

STAFF REPORT
COUNCIL MEETING DATE:
September 24, 2012

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

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Signature

ACTION ITEM X ; NON-ACTION ITEM ___

STAFF RECOMMENDATION:

Adopt Resolutions No. 5411 and 5412, 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. 5341 on September 26, 2011.

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, 2012 the City's portfolio included Notes with a par value of \$9,716,000, an average yield to maturity of 1.79% and an average days to maturity of 950 days or 2.60 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 5411 and 5412 as presented

Provide staff direction as appropriate

VI. ATTACHMENTS:

Resolution 5411
Resolution 5412
Legacy Treasury Direct Form PD F 5189 E

RESOLUTION NO. 5411

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. 5341 on September 26, 2011; 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 24th day of September 2012, 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 24th day of September 2012.

CITY CLERK, CITY OF CARPINTERIA

APPROVED AS TO FORM:

PETER N. BROWN
CITY ATTORNEY

RESOLUTION NO. 5412

**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 Durflinger, 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 24th day of September, 2012, 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 24th day of September, 2012.

CITY CLERK

APPROVED AS TO FORM:

PETER N. BROWN
CITY ATTORNEY



RESOLUTION FOR SECURITY TRANSACTIONS

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

1. Legacy Treasury Direct ACCOUNT INFORMATION	FOR DEPARTMENT USE
Legacy Treasury Direct ACCOUNT NUMBER <u>4800-770-3487</u>	
ACCOUNT NAME <u>City of Carpinteria</u>	DOCUMENT AUTHORITY
_____	APPROVED BY
This resolution is in effect for ALL securities maintained in this account during the term of authorization.	DATE APPROVED
2. RESOLUTION (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.)	EXPIRATION DATE
Resolved that: <u>Dave Durlinger, City Manager or John Thornberry, Administrative Services</u> <u>Director or Monique Epley, Finance Supervisor</u>	
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). 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.) 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.)	
3. AUTHORIZATION	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.
I certify that the foregoing is a true copy of a resolution adopted at a meeting of the governing body of: <u>City of Carpinteria, California</u> <small>Name of Organization</small>	
and that said meeting was duly called and held and that the resolution was duly adopted and is in full force.	
SEAL OF THE ORGANIZATION	_____ Date
_____ Signature(s)	_____ Telephone
_____ Mayor	_____ Title
4. CERTIFICATION	Certification required ONLY if Organization's Seal is NOT affixed above.
Instructions to Certifying Individual: Name of person(s) who appeared and date of appearance MUST be completed.	
I certify that _____, whose identity(ies) is/are known or proven <small>Name(s) of Person(s) Who Appeared</small>	
to me, personally appeared before me this _____ day of _____ and signed this resolution. <small>Month/Year</small>	
ACCEPTABLE CERTIFICATIONS: Financial Institution's Official Seal or Stamp (such as Corporate Seal, Signature Guaranteed Stamp, or Medallion Stamp). Brokers must use a Medallion Stamp.	_____ Signature and Title of Certifying Individual
	_____ Name of Financial Institution
	_____ Number and Street or Rural Route
	_____ City/State/ZIP Code
	_____ Telephone



PURPOSE This form can be used to authorize individuals (by name and title) in an organization to conduct any transactions regarding Legacy Treasury Direct securities.

IMPORTANT NOTE

- Only original signatures and forms will be accepted (stamped signatures are not acceptable).
- Unless all the required information is provided legibly, there may be a delay in processing this form. To avoid delays, read the instructions carefully and **type or print clearly in ink only**.
- **RESOLUTIONS WILL NOT BE ACCEPTED WITH ALTERATIONS OR CORRECTIONS.**

1. Legacy Treasury Direct ACCOUNT INFORMATION

Provide your Legacy Treasury Direct ACCOUNT NUMBER and ACCOUNT NAME. You will find this information on your Legacy Treasury Direct *Statement of Account*. All securities maintained now and hereafter in this account are subject to this resolution.

2. RESOLUTION

Provide the names and titles of the individuals being granted authority. If more than one individual is named, use the conjunction "and" between the names if all the individuals must sign. If any one of the individuals may sign, use the conjunction "or" between the names. Completion of this form will authorize the named individuals to conduct any transactions regarding the account listed on the front of the form. **REMINDER:** The purchase price of securities bought using ACH debit (*Pay Direct*®) will be deducted from the account at the financial institution designated in Legacy Treasury Direct.

Indicate whether the authorized individual has the authority to appoint an attorney-in-fact. If neither box is marked, it will be assumed that the authority has not been granted.

3. AUTHORIZATION

An officer of the organization who is responsible for maintaining the organization's records should sign and date the form. This officer cannot be among those named in Item 2 on the front of the form (i.e., an officer may not sign his or her own authorization to conduct transactions). The organization's seal must be affixed to the form. If the organization does not have a seal, the form must be certified.

4. CERTIFICATION

Certification of the officer's signature is required only if the organization's seal is not affixed to this form. Acceptable certifying individuals include authorized employees of insured depository institutions and corporate central credit unions.

SUBMISSION

Completed forms should be submitted to your Treasury Retail Securities Site.

Retention of Resolution - If this resolution is submitted in support of a specific transaction request, subsequent requests should be accompanied by additional resolution forms. If this resolution is to remain in effect for a longer period of time, this form will be retained at the Bureau of the Public Debt. In order to be effective, changes or revocations to this resolution must be in writing, certified, and sent to the Bureau of the Public Debt. The Department of the Treasury (Bureau of the Public Debt) will not be responsible for recognizing changes or revocations not submitted.

CONTACT

Call us toll-free in the United States at 1-800-722-2678. Outside the U.S.? Call us at (304) 480-6464.

NOTICE UNDER THE PRIVACY AND PAPERWORK REDUCTION ACTS

The collection of the information you are requested to provide on this form is authorized by 31 U.S.C. Ch. 31 relating to the public debt of the United States. The furnishing of a social security number, if requested, is also required by Section 6109 of the Internal Revenue Code (26 U.S.C. 6109).

The purpose of requesting the information is to enable the Bureau of the Public Debt and its agents to issue securities, process transactions, make payments, identify owners and their accounts, and provide reports to the Internal Revenue Service. Furnishing the information is voluntary; however, without the information Public Debt may be unable to process transactions.

Information concerning securities holdings and transactions is considered confidential under Treasury regulations (31 CFR, Part 323) and the Privacy Act. This information may be disclosed to a law enforcement agency for investigation purposes; courts and counsel for litigation purposes; others entitled to distribution or payment; agents and contractors to administer the public debt; agencies or entities for debt collection or to obtain current addresses for payment; agencies through approved computer matches; Congressional offices in response to an inquiry by the individual to whom the record pertains; as otherwise authorized by law or regulation.

We estimate it will take you about 10 minutes to complete this form. However, you are not required to provide information requested unless a valid OMB control number is displayed on the form. Any comments or suggestions regarding this form should be sent to the Bureau of the Public Debt, Forms Management Officer, Parkersburg, WV 26106-1328. **SEND completed form to the address shown in SUBMISSION.**