

City Manager's Report
 October 11, 2011, City Council Meeting
 Prepared by: Dave Warren, Director of Finance
 Item #: 9.6



Subject: Adopt a Resolution approving the City's investment policy as presented.

Background:

Sections 16481.2 and 53646 of the California Government Code require the City Council to review and approve the City's investment policy annually. Staff is not proposing any changes to the City's existing investment policy which has served the City well. California Government Code Sections 16481.2, 53601, 53635, and 53646 stipulate the investment practices to which the City must adhere to. The City's existing investment policy reflects the stipulations outlined in the Government Code. Tonight, staff is requesting the City Council to approve the investment policy as presented.

Discussion:

The City's primary investment goal is to achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default. Accordingly, the following objectives are sought to achieve this goal:

1. Safety
2. Liquidity
3. Yield

Safety: It is the primary duty and responsibility of the City's Finance Department to protect, preserve and maintain cash and investments placed in the department's trust on behalf of the citizens of Placerville. **Liquidity:** An adequate percentage of the City's investments should be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in authorized and active secondary or resale markets are recommended.

Emphasis should be on marketable securities with low sensitivity to market risk (price fluctuation of a security due to a rise or drop in market interest rates). **Yield:** Yield should become a consideration only after the basic requirements of safety and liquidity are met.

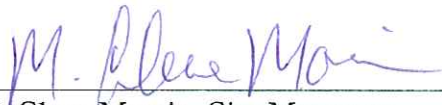
Since 1978, the City has invested all unrestricted investment funds, (e.g., funds other than those held in commercial checking accounts to facilitate ongoing operations or held by the City's bond trustee), in the Local Agency Investment Fund (LAIF). This is common practice in many California cities because LAIF meets all three key objectives. The funds invested in LAIF represent 100% of the City's unrestricted funds available for investment. The majority of the City's restricted investment funds are proceeds from the 2006 Waste Water Refinancing and Improvement Bonds which are invested by the City's Trustee, Union Bank of California in Federal Securities.

The City's existing investment policy has served the City well and is compliant with California Government Code which regulates the City's investment practices. Tonight, staff respectfully requests the City Council to adopt the investment policy as presented.

Cost: There are no additional costs associated with the proposed policy.

Budget Impact: The proposed policy aligns with the investments assumed in the adopted Fiscal Year 2011/2012 Operating Budget.

Recommendation: Adopt a Resolution approving the City's investment policy as presented.



M. Cleve Morris, City Manager



Dave Warren, Director of Finance

RESOLUTION NO _____

RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF PLACERVILLE, APPROVING THE INVESTMENT POLICY
FOR THE FISCAL YEAR 2011/2012

WHEREAS, California Government Code Sections 16481.2, 53601, 53635, and 53646 stipulate the investment practices the City must adhere to; and

WHEREAS, the City's existing investment policy has served the City well and is compliant with California Government Code; and

WHEREAS, Sections 16481.2 and 53646 of the California Government Code requires the City Council to review and approve the City's investment policy annually.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Placerville hereby approves the City's investment policy as presented.

The foregoing Resolution was introduced at a regular meeting of the City Council of the City of Placerville held on October 11, 2011 by Councilmember _____ who moved its adoption. The motion was seconded by Councilmember _____. The motion was passed by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Mayor Pro Tem, Mark A. Acuna

ATTEST:

City Clerk, Susan Zito

CITY OF PLACERVILLE
Investment Policy

I. INTRODUCTION

The purpose of this document is to state the policies and procedures that enhance opportunities for a prudent and systematic investment process within the City of Placerville's Finance Department. Related activities which comprise good cash management include accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and a short-term borrowing program which coordinates working capital requirements and investment opportunity. In concert with these requirements are many facets of an appropriate and secure short-term investment program.

II. SCOPE

It is intended that this policy cover all funds and investment activities under the direct authority of the agency and take into consideration State and Local laws, and ordinances or resolutions that restrict investments.

III. OBJECTIVES

- a) **Safety:** It is the primary duty and responsibility of the Finance Department to protect, preserve and maintain cash and investments placed in the department's trust on behalf of the citizens of the community.
- b) **Liquidity:** An adequate percentage of the portfolio should be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets are highly recommended. Emphasis should be on marketable securities with low sensitivity to market risk.
- c) **Yield:** Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

IV. PRUDENCE

The Finance Department will adhere to the guidance provided by the "prudent man rule", (Civil Code #2261), which obligates a fiduciary to insure that:

"...investment shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment considering the probable safety of their capital as well as the probable income to be derived."

V. REPORTING

The Finance Department shall submit a quarterly investment report to the City Council. This report will include all required elements of the quarterly report as prescribed by Government Code Section 53646:

- Type of investment
- Institution
- Date of Maturity
- Amount of deposit or cost of the security
- Current market value of securities with maturity in excess of twelve months
- Rate of interest
- Statement relating the report to the Statement of Investment Policy
- Statement that there are sufficient funds to meet the next 30 days' obligations
- Accrued interest

VI. INVESTMENT INSTRUMENTS

Securities of the United States Government:

- **U.S. Treasury Bills:** U.S. Treasury bills, commonly referred to as T-Bills, are short-term marketable securities sold as obligations of the U.S. Government. They are offered in three-month, six month and one-year maturities. T-Bills do not accrue interest but are sold at a discount to pay face value at maturity.
- **U.S. Treasury Notes:** U.S. Treasury Notes are marketable, interest-bearing securities sold as obligations of the U.S. Government with original maturities of one to ten years. Interest is paid semi-annually.
- **U.S. Treasury Bonds:** U.S. treasury Bonds are the same as U.S. Treasury Notes, except they have original maturities of ten year or longer.

Certificates of Deposit (CDs): Time CDs are a receipt for funds deposited in a Bank or Savings and Loan Association for a specified period of time at a specific rate of interest. The first \$100,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) if with a bank. Time CDs with California institutions are required to be collateralized by the financial institution, as specified in the California Government Code.

Negotiable Certificates of Deposit: Negotiable CDs are a marketable receipt for funds deposited in a bank for a fixed time period at a stated rate of interest. Negotiable CDs are not required to be collateralized.

Bankers' Acceptances: A bankers' acceptance is a time draft drawn on and accepted by a bank for payment of the shipment or storage of merchandise. The initial obligation of payment rests with the drawer, but the bank substitutes its credit standing for that borrower and assumes the obligation to pay face value at maturity.

Commercial Paper: Commercial Paper is a short-term unsecured obligation issued by both financial companies and non-financial companies to help satisfy their short term funding needs.

Local Agency Investment Fund (LAIF): LAIF is a voluntary program offering local agencies the opportunity to participate in a multi-billion dollar portfolio. LAIF is part of the State of California's Pooled Money Investment Account (PMIA). Oversight of the PMIA is provided by a board whose members include the State Treasurer, Director of Finance and the State controller. All securities are purchased under the authority of the California Government Code.

Savings Accounts: A savings accounts is an interest bearing deposit account without a stated maturity, as opposed to a time deposit. Funds can be deposited or withdrawn at will, and most savings accounts pay interest from day of deposit to day of withdrawal. The account holding financial institution may require up to seven days' notice before approving withdrawals; most, however, have waived this right.

Repurchase Agreement: A repurchase agreement is a contractual arrangement between a financial institution or dealer and an investor. This agreement normally can run for one or more days. The investor puts up his funds for a certain number of days at a stated yield. In return, he takes a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid plus interest.

Reverse Repurchase Agreements: A reverse repurchase agreement is a transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price. Reverse repos are used several ways in banking: generating short-term investment income or, when used by the Federal Reserve System, a tool of monetary policy. Reverse repos are secured transactions, fully collateralized by government securities, unlike Federal Funds (Fed Funds), which are unsecured sales of bank reserves.

Mutual Funds: A mutual fund is a company that invests the funds of its subscribers in diversified securities and issues units representing shares in those holdings. It differs from an investment trust, which issues shares in the company itself. While investment trusts have a fixed capitalization and a limited number of shares for sale, mutual funds make a continuous offering of new shares at net asset value (plus a sales charge) and redeem their shares on demand at net asset value, determined daily by the market value of the securities they hold.

Medium-Term Notes (MTNs): MTNs are unsecured promissory notes issued by corporations and financial institutions. MTNs are typically issued through a shelf registration process filed with the Securities and Exchange Commission, with original maturities of one to five years. MTNs offer higher yields than Treasury or agency securities because of the additional risk of purchasing unsecured corporate debt for a period of years. Credit quality varies with the issuer and MTNs are rated by several national securities rating services such as Standard and Poor's or Moody's.

County Pooled Funds: County pooled funds are deposits made by smaller local government agencies that are pooled with County investments.

The City of Placerville will maintain surplus funds with Local Agency Investment Fund (LAIF).

VII. INTERNAL CONTROLS

A System of internal control shall be established and documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

Controls deemed most important include: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies, and code of ethics standards.

VIII. BANKS AND SECURITIES DEALERS

In selecting financial institutions for the deposit of investment of the City's funds, the Finance Department shall continue to monitor financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested.