

**STAFF REPORT**  
**COUNCIL MEETING DATE:**  
**September 26, 2011**

**ITEM FOR COUNCIL CONSIDERATION:**

**Annual Review of the City's Investment Policy**

**Report prepared by: John Thornberry, Administrative Services Director**

**Department: Administrative Services**

**Reviewed by: Dave Durlinger, City Manager**

*[Handwritten Signature]*  
Signature

*[Handwritten Signature]*  
Signature

**ACTION ITEM X ; NON-ACTION ITEM**

**STAFF RECOMMENDATION:**

**Adopt Resolutions No. 5341 and 5342, as read by title only, receiving and filing the statement of investment policy and authorizing certain individuals to perform transactions in the Treasury Direct program.**

**I. BACKGROUND:**

California Government Code Section 53646 mandates cities and other local agencies to adopt a written investment policy. This policy and any changes must be considered at least annually by the Council at a public meeting. In addition, the government code calls for quarterly reports concerning the City's financial holdings, a statement of compliance with the policy and a statement concerning the City's ability to meet its cash flow needs in the ensuing six months.

SB 866 added to CGC 53600: subsection 53600.3, the "prudent investor" standard, subsection 53600.5 mandating and prioritizing the three objectives of investing public funds (i.e. safety, liquidity and yield), and subsection 53600.6, declaring the deposit and investment practices of local agencies to be an issue of statewide concern.

**II. POLICY:**

The City's investment policy was last reviewed and adopted per Resolution No. 5279 on September 27, 2010.

**III. FINANCIAL CONSIDERATIONS:**

The Local Agency Investment Fund (LAIF) is a large (\$65 billion), well diversified, professionally managed fund overseen by the State Treasurers' Office in compliance with all Federal and State laws. The City has 24 hour access to all of its deposits via electronic funds transfer. Interest is earned from day of deposit to day of withdrawal and is paid quarterly. There are about 2,000 State and local agency depositors in the fund.

It has long been the practice of the City of Carpinteria to invest excess funds in LAIF and in FDIC insured, interest bearing checking accounts. CGC section 53646 (e) allows the submission of LAIF's quarterly report in lieu of the quarterly information otherwise required. This provision minimizes staff time in preparing this quarterly information.

In addition to investments in LAIF, since the change in the investment policy in September 2004, the City has purchased Treasury Notes and Bills directly from the United States Treasury. As of August 31, 2011 the City's portfolio included Notes with a par value of \$9,508,700, an average yield to maturity of 2.50% and an average days to maturity of 750 days or 2.06 years.

The policy includes the "prudent investor" standard which calls out and prioritizes three criteria in managing the City's portfolio of investments, namely, safety, liquidity and yield. The number one priority, safety, is achieved by making investments only in those investment vehicles permitted by the government code. LAIF provides 100% liquidity for all invested funds.

**IV. LEGAL ISSUES:**

All quarterly reports required by law have been made in a timely manner and the investment policy includes the "prudent investor" standard also required by law.

**V. ALTERNATIVE OPTIONS:**

Adopt Resolutions 5341 and 5342 as presented

Provide staff direction as appropriate

**VI. ATTACHMENTS:**

Resolution 5341  
Resolution 5342  
Legacy Treasury Direct Form PD F 5189 E

## RESOLUTION NO. 5341

### A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARPINTERIA, ACKNOWLEDGING THE REVIEW, RECEIPT AND FILING OF THE ANNUAL STATEMENT OF INVESTMENT POLICY

**WHEREAS**, The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code sections 53600.6 and 53630.1; and

**WHEREAS**, the legislative body of a local agency may invest surplus monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Sections 5920 et seq. and 53601 et seq.; and

**WHEREAS**, the Administrative Services Director of the City of Carpinteria shall annually prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the legislative body at a public meeting; (CGC 53646(a)); and

**WHEREAS**, the Annual Statement of Investment Policy was last reviewed and adopted per Resolution No. 5279 on September 27, 2010; and

**WHEREAS**, the Administrative Services Director of the City of Carpinteria declares the Annual Statement of Investment Policy to be as follows:

#### **POLICY**

It shall be the policy of the City of Carpinteria to invest funds in a manner which will provide the highest investment return possible consistent with maximum security while meeting daily cash flow demands and conforming to all other statutes governing the investment of City funds.

#### **SCOPE**

This investment policy shall apply without exception to any and all financial assets and funds of the City of Carpinteria. These funds are accounted for in the Comprehensive Annual Financial Report.

#### **PRUDENCE**

The standard of prudence to be used by investment officials shall be the "prudent investor" standard (CGC 53600.3):

When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, a trustee shall act with care, skill prudence and diligence under circumstances then prevailing, 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.

Investment officers acting in accordance with the investment policy and exercising due diligence shall not be held personally responsible for an individual security's credit risk or market price changes, provided that the reporting requirements of this policy are made in a timely manner and appropriate action is taken to control adverse developments.

## **OBJECTIVES**

When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives of investment activities, in absolute priority order, shall be:

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 will remain sufficiently liquid to enable the City to meet all operating requirements which might reasonably be anticipated.
3. **Yield:** The investment portfolio shall be designed with the objective of attaining the highest investment return consistent with safety and liquidity objectives. Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

## **DELEGATION OF AUTHORITY**

Management responsibility for the investment program is hereby delegated to the City Manager or the Administrative Services Director.

The City Manager and the Administrative Services Director are trustees and fiduciaries subject to the prudent investor standard.

No person may engage in an investment transaction except as provided under the terms of this policy

## **ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

## **AUTHORIZED INVESTMENTS:**

1. FDIC Insured Accounts. Monies required for immediate cash flow needs shall be deposited in an interest bearing FDIC insured checking account at a bank in Carpinteria.
2. Local Agency Investment Fund(LAIF), a special fund in the California State Treasury
3. Other investments authorized and governed by CGC 53601

## **PUBLIC TRUST**

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measurement losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

## **DIVERSIFICATION:**

The City of Carpinteria will diversify its investments in keeping with the objectives enunciated in this Statement of Investment Policy.

## **REPORTING**

The Administrative Services Director shall submit to the City Council a quarterly investment report.

The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for City of Carpinteria by third party contracted managers. The report will include the source of the portfolio valuation.

The report shall include a certification that:

(1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and that,

(2) the City of Carpinteria will meet all expenditure obligations which might reasonably be anticipated for the next six months.

## **INVESTMENT POLICY ADOPTION**

The Investment Policy and modifications, if any, shall be adopted at least annually by resolution of the City Council at a public meeting.

**NOW, THEREFORE, THE CARPINTERIA CITY COUNCIL HEREBY RESOLVES** that the foregoing be received and filed as the Annual Statement of Investment Policy for the City of Carpinteria.

**PASSED, APPROVED AND ADOPTED** this 26th day of September 2011, by the following called vote:

AYES: COUNCILMEMBERS:

NOES: COUNCILMEMBERS:

ABSENT: COUNCILMEMBERS:

---

MAYOR, CITY OF CARPINTERIA

ATTEST:

\_\_\_\_\_  
CITY CLERK, CITY OF CARPINTERIA

I hereby certify that the foregoing resolution was duly and regularly introduced and adopted at a regular meeting of the City Council of the City of Carpinteria held this 26th day of September 2011.

\_\_\_\_\_  
CITY CLERK, CITY OF CARPINTERIA

APPROVED AS TO FORM:

\_\_\_\_\_  
PETER N. BROWN  
CITY ATTORNEY

**RESOLUTION NO. 5342**

**A RESOLUTION OF THE CITY OF CARPINTERIA CITY COUNCIL  
AUTHORIZING THE  
CITY MANAGER  
OR THE  
ADMINISTRATIVE SERVICES DIRECTOR  
OR THE  
FINANCE SUPERVISOR  
UNDER THE DIRECTION OF THE ADMINISTRATIVE SERVICES DIRECTOR  
TO MAKE INVESTMENTS IN  
THE TREASURY DIRECT PROGRAM ON BEHALF OF THE CITY**

**WHEREAS**, On September 27, 2004 the City Council adopted Resolution 4898 amending the City's investment policy, adding 'Other investments authorized and governed by CGC 53601' to the list of Authorized Investments; and

**WHEREAS**, the amended policy includes the 'prudent investor' standard (CGC 53600.3) and three investment objectives which, in priority order, are:

1. Safety of principal
2. Liquidity sufficient to meet operational needs and
3. Highest investment Yields consistent with the objectives of Safety and Liquidity; and

**WHEREAS**, Staff has recommended making investments in U.S. Treasury securities purchased directly from the U. S. Treasury using its Treasury Direct program; and

**WHEREAS**, Investment in Treasury securities is permitted by CGC 53601 and therefore qualify as Authorized Investments per the Investment Policy; and

**WHEREAS**, Treasury securities are safe and are backed by the full faith and credit of the United States government; and

**WHEREAS**, Treasury securities are liquid with a large secondary trading market; and

**WHEREAS**, Treasury securities pay a fixed rate of interest every six months from date of issue until date of maturity; and

**WHEREAS**, historically, said fixed rates of interest have generally been higher than rates paid by the Local Agency Investment Fund (LAIF); and

**WHEREAS**, using the Treasury Direct program operated by the U. S. Treasury the City can buy, sell and reinvest Treasury securities using the web for a nominal charge with no commissions or broker fees for selling or maturing securities; and

**WHEREAS**, to continue the program, the U. S. Treasury requires the adoption of a resolution authorizing certain individuals to make investments in the Treasury Direct program.

**NOW, THEREFORE, THE CARPINTERIA CITY COUNCIL HEREBY RESOLVES** that

Dave Durlinger, City Manager or John Thornberry, Administrative Services Director or Monique Epley, Finance Supervisor under the supervision of the Administrative Services Director are authorized to perform any transactions for the Treasury Direct account established for the City including sale of securities, purchase by ACH debit, or reinvestments.

**PASSED, APPROVED AND ADOPTED** this 26th day of September, 2011, by the following called vote:

AYES: COUNCILMEMBERS:  
NOES: COUNCILMEMBERS:  
ABSENT: COUNCILMEMBERS:

\_\_\_\_\_  
MAYOR, CITY OF CARPINTERIA

ATTEST:

\_\_\_\_\_  
CITY CLERK, CITY OF CARPINTERIA

I hereby certify that the foregoing resolution was duly and regularly introduced and adopted at a regular meeting of the City Council of the City of Carpinteria held the 26th day of September, 2011.

\_\_\_\_\_  
CITY CLERK

APPROVED AS TO FORM:

\_\_\_\_\_  
PETER N. BROWN  
CITY ATTORNEY



www.treasurydirect.gov  
 1-800-722-2678

**RESOLUTION FOR SECURITY TRANSACTIONS**

SEE INSTRUCTIONS - TYPE OR PRINT IN INK ONLY - NO ALTERATIONS OR CORRECTIONS

<p><b>1. Legacy Treasury Direct ACCOUNT INFORMATION</b></p> <p>Legacy Treasury Direct ACCOUNT NUMBER <u>4800-770-3487</u></p> <p>ACCOUNT NAME <u>City of Carpinteria</u></p> <p>_____</p> <p>_____</p> <p>This resolution is in effect for <b>ALL</b> securities maintained in this account during the term of authorization.</p>	<p style="text-align: center;">FOR DEPARTMENT USE</p> <p>_____</p> <p style="text-align: center;">DOCUMENT AUTHORITY</p> <p>_____</p> <p style="text-align: center;">APPROVED BY</p> <p>_____</p> <p style="text-align: center;">DATE APPROVED</p> <p>_____</p> <p style="text-align: center;">EXPIRATION DATE</p> <p>_____</p>										
<p><b>2. RESOLUTION</b> (Provide the names and titles of individuals being granted authority. If more than one individual is named and all must sign, use "and" between the names. If any one of the individuals may sign, use "or" between the names.)</p> <p>Resolved that: <u>Dave Durlinger, City Manager or John Thornberry, Administrative Services</u>  <u>Director or Monique Epley, Finance Supervisor</u></p> <p>is/are authorized to perform any transactions for the account described above (including, but not limited to, change of payment information; transfer or sale of securities; purchase by ACH debit [<i>Pay Direct</i>®]; or reinvestments).</p> <p>The authorized individual(s) <input type="checkbox"/> may <input checked="" type="checkbox"/> may not appoint an attorney-in-fact with authority in turn to appoint one or more substitutes. ("May not" will be assumed unless otherwise indicated.)</p> <p>It is further resolved that any action taken by the individuals listed above is hereby ratified and that this authorization shall remain in effect for <input type="checkbox"/> 1 year <input checked="" type="checkbox"/> 2 years <input type="checkbox"/> other _____ from the date of certification. (One year will be assumed unless otherwise indicated.)</p>											
<p><b>3. AUTHORIZATION</b> <span style="border: 1px solid black; padding: 2px;">YOU MUST WAIT UNTIL YOU ARE IN THE PRESENCE OF A CERTIFYING INDIVIDUAL TO SIGN THIS FORM. It must be signed by an officer other than the persons authorized herein to execute transaction requests.</span></p> <p>I certify that the foregoing is a true copy of a resolution adopted at a meeting of the governing body of:</p> <p style="text-align: center;"><u>City of Carpinteria, California</u></p> <p style="text-align: center;"><small>Name of Organization</small></p> <p>and that said meeting was duly called and held and that the resolution was duly adopted and is in full force.</p> <p><b>SEAL OF THE ORGANIZATION</b></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 60%; border: none;"> <p style="text-align: center;">_____ Signature(s)</p> <p style="text-align: center;"><b>Mayor</b> Title</p> </td> <td style="width: 40%; border: none;"> <p style="text-align: center;">_____ Date</p> <p style="text-align: center;">_____ Telephone</p> </td> </tr> </table>		<p style="text-align: center;">_____ Signature(s)</p> <p style="text-align: center;"><b>Mayor</b> Title</p>	<p style="text-align: center;">_____ Date</p> <p style="text-align: center;">_____ Telephone</p>								
<p style="text-align: center;">_____ Signature(s)</p> <p style="text-align: center;"><b>Mayor</b> Title</p>	<p style="text-align: center;">_____ Date</p> <p style="text-align: center;">_____ Telephone</p>										
<p><b>4. CERTIFICATION</b> <span style="border: 1px solid black; padding: 2px;">Certification required <b>ONLY</b> if Organization's Seal is <b>NOT</b> affixed above.</span></p> <p style="border: 1px solid black; padding: 5px; text-align: center;">Instructions to Certifying Individual: Name of person(s) who appeared and date of appearance <b>MUST</b> be completed.</p> <p>I certify that _____, whose identity(ies) is/are known or proven  <small>Name(s) of Person(s) Who Appeared</small></p> <p>to me, personally appeared before me this _____ day of _____ and signed this resolution.  <small>Month/Year</small></p> <p><b>ACCEPTABLE CERTIFICATIONS:</b></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 40%; border: none;">                 Financial Institution's Official Seal or Stamp (such as Corporate Seal, Signature Guaranteed Stamp, or Medallion Stamp).  <b>Brokers must use a Medallion Stamp.</b> </td> <td style="width: 60%; border: none;">                 _____ Signature and Title of Certifying Individual             </td> </tr> <tr> <td style="border: none;"></td> <td style="border: none;">                 _____ Name of Financial Institution             </td> </tr> <tr> <td style="border: none;"></td> <td style="border: none;">                 _____ Number and Street or Rural Route             </td> </tr> <tr> <td style="border: none;"></td> <td style="border: none;">                 _____ City/State/ZIP Code             </td> </tr> <tr> <td style="border: none;"></td> <td style="border: none;">                 _____ Telephone             </td> </tr> </table>		Financial Institution's Official Seal or Stamp (such as Corporate Seal, Signature Guaranteed Stamp, or Medallion Stamp). <b>Brokers must use a Medallion Stamp.</b>	_____ Signature and Title of Certifying Individual		_____ Name of Financial Institution		_____ Number and Street or Rural Route		_____ City/State/ZIP Code		_____ Telephone
Financial Institution's Official Seal or Stamp (such as Corporate Seal, Signature Guaranteed Stamp, or Medallion Stamp). <b>Brokers must use a Medallion Stamp.</b>	_____ Signature and Title of Certifying Individual										
	_____ Name of Financial Institution										
	_____ Number and Street or Rural Route										
	_____ City/State/ZIP Code										
	_____ Telephone										