

**REPORT TO THE
CITY COUNCIL**
City of Salinas, California

DATE: August 12, 2008
FROM: Tom Keever, Finance Director
BY: Elizabeth Mariano, Supervising Accountant
SUBJECT: **ANNUAL INVESTMENT POLICY**

Agenda Item Number
Department Director Approval
Finance Review
Attorney Review
City Manager Approval

BACKGROUND

Section 53646 of the Government Code of the State of California requires the Treasurer or Chief Fiscal Officer of a local agency to render annually to the legislative body of the local agency a Statement of Investment Policy, which the legislative body must consider at a public meeting. State law further requires the Treasurer or Chief Financial Officer to submit detailed information on all securities, investments and moneys of the City. While the legislation requires quarterly reporting, we will continue to submit Financial Reports to Council on a monthly basis.

The attached investment policy covers the City's investments and those of the Salinas Redevelopment Agency, and all those non-city Agencies for which the City serves as trustee. Monthly Financial Reports include all investment activity and the information required by the state legislation.

THE ISSUE

Shall Council accept the attached Statement of Investment Policy?

ALTERNATIVES AVAILABLE TO COUNCIL, IMPLICATIONS OF ALTERNATIVES

1. Accept the Statement of Investment Policy as attached.
2. Modify the Statement of Investment Policy as appropriate.

CONCLUSIONS AND RECOMMENDATIONS

Since the presentation of the Statement of Investment Policy to Council is a State requirement, it is recommended that Council accept the Investment Policy as attached.

BACK UP PAGES

Statement of Investment Policy

CITY OF SALINAS

STATEMENT OF INVESTMENT POLICY

PURPOSE

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment process and to organize and formalize investment-related activities. 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 ultimate goal is to enhance the economic status of the City while protecting its pooled cash.

The investment policies and practices of the City of Salinas and the Salinas Redevelopment Agency are based on state law and prudent money management. All funds will be invested in accordance with the City's Investment Policy and the authority governing investments for municipal governments as set forth in the California Government Code, Sections 53601 through 53686. The investment of bond proceeds are restricted by the provisions of relevant bond documents.

OBJECTIVE

The City has a fiduciary responsibility to maximize the productive use of all the assets entrusted to its care and to invest and manage those public funds wisely and prudently. As such, the City shall strive to maintain the level of investment of all idle funds as near 100% as possible through daily and projected cash flow determinations, investing in those investment vehicles deemed prudent and allowable under current legislation of the State of California and the ordinances of the City of Salinas.

SCOPE

It is intended that this policy cover all short-term operating funds and investment activities of the City, Redevelopment Agency and Salinas Valley Solid Waste Authority. These funds are accounted for in the annual audit report, and include:

- ◇ General Fund
- ◇ Special Revenue Funds
- ◇ Debt Service Funds
- ◇ Capital Projects Funds
- ◇ Enterprise Funds
- ◇ Internal Service Funds
- ◇ Fiduciary Funds

This investment policy applies to all *City and Redevelopment Agency* transactions involving the financial assets and related activity of the above-mentioned funds. Any additional funds that may be created from time to time shall also be administered with the provisions of this policy and comply with current State Government Code.

The City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

AUTHORIZATION

The City Council has delegated investment authority to the Director of Finance pursuant to Section 46 of the City Charter and Chapter 12 of the City Code. This delegation is further authorized by Section 53600, et seq. of the Government Code of the State of California, which specifies the various permissible investment vehicles, collateralization levels, portfolio limits, and reporting requirements.

GUIDELINES

Government Code Section 53600.5 states: "When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objective of the trustee shall be to safeguard the principal of funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control".

Simply stated, *safety of principal* is the foremost objective, followed by *liquidity* and *return on investment* (known as yield). Each investment transaction shall seek to first ensure the capital losses are avoided, whether they are from market erosion or security defaults.

1. Government Code Section 53601 authorizes the following investment vehicles:

<u>Permitted Investments/Deposits</u>	<u>Percentages</u>	<u>Maximum Maturity</u>
Securities of the US Government	Unlimited	5 Years*
Certificates of Deposit	Unlimited	5 Years*
Negotiable Certificates	30%	5 Years*
Bankers Acceptances	40%	180 Days
Commercial Paper	25%	270 Days
LAIF	40 Million***	n/a
Passbook Deposits		n/a
Repurchase Agreements	20%	92 Days
Reverse Repurchase Agreements	20%	92 Days**
Mutual Funds and Money Market	20%	n/a
Medium Term Notes	30%	5 Years*

*Maximum term unless expressly authorized by Governing Body and within the prescribed time frame for said approval

**Governing Body approval is required. Further, it is suggested that the final maturity of the underlying investment security be less than or equal to the maturity of the reverse repurchase agreement.

***Limit set by LAIF Governing Board, not the Government Code.

2. Criteria for selecting investments, and the order of priority, are:

- A) *Safety*. The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. Investments of the City of Salinas shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The City only invests in those instruments that are considered very safe.

- B) *Liquidity*. This refers to the ability to "cash in" at any moment with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality especially when the unexpected need for funds occurs, The City of Salinas' investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.
- C) *Yield*. Yield is the potential dollar earnings an investment can provide, and sometimes is described as the rate of return. The City of Salinas' investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.
3. An amount of money deemed sufficient to meet one payroll and two weeks claims shall be maintained in highly liquid investment vehicles such as the State Local Agency Investment Fund, or other similar investment instrument
 4. The City will attempt to obtain the highest yield obtainable when selecting investments, provided that criteria for safety and liquidity are met. Ordinarily, through a positive yield curve, (i.e., longer term investment rates are higher than those of shorter maturities), the City attempts to ladder its maturities to meet anticipated cash maturities that carry a higher rate than is available in the extremely short market of 30 days or less.
 5. Most investments are highly liquid, with the exception of certificates of deposit held by banks and savings and loans. Investments in Certificate of Deposit shall be fully insured or collateralized. When insurance is pledged it shall be through the FDIC. Collateralization shall be in the amount of 110% of principal when government securities are pledged or 150% of principal when backed by first deeds of trust. Maturities are selected to anticipate cash needs, thereby obviating the need for forced liquidation.
 6. When investing in Bankers Acceptances, Treasury Bills and Notes, Government Agency Securities and Commercial Paper, securities for these investments shall be conducted on a delivery-versus-payment basis. Securities are held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts when such delivery directly to the City would be impractical.
 7. With the exception of Treasury Notes and other government Agency Issues, the maturity of any given investment shall not exceed 1 year.
 8. Bond Proceeds shall include any notes, bonds or other instruments issued on behalf of the City of Salinas, The Salinas Redevelopment Agency and the Salinas Valley Solid Waste Authority for which the members of the City Council serve as the governing body. Should the City of Salinas elect to issue bonds for any purpose, the Indenture of Trust shall be the governing document specifying allowable investments for the proceeds of the issue as prescribed by law.
 9. Investment income shall be shared by the General fund with the restricted funds on a proportionate ratio of each funds balance to total pooled cash with investment income distributed accordingly on a quarterly basis.
 10. Investments in any other vehicle like Repurchase and Reverse Repurchase Agreements shall not be authorized unless the investment is made through the pooled money portfolio of the Local Agency Investment Fund.

11. The Treasurer shall annually render to the City Council for consideration at a public meeting, a statement of investment policy. The Treasurer will also render a monthly report to the City Council within 30 days following the end of each calendar month. The monthly report shall include type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and monies held by the City of Salinas. The report shall state compliance with the investment policy or manner in which the portfolio is not in compliance. It shall also include a statement denoting the ability to meet the City's expenditure requirement for the next six months or provide an explanation as to why sufficient money shall, or may, not be available.
12. Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City of Salinas' Investment Policy and supersede any and all previous language.
13. Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or that could impair their ability to make impartial decisions.
14. 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.

The basic premises underlying the City's investment philosophy are, and will continue to be, to safeguard principal, to meet the liquidity needs of the organization and to return an acceptable yield.

August 12, 2008