million in certificates of deposit, according to Michael Shelton, the city's finance officer. Last year's interest income was about \$600,000, the city's largest revenue source after sales and property-tax revenues.

Shelton said the city's investment policy "is to make sure we have secure investments, that they are liquid enough to meet our cash-flow needs and, third (in importance), that they get the highest yield possible."

City Treasurer Jean Zucca, an elected official, is in charge of the day-to-day investing.

The city came up with a formal investment policy about two years ago, and the city's investments are reviewed regularly by the Finance Committee, a City Council subcommittee that includes bankers, other financial professionals and a member of the City Council, Shelton said.

CUPERTINO

Cupertino, which this year will operate on a \$16 million budget, had an investment portfolio of more than \$21.3 million as of June 30, Cupertino Finance Director Blaine Snyder said.

The portfolio includes all the city's idle cash, such as capital-improvement reserves.

Snyder said about 90 percent of the investment money is placed in certificates of deposit, with the balance invested in federal government securities, negotiable certificates of deposit, Bankers Acceptance, commercial paper, repurchase agreements and the Local Agency Investment Fund.

The 1984-85 budget estimates the city will receive about \$1.6 million during the next year through its investments. Snyder said the yield on investments was about 10.9 percent.

Snyder said he uses the track record of the Local Agency Investment Fund as a benchmark to gauge how well he is doing with the city's investments.

He described Cupertino's investment strategy as "conservative," with no investments requiring cash for more than one year.

"The conservative nature is such that it allows the council to spend the total amount of any fund at any one time," he said. "If the council decides to spend the money on Highway 85, for example, it could spend it."

For investment advice, Snyder said he reads articles dealing with finance and listens to bankers and economists.

EAST PALO ALTO

The newest city on the Peninsula only recently came into money of its own to invest.

But the city is beginning to establish its own investment program, starting with hiring a finance director. The City Council also adopted an investment poli-

cy recently with the usual admonitions about earning the highest possible rate of interest while sticking with safe investments.

Reverse repurchase agreements and financial futures contracts — which got San Jose into trouble — are taboo.

But because East Palo Alto's population contains a large number of racial minorities, the policy also contains the unusual proviso that the city should not knowingly deal with institutions that are "directly connected with oppression and racism."

Russell Averhart, the assistant to the city manager, said the most obvious example is institutions doing business with South Africa. Institutions known for "poor relations" with minorities are also to be avoided, and when the city has grants to dole out to attract commercial and residential development, the money is to be used to help minorities gain an equity position in the project, he said.

So far, East Palo Alto hasn't had much chance to put its principles into action.

For the past year, the city has been getting control of the funds it will be receiving from various sources. Until early July, about a fourth of the city's \$1.8 million cash balance was in pooled investments made by San Mateo County, earning about 8 percent, Averhart said. East Palo Alto will be investing that money on its own now.

In addition, a little more than \$1 million has been in certificates of deposit with Wells Fargo Bank and Glendale Federal Savings & Loan Association, earning from 8.6 to 10.85 percent interest. The rest is in NOW accounts at those two institutions.

The city is to aim for at least a 10 percent rate of return on its investments and is to keep 98 percent of idle cash invested at all times. City Manager Fred Howell has been deciding where to invest the funds, but the city is actively recruiting a finance director.

FOSTER CITY

The largely residential community of Foster City, which will operate on a budget of about \$18 million this year, has an investment portfolio worth about \$13.7 million, according to City Treasurer Jim Hardy.

City officials employ what they call a "very conservative" investment policy by taking all the investment funds and placing them in short-term (six months or less) certificates of deposit. For 1984-85, the city hopes to earn about \$1.4 million through investments.

Although the city's investment policy reflects the philosophy of both the City Council and the city's

staff, Hardy said the primary reason for being so conservative is the amount of the city's bonded indebtedness. As of June 30, the city owed about \$66 million in bonds, most of which were sold during the early 1960s to finance the construction of the city.

In addition to the certificates of deposit, Foster City officials place up to 10 percent of their investment money in the Local Agency Investment Fund.

After San Jose's investment fiasco, Foster City officials asked that the city's auditors conduct a review of the city's investment policy.

"I'm confident that we'll come out really good in that review," Hardy said.

LOS ALTOS

Los Altos divides its money between the Local Agency Investment Fund and local banks and savings and loan associations, Finance Director Jack Lovell said.

He said that as of the end of June, the city had \$3.9 million invested in the state money pool and \$2.5 million in certificates of deposit at local financial institutions, a total portfolio of \$6.4 million.

Lovell, who has been with the city 16 years, said the city keeps no cash balances on hand because the money in the state pool can be called in daily, if needed.

He said the city's investments are all short term, with the certificates of deposit maturing within a year or less.

Lovell handles local finances with his assistant, Sherry Lambach, and does not rely on outside help. However, he occasionally attends financial seminars where analysts promote "more imaginative" strategies, he said. But he is wary of their advice, saying, "You can't help but think, what if things go sour?"

Lovell submits monthly financial reports, including the status of investments, to the City Council. He delivered a brief verbal report to the council after the San Jose investment debacle, but no changes in local practices were made, he said.

LOS ALTOS HILLS

Los Altos Hills has invested almost exclusively in the Local Agency Investment Fund, according to recently appointed Finance Director Ed Coli.

Coli said that as of June 30, the city had \$1.18 million invested in the state money pool. He said the city also has bought some of its own bonds and now has a balance of \$78,000.

Coli and acting city Treasurer Dick During were

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both appointed in mid-July and have been becoming familiar with city finance practices. Coli said they may look at other investments in the future.

MENLO PARK

Menlo Park keeps its entire \$7 million in reserves in short-term investments because the city will need most of the money within the next couple of years, according to Russ Scotten, assistant city manager and finance officer.

"We look for liquidity and security, and let the investments take care of themselves," Scotten said.

Scotten said the city earns whatever level of interest is available from certificates of deposits at banks and savings and loan associations. Almost all Menlo Park's investments are in certificates of deposit, and only two mature in more than one year, Scotten said.

During the 1983-84 fiscal year, the city's certificates of deposit earned between 9 and 11 percent interest.

The city earned slightly more than \$1 million in investment income during the 1983-84 fiscal year.

Part of Menlo Park's reserves, \$3 million, is to be used to build a new Bayfront Park and the eastern end of Marsh Road. Another \$2 million will be used to set up an endowment to operate the park.

Of the remaining \$2 million, half is to be used by the Water Department to replace mains throughout

A tale of these cities

City	Population (1983)	cash balance	Earnings	Avg. Percent
ATHERTON	7,875	\$1,000,000	\$52,847	10.5-11%
BELMONT	24,600	\$6,000,000	\$600,000	11%
CUPERTINO	38,100	\$21,300,000	\$1,600,000	10.9%
EAST PALO ALTO	18,700	\$1,808,525	\$15,049	NA
FOSTER CITY	24,500	\$13,700,000	\$1,400,000	NA
LOS ALTOS	27,750	\$6,400,000	\$490,093	10.2%
LOS ALTOS HILLS	7,700	\$1,800,000	\$125,811	NA
MENLO PARK	26,700	\$7,000,000	\$1,000,000	9-11%
MOUNTAIN VIEW	61,800	\$58,500,000	\$5,731,000	11%
PALO ALTO	56,400	\$57,500,000	\$4,800,000	10.2%
PORTOLA VALLEY	4,150	\$1,333,000	\$100,000	NA
REDWOOD CITY	56,800	\$20,000,000	\$1,800,000	NA
SAN CARLOS	25,800	\$7,700,000	\$650,000	12%
SUNNYVALE	111,900	\$34,000,000	\$3,400,000	12%
WOODSIDE	5,400	\$1,275,095	\$137,989	11%

day-to-day expenses. Among the benefits it gets from the bank include armored-truck service.

SAN CARLOS

San Carlos has an investment portfolio of \$7.7 million, according to city Finance Director Dianne Gershuny. About two-thirds of the money is invested in certificates of deposit. Of the rest, 16 percent is invested in the Local Agency Investment Fund and 16 percent in U.S. agency securities.

The certificates of deposit have an average term of one year, and the U.S. agency securities have an average term of 2.9 years, Gershuny said. Investments in the Local Agency Investment Fund have almost instant liquidity. The city keeps about \$100,000 in a bank account for weekly expenses.

Last year, San Carlos earned \$650,000 in interest income. The city is averaging about 12 percent on its investments.

San Carlos Treasurer Al Hohn, who voters elect just as they elect City Council members, is responsible for day-to-day investing.

San Carlos did not undertake any review of its investment policies after the San Jose debacle, although Gershuny drew up a chart of city investments that was forwarded to the City Council.

SUNNYVALE

The city of Sunnyvale, which during 1984-85 will operate on a budget of about \$79.6 million, has an active investment portfolio of about \$34 million, according to city Finance Director Amy Chan.