

STAFF REPORT

CITY OF YORBA LINDA

Finance Department

DATE: JUNE 2, 2009

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: SUSAN L. HARTMAN, FINANCE DIRECTOR/TREASURER *[Signature]*

SUBJECT: 2009-2010 INVESTMENT POLICY

RECOMMENDATION

Staff recommends that the City Council approve revision #10 to City Council Policy A-14, which is the City's Investment Policy.

BACKGROUND

In 2005, Section 53646 (a)(2) of the Government Code was modified to allow local agencies the option of adopting annual Investment Policies or to adopt an Investment Policy that would remain in effect until changed. In June 2006, the City Council opted to continue to adopt an annual Investment Policy and each year thereafter the Finance Committee has recommended that the City Council continue to adopt an annual policy.

The attached Investment Policy is for FY 2009-10 and does not include any changes to the current policy.

COUNCIL FINANCE COMMITTEE

At their May 19, 2009 meeting, the Council Finance Committee reviewed the Investment Policy and recommends that it be approved by the City Council.

FISCAL IMPACT

None

RECOMMENDATION

Staff recommends that the City Council approve revision #10 to City Council Policy A-14, which is the City's Investment Policy.


ALTERNATIVES

1. The City Council modify staff's recommendation.
2. The City Council elect to not adopt this revised Investment Policy

ATTACHMENTS

City Council Policy A-14

Approved by:



William R. Kelly
Interim City Manager



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Date Adopted: June 2, 2009

Replaces: June 3, 2008

I. PURPOSE

To establish guidelines for the prudent investment of public funds in a manner, which will protect City funds, meet daily cash flow expenditures, and conform with all state and local statutes governing the investment of public funds.

II. BACKGROUND

Effective January 1, 2006, Section 53646(a)(2) of the Government Code was modified to allow local agency boards the option of either allowing their investment policies to remain in effect until changed or the option of continuing to adopt an annual investment policy.

III. POLICY

It shall be the policy of the City of Yorba Linda to annually review and adopt an Investment Policy. This Policy applies to all financial assets and funds held by the City of Yorba Linda and the Yorba Linda_Redevelopment Agency. These funds are defined in the City's Comprehensive Annual Financial Report (CAFR) and include any new funds created, unless specifically exempted by the City Council.

IV. PROCEDURES

The City Treasurer shall review the Investment Policy; incorporate any changes in state law, recommendations by state-wide municipal organizations, other changes, and present the proposed Investment Policy to the City Council annually.

(A) Responsibilities

1. Responsibilities of the City Council

The City Council shall annually consider and adopt a written Investment Policy. As provided in this Policy, the Council shall receive monthly City Treasurer Reports, quarterly Investment Reports and the annual Investment Policy.

2. Responsibilities of the City Treasurer

The City Treasurer is appointed by the City Council and shall be responsible for carrying out all investment actions. The City Council delegates the duties of City Treasurer to the Finance Director.



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3. Responsibilities of the City Manager

The City Manager is responsible for keeping the City Council fully advised as to the financial condition of the City.

4. Responsibilities of the Finance Director

The Finance Director is appointed by and services at the pleasure of the City Manager and is subject to his or her direction and supervision. The Finance Director is charged with responsibility for the conduct of all Finance Department functions and the day-to-day investment activities and management.

5. Responsibilities of the Finance Department

The Finance Department is charged with the responsibility for managing all public funds and securities belonging to or under the control of the City and Redevelopment Agency and for the deposit and investment of those funds in accordance with principles of sound treasury management and applicable laws and ordinances. However, duties related to day-to-day investment activities shall be performed by an official other than the person responsible for accounting for those investments.

6. Responsibilities of the City's Auditing Firm

The City's auditing firm's responsibilities shall include, but are not limited to, the examination and analysis of fiscal procedures and the examination, checking and verification of accounts, revenues and expenditures. A review of the City's investment program is a part of the responsibility described above.

(B) Prudent Person Rule

The City of Yorba Linda makes its cash investments under the prudent person rule (Probate Code Section 16040, et seq) which states, in essence, that in investing and managing property, a trustee shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims to accomplish the purposes of the trust as determined in the Investment Policy. This affords the City a broad spectrum of



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investment opportunities as long as the investment is deemed prudent as is allowable under current legislation of the State of California.

The City Treasurer and other individuals assigned to manage the investment portfolio, acting in accordance with state law and the intent and scope of the Investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

(C) Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. Additionally, the City Treasurer and other employees designed in the City's conflict of interest code are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC) and are subject to California law requiring conflict of interest.

(D) Distribution of Investment Policy

A copy of the annual Investment Policy shall be sent to all institutions approved to handle City of Yorba Linda investments and to the California Debt and Investment Advisory Commission.

(E) Level of Investment

The City strives to maintain the level of investment of all investable cash as near to 100 percent as possible through current and projected cash flow management. Investable cash is defined as all cash except that required for payment of outstanding checks and compensating balances.

It is the City's intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

(F) Investment Criteria

The City seeks safety and liquidity in all of its investments followed by yield. Safety, liquidity and yield are defined as follows:



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1. Safety. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. Liquidity. The investment portfolio shall remain sufficiently liquid to meet operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.
3. Yield. The investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

(G) Allowable Investments

Sections 53601 & 53635 of the California Government Code governs allowable investments. Investments may not have a term or maturity at the time of investment of longer than that authorized by the Code or five years unless the City Council has granted prior express authority.

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest.
2. State Treasurer's Local Agency Investment Fund (LAIF), which is a State of California, managed investment pool.
3. California based Joint Powers Authority Pool, which is managed by one or more SEC registered investment advisors.
4. Registered State of California warrants notes or bonds.
5. Obligations issued by agencies sponsored by the United States Government which include, but are not limited to, the following:
 - ◆ Federal Farm Credit System (FFCB)
 - ◆ Federal Home Loan Bank Board (FHLB)
 - ◆ Federal National Mortgage Association (Fannie Mae)



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- ◆ Student Loan Marketing Association (Sallie Mae)
 - ◆ Federal Home Loan Mortgage Association (Freddie Mac)
 - ◆ Tennessee Valley Authority (TVA)
6. Fully insured, collateralized certificates of deposit and passbook savings accounts.
 7. Negotiable certificates of deposit, placed with approved depositories, which are commercial banks or savings and loan associations. State law limits the investment percentage to 15% of the value of the portfolio at the time of investment. State law allows up to 30%.
 8. Commercial paper of "prime" quality paper of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization and meets other criteria as meeting the conditions set forth in the Government Code. Eligible commercial paper may not exceed 270 days to maturity nor represent more than 10% of the outstanding paper of the issuing corporation. State law limits the investment percentage to 25% of the value of the portfolio when purchased.
 9. Medium Term Corporate Notes of high-quality grade ranked "A" or better by a nationally recognized rating service and issued by domestic corporations. Eligible notes may not represent more than 20% of the value of the portfolio when purchased. State law limits the investment percentage to 30% of the value of the portfolio when purchased.
 10. Money Market Mutual Funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and meeting the conditions set forth in the Government Code. Money Market Mutual Funds may not represent more than 10% of the value of the portfolio when purchased. State law limits the investment percentage to 20% of the value of the portfolio.
 11. Investments that were made prior to the updating of State Statutes governing allowable investments in 1995 and that remain outstanding are considered grandfathered into this policy.



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12. Ineligible investments are those that are not described herein, which include but are not limited to repurchase agreements, reverse repurchase agreements, banker's acceptances and derivative type securities.

(H) Investment Reporting

A monthly Treasurer's Report shall be prepared and submitted to the City Council. This report will be an informational report which reflects cash and investment activity during the month. This report shall be submitted within 45 days of the close of the month.

(I) Debt Proceeds

Debt proceeds and bond reserve funds are to be invested in accordance with their respective bond indenture. Tax and Revenue Anticipation Notes or other temporary financing proceeds shall not be invested for a term that exceeds the term of the debt.

(J) Safekeeping

All trades, where applicable, will be executed by delivery vs. payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

(K) Qualified Broker/Dealers

The City shall transact business only with banks, savings and loans, and with broker/dealers located in the State of California. The broker/dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank or secondary dealers with extensive experience working with municipalities.