



REPORT TO CITY COUNCIL

DATE: JUNE 28, 2017

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: GREG RAMIREZ, CITY MANAGER 

BY: CHRISTY PINUELAS, DIRECTOR OF FINANCE 

SUBJECT: ADOPT RESOLUTION NO. 17-1846 ADOPTING THE ANNUAL INVESTMENT POLICY FOR FISCAL YEAR 2017-18 AND DELEGATING AUTHORITY TO THE CITY TREASURER TO INVEST AND REINVEST CITY FUNDS

Under the State of California Government Code 53646, it is required the City's investment policy be approved annually. Staff has reviewed the Statement of Investment Policy with Chandler Asset Management, the City's investment advisors. It has been updated to reflect improvement suggested by the California Municipal Treasurer's Association (CMTA). There are no suggested changes to the types or to the percentage of allowable investments. The Finance Committee reviewed the policy at their May, 2017, meeting, and recommended no changes. The City Council reviewed the policy at the Budget Workshop and also did not make any recommended changes.

Furthermore, Section 53607 states that the City Council may annually delegate to the City Treasurer the authority to invest and reinvest City funds.

RECOMMENDATION

Staff recommends the City Council adopt Resolution No. 17-1846 adopting the annual investment policy for fiscal year 2017-18 and delegating authority to the city treasurer to invest and reinvest city funds.

Attachment: Resolution 17-1846

RESOLUTION NO. 17-1846

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF AGOURA HILLS, CALIFORNIA, ADOPTING THE ANNUAL INVESTMENT POLICY FOR FISCAL YEAR 2017-18 AND DELEGATING AUTHORITY TO THE CITY TREASURER TO INVEST AND REINVEST CITY FUNDS

WHEREAS, on June 22, 2016, the City Council reviewed and adopted the City of Agoura Hill's annual Investment Policy; and

WHEREAS, a staff report has been presented to the Council requesting adoption of the annual Investment Policy; and

WHEREAS, the Investment Policy describes the investment of City funds in compliance with the Municipal Code and state law, and, therefore, the Investment Policy is to be hereby submitted to an oversight committee in compliance with state law;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF AGOURA HILLS HEREBY FINDS, RESOLVES, AND ORDERS AS FOLLOWS:

SECTION 1. The annual Investment Policy attached hereto as "Exhibit A" has been reviewed in a public meeting and is hereby adopted.

SECTION 2. The City Council hereby delegates the City Treasurer the authority to invest and reinvest city funds for a twelve-month period as per State of California, Government Code Section 53607.

SECTION 3. The Investment Policy adopted June 22, 2016, is hereby rescinded.

PASSED, APPROVED, AND ADOPTED this 28th day of June, 2017, by the following vote to wit:

AYES: (
NOES: (
ABSENT: (
ABSTAIN (
)

Denis Weber, Mayor

ATTEST:

Kimberly M. Rodrigues, City Clerk

**CITY OF AGOURA HILLS
STATEMENT OF INVESTMENT POLICY**

I. POLICY

The purpose of this statement is to provide guidelines for the investment of the City's funds and is based upon State law and prudent money management. This policy is designed according to the specific needs of the City of Agoura Hills. The ultimate goal is to enhance the economic status of the City while ensuring the safety of funds. The authority governing investment of public funds is set forth in the Government Code, Sections 53601 et seq.

II. SCOPE

This investment policy applies to all investment activities and financial assets of the City of Agoura Hills. The funds are accounted for and incorporated in the City of Agoura Hills Comprehensive Annual Financial Report (CAFR) and include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Trust Funds.

III. PRUDENCE

The City holds to the "prudent investor standard" in that all investments placed shall be made with a degree of judgment and care, not for speculation, but considering the safety of the monies and acting as a fiduciary of the public trust. The prudent investor standard as set forth in Section 53600.3 of the Government Code is as follows. "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency." Related activities which comprise good cash management include cash projections, the expeditious collection of revenue, disbursement control and a cost effective banking relationship.

IV. OBJECTIVE

The City shall be guided by the following criteria in priority order when placing investments:

1. Safety: Safety is the primary duty and responsibility in order to protect, preserve and maintain the principal of the City's public funds, which are for the benefit of citizens of the community.

2. Liquidity: An adequate percentage of the portfolio should be maintained in 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 placed. These securities should have a low sensitivity to market risk (price changes).
3. Return: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

It is intended that the scope of this policy cover the investment of surplus (i.e., monies not required for the immediate needs of the City) of all monies held under the direct authority of the City.

Proceeds of debt issuance shall be invested in accordance with the City's general investment philosophy as set forth in this policy; however, such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures.

V. DELEGATION OF AUTHORITY

Pursuant to Government Code Section 53607, the City Council of the City of Agoura Hills delegates the authority to invest or reinvest funds of the City, or to sell or exchange securities so purchased, to the City Treasurer.

Wire Transfer: Any transfers to/from LAIF representing deposits or withdrawals effectuating an investment decision by the City Treasurer shall be completed by Finance Department staff and authorized by the City Manager. All other transfers shall be made by the City Treasurer or, provided that such transfer effectuates an investment decision made by the City Treasurer. The City's bank verifies each transaction with the Finance Department.

VI. ETHICS AND CONFLICTS OF INTEREST

Investment officials will refrain from personal business activity that could conflict with proper execution and management of the policy and the investment program, or which could impair their ability to make impartial decisions.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTIUTIONS

The City does not use third party broker-dealer accounts for the custody of funds or securities. However, pursuant to Government Code Section 53601.5, the City shall purchase each authorized investment either (a) directly from the issuer or (b)

from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, (c) from a member of a federally regulated securities exchange, (d) from a national or state-chartered bank, (e) from a savings association or federal association (as defined by Section 5102 of the Financial Code), or (f) from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

VIII. AUTHORIZED SUITABLE INVESTMENTS

The following is a list of the investments authorized by the City of Agoura Hills and shall be maintained within the statutory limits imposed by the Government Code.

- a. State of California Local Agency Investment Fund.
- b. United States Treasury Issues.
- c. Federal Agency or United States government sponsored total issues will not exceed 75%, nor will one issuer exceed 20% of the total portfolio.

The following is limited to no more than 5% of the total portfolio for any single issuer, other than the US Government, its agencies and enterprises:

- d. Commercial Paper
- e. Negotiable Certificates of Deposit
- f. Medium Term Corporate Notes

IX. REVIEW OF INVESTMENT PORTFOLIO

1. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or City's risk preferences; and,
2. If securities owned by City are downgraded by either Moody's or S&P to a level below the quality required by this Investment Policy, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

X. INVESTMENT POOLS / MUTUAL FUNDS

Pooled Cash: The City's cash is consolidated into one bank account, and the surplus monies for all funds are invested on a pooled concept basis. Interest earnings shall be allocated according to fund cash balances on a quarterly and/or annual basis.

Cash Forecast: The cash flow for the City shall be analyzed daily so that adequate cash will be available to develop an investment strategy and to meet disbursement requirements.

XI. COLLATERALIZATION

- a. The City does not use Reverse Repurchase Agreements for the investment of funds.
- b. The City will only place that amount which is covered by FDIC Insurance or fully collateralized in a Negotiable Certificate of Deposit.

XII. SAFEKEEPING AND CUSTODY

The City does not purchase or sell securities on margin.

XIII. DIVERSIFICATION

No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and enterprises

XIV. MAXIMUM MATURITIES

The City does not place investments with a maturity in excess of five years in accordance with Government Code, Section 53601.

XV. INTERNAL CONTROLS

Internal controls state that every transaction must be reviewed, authorized and documented. Transaction documentation will be maintained for audit purposes. The investments placed shall conform to the City's "Statement of Investment Policy."

XVI. PERFORMANCE STANDARDS

1. Overall objective: The investment portfolio shall be designed with the overall objective of obtaining a total rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.
2. Specific objective: The investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to the return on the Market Benchmark Index, as selected by the City based on the City's investment objectives, constraints and risk tolerance.

XVII. REPORTING

The City Treasurer shall prepare a monthly Treasurer's Report meeting the requirements of Government Code Section 53646.

- a. All U.S. Treasury Issues, Federal Agency Securities, Commercial Paper, and Medium Term Corporate Notes purchased shall be delivered to our safekeeping account at an independent third party custodian. Purchase is made on a delivery versus payment basis. Book entry is considered delivery. The City shall retain physical custody of all CD's. There is no safekeeping document for LAIF investments as it is not evidenced by physical or book entry securities.
- b. The City may engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

XVIII. INVESTMENT POLICY ADOPTION

The City of Agoura Hills investment policy will be adopted by resolution of the City of Agoura Hills Council. The policy will be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.

XIX. GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of the (entity). It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills.)

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

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FHA mortgages. The term "pass throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes. **LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.