



City of Carson
Report to Mayor and City Council

June 7, 2011
New Business Consent

SUBJECT: CONSIDER CHANGE OF STATEMENT OF INVESTMENT POLICY

Submitted by Karen Avilla, CCMT
City Treasurer

Approved by Clifford W. Graves
Interim City Manager

THIS IS A JOINT AGENDA ITEM

I. SUMMARY

The Statement of Investment Policy was last reviewed and approved by the City Council on February 16, 2010. California Government Code requires annual review and approval of this policy. The policy presented contains two amendments related to the inclusion of State Bonds as an allowable investment and the increase of allowable maturity on investments from three years to five years. The policy as presented maintains the city's past practice of conservative investment of assets and is in compliance with California Government Code. The amendments recommended have been included to increase allowable investments which, after careful consideration, have been deemed appropriate bearing in mind safety of City assets.

II. RECOMMENDATION

III. APPROVE and ADOPT the amended Statement of Investment Policy.

IV. ALTERNATIVES

TAKE another action the City Council deems appropriate.

V. BACKGROUND

The Statement of Investment Policy is the policy of the City of Carson/Carson Redevelopment Agency, to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all Federal, State and local statutes governing the investment of public funds.

Since incorporation the City has utilized the "Prudent Investor" rule, which states that "Investments shall be made with 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,



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considering the probable safety of their capital as well as the probable income to be derived.”

The primary objectives, in priority order, of the City’s investment activities is safety, liquidity then yield. A review of the Statement of Investment Policy has prompted only two changes to include allowable investments which will provide for greater diversification in the portfolio while retaining safety of the City assets.

Section 8.11 has been amended to allow for the investment of State and Municipal Bonds issued by the State of California or any local agency in the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the local agency or by a department, board, agency or authority of the local agency. All bonds must be rated in the top two categories as rated by Moody’s and Standard & Poor’s. Due diligence will be performed to ensure that the revenues dedicated to the repayment of the bonds and interest cannot be interrupted in order to ensure safety of assets while allowing use of this viable investment tool. Previously this section allowed for solely Municipal Bonds.

Section 14.0 has been amended from a maximum three (3) year maturity to a maximum five (5) year maturity in order to afford the opportunity to increase yield while continuing to ensure safety of assets.

No other changes to the Policy are recommended. It is therefore appropriate for the Council to adopt the amended Statement of Investment Policy as presented.

VI. FISCAL IMPACT

None.

VII. EXHIBITS

- 1. Statement of Investment Policy. (pages 4 – 12)

Document#

Prepared by: Karen Avilla

TO:Rev032811

Reviewed by:

City Clerk	<u>City Treasurer</u>
<u>Administrative Services</u>	<u>Development Services</u>

June 7, 2011

<u>Economic Development Services</u>	<u>Public Services</u>
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Action taken by City Council

Date 6-7-11

Action Gen. Staff Recommendation

SD/mg 570

John

CITY OF CARSON

Statement of Investment Policy

1.0 Policy:

It is the policy of the City of Carson/Carson Redevelopment Agency, hereinafter referred to as "City", to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all Federal, State and local statutes governing the investment of public funds.

2.0 Scope:

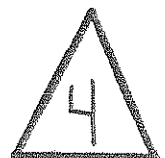
In accordance with the California Government Code, Section 53600 et seq., the City Treasurer is authorized to invest the City's funds. This investment policy applies to all financial assets of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Carson Redevelopment Agency Funds
- Trust and Agency Funds

3.0 Investment Philosophy:

Investments shall be made utilizing the "Prudent Investor" rule, which states that "Investments shall be made with 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."

The standard of prudence to be used by investment officials shall be applied in the context of managing an overall portfolio. The City will employ a buy and hold strategy, i.e. the City intends to hold the investment until its slated maturity unless there is a strong compelling reason not to. The City philosophy prohibits speculation (i.e. purchase of securities with intent to profit from favorable changes in market prices). Investment officers acting in accordance with the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.



4.0 **Objective:**

The primary objectives, in priority order, of the City's investment activities shall be:

4.1 **Safety:**

Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions. Additionally, the City shall seek to preserve principal by mitigating the two types of risk; credit risk and market risk.

Credit Risk. Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by investing in only very safe institutions and by diversifying the funds so that the failure of any one issuer would not unduly harm the City's cash flow.

Market Risk. The risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the weighted average maturity of the City's funds to 2 years in a diversified portfolio with no single maturity over 3 years.

4.2 **Liquidity:**

Liquidity is the second most important objective of the investment program. It is important that an investment contain the feature of being easily sold at any time with minimal risk of loss of some portion of the principal or interest. Therefore, the City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.3 **Yield:**

Investment return becomes a consideration only after the basic requirements of investment safety and liquidity have been met. The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. Inasmuch as the City's investment portfolio is designed to operate on a "buy and hold" premise (or the passive investment style) and due to the safety, liquidity and yield priorities, the basis to be used as a benchmark will be the one-year Treasury Bill. Whenever possible and in a manner consistent with the more important objectives of safety and liquidity, a yield higher than the benchmark rate of return shall be sought.

5.0 Delegation of Authority:

Authority to manage the City's investment program is derived from the California Government Code, Section 53600 et seq. Management responsibility for the investment program is hereby delegated to the City Treasurer who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the City Treasurer.

5.1 Investment Procedures:

The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: steps to be taken in preparation for investing, authorized broker/dealers, selecting investment maturities and cash flow forecasting, investment safekeeping, wire transfer procedures, investing in the State of California Local Agency Investment Fund (LAIF), banking service contracts, etc. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

6.0 Ethics and Conflicts of Interest:

The City Treasurer and Deputy City Treasurer shall avoid any transaction that might impair public confidence in the City's ability to govern and manage the investment of public funds in an effective manner. The City Treasurer, Deputy City Treasurer or any other official charged with the responsibility of making investment decisions shall have no vested interest in any investment being made involving public funds of the City, and shall gain no financial benefit from such investment decisions. All participants in the City's investment process shall seek to act responsibly as custodians of the public trust and shall immediately disclose to the City Council any material financial interests in financial institutions that conduct business within their jurisdiction as well as any large personal financial/investment positions that could be related to the performance of the City.

7.0 Authorized Financial Dealers and Institutions:

The City shall transact business only with nationally or state chartered banks, federal or state savings and loan institutions and registered primary or regional securities dealers. All institutions which the City Treasurer wishes to do business with shall be investigated to determine if they are adequately capitalized, have pending legal action against the firm or the broker, make market in the securities appropriate to the City's needs and agree to abide by the conditions set forth in the City of Carson's Investment Policy.

To further ensure that investments are purchased only through well established, financially sound institutions, the City Treasurer shall maintain a



list of financial institutions and broker/dealers approved for the conduct of investment transactions. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions will be given a copy of the City's Investment Policy, and in turn must supply the City Treasurer with the following:

- Current audited financial statements
- A copy of the latest FDIC Call Report or FHLBB Report, as appropriate
- Proof of National Association of Security Dealers certification and good standing
- Proof of State or Federal registration or charter, as appropriate
- Completed broker/dealer questionnaire
- Certification of having read City's investment policy
- Depository contract

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer.

8.0 Authorized & Suitable Investments:

All investments shall be made in accordance with California Government Code. The City is empowered by statute to invest in the following types of securities:

8.1 United States Treasury Bills 100% Maximum

United States Treasury Bill, Notes and Bonds, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. This investment is both safe and liquid. There is no percentage limitation of the funds that can be invested in this category.

8.2 Federal Government Obligations 100% Maximum

Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Student Loan Mortgage Administration (SLMA), and the Federal National Mortgage Association (FNMA) and those insured by the Federal Housing Administration (FHA). The "prudent investor" rule shall apply for a single agency name, as U.S. Government backing is implied rather than guaranteed.

8.3 Banker's Acceptances 10% Maximum

Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 7 days to maturity or thirty percent of the market value of the funds and shall be in compliance with Government Code Section 53601(f).

Investments in Bankers's Acceptances shall be placed in instruments ranked within the top two rating categories by two of the three largest rating services.

8.4 Time Deposits

50% Maximum

The City may invest in non-negotiable time deposits collateralized in accordance with Government Code Sections 53651-52 in those banks and savings and loan associations that meet the requirements for investment in Certificates of Deposit. All investments in time deposits must be issued by a financial institution whose performance has been reliable and whose safety rating meets the standards established by the City Treasurer. The City Treasurer will periodically monitor the operating performance of all financial institutions holding City time deposits. Financial institutions must provide proof of collateralization by submitting third party trustee reports detailing securities that represent collateralization for city accounts on a monthly basis.

8.5 Certificates of Deposit – Private Placement

30% Maximum

In accordance with California Government Code Section 53601.8, the City may invest in Certificates of Deposit through a selected depository institution that utilizes a private sector entity to assist in the placement of certificates with one or more depository institution in order to ensure that the full amount of the deposit and accrued interest at all times be insured by the Federal Deposit Insurance Corporation or the national Credit Union Administration. These investments are commonly identified as CDARS.

8.6 Commercial Paper

10% Maximum

Commercial Paper ranked "P1" by Moody's Investor Services or "A1" by Standard and Poor's and issued by a domestic corporation having assets in excess of \$500,000,000 and having an "A" or better rating on its long term debentures, if any, as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed fifteen (10%) of the market value of the City's funds nor represent more than ten (10%) from any single issuing corporation. The term to maturity shall not exceed 7 days.

8.7 Local Agency Investment Fund

\$50 Million Per Account

The City may invest in the Local Agency Investment Fund (LAIF) as established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.

8.8 Money Market Mutual Funds

20% Maximum

In accordance with California Government Code Section 53601 the City may invest in shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and



Exchange Commission under the federal Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). To be eligible, all funds must be in accordance with the requirements of California Government Code Section 53601 and must comply with other self imposed restrictions specific in this Investment Policy. However, no more than 10% of the surplus funds may be invested in shares of beneficial interest of any one mutual fund.

8.9 Negotiable Certificates of Deposits 10% Maximum

The City may invest in negotiable time deposits issued by those banks and savings and loan associations that meet the requirements for investment in Certificates of Deposit. All investments in negotiable certificates of deposits must be issued by a financial institution whose performance has been reliable and whose safety rating meets the standards established by the City Treasurer. The City Treasurer will periodically monitor the operating performance of all financial institutions holding deposits. Financial institutions must maintain a rating of 3.5 stars and above per the Statewide Bank and Thrift Report issued by Bauer Financial, Inc.

8.10 Medium Term Corporate Notes 20% Maximum

The City may invest in debt securities issued by a corporation organized and operating in the United States or a depository institution licensed by the United States or any state and operating within the United States. Local agencies are restricted by California Government Code to invest in corporations rated in the top three note categories by Moody's Investor Service, Inc., and/or Standard and Poor's Corporation, the lowest being a rating of "A". In addition to consideration of said rating, prior to purchase and ongoing on a quarterly basis the following components of credit analysis must be completed: 1) Rating issued by Moody's, Standard and Poors and Fitch; 2) Peer Yields vs. Treasuries; 3) Credit Default Swap vs. Peers; 4) Stock Price vs. Peers; and 5) Audit Integrity Review. If a security is downgraded by a rating agency, shows negative contrast from its peers or increased audit integrity concerns, it shall be sold even if it remains investment grade by California Government Code. No more than 5% of surplus funds may be invested in any single issuer.

8.11 State/Municipal Bonds 20% Maximum

The City may invest in bonds issued by the State of California or any local agency in the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the local agency or by a department, board, agency or authority of the local agency. All bonds must be rated in the top two categories as rated by Moody's and Standard & Poors. Due diligence must be performed to ensure that the revenues dedicated to the repayment of the bonds and interest cannot be interrupted.

9.0 Unauthorized Investments

The following investments, while may be allowed under Government Code Section 53601 ET. Seq. are considered to be of a higher risk factor and therefore are prohibited:

- Common Stocks
- Long term notes and bonds
- Derivative based instruments
- Repurchase agreements
- Reverse repurchase agreements
- Inverse floaters
- Futures and options
- Mortgage backed securities

10.0 Investment Pools:

A thorough investigation of the pool is required prior to investing, and on a continual basis. The following general questions shall be answered:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement process) and how often the securities are priced and program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earning, etc. utilized by the pool?
- A fee schedule, and when it's assessed.
- Is the pool eligible for bond proceeds and will it accept such proceeds?

11.0 Collateralization:

Collateralization will be required for certificates of deposit. The City chooses to limit collateral to the following: Government Securities. Collateral will always be held by an independent third party. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution is granted.

12.0 Safekeeping and Custody:

All security transactions, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

13.0 Diversification:

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

14.0 Maximum Maturities:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase.

15.0 Internal Control:

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

16.0 Performance Standards:

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

17.0 Market Yield (Benchmark):

The City's investment portfolio is designed to operate on a "buy and hold" premise (or the passive investment style) and due to the safety, liquidity and yield priorities, the basis to be used as a benchmark will be the one-year Treasury Bill. Whenever possible and in a manner consistent with the more important objectives of safety and liquidity, a yield higher than the benchmark rate of return shall be sought.

18.0 Reporting:

The Treasurer shall provide the City Council with investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies.

Schedules in the report should include the following:

- A listing of individual securities held at the end of the reporting period by authorized investment category.
- Average life and final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value, book value and market value.

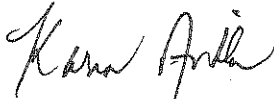


- Percentage of the portfolio represented by each investment category.

19.0 Investment Policy Option:

The City's investment policy shall be adopted by minute resolution of the legislative authority. The policy shall be reviewed periodically by the City Council/Carson Redevelopment Agency and any modifications made thereto must be approved by the City Council/Carson Redevelopment Agency/Housing Authority.

Submitted by:



Karen Avilla, CCMT
City Treasurer

