

# City of Los Alamitos

## Agenda Report Consent Calendar

August 19, 2013  
Item No: 8G

**To:** Mayor Warren Kusumoto & Members of the City Council  
**Via:** Gregory D. Korduner, Interim City Manager  
**From:** Linda G. Magnuson, Interim Finance Director  
**Subject:** Statement of Investment Policy for Fiscal Year 2013-2014

**Summary:** This report seeks City Council the adoption of an Investment Policy for Fiscal Year 2013-2014.

**Recommendation:** Adopt Resolution 2013- 20, entitled "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LOS ALAMITOS, CALIFORNIA, ADOPTING THE STATEMENT OF INVESTMENT POLICY FOR FISCAL YEAR 2013-2014".

### **Background / Discussion:**

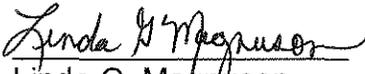
Submitted for the City Council's review and approval is the FY2013-2014 Investment Policy and accompanying resolution. The proposed investment policy states the goals of the City's investment activities, the type of investments the City may invest in and the reporting requirements.

In accordance with Government Code Section 53646(a) (2) and City policy, it is required that the City Council annually adopt an Investment Policy. The proposed FY 2013-2014 Investment Policy remains the same as the FY 2012-2013 Investment Policy. This policy was drafted using resources from the Governmental Finance Officers Association (GFOA) best practices and advisories, the California Debt and Investment Advisory Commission guidelines, the California Municipal Treasurers Association (CMTA) resource library, the California Society of Municipal Finance Officers resource library and training opportunities, as well as investment policies of several other municipalities.

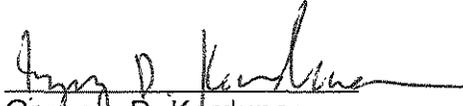
### **Fiscal Impact**

None.

Submitted By:

  
Linda G. Magnuson  
Interim Finance Director

Approved By:

  
Gregory D. Korduner  
Interim City Manager

Attachments: 1. Resolution 2013-20

**RESOLUTION NO. 2013-20**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LOS ALAMITOS, CALIFORNIA, ADOPTING THE STATEMENT OF INVESTMENT POLICY FOR FISCAL YEAR 2013-2014**

**WHEREAS**, Government Code 53646(a) (2) states that the treasurer of a local agency may annually present a statement of investment policy to the legislative body

**WHEREAS** it is the City's policy to annually adopt the City's Statement of Investment Policy

**WHEREAS**, the Statement of Investment Policy is intended to provide guidelines for the prudent investment of the City's temporarily idle cash and to outline the policies for maximizing the efficiency of the City's cash management system.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LOS ALAMITOS DOES RESOLVE AS FOLLOWS:**

SECTION 1. The attached Statement of Investment Policy for Fiscal Year 2013-14 (Exhibit A) be adopted.

SECTION 2. The City Clerk shall certify as to the adoption of this Resolution.

**PASSED, APPROVED, AND ADOPTED** this 19<sup>th</sup> day of August, 2013.

\_\_\_\_\_  
Warren Kusumoto, Mayor

ATTEST:

\_\_\_\_\_  
Windmera Quintanar, CMC, City Clerk

APPROVED AS TO FORM:

\_\_\_\_\_  
Cary Reisman, City Attorney

STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss  
CITY OF LOS ALAMITOS )

I, Windmera Quintanar, CMC, City Clerk, of the City of Los Alamitos, do hereby certify that the foregoing Resolution was adopted at a Regular meeting of the City Council held on the 19<sup>th</sup> day of August 2013, by the following vote, to wit:

AYES: COUNCILMEMBERS:

NOES: COUNCILMEMBERS:

ABSENT: COUNCILMEMBERS:

ABSTAIN: COUNCILMEMBERS:

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Windmera Quintanar, CMC, City Clerk

## City of Los Alamitos

### Statement of Investment Policy Fiscal Year 2013-2014

This Statement of Investment Policy ("Policy"), as set forth by the City of Los Alamitos ("City"), provides the guidelines for prudent investment of the City's idle or reserve cash and outlines the policies essential to ensuring the safety and financial strength of the City's investment portfolio.

This Policy is based on the principles of prudent money management and conforms to all applicable Federal and State Laws governing the investment of public funds. In instances in which the Policy is more restrictive than Federal or State Law, the Policy will supersede.

**1. Purpose:** This statement sets forth policies which shall govern the investment of the City's funds. It will be used by the City Treasurer and other City officials and staff, as well as all other third-party providers of investment or investment related services. Its purpose is to direct the prudent investment and protection of the City's funds and investment portfolio, in compliance with the requirements of California Government Code Section 53600 et. seq.

**2. Application:** It is intended that this policy cover all short-term operating funds and investment activities under the direct authority of the City. These funds are described in the City's annual financial report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Internal Service Funds

Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

This investment policy does not apply to Bond Proceeds. California Government Code Section 5922(d) authorizes bond, certificates of participation notes and other debt issue proceeds to be invested in accordance with the related offering documentation. These Code Sections recognize the unique needs and objectives of such proceeds.

### **3. Regulation:**

#### **A. Investment Objectives**

It is the policy of the City to invest public funds in a manner which will provide for the preservation of capital while meeting the daily cash flow requirements of the City, and attaining a reasonable rate of return within an acceptable and defined level of risk.

The Policy has three primary objectives in order of priority:

1. Preservation of Capital (Safety) – The protection of principal is the foremost consideration when undertaking investment decisions that affect public funds. The objective is to mitigate credit risk and interest rate risk.
  - a. Credit Risk is the risk of loss of principal due to the failure of the security issuer. Credit Risk can be mitigated by:
    - ✓ Limiting investments to the safest types of securities.
    - ✓ Pre-qualifying accountants, auditors, financial institutions, broker/dealers, financial advisors and other outside consultants with which the City does business.
    - ✓ Diversifying the investment portfolio so that potential losses are minimized
  - b. Interest Rate Risk is the risk that the market value of securities will fall due to a rise in general market interest rates. It is the policy of the City to hold individual securities to maturity in an effort to meet liquidity demands. Interest rate risk can be mitigated by:
    - ✓ Holding individual securities to maturity - Structuring the investment portfolio so that securities mature to meet cash flow requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
    - ✓ Employing a laddering strategy whereby staggering maturities of individual securities so that bonds come due in increments assuring an overall liquidity pattern.
    - ✓ Limiting maturities of individual securities and the average maturity of the overall portfolio.
2. Liquidity – the investment portfolio shall remain sufficiently liquid to meet all daily cash flow and operating requirements that may be reasonably expected or anticipated.
3. Yield – the investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, consistent with the primary objectives of safety and liquidity.

### **B. Legal and Policy Constraints**

The authority governing investments for municipal government agencies is set forth in the California Government Code Section 53600, et. seq. In all instances, the City of Los Alamitos shall comply with the requirements of state law.

In addition to the requirements of state law, it is the investment philosophy of the City to make investment decisions based on an overall passive management style that embodies a prudent investor standard and purchases investments with the intent to hold until maturity.

Accordingly, the City's conservative philosophy prohibits active trading and speculation; i.e., the purchase of securities with the intent to profit from favorable market changes in market prices or market conditions. Leveraging or borrowing money for the purpose of investing is specifically prohibited. However, 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 needs.

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.

### ***C. Safekeeping of Securities***

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department. Designated third party shall act as agents for the City under the terms of a custody agreement. All trades executed by a dealer will settle delivery vs. payment (DVP) through the City's safekeeping agent. Investment officials shall be bonded to protect the public against possible embezzlement or malice. Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

### ***D. Maturity and Term***

California Government Code Section 53601 states that except as otherwise allowed:

No investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement authorized by this section, which at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment.

The City of Los Alamitos administers funds according to cash flow requirements. As a result, there is a core of funds that are not necessary for the daily operational needs of the City for paying expenses. From time to time market conditions of fixed income markets present opportunities for higher interest rates on high grade securities with a low risk exposure. It is in the best interest of the City of Los Alamitos to practice a fully diversified investment plan that will ensure safety, liquidity, and the increase of acceptable yield from these situations.

To the extent possible, the City of Los Alamitos will attempt to match its investments with anticipated cash flow requirements.

At no time will more than 50 percent (50%) of the City of Los Alamitos' funds be invested longer than one year. Purchases greater than two years will meet the following requirements and restrictions:

1. The security must be an obligation of the United States Treasury or one of its agencies that carry the full faith and credit guarantee of the United States for the payment of principal and interest, or a Negotiable Certificate of Deposit.
2. A maximum of thirty percent (30%) of the City of Los Alamitos' invested funds can be invested in securities over two years.
3. No securities can be purchased by the City of Los Alamitos with a maturity greater than five years without the prior approval of the City Council.

#### ***E. Investment Authority***

The City Treasurer is authorized to make investments on behalf of the City of Los Alamitos. Such investments shall only be limited to the instruments authorized under California Government Code Sections 53601 and 53635 and further described in Appendix A and B.

All investments of the City of Los Alamitos shall be approved by the City Manager.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

Officers and employees of the City of Los Alamitos involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Treasurer any material financial interests in financial institutions that conduct business with the City of Los Alamitos, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Los Alamitos, particularly with regard to the time of purchases and sales. The City Treasurer shall make similar disclosures to the City Council. Under no circumstances shall investment officers or employees accept gifts, trips, or any type of gratuity from individuals or institutions engaged in investment practices with the City of Los Alamitos.

#### ***F. Transfer of Investment Funds***

The transferring of investment funds will be carried out exclusively by use of telephonic or electronic wire transfers. Each entity with which the City does business shall receive, in writing from the City Treasurer, a listing which limits transfers of funds to preauthorized bank accounts only. The listing will also contain the names of City staff authorized to request such transfers and will be updated, in writing, for all changes of authorized staff and bank accounts, as necessary.

#### ***G. Deposits***

Money must be deposited in state or national banks, state or federal savings associations, or state or federal credit unions in the State of California. It may be in inactive deposits, active deposits or interest-bearing active deposits. The deposits cannot exceed the amount of the bank's, savings and loan's or credit union's paid up capital surplus.

The bank or savings and loan must secure the active and inactive deposits with eligible securities having a market value of 110% of the total amount of the deposits. The investment officer may, at his/her discretion, waive security for that portion of a deposit which is insured pursuant to federal law. Currently, the first \$250,000 of a deposit is federally insured. It is the City's policy to waive this collateral requirement for the first \$250,000 because it is possible to receive a higher rate.

The City will not maintain a deposit that is above the FDIC insured level. This will include the accrued interest on the deposit.

**H. Permitted Investments**

Investments shall be made only in those instruments specifically authorized by California State laws (section 53600-53609), and to no greater an extent than those authorized by those laws.

The City's specific permitted investment guidelines are listed below. It should be noted that City's permitted investments are more restrictive than the State guidelines. A Glossary and a summary of the State of California Statues Applicable to Municipal Investments and is provided in Appendix A and B.

Investment Type:	Maximum Maturity:	Maximum percentage of Portfolio:
U.S. Treasury Bills, Notes and Bonds	5 Years	75 percent
Federal Agency Obligations	5 Years	50 percent
Certificates of Deposit or Time Deposits* (CD's)	5 Years	50 percent
Local Agency Investment Fund (LAIF)	N/A	100 percent

\* Denotes a collateral requirement either initially, or at a pre-determined threshold. Please refer to Collateral section of the Policy for specific requirements.

State and Federal laws notwithstanding, any investment not specifically described herein including, but not limited to, reverse repurchase agreements, derivatives, options, futures, zero coupon bonds, inverse floaters, range notes, first mortgages or trust deeds, collateralized mortgage obligations (CMO's), limited partnerships, real estate investments trusts (REIT's), open-end mutual funds, closed-end mutual funds, mutual funds with a weighted average maturity greater than 180 days, unregulated and/or uninsured investment pools, common stock, preferred stock, commodities, precious metals, securities with high price volatility, limited marketability (less than three active bidders), securities that may default on interest payments and any other speculative investment deemed inappropriate under the Prudent Investor standard are strictly prohibited. In addition, any investment transaction that might impair public confidence in the City of Los Alamitos government is to be avoided.

### ***I. Diversification***

The City of Los Alamitos shall diversify its investments by security type and institution. The City recognizes diversification is an investment strategy that will mitigate risk in the investment portfolio. The City's investment portfolio shall be diversified to avoid incurring unreasonable and avoidable risks with regard to specific investment types. Within investment types, the City shall also maintain a mix of securities to avoid concentrations within individual financial institutions, geographic areas, industry types and maturities. The City will only invest in fixed rate, fixed maturity securities and with the exception of U. S. Treasury securities and authorized investment pools, no more than 50 percent (50%) of the City of Los Alamitos' investment portfolio shall be invested in a single security type or with a single financial institution.

### ***J. Performance Standards***

The investment portfolio shall be designed with the objective of obtaining a rate of return, throughout budgetary and economic cycles, commensurate with investment risk constraints and cash flow needs.

The basis used by the City Treasurer to determine whether market yields are being achieved shall be the U. S. Treasury Bill and Local Agency Investment Fund (LAIF).

### ***K. Reporting***

In accordance with California Government Code Sections 53607 and 53646, the City Treasurer and the City Manager shall render quarterly reports to the City Council showing: (a) type of investment; (b) institution; (c) date of maturity; (d) amount of deposit; (e) current market value for all securities with a maturity of more than twelve (12) months; (f) rate of interest on each security; and (g) such other data as the City Council may, from time to time, specify. (This section is applicable when the City Treasurer has invested in other types of securities other than LAIF.)

The City 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.

### ***L. Policy Review***

#### **1. Annual Statement of Investment Policy**

The City Treasurer and the City Manager shall annually render to the City Council a Statement of Investment Policy which Statement shall be adopted by the City Council.

#### **2. Periodic Review**

To ensure a statement which is consistent with any new relevant legislation and financial trends, the City Treasurer shall periodically report to the City Council proposed changes and amendments to this document for review and approval. In any event, all changes in state law affecting this policy shall be considered incorporated immediately upon their effective date unless otherwise adopted earlier by action of the City Council.

### ***M. Qualified Dealers***

The City of Los Alamitos shall purchase authorized investments either directly from the issuer or shall be purchased either from an institution licensed from the State as a broker dealer, as defined in the Corporations Code, or from a member of the federally regulated securities exchange, from a national or state chartered bank, from a savings association or federal association, or from a brokerage firm designated as a primary or regional government dealer.

The City Treasurer will maintain a list of financial institutions formally authorized to provide investment services. The City Treasurer shall formally authorize investment brokers to provide investment services to the City. Investment Brokers may be Primary Dealers or Regional Brokers and licensed to do business in the State of California. Brokers must complete a broker questionnaire which includes proof of Financial Industry Regulatory Authority (FINRA) certification, proof of State registration and execute a certification that the Broker's employees and supervisory personnel have read and understand the City's Investment Policy. The City Treasurer may conduct periodic reviews of the approved list of investment brokers and may remove a firm from the approval list at any time due to any failure to comply with any of the above criteria, failure to execute a transaction, any change in broker/dealer staff, or any action, event or failure to act which, in the sole discretion of the City Treasurer, is materially adverse to the best interest of the City of Los Alamitos.

## APPENDIX A

### DEPOSITORY SERVICES

**Active deposits** are demand or checking accounts which receive revenues and pay disbursements.

**Interest-bearing active deposits** are money market accounts at a financial institution (i.e., bank, savings and loan, credit union). These accounts are demand accounts (i.e., checking accounts) with restricted transaction activity.

**Inactive deposits** are Certificates of Deposit issued in any amount for periods of time as short as fourteen days and as long as several years. Interest must be calculated on a 360 day basis, actual number of days.

**Passbook savings account** is similar to an inactive deposit except not for a fixed term. The interest rate is much lower than Certificates of Deposit, but the savings account allows for flexibility. Funds can be deposited and withdrawn according to daily operational needs.

### INVESTMENT SECURITIES

**U.S. Treasury Issues** are direct obligations of the United States Government. These issues are called bills, notes, and bonds. The maturity range of new issues is from 13 weeks (T-Bills) to 30 years (T-Bonds). These are highly liquid and are considered the safest investment security.

**Federal Agency Issues** are issued by direct U. S. Government agencies or quasi-government agencies. These issues are guaranteed directly or indirectly by the United States Government. Examples of these securities are Federal Home Loan Bank (FHLB) notes, Federal National Mortgage Association (FNMA) notes, Federal Farm Credit Bank (FFCB) notes, Federal Home Loan Mortgage Corporation (FHLMC) notes, Federal Intermediate Credit Bank (FICB) debentures, Small Business Administration (SBA) notes, Government National Mortgage Association (GNMA) notes, and Student Loan Association (SALLMAE) notes.

**Certificates of Deposit** are investments for inactive funds issued by banks, savings and loans, and credit unions. Investments of \$250,000 are insured respectively by Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Share Insurance Fund (NCUSIF). Certificates of Deposit can be issued from 14 days to several years in maturity allowing the City investment of funds to be matched to cash flow needs. For deposits exceeding \$250,000, the financial institution is required to collateralize the investment with 110% government securities. The City does not accept 150% collateral (First Trust Deeds) or 105% Letters of Credit (L.C.).

**Local Agency Investment Fund (LAIF)** is a special fund in the State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$40 million for any agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly by electronic deposit to a designated bank account.

The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of a percent of the earnings.

**APPENDIX B:****Summary of State of California Statutes Applicable to Municipal Investment**

The following investments are authorized by California State Code, Title 5, Division 2, Sections 53600 et seq. and 16429.1.

<b>California Authorized Investments</b>	<b>% Limits &amp; Other Constraints (Key Limitation Summary)</b>
<b>Local Agency Bonds</b>	No Limit
<b>US Treasury Notes, Bonds, Bills</b>	No limit
<b>California State Warrants, Treasury Notes or Bonds</b>	No limit
<b>Bonds, Notes, Warrants of any local agency within the State</b>	No limit
<b>Federal Agency or United States government-sponsored enterprise obligations</b>	No limit
<b>Bankers Acceptances</b>	40% max overall limitation: 30% max in any one commercial bank: 180 days max maturity.
<b>Commercial Paper</b>	A Domestic Corporation Total Assets in excess of \$500 million At Least "A-1" rated commercial paper 25% max overall limitation: 10% investment max in any single issuer No more than 10% of the outstanding amount for any one issuer 270 days max maturity.
<b>Negotiable Certificates of Deposit</b>	Issued by nationally or state-chartered bank, a savings association or a federal association, a state of federal credit union, or a state licensed branch of a foreign bank. 30% max overall limitation
<b>Repurchase Agreements</b>	One Year Term or less Based on code authorized investments 102% underlying security valuation
<b>Reverse Repurchase Agreements</b>	Security subject to repurchase has been owned & fully paid for at least 30 days prior to sale 20% Maximum limitation Agreement does not exceed 92 days Funds received cannot be used to purchase securities with a maturity longer than 92 days

**Medium Term Corporate Notes**

30% maximum overall investment limitation  
Maximum remaining maturity of 5 Years  
Domestic corporations  
Rated "A" or better

**Shares of Beneficial Interest Issued  
By Diversified Management  
Companies (Mutual & Money  
Market Funds)**

20% maximum overall portfolio  
10% of any one Mutual Fund  
Based on code authorized investments  
Money Market Funds registered with the SEC  
Attained the Highest Ranking by not less than two  
nationally recognized rating organizations  
Assets in excess of \$500 million  
Investment advisor with not less than five years  
experience

**Local Agency Investment Fund**

\$40 million Maximum overall investment limit

**Other Obligation Valuation  
Requirements:**

(m) Promissory notes secured by first  
mortgages and first trust deeds which  
comply with Section 53651.2.

(p) With the consent of the treasurer,  
letters of credit issued by the Federal  
Home Loan Bank of San Francisco  
which comply with  
Section 53651.6.

(a) Eligible securities, except eligible securities of  
the classes described in subdivisions (m) and (p)  
of Section 53651, shall have a market value of at  
least 10 percent in excess of the total amount of  
all deposits of a depository secured by the eligible  
securities.

(b) Eligible securities of the class described in  
subdivision (m) of Section 53651 shall have a  
market value at least 50 percent in excess of the  
total amount of all deposits of a depository  
secured by those eligible securities.

(c) Eligible securities of the class described in  
subdivision (p) of Section 53651 shall have a  
market value of at least 5 percent in excess of the  
total amount of all deposits of a depository  
secured by those eligible securities.

Any **mortgage pass through**  
security, **collateralized mortgage**  
**obligation**, mortgage-backed or other  
pay-through bond, equipment lease-  
backed certificate, **consumer**  
**receivable pass through**  
certificate, or consumer receivable-  
backed bond

20% Maximum overall limitation  
5 Years Maximum Maturity  
"AA" national rating or Higher

**Moneys held by a trustee or fiscal agent** pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements.

**Notes, bonds, or other obligations that are at all times secured** by a valid first priority security interest

**Other Code Restrictions & Clarifications**

May be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

Securities of the types listed by Section 53651  
Market value of at least 110% of underlying security value

A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips.

A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity.

No more than 5 percent of the total assets of the investments held by a local agency may be invested in the securities of any one issuer, except the obligations of the United States government, United States government agencies, and United States government-sponsored enterprises. No more than 10 percent may be invested in any one mutual fund.

Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase.