



AGENDA ITEM

December 4, 2018 City Council Meeting

Approved for Submittal By:

Jeff Kiser

Jeff Kiser, City Manager

To Be Presented By:

Liz Cottrell

Liz Cottrell, Assistant City Manager/Finance Director

To: Honorable Mayor and Members of the Anderson City Council
Through: Jeff Kiser, City Manager
From: Liz Cottrell, Assistant City Manager/Finance Director/Treasurer
Date: December 4, 2018

SUBJECT

Annual adoption of City Investment Policy

RECOMMENDATION

The Assistant City Manager recommends that the City Council, by motion:

Adopt a Resolution establishing the City's Investment Policy.

FISCAL IMPACT

Adoption of the City Investment Policy will not have an effect on city expenses. Because the City takes a conservative approach to investing public funds, the Investment Policy has the impact of keeping investment income relatively low. However, this is necessary to ensure the safety of public funds.

DISCUSSION and BACKGROUND

Sections 53600 and 53609 of the California Government Code place several requirements on the investments of city funds, and impose requirements for reporting to the City Council about investment activities.

One of the requirements is the City Council must review and adopt the City's investment policy annually.

Each year staff reviews the City Investment Policy for changes and presents the policy to Council for review and adoption. The investment policy remains unchanged from the prior year and consistently emphasizes the following order of criteria for investment of city funds: *safety, liquidity* and lastly *yield*.

The Assistant City Manager recommends that the City Council consider and adopt the attached investment policy.

ATTACHMENTS

1. Resolution adopting the City Investment Policy

RESOLUTION NO. 18-

RESOLUTION ADOPTING AN INVESTMENT POLICY

WHEREAS, in accordance with the Government Code, the Treasurer has delivered to the City Council a proposed statement of investment policy; and

WHEREAS, the City Council of the City of Anderson has reviewed the policy and determined it will provide sound guidance for the investment of city funds toward the investment goals of safety, liquidity and return; and

WHEREAS, the City Council of the City of Anderson now wishes to adopt this investment policy.

NOW, THEREFORE, BE IT HEREBY RESOLVED that the City Council of the City of Anderson hereby adopts the investment policy attached as Exhibit A to this resolution.

PASSED AND ADOPTED by the City Council of the City of Anderson on this 4th day of December 2018, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Norma Comnick, Mayor

Juanita Barnett, City Clerk

City of Anderson
Investment Policy

1.0 Introduction. The purpose of this document is to identify policies that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities. This policy is to guide investment of city funds toward the investment goals of safety, liquidity and return.

2.0 Policy. It is the policy of the City of Anderson to invest public funds not required for immediate day-to-day operations in safe and liquid investments having an acceptable return while conforming to all state statutes and the city's investment policy governing the investment of public funds.

3.0. Scope. This policy covers the investment activities of temporarily idle funds under the direct authority of the City.

3.1 Pooled Investments. Investments for the City and its component units will be made on a pooled basis. The city's Comprehensive Annual Financial Report identifies the fund types involved as General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, Redevelopment Funds, Trust Funds, and Assessment District Funds. Any new funds created by the City Council, unless specifically exempted, shall be included in the investment pool.

3.2 Investments held separately. In some instances, investments cannot be included in the city's investment pool. These may include investments of bonds proceeds, ICMA contributions, PERS contributions, and others. In these cases, the funds will be held separately when required by law, contract, or other authority.

4.0 Objectives. Section 53600.5 of the California Government Code outlines the primary objectives of a trustee investing public money. The primary objectives, in order of priority, 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 preservation of capital in the overall portfolio, reduce both credit, and market risk.

4.2 Liquidity. 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 Return on Investment. Investment return becomes a consideration only after the basic requirements of safety and liquidity have been met. The City shall attempt to obtain an acceptable return provided that the requirements of safety and liquidity are first met.

The City Finance Director/Treasurer shall strive to maintain the level of investment of all contingency reserves and inactive funds as close to 100% as possible. While the objectives of safety and liquidity must first be met, it is recognized that portfolio assets represent a potential source of significant revenues. It is to the benefit of the City that these assets be managed to produce optimum revenues, consistent with state statutes and local ordinances.

5.0 Duties and Responsibilities. By the annual adoption of this policy, the management of inactive cash and the investment of funds identified in paragraph 3.1 is the responsibility of the City Finance Director/Treasurer as directed by the City Council. Under the authority granted by the City Council, no person may engage in an investment transaction covered by the terms of this policy unless directed by the Finance Director/Treasurer.

In the execution of this delegated authority, the Finance Director/Treasurer may establish accounts with qualified financial institutions and brokers/dealers for the purpose of effecting investment transactions in accordance with this policy. The criteria used to select qualified financial institutions and brokers/dealers are identified in paragraph 14 of this policy.

6.0 Prudence. Section 53600.3 of the California Government Code identifies as trustees those persons authorized to make investment decisions on behalf of a local agency. As a trustee, the standard of prudence to be used shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. 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.

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk changes or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

7.0 Ethics and Conflicts of Interest. All participants in the city's investment process shall seek to act responsibly as custodians of the public trust. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment recommendations

and decisions. Investment officials and employees shall make all disclosures appropriate under the Fair Political Practices Act and may seek the advice of the City Attorney and the Fair Political Practices Commission whenever there is a question of personal financial or investment positions that could represent potential conflicts of interest.

8.0 Authorized Investments.

8.1 Pooled Investments. The City Finance Director/Treasurer may invest City funds in the following instruments as specified in the California Government Code, Section 53601, and as further limited in this policy.

8.1.1 Obligations of the U.S. Government, its agencies and instrumentalities, including mortgage-backed securities with a fixed coupon issued by an agency of the U.S. Government.

8.1.2 Bankers Acceptances that are eligible for purchase by the Federal Reserve System. Purchases may not exceed 180 days maturity or 15% of the portfolio.

8.1.3 Certificates of Deposit. Deposits should not exceed one-year maturity. Deposits will be collateralized as specified in paragraph 9.0 of this investment policy. Deposits must be issued by nationally or state chartered banks and cannot exceed 30% of the portfolio.

8.1.4 Prime Commercial Paper of the highest numerical rating of Moody's Investment Services, Inc. or Standard & Poors Corporation. Further, eligible paper is limited to issuing corporations that are organized and operating within the United States and having total assets in excess of \$500 million and having a "AA" or higher rating for other debt of the issuer. Purchases may not exceed 270 days maturity or 15% of the portfolio, and may not represent more than 5% of the outstanding paper of an issuing corporation.

8.1.5 Medium-term Corporate Notes of a maximum of five years until maturity issued by corporations organized and operating within the United States and rated in the "AAA" or "AA" categories of Moody's Investment Services, Inc. and Standard and Poors Corporation. Purchases may not exceed 15% of the portfolio.

8.1.6 Money market funds (whose portfolio consists of one or more of the foregoing legal investments).

8.1.7 Sweep account for the investment of overnight funds when the funds are swept into investments allowed by this policy.

8.1.8 Local Agency Investment Fund (LAIF) of the State of California. Investments will be made in accordance with the laws and regulations governing those Funds.

8.1.9 Passbook accounts maintained solely to provide for ongoing operational needs shall be subject to the requirements of this policy.

8.2 Investments Held Separately. Investments of bond funds will be made in conformance with the trust indenture for each issue. Such investments will be held separately when required.

9.0 Collateralization. Investments in time certificates of deposit shall be fully insured up to \$100,000 by the Federal Deposit Insurance Corporation or the Federal Savings & Loan Insurance Corporation, as appropriate. Investments in time certificates of deposit in excess of \$100,000 shall be properly collateralized as required by law.

10.0 Unauthorized Investments/Investment Activities. Investments not specifically included under paragraph 8 of this policy are disallowed. Additionally, Section 53601.6 of the California Government Code disallows the following: inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. Futures, options, or any leveraged purchases are not allowed.

11.0 Investment Strategy.

11.1 Pooled Investments. A buy and hold strategy will generally be followed; that is, investments once made will usually be held until maturity. A buy and hold strategy requires that the portfolio be kept sufficiently liquid to preclude the undesirable sale of investments prior to maturity. Occasionally, the City Finance Director/Treasurer may find it advantageous to sell an investment prior to maturity, but this should only be on an exception basis and only when it is clearly favorable to do so. To further provide for liquidity, investments will be made only in readily marketable securities actively traded in the secondary market.

11.2 Investments Held Separately. Investments held separately for bond proceeds will follow the trust indenture for each issue.

12.0 Diversification. The portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. In addition to the limitations on specific security types indicated in paragraph 8.0 if this investment policy, and with the exception of U.S. Treasury/Federal agency securities and authorized pools, no more than 5% of the city's portfolio will be placed with any single issuer.

13.0 Maximum Maturities.

13.1 Pooled Investments. A policy of laddered maturities will be followed for pooled investments. At least 50% of the portfolio will be invested in instruments maturing within one year from the current date. No more than 25% of the entire portfolio may have a maturity date between 3 and 5 years from the current date. Investments having a maturity greater than 5 years will not be made. The average portfolio investment maturity shall be 3 years or less. A dollar-weighted average will be used in computing the average maturity of the portfolio.

13.2 Investments Held Separately. Maturities for investments held separately will conform with the trust indenture for each issue.

14.0 Selection of Financial Institutions and Brokers/Dealers. Investments shall be purchased only through well established, financially sound institutions. 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 a return cover letter which must be signed indicating that the investment policy has been read and understood. Qualified financial institutions must provide a copy of current audited financial statements and verification of federal charter. Broker/dealers must provide current audited financial statements and verification that the firm is in good standing with a national securities exchange.

15.0 Purchase, Payment, Delivery, Safekeeping and Custody. A competitive bid process, when practical, will be used to place all investment transactions. All security transactions entered into by the City shall be conducted on a delivery-vs.-payment basis. All securities owned by the City will be held by a third-party custodian designated by the City Finance Director/Treasurer and evidenced by a periodic statement from the custodian. All securities will be held in the nominee name of the custodian.

16.0 Performance Standard for Pooled Investments. Laddered maturities and a buy and hold strategy for pooled investments will cause the investment portfolio to attain a market-average rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. Since at least 50% of the portfolio must mature within 1 year, the rate of return will be more closely related to, but lag behind, changes in short-term market rates. The rate of return of the investment portfolio will be based on the maturity value of the investments. A dollar-weighted average of yields to maturity will be used in calculating the rate of return of the entire portfolio.

17.0 Reporting. Section 53646 of the California Government Code require specific reports of investments and transactions to the City Council and City Manager.

17.1 Pooled Investments. The investment report shall be submitted quarterly by the City Finance Director/Treasurer within 30 days following the end of the

quarter covered by the report. The quarterly report shall include the following elements:

- Itemized listing of portfolio investments by type, date of maturity, yield to maturity, and issuer.
- Par value, dollar amount invested, book value, and current market value if applicable. The source of the market values will be cited.
- Credit ratings of corporate notes
- Weighted average yield and days to maturity of the portfolio
- Percent of portfolio maturing within one year, one to three years, and three to five years
- Percent that each type of investment represents in the portfolio
- Investment transactions for the reporting period
- Statement that the investment portfolio has the ability to meet the city's cash flow demands for the next six (6) months.
- Statement of compliance of the portfolio with the city's investment policy.

An annual report for pooled investments will also be made to the City Council following the close of the fiscal year. The annual report will include a review of the composition of the portfolio, a discussion of trends impacting the portfolio, and a statement regarding anticipated fund activity in the next fiscal year.

17.2 Investments held Separately. A report of investments held separately, including deferred compensation balances, shall be made quarterly within 30 days following the end of the quarter and submitted as an exhibit in the City Finance Director/Treasurer's quarterly report.

18.0 Exceptions. Occasionally, exceptions to some of the requirements specified in this investment policy may occur for pooled investments because of events subsequent to the purchase of investment instruments. State law is silent as to how exceptions should be corrected. Exceptions may be temporary or more lasting; they may be self-correcting or require specific action. If specific action is required, the City Finance Director/Treasurer should determine the course of action that would correct exceptions to move the portfolio into compliance with state and city requirements. Decisions to correct exceptions should not expose the assets of the portfolio to undue risk, and should not impair the meeting of financial obligations as they fall due. Any subsequent investments should not extend existing exceptions

19.0 Internal control. The Finance Director/Treasurer shall establish and maintain a system of appropriate internal controls to ensure compliance with policies and procedures. The controls are designated to prevent losses of public funds arising from fraud, error or imprudent actions by employees and officers of the City.

20.0 Investment Policy Adoption. Section 53646(a) of the California Government Code requires the City Finance Director/Treasurer to render to the City Council a

statement of investment policy no less frequently than once each year. The city's investment policy and any modifications thereto shall be considered at a public meeting. Adoption shall be made by resolution of the City Council.

City of Anderson
Investment Policy – Glossary

Bankers Acceptance: Investment vehicle created to facilitate international commercial trade transactions. The bank accepts responsibility to repay a loan to the holder of the investment vehicle created in a commercial transaction. The credit worthiness of Bankers Acceptances are enhanced because they are secured by the issuing bank, the goods themselves, and the importer. Bankers Acceptance are sold on a discounted basis.

Bond Indenture (or Trust Indenture): Written agreement specifying the terms and conditions for issuing bonds, stating the form of the bond being offered for sale, interest to be paid, the maturity date, call provisions and protective covenants, if any, collateral pledged, the repayment schedule, and other terms. It describes the legal obligations of a bond issuer and the powers of the bond trustee, who has the responsibility for ensuring that interest payments are made to registered bondholders.

Buy and Hold Strategy: Investments in which management has the positive intent and ability to hold each issue until maturity.

Certificates of Deposit: Large denomination (\$100,000 or more) interest bearing time deposits, paying the holder a fixed amount of interest at maturity. Funds cannot be withdrawn before maturity without giving advance notice and without a penalty.

Collateralization: To secure a debt in part or in full by pledge of collateral, asset pledged as security to ensure payment or performance of an obligation.

Commercial Paper: Short-term IOU, or unsecured money market obligation, issued by prime rated commercial firms and financial companies, with maturities from 2 days up to 270 days. A promissory note of the issuer used to finance current obligations, and is a negotiable instrument.

Delivery Versus Payment: Securities industry term indicating payment is due when the buyer has securities in hand or a book entry receipt.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Laddered Portfolio: Bond investment portfolio with securities in each maturity range (e.g. monthly) over a specified period of time (e.g. five years).

Leverage: Investing with borrowed money with the expectation that the interest earned on the investment will exceed the interest paid on the borrowed money.

Local Agency Investment Fund (LAIF): A voluntary investment program offering participating agencies the opportunity to participate in a major portfolio which daily invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff at no additional cost to the taxpayer. Investment in LAIF, considered a short term investment, is readily available for cash withdrawal on a daily basis.

Nominee: Registered owner of a stock or bond if different from the beneficial owner, who acts as holder of record for securities and other assets. Typically, this arrangement is done to facilitate the transfer of securities when it is inconvenient to obtain the signature of the real owner, or the actual owner may not wish to be identified. Nominee ownership simplifies the registration and transfer of securities.

Pooled Investment: Grouping of resources for the common advantage of the participants.

Sweep Account: Short-term income fund into which all uninvested cash balances from the non-interest bearing checking account are automatically transferred on a daily basis.

Third-Party Custodian: Corporate agent, usually a commercial bank, who, acting as trustee, holds securities under a written agreement for a corporate client and buys and sells securities when instructed. Custody services include securities safekeeping, and collection of dividends and interest. The bank acts only as a transfer agent and makes no buy-sell recommendations.

U.S. Government Securities: Securities issued by the U.S. Government and its agencies which are either directly or indirectly backed by the full faith and credit of the United States. U.S. Government securities include Treasury Bills, Notes and Bonds. Agency securities include those issued by the Federal National Mortgage Association, Federal Home Loan Bank, and similar agencies.

Yield to Maturity: The rate of annual income return on an investment expressed as a percentage, adjusted for any discounts, and spread over the period from the date of purchase to the date of maturity.